

**MIDTERM EVALUATION OF
SOMARC'S PROJECTS IN THE
CENTRAL ASIAN REPUBLICS
(CAR)**

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by

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**REPORT: LEGAL AND REGULATORY ENVIRONMENT FOR CONTRACEPTIVE
MARKETING IN THE COMMERCIAL SECTOR: KAZAKSTAN**

**REPORT: LEGAL AND REGULATORY ENVIRONMENT FOR CONTRACEPTIVE
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LIST OF ABBREVIATIONS

CA	Cooperating Agency
CAR	Central Asian Republics
CPR	contraceptive prevalence rate
CYP	couple years of protection
DHS	Demographic and Health Surveys (project)
DMPA	Depo-Provera (trade name for depot medroxy-progesterone acetate)
EU	European Union
FY	fiscal year
GIS	Geographic Information System
HIV/AIDS	human immunodeficiency virus/acquired immunodeficiency syndrome
IUD	intrauterine device
JHU/PCS	Johns Hopkins University/Population Communications Services
KAP	knowledge, attitudes, and practice
MOH	Ministry of Health
NGO	nongovernmental organization
NS	New Style
NIS	Newly Independent States (former Soviet republics)
OB/GYN	obstetrics/gynecology
OC	oral contraceptive
OYB	operational year budget
POS	Point of Sale
PR	public relations
SDP	service delivery point
SOMARC	Social Marketing for Change (project)
SOW	Scope of Work
TOT	training of trainers
UNFPA	United Nations Population Fund
USAID	United States Agency for International Development
VAT	Value Added Tax

EXECUTIVE SUMMARY

Background and Project Environment

In 1991, five Soviet republics in Central Asia—Kazakhstan, Uzbekistan, Kyrgyzstan, Turkmenistan, and Tajikistan—became independent republics. The breakup of the Soviet Union and the transition to market economies was accompanied by severe economic dislocation and an unraveling of the social safety net. Therefore, in its assistance to the Central Asian Republics (CAR), the U.S. Agency for International Development (USAID) focused on three objectives:

- transition to a competitive, market-oriented economy;
- reform leading to democratic governance; and
- social support for essential health needs during the transition period.

Under social sector support, USAID/CAR funded the Reproductive Health Services Expansion Project (RHSEP) for the period from 1993 through 1996. This project was designed to modernize, expand, and improve the quality and sustainability of reproductive health services. In a challenging economic environment, USAID/CAR made the strategic decision to work with the nascent private sector to expand the availability of these services and to develop a viable commercial contraceptive market in an arena previously dominated by government supply. SOMARC, as one of five cooperating agencies working on RHSEP, was to assist in improving the overall mix of contraceptive methods available to family planning clients and to assist with the diversification of health financing through private sector provision of contraceptives. In addition to meeting social sector objectives, SOMARC directly supported USAID/CAR's privatization efforts through the development of technical capacity in advertising, market research, distribution, and other requirements for a commercial contraceptive market in an emerging private sector.

The 1995 midterm evaluation of RHSEP recommended that the SOMARC project be continued beyond 1996 in order to make the best use of family planning earmark funding and to improve reproductive health practices while contributing to USAID/CAR's private sector strategies.

SOMARC's activities in the CAR have been funded through a buy-in to the worldwide SOMARC project of The Futures Group for the period of 1993 to 1998. As stated in the Scope of Work (SOW), the project objectives were to:

- Change consumer behavior to use modern contraceptives and to purchase contraceptives and family planning services through the private sector,
- Work with drug manufacturers to import a wider range of modern contraceptive methods to be offered at an affordable price through the private sector, and
- Ensure a constant supply of quality contraceptives through the private sector.

The project indicators, which are tracked by USAID/CAR, are the percentage of private pharmacies stocking SOMARC project contraceptives and SOMARC contraceptive sales achievements.

Evaluation Purpose and Methodology

The purpose of this assessment is to provide a midterm evaluation of SOMARC's activities in Kazakhstan, Uzbekistan, and Kyrgyzstan. USAID/CAR has invested substantially in SOMARC's program in order to increase the availability of contraceptives through the private sector and would like to evaluate its progress to date. In addition, evaluation findings will be used to help the Mission develop its fiscal year (FY) 1998 strategy for using family planning earmark funds to move the program toward greater sustainability.

After a briefing with USAID/CAR, the team reviewed relevant documents and then visited the capital cities of Almaty, Tashkent, and Bishkek to interview key informants including staff from the USAID country Missions, Ministries of Health (MOH), SOMARC, SOMARC's subcontractors, and pharmaceutical manufacturers and key distributors and wholesalers. In addition, the team visited 28 pharmacies in the three project countries.

The second phase of this assessment, which examines in-depth the potential legal and regulatory constraints that may affect the private pharmaceutical market and especially the marketing of contraceptives, is presented in the second part of this report.

Project Strategy

At the time of project design, the emerging private sector in the CAR lacked such basic market elements as advertising, market research, distribution, and private pharmacies. USAID/CAR therefore directed SOMARC to design project activities which would meet the changing technical needs of an evolving commercial contraceptive market, rather than focus on traditional social marketing objectives such as contraceptive sales. After conducting marketing assessments, SOMARC focused on pilot level activities in the major urban cities of Kazakhstan, Uzbekistan, and Kyrgyzstan. Each country situation is different; therefore, separate report sections are devoted to each. However, the strategies used in the three countries are similar. SOMARC used an advanced "fourth generation"¹ social marketing model that does not rely on donated product and develops a strong sustainable market through promotion of commercial brands. SOMARC/Washington invited international pharmaceutical firms, including U.S. firms, to market their contraceptives jointly with SOMARC. Five firms agreed in principle to promote their four low dose oral

¹SOMARC's terminology for a social marketing model that promotes a commercial product through the commercial market as opposed to the first generation model, which uses donated product and builds its own distribution system.

contraceptives (OCs), two injectables, and one condom. SOMARC pledged to provide a major communications campaign, training for doctors and pharmacists, identification of potential distribution networks, and assistance for policy support as needed.

SOMARC designed a marketing strategy to promote a range of brands by using a unifying logo, the "Red Apple." The Red Apple was developed to symbolize quality, affordable contraceptives. After intensive preparation and pretesting, SOMARC launched a major communications campaign and an extensive public relations (PR) program for the logo and for OCs in Kazakhstan in late 1994 and Uzbekistan in September 1995. SOMARC's PR activities to promote injectables began in late 1995, but advertising did not begin in Kazakhstan until 1997. Subcontractors and distributors distributed point of sale (POS) materials with the Red Apple logo including window logos, brochures, and packaging stickers. Recently, SOMARC has included joint promotion of distributor names and Red Apple products in its advertising. SOMARC conducted training for over 1,000 doctors and 1,063 pharmacists. SOMARC's activities in Kyrgyzstan were limited to training until it began a limited communications campaign for OCs in early 1996.

Project Management

SOMARC has a regional manager in Kazakhstan, a country manager in Uzbekistan, and a part-time training consultant in Kyrgyzstan. SOMARC/Washington has provided extensive technical assistance for program development and for training of the six local subcontractors for advertising and research.

Project Funding

As of October 1996, project funding (from the latest report made available by SOMARC) was US\$5,254,775, of which US\$3,447,482 (66 percent) had been expended to date. See Appendix D for a breakdown of funding by country and item expenditures through October 1996.

Evaluation Findings

As the evaluation team focused on the extent to which the SOMARC/CAR project had met its original project objectives, several themes emerged. First, during interviews and briefings with the Mission and SOMARC staff, it became clear that the project staff's primary task has been to meet the Mission's private sector priorities by developing the technical and operational capacity of the private, pharmaceutical sector. It was evident that the Mission has worked very closely with SOMARC staff to ensure that the project evolved to address the rapidly changing environment in the early project years. Therefore, success in the project's stated and measured indicators such as contraceptive sales, has only recently become important in project evaluation. Nonetheless, the findings below highlight achievements in both of these areas.

Second, the evaluation team's interviews with distributors, pharmacists, pharmacy managers, and subcontractors indicate that there has been a significant transfer of skills. No specific evaluation tools were put in place to qualify and quantify the value of these inputs; however, some evaluation tools were put in place to measure the outcomes that these technology transfers were designed to achieve—the number of pharmacies stocking products in receipt of promotional materials and sales. These outcome indicators quantify the accomplishment that the technology transfers achieved and, therefore, the quality of SOMARC's inputs, although they must also be seen within the context of the difficult, prevailing market conditions.

Red Apple advertising and PR appear to have raised consumer awareness, confidence in, and demand for contraceptives, and therefore, contributed to the overall increase in the prevalence of modern contraceptive methods. A knowledge, attitudes, and practice (KAP) study conducted in mid-1996 was not available during the evaluation to quantify this effect.² The Red Apple Logo advertising and PR activities have helped to expand the overall method mix from a reliance on intrauterine devices (IUDs). This effect has probably been felt equally across both the public and private sectors. The training of doctors and pharmacists has been particularly important in relation to the injectable contraceptive; any impact in increased use has probably been felt in the public sector, which still dominates in injectable provision.

In the development of this project, SOMARC has transferred significant technology to the six firms it has employed for advertising, PR, and market research. In addition, by working together with private distributors and pharmacy-chain owners, SOMARC has transferred management and operational skills to several private sector businesses. The training of pharmacists in “quality customer service” has helped to develop a private sector service orientation. The recent introduction of a franchise model pharmacy component, funded from SOMARC global funds, demonstrates SOMARC's effort to improve the management and marketing skills of a few, selected distributors. Also, the introduction of a Geographic Information System (GIS) into one of the subcontractor's operations has enhanced their technical capabilities.

