Project Name	Mexico-Technical Assistance for Public... Sector Social Security Reform (ISSSTE)
Region	Latin America and Caribbean Region
Sector	Hospitals; Secondary & Tertiary;Reform and Financing;Pensions & Social Insurance
Project ID	MXPE74795
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Environment Category	C
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1. Country and Sector Background

Mexico has been successful in maintaining a sound macroeconomic management in recent years. The Government of President Fox, which took office in December 2000, is consolidating the macroeconomic policy started by the previous administration. Yet, one of the major challenges facing the new Government is the economy's weak fiscal structure. The Government proposed significant reforms on the fiscal revenue side, sending a tax bill to Congress in April 2001. On the expenditure side, Mexico faces an array of public "contingent" liabilities that, if unattended, can overwhelm its fiscal position. One of these is the actuarial imbalance of ISSSTE, especially the deficit of the Pension Fund which is being fully subsidized by the Ministry of Finance. According to World Bank estimates, the current deficit of 0.2 percent of GDP in ISSSTE's pension scheme will reach almost 1 percent of GDP by 2015, making ISSSTE's public employee pension scheme, as well as its other benefit service areas (including health), unsustainable over time. Over the last ten years Mexico has made significant progress in its health sector. Between 1995 and 1999, real federal expenditures on health services increased by 24 percent, despite reductions in other sectors. The health sector reforms that started in the late 1980s have focused on three main goals: improving health outcomes, decentralizing services, and increasing access to care for the uninsured population. Most of the reform efforts have concentrated in two public institutions covering over 80 percent of the population: IMSS, who is in charge of health care provision to private sector workers and their dependents, and the SSA, responsible for addressing the health needs of an important fraction of the population lacking insurance. The reforms implemented in IMSS from 1995 to this date are aimed towards improving productivity, efficiency, and the quality of pensions and health care services. For doing so, a new social security law had to be approved, introducing three major changes: the creation of private pension fund administrators; the separation of the source of financing and the distribution of resources of the old age security system from the health care system resources; and the modification of the financing of the

pension and health systems to reduce payroll taxes. These three changes prompted the reform of the financing, organization, and delivery of health services within IMSS.In the meantime, other relevant public institutions like ISSSTE have remained untouched by these reforms. ISSSTE is responsible for operating and delivering social security benefits for federal public employees and their dependents. As of date, ISSSTE has 2.4 million contributing affiliates--about seven percent of the formal employed labor force-- and 10.1 million beneficiaries or, roughly, 10 percent of Mexico's population. It covers employees of the federal government, several government-owned para-statals, and municipal and state governments. Six states have their own ISSSTE system, but most public sector employees belong to the federal system. About half of ISSSTE's contributors are teachers, making the teacher's union an influential group in ISSSTE's decisions.The original law creating ISSSTE was passed by the Mexican Congress in 1959. During its 42 years of existence, the ISSSTE law was amended four times, mostly to add new benefits but never to increase contributions. In 1983, Congress expanded the benefits further to include 21 services financed through seven different Funds. Of the latter, Pension and Health are the most important in terms of resources, personnel and visibility to the beneficiaries.While the main source of revenues for ISSSTE health --a 9.5 percent of basic salary compulsory contributions from employees and the government-- has remained unchanged since the creation of the Institute, the type and cost of services financed by it have increased significantly, due in part to the changing health profile of its captive population and the inefficiencies within the current organization of health care provision. Since 1998, ISSSTE's health fund has registered increasing annual deficits, reaching in 2000 about 10 percent of total health contributions (or US$133 million). Investments have lagged behind while consumer dissatisfaction with the services increased. The institution needs to undergo profound changes in order to improve its financial position and the quality of its services.

2. Objectives

The Technical Assistance Loan is closely related to a Programmatic Sectoral Adjustment Loan (PSECAL) that is currently being prepared, and as such shares the same main objectives. The purpose of the loan is to assist the Mexican government and, in particular, the authorities of the Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado (ISSSTE) to proceed with the reform of its health and pension benefit schemes. The main objectives of this holistic reform are to improve the fiscal efficiency of social security benefits, especially health and pensions, for public employees and their dependents in Mexico; to enhance the governance of public social security through the corporate restructuring of ISSSTE; and to improve the quality of the services rendered to its beneficiaries. A medium term goal of the reform is to integrate the services provided by ISSSTE with those provided by other social security institutions in Mexico, so that distortions to labor mobility are reduced and economies of scale are acknowledged and exploited. At the end of the reform process, ISSSTE will be self sustainable and fiscally sound, will provide benefits in an equitable and efficient way to its 10.1 million beneficiaries, and will have services integrated with those of other social security institutions.The reform will be comprehensive, affecting the two main areas where ISSSTE provides services: health and pensions. This process will also require a new institutional structure, making corporate restructuring a third -and

