

PROFIT

- *Private Health Care Providers*
- *Employer-Provided Services*
- *Innovative Investments and Transfers*

Promoting Financial Investments and Transfers

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PROJECT PERFORMED FOR
U.S. Agency for International
Development *(Office of Population)*

**Deloitte &
Touche**



Deloitte Touche Tohmatsu International

In association with

Boston University Center for International Health

Multinational Strategies, Inc

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COUNTRY ASSESSMENT:

RUSSIA

1993

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September 30, 1993

Mr. Craig Carlson
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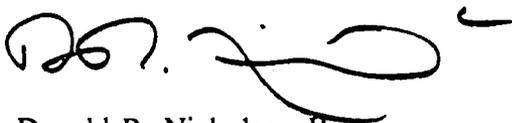
Dear Mr. Carlson:

Deloitte & Touche is pleased to submit the PROFIT (Promoting Financial Investments and Transfers) Country Assessment document for Russia to the Office of Population (R&D/POP) of the U.S. Agency for International Development.

This assessment document is the product of visits to Russia by PROFIT's Director and contacts with Russian private sector firms, cooperating agencies, and private voluntary organizations involved in family planning activities, as well as USAID/Russia. As such, it represents PROFIT's current strategy for developing private sector family planning initiatives in Russia.

PROFIT looks forward to implementing this strategy with your support and guidance. If you have any questions, or wish to discuss the document, please feel free to contact me at (703) 276-0220.

Very truly yours,



Donald R. Nicholson II
Project Director

DRN/sf

cc: Jack LeSar, Mission Director, USAID/Moscow

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I. INTRODUCTION

"Promoting Financial Investments and Transfers" (PROFIT) is a new and innovative family planning project sponsored by the Office of Population (R&D/POP) of the U.S. Agency for International Development (A.I.D.). The objective of the PROFIT project is to increase developing country resources for family planning -- funds, services and commodities -- by encouraging private sector involvement. PROFIT will achieve this by focusing on three routes of involvement:

- Innovative Investments
- Private Health Care Providers
- Employer-Provided Services

This Country Assessment focuses on PROFIT's proposed project activities in Russia. The Country Assessment is designed to provide a summary of relevant demographic data, to identify feasible private sector interventions, to assess potential impact of these projects in terms of PROFIT's objectives and to guide the design of PROFIT services for that country. The Country Assessments examine the private sector environment at a macro-level and focus on the areas where PROFIT initiatives may best succeed. The assessment develops initial project ideas, identifies areas that warrant further study, and helps direct specific projects towards investment.

PROFIT conducted one exploratory trip to Russia in FY 1993 and has identified some areas for possible PROFIT involvement. These interventions were initially discussed in the July 1993 trip report by Project Director Don Nicholson. A follow-up trip is suggested for the fourth quarter, 1993, to complete an investment document and continue research for additional interventions.

The remainder of this document is structured as follows:

Section II - provides an overview of Russia's demographics and a profile of the family planning environment. Discussed are the elements of the cultural, political, macroeconomic and investment environment which are relevant to the activities of PROFIT.

Section III - examines the areas of potential PROFIT involvement including: Innovative Investments, Private Health Care Providers, and Employer-Provided Services within the Russian context.

Section IV - the conclusion and potential PROFIT interventions in Russia are discussed.

II. COUNTRY BACKGROUND

The Newly Independent States (NIS) comprise eleven of the former fifteen Soviet republics. Russia, the largest republic, encompasses 6.6 million square miles (over 76% of the former Soviet Union), spanning eleven time zones. Russia has 149 million inhabitants, representing 51% of the population of the former Soviet Union. The Russian annual rate of natural increase is 0.1%.

The Republics are shifting from a totalitarian government and centrally controlled economy towards a democratic system based on free market principles. The rapid change has caused a decline in purchasing power as prices exceed family incomes. Production and distribution systems have broken down, resulting in the shortage of basic commodities. Health services are threatened by the lack of hard currency and the breakdown of intra-republic trading (USAID Health Profile, 1992).

A common pattern of health care organization and public health evolved in each republic under the direction of the former Soviet Union's Ministry of Health. As the republics became independent, they inherited a centralized system of health care organization in which all health facilities are state-owned and funded from a state budget. The Russian government is in the process of decentralizing its own health financing and management into 88 regions (oblasts). It is expected that the quality/capability of health care services will vary, given the financial conditions of each oblast (68 geographical and 20 ethnic).

