

OECD Public Governance Reviews

**Public Procurement Review
of the *State's Employees' Social
Security and Social Services
Institute* in Mexico**



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Review of the State's
*Employees' Social Security
and Social Services
Institute in Mexico***

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Foreword

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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This review is part of a series of reviews on public procurement in OECD and G20 countries. It benefited from input provided by senior public procurement officials who participated in discussions in Mexico City and at the OECD Meeting of Leading Practitioners on Public Procurement held in Paris on 11-12 February 2013 and chaired by Lorna Prosper, Senior Director, Procurement Policy Division (Canada). Particular thanks are given to the lead reviewers Ms. Kyung-Soon Chang, Director General of International Goods Bureau, Public Procurement Service (Korea) and Ms. Beth Loudon, National Health Services Procurement Program Lead, Department of Health (United Kingdom). The findings and recommendations of the review were also discussed at the 2nd Meeting of the Joint Network on Fiscal Sustainability of Health Systems held in Paris on 25-26 March 2013.

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Acronyms

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

Executive summary

OECD research shows that health spending is the variable which contributes most to health status. Yet opportunities for governments to increase public spending may be limited. Therefore, efficient spending through good public procurement practices is a key lever to improve the quantity and quality of health products and services delivered in a timely manner, contributing to improving health indicators. However, 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.

Against this background, 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

The 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 physically 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 whole. 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 hinder 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 right number of 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 procurement management system covering the entire 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 management of the procurement function.

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.

On the other hand, competition is 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 option, 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 are identified in all phases of the ISSSTE procurement cycle. Insufficient market intelligence as well as an unclear or overly restrictive definition of requirements limit the capacity of ISSSTE 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 is reinforcing its stock management capacity, but inadequate inspection of products and services received remains a concern.

Insufficient attention is given to identifying and monitoring 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 prevention of corruption and wrongdoing in procurement is largely based on a discipline-based strategy and effective mechanisms to identify and monitor integrity risks are lacking. Guidance and tools are insufficient 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 organisational procurement plan identifying the priorities and targets for the function, and assess progress against the plan on a regular basis.
- Strengthen existing communication mechanisms and create new ones to increase consultations for the development of organisational initiatives as well as dialogue and knowledge transfers between the procurement units (particularly to promote identification and adoption of best practices).
- Implement formal performance management of the procurement function to assess and communicate its results and promote on-going improvements, including 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 synergy opportunities 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 ensure the right level of workforce and capability through workforce planning, recruitment and promotion based on merit and fair opportunity.
- Focus HR management on competency and performance rather than on strict compliance with the rules.
- 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 the creation of 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 through the reduction of 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 points and percentage and 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.

Integrity and transparency

- Facilitate public access to more accurate, timely and user-friendly procurement-related data, while ensuring this does not increase integrity risks (such as supplier collusion).
- Create a culture of integrity awareness and prevention through awareness campaigns as well as mechanisms, guidelines 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 State's Employees' Social Security and Social Services Institute (ISSSTE) is an important public health service provider in Mexico, covering more than 12 million beneficiaries consisting of public sector employees (active or retired) and their family members. The overview describes the role of ISSSTE and the services it provides in Mexico's health care system. It also highlights how good governance practice within its public procurement system improves the health of its beneficiaries.

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.

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 key to the effectiveness and viability of this sector, as it accounts for considerable administrative and financial resources and is an essential element for service delivery. 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, 2009). 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 strengthening 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 recently implemented 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.

The efficiency of health care 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, 2011a). 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 0.1).

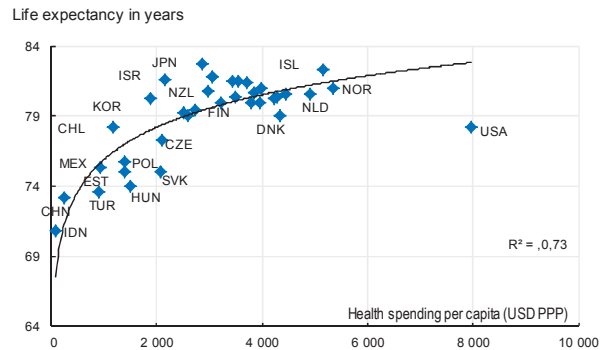
As such, Mexico’s performance may be related to its relatively low health spending. In 2009, Mexico had one of the lowest total health expenditures per capita among OECD member countries (USD 918 compared to the OECD average of USD 3 223). It also had one of the lowest levels of total health expenditure as a share of GDP at 6.4% versus the OECD average of 9.6% (Figure 0.2).

Figure 0.1. 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 Years	Men 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

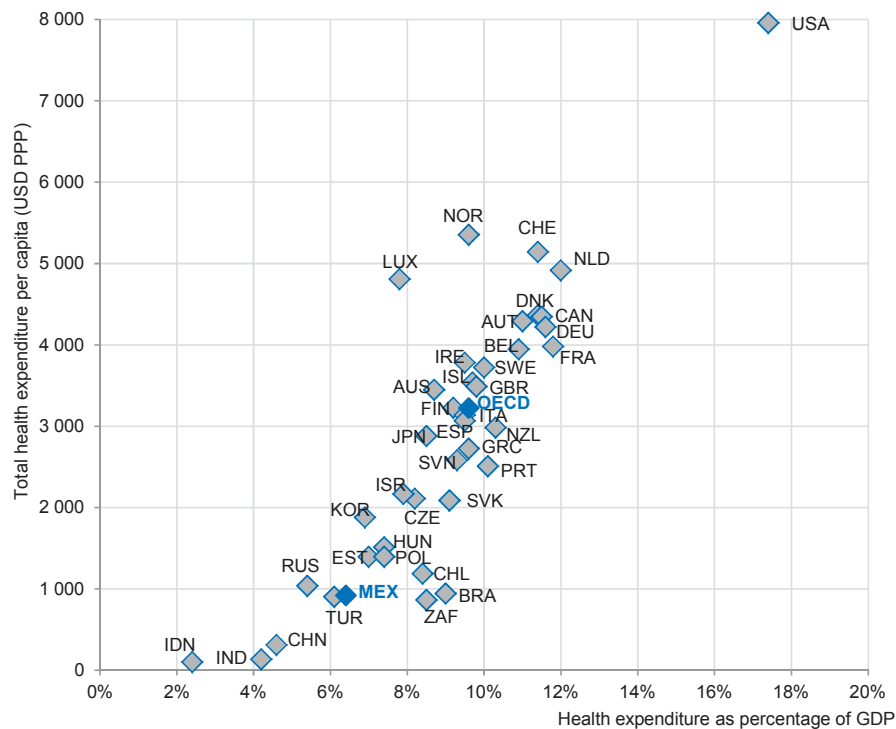
Life expectancy at birth and health spending per capita, 2009 (or latest year available)



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

Source: OECD, (2011b), *How's Life? Measuring Well-being*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264121164-en>, accessed 4 October 2013.

Figure 0.2. Total health expenditure per capita and as percentage of GDP, 2009 (or nearest year)

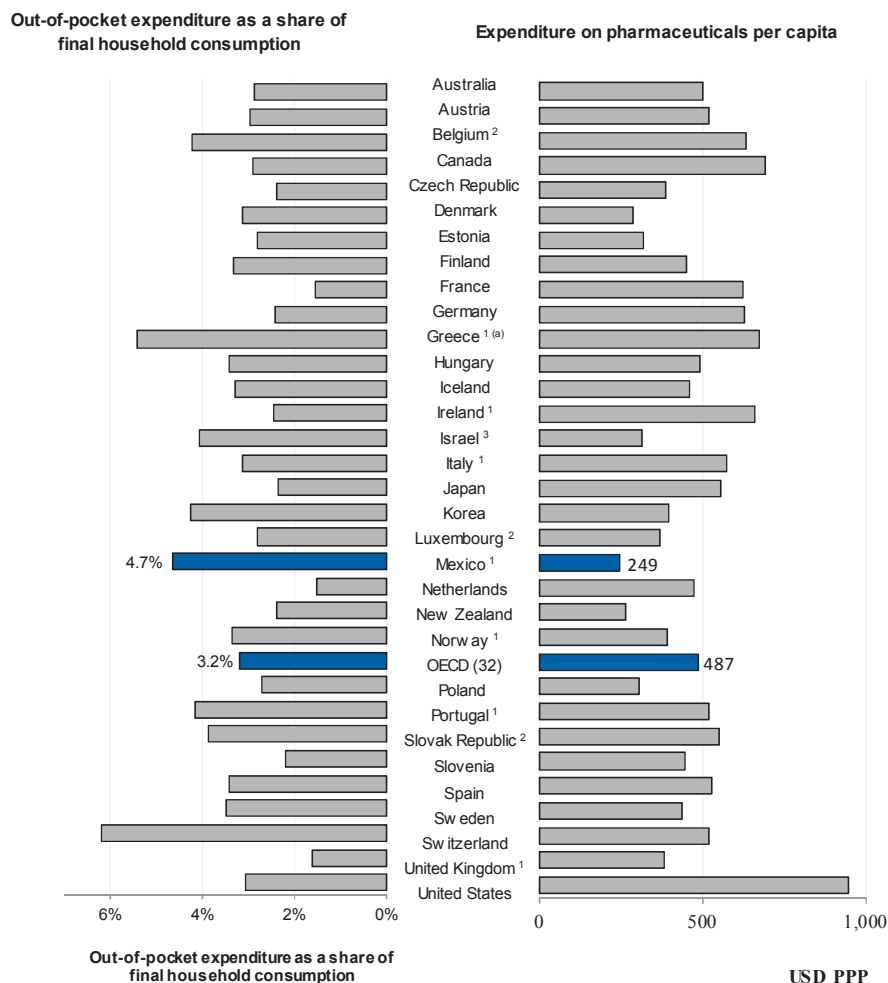


Notes: 1. In the Netherlands, it is not possible to clearly distinguish the public and private share related to investments. 2. Total expenditure excluding investments. 3. Health expenditure is for the insured population rather than the resident population.

Source: Based on data from OECD (2011a), *Health at a Glance 2011: OECD Indicators*, OECD Publishing, Paris, http://dx.doi.org/10.1787/health_glance-2011-en, accessed 4 October 2013.

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, 2011a). 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 0.3). 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, 2011a).

Figure 0.3. 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.

Source: Based on data from OECD (2011a), *Health at a Glance 2011: OECD Indicators*, OECD Publishing, Paris, http://dx.doi.org/10.1787/health_glance-2011-en, accessed 4 October 2013.

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.

ISSSTE has an important role in the fragmented Mexican health care system

Mexico has a fragmented health care system comprised of three main types of service provider. These institutions provide specific health services to different segments of the population (Table 0.1):

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. 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 0.1. Mexican health system

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

Notes: IMSS: Mexican Institute of Social Security (*Instituto Mexicano del Seguro Social*); SEDENA: Ministry of National Defense (*Secretaría de la Defensa Nacional*); SEMAR: Ministry of the Navy (*Secretaría de Marina*); PEMEX: Mexican Petroleum (*Petróleos Mexicanos*).

Source: Instituto Mexicano del Seguro Social (IMSS) (2011), *The Mexican Institute of Social Security: Evolution, Challenges and Perspectives*, IMSS, Mexico City.

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 not as significant as IMSS and the Ministry of Health (Table 0.2), 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 0.2. Services provided in the Mexican health sector by service provider (percentage, 2010)

Service provider	Consultation				Discharges	Surgeries	Auxiliary diagnostic services		
	General	Specialty	Emergency	Dental			Laboratory	Radiology	Other
IMSS	47.0	39.1	61.9	29.5	39.1	44.4	52.3	54.2	59.5
ISSSTE	7.6	15.8	3.6	9.0	6.9	7.0	9.1	8.6	12.8
Ministry of Health	42.1	32.0	26.2	54.6	47.4	44.4	32.6	30.0	18.6
Other	3.3	13.1	8.2	6.8	6.6	4.2	6.0	7.2	9.1

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

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

ISSSTE has a complex structure composed of nine groups of entities providing a different set of services (Figure 0.4).

Figure 0.4. ISSSTE's general structure



Through these 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 programme ISSSTE Asegurador;
- mortgage loans (FOVISSSTE); and
- pensions (PENSIONISSSTE).

However, medical services are ISSSTE's main activity and are provided through almost 1 200 medical units distributed between 35 regional delegations across the Mexican territory (Table 0.3).

Table 0.3. ISSSTE medical infrastructure (2011)

Delegations in charge of medical units	35
Medical units by level of service	1 180
<i>First level</i>	1 049
– Family medicine clinics	92
– Family medicine units	879
– Auxiliary practices/offices	78
<i>Second level</i>	118
– Specialty clinics	20
– Hospital clinics	73
– General hospitals	25
<i>Third level</i>	13
– Regional hospitals	12
– National Medical Centre "20 de Noviembre"	1

Source: Information provided by ISSSTE.

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 0.4).

Table 0.4. ISSSTE's daily operations (January-December 2011)

Indicators	Total
ISSSTE's user population	12 206 730
Population assigned to family medicine units	9 629 133
Daily medical services	
Total medical consultations, including:	102 084
<i>Family medicine consultations</i>	64 225
<i>Specialty consultations</i>	31 765
<i>Dental consultations</i>	6 094
Emergency care	3 010
Hospital discharges	1 067
Patient days	4 943
Surgical interventions	1 119
Child births attended	113
Clinical tests	127 985
Radio-diagnostic studies	9 188
Other services	
Pensions paid at the end of the month	842 489
Number of children attending day-care centres daily	22 775

Source: Information provided by ISSSTE.

References

- Instituto Mexicano del Seguro Social (IMSS) (2011), *The Mexican Institute of Social Security: Evolution, Challenges and Perspectives*, IMSS, Mexico City.
- OECD (2011a), *Health at a Glance 2011: OECD Indicators*, OECD Publishing, Paris, http://dx.doi.org/10.1787/health_glance-2011-en, accessed 4 October 2013.
- OECD (2011b), *How's Life? Measuring Well-being*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264121164-en>, accessed 4 October 2013.
- OECD (2010), *Health Care Systems: Efficiency and Policy Settings*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264094901-en>, accessed 4 October 2013.
- OECD (2009), *Government at a Glance 2009*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264075061-en>, accessed 4 October 2013.

Chapter 1

Strengthening the structure and co-ordination of ISSSTE's procurement function

This chapter describes the structure and organisation of the procurement function of the Mexican State's Employees' Social Security and Social Services Institute (ISSSTE). It also assesses the committees and mechanisms that ISSSTE uses to coordinate the high number of procurement units and to ensure communication with these units.

Introduction

Clear and strong governance structure and co-ordination of the procurement function are key for achieving strong outcomes and efficiency. Ensuring effectiveness, transparency, integrity and accountability through the structure and governance of the procurement function is therefore essential for optimising public value throughout the procurement cycle.

The OECD review found that the procurement function of the State's Employees' Social Security and Social Services Institute (*Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado*, ISSSTE) is clearly located in the organisational structure and is governed by well-defined committees. Despite a high level of physical decentralisation, ISSSTE is co-ordinated by a strong central area which manages information and strategic decisions and implements various centralised initiatives such as consolidation. However, the review also found that some co-ordination and communication problems may hinder the efficiency of those initiatives and have adverse impacts on the decentralised units.

Structure

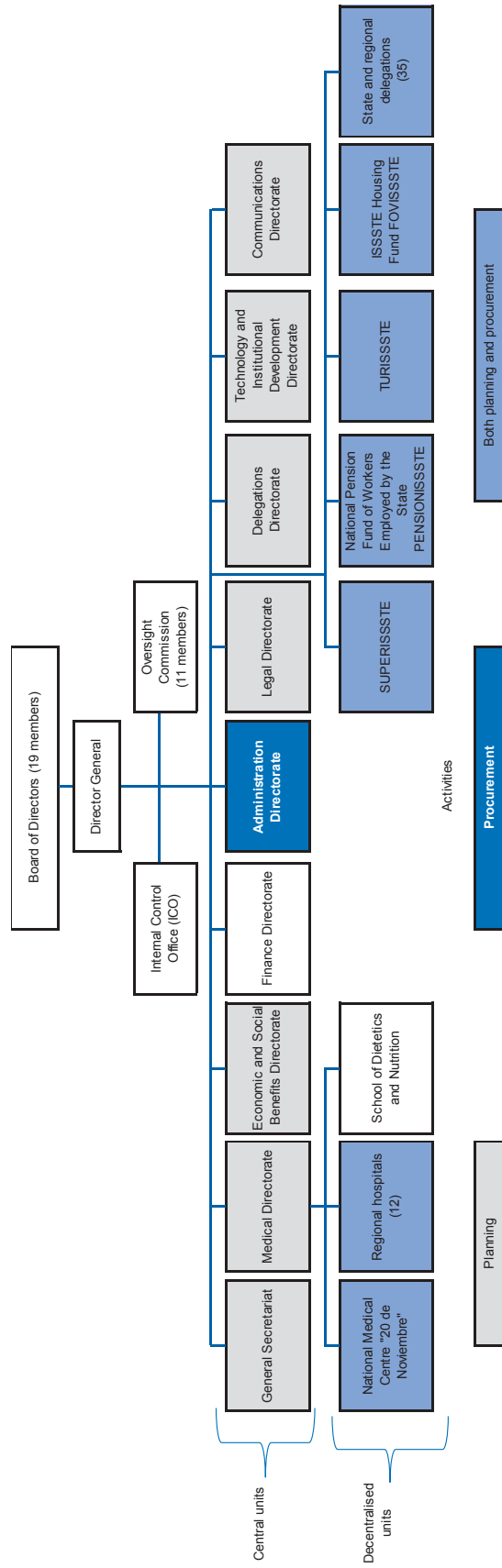
ISSSTE management structure is well defined

ISSSTE's structure is defined in its Organic Statute (*Estatuto Orgánico del Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado*).¹ The Board of Directors is the organisation's highest leadership and governance body and is in charge of setting the strategic planning, defining priorities, and designing programmes, structure and institutional frameworks. It is composed of 19 members:

- Director General of ISSSTE.
- Director General of IMSS.
- three members of the Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*), including the minister.
- Minister of Health.
- Minister of Social Development.
- Minister of Labour and Social Protection.
- Minister of Environment and Natural Resources.
- Minister of Public Administration.
- Nine representatives of worker's organisations.

ISSSTE's Director General is the legal representative of the Institute and is responsible for the management and execution of its operational activities through 9 central units and 53 decentralised units (Figure 1.1).

Figure 1.1. ISSSTE's organisational structure



Source: Based on ISSSTE (2010), *Manual de Organización General del Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado*, ISSSTE, published in the *Diario Oficial de la Nación*, 30 December 2010, <http://normateca.issste.gob.mx/view.asp?sesion=201209250440101639&infocard=201103312204482488&d=Y>, accessed 25 September 2012.

Some of the key management areas at the central level 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 recently transferred under the Administration Directorate, in order 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.

Finally, ISSSTE also has an Oversight Commission (*Comisión de Vigilancia*) that acts as an internal control office whose main function is to assist ISSSTE's senior management in the supervision of its operations. It is composed of a total of 11 members from the Ministry of Finance and Public Credit, the Ministry of Public Administration (*Secretaría de la Función Pública*, SFP), the Ministry of Health (*Secretaría de Salud*), ISSSTE and representatives of worker's organisations.

ISSSTE procurement function is well integrated in the organisation, yet highly physically decentralised

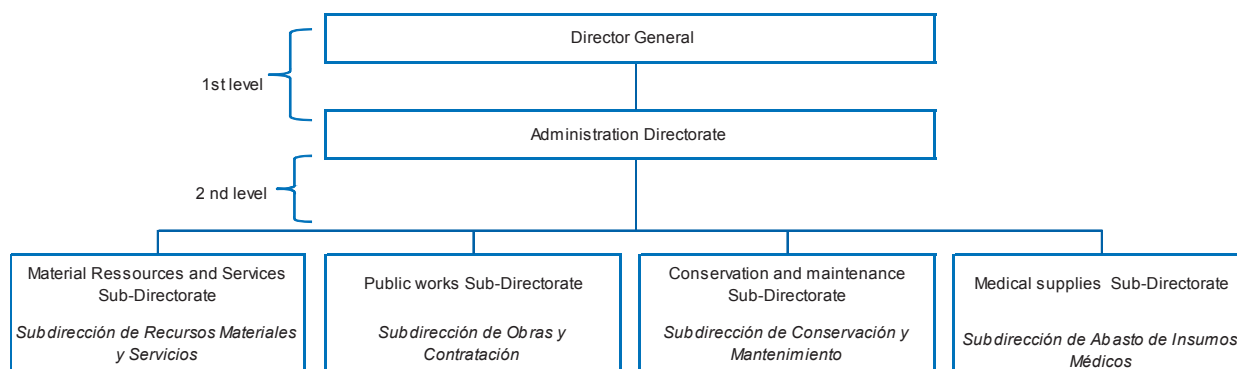
The organisation and structure of a procurement function are important elements for ensuring an effective and accountable system. Weak governance in public procurement hinders market competition and increases the price paid by government for goods and services, which directly impacts public expenditure and hence, resources. This may, in turn, result in inadequate supply, negatively impacting other activities. An effective procurement function plays a strategic role in avoiding the mismanagement and waste of public funds while ensuring that goods and services of the right nature, quantity and quality are obtained.

The position of the procurement function within the organisational hierarchy is often a good indication of the importance given to procurement as a strategic function and to its level of accountability. Generally, the closer the procurement function is to the upper-management levels of an organisation, the greater the strategic role it can play.

The OECD review found the structure of ISSSTE's procurement function to be well-defined and integrated in its governance system. At the central level, ISSSTE places significant structural weight on the role of procurement, with the areas directly involved in procurement activities located two levels below the Director General. In addition, there

seems to be a direct and informal line of communication between some of the sub-directors and the Director General (see Figure 1.2).

Figure 1.2. Structure of the procurement function at the central level



Source: Based on ISSSTE (2010), *Manual de Organización General del Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado*, ISSSTE, published in the *Diario Oficial de la Nación*, 30 December 2010, <http://normateca.issste.gob.mx/view.asp?sesion=201209250440101639&infocard=201103312204482488&d=Y>, accessed 25 September 2012.

However, in view of the size of the Mexican territory, and in order to be in close proximity to the user areas (clinics, family medical units, etc.), ISSSTE's procurement function is highly physically decentralised. As a result, 96 procurement units are present in:

- 4 Sub-directorates (Material Resources and Services, Public Works; Conservation and Maintenance; and Medical Supplies) of the Administration Directorate at the central level;
- 48 local units (35 delegations, 12 regional hospitals and the National Medical Centre "20 de Noviembre"); and
- 4 entities providing some of ISSSTE's non-medical services (SuperISSSTE, FOVISSSTE, TURISSSTE and PENSIONISSSTE).

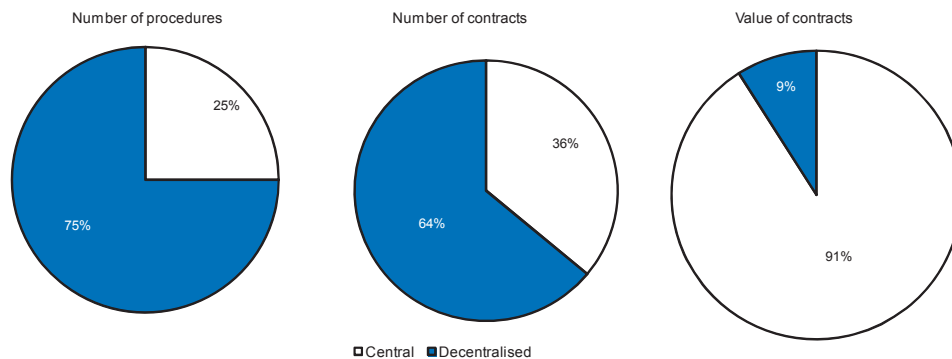
As indicated in Table 1.1, ISSSTE classifies delegations as either type A or type B according to the number of beneficiaries registered and to the budget allocated.

According to data collected by Compranet, the e-procurement system of the Mexican Federal Government, three-quarters of the recent procurement procedures and two-thirds of contracts were carried out at the local unit level (Figure 1.3). However, the overall value of these procedures and contracts remains low compared to that of the central level, representing less than 10% of the organisation's procurement spending. This implies that most of the procurement activities in the local units relates to a large volume of low-value contracts.

Table 1.1. ISSSTE's types of delegation

Type A delegations			
1. Chihuahua	2. State of México	3. North Zone Federal District (<i>Distrito Federal Zona Norte</i>)	4. East Zone Federal District (<i>Distrito Federal Zona Oriente</i>)
5. West Zone Federal District (<i>Distrito Federal Zona Poniente</i>)	6. South Zone Federal District (<i>Distrito Federal Zona Sur</i>)	7. Veracruz	
Type B delegations			
8. Aguascalientes	9. Baja California	10. Baja California Sur	11. Campeche
12. Chiapas	13. Coahuila	14. Colima	15. Durango
16. Guanajato	17. Guerrero	18. Hidalgo	19. Jalisco
20. Michoacán	21. Morelos	22. Nayarit	23. Nuevo León
24. Oaxaca	25. Puebla	26. Querétaro	27. Quintana Roo
28. San Luis Potosí	29. Sinaloa	30. Sonora	31. Tabasco
32. Tamaulipas	33. Tlaxcala	34. Yucatán	35. Zacatecas

Source: Information provided by ISSSTE.

Figure 1.3. Level of decentralisation of ISSSTE's procurement activities (2008-2011)

Note: Excludes FOVISSSTE, SuperISSSTE, TURISSSTE and PENSIONISSSTE.

Source: Author's calculation based on data from Compranet and SFP, with corrections by ISSSTE.

The organisation relies on a strong central procurement area

Despite being highly physically decentralised, ISSSTE's procurement function is co-ordinated by a strong central area which manages information and strategic decisions and implements various centralised initiatives such as consolidation. As shown in Figure 1.2, four central procurement sub-directorates are present in the Administration Directorate. They are in charge of consolidating the different requirements received from the central and decentralised units (delegations, hospitals and the medical centre).

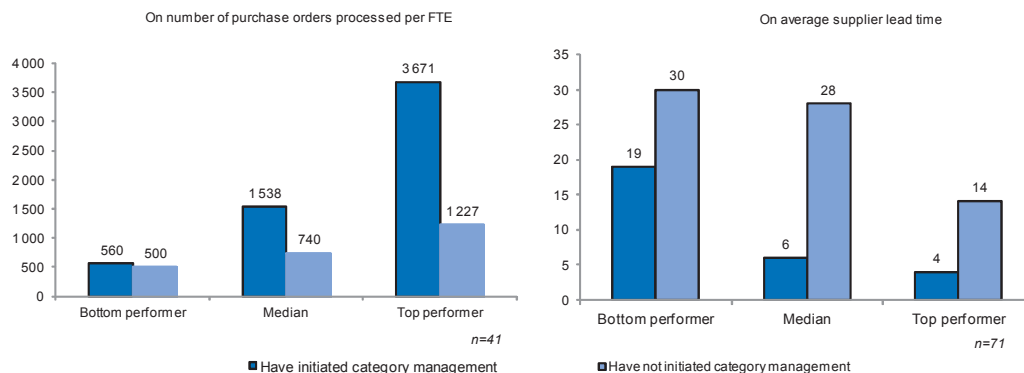
Notably, these central sub-directorates are structured around categories of goods and services, which allows for greater expertise and efficiency. Some of them have taken the specialisation one step further, with divisions dedicated to a selected group of goods or services. For example, there are three commodity groups in the Medical Supplies Sub-directorate: one for medicines (*Jefatura de Servicios de Adquisición de Medicamentos*), one for healing material (*Jefatura de Servicios de Adquisición de Material de Curación*) and one for medical equipment (*Jefatura de Servicios de Adquisición de Instrumental y Equipo Médico*).

There is also some level of specialisation in Type A delegations since they have two procurement units: one for goods (*Departamento de Adquisiciones*) and the other for public works and general services (*Departamento de Obras y Servicios Generales*). In view of their lower level of procurement activities, Type B delegations only have one procurement unit (*Departamento de Recursos Materiales y Obras*) that procures a wide range of goods and services.

The structure used by ISSSTE in some of its procurement areas is in line with the concept of “commodity/category management”. As an alternative approach to transactional procurement under which procurement officers buy a large range of very different goods and services, commodity/category management involves strategically developing, assessing and monitoring procurement and supplier performance for specific commodities or categories of commodities. These commodities and categories become more manageable from an organisation’s procurement perspective because each one requires its own market intelligence, sourcing strategies and supplier relationship management programmes.

Such a structural and strategic approach is increasingly being recognised for the significant efficiency and benefits it can bring to an organisation. As an example, category management programmes can result in shorter supplier lead times and higher efficiency in issuing purchase orders to the organisation (Figure 1.4). While category management may not be the sole source of these benefits, it is nonetheless an important element of the more sophisticated procurement systems in place. Furthermore, category management brings other benefits, such as greater product expertise, not only as it relates to market intelligence, but related to awareness of possible contractual risks as well. The structure defined by ISSSTE for its procurement function is therefore commendable and worthwhile of being replicated in other Mexican entities.

Figure 1.4. Impact of investment in category management



Sources: APQC (2011), “Employees significantly more efficient with category management”, APQC, 10 March, Houston, TX, www.apqc.org/knowledge-base/documents/employees-significantly-more-efficient-category-management, accessed 8 November 2011; and APQC (2011), “Procurement category management: faster PO cycle time”, APQC, 17 February, Houston, TX, www.apqc.org/knowledge-base/documents/procurement-category-management-faster-po-cycle-time, accessed 8 November 2011. Copyright ©2011 APQC. All right reserved.

Co-ordination and communication

Well-defined committees and working groups support the procurement function

A number of well-established committees support the management of ISSSTE's procurement function. Some of them relate to the control of the procurement operation:

- The Goods, Leasing and Services Committee (*Comité de Adquisiciones, Arrendamientos y Servicios*) and the Public Works Committee (*Comité de Obras Públicas*) (ISSSTE, 1997; ISSSTE, 2006). These two committees are in charge, among others, of reviewing the use of exceptions to public tendering. Similar sub-committees for goods, leasing and services (*Subcomité de Adquisiciones, Arrendamientos y Servicios*) are in place in all local units, as well as some committees for public works (*Subcomité de Obras Públicas*).
- The Internal Control and Performance Evaluation Committee (*Comité de Control y Desempeño Institucional*, COCODI), created in 2010, addresses risk management and control, and is comprised of senior management from ISSSTE and staff from SFP.²
- Like other entities of the Mexican federal government, ISSSTE is also subject to control and audits by the Ministry of Public Administration's Internal Control Office (*Órgano Interno de Control*, ICO). Twelve other ICO delegations cover ISSSTE's 35 delegations.

More information on the role and responsibilities of these committees and units is available in Chapter 3.

Committees are also in place for revising solicitation documents. At the central level, the SURECON (*Subcomité de Revisión de Convocatorias*) reviews such documents for all public tendering procedures and restricted invitations (Invitations to at least three suppliers – *Invitaciones a cuanto menos 3 personas*) for medical supplies. The user area, the procurement area, the legal area and the ICO participate in the process. Similar sub-committees are also in place for all decentralised units.

Finally, various other working groups and teams were identified in the course of this review, some of them recently created to better manage risks as well as to improve transparency and accountability in some decision-making processes. These working groups and teams include:

- The Scientific and Medical Advisory Council (*Consejo Asesor Científico y Médico*) created in early July 2012 and composed of 19 experts from the health sector outside of ISSSTE. Among others, it selects the medicines and treatments that ISSSTE's medical units are authorised to provide.
- A Tactical Supply Group chaired by the Director General of ISSSTE that discusses the supply of medicines, procurement and delivery issues as well as ongoing projects, and monitors agreements in place.
- A Tactical Supply sub-Team, established following the creation of the Supply Control Board (*Tablero de Control de Abasto*), meets weekly to discuss medicines and medical products for which supply may be at risk (low or inexistent stock, late delivery, etc.) and follow-up procurement activities.

- Multi-disciplinary teams within the Infrastructure Sub-directorate (*Subdirección de Infraestructura*) of the Medical Directorate (*Dirección Médica*) to improve the quality of market research.
- A Quality Sub-Committee (*Subcomité de la Calidad*) in the Public Works Sub-directorate (*Subdirección de Obras y Contratación*) identifies opportunities for improving the procurement procedures under the ISO certification in place.
- The working groups “zero recurrences-zero observations” (*cero recurrencias-cero observaciones*), which meet every month to identify and evaluate the risks associated with each unit. These groups were mentioned by five delegations, including East Zone Federal District (*Distrito Federal Zona Oriente*) and Yucatan. They are composed of the head of the delegation, three deputy delegates, and two chiefs (*titulares*) of unit, and have the support of the delegation's ICO.

The co-ordination of the medicine supply has recently been strongly improved

The procurement cycle should be governed by a co-ordinated procurement organisation with a unified and well-recognised strategic mandate. It should also be mainstreamed and well-integrated into the governance system of the organisation as a whole, recognising the procurement function as a strategically important component (OECD, 2009).

As previously indicated, the management and strategic planning of the procurement function are essentially performed at the central level, with the central office providing strategies and rules to the decentralised units. This current co-ordination structure and the existence of a capable central procurement group position ISSSTE to achieve its objective, among others, by implementing a unified approach to procurement across the whole organisation.

Strong elements of co-ordination can be found in ISSSTE, such as in the definition and consolidation of requirements for medicines and subsequent procurement through centrally consolidated contracts. As a first step, medicine requirements are identified annually by each local unit and communicated to the Infrastructure Sub-directorate of the Medical Directorate. There, they are validated according to factors such as historical data and seasonality of illness. As part of that process, each delegation must travel to Mexico DF to discuss potential adjustments and for final agreement to be reached. Periodic consultations also take place to identify changes in consumption behaviour and to determine if any adjustments are required to the agreed-upon requirements.

ISSSTE has recently reinforced its collaboration with external entities on potential procurement synergies for medicines and medical equipment. This includes the recent joint procurement undertaken with other entities of the Mexican health sector (see Chapter 5 for a more detailed discussion).

However, the requirement forecasting process identified above has at times proven inadequate, resulting in a medicine supply crisis in 2011 and early 2012, when several delegations experienced historically low stock levels. Contrarily, lack of visibility and availability of data for stock management resulted in excessive procurement of some other medicines, with warehouse stock exceeding three to four times what was necessary to meet the demand.

In order to deal with this situation, ISSSTE took actions to strengthen the management and co-ordination of its medicine stock and requirement planning. Among others, it created the Supply Control Board (further discussed in Chapter 4) in February 2012. This stock management tool allows key internal stakeholders – such as delegates, hospital directors and relevant units at the central level – to have access to regularly updated data on the stock of medicines and certain medical equipment in all medical units and in the National Distribution Centre. Through this tool, ISSSTE is able to identify and address potential future supply difficulties and to validate the forecasted requirements against actual consumption. ISSSTE also has implemented an initiative to improve the integration and effectiveness of SIAM (*Sistema Integral de Abasto de Medicamentos*), the medicine stock management system used at the local level, as many units were not keeping it up to date and have had difficulties generating reports.

In addition, ISSSTE has recently strengthened its relationship with the National Chamber of the Pharmaceutical Industry (*Cámara Nacional de la Industria Farmacéutica*, CANIFARMA). As from 2012, monthly meetings are now held to discuss processes and requirements in order to find solutions to problems such as products not being supplied on a regular basis. As such, CANIFARMA committed to provide ISSSTE with a list of production times for each product. In return, CANIFARMA requested that ISSSTE provide more detailed advance notice of its requirements than the current annual plan, thereby allowing for the preparation of necessary stock and production schedules in order to avoid facing penalties for late delivery. While such dialogue can be expected to improve the supply security of medical products, due care should be taken to ensure that it does not facilitate collusive behaviour among suppliers.

More effective and agile co-ordination and communication are needed

Although most of ISSSTE's procurement units are implanted in close proximity to the user areas to better provide services, it is necessary for the procurement system to operate as a unified whole. This can only be achieved if the procurement system has a common mission, vision and values, and a common co-ordinating management unit, which can direct procurement officers as a group in order to improve the procurement function across the whole organisation.

Despite the positive aspects mentioned above, this OECD review found that ISSSTE's current procurement system does not fully reach the objective of operating as a unified whole. This can partly be explained by the absence of an explicit and comprehensive procurement strategy, which should be developed and clearly communicated to all procurement units (Chapter 4). ISSSTE's board of directors has recently made efforts to increase the visibility of the procurement function and to increase collaboration between the procurement units and the user areas. However, there are still some communication and transactional problems, both on a vertical basis (between the central and decentralised units) and on a horizontal basis (among procurement units).

For example, delegations have indicated that they have had trouble receiving answers from central areas to their questions regarding the procurement process or policies. In some cases, the local units seek responses directly from SFP, but report a long response time and have thus reduced the frequency of such requests. In addition, the ICO mainly supports improvements to the procurement function through audits and recommendations to the COCODI. There does not seem to be a mechanism in place for the procurement units to interact in an informal basis with the ICO to discuss the adequacy of their actions or ways to avoid recurrences of incorrect practices already identified in audits. The ICO is

therefore often perceived as a police function. ISSSTE could enhance discussions and joint efforts with the ICO to focus more on preventing errors and incorrect practices, thereby improving the perception of the procurement agents and making the relationship more open and flexible. Furthermore, procurement units could be given the opportunity to comment on draft audit reports before they are finalised.

Similarly, co-ordination amongst the local units could be enhanced. While the Delegations Directorate has a significant impact through the co-ordination of the medical activities of the delegations, it has little – if any – involvement in their procurement activities. Even though national meetings are held with all delegations and the head offices to exchange information (three in each of 2011 and 2012), some stakeholders consider that the central areas (and the Delegation Directorate) are always a step behind what is happening in the delegations. This also results in divergences in how delegations undertake procurement processes. In order to improve the consistency and results of the procurement units, ISSSTE could consider ensuring that strong and constant co-ordination mechanisms be put in place in the local units, either by reinforcing existing mechanisms, such as enhancing the role of the Delegations Directorate or of regional sub-committees, or by implementing new ones.

ISSSTE could also increase its use of ICT already in place or available to improve the efficiency of the communication between central areas and local procurement units and ensure a more regular dialogue. A good example would be the use of videoconferences to facilitate the annual requirement discussion between the local units and the Infrastructure Sub-directorate; as the current practice of delegations going to Mexico City results in a significant waste of effort, time and money.

There is significant loss of knowledge due to the lack of proper communication mechanisms

Since the beginning of 2012, improvements have been made in sharing best practices among delegations. However, these remain on the medical side and more effort is needed to replicate this initiative in fields such as procurement. While limited co-ordination has been provided by the central areas, the local procurement units continue working in relative isolation, resulting in diverging processes and a lack of knowledge sharing (lessons learnt and past experiences). According to interviewees, there is little horizontal communication among ISSSTE's different regional procurement areas. Experiences and knowledge gained in the procurement process are thus not often discussed, and most of the procurement units do not benefit from expertise developed in other parts of the organisation.

In addition, decentralised units indicated that communication from the centre is insufficient, particularly as it relates to developing central procurement strategies and to addressing difficulties experienced by procurement units in applying policies. Decentralised units reported that they and their user areas are rarely if ever involved in the establishment of central initiatives, and that there is not an adequate follow-up to assess the impacts of such initiatives. As an example, the basis on which products are selected to be covered by a central consolidated contract is unclear to them, and they are not asked about their past experiences with such products and their potential suppliers. Not only does such a lack of communication result in a significant level of information and expertise accumulated internally throughout the years not being taken into consideration in the development of the strategy, but in some risks not being adequately

mitigated as well. Central areas of ISSSTE could consult the decentralised units about the pertinence of different initiatives, especially for those with delivery problems.

Significant synergy and efficiencies could be achieved through a regular exchange of experiences and knowledge among the procurement units. For that purpose, ISSSTE could ensure that decentralised units are systematically consulted in the development of central procurement strategies that have an impact on them. Follow up to assess the positive and negative impacts of such strategies should be carried out and relevant corrective actions taken as needed.

ISSSTE could also strengthen the existing communication channels, and implement new ones where appropriate, between the procurement units and with stakeholders involved in public procurement as to facilitate the development and transfer of knowledge as well as the adoption of best practices. This could include the development of expert teams, creation of central centre of information, regular meetings and events, as well as an online group discussions or forums where procurement officers can exchange information and discuss their experience, best practices and challenges. ISSSTE could also create a central database of lessons learnt and best practices from all procurement units, subject to appropriate validation. This information could then be made available to all procurement officials through the intranet. The Dutch Public Procurement Expertise Centre (PIANOo) is an interesting example of information and knowledge transfer practices (Box 1.1).

Finally, enhanced interfaces between the units and the central area could be established, facilitating and streamlining vertical and horizontal communication. This could be achieved through the regional committees or through identifying “central specialists” as official points of contact to assist decentralised units in the interpretation and application of policies or in the development of procurement strategies.

Box 1.1. 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 democratisation of knowledge on that field, crossing the boundaries between practices, science, law and policy, between countries as well as between governments and markets. 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 when it was decided to evolve it into an expertise centre making authoritative statements on subject matter. Two expert groups headed by University professors were founded: one is involved in the legal matters surrounding public procurement while the other covers the economic aspects of the profession. Issues that are not well solved on PIANOo-desk are transferred to one of the expert groups to make a position paper. Key themes on PIANOo in 2013 include market knowledge, the position of procurement in the organisation, innovation-focused procurement, innovative procurement and sustainable procurement.

Box 1.1. PIANOo: A community of practice in the Netherlands (cont.)

PIANOo crosses the boundary of public procurement professional. Policy-makers are stimulated to become members of the community and regular meetings are held to discuss policy-related topics. Interaction with the market place is also stimulated to promote supply chain integration and market knowledge. For example, business companies are invited to comment on model requests for proposals and other contractual documents available 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, where are available public procurement-related information, advice, useful tools and model documents, including weekly publication of summary and explanation of related jurisprudence and the newest 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 as well as joint meetings with the industry.

With the success of PIANOo 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.

Sources: www.pianoo.nl/about-pianoo and Tazelaar, K. (2010), "Pianoo, a Knowledge Network for Public Procurement", presentation at the 4th International Public Procurement Conference, Seoul, South Korea, August 2010, www.ippa.org/IPPC4/Proceedings/14ProcurementProfession/Paper14-6.pdf, accessed 4 October 2013.

Proposals for action

In order to improve the structure, governance and communication of its procurement function, ISSSTE could:

1. Enhance the co-ordination of the local procurement units by reinforcing existing mechanisms, such as enhancing the role of the Delegations Directorate or of regional sub-committees, or by implementing new ones.
2. Undertake discussions with the ICO so that it focuses more on preventing errors and incorrect practices. Procurement units could be provided with the opportunity to comment on draft audit reports prior to them being finalised.
3. Increase the use of ICT already in place or available to improve the efficiency of the communication between central areas and local procurement units, for

example to avoid the obligation for delegations to go to central headquarters for the requirement validation process.

4. Ensure that decentralised units are systematically consulted in the development of central procurement strategies that impact them. Follow up to assess the positive and negative impacts of such strategies should be carried out and relevant corrective actions taken as needed.
5. Strengthen the existing communication channels, and implement new ones where appropriate, between the procurement units to facilitate knowledge development and transfer as well as the adoption of best practices.
6. Create a central database of lessons learnt and best practices from all procurement units, subject to appropriate validation and concurrence. This information could then be made available to all procurement officials through the intranet. And,
7. Establish enhanced interfaces between the decentralised units and the central area, facilitating and streamlining vertical and horizontal communication. This could be achieved through the regional committees or by identifying “central specialists” as official points of contact to assist decentralised units in the interpretation and application of policies or in the development of procurement strategies.

Notes

1. Available at www.issste.gob.mx/instituto/normateca.html, accessed 4 October 2012.
2. FONVISSSTE and SuperISSSTE do not participate in ISSSTE’s central COCODI.

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Chapter 2

Ensuring high quality regulations for ISSSTE's procurement processes

This chapter provides an overview of the regulatory framework that applies to the procurement activities of the Mexican State's Employees' Social Security and Social Services Institute (ISSSTE). It also presents recent efforts made at the federal level to increase the clarity and efficiency of that regulatory framework. Finally, it describes how consultations, as well as ex ante and ex post Regulatory Impact Assessments (RIA), can be implemented by ISSSTE in the development and revision of internal instruments used to regulate its procurement function.

Introduction

Procurement processes in Mexico’s public institutions are regulated by a set of primary and secondary rules that provide the framework for buying goods and contracting services. These institutions face a challenging dilemma: preventing the incidence of corruption and guaranteeing integrity while keeping the process flexible and simple. The State’s Employees’ Social Security and Social Services Institute (*Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado*, ISSSTE), like many other public institutions in Mexico, is struggling to strike the right balance.

Despite the scope of the challenge, overcoming it is absolutely essential to modernise ISSSTE’s procurement processes. Procurement rules should not be so strict that they inhibit innovation and public agility,¹ but they must provide safeguards to guarantee a level playing field for bidders, allowing savings in public spending and facilitating access to quality goods and services.

High quality regulation of ISSSTE’s procurement processes will not come without a deliberate effort. It can only be the result of careful design of the flow of regulations and systematic review of the normative framework. These features depend on the deployment of regulatory tools not yet fully implemented in ISSSTE such as *ex ante* impact analysis, public consultation and *ex post* evaluation. In fact, in order to achieve a robust regulatory governance system, ISSSTE must work on the different stages of the regulatory governance cycle, from design and *ex ante* assessment to implementation and *ex post* analysis.

The regulatory framework applicable to ISSSTE’s procurement processes

ISSSTE procurement activities are regulated by numerous primary and secondary rules

ISSSTE’s procurement processes are regulated by a set of normative instruments ranging from the Mexican Constitution (*Constitución Política de los Estados Unidos Mexicanos*, CPEUM) to a series of primary laws, bylaws, codes, decrees, agreements, rules and manuals. Article 134 of the CPEUM establishes the general framework and main criteria to follow for public sector acquisitions:

The acquisitions, leasing, and transfers of all types of goods, services of any kind, and the contracting of public works that they [the Federation, states, municipalities and the Federal District] undertake will be adjudicated or carried out through public biddings on the basis of public notices, so that proposals are freely presented in a closed envelope, which will be opened publicly, so that the State can have the best conditions in terms of price, quantity, financing, opportunity and other relevant circumstances.

When the biddings referenced in the last paragraph are not ideal to ensure these conditions, laws will establish the basis, procedures, rules, requisites and other criteria to prove the economy, effectiveness, efficiency, impartiality and integrity that ensure the best conditions for the State.

The principles established in the CPEUM are then more specifically regulated by a set of normative instruments lower down the hierarchy, some of which are applicable to the federal public administration as a whole, while others are specific to ISSSTE, as shown in Table 2.1.

Table 2.1. Regulatory instruments applicable to ISSSTE's procurement processes

General regulatory instruments	ISSSTE specific
<p>Primary laws:</p> <ul style="list-style-type: none"> • Law on Acquisitions, Leasing and Services of the Public Sector (<i>Ley de Adquisiciones, Arrendamientos y Servicios del Sector Público</i>, LAASSP) • Federal Law on Budgeting and Financial Responsibility • Federal Law on the Administrative Responsibilities of Public Servants • General Law on Health (concerning the supplies catalogue for the Ministry of Health and the institutional catalogue of health supplies, Articles 28-31) <p>Bylaws (reglamentos):</p> <ul style="list-style-type: none"> • Bylaws of the Law on Acquisitions, Leasing and Services of the Public Sector • Bylaws of the federal Law on Budgeting and Financial Responsibility <p>Codes:</p> <ul style="list-style-type: none"> • Federal Civil Code • Federal Code of Civil Procedures <p>Decrees:</p> <ul style="list-style-type: none"> • Expenditures Budget of the Federation (issued annually) <p>Agreements:</p> <ul style="list-style-type: none"> • Agreement to establish criteria for the use of electronic communication means for the submission of proposals in response to public biddings issued by ministries and agencies of the federal public administration, as well as for the filing of complaints • Agreement to issue several guidelines concerning acquisitions, leasing and services, as well as public works and related services <p>Rules:</p> <ul style="list-style-type: none"> • Rules to carry out international public biddings under the framework of the free trade agreements signed by Mexico <p>Manuals:</p> <ul style="list-style-type: none"> • Administrative Manual for General Application concerning acquisitions, leasing and services of the public sector 	<ul style="list-style-type: none"> • Policies and Guidelines concerning ISSSTE's Acquisitions, Leasing and Services (<i>Políticas, bases y lineamientos en materia de adquisiciones, arrendamientos y servicios</i>, POBALINES) • ISSSTE's General Organisation Manual • Manual to integrate and operate ISSSTE's Committee on Acquisitions, Leasing and Services • Manual to integrate and operate ISSSTE's decentralised Subcommittees on Acquisitions, Leasing and Services • Procedures Manual for ISSSTE's Delegations concerning the following processes: identification of annual needs of medicines and medical supplies, authorisations to buy medical supplies in a decentralised manner, supply of consumer goods, acquisition of consumer goods by public bidding and restricted invitation, drafting contracts and modifications, information and control of acquisition transactions by the regional or state delegation, international contracts, and urgent supply of medicines and medical supplies of the basic list of products. • Procedures manual of each regional hospital and the National Medical Centre "20 de Noviembre"

Source: Information provided by ISSSTE.

The acquisition of medicines, medical supplies and equipment is centralised through consolidated purchases via public tendering, limited competition amongst a few suppliers or direct purchases. In cases of shortage, state and regional delegations, as well as regional hospitals and the National Medical Centre (*Centro Médico Nacional, CMN*) “20 de Noviembre”, carry out limited direct purchases of medicines and supplies, which is why their procedures manuals are included in the ISSSTE-specific regulatory instruments.

In addition to the normative instruments listed in Table 2.1, there are other rules that apply to public works carried out by ISSSTE. Some of these rules apply across the federal public administration, such as the Law on Public Works and Related Services (*Ley de Obras Públicas y Servicios Relacionados con las Mismas*), its bylaws and the *Administrative Manual for General Application concerning Public Works and Related Services (Manual Administrativo de Aplicación General en Materia de Obras Públicas y Servicios Relacionados con las Mismas)*; while others are ISSSTE-specific, such as the Policies and Guidelines concerning ISSSTE’s Public Works and Related Services (*Políticas, bases y lineamientos en materia de obras públicas y servicios relacionados con las mismas, POBALINES*).

Although this description is not exhaustive (there are other normative instruments regulating ISSSTE’s procurement and public works activities), it illustrates the complexity of the regulatory framework applicable to economic transactions undertaken by the institute. This framework regulates the different stages of the procurement process, such as planning, programming, budgeting, acquisition and control.

Addressing the risk of regulatory failure

High quality regulation inside government creates positive spillovers and allows innovation and productivity

Regulation inside government (RIG), or regulations that apply to internal government activities, is receiving increasing attention from the academic and public sectors. As Hood et al. (1999) acknowledge, “The regulation of business, and especially regulation of the privatised utilities, has attracted much attention from both policymakers and academics...Less commonly discussed are analogous processes of ‘regulation’ within the public sector”.

Red tape usually accumulates over many years. In some cases, regulatory requirements were never appropriate; in others, they ceased to be appropriate as circumstances changed. Excessive regulation diverts scarce taxpayer funds from the delivery of government programmes. Costs incurred from red tape include extra time, paperwork and capital outlays, which deflect management’s attention from its core activities. Operationally, excessive regulation can result in confusion about objectives and processes, decrease productivity and innovation, and adversely affect employees’ job satisfaction. Regulatory burden also creates higher risks of public officials circumventing the rules. The overall result is poor outcomes for public servants, the government, taxpayers and the public. Furthermore, as the Australian Management Advisory Committee (2007) put it, “a public service that over-regulates itself will probably end up over-regulating citizens”.

While RIG and regulations applied to businesses have similarities, there are also important differences. In terms of similarities, both businesses and public organisations are subject to regulations. “Just as a business firm is exposed to a set of different

regulators-auditors, inspectors, licensing bodies, competition and fair-trading authorities, so a typical public organisation faces a collection of waste-watchers, quality police, sleaze-busters, and other regulators”. Another similarity is that it is widely recognised that poor regulation, whether for government or business activities, has negative consequences, while high-quality regulation creates positive spillovers. “Command and control styles of regulatory intervention can produce unintended effects or even reverse effects through functional disruption of the system being regulated” (Hood et al., 1999).

One of the obvious differences concerns the reasons to study the effects of overregulation. Businesses have a clear motivation to perform, which is to be profitable. From the public policy point of view, at least in market economies, businesses ought to be freed from the excessive burdens of regulation so that they can be competitive and create jobs. In government, motivations and objectives are not that unambiguous and straightforward. In any case, it is clear that the objective of RIG simplification is not to free resources to create jobs in public administrations (Hood et al., 1999). Streamlining RIG may have other objectives, such as promoting agility, clarifying responsibilities, targeting resources, improving the efficiency and effectiveness of public programmes, maintaining fiscal sustainability, upgrading public service delivery, and strengthening multi-level co-ordination and accountability, among others.

Despite these differences, there seems to be consensus that there is a case to improve RIG. RIG may lead public servants to concentrate on complying with burdensome requirements instead of effectively delivering public programmes and services. In this sense, it may render the public administration unable to react timely to specific events (i.e. a natural disaster or an economic crisis) or to adapt to changing circumstances (i.e. incorporating ICT into its processes). It may also create a risk-averse culture among public servants, inhibiting innovation and productivity. This is indeed the case in ISSSTE and most, if not all, other Mexican government entities. In addition, excessive RIG may create confusion about what procedures and formalities to follow in processes such as procurement. However, it is also clear that RIG, when properly designed, is needed to improve accountability and transparency, limit the discretion of public servants and prevent corruption. The issue is not to fully eliminate RIG, but to achieve the right balance between control and performance. In other words, it is not about “deregulation” *per se*, but about “regulatory governance”.

Despite the risk of regulatory overlap, the Administrative Manuals of General Application developed by the Ministry of Public Administration and the POBALINES updated by ISSSTE have helped decrease uncertainty

The Ministry of Public Administration (*Secretaría de la Función Pública*, SFP) has led efforts to streamline RIG applicable to the federal public administration, which has had a positive impact on procurement activities. In 2009 and 2010, SFP moved to eliminate excessive and unjustified procedures applicable to federal public entities through the drafting and publication of manuals. This initiative, known as the Guillotine of Administrative Regulations, led to the elimination of 67% of all internal government regulations, reducing them from more than 14 000 to less than 5 000. More than 600 procurement regulations were eliminated through that process.

SFP developed and published nine subject-specific manuals with which all federal public organisations must comply. Working teams, which included representatives of different federal public organisations, were set up to prepare and develop each administrative manual. The production of these documents was co-ordinated by SFP, and

included the participation of various Internal Control Offices (*Órgano Interno de Control*, ICO), which carried out the review and controlled the design and development of the administrative manuals. Approximately 400 officials from 64 federal public organisations, SFP and ICOs, were directly engaged in the process. Moreover, the manuals benefited from additional consultation with approximately 150 federal public organisations.

The resulting manuals address procurement, public works, human resources, financial resources, material resources, information and communication technologies, transparency, auditing and control. They aim at providing a standardised and unique framework to guide the actions of public officials in each subject area. In August 2010, the development of these manuals coincided with the publication of a presidential agreement instructing all federal public organisations to refrain from issuing regulations in the areas covered by the manuals. The same agreement also requires public organisations to compile an inventory of their internal rules and to remove those that are opposed to the manuals. The agreement gives SFP the authority to monitor compliance with its provisions.

By eliminating duplicative and overlapping rules, and establishing a clear and unique internal regulatory framework, the manuals seek to minimise the use of resources for internal government activities, while increasing the quality of public goods and services, as well as the effectiveness of the federal public administration's agencies.

In the case of ISSSTE, there is a marked discrepancy in public servants' perception concerning the degree to which they clearly identify which regulatory instruments apply to a specific acquisition transaction. While the officials of most procurement areas stated that the regulatory framework is clear, some did have reservations. The ICO considers regulations to be clear and that public servants know how to apply them, but that there is sometimes a lack of planning and control, which results in compliance gaps.

The central Material Resources and Services Sub-directorate,² for example, reported wide dispersion in the ways user areas request them to purchase goods. Such lack of uniformity may be related to confusion created by regulatory overlaps or by a lack of familiarity with the most frequent procedures set by specific norms, particularly the recently issued ones that have not been sufficiently diffused. For example, in different interviews, ISSSTE officials expressed that the *Administrative Manual for General Application concerning Acquisitions, Leasing and Services of the Public Sector (Manual Administrativo de Aplicación General en Materia de Adquisiciones, Arrendamientos y Servicios del Sector Público, MAAG Acquisitions)*, which was published in the *Official Gazette (Diario Oficial de la Federación, DOF)*³ on 9 August 2010, has not been sufficiently diffused internally among user areas.

Despite the fact that ISSSTE's officials agree that greater diffusion of the manual would be useful, they did report some benefits derived from it. First, the MAAG Acquisitions is credited with having established homogeneous formats and procedures by aligning the regulatory requirements of the different normative instruments. In fact, several areas mentioned that they have already spent several months aligning their formats and procedures with the standard established by the manual. Second, it simplifies the lives of public servants by clearly establishing references to the LAASSP and its bylaws, and by defining criteria for auditing. This benefit was also acknowledged for the *Administrative Manual for General Application concerning Public Works and Related Services (Manual Administrativo de Aplicación General en Materia de Obras Públicas y*

Servicios Relacionados con las Mismas, MAAG Public Works) in relation to the Law on Public Works and Related Services, and its bylaws.

Officials also repeatedly pointed out some manuals' weaknesses, particularly that they do not address some common situations and that some procedures are established with little room for flexibility, disregarding the specifics that acquisitions and public works transactions may have in all of the public administration's agencies. This claim might be particularly relevant for ISSSTE, given the specific conditions that apply to the management of medicines and medical supplies. There were also claims that there is room to review the assignment of responsibilities established by the manuals in relation to other normative instruments.

In response to identified manuals' weaknesses and the fact that ISSSTE cannot modify them unilaterally, the institute's management decided to review the POBALINES that apply to both acquisitions and public works, in order to take account of ISSSTE-specific conditions. There is general consensus that this revision was due since previous POBALINES basically repeated what was established in the laws and bylaws. Public servants agree that the revised POBALINES successfully address some of the weaknesses of the manuals and provide more details for specific procedures. The Administration Directorate also regarded this effort as part of a wider policy to reduce discretion and increase transparency in procurement processes. Both sets of POBALINES were published in the DOF on 2 March 2012.

In summary, while there is a risk of regulatory overlap given the high number of normative instruments applicable to ISSSTE's acquisitions processes, the manuals and the POBALINES have helped reduce uncertainty and improve clarity. The manual is already being applied by ISSSTE and is well underway to being embedded in its acquisitions processes. For example, the Medical Supplies Sub-directorate reported that it started applying the manual in February 2012, using templates such as the results of the market research, the summary of the notice for a public tender, the minutes of clarification meetings held to respond to questions of potential bidders, the minutes of the presentation and opening of proposals received, the checklist to assess proposals, and the contract award decision. Despite notable progress and the achievements already accomplished, there is a window of opportunity in the diffusion and training in the use of these regulations.

