



**MEDICAL PROCUREMENT
IN PROZORRO:
OBSERVATIONS**

The healthcare sector, which affects so many Ukrainians, has always been one of the most highly discussed topics in Ukraine. Everyone deals with it when we need a check-up, treatment, or preventative care. We talk about the conditions at doctor's offices and hospitals, conveniences (comfortable temperature, adequate light), various consumables (soap, paper towels, and disposable gloves), and the accuracy of diagnostics devices.

This report is an attempt to analyze healthcare procurement via ProZorro and overview what information is available for public use. We hope that this report will serve as a foundation for advanced research into the field, in order to prove or refute hypothesis, track new trends, and identify variances in healthcare procurement.

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Every effort has been made to verify the accuracy of the information contained in this report. All information was believed to be correct as of XXX 2016.

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TERMS AND DEFINITIONS:

Sum	– ‘Expected value’ of a lot .
Successfully completed procedure	– a procedure resulting in concluding an agreement or arrangement on concluding an agreement .
CPV	– Common Procurement Vocabulary.
DHC	– Department for Health Care.
DiHC	– Division for Health Care.
AHC	– Administration for Health Care.
MHC	– Ministry of Health Care.
MI	– municipal institution.
USR	– Unified State Register of Legal Entities, Individuals and Non-Governmental Organizations.
DSA	– District State Administration.
RSA	– Regional State Administration.

OBSERVATION OF THE SECTOR

Between August 01, 2016* and January 01, 2017, 2,065 Procurer successfully conduct 41,629 healthcare procurement procedures (lots) with expected value more than 4.584 billion UAH.

2,065 PROCURER SUCCESSFULLY CONDUCT 41,629 HEALTHCARE PROCUREMENT PROCEDURES (LOTS) WITH EXPECTED VALUE MORE THAN 4.584 BILLION UAH

These procurements made up 6.13% of all lots announced and successfully complemented during that time-period.

Nearly **1.8 billion UAH** of total healthcare expenditures fell in the above-threshold category. The percentage of above-threshold procurement in the medical sphere is close to the Ukrainian average (39.25% against 38.25% during the selected period**). We found no peculiarities in the sum of the above-threshold procurements.

Instead, the key feature of this sphere is that most procurements are for smaller sums than the general procurement amount. For instance, 50% of all healthcare lots were less than 19,800 UAH, compared to the Ukrainian 45,000 UAH.

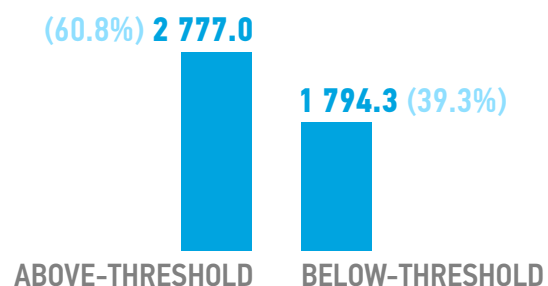
50% OF ALL HEALTHCARE LOTS WERE LESS THAN 19,800 UAH

This could result from:

- The percentage of healthcare customers who choose or are obligated (according to decrees at the local level) to conduct procurement via ProZorro for sums which are significantly lower than procurers from other spheres;
- The general value of product procurement in this sphere is less than the Ukrainian average;
- Fewer 'centralized' procurers, who procure large volumes of goods for further distribution to subordinate organizations.

Each hypothesis requires further analysis.

EXPECTED VALUE OF LOTS (ACCORDING TO THRESHOLDS), MLN UAH



Medical devices and medicines are, by a significant margin, the most purchased products, with the procurement of new equipment valued at 1.6 billion UAH and medicine at 0.5 billion UAH. This was followed by construction (689 mln UAH), and finally fuel (420 mln UAH)/electricity (160 mln UAH) (628 mln UAH).

As we can see, significant funds are spent on development (procurement of new equipment, construction and repair of premises), with more than 1 billion UAH spent on operational expenses (procurement of medicine, fuel, heating and electricity).

