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## PROCURING CONTRACEPTIVES: OPTIONS FOR COUNTRIES

Contraceptive security exists when people are able to choose, obtain, and use high-quality contraceptives and condoms for family planning whenever they want or need them.

12.5%

The importation tax on condoms in Brazil, well below the taxes on other imported products.

Efforts to share information or to engage in multiple-country partnerships for procuring contraceptives can result in obtaining high-quality products for a lower price.

Many countries are now beginning to purchase family planning commodities as a step toward contraceptive security. In the past, most governments in countries that received donated contraceptives did not have to manage the procurement process. Typically, these countries would estimate the number and types of commodities needed and donors would handle the administrative process of purchasing. As governments increasingly fund their own contraceptive supplies for public-sector programs, they are taking a more active role in procuring them.

Contraceptive procurement with public-sector funding is generally a technical and administrative process. In most cases, procurement officers are charged with addressing the many details associated with government purchases, involving a level of detail well beyond the usual level required for policy-makers, program managers, and advocates. However, there are a number of issues related to contraceptive procurement that policy audiences should understand so they can more effectively address and support contraceptive security. This brief examines those critical issues: how procurement processes work; different modalities for procurement; barriers to low-cost commodities; successful approaches for obtaining lower-cost contraceptives; and procurement options in decentralized settings.

### Public-Sector Procurement Is a Complex Process That Takes Time

Contraceptive procurement is relatively complex, involving defining specifications for each product to be procured, estimating the quantity of each product required, and managing the financial transaction between the government and the

vendor or procurement agent. The process is generally made up of three phases and 10 elements, as shown in Figure 1. Completing a typical public-sector procurement cycle can take between 12 and 18 months. Because the procurement process requires a high degree of expertise and experience, many countries need technical assistance before they are able to undertake it on their own. Building capacity for contraceptive procurement includes knowledge of procurement regulations, as well as the inter-related issues of forecasting, financing, procurement, and logistics. Procurement also requires human resource capacity to prepare bidding documents, evaluate bids, select suppliers, and award contracts. With this capacity, contraceptive procurement is more efficient and programs and facilities are able to maintain appropriate levels of supplies.<sup>1</sup>

Unlike for the private sector, in which organizations have more flexible procurement processes, purchasing for the public sector is generally highly regulated, with the size of the procurement affecting the degree of competition in the bidding process. For most governments, the competition increases as the value of the procurement increases (see Figure 2). The four procurement options generally available to the public sector are explained in Box 1.

Many countries allow exceptions to procurement regulations. For example, if a purchase is made as part of an international or multilateral agreement or contract, or if it uses funding from loans or external sources such as the World Bank, these rules may not apply. Some countries also permit exceptions to standard procurement procedures during an emergency situation.

**FIGURE 1**

**The Procurement Process**

THREE PHASES	TEN ELEMENTS
1. Program Planning	Defining RH Supply Requirements Specifications Assessment of Procurement Options Budget, Funding, and Procurement Requisition
Critical Link: Funded Procurement Requisition	
2. Procurement Process	Procurement Planning Developing Bidding Documents and Inviting Offers Selecting Suppliers Contracts
Critical Link: Signed Contract and Payment Guarantee	
3. Performance	Contract Performance and Monitoring Delivery of Goods
Critical Conclusion: Delivery and Acceptance of High-Quality Products	

**Source:** PATH and WHO, *Procurement Capacity Toolkit: Tools and Resources for Procurement of Reproductive Health Supplies* (Seattle: PATH, 2008).

**Using Procurement Agents for Family Planning**

Some governments buy family planning supplies through external procurement agents. Several international agencies have developed the capacity to serve as agents for procuring contraceptives and health commodities. The United Nations Population Fund (UNFPA) in particular has established itself globally as a contraceptive procurement agent. Because of the volume it purchases, UNFPA has negotiated very competitive prices for contraceptives with manufacturers and passes the lower prices to countries. UNFPA does not participate in competitive bidding processes, but offers its procurement services to governments that want to use them. UNFPA also requires advance payment for commodities and charges an additional fee for handling and administrative costs.