Training on procurement regulations and requirements can help close the compliance gap

Public officials interviewed agreed that training has been insufficient to facilitate the adoption of the requirements established by the manuals dealing with acquisitions and public works. This is a mistake that should not be repeated with the more recent POBALINES. Despite the fact that the Autonomous National University of Mexico (*Universidad Nacional Autónoma de México*, UNAM) and SFP have offered courses attended by ISSSTE staff involved in procurement, there is nothing like a systematic programme to train and update officials on the normative framework that regulates their functions. Furthermore, there is limited participation in the existing courses, which does not seem to be due to lack of interest, but rather to the intense procurement activity and tight deadlines. Regulation in any field is dynamic and may change frequently, which requires public officials to be attentive to them and stay up to date in their training. The institutional training programme in the area of human resources could be leveraged to

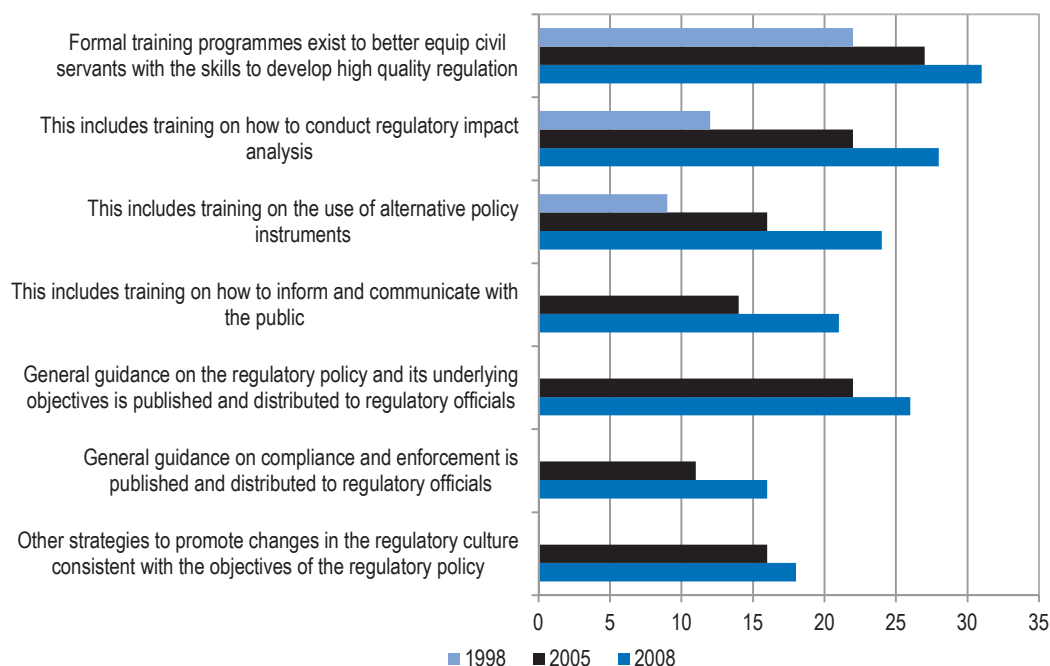
incorporate formal and systematic training on the regulatory framework for procurement activities.

Not only could training be strengthened, but, as discussed in Chapter 1, the exchange of good practices for solving common problems during procurement processes could be increased as to promote their adoption throughout the organisation. This could be achieved through more informal mechanisms, such as discussion groups, roundtables, quality circles, etc.

An additional instrument that can be used to facilitate the adoption of the manuals and POBALINES is quality certifications. In fact, the Public Works Sub-directorate reports that the transition was facilitated by the fact that it has documented its processes to comply with the requirements of ISO9000. Currently, it has certified the processes of contracting and project closure, including final payments, for public works and associated services (*finiquito de obra y servicios*).

Better informed and trained public officials can help close the compliance gap with the regulatory framework for procurement, as reported by the ICO. The activities to be carried out to train ISSSTE officials in the use of the manuals can also be leveraged for the diffusion of other normative instruments, such as the POBALINES. Continuous training and capacity building have the potential to significantly improve ISSSTE’s regulatory culture (see Figure 2.1 on the scope of regulatory training in OECD countries).

Figure 2.1. Training in regulatory quality skills in OECD countries (1998, 2005 and 2008)



Notes: The sample includes 31 jurisdictions for 2008 and 2005. For 1998, 27 jurisdictions are included as no data was available for the European Union, Luxembourg, Poland or the Slovak Republic.

Source: OECD (2008), “OECD Regulatory Indicators Questionnaire”, Questions 13 a), a(i), a(ii), a(iii), b(i), b(ii), and c), OECD, Paris, www.oecd.org/dataoecd/53/61/44679112.pdf, accessed 4 October 2013.

Regulatory consultation and *ex ante* impact analysis

ISSSTE's recent experience in updating its POBALINES illustrates the strengths and weaknesses of the processes by which it issues internal regulations. In terms of strengths, the process of updating the POBALINES included consultation with ISSSTE officials via the Committee for Internal Regulatory Improvement (*Comité de Mejora Regulatoria Interna*, COMERI). As for weaknesses, it is clear that ISSSTE does not apply any form of *ex ante* impact assessment to internal regulation proposals; consultation with external stakeholders could also be improved.

ISSSTE could develop a culture of public consultation to improve the quality of internal regulations

Regulatory consultation may have different objectives, such as collecting empirical information for analytical purposes and for complementing impact assessments, as well as for better understanding issues such as the acceptability of different policies. Consultation provides information to determine practicability and to design compliance and enforcement strategies. Since consultation is a cost-effective source of data, it is increasingly being used in OECD countries, such as by New Zealand in the recent review of its procurement regulation (Box 2.1).

ISSSTE could achieve several benefits from making internal consultation a formal requirement during processes to issue regulation applicable to its procurement activities:

- Consultation can potentially identify in a timely manner situations in which a problem has been poorly understood and does not, in fact, merit any regulatory intervention.
- Problems in terms of the acceptability of a regulatory proposal may be identified at an early stage and taken into account more effectively in the process.
- Engagement with the target populations of internal regulations can help identify additional tools (regulatory or non-regulatory) to address policy objectives, potentially yielding more effective responses.

Different consultation techniques exist, including informal inquiries, circulation of regulatory proposals for comment, public notice and comment, hearings and advisory bodies, among others. The different consultation mechanisms are not mutually exclusive; in fact, “there is an evolving tendency to combine different forms of consultation to improve its overall performance. This reflects growing understanding of the strengths and weaknesses of the different consultation strategies and of the fact that they are therefore suited to different specific circumstances and to different stages in the consultative processes” (OECD, 2002).

As mentioned above, the initiative to update the POBALINES included an internal consultation that relied on the COMERI. The objective of the COMERI is to “update the legal-administrative framework that regulates the operations of the institute by simplifying, deregulating, and/or remedying normative issues so that ISSSTE can adapt rapidly to economic, technological, and social change and facilitate the achievement of outcomes, as well as simplifying the management of the benefits and services it provides”.⁴

Box 2.1. Consultation process in procurement regulatory reform in New Zealand

In 2009, the New Zealand Cabinet initiated the Government Procurement Reform Programme to reform procurement policy and practice of the State sector. The agenda for the programme has four major themes:

- achieving cost savings;
- building procurement capability and capacity;
- enhancing New Zealand business participation; and
- improving governance, oversight, and accountability.

An important initiative under this programme is the update of the Mandatory Rules on Procurement (“the Rules”) introduced in 2006. The purpose of this update is to:

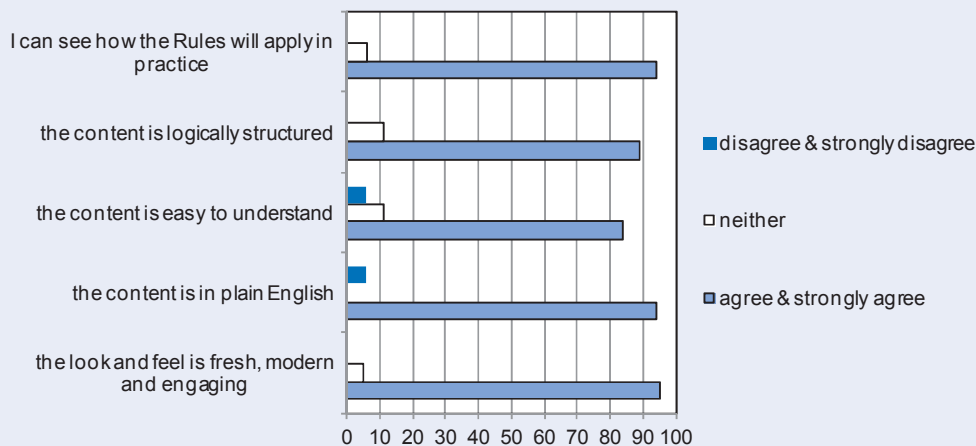
- bring the Rules into line with international benchmarks, including the standards set out in the WTO Government Procurement Agreement;
- draft the Rules in plain English and refresh their format as to make them easier for both agencies and suppliers to understand and use.

Significant consultations with covered agencies and the marketplace took place throughout the review process. In February 2012, agencies were invited to suggest areas of potential improvements to the Rules. Recommendations received were considered in the preparation of the draft new Rules.

In September 2012, agencies and businesses were invited to provide feedback on the draft new Rules through online surveys that closed on 12 October 2012. Responses were received from 44 agencies and 72 businesses. Among others, the survey showed that:

- 85% of businesses and more than 90% of agencies thought the new description of the rules are in plain English;
- more than 80% of agencies and 70% of businesses thought they are easy to understand.

Agency responses: Quality and readability



Using additional feedback received through the survey, a new draft version was developed to further strengthen the quality and readability of the Rules. Following additional consultation from departments, the final Rules are expected to be presented to Cabinet in February 2013.

Source: New Zealand Procurement website www.business.govt.nz/procurement, accessed on 22 January 2013.

Notwithstanding the merits of this consultation, ISSSTE would benefit from making internal consultation a systematic and formal requirement for issuing internal regulations, including on acquisitions. Furthermore, it would also benefit from experimenting with different consultation mechanisms in order to build on their respective strengths and to address the limitations that consultation via COMERI may have. Using several consultation mechanisms can open the process to a wider range of officials and obtain more opinions. Additionally, ISSSTE could establish guidelines for this kind of internal consultation, addressing criteria such as the ones discussed in the Code of Practice on Consultation of the United Kingdom (Box 2.2).

Box 2.2 Public consultation in the United Kingdom

The United Kingdom has a long-standing tradition of consultation. Currently, the legal instrument that establishes this framework is the Code of Practice on Consultation (“the Code”), published in 2000 and revised in 2004 and 2008. The Code applies to all central government departments and those agencies which have a close relationship with a parent department. With a few exceptions, such as emergency legislation or tax, consultation takes place in all policy areas and must follow the Code. Public justification must be provided if the Code is not applied.

The 2008 revision of the Code consisted of a programme of 20 stakeholder events around the United Kingdom to exchange views on how the government consults and where improvements could be made. Stakeholders expressed negative views on the consultation process, such as poor organisation on access to information, lack of transparency and responsiveness to stakeholders’ opinions, and a need for an independent quality monitoring of government consultations. In response to these concerns, the Code of Practice on Consultation was updated, taking into account the following criteria:

- **When to consult:** formal consultation should take place at a stage when there is scope to influence the policy outcome.
- **Duration of the consultation exercise:** consultations should normally last for at least 12 weeks with consideration given to longer timelines where feasible and sensible.
- **Clarity of scope and impact:** consultation documents should be clear about the process, what is being proposed, the scope to influence, and the expected costs and benefits of the proposals.
- **Accessibility of consultation exercises:** consultation should be designed to be accessible to, and clearly targeted at, those people the exercise is intended to reach.
- **The burden of consultation:** keeping the burden of consultation to a minimum is essential if consultations are to be effective and if consultees’ buy-in to the process is to be obtained.

Source: OECD (2010), Better Regulation in Europe: United Kingdom 2010, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264084490-en>, accessed 4 October 2013.

Finally, in addition to internal consultation, there is scope to subject internal regulations applicable to procurement activities to external scrutiny particularly that of stakeholders involved in these activities. ISSSTE has already developed some experience in this regard, as it promotes participation by suppliers, business associations, chambers and the public in the drafting of tender rules (*bases de licitación*) via the publication of draft rules on the institute’s webpage, where stakeholders can provide comments and suggestions. This experience should be leveraged to develop a culture of public

consultation for all of ISSSTE’s internal regulations, but particularly for those applicable to procurement.

ISSSTE could apply a simplified regulatory impact assessment to the process by which it establishes its internal regulations

The OECD “Recommendation of the Council on Regulatory Policy and Governance” states the following concerning *ex ante* impact analysis:

Integrate Regulatory Impact Assessment into the early stages of the policy process for the formulation of new regulatory proposals. Clearly identify policy goals, and evaluate if regulation is necessary and how it can be most effective and efficient in achieving those goals. Consider means other than regulation and identify the tradeoffs of the different approaches analysed to identify the best approach (OECD, 2012a).

Ex ante impact assessment practices should be proportional to the significance of the regulation and include cost-benefit analyses that consider the impacts of regulation, including the distributional effects over time, identifying who is likely to benefit and who is likely to bear the costs.

Ex ante assessment policies should require the identification of a specific policy need and the objective of the regulation. In line with the OECD “Recommendation on Competition Assessment” (OECD, 2009), they should assess, among others, the extent to which the regulations create barriers unduly restraining market activities and competition and address them by adopting more pro-competition alternatives. Likewise, they should include a consideration of alternative ways to address public policy objectives, including regulatory and non-regulatory alternatives to identify and select the most appropriate instrument, or mix of instruments, to achieve policy goals. The “no action” option should always be considered. *Ex ante* assessment should, in most cases, identify approaches likely to deliver the greatest net benefit, including complementary approaches such as through a combination of regulation, education and voluntary standards.

Regulatory impact assessment (RIA) should, as much as possible, be made publicly available along with regulatory proposals. The analysis should be prepared in a suitable form and within an adequate timeframe to gain input from stakeholders and assist in political decision making. Good practice involves using the RIA as part of the consultation process. In any case, RIA implementation should be supported with clear policies, training programmes, guidance and quality control mechanisms for data collection and use.

Currently, ISSSTE does not carry out any kind of impact assessment on its internal regulation proposals and, as said, its consultation practices are limited and not standardised. While adopting a full-fledged RIA would be beneficial, it would take some time to develop the skills necessary to carry it out appropriately. ISSSTE could rely on the items addressed by the RIA templates developed by the Federal Commission for Regulatory Improvement (*Comisión Federal de Mejora Regulatoria*, COFEMER) and contained in the *RIA Manual*, published in the DOF of 26 July 2010. These items include:

- problem definition and general objectives of the regulation;
- alternatives to regulation;
- impact of the regulation;

- enforcement and implementation;
- assessment of the draft regulatory proposal;
- public consultation.

ISSSTE should also start developing training and guiding materials based on the expertise of other institutions, such as COFEMER.

An intermediate step could be to develop a simpler impact assessment, particularly for those regulations that may not impose major burdens to procurement officials and processes. The government of British Columbia, Canada, for example, replaced the RIA for a “regulatory criteria checklist” (RCC) in 2001. The RCC is very simple and includes questions in 11 different categories: reverse onus, cost-benefit analysis, competitive analysis, streamlined design, replacement principle, results-based design, transparent development, time and cost of compliance, plain language, simple communications, and sunset review/expiry principle (Box 2.3). While the RCC was basically developed to capture the impact of draft regulations on business, using the criteria in an adapted version can be useful for ISSSTE to analyse the impact of draft internal regulations on its own officials and external stakeholders (i.e. suppliers). Furthermore, the use of a simpler tool can set the ground to develop a regulatory quality culture and introduce a more sophisticated RIA.

Box 2.3. The regulatory criteria checklist of British Columbia, Canada

The Regulatory Criteria Checklist (RCC) is composed of 11 different categories, each with its respective questions:

- A. Reverse onus-need is justified
 - Has the scope of the public policy problem been assessed?
 - Is government intervention necessary to address the problem?
- B. Cost-benefit analysis
 - Is the benefit to government or external partners worth the increased cost to small business and those who must comply?
- C. Competitive analysis
 - Has the impact of the requirements on British Columbia's economic competitiveness been assessed?
 - Have the requirements been compared with other relevant jurisdictions?
- D. Streamlined design
 - Do the requirements avoid or eliminate duplication or overlap with federal or local government requirements or those of other ministries?
 - Has business process mapping been undertaken to streamline the requirements and lessen the time needed by small business to comply?
- E. Replacement principle
 - Will one regulatory requirement be eliminated for each new regulatory requirement introduced by the legislation or regulation?

Box 2.3. The regulatory criteria checklist of British Columbia, Canada (cont.)

- F. Results-based design
- Does the design reflect government's commitment to regulatory requirements that are results-based and use scientific evidence?
- G. Transparent development
- Are the requirements transparent for ease of access, understanding and compliance?
 - Has small business had the opportunity to see and comment on the proposed requirements?
- H. Time and cost of compliance
- Has the amount of time required by small business to comply been reduced?
 - Can compliance occur with existing resources of small business?
 - Have government service standards been set?
- I. Plain language
- Have the requirements been drafted in plain language and in a way that facilitates compliance?
- J. Simple communications
- Will this change be communicated?
 - Can it be described in less than one page?
- K. Sunset review/expiry principle
- Has a date been set to review the requirements to ensure continued relevancy?
 - Does the legislation or regulation contain a sunset provision for requirements to expire?

Source: García Villarreal, J.P. (2010), "Successful practices and policies to promote regulatory reform and entrepreneurship at the sub-national level", OECD Working Papers on Public Governance, No. 18, OECD Publishing, Paris, <http://dx.doi.org/10.1787/5kmh2r7qpstj-en>, accessed 4 October 2013.

Ex post evaluation: Closing the gap

Just like in the case of *ex ante* impact analysis, ISSSTE currently does not apply any systematic tool to assess the *ex post* impact of its internal regulations (once these regulations have been in force for some time). In fact, the process of updating the POBALINES would have benefited from the use of such a tool to identify weaknesses and opportunities for improvement.

ISSSTE could establish a schedule to carry out *ex post* assessments of the normative instruments that regulate its operations, including procurement activities

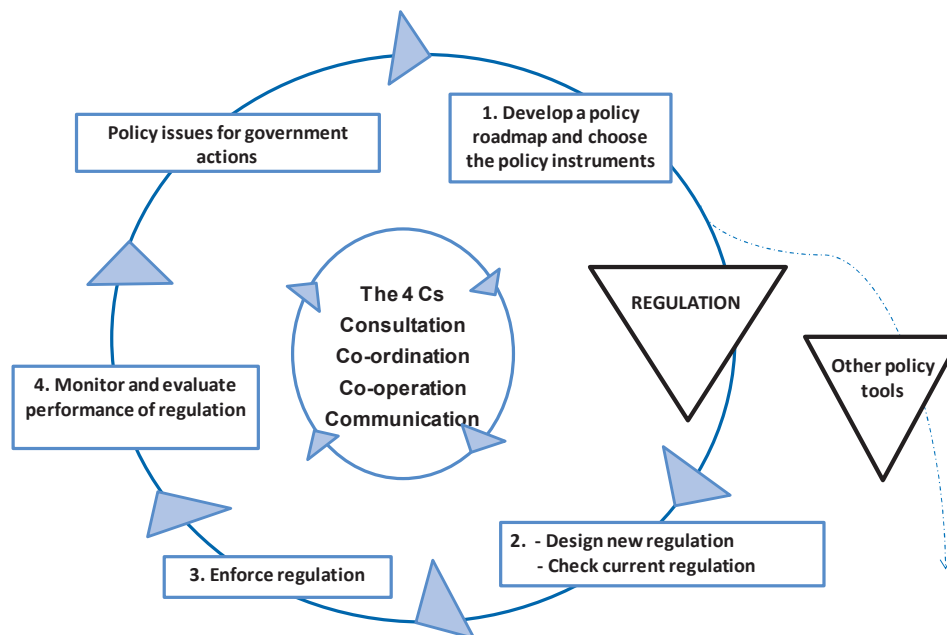
Even though ISSSTE has developed some performance indicators, such as those related to progress in the annual institutional programme of work, they do not assess whether the internal regulations, including those applicable to procurement, are actually meeting their intended objectives.

Ex post performance evaluation is a critical field to the regulatory policy cycle (see Figure 2.2). Its goal is to determine if the regulatory framework in place has achieved the

desired objectives, if the regulation was sufficiently efficient and effective in its implementation, and to what extent any (un)expected impacts of the regulatory intervention were properly addressed at the moment of conceiving the regulatory instrument. Reviewing the outcomes and results of the regulatory intervention should, therefore, be central to achieving high-quality regulation and closing the governance cycle.

Ex post evaluation serves various purposes. Among them, it can make important contributions to redefining new interventions and improving the quality of future decisions by pointing out unintended consequences that had not been properly assessed. It can enhance transparency by opening new possibilities for stakeholders' participation in order to better understand how they have been affected by the regulation. It can bring more accountability to the regulatory process. Finally, it can contribute to reducing the risk of regulatory failure (OECD, 2012b).

Figure 2.2. The regulatory governance cycle



Source: OECD (2011), *Regulatory Policy and Governance: Supporting Economic Growth and Serving the Public Interest*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264116573-en>, accessed 4 October 2013.

Since the revised POBALINES have just been issued (March 2012), there is time to plan an assessment schedule for the future. Likewise, the assessment of other regulatory instruments that have been in force for a longer period of time (i.e. five years) should be carried out to identify the effects of the regulatory interventions and whether amendments are required.

Proposals for action

The development of a strong regulatory culture within ISSSTE, one which requires quality controls and discipline throughout the different stages of the regulatory

governance cycle, calls above all for political commitment from the top level of the institute’s leadership. This political commitment should translate into initiatives to apply and institutionalise different tools to the processes for producing and updating the regulatory framework applicable to procurement.

1. Increase the diffusion of recently published regulatory instruments, such as the MAAG and the POBALINES applying to both acquisitions and public works.
2. In line with the previous recommendation, provide systematic training to facilitate the adoption of the requirements set by the manuals and POBALINES. Such training for officials dealing with procurement activities can be embedded in the annual training programmes prepared by the human resources office. It should also envision training on the regulatory framework applicable to procurement as part of entry formalities for individuals hired by ISSSTE to manage these activities.
3. Promote mechanisms to share best practices on the management of the regulation applicable to procurement activities. These mechanisms can be rather informal, such as roundtables, discussion groups, blogs, etc.
4. Make internal and external consultation a formal requirement when developing or revising regulations applicable to ISSSTE’s activities, including for procurement. In this sense, develop guidelines to inform officials of the different consultation methodologies that can be applied and provide guidance on issues such as when to consult, the scope and accessibility of the consultation, and the length of the consultation exercises.
5. Gradually create a culture of regulatory quality and impact assessment in the institute. On an initial basis, this could include:
 - Developing guiding manuals and training, relying on materials developed by other institutions and in co-operation with them (i.e. COFEMER).
 - Adopting a simple form of *ex ante* impact assessment, particularly for those regulations that do not imply major burdens for the stakeholders of procurement activities. An adapted version of the RCC is a feasible alternative for the short term. Regulations that imply major burdens should be subject to more comprehensive analyses.
 - Developing a schedule for *ex post* assessment of the performance of the regulatory instruments applying to procurement activities to identify the effects of normative interventions and whether amendments are required.

Notes

1. Public agility is defined as the ability to anticipate and flexibly respond to increasingly complex policy challenges.
2. The Material Resources and Services Sub-directorate does not purchase medicines or medical supplies. It is in charge of contracting recurrent services (i.e. cleaning, security, laundry, photocopies and staff transport) and purchasing goods such as clothing for medical staff and bed sheets.
3. The Official Gazette is a government body, permanent and of public interest, whose function is to publish laws, decrees, rules, agreements, orders and other acts, issued by the branches of government according to their attributions, so that they are respected and enforced.
4. Presentation of the Prosecretariat of the Management Board, www.issste.gob.mx/hjunta/comites/_14_COMITE_DE_MEJORA_REGULATORIA_INTERNA_DEL_ISSSTE.pdf, accessed 4 October 2013.

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Chapter 3

Fostering effective risk-based internal control in ISSSTE's procurement activities

This chapter assesses the internal control structure and division of responsibility relating to public procurement within the State's Employees' Social Security and Social Services Institute (ISSSTE). It also indicates how the dependence of ISSSTE on audit activities of the Internal Control Offices of the Ministry of Public Administration, and the limited communication between them, hinder improvements that could be made to the procurement function and the implementation of risk-based management. Finally, it describes the risk management system in place and assesses the strengths and shortcomings of recently implemented changes.

Introduction

Internal control is an integral process by which public organisations govern their activities to effectively and efficiently accomplish their mission, and ensure they:

- execute orderly, ethical, economical, efficient and effective operations;
- safeguard public resources against misconduct and (active and passive) waste;
- comply with applicable laws and regulations;
- maintain and disclose through timely reporting, reliable financial and management information (INTOSAI, 2004).

To achieve these objectives, an effective internal control system should consist of five interrelated components, according to the INTOSAI *Guidelines for Internal Control Standards for the Public Sector*, namely: 1) control environment, i.e. structure of the control function; 2) risk assessment, i.e. identifying risks that are jeopardizing the ability of organisations to fulfil their missions and objectives and mitigating those risks; 3) control activities, i.e. preventive and/or detective controls; 4) information and communication, providing relevant, complete, reliable, correct and timely communication to foster good management; and 5) monitoring.

Risk assessments in particular contribute significantly to preventing waste, fraud and corruption in public organisations as recognised by multi-national and international agreements such as the United Nations Convention against Corruption (UNODC, 2004)¹ and the Inter-American Convention against Corruption (OAS, 1996).² Based on the Committee on Sponsoring Organisations of the Treadway Commission's (COSO) *Enterprise Risk Management Framework*, OECD member countries are increasingly developing risk-based approaches to ensure that internal control measures identify areas vulnerable to corruption, waste and fraud. The objective of a risk-based approach is to use internal control to identify risks and opportunities in the public organisation and to ensure that serving the public's interest remains its primary goal.

Public procurement is amongst the government functions most vulnerable to corruption, fraud and waste due to the significant financial flows it generates and the close interactions between the public and private sectors. Applying a risk-based approach to the control of public procurement could promote efficiency, transparency and accountability. By identifying measures and mitigation strategies to limit the risks related to procurement activities, it allows public entities to foster a more agile and proactive control that is not exclusively based on compliance with regulations.

This chapter assesses the State's Employees' Social Security and Social Services Institute's (*Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado*, ISSSTE) internal control structure and objectives in relation to promoting a risk-based management approach in public procurement and provides recommendations for improving it.

Risk-based internal control of the procurement function

Responsibilities and procedural requirements of procurement activities are clearly established through a series of documents

The *OECD Principles for Enhancing Integrity in Public Procurement* (OECD, 2009), identify a clear chain of accountability as a key element required to enhance integrity and foster corruption prevention in the procurement function. Clear descriptions of how procurement activities are to be undertaken and who is accountable for them are the starting point for effective control of that function as they improve the clarity of the process and reduce uncertainty.

As other entities of the Mexican federal government, ISSSTE's procurement and internal control functions are subject to the rules set by the Ministry of Public Administration (*Secretaría de la Función Pública*, SFP). SFP is responsible for defining the internal regulations of the government, including federal entities' internal audit and control procedures, to ensure compliance with regulations on planning, budgeting, financing and investment. From this perspective, it organises and co-ordinates the governmental control and evaluation system to ensure that internal control methodologies are standardised and streamlined across federal entities. In addition, SFP oversees public expenditure, together with the Ministry of Finance (*Secretaría de Hacienda y Crédito Público*).

As indicated in the previous chapter, SFP has recently undertaken a series of initiatives to clarify and standardise the legislative framework associated with the procurement and internal control functions and to strengthen their coherence. Among others, it has eliminated excessive and unjustified procedures applicable to federal public entities through the publication of nine manuals.

Two of these manuals directly relate to the procurement function, namely the *Administrative Manual for General Application concerning Acquisitions, Leasing and Services of the Public Sector* (*Manual Administrativo de Aplicación General en Materia de Adquisiciones, Arrendamientos y Servicios del Sector Público*) and the *Administrative Manual for General Application concerning Public Works and Related Services* (*Manual Administrativo de Aplicación General en Materia de Obras Públicas y Servicios Relacionados con las Mismas*). By aligning the regulatory requirements of the different normative instruments, these documents establish homogeneous formats and procedures for all the activities of the procurement cycle and clarify the areas responsible for them. They also simplify the daily operations of public servants involved in these activities by making clear references to the procurement laws and their bylaws, and by defining criteria for auditing. However, as indicated in Chapter 2, procurement officers reported some weaknesses in these manuals and the need to diffuse them on a wider scale. The procurement procedural requirements and responsibilities are further detailed in internal procurement guidelines (*Políticas, Bases y Lineamientos*, POBALINES) put in place in ISSSTE.

Most of ISSSTE's control committees only play a limited role in the procurement function

While these procurement manuals and guidelines can significantly strengthen the adequacy and coherence of the procurement function through the increased clarity they bring, risk-based internal procedures and mechanisms must be in place to ensure

compliance with the regulatory framework and to reduce the numerous risks associated with their activities. To promote a risk-based approach to internal control, SFP has also introduced the Internal Control Manual that aims to improve federal entities' performance and effectiveness through: 1) the creation of a standard model of internal control to operate at all levels of the entity; 2) the establishment of minimal standards for risk management; and 3) the creation of an internal control committee within all federal entities. The manual describes the components of internal control as: 1) control environment; 2) risk assessment; 3) control activities; 4) information and communication; and 5) monitoring – in line with the COSO's Integrated Framework that has shaped international standards on internal control, risk management and financial reporting.

Various senior control committees in place in ISSSTE oversee its operations and support senior management in taking strategic decisions on control and risk management. However, the role of these committees is quite narrow as it relates to the procurement function, limited to general guidance and oversight. The main senior control committees are:

- **ISSSTE's Board of Directors**, which is assigned the highest control role by the ISSSTE Law promulgated in 2007. It is composed of 19 members: ISSSTE's General Director; 9 government representatives from the Ministries of Finance, Health, Labour and Social Protection, Social Development, Environment and Natural Resources, SFP and IMSS; and 9 representatives from the worker's unions. It controls procurement activities through the approval of the annual procurement plan and by validating the POBALINES designed by the procurement committees described below.
- **The Internal Control and Performance Evaluation Committee** (*Comité de Control y Desempeño Institucional*, COCODI) was established in 2010 as recommended in SFP's Internal Control Manual to further entrench risk management in ISSSTE's control practices. It is chaired by ISSSTE's General Director (with the financial director acting as substitute) and has three other members: ISSSTE's internal control director, ISSSTE's budget and programme director and an official from SFP. The standard model of internal control requires the COCODI to meet at least four times per year to review ISSSTE's risk matrix, complaints received from citizens, external audit recommendations and the organisation's performance indicators. It also makes recommendations to ISSSTE's senior management on internal control and risk management. Over 2010 and 2011, it approved ISSSTE's risk management systems and reviewed audit findings and recommendations of the Internal Control Office (*Organo Interno de Control*, ICO) on how to improve ISSSTE's operations, including on procurement.
- **The Oversight Commission**, also contemplated in the ISSSTE Law, is composed of 11 members: five staff representatives, two from the Ministry of Finance, two from SFP, one from the Ministry of Health and one from ISSSTE's senior management. The Commission has the authority to order internal and external audits, oversee financial control and revise the reports on financial results.
- **ISSSTE's Investment Committee** is also contemplated in the ISSSTE Law and controls the organisation's investment operations. It is composed of ISSSTE's General Director, one representative from its Finance Directorate, one from the Ministry of Finance, one from the central bank and two independent members. It is not directly linked to the procurement activities; its main function is to analyse and make recommendations on how to invest ISSSTE's financial reserves.

However, discussions on procurement at these committees remain at a senior level and fail to ensure regular co-ordination with the operational level. In fact, two procurement committees are the main instance of control for procurement operations at the central level, namely the Goods, Leasing and Services Committee (*Comité de Adquisiciones, Arrendamientos y Servicios*) – composed of ISSSTE's Director of Administration (acting as chair), a sub-director of procurement (acting as secretary), the directors of the Finance Directorate and of the Medical Directorate, the director of SuperISSTE and a member from the board of directors of FOVISSSTE – as well as the Public Works Committee (*Comité de Obras Públicas*). The responsibilities of these two committees include:

- reviewing programmes and budgets for procurement (including overseeing the implementation of ISSSTE's annual procurement plan) and formulating appropriate observations and recommendations;
- authorising the use of established exceptions to public tendering;
- making proposals for changes to the POBALINES.

Similar sub-committees are in place at the local unit level. All delegations have a Goods, Leasing and Services Sub-committee (*Sub-comités de Adquisiciones, Arrendamientos y Servicios*) and some of them have a Public Works Sub-Committee. However, their responsibilities are more limited than at the central level, mostly consisting in the approval of the use of the established exceptions to carrying out a public tendering.

While more closely linked to the daily operations of the procurement function, the scope of authority of these central and local committees remain limited to very specific areas and do not allow comprehensive control and monitoring of the procurement function. In ISSSTE, as in many other Mexican federal agencies, monitoring and control of the procurement function therefore still rely primarily on *ex post* audits by operational extensions of SFP, namely the ICOs.

ISSSTE highly relies on SFP's Internal Control Offices, which focus on compliance and do not sufficiently support improvements to the procurement function

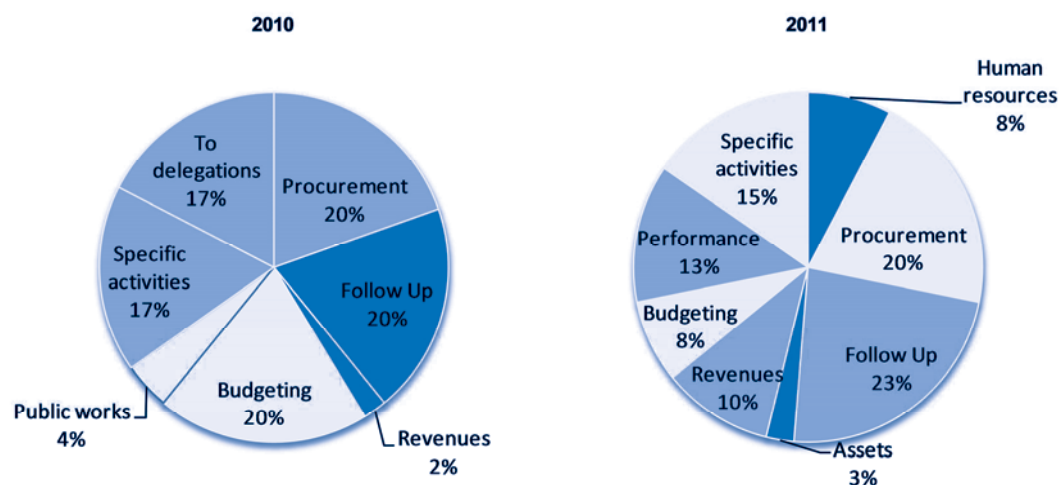
ICOs are established within each federal public organisation by SFP to support it in successfully conducting its mission and to foster similar control processes throughout the public administration. While being administratively and financially linked to the federal entity in which they are located, they also report to SFP, reflecting its responsibilities as the central internal control authority of the public administration.

According to the ISSSTE Law of 2007, the main functions of ISSSTE's ICOs for procurement activities are to: 1) advise the procurement committee on the implementation of SFP's procurement rules; 2) undertake internal audits of procurement processes; 3) participate in ISSSTE's Internal Control and Performance Evaluation Committee (COCODI); and 4) advise ISSSTE's directors on how to improve their internal control and risk management system.

Besides the main ICO located at the central level in ISSSTE, there are 12 ICO units within its 35 delegations. ICO units are also in place in FOVISSSTE and SuperISSSTE, but are deemed independent, as they do not participate in ISSSTE's central COCODI and no formal co-ordination mechanism is in place between them and the central ICO office.

Notwithstanding SFP's emphasis on risk-management, ICOs' support to the procurement function still relies primarily on *ex post* audits. As indicated in Figure 3.1, 20% of the audits of ISSSTE's ICOs related to procurement activities in 2010 and 2011. This represents approximately ten audits per year, reflecting a modest monitoring of the function when considering the number of contracts awarded by ISSSTE annually and its significant spending.

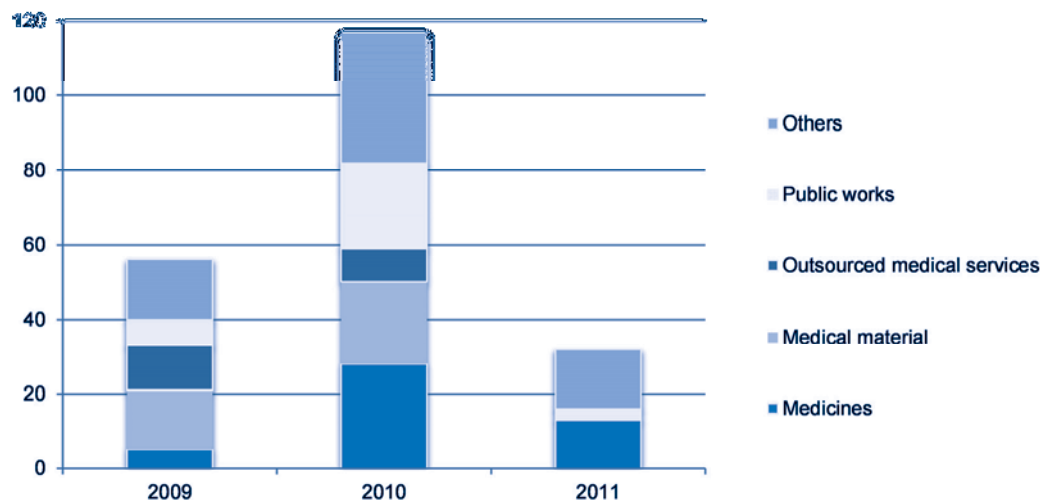
Figure 3.1. ISSSTE's ICO audits by topic (2010-11)



Source: Federal Institute of Access to Information and Data Protection, Transparency obligation portal, <http://portaltransparencia.gob.mx>, accessed 15 August 2012.

Through these audits, the ICOs have identified a set of challenges in procurement operations that hinder efficiency. More than 200 audit observations related to procurement contracts were raised between 2009 and 2011, most of them relating – as can be expected – to medicines, medical equipments and outsourced medical services (Figure 3.2).

Figure 3.2. ISSSTE's ICOs' audit recommendations for procurement (2009-2011)



Source: Information provided by ISSSTE's ICO.

The conclusions of these audits converged to five main findings over that period:

1. ISSSTE's demand forecast system for medicines and medical materials was not sufficiently effective, the ICO observing an overall lack of data to forecast, a slow process of data consolidation and the Finance Department's common practice of reducing the budget for the supply of medicines. Furthermore, it reported that some procurement of medicines took place even though sufficient stock existed in ISSSTE's warehouse.
2. ISSSTE was not buying its supplies at the best possible prices: the ICO reported that the same medicines were obtained at diverging prices by different units, that better procurement vehicles like framework contracts or reverse auctions were not used, and that ISSSTE was avoiding using cheaper generic medicines over patented ones.
3. The use of procurement procedures other than public tendering did not always comply with the legislative requirements. The ICO reported, among others, established thresholds being exceeded, required justifications not being documented and procedures being undertaken without the required number of proposals.
4. ISSSTE is not enforcing transparency regulations in procurement, such as not always involving social witnesses in procurement procedures when required.
5. Various problems in the solicitation and contract management processes, such as improper usage of Compranet (the central e-procurement system of the Mexican federal government), penalties and fees not being applied to suppliers who inadequately perform, unjustified declaration of unsuccessful solicitation procedures and use of contract fragmentation (also known as "contract splitting").

Despite SFP's efforts to streamline the internal control processes within the public administration, the structure it has developed – i.e. relying on an ICO in each entity – has sometimes created the perception that the ICO is more a compliance-based external control by SFP than an internal control integrated in the federal entity and aimed at supporting the entity in identifying areas of potential risks in its management. In fact, the current controls applied in ISSSTE are *ex post*, primarily based on audits aimed at ensuring compliance with the regulations and lacking *ex ante* risk mitigation components. Similarly, and notwithstanding SFP's efforts to promote a stronger risk management and preventive approach, the ICO's performance is still measured with an *ex post* focus, i.e. by the amount of audits conducted and adequate sanctions imposed. Therefore, the ICOs are generally perceived as having a policing and punitive approach, and not as an advisory body which supports ISSSTE's procurement units in striving for greater effectiveness and efficiency in their activities.

This situation is worsened by the current lack of effective co-ordination and relationship between ISSSTE and its ICO, which prevents the Institute from fully benefiting from the key findings of the ICOs and taking the necessary measures to enhance internal control and prevent reoccurrences of inadequate actions and processes. The central ICO is an extension of SFP, but also report to ISSSTE's senior management. For example, the board of directors and COCODI have the authority to mandate specific audits and to define their specific objectives and scope with the ICOs, thereby reflecting the risks and alerts raised in ISSSTE's risk management system. In practice, however, ISSSTE does not take advantage of this opportunity, and the scope of audits is defined solely by the ICOs, who have their own risk system with a different set of parameters and

goals. This is evidenced, for example, by the incapacity of SuperISSSTE's ICO to provide, for this review, any information on the risk management system in place in SuperISSSTE. As a result, ISSSTE's ICOs are currently managed and interact almost as a quasi-external control function, potentially not aware of all of ISSSTE's pertinent management strategies and not receiving feedback on how they could contribute to their implementation and control. Therefore, there is a high probability that the ICOs' operations are disconnected from ISSSTE's priorities and needs.

Audit results of the procurement function and opportunities for improvement are discussed at the COCODI and have resulted in positive organisational changes, such as the creation of the Tactical Procurement Team that meets weekly to identify and address products for which supply may be at risk (see Box 4.3 for further details). However, it is unclear how their recommendations are disseminated to operational units or the impact they have on their daily activities. Basically no relationship exists between procurement officers and ICO officials outside of formal committees, audits and specific task force meetings. ISSSTE's ICO recently appointed a liaison to improve communication with ISSSTE's directors on internal control and risk management, but a similar programme has not been put in place for the procurement function. The lack of dissemination and discussion on audit findings and recommendations by the ICOs does not support procurement officials in striving to achieve value-for money or to identify risks in their procurement procedures (including corruption as discussed in Chapter 10).

The current control mechanisms therefore do not respond effectively to ISSSTE's needs for improvements. This is evidenced by many observations recurring from one audit to the other, as the organisation is unable or unwilling to address them. As an example, effective internal control co-ordination of corrective actions by various stakeholders could have prevented the highly problematic medicine supply crisis that occurred late 2011-early 2012 (Box 3.1). The ICOs' previous reports had made observations about some of the underlying causes and ISSSTE's senior management had already flagged it as an area of high risk.

Box 3.1. ISSSTE's 2011-12 medicine supply crisis

In 2011 and in the first months of 2012, several of ISSSTE's delegations (e.g. Durango, Tamaulipas and Nuevo Laredo) reported a historically low level of medicine availability of less than 75% of the demand, creating significant discomfort among their beneficiaries. This problem generated considerable media damage to ISSSTE's public image, in particular the images of long waiting lines and unattended patients. It also resulted in a series of legal claims against the organisation.

To solve this situation, a task force was created in order to mobilise all Mexican health organisations, who lent medicine supplies to ISSSTE from their own stocks in order for it to meet its medicine availability indicator target of 96%.

According to the ISSSTE 2011 Annual Report (ISSSTE, 2011), the crisis was caused by insufficient budget availability, inadequate forecasting and planning, untimely procurement processes and an unreliable stock management system, all problems previously identified in audit reports. ISSSTE took corrective actions after the crisis, such as the creation of the Supply Control Board (Tablero de control de Abasto) in order to increase stock management visibility and management (see Box 4.3).

Source: Information provided by ISSSTE.

ISSSTE could consider increasing the co-ordination of its various control committees and units, particularly as it relates to defining the scope of audits undertaken by the ICO so they better reflect the needs and risks identified by ISSSTE. Doing so could increase the coherence and effectiveness of internal control mechanisms and reduce the audit burden on its operational procurement units.

A more dynamic and agile relationship must be established between the ICOs and the procurement units to achieve ongoing improvement and effective risk-based management

As discussed above, even with the recent changes to SFP's manuals, ICOs' tools are still more oriented to an *ex post* control and generally lack *ex ante* prevention and mitigation tools. The current context creates the perception among ISSSTE's procurement officials that the ICOs are not working with them to improve the effectiveness and efficiencies of their activities, but are rather acting as police looking for errors and fault, on a punitive basis.

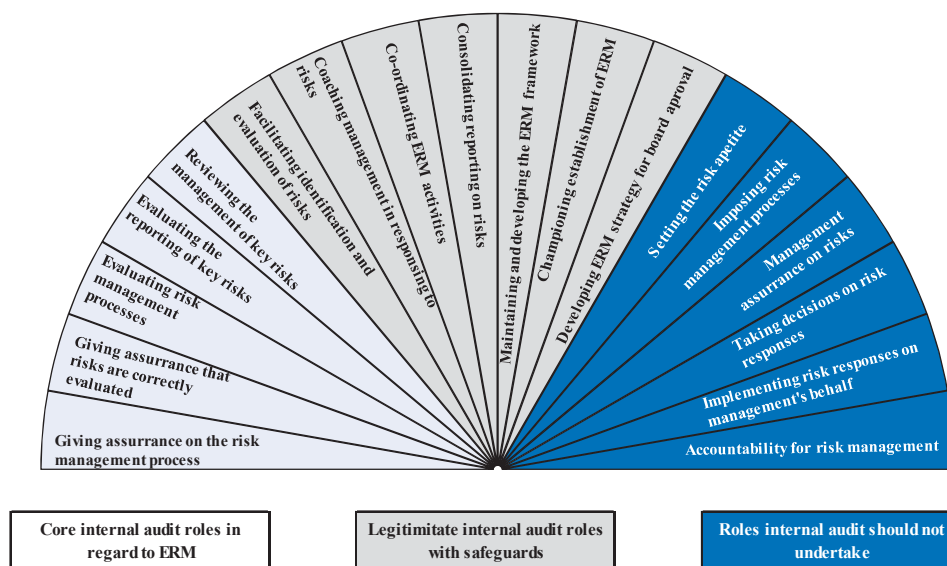
While the ICOs identify key challenges in ISSSTE's procurement in their reports, there is a lack of concise and clear dissemination of these findings and of specific recommendations for improving the procurement process. As such, little insight and guidance are given to procurement units on how to improve ISSSTE's procurement processes or how to identify and manage risks in their operations. ISSSTE's procurement officials indicated that their interactions with the ICO are limited to actual audits or the committee meetings mentioned above. Furthermore, the current duality in risk management systems and control of ISSSTE's senior management and the ICOs creates double reporting and increased workload for the procurement officers, in addition to creating confusion due to a lack of clear guidance.

The ICOs could consider, as promoted by organisations such as the Institute of Internal Auditors (IIA), to undertake broader audit activities in order to better support the risk management efforts of ISSSTE. Figure 3.3 presents a range of risk management activities and indicates which roles an effective professional internal audit activity could and, equally importantly, should not undertake. As indicated by the IIA, "the key factors to take into account when determining the role of internal auditing are whether the activity raises any threats to the internal audit activity's independence and objectivity and whether it is likely to improve the organisation's risk management, control and governance processes" (IIA, 2009).

Limited resources dedicated to ICOs both in ISSSTE and its delegations (the number of ICO staff in the delegations was reduced by almost half between 2000 and 2012), as well as the highly decentralised structure of ISSSTE do not facilitate streamlining the internal control system towards further *ex ante* control. Furthermore, there are no formal co-ordination mechanisms to ensure consistency in the audits and sharing of experiences amongst ICOs, and the general co-ordination of the local procurement units is found to be insufficient (as discussed in Chapter 1). This results in local procurement units lacking clarity on the priorities and expectations of ISSSTE's senior management and of their respective ICOs.

A notable exception is the "zero recurrence – zero observations" working groups (*cero recurrencias-cero observaciones*) reported by five delegations. These groups, composed of 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.

Figure 3.3. 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 IIA. Accessed 4 October 2013.

Better co-ordination and interaction between ICOs and procurement units could increase the quality of ISSSTE’s internal control. It would allow ICO personnel to understand the constraints and common problems encountered by procurement officials, ensuring that the ICO’s recommendations for improving procurement will be more practical and will tackle the problems in a long-term perspective. Also, it will help to improve procurement officials’ skills and knowledge on the legal framework and the correction of inadequate practices.

To allow better communication and understanding, ISSSTE could build on the existing “zero recurrence – zero observations” working groups and establish formal co-ordination mechanisms between control entities (ICOs and ISSSTE’s control committees) and the procurement units. This could be supported by the development of training or communication tools to increase understanding at the operational level of internal control guidelines in procurement. Finally, informal communication channels could be opened between the procurement units and their respective ICO to allow discussions on specific challenges and risks encountered in the procurement process and foster an environment where all stakeholders actively discuss and contribute in improving its efficiency, effectiveness and adequacy.

Implementing internal reviews of the procurement function at an organisational level would complement ISSSTE’s current monitoring and audit practices

While beneficial, monitoring solely based on audits of specific procurement procedures and contracts does not allow a complete assessment of the effectiveness and

efficiency of the procurement function. A number of OECD member countries have therefore introduced strategic and transactional reviews in their procurement systems. Strategic level reviews assess the procurement function across an entire organisation, identifying relevant key factors for the success of an organisation's procurement strategy. Transactional level reviews assess the efficiency of procurement decisions throughout the procurement cycle of a specific acquisition (Table 3.1).

Table 3.1. Objectives and outcomes of internal reviews of the procurement function at an organisational level

A. Strategic (system) level			
Effective procurement requires the leadership, processes and information necessary for mitigating risks, leveraging buying power and managing outcomes.			
Establish and commit to a strategic approach.	Enable success through sustained communication and metrics.	Create supporting structures, processes and roles.	Obtain good knowledge on service spending.
B. Transactional (contract) level			
Individual procurement must focus on buying the right thing, the right way, while getting the desired outcomes.			
Establish valid needs and requirements.	Structure an appropriate business arrangement.	Manage and assess contractor's performance.	

Source: Adapted from GAO (2006), "Defense acquisitions: tailored approach needed to improve service acquisition outcomes", report to Sub-Committee on Readiness and Management Support, Committee on Armed Services, US Senate, GAO-07-20, www.gao.gov/new.items/d0720.pdf, accessed 4 October 2013.

The two approaches are complementary to one another. While countries may vary in their approaches, reflecting not only their specific context but also the ongoing procurement learning process, a number of common elements exist. These reviews are high-level and carried out by an independent and experienced team. They are distinct from, and complementary to, regular project management reporting, internal audit and external oversight (audits, inspections and reviews). The review process is often subject to its own periodic evaluation to ensure that it continues to provide the best possible support to public organisations and the government. This creates stability and continuity in the process, while also capturing continuous improvement in the procurement function to achieve policy objectives.

Strategic and transactional reviews have been adopted in a growing number of OECD member countries. For example, strategic reviews have been conducted in the United Kingdom (Procurement Capability Reviews) since 2007 and in the United States since 2008 (Contracting Acquisition Assessments). Transactional reviews have been conducted in the United Kingdom since 2000 (Gateway Reviews), the United States since 2002 (first as Management Reviews and from 2008 as Peer Reviews), in Australia since 2005 (Gateway Reviews) and Canada since 2010 (Project Gating).

Strategic reviews used in OECD member countries typically focus on key elements of leadership, capacity and skills, systems and processes. While some countries have placed emphasis on descriptive assessments (e.g. the United States), there is a push towards developing indicators to measure improvements over time (e.g. the United Kingdom).

In order to further support its current monitoring and auditing practices, ISSSTE could periodically consider the opportunity of implementing internal reviews of its procurement function at an organisational level as a complement to its regular monitoring

and auditing practices and increase the quality and scope of its assessment and insights on the effectiveness and efficiency of that function.

Implementing the above recommendations to increase the co-ordination of the various monitoring activities undertaken in ISSSTE, enhancing the communication between monitoring entities and the procurement units (particularly the ICOs) and implementing internal reviews of the procurement function at the organisational level, could significantly increase the coherence, efficiency and outcomes of the monitoring mechanisms in place. However, they will only be truly effective if such mechanisms are linked and based on a strong risk management system, an objective that has not yet been achieved in ISSSTE.

ISSSTE's risk management system

ISSSTE has recently implemented a risk management system to comply with the Internal Control Manual

Although internal audit can play a valuable advisory role on internal control, it should not be a substitute to implementing a risk-based approach to internal control. Public organisations within 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 line with that practice, the SFP Internal Control Manual requires heads of federal entities to develop a risk management system (RMS), defining it as “the systematic process through which organisations measure and monitor risks related to their operations, using an analysis of the possible factors that could lead to risks in view of defining strategies and actions to mitigate them and achieve the organisation’s goals”.

It further indicates that the RMS must be based on five minimum and consecutive requirements:

1. **Risk evaluation:** involves organisations identifying and defining the risks they face, classifying them (e.g. administrative, legal, budgetary, security, etc.), and rating them in terms of the magnitude of their impact and occurrence probability.
2. **Risk mitigation:** comprises the description of all existing control measures that are used to mitigate the risk and classifying them as corrective, preventive or detective.
3. **Risk assessment:** requires evaluating the effect of existing control measures on risks and organising them as effective, inefficient or inexistent.
4. **Development of a risk map:** implies presenting, in a concise and clear manner, risks that require immediate attention (i.e. high impact, high probability); periodic attention (i.e. low impact, high probability), follow up (i.e. high impact, low probability) and controlled risks (i.e. low impact, low probability).
5. **Risk management strategies:** involve deciding what management will do about the risks (e.g. avoid, mitigate, transfer or accept) as a basis for taking action, such as introducing new processes, new controls, etc.

The Internal Control Manual gives ICOs the responsibility to request senior management in federal entities to develop: *i*) a risk matrix; *ii*) risk mapping; *iii*) a risk management work plan (*Programa de trabajo de administracion de riesgos*); and *iv*) an

annual report of risk management. However, it deters on the individual public organisation to design and implement its own RMS according to its capacities.

To comply with these recommendations, ISSSTE implemented an RMS aimed at identifying, measuring and mitigating risks that the organisation might encounter in its daily operations. The RMS covered all of ISSSTE's operations including procurement activities and meets the five requirements identified above.

In 2011, the organisation had already put in place its 2011 ISSSTE Risk Management Work Plan (*Programa de Trabajo de Administración de Riesgos del ISSSTE 2011*) addressing 31 risks. The 2012 version (ISSSTE, 2012a) increased the coverage to 51 risks across its various directorates and decentralised entities (delegations are treated as a group) measured as follows: 24 were considered risks that require immediate attention (high impact on ISSSTE's operations, high probability of occurrence), 1 as requiring periodic attention (low impact, high probability), 9 needing follow-up (high impact, low probability) and 17 as controlled risks (low impact, low probability).

It is, however, pertinent to note that the 2012 work plan only reported procurement-related risks for three of ISSSTE's entities: the Medical Directorate, the Administrative Directorate and ISSSTE's delegations. Other areas involved in procurement operations such as SuperISSSTE, TURISSSTE and FOVISSSTE did not have any procurement-related risks in their respective risk maps.

Following a medicine supply crisis, the risk management system was entirely revised mid-2012

As a result of the significant scarcity of medicines experienced in various delegations in 2011 and the first months of 2012 (see Box 3.1), a total revamping of ISSSTE's RMS took place based on three guiding principles: *i*) increasing beneficiaries' well-being; *ii*) promoting transparency and *iii*) strengthening the institution. As a result, the existing RMS was replaced by the new Institutional Risks Management Programme introducing two major changes:

1. A transversal approach under which 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 the integration and collaboration of the units and better reflect how their respective processes and mitigation techniques impact each other (Figure 3.4). Nonetheless, factors present in each organisation and influencing the risks are still identified, allowing them to be adequately addressed.
2. The focus of the RMS was shifted to address only risks with a high impact and high probability of occurrence (i.e. requiring immediate attention); other risks are no longer considered.

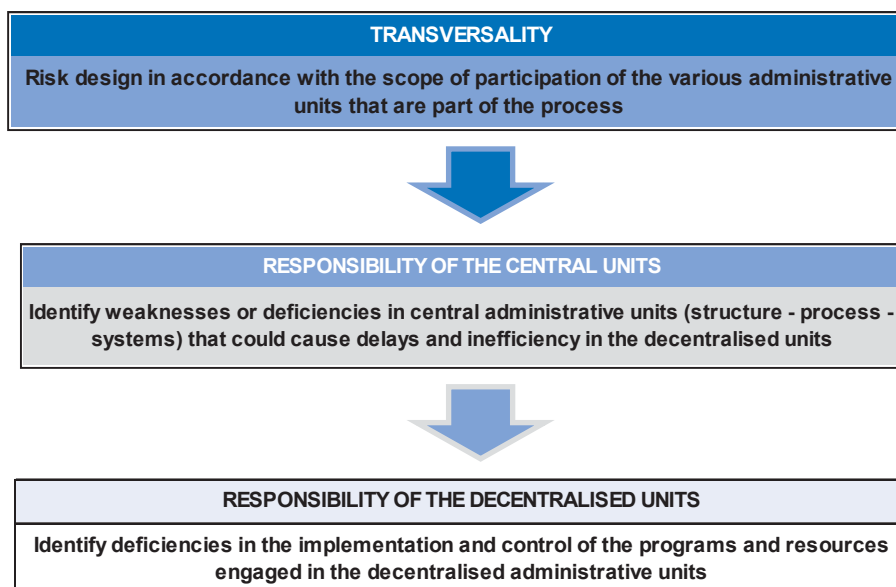
As a result, ISSSTE's risk management system went from 51 institutional risks associated with specific divisions to 15 main "process risks", the management of which is shared by multiple divisions (Table 3.2).

Two of them are associated with the procurement function, namely:

1. **Insufficient supply of medicines and medical material**, "process risk" involving the Medical Directorate, the Administration Directorate, the Financial Directorate, the Delegations Directorates as well as delegations and medical units.

2. **Procurement procedures not complying with the requirements of effectiveness, efficiency and value for money**, “process risk” involving the Medical Directorate, the Administration Directorate, the Financial Directorate, the Delegations Directorates, FOVISSSTE, SuperISSSTE and PENSIONISSSTE

Figure 3.4. Characteristics of ISSSTE's revised Institutional Risks Management Programme



Source: Adapted from ISSSTE (2012), “Programa de Administración de Riesgos Institucional; replanteamiento – Acuerdo 6/1/2012 COCODI [Reassessment of the Institutional Risks Management Programme – COCODI Agreement 6/1/2012]”, presentation dated 12 July 2012.