When the SOMARC project began, private pharmaceutical firms were already involved, at least to some degree, in the CAR market; Gedeon Richter, in particular, has been promoting its contraceptives in the CAR since 1993. SOMARC's major role has been to focus these firms' attention on their contraceptive products and to accelerate the process of establishing a potentially sustainable commercial market.

Sales results to date suggest that any increased demand achieved in the private sector has been confined almost exclusively to OCs. Since the start of the project, total OC sales in Uzbekistan

²Information subsequently supplied by SOMARC showed that preliminary analysis of data will confirm the team's main findings in the field.

and Kazakstan have been 786,547 cycles or 60,503 couple years of protection (CYPs)³. However, the Uzbekistan sales figure is largely dependent on sales through Dori-Darmon, and not sales of retailers in the SOMARC-supported distribution network. Dori-Darmon was a government pharmacy chain and is now a joint-stock company which sells, at heavily discounted prices, products subsidized by a government procured European Union (EU) loan. These sales represents over 40 percent of the total project sales. If these sales are excluded, the total sales achievement is 426,288 cycles (32,791 CYP) in Kazakstan in approximately two years and 38,718 cycles (2,522 CYP) in Uzbekistan in one year.

Private sector sales of injectables, excluding those products subsidized by the Uzbekistan EU loan, are less than 2,000 vials per country.

The condom product has not been fully established for a number of reasons, including currency exchange problems in Uzbekistan and the withdrawal of the original Turkish supplier from the market.

Sales data for Kyrgyzstan were not available.

Therefore, the project has not yet achieved its objective of offering a range of contraceptives through the private sector; success has been limited, primarily, to OCs.

Red Apple OCs have been made available in about 50 percent of the private pharmacies in the three trial cities in Kazakstan and in almost 60 percent of private pharmacies in the two trial cities in Uzbekistan.

However, POS materials have been supplied and displayed in only about 31 percent of the pharmacies in Kazakstan cities and in 13 percent of the pharmacies in Uzbekistan.

From a marketing standpoint, SOMARC does not appear to have achieved branding of its products with the Red Apple logo at the retail pharmacy level, particularly in Kazakstan. The evaluation team found that pharmacy owners and customers in Almaty did not know which OCs were Red Apple products and that few Red Apple OC packs had been overbranded with the Red Apple logo sticker. This situation was better in Tashkent, Uzbekistan.

Although Red Apple contraceptives are available, SOMARC's promotional efforts and POS material distribution have not kept up with contraceptive distribution. Much can be done to improve the marketing efforts to both identify and stock non-stocking pharmacies, and to improve the distribution of promotional materials to create a stronger awareness of which brands are Red Apple brands.

³Couple Years of Protection - For OCs, the standard conversion factor is 13 cycles of OCs provide one year of protection from pregnancy.

Few specific evaluation parameters were established at the beginning of project implementation. Tracking indicators included sales data (CYP) and the percentage of pharmacies with Red Apple products. However, SOMARC has not yet developed an appropriate built-in system to monitor project evaluation criteria and marketing feedback. One tracking study in Kazakhstan undertaken in mid-1996 failed to unearth some of the distribution weaknesses that were found during this evaluation. A new GIS system began reporting only in 1997. This system tracks all stockists and is, therefore, useful for a distributor's operations, but is not a suitable low-cost project monitoring system. Furthermore, SOMARC has not performed studies to document its performance in relation to private sector goals and institutional capacity development. As the project continues, however, SOMARC has an opportunity to repair this omission and to conduct research and document experience in pricing, stocking, changing consumer attitude, and training results in order to adjust its marketing strategies.

Marketing and Regulatory Constraints

The project has been subject to both regulatory and market transition constraints. Currently, the primary regulatory constraint to SOMARC's objectives is the licensing required for the currency conversion in Uzbekistan, which affects distributor willingness to stock contraceptives. The second part of the report will address other legal and regulatory constraints.

The market constraints include the difficulties of working with an evolving private sector and selling product in a market flooded with large volumes of donated product. Because of the initial small size and limited profitability of the contraceptive market, the project must demonstrate significant sustained growth before the private sector is likely to invest in promotion. An evolving distribution system in which distributors and their client pharmacies are not closely linked makes innovative promotional efforts very important. Large, untargeted donations of free contraceptives from the United Nations Population Fund (UNFPA) and other donors will keep the private sector market for injectables from reaching a significant size except over the very long term. Since the injectable is a new method for this region, which requires medical attention for injections and management of side effects, it may be better to build demand in the public sector first. Contraceptive affordability may also need more study since it is an important constraint in difficult economic situations (as in Kyrgyzstan) and will influence consumer willingness to pay for a “non-essential” item, particularly if this item is provided at no cost through the public health system.

SOMARC's Proposed 1997 Work Plans

SOMARC's proposed 1997 work plans refer to expanding national advertising in all three countries, continuing training, continuing the development of the franchise concept with at least one pharmacy chain, and identifying more distributors. SOMARC's sustainability efforts have been focused on the joint promotion of Red Apple materials with participating distributors and on marketing and management skills training for subcontractors and participating distributors. This

draft plan does not yet provide a clear strategy with objectives to move toward a sustainable contraceptive market.

Recommendations

This section discusses general recommendations; specific recommendations are given in Section 7. In general, the evaluation team recommends that the project identify its core successes, and together with manufacturers and key distributors, work toward developing a sustainable commercial contraceptive market. Specific actions to achieve this include:

1. The work plans should be revised to produce a clear withdrawal strategy for exiting the market within the next two years (or estimated end of project funding). The Mission and SOMARC should agree on the most focused strategic approach to achieve sustainability and reach project objectives.
2. The project should agree on indicators and project end point. SOMARC should improve its monitoring system for these indicators and should provide marketing feedback.
3. SOMARC should concentrate on increasing the OC market by focusing efforts on promoting consumer demand and expanding the network of outlets selling and promoting OCs.
4. Any significant expenditure for promotion of injectables or condoms at this time is not likely to be productive. If a condom marketing effort is needed for HIV/AIDS prevention, it should be designed with a more focused approach as part of a specific program. Such an effort would need additional funding.
5. USAID/CAR should address the issue of excessive donated product and encourage UNFPA to target donations so that they have less of an impact on private market development. The Mission also identified this issue and plans to discuss it with UNFPA and others.
6. Because the franchise activities will not significantly increase the number of pharmacies stocking contraceptives, these activities should be limited to present budgets.
7. In Uzbekistan, SOMARC needs USAID assistance to address the constraint of currency conversion licensing as it affects stocking of contraceptives. USAID/Uzbekistan has expressed its willingness to assist, specifically for contraceptives. In addition, USAID and SOMARC must agreed on whether to support Dori-Darmon sales of highly subsidized products in project activities. If so, the evaluation team recommends that sales of subsidized products be reported separately from commercial sales.

8. As the project expands nationally in all three countries, and possibly to Turkmenistan, SOMARC's human resources will be stretched. Project management should consider providing additional staff and funding activities that would contribute to the success of this project.

1. INTRODUCTION

1.1 The Objectives of USAID and SOMARC in the Central Asian Republics

In 1991, five Soviet republics in Central Asia—Kazakstan, Uzbekistan, Kyrgyzstan, Turkmenistan, and Tajikistan—became independent republics. The breakup of the Soviet Union and the transition to market economies was accompanied by severe economic dislocation and an unraveling of the social safety net. Therefore, the United States Agency for International Development (USAID)/CAR in its development of assistance objectives has focused on three specific areas: (1) transition to a competitive, market-oriented economy; (2) reform leading to democratic governance; and (3) social support for essential health needs during the transition period. Social sector transition priorities have included strengthening the efficiency and effectiveness of preventive public health services and developing private sector capacity in health services to take a larger role in areas that governments can no longer finance. Although there are some similarities across the region, each country has experienced economic and political change at a different pace; specific USAID/CAR activities in each country have been modified accordingly.

In 1993, as part of its initial support to these Newly Independent States (NIS), USAID conducted an assessment of contraceptive and reproductive health services that identified high use of abortion and low use of modern contraceptive methods as major health concerns. SOMARC's first activity in the CAR was to participate in this assessment. SOMARC later became a team member of the Reproductive Health Services Expansion Program (RHSEP), a project designed to modernize, expand, and improve the quality and sustainability of reproductive health services. The RHSEP engaged and coordinated the services of five Cooperating Agencies (CAs) of USAID's Global Bureau, including the SOMARC project of The Futures Group, to provide technical assistance and support for policy, training, institutional development, client education, surveys, and diversification of contraceptive method and source mix.

Under the RHSEP, SOMARC was to develop a contraceptive social marketing project throughout the CAR. However, USAID/CAR did not view the SOMARC role as a traditional development project with a focus on family planning indicators and contraceptive sales. Rather the intention was to assist in the evolution to a market economy by promoting growth and capacity for contraceptive and family planning services in the newly emerging private sector. Because SOMARC projects are designed to work primarily in the private sector, SOMARC activities contribute to USAID/CAR objectives in both social sector reform and market transition. Specifically, promotion of modern contraceptive methods assists in reducing abortion rates and increasing contraceptive prevalence, both of which are indicators of quality health service availability and improved effectiveness of reproductive health practices. Demonstration of the viability of the commercial market for commercial distribution and retail sales of contraceptives addresses social sector concerns for diversification of health financing and contributes in general to market transition objectives. The 1995 midterm evaluation of RHSEP recommended that the

SOMARC project be continued beyond the term of the RHSEP to make the best use of family planning earmark funding and to contribute to USAID/CAR private sector objectives.

