DELIVER
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POLICY and the USAID | Health Policy Initiative Task Order 1
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Recommended Citation

Abstract
In light of the phaseout of donor funds in Latin America and the Caribbean, Peru will be facing increasing responsibility to finance and procure contraceptive commodities in the near future. The Government of Peru 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 are presented along with a comparison of regional contraceptive prices. Options and recommendations are presented for next steps.
ACRONYMS

APROPO  Apoyo a Programas de Población (Support to Population Programs)
ARV     antiretrovirals
CIF     cost, insurance, freight
CONSUCODE  Consejo Superior de Contrataciones y Adquisiciones del Estado (Superior Council of Contracts of the State)
CS      contraceptive security
EDL     essential drug list
EsSalud Peruvian Social Security Institute
GOP     Government of Peru
ICPD    International Conference on Population and Development
INPPARES Instituto Peruano de Paternidad Responsable (Peruvian Institute for Responsible Parenthood, the IPPF affiliate)
IPPF    International Planned Parenthood Federation
IUD     intrauterine device
LAC     Latin America and the Caribbean
MINSA   Ministerio de Salud (the Peruvian Ministry of Health)
NGO     nongovernmental organization
PAHO    Pan American Health Organization
SDP     service delivery point
SISMED  Sistema de Información y Suministro de Medicamentos (System of Information and Supply of Medicines)
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
WHO     World Health Organization
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This paper is available in English and Spanish, as are the individual country reports on the eight other participating countries (Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, and Paraguay) and a regional practices and options report. All these documents, 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 websites (www.deliver.jsi.com and www.healthpolicyinitiative.com).

\(^1\) The POLICY Project ended June 30, 2006. Work on this activity continued under USAID | Health Policy Initiative Task Order 1, implemented by Constella Futures.
EXECUTIVE SUMMARY

BACKGROUND
Peru has recently taken on the responsibility of financing and procuring contraceptives as donations have been slowly phased out by USAID. The Government of Peru (GOP) will need to consider all procurement options, the 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 to maximize the efficiency and cost of procuring contraceptives.

Contraceptives are supplied and distributed through the public and private sectors in Peru.

- **Ministry of Health**—Peru’s Ministry of Health (MINSA) procured 100 percent of the contraceptives distributed for the public sector with government funds in 2005. They began using public sector funds to procure contraceptives beginning in 1999. The United Nations Population Fund (UNFPA) has served as the procurement agent for MINSA on a renewable basis, and until September 2006 the nongovernmental organization PRISMA\(^2\) has distributed all 108 methods to the regional distribution points.

- **Nongovernmental organizations (NGOs)**—The social marketing NGO *Apoyo a Programas de Población* (APROPO or *Support to Population Programs* in English), procures its contraceptives through several international suppliers and distributes them at subsidized prices to the public, while the *Instituto Peruano de Paternidad Responsable* (INPPARES) procures contraceptives primarily through the International Planned Parenthood Federation (IPPF), and distributes them to low-income populations.

- **Private Sector**—private pharmacies purchase their supplies of contraceptives directly from local representatives of the pharmaceutical industry.

OBJECTIVE AND METHODOLOGY
This report presents findings from a legal and regulatory analysis and pricing study of different procurement options available in Peru, which was conducted from June 2005 to March 2006. It is intended to inform the Ministry of Health in its efforts to identify the best options—low prices, high quality, efficient and timely delivery—for contraceptive procurement. The Peru analysis forms part of a broader regional study that assesses the impact of different procurement regulations on the price of contraceptives in nine countries, and identifies viable strategies for countries to adopt in 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 at both the central and regional levels. Fieldwork 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.

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\(^2\) PRISMA is a Peruvian development NGO that empowers poor and vulnerable populations to lead the efforts of addressing the social and economic challenges they face in their communities in a sustainable way.
SUMMARY OF MAIN POINTS

LEGAL AND REGULATORY FRAMEWORK

- The reproductive health and family planning policy environment is supported by the GOP, which has endorsed several international agreements that support health rights and access to reproductive health services. Family planning is included as one of the “health strategies” in MINSA that receives a lump sum allocation from the government. However, this is subject to available funds and is not a guarantee that all program needs will always be met. The National Law of Procurement and Contracts, which governs all public sector procurement and contracts, makes exceptions for international agreements made with external funds by the government.

- The Government of Peru encourages pooled purchases, or cooperative purchases, by public entities to take advantage of economies of scale and streamline administrative processes. Because this law is relatively new it has not been fully implemented to allow MINSA, the armed forces, the social security institute, and other public entities to make a single purchase of medicines that are commonly used.

- The local market is potentially an additional option for procuring specific, lower-priced contraceptives aside from UNFPA. A market study showed significantly lower prices for the oral contraceptive ethinylestradiol in the local market from ESKE, a local representative of the Indian company Famy Care, even when transport costs to service delivery points (SDPs) were factored in. These local markets can increase competition among all suppliers and drive down the costs of contraceptives.