Contraceptive procurement can be arranged in certain circumstances through the International Committee of the Red Cross and through other nongovernmental public service organizations, such as the International Dispensary Association and MissionPharma.<sup>2</sup> International Contraceptive and SRH Marketing Ltd. (ICON) also procures commodities for public-sector programs, social marketing programs, and commercial outlets in 126 countries and works closely with the International Planned Parenthood Federation. Specialized commercial procurement firms can also handle the contraceptive procurement needs for countries. Crown Agents and Charles Kendall, for example, are companies that can procure a variety of products, including contraceptives, on behalf of governments. Links to the websites of organizations that provide procurement services are listed in the “For More Information” section of this brief.

**FIGURE 2**

**Comparative Characteristics of Procurement Options**



**Source:** Raja Rao, Peter Mellon, and David Sarley, *Procurement Strategies for Health Commodities: An Examination of Options and Mechanisms Within the Commodity Security Context* (Arlington, VA: DELIVER, 2006).

**Barriers to Procuring Contraceptives at Lowest Possible Prices**

A number of factors influence the prices that governments and the private sector pay for contraceptives. Some of the barriers to obtaining lower prices for contraceptives include:

**Importation laws that drive up contraceptive prices.** As countries assume responsibility for procuring contraceptives, they often face an additional challenge in taxes on imported goods—tariffs, duties, and value-added taxes. Donated contraceptives usually enter a country free of taxes. Similarly, commodities purchased through UNFPA generally are free of importation taxes because purchases made through international organizations are generally not subject to such taxes. As countries purchase contraceptives on their own or through other procurement agents, those commodities may be subject to tariffs that can represent a sizeable proportion of total costs.<sup>3</sup> A study in Kenya found that pharmaceutical importers pay a 3.0 percent declaration fee and 13.0 percent import and clearance charges.<sup>4</sup> Products imported by the private sector to Brazil are also subject to several taxes: 8.0 percent industrial product taxes; 18.0 percent value-added taxes; 14.0 percent importation taxes; and 9.25 percent social contribution tax. Condoms imported to Brazil are subject only to an importation tax of 12.5 percent, which has a significant effect on the price and allows imported brands to compete with national ones. These two examples illustrate how taxes can severely restrict the private sector’s willingness to enter the family planning market in many countries.

**Limited manufacturing capacity.** In many countries, national competitive bidding for contraceptives and other basic medi-

cines is not an option for contraceptive procurement because they lack the manufacturing capacity. A number of obstacles can stand in the way of local manufacturing, including small profit margins and competition with the global market.<sup>5</sup> Over time, as countries develop greater manufacturing capacities, the local production of high-value drugs, and eventually lower-value pharmaceutical products, could improve access to contraceptives and other medicines, and potentially simplify procurement processes.

**Inconsistent commodity pricing.** One of the goals of procurement procedures is obtaining high-quality products at the lowest available price. On the international market, however, commercial suppliers do not charge a fixed price for a given contraceptive. Rather, they base their prices on several factors, including the quantity to be purchased by the given government, the relationships between suppliers and governments, and the perceived risk of nonpayment or late payment. Because the public sector tends to be the largest procurer

of contraceptives in most countries, it generally gets a lower price than does the private sector. Across countries, the price paid by the public sector can vary. Box 2 illustrates the variation in base price (which includes the cost of the commodity and insurance and freight to the country's port of entry) for injectable contraceptives and IUDs purchased by selected Latin American and Caribbean governments. Brazil's prices for both types of commodities are highest for a number of reasons: its decentralized procurement processes, high tariffs and importation duties, and a restrictive regulatory environment. Peru's prices are lowest because it uses a combination of suppliers, including UNFPA, and because of the presence of a local representative of an Indian pharmaceutical producer.