EXPECTED VALUE OF LOTS, MLN UAH

CPV DIVISIONS	EXPECTED VALUE, MLN UAH	%
33000000-0 Medical equipment	2 166.7	
45000000-7 Construction works	689.6	
09000000-3 Oil products, fuel	628.1	
16000000-8 Food	149.6	
34000000-7 Transportation equipment	127.9	

Among the TOP 5 Procurers with a five-fold margin is the Department for Health Care of Kyiv City Council, which successfully procured more than 554 mln UAH.

Unfortunately, through ProZorro we cannot determine which medical institutions, subordinate to this Department, have received the largest number of goods, products, and services. The breakdown is as follows:

* In case of lack of the list of medical institutions in Ukraine, the monitoring team of Transparency International Ukraine using an analytics module formed a list of medical institutions (we used search for names of organizers containing "hospital", "clinical", "center", "tuberculosis", "psychological", "health", "puerperal" etc.). Full list of customers is available at the reference. This report will contain analyzed procurement only of the abovementioned customers. The analysis will exclude one bids because it is a known mistake: according to negotiation procedure they downloaded the report on the concluded agreement resulting to doubling.

** According to calculations all over Ukraine they took all customers into consideration. The peculiarity of the 4th group of customers (other customers) is that all procurement, conducted in the system, are conducted as subthreshold procurement. Some customers double their competition procurement and additionally report on a concluded agreement according to art. 75-79 of Economical Code of Ukraine. These peculiarities somehow spoil the analysis results.

TOP5 PROCURERS

PROCURER	EXPECTED VALUE, MLN	%
DHC of the Kyiv City Council	554.5	12.1
DHC of the Donetsk RSA	101.2	2.2
MI 'Odesa Regional Clinical Hospital'	88.6	1.9
DHC of the Zaporizhzhia City Council	58.9	1.3
DHC of the Dnipropetrovsk RSA	41.8	0.9

If we look at the Procurer according to medicines procured, the list is headed by the Department for Health Care of the Dnipropetrovsk Regional State Administration with 32 mln UAH. This accounts for 77% of the organization's ProZorro purchases. One more common Customer on both lists is the Odesa Regional Clinical Hospital. However, the percentage spent on medicine accounted for only 16% of their total.

AMONG THE TOP 5 PROCURERS WITH A FIVE-FOLD MARGIN IS THE DEPARTMENT FOR HEALTH CARE OF KYIV CITY COUNCIL

The chart above shows the top 5 companies involved in the sale and repair of medical equipment or the sale of medicine. By a significant margin, 'Protect Solutions Ukraine' LLC stands as the largest supplier. Although, during our detailed review, we found that it was due to the sale (open bids) of four magnetic resonance machines, valued at 160 mln UAH (the typical cost is 40 mln UAH each) for the Department of Health Care of the Kyiv City State Administration.

TOP5 PROCURERS OF MEDICINE

PROCURER	EXPECTED VALUE, MLN	%
DHC of the Dnipropetrovsk RSA	32.3	6.5
DHC of the Kyiv City Council	26.5	5.3
National Institute of Cancer	19.7	3.9
MI 'Odesa Regional Clinical Hospital'	14.7	2.9
MI 'Kyiv Regional Oncology Center'	11.8	2.4

4 MAGNETIC RESONANCE MACHINES, VALUED AT 160 MLN UAH (40 MLN UAH EACH)

THE TOP 12 OF THE 1184 TOTAL SUPPLIERS OF MEDICAL EQUIPMENT RECEIVED CONTRACTS IN AMOUNT OF 749 MLN UAH WHICH ACCOUNTS FOR 47.5% OF ALL AGREEMENTS ACCORDING TO THIS GROUP

It should be noted that 50% of the all funds were awarded by the 19 largest lots (starting from 5 mln UAH).

TOP5 SUPPLIERS

SUPPLIER	EXPECTED VALUE, MLN
LLC "Protect Solutions Ukraine"	232.6
LLC "Bilimed"	70.4
LLC "Livin"	59.9
PJSC "Medfarkom-Center"	59.9
LLC "Medgarant"	54.2

Analyzing the customers of medicine, we see a monopolization of the market – 11 suppliers (1% of all suppliers) received over 60% of all medicinal procurement.

