MEXICO:
Pharmaceutical
Procurement Case Study

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Overview:
Health Care and Pharmaceutical Market in Mexico
The State of Healthcare in Mexico

Despite Making Steady Progress...
- Mexico’s health spending at 5.4% of GDP has witnessed modest progress in terms of health coverage for the poor
  - Decrease in impoverishing health expenditure decreased from 3.3% to 0.8%
  - Increased immunization coverage
  - Higher life expectancy (76.8 years vs 72.7 years in 1998)
  - Reduction in lifetime risk of maternal death (0.35% in 1990 to 0.08% in 2015)
- Notable issues remain such as supply-demand imbalances, cultural / lifestyle choices and socioeconomic levels
  - As the population continues to increase, this will place a strain on the already limited supply of public medical services
  - High poverty rates impact activity levels and food choices which lead to problems such as obesity, diabetes, and cholesterol problems
  - Inefficient regional distribution of specialized health resources

Insurance Coverage Wide but Inadequate
- Mexico has both public and private insurance, however, there are significant service and benefit gaps; further, services are often associated with co-pays
- There are three principal types of public insurance programs:
  - ISSTE: coverage for civil servants (13mm)
  - IMSS: coverage for persons employed in the formal sector (58mm)
  - Seguro Popular: remaining persons not covered by ISSTE or IMSS (55mm)
- Other insurance programs are in place for PEMEX (state oil company) and the military
- Overall, 90% of the population has some type of coverage, with 9% having private insurance

...Mexico Continues to Lag OECD Peers

Total Health Spend Per Capita

| Source: World Bank, World Health Organization, OECD data |

Resource constraints
- Delivery of care is administered in a combination of private and public facilities, where ISSTE and IMSS have their own clinics and hospitals
  - These facilities are limited in number and overcrowded
- Health infrastructure is inadequate
  - Mexico has 1.7 beds per capita compared to the world average of 2.7 beds (3.2 beds on average for middle income countries)
  - Notwithstanding the inadequate health infrastructure, Mexico has a strong supply of doctors, registering 21 doctors per capita compared to the world average of 14.1 doctors per capita
  - Under current government there is increasing pressure on public health sector budgets.
Overview of the Mexican Pharmaceutical Industry

**Key strengths:**

- The pharmaceutical sector in Mexico is the fifth largest manufacturing industry in the country.
  - It is considered a strategic sector where local companies compete with multinationals.

- Mexico is the leading pharmaceutical exporter in LAC.
  - In 2017, Mexico’s pharma exports were US$1.15 billion. Mexico has gradually positioned itself as an attractive hub for the production and export of pharmaceuticals to North and South America.
  - Nevertheless the country remains a net pharmaceutical importer by value.

- Over the last few years, Mexico has significantly strengthened its regulatory compliance for the pharmaceutical sector, aligning it closely to the requirements of the US FDA
  - In 2017 the country gained acceptance into PICS (Pharmaceutical Inspection Co-operation Scheme)
  - COFEPRIS – the Mexican regulatory agency – is recognized as a reference regulatory authority by the Pan American Health Organization for multiple countries in the LAC region.

**Key challenges:**

- Domestic manufacturers faces high reliance on imported raw materials, estimated at 95 percent of the inputs used for the manufacturing process.

- Intellectual property protection system in the country, which has not undergone any major changes since 1994, and is currently being revised to meet the provisions of the signed Trans-Pacific Partnership (TPP) agreement and the USMCA trade agreement.
  - USMCA would extend intellectual property protection for 10 years on patented medicines but only for biologics.

Source: BMI Healthcare report 2018 – Q4
Overview the Mexican Pharmaceutical Market

**Market size:**
- Mexico has the second largest pharmaceutical market in Latin America, after Brazil.
- Size estimated at $10-13bn depending on the source.
- Pharmaceuticals accounts for around 15% of health care expenditure.

**Market Segments:**
- The private market is the largest segment by value followed by the government, however by volume the public market is larger than the private.

**Market growth:**
- Pharmaceuticals is expected to grow over the next 10 years at a CAGR of around 6% in local currency terms
- Key drivers:
  - aging population
  - high prevalence of chronic diseases, in particular, diabetes and cardiovascular disease.

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### Mexican Pharmaceutical Market - Key Segments

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<tr>
<th>Source: BMI Healthcare report 2018 – Q4</th>
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### Total Mexican Pharmaceutical Sales

<table>
<thead>
<tr>
<th>Source: IMS MAT Mar’18 &amp; Inefam MAT Jun’18</th>
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Generic Medicines in Market

- Mexican generic drug market was US$ 2.88 billion) in 2017 and expected to increase to US$8.39bn by 2027, (US$ CAGR of 11.3%).

- Key drivers:
  - Branded generics expected to continue to dominate
  - Increasing public sector demand for generics given budget pressures.
  - Consumer confidence in pure generics expected to increase given regulatory strengthening.