SOMARC activities in the CAR have been funded through a buy-in to the worldwide SOMARC project for the period of September 1993 through December 1996. The project recently received additional funding to operate to September 1997. In the original Scope of Work (SOW), the project objectives were to:

- Change consumer behavior to use modern contraceptives and to purchase contraceptives and family planning services through the private sector,
- Work with drug manufacturers to import a wider range of modern contraceptive methods to be offered at an affordable price through the private sector, and
- Ensure a constant supply of quality contraceptives through the private sector.

The project indicators, which are tracked by USAID/CAR, include the percentage of private pharmacies stocking SOMARC project contraceptives and the number of SOMARC contraceptive sales.

1.2 Purpose of Evaluation and Methodology

The purpose of this evaluation is to provide a midterm assessment of SOMARC's activities in Kazakhstan, Uzbekistan, and Kyrgyzstan. USAID/CAR has invested substantially in SOMARC's program in order to increase the availability of contraceptives through the private sector and would like to evaluate its progress to date. In addition, evaluation findings will be used to help the Mission develop its fiscal year (FY) 1998 strategy for using family planning earmark funds to move the program toward greater sustainability.

After a briefing with the USAID/CAR Mission, the team reviewed relevant documents and then worked with SOMARC staff to develop a schedule of interviews and a list of key participants in the SOMARC project. The team visited the capital cities of Almaty, Tashkent, and Bishkek to interview key informants including staff from the USAID country Mission, the Ministries of Health (MOH), SOMARC, SOMARC subcontractors, and members of the project advisory board. In each city, the team also conducted in-depth interviews with representatives from the major pharmaceutical manufacturers and key distributors and wholesalers participating in the project. The team paid particular attention to what pharmaceutical manufacturers and wholesalers felt had been SOMARC's contributions to their businesses. In addition, the team visited 28

pharmacies in the three project countries. On the visit to Bishkek, the team was accompanied by Linda Andrews, USAID/CAR's Reproductive Health Program Manager.

After analyzing the data gathered during interviews and observing pharmacies, the team drafted a report, which was presented to the USAID/CAR Mission for discussion. Based on feedback from USAID staff, the team developed a final draft.

The second phase of this assessment, which examines in-depth the potential legal and regulatory constraints that may affect the private sector pharmaceutical market and especially the marketing of contraceptives, is presented in the second part of this report.

1.3 Overview of SOMARC's Central Asian Republics Project

After conducting market assessments in four Central Asian Republics, SOMARC and USAID focused on pilot level activities in three countries: Kazakstan, Uzbekistan, and Kyrgyzstan. Activities began in Uzbekistan in late 1993 with the hiring of a SOMARC local manager. A full-scale social marketing effort, with advertising and public relations, has been underway in Almaty, Karaganda, and Ust-Kamenagorsk in Kazakstan since late 1994, and in Tashkent and Samarkand in Uzbekistan since September 1995. Activities in Kyrgyzstan were limited to training until early 1996 when a limited communications program was funded for a pilot project in Bishkek. Since each country has experienced a unique project evolution, the details of country activities and evaluation findings are outlined in separate country sections.

When the SOMARC project began, all three countries were experiencing rapid economic and market change. New companies were being formed at every turn and basic services were being disrupted. The government pharmacy system in Kazakstan was scheduled to be almost completely privatized in one year and its distribution system fragmented into many “private” distributors with old systems. Very few citizens had been trained in skills such as advertising, market research, or consumer demand and private firms sprang up almost overnight to meet new demands for information and commercial market tactics. USAID/CAR recognizes that it pushed hard for the CAs under RHSEP to show major results in a rapidly evolving environment.

To address the needs of the emerging private sector entities, USAID/CAR directed SOMARC to design project activities which would meet the changing technical needs of an evolving commercial contraceptive market, rather than focus on traditional social marketing objectives such as contraceptive sales. Establishment of the viability of the commercial contraceptive market was of major concern, particularly after the long history of dominance of government services. SOMARC/CAR's strategy was to employ a “fourth generation” social marketing model that did not rely on donated product and was designed to develop a strong sustainable private contraceptive market through promotion of commercial brands. SOMARC/Washington invited international pharmaceutical firms, especially U.S. firms, to sell and promote their contraceptive products in the fledgling CAR commercial markets, while SOMARC/CAR worked to expand the

potential size of this market through a major communications campaign, training for doctors and pharmacists, identification of potential distribution networks, and assistance for policy support.

In 1994, SOMARC/Washington received agreement in principle from five international manufacturers to work together with SOMARC wherever possible to introduce or expand their contraceptive product lines. The products to be included were four low dose (oral contraceptives) OCs, two injectables, and a condom from the international firms Schering, Organon, Gedeon Richter, Upjohn, and Eczacibasi. Of the U.S. firms approached, only Upjohn, the maker of the Depo-Provera injectable, agreed to participate. Two additional Gedeon Richter brands, Triregol and Antiovin, have since been added to the market, but Antiovin was recently noted to be a medium dose OC and will, therefore, be withdrawn from the program. SOMARC made an agreement with Eczacibasi of Turkey for the introduction of Okey condoms. This was a strategic decision since the project was partially funded by USAID/Turkey. However, Eczacibasi closed its pharmacies and withdrew from the region for business reasons. In 1996, the project was negotiated with Innotex condoms of France. Small quantities of these condoms did appear in Uzbekistan, but exchange controls have since stopped the supply.

To address the CAR market on a cost-efficient basis and to promote a range of contraceptive products, SOMARC developed a unifying logo, the Red Apple, that was placed on all promotional materials and product packaging. SOMARC used focus group discussions to develop and pretest promotional messages for three television advertisements: one for general Red Apple awareness, one for OCs, and one for injectables. SOMARC also developed numerous radio and print advertisements as well. These advertisements were developed in Almaty, but were revised and re-shot after pretesting for use in Uzbekistan and later Kyrgyzstan. The general logo and OC advertisements have been aired periodically in Kazakstan over local and national stations since late 1994, in Uzbekistan since September 1995, and in Kyrgyzstan since early 1996. The injectable advertisement has been aired in Uzbekistan since November 1995 and in Kazakstan since late January 1997. Since mid-1996, the advertisements have included names and phone numbers of participating distributors.

Point of sale (POS) materials in Russian with Red Apple logos—window stickers, signs, posters, brochures, and packaging stickers—were developed, printed in the U.S., and distributed through subcontractors or distributors to pharmacies.

SOMARC developed substantial PR campaign materials and activities to launch the Red Apple concept and prepare for the introduction of injectables in mid-1995. SOMARC established advisory boards to gain support and approval for the program from influential leaders. SOMARC used extensive technical assistance to provide media training for program spokespersons and to generate media support for the program in Kazakstan and Uzbekistan. During the launch of the Red Apple program, which advertised OCs and injectables, SOMARC's activities, which included press releases, television talk shows, and seminars, were vigorous. Currently, PR activities continue at a reduced pace. Advertising for injectables just began in January 1997 in Kazakstan,

which means that mass-media product promotion has been implemented only through PR activities.

SOMARC used qualitative market research to develop or revise advertising in all three countries. In the three pilot cities of Kazakstan, SOMARC conducted a baseline consumer knowledge, attitudes, and practice (KAP) survey of 1,001 women in October 1994 and conducted a follow-up tracking survey to assess any changes after program activities in July 1996 (the results were not available during the evaluation). Also in Kazakstan, SOMARC fielded a survey of pharmacists and doctors in July 1996 (results also not available). Such surveys have not been conducted in other countries. In July 1996 in pilot cities of Kazakstan and in January 1997 in Tashkent and Samarkand, using a Geographic Information System (GIS), SOMARC inventoried and mapped all service delivery points (SDP), including pharmacies, and noted the presence of Red Apple POS materials and products. No other formal or systematic surveys of products or sales volume have been undertaken.

SOMARC trained 133 trainers, 1,000 doctors (OB/GYN), and 1,063 pharmacists (source: SOMARC/Washington) throughout the three countries to address low levels of hormonal contraceptive knowledge—especially knowledge of the injectable, which is a new method for this region. Kyrgyzstan, in particular, received a large donation of injectables and USAID/CAR asked SOMARC to assist in the extensive training of doctors and pharmacists about Depo-Provera. The pharmacist training also stressed “quality customer service” to improve potential client counseling and provide a more service-oriented attitude in private pharmacies.

SOMARC/CAR does not distribute products, but rather identifies potential distributors for manufacturers. Since 1994, SOMARC has attempted to convince up to 100 distributors to carry contraceptives; as of early 1997, 9 major distributors in the three countries have agreed to carry contraceptives. During 1996, SOMARC activities in Kazakstan shifted more to technical assistance and “on-the-job” training in pharmaceutical industry management in an effort to improve distribution. This training included a study tour to Turkey in early 1996 and the development of a model pharmacy design and cooperative activities in franchise training with the contractors Carana and Sibley.

