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CONTRACEPTIVE PROCUREMENT IN PERU: DIVERSIFYING SUPPLIERS

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EXECUTIVE SUMMARY

This report describes how the Government of Peru was successful in diversifying its procurement options and mechanisms for contraceptive commodities. It shows the progress made between 1999, when Peru began purchasing contraceptive supplies with public funds, and mid-2007, when important changes were made in procurement channels. Today, the Peruvian government procures contraceptives from multiple national and international suppliers and is able to negotiate for favorable prices and other terms.

In 1999, the United States Agency for International Development began phasing out its contraceptive donations to Peru, although it continued to support provision of technical assistance for the contraceptive logistics system through 2006. Given the market environment in Peru in 1999, the Peruvian Ministry of Health (MINSA) decided that the United Nations Population Fund (UNFPA) was the best channel for procurement due to its low prices and guarantee of high quality.

However, in 2004, MINSA started to search for new contraceptive suppliers, partly to seek lower prices and partly to address problems related to UNFPA procurement, such as non-payment of taxes and delays in the delivery of products and accounting statements. With USAID support, MINSA conducted a market study that revealed new suppliers had entered the local market, particularly large international manufacturers of generic brands. In addition to lower prices, these local suppliers offered new advantages such as delivery to multiple areas of the country, guaranteed delivery, and the possibility of levying penalties for non-compliance.

Today, the Peruvian government follows a process of “informed buying” of contraceptives. This process requires the continuous systemization of contraceptive prices and costs, with data analysis informing the decisionmaking. MINSA built the capacity of government officials responsible for procurement and empowered them to negotiate better terms and conditions for agreements with suppliers, including multilateral agencies such as UNFPA. Purchasing agreements gradually increased the supplier’s responsibility to improve its performance.

Several developments contributed to the shift in procurement processes:

- The creation of MINSA’s Program for the Administration of Management Agreements established a mechanism for buying medicines and supplies for MINSA’s health facilities and for seeking a more efficient use of resources.
- Policy changes that opened the national market—investment promotion that encouraged other manufacturers and importers to enter the pharmaceutical market—stimulated competition and drove down the costs of contraceptives.
- The decision at the highest level of government to strengthen the family planning program provided the funds to purchase contraceptives (although funds were not always adequate to avoid stockouts). Contraceptives are included in the list of strategic medicines and supplies that the government is obligated to provide. While contraceptives still do not have a protected budget line, the government considers them a priority.
- Civil society organizations monitored the provision of contraceptive supplies and demanded contraceptive sustainability.
- MINSA continued some logistics administration practices that had been supported by USAID in previous years, such as recording contraceptive use in health facilities in order to generate data needed to project future commodity needs.
- The articulation of family planning policies with other services and other health programs served to ensure the continued support of family planning services under the decentralization process.

Peru's experience demonstrates the importance of evaluating contraceptive procurement conditions and exploring new purchasing options to ultimately improve efficiency and quality and the timely delivery of supplies to health facilities.

Other countries seeking to improve their contraceptive procurement systems can learn from Peru's experience. The key tasks are to

- Conduct an analysis of the local market for contraceptive commodities;
- Continue to monitor contraceptive costs and prices;
- Ensure that the Ministry of Health has a well-managed procurement process for medicines and medical supplies;
- Build the capacity of government officials to negotiate favorable terms and conditions with local and external suppliers; and
- Encourage all major family planning providers—public and private—to pool their purchases of contraceptives in order to negotiate a lower per-unit price.

Procurement specialists need to continually monitor market conditions, as many international pharmaceutical companies are entering new markets with contraceptive products. Some countries are instituting regulatory reforms that open the marketplace and enforce quality standards. Procurement is also closely related to changes in government policies and the social context. These changes can open up new possibilities for contraceptive procurement.

The process in Peru benefited greatly from advocacy by civil society groups. Local family planning supporters can play an important role in monitoring government funding allocations and calling attention to the effects of budget cuts that may result in commodity shortages and/or cutbacks in other family planning program areas.

ABBREVIATIONS

AIDS	acquired immune deficiency syndrome
DARP	Annual Requirements and Procedures Document
DGSP	General Directorate for Health of the People
DIGEMID	General Directorate for Medicines, Supplies, and Drugs
HIV	human immunodeficiency virus
IUD	intrauterine device
MINSA	Ministry of Health
MOU	memorandum of understanding
NGO	nongovernmental organization
PAAG	Program for the Administration of Management Agreements
PAHO	Pan American Health Organization
SISMED	Integrated System for the Provision of Medicines, Ministry of Health
TA	technical assistance
UNFPA	United Nations Population Fund
USAID	United States Agency for International Development
WHO	World Health Organization

I. INTRODUCTION

This report describes how the Government of Peru was successful in diversifying its procurement options and mechanisms in order to obtain the best combination of prices for contraceptive commodities. It shows the progress made between 1999, when Peru began purchasing contraceptive supplies with public funds, and mid-2007, when important changes were made in procurement channels. Today, the Peruvian government procures contraceptives from multiple national and international suppliers and is able to negotiate for favorable prices and other terms.

The information presented is drawn from (1) a review of documents about contraceptive procurement in Peru and other countries and (2) interviews with 15 government officials and private sector leaders who were involved in setting up and amending the new procurement processes (see Appendix A for a list of the interviewees). This information was collected in order to update the previous analysis done by the USAID | DELIVER and Health Policy Initiative projects (Dayaratna et al., 2006).