The use of modern contraceptive methods (IUD, condom, and the pill) in Russia is estimated at between 18% - 22%. The IUD is the most prevalent modern method (17.2%), while the pill is only used by about 1.7% of women of reproductive age (USAID Health Profile, 1992). Oral contraceptives are popular with young women but availability is limited except in large cities. Condoms are also popular, although stock-outs are common throughout the country. IUDs are used primarily as a limiting method after a second child, although users are cautious due to high rates of infections. IUD use is expected to increase with availability of a more reliable, quality product. Voluntary sterilization, restricted since 1933, was permitted in 1990 under specific conditions. It is not a popular contraceptive method for women and not practiced by men. Diaphragms, sponges, and vaginal spermicides are not available. Norplant (implants) was approved for use in the former Soviet Union in December 1991.

While the fertility rate is low (1.7), a reason for PROFIT's emphasis on Russia is the lack of modern family planning services, which is reflected in the high number of abortions. There are about four million abortions per year (two per live birth), with many women using traditional, unreliable birth control methods. Approximately 65%-75% of Russian women have three or more abortions; 36% may have five or more abortions during their reproductive lives. The NIS has a high maternal mortality rate (54 per 100,000 live births) due to toxemia, anaemia, hemorrhage, and hepatitis in addition to the lack of essential drugs and equipment. The high reliance on abortion is due to the low level of knowledge and education about family planning as well as the poor quality and inadequate supply of contraceptives.

Specific factors which have an overall effect on family planning prospects, and on PROFIT's role in Russia are:

Government Health Care Policy and Commitment to Family Planning: The extensive health network of the former Soviet Union has now been decentralized. As a result, the NIS is now facing the real costs of service provision from their own budgets. In the former Soviet Union, 3 - 4 percent of the GNP was devoted to health. The system, financed by government revenues, was very centralized and bureaucratic.

Health care is now a priority sector for the current Russian Government, although it does not have sufficient funds to significantly improve the situation. Russian health care priorities currently include suppressing the recent rise in infectious diseases, improving general cleanliness of hospitals, and introducing effective hospital management techniques. Russia has not considered family planning or women's health a high priority given the country's severe economic, social and political problems.

Population and family planning policies are lacking and republics have made little effort to educate the population on contraceptive use. The Russian government has recently increased incentives for child-bearing. Maternity leave has changed from 18 months to three years with a monetary reward of 2,700 rubles for new parents and 500 rubles a month for the first year. Despite this reward, the cost of additional children is still out of reach for average Russians and family planning is greatly needed.

The Russian government has not purchased contraceptives for the past two years; all Russian contraceptive manufacturing has been halted except for condoms. Government family planning services had included limited availability of oral contraceptives, IUDs, and condoms. The services were not reliable due to the poor quality of Russian-made IUDs, which often resulted in side effects; oral pill and condom supplies were erratic and also of sub-standard quality. There has been encouragement from the new Russian Agency for International Cooperation, the counterpart to the U.S. Agency for International Development (USAID), to improve family planning services (notably commodity supplies) through the private sector.

A 1992 Health Industry Business Development Mission Report (Department of Commerce) noted that the Ministry of Health's (MOH) budget for 1992 was 300 billion rubles, of which 38 billion rubles were allotted for medicines and 10 billion for medical equipment. Due to the lack of hard currency, MOH's goal is to limit foreign purchases and encourage local production. In discussions with Deputy Minister of Health Vaganov, support was given to PROFIT for expanding private sector family planning services in the "oblasts" through joint-ventures, as well as through associations with groups such as the International Foundation for Mother and Child Health Care (IFMCHC).

Abortion Issues: The Russian Parliament is considering a new law which some fear is a step toward banning abortion. According to The Financial Times, the controversial bill contains a

clause that "recognizes a child's right to life" and grants both men and women rights in deciding family planning issues. Yeltsin's new constitution also contains a clause which states that the government has the right to carry out "progressive democratic policy". Women fear that this will re-instate the pro-natalist policies of Stalin when motherhood was considered an obligation. The proposed legislation seems to be part of a campaign to promote traditional gender roles and that may be part of a backlash against women's rights. The abortion debate is centered on nationalist fears of a declining population since abortion has been the prevalent means of regulating fertility in Russia since it was legalized by Lenin in 1920. It is also known that doctors (many with influence in the health ministry) earn high fees for abortion services and have hindered the production and development of contraceptives, especially pills. These factors demonstrate that both women and physicians need access to family planning education, training, and reliable contraceptive products.

NGO Community: There is an active NGO community in Russia that promotes family planning-related activities. The International Foundation for Mother and Child Health Care (IFMCHC) is the oldest and most established family planning advocate in Russia. IFMCHC's President, Dr. A. Baranov, is a former Minister of Health, a recognized spokesperson, and an active proponent of sustainable family planning activities. The National Russian Family Planning Association (supported by IPPF, London) was established in December 1991 to campaign for improved access to contraceptives, and a program for sex education and safer abortion. Additional NGOs include The MacArthur Foundation, which promotes women's rights, economic reform, and access to contraceptives; and Project Hope, which distributes contraceptives to regional hospitals. Family Planning International Assistance (FPIA), in conjunction with the Russian International Women's Center, promotes contraceptive education through projects at factories and universities. The FPIA-sponsored plan hopes to reach 16,000 Russians and begin a community-based distribution service for rural areas.

