



MEXICO: Pharmaceutical Procurement Case Study

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July 10, 2019





**Overview:
Health Care and Pharmaceutical
Market in Mexico**

The State of Healthcare in Mexico

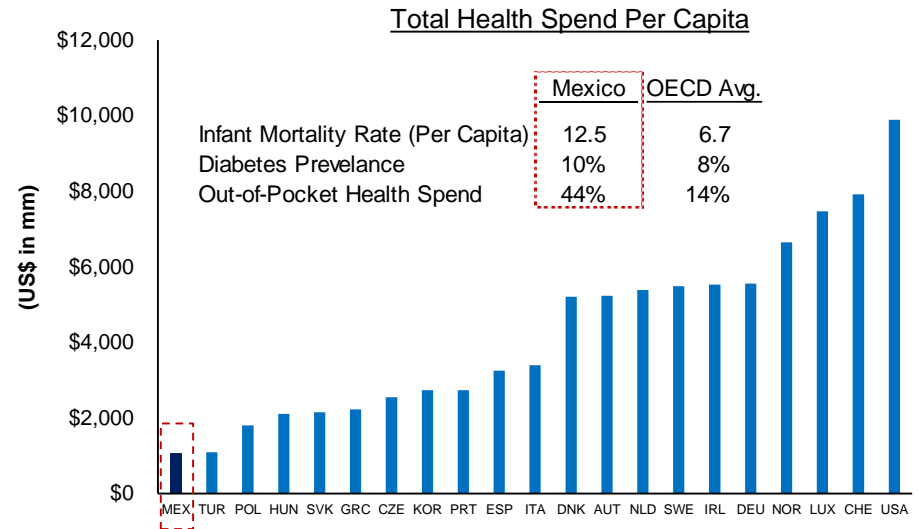
1 Despite Making Steady Progress...

- 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

3 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

2 ...Mexico Continues to Lag OECD Peers



4 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

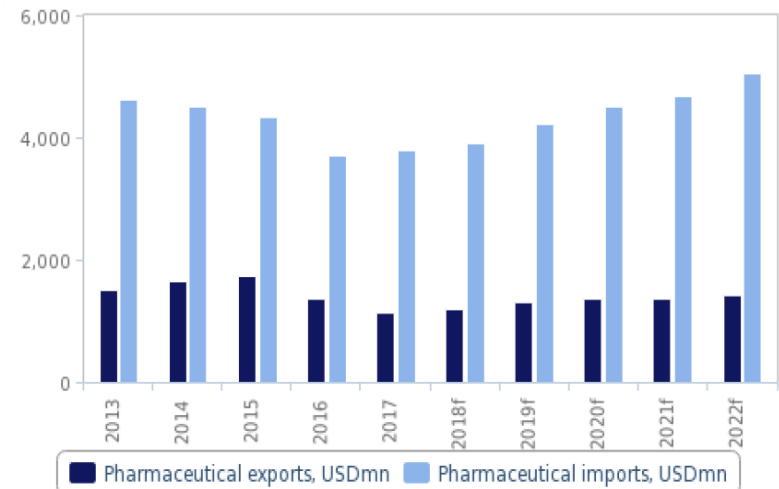
Key strengths:

- 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 face 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.

Pharmaceutical Trade Forecast
2013-2022



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.

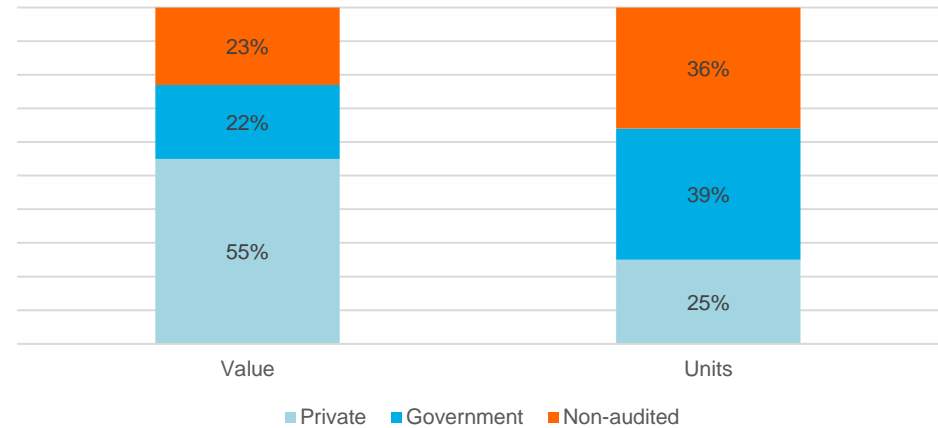
Market Segments:

- 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:

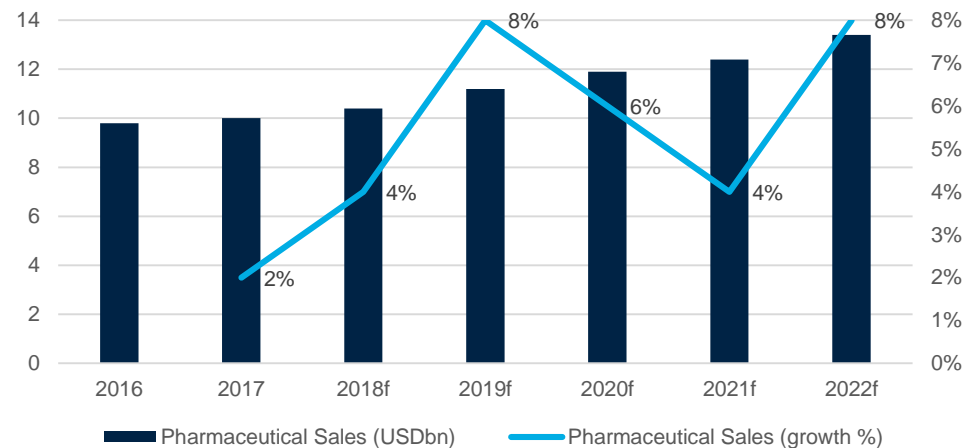
- Pharmaceuticals is expected to grow over the next 10 years at a CAGR of around 6% in local currency terms
- Key drivers:
 - aging population
 - high prevalence of chronic diseases, in particular, diabetes and cardiovascular disease.