Most Latin American countries have two options for purchasing contraceptive supplies: (1) to buy them from local market suppliers through national bids or other procurement systems within the context of national legislation that governs state procurement and contracts; and (2) to buy them from the United Nations Population Fund (UNFPA), which generally offers lower prices than local suppliers. Many governments have signed memoranda of understanding (MOUs) with UNFPA that contain contraceptive sales provisions as part of UNFPA's cooperation program. Thus, UNFPA has had a nearly exclusive market on contraceptive sales to governments.

In 1999, the United States Agency for International Development (USAID) began phasing out its contraceptive donations to Peru, leaving the government to provide public funds for contraceptive procurement (Dayaratna et al., 2006). However, USAID continued to support family planning logistics management through 2006. USAID funded PRISMA, a Peruvian nongovernmental organization (NGO), to provide technical assistance and other logistics management services, PRISMA drafted proposals for improving public sector warehouses and developed information tools for planning, programming, and monitoring the contraceptive supply. In recent years, UNFPA contracted PRISMA to store supplies procured from the agency in MINSA's health facilities. By the time PRISMA's funding from USAID ended in December 2006, UNFPA was procuring injectables for the ministry and the pills purchased by the ministry were directly distributed to distribution points nationwide. UNFPA was already purchasing warehousing services from PRISMA and continued to do so for the commodities purchased for the country and the ones purchased by MINSA. Among MINSA staff, the expense involved in storage and transportation was not sufficiently understood and should have been included the final price of the supplies.

MINSA purchased contraceptives from UNFPA in its initial procurement in 1999, because the ministry could use its existing agreement with UNFPA, thus simplifying the contracting process. Also, UNFPA offered advantages over local suppliers, such as lower prices and quality control. By 2005, Peru had shifted its contraceptive procurement processes, procuring injectable medroxyprogesterone and condoms from UNFPA and procuring the combined oral pill from local suppliers. In 2007, Peru also began procuring intrauterine devices through UNFPA. Several factors contributed to this shift in processes, including the government's desire to obtain the lowest prices available. This report details these factors and, in particular, the stakeholders involved.

Peru's experience is instructive for other countries graduating from USAID contraceptive donations; although other countries may not have the advantage of favorable and convenient local contraceptive markets for public procurement.

II. BACKGROUND

When countries in Latin America began using public funds to buy contraceptives, some made purchases in the local market at extremely high prices. Often this practice derived from laws and policies that favored local manufacturers and/or distributors. It is also possible that decisionmakers either did not know that governments could procure contraceptives through UNFPA or considered the process of working with UNFPA to be too complicated. This was not the situation in Peru: interviews with people who played a leading role in the Peruvian process revealed that they were aware of UNFPA as an efficient option for contraceptive procurement. In some countries, the formal procedures for establishing an MOU with UNFPA can take several years. During this time, the countries must procure from the local suppliers in accordance with national legislation. However, other United Nations agencies use different procurement processes. For example, the Pan American Health Organization (PAHO) uses a revolving credit fund to procure vaccines.

The overall transition from USAID commodity donations to the full purchase by MINSA extended from 1996 through 2004. In 1996, MINSA authorities decided to purchase commodities for the family planning national program with public funds. That year, resources were planned for the 1997 budget, but the change was not implemented because the only alternative source available was the expensive, private commercial sector. In 1997 the Peruvian government developed the framework to allow it to use public funds to purchase commodities through the UN system. In 1998, the government issued the Supreme Resolution, which allowed the planning of funds for contraceptive commodities in the National Budget for 1999. This enabled MINSA to purchase injectables and condoms beginning in 1999. From 1999 to 2004, USAID continued to donate the combined oral pill. In 2005, 2006, and 2007, the ministry purchased the combined oral pill from local suppliers under the National Procurement of Medicines as part of the purchase of all pharmaceuticals. During 1999–2006, USAID continued to provide technical assistance to MINSA on contraceptive logistics management through PRISMA.

Some interviewees pointed out that given the views on family planning in some conservative sectors, it was not prudent to make the purchase of contraceptives “too” visible. Procurement through the United Nations lent a type of legitimacy and formality to the process. Thus, the first purchase of contraceptives through UNFPA was made solely under the agency's cooperation program with the government. Later, an MOU was signed with UNFPA, but not before the government obtained financial support from the United Kingdom's Department for International Development to purchase contraceptives.

To fully understand the experience in Peru, these facts must be placed in the appropriate context to shed light on the processes that influenced decisions by MINSA officials. Several factors influenced the decisions and procurement processes by government agencies in Peru:

- **Creation of modern administrative systems.** The Integrated System for the Provision of Medicines (SISMED) was created in 2002 to improve quality control and management of all pharmaceuticals provided in public facilities. It was also set up to help implement the National Law of Procurement and Contracts, which obliges agencies to make cooperative

purchases,¹ while at the same time explore other purchasing mechanisms such as the “reverse auction.”² Key agencies, such as MINSA’s Program for the Administration of Management Agreements (PAAG), were created in the late 1990s. Starting in 1997, PAAG procured medicines and supplies for MINSA health facilities and searched for a more efficient use of resources, including the national purchase for all pharmaceuticals needed in the country, which started in 2003. In 2004, a plan for procuring the oral combined pill in 2005 was included in the National Procurement of Medicines; with technical assistance provided by USAID through PRISMA, the plan was successfully implemented.