Cultural Issues: Russia's population is spread out among 15 autonomous regions and districts which gives rise to inter-ethnic rivalries and differing social values. There are more than 100 nationalities living in the Russian Federation. A clear knowledge of the ethnic, cultural and religious background of each region is important in determining contraceptive market potential. Family planning has been culturally impeded by inhibitions to discuss sexual issues. Years of misinformation has induced fear of most contraceptives, with notable reluctance to use hormonal contraceptives. The perception of locally produced pharmaceuticals is poor; those who utilize contraceptives prefer imported products although some foreign suppliers are not trusted due to poor product quality and dosage consistency. Moreover, many Russians are skeptical of physicians and few women seek family planning advice or have gynecological exams unless they have problems.

Economic Environment: Russia is essentially a two-currency economy (ruble market and foreign currency market) with an emerging, unregulated private sector. Family incomes have fallen over the past year with a decline in production, and rapid price increases. Approximately 70% of the newly unemployed are women, who comprise 52% of the labor force. Economic hardship in Russia has been a factor in declining fertility rates. There was a five to seven-fold

increase in consumer prices in 1992 and further price increases are still expected. The United Nations Development Program (UNDP) has reported that, in late 1992, 75% of family expenditure was going to food and 80% of the population was below the poverty line. In 1992, GDP per capita was \$3,220; as of July 1993, inflation was high at 15% a month.

The entire system of health financing is unpredictable due to rising prices for supplies, loss of revenue from the former central Government, and the uncertainty of future funding sources. Simultaneously, as consumers see the value of their wages eroding, they look to the government to provide support (especially for pensions and family payments).

President Yeltsin's economic reform program includes price liberalization, financial stabilization, and privatization. Approximately 33,000 small-scale enterprises were privatized in 1992. The government considers privatization a key factor in building a market economy. Measures have also been taken to demonopolize domestic trade, deregularize foreign trade, and decentralize the distribution system.

Even with legislative approval on most of these measures, implementation has been slow. There is a weakness in the central government due to lack of a strong constitution in addition to increased tension between the President and parliament in recent months. This has resulted in Yeltsin dissolving Parliament on September 22, 1993, and announcing elections to a bicameral assembly for December 1993. In addition to political problems, Russian economic reform has been hindered by weak/underdeveloped trade systems, business communication and transportation infrastructures. Proposed new measures are expected to deal with many of these issues.

Despite the current political and economic challenges, Russia has potential to develop a strong independent economy, having contributed to about 60% of the former Soviet Union's GNP. A new private sector which has emerged from the former underground economy is the driving force that generates and distributes wealth throughout Russia's (currently unregulated) economy. There has also been a recent (July 1993) "breakthrough" in the Russian central bank's acceptance of market principles as the bank raised its interest rates to 170%, marking acceptance that rates should be borne by the borrower and reflect the real cost of money.

Investment/Financial Environment: Russia's large domestic market, vast supply of natural resources, skilled labor force, and proximity to markets of the former republics is attracting considerable foreign investment. The financial environment is challenging due to lack of foreign exchange to purchase necessary supplies, the uncertain revenues and the slow emergence of private businesses. The lack of foreign exchange is exacerbated by the significant capital flight, which was estimated at \$10 - \$15 billion in 1992. Much of this capital is lost by the under invoicing of exported raw materials, which is currently not under the control of a central authority.

Russia is generally favored by development banks even though 1992 debt service obligations were not met. In April 1993, Russia's foreign debt was rescheduled by the Paris Club; Russia

will be asked to repay only \$2 billion of an estimated \$15 billion owed to the bilateral governments in 1993 (see Appendix C for total foreign aid package). Due to the recent parliamentary turmoil, the \$44 billion foreign aid package is on hold. New financial support will not be given until Russia's economic reform is back on track.

A recent Department of Commerce report noted that in 1992, U.S. investment commitments in Russia increased to over \$3 billion, although the actual flow of funds was less than \$200 million by year end, due to slow bureaucratic procedures. The report mentioned that according to Russian Government statistics, the U.S. leads in the number of joint-ventures (361) and the U.S. Government estimates that its total investment value is \$400 million. Over half of Russia's pharmaceuticals came from imports in 1992, although the U.S. share was lower than European imports. This is due to three-year, low interest rate credits which Russia is using for the purchase of pharmaceuticals from Eastern Europe and the European Community. Nevertheless, according to the U.S. Foreign Commercial Service in Moscow, pharmaceuticals and medical equipment are among the best prospects for U.S. exports to Russia.

As the overall legal framework for investors is still evolving with laws and tariffs frequently changing, investors are cautioned to utilize in-country legal advisors prior to investing. While the Russian government actively supports foreign investment, the bureaucratic procedures and lack of a clear organizational authority complicates the process.

