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NICARAGUA

CONTRACEPTIVE PROCUREMENT POLICIES, PRACTICES, AND OPTIONS

NICARAGUA

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DELIVER

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Abstract

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

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

DELIVER
John Snow, Inc.
1616 North Fort Myer Drive, 11th Floor
Arlington, VA 22209 USA
Phone: 703-528-7474
Fax: 703-528-7480
E-mail: deliver_project@jsi.com
Internet: deliver.jsi.com

USAID | Health Policy Initiative TO1
Constella Futures
1 Thomas Circle, Suite 200
Washington, DC 20005 USA
Phone: 202-775-9680
Fax: 202-775-9694/9698/9699
E-mail: policyinfo@healthpolicyinitiative.com
Internet: www.healthpolicyinitiative.com

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ACRONYMS

APROFAM	<i>Asociación Pro Bienestar de la Familia</i> (Association for the Well-Being of the Family [Guatemala])
ARV	antiretroviral (drug)
CANSALUD	<i>Cámara Nicaragüense de Salud</i> (Nicaraguan Chamber of Health)
CIF	cost, insurance, freight
CPR	contraceptive prevalence rate
EDL	essential drugs list
EMPs	<i>empresas médicas previsionales</i> (private medical companies)
FP	family planning
INSS	<i>Instituto Nicaragüense de Seguridad Social</i> (Nicaraguan Social Security Institute)
IPPF	International Planned Parenthood Federation
IUD	intrauterine device
LAC	Latin America and the Caribbean
MERCOSUR	<i>Mercado Común del Sur</i> (Southern Common Market)
MINSA	<i>Ministerio de Salud</i> (Nicaragua Ministry of Health)
NGO	nongovernmental organization
PASMO	Pan American Social Marketing Organization
Profamilia	<i>Asociación de Pro-Bienestar de la Familia Nicaragüense</i> (The Program of the Association for Welfare of the Nicaraguan Family)
PSI	Population Services International
SDP	service delivery point
TFR	total fertility rate
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
USAID	United States Agency for International Development
VAT	value-added tax

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This report 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, Paraguay, and Peru) and a regional practices and options report. All of these documents, as well as the full country assessment reports, are listed in the references for this report and may be obtained directly from the DELIVER and USAID | Health Policy Initiative Task Order 1 projects. Summaries of the country assessment reports can be found on the DELIVER and USAID | Health Policy Initiative Web sites (www.deliver.jsi.com and www.healthpolicyinitiative.com).

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EXECUTIVE SUMMARY

BACKGROUND

In the very near future, Nicaragua will be taking on the responsibility of financing and procuring contraceptives as the United States Agency for International Development and other donor agencies phase out their donations. To prepare for this responsibility, the Government of Nicaragua 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.

Several programs provide and distribute contraceptives in Nicaragua:

- **Ministerio de Salud (MINSAL).** Contraceptive commodities that are distributed by MINSAL (the Ministry of Health) are donated and procured by the U.S. Agency for International Development (USAID) and the United Nations Population Fund (UNFPA). MINSAL distributes these commodities at no cost to the user through its facilities to the entire population.
- **Nongovernmental organizations (NGOs).** The major NGOs—the Pan American Social Marketing Organization (PASMO) and *Asociación de Pro-Bienestar de la Familia Nicaragüense* (Profamilia)—procure their supplies through a procurement agent, such as the International Planned Parenthood Federation (IPPF), and distribute them through their own respective networks of health, service delivery points, and pharmacies.
- **Private sector.** Pharmacies procure from international suppliers and distribute to the general public

OBJECTIVES AND METHODOLOGY

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

The country work included an 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. The prices analyzed represent the total direct costs to each sector, including cost, insurance, and freight (CIF); duty and value-added tax (VAT); administrative and social marketing costs, transportation costs,² and other margins. Fieldwork consisted of interviews with key stakeholders about procurement practices and written laws and regulations, as well as the collection of quantitative price data from various sources, including pharmacies.

² Transportation costs for Nicaragua were not available, but a regional average estimate of nearly 6 percent of the CIF price was used to estimate total costs. It was not possible to separate transportation costs for the NGO sector, so they are included with all other margins and costs, which also include administrative costs, distributor margin, and costs associated with repackaging commodities.

SUMMARY OF MAIN POINTS

LEGAL AND REGULATORY FRAMEWORK

- A national procurement law governs all public sector purchases, allowing international bidding from international organizations and agreements.
- MINSA has a policy to take advantage of economies of scale through centralized procurement.
- Exceptions are made for the purchase of contraceptives and medicines through public tenders if there is an emergency or risk to national security or for direct purchases when local vendors do not exist or if better prices can be obtained.
- Contraceptives are on the essential drugs list (EDL), but contraceptive security is not guaranteed if supplies are not procured in a timely manner.
- Depending on their point of origin, contraceptives are subject to a 15 percent VAT rate and tariffs, but the VAT does not apply to donations and publicly funded purchases.

CONTRACEPTIVE PRICING

There are two important issues to consider about the pricing of contraceptive methods in Nicaragua. First, it has been difficult to obtain homogenous information for the price components of the different methods, particularly from the private sector. Second, with Nicaragua still dependent on donations, the prices in the public sector reflect what international donors can obtain through large bulk procurements. These prices are typically lower than those available to governments that purchase contraceptives directly from international suppliers or from the local market, depending on the supplier.

The purpose of the pricing analysis was to quantify the direct costs associated with contraceptive procurement. There was no attempt to quantify any indirect costs associated with the procurement process or with an individual's access to contraceptive commodities.

