

# Policy Issues in Planning and Finance

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## Creating Conditions for Greater Private Sector Participation in FP/RH: Benefits for Contraceptive Security

- Contraceptive security requires comprehensive and integrated approaches that go beyond the public sector.
- Private sector involvement is critical not only in helping respond to growing market demand but also in ensuring equity in the contraceptive market.
- Redirecting well-off clients to the private sector will free up scarce donor and public resources for those most vulnerable and in need.
- Governments and donors cannot mandate private sector expansion and roles; however, they can create favorable conditions that induce private providers to enter the FP/RH market.

*POLICY Issues in Planning and Finance*, a series of policy briefs, presents the findings and implications of POLICY-supported research. The series is intended to focus attention on the importance of developing a favorable policy environment that encourages appropriate and adequate FP/RH and HIV/AIDS program financing.

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# Creating Conditions for Greater Private Sector Participation in FP/RH: Benefits for Contraceptive Security

## Introduction

As a result of population growth and changing preferences for family size, the number of people needing family planning services in developing countries is likely to increase by an estimated 217 million during 2000–2015. The additional contraceptive commodities required to satisfy this growing demand are considerable (see Table 1) and have significant budgetary implications for both governments and households in the developing world. The United Nations Population Fund (UNFPA) estimates the total costs of family planning and related services in developing countries (excluding China) at US\$572 million in 2000 (Ross and Stover, 2002).

Year	2000	2015
Pill Cycles	596	14,000
Injectables	82	1,600
Condoms	3,000	105,000
Source: Ross and Stover, 2002		

To date, more than 50 percent of all contraceptive users in the Central Asian Republics, sub-Saharan Africa, the Middle East and North Africa, and Asia have been served by public sector programs. Governments, in turn, depend heavily on donors and have done so for the past three decades. Nonetheless, donor funding is hardly sufficient to meet current contraceptive needs, and there is no indication that donor commitments will meet rapidly increasing demand.

With donor support lagging behind contraceptive demand and government budgets facing a wide array of competing public health needs—not least of which is the HIV/AIDS pandemic—stimulating private sector involvement in the contraceptive market is becoming increasingly urgent.

Private sector involvement is critical not only in helping respond to growing market demand but also in expanding consumer choices and ensuring equity in the contraceptive market. Evidence from many countries shows that the nonpoor benefit disproportionately from free and subsidized public sector services and commodities (Winfrey et al., 2000). A recent analysis of 10 donor-dependent countries reveals that 45 percent of pills and 56 percent of condoms supplied, respectively, by the public sector and social marketing initiatives went to those who could otherwise afford to pay for them (Sine, 2002). Redirecting wealthier/middle-income clients to the private sector will free up scarce donor and public resources for those most vulnerable and in need. A recent market segmentation study in the Philippines shows that shifting middle- and high-income users of government services to the private sector would reduce the burden on the public sector by more than 40 percent (Alano et al., 2002).

It is important to recognize that more than one-third of all family planning users in the developing world already obtain contraceptives from the private sector (Rosen and Conly, 1999). In countries such as Cameroon, Colombia, the Dominican Republic, Ghana, and Jordan, more than 60 percent of users obtain their contraceptives from private rather than public sources (Ross et al., 1999). Given that the private sector in many countries is already a major player in the contraceptive market, any feasible contraceptive security plan needs to take into consideration the private sector's current and potential role.

This policy brief provides an overview of processes, strategies, and tools that developing countries can adopt to foster complementary public/private sector roles that enhance the private sector's contribution to contraceptive security.<sup>1</sup> Specifically, the brief

- Examines the roles of the public and private sectors in the provision of contraceptives and condoms; and
- Describes strategies/mechanisms used at both the policy and operational levels to mobilize the private sector.

Two basic tenets underlie this paper. First, involving the private sector is just one of many interventions necessary for filling the resource gap and meeting a country's contraceptive needs. It needs to be implemented in conjunction with other interventions, including those directed at mobilizing government and donor resources, promoting the efficient use of existing public sector resources, and coordinating the allocation and use of financial and other resources from multiple sources. Second, private sector involvement is most viable in middle-income countries, where demand for contraceptives is relatively high, and a potential market for the private sector exists. In low-income countries, where there are competing demands on scarce household finances for basic necessities, the demand and ability to pay for contraceptives is likely to be low and, therefore, heavy investment in stimulating the private sector may not be deemed a high priority. However, even in these countries, some focused efforts to set in place conducive policies, remove significant regulatory barriers, and adapt systems that will facilitate private sector involvement at a later stage may be worthwhile investments.