Local Financing/Russian Banking System: According to the U.S. Department of Commerce, the Bank for Foreign Trade (Vneshtorgbank) and the Bank for Foreign Economic Relations (Vneshekonombank) are the two main Russian Government banks involved in trade and investment issues. Non-governmental commercial banks, some of which are joint ventures with Western banks, are also sources of hard currency and ruble banking services for foreign companies. These banks include, among others, the International Moscow Bank, Dialogbank, Tokobank, and Moscow Business Bank. Some only offer hard currency accounts while others offer hard currency loans and foreign exchange for international transactions. The Russian banking system is not yet fully able to offer complete services to Western and Russian companies. There are several international and U.S. Government financing programs to assist companies investing and/or exporting in Russia such as: The U.S. Export-Import Bank, the Overseas Private Investment Corporation, the U.S. Trade and Development Agency, the European Bank for Reconstruction and Development, and the International Finance Corporation.

USAID Experience: A task force was established to coordinate all assistance activities within the NIS. In September 1992, USAID allocated \$45 million to improve the health care system. These activities build upon the medical assistance initiative announced in December 1990 by President Bush, and the January 1992 International Coordinating Conference on Assistance to the NIS. Health activities in the NIS include: improving medical care through transfer of US medical technology, training medical personnel, developing hospital partnerships, increasing pharmaceutical production, and expanding US trade and investment in the health sector.

USAID/Moscow's involvement in the health care sector is in the process of expanding as new contracts are awarded. Women's health is a priority and it is expected that attention will be focused on geographical areas such as the "donut" around Moscow and Novosibirsk in Siberia, which together include approximately fifty million people. U.S. private sector investment in health related activities will be encouraged, and it is an area in which PROFIT expects to play a role.

III. SCENARIO FOR PROFIT INVESTMENT

The PROFIT Project is mandated to operate in the areas of Innovative Investment, Private Health Care Providers and Employer-Provided Family Planning. Accordingly, those areas are analyzed below in the Russian context.

A. INNOVATIVE INVESTMENTS

PROFIT's mandate of innovative investments includes the following areas of activity: the promotion of commercial production, marketing and distribution of contraceptive products; work on the policies and regulations which have an adverse impact on the family planning environment, availability of contraceptives, or the expansion of private sector involvement in family planning; the use of innovative financial tools and techniques to leverage PROFIT's investment funds.

There are serious shortages of pharmaceuticals in Russia with a need for safe, reliable, modern contraceptives. It has not yet been possible to ascertain the actual level of demand for Russian pharmaceutical products, although it is estimated that only one-third of Russia's domestic demand is being met. Pharmaservice, a U.S.-Russian joint-venture engaged in the wholesale drug distribution business, has noted that the Russian government is the largest buyer of drugs, particularly at the local (oblast) level with state funds. There is a trend towards decentralizing purchases to the oblasts, in addition to more countertrade and barter. Other than the state, the current buyers of health care products in Russia include: hospitals/clinics/doctors, enterprises, retail outlets, regional wholesalers, "commercial structures," and trading houses.

Production/Manufacturing Capacity: Existing contraceptive production capacity is poor and most factories have stopped producing condoms and IUDs due to the lack of hard currency to import raw materials. IUDs were produced in St. Petersburg and Kazan, but most plants have shut down due to shortages. In 1991, the Ministry of Health estimated a demand for over 9 million IUDs. National production of condoms was approximately 370 million per year, although the estimated need is much greater (USAID Health Profile, 1992). Oral contraceptives are not produced in Russia. The government has not imported contraceptives from the West since 1990. Most contraceptives are unavailable in rural areas and small cities; where imported contraceptives are available, commercial prices are unaffordable to average Russians. It has been reported that in the former Soviet Union, much of the medical equipment and pharmaceutical supplies used in Russia were produced in Eastern Europe. A majority of these traditional supply lines in Russia have been cut off since most East European firms require hard currency for purchases.

Results from the 1992 NIS International Working Group noted that although some pharmaceutical facilities have adequate physical capacity, buildings and equipment are outdated and the related infrastructure is inadequate. Production facilities are very labor-intensive as technology is about 30-40 years behind the West. Distribution networks are critical in a country as large as Russia, but are difficult to establish. The group concluded that the Russian

pharmaceutical industry requires a sustained, medium and long-term investment to restore normal production and improved manufacturing practices. There is an immediate need for IUDs and other products to meet the unmet demand for quality contraceptives.

A UNICEF/WHO report noted that supply of one-fourth of national contraceptive needs would cost about \$23 million for one year. According to UNFPA, a new IUD plant would cost approximately \$3-5 million, a condom factory up to \$8 million, and an oral contraceptive facility \$5-6 million in initial investment.