TOP5 SUPPLIERS OF MEDICINE

SUPPLIER	EXPECTED VALUE, MLN
PJSC "Medfarkom-Center"	56.9
LLC "Badm"	42.2
LLC "Badm-B"	33.1
LLC "Farmadis"	25.1
LLC "Ukrpostach Company"	25.1

KYIV IS A LEADER AMONG ALL REGIONS ON BASED ON PROCUREMENT PER CAPITA – 347 UAH. IT IS MORE THAT IS 20 TIMES THE HIGHER THAN IN TERNOPIL REGION.*

* It should be mentioned that Customers in some regions conducted procurement or published agreements in amount of obligatory 50.000 UAH. It was decided to exclude such procurement from comparison not to provide "advantage" for them.

THE EXPECTED PRICE OF THE PERFORMED PROCUREMENT PER CAPITA*

	UAH PER CAPITA
KYIV	347.4
LUHANSKA	204.2
DONETSKA	167.6
MYKOLAIVSKA	117.7
ZAPORIZKA	114.1
DNIPROPETROVSKA	103.1
SUMSKA	97.8
ODESKA	94.4
POLTAVSKA	91.3
ZHYTOMYRSKA	89.1
CHERNIHIVSKA	81.9
CHERKAS'KA	74.7
VINNYTSKA	74.6
KHMELNYTSKA	61.6
KHARKIVSKA	59.5
IVANO-FRANKIVSKA	52.9
KIROVOHORADSKA	51.9
L'VIVSKA	47.7
ZAKARPATSKA	45.9
CHERNIVETSKA	45.8
VOLYNSKA	43.0
RIVNENSKA	33.6
KYIVSKA	33.4
KHERSONSKA	29.1
TERNOPILSKA	17.5

There may be several reasons for these differences:

- State funding for the medical sector in the different regions of Ukraine is uneven. For example, healthcare funding increased in the areas close to the ATO zone (repairing of medical equipment and soldier's treatment).

- The size of local budgets and health care allocation is uneven.
- Most of the procurement had been conducted before August 1, 2016, to avoid using the ProZorro system.

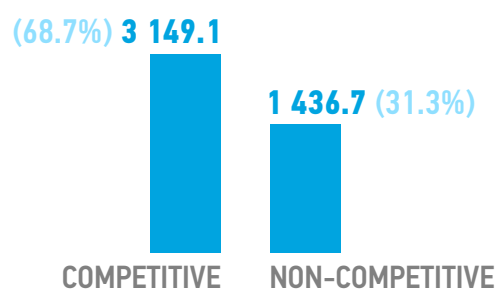
COMPETITIVE AND NON-COMPETITIVE PROCEDURES

More than 1.435 billion UAH worth of procurement was conducted via non-competitive methods. This is more than 31% of the total value of healthcare procurement.

31% OF THE TOTAL VALUE OF HEALTHCARE PROCUREMENT WAS CONDUCTED VIA NON-COMPETITIVE METHODS.

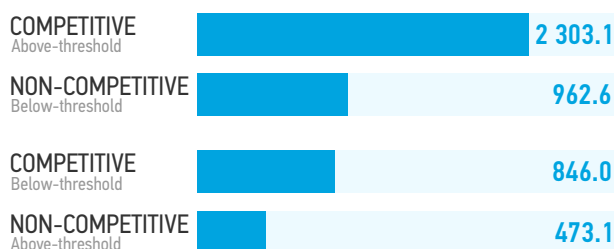
However, for while the Ukraine-wide percentage is even higher - 44%.

EXPECTED VALUE OF LOTS, MLN UAH



Upon closer examination, it becomes clear, that a large percentage of non-competitive procedures were for below-threshold procedures (reports on the concluded agreements). This is more than two times the amount of above-threshold negotiating procedures. Thus, let us examine the non-competitive below-threshold procedures in detail.

EXPECTED VALUE OF LOTS, MLN UAH








* Since the Donetsk and Luhansk Regional State Administration have not provided the actual number of people on its territory, we assumed that currently there lives 50% of the population that was announced by state statistics. Most likely, this number can be even lower (According to Wikipedia, 30% of Luhansk and 45% of Donetsk regions population, lived in the territory that was controlled by Ukraine).