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 with an individual’s access to contraceptive commodities. This comparison is useful for policymakers in identifying specific procurement practices and policies that yield the most efficient use of resources and create the most effective purchasing power for the buyer, both of which may drive down the costs of contraceptives. To help policymakers deal with these issues, the pricing analysis presents price information for Peru, together with average regional prices for selected contraceptive methods.

- The public sector cost, insurance, and freight (CIF) price for oral contraceptives procured through UNFPA (U.S.$0.31 per cycle) is the same as the mean CIF price for all the countries in the Latin America and Caribbean (LAC) region that procured their own oral contraceptives. The Peruvian public sector was also able to procure a portion of its oral contraceptives that came from the local company ESKE, at a CIF of U.S.$0.24. The lowest CIF price paid in the region, however, came from the Chilean public sector (U.S.$0.14 per cycle). The primary difference among these three values is that while the UNFPA and ESKE commodities must be imported from international manufacturers, the oral contraceptives in the Chilean public sector are produced locally, leading to significant savings. In the absence of local production, the best prices available to the Peruvian public sector are the ones they have already obtained through UNFPA and ESKE. In the public sector, the total direct cost is U.S.$0.34 through UNFPA and U.S.$0.27 through ESKE. The average total direct cost of a cycle of oral contraceptives in the NGO sector is U.S.$0.83.

- The public sector CIF price for three-month injectable contraceptives (e.g., Depo-Provera) is U.S.$0.85 per injection, the lowest CIF price paid in South America. The total direct cost of an injectable for the public sector is U.S.$0.96 per injection, while the NGO sector total direct cost is U.S.$5.23.

- Peru was the only country in South America that procured intrauterine devices (IUDs) through UNFPA when the data for this study were collected. At U.S.$0.54 per unit, the Peruvian public sector CIF price is 13 percent lower than the average CIF price of all the LAC countries whose public sectors procured
IUDs through an international agent (U.S.$0.62), yet it is still 74 percent greater than the lowest CIF price paid in the South America region, which was obtained by the Chilean public sector through local procurement. Considering the difference in the two procurement mechanisms, it is reasonable to assume that Peru is paying the lowest CIF price that it can for IUDs under an agreement with an international procurement agent. The total direct cost of an IUD to the public sector is U.S.$0.61 per IUD. In the NGO sector, however, the total direct cost is U.S.$12.30, almost twenty times as high as the public sector total direct cost per unit. IUDs are not available directly to consumers through private pharmacies, but rather to medical personnel who provide them to the public.

OPTIONS AND NEXT STEPS

- A protected budget line item for family planning and contraceptive procurement would be helpful to reinforce MINSA’s commitment and priority for contraceptive commodities.

- Peru should continue to analyze, test, and implement mechanisms for better procurement and contraceptive prices and share these mechanisms with other countries in the region. The Government of Peru should develop a price comparison tool that includes local supplier information, and should share this tool with other countries in the region to spread awareness of changes in the national and international markets.

- Sharing reference prices between countries as part of the tender process may help put the public sector in a stronger negotiating position. Doing so could also encourage local suppliers to reduce their prices and stay competitive in the market.

- The GOP should take advantage of subregional initiatives such as the harmonization of drug registries in Central America, regional laboratory networks, and pooled procurement to expand procurement options, efficiency, and prices.

- The GOP should explore different scenarios and agreements for delivery of contraceptives to the SDP level because warehousing and transportation are major issues.
INTRODUCTION

For over 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 phased out gradually throughout the region. In the case of Peru, donors stopped purchasing contraceptives for the country in 2004, and now the national government is responsible for financing and procuring contraceptives.

As the Government of Peru continues to assume the responsibility of contraceptive procurement, it will need to consider all procurement options, national and international, available to the country; the 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.

METHODOLOGY

This report presents findings from a legal and regulatory analysis and pricing study of different procurement options available in Peru. It is intended to inform the Ministry of Health in its efforts to identify the best options—low prices, high quality, efficient and timely delivery—for contraceptive procurement. The report is based on information collected in Peru and includes comparisons with eight other countries in Latin America and the Caribbean on procurement regulations and laws, as well as actual contraceptive prices from June 2005 to March 2006. The Peru analysis forms part of a broader regional study that assesses the impact of different procurement regulations on the price of contraceptives in nine USAID-presence countries in Latin America and the Caribbean—Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Paraguay, and Peru—and it identifies viable strategies for countries to adopt in 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 at both the central and regional levels. Fieldwork 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.

