

CONTRACEPTIVE PROCUREMENT POLICIES, PRACTICES, AND OPTIONS

HONDURAS

DELIVER

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Abstract

In light of the phaseout of donor funds in Latin America and the Caribbean, Honduras will be facing increasing responsibility to finance and procure contraceptive commodities in the near future. The government of Honduras will need to look at regional and international procurement opportunities to ensure contraceptive security is not compromised during this transition period.

This report presents findings from a legal and regulatory analysis and pricing study of different procurement options to identify efficient, economical, high quality, and timely distribution of contraceptives. A summary of the current country situation, procurement practices, laws, policies, and regulations is presented along with a comparison of regional contraceptive prices. Options and recommendations are presented for next steps.

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ACRONYMS

ARV	antiretroviral
ASHONPLAFA	<i>Asociación Hondureña de Planificación de Familia</i> (Honduras IPPF affiliate, an NGO organization)
CAFTA	Central American Free Trade Agreement
CENABAST	<i>Central de Abastecimiento</i> (Chilean national procurement agency for the National Health Service)
CIF	cost, insurance, freight
CPR	contraceptive prevalence rate
DHS	Demographic and Health Survey
EDL	essential drugs list
ENESF	<i>Encuesta Nacional de Epidemiología y Salud Familiar</i> (National Epidemiologic and Family Health Survey)
FP	family planning
IADB	Inter-American Development Bank
IHSS	<i>Instituto Hondureño de Seguro Social</i> (Honduran Social Security Institute)
IPPF	International Planned Parenthood Federation
IUD	intrauterine device
LAC	Latin America and the Caribbean
NGO	nongovernmental organization
PASMO	Pan American Social Marketing Organization
SOH	Secretariat of Health
TFR	total fertility rate
UNDP	United Nations Development Program
UNFPA	United Nations Population Fund
USAID	United States Agency for International Development
VAT	value-added tax

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This paper is available in English and Spanish, as are the individual country reports on the eight other participating countries and a regional practices and options report. All of these reports, as well as the full country assessment reports, are listed in the references for this document and may be obtained directly from the DELIVER and USAID | Health Policy Initiative TO1 projects. Summaries of the country assessment reports can be found on the DELIVER and USAID | Health Policy Initiative Web sites (www.deliver.jsi.com and www.healthpolicyinitiative.com).

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EXECUTIVE SUMMARY

BACKGROUND

Honduras is gradually taking on the responsibility of financing and procuring contraceptives as donations will be phased out in the very near future by the United States Agency for International Development (USAID) and other donor agencies. In preparation, the government of Honduras will need to consider all procurement options, prices associated with each option, and the legal viability of each option within the context of national laws and norms that regulate public sector procurement practices.

Several programs in Honduras provide public sector contraceptives. The country does not locally produce any contraceptives.

- **Secretariat of Health (SOH)**—USAID, which currently provides up to 40 percent of the SOH's contraceptive commodities, will end its donations in 2008. The SOH has also received intermittent contraceptive donations from the United Nations Population Fund (UNFPA). Beginning in 2001 the SOH and the *Asociación Hondureña de Planificación de Familia* (ASHONPLAFA) began to purchase their own contraceptives. In that same year the SOH entered into a special agreement with the United Nations Development Program (UNDP) to purchase medical supplies, including contraceptives.
- **ASHONPLAFA**—ASHONPLAFA is a nongovernmental organization (NGO) affiliated with the International Planned Parenthood Federation (IPPF). It receives donations from USAID in addition to the commodities it purchases directly from the IPPF and other international suppliers.
- **Instituto Hondureño de Seguridad Social (IHSS)**—The Honduran Social Security Institute receives minimal donations from USAID.
- **Pan American Social Marketing Organization (PASMO)**—This is the USAID-supported initiative in Central America that buys commodities directly from international producers.

The private sector distributes contraceptives through private pharmacies, purchasing commodities from several international manufacturers.

OBJECTIVE AND METHODOLOGY

This report presents findings from a legal and regulatory analysis and pricing study of different procurement options available in Honduras. It is intended to inform the SOH in its efforts to identify the best options—low prices, high quality, efficient and timely delivery—for contraceptive procurement. The Honduras analysis forms part of a broader regional study that assesses the impact of different procurement regulations on the price of contraceptives in nine Latin American countries and identifies viable strategies to ensure access to lower priced, good quality contraceptives.

The country work included the analysis of laws and regulations that govern the purchase of medicines and contraceptives with public sector funds, as well as the collection and analysis of data on contraceptive prices by method of contraception at both the central and regional level. The prices analyzed represent the total direct costs to each sector, including cost, insurance, and freight (CIF) expenses; duty and value-added tax (VAT); administrative and social marketing costs; transport costs; and other margins. Field work consisted of interviews with key stakeholders about written laws, regulations, and procurement practices, as well as the collection of quantitative price data from various sources, including pharmacies in Tegucigalpa and San Pedro Sula.

SUMMARY OF MAIN POINTS

LEGAL AND REGULATORY FRAMEWORK

- The Government Contracting Law was passed in 2001 to improve the public sector's practice of entering into contracts. The law created one set of guiding principles for all government agencies with respect to economy, transparency, and efficiency. The anticipated creation of the Procurement Regulatory Office will standardize the approach to bidding documents, criteria, and practices. The law requires public notification of procurement opportunities and establishes the use of open, competitive procedures that include public bidding and nondiscriminatory participation of suppliers. The attempt to improve contracting transparency in the country is challenged by a weak national legislative system, which has made the law difficult to implement, disseminate, and enforce. As a short-term measure, the UNDP serves as the primary procurement agent to handle all of the government's contraceptive commodities on the local and international market. UNDP publishes all requests for bids in major local newspapers and on the Internet, which allows international suppliers to participate. If an international supplier has a local representative in country, the local office responds to the bid.
- Registering a new contraceptive product to the SOH's essential drugs list (EDL) requires a lengthy 10–12 month process that must be led by a health institution, medical clinic, or pharmacy. This regulation should be kept in mind in light of ensuring contraceptive security in Honduras. However, all contraceptives currently used by the SOH are included in the EDL.