Approximately, one-third (31.2%) of all non-competitive below-thresholds procurement is for construction (this is typical for Ukraine). Kyiv, which successfully conducted 95% of its below-threshold bids in a competitive manner, stands out among the regions. Well behind Kyiv, came the Dnipropetrovsk (57%) and Mykolaiv (48%) regions. Customers from the Cherkasy, Chernivtsi, Odesa and Kharkiv regions decided, for the most part, not to 'risk' and almost 100% of all 'below-threshold' costs spent without using competitive procedures.

In the healthcare sector, about 7% of all uncompetitive below-threshold was for medical equipment (CPV 33100000). This class of goods is characterized by a significantly lower number of lot, which did not occur due to lack of bidders (19.3%). In general, this group is characterized by one feature: the local businesses receive a significant share of non-competitive procedures in the areas with a high percentage of non-competitive procedures, such as Luhansk, Ivano-Frankivsk, Poltava, and Kherson. The share won by local businesses significantly decreases or almost disappears entirely when conducting competition procedures. In areas with a high level of competitive procedures, the opposite result takes place: the share of the local business remains unchanged or even increases.

Oil and other energy sources saw the largest overall procedure value awarded on a non-competitive basis. This is due to both the large demand for heating buildings and providing them with electricity, and the fact that there is usually only one supplier in the region.

TOP5 PRODUCT GROUPS

CPV DIVISIONS	EXPECTED VALUE, MLN UAH
 09000000-3 Petroleum products	486.1
 45000000-7 Construction work	350.0
 33000000-0 Med. equipments, pharm. products	190.6
 50000000-5 Repair and maintenance services	43.7
 39000000-2 Furniture (incl. office furniture)	38.9

Among the customers who held the most non-competitive procedures are:

- The 'Dnipropetrovsk Regional Clinical Hospital named after I.I. Mechnikov' spent 17 million UAH for heating in December. However, the following procurer (on the amount of heating energy) spent only about 7 million UAH.

- Ministry of Health of Ukraine spent 9 million UAH for the rehabilitation of children in the International Clinic for Restorative Treatment due to a lack of competition*.
- The Department of Health of the Kyiv-Sviatoshynskiy District State Administration awarded three procurements with the company 'Restroi' for sums very close to the threshold limit (from 1.369 million to 1.469 million UAH) for a total of 4.334 million UAH. Contracts were signed with 'Restroi' and 'Restroi group', which are two different companies, but they have the same founder (according to data from USR).
- The Department of Health of the Donetsk Regional State Administration split 13 million UAH of 15 million UAH (held according to non-competitive procedures) among three vendors for construction projects.

However, for the most part, this customer has used competitive procedures (84.5% of all procedures) and may have entered into these contracts without bidding due to a lack of sufficient competition for the selected objects.

TOP5 PROCURERS, NON-COMPETITIVE PROCEDURES

PROCURER	EXPECTED VALUE, MLN UAH	%
Dnipropetrovsk Regional Clinical Hospital named after I.I. Mechnikov	21.2	1.5
Ministry of Health of Ukraine	18.2	1.1
DHC of the Kyiv-Sviatoshynskiy DSA	15.4	1.1
DHC of the Donetsk RSA	15.1	1.1
DiHC of Severodonetsk city council	15.1	1.1

The largest uncompetitive procurement was the procurement (for six weeks) of medical ambulance transport services for 14 million UAH concluded by Odesa city Ambulance Station. As we can see, providing the population with emergency medical care requires a lot of money and, in our opinion, requires a more detailed analysis to understand the fairness of the prices offered by the utility company.

* According to the budget program ("Measures of rehabilitation of patients with cerebral palsy in the International Clinic of Rehabilitation") disease of cerebral palsy are treated only in that hospital, because it owns the technology medical treatment of cerebral palsy (method of V.I. Kozyavkin)