Contraceptive Markets: A potentially large private sector market has emerged for Western firms producing contraceptives due to the poor state of Russian health care facilities and supplies. The market for family planning activities has potential to substantially develop as new medical units, private hospitals, and pharmacies open.

As the most prevalent contraceptive, both imported and locally manufactured IUDs were available in limited quantities. Women often purchase IUDs at a pharmacy and go to a doctor for insertion. Pills available in pharmacies are generally Bulgarian, Hungarian, Indian, Polish, and German; although oral contraceptives are not used very often due to the fear of side effects. The most widely used condoms are Russian (if available); American, Chinese, and Indian condoms are sold at higher prices. The majority of contraceptive commodities are purchased over the counter, priced in both rubles (for Russians) and hard currency (for foreigners).

PROFIT's recent trip to Russia concluded that the market for contraceptive products has four tiers/layers:

- 1) the public sector (the MOH, state and provincial governments, hospitals, polyclinics, and other public facilities)
- 2) the NGO community (IFMCHC, Russian Association of Family Planning, FPIA, and others)
- 3) the quasi-commercial sector (large para-statal companies, private employers, new private health insurance companies)
- 4) the fully commercial sector (hard currency drug stores, kiosk sales, etc.).

While there are small companies supplying contraceptives, there are no private initiatives to develop a comprehensive approach to the four-tiered market that would include supply and eventual manufacturing. Therefore, an opportunity exists for PROFIT to create a wholesale network designed to supply quality contraceptives to all tiers at appropriate prices. Moreover, Russians are strongly promoting business deals to assist in establishing pharmaceutical manufacturing capacity. Straight sales deals with no long-term benefit to Russia are discouraged. Sustainable private sector projects in manufacturing, marketing, and distribution are encouraged, thus providing an appropriate environment for the PROFIT Project.

Trade Barriers and Regulatory Reform: Having abandoned the regulations of the former Soviet Union, Russia and the republics have conflicting, overlapping, and rapidly changing laws, decrees, and regulations affecting domestic and international trade. The investment process is therefore prolonged and complex. There are even some decrees that are treated as internal documents and not made available to the public. The Department of Commerce has noted that it is common to find varying degrees of knowledge and enforcement by government officials.

The Russian Government plans to expedite legislation which encourages outside investment and assistance. Laws and business practices concerning tax incentives, contract law, and asset, patent, and intellectual property rights protection are not finalized. The drug registration process also needs to be accelerated. Currently, medicines are duty-free, although there is red tape and some minor fees.

The Ministry of Finance is responsible for regulating credits given to businesses to develop export production facilities. The ministry is also responsible for the registration of foreign capital joint-ventures. Distribution of medical products has been controlled by the government agency, Soyuzfarmatsiya, which also controls the government hospital and pharmacy supply systems. However, this system is in the process of decentralizing to the oblast level.

The government is taking steps to facilitate the investment process through consolidation of government services for investors in the Russian Agency for International Cooperation and Development, and signing international agreements such as the 1992 Bilateral Investment Treaty with the U.S. In June 1993, President Yeltsin ordered the creation of an insurance company to protect foreign investors against risks of political change. The government plans to allocate \$100 million to set up the insurer. The capital is eventually expected to total \$1 billion and will be registered abroad to alleviate investor's concern for the unstable environment. The Department of Commerce has advised U.S. firms to view Russia as a long-term opportunity and to understand that positive cash flow and profits may take several years to materialize due to the volatility of the Russian market and its ever-changing regulations.

Financial Transfer Mechanisms: Opportunities for PROFIT to leverage its funds exist, and it would be incumbent on the project to do so. The primary sources of finance include the multinational agencies such as the World Bank and the European Bank for Reconstruction and Development (EBRD), which normally lend only to the public sector, but do have private sector windows or affiliates such as the International Finance Corporation (IFC). Other sources would include such U.S. based institutions as the Export-Import Bank (EXIM), and the Overseas Private Investment Corporation (OPIC). In the private sector, commercial banks might be potential lenders once a project is established and in need of capital for expansion.

Additional sources of leverage would include government agencies, foundations, and private international NGOs that are able to provide financial assistance, training, or equipment.

B. PRIVATE HEALTH CARE PROVIDERS

PROFIT seeks to work with health care personnel, insurers, group practices, hospitals, pharmacists, and professional associations towards the goal of expanding family planning service delivery and increasing the availability, quality and method mix of contraceptive commodities.

There is encouragement for private sector involvement to improve and expand upon health care services. Parliaments in the republics are passing privatization laws, but there are still many unanswered questions on policy and bureaucratic restructuring. The MOH has a network of women's health centers and district poly-clinics (a state-run general service delivery site). Private medical practice is limited since most Russian physicians are still part of the state structure; although physicians are beginning to see private clients in the poly-clinics, and in some cases, even take over the clinic.