1.4 Management

To manage this complex project, SOMARC maintains an office in Almaty with a regional director who is responsible for all regional activities, but whose day-to-day focus is on Kazakstan. A full-time consultant is based in Tashkent for day-to-day management of Uzbekistan activities; a part-time local consultant in Bishkek assists with training logistics. Advertising, PR, and market research activities have been subcontracted to local firms in Kazakstan, which also cover Kyrgyzstan, and Uzbekistan. This subcontracting agreement has been considered part of SOMARC's private sector institution building as local capacities in these technical areas were

extremely limited when the project began. The project has received extensive technical assistance from SOMARC/Washington staff and consultants.

1.5 Budgets

At the end of October 1996, SOMARC reported that it had expended US\$3,447,484 or 66 percent of the total original budget of \$5,254,775. SOMARC/Washington also reported that most of the remaining budget had been expended by the end of 1996. (See Appendix D for a breakdown of budget expenditures by country).

1.6 Overview of SOMARC's Proposed Work Plans for 1997 to 1998

SOMARC/CAR has developed work plans for all three countries to expand on current activities. SOMARC plans to expand its advertising and PR activities to provide national coverage where it is needed and to develop new materials to refresh old messages and further increase consumer demand. SOMARC's PR activities will include seminars with doctors; PR events to link manufacturers, distributors, and pharmacy owners; and continued press releases and talk show interviews.

SOMARC will train an additional 550 doctors throughout the three countries and 500 pharmacists in Kyrgyzstan and Kazakstan. SOMARC will continue pharmacist training in Uzbekistan after determining the number of physicians who need training.

SOMARC proposes budget sharing and expansion of Red Apple logo opportunities by promoting distributors through Red Apple advertising and by placing Red Apple logos on manufacturer and distributor advertisements and POS materials. In addition, there will be an effort to share media purchase costs.

The GIS system, which was developed in 1996 to survey pharmacies, will be continued primarily as a tool for distributors to expand their markets (rather than as a tool for tracking SOMARC's indicators).

To further address sustainability issues, SOMARC has proposed technical assistance and training, including media training, for its participating distributors in order to build in-house capacity for marketing, research, and communications. Together with another USAID contractor, SOMARC proposes to work with selected distributors to improve their distribution and pharmacy management skills by providing model pharmacy design and construction and technical assistance for pharmacy franchising. Separate funding from the global SOMARC contract for special enterprise activities has been made available for franchising development. Although the draft work plans list franchise models for all three countries, this shift in strategy for commercial market development is to be applied only in Kazakstan.

SOMARC, with USAID/CAR, is considering the need to start project activities in Turkmenistan in 1997.

Although SOMARC has not given sales objectives for the 1997 work plans, a previous document entitled "Central Asian Republics Accomplishments and Projected Opportunities" lists sales targets of 2.1 million OCs and 90,000 injectables for 1997 in all three CAR countries.

2. SOMARC'S PROJECT IN KAZAKSTAN

2.1 Kazakstan Background

Kazakstan covers a million square miles, has a population of 16.7 million (1990), and is divided into 19 administrative regions (oblasts). It is the largest recipient of U.S. assistance in Central Asia.

Significant progress has been made in privatizing government assets including assets in the health sector. A large percentage of state pharmacies has been privatized; however, decentralization is leading to different levels of privatization and different policies in each oblast.

The government health care system is extensive and well-developed, although it suffers from poor infrastructure and expenditure cutbacks. A national, compulsory health insurance system was introduced in 1996 as part of the country's health care reforms.

Statistics from the MOH in 1995 show that Kazakstan's maternal mortality rate remains high at 77.3 deaths per 100,000 live births. The abortion rate is reported to have declined by 17 percent from 1990 to 1995 and is currently 54.7 per 1,000 women. MOH clinic statistics report a 32 percent increase in use of intrauterine devices (IUDs) and OCs from 1989 to 1995. The 1995 Demographic Health Survey (DHS) of 3,771 women of reproductive age reports that 43.3 percent currently practice family planning: 27.9 percent use IUDs, 3.4 percent use condoms, 1.5 percent use OCs, and 9.6 percent use a traditional method such as withdrawal or periodic abstinence.

2.2 SOMARC Activities

As previously mentioned, SOMARC's project strategy was to develop a sustainable market by promoting commercial product. SOMARC, therefore, set out to expand the distribution, promotion, and sale of five low dose OCs, two injectables, and two condoms through the private pharmacy network in Kazakstan.

SOMARC formally launched its program in the three pilot cities of Almaty, Karaganda, and Ust-Kamenagorsk in November 1994 after extensive preparations. These preparations included discussions with manufacturers and distributors to ensure that supported products would be distributed in private pharmacies; focus group discussions to help develop messages and materials; and initial training of trainers (TOT) in contraceptive technology for doctors, OB/GYNs, and pharmacists. SOMARC also established an advisory board. Extensive PR activities were included in the launch phase along with mass-media advertising and the distribution of posters, stickers, mobiles, and brochures to pharmacies. SOMARC conducted a baseline KAP survey of women of reproductive age in October 1994. SOMARC made significant use of local resources

to develop and operate its program: DANK Video produced graphic materials; AKBAR implemented PR activities, such as the distribution of POS materials to pharmacies and media buying; BRIF implemented the focus group research; and SiAR Research, Turkey, conducted the baseline study.

Kazakhstan's newly established local institutions required significant assistance and support to meet the quality requirements of the project. SOMARC's manager provided this support with significant technical assistance from SOMARC/Washington.

SOMARC's initial program concentrated on general family planning promotion, using OCs as the key product. Early in 1995, injectables were added with a TOT in Depo-Provera (DMPA) and the launch of an injectables PR program through mass media. In the third quarter of 1995, SOMARC introduced condoms into the market mix. Early in 1997, injectables were advertised through mass media.

SOMARC produced a pilot soap opera television program addressing contraceptive issues in the second quarter of 1995, but this pilot has not been subsequently expanded into regular production. Media training for influential figures was launched in the third quarter of 1995. Mass-media activities were expanded nationally in January 1996. A radio talk show and call-in program was launched in the third quarter of 1996. Early in 1996, SOMARC introduced dealer addresses as tag-lines on television advertisements and manufacturers added Red Apple logos to their promotional materials. Product packs were intended to be branded with Red Apple logos through stickers provided by the project. Late in 1996, Upjohn began to print Depo-Provera packs with Red Apple logos prior to import to the CAR region.

At the end of 1996, SOMARC introduced a pharmacy franchise project with assistance from Abt Associates, Carana Corporation, and Sibley Company. The purpose of this project is to develop a model pharmacy operation that could be used by existing distributor-owned pharmacies to improve their operations and could serve as a model for franchising new pharmacies.

In the third quarter of 1996, BRIF suggested introducing a GIS system to track pharmacy participation and stocking levels. This system was launched in the three pilot cities and involved a complete mapping of all contraceptive SDPs.

A tracking KAP study was conducted in mid-1996, although the results have not yet been published (some preliminary data were presented by SOMARC/Washington, but they were not presented in time to be included in this report).

The available data from SOMARC/Washington shows that 46 trainers have been trained. These trainers have, in turn, trained 400 doctors, primarily OB/GYNs, in contraceptive technology and DMPA and 463 pharmacists in contraceptive technology and quality customer service.

In support of the program, SOMARC/Washington staff and consultants made 36 trips to Kazakstan from the start of the project to the third quarter of 1996. Expenditure breakdowns for Kazakstan are available in Appendix D.

2.3 SOMARC's Proposed Work Plan for 1997

SOMARC's proposed work plan for Kazakstan in 1997 includes the following activities:

- (1) Advertising. SOMARC will continue national advertising with joint media buying and budget sharing with manufacturers and distributors and joint message tagging in media and POS. SOMARC will also introduce outdoor and transit advertising in Almaty and continue the weekly radio talk show. Two new television commercials on OCs and injectables and four new radio spots will be produced.
- (2) Public Relations Activities. SOMARC's PR activities will include training of distributors in media relations; producing a joint video news release on Depo-Provera with Interfarma; promoting and gaining sponsorship for seminars for doctors in collaboration with Gedeon Richter and Organon; and working with Innotex to integrate their condom into the program.
- (3) Development of the Model Pharmacy. SOMARC will continue the franchise program by producing franchise training modules and training franchise partner staff in marketing management, market research, and international business and trade. A corporate identity program will be developed incorporating the Red Apple logo into franchise partner logo designs. In addition, SOMARC will complete the design and construction of a model pharmacy.
- (4) Expansion of the Distributor Base. SOMARC will continue to expand the existing distributor base, to develop the GIS into a tool to support the distributors who are working to expand sales and add product lines, and to encourage manufacturers to use Red Apple product branding on their packaging.
- (5) Training. SOMARC will train an additional (approximately) 400 pharmacy assistants and 300 obstetricians and gynecologists.

SOMARC's report, "Central Asian Republics Accomplishment and Projected Opportunities," predicts that contraceptive sales for 1997 will reach 1.5 million cycles of OCs and 50,000 vials of DMPA. Condoms are projected to be in 800 retail outlets.

2.4 Evaluation Findings

2.4.1 *Brands Supported*

To date, the primary success in the Kazakstan program has been through its support of the distribution and sale of the five OC brands through private pharmacies. Injectables are still primarily supplied through the United Nations Population Fund (UNFPA). At present, no condom brands are being promoted, because the original manufacturer of Okey condoms (Eczacibasi in Turkey) withdrew from the program after financial disputes with its importer. However, negotiations have started with a French importer of Innotex condoms.