The next section of this brief describes the private sector in terms of provider types, service delivery channels, funding, and contraceptive sources, brands, and prices. The remainder of the brief describes three critical steps for mobilizing the private and public sectors to achieve contraceptive security: (1) understanding the market and policy environment within which the two sectors operate; (2) involving the private sector in planning efforts to foster a policy environment conducive to change; and (3) clearly defining and balancing public/private roles.

## **What Is the Private Sector?**

The private sector is made up of health providers, manufacturers, importers, distributors, and retailers. It can be divided into three subsectors: commercial entities, nongovernmental organizations (NGOs), and social marketing organizations.<sup>2</sup> The main sources of funding for the private sector are out-of-pocket spending, third-party payments, donors, and the government. Table 2 describes the private sector's service delivery channels, funding sources, brands, and pricing.

**Table 2. Private Sector Service Delivery Channels**

<b>Provider Type</b>	<b>Service Delivery Channels and Distribution</b>	<b>Sources of Funding and Contraceptive Supplies</b>	<b>Brands and Pricing</b>
<b>Commercial entities</b>	Private for-profit clinics, solo practitioners, pharmacies, workplace-based clinics, mom-and-pop shops, and other commercial outlets	Out-of-pocket spending by consumers and third-party payments	Brand-name products that are perceived to be of high quality and sold to clients at market prices. Social marketing products are also sold through commercial channels.
<b>NGOs</b>	Not-for-profit clinics/outlets, community-based distribution networks, outreach workers	Donors and governments, as well as revenue generated through business ventures and/or contraceptive sales	Pricing varies, with some contraceptives being sold at affordable prices and others being sold at or slightly above cost.
<b>Social marketing schemes</b>	Commercial outlets, NGO clinics, community-based distribution networks, and, occasionally, public sector facilities	Subsidies from donors and governments to create demand for modern contraceptives and ensure supply at affordable prices	A range of different brands; some are highly subsidized and sold at very low prices to low-income clients. Others are sold at cost or with a profit margin and are targeted to middle-income clients.

## **How to Mobilize the Public and Private Sectors to Achieve Contraceptive Security**

The process of engaging the private sector as a true partner with the public sector in a country’s contraceptive security strategy involves several steps. It requires the public sector to (1) create a favorable policy environment that promotes and supports private sector involvement and initiative; (2) recognize and define its niche and target population; and (3) communicate clearly its defined role and market niche to private sector stakeholders while indirectly or directly encouraging them to react to favorable opportunities in the contraceptive market.

It is important to emphasize that governments and donors cannot mandate private sector expansion and roles. However, by clearly demonstrating the opportunities for private sector involvement in the contraceptive market and by fostering an enabling policy environment, they can create favorable conditions that induce private providers to expand their participation in the FP/RH market. Governments and donors can, for example, encourage the private sector to demonstrate its commitment to contraceptive security goals through tangible market initiatives. At the same time, governments and donors can engage in advocacy demonstrating that socially responsible behavior by the private sector can improve private interests’ social image and attract more business.<sup>3</sup>

## **Step 1. Understanding the Market and Policy Environment**

### **Assessing the Policy and Financing Environment**

The policy environment affects all aspects of contraceptive security and influences the private sector's activities and priorities along several dimensions. Knowledge of policies, laws, and regulations that affect private providers and commodity availability can help promote policy dialogue and determine needed policy reforms. An assessment of the policy, legal, and regulatory environment helps identify opportunities and challenges for both the public and private sectors. Assessment findings help in answering questions such as the following:

- Does current government policy support public/private partnerships? Does it specify the public sector niche and advise various segments of the private sector of opportunities for greater partnership involvement?
- Do government regulations hinder private sector participation? Such regulations may include import and/or distribution restrictions, duties and taxes, product registration requirements, price controls, cumbersome production requirements, and so forth. Do other regulatory barriers constrain the client's ability to choose, obtain, and use contraceptives and condoms from the commercial, private, and NGO sectors? If barriers exist, their elimination or relaxation can encourage private sector participation.
- Does a viable private sector exist? To what extent do the private sector's segments participate in health/FP service delivery? What are the respective social and economic interests of the private sector's various segments—health providers, manufacturers, importers, distributors, and retailers? What are the financial threats/opportunities for the private sector?
- What are the current and potential sources of funding for RH commodities, including alternative funding mechanisms? An assessment of current sources and flows of funds, projected needs, and the current/future resource gap will help determine the magnitude and distribution of funding from different sources.
- How do health-sector reforms, including decentralization, integration, and financing, affect contraceptive security and private sector participation?
- Who are the major stakeholders that influence decision making, and what are their positions on contraceptive security? Understanding stakeholder profiles and interests is an essential step in fostering partnerships, coordination, and collaboration among ministries, donors, cooperating agencies, NGOs, and the commercial sector. It can help pave the way for multisectoral planning and funding for contraceptive security.

### **Assessing the Market**

A market assessment is critical to understanding the forces that drive the various segments of the private sector, for example:

- What is the extent and nature of competition within the private sector? How many competitors are there, and what are their relative market shares? Are they local independent commercial ventures or subsidiaries of larger national or international enterprises?

- What are their strategic business goals (e.g., required return on investment, profit margins, market strategies)?
- What are the barriers to market entry and exit?

A market assessment is similarly critical to understanding the relative roles and responsibilities of different players in the contraceptive market. It can provide answers to questions such as the following:

- Who are the providers of contraceptives and condoms? What types of commodities, methods, and brands do they provide? At what prices?
- What are the sources of funding for different contraceptive methods and brands?
- What are the socioeconomic and demographic profiles of consumers? How much are consumers willing and able to pay for contraceptives and other RH commodities?
- Which providers do consumers rely on for their contraceptives and condoms?

A market assessment also helps predict changes in consumers' demographic and socioeconomic profiles, method choices, contraceptive prevalence, and provider distribution. Such information can allow the public and private sectors to understand their respective and each other's current role in the contraceptive market (market share, consumer base, etc.); identify inefficiencies and supply gaps in the current market that stand in the way of achieving contraceptive security; identify means of reducing existing market inefficiencies by redefining public and private sector roles and eliminating any policy barriers to instituting needed change; and design evidence-based policy options and joint strategies/plans to move the country toward contraceptive security.

***Supply side: Providers, products, and funding.*** On the supply side, a market assessment provides information about the public and private providers that participate in the contraceptive market, their sources of funding and supplies, the methods and brands that they provide, and their pricing strategies.

***Demand side: Consumer groups/profiles.*** On the demand side, a market assessment allows the categorization of consumers by socioeconomic characteristics, method use, area of residence (rural/urban), and provider sources. It also helps identify client profiles by provider types and suggests how current consumer-provider interaction would need to change to ensure that the public and private sectors meet the needs of the clientele each is best suited to serve. For example, a market assessment in the Philippines showed that, while 77 percent of family planning users receive free contraceptives from the public sector, 62 percent of these public sector users fall in the high- and middle-income groups (Alano et al., 2002). Clearly, in this case, the Philippines shows enormous potential for commercial sector expansion among public sector clients. Market strategies designed to redirect middle- and high-income users to the private sector and require direct payment for services could greatly increase overall contraceptive security.

At the same time, several market studies also show that low-income consumers are sometimes compelled to rely on the private sector because of limited access to subsidized or free services and commodities, particularly in remote, rural areas. However, they are more likely to patronize the most informal parts of the private sector, such as shopkeepers, drug sellers, and unqualified medical practitioners (Smith et al., 2001; Conteh and Hanson, 2003). Such information may convince the public sector to redouble its efforts to reach the poor while relying on private providers to serve those who can afford to pay.

## Step 2. Creating a Policy Environment Conducive to Private Sector Involvement

Evidence suggests that the private sector has an important role to play in producing and delivering contraceptives and condoms to meet the needs of those who can afford to pay for such services and commodities. The public sector must, however, put in place the necessary enabling policy and regulatory conditions to spur private sector participation in the contraceptive market. In short, the best way to mobilize the private sector is to demonstrate that the public sector is committed to providing the private sector with opportunities to serve a client base that can pay for products and services.