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 contraceptive pricing section presents information on prices for different contraceptive methods within the country. The report ends with a series of concrete recommendations directed at improving the efficiency of contraceptive procurement policies and processes.
Peru’s population of 27.6 million is growing by 1.4 percent annually and is predominantly urban and young—74 percent live in towns and cities, and 50 percent are under age 25 (USAID 2006). Peru is classified as a lower-middle-income country (World Bank 2006a) with an estimated gross national income of U.S.$5,395 per capita. After several years of inconsistent economic performance, the Peruvian economy grew by more than 4 percent per year between 2002 and 2005, with stable exchange and low inflation rates (World Bank 2006b). Despite this economic growth, Peru continues to have disparity in income distribution, with 32 percent of its population living below the international poverty line of U.S.$2 per day (World Bank 2006b) and nearly 5 million Peruvians living in extreme poverty (INEI 2005).

Government and donor investments in family planning during the 1990s produced rapid increases in overall contraceptive use and equally rapid reductions in the total fertility rate (TFR). As in many other Latin American countries, the TFR dropped from 3.5 children per woman in 1996 to 2.4 in 2004, while overall contraceptive use almost doubled from 47 percent in 1986 to 71 percent in 2004. Modern contraceptive methods account for more than two-thirds (66 percent) and traditional methods less than one-third (31 percent) of all family planning methods used. Today, Peru experiences one of the highest overall contraceptive prevalence rates in the region (71 percent). As a result, the median interval between a woman’s last two childbirths increased from 37 months in 2000 to 43 months in 2004. Also, in 2004, the method mix among women of reproductive age in union was 16 percent, injectables; 15 percent, voluntary sterilization; 12 percent, condoms; 10 percent, pills; 10 percent, intrauterine devices; 3 percent, other methods; and 31 percent, traditional methods. Between 2000 and 2004, the main shifts in method mix included a reduction in use of injectables (21 percent to 16 percent) and an increase in use of traditional methods (25 percent to 31 percent) (INEI 1997, INEI 2001, INEI 2005).

Despite gains in the contraceptive prevalence rate, disparities between rural and urban contraceptive use continue to be a challenge in Peru, with significant differences in modern method use between rural (33 percent) and urban (54 percent) populations. Additionally, unmet need is still a cause for concern, with high unmet need among young women (17 percent); women without formal education (16 percent); poor (lowest wealth quintile) women (15 percent); and women residing in rural (12 percent), jungle (11 percent), and highland (10 percent) areas (INEI 2005).

The primary source of contraceptives in Peru is the public sector. Between 1996 and 2000, the Ministry of Health’s (MINSA) share in the contraceptive market rose from 58 percent to 67 percent, while the private sector’s share decreased from 30 percent to 19 percent. This shift from the private to the public sector was due to USAID’s increased donations and technical assistance to PRISMA to reduce stockouts in MINSA facilities, combined with its termination of donations to NGOs. However, these trends reversed between 2000 and 2004, with MINSA’s share of the market declining to 60 percent and the private sector’s share rising back to 26 percent, primarily due to stockouts in MINSA facilities. In spite of the Ministry of Health’s slight market share decrease, it continued to be the main family planning service provider (60 percent) in 2004. Other providers as of 2004 included the Peruvian Social Security Institute (EsSALUD)—which covered about 10 percent of family planning users—and NGOs, which covered about 1 percent of users. The two major family planning NGOs in Peru are Support to Population Programs (APROPO) and the Peruvian Institute for Responsible Parenthood (INPPARES) (INEI 1997, INEI 2001, INEI 2005).

The family planning program in Peru has had strong external support, with USAID donating contraceptives to the private sector since 1985, and to MINSA since 1995. In 1999, in the face of
gradually declining USAID contraceptive donations, MINSA started using public sector funds to purchase contraceptives. In 2005, 100 percent of the contraceptives distributed by the public health systems were financed by the government. The bulk of these contraceptive purchases were made through the United Nations Population Fund (UNFPA).

As shown in Figure 1, there are no local producers of contraceptives in Peru. Supplies originate from Europe, The United States, India, and Thailand and suppliers include Schering, Wyeth, Pfizer, Organon, Gideon Ritcher, and Famy Care. These companies supply contraceptives directly to UNFPA and through their local agents to NGOs such as APROPO, a social marketing NGO. MINSA buys its contraceptives from UNFPA under a renewal agreement and, until September 2006, distributed them through PRISMA, an NGO with support from USAID. PRISMA has been responsible for distributing contraceptives to 108 regional distribution points. Transport from there to public facilities is the responsibility of local health authorities, which distribute them free of charge to low-income populations. Finally, INPPARES procures contraceptives primarily through the International Planned Parenthood Federation (IPPF) and distributes them low income populations.