CONTRACEPTIVE PRICING

- The purpose of the pricing analysis was to quantify the direct costs associated with contraceptive procurement. There was no attempt to quantify any indirect costs associated with the procurement process or with individual's access to contraceptive commodities.
- Because of the difficulty in obtaining uniform pricing information for all of the contraceptive methods offered in Honduras, especially from the private sector, the information of observed prices for oral contraceptives provided the most reliable results for regional² and international reference price comparisons. Furthermore, comparison of CIF prices among the public, NGO, and commercial sectors were analyzed to see the different procurement efficiencies in each sector.
- The procurement agreement with UNDP has allowed the Honduras public sector to gain access to low international prices for oral contraceptives. Nevertheless, since UNFPA, rather than UNDP, is the lead United Nations agency dealing with family planning and contraceptive procurement, UNFPA procures higher volumes of commodities and thus has access to lower prices on the international market than the UNDP does. This difference in procurement capacity is evident when analyzing CIF prices paid by the Honduras public sector, which are approximately 18 percent greater than those paid by other countries in the region studied that procured through UNFPA (i.e., El Salvador and the Dominican Republic).
- Honduras stands out from the other countries in the region because it is the only country that does not charge a VAT on contraceptives. Maintaining this policy would clearly play a large role in keeping the cost of oral contraceptives in the public sector low.
- The NGO sector in Honduras has the second-highest total cost for oral contraceptives in the region, even though it has been able to obtain the lowest CIF price. For prices to decrease in the NGO sector, and thus benefit consumers, NGOs should investigate different strategies to decrease their costs and pass those savings on to their clients.

² The region referenced here is defined as those countries in Central America and the Caribbean that participated in the study, including Guatemala, Honduras, El Salvador, Nicaragua, and the Dominican Republic.

- Retail pharmacy prices for oral contraceptives in Honduras are almost 115 percent more than the minimum retail prices found in the region, yet are comparable to the regional average and lower than prices found in two other nearby countries (El Salvador and Guatemala).

OPTIONS AND NEXT STEPS

Although Honduras has made progress toward achieving contraceptive security through procurement efficiencies and advocacy within the government, there are other options to be addressed for improving contraceptive procurement:

- Investigate an agreement with UNFPA for the procurement of contraceptives to take advantage of prices from prequalified international suppliers that may not currently be accessible through the current UNDP contract.
- Engage in informed purchasing based on price comparisons by exchanging price information with other countries to obtain comparative information about price discrepancies. This will give Honduras stronger negotiating power with local representatives of international companies and thus help secure the best possible price for quality contraceptives.
- Advocate to the government of Honduras to do an annual allocation of funds into a protected budget line item.
- Take advantage of regional initiatives such as harmonizing drug registries in Central America, regional laboratory networks, and pooled procurement.

INTRODUCTION

For more than three decades, countries in Latin America and the Caribbean (LAC) have relied on donations from international agencies such as the United States Agency for International Development (USAID) to meet the contraceptive needs of their populations. These donations are now being gradually phased out throughout the region. Honduras will stop receiving donated contraceptives in the near future, and the financing and procurement of contraceptives for the public sector will soon become the sole responsibility of the national government.

As the government of Honduras takes on increasing responsibility for contraceptive procurement, it will need to consider all procurement options (both national and international) available to the country, prices associated with each option, and the legal viability of each option within the context of the national laws and norms that regulate public sector procurement practices.

Contraceptive security exists when individuals are able to choose, obtain, and use contraceptives and condoms whenever they need them. Achieving contraceptive security requires efficient contraceptive procurement mechanisms and procedures that are designed to secure low prices and prevent product shortages and stockouts.

METHODOLOGY

This report presents findings from a legal and regulatory analysis and pricing study of different procurement options available in Honduras between June 2005 and March 2006. It is intended to inform the Secretariat of Health (SOH) in its efforts to identify the best options—low prices, high quality, efficient and timely delivery for contraceptive procurement. The Honduras analysis forms part of a broader regional study that assesses the impact of different procurement regulations on the price of contraceptives in nine countries in the LAC region—Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Paraguay, and Peru—and identifies viable strategies for ensuring access to lower priced, good quality contraceptives.

The country work included the analysis of laws and regulations that govern the purchase of medicines and contraceptives with public sector funds, as well as the collection and analysis of data on contraceptive prices by method of contraception at both the central and regional level. Field work consisted of interviews with key stakeholders about written laws and regulations and procurement practices, as well as the collection of quantitative price data from various sources, including pharmacies in Tegucigalpa and San Pedro Sula.

The report begins with a general overview of the country situation, followed by an analysis of the principal characteristics of policies and laws that govern public sector procurement. The following section presents information on contraceptive prices within the country for different methods of contraception. A lessons-learned section, based on the experiences of different countries in the region, follows. The report ends with a series of concrete recommendations directed at improving the efficiency of contraceptive procurement policies and processes.

COUNTRY SITUATION

The second-largest country in Central America, Honduras is mountainous in most areas and is marked by fertile plateaus, river valleys, and coastal plains. In 2004, the population reached about 7 million inhabitants, growing at an annual rate of 2.2 percent (USAID 2006). Honduras is among the poorest countries in Latin America, with its 2004 gross national income per capita estimated at U.S.\$2,760 and with 44 percent of the population living below the international poverty line of U.S.\$2 a day (World Bank 2006).

Like other Latin American countries, Honduras has steadily and significantly decreased its total fertility rate (TFR) in recent years. Analysis of the relevant survey data in Honduras indicates that the TFR has decreased from 5.2 children per woman (age 15 to 49) in the 1991/1992 National Epidemiologic and Family Health Survey (ENESF), to 3.3 children per woman in the 2006 Demographic and Health Survey (DHS).³ Regional differences in fertility are very notable, with women in rural areas having a TFR of 5.6, compared to women in the two major cities (Tegucigalpa and San Pedro Sula) having a rate of 3.07.

Corresponding to the decrease in fertility was an increase in contraceptive prevalence. The 1991/1992 survey reported a contraceptive prevalence rate (CPR) of 46.7 percent among women in union between ages 15 and 49, which increased to 61.8 percent in 2001 and to 65.2 percent in 2005–2006 (ENESF 2002; DHS 2005–2006). Disaggregating the CPR reveals that from 2001 to 2005–2006, the prevalence of modern methods among women in union increased from 51 percent to 56 percent, while the prevalence of traditional methods for the same group decreased from 11 percent to 9 percent. Furthermore, of the total CPR in 2005–2006, the method mix included 33 percent voluntary sterilization, 21 percent injectables, 17 percent oral contraceptives, 10 percent intrauterine devices (IUDs), 4 percent condoms, and 14 percent traditional methods (DHS 2005–2006). Contraceptive prevalence in urban areas was 70.4 percent and 54.6 percent in rural areas. Among women using family planning methods, 54 percent obtained their method through the private and NGO sector, led by clinics run by the nongovernmental organization *Asociación Hondureña de Planificación de Familia* (ASHONPLAFA), while the remaining 46 percent obtained methods from the public sector. The Honduran Social Security Institute (IHSS) provided services to 15 percent of users.