A UNFPA/WHO report noted that, in 1993, the state system has started to shift district doctors out of polyclinics and into newly established "general practitioners" positions. The second phase is expected to include a "family doctor" system. Russia has not yet resolved what health care system model will be adopted (ie: the Canadian nationalized model, U.S. model, or another). Currently, overall Russian health policy responsibility, and the legal and regulatory structures remain at the national level, while health care financing and its provision are moving from the state to the regional "oblast" levels.

Resulting from President Clinton and Yeltsin's Vancouver Summit (April 1993), USAID is in the process of implementing a contract supporting health care and delivery reform within the NIS. Since privatization in Russia is in its early stages, U.S. private and voluntary sectors will work together with Russian counterparts to implement reform programs. The programs are expected to prevent further deterioration of the health sector through assisting in restructuring health management and financing to improve quality of care and reduce costs. Appropriate policies, legal and regulatory structures are crucial to the emergence of an effective private sector in Russia.

Private Health Insurance: Many of the more than two hundred newly formed insurance companies have recently expanded into private health care insurance. A recent health insurance law has been introduced to regulate the new forms of insurance. The law proposes that each region is to have a social insurance fund; a national fund will balance resources across regions. The funds will receive compulsory payroll deductions and budget transfers from government revenues, and contracts will be signed with both public and private providers. Supplementary private insurance could then be purchased by individuals to cover additional health services such as family planning. The health insurance law was passed in mid-1991, but implementation has been slow, due to competition between the public and private insurers as well as legislative and other constraints. If private health insurance plans are successful, it would demonstrate that quality healthcare should have a fee, in contrast to the former Soviet Union where treatment was "free" but not highly respected.

During PROFIT's trip to Russia, it was noted that the new cost and co-payment terms vary depending on the policy and size of the group, with marketing being focused on public and private large employers. Insurance coverage is being developed along the lines of a health maintenance organization (HMO), including both inpatient/outpatient tertiary and primary services/care. Technical assistance and/or financial support could significantly assist the growth of this sector. PROFIT has identified a number of insurance companies that, once reviewed in greater detail, could add insurance coverage for contraceptive commodities and related pharmaceutical products.

C. EMPLOYER-PROVIDED SERVICES

PROFIT seeks to assist firms with large employer populations in offering family planning as an employee benefit. PROFIT can assist by providing technical assistance, cost/benefit analyses, investment in on-site clinics, and collaboration with providers seeking to service employee populations.

Many former Soviet factories (with a workforce of over 4000) as well as coal-mining, oil refining, mineral and chemical industries (with a workforce of over 2000) have their own medical units/polyclinics. The main medical unit departments include: internal medicine, surgery, stomatology and gynecology. Selected medical units serve company personnel as well as families of staff and the general district population. Some large medical units include a hospital complex and a pharmacy.

On PROFIT's recent trip to Russia, it was mentioned that new natural resource joint-ventures (oil, gas, and mining) were being developed in remote areas, and that health care facilities were being included as part of the infrastructure being built. This may offer potential opportunities for managed care programs that could be designed with one or more of the insurance groups to include a facilities management component. Opportunities for PROFIT in the large-employer sector should be assessed in more detail.

VI. CONCLUSIONS

The previous section provided an overview of the Russian health and family planning environment in the sectors relevant to PROFIT's mandate. The overall conditions in Russia provide an appropriate environment for increased private sector initiatives in the reproductive health sector. Several conclusions can be drawn:

- Since the collapse of the former Soviet Union, local manufacturing of contraceptives has been non-existent (other than poor quality condoms), leaving Russia without a dependable source of affordable contraceptives. PROFIT has determined that the opportunity does exist to create a new wholesale network designed to supply quality contraceptives and related products to all four market tiers at affordable prices. Future manufacturing potential exists with the intention of transferring production/technology capability to a Russian facility.

PROFIT is considering the development of an integrated marketing and distribution organization in Russia, to be based on U.S. sourced contraceptive products and an inclusive training program. The project would initially concentrate on the export of U.S. made IUDs together with a comprehensive marketing/training program. The second phase of the project would entail the establishment of a local joint venture to manufacture and market IUDs and other related products.

The project would provide commodities, information, and education to a reproductive health environment where abortion is the de facto leading method of birth control and where there is inadequate information/access to high quality contraceptives. PROFIT, as the project catalyst, will serve as a source of capital and provide the link for training and access to the family planning community.

- Private insurance groups are now more concerned with cost containment, quality of service, and public appeal. Policies tend to exclude dental, cosmetic, and pregnancy-related services. PROFIT feels that there may be an opportunity to work with one or more of the private insurance groups assisting them to develop lower cost programs that would also include family planning coverage.