## Successful Approaches to Obtaining Lower Commodity Prices

A successful approach to getting the lowest procurement price is for governments to consolidate their procurement into one contract managed by a central agency. This approach has been used effectively among several countries, with the contract managed by a central authority. Pooling procurement achieves volume discounts and lower administrative costs. The following examples illustrate three pooling strategies that have been implemented among countries in different parts of the world to reduce public expenditures on contraceptives and medications.

**Central contracting: a central authority acts on behalf of group members.** The Organization of Eastern Caribbean States Pharmaceutical Procurement Service (OECS/PPS) was created to purchase certain types of essential drugs for the ministries of health of nine countries. Each year, the nine member countries of the OECS forecast and pool the quantities of approximately 700 different products (including contraceptives) they will need. The OECS/PPS puts out a bid solicitation for a year-long contract to prequalified suppliers. The process follows strict written guidelines to ensure transpar-

### BOX 1

## Procurement Options for the Public Sector

In most countries, the use of public funds influences the type of procurement options that governments can use. As the volume of the procurement increases, the tendering and bidding process generally becomes more competitive.

- **International competitive bidding** provides a wide range of choices for selecting the best bid offer from suppliers. This type of tendering fosters competitive pricing and greater efficiencies. This procurement option requires longer lead times for advertisement, bid review, and “good manufacturing practices” inspection. Some countries have policies that may restrict or limit international bidding as a way of protecting national industries.
- **Limited international competitive bidding** is typically open only to prequalified suppliers. The limited number of bidders can speed up the process, yet the number of bidders should be broad enough to ensure competitive prices. Because the suppliers are prequalified, purchasers can be confident that the supplier can meet the bidding requirements.
- **National competitive bidding** is less competitive and tends not to attract international bidders because small procurement volumes result in lower revenues and profits.
- **Direct purchasing** is the least-competitive process and usually involves obtaining quotes from a few suppliers. This type of procurement is still subject to ensuring that the best product is purchased for the lowest price. In some countries, national and local governments can use direct purchasing as a rapid response to stock-outs in the public-sector distribution system.

**Source:** Raja Rao, Peter Mellon, and David Sarley, *Procurement Strategies for Health Commodities: An Examination of Options and Mechanisms Within the Commodity Security Context* (Arlington, VA: DELIVER, 2006).

### BOX 2

## Public Sector Contraceptive Prices in Selected Latin American Countries, 2006

COUNTRY	INJECTABLE PRICE (US\$)	IUD PRICE (US\$)
Chile	1.15	0.31
Peru	0.85	0.54
Dominican Rep.	1.08	0.33
Brazil	1.56	0.81

**Source:** David Sarley et al., *Options for Contraceptive Procurement: Lessons Learned From Latin America and the Caribbean* (Arlington, VA: DELIVER; and Washington, DC: USAID | Health Policy Initiative, 2006).

ency. Countries participating in the procurement service agree to purchase exclusively through the service, which ensures that contracted suppliers will have high-volume sales with the public sector and guarantees countries lower prices than they could obtain individually. Also contributing to the success of the OECS/PPS, the Eastern Caribbean Central Bank supports the credit-worthiness of the program and streamlines the funding process by paying the suppliers promptly in foreign exchange.<sup>6</sup>

The Pan American Health Organization (PAHO) offers two other examples of effective central contracting mechanisms with its Revolving Fund for Vaccines and its Revolving Fund for Strategic Public Health Supplies (referred to as the Strategic Fund). Although the Revolving Fund for Vaccines does not deal with contraceptive procurement, it provides an alternative model of pooled procurement. The fund has operated for almost 30 years and provides its 35 member countries with the opportunity to participate and receive a constant flow of vaccines and related supplies for immunization programs. The program secretariat, which is based in PAHO's Washington, D.C., office, buys the vaccines and collects reimbursements from participating countries. Countries must repay the fund within 60 days of receiving the invoice. Suppliers to the program must be prequalified by PAHO, have proof of registration in the country where they operate, and be subject to inspection and certification by authorities. The program has been successful not only because of political commitment and high-quality technical staff, but also because it helps countries plan more effectively, which ensures timely production and delivery of vaccines.<sup>7</sup>