To help policymakers make informed decisions on future procurement options, we present the price results for Nicaragua and the price information from other countries in the region where institutions in the public sector already procure their own supplies of contraceptives. Key findings from the pricing study include the following:

- At U.S.\$0.34 per cycle, the CIF price of oral contraceptives in the public sector is roughly 10 percent greater than its NGO sector counterpart (U.S.\$0.31), and is comparable to the mean CIF price paid by public sectors from different countries in the region paid (U.S.\$0.33). Within the NGO sector, Profamilia procures its oral contraceptives through IPPF, and pays the lowest CIF price in the region. The average retail price observed in private pharmacies was U.S.\$5.00.
- The CIF price of donated three-month injectable contraceptives in the public sector is U.S.\$0.78. The mean CIF price for countries within the region where institutions in the public sector procured their own supplies of injectables (U.S.\$0.99) is 27 percent higher than the price of Nicaragua's donated supplies. In this study, it was not possible to compare the NGO CIF price to regional averages, since cost components were not available from Profamilia for this product. The average retail price observed in pharmacies for injectable contraceptives was U.S.\$3.37.
- For comparison, the CIF price of donated intrauterine devices (IUDs) in the public sector is U.S.\$1.63, almost 130 percent higher than the CIF price that the public sector in the Dominican Republic paid through UNFPA (U.S.\$0.71). As with injectables, it was not possible in this study to compare the NGO CIF price of IUDs to regional averages. Instead, the CIF prices from two other organizations in the

region are presented as a means of comparing different procurement strategies. The average retail price observed in private pharmacies for IUDs was U.S.\$4.00.

OPTIONS AND NEXT STEPS

The Government of Nicaragua has favorable reproductive health policies, as demonstrated in its constitution and the creation of the National Reproductive and Sexual Health Strategy 2003–2008, which prioritizes family planning. Additionally, the government has taken important steps in securing financing for the procurement of contraceptives by allocating some initial funds to the MINSA general budget for 2006 and increasing the allocation each year until 2009, when the full amount will be financed.

However, additional issues need to be addressed to move contraceptive security forward in Nicaragua:

- Centralize and consolidate the procurement of contraceptives to take advantage of economies of scale, in the same way that the government procures essential drugs. One method of consolidation is to lobby policymakers and high-ranking MINSA and Ministry of Finance officials to create a protected budget line item for contraceptives, transferring the entire amount of resources budgeted for contraceptives in any given year, and thereby ensuring that this transfer occurs as a one-time allocation rather than four quarterly allocations, as is common practice in many countries.
- Enter into a formal relationship with UNFPA as an international procurement agent to take advantage of UNFPA's low prices and to access further technical assistance on logistics management and procurement as other donors phase out.
- Facilitate a range of suppliers and a choice of additional vendors for consumers outside of the public sector by eliminating the VAT on contraceptives procured by the private sector and NGO funds.
- Engage in informed purchasing based on price comparisons by exchanging price information with other countries. Acquiring comparative information about price discrepancies will give Nicaragua stronger negotiating power with local representatives of international companies (if needed) and thus will secure the best possible price along with better quality contraceptives.
- Take advantage of regional initiatives, such as the harmonization of drug registries in Central America, regional laboratory networks, and pooled procurement (in the case of antiretroviral drugs [ARVs]).
- Along with centralized procurement, explore local procurement options, which may include the use of local companies to deliver contraceptive methods to the service delivery point.

INTRODUCTION

For more than three decades, countries in Latin America and the Caribbean (LAC) have relied on donations from international agencies such as the U.S. Agency for International Development (USAID) to meet the contraceptive needs of their populations. These donations are now being gradually phased out throughout the region. Nicaragua will stop receiving donated contraceptives in the very near future (2008 or 2009), and financing and procurement of contraceptives will soon become the responsibility of the government.

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

As the Government of Nicaragua takes on the responsibility of contraceptive procurement, it will need to consider all procurement options (both 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.

This report presents findings from a legal and regulatory analysis and pricing study of the different procurement options available in Nicaragua between June 2005 and 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 Nicaragua analysis forms part of a broader regional study that assesses the impact of various procurement regulations on the price of contraceptives in nine countries in Latin America and the Caribbean—Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Paraguay, and Peru—and identifies viable strategies for countries to adopt in ensuring access to low-priced, high-quality contraceptives.

METHODOLOGY

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, analysis, and comparison of data on contraceptive prices by method at both the central and regional levels. Fieldwork consisted of interviews with key stakeholders about procurement practices and written laws and regulations, as well as collection of quantitative price data from various sources, including pharmacies.

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

COUNTRY SITUATION

Nicaragua has a population of 5.1 million and an annual population growth rate of 2 percent, making it one of the least populated countries in Central America. Most of the population is concentrated along the Pacific coast, and almost 60 percent of Nicaraguans live in urban areas. From an economic perspective, 80 percent of the population lives below the international poverty line (on less than U.S.\$2 a day), making Nicaragua a low-income country. Nicaragua also has a young population; 63 percent are under 25 years of age, and adolescents (10–19 years old) comprise 26 percent of the total population. The World Bank has categorized the country as being in a “delayed demographic transition,” with total fertility rates decreasing from 4.6 children per woman in 1993 to 3.2 children per woman in 2001 (World Bank, 2006). Fertility remains higher (total fertility rate [TFR] of 4.4) in rural areas than in urban areas (TFR of 2.6) (INEC).

The contraceptive prevalence rate among women between 15 and 49 years of age has increased dramatically over the past decade—from 60 percent in 1998 to 69 percent in 2001. In rural areas, contraceptive use has increased from 51 percent to 62 percent in the same time span. Use of modern contraceptive methods also has increased, from 57 percent in 1998 to 66 percent by 2001, with similar trends in rural and urban areas. As of 2001, a variety of contraceptive methods were in use: voluntary sterilization (37 percent), oral contraceptives (21 percent), injectables (21 percent), intrauterine devices (9 percent), condoms (5 percent), traditional methods (4 percent), and other methods (3 percent) (INEC, 2002).