**Figure 1: Distribution Network for Family Planning in Peru**
LEGAL AND REGULATORY FRAMEWORK

THE POLICY ENVIRONMENT
The overall policy environment in Peru is supportive of reproductive health and family planning. The constitution (1996) states that the National Population Policy should “promote responsible maternity and paternity,” and, recognizing a “family’s right to decide the number and spacing of their children,” obligates the state to guarantee educational and informational programs and access to those means necessary for promoting responsible parenthood. However, there is no constitutional mandate that obligates the government to provide health care, even to vulnerable populations.

The National Reproductive Health Plan (2004) recognizes that 56 percent of births occurring between 1994 and 1999 were the result of unplanned pregnancies and an unmet need for family planning. The Plan includes reducing maternal and perinatal mortality as one of its general objectives; a specific objective of the Plan is to help people achieve their reproductive ideals.

Additionally, Peru has ratified various international agreements and declarations—among them, the Millennium Declaration; the International Pact of Economic, Social and Cultural Rights; the Convention on Elimination of Discrimination against Women; and the 1994 International Conference on Population and Development (ICPD) Programme of Action—that establish citizens’ rights to health, particularly maternal-child health, as well as ensuring access to reproductive health services.

From a funding standpoint, MINSA has committed to ensuring the availability of all medicines and inputs necessary for national “health strategies” such as family planning, maternal health, and HIV/AIDS prevention and treatment. The national budget includes one line item that encompasses all these “health strategies,” and a lump sum of money is allocated to that line item. MINSA authorities then establish procurement priorities for the different programs. If funding is limited, the needs of all programs/strategies will not be met. To date, limited funding has not been an issue for the government family planning program, which has received 100 percent of the funds necessary to procure contraceptives since 2005. In 2006, the amount of financial support allocated to the family planning program was in excess of U.S.$2 million. Nonetheless, the uninterrupted financial capacity to procure necessary contraceptives will be at risk as long as there is no protected budget line item for family planning and contraceptives.

LAWS THAT GOVERN THE PROCUREMENT OF MEDICINES/CONTRACEPTIVES
The National Law of Procurements and Contracts (Ley de Contrataciones y Adquisiciones del Estado y su Reglamento) and its regulations, which were adopted in 1998, provides the legal framework for all public sector procurements and contracts. It applies to all public sector institutions at the national, regional, and municipal levels, including the social security institute. The law exempts purchases that are made by the government with external funds in the context of an international agreement. In such cases procurement norms are established by the international agreement or treaty and they supersede the stipulations of the National Procurement Law.

The Government of Peru has created an autonomous body—the Superior Council of State Contracts (CONSUCODE)—to disseminate the law, oversee its enforcement, propose modifications, serve as
arbitrator in the event of disputes, and sanction suppliers in cases of “incompetence, negligence, corruption,” and other problems.

The law establishes **procurement modalities** to be used for purchasing goods with public sector resources, which are presented in the table below.

**Table 1: Procurement Modalities, Their Amounts and Durations (for purchase of goods)**

<table>
<thead>
<tr>
<th>Modality</th>
<th>Amount</th>
<th>Duration of process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public tender</td>
<td>Equal to or more than S/. 450,000 (U.S.$136,364)</td>
<td>3–6 months</td>
</tr>
<tr>
<td>Direct public procurement</td>
<td>Between S/. 225,000 and 450,000. (U.S.$68,182 and U.S. $136,364)</td>
<td>1.5–4 months</td>
</tr>
<tr>
<td>Selective direct procurement</td>
<td>Between S/. 45,000 and 225,000 (U.S.$13,636 and U.S.$68,182)</td>
<td>1.5–4 months</td>
</tr>
<tr>
<td>Small quantity procurement</td>
<td>Between S/. 3,300 and S/. 45,000 (U.S.$1,000 and U.S.$13,636)</td>
<td>Up to 1.5 months</td>
</tr>
</tbody>
</table>

Exchange rate: U.S.$1.00 = S/. 3.30 (Source: https://www.oanda.com)

The national procurement law and its regulations allow for **exceptions** in the case of contracts between public entities, price advantages, emergencies, and situations where national security is at stake.

Procurement through agreements with international organizations such as UNDP, UNFPA, PAHO (Pan American Health Organization), and WHO (World Health Organization) conform to the General Budget Law, and are based on stipulations within those agreements, which are approved by the Supreme Resolution and then signed by the minister of the sector in question (the health sector, in this case). MINSA currently purchases contraceptives through such an agreement.

The law discusses cooperative purchases that would allow public entities to jointly purchase commodities to take advantage of economies of scale and simplify administrative processes. These cooperative purchases may be mandatory in some cases, with the government defining the participants. Cooperative procurement practices have yet to be implemented in Peru, with organizations currently defining the mandatory list of goods that must be purchased jointly by public sector organizations. This new inclusion in the law is an important step that will enable the government to make a single purchase of commonly used medicines for MINSA, the armed forces, the social security institute, and other public entities.