The program has, therefore, only partially met its original objective of expanding the overall product mix within the primary market segment of sales through private pharmacies.

2.4.2 *The Private Pharmacy Market for Oral Contraceptives*

Data on the number of OCs sold through the private pharmacy market are not easy to obtain because manufacturers do not keep careful records of where their distributors and wholesalers are selling product and to whom they are selling product. It is, therefore, equally difficult to acquire accurate data from their potential purchasers. The pharmaceutical manufacturers interviewed thought that OC sales were increasing, but not at the same level as sales of their other pharmaceutical products. These representatives also noted that OC sales accounted for a very small percentage of total sales—approximately 1 to 2 percent. The OC lines are, therefore, only incidental to the manufacturers' total sales efforts.

SOMARC estimates total OC sales in 1995 and the first nine months of 1996 to be 426,288 cycles (equal to a CYP of 32,791); sales for the first three quarters of 1996 alone total 144,800 cycles. Based on this data, SOMARC's 1997 sales projection of 1.5 million cycles seems unreachable.

Schering estimated its sales to the government sector to be 150,000 cycles of Microgynon and 200,000 cycles of Triquilar over 1995 and 1996. Projections made by extrapolating of DHS statistics for OC use indicate that the total public and private sector use of OCs in 1995 was approximately 700,000 pills.

The historic increase or decrease in pill use in Kazakstan is not available. However, data from the Human Reproductive Center in Almaty show that OC use in Almaty doubled from 1994 to 1995 to 27,124 cycles, declined to 20,238 cycles in 1995, and then rose to 22,400 cycles in 1996. At the same time, the number of mini-abortions (locally defined as early term abortions performed at less than 6 weeks) declined in Almaty from 24,267 in 1992, to 11,322 in 1994, and then to 8,620 in 1996.

UNFPA supplied Kazakstan with 400,000 OC cycles in 1993 and 330,000 OC cycles in 1996.

The 1995 DHS survey shows that 78.8 percent of women of reproductive age were aware of OCs and 1.5 percent were currently using OCs (2.3 percent in urban areas). SOMARC's 1994 KAP study, which included women in all three pilot cities, showed that 8 percent of all women interviewed were using OCs. Results of the 1996 evaluation KAP study are not yet available.

SOMARC has not established a routine retail audit system for tracking sales from pharmacies and from the MOH system. This would be a useful tool to more accurately assess the program's sales achievements and to compare private sector pharmacy market share with that of the government sector and track the relative market share of each over time.

2.4.3 The Private Sector Market for Injectables

The market for selling injectables through pharmacies is still very small. Small quantities of Depo-Provera have been ordered by distributors although sales projections are low. It appears that the sales projection of 50,000 vials of Depo-Provera for 1997 will not be achieved.

Schering and Upjohn both express concern about the integrity of their products and prefer to see a slow development of the market coupled with extensive provider training. They see the market for injectables to consist primarily of public sector provision of UNFPA donated product through the MOH.

In the 1995 DHS survey, Kazakstan's rate of injectable use is not quoted because, at less than 1 percent, the numbers are regarded as too small. In Almaty, however, the Human Reproductive Center reports that 5,000 vials of injectables were used in 1994, 7,560 in 1995, and 7,022 in 1996. These data show only modest use of injectables, although the figures for 1996 may have been depressed through a temporary shortage of supply.

UNFPA supplied the Kazakstan MOH with 225,000 vials in 1993 and 33,000 in 1996.

The 1995 DHS survey also indicates that 33.3 percent of all women had heard about the injectable contraceptive. The SOMARC baseline KAP of 1994 shows that 1 percent of all women in the three researched cities currently use injectables. The repeat evaluation study conducted in 1996 was not available at the time of this evaluation.

Discussions with the MOH indicated that some shortages of Depo-Provera were experienced in 1996, but these shortages were rectified. In the future, the MOH's policy will be to supply the demand for injectables through the Women's Consultative Centers.

2.4.4 The Number of Pharmacies Participating

To date, approximately 1,000 pharmacies have been privatized or newly opened. At the outset of this evaluation no formal data were available on the number of pharmacies participating in the program and selling Red Apple OCs. However, the evaluation team was able to request that BRIF, which had just completed a GIS in Almaty, Karaganda, and Ust' Kamenagorsk, extract some relevant data. At the same time, Abt Associates reported that they were conducting a monthly market basket survey of pharmaceutical prices in 57 pharmacies in 19 oblasts. The evaluation team was able to extract data on the stocking of OCs from this survey.

Table 1

Percent of Pharmacies Participating in Red Apple Program

Activity	Country			
	Almaty	Karaganda	Ust'Kamenagorsk	All
Displays Red Apple Logo	25	11	36	22
Has Brochures	35	17	50	31
Stocks Red Apple OCs	56	42	50	52
Stocks Red Apple Injectables	2	1	0	1

Source: GIS Survey from BRIF.

Abt Associates' survey of 36 private pharmacies showed that approximately 50 percent of the pharmacies stocked at least one Red Apple OC; only one private pharmacy stocked Depo-Provera. The number of private pharmacies stocking OCs is encouraging, but more needs to be done to increase these numbers.

The distribution of Red Apple materials to pharmacies, which is contracted through AKBAR, is weak and needs to be strengthened.

2.4.5 Attitudes Toward the Red Apple Program

The evaluation team found the following attitudes toward the Red Apple Program among the business owners involved in pharmaceutical distribution:

- (1) **Manufacturers.** The OC manufacturers that the evaluation team interviewed expressed strong support for the SOMARC program and claimed that it had significantly contributed to increased consumer awareness and demand for OCs in Kazakhstan. None

of the manufacturers claimed to have introduced any specific brands because of the program, nor could they offer any specific data to indicate how their sales were affected by the program. However, since SOMARC had been the only significant promoter of OCs through the mass media and at POS (although Gedeon Richter had a number of OC posters in pharmacies and a small media budget) it is reasonable to assume that the program has significantly affected sales.

The manufacturers thought that the private pharmacy OC market was still too small to warrant any significant investments by their firms in promotional activities in the near future. At 1 to 2 percent, contraceptive sales are only a small part of their total sales; consequently, none of the manufacturers thought that the SOMARC program had induced new manufacturers to enter the Kazakhstan market.

The manufacturers representatives from both Schering and Upjohn seemed less interested in the pharmacy market for their injectables. Both, appropriately, saw their products as ethical pharmaceuticals that should be introduced through extensive training of providers in correct use, counseling, and side effects management. The representatives emphasized the importance and usefulness of SOMARC's training of OB/GYNs in general contraceptive knowledge and practice and the training of pharmacy staff in good sales and customer practices.

The manufacturers would like to see their product packaging overbranded with the Red Apple logo, but stated that this could not be done ex-factory for practical reasons (aside from Upjohn who has started doing this on Depo-Provera packaging). The manufacturers stated that the effort necessary to place a sticker on every pack in their warehouses would not be cost-efficient or worthwhile.

Some trial Depo-Provera purchases have been made by distributors this year, but sales are expected to remain insignificant through the private pharmacy sector.

(2) Distributors and Wholesalers. Because of the fluid nature of the pharmaceutical distribution system, it has been difficult for the program to identify suitable distributors with a commitment to the program. Over 50 distributors have been approached; a number of distributors have joined the program and then dropped out. At this time, 4 main distributors are active in the program: Astana-Medservice, Romat, Interfarma, and Sibpharm.

These distributors were attracted to the program primarily through the inducement of the mass-media and POS components—in particular, the tag lines on television spots that named the participating distributor as a supply source. Since most distributors were also pharmacy owners, they were also attracted by SOMARC's training activities and ideas about management of pharmacy operations.

In reality, the distributors' hormonal contraceptive sales are still relatively low and represent a relatively small percentage of total sales (about 2 percent for one distributor and 5 percent for another). The distributors would like to see greater SOMARC support for activities that will increase the government's attention to family planning, reduce the need to pay a 20 percent Value Added Tax (VAT) on goods before sale, and strengthen general operations rather than concentrating exclusively on OC promotional activities. The distributors agreed, however, that an expanded, national mass-media effort would help the government's family planning efforts and would also help contraceptive sales.

The distributors agreed to support the Red Apple program, but none of them were willing to fix the Red Apple logos on product packaging; they preferred to leave it to individual pharmacies to apply the SOMARC-supplied stickers.

(3) Pharmacies. According to the GIS data, 52 percent of the 404 private pharmacies in Kazakhstan's three trial cities are stocking Red Apple products. There are, therefore, 210 participating pharmacies in just the three trial cities. However, since wholesalers are active throughout the entire country, there may be many more pharmacies stocking Red Apple products in Kazakhstan as a whole. Optimistically, if 52 percent of the private pharmacies in all of Kazakhstan stock Red Apple products and 1,000 of them exist, the program is reaching 520 private pharmacies.

The evaluation team visited 10 pharmacies in Almaty; all had heard of the Red Apple program and most had Red Apple brochures and stickers on display. When the pharmacists were asked if they had any Red Apple products, only one said that s/he had; yet, when the pharmacists were asked to show the OCs that they had in stock, all had Red Apple products. One pharmacist stated that she was surprised that someone had come to her pharmacy and given her all the Red Apple materials, but had not given her any Red Apple products. She did, in fact, have several Red Apple brands on display.