SAVINGS AND NUMBER OF BIDDERS

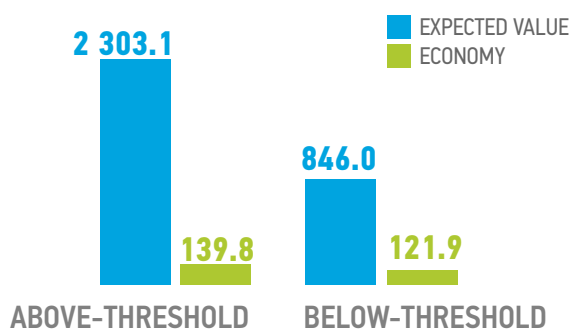
SAVINGS

According to the Law of Ukraine 'On Public Procurement', maximum efficiency and savings are one of the key principles of procurement. Hereinafter savings will be defined as the difference between the expected price of the lot and the winner's offer. It is calculated for competitive procedures only. During the selected period procurers saved more than 260 million UAH (8.3% of the expected value), while the Ukraine-wide "savings" were 9.26%.

SAVED MORE THAN 260 MILLION UAH (8.3% OF THE EXPECTED VALUE), WHILE THE UKRAINE-WIDE "SAVINGS" WERE 9.26%

Upon a closer examination of below-threshold and above-threshold procedures, an interesting trend appeared. Despite the fact that the expected price of above-threshold procurement items was almost 3 times higher than that of below-threshold ones, amounts of money saved is almost identical, which indicates a considerably higher economizing rate for below-threshold procedures.

ECONOMY IN LOTS BY THRESHOLD, MLN UAH



Overall, the level of savings for below-threshold procedures amounts to 11.4%. Furthermore, for half of the cases (7114) it is no less than 11%.

It is worth noting that three MRI scanners (the most expensive procurement item in the field) could have been procured with the money saved on below-threshold procedures.

However, high level of savings can indicate that expected price was inflated, either intentionally (to demonstrate good results, or to make higher payments to associated contractors) or not intentionally (because of lack of research on market prices or incorrect documentation). This number should be taken skeptically and other methods of evaluation of economy should be tried.

Items of non-medical purpose* are the first among those that provide highest level of savings on every tender. The results can be explained by high competition (more than half of the tenders had at least 4 bidders) or by the fact that the minimum expected price of the item was equal to 3000 UAH, while half of the winning bids were lower than that. However, even starting offers of bidders were significantly lower than 3000 and there were only a few lots with such price. Therefore, a sizable proportion of money saved can probably be explained by the low awareness of market prices.

It also remains a mystery what made companies 'Oranta' and 'Ekspo Strakhuvannia' offer 42.58 UAH and 64.57 UAH respectively for insurance services. Considering the price of participating in the tender (17 UAH) and expenses on concluding a contract, such sums of money can only compensate the companies participation in the tender.

For the next groups in a rating (namely 'printed products and related items' and 'clothing, shoes and bags') savings are more modest and equal to 28.6% and 26.8%.

'ORANTA' COMPANY OFFERED THE LOWEST COST OF INSURANCE - 42,58 UAH.

For medical equipment and items, more than a half of auctions resulted in saving 8.8% and more. This is one of the lowest characters among all the groups of classification (at the same level as industrial machinery and transport equipment).

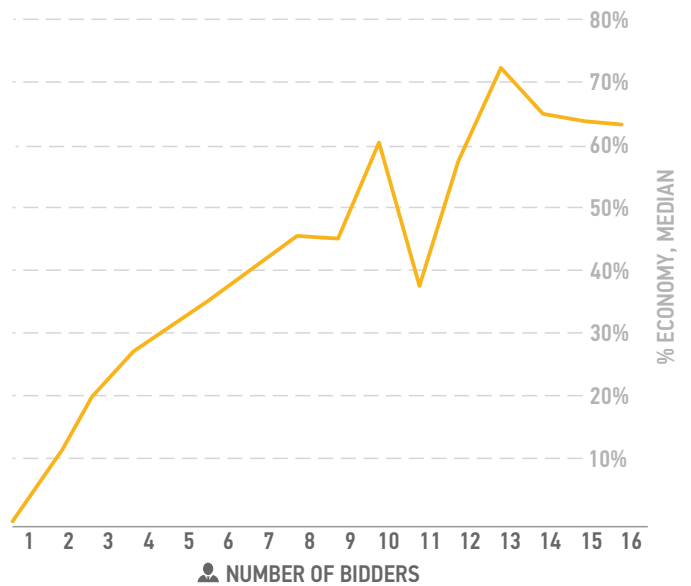
The possible reason is that Procurers are usually well aware of the prices of such items, because the level of competition (no less than 2 bidders at 50% of auctions) was closer to the groups with higher economy.