All products sold in Peru must be registered, a process that is automatic and valid for up to 10 years with the presentation of all required documents and a fee of U.S.$100. Donated products are not required to be registered within the country; however, they must be accompanied by a certificate of registration from the supplier. All suppliers who wish to have government contracts must also be registered in the National Registry of Suppliers.

The essential drugs list (EDL) of MINSA and EsSalud in Peru include all hormonal contraceptives as well as condoms and IUDs. Despite this, many women covered by social security rely on MINSA for their contraceptives.

Procurement regulations in Peru do not include international bidding. On a related note, however, the Government of Peru is in negotiations with the Government of the United States to establish a Free Trade Agreement, the stipulations which would give the U.S. the right to participate in public sector procurement processes under conditions equal to those afforded to national suppliers.
PROCUREMENT PRACTICES AND MECHANISMS

In 1999, in the face of gradually declining USAID contraceptive donations, MINSA started using public sector funds to purchase contraceptives through UNFPA. In 2005, 100 percent of the contraceptives distributed by the public health systems were financed by the government.

The agreement between UNFPA and MINSA was initially signed in 1999 and renewed with new provisions in 2004. Agreements in which the government of Peru gives an international entity responsibility for administering its funds must be approved by Supreme Resolution and then signed by the minister of the sector in question (the health sector, in this case) on the basis of a report prepared by the Budget Office that demonstrates both the benefits of the proposed agreement and the availability of funds for its execution. Under the terms of this agreement, MINSA transfers funds to UNFPA, which, acting as a procurement agent for the government, uses the funds to buy low-priced contraceptives on the international market. On the basis of this agreement, public sector contraceptive purchases are exonerated from the public tender requirements of the national procurement law.

Between 1999 and 2004, no taxes were paid on MINSA’s contraceptive purchases. However, starting in 2005, under the terms of the new MINSA-UNFPA agreement, contraceptive purchases will be subject to taxation. This will also have implications for the price advantage that UNFPA now offers.

Peru has also been exploring different options for procuring low-priced contraceptives in the local market. In 2004, MINSA (with UNFPA) conducted a market study to identify the best available prices for the four contraceptive commodities. Condoms were not procured that year because of sufficient stocks from previous years. In the case of IUDs, the UNFPA price was far lower than prices available in the local market. The local and UNFPA prices for medroxyprogesterone were identical. MINSA opted to buy both these products from UNFPA. However, the price of the oral contraceptive ethinylestradiol was significantly lower in the local market, even after including cost of distribution to regional levels, a service not offered by UNFPA. Hence, in 2004, MINSA chose to procure ethinylestradiol locally, thereby achieving significant savings. The supplier of the oral contraceptive was ESKE, the local representative of the Indian company FamyCare. The entry of companies like ESKE into local markets has great potential to increase competition among local suppliers, and thereby yield better prices for contraceptives.

MINSA also has a contract with Pfizer to supply Depo-Provera at prices 20 percent higher than UNFPA obtains but meant for delivery to local service delivery points using Pfizer’s existing commercial transport network. This approach could be considered with other local suppliers like Schering and Wyeth.

Box 1. Exploring New Procurement Options in Peru

Two other innovative procurement options that are being explored in Peru include the Price Reference Agreement (Convenio Marco de Precios) and the Reverse Auction (Subasta Inversa). Both options were recently included in Peru’s procurement law, but have yet to be implemented.

Price Reference Agreement—An agreement between government and providers under which prices for specific products are predetermined on the basis of quantity. Government agencies can then opt to purchase those products for the prenegotiated price.

Reverse auction—The government announces technical specifications and quantity requirements for the product being sought. Suppliers respond with competing bids. Public sector organizations can then opt to buy the goods (contraceptives, in this case) from the supplier that offers the best price, with the assurance that all suppliers are prequalified by the government. This is very similar to procurement mechanisms for health commodities in Guatemala (open contract) and Chile.
CONTRACEPTIVE PRICING

Obtaining comparable information on the price components of different contraceptive methods across the public, NGO, and commercial sectors is a challenge in Peru. Similarly difficult is the task of appropriately comparing the performance of the various procurement processes used by the different sectors. Nonetheless, 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 with an individual’s access to contraceptive commodities. This comparison is still useful for policymakers in identifying specific procurement practices and policies that yield the most efficient use of resources and create the most effective purchasing power for the buyer, both of which may drive down the costs of contraceptives. To help policymakers deal with these issues, this section of the report presents price information for Peru, together with average regional prices for selected contraceptive methods. The regional prices refer to the average prices in the public and NGO sectors across the South American countries included in the study that receive assistance from UNFPA and/or USAID to procure contraceptives—namely Bolivia, Ecuador, Paraguay, and Peru. In some instances, price data from additional countries in the entire LAC region are included to provide MINSA with the most complete perspective on its own procurement practices. International reference prices are those that are available from international suppliers.

