

OPEN CONTRACTING IN HEALTHCARE PROCUREMENT

G20 COMMITMENTS

The G20 will promote greater transparency in the public sector, including in public contracting, budget processes and customs. This may be achieved through citizen engagement, strengthening anti-corruption authorities, public-private partnerships and the use of open data, building on the G20 Open Data Principles
G20 Anti-Corruption Action Plan 2017-2018

Open contracting in healthcare procurement helps governments meet the public sector integrity and transparency pledge in the G20 Anti-Corruption Action Plan 2017-2018. Open contracting promotes integrity and transparency in public contracting and achieves it through citizen engagement and the use of open data.

Furthermore, the G20 Anti-Corruption Implementation Plan 2017-2018 states that G20 countries will “promote transparency in public contracting, including the use of open data across the contracting cycle, consistent with applicable law, and the use of e-procurement”. The Action Plan underlines the need to address sectors that are vulnerable to corruption. This evidently includes healthcare, with its specific corruption risks and high vulnerability, as well as the very clear impact of corruption in this sector on citizens. This perhaps explains why four governments, Argentina, Malta, Mexico and Nigeria, pledged to introduce open contracting into their health sectors at the UK Anti-Corruption Summit in May 2016.

THE CHALLENGE

Procuring decent medicines, quality facilities and suitable equipment are keystones in the delivery of effective healthcare. But deciding what to buy, at what price and from whom is a difficult job. Healthcare providers need access to stocks of several hundred medicines and a wide range of non-durable goods, which are all continually depleted and must be renewed.

Healthcare and public procurement both suffer from high levels of corruption. Given the vast sums of money tied up in procuring infrastructure, goods and services by the state, it is not surprising that the OECD cites procurement as governments’ greatest corruption risk.¹ In 57 per cent of the 427 bribery cases concluded under the OECD Anti-Bribery Convention, bribes were paid to win public contracts.² The public cost of these bribes is difficult to reliably calculate but the United Nations Office on Drugs and Crime (UNODC) estimates that corruption may reduce the value of a public contract by “an average of 10-25 per cent.”³ The cost to human health and life, while also hard to accurately assess, should not be forgotten.

The healthcare sector has many corruption vulnerabilities. It has seen more corporate settlements under the US Foreign Corrupt Practices Act than any other sector, except natural resources, since 2008. There is no global dataset on procurement corruption in healthcare but individual cases are all too easy to find. In 2016 alone, a company selling sanitisers to over 150 Romanian hospitals was found to have watered down the substances by up to 90 per cent, rendering them medically useless.⁴

Combined, procurement within healthcare is an acute vulnerability that is routinely exploited, resulting in wasted money, a poor business environment and ineffective healthcare service delivery.

¹ Organisation for Economic Co-operation and Development, “Public Procurement” <http://www.oecd.org/gov/ethics/public-procurement.htm> [Accessed: 12/12/2016].

² Organisation for Economic Co-operation and Development, 2014. OECD Foreign Bribery Report: An Analysis of the Crime of Bribery of Foreign Public Officials, p.8.

³ UNODC, 2013. Guidebook on Anti-Corruption in Public Procurement and the Management of Public Finances, p.1.

⁴ <https://www.theguardian.com/world/2016/may/26/romania-great-antiseptic-dilution-scams-spreads-fury-and-infection> [Accessed: 12/12/2016].

THE SOLUTION

Healthcare and anti-corruption efforts share a common principle: prevention is better than cure. In the long term, open contracting offers a route for governments to move from the procurement status quo of corruption, waste and inefficiency, to clean contracting, in which fairness, integrity and efficiency are the norms.

When governments make procurement information accessible, **businesses can compete fairly to win contracts and civil society can monitor the process to identify irregularities and investigate corruption**. Government can improve its understanding of its own procurement processes, correct markets through regulatory changes and punish corrupt actors through enforcement. Cheaper, fairer and more honest procurement improves health outcomes. New Transparency International research⁵ provides clear evidence from three countries of these improvements.

- In **Ukraine**, competitive markets drove better value for money. An E-Procurement system called ProZorro helped more than 2000 healthcare organisations that use it to save an average of 15 per cent on all their procurements. Where three companies or more bid for contracts, healthcare organisations saved an average of 35 per cent. ProZorro levelled the playing field for business by digitising and simplifying procedures, which encouraged competition for public contracts. Now, using the detailed and publicly available market data, analysts are devising ways to stimulate even greater competition.
- In **Honduras**, the detection of corruption led to government reforms. Shell companies were used to manipulate market prices. Although 214 companies were licensed to provide drugs, 83 per cent had never won a public contract and many only existed on paper. In reality, 10 companies controlled 88 per cent of the market. Following investigations to prove charges of theft, fraud and bribery in the storage and distribution of medicines at a government warehouse. A bank, the UN and local civil society now play active roles in tendering, payment, quality control and oversight processes.
- In **Nigeria**, poor public policy was corrected. Of monies dedicated to the construction of primary health centres, only 36 per cent of expenditure led to operationally active facilities. Furthermore, 26 of the contracts, won by 26 different companies, were all within one naira of 21,986,893, which suggests that tenders were not in line with procurement law. The Health Minister subsequently announced the construction of 10,000 new primary health centres and the Nigerian government has pledged to use open contracting in their procurement.

RECOMMENDATIONS

In fulfilling G20 Anti-Corruption Action Plan 2017-2018 commitments:

- ◆ The G20 ACWG could nominate a number of first phase countries to publish health sector procurement data, applying the Open Contracting Principles and the Open Contract Data Standards, measure success and impact, share lessons learned and explore potential for wider application.
- ◆ G20 countries should work with non-G20 countries to encourage and assist the application of the G20 Principles for Promoting Integrity in Public Procurement, the Open Contracting Principles and the Open Contract Data Standards for health sector procurement in those countries.

Transparency International is willing to offer assistance and technical support in implementing open contracting commitments in the health sector.

CONTACT DETAILS

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⁵ Transparency International "Making the Case for Open Contracting in Healthcare Procurement", January 2017 <http://ti-health.org/content/making-case-open-contracting/>