The Red Apple concept of overbranding products is not working at the retail level. For practical reasons, it is evident that this overbranding of product packs is difficult to achieve. Because of this difficulty, the Red Apple logo should become a program logo and the specific products recommended by the program should be advertised through posters or stickers in pharmacies.

Only 1 of the 10 pharmacists that the evaluation team interviewed had been trained in SOMARC's pharmacists training program. Anecdotal evidence suggested that there is a significant movement of pharmacists into and out of the trade and between pharmacies. SOMARC had not monitored or evaluated the pharmacists training component to track this issue.

Distributors who own pharmacy chains were supportive of the franchise concept. However, only one chain, Romat, is actually participating in this component to date. It is

recommended that the franchise concept be continued, but with a more focused development and promotional program to all pharmacies that emphasizes increasing the number of pharmacies stocking OCs, displaying OC products and promotional materials well, and providing good customer service in dispensing OCs. This activity could be an expansion of the contract to put up POS materials, which is presently done by AKBAR.

3. SOMARC'S PROJECT IN UZBEKISTAN

3.1 Uzbekistan Background

Uzbekistan has a population of 20.3 million (1990): ethnic Uzbeks make up 71.4 percent of the population and ethnic Russians make up 8.3 percent. This ethnic mix is somewhat unique within SOMARC's three project countries. Ethnic Russians account for 37.8 percent of Kazakstan's population and 21.5 percent of Kyrgyzstan's population.

Uzbekistan is relatively undeveloped economically and relies heavily on cotton exports; cotton accounts for 65 percent of the gross output and the cotton industry employs 40 percent of the workforce. This reliance on trade in a single commodity makes the country economically vulnerable. Because of this vulnerability, the government has placed strict controls on foreign exchange licenses that have hindered the development of private markets including the contraceptive market. Privatization has proceeded, but stringent controls remain.

The pharmacy market has been privatized, but it is still dominated by the original government pharmacy that is now the joint-stock company Dori-Darmon. Dori-Darmon is selling contraceptives procured through an EU loan at prices well below the commercial market.

Health facilities are generally of poor quality and suffer from funding and staff shortages. Maternal mortality rates have declined steadily from 73.2 per 100,000 in 1990 to 32.4 per 100,000 in 1995, but remain high (Family Planning & Reproductive Health Journal 1995). Abortions have declined from 34.6 per 1,000 women of reproductive age in 1990 to 18.8 per 1,000 women in 1995 (MOH statistics).

The 1996 DHS survey indicates that 51.3 percent of the married women in Uzbekistan practice a modern method of contraception: 45.8 percent use IUDs, 1.7 percent each use OCs and condoms, and 1.4 percent use injectables. For Tashkent, 48.8 percent of married women use a modern contraceptive method: 41.2 percent use IUDs, 8.1 percent use condoms, 37 percent use OCs, and 1.6 percent use injectables. MOH data on contraceptive use through both government and private sector sources for all of 1995 and the first eight months of 1996 showed an 86 percent increase in OC use, a 132 percent increase in injectables use, and a 744 percent increase in condom use.

A significant portion of the contraceptive supply to meet these increased demands has come from an EU credit line and from UNFPA donated product. The joint-stock pharmacy Dori-Darmon distributed over 800,000 cycles of OCs in 1996 and over 100,000 vials of injectables to government hospitals and clinics and their own public pharmacies. UNFPA donated 400,000 cycles of OCs in both 1993 and 1994, 225,000 vials of injectables in 1993 and 200,000 in 1994, as well as almost 10 million condoms in 1994.

3.2 SOMARC Activities

SOMARC has had a country manager in Tashkent since 1994. In September 1995, the Red Apple program was formally launched in the mass media, with PR support in the pilot cities of Tashkent and Samarkand.

SOMARC established broad program objectives: to demonstrate the viability of creating a commercial market and consumer demand for OCs, injectables, and condoms; to achieve a sustainable market for these products; and to assist the MOH in establishing private sector initiatives.

The initial program constraints included the strict controls that the government placed on trade through currency restrictions. However, SOMARC decided to continue with the program, because in 1995 the government appeared to be easing currency exchange conditions.

SOMARC employed three local firms to support the program: Flamingo Video produced media materials (based on adapted Kazakhstan materials) and placed media; New Style (NS) Advertising provided PR coverage; and EXPERTS provided research inputs. An advisory board was established and its members serve as technical advisors and program spokespersons.

From September 1995 to January 1997, SOMARC aired 564 television spots and 1,790 radio spots at a media cost of US\$68,000 and a production cost of US\$9,065. This amount of media coverage appears to be relatively light for a new program. A press campaign was launched in September 1995.

SOMARC's PR efforts, which include press conferences, press releases, newspaper columns, media training, radio talk shows, as well as media and print buying, cost US\$118,286.48. Initial media messages concentrated on general Red Apple campaigns and OCs; injectables were added in November 1995 in both Russian and Uzbek languages. All material was developed using results of a formative research study conducted in 1994 and was carefully tested through focus group discussions. Billboard advertising was added. POS materials were introduced and put up by the SOMARC office. Red Apple stick-on logos were produced and are, to some extent, appearing on product packaging.

In 1996, SOMARC began working with nongovernmental organizations (NGOs) and women's groups to raise interest in working together to promote greater awareness of and demand for contraception.

SOMARC conducted 36 TOTs and training sessions for OB/GYNs and pharmacists in contraceptive technology, quality of service, and Depo-Provera. To date, 536 OB/GYNs and 265 pharmacists have been trained.

In support of the program, SOMARC/Washington staff and consultants made 32 trips to Uzbekistan. (See Appendix D.)

3.3 SOMARC's Proposed Work Plan for 1997

SOMARC's 1997 work plan includes the continuation of current activities and an expansion of the program to the Ferghana Valley, which contains nearly a third of the country's population. SOMARC will identify distributors and develop specific PR campaigns. SOMARC's continuing activities include the following:

- (1) Mass-media Activities. SOMARC will continue its national mass-media efforts in press, television, and radio. SOMARC will also continue joint tagging of advertising with distributors' names and will continue to discuss contributory advertising and promotional activities with distributors. Billboards will be expanded into the Ferghana valley.
- (2) Public Relations Activities. SOMARC's PR campaigns will include programming opportunities on television such as joint programming with distributors; a continuation of the bi-monthly "Dear Doctor" press column; continued media training of authority figures and manufacturers, and distributors and pharmacist personnel; a condom mass-media PR program; coverage of conventions through the Uzbek Physicians Association and the Pharmacists Association of Uzbekistan; continued advisory board meetings; and support to a local NGO's Women's Issues Hotline.
- (3) Training Activities. SOMARC's proposed training activities include joint training of pharmacists through the Tashkent Pharmaceutical Institute; a seminar for 150 OB/GYNs in Samarkand; training of Dori-Darmon pharmacists in all oblasts (districts); management and marketing training for distributors' staff; and community education by local counselors in *mahallas* in Tashkent, Samarkand, and the Ferghana Valley.

SOMARC's document, "Central Asia Republics Accomplishments and Projected Opportunities," predicts that contraceptive sales for 1997 will reach 500,000 cycles of OCs, 20,000 vials of Depo-Provera, and 500,000 condoms.

3.4 Evaluation Findings

3.4.1 The Private Pharmacy Market

The private pharmacy market in Tashkent and Samarkand is well-developed; the market includes 416 private pharmacies and 95 pharmacies belonging to the original government pharmacy Dori-Darmon, which is now a joint-stock company.

SOMARC has wrestled with the issue of whether or not to include Dori-Darmon as a private pharmacy. The primary issue is whether Dori-Darmon has a competitive advantage over the other private pharmacies. This concern is compounded by the MOH purchase of a large contraceptive stock through the EU credit line. Originally these contraceptives were for use by the MOH system. However, since distribution through the MOH centers proceeded slowly, the MOH, fearing that the contraceptives would expire, handed distribution of the contraceptives to Dori-Darmon. Dori-Darmon is now selling them at heavily discounted prices through its pharmacy chain. These contraceptives have, therefore, not been imported or distributed through the private sector distribution network. In the short term, the Dori-Darmon sales are hindering the development of the commercial sector. This is particularly true of the more expensive contraceptive lines from Organon and Schering. Gedeon Richter's brands are less expensive and, therefore, more competitive. Gedeon Richter is, however, considering a reduction in its prices to compete more actively with the prices of these subsidized brands. In the long term, the sale of these discounted products will open up the market to new users and, therefore, expand the market as a whole. The government does not intend to purchase additional contraceptives and stocks are expected to run out in two to three years. At that time, Dori-Darmon will have to purchase contraceptives from the private commercial market and compete with other private sector pharmacies.

SOMARC thinks that because the EU credit line includes two OC products (Triquilar and Microgynon) and the Noristerat injectable, Dori-Darmon should be included as a private pharmacy and that these brands should be supported as Red Apple brands. SOMARC, therefore, includes Dori-Darmon along with the other private pharmacies when providing POS materials and pharmacy training and includes sales of Red Apple products from Dori-Darmon pharmacies in its product sales figures.

The evaluation team concludes that from a marketing standpoint, support of the sale of Red Apple products through Dori-Darmon should continue, but that these sales should be reported separately so that growth in the purely commercial sector (through SOMARC-supported distributors) can be accurately monitored.