- **Opening of the national market.** Investment promotion encouraged other manufacturers and importers to enter the pharmaceutical market; this stimulated competition and drove down prices.
- **High-level support for family planning.** The government of Alberto Fujimori (1995–2001) decided to strengthen the family planning program and allocated funding to improve access to a variety of contraceptive methods.
- **Shift to public-sector provision of FP services.** In 1995, MINSA decided it would provide FP services free of charge. The public sector’s share of the FP market rose from 49 percent in 1992 to 79 percent in 2000, while the commercial sector’s market share fell from 44 percent in 1992 to 17 percent in 2000 (Taylor et al., 2004).
- **Citizen engagement.** Civil society organizations actively participated in the family planning program by monitoring the provision of contraceptive supplies and demanding contraceptive sustainability.

While other countries may have different circumstances, the way Peru was able to identify and implement alternative procurement options is instructive. Many of its procedures—such as improved forecasting, analysis of contraceptive prices and costs, and strengthening of the negotiating power of health officials—can be applied in diverse settings.

III. PROCUREMENT THROUGH UNFPA

Advantages of Procuring Through UNFPA

Prices

Many countries have saved significant amounts of money by procuring contraceptives through UNFPA (Sarley et al., 2006). In El Salvador, the government saved about US\$2.8 million in the first year it purchased contraceptives through UNFPA rather than the local market. Local suppliers in El Salvador asked the Minister of Health to support local industry, but the local prices were so much higher that the MOH continued to procure contraceptives from UNFPA. For many years, Peru also saved money by procuring through UNFPA. By negotiating large volume procurements with many suppliers, the agency can keep prices at the same level for long periods. It can also offer countries lower prices for products that do not comply with secondary regulations, such as required inserts, the phrase “not for sale” written on the items, or labels written in English.

¹ Government agencies must make collective purchases when they buy common technically-defined goods. In the case of medicines, each agency must have a standardized file card that allows the grouping of requirements of different government institutions.

² The “reverse auction” or “reduced auction” is a new modality that the Peruvian government uses to purchase standardized goods, including medicines and medical supplies. In a public ceremony, after gathering the suppliers that meet the product requirements, the public purchasing agency can receive cost proposals, positioning itself to select the least expensive.

Quality

UNFPA guarantees the quality of the products it provides, as well as the credentials of manufacturers. The agency ensures that its products have the proper certifications and requirements and, in the case of manufacturers, that they follow the standards established by the World Health Organization (WHO) (see Table 1).

Table 1. UNFPA's Criteria for Contraceptive Quality

Product	Manufacturer	General
<ul style="list-style-type: none">• Listed in the Pharmacopoeia of Great Britain or the United States• Certificate of analysis• Certificate of compliance• Authorization for sale in the country of origin• Registration certificate in the destination country• Compliance with WHO specifications• At least 80 percent of shelf-life remaining• Label that includes the date of manufacture, expiration date, and lot number• Insert with instructions for use	<ul style="list-style-type: none">• Inspected and certified by the WHO• Good Manufacturing Practices and International Standards Organization Certificate (in the last two years)• Certified by the national authority• Plant authorized to manufacture the product	<ul style="list-style-type: none">• Independent sampling by a monitoring company• International quality control in a laboratory qualified by the WHO in a third country

Source: Based on a PowerPoint presentation made by David Smith, Chief of Procurement, UNFPA Procurement Services, to the Peru Contraceptive Security Committee in 2004.

Some MINSA officials preferred to continue working with UNFPA, as the agency guaranteed inexpensive high-quality products and their respective government agencies saved valuable time and energy in terms of purchasing procedures. In addition, buying through a United Nations agency guaranteed transparency (avoiding corruption) and was considered synonymous with efficiency. Another argument was that the UNFPA agreement compelled the government to make enough money available to purchase the necessary contraceptives.

However, problems with procuring through UNFPA began to accumulate. Government officials also began to look for more efficient procurement alternatives by exploring the local market, in which new suppliers had begun to appear.

Disadvantages of Procuring Through UNFPA

Procurement fee

UNFPA charges a 5 percent procurement fee (referred to as an administrative cost) on the value of the contraceptives purchased. The fee is comparable to the 3 percent that PAHO charges for vaccine procurement, but UNFPA does not capitalize funds for the country, as PAHO does with its revolving fund for vaccines. The agency's fee might have been a factor that compelled MINSA officials (particularly those in charge of procurement) to look for other options. For some ministry decisionmakers, the fee was one of the most important factors because it clearly influenced the cost of medicines.

Need for advance planning

In MINSA's experience, budget allocations had to be planned a year in advance in order to have dollars in public funds in the national budget to pay UNFPA up front. Also, agreements had to be set up to establish the types of currency acceptable under the regulations, and the budget planning had to include the payment of fees for customs, transportation, and other expenses.

Payment schedules

Countries procuring commodities from UNFPA must make a deposit when they place their orders and then make quarterly payments. The payment schedule can pose difficulties for some countries, although it did not appear to affect Peru's procurement processes.

Delays in the delivery of orders

Government officials recognize that some delays might have been caused on their end. Nevertheless, this did not completely explain the delays, which both parties recognized. One example reported by local stakeholders was a 10-month delay (from the agreed-on date) in the delivery of condoms in 2006. Local stakeholders also reported cases of delays of up to 20 months. The delays not only resulted in shortages, dissatisfied male and female users, and barriers to improved family planning but also political problems generated by civil society complaints to the government about the lack of timely distribution of contraceptives.