In Honduras, USAID has been the leading supplier of contraceptives since 1995, and between 1995 and 1998 it was the only donor of contraceptives to the SOH. USAID provided 83 percent of all commodity donations between 1999 and 2003. The United Nations Population Fund (UNFPA) provided intermittent support to the SOH in 1999, and then again in 2002. The IHSS has also received sporadic contraceptive donations from USAID and UNFPA, but unlike the SOH, IHSS does not procure contraceptives. USAID, which still provides approximately 40 percent of the SOH's contraceptive commodities, plans to continue contraceptive donations to the SOH until 2008.

In 2001, the SOH and ASHONPLAFA began to purchase their own contraceptives. (Previously, the SOH had purchased condoms.) In 2003, the SOH purchased approximately U.S.\$200,000 worth of contraceptives, which included condoms, injectables, IUDs, and oral contraceptives. That same year, ASHONPLAFA purchased approximately U.S.\$100,000 worth of contraceptives. According to national health policy, the SOH should provide family planning (FP) services free of charge; however, 18 percent of health centers charge for FP services (Quesada et al. 2004).

³ Comparison of data between the ENESF and DHS has limitations because of differences in sample size, different women's age groups, questionnaire design, different stratification (regions vs. departments), and other methodological differences.

case, it facilitated the process, given problems with procurement capacity in Honduras. The agreement between UNDP and the government of Honduras lasted through 2005.

The SOH annual budget for contraceptives for years 2006 and 2007 is approximately U.S.\$1 million. In 2004, the SOH contributed approximately 60 percent of the total, with the remainder being donated by USAID.

The IHSS has an agreement with UNFPA to support family planning, but that agreement ends in 2007. UNFPA also purchases condoms for the Global Fund and other local projects.

ASHONPLAFA, which is affiliated with International Planned Parenthood Federation (IPPF), distributes FP methods through its own clinics and networks of health visitors and medical visitors. ASHONPLAFA buys commodities from IPPF, and it also receives donations from USAID. PASMO (a USAID-supported social marketing initiative in Central America) buys commodities directly from international vendors and distributes them through networks of service stations, stores, and private pharmacies.

The commercial sector is present through the representatives of international manufacturers. It offers a wide range of contraceptives and distributes them through private pharmacies to the general population. Schering leads the oral contraceptive market with Microgynon, but Perla, a Wyeth product (Duofem) distributed by ASHONPLAFA, follows closely in units sold. In the injectables market, the main products are Depo-Provera (a three-month injectable, distributed by Pharmacy-Upjohn) and Mesygina (a one-month injectable distributed by Schering).

LEGAL AND REGULATORY FRAMEWORK

LAWS THAT GOVERN THE PROCUREMENT OF MEDICINES/CONTRACEPTIVES

In an attempt to improve transparency in contracting, Honduras approved a new law in June 2001. The Government Contracting Law, which went into effect in October 2001, and its implementing regulations represent an important improvement in the way the public sector enters into contracts. The law covers all government agencies under one set of guiding principles with respect to economy, transparency, and efficiency. It also calls for the creation of the Procurement Regulatory Office, which provides a common and consistent approach to standard bidding documents, criteria, and practices. The law requires the use of public notification of procurement opportunities and establishes the use of open, competitive procedures that include public bid opening and nondiscriminatory participation of suppliers under a range of procurement mechanisms.

The original law contained a mechanism that favored national bidders, except in the cases of bilateral or multilateral agreements or when a project was supported with external funds. The new law establishes three procurement modalities. All public works contracts in excess of L1,000,000 (approximately U.S.\$55,600) must be offered through public competitive bidding. Public contracts worth between L500,000 and L1,000,000 (approximately U.S.\$27,800–\$55,600) can be offered through a private bid, and contracts worth less than L500,000 (U.S.\$27,800) are exempt from the bidding process. Prior to the Central American Free Trade Agreement (CAFTA), in order to participate in public tenders, foreign firms were required to act through a local agent (at least 51 percent Honduran owned); this requirement was eliminated when CAFTA went into effect.

Although the Government Contracting Law has held promise to improve contracting procedures, weaknesses in the national legislative system persist because the law has not been well implemented. Rules and procedures have not been disseminated to the public and private sectors, the Procurement Regulatory Office has not been established, and its staff are not adequately trained. Because of the ongoing weaknesses in government contracting, the government of Honduras appointed UNDP as its primary procurement agent to handle aid resources. While initiated as a short-term measure in 2002, UNDP continued through 2005 to handle the government's procurement of contraceptive commodities in the local and international markets.

The Essential Drugs List (EDL) of the SOH in Honduras includes hormonal contraceptives, as well as condoms and IUDs. The EDL should be periodically updated to reflect changes in the specific commodities that the SOH wants to offer to clients. It is worth noting that although included on the EDL, contraceptives are usually considered to be supplies rather than medicines. The inclusion of FP commodities on the EDL is an important step on the path to contraceptive security; however, it does not in itself guarantee availability in sufficient quantities in health establishments. For a new contraceptive commodity to be introduced in Honduras, the process of registering the product with the SOH must be led by a health institution, medical clinic, or pharmacy. Registering a product with the SOH normally takes 10–12 months, and the registration is valid for 5–10 years.

There are no tariffs imposed on contraceptive commodities brought into Honduras, but all commodities are subject to a 12 percent value-added tax (VAT). However, donations and public acquisitions are

exempt from the VAT. There is a ceiling margin for distributors at 29 percent of the cost, insurance, freight (CIF) price.

Under Legislative Decree 74-2001 of June 1, 2001, which implements the State Procurement and Contracts Law, the government of Honduras is allowed to do local and international tenders and to establish agreements with international agencies for the procurement of goods and services. Details about the tender, as well as the call for proposals, are published on a Web site.

PROCUREMENT PRACTICES AND MECHANISMS

The timely and uninterrupted availability of high-quality contraceptives in the public sector is essential to achieving contraceptive security, particularly among those in the lowest socioeconomic quintiles. As USAID phases out contraceptive donations in Honduras, the government must prepare for assuming the responsibility of procuring contraceptives. Price and quality of products are important factors in this process.

