

# Medicines E-Procurement in Indonesia

Health Talks: 19 December 2016

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# Presentation Overview

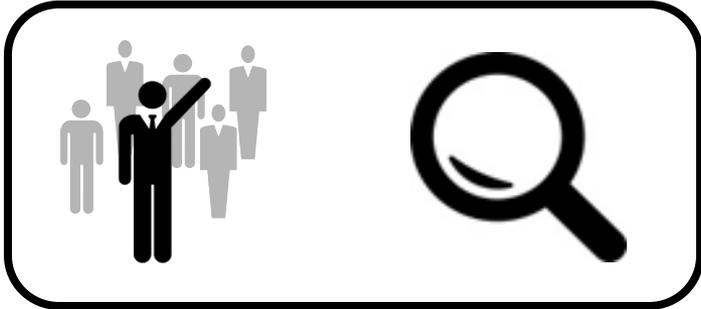
- What is e-procurement?
- What are its elements?
- Indonesia Context and Challenges
- Recommendations

# What is e-procurement?

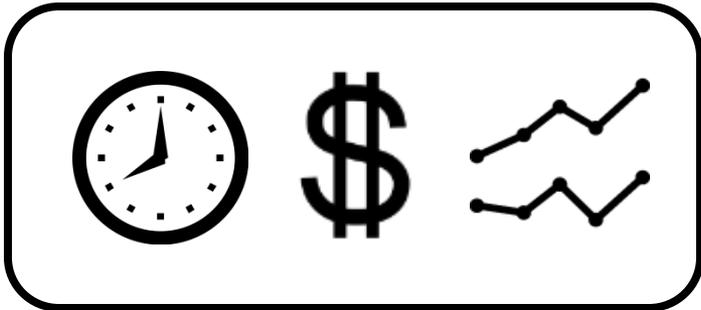
- eGovernance has been a central feature of public sector reform
- Procurements in the public sector can accounts for 10% - 25% of GDP
- In 2011 ADB found that 16 out of 27 countries surveyed (approximately 60%) planning or implementing e-procurement systems.\*

\* ADB eProcurement Handbook, 2013

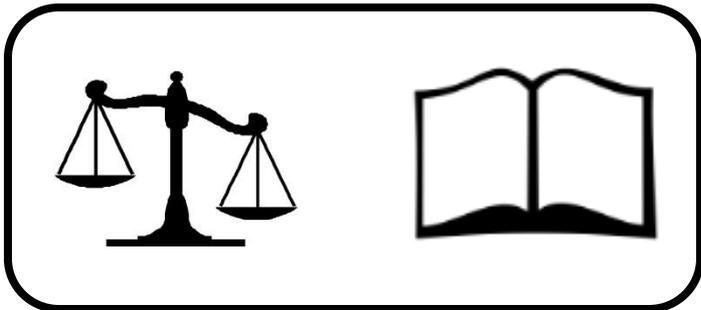
# E-Procurement Benefits



- **Accountability**
- **Transparency**



- **Responsiveness**
- **Efficiency & Effectiveness**



- **Equity & Inclusiveness**
- **Adherence to rule of law**

# E-Procurement and Universal Health Coverage (UHC)

- In Asia, medicines are usually the largest component of out-of-pocket expenses (OOP). In Indonesia medicines make up 70% of OOP.\*
- The poor management of medicines and health commodities is among the leading sources of inefficiency in health systems.
- Procurement cost savings will support the **financial sustainability** of national health delivery systems.

\* Source: "Out-of-Pocket Payments in the National Health Insurance of Indonesia: A First Year Review." Indonesian-German Social Protection Programme (SPP). Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. Jakarta, Indonesia. November 2015.

# Procurement Cycle

*Oversight,  
approvals and  
analysis*

**Procurement  
Planning**

*Policy  
Environment*

**Contract  
Management**

**Requirements  
Definition**

**Contract  
Award**

**Tendering or  
Sourcing**

*Administrative  
Coordination*

**Evaluation &  
Selection**

*Financial  
Management*



# Procurement Cycle

**Most e-procurement systems focus on the tendering and sourcing functions...**

- **RFP issuance**
- **Bid collection and review**
- **Recordkeeping**
- **Supplier registration**
- **Price catalogs**

**Evaluation & Selection**

**Tendering or Sourcing**

# Four E-Procurement Models

- 1 Government owned and operated**

System is developed and operated by the government.
- 2 Government managed service**

System is operated and owned by a third-part provider, but managed by the government.
- 3 Public private partnership**

System is owned by a third party provider with the goal of transitioning it to the government.
- 4 Shared service**

System is fully owned and operated by a third party provider.