To a certain extent, UNFPA has established delivery times for its products, based on its experience. Delivery times vary by product (see Table 2). The delays experienced in Peru, however, exceeded the UNFPA's projected timeframes. The agency claims that agreed-on delivery times "can vary significantly," given market conditions, the time of year, delays in shipments, and the impounding of products.

Table 2. Example of Projected Product Delivery Times

Product	Delivery time
Condoms	24 weeks
Injectables	10 weeks
Pills	12–20 weeks
Intrauterine devices	16 weeks

Source: Based on a PowerPoint presentation made by David Smith, Chief of Procurement, UNFPA Procurement Services, to the Peru Contraceptive Security Committee in 2004.

Delays in the delivery of account statements to the country

Countries that procure through UNFPA pay in advance for the orders they place. After delivery, UNFPA must provide the government with an account statement. The government ends up with positive account balances because the prices in procurement agreements and in UNFPA's quotations are the "maximum procurement prices" (Peruvian Ministry of Health, 2005). If the final prices are lower than anticipated, the government ends up with a positive balance in its account. For some years, especially during 2002–2004, government purchasers did not know their balances and could not present detailed expenses and documentation to oversight departments. As account statements are tied to the completion of deliveries, the delays in delivery thus create delays in providing account statements. After 2004, the Peru representative of UNFPA decided to "catch up" on these statements, and the situation has improved.

Products that are not on the Drug Registry

Peruvian legislation stipulates that all medicines and medical supplies must be on the Drug Registry or be granted a commercialization authorization by the General Directorate of Medicines, Supplies, and Drugs (DIGEMID). The producer, importer, or authorized distributor has to manage the registration. Following some cases in which products purchased by UNFPA were not registered in Peru, the agency and MINSA established a “certification of drug registry,” which was then frequently used. This meant that the product was registered by an entity that was not the one actually supplying the product through UNFPA. For some products not on the country’s Drug Registry, a specific rule was established so that MINSA’s General Directorate for the People’s Health (DGSP) could create a drug authorization.

Tax exemption

Until 2004, contraceptives purchased through UNFPA were exempt from import tariffs and general sales taxes. Local commercial suppliers who were not exempt could have perceived this practice as unfair. The exemption was estimated to total up to 33 percent of the product’s value (POLICY Project, unpublished). UNFPA followed the United Nations rules, which exempted them from these taxes.³ In 2004, UNFPA’s prices were adjusted, taking into account all costs, including the fee percentage and taxes, thus making it possible to compare UNFPA’s prices with those of local and other bidders. Since 2005, taxes must be paid on contraceptives procured through UNFPA. Peru has special legislation on exempting taxes on medicines, including drugs for HIV/AIDS, tuberculosis, and cancer. Contraceptives are not exempt.

Protocols for quality-control testing

MINSA must receive the protocols for contraceptive supplies in order to proceed with local quality-control tests. In its first years dealing with UNFPA, MINSA did not receive the protocols in a timely manner and this delayed the distribution of supplies. The procedure was regulated under the Annual Requirements and Procedures Document (DARP); and a timeframe was established for submitting protocols to MINSA. The DARP also established that UNFPA has to pay for the necessary analyses when quality is a problem.

Delivery of products to a single point

UNFPA delivers supplies to MINSA’s central warehouse. Local suppliers, on the other hand, deliver products to the 34 health directorates or to the districts that are named in the contracts. This is an important factor in favor of local procurement, because not only are the contraceptives delivered closer to service delivery points, but errors can also be addressed and responded to “immediately.” Contracts with local suppliers also establish sanctions or penalties in cases of non-compliance with certain clauses in the contracts, including delivery delays.

Improving the Performance of MINSA and UNFPA

The factors mentioned above caused many debates between MINSA and UNFPA on new ways to improve the performance of both parties. MINSA, through PAAG and DIGEMID, decided that the document used for ordering contraceptives from UNFPA should be more comprehensive than the one used up to 2003 (a simple document, with no major specifications and conditions). Thus, in 2004, the first DARP was created; it has become more and more comprehensive each year—including quality conditions, delivery timeframes, and so on (see Table 3). A technical committee

³ Section 7 of the Convention on the Privileges and Immunities of the United Nations states, inter alia, that the UNFPA, as a subsidiary agency, is exempt from all direct taxes and is exempt from all customs duties in respect to articles imported or exported for its official use.

for monitoring the agreement between UNFPA and the Peruvian government was also created.⁴ Despite the insistence of PAAG and DIGEMID officials at the time, penalties for delayed deliveries are not included in the DARP; one argument was that UNFPA is not considered a commercial supplier and thus penalties of this type cannot be applied to the agency.

Table 3. Evolution of the DARP

Topic	DARP 2004	DARP 2005	DARP 2006
Delivery deadline	Does not have delivery deadlines	Includes different deadlines for different products Defines delivery terms (certifications, guides, report results) Defines actions for cases of non-compliance	Includes general delivery rules and a table with delivery deadlines by product; the dates are calculated beginning with the date of payment delivery to UNFPA (condoms, medroxy-progesterone, syringes, Copper-T, levonorgestrel 0.75) Defines delivery terms (certifications, guides, compliance analysis, etc.)
Expiration date	Effective for a minimum of two years after the product enters the country	Minimum expiration date of 24 months	Expiration date extended to 36 months after the product enters the country
Qualification of the supplier	Manufacturer according to Good Manufacturing Practices For every product	Manufacturer according to Good Manufacturing Practices For every product	Manufacturer according to Good Manufacturing Practices For every product
Quality Standards	“Critical” control tests for each requested product Follows the Drug Registry’s protocols for analysis	“Critical” control tests for each requested product Follows the Drug Registry’s protocols for analysis	“Critical” control tests for each requested product Follows the Drug Registry’s protocols for analysis

⁴ The committee includes the General Directorate for the Health of the People, DIGEMID, PAAG, and UNFPA.