PAHO's Strategic Fund was established in 2000 with the goal of building national capacity in supply management and procurement planning and programming. Countries borrow against the fund and repay within a fixed time frame. The Strategic Fund is available for a number of different types of commodities, including "pharmaceuticals for national health programs in nutrition, child, adolescent, and women's reproductive health,"<sup>8</sup> which should include contraceptives.

**Group contracting: jointly negotiated prices; separate payment terms, delivery, and schedule.** Another cooperative effort for the procurement of medications is the Health Ministers Council (HMC) of the Gulf Cooperation Council (GCC), which is made up of the United Arab Emirates, Bahrain, Saudi Arabia, Oman, Kuwait, and Qatar. Two of the council's functions are managing a central drug registration program, which streamlines contracting, and directing a group purchasing program. The GCC releases a tender to suppliers whose drugs are registered in at least two of the six GCC countries. After the council evaluates the tenders and approves a product or manufacturer, each member country then finalizes its contract with the supplier according to its own established policies—forecasting its own supply needs and schedule for deliveries, and negotiating its own payment terms with suppliers. The countries tender as a group, but each country enters into a separate contract with the supplier. The HMC represents only one aspect of the GCC,

which primarily addresses economic and political issues for the region. Nevertheless, the arrangement provides a solid foundation for pooled procurement of medical products.<sup>9</sup>

**Informed buying: sharing information about prices and suppliers among countries.** Countries can also engage in informed buying, through which they share information about contraceptive prices and suppliers with each other, but procure contraceptives individually (see Box 3). Such an arrangement can take place on an informal basis or in a more coordinated way, through which countries can undertake joint market research and monitor prices as a group.<sup>10</sup> Compared with other forms of pooled procurement, informed buying is the least complex collaboration between countries. For example, over the past few years, the West African Health Organization (WAHO) has pilot-tested a system of coordinated informed buying of medicines and essential products.<sup>11</sup> Sharing information about products and prices—whether formally or informally—can help countries negotiate with manufacturers and suppliers to obtain lower prices for contraceptives.

## Addressing Procurement in a Decentralized Environment

As countries' health sectors decentralize, procurement of contraceptives can continue to be managed at the central level, or it can be turned over to the lower administrative levels (see Box 4). Through centralized procurement, health sectors can obtain lower prices because of economies of scale, which leads to more efficient procurement. When procurement is the responsibility of districts, municipalities, or even facilities, they are not able to achieve these economies of scale, and end up paying higher prices. Centralized procurement is also more likely to respond to the proscribed time schedule for procurement, as well as to have staff who understand how to evaluate product quality. Centralized procurement can also increase suppliers' confidence and encourage more bidders, and ensure that high-quality products enter the family planning programs.<sup>12</sup>

### BOX 3

#### Informed Buying—Online

As an alternative to the formal and informal approaches to informed buying, countries can contribute to and obtain information from the *International Drug Price Indicator Guide*, which is an annual publication of Management Sciences for Health in collaboration with the World Health Organization. The guide is designed to provide probable costs of pharmaceutical products as well as to act as a source for comparing the current prices paid for pharmaceutical products with those paid on the international market. The guide can be accessed at <http://erc.msh.org/priceguide>.

#### BOX 4

## Procurement Options in Decentralized Settings

Centralized procurements can lead to cost savings for a country's health system, regardless of whether the health sector is decentralized. El Salvador's 27 basic health care systems have budget autonomy and independently forecast their needs for drugs and contraceptives. However, the separate systems pool their resources and enter into a joint centralized procurement contract. This approach uses resources efficiently while still allowing each system to make its own decisions.