* Only the groups with more than 30 tenders were selected

MORE THAN HALF OF LOTS HAVE % ECONOMY AT LEAST

CPV DIVISIONS		%
Financial and insurance services	66000000-0	63.1
Printed matter and related products	22000000-0	28.6
Clothing, footwear, luggage articles and accessories	18000000-9	26.8
Business services: law, marketing	79000000-4	24.6
Arch., construction, engineering and inspection services	71000000-8	21.6
El.machinery, apparatus, equipment and consumables	31000000-6	17.7
Agricultural, products	03000000-1	17.6
Leather and textile fabrics, plastic and rubber materials	19000000-6	17.0
Food, beverages, tobacco and related products	15000000-8	14.4
Furniture (incl. office furniture), furnishings, domestic appliances	39000000-2	13.4

% ECONOMY BY NUMBER OF BIDDERS



It can be seen that most tenders took place with one participant (38.6%) and the majority of them were carried out with 1-4 bidders (more than 90%). However, there have also been some very competitive tenders for washing powder (16 and 15 bidders) and for medical forms (15 bidders).

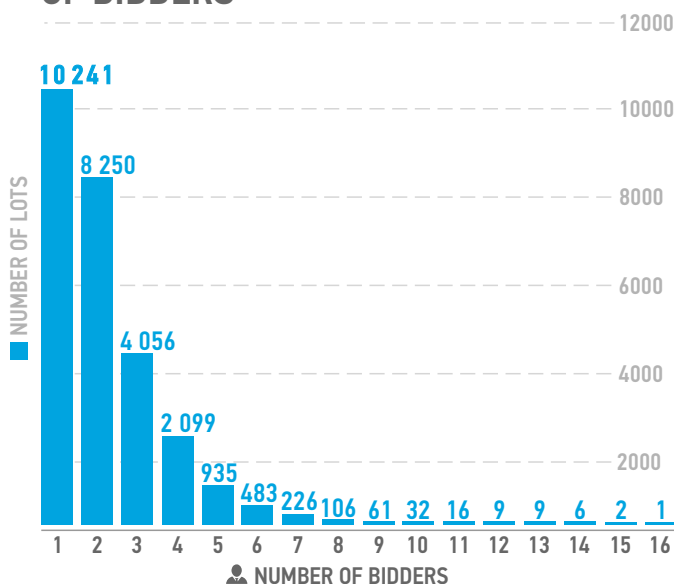
NUMBER OF BIDDERS

Another important aspect of any auction to consider is the number of bidders. Competition can indirectly increase the efficiency of tenders as well as lower prices. Presence of a large number of bidders can help improve the documentation so that products or services that meet the needs of the client best may be bought.

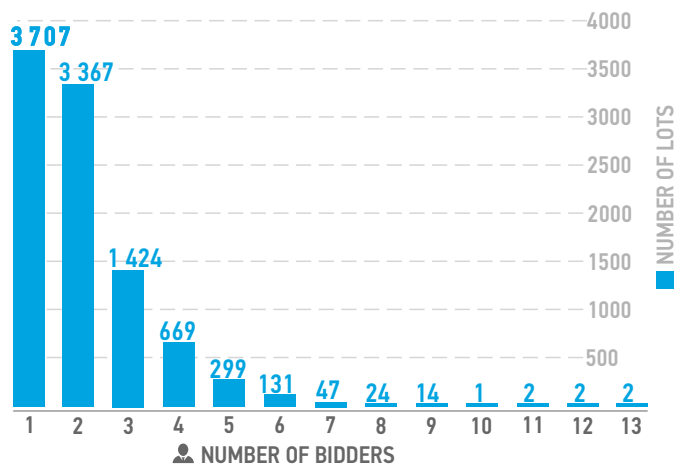
It is also clear from the graph that savings increases on average by 5% with each additional participant (for the number of bidders from 1 to 8).

As we explore the medical field, it is fitting to examine the procurement of the most important group of goods in the field, which is '33000000 Medical equipment, pharmaceuticals and personal care products'.