Table 3.2. Process risks identified as requiring immediate attention under ISSSTE’s revised Institutional Risks Management Programme

<ul style="list-style-type: none"> • Poor quality and untimely medical services. 	<ul style="list-style-type: none"> • Insufficient supply of medicines and medical material.
<ul style="list-style-type: none"> • Lack of control over payment for overtime and employee temporary replacement. 	<ul style="list-style-type: none"> • Medical licenses issued in excess or improperly, and with deficient controls.
<ul style="list-style-type: none"> • Incorrect pension payments, including to individuals not meeting the legal conditions. 	<ul style="list-style-type: none"> • Loans being granted improperly, wrongfully denied, or with late recovery.
<ul style="list-style-type: none"> • Increasing liabilities from labour lawsuits against ISSSTE. 	<ul style="list-style-type: none"> • Financial losses caused by lawsuits for pension.
<ul style="list-style-type: none"> • Non-compliance with verdicts associated with pensions. 	<ul style="list-style-type: none"> • Risk to the health and physical integrity of children in the Child Welfare and Development Centres.
<ul style="list-style-type: none"> • IT systems and sub-systems not interoperating or with inconsistent or outdated data. 	<ul style="list-style-type: none"> • Timely responses not being provided under mechanisms associated with complaints, reporting or requests.
<ul style="list-style-type: none"> • Implemented IT tools not strengthening the organisation’s capacity to provide services and benefits but requiring significant financial resources. 	<ul style="list-style-type: none"> • Procurement procedures not complying with the requirements of effectiveness, efficiency and value for money.
<ul style="list-style-type: none"> • Services provided by TURISSSTE not strictly related to its regulation and the applicable legislation. 	

Source: ISSSTE (2012), “Programa de Administración de Riesgos Institucional; replanteamiento – Acuerdo 6/1/2012 COCODI [Reassessment of the Institutional Risks Management Programme – COCODI Agreement 6/1/2012]”, presentation dated 12 July 2012.

The new focus on “process risks” is a positive change, but remaining shortcomings may compromise ISSSTE’s ability to effectively manage risks in its procurement function

Operational risk management aims to ensure that management control is proportionate with the potential vulnerabilities of each public organisation. Operational risk management is not simply about regulating internal practices and procedures. It requires putting in place a systematic process and adequate capability (i.e. knowledge, resources, etc.) to assess and use information gathered in order to adjust management systems to prevent risks in a cost-effective manner. It also calls for an *ex post* assessment of risk-mitigating actions, recognising that earlier diagnosis and mitigating actions may not always have the desired effect. This requires leadership to create a culture that encourages the management of risk as a strategic and continuous action, rather than as a process of attributing fault to individuals and the inadequacies of systems (Bounds, 2010; OECD, 2012a).

In this line, the recent decision of managing risks on a process basis rather than individual activities can be seen as a significant step forward in ISSSTE. It reflects a holistic view of the organisation as more than just a series of independent functions, but instead a large system of interacted components. The availability of medical supplies in delegations, for example, requires adequate risk identification at the delegation level, validation and consolidation of these needs by the Medical Directorate, the availability of financial resources in a timely manner and an adequate procurement process, many of these activities being influenced by a variety of stakeholders. It is therefore pertinent that the RMS reflects the shared responsibilities of various areas on the process and defines an adequate risk-mitigation strategy.

Notwithstanding this new approach, various remaining shortcomings may prevent ISSSTE from adequately identifying and addressing risks in its various processes, including the procurement function. First, the scope of the revised Institutional Risks Management Programme, still in an early stage, needs to be expanded, as it currently only covers risks assessed as requiring immediate attention (i.e. of high impact, high probability of occurrence) and does not take into account other common risks already mitigated or considered to be sporadic. This focus on immediate risks was already present in ISSSTE’s previous RMS; for example, only the 11 risks of immediate attention out of the 50 risks identified as recurrent in the delegations were addressed in the 2012 ISSSTE Risk Management Work Plan and discussed periodically at the COCODI (ISSSTE, 2012b). It is essential that ISSSTE finds a balance between managing risks that have a high impact and require immediate attention and monitoring other risks that can become increasingly threatening. Failure to do so will result in a reactive system under which risks of immediate attention are managed, only to be replaced by other risks that become more problematic due to a lack of monitoring and management. As such, it is unclear why ISSSTE decided to reject in its totality its previous risk management system solely due to a specific crisis. Instead, ISSSTE could consider building on its previous risk assessment effort and revise the Institutional Risks Management Programme to monitor and manage all pertinent risks (including inefficiency in the procurement process, which was not considered previously).

Furthermore, risk mitigation strategies have not yet been developed for the identified “process risks” and must be introduced in the programme. In doing so, ISSSTE must take due care not to focus solely on strategy to avoid these risks, as some of them are unavoidable and the organisation must learn how to deal with them. As indicated in the

SFP *Internal Control Manual*, five categories of actions are available to ISSSTE to manage risks:

- **Avoid risks:** includes such actions as forbidding, stopping, eliminating, disinvesting and redirecting.
- **Retain risks:** available actions are to accept, plan, self-insure or recalculate price.
- **Reduce risks:** trying to control and disperse risks.
- **Transfer risks:** this category includes insurance, reinsurance, financial derivatives, sharing the risk, outsourcing the activity or compensating.
- **Exploit risks:** using renegotiation, changes in prices, reorganisation, redesign, creation or expansion as mitigation actions.

Furthermore, it is essential that ISSSTE foster an environment where risk management is an intrinsic part of all functions, including procurement, and where the associated systems and tools are known and understood by all. At this time, there is limited awareness and understanding of RMS implemented in the organisation. This is particularly true in the local procurement units; some delegations are not aware of any RMS in place (or stated that it does not apply to them) and most do not have knowledge of any formal document associated with it (only five made reference to the Risk Management Work Plan). This situation is troublesome when considering the lack of control of delegations identified in the previous chapter and that almost half of the risks identified as requiring immediate attention under the 2012 ISSSTE Risk Management Work Plan were at the delegation level. As such, ISSSTE could undertake efforts to increase awareness and capacity associated with risk management (theory, guidelines, systems, tools, etc.), potentially through a combination of awareness-raising campaigns, workshops and formal training (particularly to managers). Self-assessment tools could also be considered, such as the one implemented by the Netherlands to address integrity risks (Box 10.3 of Chapter 10).

Implementation of a sound risk management system can be compromised if insufficient information and indicators are available. As discussed in the next chapter, lack of up-to-date, consistent and accurate procurement data and information is a significant shortcoming in ISSSTE. As part of its larger data collection strategy, ISSSTE could ensure it collects and regularly assesses data and indicators required for adequately identifying and monitoring the risks present in its various processes (Box 3.2 for an experience in the United States). The use of common IT systems – such as an e-procurement system applicable to all procurement units and that covers the entire procurement cycle – would not only facilitate the collection of such data, but also reduce the effort associated with internal/external control activities.

Finally, it is recommended that ISSSTE undertakes *ex post* assessment of the risk-mitigating actions implemented, recognising that earlier diagnosis and mitigating actions may have been ineffective or may not have had the desired effect (as was evidenced by ISSSTE's recent medicines crisis). While the 2010 SFP Internal Control Manual focuses on identifying, assessing and treating risks, it omits explicit reference to evaluating the impact of actions undertaken by federal public organisations to mitigate risks. This would be a meaningful addition to increase the effectiveness and efficiency of the risk management system put in place by ISSSTE.

Box 3.2. Tool to identify high-risk contracts in the United States

The Council of Inspectors General on Integrity and Efficiency provides an independent authority to foster improvements and collaboration among the Offices of Inspectors General in the United States. In 2009, the Council led the development of tools for audit to identify fraud and abuse in procurement. In particular a contract risk assessment tool was developed by the Contracting Committee of the Federal Audit Executive Council to mitigate risks linked to the increase of procurement spending resulting from the \$787 billion American Recovery and Reinvestment Act of 2009.

The excel-based tool is intended to serve as a tool to assist auditors in identifying high-risk contracts meriting audit attention. Its use may be particularly appropriate when contract volumes exceed available audit resources, and the audit organisation must decide which contracts to review. The worksheet instructs individuals to assign a risk value to 12 risk factors, using information that is readily available in department/agency and government-wide contract databases. The risk factors were chosen as those that were most critical based upon the collective experience of committee members, but can be easily modified based on each organisation's views on risk. The first five risk factors relate to size, nature, and type of contract. The remaining factors range from contractor performance to personally identifiable information considerations. Each risk is assigned a weight by internal audit staff based on their judgment of the relative importance of each factor – these can be substantiated by qualitative considerations. The product of the risk weight and risk factor generates a composite score to aid risk management.

Source: Adapted from OECD (2012b), “Progress Made in Implementing the OECD Recommendation on Enhancing Integrity in Public Procurement”, OECD, Paris, www.oecd.org/gov/ethics/combined%20files.pdf, accessed 4 October 2013.

Proposals for action

In order to put in place a robust risk-based internal control in ISSSTE that will become an intrinsic element of all functions, including procurement, and that adequately addresses the needs for ongoing improvement and risk management of the organisation, ISSSTE could consider the following proposals:

1. Increasing the co-ordination of its various control committees and units, particularly as it relates to defining the scope of audits undertaken by the ICOs to better reflect the needs and risks identified by ISSSTE through its risk management system, while reducing double reporting and increasing the effectiveness of monitoring. This effort would be supported by the appointment of a formal liaison between the ICOs and senior management of the procurement function.
2. Discussing with its ICO on the opportunity for the ICO to undertake broader audit activities in order to better support risk management in ISSSTE.
3. Enhancing communication between the control entities (ICOs and ISSSTE's control committees) and the procurement units to foster regular collaboration. This could be achieved, for example, by extending the use of existing forums, such as the existing “zero recurrence – zero observations” working groups and implementing informal channels of discussion.

4. Considering periodically the opportunity of implementing internal reviews of its procurement function at an organisational level to complement its regular monitoring activities.
5. Continue the development of its new Institutional Risks Management Programme to ensure that:
 - It adequately monitors and manages all pertinent “process risks” (including inefficiency in the procurement process), finding a balance between managing risks that have a high impact and require immediate attention and other risks that can become increasingly threatening. While doing so, ISSSTE could build on the significant efforts and results undertaken under the previous risk management system.
 - As part of a larger data collection strategy, data and indicators required for adequately identifying and monitoring the risks present in its various processes, including its procurement function, are regularly collected and assessed.
 - *Ex post* assessments are undertaken on the implemented risk-mitigating actions, recognising that earlier diagnosis and mitigating actions may have been ineffective or may not have had the desired effect.
6. Raising awareness, understanding and capacity at all levels on internal control and risk management (theory; guidelines; existing systems, process and tools; etc.). This could be achieved, for example, through awareness-raising campaigns, workshops, self-assessment tools and formal training.

Notes

1. Article 9.2 of the United Nations Convention against Corruption states:

Each state party shall, in accordance with the fundamental principles of its legal system, take appropriate measures to promote transparency and accountability in the management of public finances. Such measures shall [include] (...) (c) a system of accounting and auditing standards and related oversight; (d) effective and efficient systems of risk management and internal control; and (e) where appropriate, corrective action in the case of failure to comply with the requirements established in this paragraph.
2. Article 3 of the Inter-American Convention against Corruption states:

To promote and strengthen the development by each of the states parties of the mechanisms needed to prevent, detect, punish and eradicate corruption; and to promote, facilitate and regulate co-operation among the states parties to ensure the effectiveness of measures and actions to prevent, detect, punish and eradicate corruption in the performance of public functions and acts of corruption specifically related to such performance] the states parties agree to consider the applicability of measures within their own institutional systems to create, maintain and strengthen: (...) 6. government revenue collection and control systems that deter corruption.

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Chapter 4

Managing for results: Implementing an organisational procurement strategy and evidence-based performance management in ISSSTE

This chapter identifies how the procurement's strategic role could be better recognised in the State's Employees' Social Security and Social Services Institute (ISSSTE) and shows the lack of coherence in its procurement system, partly due to the absence of an organisational procurement plan. It also describes how public procurement is used by the Mexican federal government and ISSSTE to foster socio-economic objectives, particularly to support the participation of small and medium-sized enterprises. Finally, the chapter demonstrates how lack of data and of an adequate performance management system hinders evidenced-based decision-making and effective management of ISSSTE's procurement function.

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.

Introduction

An effective procurement function plays a strategic role in avoiding 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 unified and well-recognised strategic mandate. Preferably, the procurement cycle should also be mainstreamed and well-integrated into the governance system of the organisation as a whole, recognising the procurement function as a strategically important component (OECD, 2009).

All public agencies should establish an organisational procurement strategy providing clear direction and a co-ordinated approach to achieve good practices in procurement and continually strive to improve it. A strong strategy recognises an organisation's operating environment and the nature and type of its procurement activities, outlines the objectives and desired outcomes, and identifies the key attributes of its approach to achieving them. Good practice requires the procurement strategy to be aligned with the strategic objectives of the organisation's business plan, other organisational strategies and operating procedures.

Performance management ensures that relevant data is collected as to ensure that the decision-making process is based on strong evidence. It establishes indicators and measurement mechanisms that allow tracking progress against the selected objectives and identifying opportunities to further improve the procurement function.

This review found that the State's Employees' Social Security and Social Services Institute (*Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado, ISSSTE*) has recently embarked on various initiatives to improve the performance of its procurement function. However, it still lacks an explicit and comprehensive organisational strategic plan defining the main priorities and targets of that function, and the main initiatives for achieving them. This reduces the coherence and focus of the initiatives and efforts that are put in place, and hinders completely recognising the strategic role the procurement function plays in the organisation.

In addition, an important lack of data and information on the entire procurement cycle significantly undermines the effectiveness and efficiency of the decision-making process. While a performance management system does exist in the organisation, its indicators are too limited to support the sound management of its procurement function. This chapter describes the general context of these issues and provides recommendations for improvement.

Organisational procurement strategy

The strategic role of ISSSTE's procurement function has not yet been fully recognised nor achieved

The importance and strategic role of a strong procurement function is more and more recognised in the private and public sectors. Public procurement represents an important potential source of savings for governments in times of austerity, and is also recognised as a major risk area for mismanagement, fraud and corruption. There is also an increasing awareness of the significant contribution it can bring to the capability of a public organisation to optimise its outcomes and achieve its mandate. Finally, public

procurement is one of the largest government spending activities in any country, representing on average almost 13% of GDP in OECD member countries (OECD, 2011). As such, it can represent a significant instrument to support larger national socio-economic objectives of the government, such as economic growth and diversification.

ISSSTE has recently embarked on various initiatives to improve the efficiency and results of its procurement function, including:

- development or improvement of stock management tools for medicines and medical equipment, notably the Supply Control Board (Tablero de Control de Abasto) further described below;
- requirement consolidation, both internally through centrally consolidated contracts, and externally through joint procurement with other entities of the Mexican health sector (discussed in Chapter 5); and
- efforts to diversify its sourcing methods, such as the use of broader procurement instruments and evaluation and selection criteria (Chapter 5).

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*) beneficiaries are the primary focus of any of the organisation's activities; *ii*) transparency and accountability; and *iii*) efficient use of resources (ISSSTE, 2012a). As stated in Chapter 1, the current position of the procurement function within the organisational structure is a good indication of the importance that it is given as a strategic function and to its level of accountability.

Notwithstanding, the procurement function is still largely perceived more as an administrative service in support of technical units than as a strategic function directly impacting the outcomes of the organisation. This is particularly true for the local units, procurement being reported as the area given the least attention.

The OECD review found that some user areas lack interest in the procurement process. This is commonly experienced by procurement units who complain that user areas provide late or inadequate requirement descriptions and market research results; give little support in the preparation of the solicitation documents; are sometimes absent from the clarification meetings; and perform late, incomplete or incorrect evaluations of the technical offers received. Furthermore, user areas lack understanding and knowledge on the procurement process and on the associated regulations.

However, this lack of recognition of the strategic role of the procurement function is not limited to the user areas, even procurement units and the audit function focus more on compliance with the regulations than on performance. Furthermore, very limited evaluation of the efficiency and outcomes of procurement currently takes place, as discussed below. When asked about performance indicators in place in the organisation, some procurement units in delegations responded that the best indicator of good performance is the absence of observations from the Internal Control Office (see Chapter 3 for further details) or of formal complaints (*inconformidades*) from suppliers on their procurement procedures.

Procurement is one component of a much larger system – not only the supply system, but all activities of the organisations that ultimately support services to beneficiaries – and can only be successful if it is well integrated with and supported by all of the other components. As such, the current lack of interest and limited involvement experienced in ISSSTE significantly undermine the capacity of the procurement function to achieve its goals, thereby compromising the activities and outcomes of the whole organisation. As emphasised by the National Health Service of the United Kingdom, the procurement function should play a more strategic role involving all stakeholders, as it “(...) touches the whole system of delivering healthcare and should not just be viewed as an activity that is restricted to procurement professionals. Everyone has a responsibility for ensuring that the products and services that are chosen, bought and used represent value for money, provide the right outcome for the patient and are not wasted” (Department of Health, 2012a).

This reality is gradually being recognised within ISSSTE. As an example, the new risk administration system put in place in February 2012 (see Chapter 3 for further details), no longer assesses and manages risks exclusively on the basis of a series of activities for which a single area is responsible. Instead, the focus is now on entire processes involving a series of independent activities in order to better reflect how each activity impacts all of the other activities of the process, thereby emphasising the shared responsibilities of various areas on the process and adequate management of its risks.

Nonetheless, this approach contrasts significantly with the vision that many individuals and areas have of the procurement function. As such, ISSSTE could consider implementing an awareness-raising campaign of the role of the procurement function and the necessary contribution of all the involved parties (see Box 4.1 for a recent example of Portugal). Similarly, tailored communication and training could be developed to increase the understanding and knowledge of user areas on the procurement process and its associated regulations.

Box 4.1. Procurement-related awareness campaign in Portugal

The Portuguese National Agency for Public Procurement (Agência Nacional de Compras Públicas, ANCP) is a state-owned-company created in 2007 to devise, implement and manage the Portuguese National System for Public Procurement (SNCP-NSPP), as well as to centrally manage the state-owned vehicle fleet.

At its establishment, the ANCP launched an awareness campaign consisting of:

- A road show with meetings in all large Portuguese cities for civil servants, bidders and public society. Contacts through universities, technical chambers, chambers of commerce were sought and used.
- Direct information sessions for procurement agents, in particular big or strategic buying organisations.
- A large and advertised public conference and launching event with political participation of national political leaders from Portugal and other countries as well as with international organisations.

The absence of a clear organisational procurement strategy prevents the development of a strong and coherent procurement function in ISSSTE

The procurement function of any large public agency should have a dedicated specialist procurement unit centrally positioned to develop a strategy to best fulfil the organisation’s functional requirements. The OECD review found that ISSSTE still lacks such a key document: no explicit and comprehensive organisational procurement strategy exists, which defines the main priorities and targets of its procurement function, as well as the main initiatives for achieving them.

When asked about the procurement strategy of the organisation, many procurement units were unable to identify one, most indicated that they did not have that information, while others reported it as the responsibility of the central areas. Procurement units which identified a strategy document made reference to either the Annual Procurement Plan (*Programa Anual de Adquisiciones y Servicios*), the Institutional Programme 2007-2012 (*Programa Institucional 2007-2012*)(ISSSTE, 2008) or the 2012 Work Programme (*Programa de Trabajo 2012* (ISSSTE, 2012b). However, the first document only identifies the requirements expected to be procured within the year while the other two cover all of the organisation’s activities and address procurement only to a very limited extent. For example, ISSSTE’s general strategic vision is established in its Institutional Programme 2007-2012, but references to procurement are limited to “considering it important to continue the reengineering and automation of the supply system and the demand planning for medicines” (ISSSTE, 2008). Similarly, one of its 12 objectives is promoting transparency and accountability, but no specific strategy is mentioned for procurement.

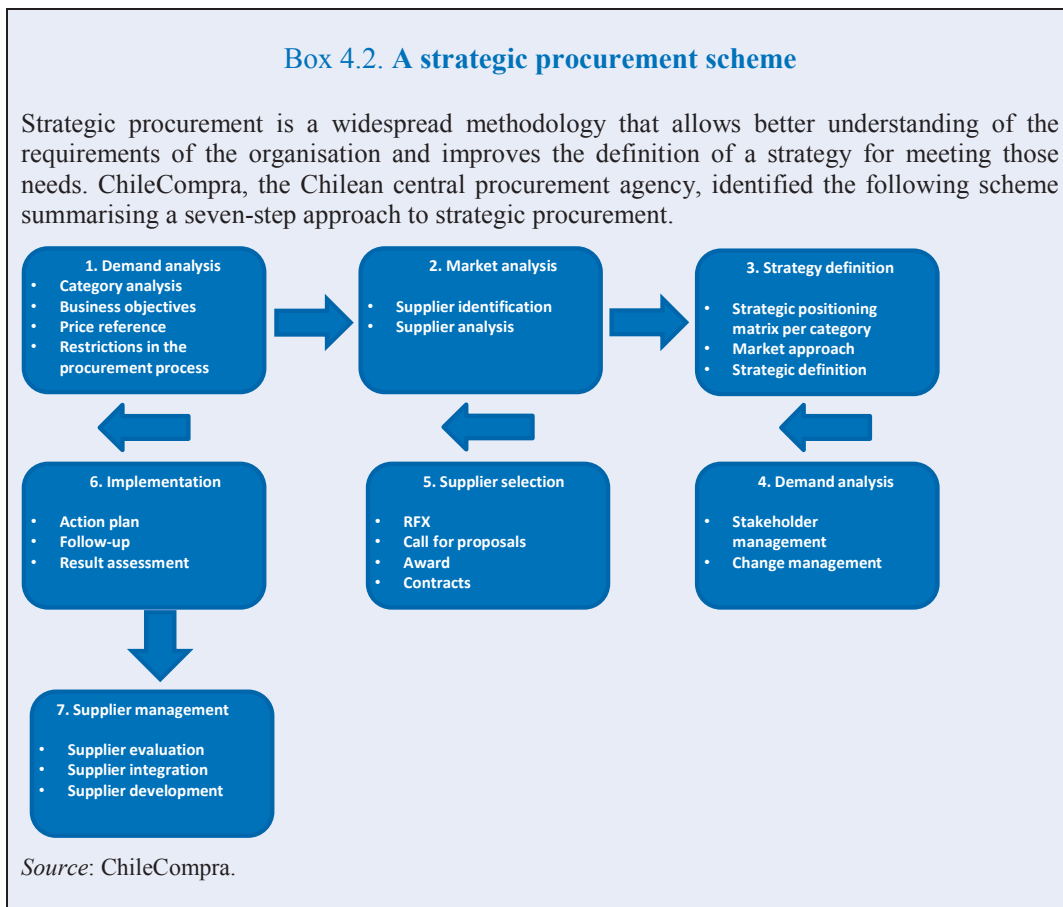
The absence of a widely disseminated document that provides a clear description of the vision for the procurement function and of the strategies for achieving it impedes the progress and coherence of ISSSTE’s geographically-decentralised procurement units. This leads to conflicting priorities within the organisation and reduces the efficiency of the existing processes. It also risks various stakeholders – such as medical units and the ICO, but also numerous procurement units – not understanding the details and intent of some strategies put in place by the central level, resulting in criticism and doubts about their adequacy and results.

In order to improve the cohesion and buy-in of the activities and initiatives of its procurement function, ISSSTE could consider developing and documenting a comprehensive organisational procurement strategy addressing, as a minimum, the following elements:

- establishing a long-term vision for the procurement function that is aligned and consistent with the overall vision and strategic objectives of the organisation;
- assessing the current context of its procurement function, identifying divergences between the various units and opportunities for improvements;
- taking into account internal and external constraints and identifying clear priorities, which should then be further disaggregated into clear objectives against which time-defined targets are established; and
- developing and implementing initiatives to achieve these objectives and targets.

In order to optimise the results of the procurement function while minimising the necessary resources, such a strategy could consider potential synergies and collaboration with other entities of the Mexican federal government that have similar priorities and objectives, particularly those providing health and social services. Several activities could be considered, such as joint procurement (some already take place as discussed in Chapter 5), joint market research (addressed in Chapter 6), increased collaboration with the Mexican competition authority – the Federal Competition Commission (*Comisión Federal de Competencia*, CFC) – to fight collusion between suppliers, as well as maximise the use of training available from the Ministry of Public Administration and develop common training and documentation to guide procurement officials and increase their competencies.

It is crucial that the organisational procurement strategy considers all of the phases of the procurement cycle. In this regard, ISSSTE could consider the seven steps identified by ChileCompra, the Chilean central procurement agency, in its approach to strategic procurement (Box 4.2).



It is essential that the organisational procurement strategy be developed at a strategic level following significant consultation with a large range of stakeholders associated with the procurement process. These stakeholders should include procurement units, user areas, suppliers and industrial associations, internal control units as well as senior management. Doing so will not only increase the understanding, buy-in and results of the strategy throughout the organisation, but also improve the quality of the strategy by

allowing a larger range of pertinent information to be considered. As highlighted by Loudon (2012), the support of senior management is a determinant factor in the success of any strategic reform and it needs to Invest, Collaborate, Appoint, Recognise and Engage (I CARE).

Due care should be taken to ensure that all of the initiatives subsequently implemented in the organisation are aligned with the priorities identified under the strategy. Also, progress should be continuously monitored through appropriate performance indicators. The strategy, as well as results of the initiatives carried out under it, should be regularly communicated across the organisation and, when appropriate, to the suppliers and general public. Finally, they should be regularly adjusted to reflect the evolving constraints, challenges, circumstances and priorities of the organisation.

ISSSTE could become a leader in supporting various economic, environmental and social priorities of the federal government

Using their substantial buying power in the marketplace, governments can leverage the procurement process to actively promote goals which may not be directly related to the mandate of the procuring organisation. Such complementary objectives are generally categorised as economic (e.g. promotion of locally sourced or innovative goods and services, or giving preference to small and medium-sized enterprises [SMEs]¹), environmental (e.g. the promotion of recycled materials, environmental disposal plans, or low-polluting goods and services) or social (e.g. procurement directed towards a specific minority or gender).

The Mexican federal government has taken some initiatives to support such complementary objectives. This includes the incorporation of various associated provisions in its Law of Acquisitions, Leasing and Services of the Public Sector (*Ley de Adquisiciones, Arrendamientos y Servicios del Sector Público*, LAASSP) and the associated regulation (Table 4.1)

As can be seen in Table 4.1, the current focus of the Mexican federal government is on supporting national suppliers, and particularly SMEs. The significance of SMEs to the Mexican economy and labour market cannot be underestimated: SMEs represent more than 99% of Mexico's formal companies and provide between 49.7% (industry) and 86.1% (services) of formal jobs (OECD, 2003). However, most of Mexico's SMEs are set back by fundamental weaknesses such as limited capital or access to financing (OECD, 2007).

As almost all OECD countries (see Annex 4A.1), Mexico has put in place various approaches to support the participation of SMEs in public procurement of the central government. Nonetheless, such pro-SME initiatives are fairly new in Mexico.

In 2009, the Mexican Ministry of Economy established a plan to help Mexican SMEs and reinforce their participation in public procurement. The objective identified in the Law for the Development of Competitiveness of Micro, Small and Medium Enterprises (*Ley para el Desarrollo de la Competitividad de la Micro, Pequeña y Mediana Empresa*) is that a minimum of 35% of the value of all goods, services and public works procured by federal public entities and the federal district be obtained from SMEs. This is accompanied by a set of initiatives to support SMEs such as:

- Enhanced liquidity and financing by improving their access to approved loans and credit.

- Providing business reports concerning their sector, marketing, logistics and competitiveness; training in areas such as business management, exports and the use of Compranet 5.0, the Mexican federal e-procurement system.
- Facilitating their access to public procurement through a specialised website (www.comprasdegobierno.gob.mx). The website offers information to SMEs who are interested in becoming suppliers to the federal government and also serves as a tool to promote Expo Compras de Gobierno, an event that, since 2009, has raised awareness of business opportunities with the federal government to more than 65 000 enterprises.

Table 4.1. Provisions of the Law of Acquisitions, Leasing and Service of the Public Sector (LAASSP) and its regulation supporting economic, environmental and social objectives in Mexico

Complementary objective	Measure
Environmental objective	<p>Article 26 of the LAASSP states that:</p> <ul style="list-style-type: none"> • procurement should optimise the use of natural resources and that environmental considerations should be taken into account; • wood being purchased must come from sustainable sources and paper-based products need to comply with the standard NOM-050-SCFI-2004, include 50% recycled content, and be free of chlorine.
Social objective	<ul style="list-style-type: none"> • Article 14 of the LAASSP refers to providing points, under specific public tendering procedures evaluated under the points and percentage approach, to disabled persons or companies where they represent at least 5% of total employees for at least six months of employment.
Support to small and medium-sized enterprises (SMEs)	<ul style="list-style-type: none"> • Possibility to set aside public tendering procedures exclusively for SMEs (Article 35 of the LAASSP Regulation); • Provision of additional points, under specific public tendering procedures evaluated under the points and percentage approach, to SMEs producing goods with technological innovation (Article 14 of LAASSP); • At least 50% of the value of contracts excluded from public tendering due to their value being below the established threshold must be awarded to SMEs (Article 75 of the LAASSP Regulation); • Special flexibilities for SMEs to receive higher advanced payments for contracts for goods which have a production process of more than 60 days (Article 13 of the LAASSP); • Reverse auctions cannot be used in public tendering procedures where national SMEs are participating in an individual manner (Article 28 of the LAASSP); • In the case of a tie during the bid evaluations, preference should be awarded to national SMEs (Article 36bis of the LAASSP Regulation, Article 54 of the LAASSP).
National content and support to national suppliers	<ul style="list-style-type: none"> • A requirement that public tendering procedures for services be limited to Mexican entities and that goods obtained include a minimum Mexican content of 50%, unless specific circumstances apply such as trade agreement obligations (Article 28 of the LAASSP); • Under public tendering procedures open to all international suppliers, a price preferential of up to 15% for goods with a minimum Mexican content of 50% (when all conditions are the same) (Article 14 of the LAASSP).

Important results were rapidly achieved through this initiative: the number of SMEs with federal contracts increased by more than 400% between 2009 and 2010 (Ministry of Economy, 2011).

In order to achieve the target established by law, the Ministry of Economy has set annual goals for each federal entity of the amount of contracts awarded to SMEs. While the Mexican federal government exceeded the overall target by 15% in 2011, only half of its entities achieved or exceeded their individual goals. With MXN 1.7 billion (approximately USD 135 million) in contracts awarded to SMEs in 2011, ISSSTE exceeded by five times the established target (Table 4.2). For 2012, the Ministry of

Economy increased ISSSTE's target by 280%, to MXN 1.3 billion. As of 1 October 2012, ISSSTE had already exceeded its target by 52%.

Table 4.2. Goal vs. amount awarded to SMEs by ISSSTE (2011)
MXN billions

Ministry/entity	Goal	Amount attained	% of goal attained
Ministry of Communications and Transport (SCT)	18.4	17.4	94%
Mexican Petroleum (PEMEX)	12.5	17.0	136%
Federal Electricity Commission (CFE)	10.6	13.3	125%
Liconsá	3.3	3.9	118%
National Water Commission	2.9	0.5	19%
Mexican Institute of Social Security (IMSS)	2.5	5.5	219%
State's Employees' Social Security and Social Services Institute (ISSSTE)	0.3	1.7	509%
Rest of the Mexican federal government	19.9	21.9	110%
Total	72.3	83.4	115%

Source: Ministry of Economy website (n.d.), Avance del Programa de Compras del Gobierno Federal [Progress of the Federal Government Procurement Program], www.comprasdegobierno.gob.mx/en/avance2012, accessed 2 October 2012.

Even though ISSSTE significantly exceeded the target set by the Ministry of Economy for 2011, its contracts to SMEs only represented approximately 13% of the total value of its contracts in that year. This share is low when compared to the average percentage of contracts of the whole federal Mexican public administration, which was more than twice that figure. While this may partly be explained by the nature of the principal goods procured by ISSSTE (medicines), this review did not find evidence of any particular action being taken by procurement units to increase the participation of SMEs, such as using the various flexibilities and mechanisms allowed by the legal framework. Similarly, very little attention is given to social or environmental objectives other than complying with the minimum legal obligations associated with the procurement of paper and products made from wood.

In order to increase its socio-economic or environmental impacts, including strengthening its supply base by increasing the participation of SMEs, ISSSTE could take a leadership role and develop its own policy or strategy for one or several complementary objectives. Clear targets and mechanisms should be established under each policy or strategy, and should take advantage of the full range of flexibilities allowed by the laws. Preferably, internal and external consultations, including with the targeted groups, should take place in the development of that strategy in order to raise awareness of the strategy and for ISSSTE to identify priority mechanisms to support their participation without impacting negatively the operations of the organisation.

Evidence-based performance management

Up-to-date, consistent and accurate procurement data and information are neither collected nor shared within the organisation

The efficient and strategic management of a procurement function requires an evidence-based assessment and decision-making process. It is essential, therefore, that the organisation collects sufficient high-quality procurement data and systematically assesses them. The review found that, at this time, ISSSTE's 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. Other than some information captured in Compranet, procurement information and data are collected and managed differently by the various procurement units.

Furthermore, no standard mechanism is in place to collect, consolidate and share data. Currently, each unit collects its own data, mostly through non-standard spreadsheets, without precise guidance on what data should be considered. In addition, data are entered manually by procurement agents, which increases the risk of error. According to interviews, procurement units are required to provide quarterly data to central areas on the number and value of contracts, so that ISSSTE can send this information to the Federal Institute of Access to Information and Data Protection (*Instituto Federal de Acceso a la Información y Protección de Datos*, IFAI). However, it was evidenced under this OECD review that no effective process is in place to subsequently consolidate that information for internal use, including for taking decisions. In addition to the inherent risk of error, this situation results in important inefficiencies in the collection, consolidation and use of the data. As such, procurement units indicate that significant efforts are regularly wasted in providing information and data requested by central areas or the Internal Control Office (*Órgano Interno de Control*, ICO), which prevents them from spending time on other procurement activities.

An important difficulty in data consolidation in ISSSTE resides in the procurement units using different codifications and formats, which are sometimes even inconsistent within the same unit. This is illustrated in Table 4.3, which shows the significant divergences found in the spreadsheet provided by the Aguascalientes delegation when requested to provide details on the value of contracts awarded over the period 2007 to 2011 and the use of exceptions to public tendering.

Table 4.3. Divergences in the codes and formats used by the Aguascalientes delegation to record contract values and the use of exceptions to public tendering

Value of the contract ¹	Exceptions to public tendering ²
1000000	ART. 26 FRACCION III
1'000,000.00	41
\$ 1,000,000.00	Art. 41
\$ 1,000,000.00	ART 41
\$ 1,000,000.00	art.41
\$ 1,000,000.00	41 FRACCION III
\$ 1,000,000.00	41 FRACCION III
1,000,000.00 Y 2,000,000.00	ART.41 FRACC. III
\$ 1,000,000.00 Y \$ 2,000,000.00	ART. 41 FRACC. III
\$ 1,000,000.00 Y \$ 2,000,000.00	ARTI. 41 FRACC. III
\$ 1,000,000.00 Y \$ 2,000,000.00	ART. 41 FRACCION III
\$ 1,000,000.00 Y 2,000,000.00	ART. 41 FRACCION III
\$1,000,000.00 \$2,000,000.00 \$3,000,000.00	ARTICULO 41 FRACC III
ABIERTO	41 FRACCION III Y XIV
	41 FRACCION III Y XIV

Annotations from the table:

- ART. 26 FRACCION III → Direct award indicated, but no exception provided
- 41, Art. 41, ART 41, art.41 → Article 41 indicated (direct award for exception other than low-value of the requirement), but no specific exception indicated
- 41 FRACCION III, 41 FRACCION III, ART.41 FRACC. III, ART. 41 FRACC. III, ARTI. 41 FRACC. III → Exception 41 - III indicated, but with different formats
- ART. 41 FRACCION III, ART. 41 FRACCION III, ARTICULO 41 FRACC III, 41 FRACCION III Y XIV, 41 FRACCION III Y XIV → Exception 41 indicated in conjunction with another exception

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: Author's calculation based on data from ISSSTE.

The Aguascalientes delegation is referred to here only for illustrative purposes, as similar difficulties can be found in most – if not all – procurement units. In order to ensure the compatibility of procurement data and facilitate their consolidation, ISSSTE could consider limiting and harmonising the number of codes used in the various procurement units.

Further aggravating the limited availability of data is the resistance to share data within the organisation, each unit feeling a sense of ownership and averse to disseminate it. ISSSTE reported efforts to change that culture and promote increased collaboration in data collection and sharing. If such efforts were supported by the implementation of an organisational procurement strategy and of strengthened

performance management, procurement units would become more aware of the need and benefits of clear and accurate data.

ISSSTE's actions to improve data collection for evidence-based decision making is commendable, but limited to a small portion of the procurement cycle

The current lack of capacity to consolidate data rapidly and accurately into organisational-wide statistics and reports is a significant shortcoming of the organisation, which prevents ISSSTE from assessing the procurement system as a whole and addressing various strategic management elements (such as its organisational procurement strategy and effective internal control). This lack of information also negatively impacts the decision-making process throughout the procurement cycle. This can be illustrated, for example, by the Supply Control Board (*Tablero de control de Abasto*) (Box 4.3) implemented in early 2012, which provides visibility of the stock of medicines and some medical products. This instrument allowed the organisation to realise, amongst others that excessive requests by medical units for some medicines resulted in their stock being three to four times higher than required, while stock of other products was entirely depleted in some regions.

Box 4.3. ISSSTE's Supply Control Board

The Supply Control Board was developed by ISSSTE in February 2012. It 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 visibility of a large range of 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; and
- 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 the medical unit and organisational levels to provide rapid visibility (both through a table and a pie chart) on the percentage of products under each 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. Notably, 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/>, accessed 4 October 2013.

Similarly, the current lack and quality of aggregated procurement data undermines ISSSTE's efforts to implement an effective performance management system of its procurement function (further discussed below). As shown by the Italian National Database on Public Contracts (Box 4.4), standard collection and assessment of accurate and timely data on public procurement is essential to adequately evaluate the efficiency and effectiveness of the procurement function and to identify opportunities for ongoing improvement, while highlighting dysfunctions and anomalies of the market.

Finally, the current data deficiencies prevent ISSSTE from assessing and communicating the results of various procurement strategies to all relevant stakeholders. As an example, various internal users and procurement units doubt the value of some recent consolidation contracts, focusing only on the perceived negative impacts (reduction in the range of services/products available, implementation delays, etc.) without being informed of the overall benefits to the organisation (lower price, better stock management, etc.).

Box 4.4. Italian National Database on Public Contracts

Following a legislative decision in 2010 (no. 136/2010), the Italian Authority for the Supervision of Public Contracts for Works, Services and Supplies (Autorità per la vigilanza sui contratti pubblici di lavori, servizi e forniture, AVCP) implemented a National Database on Public Contracts. This system assists collecting and processing data on public procurement in order to inform supervisory and regulatory entities on measures to be taken to promote transparency, simplification and competition. It also collects data on information technology and conducts market analysis.

In particular, the National Database of Public Contracts collects and assesses data on:

- The structural characteristics of the public procurement market and its evolution. Statistics about the number and value of procurement awards are grouped by factors such as localisation, procurement entities and awarding procedures.
- Efficiency and value for money during the procurement process. For example, modifications to contractual conditions are recorded in the database as to detect dysfunctions and anomalies.
- Dysfunctions and anomalies of the market, for example through manipulations by suppliers. These dysfunctions and anomalies are detected through a) the assessment indexes of excessive tendering rebates, with respect to the average rebates; b) the number of bids to be presented in each awarding procedure; c) the localisation of awarded companies with respect to the localisation of contracting authority.

The National Database of Public Contracts has assisted the AVCP in improving its supervisory and regulatory activities, notably in the provision of guidelines on measures to promote transparency, simplification and competition in the entire procurement process (particularly in the pre-bidding and post-bidding phases).

One of the challenges identified by this initiative relates to the accuracy and timeliness of the data, which is found to have a profound impact on the capacity to undertake sound analysis.

Source: Adapted from OECD (2012), "Progress Made in Implementing the OECD Recommendation on Enhancing Integrity in Public Procurement", OECD, Paris, www.oecd.org/gov/ethics/combined%20files.pdf, accessed 4 October 2013.

Other ongoing initiatives to improve data availability in ISSSTE include the implementation of a similar tool for budget management as well as a project to improve

the stock management system used in the delegations (see Chapter 6 for further details). The establishment of a control board to follow the status of each procurement procedure is also under discussion, but is not yet in place and little information is available on its expected functionalities.

Through these efforts, ISSSTE is taking a strategic move to correct critical information gaps and support evidence-based decision making. These initiatives contribute to the three priorities of the current administration by 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. While the current initiatives have already had a positive impact on the procurement process through better requirement planning, they do not, however, address the major data gap currently experienced in other phases of the procurement cycle.

As part of the recognition of the strategic role the procurement function plays in the organisation and to strengthen its current performance management system (discussed below), ISSSTE could consider developing and implementing a strategy to ensure the efficient collection of key procurement data. It is recommended that ISSSTE does so on a gradual basis, first identifying the key data required for an evidence-based management of the function, including the performance assessment and management as well as monitoring progress against identified priorities. Data already collected in some forms should then be immediately standardised and consolidated, with a plan to gradually collect missing data. While some information may be collected on an irregular basis (for example, for the monitoring of particular targets under specific initiatives), ISSSTE should ensure it consistently collects some data in order to assess results over time and identify early on positive or negative trends. Nonetheless, data are only a tool for supporting management and improvements, and data collection should not become a goal in itself. To avoid wasting resources, ISSSTE should therefore limit the data collected exclusively to what is required for identified management purposes.

Various procurement units in delegations have advised that the absence of appropriate software prevents the efficient collection of data. In order to reduce the effort required in collecting and consolidating data while ensuring their accuracy and timeliness, ISSSTE could implement standard tools common to all procurement units. As a minimum, these should consist in spreadsheets with harmonised (and limited) codifications and formats, with basic functionalities that prevent or highlight deviations from the established standards. Even these simple tools would be a significant improvement to the current process and strongly improve its efficiency and effectiveness. However, the results and benefits achieved by ISSSTE could be significantly higher if a more sophisticated information management system was put in place for the procurement function. Preferably, and as discussed in Chapter 8, this would be achieved through the implementation of a procurement management system covering the whole procurement system and integrated with the other IT systems in place in ISSSTE (e.g. budget and stock management). Such a system would allow the automatic collection of a large number of high-quality procurement data with no or little effort from the procurement units.

The current performance management system and indicators are too limited to support the sound management of the procurement function

Organisational performance management of the procurement function establishes specific indicators and measures progress in achieving the objectives of the procurement strategy against these indicators, in addition to evaluating the overall efficiency and

effectiveness of the function. Through ongoing assessment of these indicators by a dedicated and specialised procurement strategy unit, areas of difficulty can be identified and ongoing improvements can be achieved.

The Institutional Performance Evaluation Internal System (*Internal Sistema Interno de Evaluación del Desempeño Institucional*, SIEDI) was put in place in ISSSTE in 2010. Its objectives are to establish indicators that help measure the performance of the services provided, compile institutional information that allows programmes to be monitored, and promote measurement and evaluation to support the decision-making process. It also incorporates users' perception of the services provided by the Institute.

However, the SIEDI is aligned with the Work Programme (*Programa de Trabajo*), which focuses on outcomes (i.e. the services provided to the beneficiaries) and does not really address processes (such as the procurement cycle). As a result, the SIEDI does not include any specific module allowing the performance of the procurement function and its workforce to be assessed. In fact, only one element of the Work Programme relates to the procurement process, namely the elaboration of the procurement plan in accordance with the needs and requirements of each unit.

The majority of the SIEDI's indicators therefore focus on the outcomes of the organisation's main activity, i.e. medical services. Nonetheless, 13 indicators relate to the procurement cycle, such as the number of contracts, number of public works projects completed, percentage of contracts registered, percentage of projects audited that comply with the applicable regulations, percentage of suppliers qualified and average number of days to implement penalties to suppliers.

However, none of these indicators are adequate for efficiently managing the performance of a strategic procurement function. While all of them provide some indication of the administrative results of procurement activities, none of them adequately address its strategic outcomes, i.e. its contribution to the organisation's other activities and, ultimately, to its capacity to meet its mandate and provide high-quality services to its beneficiaries. Furthermore, most indicators – such as the number of contracts issued and the percentage of suppliers qualified – do not provide any insight on the efficiency of the procurement function, and no targets or objectives have been specified for the others. As such, the existing indicators can only, at best, indicate some general trends.

In addition, procurement units lack awareness of the existence of common indicators and of the SIEDI. When surveyed about existing indicators, most delegations simply stated they did not have any. On the other hand, some delegations referred to indicators under the 2012 Delegation Work Programme (*Programa de trabajo delegacional 2012*), that are not entirely aligned with the SIEDI. As indicated before, one of these indicators, the number of valid formal complaints (*inconformidades*) over the number of procurement procedures is considered by some local procurement units as the best indicator of good performance, evidencing the general perception of the procurement function as an administrative activity and the strong focus on compliance rather than on performance.

In recognition of the inadequacy of the current indicators and to better assess the performance of the procurement function, ISSSTE has undertaken efforts to introduce new indicators in the SIEDI, including average time required to pay suppliers, variation in average prices for some standard products, rate of discount achieved over average industry price, percentage of compliance of suppliers' delivery, and percentage of products received without defect. While these indicators are better suited to assess the

efficiency of the procurement activities, they still lack clear targets against which progress can be measured and can therefore only indicate trends.

The lack of well-defined, common and effective performance indicators and targets, and the resulting deficiencies in measuring and assessing the performance of the procurement function, represent a significant weakness in ISSSTE. This prevents the organisation from having a clear picture of the outcomes of the associated activities and of its efficiency in achieving them. It also significantly hinders the visibility of any eventual improvements, resulting in a lack of incentive to try to achieve them and in a focus on errors in the process rather than on results and outcomes.

ISSSTE can benefit from the experience of other OECD countries when developing a performance monitoring and management strategy

The lack of performance management of the procurement function is not unique to ISSSTE. In fact, a recent report on the progress of OECD countries in implementing the Recommendation of the Council on Enhancing Integrity in Public Procurement indicates that “Performance-based monitoring of procurement systems is the exception to the rule.” The reports further says that “When reporting on progress made, very few countries indicated that they monitor the performance of their procurement systems and processes based on data and benchmarks” (OECD, 2012a).

ISSSTE could nonetheless consider taking a leadership role and developing a performance monitoring and management strategy for its procurement function, in view of the significant benefits this could bring to the organisation. Such an approach could increase outcomes and efficiency, thereby positively impacting the services delivered to beneficiaries and using available resources more efficiently. It would also help monitor the benefits of the function and progress against established objectives, and in articulating paths for improvement.

The development of a performance management strategy for the procurement function would require ISSSTE to:

- Identify the **elements of the procurement function** to be assessed on an ongoing basis or for a determined period of time. All elements should be linked to the main objectives identified under the organisational procurement strategy or specific initiatives. Following the UK example (Box 4.5), ISSSTE could consider using standards under broad domains, establishing different performance levels for each standard.

In order to enhance the strategic role of the procurement function, it is crucial that some of these elements address the effectiveness of procurement activities, i.e. the outcomes of procurement and its overall impact on the capacity of the organisation to provide high-quality services to its beneficiaries. An example of such an element is the percentage of medicines available in medical units.

Similarly, it is important that some elements measure the efficiency of the procurement function in providing these outcomes, therefore optimising the use of the available resources.

Box 4.5. United Kingdom National Health Service Standards of Procurement

In May 2012, the United Kingdom Department of Health released the National Health Service (NHS) Standards of Procurement co-developed by the NHS, the procurement profession, the Health Care Supply Association (HCSA) and independent healthcare sector. The NHS Standards of Procurement intend to provide a clear vision of what constitutes good procurement and to identify high-quality procurement performance. They enable Trusts Boards to assess procurement performance and to recognise areas for improvement, as to ensure that value for money is delivered through its procurement activity and its procurement partners.

The NHS Standards of Procurement are based on four domains: **leadership, process, partnership and people**. A total of 19 standards have been established under them, providing a framework for consistent approaches and practices to procurement in the NHS.



- the standard;
- how organisational performance will be improved by achieving it;
- the expected activities and outputs required under three levels of maturity:
 - level 1 – *Building* – awareness and building blocks in place;
 - level 2 – *Achieving* – making good progress;
 - level 3 – *Excelling* – outstanding procurement performance;
- suggested indicators, the decision on which indicators are most meaningful and useful for measuring procurement performance remaining with each organisation.

As an example, Annex 4.A2 provides the standards and levels of maturity for the **leadership** domain.

An underlying intent of this initiative is that each organisation be able to improve its performance against the standards in accordance with its own stage of development. As such, the Department of Health does not mandate the use of these standards nor will it measure performance against them.

Source: Department of Health (2012b), “NHS standards of procurement”, Department of Health, www.gov.uk/government/uploads/system/uploads/attachment_data/file/136646/dh_134378.pdf, accessed 17 October 2012. © United Kingdom, Department of Health, 2012. All rights reserved.

- Develop **clear performance indicators** to evaluate these elements, including the data collected and the formulas used for calculating them.
- Develop **clear and realistic targets** for each indicator to quantify objectives, which are aligned with the priorities established in the organisational procurement strategy and business plan, and measure progress against them.

Stipulate the **process** under which the procurement performance will be assessed (frequency; responsibility to collect data, calculate the indicators and assess the results, etc.), and how the results will be communicated within and outside the organisation and used for strategic planning purposes.

Results achieved against the ensuing indicators and targets should be communicated not only to the procurement units and senior management, but also to other internal departments and external stakeholders (such as the public), in order to increase the visibility of progress made and the value-added of the procurement function. It is important that each communication be tailored to its intended audience to address their particular interests and have an optimal impact. Highly visual communication tools and use of a colour status (e.g. green, yellow and red) can also be highly effective in reaching some stakeholders. This is the approach selected by the NHS for its procurement dashboard model (Box 4.6).

In order to substantially increase incentives for improvement, ISSSTE could also consider implementing performance management at the employee level, aligning the selected indicators to those of the procurement function (as appropriate) and formally using the results as part of each employee's performance evaluation.

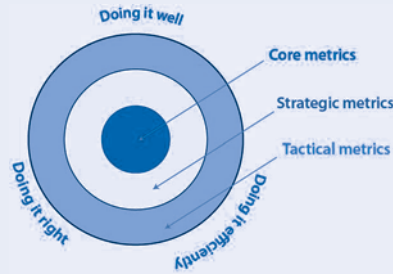
In developing its strategy, ISSSTE should benefit from the experience of organisations of different levels of government (provincial, national, etc.) in some OECD countries. In addition to the UK example above, a supply chain performance measurement report prepared for the government of Ontario (Box 4.7 and Annex 4.A4) could be of particular interest to ISSSTE as it has been prepared by health care supply specialists and focuses specifically on the hospital supply chain. In addition to identifying 20 key indicators for their procurement function, it provides a large range of relevant information such as data and calculation formulas, objective targets, benefits, underlying leading practices, calculation parameters, data-accessibility rating and potential data sources.

The implementation of the performance management strategy should be designed to minimise the required resources (time and effort) and costs while maximising the benefits. As such, ISSSTE could consider implementing the strategy progressively, initially focusing on the most important indicators for which data is already available. Other indicators could be gradually introduced in subsequent rounds, as new data are collected, to increase the utility and impact of the performance management system and provide a complete picture of the procurement function.

Box 4.6. United Kingdom National Health Service Procurement Dashboard Model

The NHS is developing a standard dashboard of metrics for procurement to improve visibility and accountability for procurement in each organisation, benchmarking against other entities, and the identification of good and best practice.

Following consultations and feedbacks from a range of senior procurement and finance officials of the NHS, a second version of the dashboard model was designed at the end of October 2012. It suggests the adoption of metrics at three levels (core, strategic and tactical) and against three key areas of procurement performance (“doing it well”, “doing it efficiently” and “doing it right”).



Under that revised model, a small set of **core metrics** would remain relevant over time regardless of the maturity of the organisations’ procurement practices. These metrics would be measured by all organisations and reported on to its management board and through its annual report. The following eight core metrics are currently considered, their proposed illustrations being presented in Annex 4.A3:

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

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 consist of metrics determined and used by procurement management to measure performance against more detailed operational parameters underlying the core and strategic metrics and related objectives.

Source: Department of Health (2012c), “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.

Box 4.7. Procurement performance measurement in health care systems – experience from Ontario (Canada)

In November 2005, the Ontario Ministry of Finance invited 12 health care supply chain specialists to assess the current state of supply chain performance measurement at Ontario hospitals, resulting in the report *Performance Measurement – A Report by the Hospital Supply Chain Metrics Working Group* (Government of Ontario, 2006). This document proposes a series of 48 metrics and 21 supporting standards for hospitals to use in evaluating their supply chain performance and target performance improvement. Furthermore, it advises on how to adopt and use the metrics in support of underlying leading practices and recommends their implementation in three stages: basic supply chain operations, emerging supply chain practices and supply chain excellence.

Two companion reports (Government of Ontario, 2009a and 2009b) expand on 20 of the metrics and 12 of the standards introduced in the original reports. Each of them defines the objectives, rationale and proposed benefits, together with formulas, targets, associated variables and potential data sources, related metrics and predicted implementation challenges. The 20 metrics proposed by these recent reports cover 6 areas of interest (governance and process; financial; transactions and technology; customers; suppliers; and people) and are presented with their objectives in Annex 4.A4.

Sources : Government of Ontario – BPS Supply Chain Secretariat (2006), *Performance Measurement: A Report by the Hospital Supply Chain Metrics Working Group*, BIS Supply Chain Secretariat of the Treasury Board Office, Queen’s Printer for Ontario, Ontario, available at www.fin.gov.on.ca/en/bpssupplychain/documents/perfmetrics.html, accessed 20 September 2011; Government of Ontario – BPS Supply Chain Secretariat (2009a), *Performance Measurement: Phase II – User Guide*, BIS Supply Chain Secretariat of the Treasury Board Office, Queen’s Printer for Ontario, Ontario, available at www.fin.gov.on.ca/en/bpssupplychain/documents/perf_meas_userguide.html, accessed 20 September 2011; Government of Ontario – BPS Supply Chain Secretariat (2009b), *Performance Measurement: Phase II – A Framework for Action*, BIS Supply Chain Secretariat of the Treasury Board Office, Queen’s Printer for Ontario, Ontario, available at www.fin.gov.on.ca/en/bpssupplychain/documents/perf_meas_framework.html, accessed 20 September 2011.

Proposals for action

In order to enrich the strategic role of the procurement function and implement a sound performance management system of it, ISSSTE could consider the following proposals:

1. Promote the importance of the procurement function and increase the capacity of all stakeholders to actively collaborate by:
 - Implementing an awareness-raising campaign of the role of the procurement function and the necessary contribution of all associated parties.
 - Develop tailored communication and training to increase the understanding and knowledge of user areas on the procurement process and its associated regulations.
2. Develop, document and disseminate a comprehensive organisational procurement strategy covering all phases of the procurement cycle, ensuring that:
 - It is developed at a senior level following significant consultations with a large range of stakeholders involved with the procurement process.

- It clearly establishes the long-term vision for the procurement function and identifies priorities, objectives and targets, as well as initiatives to achieve them.
 - Potential synergies and collaboration with other entities of the Mexican federal government are considered in fields such as joint procurement, joint market research, collusion prevention as well as training (including optimal use of the training and certification available from SFP).
Progress against the strategy's objectives and targets are continuously monitored and communicated.
 - The strategy is regularly adjusted to reflect evolving constraints, challenges, circumstances and priorities of the organisation.
3. Develop its own policy or strategy for one or several complementary objectives (economic, environmental or social) following internal and external consultations (including with any targeted groups) and taking full advantage of the flexibilities allowed under the procurement laws.
 4. Design and implement a strategy for the efficient and effective collection of key procurement data by:
 - Identifying data and information required for adequate decision making and performance management of the entire procurement cycle as well as of strategic initiatives, implement standard tools common to all procurement units.
 - Collecting and consolidating harmonised data already available in some form from procurement units, with a clear roadmap for subsequently obtaining missing data.
 - Implementing, in all procurement units, standard tools that ensure harmonised and limited codifications and formats. As a minimum, these tools should consist of a spreadsheet including basic functionalities that prevent or highlight deviations from the established codes or formats. A more sophisticated information management system would be preferable, potentially in the form of a procurement management system covering the whole procurement system and integrated with ISSSTE's other systems.
 5. Improving its performance monitoring and management activities and increasing the visibility of the progress and benefits of the procurement function by:
 - Identifying elements of the procurement function to be assessed on an ongoing basis or under priority initiatives, addressing both effectiveness (outcomes) and efficiency.
 - Developing clear performance indicators to evaluate these elements, setting a clear and realistic target for each one (or different targets to reflect different levels of maturity) and monitoring achievement against them on a regular basis.
 - Disseminating the associated results not only to the procurement units and senior management, but also to other internal areas and external stakeholders through tailored and high-impact communication tools.

- Implementing similar performance management at the individual level, aligning the selected indicators to those of the procurement function (as appropriate) and using the results as part of the employee’s performance evaluation.

Note

1. While the Mexican procurement laws make reference to micro, small and medium enterprises (*micro, pequeña y medianas empresas nacionales*, MIPYMES), the expression “small and medium enterprises (SMEs) is used in this report to represent all of them.

Annex 4.A1

Support to the participation of SMEs in public procurement at the central government of OECD countries

	Specific legislative provision or policy (e.g. Set-aside) is in place to encourage the participation from SMEs in procurement	A specific unit specialised on SMEs is in place at the central government level	Training and workshops are carried out for SMEs	Documentation or guidance focussed on SMEs is available on-line	Administrative procedures are simplified for SMEs to participate in tenders	SMEs benefit from preferential financial treatment, e.g. waiving fees	Not applicable, there are no specific measures to support the participation of SMEs in public procurement in central government	Other
Australia	○	●	○	○	○	○	○	○
Austria	○	●	●	●	○	○	○	○
Belgium	○	●	●	○	●	○	○	○
Canada	○	●	●	●	○	○	○	○
Chile	○	○	●	●	○	○	○	○
Czech Republic	○	○	○	○	○	○	●	○
Denmark	○	●	●	●	○	○	○	●
Estonia	○	○	○	○	○	○	○	●
Finland	○	○	○	○	○	○	○	●
France	●	○	●	●	○	○	○	●
Germany	●	○	○	○	○	○	○	○
Hungary	●	○	●	●	●	○	○	○
Iceland	○	○	○	○	○	○	●	○
Ireland	○	○	●	●	●	○	○	○
Israel	○	●	○	●	○	○	○	○
Italy	○	○	●	●	○	○	○	○
Japan	●	●	○	○	○	○	○	○
Korea	●	●	●	●	○	●	○	○
Luxembourg	○	○	○	○	●	○	○	○
Mexico	●	●	●	●	○	●	○	○
Netherlands	●	○	●	○	●	○	○	○
New Zealand	○	○	●	○	●	○	○	○
Norway	○	●	○	○	○	○	○	○
Poland	●	●	●	●	○	○	○	○
Portugal	○	○	●	○	○	○	○	○
Slovak Republic	○	○	○	○	○	○	●	○
Slovenia	●	○	○	○	●	○	○	○
Spain	●	●	○	●	●	○	○	●
Sweden	○	○	○	○	○	○	●	○
Switzerland	●	○	●	●	●	○	○	○
Turkey	○	●	●	○	○	○	○	○
United Kingdom	○	●	●	●	●	○	○	●
United States	●	●	●	●	●	○	○	○
Total OECD 33								
● Yes	12	15	19	16	11	2	4	6
○ No	21	18	14	17	22	31	29	27

Notes:

In the **Czech Republic**, contracting entities are required to set down non-discriminatory tender conditions.