The public sector can take a three-pronged approach to creating a policy environment that is conducive to private sector involvement in the contraceptive market:

- Involve the private sector as a partner in planning, decision making, and resource allocation;
- Put in place incentives to attract private sector participation; and
- Eliminate/reduce existing legal, regulatory, and policy barriers that hinder private sector participation.

### Involving the Private Sector as a Partner in Planning, Policymaking, and Resource Allocation

Although the private sector plays a critical role in providing and financing reproductive health products and services, its role is usually overlooked in the public sector's formulation of FP/RH policies and plans. In addition, continued public sector subsidies to consumers who can afford to pay can deter potential private sector partners that see such subsidies as barriers to viable private market segments. Consequently, policies and plans disproportionately burden the public sector and fail to tap the private sector's potential. Involving the private sector in policy formulation and planning is critical to ensuring that national contraceptive security strategies adequately capitalize on the private sector's strengths.

The government can involve the private sector in a variety of ways: whether through joint strategic planning sessions, ongoing public/private stakeholder consultations, government-business roundtables, and seminars/forums. In addition, both the public sector and donors need to establish mechanisms to ensure that the private sector is systematically represented in all national contraceptive security committees and task forces (see Box 1). Such actions on the part of the public sector are essential for building trust and fostering communication and open dialogue between public and private interests.

#### Box 1. Integrating the private sector in policymaking

- In **Ukraine**, representatives of the government, NGOs, and the commercial sector formed a Policy Development Group to develop a national reproductive health program for 2001–2005.
- In **Morocco**, a multisectoral population/reproductive health committee created a five-year plan that clearly outlined roles and responsibilities for the private sector in the family planning market (Berg, 2000).
- The GOALS Resource Allocation Model supported the involvement of a multisectoral team to develop alternative resource allocation scenarios for HIV/AIDS funds in **Cambodia, Kenya, Lesotho, and South Africa** (Stover et al., 2001).
- The recently developed “Strategic Pathway to Reproductive Health Commodity Security (SPARHCS)” approach brings together ministries, donors, commercial entities, NGOs, and social marketing organizations to collaborate on preparation of a multipartner strategy and a funded action plan for RH commodity security. The approach, which is being applied in **Bolivia, Ethiopia, Ghana, Honduras, Indonesia, Jordan, Madagascar, Nicaragua, Nigeria, Paraguay, Peru, and the Philippines**, helps define the complementary roles and funding responsibilities of the various sectors.

Mechanisms for gaining the participation of large commercial companies, however, may differ from those used to involve social marketing companies and smaller commercial providers. Above all, larger corporations emphasize return on investment and efficiency and may be less receptive to participating in lengthy workshops and other forums. In such cases, public/private dialogue might take the form of focused breakfast/luncheon meetings or otherwise occur during regularly scheduled meetings, thus minimizing the time required of company representatives. During these short face-to-face meetings, the public sector needs to be open and transparent about its goals and objectives, clearly and concisely presenting its own role in the contraceptive market and discussing the opportunities for and benefits of commercial sector involvement in achieving contraceptive security. The public sector also needs to make sure that the feedback and comments of commercial sector participants receive due attention and are incorporated into planning processes. Continuity and systematic follow-up of meetings demonstrate the government's commitment to developing a true partnership with the commercial sector.

### **Putting in Place Incentives to Attract Private Sector Participation**

The development of incentives and innovations can help ensure that the private sector will grow to its full potential and, at the same time, provide affordable services. Proper incentive structures not only attract private entities to the contraceptive market, but they also help reduce the cost of providing services, thereby encouraging the private sector to deliver affordable services to a broader range of clients.

Governments can institute a wide range of incentives for the private sector (see Box 2). For example, establishing product and market subsidies and removing import and local taxes can make contraceptives and condoms more accessible and affordable to low-income clients as well as to private entities seeking to enter the contraceptive market. Donors and governments can offer financial support to private entities that provide contraceptives and condoms or services to target groups. Often, support takes the form of operations and maintenance expenses for sustaining product/service delivery. Other potential incentives include permitting the contracting out of family planning services to private organizations; allowing advertising of family planning products and services through the broadcast media; channeling donor funds to the public through autonomous organizations; and advocating for health insurance coverage of contraceptives and condoms.