Source: BMI Healthcare report 2018 – Q4

Source: IMS MT Mar´18 & Inefam MAT Jun´18
Public Pharmaceutical Procurement: Reforms and Current Status
The 2012 Public Pharmaceutical Procurement Reforms

• In 2010 a scandal broke involving pharmaceutical procurement at IMSS – the largest public health care institution in Mexico
  • IMSS was the largest buyer of medicines and medical supplies in all Latin America.
  • From 2007-2010, main reform was centralization of many IMSS purchases
  • In November 2010, two distributors were recorded discussing how to collude on a not yet public tender
  • Corruption was found to run the chain up to the IMSS public procurement officials.
  • Suppliers rigged bids by:
    • submitting non-competitive bids so a competitor won the tender with a higher than competitive price
    • agreeing not to compete in certain tenders
    • submitting bids only in certain geographic areas
• In 2011, Mexico became the first country to adopt OECD’s “Guidelines for Fighting Bid Rigging in Public Procurement”
  • Some key recommendations like inter-agency procurement were implemented
  • Generated savings to IMSS of 3-5.4%

OECD Recommendations and their degree of implementation by IMSS

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Implementation Status</th>
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<tbody>
<tr>
<td><strong>1. Further opportunities to exercise buyer power</strong></td>
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<tr>
<td>Centralise local purchasing</td>
<td>Implemented</td>
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<td>Procure jointly with other government agencies</td>
<td>Implemented</td>
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<tr>
<td>Use multi-year tenders</td>
<td>Partially Implemented</td>
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<tr>
<td>Facilitate the participation of new suppliers</td>
<td>Not Implemented</td>
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<tr>
<td><strong>2. Inter-agency coordination and adoption of best practices</strong></td>
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<tr>
<td>Coordination, best practices, remote procedures</td>
<td>All fully or partially implemented</td>
</tr>
<tr>
<td><strong>3. Fighting practices that may facilitate collusion</strong></td>
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<tr>
<td>Place limitations on split contracts</td>
<td>Implemented</td>
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<tr>
<td>Place limitations on joint bids</td>
<td>Not Implemented</td>
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<tr>
<td>Place limitations on sub-contracting</td>
<td>Not Implemented</td>
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<tr>
<td>Limit on information published in annual procurement plan</td>
<td>Not Implemented</td>
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<td><strong>4. Increased use of competitive procurement mechanisms</strong></td>
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<tr>
<td>Limit exceptions in public tenders</td>
<td>Partially Implemented</td>
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<tr>
<td>Ensure unpredictability in procurement and tenders</td>
<td>Partially Implemented</td>
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<tr>
<td>Require a certificate of independent bid determination</td>
<td>Partially Implemented</td>
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<tr>
<td>Open participation as fully as possible</td>
<td>Not Implemented</td>
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<td><strong>5. Overhaul of market research</strong></td>
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<td>Allow sufficient time for informative market studies to be carried out</td>
<td>Implemented</td>
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<td>Ensure a sufficient amount of information is collected from high-quality sources</td>
<td>Partially Implemented</td>
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<tr>
<td>Introduce policy of non-disclosure to bidders of information contained in pre-tender market studies</td>
<td>Not Implemented</td>
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<td><strong>6. Monitoring and information-sharing activities</strong></td>
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<td>Proactively monitor participation in tenders and remove any obstacles</td>
<td>Not Implemented</td>
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<td>Engage a systematic dialogue with other public agencies</td>
<td>Not Implemented</td>
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<tr>
<td>Create procedures and reporting lines for suspicions of collusion in tenders</td>
<td>Not Implemented</td>
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<tr>
<td>Maintain a comprehensive dataset for all tenders in an appropriate format</td>
<td>Partially Implemented</td>
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<tr>
<td><strong>7. Training</strong></td>
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<tr>
<td>Train procurement officials on bid rigging</td>
<td>Partially Implemented</td>
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Despite reforms new accusations of bid rigging

- In March 2019, Federal Commission for Economic Competition (COFECE) launched an investigation of pharmaceutical tenders.
- In April, the 3 largest pharmaceutical distributors in Mexico – accounting for 62% of sales to the two largest public systems - were accused of corruption and banned from further sales. Existing contracts related to these distributors cancelled, resulting in shortages.
- According to the media reports, these and other players are accused of bid rigging, bribery, data omission, price manipulation and monopolistic practices, affecting consumers across the country.
  - Ministry of Finance announced that some distributors has inflated costs by up to 30%.
- In June, the government announced new international tenders to limit oligopolies and ensure a more competitive market.
  - Only those with the registrations can participate
  - Country to be divided in 5 regions.

Presidencia ordena vetar a empresas farmacéuticas por posible corrupción

El presidente Andrés Manuel López Obrador ordenó a todo el sector salud federal que se impida la participación en licitaciones o adjudicaciones directas a Grupo Fármacos Especializados SA de CV; Distribuidora Internacional de Medicamentos y Equipo Médico SA de CV y Grupo MAYPO

Conclusion:
- Ongoing and evolving situation and further steps can be expected, perhaps fuller implementation of OECD recommendations. The domestic pharmaceutical industry in Mexico is an important strategic sector for the country. A balance needs to be found to ensure a fair and transparent procurement process which ensures quality and affordable medicines reach the patients that need them most.