Figures 2 through 4 show the price components—CIF, duty and taxes, and administrative and social marketing costs—for oral contraceptives, injectable contraceptives, and IUDs in Peru. Finally, the figures show the average retail price for the contraceptive commodities that was determined by visiting pharmacies around Lima, Peru.

ORAL CONTRACEPTIVE PRICE STRUCTURE

Figure 2 shows that the public sector CIF price for oral contraceptives procured through UNFPA is U.S.$0.31 per cycle, which is the same as the mean CIF price for all the countries in the LAC region that procured their own oral contraceptives. As mentioned in the previous section, however, a portion of the oral contraceptives that the Peruvian public sector procured came from the local company ESKE, at a CIF price of U.S.$0.24. This price is approximately 23 percent lower than the UNFPA CIF price. The lowest CIF price paid in the region, however, came from the Chilean public sector. At U.S.$0.14 per cycle, this price is 55 percent lower than the UNFPA price and 42 percent lower than ESKE. The primary difference between these three values is that while the UNFPA and ESKE commodities must be imported from international manufacturers, the oral contraceptives in the Chilean public sector are produced locally, leading to significant savings. It is important to note that in the absence of local production, the best prices available to the Peruvian public sector are the ones they already have through UNFPA and ESKE.

It was not possible to obtain CIF prices from the Peruvian NGO sector, so Figure 2 includes a regional average of CIF prices from organizations that purchased oral contraceptives through an international agent, in this case the IPPF. This average price (U.S.$0.32) is presented to help inform APROPO and INPPARES about regional CIF prices as they prepare for future procurements.

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3 Conversations with representatives from UNFPA reveal that when agreements between individual countries and international suppliers (or their representatives), such as the one between Peru and ESKE, result in lower prices, UNFPA strives to obtain the same price from that company. The long-run outcome is that all countries purchasing through UNFPA, even those with smaller economies, are able to benefit from lower prices, and UNFPA maintains its ability to offer the lowest-priced contraceptive commodities.
While the CIF price represents the cost of purchasing the commodity and importing it into the country, it does not include the full cost of getting commodities to service delivery points. For a more realistic estimate of the price in the public sector, it is necessary to add duty and other importing-related costs as well as transportation costs. The Government of Peru charges a value-added tax (VAT) on commodities for both the private and public sectors. Until 2005, any contraceptive commodities procured through UNFPA were exempted from this tax. Transportation costs for the Peruvian public sector were estimated at 2.7 percent of the CIF and are included for the purpose of estimating the total direct costs of the procurement process. In the public sector, the total direct cost is U.S.$0.34 through UNFPA and U.S.$0.27 through ESKE. For both of these prices, the proportion that is the actual cost of the commodity is around 90 percent. In the NGO sector, however, it was not possible to separate transportation costs, so they are included in “all other margins and costs,” which also includes administrative costs, distributor margin, and costs associated with repackaging commodities. Thus, the average total direct cost of a cycle of oral contraceptives in the NGO sector is U.S.$0.83, comprising administrative and social marketing costs (49 percent) and all other costs and margins (51 percent).

**Figure 2. Price Components of Oral Contraceptives in Peru**

Source: Data collected by JSI (2005 U.S. dollars).  
* Countries included in this average are Dominican Republic, El Salvador, and Peru.  
** Countries included in this average are Chile and Paraguay.

At U.S.$4.29 per cycle, the average retail price of oral contraceptives in private pharmacies in the Lima area was average compared to prices observed elsewhere in South America.
INJECTABLE CONTRACEPTIVE PRICE STRUCTURE

Figure 3 shows similar information for the prices of injectable contraceptives in Peru. The public sector CIF price is U.S.$0.85 per injection, which is the lowest CIF price paid in South America. The mean regional CIF prices for public and NGO sectors that procured their own injectable contraceptives through a procurement agent are U.S.$0.94 and U.S.$1.30, respectively. As an additional point of comparison, Figure 3 presents the CIF price that the Chilean public sector obtained through local procurement. Unlike the case with oral contraceptives in Chile, where local production and procurement resulted in a CIF price in the public sector that was lower than the UNFPA price, the UNFPA price for injectables is the best CIF price currently available in the region.

Figure 3. Price Components of Injectables in Peru

When other cost components are taken into account, the total direct cost of an injectable for the public sector rises to U.S.$0.96 per injection, of which 89 percent comprises the cost of the commodity. In the NGO sector, the total direct cost is U.S.$5.23, comprising administration and social marketing costs (71 percent) and all other margins and costs (29 percent). The average price of an injectable in retail pharmacies was U.S.$9.82 for Depo-Provera.