PUBLIC SECTOR CONTRACEPTIVE PROCUREMENT MECHANISMS

Secretariat of Health

In 2004, the SOH procured contraceptive commodities through UNDP, as part of the government's larger arrangement with that international organization. The Procurement Unit of the SOH, based on the recommendations of the SOH's Women's Health Program, prepared a technical report that specified the products and quantities needed. Through UNDP, a tender was announced for the procurement of oral contraceptives and condoms in both the local and international market. The total direct cost, including CIF and administrative costs, was U.S.\$0.39 per cycle for oral contraceptives and U.S.\$0.053 per unit for condoms. The tender for 2005, also through UNDP, included 852,000 cycles of oral contraceptives, 300,000 three-month injectables, and 6,012,000 condoms, and was offered at a rate of U.S.\$900,000–1,000,000.

Presently, the SOH has begun exploring the possibility of purchasing contraceptives via UNFPA. The model for a future agreement would be similar to the one between UNFPA and El Salvador, in which UNFPA would act as a procurement agent for the government of Honduras. Without the UNDP agreement, which ended in December 2005, only local purchase of contraceptives is a likely future option, unless the government of Honduras establishes an agreement with UNFPA.

Honduras Social Security Institute

IHSS still relies on donated contraceptives from UNFPA, and thus has not begun procuring its own commodities. Nevertheless, the medical director is aware of the need to start procuring and to reduce reliance on donor organizations.

CONTRACEPTIVE PRICING

The purpose of the pricing analysis was to attempt to quantify the direct costs associated with contraceptive procurement within the public, NGO, and private sectors. There was no attempt to quantify any indirect costs associated with the procurement process or to assess individuals' access to contraceptive commodities.

The main issue surrounding the pricing of contraceptive methods in Honduras was the difficulty in obtaining homogenous and disaggregated information for the price components of the different methods, in particular from the private commercial sector. In fact, this study only presents results for oral contraceptives, the only method for which making a relevant comparison was feasible. Consequently, it is difficult to develop the capacity to make appropriate and comprehensive comparisons on price structures of contraceptives and analyze the relative performance of the procurement process in Honduras.

Nevertheless, we present the observed prices for combined oral contraceptives⁴ in Honduras along with corresponding regional and international reference prices to begin the process of assisting policymakers to address the procurement and pricing challenges. The regional prices refer to the average prices in the public and NGO sectors across the countries included in the study, which are those countries that receive either technical assistance or donations from UNFPA and/or USAID to procure contraceptives in Central America and the Caribbean.⁵ International reference prices are those that are available directly from international suppliers, and not through procurement agents such as UNFPA.

To gain insight into the procurement environment in Honduras, it is useful to make two general price comparisons between the public, NGO, and commercial sectors in the country. First, a comparison of the CIF prices⁶ reflects relative procurement efficiencies among the different sectors, as well as the price differences at which pharmaceutical companies make products available in different markets, the distance between the point of origin and port of entry, and the chosen shipping method. Second, while CIF price represents the cost of purchasing the commodity and having it arrive into the country, it does not include the full costs of getting commodities to service delivery points. Therefore, a comparison of the total direct cost of oral contraceptives for each sector within the country provides a much more complete basis for comparison as it includes administrative costs and transport costs involved in making the commodity available to consumers.

Finally, the second part of this section presents a cross-country comparison of the total direct cost of oral contraceptives in the public, NGO, and commercial sectors within the Central America and Caribbean countries studied. It is intended to highlight Honduras's place with regard to total direct costs in countries throughout the region and how differing procurement mechanisms affect these prices.

ORAL CONTRACEPTIVE PRICE STRUCTURE

Figure 2 shows the price components for oral contraceptive methods in Honduras. The figure also presents the mean CIF prices for methods from public and NGO sectors of the other Central American

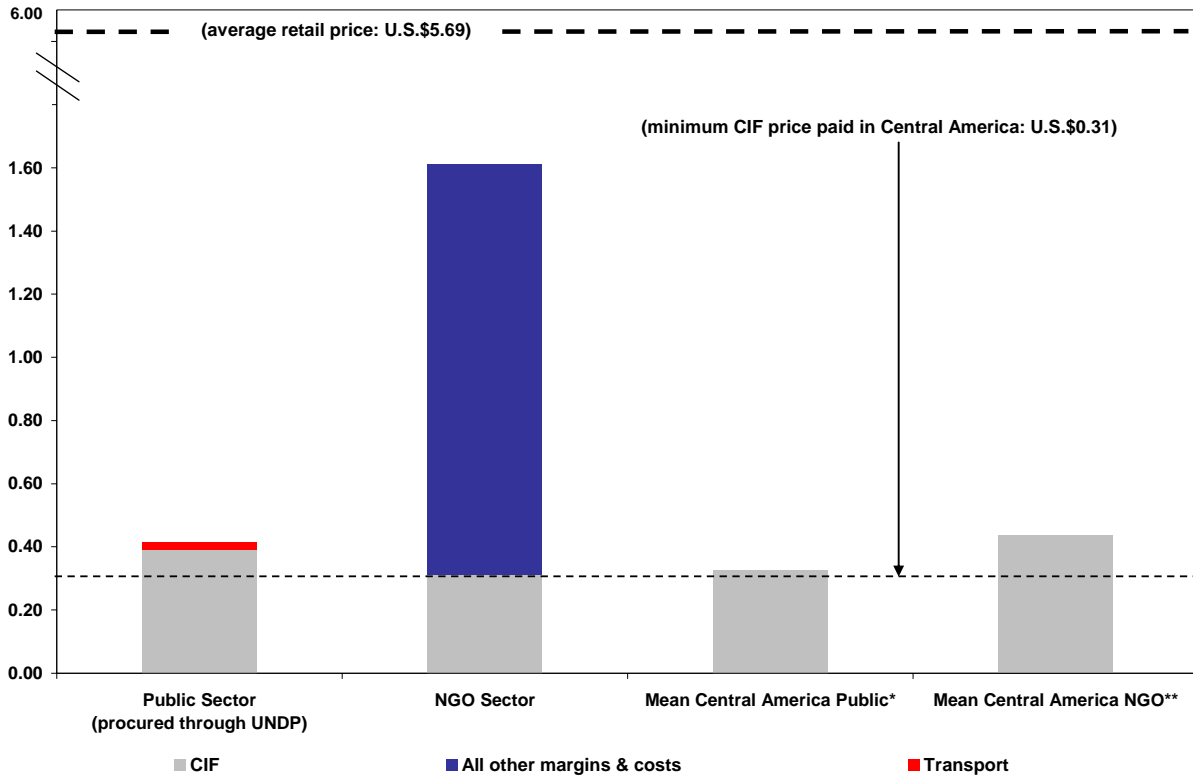
⁴ Unless otherwise noted, the products analyzed are combined pills, composed of 0.15 mg Levonorgestrel and 30 mcg ethinyl oestradiol. Brand names in Honduras and in other regional countries analyzed include Microgynon, Duofem, Nordette, Rigevidon, and Lo-femenal.