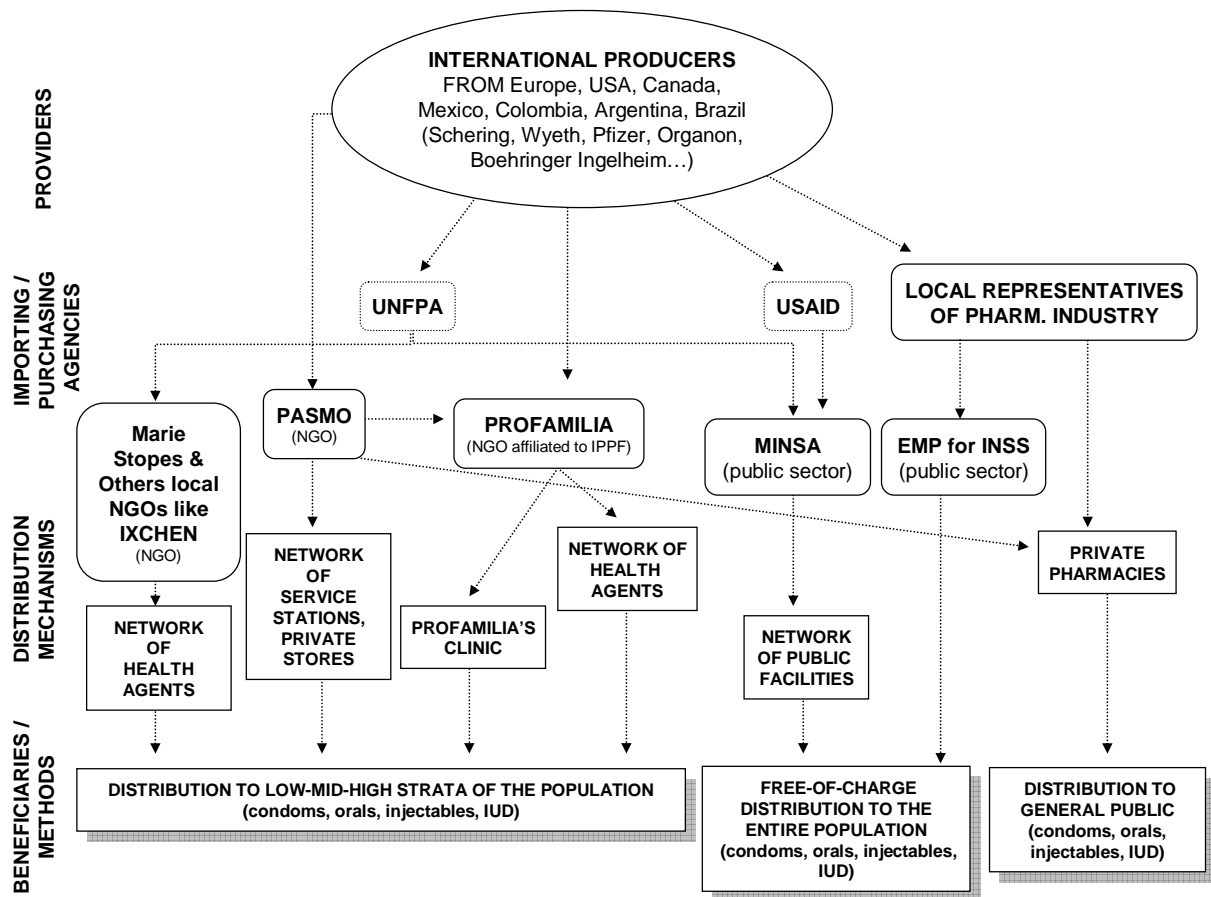
The unmet need for family planning (FP) is lower in Nicaragua (15 percent) than in many countries, but disparities in contraceptive use and unmet need are wide between rich and poor and between urban and rural populations. In addition, the contraceptive prevalence rate (CPR) among those in the lowest socioeconomic quintile is 50 percent, compared with 71 percent in the highest quintile, and unmet need for FP in the poorest quintile (25 percent) is more than double that of the wealthiest quintile (10 percent) (Abramson, et al., 2005).

The Ministry of Health (Ministerio de Salud, or MINSAs) in Nicaragua is the main source of modern family planning methods, serving 64 percent of family planning users as of 2001. The private and nongovernmental sectors serve 34 percent of users, with private pharmacies and the clinics of the local International Planned Parenthood (IPPF) affiliate *Asociación de Pro-Bienestar de la Familia Nicaragüense* (Profamilia) representing the two major private sector providers. Another nongovernmental organization (NGO), the Pan American Social Marketing Organization (PASMO), is a major supplier of quality low cost condoms (INEC, 2002).

As shown in figure 1, contraceptive commodities distributed by MINSAs are donated and procured by USAID (66 percent) and the United Nations Population Fund (UNFPA) (34 percent). In 2004, USAID contributed approximately U.S.\$773,000 worth of commodities. UNFPA contributed approximately U.S.\$395,000 worth. However, donations have been gradually declining since 2006, according to the agreement with MINSAs. USAID is expected to phase out donations in 2008 or 2009, while UNFPA has yet to define when it will cease donations.

Currently there are some national laboratories that repackage imported contraceptive commodities for resale on the local market. Suppliers come from Europe, the United States, Canada, Argentina, Mexico, Colombia, and Brazil, and include Schering, Wyeth, Pfizer, and Organon, among others. These companies provide contraceptives to their local representatives, UNFPA, USAID, private pharmacies, and two social marketing organizations: PASMO and PROFAMILIA.

Figure 1: Distribution Network for Family Planning in Nicaragua



Although Nicaragua has experience in procuring essential medicines, the contraceptive procurement capacity of the public sector remains limited, and the public sector relies on USAID and UNFPA to procure commodities. It is important to note that funding for the UNFPA commodities comes through an agreement with the governments of Norway and Canada. Under the agreement, the Nicaraguan government, over a three-year period, will progressively increase its share of the total (starting from 1 percent in 2006) until the donations are completely replaced by local resources, which is estimated to occur in 2009. USAID and UNFPA are the main donors of contraceptives to the country and to MINSA. In 2006, for the first time, MINSA agreed to purchase U.S.\$9,000 worth of condoms (equivalent to 300,000 pieces) that were both bid and procured locally, while USAID and UNFPA agreed to provide 69 percent and 31 percent of remaining contraceptive needs, respectively. USAID and UNFPA are planning to donate contraceptives to cover demand through at least the first semester of 2008 (UNFPA) and possibly through the end of 2008 (USAID) as well, while MINSA contributes 29 percent of total contraceptive needs. The MINSA percentage represents 16 percent in 2007, 19 percent in 2008, and 20 percent in 2009. MINSA distributes the donated commodities free of charge to the entire population through its network of health system facilities. However, because of the availability of donated products, it is difficult for local distributors to enter the contraceptive commodities market and compete in public tendering and distribution. A long-term phaseout plan will be developed soon to help prepare for eventual decline in donations and sustained contraceptive availability after 2008.