Working through insurance companies can be an effective way to change provider behavior to increase support for contraceptives. Inclusion of family planning in health insurance coverage would remove the cost barrier and enable the insured population to have access to services and supplies. This would meet PROFIT's objective to employ private sector mechanisms/resources (private insurance companies) to expand family planning services and increase the contraceptive prevalence rate in Russia. This project would contribute to improving women's health care, a key issue for USAID/Moscow.

- There is a positive environment for PROFIT to develop family planning employer-provided services, particularly in the large medical units of the new natural resource joint-ventures. This sector could be covered in greater detail during PROFIT's next trip to Russia.

While population growth is not a major concern in Russia, women's reproductive health and the high incidence of abortion are of great concern, and need to be addressed. There is an immediate need for IUDs, condoms, and pills to meet the unmet demand for affordable, quality contraceptives as well as assist with other reproductive health care issues.

Based on PROFIT's trip to Russia, and numerous meetings with various groups from both the public and private sector (Russian Health Ministry, US pharmaceutical companies, NGOs), PROFIT proposes to undertake the contraceptive marketing/manufacturing/distribution project. A concept paper is attached describing the proposed U.S./Russian partners, commercial ties to U.S. exports and technology, training, and eventual local manufacturing.

Appendix A CONCEPT PAPER

To Sponsor the Formation of an Integrated Marketing and Distribution Organization in Russia, to be Based on US-Sourced Contraceptive Products and an Inclusive Training Program.

I. INTRODUCTION

With the emergence of the Newly Independent States, Russian women continue to face the growing need to improve access to quality reproductive health care. In assessing these needs, it is apparent that the supply and quality of contraceptive products are inadequate, and that the situation is becoming more acute as economic conditions deteriorate and health care services throughout Russia are decentralized. Existing production capacity is sparse and of unacceptable quality.

The lack of modern family planning services is reflected in the large number of abortions (65% - 75% of women have three or more) and the many women using traditional or unreliable birth control methods. Moreover, years of misinformation about family planning-related activities has induced fear of contraceptives among consumers. Training of physicians is greatly needed to provide quality service delivery and to assist doctors in providing the correct information to patients, thereby allowing consumers to choose the most appropriate and safe method for their lifestyle.

In addressing these issues, PROFIT has identified what it feels is an expedient opportunity to foster the formation of a new organization that would not only look to make US-sourced contraceptive products available to Russian women, but to also include a comprehensive training capability. The proposal calls for a joint US-Russian undertaking, in which PROFIT would be joined by US investors, manufacturers and trainers, as well as Russian partners, in creating a new organization dedicated to the supply of US-sourced contraceptives and related products, jointly with the provision of training and information related to such products.

II. THE PROPOSED NEW VENTURE

Jointly with Finishing Enterprises, Inc., the largest manufacturer of IUDs and sole supplier to the US Government, PROFIT has identified an opportunity to sponsor a new joint venture that would look to initially import US-sourced contraceptive products into Russia, where together with a comprehensive training program, the products would be marketed and distributed.

The proposed new venture, to be established in Russia, would carry a wide range of US-sourced contraceptive products, including IUDs, OCs, condoms and injectables. The initial plan is envisioned to have a central warehouse/headquarters facility in Moscow, with a second center in Novosibirsk. Additional centers would be added as the new venture expands.

Potential partners in the new venture would include Finishing Enterprises Inc., Pharmaservice, Inc. (a US-Russian joint venture engaged in the marketing of pharmaceutical products), the International Foundation for Maternal and Child Health Care (IFMCHC, a Russian NGO actively involved in family planning related activities), and possible other US interests including the Upjohn Company, Syntex Corporation, and a US condom manufacturer. PROFIT, as the project catalyst, would serve as a source of capital and provide the link for training and access to the domestic and international family planning community.

Given the importance of training, the sponsors would look to include a comprehensive training component into the basic business plan, with assistance to be provided by Family Health International, Boston University's Center for International Health and Development Associates (members of the PROFIT consortium), as well as others such as JHPIEGO and AVSC. Training would be provided at the new venture's own centers, at the regional branches of the IFMCHC, and at special meetings and conferences. A substantial part of the training program would focus on the training of trainers, not only in family planning techniques, but also in STD prevention and treatment. The venture would also include a parallel IEC component.

Once established, and where appropriate, the new venture would look to begin partial or full manufacture of the various contraceptive products in Russia. This would bring several benefits, including but not limited to a potential lowering of the costs (greater affordability), a savings in foreign exchange, and a committed presence for the US manufacturer. The sponsors have discussed this with the proposed US suppliers, and the response has been favorable.

In summary, the key features of the proposal are:

- To address the unmet needs of Russian women for quality reproductive health care, services and products.
- To sponsor a new commercial US-Russian joint venture for the marketing and distribution of quality contraceptive products
- To be based on the export of US-sourced products
- To involve US and Russian commercial and not-for-profit interests
- To include training as a major feature of the program.