#### **Box 2. Innovative incentive mechanisms for public/private partnerships**

- In the **Philippines**, PhilHealth is expanding its social health insurance coverage to 1 million people in the informal sector and 1.2 million indigent families (CMS Project, 2002). The insurance covers family planning and can potentially create a new market for the private sector.
- In **India**, several multisectoral meetings and planning sessions resulted in the development of district action plans for Uttar Pradesh and Andhra Pradesh that clearly outlined a role for the private sector and specified several innovative schemes for public/private partnerships. For example, public sector doctors are now allowed to perform sterilizations in private hospitals. The hospitals received orientation and training and have access to a broader client base (POLICY Project Results, 2002).

#### **Eliminating/Reducing Legal and Regulatory Barriers to Private Sector Participation**

Government oversight and regulation is critical for protecting consumers through the promulgation of appropriate safety regulations to ensure reliable and high-quality services and products. Regulation, however, sometimes places unnecessary restrictions on family planning service providers. Price controls, restrictions on distribution and advertising, and cumbersome product registration, licensing, and certification requirements are examples of policy barriers that impede private sector expansion. While the government clearly has a vital role to play as a regulator of service quality, safety, and ethics,

the goals of contraceptive security require practices and regulations that enhance rather than restrict the commercial sector's ability to respond to the market (see Box 3). To this end, the public sector may consider the following:

- Exempting contraceptive imports from tariffs and duties;
- Relaxing price controls on commodities;
- Allowing commercial product promotion and distribution channels to sell contraceptives;
- Reviewing the practice of issuing annual import licenses;
- Relaxing laws governing the advertising of pharmaceutical products, including contraceptives;
- Modifying social insurance rules and regulations to allow more commercial businesses to participate in insurance schemes;
- Standardizing product registration procedures; and
- Relaxing controls on the classification of contraceptives.

Regulation involves both the framing of rules to govern the behavior of the private sector and the enforcement of such rules. Generally, a lack of commitment, concern, and funds impedes the government's capacity to carry out regulatory responsibilities effectively.

### **Box 3. Information-based advocacy to key policymakers helped alleviate legal and regulatory barriers to private sector expansion**

- In **Pakistan**, regulations on advertising branded contraceptives restricted social marketing of pills and injectables. As a result of advocacy and policy dialogue with key stakeholders, in 1999, the Ministry of Population Welfare and Ministry of Information approved method-specific and brand-specific television advertisements and permitted other marketers of hormonal contraceptives to advertise (Smith et al., 2001).
- In **Egypt**, following the dissemination of findings from a study on legal and regulatory barriers to private sector provision of injectables, the Ministry of Health liberalized laws that restricted the provision of injectables to licensed obstetrician-gynecologists. The liberalization dramatically expanded the availability of Depo Provera to consumers (Smith et al., 1998).
- In **Jordan**, concerted advocacy by the National Population Commission led to the 2002 removal of two policy barriers to commodity availability and private sector participation: (1) the Minister of Finance, Minister of Industry and Commerce, and General Director of Customs issued a decision exempting all modern contraceptives from duties and tariffs; and (2) the Council of Ministers decided to exempt all modern contraceptives from sales taxes (POLICY Project Results, 2002; CMS Project, 2002).

Whether or not intentionally, governments often deter private sector participation by directly competing with private entities. Private entities are generally required to cover costs and, in the case of the commercial sector, to realize a profit; therefore, they cannot successfully compete against the subsidized and/or free products and services provided by the public sector. In fact, several studies reveal that public sector prices are one of the major determinants of the use of commercial outlets for spacing methods (Foreit, 2002; Bulatao, 2002; Winfrey et al., 2000). Making free or highly subsidized contraceptives easily available can induce commercial clients to switch to the public sector.

In Peru, in 1995, a Ministry of Health (MOH) policy change mandated the provision of free contraceptives to all. This change had the adverse effect of crowding the commercial sector out of the contraceptive market. Between 1996 and 2000, the commercial sector's share of the contraceptive market declined from 26 to 17 percent while the public sector share increased from 59 to 68 percent. During this

period, contraceptive prevalence increased from 26 to 32 percent. Furthermore, the increase in MOH clients was concentrated among the better off. The percentage of middle and upper-middle income clients who obtained free contraceptives from the MOH increased by 32 and 28 percent, respectively, relative to an 8 percent increase among the poorest clients.