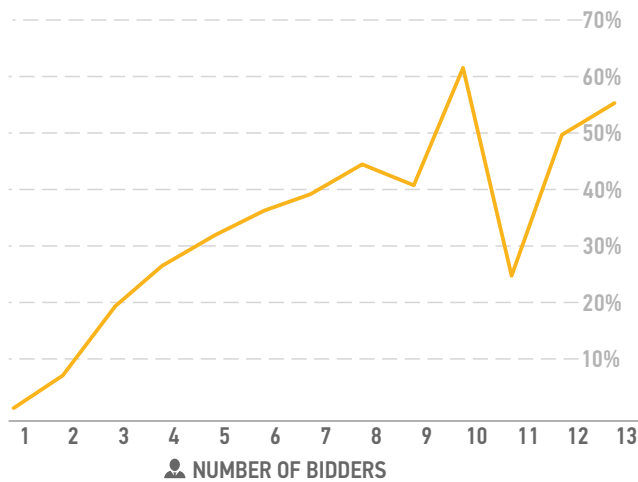
NUMBER OF LOTS BY NUMBER OF BIDDERS



NUMBER OF LOTS BY NUMBER OF BIDDERS (MEDICAL EQUIPMENTS, PHARMACEUTICALS PRODUCTS)



% ECONOMY BY NUMBER OF BIDDERS (MEDICAL EQUIPMENTS, PHARMACEUTICALS PRODUCTS)



This group is characterized by the sharp increase in economy from 8% to 20% for procedures with 2 and 3 bidders correspondingly. On average, each additional participant tends to increase the amount economized by 7% (for the number of bidders from 1 to 6).

Based on the received data, we can assume that the number of bidders increases the percent saved on procurement. Thus, it is advantageous to involve more companies that are able to supply the required goods. However, it is possible that an inflated expected value creates more competition (as business sees it as an opportunity to get a higher profit for the same product) and higher percent of saving. That is why this theory needs a careful statistical analysis.

UNSUCCESSFUL/ CANCELLED LOTS

One of the indicators of the procurement system is the number of failed procedures, which is inversely proportional to the efficiency and convenience of the system. Causes may include lack of need in procurement, agreement formalization mistake, absence or disqualification of bidders.

Overall, during the period given 13 099 tenders were completed unsuccessfully, with 81% of failures caused by an insufficient number of bidders. This field is characterized by a high proportion of lots with enough competitors*: 72%, while

* Percentage of lots with a minimum number of bidders is calculated as a ratio of the quantity of tenders with the minimum number of bidders to the total quantity of tenders with known number of bidders (in other words, all except the ones that were cancelled before the deadline of proposal submissions)

the average number for Ukraine is 65%) and no occasions of lot cancellation because of disqualification of all the bidders (there were 7 900 such cases in Ukraine altogether). Absence of total disqualification incidents may prove that at least one participant always fitted the bill or that at least one participant could have been 'negotiated' with for a reward for victory.

Canceling lot because lack of funding or need in procurement may be considered as one of the analogues of disqualification. However, it was only a case in 3% of completed procedures, which is 4% less than the average for a country. It suggests that most of the customers are interested in quick and successful acquiring of necessary goods and services using competitive procedures.