In **Denmark**, the Competition and Consumer Authority has published a step-by-step guide including information on rules, procedures and key issues related to how to establish SME consortia.

In **Estonia**, there are no specific approaches in place to support SMEs since the majority of Estonian enterprises are classified as SMEs.

In **Finland**, the central procurement unit plans the tenders in a way that encourages SMEs to participate the tendering process.

In **Spain**, the central body responsible of the assessment on public procurement (the Public Procurement Consultative Board) is in contact with SMEs and general associations of SMEs to attend their demands on this issue.

In the **United Kingdom**, there is a programme of work with departments to drive up spend with SMEs where they can provide best value to the taxpayer. An example of a supportive documentation focussed on SMEs is ‘Winning the Contract’ which is available on the LearnDirect website. The procurement process has also been simplified, for example, the Pre-Qualification Questionnaire (PQQ) have been shortened after feedback from SMEs showed that many were too complicated and had an unnecessary length.

Source: OECD (2012b), “OECD 2012 Survey on Public Procurement”.

Annex 4.A2

UK National Health Service Procurement Standards: Example of the “Leadership” domain

LEADERSHIP					
Standard	How organisational performance will be improved	Level 1 – Building	Level 2 – Achieving	Level 3 – Excelling	Indicators
1.1 The Trust Board is fully accountable and understands the contribution of non-pay spend on the wider Trust and is committed to delivering best value for the taxpayer.	By demonstrating top-level commitment and support and understanding non-pay spend and its impact on the delivery of patient care, the culture will shift to one that engages and understands the importance of making the best use of non-pay spend whilst obtaining fit for purpose products/services and making efficiencies. Reduce spend, improve patient care, increase efficiency	Procurement strategy developed in support of the Trust strategy. The Trust Board and Senior Managers communicate the importance and contribution of procurement. Procurement represented at Board level (executive or non-executive). Non-pay spend is reported to the Board.	Procurement strategy in place with some co-development from the Trust Board and communicated across the Trust (with regular review). There are well-defined objectives, operational plans and performance indicators for procurement approved by the Board. A board member (executive or non-executive) is accountable for procurement activities. Non-pay spend reports segmented into main categories are reported to the Board.	Procurement strategy is integral to delivery of the Trust strategy (reviewed and updated on regular basis). Non-pay efficiency measures reported at Trust Board on a monthly basis with goals set for continuous improvement. Evidence of procurement issues regularly discussed and agreed in Trust Board Minutes. Non-pay spend/procurement governance group reporting to the Board. The Trust Board, senior management and the Head of Procurement demonstrates commitment to procurement through their personal actions and involvement.	How often is non-pay spend on the Trust Board agenda? How often is performance measurement of procurement reported to the Trust Board and senior managers? How well is the procurement strategy being implemented and delivered? Progress/benefits of major procurement projects are reported to the Board (timescales/budgets).

LEADERSHIP					
Standard	How organisational performance will be improved	Level 1 – Building	Level 2 – Achieving	Level 3 – Excelling	Indicators
1.2 All non-pay spend is governed by and subject to proficient procurement.	This will ensure that all non-pay spend is controlled and compliant with EU Directives and conducted in appropriately transparent, proportionate, non-discriminatory and equal manner. Value for money (VFM) will have been tested and any unnecessary or fraudulent transactions are eliminated. Reduce risk, reduce spend, improve governance.	Procurement policy in place which covers all non-pay spend.	A communicated procurement policy adopted across the Trust. All department/staff with procurement responsibilities are identified and recorded.	A pro-active non-pay spend governance group is in place which as a minimum assesses compliance to the procurement policy and provides a route of escalation for non-compliance. Action plan in place to increase contract coverage in non-pay spend.	% of non-pay spend influenced by procurement professionals. % of non-pay spend covered by contracts. % of category expenditure influenced by procurement professionals. Number of incidents of non-compliance to procurement policy. Number of legal challenges. %/number/value of single tender procurements.
1.3 All Trust staff are engaged in making efficiencies in non-pay spend.	Staff will be motivated and encouraged to make changes, which improve services and delivers value for money (VFM). Reduce spend, improve patient care, reduce risk.	All Trust staff have an awareness of and participate to make non-pay efficiencies for the organisation.	The Trust Board acknowledges the contribution that all staff can make to increasing the efficiency of non-pay spend across the Trust, and motivate all staff to identify what contribution they can individually make, via their objectives, job descriptions, and other mechanisms. Product prices displayed in clinical areas.	The Trust Board promotes and actively supports a culture of making non-pay spend efficiencies and the adoption of "lean" principles. Specific initiatives implemented that incentivise staff to identify and deliver non-pay spend efficiencies.	Number of relevant modules of the "Productive series" implemented. % of staff with procurement-focused goals in their job description and annual objectives. Savings delivered from initiatives identified by staff that have been implemented. How engaged staff feel in making financial efficiencies

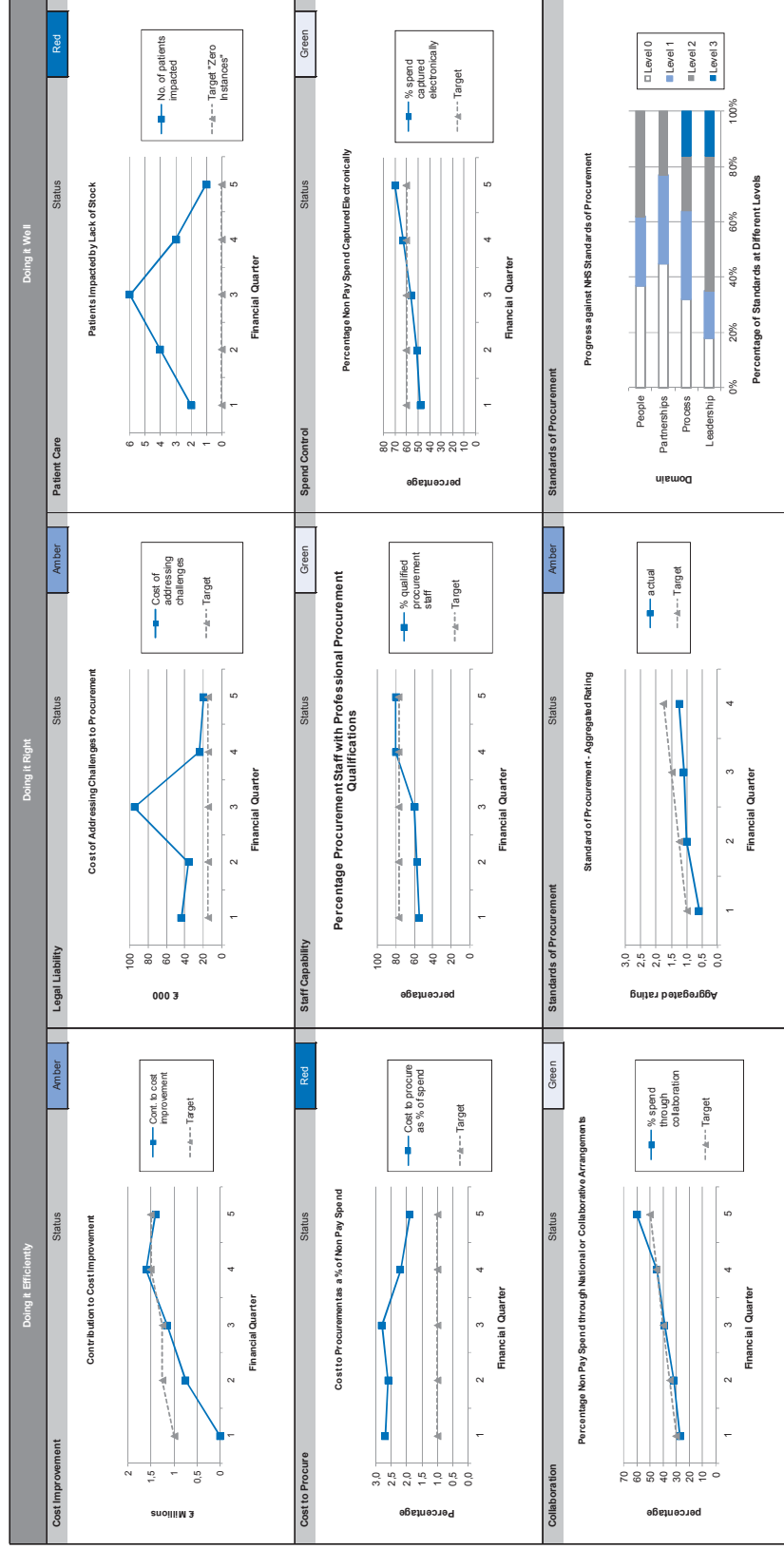
LEADERSHIP					
Standard	How organisational performance will be improved	Level 1 – Building	Level 2 – Achieving	Level 3 – Excelling	Indicators
1.4 Critical suppliers/suppliers are identified and plans are in place to mitigate risks.	The risk of failure to deliver quality care is reduced as plans are in place to mitigate risks against failure in any critical supply chains. Reduce risk, improve governance.	Critical suppliers and/or suppliers identified by assessing the risk of supply failure.	Critical suppliers identified and mitigation/contingency plans developed. Critical suppliers identified and mitigation/contingency plans developed. Robust supplier relationship management processes in place, which includes measures to reduce failure to supply risks.	Supply risks identified, managed appropriately and escalated to the Trust Board and reported through the corporate risk management system/risk register. Evidence of supply market intelligence in order to forecast and plan for future supply risks.	Number of procedures cancelled due to lack of availability of supplies/equipment/agency staff? Number of events with “damage to reputation” from non-supply. Extra costs incurred due to supply failure.
1.5 Being transparent on non-pay spend and pricing information.	Transparency of procurement information within the Trust, with other Trusts and with the public leads to comparisons being made and opportunities identified to improve efficiency. Improve governance, reduce risk, reduce prices.	Processes developed so that prices paid within the Trust are transparent and variances addressed. Invoice spend over GBP 25 000 uploaded onto data.gov. Use “contracts finder” to publish tenders and contracts over GBP 10 000.	Processes or system implemented to ensure internal prices are consistent and transparent. Price benchmarking is carried out with other Trusts (formally/informally). Implemented Trust policy that prohibits price non-disclosure agreements/confidentiality agreements.	No discrepancies in prices paid for the same product across the Trust can be evidenced. Implemented action plan based on variances identified through benchmarking with other organisations. All contracts and pricing are publicly available.	% of products/services regularly benchmarked. Performance on the benchmarking of: a) low value/high volume/generic basket of goods; b) high value specific basket of goods (e.g. orthopaedics). % (by number and value) of opportunities over GBP 10 000 advertised through “contracts finder”.

LEADERSHIP					
Standard	How organisational performance will be improved	Level 1 – Building	Level 2 – Achieving	Level 3 – Excelling	Indicators
1.6 Innovative technologies and processes are adopted and benefits measured.	Fostering a managed culture of innovation will ensure that new ideas are embraced and assessed, leading to more rapid adoption resulting in efficiencies and improved patient outcomes. Improved patient outcomes, improved efficiency.	Developed a policy that supports the adoption of innovation. A clear process for increasing the adoption of technology innovation is developed.	Implemented policy that supports the adoption of innovation. A clear process for increasing the adoption of technology innovation is implemented. Procurement is actively involved with the adoption of innovations related to technology.	Evidence of the adoption of innovation and its benefits is reported to the Trust Board. Patient/efficiency outcomes following the adoption of innovation are regularly reviewed by the Trust Board. Policy is regularly reviewed by the Trust Board.	Number of finished consultant episodes impacted by the adoption of innovation, as a proportion of total number of FCEs. Number of outpatient appointments impacted by the adoption of innovation, as a proportion of total number of outpatient appointments. Value generated within the Trust by the opportunities adopted, expressed in GBP. Value generated outside the Trust but within the healthcare economy, expressed in GBP.

Source: UK Department of Health (2012b), “Standards of procurement”, Department of Health of the United Kingdom, May 2012, www.gov.uk/government/uploads/system/uploads/attachment_data/file/136646/dh_134378.pdf, accessed 17 October 2012. © United Kingdom, Department of Health, 2012. All rights reserved.

Annex 4.A3.

Examples of the performance dashboard in the UK Department of Health



Source: Adapted from Department of Health (2012c), "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.

Annex 4.A4

Snapshot of Ontario buys supply chain metrics

Area	Governance and process	Financial	Transaction and technology
Goal	Control the plan-to-pay process and use of leading practices	Reduce operating and purchasing costs of the supply chain	Reduce the transactional burden and improve information
Proposed metrics	<p>Metric 1.1. Percentage of active items under contract Objective: to improve the control of supply chain spending by increasing the number of items bought under a negotiated contract</p> <p>Metric 1.2. Purchasing response time Objective: to improve the ability to quickly issue rush orders to suppliers</p>	<p>Metric 2.1. Average cost to issue a purchase order Objective: to maximise the productivity of supply chain staff associated with purchasing goods and services, including supplier management, contract management, order processing and problem resolution</p> <p>Metric 2.2. Inventory turnover in one month Objective: to optimise the investment in inventory by balancing the cost of storing goods against the cost of replenishment, stock-outs and resulting service failures</p> <p>Metric 2.3. Operating costs as a percentage of expenditures Objective: to optimise the overall operating costs of the supply chain department relative to the expenditures on goods and services</p>	<p>Metric 3.1. Number of purchase orders in one month Objective: to create efficiencies and reduce costs by optimising the number of purchase orders</p> <p>Metric 3.2. Percentage of rush purchase orders Objective: to reduce the number of unplanned and unscheduled rush purchase orders by improving planning and demand management</p> <p>Metric 3.3. Number of purchase orders placed per full-time equivalent in one month Objective: to improve the productivity of the supply chain department in creating and issuing purchase orders</p> <p>Metric 3.4. Average lines per purchase order Objective: to reduce transactional costs by consolidating purchase order lines into fewer purchase orders</p> <p>Metric 3.5. Average number of purchase orders placed to top ten suppliers in one month Objective: to consolidate and reduce the number of purchase orders issued to the top ten most active suppliers</p> <p>Metric 3.6. Percentage of invoices with purchase orders Objective: to reduce the number of invoices processed without a purchase order to properly control and manage organisational spending centrally through the supply chain department</p> <p>Metric 3.7. Percentage of invoice matches Objective: to improve accuracy in the information contained in purchase orders, receiving slips and supplier invoices.</p> <p>Metric 3.8. Percentage of low dollar value purchase orders Objective: to increase the use of alternative, easy-to-use purchasing methods for low dollar value purchases</p>

Area	Customers	Suppliers	People
Goal	Improve service delivery through comprehensive understanding of patient and clinician needs	Leverage supplier expertise and resources to drive better supply chain outcomes	Invest in employees to improve their contribution and help make supply chain a profession of choice
Proposed metrics	<p>Metric 4.1. Stock-outs at the cart level Objective: to optimise stock levels at point of use storage locations across the health care organisation to safeguard patient safety and improve customer service</p> <p>Metric 4.2. Fill rates to customers Objective: to improve customer satisfaction at point-of-use storage locations across the health care organisation</p> <p>Metric 4.3. Percentage of items activated in the master file in one month Objective: to increase the scope of goods and services purchased by the supply chain department to include new products and suppliers</p> <p>Metric 4.4. Percentage of items inactivated in the master file in one month Objective: to rationalise the number of duplicate and alternate products, services and suppliers used across the organisation</p>	<p>Metric 5.1. Percentage of invoices paid within due date Objective: to increase compliance with agreed-upon payment terms to maintain good supplier relationships</p> <p>Metric 5.2. Supplier performance Objective: to ensure reliable delivery performance from an organisation's top ten suppliers</p>	<p>Metric 6.1. Voluntary turnover Objective: to improve retention of quality supply chain staff</p>

Sources: Adapted from Government of Ontario – BPS Supply Chain Secretariat (2009a), *Performance Measurement: Phase II – A Framework for Action*, BIS Supply Chain Secretariat of the Treasury Board Office, Queen’s Printer for Ontario, Ontario, www.fin.gov.on.ca/en/bpssupplychain/documents/perf_meas_framework.html, accessed 20 September 2011; Government of Ontario – BPS Supply Chain Secretariat (2009b), *Performance Measurement: Phase II – User Guide*, BIS Supply Chain Secretariat of the Treasury Board Office, Queen’s Printer for Ontario, Ontario, www.fin.gov.on.ca/en/bpssupplychain/documents/perf_meas_userguide.html, accessed 20 September 2011. © Queen’s Printer for Ontario, 2009. Reproduced with permission.

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Chapter 5

Achieving better procurement results through sound sourcing methods

This chapter describes positive consolidation initiatives implemented by the State's Employees' Social Security and Social Services Institute's (ISSSTE). Inversely, it also describes how the lack of communication and impact assessments limit these initiatives' benefits and how consolidation opportunities remain unexploited. The level of competition achieved in ISSSTE's procurement activities is also discussed, including the opportunity to reduce the use of exceptions to public tendering. Lastly, building on the experience of OECD countries, the chapter presents ISSSTE's benefits and challenges of increasing the use of flexible contractual instruments and of diversifying the evaluation and selection methods used by the organisation.

Introduction

The purpose of a procurement function is to obtain goods and services of the right nature, quantity and quality in order to meet identified needs at the right time and at the right price. Poor performance of that function can have a profoundly negative impact on an organisation's operations and its capacity to fulfil its mandate. On the other hand, efficient and effective procurement processes can provide a range of benefits and improve the outcomes achieved.

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.

The OECD review found that the State's Employees' Social Security and Social Services Institute (*Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado*, ISSSTE) has recently improved significantly its sourcing approaches through specific strategies such as consolidation and mechanisms to obtain better prices in cases where there is a low amount of competition. However, opportunities for improvement remain, such as opening public tendering to international suppliers when there is insufficient national supply capacity and using a larger range of procurement instruments and selection and evaluation methods. This chapter will give an overview of these topics and provide recommendations for improvement.

Consolidation initiatives

In its decentralised structure, ISSSTE puts a major emphasis on consolidation

As discussed in Chapter 1, a large number of ISSSTE's procurement units are decentralised, such fragmentation potentially limiting economies of scale and the possibility of achieving the best value for goods or services that are common throughout the organisation.

In order 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. Central procurement units then carry out the solicitation processes and award the resulting contracts. Other than achieving savings through economies of scale and greater competition, one of the objectives stated for some consolidation efforts is standardising products and services. Common goods and services consolidated at the central level include medicines, healing material, medical equipment, uniforms, cleaning, photocopies and computer consumables.

According to data collected by Compranet, three-quarters of the recent procurement procedures were carried out at the local unit level (i.e. delegations, hospitals and the National Medical Centre "20 de Noviembre"). However, consolidation efforts have

resulted in 90% of ISSSTE's procurement spending being managed at the central level (Table 5.1).

Table 5.1. Level of centralisation of ISSSTE's procurement activities

	Value of contracts		Number of contracts		Number of procedures	
	Central	Local units	Central	Local units	Central	Local units
2008	90%	10%	43%	57%	39%	61%
2009	88%	12%	33%	67%	25%	75%
2010	92%	8%	26%	74%	12%	88%
2011	95%	5%	44%	56%	12%	88%
Total	91%	9%	36%	64%	25%	75%

Note: Excludes FOVISSSTE, SuperISSSTE, TURISSSTE and PENSIONISSSTE.

Source: Author's calculation based on Compranet data provided by the Ministry of Public Administration, with corrections by ISSSTE.

In 2012, ISSSTE went one step further in its consolidation efforts by launching an initiative for the joint procurement of medical products (e.g. medicines not subject to patent, narcotics and psychotropics) and medical equipment (e.g. for radiology and laboratory) with other Mexican public medical service providers (Box 5.1). In December 2012, the International Social Security Association recognised ISSSTE's effort in such consolidation initiative by awarding it a Certificate of Merit under its ISSA Good Practice Award for the Americas.¹

Another process has been carried out for patent medicines which represent 56% of the total public expenditure on pharmaceuticals in Mexico (Gómez-Dantés et al., 2012). Since 2008, a unique price applicable nationwide for one year is negotiated for patented medicines through 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*) of which ISSSTE is a member. Since the creation of that commission, negotiated prices were obtained for more than 150 patented medicines. The World Health Organization estimated the associated savings in the Mexican public expenditure at more than USD 350 million (Gómez-Dantés, et al., 2012).

The Mexican experience is not unique; similar experiences in the United States have also shown that a joint purchasing alliance can lead to cost savings through higher economies of scale and competition, especially for common commodity and pharmaceutical products (Box 5.2).

Box 5.1. 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 chose 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). ISSSTE, IMSS and the National Defense Ministry (Secretaria 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 of the quantity acquired, identifying a minimum and maximum level for each product and each purchasing entity.

	680 medical products (medicines, dairy products, psychotropic and narcotics)	584 medical equipment (treatment, radiology and laboratory)
National public tendering	One procedure based on the “discount from reference prices” approach (seven products) Two procedures based on reverse auction (16 products)	One procedure based on the “discount from reference prices” approach (256 products)
International public tendering under trade agreements	Three procedures based on reverse auction (44 products)	One procedure based on the “discount from reference prices” approach (328 products)
Open international public tendering	One procedure based on the “discount from reference prices” approach (613 products)	No procedures

The solicitation documents were issued under the authority of IMSS. ISSSTE has a relatively minor share of the requirements, participating for only slightly more than half of the products covered (i.e. 675 of the 1264 items) and representing on average less than 20% of the maximum quantity for those 675 items.

Nevertheless, it is evident that ISSSTE’s needs have been considered in the process, some products included on the list being almost exclusively specific to it. Furthermore, the solicitations provided flexibility for each entity to determine the range of the resulting supply base. This has allowed ISSSTE to fulfil an identified objective, namely to implement simultaneous supply for such products. Under each solicitation, ISSSTE has 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.

Box 5.2. Purchasing alliance in healthcare organisations across the United States

In the United States, the “Marketplace@Novation” purchasing alliance is one example of centralisation of health care services leading to increased procurement effectiveness through structural centralisation and economies of scale. This alliance includes over 2 500 healthcare organisations across the United States, with the combined purchasing power of USD 25 billion annually and has e-sourcing agreements with over 500 suppliers of medical, laboratory and safety equipment, capital equipment and services.

A study of 31 hospitals (Walker and Rowlinson, 2008) showed that each hospital achieved annual savings of USD 12 million by joining the alliance. Similarly, Burns and Lee (2008) found that purchasing alliances in the United States succeeded in reducing health care costs by lowering product prices, particularly for commodity and pharmaceutical items, as well as by lowering transaction costs through commonly negotiated contracts. Little evidence was found that such consolidation resulted in excluding new innovative firms from the marketplace or in restricted hospital access to desired products. However, there was evidence suggesting that alliances are less successful in providing other important services to hospitals and in mediating the purchase of expensive physician preferred items.

Sources: Walker, D. and S. Rowlinson (2008), *Procurement Systems: A Cross-industry Project Management Perspective*, Routledge Press; Burns, L. and J.A. Lee (2008), “Hospital purchasing alliances: utilization, services and performance”, *Health Care Management Review*, Vol. 33, July/September, pp. 203-215.

In addition to offering strong saving potentials, joint purchase initiatives can lead to some beneficial standardisation where the detriment of having access to a reduced number of solutions is outweighed by the organisational benefits in terms of price, quality and administrative efficiencies. Specialised products that are highly crucial to the activities of ISSSTE can be excluded from such standardisation and can be obtained, if required, through a separate procurement process.

Furthermore, the current joint initiative can give momentum to greater discussion and collaboration in the fragmented Mexican healthcare sector, potentially leading to synergies in other activities such as joint market research as well as the fight against corruption and supplier collusion.

In view of these benefits, ISSSTE may consider assessing the opportunity to increase the usage of centrally consolidated contracts and joint procurement with other entities of the Mexican health sector. As an example, SuperISSSTE, which also provides medicines to beneficiaries, reported that it does not currently participate in such initiatives.

Lack of communication and impact assessment hinder the outcomes and buy-in of central consolidation efforts

Developing a strong procurement strategy for a specific requirement can be complex and difficult. It entails carefully assessing the various prevailing specificities and risks associated with the product or service, its potential suppliers and particular market sector, as well as the areas receiving the products or services (such as distance from suppliers, size of the requirements, etc.).

As indicated in Chapter 1, central procurement units' activities are structured around specific groups of goods and services, resulting in greater expertise and efficiency in the associated procurement activities and improving the management of centrally consolidated contracts. However, the benefits of these contracts are countered by a lack of co-ordination and communication between the central areas and the decentralised units. This is found to have some negative impacts on the outcomes and acceptance of centrally consolidation efforts.

Decentralised units report that such initiatives are established with little or no involvement or feedback from them and their user areas, and without adequate follow-up to assess the impacts these initiatives have. As an example, the basis on which requirements are selected to be covered by a central contract may be unclear to decentralised units. Such lack of communication prohibits a significant level of information and expertise accumulated in the organisation throughout the years from being considered in the development of the strategy, and in some cases risks may not be adequately mitigated.

Many decentralised units have therefore emphasised their perception that some centrally consolidated contracts have had negative impacts, such as insufficient supply in some regions (for example due to delays in putting the central contracts in place), reduced coverage in services, inadequate supplier performance as well as a poorer quality service received. Longer delivery lead times would also result in products being received in a different financial year than expected, creating budgetary and payment difficulties. Finally, the requirement identification process would create difficulties for some units. As an example, the associated spreadsheets would be modified without notice, resulting in a duplication of efforts. As a large share of the requirements of some decentralised units is covered by these centrally consolidated contracts, any such negative impact could have significant consequences on their operations.

Interviews indicated that many stakeholders agree in principle with the benefits of such an initiative (for example in terms of savings at the organisational level) potentially outweighing their negative impacts (such as reduced capacity to supply locally and some standardisation). Unfortunately, the lack of data collection and assessment of the positive outcomes (e.g. savings) these strategies may have, hinder their buy-in in various procurement units and user areas. While at least one decentralised unit indicated these contracts as being highly beneficial, the current lack of evidence of the positive outcomes achieved results in most units focusing their attention on the negative impacts (perceived or actual) they experience. One unit even strongly stated its desire not to increase its participation in such initiatives. While some elements of the internal culture (such as a distaste for limitations) was raised as an explanation for such positions, it is clear that a strong buy-in for the ongoing consolidation initiatives still has to be achieved for a large number of stakeholders.

When developing the strategy for centrally consolidated contracts, ISSSTE could implement formal dialogue with the decentralised procurement and user areas to facilitate their acceptance and to adequately take into account all of the available corporate intelligence (product, market and beneficiary units), thereby maximising benefits and mitigating existing risks. Furthermore, it could assess, through adequate data collection and follow-up with the units, the positive and negative outcomes of the consolidated contracts that have been carried out. Doing so will enable identifying and addressing the negative impacts, both for the current contracts as well as for subsequent ones. In line with the recommendation of Chapter 1 to strengthen communication, ISSSTE could also

ensure it fully communicates the resulting positive outcomes for the organisation to all appropriate stakeholders (procurement units, user areas, senior management, external partners, etc.), for example through regular e-mails and promotional documents, as to increase the visibility of these initiatives and the internal buy-in.

Consolidation opportunities are lost at the local and regional levels

Other opportunities for consolidation exist in the organisation. For example, audits of the Internal Control Office (*Órgano Interno de Control*, ICO) of SFP have reported contract splitting – i.e. dividing requirements into smaller ones (potentially to award them with no or limited competition) or procuring different requirements and phases of a project separately rather than combining them when appropriate – a common irregularity in ISSSTE's procurement process.

Some instances of such apparent contract splitting may be associated with uncertainty concerning the budget level and timing (see Box 5.3). However, it may also result from a lack of planning or an intent to circumvent the established procurement policies, either to speed up the procurement process (due to unwarranted urgency, for example) or to favour a particular product or supplier. This issue is not limited to ISSSTE, but is widely recognised as a risk to the integrity of any procurement process (OECD, 2007; 2009).

In order to reduce the occurrence of such irregularities, ISSSTE could first consider clarifying what practices are considered to be requirement/contract splitting in its internal Policies and Guidelines concerning ISSSTE's Acquisitions, Leasing and Services (*Políticas, Bases y Lineamientos en Materia de Adquisiciones, Arrendamientos y Servicios* – POBALINES) in order to provide greater clarity to all stakeholders.² Since procurement units are the best positioned to identify and prevent contract splitting, the importance of this issue should be reinforced, potentially through the implementation of an associated performance indicator.

ISSSTE could also consider periodically assessing the pattern of all contracts awarded below specific thresholds, potentially focusing (for efficiency purposes) on those within a specific percentage of these limits or through random contract reviews. Possibilities of contract splitting, as well as opportunities for contract consolidation, could then be identified when various small contracts below these limits are issued for the same requirement code (*claves*) for the same client unit, whether or not they are from the same suppliers. In the case of projects involving various distinct requirements, a more detailed review of the nature and timing of their acquisitions against the recommended clarifications in ISSSTE's POBALINES could also be carried out. Should an organisation-wide e-procurement system be implemented, as suggested in Chapter 8, ISSSTE could also consider implementing functionalities to facilitate such review and preparation of the associated reports, as well as automatically advising applicable stakeholders (e.g. procurement units, ICO) of suspect activities, such as two or more contracts being awarded for a specific user within a short period of time for the same product code.³

However, when asked what the significant constraints to their procurement activities are, decentralised units responded that their requirements (quantity and value) for products and services that are not covered through centrally consolidated contracts are often too small to justify the use of a competitive process or of effective procurement instruments, and have to be met through direct award contracts. On the other hand, interviews conducted under this review revealed the existence of individual consolidation

initiatives between close delegations, such as for day-care and pre-school services. ISSSTE could assess the opportunity to build on these efforts and promote increased consolidation at the unit or regional levels.

Level of competition and use of exceptions to public tendering

ISSSTE does not maximise competition in its use of public tendering

Competitive tendering enhances transparency in the procurement process and provides equal opportunities and access to potential suppliers. Government officials, however, must determine the optimum procurement strategy that balances concerns for administrative efficiency with competition and fair access for suppliers.

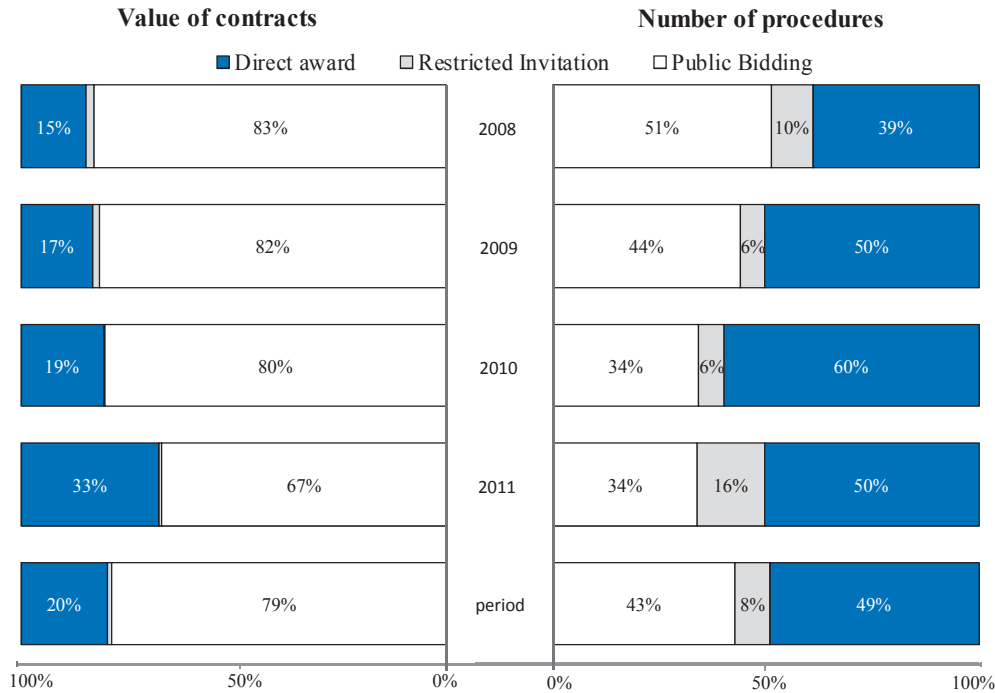
The Mexican procurement legal framework establishes the use of three distinct procurement procedures: *i*) public tendering (also known as “open tendering”); *ii*) invitation to at least three suppliers; and *iii*) direct award. The preference for the first approach is set out in the Mexican Constitution and restated in the procurement legislation in order to guarantee the best available conditions for price, quality, financing, opportunity and other relevant factors. However, various established exceptions allow for the use of the two other approaches.

ISSSTE has achieved a relatively high level of competition over the last few years, as almost 80% of its procurement spending (including public works) was carried out through public tendering over the period 2008 to 2011, notwithstanding a significant decrease in 2011 (Figure 5.1).

However, ISSSTE did not achieve the full benefit of these public tendering procedures as only 22% of them in number (44% in value) were open to suppliers outside of Mexico, these shares being even lower for procedures carried out by local units (Figure 5.2). For the purposes of determining who can submit a proposal and under what circumstances, public tendering procedures are classified in Mexico as national, international (if covered by international trade agreements, such as the North American Free Trade Agreement), and open international. In Mexico, preference is given to national tenders, or when applicable, to international tenders covered by international trade agreements.⁴

Procurement officials at the central level indicated that the national suppliers do not always have the best capacities or do not allow for sufficient competition. In order to mitigate this risk, the current procurement regulations require ISSSTE to perform market research prior to any solicitation or contract associated with goods, services or leases, amongst others to verify the existence of national or international suppliers with the capability of meeting the requirements. In the absence of sufficient capacity, the organisation is allowed to use international public bidding. However, 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 (see Chapter 6). Similarly, some suppliers indicate that chambers representing local suppliers would put pressure on ISSSTE to carry out all solicitations at the national level first, even in the absence of sufficient capacity. As a result, almost 80% of the public tendering procedures undertaken by ISSSTE from 2008 to 2011 were only open to national suppliers (Figure 5.2), in some cases resulting in a low level of competition.

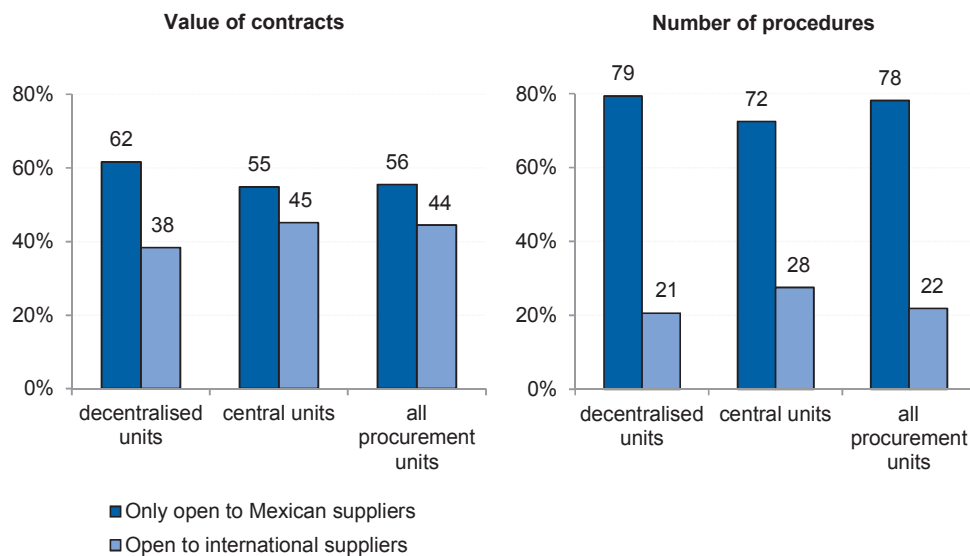
Figure 5.1. Breakdown of ISSSTE's contracts recorded in Compranet by type of procedure (2008-2011)



Note: Excludes FOVISSSTE, SuperISSSTE, TURISSSTE and PENSIONISSSTE.

Source: Author's calculation based on Compranet data provided by the Ministry of Public Administration, with corrections by ISSSTE.

Figure 5.2. Breakdown of ISSSTE's public tendering procedures by type of supplier allowed to participate (2008-2011)



Note: Excludes FOVISSSTE, SuperISSSTE, TURISSSTE and PENSIONISSSTE.

Source: Author's calculation based on Compranet data provided by the Ministry of Public Administration, with corrections by ISSSTE.

In many instances, this results in an unsuccessful national public tendering procedure, with no valid offer received. While the Law of Acquisitions, Leasing and Services of the Public Sector (*Ley de Adquisiciones, Arrendamientos y Servicios del Sector Público*, LAASSP) then allows ISSSTE to issue a public tendering procedure open to all international suppliers,⁵ it also allows for the opportunity to acquire the goods or services on a direct award basis as long as the requirements and conditions remain unchanged (Article 42-VII of the LAASSP, as further discussed below). According to data provided by ISSSTE, at least 20%, both in number and value, of all contracts for goods and services awarded to suppliers without competition between 2008 and 2011 were justified through Article 42-VII.

Furthermore, procurement officials interviewed for this review indicated that some suppliers may manipulate the procurement system in order to increase prices, such as limiting the level of completion and using unsuccessful public tendering as a mechanism to be awarded the contracts on a direct award basis. In order to mitigate such risks and improve the conditions obtained under its contracts for medicines and medical equipment, the Medical Supplies Sub-directorate (Subdirección de Abasto de Insumos Médicos) has recently implemented the two-fold strategy described in Box 5.3.

Box 5.3. ISSSTE's recent strategies to address a low level of competition for some medicines and medical products

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 by ISSSTE in the solicitation documents and determined through market research. Between January and June 2012, this approach was used for 38 product codes 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.²

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. Competition results for 2012 can be found at www.issa.int/content/download/173040/3434431/file/2-GPA-Americas2012.pdf, accessed 4 October 2013.

2. The results of these strategies clearly illustrate a 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.

In order to ensure a high level of competition under its public tendering, ISSSTE could consider opening its call for tenders to international suppliers whenever insufficient supply capacity at the national level is demonstrated through detailed and solid market research.⁶ However, doing so will remain a challenge as long as the organisational capability and practices associated with market research are not strengthened.

In cases of an unsuccessful national call for tenders, ISSSTE could also consider issuing, whenever possible, a second competitive procedure open to all international suppliers. This would be in line with a recent legislative change to the LAASSP in early 2012 to promote greater competition in such situations.⁷ In default of doing so, ISSSTE should continue implementing the recent strategies described in Box 5.3 for obtaining better prices in situations where there is a low level of competition.

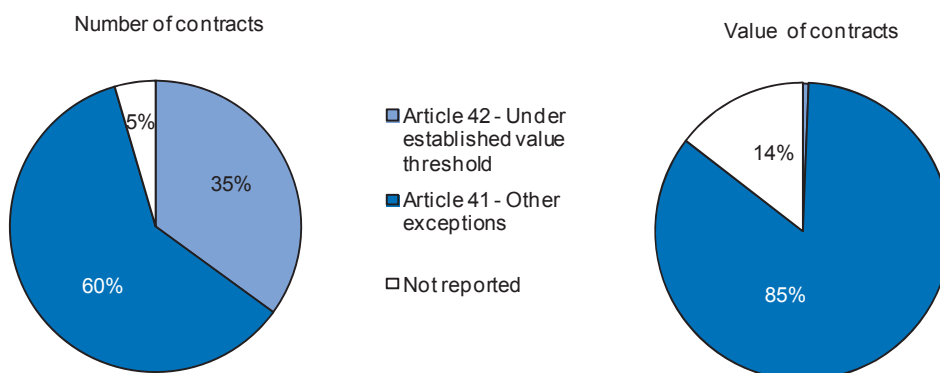
ISSSTE could obtain better conditions by reducing the use of exceptions to public tendering

Notwithstanding the high level of contracts subject to public tendering, there is still room for further progress, for example in taking precautionary measures in the use of exceptions to public tendering as stressed in the *OECD Principles for Enhancing Integrity in Public Procurement* (OECD, 2009). Both the LAASSP and the Law of Public Works and Related Services (*Ley de Obras Públicas y Servicios Relacionados con las Mismas*, LOPSRM) allow procedures to be excluded from public tendering due to the low value of their requirements (LAASSP Article 42; LOPSRM Article 43) and for various other justifications (LAASSP Article 41; LOPSRM Article 42).

Deficiencies in data available from ISSSTE (see Chapter 4 for further details) did not allow a clear assessment to be made of the use of such exceptions at the decentralised unit level. However, interesting insight can be gained from looking at contracts for goods and services awarded at the central level, which represent more than 90% of the value of all contracts issued by ISSSTE as indicated in Table 5.1. While more than one third of these direct award contracts from 2008 to 2011 were justified by their low value, they represented a very small percentage in terms of value. Actually, the vast majority of the contracts awarded without competition at the central level were substantiated through other exceptions (Figure 5.3).

A portion of these exceptions 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), or by unusual events or opportunities on the market. However, another portion may result from urgencies and circumstances internal to ISSSTE, such as inadequate planning (both on requirement forecasting and of management of the procurement process) and lack of market intelligence (both on the availability of alternative products and services and on the capacity of national suppliers to meet the requirement).

Figure 5.3. Direct award contracts for goods and services at ISSSTE central level by exception to public tendering (2008-2011)

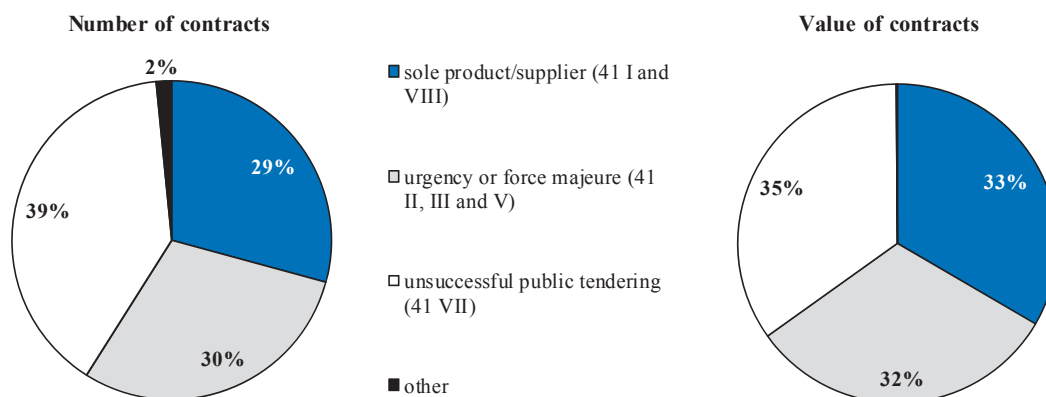


Source: Author’s calculations based on information provided by ISSSTE

As shown in Figure 5.4, contracts for goods and services awarded at the central level under exceptions of Article 41 of the LAASSP over the period 2008 to 2011 can be almost equally be attributed to three main categories of exceptions:

1. the existence of only one product, supplier or brand meeting the requirement (LAASSP Article 41, fractions I and VIII);
2. some form of urgency such as unforeseen events, force majeure or significant costs/losses occurring if a public tendering procedure is used (LAASSP Article 41, fractions II, III and IV); and
3. a public tendering was carried out unsuccessfully for the requirement (LAASSP Article 41, fraction VII).

Figure 5.4. Direct award contracts for goods and services at ISSSTE central level by identified exceptions to public tendering, other than for low value (2008-2011)



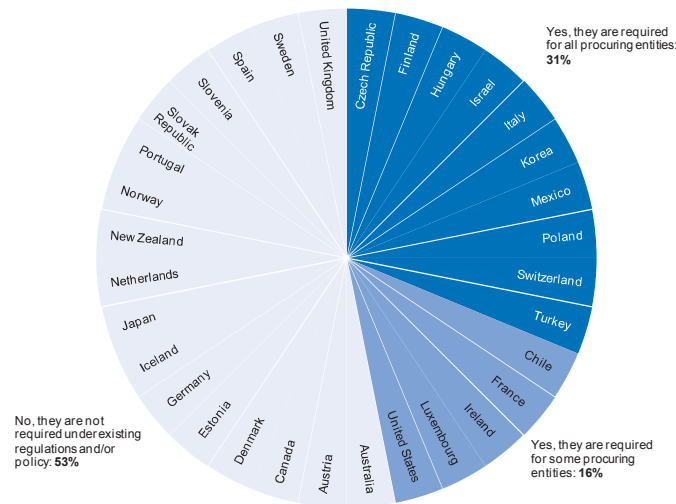
Note: Only includes contracts for which the specific exceptions of Article 41 to the LAASSP were identified by ISSSTE.

Source: Author’s calculations based on information provided by ISSSTE

ISSSTE could therefore look for opportunities to reduce the use of exceptions to public tendering. First, it could reduce 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. Furthermore, the Institute could investigate on a regular basis the use of the exception for urgency and *force majeure* in order to identify opportunities to improve the planning and management of its procurement function and reduce such occurrences. While such practice is recommended under the *OECD Principles for Enhancing Integrity in Public Procurement* (OECD, 2009), only 47% of the countries that responded to a recent OECD survey require assessments or audits to evaluate *ex post* the use of exceptions for direct awards of contracts at the central government level (Figure 5.5). Of those who do, 33% undertake them on an ad-hoc basis (OECD, 2012a).

Figure 5.5. *Ex post* assessment of the use of exceptions for direct awards of contracts at the central government level

Are assessments/audits required to evaluate *ex post* the use of exceptions for direct awards of contracts at the central government level?



Source: OECD (2012a), “OECD 2012 Survey on Public Procurement” (Unpublished internal document), OECD, Paris.

As discussed before, when a national tendering procedure for goods and services is unsuccessful, the law allows ISSSTE to reissue it at the international level rather than issuing a contract without further competition under the Article 41 VII exception of the LAASSP. The responsibility to determine the adequacy of using this exception rests with the user or requesting area (therefore at an operational level) rather than being subject to approval by the Goods, Leasing and Services Committee (*Comité de Adquisiciones, Arrendamientos y Servicios*) as many other exceptions are (see Chapter 3 for further details). The responsibility for the market research, from which it is determined whether international suppliers are allowed to participate, also partly rests with the user or requesting area if no specialised market research area is in place.

This current allocation of responsibilities creates integrity risks, including the possibility for a user area to voluntarily fail to document insufficient national capacity in

the market research so that the resulting national public tendering procedure is unsuccessful, thus creating the opportunity to award the contract to a preferred supplier without further competition. This risk is even higher in view of some suppliers taking actions to manipulate the result of the solicitation process. One example identified in interviews is for manufacturers to revoke, in the last stages of a tendering process, their authorisation to one or several of their distributors (generally the lowest bidder).

As suggested above, ISSSTE could endeavour to limit the use of the Article 41 VII exception by requiring unsuccessful national level tendering procedures to be issued at the international level, unless this would result in clear and unavoidable damages to the organisation or prevent it from meeting its obligations. In addition, ISSSTE could consider increasing its scrutiny on the use of this exception by requiring approval from a higher operational level, as is the current practice in the Federal Electricity Commission (*Comisión Federal de Electricidad*, CFE), but preferably through the Goods, Leasing and Services Committee as for most other exceptions.

Procurement instruments

Increasing the use of flexible contractual instruments would enhance the outcomes and efficiency of ISSSTE's procurement function

As highlighted in Figure 5.1, a significant number of ISSSTE's procurement procedures over the last years were undertaken without any competition (between 40% and 60% for each year for the contracts recorded in Compranet), this percentage being particularly high in local units due to the low value of their requirements. Even at the central level, more than one third of the contracts awarded without competition over that period were justified because of their low value (Figure 5.3). This situation raises concerns about: *i*) sub-optimal prices being obtained for these contracts; and *ii*) the allocation of significant human resources to issue and manage such a large number of low-value contracts instead of concentrating them on higher value activities.

In addition to increasing consolidation efforts as suggested above, ISSSTE could address these concerns by increasing the use of efficient, value-adding procurement instruments ensuring adequate supply, standardisation and fair prices while reducing the level of effort required. Such instruments available to ISSSTE include:

- **Framework agreements** (*contratos marcos*), also referred to as standing offers in some OECD countries: this procurement instrument is used for standard goods or services and awarded in Mexico to two or more suppliers on a competitive basis by SFP. As a first stage, pertinent contract provisions (including prices) are agreed upon with the suppliers under the framework agreements in order to secure the best conditions and benefit from volume savings. Mexican federal public entities are subsequently allowed to issue contracts under them for the delivery of specific quantities without having to undertake another competitive process. As such, this instrument allows an expeditious, simplified order process once the actual requirement has been identified.

According to a recent OECD survey, 97% of the responding countries reported this instrument as routinely used in some or all procuring entities at the central government level. (OECD, 2012a). In the European Union, framework agreements represented 27% by number and 42% by value of all central purchasing contracts over 2008 and 2009 (EC, 2011).

Box 5.4 describes the framework agreements currently in place in the Mexican federal government and the savings recently achieved by using them. These instruments are reported as being used since 2011 by some of ISSSTE's central procurement units for requirements such as event preparation and vehicle maintenance. However, contracts awarded under framework agreements at the central level in that year represented only 3.5% of the total number of contracts awarded on a direct award basis, and less than 1% of the value of these contracts. Furthermore, framework agreements are generally not used at the delegation level, some delegations explaining that the nature and characteristics of the goods and services available through them do not reflect their requirements.

- **Open contracts** (*contratos abiertos*), procurement instruments used in Mexico under which a minimum quantity is guaranteed to the supplier, and additional quantities can be obtained at the same price up to a pre-determined limit. This appears to be ISSSTE's most commonly used flexible procurement vehicle, although available data does not allow an assessment of the extent to which it is used.
- **Multi-year contracts** ensure continuity in supply and provide economies of scale. While common in central contracts for public works, due to the nature of the requirement, their use is still limited at the central level. However, various procurement units have indicated a desire to use them more often. This instrument is essentially not used at the delegation level, except for daycares and pre-school services as to ensure coverage for the entire school year. This instrument could, however, prove extremely beneficial to the organisation, for equipment or services whose replacement results in a significant expense or disruption to operations, for example.
- **Contracts with option**, under which the purchasing entity has the option – i.e. the right, but not the obligation – to obtain additional predetermined goods or services or to extend the period of the contract under predetermined conditions (including prices), such option being exercised through an amendment to the contract.

As for framework agreements, this instrument has the advantage of limiting the initial commitment of the original contract while allowing the procurement of additional goods or services without having to undertake another procedure. However, it is more flexible, as the additional goods or services do not have to be the same as under the original contract and can be obtained under different contractual conditions (such as different, yet pre-established, prices). This approach, routinely used in some or all procuring entities of the central government of 75% of the OECD countries (OECD, 2012a), does not appear to be used often – if ever – in the Mexican federal government and no evidence has been found of ISSSTE using it.

While all of these instruments increase the efficiency and flexibility in meeting various requirements and improve conditions (including prices), they each have advantages and constraints. As such, ISSSTE should carefully assess the most appropriate instrument for each requirement and context.

In line with the experience of other OECD countries such as Canada (see Box 5.5), ISSSTE could consider modifying its POBALINES to make the use of existing framework agreements mandatory for selected requirements, unless a valid justification is

approved by the appropriate authority. Doing so would maximise the use of these instruments and increase the efficiency of the procurement units. The higher volume of business resulting from such an organisational-wide use would also enhance the interest of suppliers and improve the conditions and savings obtained by ISSSTE.

Box 5.4. Framework agreements implemented by the Ministry of Public Administration (SFP)

In January 2010, SFP initiated the award of framework agreements in order to increase the efficiency of the procurement process for common goods and services and achieve savings through economies of scale. As of mid-September 2012, ten such agreements were in place for the provision of:

- patented medicines;
- call centres;
- airline tickets (reservations, issuance and delivery);
- workwear, safety footwear and personal protection equipment;
- tree pruning;
- vaccines;
- organising events;
- preventive and corrective maintenance of vehicles;
- safety footwear;
- dashboards.

SFP estimates the resulting savings to have reached almost MXN 740 million (almost USD 60 million) for 2011 alone, most of it through the framework agreement put in place for the Mexican national state oil company *Petróleos Mexicanos* (PEMEX) for workwear, safety footwear and personal protection products. It also calculated that the use of these instruments resulted, in 2010, in a reduction of up to 95% of the time required by entities to issue a contract to meet a requirement for these goods and services.

Source: SFP (2012), *Estrategias de Contratación: Informe de Resultados 2009-2012*, SFP, Mexico City, www.funcionpublica.gob.mx/web/doctos/ua/sracp/upcp/mejores-practicas/informe_de_resultados_2009_2012_v130712.pdf; SFP website, www.funcionpublica.gob.mx/index.php/ua/sracp/upcp/contratos-marco.html, accessed 2 October 2012.

Box 5.5. Mandatory standing offers and supply arrangements in the government of Canada

The Public Works and Government Services Canada (PWGSC) Business Transformation Initiative was approved in 2005, modifying various elements of the supply approach of that federal central procurement agency. Amongst others, the federal contracting policy was modified to render the use of existing framework agreements mandatory for selected requirements, in order to ensure long-term benefits and savings through government-wide use of such contracts. The associated commodity groups are:

- ground effect vehicles, motor vehicles, trailers, and cycles
- supplies and devices
- general purpose automatic data processing equipment, including firmware, software, supplies and support equipment

Box 5.5. Mandatory standing offers and supply arrangements in the government of Canada (Cont)

- furniture
- information processing and related telecom services
- telecommunications equipment and accessories
- clothing, accessories and insignia
- office machines, text processing systems and visible recording equipment
- fuels, lubricants, oils and waxes
- professional, administrative and management support services

Prior to putting in place any procurement instrument or contract for a requirement covered by these commodity groups, federal procurement units (either from PWGSC and any other federal department or agency) must first verify whether a framework agreement exists that meets their requirements. If one does, they are required to use it, unless one of the following conditions applies:

- the good or service available through the framework agreement does not meet justifiable operational requirements, including specifications or delivery dates;
- the value of the requirement exceeds the financial threshold of the contracts allowed to be issued under the framework agreement;
- an existing contract is in place, which guarantees the work to another supplier;
- the requirement is subject to contracting obligations under a legal aboriginal agreement (Comprehensive Land Claims Agreements) or will be set aside under the Canadian Procurement Strategy for Aboriginal Business, and no mandatory procurement instrument exists for such agreements.

In such instances, procurement units must contact the PWGSC authority responsible for the applicable framework agreement and explain why they should be exempted from using it. Notably, if a lower price is available for an equivalent good or service, by means other than the mandatory framework agreement, the procurement unit is requested to inform the PWGSC authority responsible for that instrument, so that appropriate actions can be taken.

Sources: Treasury Board of Canada Secretariat (2005), *Business Transformation Initiative – The Way Forward*, Policy Notice, TBS, Ottawa, Ontario, www.tbs-sct.gc.ca/pubs_pol/dcgpubs/contpolnotices/2005/04-eng.asp; PWGSC (2012), *Supply Manual – Version 12-2*, Public Works and Government Services Canada, Ottawa, Ontario, <https://buyandsell.gc.ca/policy-and-guidelines/supply-manual>, accessed 4 October 2013.

Flexible instruments can also assist in mitigating risks and constraints in the procurement cycle

In addition, these instruments can be used to mitigate some constraints and risks experienced by the organisation. Box 5.6 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.

The infrequent use of these flexible instruments within ISSSTE can be partly explained by their limited visibility to the procurement units and existing confusion on their use. As evidenced by the recent experience of New Zealand (Box 5.7), strong communication is required to increase the level of buy-in and penetration of these instruments, both internally (e.g. user areas, procurement units) and externally (e.g.

suppliers of the relevant industry sectors). As such, ISSSTE could consider proactively involving applicable stakeholders in their development and developing guidance documents and training to clarify how and when they are to be used.

Box 5.6. 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 may 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 an economy 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 effort) additional goods and services as and when additional financial resources become available:

- Maximising the use of **open contracts**, establishing the minimum quantity at the level of the budget initially available.
- Establishing, in collaboration with SFP, **additional framework agreements** for requirements common to several of ISSSTE's procurement units. Contractual conditions are established through these instruments, including prices benefiting from economies of scale, 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.

ISSSTE could also consider regularly assessing and communicating the benefits and outcomes (such as savings) that are achieved by using them. This particularly important activity represents a challenge in many OECD countries. Approximately half of them report that the savings generated from their framework agreements are not calculated in central government, primarily due to a lack of data and of resources (either financial or workforce) and insufficient incentive/obligation (OECD, 2012a). Taking this into account, ISSSTE should ensure to have in place the necessary data collection, resources and mechanisms to undertake such assessments.

Box 5.7. All-of-Government Contracts in New Zealand

In 2009, New Zealand launched a four-year Government Procurement Reform Programme. One of its key achievements is the establishment since 2010 of All-of-Government (AoG) contracts in order to create a single supply agreement between the Crown and the approved suppliers for the supply of selected common goods and services purchased across government. By aggregating the purchasing function, these contracts support the government in achieving cost savings and increasing productivity gains, ultimately leading to a more competitive economy.

- **Cost savings:** the AoG contracts allow the government to increase the collective buying power of over 200 State sector agencies thus making it an important customer and achieve substantial cost savings. These savings are used by agencies to implement other priorities with a small portion (1.5%) utilised to fund the Government Procurement Reform Programme, including the establishment of additional AoG. The first four AoG contracts are estimated to have achieved savings of NZE115-165 million (EUR 67-96 million at 24 October 2011) over their five-year term.
- **Productivity gains:** the AoG contracts allow the state organisations to streamline the purchasing process for suppliers. In fact, organisations no longer develop their own tenders but buy directly from selected panel suppliers and maintain day-to-day operating relationships with them.
- **Building competitiveness:** the AoG contracts consolidate the government procurement thus increasing its size and volume of procurement and building a real market for industry to invest further in labour, equipment, research and development which may lead suppliers to develop more innovative products.

Challenges and risks

One of the challenges faced in designing and implementing the AoG contracts by the government was the level of take up of agencies. Many had existing multi-year contracts for the products targeted and were reluctant to change their arrangements (especially that, unlike core departments, agencies in the wider state sector could not be mandated to adhere to AoG contracts). In the case of the AoG desktop computer/laptop contract, some agencies were unwilling to change to a different brand of computers. These challenges were largely overcome by proactive work to brief agencies on the benefits of AoG contracts (it is estimated that more than 2 400 officials have been briefed since the programme's inception). Eventually high participation was achieved, providing the critical mass required to achieve significant savings.

Key lessons learned

Success in negotiating contracts on this scale requires high standards of professionalism and capability, as well as specialist market expertise, on the part of the procurement staff leading the negotiation. Effective engagement with agencies and the relevant industry sectors in setting up the contracts is crucial. Systematic monitoring and collection of costs savings data encourages wider enrolment in the AoG contracts by non-mandated agencies.

Source: OECD (2012b), "Progress Made in Implementing the OECD Recommendation on Enhancing Integrity in Public Procurement", OECD, Paris, www.oecd.org/gov/ethics/combined%20files.pdf, accessed 4 October 2013.

Evaluation and selection criteria

ISSSTE experiences difficulties in using evaluation and selection methods other than the mandatory criteria and lowest-price approach

As early as 2009, the LAASSP indicated a clear preference for evaluation and selection based on the points and percentages (*puntos y porcentajes*) approach or the cost-benefit approach, requiring the use of these approaches for requirements involving highly

specialised technology or technical innovation and calling for specific points to be awarded in support of complementary policies (for example to small and medium enterprises and to firms employing handicapped persons). The associated LAASSP rules went one step further by stipulating that the procurement area must provide a written justification whenever the mandatory criteria/lowest bid approach (*evaluación binario/precio más bajo*) is used.