To avert competition with private sector entities while encouraging the private sector's active participation in the contraceptive market, governments need to develop and implement targeting strategies to ensure that scarce public sector resources are allocated to meeting the needs of vulnerable groups, thus leaving the nonpoor to be served by the private sector. Targeting strategies are discussed in Step 3 below.

### **Step 3. Balancing Public/Private Roles in Achieving Contraceptive Security**

Partnerships help identify and use each sector's respective strengths and resources to reach a common goal. Based on sound market segmentation analysis, a rational division of labor between the public and private sectors helps ensure the availability and accessibility of commodities for all segments of the population through free products/services, direct subsidies, health insurance, and commercial pricing in the two sectors.

Within this context and given the respective strengths and weaknesses of the two sectors, the public sector needs to focus its efforts on reaching the disadvantaged while the private sector needs to target those who can afford to pay, ranging from the wealthy to lower-middle-income groups. However, the appropriate balance of public, NGO, social marketing, and commercial sectors will vary among countries and depends on the level of unmet need, the ability and willingness of clients to pay for family planning, and the presence of a well-developed and responsive private sector.

#### **Targeting Free and Subsidized Public Sector Commodities to Disadvantaged Groups**

Targeting<sup>4</sup> helps increase equity and promote contraceptive security by improving access to family planning among disadvantaged groups and reducing unmet need. It also contributes to contraceptive security by encouraging better market segmentation so that limited public resources are channeled to vulnerable groups and new market opportunities among better-off clients are created for the private sector (see Box 4).

#### Box 4. Targeting scarce government resources to disadvantaged groups

In the face of donor phaseout, the Ministry of Health in **Turkey** developed a new model of donations and targeting that helped shift public resources away from those who can afford to pay and toward disadvantaged clients.

As budget negotiations failed to replace donated commodities and contraceptive stock levels fell to unprecedented levels, MOH officials came to realize that some form of targeting was necessary to preserve Turkey's family planning program. A market segmentation study showing that a substantial proportion of public sector clients who were benefiting from free contraceptives were able to pay for these products in the private sector further served to strengthen the government's resolve to implement a targeting system.

Since restricting access to public sector services was widely perceived to be unconstitutional, policymakers were unwilling to directly shift better-off clients to the private sector. Instead, they set in place a donation policy, where clients seeking contraceptives from MOH outlets were asked to make a voluntary donation, based on self-declared willingness to pay. Those who declared themselves unable or unwilling to donate were presumed poor and received their method free. The MOH first pilot-tested the targeting strategy in seven provinces, and in 2001, extended the strategy to 18 provinces. At the end of this first phase, the strategy had generated US\$500,000 in revenue, demonstrating that the targeting strategy had the potential to close the financing gap between the national need for contraceptives and the funds available in the public budget (Sine et al., 2004).

Although the targeting strategy was by all accounts successful, negotiations between the Turkish government and the International Monetary Fund (IMF) in 2003 had a negative impact on it. Following an agreement with the IMF, the Prime Minister issued a decree halting the collection of donations in government facilities—health facilities or otherwise. To date, the loss of revenue resulting from the elimination of donations has not been replaced by the general budget, which is now the sole source of funding for contraceptives.

#### Encouraging Wealthier Clients to Use the Commercial Sector

By providing information and putting in place incentives to promote the use of commercial sector services, the government and donors have an important role to play in creating demand for commercial sector services among those who can afford to pay. At the same time, the government and donors must establish disincentives so that those able to pay do not rely on the public sector. Strategies may include charging user fees when the nonpoor use government health facilities; extending health insurance coverage to contraceptives and condoms; introducing a voucher system; or establishing community-based prepayment schemes (see Box 5). In addition, increasing the price of contraceptives at public sector outlets may encourage nonpoor family planning users to shift to the commercial sector. Several studies show that an increase in public sector prices does not have an adverse impact on the overall use of contraceptives. In Indonesia, prices for contraceptives at public sector outlets quadrupled over the past 10 years, with no decrease in consumption (Molyneaux, 2000).

#### Box 5. Promoting private sector use among clients who can afford to pay in Indonesia

The government of **Indonesia** launched a “Blue Circle” campaign aimed at improving the image and status of private doctors and trained midwives as high-quality providers of family planning (FP) services. After a five-week campaign, the average weekly FP caseload in the private sector increased by 28 percent for doctors and 36 percent for nurses (Krasovec and Shaw, 1999).