# E-Procurement Challenges

- Poor internet connectivity
- Limited procurement capacity and expertise
- Parallel information systems
- Misaligned budgets and contracts
- Inconsistent procurement procedures
- Poor coordination among administrative units

**eProcurement implementations are often viewed as IT implementations – *not as comprehensive change management projects***

# Indonesia E-Procurement Context

Decentralization has been a key element of Indonesia's public sector and political reforms since the late 1990s.

2000



**2001:** Presidential Instructions on the national implementation of ICT

**2003:** E-Government National Development Policy and Strategy

**2007:** The national procurement agency, Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah (LKPP) was founded

**2012:** e-tendering and e-catalog systems rolled out

**2014:** National health insurance program (JKN) launched

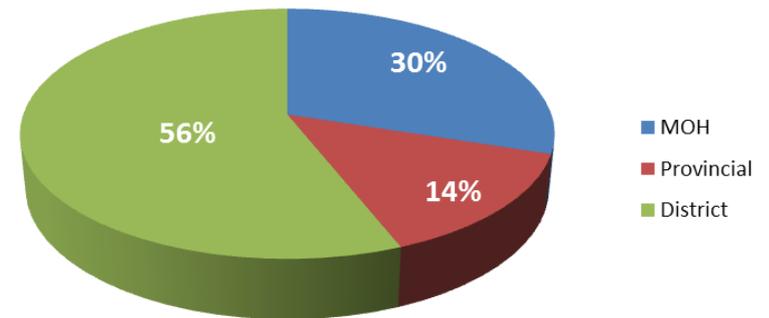
2016



# Indonesia E-Procurement Context

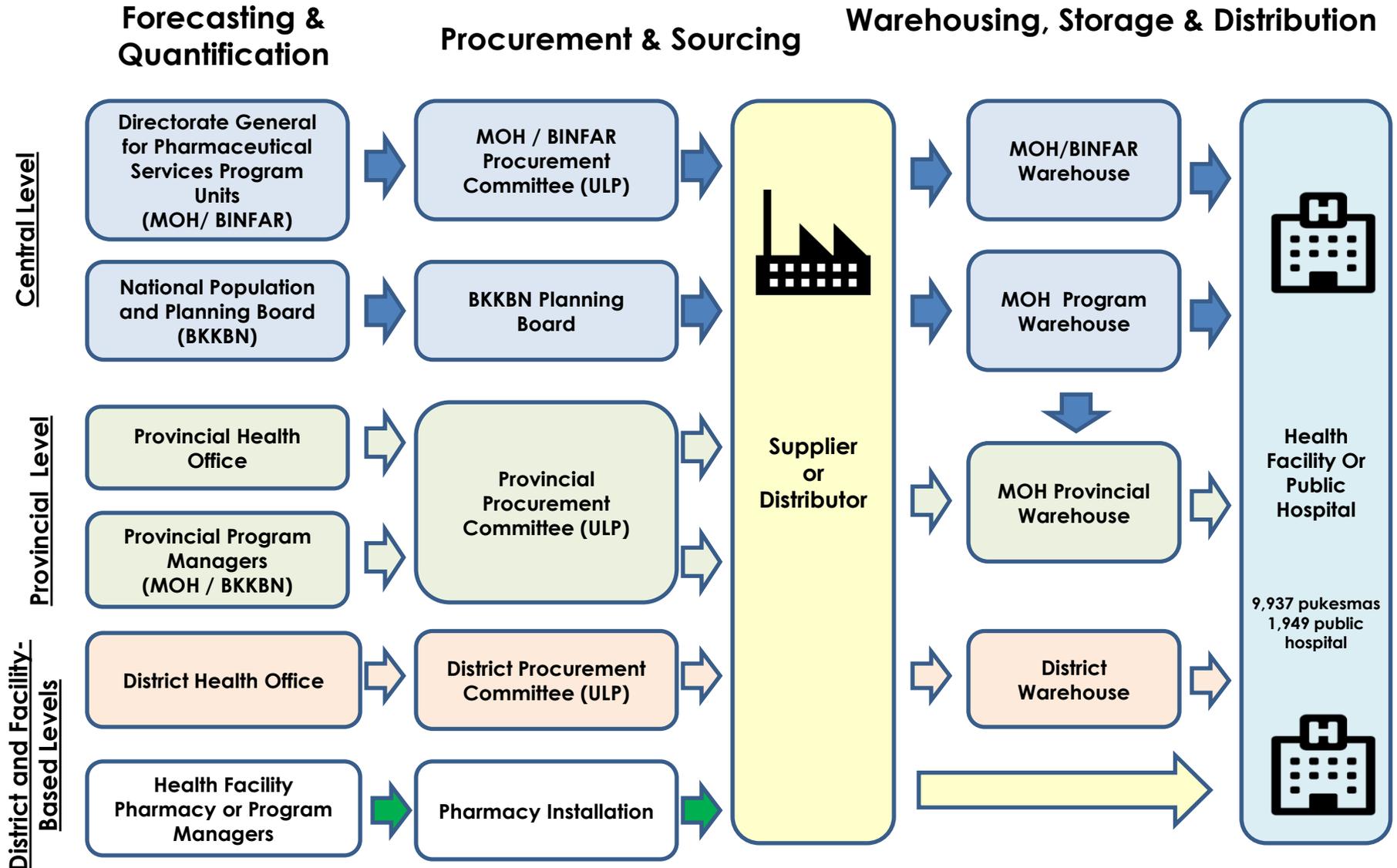
- E-procurement system consists of 2 modules:  
**1) e-katalog & 2) e-tendering**
- Government mandate for e-procurement
  - *75% for central government*
  - *40% for subnational units*
- **All government procurement – including medicines and health commodities – are managed under the same e-procurement system**