Mexican Pharmaceutical Market - Key Segments



Source: IMS MAT Mar'18 & Inefam MAT Jun'18

Total Mexican Pharmaceutical Sales

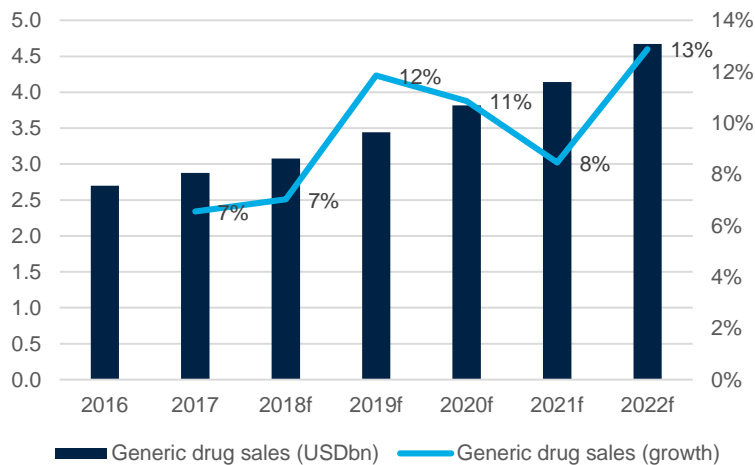


Source: BMI Healthcare report 2018 – Q4

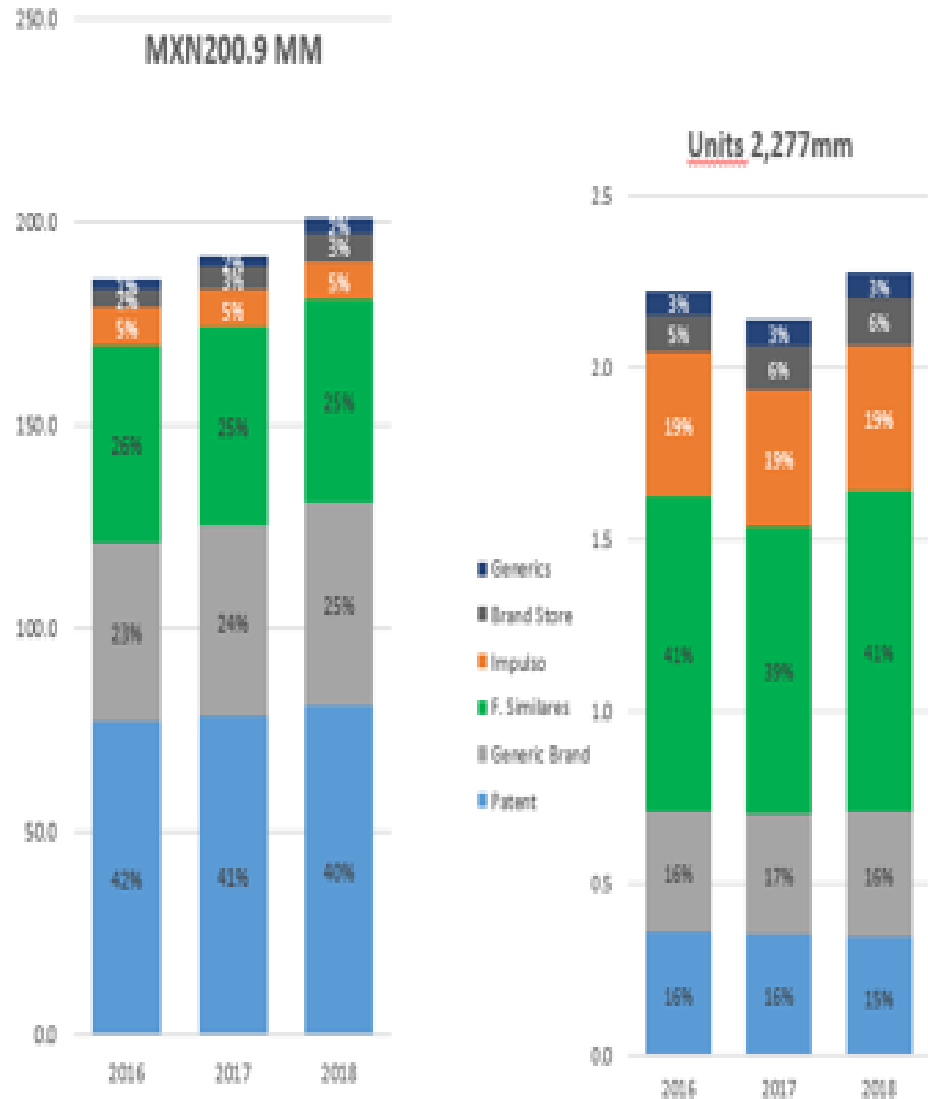
Generic Medicines in Market

- 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.

Generic Drug Sales in Mexico



Source: BMI Healthcare report 2018 – Q4



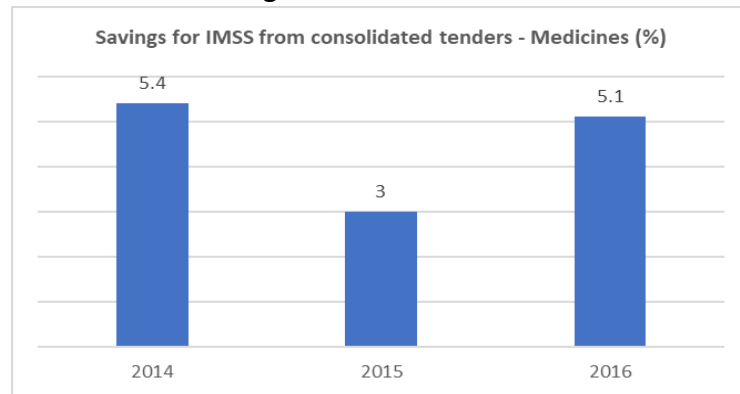
Source: IMS MT Mar'18 & Inefam MAT Jun'18

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

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

Sources: Mexico Institute of Competitiveness, (2012) “IMSS and its Public Procurement System”. https://imco.org.mx/wp-content/uploads/2012/1/case_imss_final_dic_16.pdf and OECD (2018) Fighting Bid Rigging in IMSS Procurement: Impact of OECD recommendations. <http://www.oecd.org/daf/competition/IMSS-procurement-impact-OECD-recommendations2018-ENG.pdf>

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

08/04/2019 | 11:12 | Alberto Morales [Ciudad de México]

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

MÉXICO
AMLO totalmente en contra de la CORRUPCIÓN de medicamentos en México
AMLO presidente, arremetió en contra de la corrupción de medicamentos en México; está totalmente en desacuerdo con tal acción.
por LaVerdad
27 de Mayo 2019 - 19:06 hrs

Portada / Red Forbes /
Corrupción en la compra de medicamentos del sector salud
Ante el contexto actual que vive el país en este sector es urgente una medida inmediata para disminuir de manera importante la corrupción que se da a través de los sobrepuestos en cualquier actividad económica.
Invitado Forbes
junio 11, 2019 @ 7:41 am

Distribuidoras de medicamentos elevaban costos hasta en 30%: Hacienda

Lunes, 24 Junio 2019 17:19 Escrito por Redacción tamaño de la fuente - +

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.