<p>National quality control</p>	<p>MINSA takes control of local quality</p> <p>UNFPA delivers the protocols, standards, and analytical methodology in a timely manner</p>	<p>The products must pass quality control tests in the country before the warehouse accepts receipt</p> <p>UNFPA must give 45 days' advance notice of the delivery of the product in order to coordinate quality control</p> <p>Specify the official quality-control laboratories</p> <p>UNFPA assumes analysis costs for quality control laboratories</p>	<p>Advance notice reduced to 30 days</p> <p>Official quality-control laboratories named</p> <p>UNFPA assumes analysis costs for quality control laboratories</p>
<p>Labeling, packaging, and other issues</p>	<p>Specifications for labels, types of packaging—labeled with the name of the product, concentration, pharmaceutical structure, presentation, quantity, lot number, and expiration date</p>	<p>Specifications for labels, types of packaging—labeled with the name of the product, concentration, pharmaceutical structure, presentation, quantity, lot number, and expiration date</p>	<p>The labeling specifications in the 2005 DARP are preserved</p>
<p>Drug Registry</p>	<p>The product should be on the Drug Registry for at least two years from when the product enters the country</p>	<p>Valid Drug Registry</p> <p>DGSP will manage the Drug Registry certification</p> <p>UNFPA must submit product specifications (45 days before delivery) in order to obtain Drug Registry certification</p>	<p>Valid Drug Registry</p> <p>New standard so that DGSP can obtain authorization for the product without registration; UNFPA must provide the respective documents</p>
<p>Balances (funds left in accounts due to prices lower than those quoted in the contract)</p>	<p>MINSA orders the use of balances to purchase products</p>	<p>MINSA defines the use of balances to purchase products</p>	<p>MINSA defines the use of balances and establishes a due date (November 1st) for UNFPA to deliver the account statement</p>

Pricing	No mention of expenses	Includes all necessary expenses from their procurement to their placement in the central warehouses established by PAAG (purchaser for MINSA)	Includes all necessary expenses from their procurement to their placement in the warehouses established by PAAG ... in Lima, including quality control in the country, 5 percent of the administrative costs, value-added tax, labeling, customs clearance, insurance, and other considerations established in this document
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Source: Peruvian Ministry of Health, 2004, 2005, 2006.

The DARP also includes a detailed “technical file” for every product, including the devices that must be used for each (syringes, for example), as well as the characteristics of supplies such as intrauterine devices and condoms. Other countries in the region are still using relatively simple ordering documents, without the specifications considered in Table 3.

The New UNFPA-MINSA Agreement

The DARP was incorporated into the UNFPA-MINSA agreement for 2004–2006. Among other things, the agreement provided for “delivery deadlines and procedures associated with the Drug Registry, coordinated with UNFPA.” The new agreement for 2007–2008, which reflects the problems noted above, further establishes that UNFPA cannot “make any changes to the DARP... or to the technical specifications without the due written authorization of the ministry.” The agreement also establishes the agency’s obligations regarding the submission of account statements to MINSA; the delivery of all documents related to procurement; the certification of product quality; the provision of documents for managing the Drug Registry or for Drug Registry certification; and the timely delivery of the analysis protocols for local quality control. It also establishes that MINSA must approve the new delivery dates when there are delays.

IV. NEW PROCUREMENT OPTIONS

The government procurement of goods, including medicines and medical supplies, demands that the agencies in charge carry out a market study to establish reference prices for bids and other procurement mechanisms. In the case of contraceptives, a market study is useful for deciding whether UNFPA or a local supplier offers the lowest prices. If the latter is the case, then products are procured through a national bid or a reverse auction, which is a new mechanism for procuring medicines in Peru. At least once a year, MINSA carries out a National Procurement of Medicines through either of these mechanisms (national bid or reverse auction).

The Turning Point

The second quarter of 2004 marked an important turning point in contraceptive procurement. MINSA had already experienced the first National Procurement of Medicines in 2003, and it was the last year USAID donated contraceptives. With the technical assistance provided by USAID

through PRISMA, the ministry's procurement agency, PAAG, carried out a contraceptive suppliers' search and price study and included a plan to procure the combined oral pill in the National Procurement of Medicines under the "reverse auction" mechanism. FAMYCARE, through ESKE, offered the lowest price for the combined oral pill, ethinylestradiol, and won the bid. ESKE, an Indian company, had already been in Peru for some years, representing different medicine manufacturers. ESKE met all the formal requirements needed to participate as a supplier in Peru.

This was the moment that UNFPA's "monopoly" in Peru's contraceptive market was broken. The agency's prices were affected because a price comparison was made that included costs that were not assumed previously, such as taxes. UNFPA also had to confront new advantages offered by the private company, such as the distribution of products to multiple locations. Nevertheless, UNFPA still continues to be an important supplier of contraceptives in Peru: in 2006, approximately 17 million soles were spent on the purchase of medroxyprogesterone from UNFPA, and about 4 million soles were spent on ethinylestradiol (not purchased from UNFPA).