PROFAMILIA distributes family planning methods through its own clinics, as well as through a network of health agents. PROFAMILIA procures contraceptives principally through IPPF, which is able to

process orders more rapidly than UNFPA. PROFAMILIA is also codistributor of condoms for PASMO. PASMO acquires its contraceptive methods directly from international vendors and distributes them through a network of service stations, stores, and private pharmacies. Marie Stopes International and other local NGOs, such as IXCHEN, receive donations from UNFPA and distribute them to low-income populations through a network of health agents, but also buy some contraceptives from PROFAMILIA.

Contraceptive methods in the private sector come from local representatives of international companies, while condoms come from PASMO. They are distributed to the general public through non-traditional and at-risk outlets.

Likewise, the *empresas médicas previsionales* (EMPs), which are private medical attention centers contracted by the Nicaraguan Social Security Institute for health care service delivery, procure their own contraceptives on a smaller scale from the commercial market in country. The Nicaraguan Chamber of Health (*Cámara Nicaragüense de Salud*, CANSALUD) is exploring alternative procurement mechanisms for these companies.

CONTRACEPTIVE PROCUREMENT POLICIES

LAWS THAT GOVERN THE PROCUREMENT OF MEDICINES/CONTRACEPTIVES

The national procurement law (Ley 323, approved in 2000) and its accompanying regulations that govern public sector purchases and contracting of goods and services are intended to regulate and guarantee the efficient and transparent use of public sector funds in Nicaragua. The law applies to all public sector entities, including public banks and financial institutions, universities, and municipalities. To implement the law, each government operational unit has its own procurement unit. In general, the law does not allow for international bidding except in a few cases, such as when funds come from international organizations or are related to international agreements.

The law establishes four **procurement modalities** to be used for purchasing goods with public sector resources: *public tenders*, which are open to all vendors for procurement amounts over 2.5 million córdobas (approximately U.S.\$148,368); *tenders by invitation*, which require that up to ten suppliers participate in procurements between 700,000 and 2.5 million córdobas (between approximately U.S.\$41,543 and U.S.\$148,368); *restricted tenders*, in which more than three and fewer than five suppliers must participate in procurement amounts between 100,000 and 700,000 córdobas (U.S.\$5,935 and U.S.\$41,543); and *purchase by competitive pricing*, in which up to three suppliers are included in procurements of no more than 100,000 córdobas (U.S.\$5,935). MINSA has a policy of centralized procurement to take advantage of economies of scale and quality control. Although the law favors local procurement, MINSA is not procuring contraceptives yet; rather, it is in the process of negotiating an agreement to purchase its supplies of contraceptives through UNFPA. The national procurement law does not offer any options for international procurement. Instead, it allows for national procurement only from entities that are listed in the Central Provider Registry, which is administered by the Ministry of Finance and Public Credit.

The national procurement law and regulations allow for only two **exceptions** for the purchases of contraceptives and medicines through public tender (three other exemption mechanisms exist, but they deal with the use of funds that do not come from the public treasury, such as funds from other governments and international organizations). The first exception is in cases of emergencies or risks to national security. The second, which pertains to purchases related to the “public interest,” permits direct purchases when local vendors do not exist or when better commodity prices can be obtained elsewhere.

Including contraceptive commodities on the **essential drugs list (EDL)** and drug registry (*registro sanitario*) is an important part of Nicaragua’s move toward contraceptive security. Any medication that is produced in or imported to Nicaragua to be sold as a commercial product must be included in the drug registry, demonstrating that the products are both of high quality and beneficial for health. Pharmaceutical products that are included on MINSA’s EDL—as contraceptives are—receive preferential treatment for getting on the drug registry. The firm producing the contraceptives undertakes the registration process. The procedure is straightforward and takes between six months and a year. Although including contraceptives on the EDL and the drug registry facilitates progress toward achieving contraceptive security, it does not ensure security because there is no certainty that adequate supplies will be procured.

It is worth noting that UNFPA-donated commodities need to be included on the list of approved medicines, even though they enter the country as donations and not as commercial products. It is the responsibility of the manufacturer to obtain the registration.

Contraceptive methods are subject to a value-added tax (VAT) rate of 15 percent and to import taxes, depending on their country of origin. Donations and purchases made with public funds are exempt from both VAT and import taxes.

CURRENT PROCUREMENT MECHANISMS

PUBLIC SECTOR MECHANISMS

Currently, MINSA does not procure any contraceptives. USAID and UNFPA donate them, and each donor uses its own procurement mechanisms. Neither UNFPA's nor USAID's donations are subject to importation tariffs or VAT.

INSS

The Nicaraguan Social Security Institute (INSS) is not a direct provider of health services. Instead, it contracts with *empresas médicas previsionales* (EMPs), which receive a capitation rate to provide medical services to the insured, the insured's spouse, and the insured's children up to age 12. Family planning services are available only to insured persons, not to spouses. Thus, any contraceptive commodities procured by EMPs are subject to the same procurement practices and mechanisms as the rest of the commercial sector.

NGO SECTOR

PROFAMILIA, the IPPF affiliate in Nicaragua, stopped receiving donations from USAID in 2005. It provides family planning through its 16 primary health care clinics and more than 1,000 community promoters. PROFAMILIA is in the process of having some of its clinics classified as EMPs in order to serve INSS clients. PROFAMILIA procures contraceptives through IPPF, which takes approximately three months (compared to the eight months required to procure contraceptives through UNFPA). It also procures condoms from PASMO.

PASMO is a social marketing NGO, partnering with Population Services International (PSI) in Central America, and it has a large share of the condom market in Nicaragua. Currently, it is preparing to expand its product line to include other contraceptive methods.