III. PROPOSED NEXT STEPS

As PROFIT and Finishing Enterprises look to complete the assessment and due-diligence of the costs, appropriateness of the local partners, and other related issues, the following next steps need to be completed:

- Assess the structure of the IFMCHC in terms of both marketing and training capabilities.
- Meet with Pharmaservice's Russian organization to initiate the assessment of marketing and distribution costs. This would include a definition of the geographical areas to be served, and the proposed market in each area.
- Continue discussions with the US manufacturers including Upjohn, Syntex and a condom producer.
- Review with Deloitte & Touche's Moscow office the most appropriate legal/financial structure for the proposed new venture.
- Prepare a detailed financial assessment of the proposal.
- Prepare jointly with those engaged in the training component, a detailed training proposal.
- Define the roles and participation of each joint venture partner.
- Prepare a detailed proposal for presentation to A.I.D..

IV. RECOMMENDATION

That a PROFIT team return to Russia in early October to further the assessment and analysis as outlined above. It is crucial that PROFIT, as the project catalyst, be seen as advancing in this venture. The potential partners are prepared to move forward immediately and if the project is delayed it is expected that other manufacturers will seize the opportunity to introduce their own products. Based on this next visit, PROFIT would then present a detailed proposal for A.I.D.'s consideration.

Appendix B
DEMOGRAPHIC STATISTICS

Russia Total Population (1993) 149,000,000

Regional Population, 1990

Central	30,467,000
Moscow City	9,000,000
Moscow Oblast	6,712,000
Western Siberia	15,095,000
Novosibirsk	2,789,000

Nationalities Population ranked by % of regions population, 1990

<u>Russia</u>	81.5 Russians	3.8 Tatars	3.0 Ukrainian	1.2 Chuvash	1.2 Dagestan
Central	93.3 Russians	2.2 Ukrainian	.8 Tatars	.7 Jews	.6 Belorussia
Western Siberia	84.9 Russians	3.9 Ukrainian	2.8 Germans	2.6 Tatars	.6 Kazaks

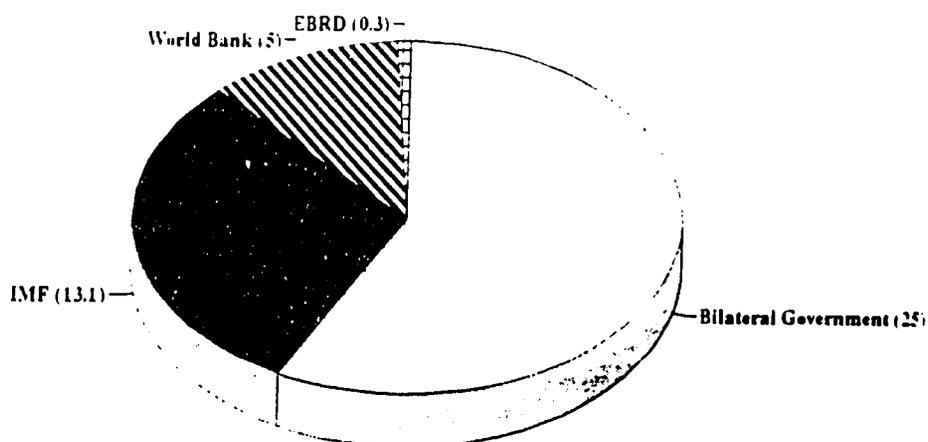
Natural Increase (annual, %), 1992	0.1
Crude Birth Rate (/1000), 1992	12
Crude Death Rate (/1000), 1992	11
Total Fertility Rate, 1992	1.7
Women of Childbearing Age (% of all women), 1992	46
Maternal Mortality (deaths /100,000 live births), 1991	54
Infant Mortality (/1000 births), 1992	20
Life Expectancy at Birth (M/F years), 1992	64/74
Abortion Rate, 1991 (of total population)	4 million +
GNP per capita (\$US, 1991)	3,220

Sources

- *USAID Health Profile, 1992*
- *1993 World Population Data Sheet, Population Reference Bureau*
- *The First Book of Demographics for the Republics of the Former Soviet Union 1951-1990, New World Demographics (for regional population statistics)*

**Appendix C
1993 FOREIGN AID**

The G7 Aid Package
In Billions of SUS



KEY (Source: Financial Times, 5/27/93)

Bilateral Governments

Public debt rescheduling	\$15bn
Export Credit and Guarantees	\$10bn

International Monetary Fund (IMF)

Systemic transformation facility	\$3bn
Stand-by loan	\$4.1bn
Currency stabilization fund	\$6bn

World Bank

World Bank loan commitments	\$3.4 bn
Import rehabilitation loans	\$1.1bn
Oil sector loan	\$0.5bn

European Bank for Reconstruction & Development (EBRD)

Small and medium enterprise fund	\$0.3bn
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