3.4.2 Products Supported

SOMARC/Uzbekistan has supported the standard project range of products. A new OC, Antiovin, was introduced by Gedeon Richter, but during this evaluation it was agreed to withdraw this pill, because it is a medium dose OC. In addition, Innotex has launched their condom brand into the Uzbekistan market.

SOMARC has, therefore, met their original objectives as regards the product mix for Red Apple brands, except that their intention in 1995 was to launch two, low-cost condom brands. The launch of these two brands has not been achieved primarily because of the withdrawal of

Eczacibasi of Turkey from the country. The replacement with the Innotex condom involves one quality condom at an up-market, but still competitive price.

3.4.3 The Private Pharmacy Market for Oral Contraceptives

Table 2

Sales of Red Apple OCs (Cycles)

Sales Method	Fiscal Quarter		Total	Couple Years of Protection
	4th Qtr. 1995	1st-3rd Qtrs. 1996		
Through Commercial Sector	5,902	32,816	38,718	2,978
Through EU Loan	9,151	312,390	321,541	24,734
TOTAL	15,053	345,206	360,259	27,712

Source: Sales data and Dori-Darmon.

The market is clearly dominated by the EU-financed products distributed through Dori-Darmon. SOMARC's 1997 sales were projected at 500,000 OC cycles. This level seems achievable, but only if sales through Dori-Darmon are included. In addition to the above sales through pharmacies, 130,830 Red Apple brand OCs were distributed by government hospitals and clinics; these OCs were supplied by Dori-Darmon. Dori-Darmon and SOMARC supplied 476,036 OC cycles to both the public and private sectors; 76 percent of these OCs were sold through pharmacies.

The market for injectables is also dominated by sales through Dori-Darmon. In 1996, government hospitals and clinics used 96,744 vials of Red Apple brand injectables supplied by Dori-Darmon. SOMARC's 1997 sales projections totaled 20,000 vials of injectables. This total is achievable, but only if sales through Dori-Darmon are included. In 1996, Dori-Darmon and SOMARC supplied both the government and private sectors with 119,938 injectables; 20 percent of the injectables were sold through pharmacies. Distribution and sale of injectables by non-Dori-Darmon outlets is negligible. However, it was reported to the evaluation team that 1,942 vials of Depo-Provera were sold to the private pharmacy market at the end of 1996.

3.4.4 The Market for Injectables

Table 3

Sales of Red Apple Injectables (Vials)

Sales Method	Fiscal Quarter		Total	Couple Years of Protection
	4th Qtr. 1995	1st-3rd Qtr. 1996		
Through Commercial Sector	475	1,057	1,522	381
Through EU Loan	0	22,137	22,137	5,524
TOTAL	475	23,194	23,669	5,917

Source: Sales data and Dori-Darmon.

3.4.5 Pharmacy Participation in the Red Apple Program

SOMARC conducted a GIS study of pharmacies as part of their Service Provider Points Project. The following initial results of the study were published in January 1997. In Tashkent and Samarkand there are 555 pharmacies: 438 are private (including 22 kiosks), 95 are Dori-Darmon, and 22 are public. The following table shows the percentages of private and Dori-Darmon pharmacies that stocked Red Apple products.

Table 4

Percentage of Dori-Darmon and Private Pharmacies Stocking Red Apple Product

Red Apple Product	Participating Pharmacies	
	Percent of Private Pharmacies	Percent of Joint-Stock
Stock Red Apple OCs	57	58.9
Stock Red Apple Condoms	7.1	7.3
Stock Red Apple Injectables	6	8.5

Source: SOMARC GIS January 1997.

This data indicates that a maximum of 250 private pharmacies and kiosks and 56 joint-stock pharmacies stocked Red Apple OCs. Of the OC brands, the most widely stocked was Rigevidon, which was stocked in 47.9 percent of all pharmacies.

After the first year of the Red Apple project, just under 60 percent of the pharmacies in the two launch cities are stocking a Red Apple OC brand. This is a reasonable project achievement. Rigevidon is clearly the leading OC brand; it is stocked in just under 50 percent of the pharmacies. It would be worthwhile for the project to try to expand the number of pharmacies stocking Rigevidon in order to build on the success of this brand.

Since relatively few pharmacies are stocking injectables and condoms and considering the relatively short time remaining for the project, strategic thought should be given as to whether the potential market for these commodities is adequate to warrant any significant additional promotional expense for these products.

The following table shows the percentages of private and Dori-Darmon pharmacies in which Red Apple materials are present.

Table 5

Percentage of Pharmacies Using Red Apple Materials

Material	Participating Pharmacies	
	Percentage of Private Pharmacies	Percentage of Dori-Darmon Pharmacies
Red Apple Logo on Door	2.0	8.4
Red Apple Logo on Window	2.5	14.7
Brochures	13.0	24.2
Posters	4.1	13.7

Distribution of POS materials is poor. The project needs to find ways to significantly improve this component.

3.4.6 Attitudes Toward the Program

During the evaluation interview process, the evaluation team encountered the following attitudes toward the program among the business owners involved in the pharmaceutical sector.

- (1) Manufacturers. The evaluation team visited four manufacturers: Gedeon Richter, Upjohn, Schering, and Innotech. All were very supportive of the program.

Gedeon Richter. Gedeon Richter regarded the launch of Tri-Regol into the market as an important project contribution. Gedeon Richter saw Schering's OC lines as their main competitor, and because of the price structure for products purchased through the EU credit line, was planning to reduce its prices to remain competitive. Gedeon Richter saw contraceptive costs as a major constraint to market development. Last year, Gedeon Richter had to cut back on its sales to distributors because of currency restrictions, but these restrictions have eased a little this year. The Hungarian Ambassador to Moscow has recently written to the Uzbekistan Minister of Home Affairs about this matter.

Upjohn. Upjohn has been importing contraceptives since 1993. Upjohn reported that it had started selling Depo-Provera in the market before SOMARC arrived, but had experienced logistical difficulties in training providers. SOMARC has helped significantly to ease these difficulties. In addition to SOMARC's training activities, Upjohn has trained 300 to 400 OB/GYNs. Upjohn was willing to work more closely with SOMARC and share training costs. Upjohn was also adding the Red Apple logo ex-factory to packaging.

Schering. Schering felt that the market was significantly constrained by the difficulty of currency conversion and was, therefore, developing very slowly. Schering's primary interest was sales of product purchased through the EU credit line. Schering has found it difficult to learn from Dori-Darmon where all the product delivered was being sold. Schering was concerned that Dori-Darmon has spent no funds on training or promotions, but mentioned that SOMARC had stepped into this role and was doing it well. There was some indication that Schering had reduced its training expenditures because of SOMARC's activities.

Innotech. The Innotech representative reported that condom supply and sales have been blocked by currency conversion difficulties, but that they were working to resolve the problem.

(2) Distributors. The evaluation team visited three main distributors.

Dori-Darmon. Dori-Darmon has 833 pharmacies and clearly a "government-style" of operating, although it has a good recording system for stocking and sales. Dori-Darmon's primary contraceptive source has been through the EU credit line. It expects to run out of contraceptives in about two years, and at that point, will have to procure on the open market. Dori-Darmon has recently increased its prices because of exchange rate shifts required for the loan repayment. Dori-Darmon felt that SOMARC's advertising of contraceptives "at affordable prices" was not true.

Dori-Darmon management felt that SOMARC's role was to promote products and that it had done an excellent job. Dori-Darmon does no promotional work itself. Dori-Darmon appreciated SOMARC's mass-media and POS efforts as well as its training efforts, which were felt to be important for government objectives.

PHARMED. PHARMED serves about 500 wholesalers and is, primarily, involved with distribution of Schering products. Pharmed saw SOMARC as an important promoter and trainer in support of Schering sales, including the EU loan product; this promotion and training was leading to greater use of Schering products and would open up the general family planning market.

Jurabek Drug Company. Jurabek Drug Company supplies about 1,000 wholesalers and three pharmacies in Tashkent. Sales of Gedeon Richter OCs are the most prominent. Jurabek stocks two other non-Red Apple pills, which are also selling well. Jurabek is willing to attach Red Apple logos on product packs, but admits that this is not always done. Red Apple was seen as a symbol for family planning rather than a specific product identification logo. Jurabek seems to have managed to work around the currency conversion difficulties; reported sales were not affected significantly by it. Jurabek would be willing to participate in promotional expenditures with SOMARC and to expand in the future. Jurabek appreciated SOMARC's pharmacy training program for their pharmacists.

The evaluation team also met Dr. Akhor Yarkulov, the Deputy Minister of Health. He was extremely supportive of the SOMARC project in what he saw as their role of increasing consumer awareness and interest in family planning. He felt that the EU credit line support for the purchase of commodities would not be repeated, and that the procurement of these commodities provided an important boost to the use of contraceptives. Dr. Yarkulov expected that stocks would last until about the year 2000. After that, he envisaged a two-tiered system with about 15 to 20 percent of the population relying on free services through the Family Welfare System and the rest of the population relying on the commercial market. Dr. Yarkulov noted that 1997 was "The Year of Privatization" and that he would like to see SOMARC's continued involvement at least until the move toward the private sector had been consolidated.

The evaluation team could not assess KAP shifts in target populations, because the project has no baseline information or monitoring instruments in place to track these changes.