CONTRACEPTIVE PRICING

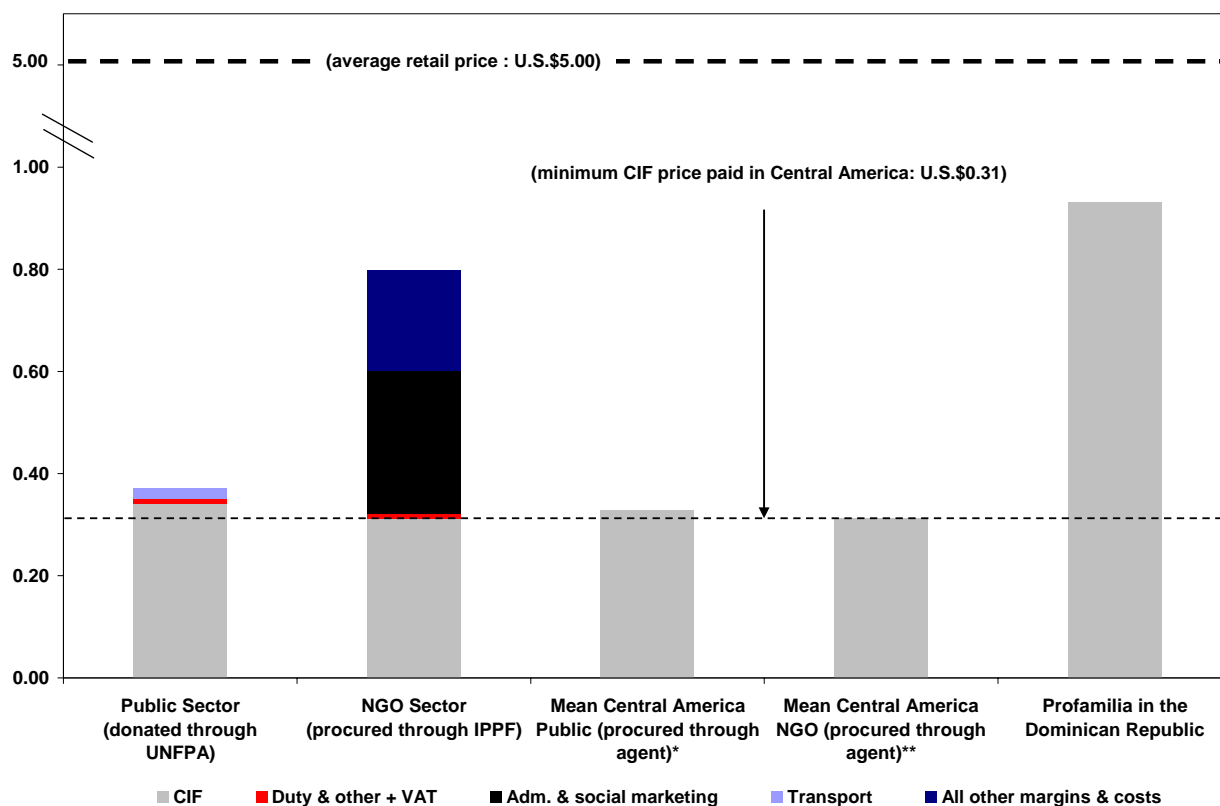
The purpose of the pricing analysis was to attempt to quantify the direct costs associated with contraceptive procurement within the public, NGO, and private sectors. There was no attempt to quantify any indirect costs associated with the procurement process or with individual's access to contraceptive commodities. There are two important issues to consider with regard to the pricing of contraceptive methods in Nicaragua. First, it has been difficult to obtain homogenous information for the price components of the different methods, particularly from the private sector. Second, because Nicaragua is still dependent on donations, the prices in the public sector reflect the prices that international donors can obtain through large bulk procurements. Depending on the supplier, these values are typically lower than those available to governments that purchase contraceptives directly from international suppliers or from the local market. Future prices will depend on the decisions that the Nicaraguan public sector makes with regard to its procurement practices, and may be either as low as or higher than those available to donors. To help policymakers deal with these issues, we present the price results for Nicaragua, along with regional and international reference prices for selected contraceptive methods.

Figures 2 through 4 show the price components for oral contraceptive methods, injectables, and intrauterine devices (IUDs) in Nicaragua. The figures also present the lowest and the mean cost, insurance, and freight (CIF) prices for methods from public and NGO sectors of the following Central American and Caribbean countries participating in the study: the Dominican Republic, El Salvador, Guatemala, and Honduras.

ORAL CONTRACEPTIVE PRICE STRUCTURE

Figure 2 shows the price structure for oral contraceptives in the public, NGO, and commercial sectors, as well as mean regional CIF prices from select countries whose current situations represent possible future procurement scenarios for Nicaragua. At U.S.\$0.34 per cycle, the CIF price in the public sector is roughly 10 percent higher than its NGO sector counterpart (U.S.\$0.31). Since the Nicaraguan government faces the challenge of procuring contraceptives in the future, it is relevant to present the mean CIF price for countries in the region where institutions in the public sector already procure their own supplies of oral contraceptives. At U.S.\$0.33, the mean regional public sector CIF price is comparable to what the Nicaraguan government currently receives in donations. Of further interest, all three countries included in the regional average purchase their supplies of orals through a procurement agent—the Dominican Republic and El Salvador use UNFPA, while Honduras has used the United Nations Development Programme (UNDP) and is planning to switch to UNFPA in the near future.

Figure 2: The Price Components of Oral Contraceptives in Nicaragua



Source: Data collected by JSI.³ 2005 US dollars.

* Countries in the region whose institutions in the public sector procure oral contraceptives through an agent are the Dominican Republic, El Salvador, and Honduras.

** In El Salvador, Guatemala, Honduras, and Nicaragua, NGOs procure oral contraceptives through an agent.

Within the NGO sector, Profamilia procures its own oral contraceptives through IPPF at a CIF price that is the lowest in the region. Looking at a broader comparison of NGO sector prices, it is important to note that every country included in the analysis for Central America and the Caribbean procured its own supplies of oral contraceptives, albeit through different mechanisms. Four of the five countries procured their products through IPPF and thus obtained a CIF price equal to that in Nicaragua. In the Dominican Republic, however, the NGO sector (in this case Profamilia/Dominican Republic) procured orals directly from the international market at a CIF of U.S.\$0.93, three times the price that Profamilia (Nicaragua) was able to obtain. This type of information is important to evaluate when choosing a source of supply for contraceptive commodities. In this case, it is favorable to purchase orals from a procurement agent rather than from the international market.