In order to increase consistency and clarity in the use of the points and percentages approach, SFP issued specific guidelines in September 2010 regarding the criteria categories allowed, their respective weightings, as well as the methodology to calculate the total score (taking into consideration the financial proposal) from which the best proposal is determined.

Interviews and surveys conducted under this review indicate that, until recently, ISSSTE had nonetheless based its procurement strategies almost exclusively on the mandatory criteria and lowest-price approach. The use of 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 sometimes result in various negative impacts for the organisation, such as lower quality, unsecure supply and unsatisfactory performance of the suppliers. While the implementation of appropriate strategies can mitigate these adverse impacts, they can remain a significant risk if an unbalanced priority is put on prices.

Furthermore, the use by ISSSTE of the mandatory criteria and lowest-price approach for large requirements deviates from the practices of many OECD countries, as recent research on the centralised purchasing systems in the European Union indicates they almost never establish their framework agreements based on lowest prices (OECD, 2011).

ISSSTE should also be careful of false savings, i.e. reductions in procurement prices that are more than outweighed by cost increases in operation, disposal and implementation. As an example, the replacement of medical equipment may also require training (both to medical staff and to users), facility reconfiguration, replacement of consumables, as well as different operational and disposal costs, etc. For some equipment, it may therefore be pertinent to consider a full life-cycle cost approach in the cost assessment, not limiting it to initial acquisition prices. This process could be facilitated through the development of general guidelines for identifying the products for which this approach should be considered, cost elements to be considered, methodology to calculate the life-cycle costs, etc.

Training and guidance are required for ISSSTE to overcome these difficulties

The mandatory criteria and lowest-price approach may not be the most appropriate approach for complex equipment and services as it does not allow taking into consideration characteristics which, while not essential, provide better value for the organisation (for example, more effective medical equipment reducing the time required for a specific treatment or test). This fact was stressed in interviews with medical users who complained that the obligations to award contracts to the lowest price results in reduced quality.

More flexible evaluation and selection approaches – such as points and percentages and cost-benefit analysis – better allow balancing conflicting objectives and mitigating or eliminating specific risks at all stages of the procurement process (both pre- and post-award).

Positively, ISSSTE procurement units report having gradually introduced such types of evaluation processes and selection methods since 2011. As an example, more than half of the delegations reported using other methods, some of them (like Tabasco and Michoacan) indicating that a high percentage of their public spending is awarded under the point and percentage method. Furthermore, most of ISSSTE's procurement officials interviewed showed a willingness to increase the range of evaluation and selection methods they use.

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. Also, they sometimes experience pressure from certain suppliers if a selection method other than the lowest bidder is selected, even though other suppliers generally prefer the system of points and best value.

In order to facilitate the diversification of the evaluation and selection methods used in the organisation, ISSSTE could consider developing training and documents to provide guidance to procurement units on when and how to use these methods to maximise the outcomes to the organisation while balancing conflicting objectives and priorities. In doing so, ISSSTE should capitalise on the experience of other Mexican entities that use such methods, for example by using associated training developed by SFP and by implementing joint documentation on best practices and lessons learnt.

Similarly, ISSSTE could consider initiating the use of reverse auctions for appropriate goods. This method was not used by any procurement unit until the joint solicitations issued September 2012 (see Box 5.1). Other Mexican federal entities report having reduced their prices by almost 10% through reverse auctions: CFE has saved more than USD 252 million in the acquisition of coal since 2009 (OECD, 2012c) and IMSS reduced its costs for some medicines, health material, mammography equipment and vehicles by USD 70 million between 2009 and 2011 (OECD, 2012d). 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.⁸

Interviews have highlighted a desire in ISSSTE to introduce reverse auctions, and it is part of a work plan established with SFP in June 2012. Such an effort would be facilitated by the change to the legislative framework currently considered by SFP, which would remove the prohibition to apply reverse auctions when small and medium enterprises from Mexico participate on an individual basis.⁹ While ISSSTE may initially want to limit reverse auctions to procedures using the “mandatory criteria and lowest-price” approach to create internal capability, it may consider subsequently extending it to other approaches (such as points and percentage) as allowed by the LAASSP.

Proposals for action

ISSSTE has recently gained momentum to achieve better results in circumstances where there is a low level of competition and to diversify its sourcing methods through consolidation efforts and the use of the “point and percentage” approach. In order to build on that momentum and further increase the contribution of the procurement function to the organisation while minimising various risks, ISSSTE could consider the following proposals:

1. Achieving a higher level of competition by:
 - Ensuring that proper market research is conducted together with the preliminary stage of planning, programming and budgeting, among others to ensure visibility on solutions available nationally and internationally to meet the requirements of the organisation.
 - Opening the initial public tendering to international suppliers whenever there is insufficient supply capacity at the national level.
 - Issuing a second competitive procedure open to international suppliers when a national one has been unsuccessful, unless doing so would result in clear and unavoidable damages to the organisation or prevent it from meeting its obligations. In such instances, ISSSTE should use its recent strategies to obtain better prices in tenders where there is a low level of competition.
 - reducing the use of exceptions to public tendering through:
 - decreasing ISSSTE’s reliance on products subject to intellectual property rights;
 - regularly investigating the use of the exceptions for urgency and force majeure to identify opportunities to improve the planning and management of its procurement function; and
 - making the use of the exception for unsuccessful public tendering subject to approval by a higher operational level, preferably by the Goods, Leasing and Services Committee.
2. Reducing the occurrences of requirement/contract splitting by:
 - Clarifying in its POBALINES what practices are considered to be requirement/contract splitting.
 - Periodically assessing the pattern of all contracts awarded below specific thresholds.
 - Introducing a functionality in any e-procurement system implemented facilitating such reviews and preparation of the associated reports, as well as automatically advising applicable stakeholders (e.g. procurement units, ICO) of suspect procurement activities.
3. Pursuing opportunities for additional consolidation efforts within the organisation (at organisational, regional or unit level) and with other entities (e.g. of the Mexican health sector) when the expected benefits (including, but not limited to savings) outweigh the associated risks (e.g. reduce supply security) and operational constraints.
4. Promoting the use of flexible contractual instruments (e.g. framework agreements, open contracts, multi-year contracts and contracts with options) as to maximise the efficiency and outcome of the procurement process while managing existing constraints, such as budget uncertainty.
5. Maximising the global outcomes and buy-in of central sourcing strategies (e.g. consolidation contracts) by:

- Implementing appropriate impact assessments and formal consultations (including with decentralised procurement units and impacted user areas) both in the development of the strategy and following its implementation.
 - Assessing the benefits and savings achieved at the organisational level and communicating them throughout the organisation (e.g. procurement units, user areas, senior management) and to external stakeholders (ICO, the public, civil society, etc.).
6. Promoting the use of a larger range of evaluation and selection criteria, including reverse auctions and life-cycle cost assessments, through training, documents and guidelines to inform procurement units when and how to use them as to maximise the outcomes to the organisation while balancing conflicting objectives and priorities. Preferably, this should be done through dialogue and contribution with other Mexican public buying organisations and SFP.

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. Competition results for 2012 can be found at www.issa.int/content/download/173040/3434431/file/2-GPA-Americas2012.pdf, accessed 4 October 2013.
2. For example, it can be unclear to some stakeholders under what circumstances the acquisition of distinct requirements of a single project in more than one procurement process is appropriate, and when it is considered as contract splitting.
3. In implementing this functionality, it would be important to distinguish between stand-alone contracts and contracts issued under framework agreements, in which case, issuing numerous contracts for the same requirement may be appropriate if they are in line with the established rules.
4. Article 28 of the Law of Acquisitions, Leasing and Services of the Public Sector (*Ley de Adquisiciones, Arrendamientos y Servicios del Sector Público*, LAASSP).
5. *Ibid.*
6. While opening public tendering to international suppliers maximises competition, the current Mexican procurement legislation only allows doing it in specific circumstances.
7. On 16 January 2012, Article 28 of the LAASSP was modified to require that public tendering issued pursuant to an unsuccessful national public tendering be open to all international suppliers, while only an international public tendering under the trade agreements was previously required.
8. See the press release of 13 January 2011 at: www.cfc.gob.mx/images/stories/Noticias/Comunicados2011/comunicado13-ene-2011.pdf, accessed 4 October 2013.
9. Article 28 of the LAASSP.

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Chapter 6

Addressing deficiencies in ISSSTE's procurement processes

This chapter identifies deficiencies in the procurement cycle of the State's Employees' Social Security and Social Services Institute's (ISSSTE), from requirement identification (e.g. insufficient market intelligence and unclear or restrictive specifications) to bid evaluation and contract management (including inspection upon delivery and stock management). It also discusses how the relationship with suppliers and their performance could be improved through activities such as verbal debriefing, performance management and improved invoicing and payment processes. Finally, the chapter describes ISSSTE's recent efforts to address some of these deficiencies and proposes remedial actions, drawing on relevant good practices from other OECD countries.

Introduction

As discussed in previous chapters, the procurement function can play a strategic role in any public organisation and have profound impacts on its ability to fulfil its mandate in an effective and efficient manner. Implementing strong organisation-wide procurement strategies and performance management allows continuous improvements of the procurement function, while identifying the optimal sourcing approach for each requirement maximises the outcomes of resulting contracts and mitigates the associated risks.

However, deficiencies in various phases of the procurement process can hinder the benefits of these strategies and management techniques. For example, adequate preliminary activities, such as market research and the development of requirement definitions and solicitation documents, are necessary to identify and implement the optimal sourcing approach. Similarly, irregularities and ineffectiveness in bid evaluation as well as in contract and stock management reduce the benefits to the organisation and create risks of waste, inefficiencies and wrongdoing.

This chapter assesses the general context of some of the activities within ISSSTE's procurement cycle and provides recommendations for addressing identified shortcomings as to improve the outcomes of that function.

Market intelligence

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

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. Engagement between any public buying agency and the private sector is vital not only to increase the organisation's market intelligence – particularly for new or complex needs – but also to gather information on product obsolescence and other potential solutions available (including through product development).

Market research is therefore a critical activity in the procurement process; the information collected has a strong impact on the identification of suitable solutions to meet the identified need and on the success of the procurement process. As such, market research influences key strategic elements providing best value for the organisation while minimising various contractual risks (such as collusion and non-performance under contracts), including:

- the specific requirement identified and the description approach used (technical specifications versus functional and performance requirements), the market research potentially identifying alternative solutions to meet the organisation's needs;
- cost estimates and maximum acceptable price;
- the selected solicitation process (public tender versus limited competition) and eligible suppliers (national versus international); and
- the opportunity to consolidate requirements or use reverse auctioning.

The Mexican federal public procurement regulations requires user areas to conduct market research prior to any solicitation or contract associated with goods, services or leases, unless specific conditions apply. The purpose of such market research is to determine the then prevailing market context in order to obtain the best conditions for the organisation. However, the regulations only require the market research to address the following elements:

- existence of the intended goods or services;
- existence of national or international suppliers; and
- reference price based on information available within the organisation, from public or private entities, from suppliers, or a combination of them.

The OECD review found that ISSSTE currently does not profit from all of the potential benefits of its market research, which 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 establish a reference price against which financial proposals will be assessed. Furthermore, market research is often not undertaken by the user areas, is carried out late in the process (sometimes while the solicitation process is already underway) or is only done poorly. It generally also does not consider key elements such as the availability (or potential development) of new solutions and product obsolescence, the real capability and expertise (and not the sole existence) of national and internal suppliers, or particular market characteristics and recent trends.

The lack of attention to these elements is not limited to the user areas in charge of performing the market research, but applies to other areas as well. As an example, one decentralised procurement unit reported that its Internal Control Office (*Organo Interno de Control*, ICO) insists on reference prices being based solely on historical prices, and does not allow other elements/conditions to be taken into consideration. The unit indicated that the resulting reference prices are often too low, resulting in all offers it receives having to be rejected. In contrast, a lot of market research is found to not consider historical prices at all. It must, however, be noted that some procurement areas, such as the Medical Supplies Sub-Directorate (*Subdirección de Abasto de Insumos Médicos*), do acknowledge that historical prices are not always adequate in view of price fluctuations and supplement them with broader market research.

Various elements can explain the lack of attention currently given to market research, including:

- Limited awareness in some parts of the organisation of its value added, and the limited time and resources available being allocated to other activities which are perceived as being more urgent or of higher value. As stated in one interview “At this time, there is no explicit commitment (culture) of areas to do the market research, just a bureaucratic vision and only the intent to comply with the law.”
- Lack of internal capability and expertise in the user areas responsible for carrying out the 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 internal information, with the existence of a multiplicity of lists and registries in the organisation (approximately 200 lists of suppliers and historical prices in 96 procurement units [ISSSTE, 2012a]). While user areas sometimes request assistance from the procurement units, the procurement areas do not always have the resources or expertise to provide it.

The resulting lack of market intelligence creates substantial information asymmetries between the organisation and the private sector, internal stakeholders being unaware of all available solutions and applicable market conditions. This can result in ISSSTE relying on known products and using restrictive specifications, thereby disregarding other solutions which may better meet its needs and preventing some suppliers from participating in the procurement process. It can also cause some of the requirements defined in the solicitation documents to be outdated or unclear, reducing the results of the procedure (or rendering it unsuccessful) and creating delays and inefficiencies as a result of the need to revise them. This context may also create confusion for potential suppliers and reduce their trust in the procurement process, increasing the number of formal complaints they submit or potentially convincing some to no longer participate in ISSSTE's competitive procedures (thus reducing its supply base).

Efforts to enhance ISSSTE's market research capability can be facilitated by the creation of a specialised unit and collaboration with other Mexican federal entities

ISSSTE is fully aware of this core challenge; a recent internal assessment found that ISSSTE's market research generally does not ensure optimal conditions and results, sometimes does not comply with the legislation and does not maximise its relationship with or participation of suppliers (ISSSTE, 2012a). There is a general consensus at all levels of the organisation and among external stakeholders (e.g. the social witnesses discussed in Chapter 9) that this shortcoming in market research is one of, if not the, biggest challenges encountered in the procurement process, especially at – but not limited to – decentralised areas.

ISSSTE has initiated efforts to address this shortcoming. 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 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 or internal regulations, this document provides, among others, a concise overview of the legal framework and investigation process associated with market research, some template documents and the results report to be prepared. If adequately disseminated, this document will provide greater clarity and understanding of the market research process and requirements throughout the organisation.

While it is a step in the right direction, this document will not, in itself, be sufficient to address the current lack of capability within ISSSTE. First, it is essentially limited to citing the applicable regulatory provisions, which are considered by some procurement units to be insufficient to obtain all of the necessary information and somewhat ambiguous (allowing discretion that can potentially be used to manipulate the market research results and the subsequent process). Furthermore, 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, and best practices for minimising risks while maximising its results. Finally, it does not provide easy reference to simple and consolidated information and data (whether internal or external to the organisation) which could facilitate market research, such as historical information on consumption and practices of standardisation of technology, brands or operational standards adopted in the industry.

It is therefore crucial that ISSSTE implement a strategy to address the current awareness and competency gap of employees undertaking market research activities (particularly as it relates to the “know how”). That strategy could include awareness-raising campaigns of the role and benefits of market research, provision of in-house and external training and the creation of associated documentation available online (e.g. additional templates, methodology, checklists, frequent questions and answers). Necessary information and data could also be made available through the creation of concise, up-to-date and user-friendly consolidated databases of suppliers, as well as historical prices and consumption.

Such efforts could be facilitated by the creation of a specialised market research unit undertaking specific market research and providing guidance and information to the various areas involved in market research activities (e.g. through a specific line of communication or “helpdesk”). That unit could also develop and update on a regular basis global market research on the most commonly purchased commodities that are not yet centralised through consolidated contracts. Requiring areas could then use them as a starting point for subsequent assessments, adjusting them for the specificities of a particular requirement and the evolving market.

In addition to increasing the efficiency and expertise in market research and to providing higher quality information, the implementation of a specialised market research unit would reduce the interaction of the user areas and procurement units with the private sector, thereby reducing the risks of improper influence and wrongdoing as well as increasing the transparency of the process. However, effective co-ordination and improved planning process need to be put in place to ensure that the market knowledge developed is fully integrated in all phases of the procurement cycle, for example by informing in a timely manner the requiring areas of new technologies (including how to develop the associated specification), and by advising the procurement units of the prevailing market conditions in order to determine the optimal procurement strategy and minimise the associated risks.

ISSSTE could also consider outsourcing market research activities associated with highly specialised procurement to specialised firms. It is crucial that the results of such outsourced market research be reviewed and concurred to by its specialised unit in order to confirm its adequacy and prevent potential bias.

When developing the strategy to enhance its internal market research capability, ISSSTE could consider the possibility of joining efforts with other federal entities (particularly, but not exclusively, in the health sector). ISSSTE could effectively work with them to carry out future market research for common requirements, for example by undertaking them jointly or by sharing market research results to avoid duplication of efforts. Doing so would make more efficient use of their respective limited market research 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.

More interaction with the private sector is crucial to enhance ISSSTE's market intelligence

The *OECD Principles for Enhancing Integrity in Public Procurement* (OECD, 2009) emphasise the need to reduce information asymmetry with the private sector. Engagement between ISSSTE and the market is essential to increase the organisation's market

intelligence – particularly for new or more complex needs – and to gather information on the potential solutions available through product development. At this time, ISSSTE meets regularly with industrial and supplier associations, but those meetings focus mostly on difficulties encountered in the procurement process. Furthermore, suppliers have identified the absence of a clear avenue for them to inform ISSSTE of new products and services and to have them considered in subsequent procurement activities.

On the other hand, due care must be taken to ensure that increasing interaction with the market place does not unfairly influence the outcomes of the pre-tender decision-making process, for example by guiding ISSSTE to set procurement specifications in line with a specific supplier's competitive advantage. It is therefore preferable for such dialogue with the private sector to involve the exchange of information through an open, structured and transparent process to avoid risks of specification biases as well as collusion between suppliers. Records of pre-tender information exchanges should also be kept.

ISSSTE has identified the objective to increase suppliers' interest in doing business with the organisation. As stated previously, suppliers complain about the difficulty of having new products accepted by ISSSTE, considering it often only consider them if a positive opinion is received from the National Centre for Health Technology Excellence (*Centro Nacional de Excelencia Tecnológica en Salud*). However, that centre is deemed to be too distant from ISSSTE and would not to allow it to have a clear vision of all of the solutions available on the market or under development. ISSSTE could therefore consider putting in place a formal forum for dialogue with the industry in order to increase its market intelligence, either through a specialised market research unit or a separate venue, such as the Centre of Excellence for Technology Supply (*Centro de Excelencia para el Suministro de Tecnología*), which is being implemented by *Petróleos Mexicanos* (PEMEX) and will be informed by the private sector of new products and technologies.

Additional interaction with suppliers could also be implemented under specific market research. Currently, one of the tools used by ISSSTE to obtain information from potential suppliers is the “request of offer” (*Petición de Oferta*), which identifies the specifications of the required goods and requests information on elements such as price, production time and guarantee. While beneficial, this process may be too limited as it is based on specifications that have already been determined by the organisation. In order to better assess suppliers' interest in meeting its needs and the various solutions available on the market, ISSSTE could implement a practice used in other countries (e.g. Canada, Ireland and New Zealand) of using requests for information in its public procurement procedures (Box 6.1).

Box 6.1. Use of requests for information in public procurement

A **request for information** (RFI) – sometimes referred to as a letter of interest (LOI) or expression of interest (EOI) – is a method used by public buying agencies to obtain preliminary information and feedback from the private sector on an identified need, in order to finalise their strategy and develop achievable objectives and deliverables.

Such requests generally outline a potential and broadly defined requirement and ask suppliers to describe their ability to satisfy the requirement and to provide ideas and suggestions on how to improve the eventual solicitation. Specific information requested may include:

- availability of technologies, products or services in the market place to meet the identified need;
- the willingness and interest of the potential suppliers to offer the potential products or services, and their general experience and capabilities;
- whether the terms and conditions considered (including expected delivery and basis of payment) are acceptable to potential suppliers;
- an indication of costs associated with providing the product or service.

RFI are beneficial to suppliers as it allows them the opportunity to:

- assess and comment on the adequacy and clarity of the requirements as currently expressed;
- offer suggestions regarding potential alternative solutions that would meet the requirements;
- comment on the procurement strategy and proposed conditions;
- be informed of potential future requirements of the buying agency, and prepare for a solicitation that may subsequently be issued.

The information received by the public buying agency allow it to:

- assess potential alternative solutions that would meet its requirement;
- determine whether to proceed with the requirements/strategy as planned, and if so, to further develop internal planning, approval and solicitation documents that may potentially lead to a solicitation;
- refine the procurement strategy, project structure, cost estimate, timelines, requirement definition and other aspects of the requirement;
- become a more “informed buyer” with an enhanced understanding of industry goods and service offerings in its areas of interest.

To maximise their potential benefits and avoid giving an unfair advantage to any supplier, RFIs must be disseminated through public media to as many potential suppliers as is cost effective and not be limited to a few selected or preferred suppliers. Whenever possible, the identified requirement should be defined in functional and performance terms, supported by material or technical specifications if necessary, to encourage effective competition by giving suppliers the opportunity to develop solutions capable of satisfying the public agency's requirements.

RFIs are to be used for information collection purposes only and not as a substitute to a competitive process or as part of a prequalification process. To ensure clarity for the private sector, they should clearly indicate that they are not solicitation documents and do not represent any commitment with respect to future purchases or contracts.

Source: Partly based on PWGSC (2012), *Supply Manual – Version 12-2*, PWGSC, Ottawa, Ontario, <https://buyandsell.gc.ca/policy-and-guidelines/supply-manual> accessed 11 November 2012.

ISSSTE currently undertakes consultation on potential procedures through documents called solicitation projects (*Proyectos de Convocatoria*) published in Compranet, the Mexican federal e-procurement system. However, these are done at a late stage of the solicitation preparation phase and essentially relate to finalised solicitation documents. As such, introducing requests for information would complement this practice and allow more information and feedback to be obtained as part of the market research process in order to better plan the procurement strategy and approach.

Clarity in the requirement definitions and solicitation documents

Unclear or overly restrictive requirement definitions used by ISSSTE reduce the effectiveness and efficiency of its procurement function

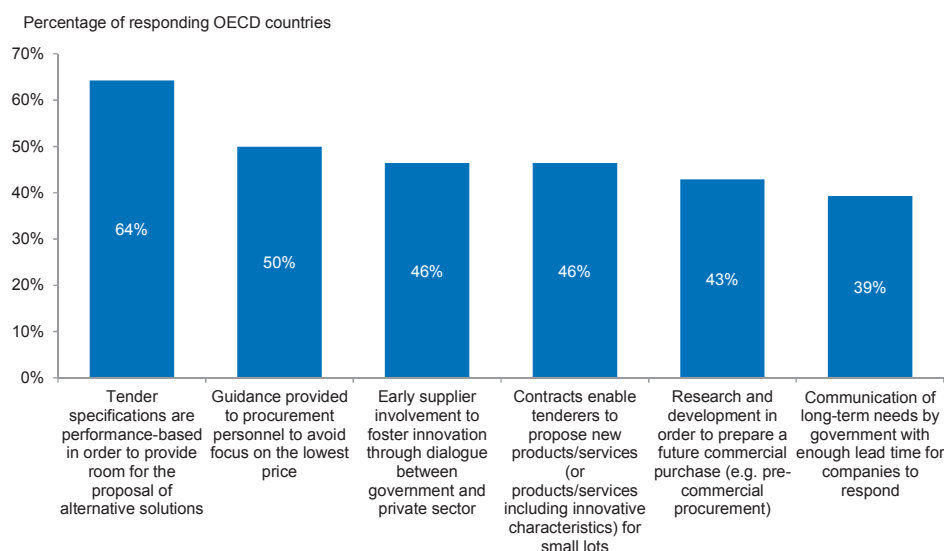
The importance and difficulty in adequately translating an organisation's needs into specific and clearly defined functional or performance characteristics is often underestimated, not only by user areas but by procurement units as well. Nonetheless, it can make some of the greatest contributions to achieving the best value.

The primary objective of translating an organisation's needs into a clearly defined requirement is to ensure that it will allow the organisation to meet the identified need. This requires: *i*) the correct good or service to be identified; and *ii*) it to be described clearly enough to ensure that what is received is what was intended. A secondary objective is to do so under the best conditions in terms of efficiency, time, costs, risks, etc. As many of these elements are generally better achieved through openness and competition, it is usually beneficial that the requirement be as flexible as possible while meeting the need, some trade-offs being allowed between different solutions.

ISSSTE's recent consolidation and centralisation efforts are reported to have resulted in improvements in the identification and definition of various requirements, particularly medicines and medical equipment. Nonetheless, various stakeholders continue to identify deficiencies in the requirement definitions as a significant constraint to ISSSTE's procurement function.

On the one hand, ISSSTE is reported to use overly-restrictive specifications, limiting the possibility for potential suppliers to provide valid alternatives, thereby reducing the level of competition, stifling innovation and preventing the organisation from obtaining the best conditions. Similarly, this can bias the procurement cycle and reduce integrity if the intent is to favour a particular supplier. Due care must therefore be taken to limit 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, 2008). Actually, 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 (Figure 6.1).

Figure 6.1. Most common practices of OECD central government to use public procurement as a tool to promote innovation



Source: OECD (2012), “Progress Made in Implementing the OECD Recommendation on Enhancing Integrity in Public Procurement”, OECD, Paris, www.oecd.org/gov/ethics/combined%20files.pdf, accessed 4 October 2013.

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 the requirements and hinders the participation of some suppliers, which reduces the level of competition as well. In the worst cases, it may result in the receipt of and payment for goods or services that do not meet the needs of the organisation, for example due to incompatibility with equipment in use. Technical inconsistencies may also result in disagreements due to a differing interpretation during the performance of the contract, damaging the relationship with suppliers.

In a survey undertaken for this review, ISSSTE’s decentralised procurement units most frequently mentioned developing requirement specifications as a problem under the procurement process. They report that requirement and their specifications are identified late by requesting areas and that the specifications are too limited to fulfil the requirement or are not clearly defined. Part of the difficulty requesting areas have for providing adequate specifications can be explained by a lack of knowledge of the nature and characteristics of the various solutions available on the market. If adequately implemented, the recommendations detailed previously in this chapter to enhance market intelligence and market research capability could go a long way in resolving this challenge. It can also result from a lack of capability and guidance in drafting requirement specifications and because the catalogue of authorised products is not updated in a timely manner, resulting in user areas sometimes planning for products that no longer exist. ISSSTE could consider putting in place a formal process to regularly update the catalogue of authorised goods, developing tools (such as checklists, best practices and templates) to facilitate the preparation of the requirement definition documents and providing necessary training.

ISSSTE could also strengthen its requirement specifications review process. While some procurement units do carry out a review of the specifications received from the requiring areas and then to providing clarification or details when necessary, it is done on an informal basis and is not systematic. Furthermore, reviews of the solicitation documents are carried out, but appear to largely focus on the solicitation and contractual terms and conditions, and do not sufficiently address the requirement specifications. As such, it may be appropriate for ISSSTE to strengthen and complement existing review mechanisms to ensure the adequacy and clarity of the specifications while keeping the responsibilities for drafting the specifications with the requesting areas. As a first step, ISSSTE could formalise the systematic review of the specifications by the procurement units, giving them the right to reject those deemed unclear or that unduly restrict competition (putting in place a mechanism for the management of unresolved disagreements between the procurement areas and the requiring areas). For complex, sensitive or large contracts, formal technical review by an independent expert or committee could also be considered.

Improvement and standardisation of the templates and review processes could increase the quality of the solicitation documents and contracts

While significant improvements are reported to have occurred in recent years, a similar quality challenge is encountered, although to a lesser degree, with the solicitation and contractual documents prepared by some procurement units. Significant divergences are found to exist between the various areas regarding the quality and effectiveness of the template documents and review process in place and how they are used.

For example, some areas have a strong quality control process, such as the Public Works Sub-Directorate (*Subdirección de Obras y Contratación*) which is ISO 9001:2008 certified for its procurement process. It reports revising its model contract annually and having all of its contracts and solicitation documents assessed by a formal review committee. Conversely, only two-thirds of the delegations identified having solicitation or contract templates in place. Of these, some referred to outdated ones, such as a model contract established in 2007 that therefore does not reflect the 2009 revision to the procurement laws. Furthermore, significant divergences appear to exist in the involvement of the respective legal units in the development and updating of these templates. Finally, both the ICO and legal units report that procurement units sometimes use previous solicitation documents without making necessary changes.

The current situation results in a lack of homogeneity, standardisation and quality in ISSSTE's solicitation and contractual documents, the internal review process sometimes being insufficient. As for inadequate requirement definitions, this can result in significant confusion for suppliers and compromise the effectiveness and efficiency of the procurement function, due to, for example, the need to revise the documents during the solicitation process or as part of the legal review of the contract prior to signature.

ISSSTE could consider putting in place an initiative to standardise the various template documents and review mechanisms currently available throughout the organisation. Among others, a few standard template documents could be developed and approved by the legal units (with regular revisions) to be used by all procurement units. Capacity-building tools and training could also be provided as necessary.

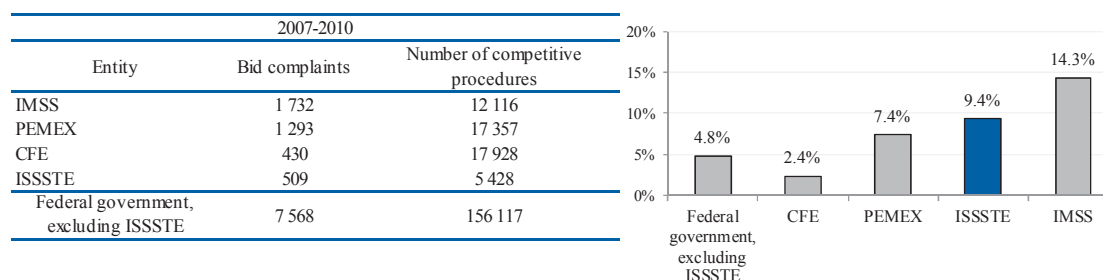
Bid evaluation process

Established evaluation and selection criteria are not always adhered to when evaluating proposals

Bid evaluation has been identified as a particularly vulnerable step of the procurement process (OECD, 2007). It is essential that criteria used to evaluate the proposals received and select the winning bidder be directly linked to the requirement, be as objective as possible and not favour a particular supplier. Furthermore, these criteria as well as other requirements for compliance must be clearly identified in the solicitation documents, and the evaluation must entirely adhere to them (no other elements being considered) (OECD, 2008). Doing so is critical to ensure clarity, preserve the integrity of the process, and maintain the certainty and trust of the suppliers. Unfortunately, this review found that this crucial principle is not always respected in ISSSTE's competitive processes.

As illustrated in Figure 6.2, almost 10% of ISSSTE's competitive procedures were subject to formal complaints from suppliers over the period 2007 to 2010, a percentage almost two times higher than the rest of the Mexican federal government. This significant difference cannot be explained on the argument that ISSSTE is subject to more unjustified or incomplete complaints, as the percentage of complaints declared valid is essentially the same as for the rest of the Mexican federal government (approximately 30%). However, these aggregated figures hide the significant progress achieved by the organisation over the last years, as the number of complaints decreased by two-thirds from 2007 to 2011 (SFP, 2012), only a portion of which can be explained by the recent consolidation efforts.

Figure 6.2. Complaints against ISSSTE's procurement procedures and other federal government entities (2007-10)



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

Source: Author's calculation based on SFP (2011), Quinto Informe de Labores, www.funcionpublica.gob.mx/web/doctos/temas/informes/informes-de-labores-y-de-ejecucion/5to_informe_labores_sfp.pdf, accessed 13 November 2012.

Notwithstanding this progress, between 70% and 75% of the complaints received each year over the period 2007 to 2011 were associated with the decision stage, thereby relating to the evaluation process and selection of the winning bidder (SFP, 2012). Furthermore, more than 80% of the complaints against its procedures that were found valid from 2009 to 2011 were associated with this stage according to data provided by ISSSTE. While the information available under this review did not allow for an assessment of the specific breaches, they can be expected to relate, as in other public buying organisations, to:

- bidders being disqualified based on requirements not specified in the solicitation documents;

- contracts being awarded to bidders that do not meet all of the compliance requirements; and
- contracts being awarded to bidders even though other compliant offers represented better value in accordance with the selection method identified in the solicitation documents.

Such cases of bid evaluations not adhering to the solicitation documents compromise the integrity of ISSSTE’s procurement system and prevent it from meeting its needs under the best conditions. They also create legal risks for the organisation and the possibility of reducing its supply base, as suppliers may refrain from submitting a proposal under a system they perceive as “fixed” or “tainted”.

Even though the number of valid complaints against ISSSTE’s competitive procedures has significantly decreased over the last years, the organisation could consider taking actions to strengthen its evaluation process. One approach to do so would be to implement evaluation review mechanisms to ensure full compliance with the evaluation criteria and requirements established in the solicitation documents. As a minimum, this should include a review of the technical evaluation by the procurement officer prior to the issuance of the decision. For some contracts (such as high-value contracts), this process could also take the form of an *ex ante* audit prior to issuance of the decision.

Furthermore, all evaluators could be required, potentially through a change in ISSSTE’s internal procurement guidelines (*Pobalines*), to sign an “evaluation code of conduct” clearly spelling out their obligations, the evaluation process to be used, as well as the evaluation criteria and compliance requirements to be respected. A single evaluation report, clearly explaining compliance or non-compliance of all proposals with each criterion, should be prepared at the end of the evaluation and signed by all evaluators.

Implementation of an e-procurement system in ISSSTE, as recommended in Chapter 8, presents an important opportunity to introduce functionalities to increase the efficiency and integrity of the evaluation process, such as:

- All evaluation requirements and criteria (either legal, administrative or technical) and methods to determine the winning bidder (including any mathematic formula to calculate total score and cost-benefit assessment) could be recorded in the system as part of the preparation of the solicitation documents (and amended as required during the solicitation period, for example as a result of clarification meetings or questions). The electronic evaluation grid to be completed for the technical evaluation could then be automatically generated, with each evaluator being required to individually fill it in.
- Results of these individual evaluations would subsequently be compared by the system, and any inconsistencies (e.g. a mandatory criterion being judged as failed by some evaluators but not by others) reported to the evaluation team for discussion and resolution. Once a consensus is reached for all technical evaluation criteria, all members would be required to electronically sign the resulting reports. Similarly, compliance or non-compliance with each administrative and legal requirement could be recorded automatically as part of the opening ceremony or subsequent evaluations (as appropriate).
- From these final technical and non-technical results, the system could automatically determine which proposals are compliant and identify the winning

bidder based on the previously defined selection method. The associated record of decision and debriefing documents (discussed later) could also be generated automatically, ensuring the consistency and accuracy of the information they include.

Verbal debriefings can provide valuable insight to ISSSTE and its potential suppliers

Another opportunity for progress within ISSSTE is to provide individual verbal debriefings to bidders following a solicitation process, thereby complementing the written information already disclosed by the Institute. Surveys and interviews undertaken for this review found that verbal debriefing does not take place on a regular basis, neither in the central nor the decentralised procurement units. This is mostly due to a lack of awareness of its benefits and concerns that it could result in a challenge from a specific supplier, as “the law does not specifically allow its use”. As such, ISSSTE procurement units generally limit themselves to the minimum legal requirements and provide feedback to bidders solely through a written declaration of the elements of non-compliance.

However, verbal debriefing is a recognised good practice used in some OECD countries, for example in the United Kingdom (Box 6.2), to promote a constructive and transparent dialogue between the buying organisation and the marketplace, and to expand the supply base.

Box 6.2. Verbal debriefing in the United Kingdom

Regulations in the United Kingdom require departments to debrief candidates for contracts exceeding European thresholds. They also strongly recommend debriefing for contracts below the thresholds, which is the responsibility of the contracting agency or public organisation. Debriefing discussions – either face-to-face, by telephone or videoconference – are held within a maximum of 15 days following the contract award. The sessions are chaired by senior procurement personnel who have been involved in the procurement.

The topics for discussion during the debriefing depend mainly on the nature of the procurement. However, the session follows a predefined structure. First, after introductions, the procurement selection and evaluation process is explained openly. The second stage concentrates on the strengths and weaknesses of the supplier's bid to improve their understanding. After the discussion, the suppliers are asked to describe their views on the process and raise any further concerns or questions. More importantly, at all stages, it remains forbidden to reveal information about other submissions. Following the debriefing, a note of the meeting is made for the record.

Effective debriefing reduces the likelihood of legal challenge because it proves to suppliers that the process has been carried out correctly and according to rules of procurement and probity. Although the causality between the introduction of detailed debriefing and legal reviews cannot be proven, a sharp decrease in the number of reviews can be observed in the United Kingdom between 1995 and 2005 (from approximately 3 000 to 1 200).

Source: OECD (2007), *Integrity in Public Procurement: Good Practice from A to Z*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264027510-en>, accessed 4 October 2013.

Verbal debriefings help bidders better understand the public procurement process and how to improve their offers, thereby increasing their chances in subsequent procedures. They also reassure bidders of the adequacy of the procedure and reduce the chances that they submit a formal complaint. Similarly, verbal debriefings can provide valuable

market intelligence to ISSSTE, allowing it to improve subsequent solicitation processes. Finally, it can enlarge ISSSTE's supply base by strengthening its relationship with its suppliers and improving its reputation as a fair, open and ethical buyer with whom suppliers want to do business in the future.

However, verbal debriefing, if inadequately undertaken, can damage the integrity of the procurement system, for example if they result in the release of asymmetric or confidential information or in providing an unfair advantage to a supplier. It is therefore paramount that all debriefings undertaken by ISSSTE be based on the principles of equal treatment and transparency and do not result in additional integrity risks to the organisation. Verbal debriefing must be limited to the specific bidder's proposal and the current solicitation process, and it must be formally forbidden to reveal information about other submissions or suppliers.

In order to ensure the maximum benefits of these activities while mitigating any potential risks, a pre-established and constant debriefing structure must be used, potentially in line with the example from the United Kingdom. As such, ISSSTE could consider developing detailed guidelines to create a clear framework for verbal debriefing, considering the generic content proposed in the *OECD Guidelines for Supplier Debriefings* (OECD, n.d.), such as when and where debriefings take place, what information can and cannot be provided, and the standard discussion structure to be followed.

Finally, verbal debriefings cost time and effort, so it may not be advisable for ISSSTE to systematically perform them. In order to maximise the benefits of verbal debriefings while limiting costs, ISSSTE could consider limiting their use to specific and pre-established circumstances or types of requirement. Furthermore, preference could be given to performing debriefings by telephone when the procurement is relatively straightforward and simple. Face-to-face meetings or videoconferences would then be limited to complex procedures or when specifically requested by a bidder.

Contract management

Invoicing and payment difficulties damage the performance of ISSSTE and its suppliers as well as their relationship

The OECD review found invoicing and payment as a common source of frustration and waste of resources for both ISSSTE and its suppliers. While the intended standard payment terms are 20 days, important delays are encountered and payments can in reality often take 2 or 3 months. Outstanding payment can sometimes represent millions of dollars for a single supplier. While suppliers are allowed to request interest in case of late payment, few appear to use this right, potentially due to the associated administrative process or fear of displeasing ISSSTE. This situation creates significant uncertainty, cash flow issues and costs to the suppliers. It also has negative impacts on ISSSTE; for example if suppliers come to expect such payment delays, they may transfer some or all of the associated costs by increasing their price. Furthermore, it may result in some suppliers being financially unable or selecting not to do business with ISSSTE – particularly small and medium enterprises, as payment delays have been reported as the biggest challenge for some of them – reducing ISSSTE's supply base and preventing it from achieving the best market conditions.

Currently, payments are managed at central level through numerous steps reported as complex and inefficient by some decentralised procurement units, resulting in significant

transaction costs and delays. To improve the situation, discussions are underway on the potential transfer of some of the payment management activities to the decentralised areas for some contracts, with appropriate reporting to the central level. ISSSTE could consider intensifying its efforts to streamline the payment process at both central and decentralised levels in order to meet the payment terms established in the contracts while ensuring that proper division of responsibilities and control mechanisms are in place to protect the adequacy and integrity of payments.

Part of this situation can be attributed to the invoicing process which is difficult for both ISSSTE and its suppliers. Procurement units report that suppliers provide invoices and supporting documentation late, that reviewing them is time and resource consuming and that there are often numerous mistakes that must be corrected, thereby delaying payment. For their part, suppliers indicate that an unnecessary number of documents and details must accompany the invoices (and in too many copies), creating difficulties and additional costs for suppliers and increasing the risk of a single requirement not being met and having to be corrected.

In order to resolve this issue, ISSSTE could undertake an assessment of its current invoicing practices and implement an initiative to reduce to a minimum, simplify and standardise the type and amount of documentation to be submitted by suppliers (especially as it relates to documents already submitted in the past). Similarly, a clear “invoicing checklist” and associated template documents could be introduced in the applicable contracts to increase clarity and efficiency in the invoicing process.

Better monitoring and management of contractors' performance have a strong potential to improve the results of the organisation

As acknowledged by ISSSTE, contract management was significantly neglected in the past, particularly as it relates to follow-up of suppliers' performance and application of sanctions. While efforts have been undertaken to improve the situation (especially for medicines and medical products), it remains a phase of the procurement cycle to which various areas of the organisation do not give sufficient attention, with negative impacts on the overall effectiveness and efficiency not only of the procurement function, but of the whole organisation.

Lack of adequately monitoring and managing suppliers can, in itself, negate all positive impacts of the previous phases (e.g. market research, strategy development and solicitation process). The current situation can also convey a message to suppliers that high-quality service is neither important nor recognised by ISSSTE and give them a sense of impunity in face of inadequate services.

As a first step, ISSSTE could revise its internal requirements and procurement guidelines (*Pobalines*) as they relate to monitoring and management of suppliers' performance, to emphasise the importance of such activities. This could include, among others, mandatory follow-up mechanisms (such as regular meetings and progress reports) introduced in all appropriate contracts, adapting the type and frequency of these mechanisms to the nature, value and complexity of the requirement in order for them to be cost-effective.

Similarly, ISSSTE could consider implementing a formal supplier performance management programme targeted at a few key suppliers and products, under which performance would be regularly assessed through a few key performance indicators (Box 6.3). Penalties and bonuses could be established under the associated contract to

reflect the results of the evaluation. A strategy could also be developed to use the result of the performance management as formal evaluation criteria in subsequent solicitation procedures, in line with the recent effort of the Ministry of Public Administration.

Box 6.3. Establishing good key performance indicators

Good key performance indicators must possess some 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 process.
- **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 achieving 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 on the same frequency, the majority potentially being assessed on a monthly basis, with some others only quarterly or even annually.

Sources: Based on Queensland Government – Department of Public Works (2000), “Managing and monitoring suppliers’ performance”, Queensland Government, Brisbane, Australia, www.hpw.qld.gov.au/SiteCollectionDocuments/ProcurementGuideSuppliersPerformance.pdf, accessed 12 November 2012; ANAO (Australian National Audit Office) (2011), *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*, Report No. 5 2011-12, Commonwealth of Australia, www.anao.gov.au/Publications/Audit-Reports/2011-2012/Development-and-Implementation-of-KPIs-to-Support-the-Outcomes-and-Programs-Framework, accessed 12 November 2012.

ISSSTE is also found not to maximise the use of recourses legally allowed in case of contractual non-compliance by a supplier. For example, penalties for late delivery (referred to as “conventional penalties” in Mexico) are deemed insufficient to create a real disincentive for suppliers. They are established by ISSSTE at 2.5% of the value of goods or services not delivered per day of delay, up to the value of the contractual guarantee submitted (capped at 10% under the applicable legislations). This situation is worsened since the conventional penalties are only applied on a sporadic and inconsistent basis, further weakening their role in incentivising contractors to meet their obligations. As an initial step, ISSSTE could put in place stronger mechanisms and guidelines to ensure consistent application of conventional penalties. This would be facilitated by the introduction of specific functionalities in an e-procurement system implemented and integrated with other systems as recommended in Chapter 8. By comparing information on the delivery dates required by the contract and the dates of actual delivery, these functionalities could automatically impose applicable conventional penalties to invoices, unless the accountable ISSSTE employee indicates that the delay is not the responsibility of the contractor (in accordance with the terms of the contract) and records associated information and details in the system.

In order to strengthen the sanctions to suppliers for inappropriate performance, ISSSTE could also introduce pre-established deductions in pertinent contracts. Allowed under the applicable legislation, this consists in identifying a determined amount in the contract that will be retained from suppliers, in addition to any applicable conventional penalties, in case of specific contractual breaches. While the use of such deductions is not common in other Mexican federal government entities (the Federal Electricity Commission being an exception), it can be of significant value to ISSSTE for improving the performance of its suppliers by clearly indicating the impact of incomplete compliance with the provision of the contract and transferring a portion of the costs and damages to the supplier.

Finally, ISSSTE could further emphasise the importance of adequate supplier performance management and promoting compliance with the above requirements by introducing it as a formal element of an individual's or unit's performance evaluation.

Inspection upon delivery and stock management

Improper inspection practices compromise the results and integrity of the procurement function and the use of public funds

A survey conducted for this review highlighted a clear disconnect between ISSSTE's inspection requirements and the actual practices. All responding procurement units indicated that goods and services received at the warehouses or directly in the requesting areas are inspected to ensure compliance with the contractual requirements and that only those that comply are accepted. While well known (at least by the procurement units), this principle is often not complied with, audits commonly report inadequate inspection and receipt taking place, including acceptance of products that are not in accordance with the contract or even products or services being paid for but not received. The need for stronger control upon receipt was also highlighted by social witnesses, representatives of the civil society that monitor the integrity of some procurement procedures (see Chapter 9).

Some guides and supporting documents associated with receipt and inspection are in place in ISSSTE, and no evidence was found nor statement received that they are unclear

or inadequate. As such, the improper practices currently observed do not appear to result from a lack of understanding of the associated requirements nor of a lack of guidance. As ISSSTE and its Director General acknowledged, it is crucial that the organisation address such improper receipt and payment, not only because they significantly compromise the results of the procurement function and the efficient use of public funds, but also because of the important underlying integrity risks. 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, such as a larger quantity being delivered than necessary and difficulties experienced in their refusal, recent contractual changes were recently implemented that have resolved these issues.

However, this initiative only addresses medicines and medical products, and significant value of goods and services are still provided through more traditional delivery channels. In order to address the remaining inspection issues, ISSSTE could first ensure full awareness and capacity of all areas that receive goods and services (not only the warehouses) through an awareness-raising campaign, internal communication and, if necessary, revision to the associated documents and provision of training. As for contract and supplier performance management, compliance with the inspection requirements could also be used in the performance evaluation of the receiving units and individuals, emphasising the importance of undertaking it correctly.

ISSSTE has recently taken strong actions to improve the stock management of its medicines and medical equipment

Stock management is a particularly important element of ISSSTE's supply cycle for the significant impact it can have on the organisation's capacity to provide sufficient high-quality services to its beneficiaries. This was clearly demonstrated by the recent medicines supply crisis under which numerous delegations reported a historically low level of medicine availability (Box 3.1). As further discussed in Chapter 10, that phase of the supply process can present significant integrity risks. An important initiative undertaken by ISSSTE in 2012 was the implementation on the Supply Control Board (*Tablero de Control de Abasto*) 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 (see Chapter 4 and Box 4.3 for further details).

Nonetheless, the level of deployment and use of ISSSTE's stock management system, the Comprehensive Medicines Supply System (*Sistema Integral de Abasto de Medicamentos*, SIAM), was not sufficient at that time to adequately support the Supply Control Board. At that time, the SIAM was installed in only 52% of the medical units and there were significant delays in data collection in many units, resulting in the information being outdated for 70% of them. Due to this lack of accuracy, ISSSTE then selected not to link the Supply Control Board to it, but rather to the Enterprise Resource Planning (ERP) system of Silodisa.

To improve the internal availability of complete, reliable and updated stock data, in 2012 ISSSTE initiated an important initiative to improve the SIAM. Enhancements will include 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, when that system is not installed, with the database of

beneficiaries. New reports will also be introduced as well as a bidirectional interface with Silodisa's ERP system. Following a two-month pilot phase, implementation of the new system SIAMv2 started in September 2012. While the initial focus will be on 65 medical units representing 80% of the associated budget, the system will subsequently be deployed to the other several hundred medical units. It is recommended that ISSSTE pursue its effort to implement the new system SIAMv2 in all medical units and to integrate it with other internal and external systems (including Silodisa's) as to maximise the availability and usefulness of the collected data for decision-making and management purposes.

As for distribution, the stocking of medicines and medical supplies presents risks of loss, waste and misappropriation (i.e. theft) for resale or personal use once delivered to the hospitals and pharmacies. Implementing the recommendations made in Chapter 10 would alleviate these risks. Furthermore, even though SIAMv2 has the capacity to exchange stock data with Silodisa's ERP system, ISSSTE could implement automated mechanisms to identify and investigate stock discrepancies. Similarly, physical stock audits (complete or on random basis) could be conducted in all medical units to detect and investigate divergences between the physical stock and the SIAMv2 data.

Proposals for action

In order to improve the effectiveness, efficiency and integrity of the different activities of its procurement process, ISSSTE could:

1. Increase its internal market intelligence and capacity to undertake effective market research by:
 - Increasing requiring areas' market research capacity by implementing an awareness-raising campaign and training (particularly on practical knowledge), disseminating the recent regulatory guide on market research, and complementing it with other documentation made available online (including regularly updated global market research).
 - Putting in place a specialised market research unit undertaking specific market research and providing guidance and information to the various areas involved in associated activities.
 - Outsourcing some highly specialised requirements, ensuring that their results are reviewed and concurred with by the internal market research unit.
 - Improving the planning process to allow sufficient time for an adequate assessment of the market and the use of the ensuing information in the development of the procurement strategy.
 - Increasing interaction with the private sector through open, structured and transparent processes, such as the creation of a formal discussion centre or the use of requests for information as part of the market research.
 - Joining efforts on market research and the development of associated training and tools with other Mexican federal entities, particularly from the health sector.

2. Enhance the adequacy, clarity and quality of the solicitation documents and requirement specifications by:
 - Increasing the capacity of the requiring units to develop clear and balanced requirement specifications, preferably based on functional and performance terms, by implementing supporting tools and documents (such as checklists, best practices, templates and a regularly updated catalogue of authorised goods) as well as necessary training.
 - Developing a few standard solicitation and contract template documents approved by the legal units, subject to regular revision, to be used by all procurement units, and providing capacity-building tools and training on their use as necessary.
 - Strengthening the review process in place, such as:
 - Implementing the systematic review of specifications by procurement units, given them the right to reject those deemed unclear or those that unduly restrict competition. For complex, sensitive or large contracts, formal technical review by an independent expert or committee could also be considered.
 - Standardising and improving the quality review process undertaken on solicitation and contractual documents by the central and decentralised levels.
3. Improve the efficiency and adequacy of the evaluation and selection process by:
 - Implementing formal review mechanisms to ensure, prior to the issuance of the decision, full compliance with the evaluation and selection criteria and compliance requirements established in the solicitation documents. This review should be undertaken, as a minimum, by the procurement officer, but could also be undertaken as an *ex ante* audit for high-value or sensitive contracts.
 - Requiring all evaluators to sign an “evaluation code of conduct” clearly spelling out their obligations, the evaluation process to be used, as well as the evaluation criteria and compliance requirements to be followed.
 - Introducing functionalities associated with that process in any e-procurement system implemented by ISSSTE, to identify and correct potential deviations from the solicitation documents and to automatically create the decision and debriefing documents.
4. Implement a structured verbal debriefing process complementing the written declarations of elements of non-compliance already provided to bidders by:
 - Offering verbal debriefings to bidders under specific and pre-established circumstances or for selected types of requirements. Verbal debriefings could be by telephone for simple requirements and through meetings for complex procedures or when requested by the bidder.
 - Developing detailed guidelines creating a framework for verbal debriefings and clarifying elements such as when and where debriefings take place, what information can and cannot be provided, and the standard discussion structure to be followed.

5. Improve the invoicing and payment process by:
 - Intensifying current efforts to streamline the payment process at both central and decentralised levels to meet the payment terms established in the contracts, while ensuring that proper division of responsibilities and control mechanisms are in place to protect the adequacy and integrity of payments.
 - Implementing an initiative to minimise, simplify and standardised the type and level of documentation to be submitted by suppliers under the invoicing process, and introducing an “invoicing checklist” and associated template documents in the contracts.
6. Strengthen the monitoring and management of suppliers’ performance by:
 - Putting more emphasis and effort on them, by revising the associated internal requirements and procurement guidelines and putting in place mandatory follow-up mechanisms.
 - Implementing a formal supplier performance management programme targeted at a few key suppliers or products, and using key performance indicators.
 - Putting in place mechanisms and guidelines to ensure consistent application of penalties for delays in delivery, such as through functionalities introduced in any e-procurement system put in place in ISSSTE.
 - Introducing pre-established deductions for non-compliance in pertinent contracts.
 - Monitoring the contract and supplier performance management activities of the various units of the organisation, potentially making it a formal element in their performance evaluation.
7. Improve its inspection and receipt practices by:
 - Ensuring full awareness and capacity of all areas receiving goods and services through an awareness-raising campaign, internal communication and, if necessary, revising the associated documents and providing training.
 - Making compliance with inspection and receipt requirements a formal element in the performance evaluation of the applicable units and individuals.
8. In complement to the recent implementation of the Supply Control Board, take actions to improve the stock management of medicines and medical equipments by:
 - Pursuing the implementation of the upgraded Comprehensive Medicines Supply System (SIAMv2) in all medical units and integrating it with other internal and external systems.
 - Implementing formal stock control mechanisms such as automated comparisons of the data available from SIAM and Silodisa’s ERP system, as well as regular physical stock audits in medical units in order to detect and investigate discrepancies.

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Chapter 7

Enhancing procurement capability in ISSSTE

This chapter describes the current procurement workforce of the State's Employees' Social Security and Social Services Institute (ISSSTE). It also assesses the capabilities and capacities of that workforce to perform its procurement duties. In particular, it discusses ISSSTE's workforce planning and management practices (e.g. recruitment, promotion, and performance management) and highlights the importance of enhancing the procurement workforce's training and development through competency management. The experience of various OECD countries is presented to illustrate potential improvements to ISSSTE's human resource management.

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.

Introduction

For the procurement function to be strategic, professionals need to possess a wide set of skills and competencies, including negotiation, project and risk management skills. The procurement function is responsible for specifying, providing access to and managing the external resources and assets that an organisation needs, or may need, to fulfil its strategic objectives. Therefore, Mexico's State's Employees' Social Security and Social Services Institute (*Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado*, ISSSTE) requires qualified procurement professionals with the knowledge and skills needed to practice proficiently, successfully and confidently. Procurement professionals should use their knowledge and experience of resource and supply management to scrutinise supply market opportunities and implement departmental resourcing strategies which deliver the best possible outcome to the organisation, its stakeholders and customers. Equipping procurement professionals with adequate information and advice through guidelines, training, counselling, as well as through information-sharing systems, benchmarks and networks, also helps them take informed decisions and better understand markets (OECD, 2009a). The aim of this chapter is to assess whether ISSSTE's procurement units have the capability and capacity to perform their duties and contribute to meeting the Institute's strategic objectives.

ISSSTE's workforce – a snapshot

ISSSTE forms part of Mexico's decentralised federal public administration. The management of its personnel is regulated by the Law of the ISSSTE and the *Administrative Manual of General Application in the Area of Planning, Organisation and Administration of Human Resources* issued by the Ministry of Public Administration (*Secretaría de la Función Pública*, SFP). ISSSTE is not under the scope of the Professional Career Service (SPC) which only applies to the central federal public administration. ISSSTE employees, like those in any federal government entity and dependency, are divided into two different categories: unionised affiliation (*base*) and free appointment or non-unionised (*confianza*). While unionised affiliation – generally reserved for administrative and technical personnel – implies an important level of stability, free appointment refers mostly to management and professional positions with open-term contracts but no guarantees for lifelong employment. There is an important difference regarding the level of professionalisation, performance and bureaucratic culture between the two categories of public employees. Unionised workers generally perform more administrative tasks and have lower levels of professionalisation. In 2011, ISSSTE employed 97 964 workers one-third of which worked in central offices and over three-quarters were unionised (Table 7.1).

Table 7.1. ISSSTE personnel by type of appointment (2011)

	Unionised	Non-unionised	Medical residents	On fee contracts ¹	Interns	Total
Federal District	24 991	6 872	1 068	226	424	33 581
31 states	52 253	10 194	403	328	1 205	64 383
Total	77 244	17 066	1 471	554	1 629	97 964

Note: Fee contracts mostly relate to doctors.

Source: Data provided by ISSSTE.

Approximately 17% of ISSSTE’s workforce is non-unionised. This group, mostly administrative employment as opposed to service provision, is concerned with policy development (including planning and advice), administrative policy execution, regulatory/supervisory services, and support services related to these tasks such as: human resources, information and technology, finance, audit, accommodation and equipment, communication and procurement. This report focuses on the procurement function as part of administrative employment in ISSSTE.

In ISSSTE, over 600 employees work on procurement. Table 7.2 shows that the procurement function is conducted mostly by non-unionised staff. More than half of the staff working on procurement performs technical and administrative support functions – such as assistants, computing, photocopying, deliveries and archives – and participates in other tasks not directly related to procurement activities. However, a large percentage of technical and administrative support staff are unionised, which means they cannot be reallocated or dismissed for grounds of inadequate performance as easily as non-unionised staff. Around 100 procurement officials, or 17% of all procurement personnel, conduct managerial activities such as leading and supervising teams, signing contracts, interpreting guidelines, etc.

Strengthening capacity for procurement

The lack of adequate capability – not only in terms of numbers of procurement officials but also of specialised knowledge and skills – is the most prominent weakness identified in reviews of procurement systems undertaken by OECD countries since 2008. Public procurement is still handled as an administrative function in many countries; a third of the countries report under a recent OECD survey that it is not recognised as a specific profession (Figure 7.1). Out of the 18 OECD countries that recognise procurement as a specific profession, 61% have a formal job description for procurement officials and 44% have specific certification or licensing programmes in place (e.g. Australia, Canada, Chile, Ireland, New Zealand, Slovak Republic, Switzerland and the United States). However, only 28% have integrity guidelines (e.g. codes of conduct) in place specifically for procurement officials (OECD, 2012).