National Medicine Budgets



80 – 90% of essential medicines are procured at the provincial and district levels

# Indonesia Supply Chain Summary

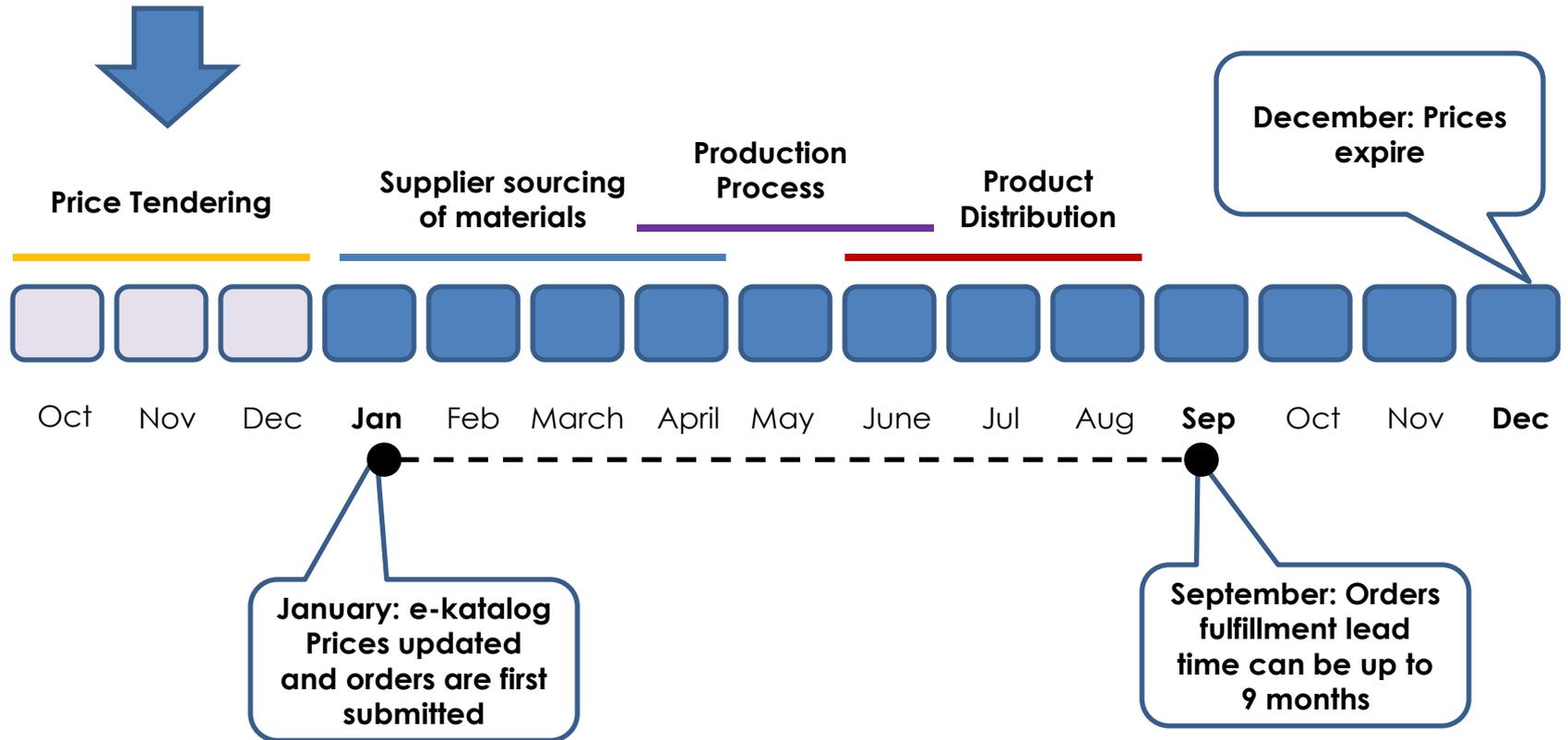


# E-Katalog

- ~58,973 items in 34 commodity categories
- ~13,000 medicines\*
- Only government entities can propose items for inclusion
- Prices are updated on an annual basis, which can be a lengthy and burdensome process

\* As of October 2016

# E-Katalog Price Update Timeline



# E-Tendering

- Utilized when
  - a) a medicine or required product is not in the e-katalog*
  - b) when product for procurement is over 200M IDR (~ USD 15K)*
  - c) when an item in the e-katalog cannot be fulfilled by the supplier.*
- Vendors need to be registered to submit a bid
- Procurement rules only allow vendors to add a 10% mark-up, which disincentivizes some vendors from participating in government procurements

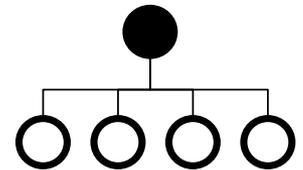
# Key Challenges

- Varied utilization of e-procurement systems due to **inconsistent national capabilities**
- Risk of delays to product access due to lengthy and burdensome annual **e-katalog price update process** and 1 year framework agreements
- **No automated monitoring systems** or comprehensive analysis of supplier performance
- No automated **contract management systems**
- The absence of real time inventory management data
- **Suboptimal competition** due to service fee limits and standardized distribution fee ceilings which disincentivizes supplier bid participation

# Investment Recommendations

## ***A. Develop and implement province-based medicine pricing and market shaping strategies***

- Indonesia's market competitiveness and procurement challenges will vary from province to province.
- While procurement reform is led nationally by the LKPP, it is not fully equipped to respond to the large number of districts and the scope of Indonesia's procurement reform agenda.
- In line with Indonesia's decentralized governance systems, procurement strategies and system strengthening initiatives should be province-focused in their goals, design and implementation.