To have a more realistic picture of the price in the public sector, it is important to add duty and other importing related costs as well as transportation costs. These first two costs were extracted from data collected in the field. However, the Nicaraguan public sector did not provide transportation costs, which

³ These data include a 5 percent estimate corresponding to the administrative costs generally charged by UNFPA when it acts as the purchasing agency instead of as a contraceptive donor.

had to be estimated from actual transportation costs in the rest of the region.⁴ It was not possible to separate transportation costs for the NGO sector, so they are included under label “all other margins and costs,” which also includes administrative costs, distributor margin, and costs associated with repackaging commodities.

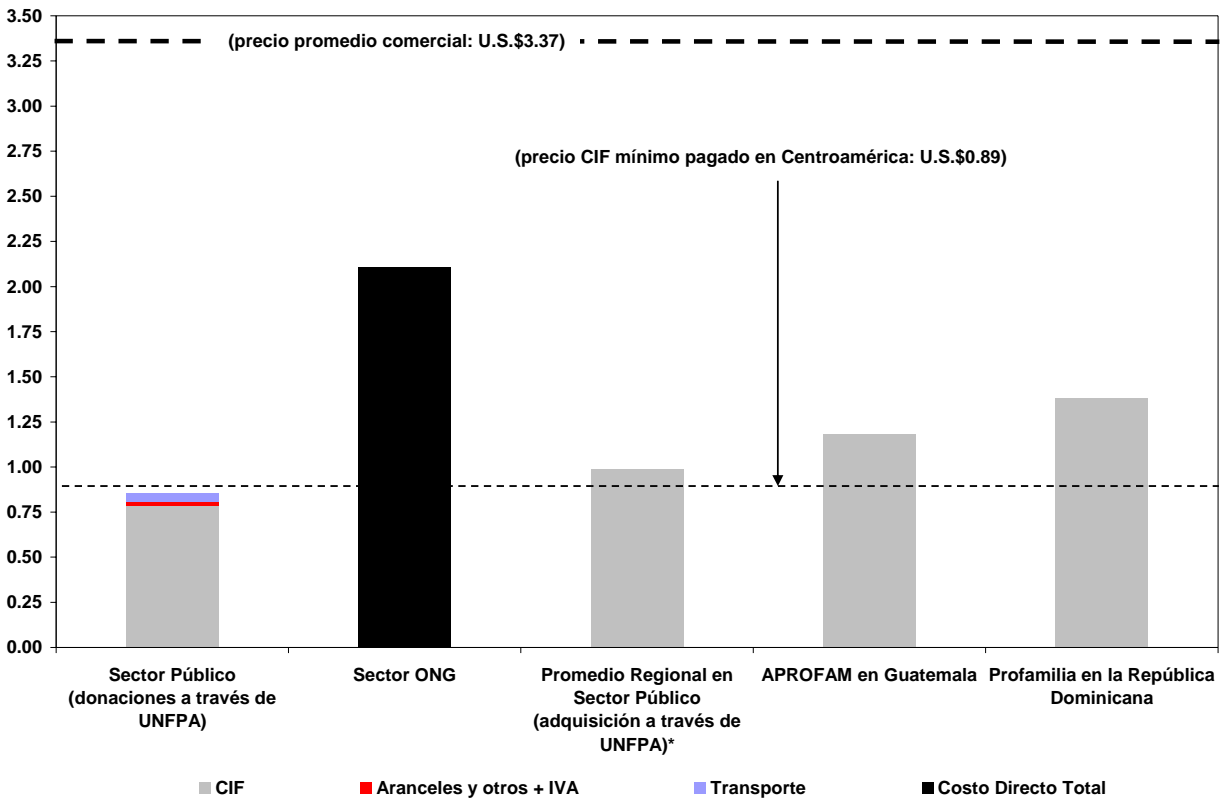
The total direct cost in the public sector is U.S.\$0.37 per cycle, 92 percent of which represents the cost of the commodity (i.e., CIF). In the NGO sector, on the other hand, the total direct cost of a cycle of oral contraceptives is U.S.\$0.80, of which the CIF represents just 39 percent. The bulk of the cost in the NGO sector comprises “administration and social marketing” (35 percent) and “all other margins and costs” (25 percent), which includes transport costs. Furthermore, the average retail price observed in private pharmacies was U.S.\$5.00. In the absence of a well-structured plan to procure oral contraceptives from the international market or through a procurement agent, the Nicaraguan public sector could face prices as much as 14 times higher if obliged to procure oral contraceptives at the local market price. A situation of this sort would seriously compromise the public sector’s ability to make contraceptives accessible to its target population.

INJECTABLE CONTRACEPTIVE PRICE STRUCTURE

Figure 3 shows prices for three-month injectable contraceptives (e.g., Depo Provera) in Nicaragua, with price components for the public sector as well as the mean CIF for Central America and the Caribbean and the minimum CIF price obtained in the region. Detailed price components were not available for the NGO sector, so a total price is presented instead. Figure 3 also shows the average retail price for injectables in private sector pharmacies.

Figure 3: The Price Components of Injectables in Nicaragua

⁴ Average transport costs for Central America and the Caribbean are estimated as 5.95 percent of the CIF price. Interestingly, this estimate was higher than the mean transport costs obtained from the countries in South America (3.4 percent).



Source: Data collected by JSI.⁵ 2005 US dollars.

* Countries in the region whose institutions in the public sector procure injectables are the Dominican Republic and El Salvador.

At U.S.\$0.78, the CIF price of donated injectables in the public sector is approximately 12 percent lower than the minimum CIF price paid in the region. In planning for the future procurement of injectable contraceptives, it may be helpful for the Government of Nicaragua to consider the mean CIF price for countries within the region that procured their own supplies of injectables (U.S.\$0.99), which is 27 percent higher than the price of Nicaragua’s donated supplies. International reference CIF prices for injectables are around U.S.\$0.95.