It should be noted that the technical assistance provided through PRISMA⁵ played an important role in opening the contraceptive market to other suppliers. Between 2002 and 2003, PRISMA assessed the contraceptive suppliers in the international market, including FAMYCARE, looking for the lowest prices and highest quality products. With the presence of FAMYCARE, the reference price of the combined oral pill, ethinylestradiol, decreased considerably with corresponding positive effects in the market. One interviewee noted that "Finally, we could purchase 3 million cycles with what we used to spend on 1 million."

Also noteworthy is that, in 2006, UNFPA offered medroxyprogesterone at approximately S/5.00,⁶ and a local supplier offered it at S/3.20. In 2007, UNFPA offered it at S/3.25, but another local supplier offered it at S/2.75. A reverse auction was then held in 2007, which a local supplier,⁷ MEDIFARMA, won. Two observations result from this situation: (1) UNFPA can be pressured by national market suppliers to lower its prices and (2) UNFPA cannot participate in a bid or reverse auction. The agency is not considered a supplier but rather a global procurement agent.⁸

Increased Competition in the Contraceptive Market

In Peru, increased competition in the institutional contraceptive market has resulted in a decrease in prices. In countries that do not have a diversified local market for contraceptives, UNFPA is likely to be the best option for the procurement of contraceptives because it generally offers lower prices and an assurance of product quality.

In Peru, large contraceptive manufacturers, such as FAMYCARE, have entered the local market. To comply with all the formal requirements and be treated as a state supplier, FAMYCARE operates through ESKE, which has already been in Peru for some years. ESKE has not limited itself

⁵ As noted earlier, under its USAID contract (1997–2005), PRISMA positioned itself as the logistical operator for medications and contraceptive supplies for MINSA, particularly for warehousing and distributing supplies procured through UNFPA. However, it also played the same role with the Andean Health Agency, PAHO, and a project of the Universidad Cayetano Heredia. UNFPA also used PRISMA in this capacity. PRISMA worked in seven of the 24 regions of Peru where, among other activities, it supported projects for building suitable warehouses for medicines and medical supplies. The projects were approved by the National Public Investment System and included infrastructure, shelf models, cold-storage chambers, and financial management. PRISMA has also provided software for estimating contraceptive needs.

⁶ US\$1.00 = S/3.00 at that time.

⁷ Interviewees point out that, in 2007, MINSA-purchased medroxyprogesterone from UNFPA but only by using balances in favor of the government. The rest of the medroxyprogesterone needed was procured nationally.

⁸ Pfizer, a UNFPA supplier, was invited to participate in the auction, but it abstained, stating that it sells the product exclusively through UNFPA.

to importing finished products; it has also set up a production plant that manufactures contraceptives and medicines for many local distributors (pharmacy chains, for example). In the contraceptive line, ESKE has historically manufactured ethinylestradiol, but it now also produces levonorgestrel 0.75 (the “morning after pill”). Furthermore, ESKE is getting ready to introduce FAMYCARE’s Copper-T intrauterine device in 2008 and is also considering importing medroxyprogesterone. ESKE reduces the cost of ethinylestradiol destined for the private market by 20 percent of the market price; this appears to be its method for positioning itself and securing a growing share in the private market. ESKE is studying the possibility of entering other country markets in Central America given growing consumer demand for contraceptives. Note that it is not only Indian companies introducing themselves into the Peruvian market but also other Asian and Latin American firms.

In conclusion, Peru has diversified its supplier base, importing not only from Asian producers but also other Latin American and Caribbean producers. This is a phenomenon that follows the movement of corporate investment toward “platforms” of production—from which companies can begin to position themselves in national markets. Obviously, the Peruvian government should ensure that new suppliers comply with the regulations that guarantee the quality of the products. The government has its own regulations for ensuring the quality of procured medicines and medical supplies, and all its suppliers must comply with these regulations. The regulations could be strengthened. For example, creation of new regulations for the pre-qualification of local suppliers under the WHO program⁹ could simplify government procurement procedures.

It is important to stress the complexity of the Peruvian contraceptive market, where competition is encouraged and large producers have entered the market. According to the interviewees, UNFPA still does not have competition for two products: condoms and the Copper-T. No one can predict how long the agency can maintain its position if the large manufacturers enter the market for contraceptives directly. It is well-known that Chinese companies¹⁰ are UNFPA’s important suppliers of condoms. In short, the Peruvian government has diversified its options for procuring contraceptives, and it is unwise to underestimate any of these options. On the contrary, the government should encourage old and new suppliers to compete and should make its purchasing decisions based on prices, availability, quality, and other competitive criteria.

The conditions observed in the pharmaceutical field and, more specifically, in the pharmaceutical supplies market are the result of economic improvement in Peru. Peru’s socioeconomic indicators are attracting pharmaceutical investors, as is the case in other fields. In addition, the use of new procurement mechanisms has encouraged the introduction of new suppliers in different fields, including medicines and contraceptives. Examples of these new mechanisms include cooperative procurement¹¹ and price reference negotiation (which increases the volume of procurement) and the reverse auction (which stimulates even more competition and simplifies local procurement, while at the same time encouraging transparency in the use of public funds).

⁹ The WHO does not disqualify those manufacturers and products that do not use its pre-qualification program; and legally, the Peruvian government does not require pre-qualification from WHO to make its purchases.

¹⁰ UNFPA’s suppliers include manufacturers from India, Brazil, and Canada for the intrauterine device; from India, Hungary, the United States, Germany, Switzerland, and Netherlands for injectables; and from the United Kingdom, Malaysia, Thailand, India, South Korea, and China for condoms.