In addition to creating a favorable policy environment for private sector participation, governments and donors can use information from market analyses to demonstrate to commercial entities that their goals of maximizing revenue and profit are consistent with participation in the contraceptive/condom market.

Within this context, the private sector can be encouraged to focus on selling high-quality, easily accessible services and brand-name commodities to nonpoor segments of the market.

### **Selling Subsidized Products through Commercial Channels: Social Marketing**

Donor-funded social marketing programs are designed to satisfy unmet need for family planning products by creating demand and improving access to affordable products among low- and middle-income and hard-to-reach groups (Armand, 2003). They also play an important role in serving groups with special needs such as adolescents and high-risk populations. They have a reputation for convenience, easy access, and friendly service. Social marketing programs typically market a wide range of contraceptive brands. Some brands are highly subsidized and sold at low prices, often below cost, to low-income clients. Others are sold at cost or for a small profit and are targeted to middle-income consumer groups that cannot afford commercial sector prices (see Box 6).

#### **Box 6. Social marketing in Bangladesh**

The Social Marketing Company (SMC) in **Bangladesh** is a privately managed not-for-profit organization that accounts for 29 percent of the nation's contraceptive prevalence for modern temporary methods. The SMC markets several brands of pills and condoms, each aimed at a specified market segment, through 180,000 retail outlets. Prices vary from very low levels targeting the poor, to moderate levels, where the brands break even or generate some profit, which helps cross-subsidize low-price brands. At present, the SMC is considering several strategies that will help improve sustainability within the organization and move the country toward its contraceptive security goals.

- The SMC projects a 50 percent increase in its share of modern temporary method users, with a major share of the increase expected to come from a shift of pill users from the public sector brand to socially marketed injectables. The shift will ease the financial burden on the public sector, allowing it to focus on the poorest clients.
- At the same time, the SMC plans to shift two of its five subsidized brands to profit levels by increasing their price and thus eliminating the need for subsidies.
- The SMC currently relies on three donors for all its contraceptive commodities. Recognizing the vulnerability of its position, the SMC is planning to (1) diversify its donor base; (2) reduce donor dependency by relying more on commercial imports that it will finance with its own revenues; and (3) strengthen its relationship with the government to ensure that its contraceptive requirements are met adequately and in a timely manner (SMC, 2002).

One strategy for making contraceptives and condoms more accessible and affordable to those who need them is to use commercial channels and standard private sector marketing and advertising techniques to sell contraceptives at subsidized prices. For example, in Uttar Pradesh, India, in 1997, Hindustan Lever Limited (HLL) undertook a rural social marketing project for the State Innovations in Family Planning Services Project Agency (SIFPSA). HLL adopted a marketing strategy that called for the sale of contraceptives in rural areas through newly created distribution points, mobile vans, community-based workers, and dairy cooperatives in 43 districts. This multifaceted marketing strategy, which was implemented in collaboration with 58 NGOs and milk cooperatives, dramatically improved access in remote, rural areas (SIFPSA, 1999).

However, social marketing programs pose two major challenges to contraceptive security that must be addressed: the potential to crowd out the commercial sector and the lack of long-term sustainability. Donor-funded social marketing programs often attract nonpoor clients and crowd out the commercial sector by selling brand-name products at subsidized rates, effectively eliminating the competitive market for for-profit entities. Governments and donors need to regulate social marketing organizations so that

they target subsidies appropriately and contribute to the creation of a viable market for the commercial sector.

Social marketing need not undercut sustainability if partnerships between social marketing programs and commercial entities lead to a sustainable and reliable supply of contraceptives to meet the needs of current and potential clients. Social marketing can attract private investments by developing a viable contraceptive market and creating demand for brand names. For example, in 2001, the Key Social Marketing Program in Pakistan succeeded in encouraging Zafa Pharmaceuticals to develop and bring to market a full-price (nonsubsidized) oral contraceptive called *Key Famila 28*. In collaboration with the social marketing company, Zafa sold more than 1 million cycles across the country within nine months (Khan and Ramlow, 2003). Box 7 presents other recent examples of collaboration between pharmaceutical companies and social marketing companies.