ubiquitous-- component of the project. The TAL will provide funding to produce the studies and assure the technical assistance necessary to carry out the reforms intended under the PSECAL.The issues this project is dealing with are of such magnitude and complexity that it is likely the reform process will extend well beyond the life of the project. In this way, the TAL is a first step that will allow the implementation of the first programmatic loan and set the stage for a second loan. During this first stage, emphasis will be placed on improving the organizational structure of ISSSTE, making the institution more efficient and financially sound, and on identifying and evaluating areas where complementarities and/or economies of scale with other social security institutions exist. A second stage of reforms will proceed with the integration of services.

3. Rationale for Bank's Involvement

The use of World Bank resources in the project brings at least two visible benefits: first, supervision, which creates an incentive for ISSSTE to respect the imposed deadlines for each component of the project. Second, by using World Bank procurement rules, the project gets validation and fosters the participation of international firms that would refrain from participate otherwise. Third, the technical assistance provided by World Bank guarantees that ISSSTE will have access to accumulated experience of similar reforms in other countries and institutions.

4. Description

The project will have six components. COMPONENT 1Technical support for the redesign of the corporate structure. Changing the current corporate structure is at the center of the reform project as the new pension and health care provision schemes will require a new corporate structure with increased accountability, clear definition of responsibilities and processes, and better monitoring of performance and activities in the organization. This activity involves technical assistance to support the corporate restructuting of ISSSTE, with emphasis in the new business units, like the health services purchasing area, on issues like: (i) allocation of competencies across the organizations; (ii) design of operation manuals of the new organization; (iii) definition of processes and procedures; and (iv) definition of functions and responsibilities for each position; COMPONENT 2Development of information systems for the new pension benefit scheme. The new pension system will be almost identical to the prevailing system for workers in the private sector in Mexico. The current information system will have to be upgraded to be able to provide information about contributors and beneficiaries as required by the regulatory agency CONSAR, as it is expected that ISSSTE will have to follow the same regulations that are currently in place for the institutions that administer pension benefits for workers in the private sector, the AFOREs. This is independent of the decision that ISSSTE might take regarding the way the individual accounts are administered, i.e. through its own AFORE or through contracting out to existing or new privately managed AFOREs. COMPONENT 3Technical assistance for the definition and implementation of a health services purchasing area and identification of complementarities with other health services providers. One of the core strategies for inducing transformations in ISSSTE's health services is going to be the separation of financing/purchasing from provision. The TAL will support a number of activities to assist ISSSTE to implement this separation. In addition, this component will also devote some funding to identify areas and processes which could be merged

with other public health service providers in search for greater efficiency and synergism. This component will finance four subcomponents: 1. Support for the design and implementation of a beneficiaries database (including risk profile and the definition of updating mechanisms);2. Support for conducting a market assessment and benchmarking of ISSSTE's health services, and designing health benefits plans;3. Development of new resource allocation formulas (capitation and DRGs), contracting and payment mechanisms with providers, and a transition plan for implementation; and4. Identifying strategic complementarities with other institutions in the health sector. This includes support for conducting economic analysis (and implementation plans, when feasible) of processes and activities that could be integrated, including external contracting of services, opting out (of beneficiaries), beneficiary databases, and other ancillary services. COMPONENT 4Technical assistance to improve productivity of health services and strengthen ISSSTE provider units. This includesTechnical support for the definition of a descentralization policy and for the creation of descentralized medical area units (AMGD);Technical support for the design of business plans in provider units and the design and implementation of performance agreements with the ISSSTE purchasing area;Technical support for the implementation of hospitals case-mix classification systems, and new costing and budgeting systems;Implementation of an inventory of medical equipment and design of a rational equipment replacement policy; andEvaluation of the purchasing system for pharmaceutical and medical supplies.COMPONENT 5Definition and implementation of a new model of family medicine, Nuevo Modelo de Medicina Familiar Preventivo (MMFP). This involves the following actions: defining norms, priority programs, protocols and procedures, with an emphasis in preventive activities; design and implementation of incentive mechanisms to improve performance; and definition of monitoring and evaluation systems, including beneficiary satisfaction surveys.COMPONENT 6Project management. A small proportion of the loan will be used to provide technical assistance for the monitoring and evaluation of the implementation of the project, and to guarantee proper coordination both within ISSSTE and externally (with World Bank and other national agencies and institutions).