¹¹ In accordance with the regulations that rule state procurement, various public entities must make pooled purchases of common standardized goods. For example, MINSA, the Social Security Institute, the Armed Forces, and the Police Force must make cooperative purchases of medicines and contraceptives, as they are standardized products and have “technical files.” Nevertheless, MINSA subsidizes these products for health sub-systems such as the Social Security Institute, the Armed Forces, and the Police Force.

Some Advantages of Procuring from Local Suppliers

One advantage of purchasing from local suppliers is that they deliver products regionally to the “specialized warehouses” of MINSA’s SISMED. For the ministry, as with any other supplier, much still needs to be done to comply with the Good Warehousing Practices. Only an estimated 40 percent of the specialized warehouses comply with these practices. Technical assistance is needed to improve warehousing practices.

As noted earlier, another advantage of procuring from local suppliers is the inclusion of penalties in their contracts for delayed deliveries and failure to fulfill other obligations. This advantage is realized when and if the penalties are high enough. However, the penalties cannot be so high that suppliers are scared away and discouraged from competing. Under the first contract with a local supplier, there were shortages due to delivery delays. ESKE defended itself by alluding to the tsunami at the end of 2004 that destroyed parts of Asia and affected production. In addition to this specific case, it is possible that, depending on the total amount of the procurement, it is more beneficial for noncompliant suppliers to pay the fines in order to keep their contracts valid. Because of this situation, it is advisable that MINSA carefully review a contract’s regulations regarding noncompliance and corresponding penalties.

Problems with the Quality of New Products

The first procurement from a new supplier presented a problem that was considered minor for some stakeholders and major for others; some blister packages of ethinylestradiol procured from ESKE were missing one of the pills in the cycle. ESKE and MINSA officials have stated that this problem is being solved by making the appropriate substitutions. This was, however, also a warning for suppliers to improve their quality assurance systems for their products and for state agencies to improve their quality control and monitoring systems. The state agency’s function is to maintain control, monitor, and ensure compliance with the existing regulations for Good Manufacturing Practices and other practices that guarantee high quality.

A pending task is to improve regulations—for example, concerning the production and warehousing of medicines. The goal is to establish a system to pre-qualify contraceptive suppliers (which should be done for all producers and medicines and medical supplies). This task will demand close cooperation among the National Institute of Health, which is responsible for quality control; DIGEMID, the regulatory agency for medicines and medical supplies; the Office of Strategic Resources, which purchases medicines for MINSA; and the High Council for State Contracting and Procurement, which regulates and monitors the implementation of governmental procurement processes.

V. CONTRACEPTIVE FINANCING

Financing is an important component of ensuring the availability of contraceptive supplies, and in this post-donation era, the financing comes from public funds. Many stakeholders individually or institutionally influence how the funding appropriated for family planning is spent. Although some people have assumed that the budget for contraceptive supplies is a protected line item, this is not yet the case. Funding for contraceptives fluctuates from year to year, depending on the health budget.

Contraceptives are included in the category of strategic medicines and supplies that are considered indispensable goods for designated “health interventions,” which are defined by the DGSP. The

government is obliged to procure strategic medicines, which are distributed free of charge. Thus, facilities providing family planning services should receive the necessary medicines and supplies. The latest list of strategic medicines approved by MINSA¹² includes these contraceptive supplies: medroxyprogesterone (150mg/ml injection), ethinylestradiol (20–30µg tab + 150µg), and levonorgestrel (21 tabs with active ingredients + 7 tabs with inactive ingredients). In the “strategic medical-surgical supplies” category are condoms without nonoxynol and the Copper-T.

The national budget establishes a line item for procuring strategic medicines and supplies, including contraceptives. However, the fiscal year begins with 30–40 percent less than the funding needed to cover the demand of “health intervention” supplies. The needs of all the designated health strategies (previously known as vertical programs) must be fully satisfied. If the budget is not large enough, the lines are all decreased proportionally. In 2007, there was a 4 million soles deficit (30%) for contraceptives, which was covered by a “supplemental credit” or the additional allocation of public funds. Another alternative is to reduce funds for activities such as training, education, and the production and distribution of communication materials. In any case, priority is given to an expense after carrying out assessments of the stock, the perceived needs, and actual consumption. An “adjusted need” is then arrived at, based on the resources available.

Funding for medicines and medical supplies has been increasing. In 2004, for example, approximately 80 million soles were available for medicines; in 2007, the amount increased to about 120 million soles. It is hoped that the allocation of resources will increase by approximately 17 million soles in 2008—to cover increases in the cost of medicines and supplies and also new programs (e.g., the increased cost of vaccines or the new antiretroviral treatment program).¹³ Nevertheless, there is no correlation between what is budgeted and the funds allocated; sometimes the amount budgeted is 240 million soles but only 100 million soles are actually received. “Supplemental credit” must be then requested to cover the demand. The initial allocations are used for planning the first procurements—based on the urgent needs for medicines and supplies. Some observers are concerned that the priority accorded to contraceptive services and commodities may be weakened under integrated health programs, especially with increased decentralization. If decisions about contraceptive purchases are not based on past use or future projected needs, FP/RH facilities could experience stockouts.

It is important to differentiate between the priorities of different sectors and the priorities reflected each year in the Peruvian Budget Law. Despite the influence of conservative groups on MINSA, contraceptives continue to be a high priority for the ministry, and its officials make an effort to address the demand. The Ministry of the Economy played a major role during the last administration in guaranteeing the allocation of resources to family planning. The World Bank was also an advocate for family planning, as the Bank considers it to be “a social investment line that is related to the fight against poverty and promotes development.” At the same time, USAID continues to play an ongoing important role in helping government agencies ensure the availability of contraceptives.