### **Working with Commercial Enterprises to Reach Their Workforce and Dependents**

Large and medium commercial companies that provide healthcare benefits to employees and their dependents represent an important channel for reaching and influencing the health behaviors of relatively stable populations. In recent decades, commercial enterprises across all continents have demonstrated a willingness to invest corporate resources to improve the health of their workforces, as long as they perceive that such investments serve their best interest. An early example of corporate foresight dates from the early 1950s when India's Tata Iron and Steel Industries decided to invest in family planning services. A retrospective study 25 years later showed a return to the company of 1.68 rupees in the form of costs avoided for every 1.0 rupee invested in family planning services (Day et al., 1990). Recent media reports indicate that an increasing number of companies, particularly in sub-Saharan Africa, are providing antiretroviral therapy to workers and, in some cases, to dependents.

#### **Box 7. Pharmaceutical and social marketing companies working in collaboration to expand access to high-quality reproductive health products**

- ICICI **India**, Deloitte Touché Tomatsu Emerging Markets, USA, and INFAR (India) Ltd.—a pharmaceutical company—signed a memorandum of understanding in May 2000 for the expansion and development of the oral contraceptive market in five Indian states—Bihar, Delhi, Madhya Pradesh, Rajasthan, and Uttar Pradesh—under the Program for the Advancement of Commercial Technology, Child and Reproductive Health (PACT-CRH Project).
- The Social Marketing Company (SMC) in **Bangladesh** and Wyeth-Ayerst International, Inc., USA, signed an agreement in 2002 for marketing Nordette Oral Contraceptives in Bangladesh. The SMC will purchase approximately 14 to 16 million cycles of Nordette at US\$0.206 per cycle over the next two years.
- The Futures Group and PHARMACIA **India** Private Limited signed a corporate agreement in March 2003 to expand and develop the market for an injectable contraceptive, active for three months, in three cities: Agra, Kanpur, and Varanasi in the state of Uttar Pradesh.

(Futures Group, 2000, 2002, and 2003)

The following approaches and actions can help mobilize commercial enterprises to enhance contraceptive security:

- Capitalize on forums such as business luncheons, regularly scheduled meetings, and national and regional professional associations, and commercial companies to disseminate and share findings and lessons learned from modified cost-benefit analyses demonstrating the benefits accruing to companies that invest in FP/RH services for employees and dependents.

- Provide selected technical assistance to those companies willing to enhance FP/RH services but lacking the internal capabilities to deliver such services.
- Facilitate the participation of representatives of large commercial companies in discussions on policies and programs that address specific healthcare crises such as the HIV/AIDS epidemic, diminishing health sector financing, and healthcare personnel shortages.

## Conclusion

Achieving contraceptive security in an environment of rapidly increasing demand, lagging donor support, and scarce public resources requires a comprehensive and integrated approach that finds solutions that go beyond the public sector. Within this context, stimulating private sector involvement in the contraceptive market becomes increasingly urgent. This brief details an approach for creating a policy environment that is favorable to the expansion of private sector participation in that market.

This approach calls for the active participation of all major stakeholders, including governments, NGOs, civil society, the commercial sector, and donors, in developing and implementing a strategic plan for achieving contraceptive security. To this end, it is essential that stakeholders know and understand the market conditions and policy environment in which they will be operating and interacting.

Governments have an important leadership role to play in this approach. They need to open communication channels with private sector providers and recognize the private sector's potential role in achieving contraceptive security. Because of limited government resources and equity concerns, it is critical that public sector monies are not spent on activities that are better performed by the private sector. At the same time, governments need to create a favorable policy environment that supports and promotes the private sector in meeting the growing demand for contraceptives and condoms.

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<sup>1</sup> Contraceptive security exists when every person is able to choose, obtain, and use high-quality contraceptives whenever s/he needs them.

<sup>2</sup> Social marketing is a method of encouraging people to adopt healthy behaviors and to access reproductive health and other products and services. It depends on promotion through the media and public education, accessible pricing, and placement at retail outlets through subsidized or commercial distribution networks.

<sup>3</sup> For example, Merck and Company, Inc., an international pharmaceutical company, is supporting countries in improving the lives of people living with HIV/AIDS. It is donating antiretroviral drugs to Botswana.

<sup>4</sup> For details, see Sine (2003). This brief reviews the related concepts of targeting and vulnerability and provides practical guidelines and approaches to targeting that can be applied to public sector programs as a contraceptive security-enhancing tool.

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