Because cost components were not available from Profamilia for this product, it was not possible to compare the NGO CIF price to regional averages in this study. Nonetheless, it is still useful to examine the CIF prices that organizations in neighboring countries were able to obtain for injectables. APROFAM in Guatemala procured its supplies through IPPF at a CIF price of U.S.\$1.18. In contrast, Profamilia in the Dominican Republic procured injectables directly from the international market at a CIF price of U.S.\$1.38, an increase of 17 percent over APROFAM’s price. These data suggest that, as in the case of oral contraceptives, purchasing through a procurement agent is more efficient than purchasing from the international market.

When other cost components are taken into account, the total direct cost in the public sector rises to U.S.\$0.85, of which 92 percent is the actual cost of the commodity, and importing and transport costs make up the remaining portion of the cost.

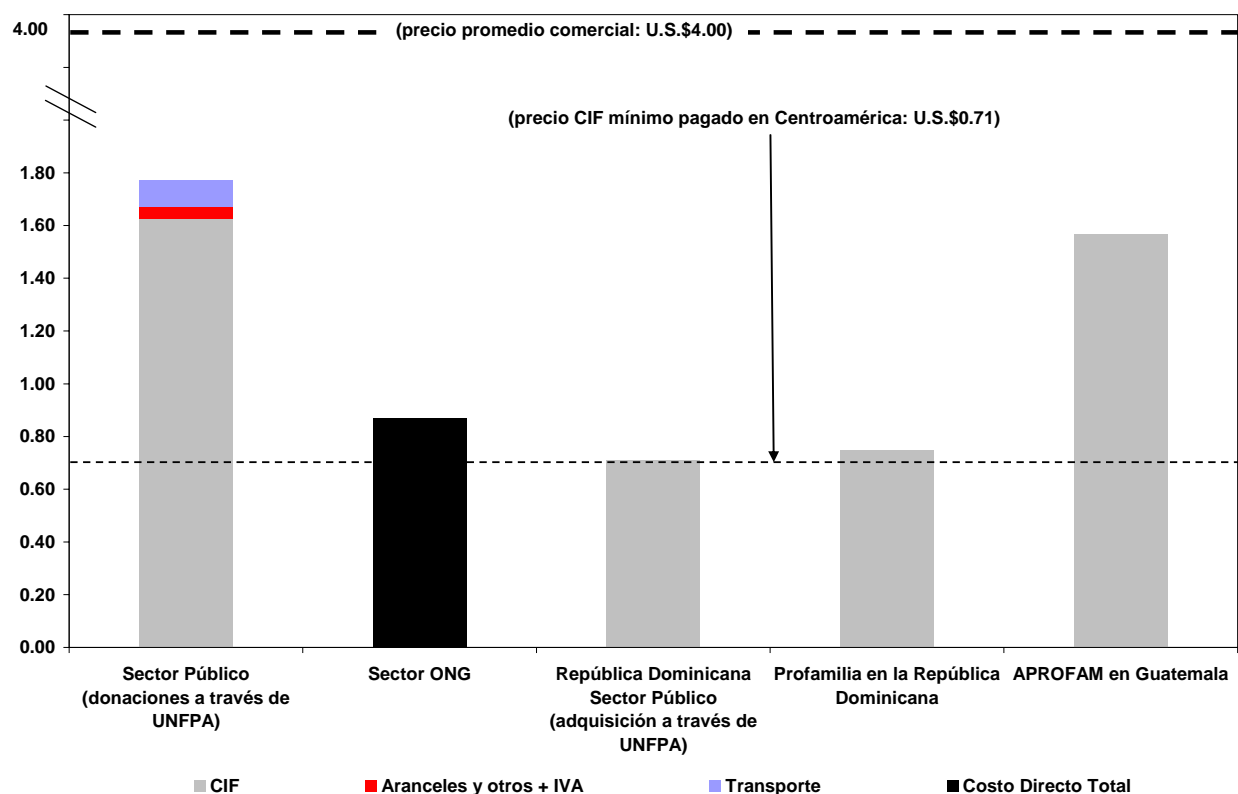
⁵ It includes a 5 percent estimate corresponding to the administrative costs generally charged by UNFPA when it acts as the purchasing agency instead of as a contraceptive donor.

Finally, the total direct cost of injectable contraceptives in the NGO sector (U.S.\$2.11) and the average retail price (U.S.\$3.37) are 148 and 296 percent greater, respectively, than the total direct cost of donated commodities in the public sector. This situation is not quite as extreme as for oral contraceptives, but it could still undermine contraceptive security in Nicaragua if no efficient alternative is developed to procure injectables at lower prices.

IUD PRICE STRUCTURE

Figure 4 shows similar information on prices and cost components for IUDs. Results are presented for the public sector as well as for the NGO and private sectors in Nicaragua. As in the case of injectables, price components were not available for the NGO sector. A total price is presented instead.

Figure 4: Price Components of IUDs in Nicaragua



Source: Data collected by JSI. 2005 US dollars.

Figure 4 shows that the CIF price of donated IUDs in the public sector is U.S.\$1.63. For planning purposes, the figure includes the CIF price paid by the public sector in the Dominican Republic, which procured IUDs through UNFPA at the lowest CIF price available in the region (U.S.\$0.71).

As with injectables, it was not possible to compare the NGO CIF price of IUDs to regional averages. Instead, the CIF prices from two other organizations in the region are presented as a means of comparing different procurement strategies. APROFAM in Guatemala procured IUDs through IPPF at a CIF price of U.S.\$1.57, while Profamilia in the Dominican Republic obtained them from the international market at a CIF price of U.S.\$0.75, roughly half the APROFAM price. In this case, Profamilia (Dominican Republic) was able to obtain a better price from the international market.

Finally, the public sector has a total direct cost of U.S.\$1.77, almost twice as much as the NGO sector total direct cost of U.S.\$0.87. If the Nicaraguan government chooses not to purchase its supply of IUDs through a procurement agent and instead relies on the local market, the average pharmacy price for IUDs would be U.S.\$4.00, more than 125 percent and 350 percent greater than the public sector total direct cost and NGO total direct cost, respectively. This scenario would limit MINSA's ability to supply users with this contraceptive method.