VI. CONCLUSIONS

Peru has diversified its base of contraceptive suppliers. Although the country began procuring some contraceptives through UNFPA, it diversified to local providers for ethinylestradiol combined oral pill when USAID’s donation ceased. Procurement through local suppliers offers new advantages

¹² Peruvian Ministry of Health. 2007. Ministerial Resolution No. 482-2007.

¹³ Since 2006, the Peruvian government has provided antiretroviral treatment for almost 7,000 people.

such as lower prices, delivery to multiple locations, and more timely delivery (encouraged by penalties for late delivery stipulated in contracts).

The problems experienced in procuring through UNFPA (delays in delivery of supplies, non-payment of taxes, and late account statements) are factors that compelled MINSA to search for new contraceptive procurement options. The search for new suppliers began in 2004 when the ministry, in collaboration with USAID's technical assistance contractor PRISMA, conducted a market study and determined that a local market existed. The search was also in response to reports of new procurement possibilities identified by other local stakeholders, such as NGOs and bilateral cooperation agencies. At the same time, the government adopted an approach of "informed buying," requiring an analysis of contraceptive prices and costs that encourages data-based decisionmaking.

Peru's advances in contraceptive procurement have improved efficiency and suggest that some thought should be given to continued application of sound administrative practices and further opening of the national market. These factors enabled the establishment of procurement mechanisms that guarantee transparency in the use of public funds and create greater competition. As a result, new suppliers—particularly large international manufacturers of "generic brands" and, recently, national capital companies—entered the market and drove down prices. The new procurement mechanisms include cooperative procurement, product reference negotiation (which increases procurement volume), national bidding, and the reverse auction.

Peru's experience includes building the capacity of and empowering MINSA officials to improve the terms of agreements with multilateral agencies such as UNFPA. One example is the creation of the Annual Requirements and Procedures Document, which continues to evolve to improve the performance of both the government and UNFPA. Another important example is the creation of a technical committee to monitor compliance with annual requests. The agreements signed by UNFPA and MINSA for 2004–2006 and 2007–2008 represent the progress made in establishing clearer responsibilities and improving performance.

UNFPA is a transparent procurement agency and still offers the lowest prices for some products; however, it must now compete with suppliers that can also offer high-quality products and additional advantages, such as distribution in-country to multiple locations. The laws and regulations that govern Peruvian state procurement demand competition so that public funds are used more efficiently.

In Peru, contraceptives have been included in the list of strategic medicines and supplies, which the government is obligated to provide for free to health facilities. Consequently, despite the scarcity of financial resources for the health sector and the lack of a protected budget line, the procurement of contraceptives is a priority for MINSA.

Peru's experience demonstrates the importance of evaluating contraceptive procurement conditions and exploring new purchasing options to ultimately improve efficiency and quality and the timely delivery of supplies to health facilities.

Other countries seeking to improve their contraceptive procurement systems can learn from Peru's experience. The key tasks are to

- Conduct an analysis of the local market for contraceptive commodities, collecting information on the suppliers and manufacturers, products available, prices, product quality, and other relevant factors;

- Continue to monitor contraceptive costs and prices;
- Ensure that the Ministry of Health has a well-managed procurement process for medicines and medical supplies;
- Build the capacity of government officials to negotiate favorable terms and conditions with local and external suppliers, including UNFPA—examples of contractual requirements are supplier’s qualifications, delivery deadline (and penalties for late delivery), product quality standards, product expiration date, in-country quality control procedures, labeling and packaging, certification by the national drug registry, and pricing (administrative costs, taxes, labeling, customs clearance, and insurance); and
- Encourage all major family planning providers—including the Ministry of Health, other public-sector agencies, and NGOs—to pool their purchases of contraceptives in order to negotiate a lower per-unit price.

Procurement specialists need to continually monitor market conditions, as many international pharmaceutical companies are entering new markets with contraceptive products. Some countries are instituting regulatory reforms that open the marketplace and enforce quality standards.

The process in Peru benefited greatly from advocacy by civil society groups. Local family planning supporters can play an important role in monitoring government funding allocations and calling attention to the effects of budget cuts that may result in commodity shortages and/or cutbacks in other family planning program areas.

APPENDIX A. LIST OF INTERVIEWEES

Ministry of Health

Dr. Victor Dongo, Director of the General Directorate for Medicines, Supplies and Drugs (DIGEMID)

Dr. Carmen Ponce, Access and Rational Use of Medicines Unit, DIGEMID

Lic. Martha Velásquez, Planning Unit, General Directorate for the Health of the People

Lic. Carmen Julia Carpio, Sexual and Reproductive Health Strategy

Lic. Francisco Solís, Director of the Office of Strategic Resources

United Nations Population Fund (UNFPA)

Lic. Milagros Sánchez

ESKE

Dr. Pier Levaggi, Division Director, MEDROCK

APROPO

Lic. Carola de Luque, Director

INPARRES

Dr. Daniel Azpilcueta, Director

Dr. Olenka Zapata

Former officials of institutions related to the management of contraceptive procurement

Lic. Walter Vigo, former official of PAAG

Dr. Gracia Subiría, former official of MINSA, former official of UNFPA

Dr. Raúl Caro, former official of PRISMA

Lic. Miriam Rojo, former official of PRISMA

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Dr. Patricia Mostajo, Country Director, Peru

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