1- Reform of the Corporate Structure in ISSSTE

2- Development of Information Systems for the New Pension Benefit Scheme

3- Definition and Implementation of a Health Services Purchasing Area and identification of complementarities with other health services providers

4- Technical Assistance to Improve Productivity of Health Services and Strengthen ISSSTE's Provider Units

5- Definition and Implementation of the New Model of Family Medicine, Nuevo Modelo de Medicina Familiar Preventivo (MMFP)

6- Project Management

5. Financing

Total (US$m)
BORROWER $1.00
IBRD $8.65
IDA

Total Project Cost $9.65

6. Implementation
The project will be implemented over a period of three years. As a result of the somewhat discouraging IMSS experience regarding the use of a project coordinating unit, the implementation and execution of the TAL in ISSSTE is going to be handled by a team within ISSSTE. The Director will assign a general coordinator under his direct supervision (or his designate), who will interact with an implementation committee, composed by the directors and subdirectors of the respective areas and a technical secretariat of 6 consultants.As this is the first operation between the Bank and ISSSTE, a procurement capacity assessment as well as a financial management assessment need to be performed. These two assessment are currently being produced and will be ready by mid-March.

7. Sustainability
The trigger action identified for achieving the project objectives is a reform of ISSSTE's law transforming its corporate structure and, more important, introducing structural reforms to the financing, managing, and delivering of pension and health services. Such legal reform may only be reversed through another legal amendment, hence providing the project with solid grounds. As the strategies and objectives of the proposed reform are closely articulated with broader national policies and have been closely discussed with the national authorities (Ministry of Economy, SSA and IMSS), it seems highly improbable that a legal counter-proposal would advance in the short or medium term. Later on, as the implementation of the reform progresses, the evidence of its benefits for various stakeholders (including beneficiaries and the government) must become in the stronger argument for sustainability. Nonetheless, the comprehensive nature and complexity of the reform being proposed for ISSSTE's social security services will require intense follow-up from the World Bank and other interested development agencies (such as IDB) even beyond the timeframe of this operation, not only to assure sustainability but also to support further progression and consolidation of changes. A proper communication strategy by ISSSTE will also contribute to this.

8. Lessons learned from past operations in the country/sector
The design of the project has benefitted significantly from the experience in the design and implementation of a similar technical assistance loan, used to support a reform to health care provision for private sector workers in Mexico. The health system reform technical assistance loan (Ln. 4367-ME) to help in the implementation of the IMSS health care reform was implemented between 1998 and 2001, and a number of lessons have been drawned:As explained above, the lending instrument in the case of ISSSTE (a programmatic loan) is going to be different than the one used with IMSS (sector adjustment loan) in order to provide more flexibility to ISSSTE and to the GOM in the implementation of the reforms (as compared to the IMSS case)it was determined that the implementation of the reforms would have been much more successful if the reform to the corporate structure had accompanied or even preceded the other changes in the health care provision model. That is, managerial decisions clearly signaling the separation of purchasing and provision of health services must come at the beginning of the reform process. This should be done either through an internal committee decision or through changes in the law that regulates the corporate structure of the organization. developing TORs for

consultants as part of the project preparation helps in preparing the groundwork for a faster implementation of the work.the reform process and the TAL activities need to be implemented within the first two years of the administration period. In the case of IMSS, there were significant delays in the commencement of the actual consulting activities.there are some key inputs and crucial methodological tools for the health reform achieved by IMSS that could be transfer to the ISSSTE project without additional cost.having consulting firms work closely with hospitals during the implementation of DRGs and the new model for family health rendered very positive results.the training component of the project was not very successful as it turned out to be too general and nor related to specific problems. For that reason, in this TAL it was decided that the training component will be given in the context of specific activities. the creation of a beneficiary data base was not a very successful component of the project, as it turned out to be very ambitious and large. In order to achieve cost effective strategies new data on the insured population has to be collected in a simple way, with only the crucial variables.

9. Program of Targeted Intervention (PTI) N

10. Environment Aspects (including any public consultation)
Issues : The project does not present significant environmental issues. A hospital waste management evaluation is going to be conducted during the month of April.

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Note: This is information on an evolving project. Certain components may not be necessarily included in the final project.

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