# Investment Recommendations

## ***B. Automate contracting functions and reconfigure e-procurement systems to facilitate supplier performance and market analysis***

- The ability to easily aggregate and access large volumes of data is among the principal benefits of automating management systems.
- Dynamic reporting functionalities should also be built on top of the LKPP's e-procurement platform to more easily and better understand important operational indicators such as supplier order fill rates, the price competitiveness of all items, as well as regional product demands.
- The analysis of procurement execution and supplier performance will help to better guide continuous improvement efforts.



# Investment Recommendations

## ***C. Invest in automated and integrated logistics and information management systems to inform procurement planning***

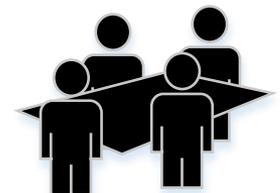
- By automating inventory management and reporting systems, e-katalog users are able to more accurately understand and analyze their stock positions before ordering new stock to better mitigate the risk of over and under stocks commonly reported in Indonesia.
- Data from automated inventory management systems will help to improve product forecasting and better inform ordering, procurement planning, supplier stocking and manufacturing cycles.



# Investment Recommendations

***D. Ensure the establishment of outstanding procurement units (ULPs) at a local government levels and address procurement management capacity gaps at the provincial and district levels***

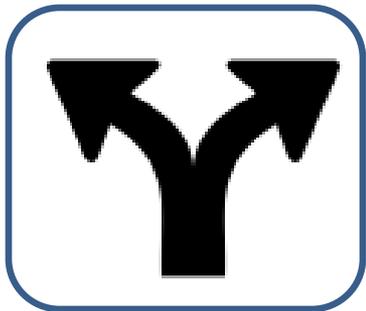
- Establish ULPs in administrative localities where they have yet been set up so they are able to assume and initiate decentralized procurement functions.
- Train local procurement committees on procurement principles and the functionalities of the e-procurement system.



# Main Presentation Takeaways



Investments in E-Procurement should have the ultimate goal of supporting **the capacity and sustainability of the public health service delivery system** to further UHC.



E-Procurement systems are only tools and should ultimately be guided by overarching medicine procurement **operational and management strategies** to maximize benefits.

**Thank you!**