⁵ The region referenced here includes Guatemala, Honduras, El Salvador, Nicaragua, and the Dominican Republic.

⁶ CIF price is the international cost of the commodity landed at a country's port of entry and does not include local tariffs and duties, or domestic supply chain costs such as administration and transport.

and Caribbean countries participating in the study: the Dominican Republic, El Salvador, Guatemala, and Nicaragua.⁷

Figure 2: Price Components of Oral Contraceptives in Honduras



Source: Data collected by JSI. Data are 2005 U.S. dollars.

* “Mean Central America Public” refers to the average price found in countries whose public sector procures through an international agent (e.g., UNFPA).

** “Mean Central America NGO” refers to the average price found in countries whose primary FP NGO procures through an international agent (e.g., IPPF) or directly through an international supplier.

The procurement agreement between the Honduran public sector and UNDP, the procurement agent being utilized at the time of this study, resulted in a CIF price for oral contraceptives of U.S.\$0.39 per cycle. While procuring through UNDP has given the Honduras public sector access to international prices that are substantially lower than those on its local market, the agreement is not without its difficulties. As evident in figure 2, the public sector CIF in Honduras is 18 percent higher than the mean CIF price for the Central American and Caribbean region (U.S.\$0.33). Since this latter value is the average price found in the region from countries whose public sectors procure through UNFPA, the difference in prices can be interpreted as the savings the Honduras public sector could realize by using UNFPA—rather than UNDP—as a procurement agent.

Another notable aspect about the data is that the NGO sector (ASHONPLAFA) in Honduras has been able to obtain the lowest CIF price in the region (U.S.\$0.31 per cycle) for oral contraceptives by

⁷ Information from the public sector in Nicaragua was excluded from the regional averages because this sector still receives donations and does not yet procure contraceptives.

procuring from international suppliers. This price is comparable to the CIF prices obtained by the NGO sectors of the neighboring countries of Guatemala, Nicaragua, and El Salvador.⁸ Furthermore, the international reference CIF price for oral contraceptives ranges between U.S.\$0.22 and U.S.\$0.26 per cycle, a full 33–44 percent less than the CIF price obtained by Honduras’s public sector.

For a more realistic comparison of the prices that consumers face for oral contraceptives, it is necessary to compare the public sector total direct cost (U.S.\$0.39), as negotiated by UNDP, with the corresponding total direct costs from the NGO and commercial sectors. Because the government of Honduras does not charge a VAT on contraceptive commodities,⁹ then transport and other margins are the remaining price components of interest. In figure 2, the transportation costs for the NGO sector are included in the label, “All other margins & costs,” which also includes administrative costs, distributor margin, and costs associated with repackaging commodities. Thus, the total direct average cost of a cycle of oral contraceptives for the NGO sector is U.S.\$1.61, approximately 293 percent greater than the public sector total direct cost (U.S.\$0.41). Additionally, the cost of the commodity (i.e., CIF) constitutes just 19 percent of the total direct cost for the NGO sector, with the remaining 81 percent attributed to all other margins and costs. Meanwhile, in the public sector the cost of the commodity makes up 95 percent of the total direct cost. The public sector total direct cost (U.S.\$0.41) is also approximately 93 percent less than the average retail price per cycle (U.S.\$5.69) observed in private pharmacies from Tegucigalpa.

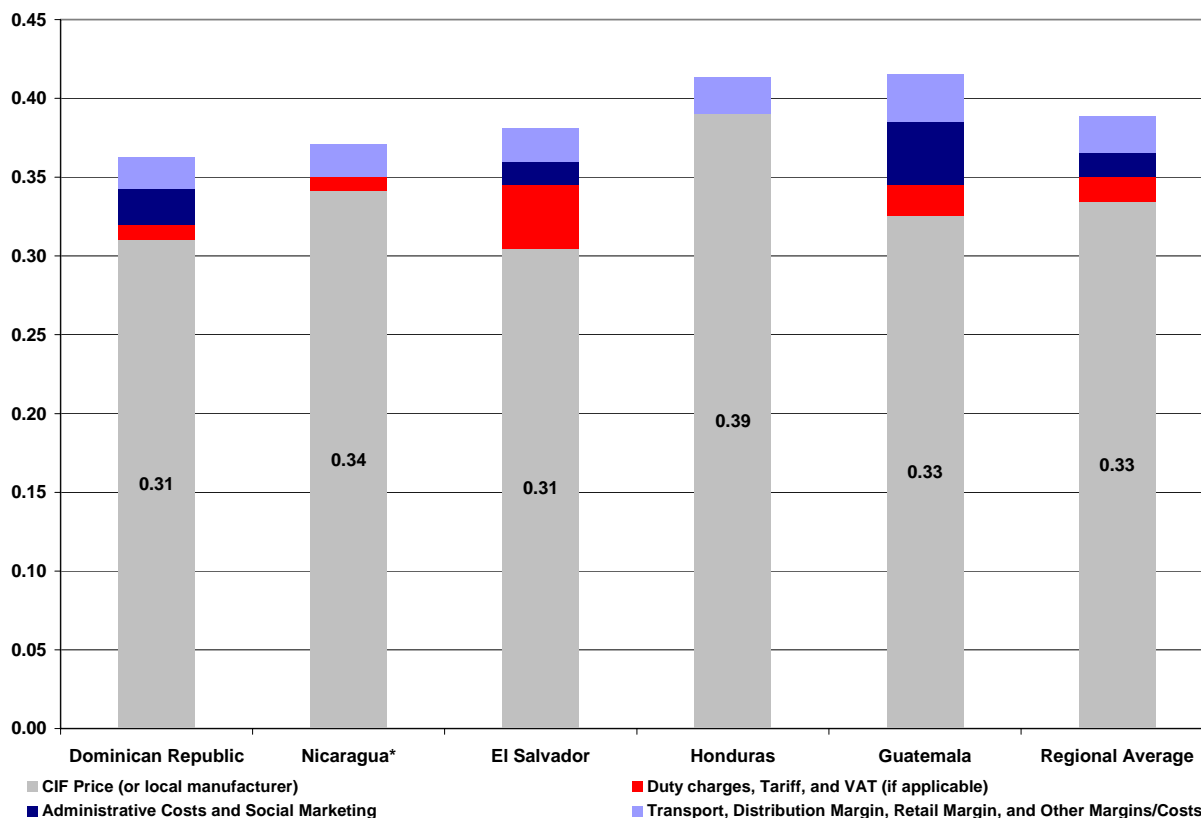
REGIONAL PRICE COMPARISONS

Although oral contraceptives are the only method to be analyzed for Honduras in this study, additional value can be gained from looking at the total direct cost data when they are compared across the countries in the Central America and Caribbean region studied and for all three sectors, as presented in figures 3, 4, and 5, below (Sarley et al. 2006).