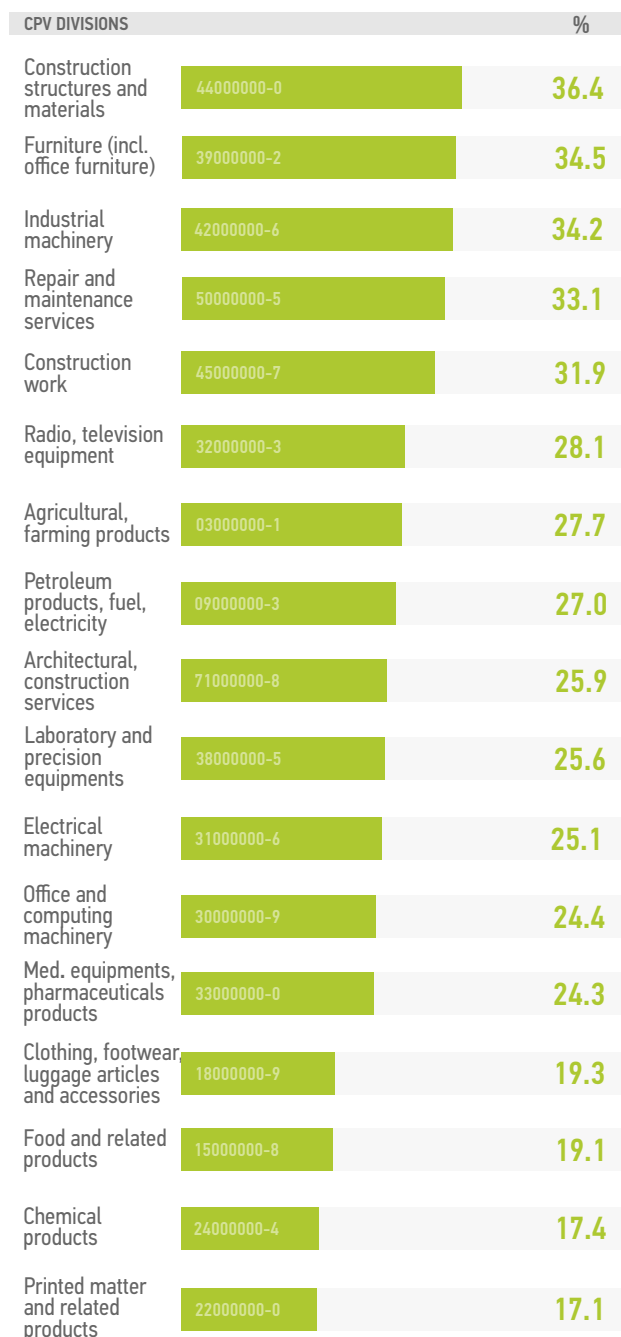
Below-threshold healthcare procurement is more successful in attracting a sufficient number of bidders (74% of cases) than the above-threshold one (58%). This difference can be attributed to the fact that only one participant is needed for below-threshold procedure to be successful, in contrast to two on above-threshold tenders, and by gas procurement, which are a problematic kind of procurement in Ukraine. Excluding these procedures allows the number of successful above-threshold tenders to reach 65%. Among the 'healthcare' group of goods, procurement of medicines show the worst statistics - 43% of tenders did not have enough bidders.

In general, procedures involving furniture design and appliances were least likely to attract at least one participant

NO OCCASIONS OF LOT CANCELLATION BECAUSE OF DISQUALIFICATION OF ALL THE BIDDERS.

(only groups of goods with more than 300 lots were considered). The most 'attractive' ones involved food, chemicals and printed products, which were twice less likely not to have enough bidders. This distribution is typical for Ukraine as a whole.

% CANCELLED (TENDERS) DUE TO LACK OF BIDDERS



SUMMARY

Overall, public procurement in healthcare is associated with large amounts of money, namely 4.584 billion UAH, which made up 6.1% of announced and successfully completed procurement spending in Ukraine for the period from August to December of 2016. More than 47% of this sum were spent on Medical equipments, pharmaceuticals and personal care products. More than a half of this sum was distributed between 12 major suppliers of medical equipment (primarily because of the purchases of 5 million UAH and more in size).

The analysis of regions reveals significant disparities in distribution of procurement funds per capita. For instance, this number for Kyiv was 20 times higher than that for Ternopil' Oblast. Possible reasons include differences in financing as well as making more purchases outside ProZorro system (using paper procedures before the enactment of the Law of Ukraine 'On Public Procurement' in August 2016). The largest uncompetitive purchases among below-threshold and above-threshold tenders involved construction and petroleum products respectively, corresponding to the all-Ukrainian trend.

50% of the medical equipment and items tenders ended up economizing more than 8.8%, which is one of the worst figures among the groups of goods that are purchased in this field. It can probably be attributed to the fact that market prices for such goods are well known, so offers are very close to the expected price of purchase.

43% of all below-threshold medicines auctions were cancelled due to the lack of bidders. That is a noticeable figure, because it only amounts to 26% for other below-threshold procedures in this field. Special attention should be paid to this difference, as procurement of medicines is a sensitive one.

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