Table 7.2. ISSSTE procurement personnel (2012)

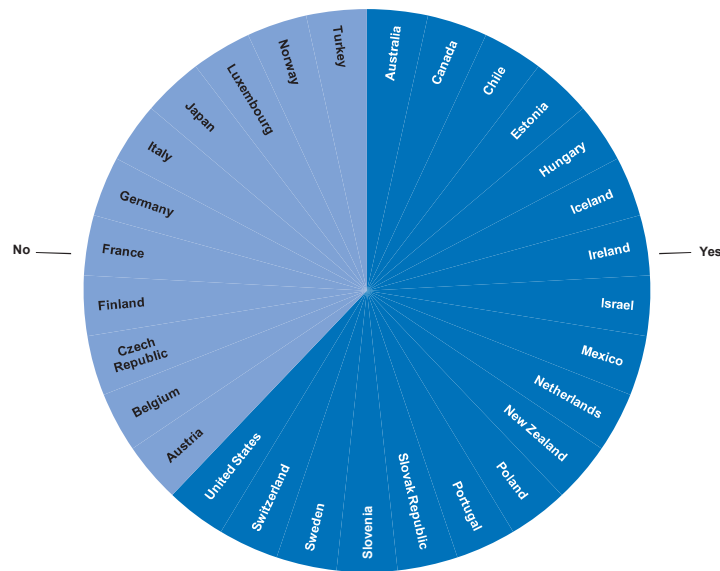
Administrative unit	Middle managers with direct responsibility for procurement	Procurement professionals			Technical support and administrative			Total
		Non-unionised	Unionised	Consultant	Non-unionised	Unionised	Consultant	
1) 9 regional hospitals and the National Medical Centre "20 de Noviembre"	20	14	7	1	14	15	3	74
2) Central offices (Administration Directorate) (2.1 to 2.3)	17	29	0	6	26	37	0	115
2.1 Material Resources and Services Sub-directorate	4	11	0	2	4	16	0	37
2.2 Public Works Sub-directorate	3	9	0	4	6	1	0	23
2.3 Medical Supplies Sub-directorate (2.3.1 to 2.3.3)	10	9	0	0	16	20	0	55
2.3.1 Head of Services of acquisition of medicines	3	2	0	0	9	7	0	21
2.3.2 Head of Services of acquisition of medical equipment and imports	4	6	0	0	4	7	0	21
2.3.3 Head of Services of acquisition of treatment (healing) material	3	1	0	0	3	6	0	13
3) 31 delegations and 4 regional delegations	50	81	14	2	79	105	2	333
4) PENSIONISSSTE	1	3	0	0	2	0	0	6
5) SuperISSSTE's central and regional offices	13	9	0	0	14	2	0	38
6) FOVISSSTE	1	1	2	2	1	0	0	7
7) TURISSSTE	2	2	0	0	32	0	0	36
TOTAL (1 to 7)	104	139	23	11	168	159	5	609

Note: Data regarding three of the twelve regional hospitals as well as the Conservation and Maintenance Sub-directorate (part of the Administration Directorate) are not available.

Source: Information provided by ISSSTE.

Figure 7.1. Recognition of procurement officials as specific profession in OECD countries

In your country, are procurement officials recognised as a specific profession?



Source: OECD (2012), “Progress Made in Implementing the OECD Recommendation on Enhancing Integrity in Public Procurement”, OECD, Paris, www.oecd.org/gov/ethics/combined%20files.pdf, accessed 4 October 2013.

In order to enhance ISSSTE’s procurement capability, this review has identified four windows of opportunity in the HRM field: *i)* acquiring and deploying talent; *ii)* strengthening skills and competencies; *iii)* improving performance management; and *iv)* fostering management accountability.

Acquiring and deploying talent

All OECD countries have rules which are intended to ensure that public employees are hired on fair and objective grounds, and to prevent all forms of patronage: personal as well as political. Across OECD countries the processes used for achieving these goals have changed substantially over time. Formal examinations have been complemented with tests of skills and aptitudes and the focus has shifted from formal diplomas to actual competencies. Indeed, public administrations in OECD member countries have moved or are moving away from simply looking at formal merits towards using written tests of knowledge, skills and competencies. The main reasons are the stronger focus on better performance and quality services and thus the need to become better at finding people with the right skills and competencies for the jobs to be performed. Today, the public sector faces the same need as the private sector to find and recruit the best possible persons for different positions, and has the same need to re-orient recruitment when the need for capacities and competencies changes.

Merit and fairness should be at the core of the recruitment and promotion process in ISSSTE

The main limitation of ISSSTE’s HRM system is its lack of professionalisation. ISSSTE needs a merit-based system for the management of the Institute’s workforce as to effectively support policy decision making and implementation and to achieve the desired

outcomes. ISSSTE needs to give procurement professionals the opportunity to develop a career both inside and outside of the Institute. If the procurement function is to be strategic, traditional procurement expertise must be combined with an understanding of how procurement can help meet the strategic goals of the Institute. In other words, the procurement career path must make it possible for procurement professionals to stay in their positions, move horizontally to gain broader experience, take on a bigger role or (temporally) move out of the Institute.

At the heart of the problem is the lack of open competition to fill vacancies in the different units, for instance those in charge of buying goods and hiring services for the Institute. Although the current practice of free appointment (*libre designación*) permits filling vacancies in a relatively short period of time, it does not guarantee hiring the people with the right competencies and skills. It could also give room to patronage and clientelism which are at odds with the modern, merit-based HRM system that Mexico's federal public administration is striving for (OECD, 2011a). It seems that professionals with a long experience in the Institute are prevented from accessing management positions as there are no opportunities for career development. Promotions also seem to depend to a large extent on personal relations.

The implementation of the dispositions of the *Administrative Manual of General Application in the Area of Planning, Organisation and Administration of Human Resources* is still a work in progress. Technical knowledge is not systematically tested during the recruitment process. The Handbook of Procedures of the Personnel Sub-Directorate (*Manual de Procedimientos de la Subdirección de Personal*) establishes the process and activities to be followed for hiring new staff. It makes reference to a multiple choice technical exam of no more than ten questions to be designed by the area where the vacancy is located. However, there is no evidence that this exam is used in a systematic manner; not all of the officials interviewed for this review had taken this exam. The manual only details the administrative process to hire staff, but it is not a tool for ensuring the recruitment of people with the right competencies and skills through an objective and transparent process.

Heads of department, heads of service or even directors decide who should fill a vacancy. Previous experience may be analysed, and positions are given to people with certain knowledge and experience in procurement. However, there is no guarantee that those appointed were indeed the best possible candidates or that their appointment was the product of an open and fair competition. Academic credentials and job experience are normally used to justify an appointment, but there is no instrument to assess whether the level of competencies and skills are indeed the ones needed.

There are two compelling reasons why ISSSTE should move to a more objective, transparent, merit-based selection of staff. The first is that merely relying on the *curriculum vitae* and academic credentials does not take the full range of candidates' merit into account. Persons with superior experience, skills and aptitudes may be bypassed by candidates with nothing but better connections and an aptitude for good results in written tests under controlled conditions. One might even question whether focusing mostly on formal merit (academic credentials) is compatible with a fair and equitable assessment of candidates' merit. Relying on a multiple choice exam limited to ten questions, when it is indeed conducted, is not a sophisticated way to assess the merits and in-depth knowledge of candidates but simply an administrative requirement that has to be met. The second reason why ISSSTE should move to a more objective selection of staff is that ISSSTE, in line with the developments in the centralised administration,

needs to target and compare skills, aptitudes and experience in order to develop strategic competency management and to enhance the quality of the Institute's manpower. The present unsophisticated and, to a certain extent, subjective recruitment process creates an unnecessarily high risk of recruitment errors. It could also be added that an open competition could bring legitimacy to the appointments of staff at managerial and professional levels.

ISSSTE could consider adopting the practices of a position-based recruitment system as it is more appropriate for its administrative-organisational culture. This system focuses on selecting the best-suited candidate for each position, whether by external recruitment or internal promotion. It would allow more open access and lateral entry. Fairness would be ensured by open and competitive processes for each position. In the case of promotions, fairness would be ensured by a strong individual performance assessment.

ISSSTE could draw lessons from the accumulated experience in the SPC of the central federal public administration and the individual career programmes of different public organisations – such as the Foreign Affairs Service (SRE), the Federal Electoral Institute Service (IFE) and the National Statistics Institute Service (INEGI) – to develop an open competition process to fill its vacancies, not only for the procurement function but for all administrative positions. The HR unit could organise the competitive process; and integrate selection panels with members from the HR unit, the recruiting unit and internal control. Vacancies should be made public. Tests to assess the level of knowledge could be introduced, but it would be critical to also focus on an examination of skills, competencies and aptitudes. In this respect, ISSSTE could also draw valuable lessons from the Belgian experience. Belgium possesses an advanced recruitment system where academic credentials are used as a background, but candidates need to pass a test of skills and competences as well as a psychological test (Box 7.1).

Box 7.1. Recruitment in the Belgian government

Belgium offers an example of a country with relatively sophisticated recruitment arrangements. The employment system is career-based, and public employees are either tenured civil servants or contract employees. Recruitment for tenured employment shall, according to the Constitution, be merit-based.

The basic form of recruitment of tenured civil servants in Belgium is open and competitive examinations. These are based on job descriptions and competency requirements drawn up by the recruiting organisations. Over time, the recruitment process has moved away from large generalist examinations towards recruitment based on specific competency profiles. Presently, selection is based on generic competency profiles in only 10% of cases and on specific competency profiles in the remaining 90%.

Possession of a diploma may be a prerequisite for participation in an examination. The breadth and quality of the educational background affects the assessment of a candidate. Applicants who meet the formal requirements take part in different tests of skills, competences and aptitudes. The content of these tests depends on the type of post and recruitment criteria and may include a psychological test.

90% of recruitments take place in a central agency that assesses and ranks candidates, the resulting list and ranking being used by most administrations. Nonetheless, the Flemish and Dutch administrations do not follow that process and make the final selection themselves. The administrations are allowed to draw up a reserve list of candidates for possible future recruitment.

Source: OECD (2007), *OECD Reviews of Human Resource Management in Government: Belgium 2007: Brussels-Capital Region, Federal Government, Flemish Government, French Community, Walloon Region*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264038202-en>, accessed 4 October 2013.

The SFP is the central body that deals with human resource management at the central government level but has a limited role in the way ISSSTE manages its workforce. Co-operation between these two bodies should be fostered not only to create managerial capacity in ISSSTE but also to assist it in the professionalisation of the administrative employment in the Institute which includes the procurement function. SFP could also help improve the selection, recruitment, performance management and competence management practices.

Strategic workforce planning should be at the core of ISSSTE's human resource management practices

OECD countries are increasingly turning to workforce planning, a core process of human resource management, to ensure that they have the adequate human capital to accomplish their mission and meet their strategic objectives. Workforce planning efforts are deemed to have the potential for enabling an organisation to remain aware of and be prepared for its current and future needs such as the size of the workforce; its deployment across the organisation; and the knowledge, skills and competencies needed to pursue its mission (OECD, 2011a). However, there is no evidence that ISSSTE has a workforce planning strategy that allows it to determine the staff numbers and competencies required in the different administrative units, such as those carrying out procurement.

A number of procurement units reported that insufficient human resources prevent them from adequately addressing the entire procurement process in an efficient and effective manner. Periods of heavy workloads oblige them to hire temporary staff (*persona física con actividad empresarial*). However, as Table 7.2 shows, more than 600 officials work on procurement across the whole Institute. The fact that some units are reportedly understaffed reflects that staffing is poorly planned in terms of skills and competencies, numbers, and distribution across the Institute. Staffing decisions are made in central offices based on a proposal put forth by the delegations. However, there is no discussion between delegations and the Administration Directorate regarding staffing needs. Furthermore, the limited possibilities for transfer or reallocation of staff to units where they are most needed prevent a more efficient distribution of staff and a more efficient management of resources.

For example, from a level of expertise point of view, less than half of the procurement staff may be considered to be procurement specialists (approximately 280) as the rest perform unspecialised technical and administrative support activities. Thus, at certain periods of intense procurement activity, there are not sufficient qualified employees to do the work in some units. The large numbers of support staff cannot make up for the lack of adequately trained procurement professionals. Moreover, procurement officials may be required to perform additional duties than just focusing on the procurement process, which prevents specialisation. From an allocation perspective, Table 7.2 shows that 52 procurement professionals and middle managers work in central offices while 189 are distributed across the 35 delegations and 10 hospitals (an average of four per entity). A similar distribution of support staff can be observed, as 63 work in central offices whereas 218 are distributed across these delegations and hospitals.

There is currently a hiring freeze due to budget constraints, which makes it difficult to reskill and restructure the workforce. In the absence of sound workforce planning, the current measures are in detriment of the capability of the Institute for service delivery as a whole, and of the procurement activities in particular.

Making workforce planning a core part of ISSSTE’s HRM system would help it to better deliver services efficiently and effectively. Workforce planning would allow for:

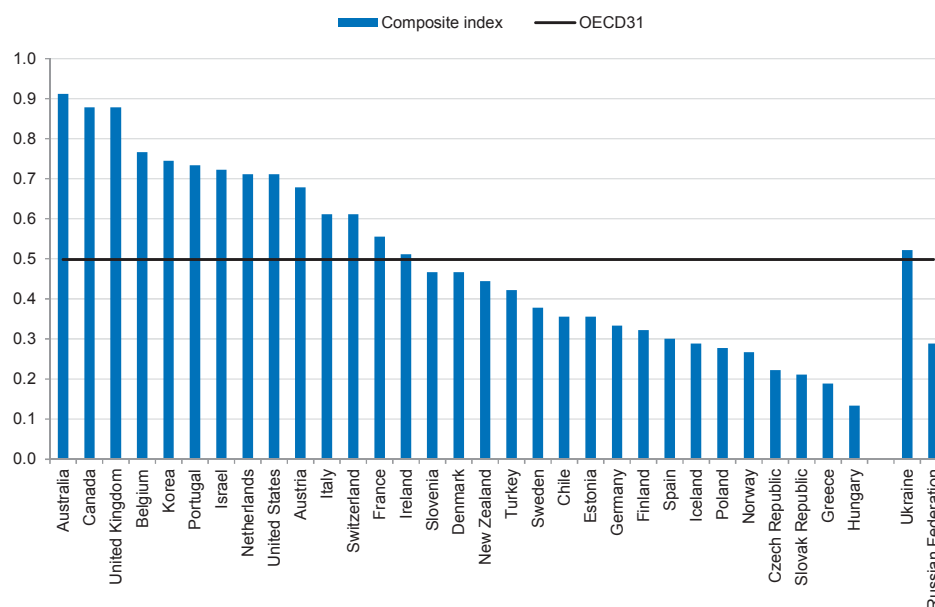
- a more effective and efficient workforce;
- help ensuring that replacements are available to fill important vacancies and provide realistic staffing projections for budgeting purposes;
- provide a clear rationale for linking expenditures for training and retraining, development, career counselling and recruiting efforts;
- help maintaining and improving a diversified workforce as well as preparing for restructuring, reducing and expanding the workforce;
- provide ISSSTE with the overarching objectives which integrate the various units and allow employees space and time to think about common goals for the future.

The information available to the OECD suggests that most member countries engage in some form of workforce planning as part of their strategic HRM practices (Figure 7.2), and that in a number of countries its effectiveness has been reinforced by:

- linking it to the organisation’s strategic planning, including business forecasting and planning, budgeting, accountability and reporting mechanisms for managers and strategic human resource management;
- making it an integral part of the organisation’s performance management framework, which seems to have taken root more quickly in countries with more decentralised human resource management systems than those with more centralised public services;
- increasing the use of competency management and developing strategies to close identified competency gaps.

Figure 7.2 looks at the extent to which centralised HRM bodies use performance assessments, capacity reviews and other tools to engage in and promote strategic workforce planning. The index benchmarks countries according to several factors, including the existence of a general accountability framework for middle and top managers which incorporates strategic HRM components; the use of HRM targets in the performance assessment of middle and top managers; assessments of ministries’/departments’ performance in terms of following good HRM practices; and the use of workplace planning.

Figure 7.2. Utilisation of strategic HRM practices in central government



Notes: Data for Japan, Luxembourg and Mexico are not available.

Source: OECD (2011), *Government at a Glance 2011*, OECD Publishing, Paris, http://dx.doi.org/10.1787/gov_glance-2011-en, accessed 4 October 2013.

Based on the experience of OECD countries, like the United States (Box 7.2), ISSSTE could link workforce planning to its strategic objectives and vision. This would allow its procurement teams to map their own goals and aspirations to the Institute's strategic plans. A number of models and techniques are available to conduct workforce planning. What is appropriate for ISSSTE depends on how easily it can be implemented and the ease with which it can be tailored to the situation at hand. However, experience suggests that most organisations do not need a complicated approach and it is often better to take the simplest route than to try to do too much.

The experience of OECD countries has some lessons for ISSSTE. First, it is important that workforce planning not be seen as being able to predict the future. Rather, it should be seen as setting the longer term context for business issues and providing a decision filter through which other institutional plans can pass. Second, HRM staff often find workforce planning challenging. It presents a strain on their resources and is difficult to fit into the traditional HR role. HR staff would need to be trained. Moreover, HR professionals may also lack an understanding of business issues which would help in creating workforce plans and in selling them to their superiors and colleagues. Third, to be effective, workforce planning needs to be flexible, ongoing and sensitive to the different needs of units. It should be integrated with the core business plans of the organisation in a symbiotic relationship where they both react to and inform each other. Finally, workforce planning should not be too overambitious in its objectives. It is much better to develop a clear understanding of the present situation, consider key future issues and manage the interplay between the two than to leave things entirely to chance.

Box 7.2. Strategic workforce planning, strategic alignment and workforce analysis in the United States

In the United States, workforce planning is part of the strategic alignment system which focuses on a human capital strategy aligned with the mission, goals and organisational objectives of federal departments and agencies. It is implemented by the senior management, and in particular the chief human capital officer (CHCO), through analysis, planning, investment, measurement and management of human capital programmes.

Human capital management strategies are integrated into strategic plans, performance plans and budgets and are organised around: human capital planning, workforce planning, human capital best practices, knowledge sharing and human resources as strategic partner. Each has several key elements that indicate effectiveness and is linked to suggested indicators that identify how well the agency is doing relative to those key elements.

Activities and outcomes of this system are assessed through documented evidence of a Strategic Human Capital Plan which includes human capital goals, objectives and strategies; a workforce plan; and performance measures and milestones.

Agencies are required under Office of Personnel Management (OPM) regulations implementing the CHCO Act to submit the Strategic Human Capital Plan described by this system to OPM on an annual basis.

Effectiveness results of workforce planning

Each agency approaches workforce planning strategically and in an explicit, documented manner. The workforce plan links directly to the agency's strategic and annual performance plans and is used to make decisions about structuring and deploying the workforce.

Mission-critical occupations and competencies are identified and documented, providing a baseline of information for the agency to develop strategies to recruit, develop and retain talent needed for programme performance.

The agency's documented workforce plan identifies current and future workforce competencies and the agency is closing identified competency gaps through implementation of gap-reduction strategies such as:

- restructuring;
- recruitment;
- competitive sourcing;
- redeployment;
- retraining;
- retention (e.g. compensation, quality of work life); and
- technology solutions.

A business forecasting process identifies probable workforce changes, enabling agency leadership to anticipate changes to human capital which require action to ensure programme performance.

Based on functional analyses, the agency is structured to achieve the right mix and distribution of the workforce to best support the agency's mission. Based on an analysis of customer needs and workload distribution, the agency has the right balance of supervisory and non-supervisory positions to support the agency mission.

Sources: US Office of Personnel Management (n.d.), "The strategic alignment system", OPM, Washington, DC, www.opm.gov/hcaaf_resource_center/3-1.asp, accessed July 2012; US Office of Personnel Management (2008), *Workforce Planning Best Practices*, OPM, Washington, DC.

Strengthening skills and competencies

OECD countries are increasingly adopting competency management as a system for both clarifying the specific abilities – knowledge, skills and (importantly) behaviours – needed for a given job, and ensuring effective performance from employees. This shift from the traditional approach to job description, selection, development, appraisal and rewards is seen as a vehicle for bringing about necessary cultural change and injecting more flexibility, adaptability and entrepreneurship into organisations. Proper integration of competencies into a framework allows human resource management to develop strategic workforce planning, and employees to develop their career plans. Organisational readiness, stakeholder commitment and periodic review are among factors needed if a competency management system is to succeed.

Competency management would define the abilities and behaviour needed to do the job and ensure ISSSTE is staffed by people who perform effectively

A key issue for ISSSTE is to find ways to measure the experience and competencies required for procurement in particular and other key functions in general. This would require a broader and more sophisticated interpretation of the concept of merit that would enable recruiting based on skills, aptitudes and previous experience. ISSSTE may thus consider developing a competency management framework to make personnel management more flexible and merit-based as the experience of Australia, Belgium, Canada, Korea, Japan and the Netherlands suggests. These countries have developed competency management frameworks which identify the capabilities needed in the workforce and link together a number of human resource management activities (recruitment, staff development, performance management) to enhance the capacity of the workforce.

There are some critical reasons why ISSSTE should focus on competencies. Competencies can help to build skills and change behaviours, achieve a better fit between recruitment and the needs of the Institute, contribute to inculcating a culture of performance and increase mobility. Competencies could also be linked to professional development by designing adequate training courses. Competency management may create the conditions for ISSSTE to adapt more quickly to changing conditions and for a more strategic management of the workforce. In a competency-based selection process, the required competencies identified for a vacant position are used as the selection criteria. Moreover, supporting staff to develop procurement competencies may help attract talent to ISSSTE. Procurement officials would be able to move from sector to sector within the Institute easily, gaining experience and new skills from those different sectors, developing into a rounded career.

The advantage of engaging in competency management is that competencies can be used in different stages of HR processes such as workforce planning, recruitment, promotion, training, performance assessment, etc. In this sense, thinking in terms of competencies should become a way of life in ISSSTE, from planning to selecting employees, and guiding and rewarding their performance. In particular, a procurement competency framework would help to identify the competencies and skills needed to perform the function. For example, the Scottish government introduced a framework that identifies the skills and competency levels required by all staff involved in the procurement process and assists individuals to take ownership of their personal development through skills assessments, identification of training and development needs, and career planning. The procurement competency framework nurtures the talent

that already exist within government. The framework has 13 competencies which make reference to the technical skills needed at different levels to conduct procurement (Box 7.3). An example of how these competencies are expressed in skills by different levels is presented in Annex 7.A1.

Box 7.3. The Scottish procurement competency framework

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 compliment, 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.

Source: Scottish Government (n.d.), “People and skills: procurement capability”, www.scotland.gov.uk/Topics/Government/Procurement/Capability, accessed on 26 September 2012.

Focusing on competencies would not be an easy task for ISSSTE as it also requires a large focus on employee performance management, another aspect that is not well developed in Mexico’s public administration, and a change in the Institute’s management culture (OECD, 2011a). ISSSTE authorities, based on the experience of OECD countries,

could consider developing a roadmap for implementing competency management under five main steps as described in Box 7.4.

Box 7.4. Roadmap for implementing competency management

This roadmap has been formed based on the experience of OECD countries in introducing competency management. It does not constitute a prescription but a checklist or guidelines on how to engage in competency management.

Step 1: Deciding to introduce competency management. This is a strategic choice and hence a long-term commitment. Competency management should be regarded as a means to achieve an objective. It is important to establish the objectives for the competency modelling project in advance. Formulating the objectives clearly can contribute to creating a shared perspective on competency management among the different stakeholders. The link to the organisational mission and vision should be made here. The decision to introduce competency management should not be taken lightly, as it is by no means an easy process. Nevertheless, competency management can serve as leverage for changing the organisational culture. The introduction of competency management can be an interesting opportunity to introduce organisational change in a period of broader government reforms.

Step 2: Organising, planning and communicating the shift to competency management. Three aspects should be considered here: i) determining the organisation of competency management which refers to the HR governance structure that is applied; ii) planning the approach for the development of a competency management system which involves defining concepts, determining the relevant parts of the organisation and selecting the development tools; and iii) developing and implementing communication plans to obtain support from staff.

Step 3: Identifying competencies and developing competency models for the specified target groups. This diagnostic phase begins with specifying the target groups of competency management. Then, the competency model is specified and the competencies are identified. There is no ideal competency management system but a good one is always aligned with the specific goals of an organisation. A government's competency model ideally includes a mix of competencies specific to the public service and competencies that appear in both public and private sector organisations. Competencies specific to public service generally take on the form of (public service) values, for example; commitment, service, integrity, transparency, accountability, and equity. Other competencies with an emphasis specific to public service are public service professionalism and probity, affinity with public sector management, political awareness, political savvy and public service motivation.

Step 4: Integrating competencies into various HR processes. The integration of competencies into the various HR processes can happen gradually or suddenly. When gradual integration is chosen, it is possible to start with a pilot project in one department, with a group of employees or in one HR process. The HR processes (selection, remuneration, workforce planning, etc.) to which the competency model(s) will be applied need to be selected. Competency management is more than simply using competencies in various HR processes. It is a system that needs to bring about organisational-wide dynamics. Therefore, the competency-based HR systems should be integrated so that they are aligned and mutually supportive. The challenge is to develop competency management as an integrated, core part of HRM and to avoid the risk of it becoming an isolated tool or an end in itself.

Step 5. Revising and updating the competency management system on a regular basis. It is particularly important to grasp the dynamic nature of individual job-related competencies. It is necessary to schedule regular updates and revisions of the competency management system. Competency modelling is a continuous process, not a one-time project. To be useful, the list of competencies needs to be revised as business strategies and conditions change. In terms of timing, there are several options, such as a periodical evaluation or a comprehensive review over several years.

Source: OECD (2010), "Managing competencies in government: state of the art practices and issues at stake for the future", internal document, OECD, Paris, [www.oecd.org/officialdocuments/displaydocumentpdf?cote=GOV/PGC/PEM\(2010\)1/FINAL&doclanguage=en](http://www.oecd.org/officialdocuments/displaydocumentpdf?cote=GOV/PGC/PEM(2010)1/FINAL&doclanguage=en), accessed 20 March 2012.

Building job profiles would assist ISSSTE in its quest for a competence-driven and forward-looking human resource management

Procurement officials interviewed for this review commented that most of the time the job descriptions currently used do not reflect the tasks carried out by procurement officials in practice. ISSSTE's Institutional Catalogue of Posts (*Catálogo Institucional de Puestos de Mando*) is integrated by 52 managerial and advisory posts integrated by 13 senior management posts, 26 middle management posts and 13 support and advisory posts. However, this catalogue only addresses managerial position and does not include the description of professional activities such as procurement, human resource management, financial, ICT, economist or policy analyst. Although it was reported that there is a profile for the buyer (*perfil del comprador*), the OECD could not have access to it. Every job description in the catalogue is made in the form of a professiogram that describes the requirements to occupy the position and the functions it involves. Moreover, the professiograms make reference to academic credentials necessary to perform the job, but there is no mention of the competencies and skills required for it. As it stands, the catalogue and its professiograms are not an efficient instrument for developing a culture of accountability and performance. Job profiling can be an effective way of getting ISSSTE's managers and staff to think about their roles, what is important in a given job or set of jobs, and how the job contributes to achieving the organisation's objectives.

Job profiling is a way of combining a statement about what is expected from a job with a view of what the job holder must bring in terms of skills, experience, behaviours and other attributes needed to do the job well. It is an approach that helps organisations to think about the outputs and results they want from jobs as well as what they are looking for in terms of the person who will do the job. The job profile is about “the job” – the purpose of the job, why it exists and what results it is expected to achieve for the organisation, and “the person” – the characteristics the organisation is looking for in the person doing the job. This makes job profiling a potentially powerful tool when it is implemented well and used as part of an integrated set of human resource management strategies and processes.

Job profiles differ from traditional job descriptions, professiograms, currently used in ISSSTE in two important respects: *i*) they focus on the outputs or results expected from the job rather than the tasks or functions to be carried out; and *ii*) they include a statement about the skills and personal attributes needed for the job. Whereas traditional job descriptions tend to be treated as stand-alone items, job profiles lend themselves to integration with other elements of human resource management and with broader organisational and management imperatives.

ISSSTE could also use job profiles in the recruitment and selection process, in relation to both external recruitment and internal recruitment or promotion. Developing a job profile requires the organisation to look critically at what the job entails and to reflect on what skills and knowledge are necessary to perform the job. They can enable an organisation to achieve a more accurate match when recruiting or promoting people. Job profiles can also be an effective recruitment tool for attracting the right candidates. They say a great deal about the culture of an organisation not only in terms of defining what sort of people it wants to attract, but also as part of the “employment proposition” to the employees, i.e. what it expects of its staff and how much scope it gives them to exercise their initiative.

It is important to consider how job profiles are to be integrated with other aspects of human resource management. For example, the information about expected outputs and

result areas for a job must be consistent with what is to be measured and assessed in performance management, and the skills and behavioural competencies identified as necessary should be reflected in recruitment and selection criteria and the design of training and development.

It is also important for ISSSTE to consider that job profiling and competencies must not become an end in themselves. They are only effective as part of a linked set of HRM and organisational processes and should be managed as such. Job profiles should reflect organisational priorities and performance targets (this is achieved through careful specification of accountabilities and key result areas) and it is, of course, essential to have an effective performance management process for assessing what has actually been achieved, giving feedback to employees and addressing shortcomings in performance.

Training and development of staff require a strategic orientation to meet the Institute's key priorities

ISSSTE's procurement workforce appears to be unevenly qualified. While most procurement professionals and middle managers in charge of buying goods and hiring services for the Institute possess a long experience in the area of procurement, junior staff and technical support staff lack adequate knowledge and training on the regulatory framework, market studies and procurement process. Staff of user areas (*areas usuarias*) also seems to lack the necessary skills and knowledge on the procurement legal framework, on the drafting of technical requirements and specifications and on technical evaluations. Most procurement officials interviewed for this review stated that they have attended training courses within or outside the Institute. It appears that most, if not all, have attended the training course provided by SFP regarding the operation of the Compranet system to conduct procurement. Some officials have also attended courses at the National Institute for Public Administration (INAP) on public procurement and on the responsibilities of public servants. Some others reported to have attended seminars, workshops and other training courses provided by some universities on a wide variety of topics, from computing software to updates in the regulatory framework for procurement. It is worth pointing out, however, that none of the officials interviewed received entry training. Some members of the staff even work based on tradition and not on their knowledge of the law.

This review suggests some critical drawbacks in ISSSTE's training policy that need to be addressed. First, there is no evidence of a structured training strategy for procurement officials. Officials who attend training courses do so as a one-off event or because of their personal desire to be up to date with changes in the legal framework and new developments in the procurement process. Attending a training course is not compulsory and there are no incentives to do so. The lack of entry training prevents new staff members from gaining an understanding of the Institute's mission, vision, organisation and what it is expected of them.

Second, there is no evidence of any assessment of the added value provided by the training courses attended by officials. There is no follow-up on how individual and organisational performance improved after attending the training course. ISSSTE, to a large extent, only trains its procurement staff with the courses available in the market, but none of the courses seem to be tailored to the specific needs of its staff based on a competency gap analysis.

Third, training is not seen as an element for improving and developing new competencies and skills, preparing public servants for positions at higher levels of

responsibility or to certifying their competencies. Officials interviewed reported that most of the people working on procurement have developed their knowledge through experience. Although this provides ISSSTE with staff with in-depth knowledge about the Institute and its operation, it is reportedly becoming very difficult to make them change their practices and habits to more efficient and effective forms of work.

In order to develop a broad framework for the provision of training in procurement, current efforts to establish a work plan between SFP and ISSSTE should be enhanced. This work plan includes issues such as: the professionalisation of the workforce, IT integration (including Compranet), and procurement strategies (framework for reverse auction, consolidation, etc.). SFP is also working on an agenda to improve competency at three levels: *i*) internal to each entity for specific skills; *ii*) SFP level (legal framework, specific strategies for framework agreements, reverse auctions, economic evaluations, mechanisms to identify collusion, etc.); and *iii*) certification with different entities, for instance universities, to meet the training demand.

The work plan and the SFP training agenda are still a work in progress. However, the experience of OECD countries offers key lessons learned to contribute to improving current work. It is important for training needs to be established by middle managers in collaboration with the employees. This would foster accountability for managers to ensure career development for their employees. A competency gap analysis should be the basis for defining training courses. If ISSSTE accepts the recommendation of focusing more on competency management and performance, then managers should also ensure that training needs are in line with the strategic objectives of the Institute and the detected competency gaps. The objectives of all learning activities (workshops, actualisation courses, seminars, etc.) should be based on the development of specific core competencies required for procurement supplemented by specific training reflecting the particular responsibilities of each individual. A personal development plan could be created for each employee listing the specific competencies he/she needs to develop to improve his/her performance. Moreover, the notion of “training” could be replaced, like in many other OECD countries, by the broader perspective of “learning and development”. Indeed, governments in OECD countries are making a significant investment in skills and human capital and are emphasising the need for lifelong learning. More self-directed learning and development by employees are being encouraged, supported by competency frameworks and the inclusion of development in performance management and career progression.

In order to facilitate access to training, mainly to those employees in the regional delegations, ISSSTE could make use of existing tools for training like the *@Campus Mexico* portal. It could also help to reduce costs and monitor training delivery, as budget limitations have been a problem for satisfying training needs in the different delegations. At present, *@Campus Mexico* is largely distance-learning oriented with little focus on the promotion of real capabilities. ISSSTE and SFP could exploit this tool more to make training more strategic by developing a modular approach to training linked to, for instance, a procurement competency framework. However, it is important that classroom-based training not be neglected and it is necessary to ensure that it is based on the most modern adult-learning methodologies. The experience of Australia, Belgium, Denmark, Korea and the United States in applying competency management to training and development programmes could inspire ISSSTE to adopt similar practices (Box 7.5).

Classroom courses should be complemented by a variety of other learning methods, such as developmental assignments, coaching, mentoring, knowledge sharing and team-

based learning. Mexico's progress in e-learning could facilitate this approach. ISSSTE could also explore the introduction of workplace-based activities such as on-the-job training and secondments, particularly for procurement officials from the delegations.

Box 7.5. Developing competencies through training in OECD countries

Australia. The Australian Public Service Commission designed three programmes to support training and development in the agencies throughout the public service. First, the HR Capability Development Programme focuses on developing skills that will give HR staff greater ability to be effective in strategic HR roles. Second, a good practice guide was launched, entitled Building Capability: A Framework for Managing Learning and Development in the APS. This framework aims to foster a learning culture and provides a source of audit criteria for any future evaluation in this area. Third, a Career Development Assessment Centre was established to assess members of the Senior Executive Service (SES) feeder group to help identify their development needs for possible future promotion to the SES.

Belgium. The Belgian government introduced development circles. These focus on developing competencies in order to achieve personal and organisational objectives. An individual training plan is a crucial element in the development circles, one being made for each public servant. The development circle consists of four phases: function discussion, planning discussion, performance review and assessment interview. The last phase is followed by a planning discussion, which is the beginning of a new development circle. In theory, these development circles should be based on the defined competency profiles. In practice, however, some organisations use the competency profiles while others do not. Furthermore, certified training has become one of the main competency management tools in the Belgian federal government. The goal of certified training is to develop public servants' competencies in order to meet the needs of the organisation. When training objectives are met, public servants receive a competency allowance in addition to their normal pay.

Denmark. Since 2007, the Danish government has made considerable efforts to extend and qualify the market for public sector focused on leadership development programmes. During the same period, there has been a significant investment in competence development for all civil servants. Still, the overall principle is that local employers should choose the most relevant programme for their employees. The degree of central co-ordination is reduced to counselling local employers and securing that the market provides relevant high quality programmes for civil servants.

United States. The US Office of Personnel Management (OPM) serves as a lead agency in competency management, while federal agencies utilise a decentralised approach in determining the best use of competencies in their HR processes. OPM does provide guidelines, which include the leadership development programmes. The Executive Core Qualifications, specifically, serve as a guide for the Federal Executive Institute and the Management Development Centre's curriculum.

Source: OECD (2010), "Managing competencies in government: state of the art practices and issues at stake for the future", OECD, Paris, internal document, OECD, Paris, [www.oecd.org/officialdocuments/displaydocumentpdf?cote=GOV/PGC/PEM\(2010\)1/FINAL&doclanguage=en](http://www.oecd.org/officialdocuments/displaydocumentpdf?cote=GOV/PGC/PEM(2010)1/FINAL&doclanguage=en), accessed 20 March 2012.

ISSSTE could emulate SPC's and the Federal Electricity Commission's (*Comisión Federal de Electricidad*, CFE) practice of certifying competencies for both entry and tenure in the Institute. This should be a totally different and independent process to that of certifying officials to use Compranet conducted by SFP. The certification of competencies for procurement is of a different nature. For example, CFE certifies its purchasing agents (*agentes compradores*) through a public certification agency called

CONOCER. SFP has also recently launched a certification in public procurement which ISSSTE could benefit from. Some of the skills needed to be a procurement agent that could be certified include: a keen business sense, the ability to manage finances well and predict cash flows, good communication and social skills. These competencies could allow ISSSTE procurement staff to deal with peers, internal staff and suppliers. Other examples of competencies that could be certified are those identified by the Scottish government (Box 7.3).

ISSSTE could also draw from the experience of Canada, whose Professional Development and Certification Program recognised the need for a common knowledge-based approach for all those who are involved in the life-cycle management of assets – from assessment and planning of requirements through acquisition until disposal (Box 7.6).

Box 7.6. Professional Development and Certification Program in Canada

The Professional Development and Certification Program aims to help professionals in the Procurement, Materiel Management and Real Property Community acquire the skills, knowledge, abilities and training required to carry out their functions.

Development of the programme was driven by the community to raise the professionalism and recognition of the Procurement, Materiel Management and Real Property Community's functions as a knowledge-based profession. What binds this community is its relationship to and responsibility for the life-cycle management of assets – from assessment and planning of requirements through acquisition until disposal. As a consequence of this shared responsibility, the community has many common competencies, learning goals and knowledge requirements. A unique feature of the Professional Development and Certification Program is its explicit recognition of this community commonality and the creation of a competency profile and learning mechanisms that target them. The programme has two components:

- Professional development: this consists of the Core Competency Profile and Web-based Assessment Tool, and the programme's curriculum of courses and other learning activities to build core and function specific knowledge and skills. The Core Competency Profile outlines the 4 competency clusters and the 22 competencies and their associated behavioural indicator statements, by 3 increasing levels of proficiency.
- Certification: this includes the Standard for Competencies, the Certification Program Manual and the Certification Application and Maintenance Handbook. The CGSB Standard for Competencies of the Federal Government Procurement, Materiel Management and Real Property Community builds upon the competencies and behaviours of the Core Competency Profile and defines the knowledge, training and experience required by the community for certification.

A number of federal government organisations have a key role to play in the management and delivery of the Certification Program:

- The Treasury Board is responsible for the oversight and overall management of the programme.
- The Canadian General Standards Board plays three key roles: a registrar function to enroll and track candidates as they progress through the Certification Program; a knowledge exam administrator to advise candidates of their eligibility to take the knowledge exam and arrange for the proctoring and scheduling of the exam; and the certification body supported by an independent panel.
- The Canada School of Public Service provides a number of the courses required for certification. In addition, Public Works and Government Services Canada offers procurement-specific courses that are recognised for certification.

Source: Based on Treasury Board of Canada Secretariat (n.d.), "Procurement Materiel Management and Real Property Communities Management Office", www.tbs-sct.gc.ca/pd-pp, accessed 4 October 2013.

Box 7.7 offers two further examples that could help ISSSTE to establish a programme for certifying the competencies of the procurement workforce. The main lesson for ISSSTE is that well-established certification programmes help define core competencies for procurement professionals, together with requirements regarding education, training and experience.

Box 7.7. Certification of capabilities for procurement

United Kingdom: the Government Procurement Service (GPS) has defined a strategy to “Build the Procurement Profession in Government”. Although GPS does not certify procurement professionals, it intends to build a “community of procurement professionals” distinguished by core competencies that include: an understanding of commercial drivers such as profits, margins, shareholders, cost models, total costs of acquisitions and whole-life costs together with knowledge and understanding of procurement and contract law. Procurement professionals are encouraged to maintain their professional development on a continuous basis. Being a GPS member helps raising the profile of procurement as a profession, and presenting it as an attractive career option; contributes to increase capacity in the profession via entry schemes, creating skills frameworks to help raise standards; and supports the development of skills and capability.

United States: the American Purchasing Society (APS) is a professional association of buyers and purchasing managers and was the first organisation to establish a nationally recognised certification for buyers and purchasing professionals. APS offers three different certification programmes: i) the Certified Purchasing Professional Program directed at professionals who have demonstrated the skills to successfully implement improved purchasing and supply chain practices as part of a business solution in an organisation; ii) the Certified Professional Purchasing Manager Program aimed at those in managerial positions and who have managerial experience; and iii) the Certified Professional Purchasing Consultant Program aimed at certified purchasing professionals who either consult or teach purchasing to people outside their own employer.

Sources: American Purchasing Society, www.american-purchasing.com, accessed 4 October 2013; GPS (2009), “Building the Procurement Profession in Government”, accessed 4 October 2013 at www.ogc.gov.uk.

Moreover, in ISSSTE there is no a specific number of hours of training that staff should receive. For example, ISSSTE could emulate the requirement of the SPC to guarantee that every procurement employee will receive at least 40 hours of training a year. That amount is equivalent to one week’s off-the-job training, which is laudable although a more flexible approach may be taken.

Improving performance management

A focus on performance management could contribute to improve procurement capability

The OECD (2009) budget review of Mexico concluded that strengthening performance management should be emphasised in the personnel function of government by expanding the performance-based personnel recruitment, review and compensation, shifting from a compliance focus to a focus on performance. A performance management system, thus, should be aimed at linking the management of people with institutional goals and strategies. Moreover, Mexico was advised that the performance management

system should focus more on development rather than on the evaluation of performance *per se*. The idea is to improve performance and maximise competencies and applies to every ministry and agency within the federal public administration, including ISSSTE. Based on the experience of OECD countries, it may be argued that the traditional mode of uniform and statutory management of staff as currently conducted by ISSSTE is no longer sufficient to prepare the Institute for delivering social and health care services to a more informed and demanding population.

The Internal System for Institutional Performance Evaluation (SIEDI), adopted in 2010, is a mechanism that aims to assess institutional performance and provide evidence for informed decision making. This is a critical step to promote a culture of performance assessment within the Institute. For ISSSTE, as for the Mexican federal public administration in general (OECD, 2011a), instilling a culture of performance assessment is a behavioural, long-term cultural change process. This is a complex process as it involves altering formal structures and arrangements as well as informal habits ingrained in the system. It should also be noted that the Mexican public service comes from a strong legalistic tradition that stresses adhering to rules and regulations and punishing individuals that fail to do so.

One of the limitations of SIEDI is that it is not linked to employees' performance as the main focus is on assessing institutional performance regarding service delivery. There is no appraisal process in ISSSTE by which procurement officers, like any other employee, receive feedback from their superior. Individual performance is not monitored or periodically assessed. There is no evidence that procurement officials' performance is assessed based on the Institute's goals and strategies. In addition, managers are not prepared to conduct the assessment. Thus, procurement officials do not have the opportunity to streamline processes and make use of cash allocated for purchasing goods and hiring services in a more efficient manner. There is limited or no formal incentive to innovate as errors could lead to sanctions. A lesson derived from OECD countries' experience is that a parallel adaptation of human resource management is a prerequisite for performance management, and thus an essential part of governments' policies aimed at better value for money and better service to citizens. Performance management is indeed concerned with process quality, service delivery and outputs, but also with the individuals or teams of individuals that are expected to deliver these results. And at the individual level, OECD countries have realised that performance is not only a question of teams and individuals doing the right things in the right way. It also involves the way the individual behaves in a workplace context, and how he/she contributes to a well-functioning workplace and to a well-functioning organisation.

In order to enhance current efforts for establishing performance management, SIEDI and employees' objectives and performance would need to be linked. SIEDI would need to aim to: improve productivity (the way people work and the outcomes they produce) and employee morale (resulting from on-time performance appraisals and rewards commensurate with employees contributions); retain top performers (employees would feel accomplished in their work and have stronger career opportunities); and increase value for money. The questions for ISSSTE here are: how to determine which skills and competencies are required? To perform which activities? How to know whether objectives have been met? What instruments are at the disposal of managers to assess employees' performance? As a precondition to engage in performance assessment, ISSSTE should strengthen its ability to describe the desired results of its vision and mission in a sufficiently operational way. This would put SIEDI in a better position to assess and develop performance at organisational, team and, eventually, individual levels.

If performance management is to take root and work in ISSSTE, authorities should reinforce their efforts and capacity to engage in workforce planning and competency management. To help with this shift, the current efforts to streamline the present internal rules and regulations need to be fostered,¹ flexibility in budget allocation and execution and in management and personnel issues need to be increased, and the incentive structures need to be modified.

Reorienting human resource management towards enhancing performance would require parallel and synchronised efforts in several fields, including managerial competencies and mandates, and increased decentralisation of pay setting to line managers. Political and senior management support is critical for these changes to occur, including those related to the SIEDI. There is no “best case” country or model of performance management of employees across OECD countries. However, the overall experience of OECD countries with established programmes for managing employees’ performance, such as Denmark, Ireland, Portugal, the United Kingdom and the United States, has some important lessons for ISSSTE (Box 7.8).

Box 7.8. Key lessons on managing employees’ performance in 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.

Source: OECD (2008), *The State of the Public Service*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264047990-en>, accessed 4 October 2013.

The key message is that 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 she/he can do things better, and on identifying and addressing barriers to good work performance.

If ISSSTE accepts the recommendation of linking SIEDI to employees’ performance, one of the first steps it could take is to introduce a methodology and set of procedures for assessing and rating the performance of individuals according to standards and criteria applied across the organisation in a systematic fashion. The objective of the “performance

appraisal” would be to begin the cultural change by sending a message about the importance of performance in conducting procurement or any other activity within the Institute. A key element is to introduce guidelines to deal with poor performance and commend good performance as a normal occurrence in the everyday life of the Institute. The results should be widely publicised within the organisation. For that, guidelines for granting stimulus and rewards for outstanding performance should be defined and published. It is not recommended at this stage to link performance to monetary rewards as ISSSTE’s HRM practices and procedures are not adequate, and middle and senior managers are not prepared mentally or technically to assess performance. It is crucial to have a well-defined performance appraisal process based on identified objectives or criteria before introducing any link between performance and pay. In addition, sufficient delegation of responsibility for the management of human resources and, in particular, in relation to staff performance appraisal policies must first be implemented. In the meantime, ISSSTE could explore setting the stage for total rewards management. It refers to job characteristics that make the work conditions attractive to employees. It includes a long list of non-financial rewards such as better work-life balance, unpaid time-off, time to provide care for family members, and opportunities for community involvement. While this concept is relatively new, countries like Canada and the United States have started exploring it.

A positive development towards building a comprehensive performance management strategy would be to strengthen the link between SIEDI and the Performance Evaluation System (*Sistema de Evaluación del Desempeño*, SED) established in Articles 110 and 111 of the Federal Law for Budgeting and Financial Responsibility. The Ministries of Finance and Public Administration have the obligation, according to the law, to evaluate the results of the execution of programmes and budgets of the different dependencies and entities of the federal public administration so as to ensure efficiency, economy, effectiveness and quality of the federal public administration.

The OECD (2009b) budgeting review of Mexico also recommended the creation of a performance co-ordinator or manager position in the *Oficialía Mayor* in each line ministry. ISSSTE could follow the same line, drawing lessons from the accumulated experience of federal ministries and agencies. This person would report directly to the Institute’s Director General and serve as a reform champion.

Moreover, aligning ISSSTE’s HRM policy with the Special Management Improvement Programme (*Programa Especial de Mejoramiento de la Gestión*, PEMG) would be an additional strategic move towards enhancing ISSSTE’s evolution towards performance management. The PEMG acknowledges the need of simple and flexible rules so as to optimise the recruitment process, find new methods to improve long-distance education, and create a system of performance evaluation to increase the level of performance of public servants with a focus on results. The PEMG has three main objectives: *i*) maximise the quality of goods and services delivered by the federal public administration; *ii*) increase institutional effectiveness; and *iii*) minimise the operation and administration costs of dependencies and entities.

Improving the compensation of procurement staff may constitute a tool to enhance performance

Officials interviewed for this report concluded that one of the principal windows of opportunity for improving the working conditions in ISSSTE is the need to increase salaries. Due to budget constraints, middle and senior managers and professional

employees have not had a raise for over ten years, which is having a negative impact on the motivation of all staff. This situation may act in detriment of employees' moral and commitment to the Institute. New thinking in compensation planning and management can help ISSSTE, and the Mexican public administration in general, address budgeting issues while remaining competitive in the labour market. In collaboration with the Ministry of Finance (*Secretaría de Hacienda*) and in co-ordination with SFP, ISSSTE could reform its compensation system.

It is beyond the scope of this review to assess the compensation system of Mexico's public administration and of ISSSTE in particular. However, to contribute to the discussion, two important considerations can be made. First, this would be an opportunity to recognise the unique role of senior managers in the Institute by establishing an executive compensation system apart from the general wage system. Although the total compensation costs of senior management are relatively small in the context of the overall spending of ISSSTE, their levels of compensation are crucial for attracting and keeping talent for positions with high levels of responsibility. Second, since there are limited financial resources to provide significant salary increments, but ISSSTE still needs to reward its employees accordingly, this could be an opportunity for adopting a wider package of non-financial rewards, in particular for professional employees such as procurement officials. The satisfaction of working for the benefit of society is itself a reward for many government employees and serves as a source of intrinsic motivation. Policies that promote greater work-life balance, such as flexible working hours and time to provide care for family members, can also attract talented employees. Creating a climate that maximises the total rewards of the work experience is a challenge, but ongoing budget cuts and downsizing makes this an ideal time to focus on practices that have little or no financial cost. Doing so can help ISSSTE benefit from more engaged and committed employees. These practices should cover both unionised and non-unionised workers as, most of the time, it is the case in Mexican public administration that non-unionised workers have less advantageous working conditions.

The experience of OECD countries suggests that reforming the compensation system requires an understanding of what to emphasise and what to avoid in order to minimise potential problems and build support for the new system. Four general key considerations could be suggested to ISSSTE in this respect:

- The compensation system should be seen as a management tool. Some countries, such as Australia, Denmark, New Zealand and Sweden, have delegated responsibility for pay management from a central office to individual agencies, making managers more accountable for the performance of their units. This shift – from rule-based governance and compliance to managerial discretion and accountability for results – can enable middle managers in ISSSTE to use the compensation system as a strategic tool in achieving the Institute's objectives. However, ISSSTE would require a full training programme for managers on performance management, and the adoption of a management accountability framework to limit undue practices. The supervision of internal control would be recommended.
- In contrast to the stability of the past, public employers in OECD countries are reorganising and restructuring work processes to save money. Traditional compensation systems, which often base salaries on posts rather than on skills and increase all salaries at the same pace, can make these changes difficult. More flexible compensation systems, as in Australia, New Zealand and the

United Kingdom, could help ISSSTE recruit and retain employees with skills that are in high demand.

- One purpose of compensation should be to influence employees' behaviour, for example to accept a job offer, to work diligently, and, for the better performers, to commit to careers with their employer as in Chile, Finland, Germany and Norway.
- Shifting to a new compensation system would allow ISSSTE to focus on performance as a priority. Organisations that do not distinguish between good and bad performance send an implicit message that performance is not important. Although a performance-related pay system is not in place in Mexico, recognising good performance, even through non-financial rewards, is a potentially useful complement to other elements of performance-oriented management as in Denmark, Finland, Korea and the United Kingdom.

Fostering management accountability

The quality of management needs to be improved to enhance accountability for efficiency and effectiveness

Without effective people management there is little chance of introducing positive and lasting change in ISSSTE. Interviews with ISSSTE officials suggested that middle managers and supervisors across the Institute, particularly in procurement, lack the necessary managerial skills to get the most out of their staff; to manage conflict, absence and performance; and to ensure people are coached and developed on the job to improve service delivery. Moreover, senior and middle officials throughout the Institute are subject to the changes in administration limiting continuity.

The experience of OECD countries suggests that good quality line management is one of the core drivers of employee engagement. It is the day-to-day behaviour of line managers that, to a large degree, decides the extent to which employees will go the extra mile in their jobs and remain loyal to the organisation. Line management's behaviour is also central to the degree people learn at work, their well-being and resilience, and ultimately their productivity. For instance, mobilising the skills and competencies of the procurement workforce will help them to do the right things in the right way at the right time. As such, the management function plays a critical role in unleashing the talent available in the workforce and making use of it in an efficient and effective manner.

Middle managers and supervisors have to adapt management skills to get more out of their staff and build the kind of team spirit that can help ISSSTE to face constraints and uncertainty successfully. For example, ISSSTE needs transformational leadership that is flexible and adaptable, to enable it to deal with sudden change. Another characteristic of the leadership needed is the ability to delegate. Middle managers trying to make every decision themselves will simply generate bottlenecks in response efforts, leading to inefficiency. This required ability presupposes that middle managers have well trained their staff in advance, and that the manager is self-confident.

Other competencies required include operational planning (to lead the team and give directions); team building (the internal dimension of collaborative action); and networking/partnering (the external dimension). Experience suggests that all team building occurs prior to crises, especially through training, and it is the management of the team that makes the difference in responding to crises.

An important criterion for selecting managers should not only be their knowledge of the procurement function, or any other administrative area, but also their skills and competencies to manage people. In ISSSTE, procurement managers and supervisors, like any other official in a management position, are most of the times directly appointed by their superiors or the political leadership (personal relations) justified by their work experience. However, there is no selection process to ensure that the person appointed indeed has the right competencies and skills and the managerial experience to lead teams successfully. On some occasions there may be an interview but it is focused on the candidate's technical knowledge and not on his/her management experience.

One of the first steps for improving the management capability of the procurement function, and of the Institute in general, is to open those positions to competition with internal and external candidates. A selection panel could be formed with members from the area where the vacancy is located, and representatives from HRM, internal controllership or even from the SFP. A way of introducing this practice in the Institute is by piloting the scheme in one area, for instance procurement, and eventually extending it to the rest of the Institute. In addition, ISSSTE could consider hiring middle managers on renewable fixed-term contracts, therefore safeguarding them from changes in the political leadership of the Institute. Contract renewal should depend on their performance in achieving objectives and the way those objectives were met.

In working towards a performance management culture, ISSSTE would need to make middle managers accountable for performance but they should also be empowered to do so. This implies finding a healthy balance between accountability and flexibility. This is the same challenge encountered in the Mexican public administration (OECD, 2011a). The need for compliance with regulations has to be weighed against the freedom of managers to do their jobs well. There are obvious dangers in relaxing control in the absence of adequate financial and managerial systems. However, there are also dangers in failing to relax these controls sufficiently. Too many restrictions create conditions which do not give managers enough freedom to improve performance. Managers should have the necessary means and flexibility to manage their teams in a responsive way that allows them to achieve their objectives.

The experience of Canada's Management Accountability Framework (MAF) provides a useful example for ISSSTE in this respect (Box 7.9). Canadian authorities have put a strong emphasis on results and performance and increased the delegation of management functions to departments. Thus, the MAF is intended to clarify the management expectations of deputy heads and support ongoing dialogue on management priorities with their executive team; provide a comprehensive perspective on the state of management practices and challenges; and identify government-wide trends and general issues in order to set priorities and resolve issues.

Box 7.9. The Canadian Management Accountability Framework

In the context of increased 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/mafcrng/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.

Source: Adapted from OECD (2011a), *Towards More Effective and Dynamic Public Management in Mexico*, OECD Public Governance Reviews, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264116238-en>, accessed 4 October 2013.

Proposals for action

The way procurement officials, like the rest of the personnel, are managed and the manner they acquire competencies and skills to undertake procurement, prevent ISSSTE from making the most out of its workforce to accomplish its mission. ISSSTE's HRM practices are at odds with the goal of establishing a merit-based, transparent and objective human resource practices in the federal public administration. Although the rules of the Professional Career Service do not apply to ISSSTE, it does not prevent the Institute from aligning its practices to the principles of the SPC. In fact the *Human Resource*

Management Manual prepared by the SFP is, to a large extent, based on the spirit of the SPC and the experience of the different career systems found in different agencies in the federal public administration.²

To modernise the management of its workforce, including its procurement teams, ISSSTE could take the following actions:

1. Professionalise procurement so as to provide professionals with the opportunity to make a career in the Institute and for ISSSTE to acquire and retain talent.
2. Introduce open competition for recruitment and promotions. ISSSTE could adopt a position-based recruitment system, which seems to be more adequate for its organisational and administrative culture.
3. Focus on competencies for the recruitment, training and performance assessment of staff. Developing a competency management framework would help ISSSTE to make personnel management more flexible and merit based, and achieve a better fit between recruitment and the needs of the Institute.
4. Introduce job profiles as a tool for effective recruitment and attracting talent. Job profiles clarify the sort of people needed for the job, what is expected of them and how much scope they have to exercise their initiative.
5. Establish a plan or programme for strategic training for staff of procurement and user areas. This should be seminal in addressing the competence needs of the Institute, and enhance organisational, team and individual performance. Certifying staff competencies, for example through SFP's certification procedure, would be a way to ensure that the procurement workforce is qualified, and to facilitate the movement of staff across the different sectors of the Institute and even of the federal public administration.
6. Engage in strategic workforce planning to determine staff numbers required for the procurement function and any other administrative positions, provide realistic staff projections, detect competency and skills gaps within the Institute, and manage the workforce in a more cost-effective manner.
7. Develop a framework for performance management aimed at improving productivity, employees' morale, retaining top performers and increasing value for money. Introducing performance appraisals to rate and assess employees' performance is a first step towards changing the compliance with rules culture to one where performance and attaining goals are more important.
8. Improve staff compensation as a way to improve motivation and commitment. In particular, ISSSTE could explore adopting a wider package of non-monetary rewards to complement the staff salaries.
9. Improving the quality of management is critical for enhancing employees' engagement, unleashing the talent of the workforce and making use of it in an efficient and effective manner.

Notes

1. For an in-depth discussion on regulatory reform issues see Chapter 2.
2. This review does not suggest emulating entirely the SPC. The principles of the SPC of the central federal public administration are in line with the best practices of other OECD countries, but the practices still present serious drawbacks that need to be addressed. Thus, in drawing lessons from the SPC, ISSSTE should keep in mind that the SPC is still in a process of improvement and consolidation.

Annex 7.A1

Scottish procurement: Example of a procurement competency framework

This table illustrates the structure and level of details of the Scottish procurement competency framework, using the competency “Procurement Processes” as an example.

TECHNICAL

PROCUREMENT PROCESSES

DEFINITION: Has the sufficient knowledge and understanding in sourcing and tendering methods to carry out duties associated with role.

Skill	Level 0	Level 1	Level 2	Level 3	Level 4
Data analysis	Not required to have knowledge or competence in data analysis.	Aware of requirement for data analysis. Can undertake basic data download and analysis. May require specific guidance and support to achieve outcome.	Understands concepts and techniques for either numerical or contextual analysis. Shows a tendency towards stronger capability in particular techniques.	Knowledgeable and competent in the application of a range of analysis techniques, whether numerical, contextual, empirical or subjective. Recognises and adapts information presentation style to reflect the target audience. May provide guidance to other staff.	Strong analysis capability, providing intuitive analysis of a wide range of sources. Intuitively structures data and drills down on findings to provide rich reports which reflect the information requirements of the target audience.
Project management	Not required to have specific project management skills or knowledge. May complete tasks assigned to them within a project environment.	Recognises project techniques. May have a project participation level qualification. Involved in tactical planning.	Understands project methods and will adopt them in small projects. Likely to use project methods in completing their own tasks. Practical experience of working with others on procurement projects in a controlled project managed environment.	An established project manager who has formal management qualifications and/or substantial practical experience. Can lead cross functional/organisational project teams.	A recognised project and programme leader. May delegate project management tasks. Defines organisational project management strategy.