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4 Prices for injectable contraceptives are based on a three-month dosage (e.g., Depo-Provera).
5 As with oral contraceptives, CIF prices were not available from the NGO sector. The mean South America NGO price is presented to inform AFROPO and INPFARES of regional pricing trends.
**IUD PRICE STRUCTURE**

Figure 4 presents similar information on prices and cost components for Copper-T 380A IUDs. Peru was the only country in South America that procured IUDs through UNFPA when the data for this study were collected. With a value of U.S.$0.54 per unit, the Peruvian public sector CIF price is 13 percent lower than the average CIF price of all the countries in LAC whose public sectors procured through an international agent (U.S.$0.62). Yet the public sector CIF price in Peru is still 74 percent greater than the lowest CIF price paid in the South America region, which was obtained by the Chilean public sector through local procurement. Considering the difference in the two procurement mechanisms, it is reasonable to assume that Peru is paying the lowest CIF price for IUDs that it can obtain under an agreement with an international procurement agent.

In the NGO sector, the mean regional CIF price is U.S.$0.69 for organizations that procure IUDs through an international agent. As with the other methods described in this report, this average is meant to inform APROPO and INPPARES regarding the prices available to the NGO sector for IUDs in the region. International reference prices for IUDs, which are between U.S.$1.30 and U.S.$1.55 per IUD, are higher than the Peruvian public sector CIF price.

**Figure 4. Price Components of IUDs in Peru**

After accounting for additional costs over and above CIF, the total direct cost of an IUD to the public sector reaches U.S.$0.61 per IUD, which comprises primarily the cost of the commodity (89 percent). In the NGO sector, however, the total direct cost is U.S.$12.30, almost twenty times as high as the public sector.
sector total direct cost per unit. All other margins and costs, including transport, retail margin, and distributor margin, represent 54 percent of the total direct cost per IUD for the NGO sector. If the NGO sector is to remain competitive in supplying IUDs to the population, it must find ways of reducing its costs and make them affordable for more than just wealthier populations. IUDs are not available directly to consumers through private pharmacies, but rather to medical personnel who provide them to the public.
OPTIONS AND NEXT STEPS

Peru has made great strides in improving the efficiency and cost-effectiveness of contraceptive procurements.

- Peru’s procurement law was recently modified to include new and innovative procurement mechanisms that are designed to improve efficiency and generate lower prices through competition. These new mechanisms—the reverse auction and the price reference agreement—have great potential to increase competition and generate lower prices for medicines and contraceptives in the local market and, as such, need to be studied carefully once implemented.

- Recognizing the benefits of economies of scale, the Government of Peru promotes the centralized pooled procurement of medicines at the national level for its decentralized health system. The national procurement law facilitates and in some cases mandates different public sector entities to pool their purchases of common goods. In the health sector, this law not only signifies pooled procurement for all MINSA establishments, but it also permits pooling in the purchases of the social security institute (EsSalud), the armed forces and police, and other public health subsystems. In 2003, a pooled purchase of medicines by SISMED yielded savings of approximately U.S.$9.2 million for the Peruvian government.

- The local market has emerged as an important and financially viable alternative to UNFPA for the purchase of certain contraceptive commodities. In 2004, MINSA purchased the oral contraceptive ethinylestradiol in the local market through a public tender for a lower price than that offered by UNFPA, thereby demonstrating the potential price advantages of combining UNFPA and local sources. The supplier of that oral contraceptive was ESKE, the local representative of the Indian company Famy Care. The entry of companies like ESKE into local markets has great potential to increase competition among local suppliers, and thereby yield better prices for contraceptives. Furthermore, local suppliers that can offer competitive prices have the added advantage of possibly being able to deliver products to service delivery points.

- The decision to purchase ethinylestradiol from ESKE was based on a price study that demonstrated that a new local supplier, ESKE, could offer a lower price for the product than UNFPA. This experience clearly demonstrates the benefit of creating and maintaining a process and system for 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.

While Peru’s advances in contraceptive security are considerable and serve as a model for other countries in the region, there is still more to be done.

OPTIONS TO CONSIDER

ESTABLISH A PROTECTED BUDGET LINE ITEM FOR CONTRACEPTIVE COMMODITIES

Although MINSA has committed to ensuring the availability of all medicines and inputs necessary for vertical national programs (now called “health strategies”) such as family planning, maternal health, and HIV/AIDS prevention, there is no budget line item dedicated to either family planning or contraceptive procurement. The national budget includes one line item that encompasses all the “health strategies,” and a lump sum of money is allocated to that line item. MINSA authorities then establish procurement...
priorities for the different programs. If funding is limited, the needs of all programs and strategies will not be met. To date, this has not been an issue for the family planning program, which has consistently received adequate funds. Nonetheless, it is important to note that the uninterrupted financial capacity to procure necessary contraceptives will be at risk as long as there is no protected line item for family planning and contraceptives. Establishing a protected line item on a par with that for vaccines should be a priority in Peru.