⁸ The NGO sector in the Dominican Republic is, in fact, the only one in the region that obtained a CIF that was substantially higher than its counterpart organizations in the other countries.

⁹ The exception to this policy is condoms, which are subject to the standard 12 percent VAT on all commodities, and which were not included here.

Figure 3: Regional Comparison of Price Structure for Oral Contraceptives (Public Sector)



Source: Data collected by JSI. Data are 2005 U.S. dollars.

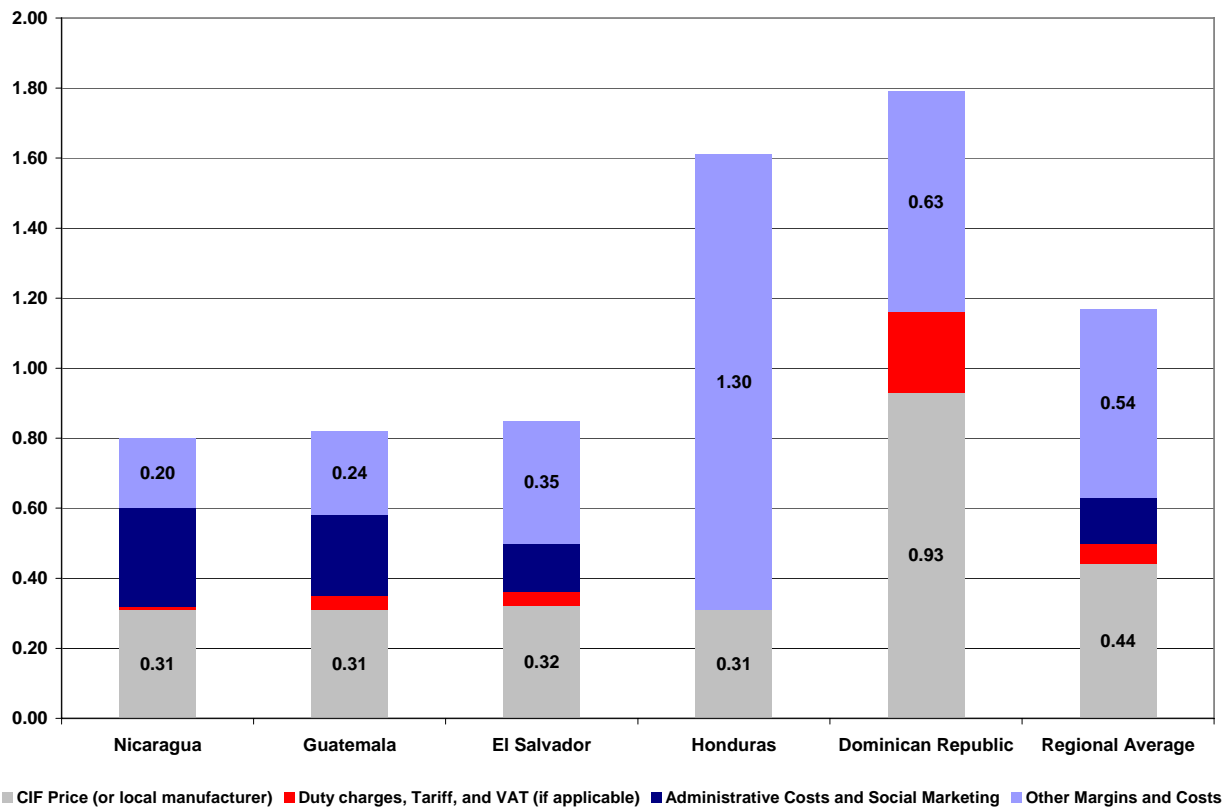
* At the time of this study, the Nicaragua public sector was the only one in the region that received only donated contraceptives and had not yet procured its own supplies.

In figure 3 it is evident that the total direct cost for oral contraceptives in the Honduras public sector is comparable to those found in all of the other countries studied in the region. Two factors set the Honduras public sector apart from its counterparts in these other countries, though. First, Honduras has the highest public sector CIF price of the countries in the region, and it is the only country to use UNDP, as opposed to UNFPA, as a procurement agent.¹⁰ Because UNFPA is the lead UN agency for family planning and contraceptive procurement, the difference in prices between the two agencies shows that UNFPA has access to lower international prices than does UNDP. As discussed in the previous section, this difference in procurement capacities between the two agencies results in the Honduras public sector paying approximately 18 percent more for oral contraceptives than do its counterparts in nearby countries, such as Guatemala and El Salvador, which procure through UNFPA. At the expiration of the agreement with UNDP, a potential future agreement with UNFPA as a procurement agent could then lead to an overall decrease in the cost of oral contraceptives in Honduras, contingent upon all other costs remaining constant.

The second unique aspect about Honduras that sets it apart from the other countries in figure 3 is that it is the only country that does not charge a VAT on contraceptives. Maintaining this policy would clearly play a large role in keeping the cost of oral contraceptives in the public sector low.