TECHNICAL

PROCUREMENT PROCESSES

DEFINITION: Has the sufficient knowledge and understanding in sourcing and tendering methods to carry out duties associated with role.

Skill	Level 0	Level 1	Level 2	Level 3	Level 4
Establishes collaborative partnerships (e.g. cross functional/organisational) teams, inter-government collaborative working or commercial partnering arrangements	Is not required to establish partnerships or collaborative working. Not required to have knowledge or understanding in this area.	Basic awareness of collaborative approaches and working. Undertakes an administrative role in process under close supervision.	Basic understanding of collaborative approaches. Able to follow pre-determined procedures. Understands issues and benefits of collaboration. Sufficiently knowledgeable to recognise when to seek advice and other support.	Understands fully the benefits and issues of collaborative approaches. Skilfully acknowledges when partnering or collaboration should and should not be utilised, ensuring the attendant commercial/procurement relationship is established and maintained.	Understands completely policy and practice and argues for and against specific collaboration. Thorough knowledge and practical experience of successfully enacting partnerships or collaborative working, has proper understanding of the range of partnering options, the associated risks and benefits. Able to play a leading role developing the commercial/procurement aspects. Able to contribute to continuous improvement across organisations, while benefiting the ongoing relationship.
Specification development	Not required to develop specifications, but will work with pre-determined specifications formed by others.	Not required to develop specifications. Works within their job remit. May provide information and clarify aspects of customer specifications for low-value, low-risk specifications.	Develops less complex specifications with customers, or more complex specifications under direct guidance.	Supports customer development of complex specifications and can incorporate these into an appropriate EU tender. Readily builds own technical knowledge.	Advises on and assists customer development of technically demanding specifications. Can articulate and specify requirements relating to contracts for the procurement or stores function for which they have responsibility. Builds, or has already established, a very sound understanding of technical subject. Demonstrates creativity and innovation in the development of complex specifications.

TECHNICAL

PROCUREMENT PROCESSES

DEFINITION: Has the sufficient knowledge and understanding in sourcing and tendering methods to carry out duties associated with role.

Skill	Level 0	Level 1	Level 2	Level 3	Level 4
Sourcing and tendering	Not required to have knowledge of strategic sourcing tools or techniques. May be involved in some low level sourcing activities, e.g. phoning around for prices or checking the availability of supplies.	Is aware of sourcing and tendering processes at an essentially tactical level. May process low level quotes/tender, etc. under supervision.	Understands that sourcing and tendering are a part of a fuller strategic procurement process. Responsible for sourcing and tendering for commodities, services or estate works, but usually below the EU threshold. May use e-tendering/reverse auction under guidance. May exceed EU threshold under guidance.	Comprehensive knowledge of the role sourcing and tendering play within the wider strategic procurement process. Routinely responsible for higher level projects (commodities, services or estate works) above EU thresholds. Uses innovative tools e.g. e-tenders, reverse auctions appropriately.	Will be responsible for creating and amending the sourcing and tendering process. Will recognise weaknesses in the process and implement changes based on policy and organisational needs.
Tender evaluation	Understands and uses organisation-specific procurement procedures for low-value awards of business which are within the job remit. Not required to undertake tender evaluation or contracting processes, or understand the role these play in ensuring value for money.	Is aware that tender evaluation and contracting processes have a role to play in achieving value for money, but would seek advice on how to carry this out. Not required to prepare written contracts or detailed tender evaluation documents.	Understands the concepts of contracting and tender evaluation. May evaluate and let contracts for less complex tactical purchases (commodities, services or estate works).	Fully conversant with tender evaluation and processes leading to contract award. Has extensive experience of undertaking more complex, legally compliant, EU-advised tender evaluation for a range of commodities, services or estate works.	Responsible for directing strategy and tactics for major contracting and tender evaluation work ensuring compliance with policy and EU Public Procurement Directive. Ensures organisational procurement processes enable compliance with the EU Public Procurement Directive and other applicable legal obligations.
Contract award and supplier debrief	Is not required to award contracts, may place orders with contracted suppliers within delegated authority levels. Is not involved in supplier debriefing.	May undertake awards of business following telephone quotations or low-level quotes. Aware of the need to provide constructive feedback to suppliers, but would only be involved with support.	Is involved in awarding less complex/lower value contracts and providing constructive feedback to suppliers based on evidence.	Has extensive experience of the contract award and debrief processes for contracts in excess of EU thresholds.	Responsible for ensuring the organisation that all contracts are awarded in compliance with all appropriate legislation. Takes responsibility for the award of contracts in relation to major complex procurements. Manages and resolves disputes arising from supplier debrief, liaises with legal advisors where appropriate.

TECHNICAL

PROCUREMENT PROCESSES

DEFINITION: Has the sufficient knowledge and understanding in sourcing and tendering methods to carry out duties associated with role.

Skill	Level 0	Level 1	Level 2	Level 3	Level 4
Contract management	Not required to manage contracts. Within their remit, may monitor or report <i>ad hoc</i> contractor performance issues or problems to others or a line manager.	Not involved in post-contract activities. Within their remit, may assist contract managers, monitor or report contractor performance issues or problems to others or a line manager.	Understands the role of contract management and works closely with customers at an operational level to monitor progress against the contract.	Fully implements contract management strategies and techniques on a project by project basis, and within the procurement function. May provide contract management advice or training to others. Works with customers to ensure that materials/services are delivered according to contract.	Develops contract management techniques, strategies and reporting to meet functional, organisational or national requirements. Will monitor the overall contract management strategy. Involved in high risk/high-value contract management activities, and directs action to correct deviation from contract.
Supplier management	Not required to have knowledge of supplier management or its importance in ensuring continued value for money.	Is aware that ongoing supplier management is important beyond the contract award stage, but does not routinely carry out any supplier management. May provide tactical support to others undertaking supplier management.	Understands the principles of supplier management, but has limited commercial focus and awareness beyond the tender stage.	Experience of supplier management and how to ensure ongoing value for money throughout the lifetime of the contract.	Develops strategic relationships with key suppliers and is able to mentor and advise others. Identifies latest thinking in supplier management and looks for ways to gain benefit from their implementation.
Supplier development	Not required to have knowledge of supplier development or its importance in ensuring continued value for money.	Is aware that ongoing supplier development is important beyond the contract award stage, but does not routinely carry out any supplier development. May provide tactical support to others undertaking supplier development.	Understands the principles of supplier development, but has limited commercial focus and awareness. Supplier development takes place, but without adequate structure and rigour.	Applies supplier development techniques planned through the lifetime of a contract. Develops and applies aspects of partnership working and supplier development with specific organisations within the supply base, while maintaining suitable scrutiny and transparency.	Develops supplier development techniques and manages the development of complex supplier relationships. Creates and maintains strategic relationships with a core set of suppliers.

TECHNICAL

PROCUREMENT PROCESSES

DEFINITION: Has the sufficient knowledge and understanding in sourcing and tendering methods to carry out duties associated with role.

Skill	Level 0	Level 1	Level 2	Level 3	Level 4
Benchmarking	Not required to understand or apply benchmarking techniques.	Demonstrates an awareness of benchmarking systems. Will use as and when necessary at a basic level, seeking advice where necessary.	Understands benchmarking systems for price and processes. Will use appropriately and present findings in a clear concise manner.	Clearly understands and uses benchmarking systems, presents and acts upon findings. Actively encourages staff to use them effectively. Suggests system improvements.	Expert knowledge and understanding of benchmarking systems. Will seek to enhance and develop further areas for comparing performance.

Source: Scottish Government (n.d.), “Procurement and skills: people capability”, www.scotland.gov.uk/Topics/Government/Procurement/Capability, accessed 26 June 2012.

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Chapter 8

E-procurement: Implementing a strong IT environment to support ISSSTE's procurement activities

This chapter describes ISSSTE's current IT environment and highlights how the absence of integrated IT systems covering the entire procurement cycle can hinder the efficiency and evidenced-based management of procurement activities. The slow uptake of e-procurement is also addressed, describing the need to build awareness and capacity, both within the organisation as well as within its supply base.

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.

Introduction

The existence and use of IT systems at the Mexican State's Employees' Social Security and Social Services Institute (*Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado*, ISSSTE) varies across the functional areas of the organisation. The current administration has made a significant effort to bring a new impetus for the use and deployment of IT. In particular, the adoption of some key systems since early 2012 marks an important evolution in the development of the IT environment to support more efficient management of functions. This has concerned, in particular, the distribution process of medicines and medical supplies (e.g. supported by the Supply Control Board, *Tablero de Control de Abasto*) and has strengthened the management of the supply functions. Unfortunately the same developments have not occurred in relation to the management of the procurement functions.

This chapter highlights how ISSSTE could lever existing IT systems to tackle a number of issues (e.g. information management, integration of systems, improved collaboration and communication) which would have a positive impact on the procurement functions. There are indeed a number of shortcomings highlighted in this chapter that, if not properly addressed, could limit the benefits reaped from the investments in this area. These are gaps that need to be tackled in order to ensure the optimal use of the systems in use.

Building on the recent IT developments, it is advisable that ISSSTE develop an IT-based platform to manage all of the activities related to its procurement function. The deployment of such a system across all of its procurement units could contribute to the overall improvement of its procurement function as a whole, for example by making the process more standardised, consolidating opportunities and planning. Furthermore, that system would complement the functionalities enabled by Compranet, the national e-procurement solution used by the Mexican federal government which does not support the full digital management of the procurement cycle but only parts of it.

Current IT environment

Implementing a single, comprehensive e-procurement system would harness the power of technology for more efficient and transparent public procurement

ISSSTE does not have an IT-based procurement platform, i.e. e-procurement system, which means that there is no specific IT used to manage its internal procurement processes. ISSSTE's central level administration and the decentralised units use Compranet (www.compranet.gob.mx), which is the procurement management information system of the federal government. Since the reform of the procurement laws in 2009, it is compulsory for the Mexican public administration at the federal level to use this national e-procurement system. However, the Law of Acquisitions, Leasing and Services of the Public Sector (*Ley de Adquisiciones, Arrendamientos y Servicios del Sector Público*, LAASSP) still allows suppliers to use paper-based processes to participate in public tenders. Compranet, managed by the Ministry of Public Administration (*Secretaría de la Función Pública*, SFP), is intended to streamline procedures in the procurement of goods, services, leasing and public works funded with federal public resources. It also supports back-office integration within the public administration among procurement, budget and

accounting information management systems, and increases transparency in government operations (OECD, 2011).

The absence of an organisational procurement management system that is integrated with associated systems (e.g. budget, stock) is a significant weakness of ISSSTE's procurement function. In public procurement, the goals of fairness, competition and economic value are paramount. To achieve these goals, effective and efficient procurement processes must be established. This includes incorporating adequate controls to promote competition and minimise the risk of fraud, corruption, waste, and the mismanagement of public funds. In this context, ICTs can be a pivotal tool to foster efficiency and transparency in public procurement.

E-procurement, i.e. the use of information and communication technologies in the procurement function, can help streamline and increase the efficiency of purchasing through more efficient procurement administration. It can indeed result in significant cost and time savings. Additionally, it can help further optimise the efficiencies of the entire process by helping to integrate support functions (i.e. legal, budget related, product specific, stock and supply management, statistical), fostering the creation of specialised skills and facilitating the standardisation of practices whenever suitable. Going even further, ICTs enable economies of scale, for example through the creation of pooled procurement information (e.g. made available on public procurement portals).

Additionally, e-procurement enables a more rigorous management of the procurement process as it provides a mechanism to increase objectivity in the selection of suppliers and increase process transparency. This can have direct consequences on the perceived level of accountability and integrity of ISSSTE's activities. It can, for example, facilitate the provision of data and information when requested for auditing purposes, thus curbing the time spent on data collection required for internal control purposes.

As for all other areas of public functions, openness and transparency are core principles of public procurement. Fairness can only be ensured by making information throughout the process open and available to all. Using ICTs to foster sharing in open formats of data provided by various parts of the Institute at all levels can facilitate the consolidation of requirements, which could allow better prices through greater volumes, i.e. suppliers can provide the most competitive pricing for higher volumes. Savings can be achieved with a combination of price reductions, administrative efficiencies and demand management. These higher efficiencies can benefit both ISSSTE as purchaser as well as its suppliers.

Among other IT initiatives, the recent deployment of the Supply Control Board supporting stock management of medicines and medical products (refer to Boxes 4.2 and 8.2) as well as the planned development of a similar tool to present the status of all of the Institute's procurement procedures, illustrate ISSSTE's overall efforts to promote more strategic sharing and use of information and to strengthen the use of ICTs to foster better co-ordination and collaboration within and across the various administrative levels. Such systems would, however, only cover some aspects of the management of the procurement process. Instead of investing resources in the deployment of individual systems, it is recommendable to adopt a comprehensive strategic view and envisage a related action plan aimed at developing a complete e-procurement system. This approach would more strategically, and in an integrated way, frame the development of single components as part of a full-scale system.

Following the experience of OECD countries such as Chile and Korea (Box 8.1), ISSSTE could consider developing an e-procurement management system used by all of its procurement units, covering the entire procurement cycle, supported by a single e-procurement portal and integrated with existing relevant IT systems and databases.

Box 8.1. Integrated e-procurement systems in Korea and Chile

Korea

In 2002, Public Procurement Service (PPS), the central procurement agency of Korea, introduced a fully integrated, end-to-end electronic procurement system called KONEPS. This web-based system processes the entire procurement process electronically (including a one-time registration, tendering, contracts, inspection and payment) and related documents are exchanged online. In particular, KONEPS links with about 140 external systems to jointly share any necessary information, and provide a one-stop service, including Internet banking. Furthermore, it provides related 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, eliminating instances of corruption. In addition, the system has boosted efficiency in procurement, increasing the number of transactions and significantly reducing transaction costs.

Chile

The Chilean e-procurement architecture, built around the web portal www.chilecompra.cl, has a high degree of integration among various systems governing the different phases of the procurement cycle. One of the main achievements of such an integrated system is the extremely high level of transparency towards all stakeholders, mainly by means of accurate data production on public contracts. ChileCompra analyses data extracted from the electronic platform such as the number of bids, purchases through framework agreements, non-competitive procedures. This data are then compared to figures from the previous years in order to estimate amounts spent, savings and the correct application of standards related to the types of procedures. Among other things, this has generated many official investigations on public contracts awards, thus strengthening the overall level of integrity of the Chilean system.

Sources: Chang, Kyung-Soo (2012), "Innovating Public Procurement through KONEPS"; OECD (2012), "Progress Made in Implementing the OECD Recommendation on Enhancing Integrity in Public Procurement", OECD, Paris, www.oecd.org/gov/ethics/combined%20files.pdf; accessed 4 October 2013. OECD (forthcoming) *Public Procurement Review of the United States*.

The development and implementation of such an e-procurement system could provide various advantages, such as:

- increasing the consistency and adequacy of the procurement activities through a common process, the availability of templates (e.g. model solicitation documents) and the automation of various steps of 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 key procurement data for decision making, performance management (of both the procurement function and suppliers) and auditing purposes;
- improving the transparency of the management of the procurement process which could help increase overall accountability;
- strengthening communication, collaboration, co-ordination and planning, which could have a positive impact on the overall quality of procurement.

However, there is no “one size fits all solution”. As such, it is essential that any decision to make an electronic tool mandatory for specific procedures take into account the specific organisational and field context, as well as the level of IT readiness among users. Furthermore, such a tool should be flexible enough so that it does not reduce the effectiveness and efficiency of the process.

Interviews have shown that the key stakeholders – both at the central and local level of ISSSTE – are willing to take up new IT platforms and systems to support procurement functions. The Sub-Directorate of Information Technology (Subdirección de Tecnología de la Información) appears to have the right governance model, capacities and strategic approach to drive e-procurement implementation across the Institute. All ICT initiatives are managed and co-ordinated by this sub-directorate which is in charge of the development and improvement of the IT institutional systems. All delegations’ and hospitals’ IT needs are channelled through the central level that consolidates the requirements. Similarly, the sub-directorate has also taken a number of initiatives to build relevant IT capacities across the agency. Through diagnostics of the various units, the level of readiness needed to support the deployment of new IT systems is assessed (e.g. to assess whether the local medical units are ready to take up the new systems and platforms or not) to make sure that everyone is aligned and trained on the technical and change management aspects. The approach is aimed to ensure that the system is deployed only once the personnel is ready. This was done, for example, in relation to the new ISSTEMED system (described in Box 8.2) to ensure the presence of the right level of preparedness across the Institute before deploying it.

A significant gap can be observed in the use of ICT in the management of procurement activities compared to other functions

As indicated earlier in this chapter, the current administration has brought new impetus in the IT environment at ISSSTE. A number of new systems have been developed or are under design or development since the beginning of 2012 and actions have been taken to boost the use of IT to improve the management of administrative functions. However, this momentum was not reflected in the development of IT systems directly related to the procurement process. Of the 43 IT systems identified by ISSSTE, only 4 are used by the Administration Directorate (*Dirección de Administración*) and none of them are used to support key functions of the procurement process *per se*.

ISSSTE is still characterised by a significant difference between the use of IT for information management in relation to a number of administrative functions and activities and the use of IT to manage the procurement functions. Nevertheless, the current administration has stated that the use of ICT to improve the management – i.e. efficiency and transparency – of the procurement process is a priority; and the Institute has a number of IT systems – many of which were deployed in 2012 – which are used for a number of functions, such as stock management, supply management and performance management, closely related and key to procurement (Box 8.2). This reality has two implications:

- There is a good set of experiences and good practices, as well as IT systems and databases, which could be taken into account and used to create synergies and guide the development of the e-procurement system.
- Integration will need to be ensured between the existing systems and the newly developed ones.

Box 8.2. ISSSTE's main IT systems related to the procurement function

SPEP (Budget Programming and Exercise System, *Sistema de Programación y Ejercicio Presupuestal*)

This system is used to manage the budget and is integrated with the central level budget and procurement area for the following processes: registering and processing systematic and immediate programme-budget operations and unliquidated certified accounts (CLC) and multiple documents; resource administration; control of discharge; budget reports; exercise closings; reconciling figures by modifications to the original budget; controlling payment of pensions.

SIAM (Comprehensive Medicines Supply System, *Sistema Integral de Abasto de Medicamentos*)

Launched in March 2012, SIAM is an integrated system used to manage the supply and stock of medicines. It is meant to ensure an integrated control of stock levels and the exchange and return of medicines, thereby preventing shortages in the medical units. Under a new version recently developed, SIAM is integrated with ISSSTE's Comprehensive Healthcare Registry System (ISSSTEMED, see below) and the ERP system of the firm that manages the central warehouse (Servicio Integral de Logística y Distribución Sapi de C.V, SILODISA). Following a two-month pilot phase, the deployment of SIAM's new platform started in early September 2012 to improve supply management thanks to better integration among the relevant IT systems. In order to ensure higher integration of SIAM, the plan is to incorporate the following functionalities: the bar codes of medicines, information concerning rights' holders, better generation of reports, and a bidirectional interface with SILODISA ERP.

SISDEL

This system is integrated at the central level with the system used for movable goods to properly register and control delegations' inventory. The following processes have been integrated: registration and control of delegations' property and of the transfer of property between delegations; registration of donations; issuance of individual backup forms; report of the physical inventory of goods; users' catalogue of movable goods; catalogue of workplaces at the delegation level; reports on monthly movements within the delegations and on figures at the delegation level.

SIA

SIA is used to record the movement of capital and consumer goods entering the regional warehouses, but is not integrated with any other areas. In contrast, the healthcare products and medicines procured and delivered by the National Distribution Centre are recorded in a system called SiiPlus that is integrated with the suppliers, and where contracts are recorded and captured, and amendments and returns are registered.

Box 8.2. ISSSTE's main IT systems related to the procurement function (cont.)

Supply Control Board (*Tablero de Control de Abasto*)

ISSSTE's strategic aim for developing the Supply Control Board was to "gain a greater control on the results obtained by the Institute under the various main areas covered by its mandate". The system began as a spreadsheet in February 2012 and later evolved into a tool downloaded from Internet (March 2012). ISSSTE has been working on a new system to make it available through the intranet by the end of September 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/>.

The system covers 907 codes of medications. It was developed as a dashboard to track the level of supply in the medical units, as well as the availability of each of the key medicines and healing materials in the National Distribution Centre. The use of this tool also allows highlighting existing problems concerning the supply chain from a medical point of view, as well as in relation to the distribution of income, and the stock and purchasing procedures that are being implemented. It is not currently integrated with any other system.

SIEDI (Institutional Comprehensive Performance Evaluation System, *Sistema Integral de Evaluación del Desempeño Institucional*)

SIEDI is a system used to register and monitor the institutional programmes of each of ISSSTE's areas. It has three levels of indicators: performance strategies, administrative strategies, patients' perception. SIEDI is intended to improve the management of the whole planning, monitoring and evaluation process to ensure that corporate goals are achieved according to standards of service. Its goals are to integrate information, promote a culture of evaluation and assessment, and regularly incorporate users' perception in the overall evaluation as a way of improving results. The system is currently used by 35 delegations, 18 administrative units and 11 hospitals. However, and as discussed in Chapter 4, the system is currently too limited to support a sound management of the procurement function (among others, the indicators are too few and insufficient).

ISSSTEMED (Electronic Medical Files, *Expediente Clínico Electrónico*)

The system was conceived to link different medical units to manage and register the medical services provided to beneficiaries. The goal is to streamline, improve and integrate medical processes at the three levels of the Institute's services. In its new version, the process of integration between the appointment interface and the supply of medicines was strengthened, the imaging features improved and warning messages were introduced related to patient's characteristics (allergies) for a permanent monitoring by the health team. All of these changes can potentially improve the efficiency and quality of services delivered to beneficiaries (the most important priority identified by the organisation).

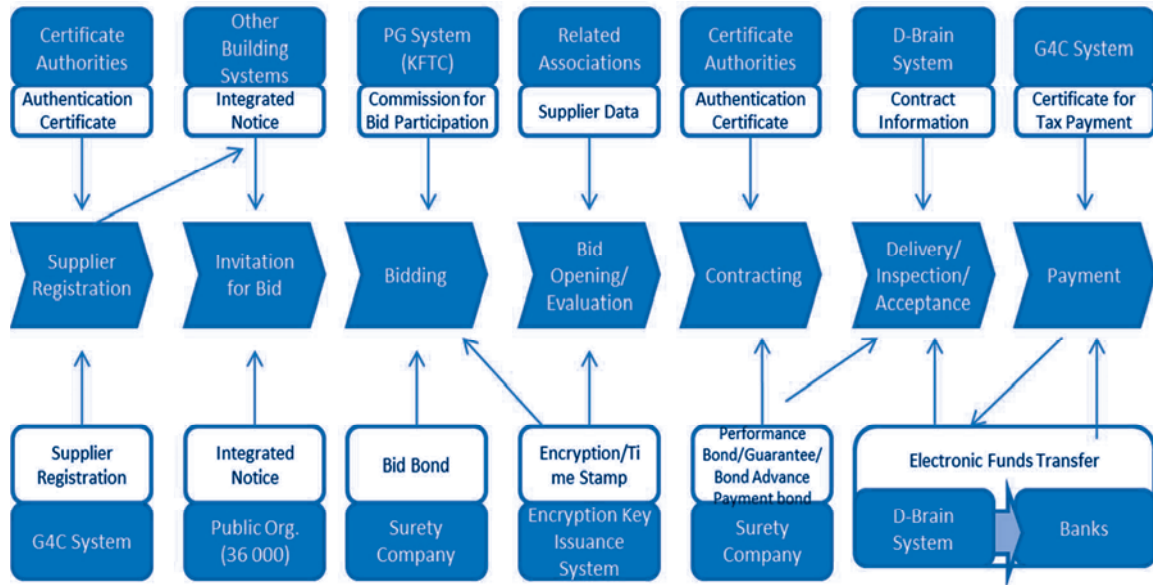
Source: Information provided by ISSSTE.

Improving the integration of IT systems and databases should be a priority for ISSSTE

The integration of IT systems and databases supporting the electronic management of the procurement function is increasingly considered by OECD countries as an essential element to improve the overall efficiency and transparency of the procurement process. A good example is KONEPS, Korea's e-procurement platform, which covers all procurement processes (from suppliers' registration to bidding, contracting and payment)

and provides a one-stop service as it is linked with about 140 external systems (Figure 8.1).

Figure 8.1. Systems integration of KONEPS throughout the procurement cycle



Source: Chang, Kyung-Soo (2012), “Innovating Public Procurement through KONEPS”, Public Procurement Services, Republic of Korea, presentation at the event “ISSSTE: Desarrollo de una Estrategia Organizacional de Adquisiciones”, Mexico City, 26 September 2012.

In ISSSTE, the integration of the various systems and databases used at the central and decentralised levels is very limited and insufficient to enable capturing the expected efficiency. Based on the information provided by ISSSTE, about two-thirds of the systems are not integrated with any other systems.

The low level of integration found in ISSSTE can have considerable negative impacts in terms of resources, inefficiencies, errors, lack of accurate information for decision making, operations and performance management, etc. For instance, IFAI’s website – where information on contracts is uploaded every three months to ensure transparency and openness as required by the Federal Transparency and Access to Government Public Information Act – and ISSSTE’s portal (www.issste.gob.mx) – where information and comments are also regularly posted – are linked but not integrated. Little information on procurement is currently published on ISSSTE’s website; and only pre-solicitation documents are uploaded for comments. In addition, the same information local units send to IFAI is also sent to the central level of ISSSTE that uploads it on the agency’s portal. Having integrated portals would allow units to only submit the information once, thus increasing the overall efficiency of the process. This information is shared and uploaded on the central portal using spreadsheets. Similarly, spreadsheets are also used to upload on Compranet information extracted from SPEP, the financial management system centrally managed at ISSSTE that contains all of the information on delegations’ and hospitals’ purchases in the form of reports. Compranet is indeed not integrated with ISSSTE’s databases.

IT integration (including with Compranet and Silodisa ERP) would lead to greater efficiencies in the management of the procurement functions. Integrating systems could increase the efficiency and transparency in the management of procurement-related information. Better integration of systems could lead to greater availability of standardised, consistent and consolidated data and might also help find solutions to some inherent inefficiency in the procurement process. For instance, the fact that SIAM is currently not installed everywhere, and information not updated regularly, creates issues with the control of distribution (losses) and stock level. ISSSTE is aware of these issues and has initiated IT integration initiatives.

Improvements to the procurement function through ICTs

Enhanced use of IT systems would improve strategic planning and the management of the procurement function

As discussed in Chapter 4, the unavailability of harmonised, reliable, consistent and consolidated key information and data represents a significant constraint to adequate performance and operations management, as well as to effective decision making, in ISSSTE's procurement function. Other than some information captured by Compranet, there is no automatic mechanism in place to collect, consolidate and share information with the central level. Information is collected and managed differently by the various procurement units, mainly through spreadsheets, with manual manipulation to provide information requested by the central level. The absence of a single co-ordinated method to collect data on contracts leads to inconsistencies and inefficiencies.

The unavailability of key procurement data can also be partly explained by the absence of an IT procurement management system at ISSSTE covering the entire procurement cycle. As a result, there are divergences in the procurement processes of different procurement units (e.g. application of sanctions for failed or late delivery), notwithstanding the existing regulations and the issuance by SFP of an administrative manual describing the various actions to be taken throughout the procurement cycle.

This lack of information negatively impacts the decision-making process throughout the procurement cycle. It is indeed difficult to reconcile information and this can create important delays in the procurement function (e.g. for the supply of medical requirements). In this perspective, ICTs can play a key role to support strategic and evidence-based decision making as well as good planning in procurement, as it allows for better access to and management of data and information. This may be particularly relevant as ISSSTE's requirements from suppliers are very high (including the quantity of documents) and the required timeframe for deliveries are often too tight, which is seemingly caused by the lack of strategic planning. Suppliers are also asked multiple times for the same information, causing unnecessary paperwork and making the procurement process time consuming. The existence of integrated databases would help reduce this problem.

Similarly, lack of data undermines the organisational efforts to implement an effective performance management system of the procurement function, tracking trends and making corrections when necessary. Contracts management represents a good example; follow-up and sanctions were neglected in the past and this created problems. In line with the practice of the United States (Box 8.3), ICT could be used to consolidate and make information on suppliers' performance consistent – e.g. on delayed delivery – to conduct appropriate evaluation and take follow up actions (e.g. imposing sanctions) when

necessary. This could have a positive overall impact on the performance of the procurement function, e.g. through a higher range and quality of services, reduced lead times and lower prices.

Box 8.3 Consolidation of suppliers' information in the United States

The System for Award Management (SAM, www.sam.gov) is a United States Federal Government owned and operated free web site that consolidates the capabilities in various databases and systems used in Federal procurement and awards processes. As it relates to suppliers' information, it covers the following systems:

- The Central Contractor Registration (CCR) is the Federal Government's primary vendor database that collects, validates, stores, and disseminates vendor data in support of agency acquisition missions. Both current and potential vendors are required to register in the CCR to be eligible for federal contracts. Once vendors are registered, their data are shared with other federal electronic business systems that promote the paperless communication and co-operation between systems. These information and capabilities of CCR are gradually being transferred into SAM.
- The Excluded Parties Lists System (EPLS) was a web-based system that identified parties excluded from receiving federal contracts, certain subcontracts, and certain types of federal financial and non-financial assistance and benefits. The EPLS was updated to reflect government-wide administrative and statutory exclusions, and also included suspected terrorists and individuals barred from entering the United States. The user was able to search, view, and download current and archived exclusions. All the exclusion capabilities of the EPLS were transferred to SAM in November 2012.

Furthermore, federal agencies are required since July 2009 to post all contractor performance evaluations on the Past Performance Information Retrieval System (PPIRS, www.ppirs.gov). That web-based, government-wide application provides timely and pertinent information on a contractor's past performance to the federal acquisition community for making source selection decisions. PPIRS provides a query capability for authorised users to retrieve report card information detailing a contractor's past performance. Federal regulations require that report cards be completed annually by customers during the life of the contract. The PPIRS consists of several sub-systems and databases (e.g. Contractor Performance System, Past Performance Data Base, Construction Contractor Appraisal Support System).

Source: OECD (forthcoming), Public Procurement Review of the United States, OECD Publishing, Paris.

ISSSTE has a good record using ICTs to manage and elaborate information in support of administrative functions (e.g. the use of IT systems such as SIEDI and SIAM) but a number of existing IT systems could certainly be used more strategically to support improved decision making and management of procurement. The Supply Control Board implemented in early 2012 represents a good example in this sense. By providing ongoing visibility on the stock of medicines, this instrument provides significant information supporting more strategic decisions and requirement planning (see Chapter 4 for further details). It is a good example of the use of IT-based systems to support decision making, planning and strategic management of the procurement needs and process (e.g. to deal with issues related to low stock, late delivery, delays in awards). The Supply Control Board illustrates the increasing awareness and recognition by ISSSTE of the relevance of IT in strategic procurement planning and management.

ICT has a strong potential to achieve more efficient and transparent communication in the procurement function

More strategic use of ICTs could also improve the efficiency and transparency of communication and information exchange between ISSSTE's central and local procurement units, its senior management and the public. The use of technology to exchange information and communicate at ISSSTE is indeed very basic. No IT system exists, for instance, to monitor how the administrative and procurement parts of the hospitals operate. Internal communication and information exchange within the local units, and with heads of departments, is very time consuming as it is mainly conducted in person, over the phone or via email. For example, heads of department visit the various units in person to obtain information on how things are being done, and to ensure that things are done as expected. The overall impression is that there is no sense of the value of the time being lost.

There is no awareness of or view on how the strategic use of ICTs to manage communication and interpersonal exchange could sustain the management of operations based on the recognition of the real time value. This would greatly contribute to the establishment of an environment within the Institute conducive to the use of ICTs to improve the performance of all functions, including procurement-related ones. An e-procurement system could automatically record key information and data required for decision making, ongoing performance improvement and internal control. Improved exchange of information and better communication could foster co-ordination between the local and central units. Finally, better communication with the public could increase the visibility of the procurement function and bring ISSSTE closer to users.

On the other hand, the focus should not only be on implementing new ICTs. A higher use of simple technologies already in place (such as videoconference and teleconference) represents an important low-cost, low-commitment approach to improve communication and to get people included, informed and motivated.

Enabling e-procurement

Uptake of Compranet by suppliers is low due to a lack of trust and capacity

There is a general perception across ISSSTE that Compranet creates difficulties for both public procurement agents and vendors – mainly small and medium enterprises (SMEs). The latest version, launched in 2010 (Compranet 5), is still not considered to be very user friendly by internal and external users alike, and some of ISSSTE's procurement officers even consider it more complex than the previous version.

While Mexico is one of 14 OECD countries allowing the electronic submission of bids through a national e-procurement system at the central government level (Table 8.1), the number of ISSSTE's suppliers using Compranet to submit proposals remains very low. Suppliers almost exclusively submit their offers on paper, and only a very small minority uses the electronic channel, as permitted by the Law of Acquisitions, Leasing and Services of the Public Sector which allows the process to be done in person as well. Apparently, the level of trust of suppliers towards the electronic platform is very low, bidders fearing that their offer will not arrive in time if submitted electronically or that the documents submitted may not be accessed or opened for technical reasons (e.g. files corrupted or encrypted). Furthermore, Compranet is not user friendly for bidders, who experience technical difficulties in uploading or downloading information to/from Compranet, making the process slower and therefore inefficient. Similarly, procurement

agents find the system difficult to use, especially during the opening of bids. Consequently, bidders feel more secure when presenting the offer on paper and in person.

Table 8.1. Availability of functionalities in e-procurement systems in central government.

	Publishing procurement plans (about forecasted government needs)	Announcing tenders	Electronic submission of bids (excluding by e-mails)	Electronic submission of invoices (excluding by e-mails)
Australia	●	●	●	●
Austria	○	●	○	○
Canada	○	●	●	○
Chile	●	●	●	○
Czech Republic	●	● ●	●	●
Denmark	● ●	●	●	●
Estonia	○	●	●	○
Finland	○	●	●	●
France	● ●	● ●	● ●	●
Germany	○	● ●	●	○
Hungary	●	●	●	●
Iceland	●	●	○	●
Ireland	○	●	●	○
Israel	●	●	●	●
Italy	●	●	●	○
Japan	●	●	●	○
Korea	●	●	●	●
Luxembourg	○	●	●	○
Mexico	● ●	● ●	●	○
Netherlands	●	● ●	● ●	●
New Zealand	●	●	○	●
Norway	●	●	●	●
Poland	○	●	○	○
Portugal	●	●	●	○
Slovak Republic	○	●	●	○
Spain	●	●	●	●
Slovenia	● ●	● ●	●	●
Sweden	●	●	●	●
Switzerland	●	● ●	○	●
Turkey	●	●	○	○
United Kingdom	○	○	●	●
United States	● ●	●	●	●
Total OECD 32				
● Yes, in a national central e-procurement system	18	29	14	7
● Yes, in e-procurement systems of specific procuring entities	9	9	14	11
○ No	10	1	6	14

Source: OECD (2012a), “OECD 2012 Survey on Public Procurement” (Unpublished internal document), OECD, Paris.

FOVISSSTE is an exception, as all of its suppliers are required to participate electronically. FOVISSSTE’S Internal Control Office (*Órgano Interno de Control*) does not allow procurement officers to accept offers on paper, stating that the law says the federal public administration should go fully electronic over time. Since this decision was taken, the participation of vendors is reported to have been reduced by half. In the case of the procurement of stationary, for example, 20 proposals were usually previously

submitted while the number dropped to 11, some of which could not be opened as the files were encrypted or corrupted. Even though there is a common agreement among public officials on the positive value and potential benefits of doing everything electronically, the significant reduction in the number of offers that can be observed should be taken into account as a risk and an appropriate mitigation strategy should be devised. The focus should indeed be on making Compranet user friendly and on building users' capacity, which should be a pre-condition for making electronic participation mandatory.

Similarly, there seems to be low capacity and willingness among suppliers to use the new version of Compranet, deemed by some as less user-friendly than the previous one. Their personnel tasked with preparing proposals are often not properly trained to use Compranet and the assistance provided by SFP is apparently not sufficient. Although companies often call ISSSTE to obtain assistance in using Compranet, ISSSTE's personnel feels that SFP is in a better position to answer most of the users' doubts or questions. For these reasons, most of the bidders that used to use electronic means are reverting to their previous practices and going back to paper.

A better understanding of the users' needs and points of view – both of ISSSTE's procurement agents as well as of suppliers – would help devise a focused capacity-building plan comprising training and providing assistance, to be delivered by SFP or ISSSTE, or on a clear co-sharing of the responsibilities.

Furthermore, in order to ensure the level of uptake necessary to reap the benefits of the significant investment made in Compranet, a culture of confidence and trust in the IT system must be fostered. Targeted awareness-raising and capacity-building initiatives could help increase suppliers' awareness of the benefits associated with using Compranet.

The way ahead: Ensuring the right capacities and the right enabling environment

As stated earlier, the absence of an e-procurement system at ISSSTE affects the overall effectiveness, efficiency and transparency of the procurement function. Focusing efforts and resources on the development of an IT procurement platform should therefore be seen as a priority. Preferably, such an e-procurement management system would be fully integrated with other associated systems (e.g. Compranet, stock management system, budget and payment system). Along these lines, systems integration (for example of Compranet and ERP) has also been identified as a priority by the SFP. ISSSTE's procurement staff and managers that were interviewed have indicated that they would strongly support higher automation of the procurement functions and would welcome a common IT-based platform integrated with existing IT systems to manage the procurement function.

For any public body, the development of an e-procurement system should be part of the overall public procurement strategy. The deployment of such an IT platform requires the existence of the appropriate enabling environment, i.e. the right IT infrastructure, low resistance to the changes brought about by the implementation of e-procurement, the right IT literacy rate of public servants and suppliers, and political and managerial support.

Efforts should be geared, for instance, to building the internal capacities needed to ensure the appropriate use of IT, and in particular of e-procurement platforms. Even if the overall impression is that the IT systems appear to respond to the needs of the users, the perception is that some systems are still not user friendly and that the level of IT readiness is not adequate across ISSSTE as a whole. This can partly be explained by the fact that there is not any training/capacity programme in place for at least 50% of the

organisation's IT systems. Training would help overcome resistance and increase the receptiveness towards the usefulness of IT systems.

Ensuring the right level of uptake implies building internal as well as external capacities. It was highlighted above how the level of dissatisfaction with Compranet and the inadequate capacities to use it have been important obstacles hindering its uptake. The aim of building users' capacities and raising their awareness should be embedded upfront in any strategy and related plan of action aimed to develop ISSSTE's e-procurement system. Furthermore, e-public procurement systems are usually considered an effective solution for fostering the participation of small and medium-sized enterprises (SMEs). In line with the experience of other OECD countries (Box 8.4), Mexico has provided training to SMEs in areas such as business management, exports, and the use of Compranet 5.0. In 2010, the Ministry of Economy provided 4 500 scholarships for companies to be trained in Compranet 5.0.

Box 8.4 Building the capacities of SMEs

Recognising the importance of a well-informed supplier base, **Ireland** organises seminars, workshops and conferences with the aim of educating SMEs. To date, more than 1 000 SMEs have attended such sessions.

Similarly, **Italy** has taken a further step towards a more "collaborative" e-public procurement system by creating a training programme for SMEs, the Supplier Training Desks (Sportelli in Rete). Managed by Consip – the Italian central public procurement agency – in collaboration with Enterprise Associations, the project consists of a network of dedicated training desks scattered all over the country where Consip experts train workforce from the associations that will subsequently train local SMEs in the use of electronic procurement tools. The project addresses point 5 of the European Small Business Act (SBA), i.e. to "Adapt public policy tools to SME needs: facilitate SMEs' participation in public procurement and better use State Aid possibilities for SMEs". This initiative has been quoted as a best practice of personalised assistance to SMEs at a national level, in the "European code of best practices facilitating access by SMEs to public procurement contracts".

Source: Commission of the European Communities (2008), "European Code of Best Practices Facilitating Access by SMEs to Public Procurement Contracts", Commission Staff Working Paper SEC(2008) 2193, http://ec.europa.eu/internal_market/publicprocurement/docs/sme_code_of_best_practices_en.pdf, accessed 20 October 2012.

Finally, political and managerial support is crucial to set concrete actions in motion and secure successful implementation. The right support from decision makers and users, an adequate culture and openness to needed changes in practices and processes, and knowledge of the context where the new applications will have to be deployed, are all key prerequisites to rolling out any system.

Proposals for action

Harnessing the power of ICTs would facilitate the management and improvement of the procurement function by improving the management and sharing of information, enhancing strategic planning, and increasing transparency, communication and co-ordination. To reach that objective, ISSSTE could consider the following proposals:

1. Building on the existing internal expertise and the success of recent initiatives (such as the Supply Control Board), increase the use of existing and new IT

systems and ICTs for strategic planning and management of the procurement function, notably as it relates to the collection, communication and assessment of information and data allowing evidence-based decision making.

2. Pursue a higher level of integration of the various IT systems, databases and tools in place at the central and decentralised levels (particularly those related to the procurement and supply functions), as well as with external systems such as Compranet and the ERP system of Silodisa.
3. Develop and implement an e-procurement system used by all of ISSSTE's procurement units and integrated with other IT systems in place in ISSSTE. Doing so will require:
 - Including this initiative in a long-term procurement strategy, preferably the organisation-wide procurement strategy discussed in Chapter 4. This will need careful preparatory work aimed at defining the key steps necessary to implement the system. Strong political commitment and sequential implementation are crucial to facilitate the availability of the resources and support needed for successful implementation.
 - Ensuring that the decision of making this system mandatory for specific procedures takes into account the specific organisational and field context, as well as the level of IT readiness among users. Sufficient flexibility must be introduced in the system as not to reduce the effectiveness and efficiency of the process.
4. Increase the uptake of e-procurement by ensuring sufficient internal and external awareness and capability through tailored communication and capacity building projects. This requires, amongst others, to:
 - Embed these priorities upfront in any strategy and related plan of action aimed at developing ISSSTE's e-procurement system, and focus on user friendliness.
 - Undertake discussions with SFP on the various challenges experienced by Compranet users (both public servants and suppliers) and identified corrective actions. It could take the form of a focused capacity building plan comprising training and providing assistance to be delivered by SFP or ISSSTE (or based on a clear co-sharing of the responsibilities).

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Chapter 9

Towards open government: Promoting transparency in public procurement in ISSSTE

This chapter describes how the State's Employees' Social Security and Social Services Institute's (ISSSTE) discloses procurement information proactively through web-based tools as well as through requests for information. It also describes how social society scrutiny of its procurement activities is facilitated through the use of "social witnesses".

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.

Introduction

Promoting an open and inclusive government is a prerequisite for building trust between citizens and governments and promoting a transparent and accountable government. An open government also promotes a level playing field for businesses, thus contributing to economic development. Similarly, there is a growing global interest and effort to improve the norms, practices and methodologies for increased transparency and monitoring in public procurement in order to improve governance and service delivery. This is evidenced, among others, through the launch of the Open Contracting initiative (www.open-contracting.org) in 2012.

As part of their efforts to promote an open government, OECD countries adopted *Guiding Principles on Open and Inclusive Policy Making* in 2008. These principles recognised that citizens' engagement in policy making contributes to further transparency and accountability of governments and leads to building trust between citizens and governments. However, to strengthen this relationship, governments need to ensure that:

- complete, objective, reliable, relevant and easy to understand information is made available in order for governments to be exposed to public scrutiny;
- information is accessible to anyone, anytime, anywhere;
- citizens are actively involved in policy making;
- responsiveness to new ideas and demands is promoted within the government.

Mexico is one of the most advanced countries in enhancing access to information and promoting an open government. Recognising the importance of access to information as a key condition for promoting an open and inclusive government, Mexico adopted the Federal Transparency and Access to Government Public Information Act in 2002. This law applies to the three central government branches (executive, legislative and judicial) and to all public entities using federal funding, whether total or partial, including the State's Employees' Social Security and Social Services Institute (*Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado*, ISSSTE). The law makes the proactive disclosure of information mandatory for a wide range of areas including on the structure of the entity and its procurement. In 2007, Mexico entrenched access to information as a fundamental right through constitutional amendments.

The Federal Institute of Access to Information and Data Protection (*Instituto Federal de Acceso a la Información y Protección de Datos*, IFAI) was established by law to effectively guarantee citizens' access to information. IFAI also ensures that information is proactively published and disseminated. A number of online portals have been developed to facilitate the dissemination of information namely: *i*) Compranet (the federal government's e-procurement website); *ii*) the Transparency Obligation Portal (*Portal de Obligaciones de Transparencia*); and more recently *iii*) *ciudadano* (www.gob.mx), the Ministry of Public Administration's website (*Secretaría de la Función Pública*, SFP), on which it is possible to search for information on a particular topic and to be redirected to the relevant online portal(s).

According to Mexico's Open Government Partnership Action Plan, this legal framework is also complemented by a number of national policies to promote

transparency in the public administration, improve public services, increase public integrity, manage public resources more effectively and improve corporate accountability, namely:

- The National Development Plan 2007-2012, which defines mechanisms for strengthening transparency, accountability and the prevention of corruption. One of the key achievements of this plan has been the establishment of Compranet.
- The National Initiative for Government Accountability, Transparency and Fight Against Corruption.
- The Programme to Improve Government Management.

To consolidate its efforts for promoting transparency and accountability in government, Mexico recently embedded these reforms in an Open Government Agenda by joining the Open Government Partnership (OGP). This partnership is a global effort which strives for “more transparent, effective and accountable governments – with institutions that empower citizens and are responsive to their aspirations”.¹ As part of its commitment to the OGP, Mexico designed an Action Plan² to sequence its transparency and accountability related reforms in a realistic and feasible manner. These efforts are reflected at the organisational and sectoral levels as well.

ISSSTE’s current administration has identified promoting transparency and accountability as one of the guiding principles of its ongoing reform agenda. From this perspective, ISSSTE has been implementing a number of measures to promote proactive disclosure of information, including in the area of public procurement. This chapter examines the progress made in implementing transparency related measures in ISSSTE’s public procurement.

Enhancing transparency in public procurement

ISSSTE is still facing challenges in enforcing transparency policies in procurement

Government procurement is amongst the most vulnerable areas to corruption. Ensuring an adequate degree of transparency in procurement supports the prevention of fraud, waste and corruption. Recent procurement reforms in most OECD countries have focused on enhancing transparency through access to consistent information and clear public procurement rules (Figure 9.1).

Similarly, the Mexican federal government has 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. As such, a large range of procurement information at the central level of government is publicly available (Annex 9.A1). Among others, the Law of Acquisitions, Leasing and Services of the Public Sector (*Ley de Adquisiciones, Arrendamientos y Servicios del Sector Público*, LAASSP) makes it mandatory for federal institutions to publish information related to procurement on Compranet. This website gathers information such as annual procurement programmes, tender procedures (solicitation documents, minutes of the clarification meetings and of the opening of tenders), contract awards history and formal complaints (*inconformidades*).

Figure 9.1. Primary objective of public procurement reforms in OECD countries

Source: OECD (2011b), “OECD 2011 Survey on Reporting Back on the OECD Recommendation on Enhancing Integrity in Public Procurement” (Unpublished internal document).

Mexico’s commitment in the framework of the OGP in the area of procurement is to consolidate the new version of Compranet as a fundamental component for achieving better and more efficient administration of public resources. As such, once the corresponding legal reforms have been implemented, the federal government will seek to strengthen the scope and impact of its new public bidding policy with improvements to Compranet and the consolidation of new procurement mechanisms. The qualifications and competencies of officials in charge of Compranet will be revised to better fit the needs of the electronic platform and promote their professionalisation. In this regard, the federal government will develop clearer responsibility chains along with control mechanisms that empower civil society organisations, the media and society to scrutinise government procurements.³

As mentioned above, promoting transparency and accountability is at the heart of ISSSTE’s reforms, including to its procurement procedures. In light of this, ISSSTE has been promoting access to information on procurement, and more generally, on the institution itself. ISSSTE has been proactively disclosing very little information on Compranet, its own website and the Transparency Obligation Portal.

Disclosure of information

Information on ISSSTE is not streamlined across web-based tools

Although ISSSTE has been disclosing information, the quality and availability of data on its procurement remains uneven, therefore making access to easily understandable, up-to-date and complete information difficult for citizens and suppliers.

For example, ISSSTE’s website contains very little information on its structure and almost none on its procurement, with the exception of pre-solicitation documents which are open to comments from potential suppliers.⁴ Similarly, Compranet provides

comprehensive information on ISSSTE's procurement but none on the institution itself as that is not its primary goal. The Transparency Obligation Portal also provides some information on procurement such as the annual procurement plans and a database on past performance (Table 9.1). However, information on ISSSTE's structure, performance and budget are very difficult to access, which makes it difficult for the society at large to monitor its functioning. Information on procurement seems to be scattered between various portals, none of them providing aggregate data on the type and total value of contracts awarded by ISSSTE.

Table 9.1. Proactive disclosure of information by ISSSTE

	ISSSTE's website	Compranet	Transparency Portal	Obligation
Website	www.issste.gob.mx/prebases/index.html	https://compranet.funcionpublica.gob.mx	http://portaltransparencia.gob.mx/pot	
Entity responsible for publishing the information	ISSSTE	ISSSTE		ISSSTE
Entity responsible for overseeing the publication of information	ISSSTE	SFP		IFAI
Information on the entity's structure				✓
Procurement legal framework		✓		
Manuals and guidelines for suppliers				
Annual procurement plans		✓		✓
Long-term procurement plan				
Pre-solicitation documents	✓	✓		
Solicitation documents		✓		
Minutes resulting from the clarification meetings		✓		
Electronic submission of bids		✓		
Award decisions and supporting information		✓		
Contract modifications				
Statistics and database related to past procurement		✓		✓
Payment information				
Registry of suppliers not allowed to be awarded contracts		✓		
Social witness testimony		✓		
Possibility to file a formal complaint against ISSSTE's procurement procedures		✓		
Documentation associated with formal complaints				

An effort to streamline the information on ISSSTE and its procurement available on different portals is essential to facilitating the access to the information. The procurement platform developed by the Mexican Institute of Social Security (*Instituto Mexicano del Seguro Social*, IMSS) provides a good example of an easily accessible one-stop shop for citizens and suppliers to access information. In fact, IMSS' website provides information on all of the necessary requirements and information on its procurement processes and on how to track their outcomes (Box 9.1).

Box 9.1. IMSS' procurement platform

In 2011, IMSS created a new online portal <http://compras.imss.gob.mx> with the intention of enhancing public accountability and transparency and improving the understanding of IMSS' expenditures. The IMSS portal includes a database which sorts and provides specific information (e.g. price paid and quantity procured) based on the type of acquisition, service or public work. It also includes procurement planning and solicitation documents, as well as other relevant information. Information concerning suppliers, such as the value of contracts and non-performance, will also be available in the future.

In addition to providing important information to suppliers and the wider public, the portal functions as a knowledge tool for internal stakeholders such as local entities and hospitals. Its intention is to provide them with useful information, such as reference prices and past procurement conditions, in order to enhance the efficiency of the process and increase competition. Future plans include the live transmission of key stages of the bidding process as well as the possibility for any citizen to subscribe to and receive automatic email alerts on public procurement. The goal is to strengthen the use of social media networks in connection with the IMSS portal in order to share relevant information on its overall procurement process, such as information on savings achieved.

Source: OECD (2012), *Public Procurement Review of the Mexican Institute of Social Security: Enhancing Efficiency and Integrity for Better Health Care: Highlights*, OECD Publishing, Paris, www.oecd.org/gov/ethics/49408711.pdf, accessed 4 October 2013.

As stressed in the OECD Guidelines for Fighting Bid Rigging in Public Procurement (OECD, 2009) and an associated OECD report on ISSSTE (OECD, 2013), some information may facilitate collusion, 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.

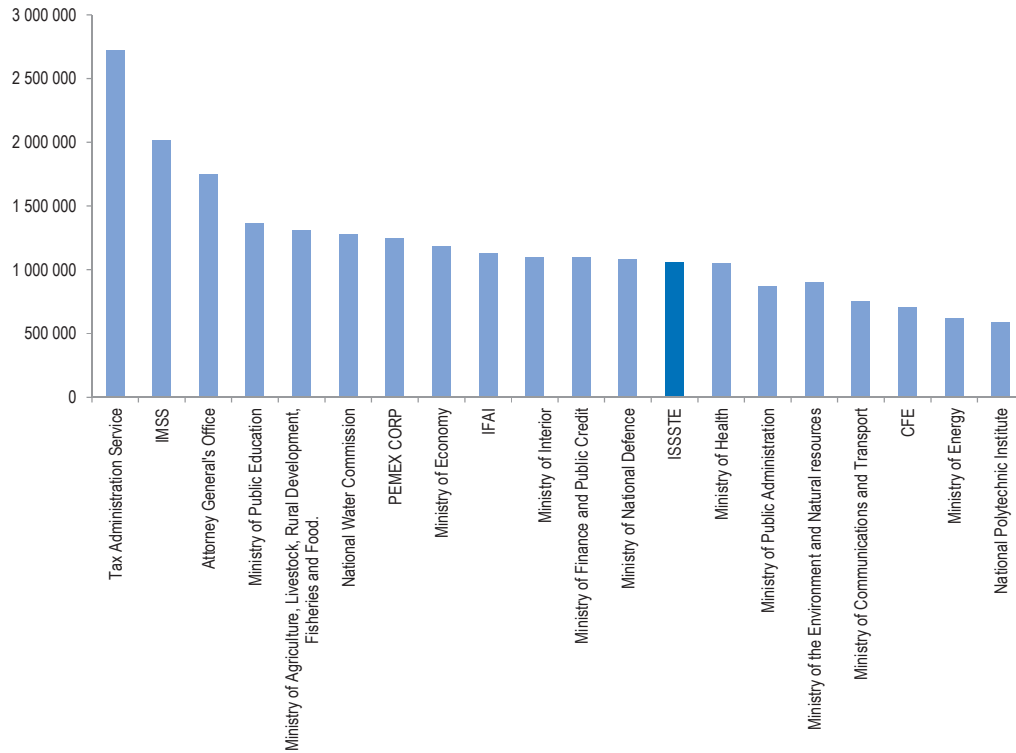
Request for information

ISSSTE process to request information is not easily accessible by the public and the response rate to these request is low

Based on information on the Transparency Obligation Portal, ISSSTE generates a significant level of interest. In fact, ISSSTE only covers 10% of the population but is amongst the 20 federal entities with the most visits on the Transparency Obligation Portal (Figure 9.2).

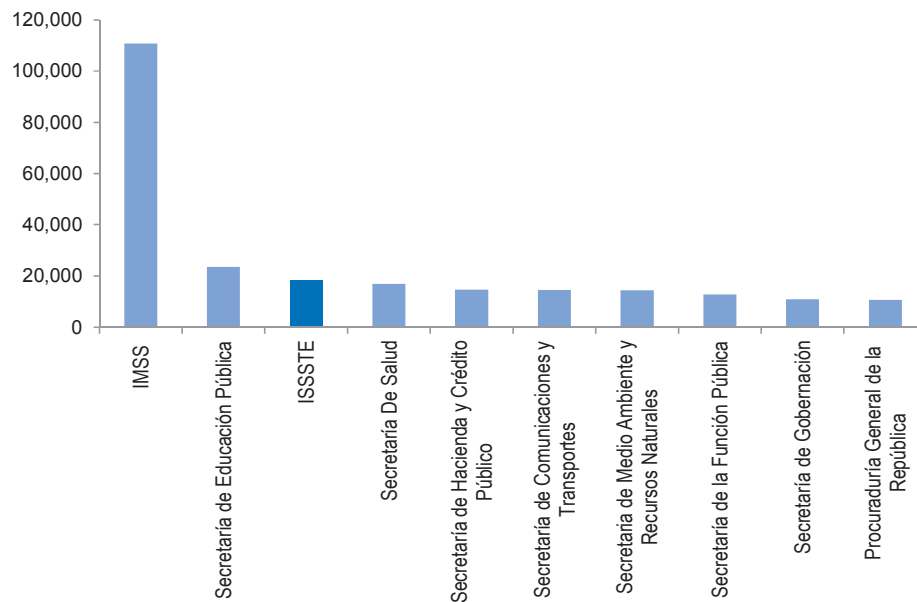
From 2008 to July 2012, ISSSTE was the federal entity with the third highest number of requests for information. This demonstrates that civil society organisations (CSO) and citizens are paying particular interest to the operations and performance of the Institute (Figure 9.3).

Figure 9.2. Federal entities with the most visits on the Transparency Obligation Portal (2008 to 5 July 2012)



Source: IFAI, www.ifai.org.mx/Estadisticas/#indicadores, accessed 27 July 2012.

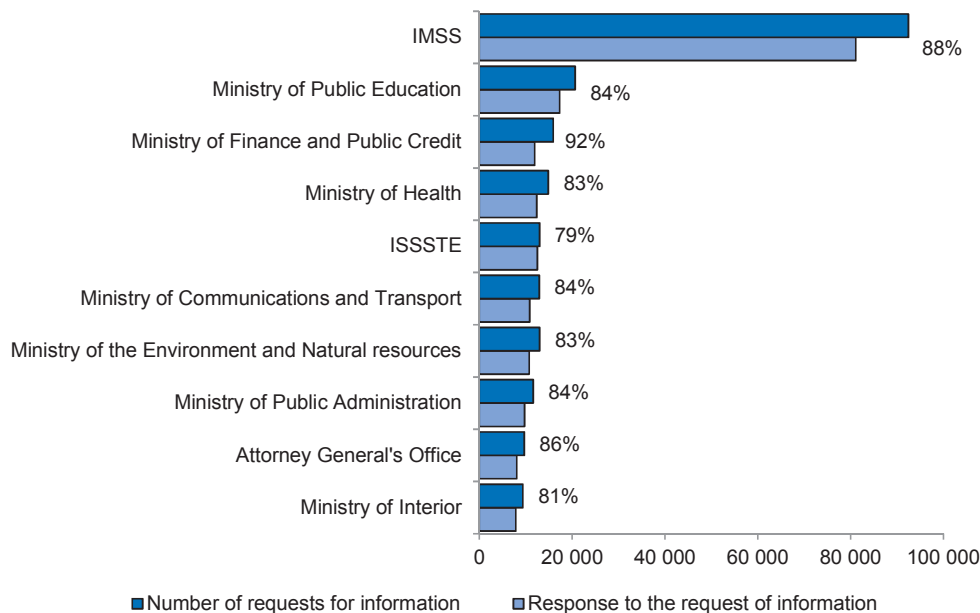
Figure 9.3. Federal entities with the highest number of requests for information (2008 to 5 July 2012)



Source: IFAI, www.ifai.org.mx/Estadisticas/#indicadores, accessed 27 July 2012.