Ecuador, on the other hand, has 167 autonomous health areas, each of which purchases contraceptives separately from prequalified suppliers. Prequalification ensures a degree of quality, but the contract does not require that contraceptive prices remain constant during the contract period. This situation has led to price fluctuations with each health area paying different prices for the same contraceptives.

**Source:** Alix Beith et al., *Decentralizing and Integrating Contraceptive Logistics Systems in Latin America and the Caribbean, With Lessons Learned From Africa and Asia* (Arlington, VA: DELIVER, for USAID, 2006).

## Next Steps

Effective procurement requires up-to-date information on needed products and quantities. It also requires trained personnel who know how to manage the process. Although contraceptive procurement is subject to local laws and regulations, efforts to share information or to engage in multiple-country partnerships can result in obtaining high-quality products for a lower price. To help governments obtain high-quality contraceptives at the lowest available price, stakeholders need to:

- Build human resource capacity so that contraceptive procurement is efficient and streamlined.
- Advocate for the reduction or elimination of taxes on imported contraceptives to obtain lower commodity prices and to stimulate greater involvement of the private sector in family planning service provision.
- Explore alternative procurement agents, such as UNFPA, that may be able to purchase contraceptives in greater volume and at lower prices.
- Explore the possibility of developing or participating in group contracting mechanisms or other forms of pooled procurement to obtain the lowest prices possible for contraceptives.
- Participate in efforts to share information about contraceptive pricing as a strategy for learning about lower contraceptive prices.

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## For More Information

### PROCUREMENT AGENTS

#### International agencies

- International Committee of the Red Cross: [www.icrc.org](http://www.icrc.org).

#### Public service organizations

- International Dispensary Organization: [www.ida.nl](http://www.ida.nl).
- MissionPharma: [www.missionpharma.com](http://www.missionpharma.com).
- International Contraceptive & SRH Marketing (ICON)/  
International Planned Parenthood Federation: [www.icon-ippf.com](http://www.icon-ippf.com).

#### Commercial procurement agencies

- Crown Agents: [www.crownagents.com](http://www.crownagents.com).
- Charles Kendall Group: [www.charleskendall.com](http://www.charleskendall.com).

### CONTRACEPTIVE PROCUREMENT GUIDANCE

- PATH, *Procurement Capacity Toolkit* (2009), available at [www.path.org/files/RH\\_proc\\_cap\\_toolkit\\_v2.pdf](http://www.path.org/files/RH_proc_cap_toolkit_v2.pdf).
- Tom Merrick and Joanne Epp, *Condom Procurement Guide* (2001), available at <http://siteresources.worldbank.org/INTHIVAIDS/Resources/375798-1103037153392/CondomProcurementGuide.pdf>.
- The World Bank, *Procurement of Health Sector Goods—Index*, available through [www.worldbank.org](http://www.worldbank.org).

### POOLED PROCUREMENT

- World Health Organization, *Multi-Country Regional Pooled Procurement of Medicines* (2007), available at [www.who.int/medicines/publications/PooledProcurement.pdf](http://www.who.int/medicines/publications/PooledProcurement.pdf).

### ONLINE PRICE INFORMATION

- Management Systems for Health, *International Drug Price Indicator Guide* (updated annually), available at <http://erc.msh.org/priceguide>.

## Contraceptive Security: A Toolkit for Policy Audiences

A seven-part series of briefs designed to explain different aspects of contraceptive security to policymakers, program managers, media, and civil society. The topics included in the toolkit are:

- Contraceptive Security for Policy Audiences: An Overview
- Planning for Contraceptive Security: Start With SPARHCS
- Financing Contraceptives: A New Funding Environment
- Procuring Contraceptives: Options for Countries
- Supply Chain: Getting Contraceptives to Users
- Policy Environment: Understanding the Context for Contraceptive Security
- Priority Actions and Recommendations for Contraceptive Security

Each section of the toolkit may be accessed at [www.prb.org](http://www.prb.org).



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