OPTIONS AND NEXT STEPS

Currently, MINSA does not procure any contraceptives, although procurement has been planned for the near future. MINSA included some funding for contraceptive procurement for 2006 and 2007, with a gradual increase each year until MINSA becomes the sole procurer (projected to be by 2009). USAID and UNFPA donate commodities, with each donor using its own procurement mechanisms. As donors prepare for phaseout and the Government of Nicaragua prepares to procure its contraceptives, several options need to be considered.

ASSIGN BUDGET LINE ITEM FUNDS FOR CONTRACEPTIVE COMMODITIES

Without a legally protected line item, the availability of public sector resources for contraceptive procurement will be left to the discretion of government officials. As a result, cash flow and treasury management constraints, as well as competing health demands, can undermine the ability of the Ministry of Finance to make all the necessary funds available. Establishing a legally protected line item for contraceptives in Nicaragua could provide some key advantages: it would increase the probability that the Government of Nicaragua will transfer the entire amount of resources budgeted for the purchase of contraceptives in any given year; it would prevent funds earmarked for contraceptives from being used for other health issues and essential medicines; and it would increase the cost-effectiveness of the procurement process by allowing transfers to occur yearly rather than quarterly, as is common practice in many countries. Under these circumstances, MINSA could make one large annual bulk purchase of contraceptives rather than four smaller purchases, facilitating greater economies of scales and substantial savings to the government.

STRENGTHEN PROCUREMENT CAPACITY TO INCLUDE CONTRACEPTIVES

To anticipate the phaseout of commodities, Nicaragua will be required to build the capacity of its public sector staff to manage the contraceptive procurement process on their own for contraceptives, including monitoring the performance of selected vendors and monitoring the bidding process. Building upon expertise at the decentralized level to inform centralized procurement of contraceptives, the public sector needs to ensure that contraceptives are also of high quality and procured in an efficient manner.

CONSIDER WORKING WITH UNFPA AS A CONTRACEPTIVE PROCUREMENT AGENT WHILE DOMESTIC PROCUREMENT CAPACITY IS BEING DEVELOPED

To make the adjustment from donor-procured to self-procured contraceptives, Nicaragua should consider using UNFPA as both a procurement agent. Strengthening procurement capacity for contraceptives requires specialized regional training so that those responsible for procurement are familiar with contraceptive specifications, can correctly define bid requirements, are equipped to evaluate bid quality, and can monitor and evaluate bid performance.

ELIMINATE VAT AND TARIFFS ON CONTRACEPTIVES

Current regulations on charging VAT on contraceptive imports paid for by nonpublic funds discourage NGOs and the private sector from procuring contraceptives and offering an alternative, affordable source of contraceptives in Nicaragua. The Government of Nicaragua 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 affect price as well as breadth of quality suppliers, and to begin to determine whether there is any possibility of reforming or removing these restrictions. Seeking a duty exemption would require making a case to the Ministry of Finance for exempting from tariffs and taxes

either (1) all medicines on the EDL or (2) only those medicines that do not enter through the commercial route. There are precedents for such tax exemptions. In most countries, vaccine purchases are exempt from taxes because immunization is considered a health priority and vaccines have a protected status. In El Salvador, contraceptives purchased with public sector funds through UNFPA are exempt from import taxes if they are introduced into the country using a Presidential Decree (*Franquicia Presidencial*).

ENGAGE IN INFORMED PURCHASING ON THE BASIS OF PRICE COMPARISONS

Price is one of the most important factors to consider when identifying new procurement options.⁶ Securing the best possible price for high-quality contraceptives is vital for achieving contraceptive security in the absence of donor funding. As such, comparative information about prices of both brand-name products and generics offered by different local and international suppliers is critical for decision makers in Nicaragua as they identify contraceptive procurement options.

Pharmaceutical companies offer different prices for the same product to different countries. As a result, countries with better economic conditions may pay more for a given product. Exchanging price information with other countries will provide the Government of Nicaragua with information about such discrepancies, thereby giving it stronger negotiating power with local representatives of international companies. Sharing such information with other countries may also inform the Government of Nicaragua about new sources that other countries are using that may be options for Nicaragua in the future. Advocacy with other countries within the region to establish a price comparison tool to identify best prices among different local and international suppliers of contraceptives and medicines would be helpful in keeping decision makers informed about all price and supply options.

Box 1: The advantage of price comparisons—the example of Peru

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

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

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

IMPLEMENT CENTRALIZED AND CONSOLIDATED PROCUREMENT

When deciding on procurement options, MINSA needs to consider the advantage of centralized, bulk procurement of contraceptives, which contributes to economies of scale and better prices. The Government of Nicaragua can continue to use this option in the same way that it procures essential drugs and other public sector supplies.

Maximizing the price advantage of centralized bulk procurement will require the Government of Nicaragua to continue to make the annual contraceptive budgetary requirement available in its entirety once a year.

⁶ Other important factors to consider include quality, availability of product in sufficient quantities, and timeliness.

TAKE ADVANTAGE OF REGIONAL INITIATIVES

Regional integration initiatives like the Central America Free Trade Agreement and harmonization initiatives may provide important opportunities for the Government of Nicaragua as it seeks to improve procurement efficiency, expand contraceptive procurement options, and obtain better prices. Box 2 presents some examples of regional harmonization that have facilitated drug registration and inspection processes in Central and South America. The Government of Nicaragua should explore similar possibilities with other countries in the Caribbean. In the longer term, the Government of Nicaragua could also look into options for regionally pooled procurement or regional price negotiations (such as the case of antiretroviral medicines in the Andean countries) and the use of regional laboratories networks for quality assurance. Such regional initiatives have the benefits of significant cost savings through economies of scale and by simplifying bioequivalence testing processes.

Box 2: Some examples of regional harmonization

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

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DELIVER

John Snow, Inc.

1616 North Ft. Myer Drive, 11th Floor

Arlington, VA 22209 USA

Tel: 703-528-7474

Fax: 703-528-7480

www.deliver.jsi.com

USAID | Health Policy Initiative

Constella Futures

1 Thomas Circle, Suite 200

Washington, DC 20005 USA

Tel: 202-775-9680

Fax: 202-775-9694/9698/9699

www.healthpolicyinitiative.com