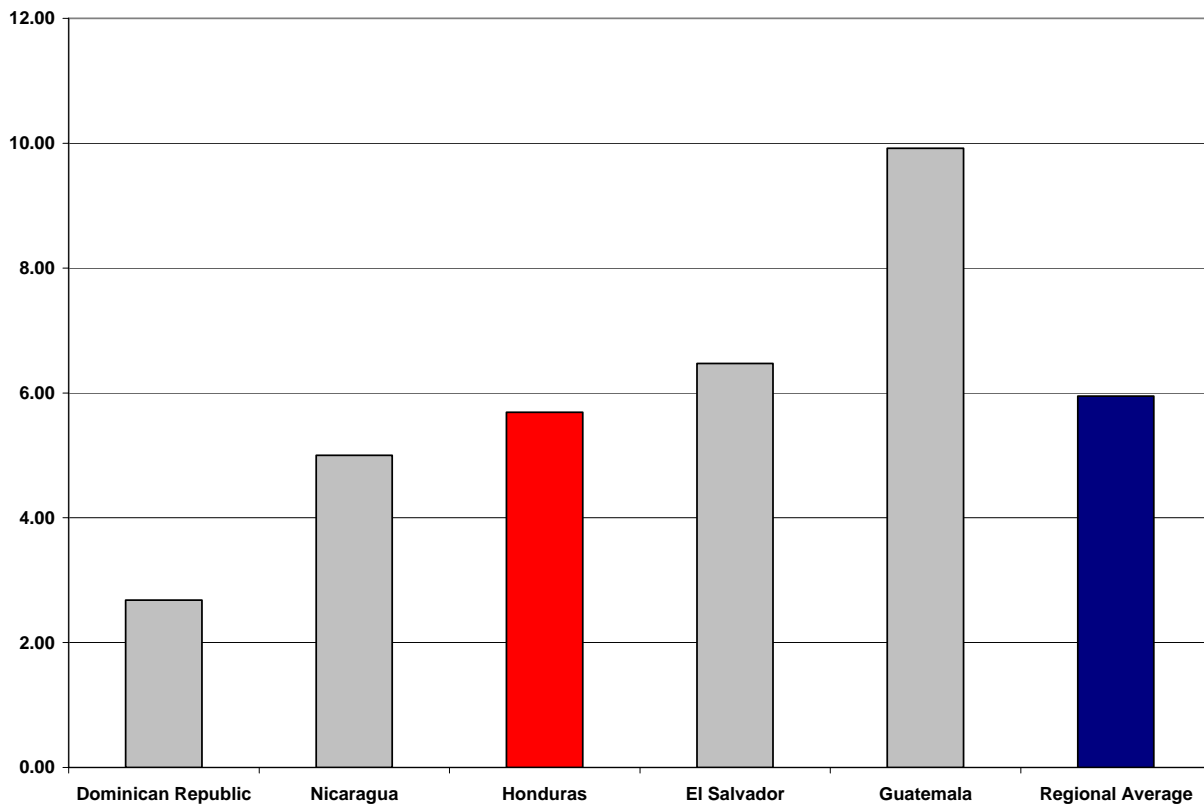
¹⁰ See the caveat for Nicaragua at the foot of figure 3.

Figure 4: Regional Comparison of Price Structure for Oral Contraceptives (NGO Sector)



The NGO sector in Honduras has the second highest total direct cost for oral contraceptives in the region (U.S.\$1.61 per cycle), a full 89 percent higher than the country with the next lowest total direct cost (El Salvador at U.S.\$0.85 per cycle), and surpassed only by the Dominican Republic (U.S.\$1.79 per cycle). The product compared here for the Dominican Republic is Microlut, a progestin-only pill, while the products analyzed from the other countries are combined oral contraceptives. Comparing prices between the two pill types is still valid, however, because international reference prices between their generic counterparts are comparable. A possible reason why oral contraceptive prices in the Dominican Republic NGO sector are so much higher might be that Schering, the producer of Microlut, is attempting to extract higher profit margins by using different marketing tactics for this particular product. The other distinguishing aspects about figure 4 are that while the Honduras NGO sector faces the lowest CIF price in the region, alongside Nicaragua and Guatemala (U.S.\$0.31 per cycle), its “Other Margins and Costs”(U.S.\$1.30) are approximately 100 percent greater than those of the next lowest country, the Dominican Republic (U.S.\$0.63). It appears that for prices to decrease in the NGO sector, and thus benefit consumers, NGOs must investigate different strategies to decrease their costs and pass those savings on to their clients.

Figure 5: Regional Comparison of Total Direct Cost for Oral Contraceptives (Commercial Sector)



Finally, figure 5 shows that while the Honduran private sector offers oral contraceptives at a total direct cost of U.S.\$5.69 per cycle, almost 115 percent more than the minimum total direct cost found in the region (Dominican Republic), its prices are comparable to the regional average and lower than prices found in two other nearby countries (El Salvador and Guatemala).

OPTIONS AND NEXT STEPS

Honduras has already taken some important steps to improve the efficiency and value of its contraceptive procurements. Key elements include the following:

- Progressively securing yearly increases in the national budget for contraceptives.
- Establishing an agreement with UNDP to gain access to international suppliers, obtain better prices for contraceptive methods, and save financial resources.
- Establishing a well-functioning contraceptive security committee that contributes to a favorable environment to achieve more efficient and effective FP methods. This committee has helped to improve collaboration and ownership among stakeholders to make optimum use of resources.
- Enacting the Government Contracting Law (2001) to improve transparency in contracting.
- Establishing an EDL within the SOH that includes hormonal contraceptives, as well as condoms and IUDs.
- Exempting contraceptive commodities brought into Honduras from tariffs. Also, while all commodities are subject to a 12 percent VAT, donations and public acquisitions are exempt from this tax, which allows larger volumes of contraceptives to be procured with the same level of funding.

Nonetheless there are several issues that still need to be addressed:

- The procurement capacity in the public sector needs to be strengthened, in particular its ability to ensure an efficient procurement process. The logistics associated with providing contraceptive commodities (e.g., warehousing, transport, information system support) must also be further developed.
- Funding is not sufficient to meet the contraceptive needs of the population without the contribution of donors.
- There is no institutionalized budget line for contraceptives.

We address these issues and others and make recommendations for improving procurement options below.

OPTIONS TO CONSIDER

INVESTIGATE AN AGREEMENT WITH UNFPA FOR THE PROCUREMENT OF CONTRACEPTIVES

Since the arrangement with UNDP concluded in December 2005, it would be advantageous for the government of Honduras to negotiate an agreement with UNFPA for the purchase of contraceptive commodities. Unlike UNDP, UNFPA is the lead United Nations agency dealing with family planning and is a specialized procurement agent, with access to prices from prequalified international suppliers that may not have been as accessible to UNDP. The biggest challenge associated with this option is that the SOH would need to continue transporting commodities to the service delivery point.

ESTABLISH A PROTECTED BUDGET LINE ITEM FOR CONTRACEPTIVE COMMODITIES

Although the government of Honduras assigns funding for contraceptive purchases on a quarterly basis, there is no protected budget line item for contraceptive commodities. The availability of public sector resources for contraceptive procurement must be negotiated and, as such, is left to the discretion of government officials. Similar to other countries in LAC, Honduras does not give family planning a legally protected status that would guarantee full disbursement of required funding each year. Therefore, cash flow and treasury management constraints, as well as competing health demands, can undermine the ability of the Ministry of Finance to make all the necessary funds available. Establishing a legally protected line item for contraceptives in Honduras can provide some key advantages: it increases the probability that the government of Honduras will transfer the entire amount of resources budgeted for the purchase of contraceptives in any given year; it prevents funding earmarked for contraceptives from being used for other health issues and essential medicines; and it can increase the cost-effectiveness of the procurement process because transfers could occur as yearly rather than as quarterly allocations. Under these circumstances, the government of Honduras can make one large annual bulk purchase of contraceptives, thereby facilitating greater economies of scale and substantial savings to the government.

