Chapter 1. Public procurement in the context of Mexico’s health challenges

Mexico’s health system is marked by persisting significant challenges despite recent reforms. This Chapter discusses a number of these challenges and which role public procurement can play in addressing these systemic issues. Since health expenditure per capita is one of the most crucial variables affecting health status, public procurement represents a powerful lever to maximise the value for money arising out this public spending.
In a country marked by the health challenges of an ageing population, a sedentary lifestyle and geographical differences in healthcare access and quality, it is essential for Mexico’s national healthcare system to improve its efficiency. Although public investment in Mexico’s healthcare system increased from 2.4% to 3.2% of gross domestic product (GDP) between 2003 and 2013, it is unclear whether this is translating into tangible health gains (OECD, 2016[1]).

At the same time, the share of the national health budget spent on administration, which is the highest in the OECD at almost 10%, is accompanied by high out-of-pocket spending on health care by citizens.

Although many health indicators are improving in Mexico, the country has the lowest life expectancy in the OECD (Box 1.1). This is largely explained by the prevalence of lifestyles leading to higher risk factors for chronic diseases and mortality. Access barriers to high-quality healthcare services are also at the root of this situation. These key indicators suggest that the Mexican health system is not fully effective, and possibly signal a failure of the system to provide effective insurance, high-quality services, or both (OECD, 2016[1]).

### Box 1.1. Health issues in Mexico

In 2013, life expectancy in Mexico was the lowest of all OECD countries at 74.6 years, compared to the OECD average of 80.5 years.

Mexico has the second highest obesity rate among OECD countries, after the United States, with one out of three adults in Mexico being obese. Obesity is a known risk factor for cardiovascular diseases, diabetes and some forms of cancer.

The quality of care in Mexico is also generally lower than in most other OECD countries. This is notably the case for hospital care provided for patients admitted for acute conditions such as a heart attack or stroke. The percentage of patients surviving these life-threatening conditions is much lower in Mexico than in other OECD countries. For reasons such as low supply of health workers (i.e. nurses) and unequal geographical distribution of doctors, barriers in access to high-quality health care services are prevalent.

Since 2012, health expenditure in Mexico has increased more rapidly than in most other OECD countries, driven by increases in government (public) expenditure. Still, overall health expenditure per capita in Mexico remains much lower than in nearly all other OECD countries (except Turkey).

*Source: (OECD, 2015[2])*

Mexico’s healthcare system must change to deliver people-centred, high-quality care. Without far-reaching reforms, Mexico runs the risk of maintaining a fragmented health care system with challenges such as marked inequalities in access and quality, further entrenching socioeconomic disadvantage. An inefficient, unresponsive health care system will hold Mexico back from achieving the health, prosperity and progress of which it is certainly capable in the coming years.

While tackling some of these challenges requires structural reforms to the healthcare system, boosting the effectiveness and efficiency of public health procurement could also...
play a major role in shaping better public health care. Indeed, across OECD countries public spending on health accounts for approximately 30% of public procurement expenditure (OECD, 2017[3]).

Universal access to quality health care, supported by adequate budgeting, is necessary to achieve more inclusive economic growth. Efficient healthcare spending through strategic public procurement practices is therefore essential.

How does Mexico compare to other OECD countries on health spending?

Health spending per capita is a crucial variable of health status in OECD countries. According to the most recent statistics, Mexico ranks the lowest across the OECD, with USD 1,080 spent per capita in 2016 (OECD, 2017[4]). In 2013 Mexico spent 6.2% of its GDP on health (Figure 1.1), somewhat less than the OECD average of 8.9% (OECD, 2016[1]). Therefore the delivery of high-quality, yet cost-effective healthcare services to Mexican citizens is becoming increasingly challenging.

Figure 1.1. Health spending as a share of GDP

Note: Expenditure excludes investments, unless otherwise stated.
1. Australian expenditure estimates exclude all expenditure for residential aged care facilities in welfare (social) services.
2. Includes investments.
Source: (OECD, 2017[4])

The share of this spend coming from public funding sources is particularly low. In OECD countries, only the United States (49%) reports a share of public spending on health lower than Mexico (51%), the average being 72.5% (OECD, 2017[4]). An OECD study on Tackling Wasteful Spending on Health (OECD, 2017[3]), showed that the proportion of funding allocated to administering health services in Mexico, at 5.7% of total health spending, was the third highest in the OECD (Figure 1.2). This study identified high
administrative costs in all three forms of financing scheme (government schemes, compulsory health insurance schemes, and voluntary prepayment schemes).