However, ISSSTE 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 Ministry of Finance and Public Credit, for instance, responded to 92% of the requests for information it received during the same period, while IMSS' response rate reached 88% (Figure 9.4)

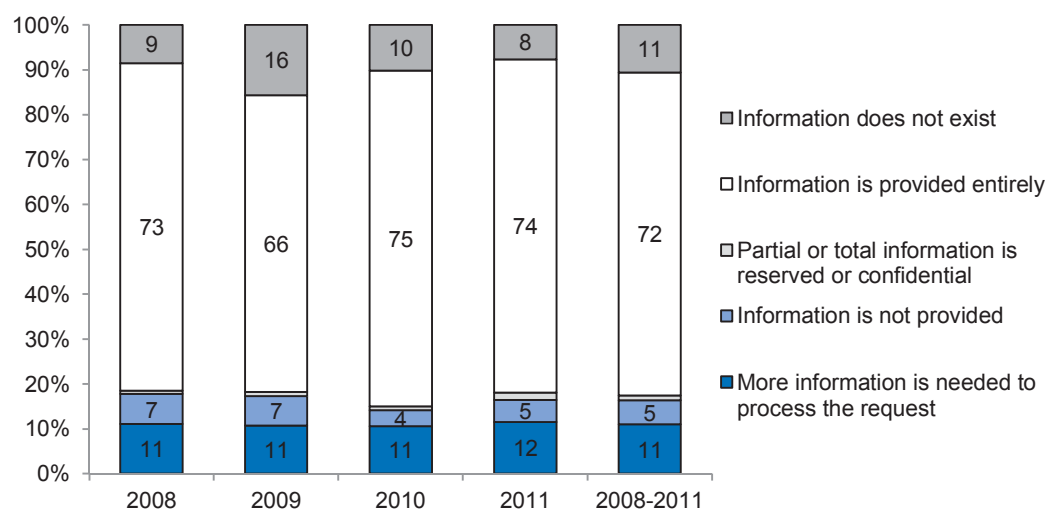
Figure 9.4. Rate of response to requests for information among the federal entities with the highest number of requests for information (2008-2011)



Source: Mexican federal government 's system Infomex, www.infomex.org.mx accessed 27 July 2012.

According to ISSSTE,⁵ the main reasons behind this low response rate are: *i*) the unavailability of the information; *ii*) the need to gather complementary information in order to process the request (Figure 9.5).

Various channels are 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, 2011a). However, the procedure for requesting information is not easily accessible by the public. Although ISSSTE has dedicated a department to respond to requests for information, the process for submitting requests (online or by mail) is not clear. This may confuse citizens, CSOs, and suppliers that are requesting specific information. ISSSTE needs to provide a quick and user-friendly process for submitting requests for information.

Figure 9.5. ISSSTE's responses to requests for information, by type of response (2008-2011)

Source: Mexican federal government 's system Infomex, www.infomex.org.mx, accessed 27 July 2012.

Strengthening the information management system

ISSSTE's information management system is not integrated and automatic, thus hindering its ability to generate data and information on its operations

One of the most important obstacles hindering ISSSTE from responding to citizens', CSOs' or suppliers' requests for information may be its incapacity to generate the information requested due to lack of an efficient information management system (see Chapter 4 for further details on data management). Furthermore, ISSSTE needs to develop an integrated automatic information system which generates data centrally rather than at the delegation level. Presently, the information provided by ISSSTE to the public is generated by the delegations through Excel sheets, as there is no automatic system, thus no real-time, accurate disclosure of information. Implementing an integrated and automatic information management system is a prerequisite for the disclosure of timely, accurate and reliable information.

To remedy this, ISSSTE is improving its information management system to facilitate the internal collection of information in order to easily provide information to the public. The Supply Control Board (*Tablero de Control de Abasto*) and the Budget Control Board (*Tablero de Control de Presupuesto*) are two important tools that support ISSSTE in achieving this goal. In addition, ISSSTE is currently designing a programme with *Transparencia Mexicana* to promote transparency in several of its processes, including in public procurement, through the systematic use of the Supply Control Board.

The Supply Control Board, developed early 2012, provides timely information on elements such as the availability of medicine and medical products, the status of purchasing procedures in process and their prices (see Box 4.3 for further details). Some information -such as unit prices, planned national demand and availability by medical units- is now made public on a product basis through the website <http://isssteapache.issste.gob.mx/transparenciaproactiva/>. By providing this information, the Supply Control Board contributes greatly to promoting the transparency of the stock management.

A similar tool was also developed to manage ISSSTE's budget. The Budget Control Board provides a snapshot of ISSSTE's budget at the central level and by unit (delegations, hospitals), as well as by type of expenditure. This tool will be integrated to the Exercise System Programming and Budget (SPEP), which allows for automatic registration and procession of programme budget operations, unliquidated certified accounts, control of discharge and budget reports as well as other key functions for managing the budget.

The use of control boards for various functions will significantly increase ISSSTE's capacity to generate accurate and timely information on its budget, its stock and its purchasing procedures, thus contributing to enhancing transparency in the management of its procurement.

Other systems have also been developed to promote efficiency and the accessibility of information. Amongst them is the SIEDI, which was developed in 2009 by ISSSTE to measure performance. Although the data generated by that system is not public, ISSSTE has included its main conclusions based on information in SIEDI in publicly available annual reports in order to provide information to the public on the overall performance of the Institute.

Amongst the remaining challenges for making the data generated by these systems available to the public is defining clear criteria for the declassification of information. ISSSTE needs to define these criteria with the Federal Competition Commission (*Comision Federal de Competencia*, CFC) rapidly in order to ensure an adequate level of transparency while maintaining confidentiality requirements when necessary.

Monitoring transparency: getting feedback from users

ISSSTE has not developed mechanisms to gather feedback from the market place or citizens on the level of transparency in its procurement procedures

The above-mentioned conditions are necessary for ISSSTE to effectively disclose information (i.e. streamlining information on web-based tools, defining a clear and user-friendly process to request information and implementing an efficient information management system). However, in order to monitor the transparency measures it has implemented and readjust them if necessary, ISSSTE also needs to obtain feedback from targeted stakeholders on these measures.

Surveys on the level of transparency in procurement procedures would allow ISSSTE to better understand suppliers' or even citizens' experiences when engaging with ISSSTE. Such an instrument is not yet being used by ISSSTE. In response to a survey of the OECD Secretariat, however, more than half of the delegations indicated performing a transparency survey with bidders on the procurement process, usually as part of the solicitation documentation. Some of the other delegations mentioned not undertaking surveys due to a lack of resources. However, delegations that do carry out surveys receive few responses. Furthermore, there is no evidence of any substantial assessment of the responses received or of the procurement units using them to improve the procurement process.

Looking closely at one of these surveys, assessing the transparency of the procurement process does not seem to be the main objective. In fact, most of the questions focus on the clarity of the process, the users' interactions with the delegation and compliance with the regulations (Table 9.2).

Table 9.2. Example of a transparency survey for public tendering and restrictive invitations by the Puebla Delegation

Event	Statement	Totally agree	Generally agree	Generally disagree	Totally disagree
Clarification meetings	The content of the solicitation documents were clear on the requirement to be procured.				
	Technical questions were answered clearly at the clarification meetings.				
Presentation of the proposals and opening of the technical proposals	The event presented excellent possibilities based on the proposals received.				
Resolution of the technical proposals and opening of economic proposals	The technical evaluation was carried out in accordance with the solicitation documents and the clarification meetings.				
Contract award decision	The contract award decision provided clear justification for the bidders declared non-compliant and for the selection of the winning bidder(s).				
Generalities	Access to the building was rapid.				
	All the events started on schedule.				
	ISSSTE's public servants during the events were respectful and kind.				
	You would participate again in another solicitation from ISSSTE.				
	The solicitation process was in accordance with the applicable law.				

Source: Information provided by the Puebla Delegation

In addition, these surveys only target bidders already engaged in a procurement process with ISSSTE and its delegations, and do not cover other suppliers and citizens. Building on this experience, ISSSTE should consider using surveys that gather feedback from the market place (for e.g. through chambers of commerce and associations) and citizens in general on the transparency of its procurement process. Most importantly, these surveys should be conducted by an independent entity to ensure the impartiality and confidentiality in the use of the information collected. In fact, the low response rate to these surveys mentioned above could be explained by a lack of trust from the bidders, who may fear the risks of retaliation by ISSSTE if they respond freely to the survey (e.g. being excluded from subsequent procedures or contracts).

Transparency in the procurement of public works

ISSSTE's portal on the procurement of public works is a good practice that could be used by other sectors and institutions

Amongst the most successful transparency initiatives implemented by ISSSTE is the portal on the procurement of public works. This portal was developed by the Control and Supervision of Works at a Distance (COSODI), which was created within ISSSTE as a new model of control and audit for public works. COSODI carries out risk analyses and internal assessments and develops monitoring tools throughout the procurement cycle (planning to execution) to ensure the proper completion of works and detect risks of fraud and corruption. Its portal provides real-time, accurate information on the awarded public

works procurement, thus providing an opportunity for the society at large to monitor the progress made in conducting the works. The website provides information on the type of contract awarded, the period during which it should be implemented, the geographic location and the status of implementation and the financial payments. The portal also provides comparative data on the total value of works contracted by the state. ISSSTE could consider extending it to provide information for procurement of selected services and goods such as medicines.

Beyond providing information on the status of the project's implementation and financial payments against the projections, the portal could provide an opportunity for citizens to give their feedback on the progress made or report risks of fraud or corruption. The United States' Recovery portal (www.recovery.org), for instance, provides information on the progress made in implementing projects and promotes interactive and live discussions with citizens on these projects (Box 9.2).

Box 9.2. 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. The Recovery Board oversees the stimulus funds created by the Recovery Act of 2009 following the 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, by 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. The only limitation is that the website is not as well known as it could be.

Source: OECD (forthcoming), *United States Federal Procurement Review: Technical Assessment for Peer Review*, OECD Publishing, Paris.

Social witnesses

Although ISSSTE has been increasingly involving social witnesses' in its procurement, does not sufficiently take their feedback into account

OECD countries are striving to create an interactive relationship with citizens through which they can take part in policy making and carry out a "direct social control" on government activities.

Mexico is one of the first OECD countries to have introduced such controls through the involvement of social witness in procurement processes. In fact, following the 2009 amendments to the LAASSP, social witnesses are now legally required to participate in all stages of public tendering procedures above certain thresholds as a way to promote public scrutiny. In 2012, these thresholds are MXN 311 million (approximately USD 24 million) for goods and services and MXN 623 million (approximately USD 48 million) for public works.

Social witnesses may also participate in low-value public tendering procedures, direct award procedures and invitations if it is considered appropriate by SFP. Social witnesses are selected by SFP through public tendering. SFP keeps a registry of the approved social witnesses and evaluates their performance; unsatisfactory performance potentially results in their removal from the registry.⁶ When a federal entity requires the involvement of a social witness, it informs SFP who designates one from the registry. During the period 2009-2011, 30 social witnesses were appointed to participate in ISSSTE's procurement activities.

Following their participation in procurement procedures, social witnesses issue a final report providing comments and recommendations on the process. Some of these reports are subsequently published on CompraNet. However, there are no formal mechanisms that oblige ISSSTE to respond to the comments or questions raised in these reports. While ISSSTE has increased the involvement of social witness in its procurement since 2009 (Table 9.3), it could involve social witnesses in procurement below the thresholds above, when economically sound, as to further increase transparency.

Table 9.3. Use of social witnesses by Mexican federal entities under public tendering procedures for goods, services and public works

Entity	2009		2010		2011		2009-2011	
	Number of appointments	Contracts value (millions USD)	Number of appointments	Contracts value (millions USD)	Number of appointments	Contracts value (millions USD)	Number of appointments	Contracts value (millions USD)
Total federal government	127	23,375	123	14 218	116	16 132	366	53 726
CFE	11	1 313	22	3 594	14	1 241	47	6 148
IMSS	8	2 795	33	4 755	22	2 262	63	9 812
PEMEX, excluding PEMEX Petroquímica	62	15 406	26	2 983	25	6 356	113	24 745
ISSSTE	9	1 018	8	849	13	1 049	30	2 917
Other federal entities	37	2 843	34	2 037	42	5 224	113	10 104

Source: SFP (2011), Quinto informe de labores, www.funcionpublica.gob.mx/web/doctos/temas/informes/informes-de-labores-y-de-ejecucion/5to_informe_labores_sfp.pdf, accessed 6 November 2011.

In ISSSTE's procurement, social witnesses are mainly involved in the solicitation process. ISSSTE could consider involving social witnesses in other early stages of the procurement process, such as requirement planning, specification development and market research, to ensure further involvement of relevant stakeholders in making the business case for specific procurements.

In addition, ISSSTE should ensure it provides timely and reliable feedback to social witnesses' comments. While social witnesses can make comments and recommendations during the process and include them in their reports, ISSSTE does not seem to be responsive to them. ISSSTE could make the social witness role more influential and reinforce witness oversight during the procurement process by providing a written response to every suggestion or comment received from social witnesses and allowing their inclusion in the final public reports. It could even amend its internal procurement guidelines to reflect that obligation.

Proposals for action

To improve transparency and strengthen public scrutiny in public procurement, ISSSTE could consider the following proposals for action:

1. Balancing the necessity and benefits of disclosing public procurement information against the resulting risks (for example as it relates to bid rigging), and streamlining information disclosed to ensure it is reliable, up-to-date and easily understandable.
2. Providing a clear and user-friendly process for submitting requests for information.
3. Reinforcing the information management system to make it more integrated and automatic to foster the disclosure of timely, accurate and reliable information.
4. Using more focussed surveys on transparency in ISSSTE's procurement process to gather feedback not only from bidders, but also from citizens and potential suppliers. These surveys should be conducted by an independent entity to ensure the impartiality and confidentiality in the use of the information collected.
5. Involving social witnesses, when economically sound, in early stages of the procurement cycle for procedures for which their involvement is not mandatory by law.
6. Providing formal and written responses to comments and recommendations received from social witnesses and make these responses publicly available (for e.g. by allowing their inclusion in the final report of the social witnesses).

Notes

1. Open Government Partnership, www.opengovpartnership.org/about, accessed 4 October 2013.
2. Mexico OGP Action Plan available at: www.opengovpartnership.org/countries/mexico, accessed 4 October 2013.
3. Mexico's Open Government Partnership Action Plan – launched in September 2011 www.opengovpartnership.org/sites/www.opengovpartnership.org/files/country_action_plans/Mexico_Action_Plan.pdf, accessed 4 October 2013.
4. ISSSTE's website www.issste.gob.mx/prebales/index.html, accessed 4 October 2013.
5. ISSSTE's quarterly report on its responses to requests for information which are submitted to the IFAI.
6. LAASSP, Article 66.

Annex 9.A1

Public availability of procurement information at the central level of government (2010)

	Laws and policies	General information for potential bidders	Selection and evaluation criteria	Contract award	Specific guidance on application procedures	Tender documents	Procurement plan of anticipated tenders	Justification for awarding contract to selected contractor	Contract modifications	Tracking procurement spending
Australia	●	□	□	●	□	□	●	■	□	○
Austria	●	□	□	□	□	□	□	○	□	○
Belgium	●	●	●	●	●	●	●	●	●	○
Canada	●	●	■	●	●	■	○	■	●	○
Chile	●	●	□	●	●	●	●	□	□	●
Czech Republic	●	●	●	●	●	●	□	□	□	■
Denmark	●	□	□	□	□	□	●	□	□	○
Estonia	●	●	●	●	●	■	●	●	■	●
Finland	●	●	●	●	□	■	□	■	○	○
France	●	●	●	□	●	□	□	■	●	■
Germany	●	□	□	□	○	□	○	○	○	○
Greece	●	●	●	●	□	●	□	●	○	○
Hungary	●	●	●	●	●	●	●	●	●	●
Iceland	●	●	●	●	●	●	●	●	●	●
Ireland	●	●	●	□	□	●	●	□	□	○
Israel	●	□	●	□	□	●	□	■	●	○
Italy	●	●	●	●	●	●	●	■	●	■
Japan	●	●	●	●	●	●	●	●	●	■
Korea	●	●	●	●	●	●	●	●	●	●
Luxembourg	●	●	●	□	□	●	□	■	■	□
Mexico	●	●	●	●	●	●	●	●	□	●
Netherlands	●	□	□	□	□	□	□	□	□	○
New Zealand	●	■	●	□	■	●	●	■	■	○
Norway	●	□	□	□	□	■	●	■	■	■
Poland	●	●	●	●	●	●	●	■	■	○
Portugal	●	□	□	□	□	□	□	□	□	□
Slovak Republic	●	□	●	□	●	□	□	○	●	○
Slovenia	●	□	□	□	□	□	□	■	□	■
Spain	●	●	●	●	●	●	●	●	●	○

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	Laws and policies	General information for potential bidders	Selection and evaluation criteria	Contract award	Specific guidance on application procedures	Tender documents	Procurement plan of anticipated tenders	Justification for awarding contract to selected contractor	Contract modifications	Tracking procurement spending
Sweden	●	●	□	□	●	□	□	□	○	○
Switzerland	●	●	●	●	●	●	○	●	○	□
Turkey	●	●	●	●	●	●	□	■	■	●
United Kingdom	●	●	○	●	●	○	●	□	○	○
United States	●	●	□	□	□	□	□	○	■	□
Brazil	●	●	●	●	■	●	○	■	●	●
Egypt	●	●	●	□	●	●	○	○	□	○
Ukraine	●	●	●	●	●	●	●	■	○	○
Total OECD34	34	26	21	21	19	18	17	13	11	6
● Always	0	1	1	0	1	5	0	10	7	6
■ Upon request	0	7	11	13	13	10	14	7	10	5
□ Sometimes	0	0	1	0	1	1	3	4	6	17
○ Not available										

Source: OECD (2011), *Government at a Glance 2011*, OECD Publishing, Paris, http://dx.doi.org/10.1787/gov_glance-2011-en, accessed 4 October 2013.

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Chapter 10

Ensuring integrity throughout ISSSTE's procurement cycle

This chapter highlights how public procurement is particularly at risk for corruption in the pharmaceutical and health care sector. It describes the efforts made by Mexico and the State's Employees' Social Security and Social Services Institute (ISSSTE) to fight corruption and wrongdoing in procurement. The chapter also discusses the need for ISSSTE to complement its current discipline-based management of integrity risks with a value-based strategy. Various tools and mechanisms to strengthen detection, monitoring and management of corruption (e.g. red flags, data mining and enhanced whistleblowers' protection) in its procurement and distribution activities are also provided for ISSSTE's consideration.

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.

Introduction

The health sector is known for being exceptionally at risk of waste, corruption, fraud and of other integrity issues. The State's Employees' Social Security and Social Services Institute (*Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado*, ISSSTE) is not exempt from these risks, as wrongdoing, collusion and corruption can affect any step of its procurement and distribution process.

Effective prevention by an organisation of corruption and unethical acts is not only influenced by the controls and policies it implements, but also by its culture and prevention efforts. Active commitment and involvement from public servants are imperative to maintain an environment that stimulates integrity and rejects corruption and wrongdoing.

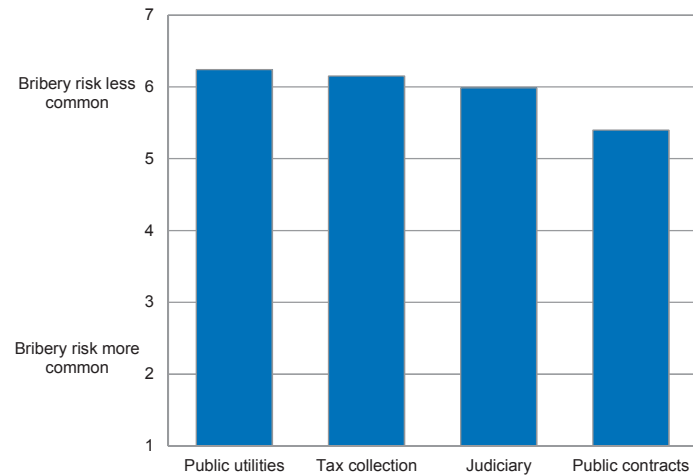
Transparency has been identified as a priority by ISSSTE, putting in place a crucial element for an integrity-prone environment. However, the OECD review found that ISSSTE's mechanisms to enhance integrity essentially rely on a corrective approach based on sanctions. At this time, the organisation lacks a proper culture of prevention and reporting, as well as the instruments, mechanisms and red flags required to effectively and efficiently identify, monitor and address integrity risks and wrongdoing. This chapter describes the general context of ISSSTE's management of integrity and provides recommendations to improve it.

Awareness of integrity and corruption risks in the public health sector

Corruption is perceived to be common in the public procurement sector due to the financial interests at stake, the volume of transactions and the close interactions between the public and private sectors. As illustrated in Figure 10.1, public procurement has actually been identified as the government activity most vulnerable to corruption in OECD member countries according to a survey of international business executives by the World Economic Forum.

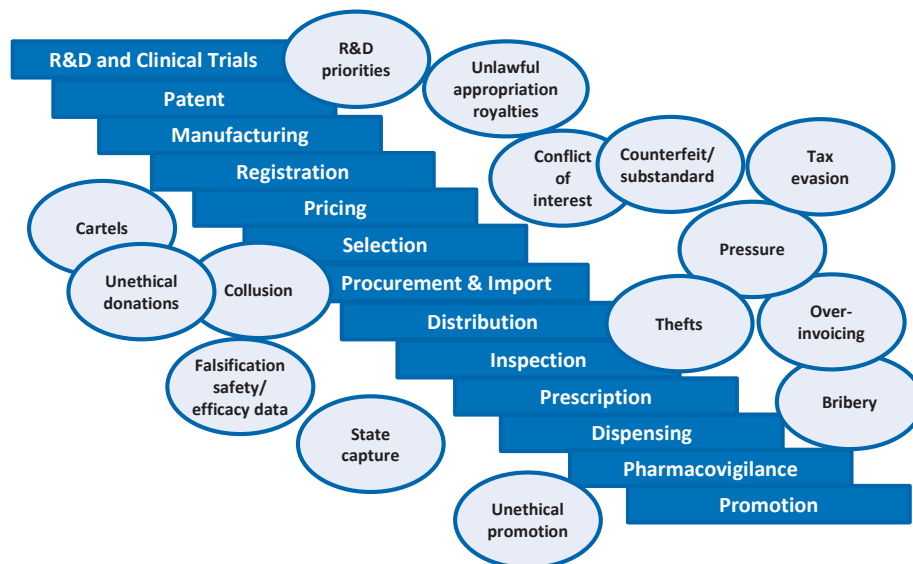
These risks are exacerbated in the public health sector due to the uncompetitive nature of the pharmaceutical industry, which predisposes it to fraudulent activity. Lack of transparency, especially in weak governance systems, particularly exposes countries to corruption risks. Furthermore, unethical practices can occur in all stages of the medicines chain, from regulation to procurement, promotion, distribution and final sales (Figure 10.2).

Figure 10.1. Average perceived level of bribery risk in selected government activities in OECD member countries



Source: OECD (2009), *Government at a Glance 2009*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264075061-en>, accessed 4 October 2013.

Figure 10.2. Unethical practices in the medicines chain



Source: World Health Organization (2010a), “Good governance for medicines programme: an innovative approach to prevent corruption in the pharmaceutical sector. Compilation of country case studies and best practices”, Background Paper 25, World Health Organization, Geneva, www.who.int/healthsystems/topics/financing/healthreport/25GGM.pdf, accessed 22 October 2012. © World Health Organization, 2010. Reproduced with permission.

Known corruption practices in health sector procurement include collusion¹ and bribing public officials. For example, bribing a public official through incentives, monetary inducement, kickbacks or gifts can be used by suppliers to:

- have the medicines they manufacture or import included on the national essential medicines list;
- obtain a competitive position in the stages of bidding, study and referring of bids or contracts;
- facilitate collusion in the preparation of bids by providing some suppliers with special and confidential information regarding prices, for example; and
- receive money in exchange for medicine that is supposed to be distributed free of charge (Jordan Ministry of Health, 2010).

Bribery can also be used by suppliers to avoid being held accountable for improper contractual performance, such as failure to deliver on time.

Corruption in the pharmaceutical sector can have strong negative impacts on public health agencies and their beneficiaries. The World Health Organization (WHO, 2006) categorises them as follows:

- **Health impact:** the government's capacity to provide access to good quality, essential medicines is reduced by the waste of public resources through the purchasing of expensive or non-essential products.
- **Economic impact:** public sector procurement agencies waste the budget by purchasing over-priced products instead of good quality, less-expensive versions of the same product. Funds may be mismanaged as well, impacting on national health budgets and contributing to shortages of medicines.
- **Impact on government image and trust:** inefficiency and lack of transparency reduce the credibility of public institutions and affect the public's perception of and confidence in the government's capacity.

The World Health Organization (2009) reports that 10% to 25% of public procurement spending (including pharmaceuticals) is lost to corrupt practices and fraud, and that abuse in health care has been estimated to cost individual governments as much as USD 23 billion per year in developed countries.

Public health service providers sometimes lack the skills needed to identify and address the risks of unethical actions, particularly in drafting technical specifications, designing and conducting competitive tendering procedures and monitoring and evaluating suppliers' performance under their contracts. As an example, vague technical specifications may increase the possibility of bribes and influence during the tendering process while unnecessarily strict and detailed technical specifications limit competition and may result from an intention to "tailor it" to a particular supplier.

Corruption and wrongdoing can have a profound impact in ISSSTE's capacity to maximise the use of available resources to provide the volume of high quality services required by its beneficiaries. As such, it is essential that it takes concrete and strong actions to identify and prevent unethical conduct that may occur in its procurement activities and to implement appropriate remedial actions, thereby increasing the integrity of its procurement function. The legal framework in place in Mexico to fight corruption is a good starting point for such efforts.

Fight against corruption under the Mexican legal framework

The Mexican legal framework applicable to public procurement is based primarily on the Law on Acquisitions, Leasing and Services of the Public Sector (*Ley de Adquisiciones, Arrendamientos y Servicios del Sector Público*, LAASSP) and the Law on Public Works and Related Services (*Ley de Obras Públicas y Servicios relacionados con las Mismas*, LOPSRM). While both of them include various requirements and rules to structure and guide public procurement activities, they do not specifically address integrity and corruption risks, other than requiring a declaration of integrity from bidders under public tendering procedures as well as a written statement that they are not subject to any conditions under the law preventing them from being awarded a contract.

The criminalisation of public servants who take part in corrupt practices is covered by other applicable laws such as the Federal Law on Administrative Responsibilities of Public Servants (*Ley Federal de Responsabilidades Administrativas de los Servidores Públicos*, LFRASP) and the Federal Penal Code (*Código Penal Federal*). The LFRASP aims to enhance the legality and integrity of public servants' performance of their administrative duties. This law establishes the administrative faults, the procedure for taking legal action, and the modality and degree of sanctioning to be applied to public servants. It also establishes the obligation for entities of the federal public administration to have in place units where complaints can be filed, and to take permanent preventive actions to ensure legislative compliance.

Specifically, the LFRASP prohibits procurement officials from:

- contracting with any person who performs a public function, or with any company in which such a person participates;
- contracting with any person that has been prohibited from holding a job, position or commission in the public administration;
- intervening in any situation which may create any personal or business-related conflict of interest;
- participating in any act or procedure where integrity might be compromised;
- exercising any form of influence peddling to former public servants, up to one year after they conclude their public function; and
- inhibiting whistleblowing or the filing of a complaint.

Until recently, the Mexican regulatory framework did not offer support to public officials who encountered corrupt acts. For example, it did not require public entities to put in place specific guidelines to assist officials to identify and act in a timely manner when they encounter such acts. Whistleblowers' protection was also limited as there was no secure mechanism in place for reporting fraudulent, corrupt or unethical behaviour. The legal framework, therefore, offered limited assistance to ISSSTE in tackling corrupt acts.

In view of these limitations, important legal reforms were undertaken to enhance integrity in public procurement procedures. The Federal Anti-Corruption Law on Public Procurement (*Ley Federal Anticorrupción en Contrataciones Públicas*, LFACP), adopted in June 2012, directly addresses issues of corruption and fraud in public procurement. It reinforces the position of Mexican entities to combat corruption and fraud through various provisions such as:

- Penalties and liabilities on both Mexican and foreign individuals and entities for infringing the law during their participation in any federal procurement process, applying to other related professions that may have an influence on the integrity of the public procurement process (including but not limited to public servants). Mexican individuals and entities involved in corruption in international business transactions are equally liable (Article 9).
- Acts such as influence, bribery, collusion, shams, omission, evasion, filing false information, and forgery are considered infringements (Article 8).
- Penalties for violation of the law include fines and legal disqualification (*inhabilitacion*) from the pertinent working sector for periods ranging from three months to eight years for individuals and three months to ten years for entities (Article 27).
- Pleading guilty and co-operating in the investigation reduces the sanctions up to 50%, if the plead takes place within 15 working days following the notification of the administrative disciplinary proceedings (Articles 20 and 31).
- Whistleblowers identities must remain confidential (Article 10).

In addition to the LFACP, amendments have been proposed to the Federal Penal Code, enhancing the protection of whistleblowers and their families. These amendments focus on maintaining the confidentiality of the whistleblower's identity, reassigning them to another position in the public service, and diminishing the sanctions if they confess to collaborative felonies. Similarly, there is an initiative to reform the LFRASP to stimulate whistleblowing by increasing the liability and sanctions for public servants who inhibit whistleblowing and by allowing anonymous reporting. Finally, the *General Administrative Manual on Acquisitions, Leases and Services* recently put in place by the Ministry of Public Administration outlines integrity as a main principle in procurement procedures.

Prevention of corruption and wrongdoing in ISSSTE

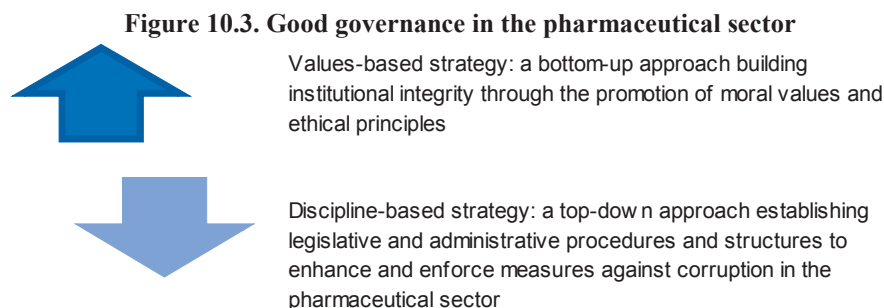
ISSSTE needs to create a culture of integrity awareness and prevention, starting with a strong Code of Conduct and guidelines

Fighting corruption in the health sector requires a long-term strategy which promotes good governance. Creating a culture of corruption prevention requires the involvement and commitment of the management as well as public servants to create an environment that stimulates integrity and rejects improper actions.

As discussed in the previous chapter, ISSSTE has identified transparency as a priority, putting in place a crucial element for an integrity-prone environment and for corruption prevention. However, the OECD review found that ISSSTE currently lacks specific anti-corruption and integrity measures and programmes in general, and in its procurement function specifically. As an example, when asked about the mechanisms, tools and strategy in place in ISSSTE to safeguard integrity in the procurement process, most delegations indicated it is ensured through strict compliance with the procurement laws (including the required declaration of integrity from suppliers), various forms of reporting and information disclosure, and through participation of the Internal Control Office (*Organo Interno de Control*) or social witnesses in some stages of the process and through their audits or reports. Furthermore, ISSSTE's current risk management system does not identify or address any integrity or corruption risks, even though some current

activities can compromise the integrity of the procurement process (for example contract splitting, improper use of exceptions to public tendering and inadequate bid evaluation, as discussed in Chapters 5 and 6). At this time, safeguarding the integrity of the procurement process and preventing corruption is therefore perceived to be external to the function. As such, ISSSTE's current culture of integrity is one of compliance and monitoring; integrity enhancement essentially relies on a corrective approach based on sanctions.

According to the *OECD Principles for Integrity in Public Procurement* (OECD, 2009b), four key elements need to be in place to enhance integrity and foster corruption prevention, namely *i*) transparency; *ii*) good management; *iii*) prevention of misconduct, compliance and monitoring; and *iv*) accountability and control. As the principles indicate, 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 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 (Figure 10.3).



Source: Based on World Health Organization (2010b), *Good Governance for Medicines. Progress Report for 2010*, WHO Press, Geneva, www.who.int/medicines/ggm/en/, accessed 4 October 2013.

Raising awareness and understanding of the risks and impacts of wrongdoing and of the need to pursue appropriate counter measures therefore entails a culture of prevention and is the first stage in developing a full-fledged strategy against corruption. Codes of conduct can have a significant impact in this regard, as they define and implement an organisation's values and ethical standards. Although ISSSTE's current Code of Conduct states the core values of the institution, it is not sufficient to foster the required integrity culture in the procurement function as it only explains in general terms what is expected of public servants and does not have specific provisions regarding public procurement.

Adequate identification and management of conflicts of interest is particularly important in the procurement function in view of its close proximity and regular contact with the private sector. Within the Mexican legal framework, LFRASP regulates conflicts of interest by requiring public servants to abstain from intervening in any situation under which any personal or business-related interest may arise. As highlighted by the OECD (OECD, 2009b), dialogue between the public and private sectors is, however, crucial to remain up-to-date with market developments and achieve the best outcomes at a reasonable price. Although ISSSTE's Code of Conduct briefly mentions conflict of interest, it neither provides specific guidelines for behaviour nor assists public servants in dealing with situations of conflict of interest, bribery or influence peddling. Similarly, there is no formal procedure on the specific conduct that is deemed appropriate when

interacting with suppliers. This issue is not limited to ISSSTE, lack of conflict of interest guidelines for all functions across pharmaceutical systems being a common weakness among countries (WHO, 2010b).

In order to provide further guidance on ethical practices, ISSSTE could therefore benefit from modernising and expanding its Code of Conduct, potentially following the Italian example (Box 10.1). The modifications could specify guidelines and procedures to prevent unethical or corrupt practices in procurement, as well as the possible sanctions (fine, loss of position, imprisonment) that follow a corrupt act.

Box 10.1. Adopting and implementing a code of ethics for public procurement in Italy

Consip is a company entrusted with information technology activities for Italy's Ministry of the Economy and Finance (MEF) and responsible for the e-procurement system. Recognising that public procurement is highly exposed to conflict of interest and corruption, it has introduced a Code of Ethics. This Code of Ethics sets standards for Consip's personnel as well as for anyone who co-operates with the company, including employees, consultants, suppliers, the Ministry of Economy and Finance and other stakeholders. It provides general standards of behaviour which must be respected in activities with Consip.

The Code of Ethics contains several provisions for standards of behaviour in the following areas:

- general rules on ethics and behaviour and in relations with suppliers and stakeholders;
- conflict of interest;
- gratuities;
- interaction with the public administration, civil society, politicians and the media;
- confidentiality of information and documentation.

The Code has put in place internal controls to evaluate compliance with the Code and periodically verifies that corporate procedures, organisation and management of the company are in conformity with existing laws and regulations. To support compliance and application of the Code, the Office of Compliance was established and performs the following functions:

- communication and interpretation of the Code;
- verification of the effective application of the Code, and of possible violations;
- recommendations of appropriate measures to comply with existing laws and regulations;
- information to heads of departments in case of inappropriate behaviour in order to allow for the adoption of adequate measures.

Source: Magrini, P. (2006), "Transparency in public e-procurement: the Italian perspective", *OECD Papers*, Vol. 5/10, OECD Publishing, Paris, http://dx.doi.org/10.1787/oecd_papers-v5-art36-en, accessed 4 October 2013.

ISSSTE could also develop specific guidelines assisting in the identification and management of conflicts of interest and defining clear restrictions for public servants over the entire procurement cycle, particularly in interacting with the marketplace. For example, case scenarios and real-life examples could be included, where employees could easily recognise cases in which they might be involved. Providing specific guidelines for the expected behaviour of public procurement officials helps to ensure that private interests do not improperly influence their performance, duties or responsibilities. Such changes would strengthen integrity by stressing honesty, responsibility, efficacy and respect while simultaneously aiding transparency. The guidelines could be reinforced

through the introduction of a wrongdoing prevention officer providing support and advice to employees on such topics as corruption, conflict of interests, collusion, etc.

It is also essential that anti-corruption measures address the responsibilities of suppliers in corrupt practices throughout the procurement cycle. As discussed later, ISSSTE can take actions to ensure that suppliers involved in corruption or collusion are subject to proper investigations and prosecutions. However, many countries are moving from the sole criminalisation of companies to inducing them to develop their own programmes to prevent corruption. For example, the “Corporate Sentencing Guidelines” in the United States represents a new approach to induce publicly-traded companies to create ethics programmes, codes of conduct, effective training and whistleblower systems. The incentive offered by the guidelines is that if a company is convicted of corruption, the judge must take into account the efforts the company has made to implement an effective programme designed to prevent and detect criminal conduct. This can result in a significant reduction in the civil penalties the company would have to pay, up to 95% in some cases (Chapter 8 in USSC, 2011).

The private sector has been active in many parts of the world in proactively developing anti-corruption programmes and setting standards through self-regulation. For example, the Construction Industry Ethics and Compliance Initiative (CIECI) is a non-profit private association bringing together more than 50 companies in the United States’ construction industry to establish a process for the industry to promote integrity and ethical conduct. The initiative requires each signatory company to adhere to the following six core ethical principles (CIECI, n.d.):

- each member must have and adhere to a written business code of conduct establishing high ethical values and compliance with the law applicable to the United States’ construction industry;
- each member must train its personnel as to their personal responsibilities under its code of conduct;
- each member commits itself to work together toward maintaining open competition in the industry, free of conflicts of interest and undue influences;
- each member must have responsibility to each other to share best ethical and compliance practices in implementing these principles;
- each member must participate in the Annual Best Practices Forum organised by the association;
- each member, through participation in this initiative, must be accountable to the public.

While ISSSTE does not have the leading role in Mexico in developing integrity and accountability standards for businesses, it could engage with certain suppliers to explore ways to encourage them to develop their own standards and programmes to enhance integrity in their relationship with ISSSTE.

A series of actions and training are required for the integrity culture to become intrinsic to the procurement function

Codes of conduct and guidelines are instrumental documents for promoting integrity values in ISSSTE. However, they are not, in themselves, sufficient to implement an on-

going process of involvement and commitment for making integrity an integral part of the culture of its procurement function. ISSSTE could complement them with a formal strategy promoting key values and composed of a series of specific anti-corruption and integrity actions. Training is a cornerstone of this strategy, as in other OECD countries (Box 10.2). Self-assessment tools could also be considered, such as the one implemented by the Netherlands to address integrity risks (Box 10.3).

Box 10.2. Integrity training in Germany

The Federal Procurement Agency is a government agency which manages purchasing for 26 different federal authorities, foundations and research institutions that fall under the responsibility of the Federal Ministry of the Interior. It is the second largest federal procurement agency after the Federal Office for Defence Technology and Procurement. The Federal Procurement Agency has taken several measures to promote integrity among its personnel, including support and advice of a corruption prevention officer, the organisation of workshops and training dealing with corruption, and the rotation of its employees.

Since 2001, it is mandatory for new staff members to participate in a corruption prevention workshop. With the help of a prosecutor from the district prosecution authority, they learn about the risks of getting involved in bribery and the briber's possible strategies. Another part of the training deals with how to behave when these situations occur; for example, by encouraging them to report it ("blow the whistle"). Workshops highlight the central role of employees whose ethical behaviour is an essential part of corruption prevention. In 2005, the workshops were enlarged to include not only induction training but also on-going training for the entire personnel. The involvement of the agency's "Contact Person for the Prevention of Corruption" and the Head of the Department for Central Services in the workshops demonstrated to participants that corruption prevention is one of the priorities for the agency.

Another key corruption prevention measure is the rotation of staff after a period of five to eight years in order to avoid prolonged contact with suppliers, as well as improving motivation and making the job more attractive. However, the rotation of members of staff is still meeting difficulties. Due to a high level of specialisation, many officials cannot change organisational unit, their knowledge being indispensable for the work of the unit.

Source: OECD (2007), *Integrity in Public Procurement: Good Practice from A to Z*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264027510-en>, accessed 4 October 2013.

10.3. The Netherlands' public sector integrity assessment tool: The Self-Assessment INTEgrity (SAINT)

The Netherlands Court of Audit in co-operation with the Ministry of the Interior and the Bureau of Integrity of the City of Amsterdam have 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.

10.3. The Netherlands' public sector integrity assessment tool: The Self-Assessment INTeegrity (SAINT) (*Cont*)

- **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.

Source: Benner, H. and I. de Haan (2008), "SAINT: Tool to Assess the Integrity of Public Sector Organisations", *International Journal of Government Auditing*, April, www.intosajournal.org/pdf/april2008.pdf, accessed 4 October 2013.

When considering other actions, ISSSTE may get inspiration from the recent efforts put in place in the Mexican Federal Electricity Commission (*Comisión Federal de Electricidad*, CFE) to enhance a culture of integrity (Box 10.4), including "integrity recognition" for those individuals and working groups distinguished for their excellent conduct, for promoting CFE's values and for actions providing greater transparency to processes. CFE has also developed a programme on a "culture of legality" to promote integrity and corruption prevention values. The programme has 60 instructors certified by the National Strategy Information Centre and sets the objective for CFE's workers to recognise their rights and obligations as citizens and as public servants to reject and report corruption (OECD, 2012).

Box 10.4. Activities undertaken by the Mexican Federal Electricity Commission (CFE) in 2009-10 to enhance a culture of integrity

- 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.

Source: OECD (Forthcoming), "Public Procurement Review of the Electric Utility of Mexico, Towards Procurement Excellence in the Comisión Federal de Electricidad", internal document, Public Governance and Territorial Development directorate, Paris.

Transparency of the price of medicine can be an effective tool to reduce corruption and identify potential wrongdoing

Transparency of the price of medicine is another key factor for reducing corruption in the public health sector. As previously mentioned, the procurement of pharmaceutical products is prone to corrupt acts, including bribery and undue price increases (including through collusion among suppliers) for both generic and patented drugs. Access to information on prices sets a standard against which to benchmark future procurement and create opportunities for oversight and scrutiny in the procurement process.

A recent WHO bulletin (Gómez-Dantés et al., 2012) indicates that while only 4% of medicines are patented in Mexico, they represent 56% of the total public expenditure of pharmaceuticals. It further reports that a recent analysis of the public procurement prices for patented products revealed price variations as high as 3 000% among public institutions in 2006, which suggests large inefficiencies and flaws in the public procurement process. Contracts for patented medicines cannot, by definition, be subject to competition and are therefore awarded directly to the supplier or manufacturer. They therefore open the door to influence and corruption, with the possibility that higher prices are accepted by the procuring organisation in return for bribes and kickbacks to one or many public servants involved in the negotiation and award process.

To counter this, the Mexican government formed the Co-ordinating 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*, CCPNM) in 2008 which creates a legal right for public health institutions to pool together to negotiate a unique price applicable for one year for all of the participating institutions. Overall this initiative has gradually reduced the price of patent medicines throughout the public health sector, lowering the risks of corruption and producing savings estimated at more than 350 USD million by the World Health Organization (Gómez-Dantés et al., 2012). Nevertheless, CCPNM prices are not available outside of the scope of the participating agencies, limiting transparency.

In a similar manner, ISSSTE has mitigated integrity risks in the procurement of generic medicines by consolidating requirements at the central level, thereby reducing the issuance of a numerous, small-value contracts for the same products at different prices, and increasing the level of transparency and competition in the acquisition process. More recently, it has gone one step further, initiating joint procurement initiatives with other entities of the Mexican federal health sector (see Box 5.1 in Chapter 5). In addition to enhancing competition and obtaining better prices, this approach increases the number of stakeholders involved in the process as well as its visibility and scrutiny, thereby reducing the opportunity for wrongdoing.

Experience in OECD countries has shown that an additional way for ISSSTE to prevent corruption is by increasing transparency of the price of medicines. Having access to the prices paid by drug procurement agencies and distributors provides a standard against which to benchmark other procurement. If the agency procures medicines at prices that are very different than those publicised, oversight and scrutiny can take place. Such investigations and the implementation of corresponding sanctions enhance accountability within the agency, creating a deterrent for bribes and kickbacks that inflate the prices, thus improving the agency's credibility. For example, the United States' Supply Chain Management System (SCMS) 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 to deter corruption (Vian et al., 2010).

The Argentinean experience is also relevant on the effect of publicising hospital procurement prices to constrain corruption. When data collection was first introduced, there was a drop in prices and in their dispersion. However, further analysis demonstrated that prices fell in anticipation of the price disclosure and not as a consequence of procurement officers learning from the information. The Argentinean case also sheds light on the fact 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. If there are no incentives for efficiency or integrity, procurement officers become used to reporting prices with the confidence that there will not be any further consequences for poor or negligent performance (Savedoff, 2010).

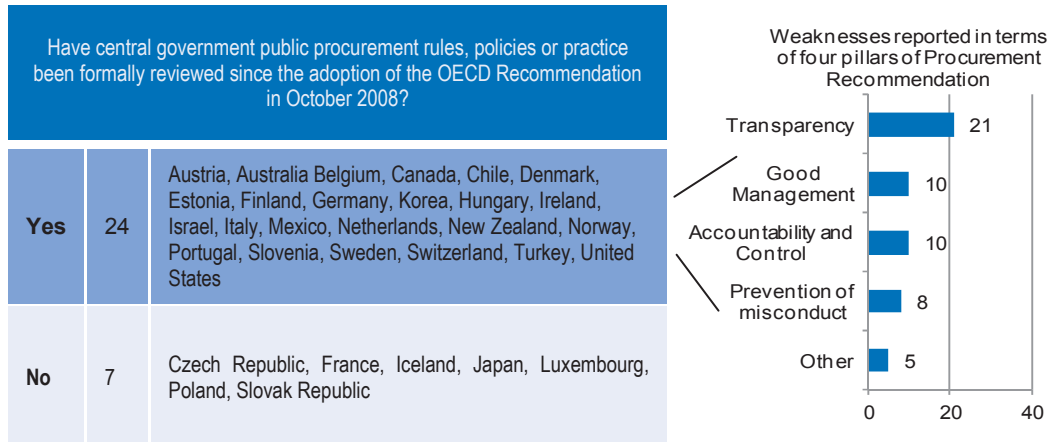
ISSSTE could explore benchmarking the prices of generic and patented medicines with other health agencies in Mexico and abroad, allowing, for example, the continued improvement of CCPNM's negotiations. It could also follow on the stated intent of its Director General and adopt a strategy to enhance the transparency of the price of the medicines obtained in its procurement process. This price disclosure should be done, as a minimum, within the organisation and with other entities of the Mexican health care sector. Public disclosure could also be considered to the extent that it does not facilitate collusion between suppliers.

Monitoring and corrective actions for integrity risks

Like other Mexican federal entities, ISSSTE lacks effective mechanisms to identify and monitor irregularities and potential corruption in its procurement function

While implementing a strong culture of integrity in ISSSTE is essential, it will not be sufficient to adequately undermine corruption unless mechanisms are in place to identify improper actions and strong actions are taken to address them. However, significant efforts are required in this regard. As indicated in Figure 10.4, one-third of the OECD countries having formally reviewed their central government public procurement rules, policies or practice since 2008 have reported the “prevention of misconduct” as an identified weakness. Mexico is one of those countries, having specifically identified “a lack of effective mechanisms to monitor procurement and identify irregularities and potential corruption”.

Complementary to the creation of a culture of integrity, an effective strategy for preventing corruption in the procurement process requires formal mechanisms for monitoring associated risks. As stated before, none of the risks identified under ISSSTE's current risk management system address corruption risks. As an initial step, and preferably as part of strengthening the risks management system suggested in Chapter 3, it is therefore essential for ISSSTE to undertake a mapping exercise to identify risks of corrupt or unethical activity in every stage of the procurement process.

Figure 10.4. Weaknesses identified in central government reviews of public procurement

Note: Data unavailable for Greece, Spain and the United Kingdom.

Source: OECD (2012), “Progress Made in Implementing the OECD Recommendation on Enhancing Integrity in Public Procurement”, OECD, Paris, www.oecd.org/gov/ethics/combined%20files.pdf, accessed 4 October 2013.

Following that exercise, ISSSTE could develop appropriate red flags and alert mechanisms to assist in the detection of wrongdoing in a timely manner, avoiding significant delays between the time when the wrongdoing occurs and when it is noticed, if ever, and 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 10.5).

Box 10.5. Red flags for procurement corruption

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
- no process identifying risks (e.g. risk register)

Source: Chartered Institute of Public Finance & Accountancy (CIPFA) Better Governance Forum (2011), “Procurement fraud briefing”, Chartered Institute of Public Finance & Accountancy, London.

As part of a strong culture of integrity, the responsibility for all stakeholders to identify and report improper practices should be reinforced. In line with the experience of Brazil (Box 10.6), ISSSTE could put in place formal tools and mechanisms at the organisational level to ensure the regular assessment of available data and information as to identify potential integrity risks and monitor identified red flags. The implementation of an e-procurement system covering the entire procurement process and integrated with the other IT systems, as suggested in Chapter 8, could strongly support this process on two levels. First, it would provide easy and real-time access to clear and consolidated information and data, facilitating the necessary monitoring and assessment. Second, it could include functionalities immediately reporting occurrences of specific red flag events to the appropriate stakeholders.

Box 10.6. Use of data mining to detect misconduct and corruption 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 taken to cross 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 tracks 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.

Source: OECD (2012), “Progress Made in Implementing the OECD Recommendation on Enhancing Integrity in Public Procurement”, OECD, Paris, www.oecd.org/gov/ethics/combined%20files.pdf, accessed 4 October 2013.

An important avenue to identify potential breaches of integrity in the procurement function rests with the various public servants involved or aware of the associated activities. In that regard, creating an environment that supports and encourages reporting fraudulent acts is essential, as discussed below. In order to assist public servants in identifying, monitoring and reporting corrupt activities, ISSSTE could develop specific red flag guidelines and training highlighting the integrity risks identified for each stage of the procurement cycle and providing concrete examples of red flags or circumstances that may lead to suspect improper actions.

Finally, it is essential that strong mechanisms are in place to promptly investigate potential occurrences of wrongdoing and, if proven to be true, to immediately enforce appropriate sanctions against the individual involved (whether they are public servants or not) and take actions to mitigate the reoccurrence of that risk. Failing to consistently do so will reduce the confidence of public servants in the integrity system and may create a strong disincentive to report. By showing that investigation of identified potential corrupt

or fraudulent acts is not a priority and may therefore remain unpunished, may, on the contrary, create a sense of impunity and increase the temptation to commit such acts.

An environment that encourages reporting and the protection of whistleblowers strongly supports monitoring unethical practices

Facilitating the reporting of wrongdoing can help monitor compliance and detect misconduct. Nevertheless, the risks of reporting (either real or perceived) can be high in organisations where a reporting environment is not encouraged. Such an environment could be promoted by implementing mechanisms that encourage denunciation, ensure the confidentiality of the identity of whistleblowers and protect them against retaliation.

As a first step, clear reporting mechanisms must be in place and well known through the organisation, along with clear rules and procedures and a description of the protection provided for reporting officials. Such mechanisms may consist of hotlines or electronic reporting systems that ensure confidentiality. ISSSTE's Internal Control Office has implemented reporting systems via mailboxes for suggestions and reporting along with an electronic reporting system that ensures confidentiality (www.issste.gob.mx/contacto/quejas.html). In order to maximise the opportunities for reporting, ISSSTE could assess the pertinence of complementing the existing systems with alternative channels for officers who feel uncomfortable, if not threatened, to report through regular channels.

Even with such mechanisms in place, many public servants aware of unethical or fraudulent acts will refrain from reporting them if they feel this may subsequently negatively impact their reputation and career, for example through victimisation or retaliation. As previously mentioned, the new Federal Anti-Corruption Law on Public Procurement provides limited legal protection for whistleblowers, being limited to their identity remaining confidential. Similarly, amendments have been proposed to the Federal Penal Code, for example for reassigning whistleblowers to another position in the public service and diminishing the sanctions in case they confess to collaborative felonies. However, these amendments have not yet been approved and none of these legal reforms explicitly prohibit retaliation.

Besides the protection intended by the proposed amendments to the Federal Penal Code, ISSSTE could implement mechanisms and practices so that its employees feel safe to disclose wrongdoings without fear of victimisation or retaliation from those involved in the corrupt practices. For example, senior management (preferably as high as the Director General) could clearly and strongly indicate that no form of retaliation and victimisation of whistleblowers will be tolerated. Also, a mechanism could be put in place to provide the opportunity for whistleblowers to be reassigned to another position in the organisation. When designing these whistleblower protection mechanisms and practices, ISSSTE could consider the guiding principles recently adopted by the G20 Anti-Corruption Working Group (Box 10.7).

Protecting public officials from irresponsible and unethical whistleblowing – such as false reporting or reporting as a result of spite or competitiveness between colleagues – is equally essential, as the continuous misuse of reporting could damage the reputation and career of public servants as well as lower the perceived credibility of the whistleblowing process. As such, ISSSTE could implement training and education on the notion of integrity and the purpose of reporting to encourage the correct use of these mechanisms and prevent misuse.

Box 10.7. Guiding principles for efficiently protecting whistleblowers

The G20 Anti-corruption Working Group has identified the following guiding principles as essential elements for 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.

Source: OECD (2011), “Whistleblower protection frameworks: compendium of best practices and guiding principles for legislation”, OECD, Paris, www.oecd.org/dataoecd/42/43/48972967.pdf, accessed 4 October 2013.

ISSSTE should pursue its efforts to reduce the misappropriation of medical products in its entire distribution chain

Once medicines and medical products have been procured, they must be efficiently delivered through the supply chain to the ultimate consumers. Cost-effective strategies that focus on the physical protection and security and risk analysis for dispatch and transport should be employed to safeguard the drug supply and avoid diversion. Emphasis on information management should be increased to detect the diversion of supplies from public to private channels (Vian, et al., 2010). Due to under-financed and poorly managed systems, insufficient record-keeping and ineffective monitoring and accounting mechanisms, large quantities of drugs and medical supplies are stolen from central warehouses and individual facilities around the world and diverted for resale for personal gain in private practices or on the black market.

As many public health care providers, ISSSTE has been confronted with such issues of misappropriation in the past. In order to reduce these risks, it has implemented or initiated a series of actions to improve its acquisition, distribution and stock management processes, such as:

- Centralisation of the purchase of medicines as well as management of its central warehouse and distribution through a single service provider, *Servicio Integral de Logística y Distribución Sapi de C.V* (SILODISA).

- Launch of an initiative to improve its stock management system in the medical units (Integral Medicines Supply System) to increase the availability of accurate and up-to-date stock data and to better track the entry and exit of medicines. Further details on this initiative are available in Chapter 6.
- Implementation of the Supply Control Board (*Tablero de Control*) allowing key stakeholders to follow in real time the stock levels of medicines and medical products in each medical unit (see Chapter 4 for further details).
- Strengthening the electronic medical system tracking services provided to each beneficiary (Comprehensive Healthcare Registry System), including prescriptions provided and medicine consumption (see Chapter 8 for further details).
- Creation of bi-directional interfaces between the Integral Medicines Supply System and: *i*) the Comprehensive Healthcare Registry System; and *ii*) SILODISA's ERP system to allow the data to be cross-referenced and discrepancies to be identified.

ISSSTE could consider complementing these initiatives with additional measures associated with monitoring the delivery, receipt, storage and distribution of medicines and medical supplies. As an example, experience shows that batch monitoring can be an effective tool: each product delivered from the manufacturer to the warehouse is assigned a unique code that identifies the channel of distribution (either public or private). Once the medicines have been procured, applying a similar process for ISSSTE's internal national and regional distribution chain could help reduce theft and irregularities of public supplies.

In addition, ISSSTE could also consider making the messages printed on the drug packaging stronger, for example "health sector product, not for sale. If you have paid for this item, it was stolen." This type of public-private collaboration to deter drug diversion could improve access to ISSSTE's health services by reducing theft of public supplies, while manufacturers could better assure their regular non-discount, market prices (Vian, et al., 2010).

Proposals for action

In order to create a strong culture of integrity in the procurement process and reduce occurrences of wrongdoing and corruption, ISSSTE could develop and implement a comprehensive strategy considering the following actions:

1. Creating a culture of integrity awareness and prevention including active involvement and commitment of public servants and ISSSTE's suppliers to high integrity standards throughout the procurement cycle. Associated actions may include:
 - Modernising and expanding its Code of Conduct.
 - Developing specific guidelines to assist in the identification and management of conflicts of interest, and defining clear restrictions for public servants at different stages before, during and after the procurement cycle, particularly as it relates to interaction with the marketplace.
 - Providing formal integrity training and workshops to all individuals involved in aspects of the supply function.

- Engaging with certain suppliers to explore ways to encourage them to develop their own standards and programmes to enhance integrity in their relationship with ISSSTE.
 - Implementing other awareness initiatives continuously promoting ethical practices and values, such as the introduction of “integrity recognition” for those individuals and working groups distinguished for their excellent conduct and for promoting integrity.
 - Creating a wrongdoing prevention officer that provides support and guidance to employees on such topics as corruption, conflict of interests and collusion.
2. Benchmarking prices of generic and patented medicines with other health agencies in Mexico and abroad, and disseminating the results internally, in order to facilitate the identification and investigation of suspiciously high prices and to create a disincentive to corruption and collusion. Public disclosure could be considered to the extent that it does not facilitate collusion between suppliers.
 3. Implementing effective mechanisms to identify, monitor and address integrity risks in a timely and consistent manner, for example by:
 - Undertaking a mapping exercise to identify risks of corrupt or unethical activity in every stage of the procurement process, preferably as part of ISSSTE’s risk management system.
 - Developing red flags and alert mechanisms to assist in the detection of wrongdoing and supported by regular assessment of pertinent information and data. This would be facilitated by the implementation, as recommended in Chapter 8, an e-procurement system covering the entire procurement cycle and integrated with ISSSTE’s other IT systems, for example through functionalities that would automatically report the occurrence of red flag events.
 - Providing training and guidance on the identified risks and red flag mechanisms to public servants involved or aware of activities of the procurement process, providing concrete examples of circumstances that may lead one to suspect improper actions.
 - Ensuring that strong mechanisms are in place to promptly investigate potential occurrences of wrongdoing and, if proven, to immediately enforce appropriate sanctions against the individual involved (whether they are a public servant or not) and take actions to mitigate the reoccurrence of that risk.
 4. Creating an environment that stimulates reporting potential wrongdoing and where public servants feel safe to do so without fear of victimisation or retaliation by:
 - Assessing the pertinence of complementing the existing reporting systems of the Internal Control Office (*Organo Interno de Control*) with other vehicles for public servants who feel uncomfortable, if not threatened, to report through regular channels.
 - While waiting for the proposed amendments to the Federal Penal Code to be approved, clearly and strongly indicating (at the senior management level, and preferably the Director General) that no form of retaliation and victimisation

of whistleblowers will be tolerated. In addition, putting mechanisms in place to provide the opportunity for whistleblowers to be reassigned to another position in the organisation.

- Providing education on the purpose of reporting in order to prevent the misuse of the mechanisms put in place, such as false reporting or reporting as a result of spite or competitiveness between colleagues.
5. Complementing the current efforts to reduce the misappropriation of medical products in its entire distribution chain with other initiatives, such as:
- Implementing batch monitoring under which each product is assigned a unique code that allows it to be tracked through the entire distribution channel (all the way down to the beneficiaries).
 - Making the messages printed on the drug packaging stronger, for example by using “health sector product, not for sale. If you have paid for this item, it was stolen.”

Notes

1. Suppliers collusion, also known as bid-rigging, is an important integrity risk in the procurement cycle. However, this report does not cover it in detail as it is subject to a distinct review in collaboration with ISSSTE

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