ENGAGE IN INFORMED PURCHASING BASED ON PRICE COMPARISONS

Until recently, the SOH has procured contraceptives through UNDP at favorable prices. As such, UNDP has provided a short-term solution as the government of Honduras tries to expand and diversify its procurement options for the future. Prices are one of the most important factors to consider in identifying new procurement options. Securing the best possible price for good-quality contraceptives is vital for achieving contraceptive security in the absence of donor funding. Therefore, comparative information about prices of both brand name products and generics offered by different local and international suppliers is critical for decision makers engaged in identifying contraceptive procurement options.

Box 1. Informed buying

Informed buying refers to the capacity of the public sector to take advantage of all the procurement alternatives available to ensure that high quality contraceptives are available to the population at the best possible price.

Pharmaceutical companies offer different prices for the same product to different countries. As a result, countries with better economic conditions may pay more for a given product. Exchanging price information with other countries will provide the government of Honduras with information about such discrepancies, thereby giving it stronger negotiating power with local representatives of international companies. Sharing such information with other countries may also inform the government of Honduras about new procurement sources or mechanisms that other countries are using and that may be options for Honduras in the future.

Box 2. Peru—the advantage of price comparisons

In Peru, the Ministry of Health's decision to purchase ethynil estradiol from ESKE/FamyCare was based on a price study showing that the new local supplier could offer a lower price for the product than could UNFPA. This experience demonstrates the benefit of price comparisons to identify the best possible price for a given contraceptive method. Such price comparisons need to be updated regularly as new suppliers enter the market, and they need to include both national and international players.

Price information for a variety of methods within and across countries is available in USAID's *Options for Contraceptive Procurement: Lessons Learned from Latin America and the Caribbean* (Sarley, et al. 2006). This report can serve as an initial reference guide for decision makers in Honduras as they explore opportunities to improve procurement options and make them more efficient.

While a price comparison tool would come with plenty of benefits, it is important to ensure that the tool is used primarily for informing decision makers in the region, as opposed to a means by which the private sector can collude and extract higher profits from targeted markets.

EXAMINE THE SCOPE FOR ADDRESSING RESTRICTIVE REGULATORY ENVIRONMENTS

At the present time, contraceptive commodities brought into Honduras are exempt from tariffs, and donations and public acquisitions are also exempt from VAT. These are important steps that will help ensure efficient procurement of contraceptives in the public sector in the future. It will be important nonetheless to examine any other regulations that might limit the government's access to a range of suppliers, cause bureaucratic delays at any point in the procurement process, or impact the price of commodities. These restrictions increase the financial burden on the government, since it does not charge for contraceptives and does not directly pass on any of the cost burden to consumers. It will be useful, then, to evaluate whether there is any scope to reform or eliminate such restrictions.

TAKE ADVANTAGE OF REGIONAL INITIATIVES

Regional integration initiatives, such as CAFTA, may provide important opportunities for the government of Honduras as it seeks to improve procurement efficiency, expand contraceptive procurement options, and obtain better prices. Box 3 presents some examples of regional harmonization that have facilitated drug registration and inspection processes in Central and South America, often a major obstacle to streamlined, efficient procurement. The government of Honduras should explore similar possibilities with other countries in Central America and the Caribbean. In the longer term, the government of Honduras could also look into options for regionally pooled procurement or regional price negotiations (such as is done in the case of ARVs in the Andean countries of South America) and the use of regional laboratory networks for quality assurance. Such regional initiatives have the benefits of significant cost savings through economies of scale and simplified bioequivalence testing processes.

Box 3. Some examples of regional harmonization

- Central American countries have harmonized their *registro sanitario* by establishing common pharmaceutical norms and technical criteria. Hence, a drug registry in one country can be officially recognized by any or all other countries in the region, obviating the need for a drug to be registered multiple times in different countries.
- Both MERCOSUR and Central American countries have established common standards for Good Manufacturing Practices in the pharmaceutical industry and harmonized inspection procedures.
- The negotiation of low antiretroviral (ARV) prices by 10 Andean countries is an example of how a group of countries successfully negotiated with pharmaceutical companies to obtain regulated prices for ARVs (economies of scale).

STRENGTHEN QUALITY CONTROL MECHANISMS

Quality control can be addressed through the harmonization of national EDLs, the use of manufacturers prequalified by internationally recognized organizations, and the use of regional testing laboratories for the random testing of manufacturing lots. If the government does not have the capacity to guarantee effective independent testing of contraceptives, it should conduct limited biddings, inviting only manufacturers that are prequalified by UNFPA, the World Health Organization, or the United Nations Children Fund.

IMPLEMENT TRANSPARENCY MEASURES TO ENSURE GOOD GOVERNANCE THROUGHOUT THE PROCUREMENT PROCESS

Ensuring transparency and good governance around contraceptive and pharmaceutical procurement is a challenge, and lack of these elements is often a barrier to efficient procurement. Strategies to address transparency and governance need to consider several elements simultaneously:

- Ensuring the clear definition and application of procurement procedures, ideally following internationally accepted norms, such as those applied by the World Bank.
- Improving information flows. Publishing procurement information on the Internet, as in Chile and Guatemala, and ensuring that procurement decisions can stand up to public scrutiny are important elements. Publishing prices paid and comparing these published prices across the region would also help.
- Defining independence in procurement decision making without political interference can help improve transparency as long as accountability is clearly defined and public oversight maintained. Within this context, the example of Chile's autonomous procurement agency, CENABAST, may be instructive to the government of Honduras (see box 4).

Box 4. CENABAST in Chile

CENABAST is an autonomous procurement agency that manages the procurement of contraceptives for Chile's entire public sector, with decision making and planning performed at the local level. CENABAST can purchase contraceptives and essential drugs from local representatives of international companies, from local producers and, occasionally, directly in the international market.

CENABAST distributes contraceptive methods to the 26 regional health authorities, which in turn distribute them to public facilities. Because of its autonomy, CENABAST's operations do not rely on political conditions.

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