**Figure 1.2. Administration as a share of current health expenditure by financing scheme, 2014 (or nearest year)**

![Figure 1.2. Administration as a share of current health expenditure by financing scheme, 2014 (or nearest year)](image)

*Source: (OECD, 2017[3])*

With public spending on health care already low in comparison to other OECD countries, the high administrative costs required to deliver services means less funding is available to frontline staff and patient-facing services. Added to the ongoing impacts of cost pressures on spending due to demographic changes and the increasing cost of services, Mexican government officials, health professionals, academics and other stakeholders all agree that the country faces renewed challenges in improving the performance of healthcare services, in particular the efficiency and quality of service provision, and ultimately health outcomes (Secretaría de Salud, 2013[5]).

**Where does procurement fit into the picture?**

Public procurement is a crucial pillar of strategic governance, and of government service delivery, and is a key economic activity for governments. In recent years, public procurement has been recognised as a strategic tool to achieve value for money along with other policy objectives. This holds true for the health sector, where procurement spending is a crucial element to enhance health status. As shown in Figure 1.3, health is the largest sector for government procurement expenditure in almost all OECD countries (OECD, 2017[6]).
Currently, health services in Mexico are provided through a variety of sub-systems – multiple private and public insurers employing their own staff to deliver health care, with an individual’s affiliation usually determined by their employer. The Mexican Institute of Social Security (Instituto Mexicano del Seguro Social, IMSS) is the largest public institution, providing health insurance and healthcare services (as well as pensions and a range of other benefits) principally for Mexicans in salaried private (formal) employment.

As shown in national public procurement reports, IMSS is in fact the largest public buyer in Mexico (Figure 1.4), thus initiatives and efforts to further strengthen the strategic dimension of its procurement practices would not only directly benefit the institution, but could also diffuse across the entire federal administration. Being one of the OECD countries to spend the most on medical goods (at around 30% of total health expenditure; (OECD, 2015[2])), increasing the effectiveness of this spending could also strengthen IMSS’s financial sustainability, allowing it to replenish reserves previously used to finance operating costs.

The acquisition of medical products, services and physical assets by IMSS is subject to the Mexican public procurement framework and notably its two laws: the Law on Acquisitions, Leases and Services of the Public Sector (Ley de adquisiciones, arrendamientos y servicios del sector público, LAASSP) and the Law on Public Works and Associated Services (Ley de Obras Publicas y servicios relacionando con la misma, LOPSRM). Increased efficiencies will have to be found within this framework, which delimits IMMS’s scope to use its public procurement strategically.
In 2012 the OECD carried out a review of IMSS’s procurement processes and practices, and made several recommendations in crucial dimensions (OECD, 2013[7]). These included the capacity of the procurement workforce, the information technology environment and the management of suppliers.

The review also made recommendations aimed at reducing the risk of disruption in the supply of medicines, which would ultimately affect Mexican citizens. In the years since the review, IMSS has made significant efforts to ensure that drugs are delivered in a timely and efficient manner to patients. In 2017 (up until August) this resulted in an all-time high ratio of 99.2% of medical prescriptions being fulfilled (Figure 1.5).
All these recommendations were meant to pave the way for better healthcare procurement practices and to support IMSS in achieving transformational reforms. This review assesses progress made, while also identifying additional improvements that will continue to increase the effectiveness of the procurement practices and strategies of Mexico’s largest public buyer.

The review is structured into three main parts which provide a holistic assessment of IMSS’s procurement framework and practices. It first discusses progress made and the impacts stemming from procurement reforms based on previous recommendations (OECD, 2013[7]). It then identifies further opportunities to transform IMSS’s procurement function into a successful strategic governance tool. Finally, it analyses efforts and suggests additional initiatives to put IMSS at the forefront of the Mexican health system.
References


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