**ELIMINATE TAXES ON CONTRACEPTIVES**

Until 2005, contraceptive commodities procured through UNFPA were exempt from VAT. During that year, MINSA-procured contraceptives were taxed for the first time. This taxation will have repercussions in the future for UNFPA’s overall price advantage. Several other countries’ contraceptives are exempt from taxes and Peru could similarly pursue a protected status for contraceptives.

The current regulations on charging VAT on contraceptive imports using nonpublic funds discourage NGOs and the private sector from procuring contraceptives and offering an alternative, affordable source of contraceptives in Peru. The Government of Peru should look at addressing other restrictive regulatory environments, including unnecessary tariffs that limit access to a range of suppliers, bureaucratic delays throughout the procurement process, and VAT on contraceptives. An effort should be made to identify laws and regulations that have an impact on price as well as on the breadth of quality suppliers, and begin to determine whether there is any scope to reform or eliminate these restrictions. Seeking duty exemption would require making a case to the Ministry of Finance for exempting from tariffs and taxes either (1) all drugs and medicines on the EDL or (2) those drugs and medicines that do not enter the commercial route. There are precedents for such tax exemptions in other countries in LAC. In Peru itself, antiretroviral (ARV) medications and medicines to fight cancer are exempted from duty. Also, vaccine purchases in most countries are exempted from taxes because immunization is considered a health priority and a public good. Therefore, vaccines have a protected status. In El Salvador, contraceptives purchased with public sector funds through UNFPA are exempted from import taxes if they are introduced into the country as a result of a Presidential Decree (*Franquicia Presidencial*).

**CONTINUE, ASSESS, AND STRENGTHEN NEW AND INNOVATIVE PRACTICES THAT ARE BEING TESTED AND USED**

Peru is at the forefront of exploring and testing new and innovative procurement mechanisms such as the inverse auction and the price reference agreement. As these mechanisms are implemented, it is essential to assess them, learn from them, and share their successes and drawbacks with other countries in the region. The Government of Peru should also continue and build on its use of market studies and price comparisons to make them comprehensive (e.g., they do not include all possible supplier options), accurate (UNFPA prices in the price comparison system should be adjusted to reflect taxes and the cost of warehousing and distribution), and systematic (it is not a routine part of the procurement process). Advocating for and promoting a regional price comparison tool that could be developed by USAID or one of its contractors will help countries such as Peru identify the best prices by different local and international suppliers of contraceptives and medicines. The tool would include regularly updated information on generic and brand-name products, plus new suppliers to keep decision makers informed about supply options available in the local, regional, and national markets. The price comparison tool will facilitate transparency in prices and give countries more negotiating power with suppliers.
ESTABLISH MECHANISMS FOR SHARING PROCUREMENT INFORMATION WITH OTHER COUNTRIES IN THE REGION

The information made available in the regional procurement options paper on the prices obtained by other countries of the region can serve as an initial springboard for decision makers in Peru to better understand existing opportunities to improve procurement processes and make them more efficient. Making available and sharing reference prices among countries in the region is a second step in informed procurement (see box 2). Full disclosure of actual prices between countries as part of the bidding process may help make the bidding process more efficient. The mechanism would act by giving the public sector a stronger negotiation position and encouraging local representatives of international companies to lower their prices to obtain or maintain their market shares. The end goal of this option would be bulk purchasing (higher volumes) and purchasing of a basic list of nonbranded generic contraceptives, which will serve to lower prices. Nonbranded generic products can be available only in those countries where there is local production and high product volume.

TAKE ADVANTAGE OF REGIONAL INITIATIVES

Regional integration initiatives may provide important opportunities for the government of Peru as it seeks to improve procurement efficiency, expand contraceptive procurement options, and obtain better prices. Box 3 presents some examples of subregional harmonization that have facilitated drug registration and inspection processes in central and South America. The Government of Peru should explore similar possibilities with other countries in the Andes or South America, such as through the Andean Pact. In the longer term, the government of Peru could also look into options for regionally pooled procurement or regional price negotiations (such as in the case of ARVs in the Andean countries) 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 by simplifying the bioequivalence testing process.

EXPLORE PROCUREMENT OPTIONS THAT INCLUDE DISTRIBUTION TO SERVICE DELIVERY POINTS IN TOTAL COST

Peru might wish to consider delivery of the contraceptive methods to the service delivery point (SDP) level. Warehousing and transportation logistics often constitute a major problem. Therefore, it may be interesting to look at different procurement sources and delivery alternatives, including a model in which family planning methods are delivered directly from the seller to the SDP (local level). Alternatively, the government could procure through UNFPA as it does now and hold a separate contract for the actual delivery of the products with an entity such as PRISMA.
REFERENCES


For more information, please visit http://www.deliver.jsi.com or http://www.healthpolicyinitiative.com.