4. SOMARC'S PROJECT IN KYRGYZSTAN

4.1 Overview of Project Activities

The smallest of the three program countries with a population of only 4.7 million, Kyrgyzstan was a late entrant into the Red Apple program primarily because of concern from the U.S. Embassy and the MOH about the viability of the commercial pharmaceutical sector. In a country with a per capita income (est. 1994) of US\$640, high inflation, and the abolishment of many medical entitlements, there is concern about the affordability of drugs and the need for free provision of necessary health services.

USAID/CAR's major objective from 1993 to 1996 under Special Initiatives - family planning was to increase use of modern contraceptive methods and decrease reliance on abortion as a means of fertility regulation. Large donations of contraceptives from UNFPA and other donors (especially DMPA injectables, a method not previously used in the country) meant that the priorities of RHSEP's family planning efforts, including SOMARC, shifted from development of private sector contraceptive sources to health provider training.

Except for the initial project assessment in 1994, SOMARC's activities in Kyrgyzstan from 1994 to 1995 were limited to pharmacist and physician (OB/GYNs) training. In late 1994, SOMARC trained 18 trainers, who then conducted workshops with 15 to 25 participants throughout all six regions (oblasts). A total of 250 pharmacists have been trained in contraceptive technology and "customer quality service"; some pharmacists have been trained in the use of injectables. SOMARC trained 300 OB/GYNs (out of 1,080 nationally) in the use of DMPA injectables and quality service delivery. In late 1996 and during this evaluation, an additional 30 trainers were trained in preparation for further pharmacist training, which was proposed in the 1997 to 1998 work plan.

In mid-1995, SOMARC again made an assessment of the Kyrgyzstan market and concluded that expansion of the commercial contraceptive market was now feasible. The state pharmacy *Kirghiz Farmatsiya* no longer controlled the pharmaceutical market and new pharmacies were rapidly being established. In late 1995, SOMARC received approval and funding for a limited communications program and promotional activities for a test market in Bishkek.

SOMARC pretested Red Apple advertisements and materials from Kazakhstan and revised them in Russian for Kyrgyzstan audiences, conducted media training for potential spokespersons, and in early 1996, launched a PR and advertising campaign. SOMARC's pilot project is in Bishkek, but use of the Pyramid television station essentially makes the advertising nationwide. SOMARC gave Red Apple posters and brochures to two private distributors and to the Institute of Obstetrics/Gynecology (Ministry of Health) for distribution to both private and public sector outlets.

SOMARC's Almaty office manages the Kyrgyzstan activities; a local consultant/interpreter is available at 20 percent time to assist with training logistics and SOMARC/Washington staff provide technical assistance. SOMARC/Washington's technical assistance visits to Kyrgyzstan have been limited to one assessment, three visits to assist with training logistics, and three visits to assist with project management. SOMARC is working through AKBAR, one of its subcontractors in Almaty, to encourage distributors to purchase and promote contraceptives, as well as to distribute Red Apple POS materials. Discussions with contraceptive manufacturers have primarily occurred in Almaty. AKBAR also books media and PR activities.

No sales data for Kyrgyzstan were available from SOMARC. Project expenditures from the start of the project to December 1996 are outlined in Appendix D.

4.2 SOMARC's Proposed Work Plan for 1997

For January to September 1997, SOMARC has proposed the following activities:

- (1) Advertising. SOMARC's advertising activities will include adapting new Red Apple television and radio advertisements to be produced in Kyrgyzstan and expanding mass-media advertising to the national level. There will be joint tagging of Red Apple with materials from distributors and manufacturers.
- (2) Public Relations. SOMARC's PR activities will continue. Activities will include seminars for doctors and articles about the program.
- (3) Introduction of a Condom. SOMARC will introduce the Innotex condom to the Red Apple program in Kyrgyzstan.
- (4) Activities with Distributors and Pharmacists. SOMARC will increase the number of contraceptive distributors and pharmacies with Red Apple contraceptives through continued negotiations. SOMARC will expand the capabilities of distributors and marketing subcontractors through training in marketing, research, and communications.
- (5) Training. SOMARC will train an additional 100 pharmacists and 100 OB/GYNs nationwide.
- (6) Expansion of Staff. SOMARC plans to add one local-hire staff to manage an expanded program.

In "Central Asian Republics Accomplishments and Projected Opportunities," SOMARC predicted sales of 100,000 OC cycles and 20,000 vials of Depo-Provera. In this report, SOMARC also projects that condoms will be available in 750 retail outlets for 1997.

4.3 Evaluation Findings

4.3.1 *Red Apple Products/Brands*

Officially, the Red Apple product range in Kyrgyzstan is similar to those in the other CAR country programs: for OCs—Rigevidon and Triregol from Gedeon-Richter, Microgynon and Triquilar from Schering, and Marvelon from Organon. All these brands and more are available to varying degrees in private pharmacies. The Depo-Provera injectable from Upjohn, although part of the UNFPA donations for government use, does not seem to be available in private pharmacies, nor does Noristerat. No condom is promoted under the program, but SOMARC proposes to introduce the medium-priced Innotex condom in 1997.

4.3.2 *Red Apple and Contraceptive Prevalence*

Although there are no quantitative data available from SOMARC, training and Red Apple communications activities have probably contributed to the reported shift to modern contraceptive methods other than IUD's. In 1996, the overall contraceptive prevalence rate (CPR) increased from 26 percent to 33 percent, with a 10 percent increase in the number of OC users and a 10-fold increase in the number of DMPA users (See table 6). Abortion rates remain relatively high, but according to an MOH official, they are decreasing. The MOH is very pleased with what it sees as a "health education" program, and Red Apple brochures are reportedly available in many government health facilities. The MOH's one request was that materials be made available in the local Kirghiz language.

SOMARC's PR events and training activities have undoubtedly contributed to the growing acceptance of hormonal methods among medical providers. SOMARC's training of 250 pharmacists and 250 OB/GYNs (out of 1,080) was seen as contributing to MOH objectives; the MOH would be pleased to see the project continue with both training and Red Apple communications nationwide.

4.3.3 *Red Apple and the Private Pharmacies*

The pilot project has focused on Bishkek city and the surrounding region where there has been a growing number of private pharmacies. A major distributor estimated that there were 100 to 150 pharmacies in Bishkek and over 500 in Kyrgyzstan. A "grey market" also exists of street vendors with contraceptive and other products (minus the 20 percent VAT and 5 percent retail tax). The joint-government-stock *Farmatsiya*, which sells contraceptives at a subsidized price, has only 33 remaining outlets and will be significant primarily in rural areas in the future. SOMARC has apparently not yet made any monitoring efforts to determine the number of private pharmacies or the percentage of pharmacies carrying Red Apple contraceptives.

Table 6**Contraceptive Use by Women Age 15-49 in the Kyrgyz Republic, 1994-1996.**

Contraceptive Method Used	Total Number of Women Age 15-49 Years* Number**(Percent) Using Contraceptives		
	1994	1995	1996
Total Number of Women	1,125,627	1,045,592	920,561
Number Using Any Modern Contraceptive (Percent)	239,759 (21.3%)	272,900 (26.1%)	302,865 (32.9%)
Number Using IUD (Percent)	224,894 (93.8%)	232,783 (85.3%)	245,321 (81.0%)
Number Using OCs (Percent)	14,865 (6.2%)	38,752 (14.2%)	43,007 (14.2%)
Number Using Injectables (Percent)	0 (0%)	1,365 (0.5%)	13,932 (4.6%)

Source: Ministry of Health, Census of Women in Health Facility Catchment Areas.

*Decreasing numbers of women due to significant Russian emigration.

**Calculated from percentages and total women.

A search of eight pharmacies did not reveal any Red Apple POS materials or brochures. Since six of the eight pharmacies carried at least one Red Apple OC brand, it can only be assumed that Red Apple promotion was not needed to convince them to stock OCs. Posters promoting Gedeon Richter OCs and other products were displayed on several pharmacy walls.

None of the pharmacies had injectables. Pharmacists and health personnel explained that this was because of the high volume of free injectables available through government outlets and the need for medical provision of injections (pharmacists cannot give injections). Most pharmacies sold several brand of condoms. Only one of the eight pharmacists had been in the SOMARC training program. This training was primarily on Depo-Provera injection, and since pharmacists cannot give injections, she felt it was of little use. Only two pharmacists had heard of the Red Apple program.

This lack of awareness of the Red Apple program and the lack of POS material implies that either SOMARC has not made the marketing effort to link contraceptive brands to its program at the pharmacy and distributor level and/or that pharmacies are stocking OCs on their own initiative.

4.3.4 *The Private OC Market*

No sales data on the private OC market were available through SOMARC. If MOH statistics are used (see table 6) (which they claim include both private and public sector users), one can estimate that a total of 503,000 OC cycles were sold in 1995 and 560,000 cycles were sold in 1996. UNFPA contributed 480,000 OC cycles from 1993 to 1996; USAID has contributed at least another 50,000 cycles. The above data suggests that the private OC market may be accounting for a fairly significant portion of the market. Pharmacists noted sales of 10 to 300 cycles per month (some probably wholesale); one pharmacist suggested that sales had indeed increased in the last year.

In eight pharmacies in Bishkek, prices ranged from 11 som (\$US0.68) per cycle for Regidevon to 38 som (\$2.38) per cycle for Marvelon. Prices were not consistent across pharmacies, whether they were *Farmatsia* or private. Because of the poor economic situation in Kyrgyzstan, affordability of “non-essential” items such as OCs may be an issue. SOMARC should consider this possible constraint to the market in their marketing plan as they expand the program. The average consumer purchasing power outside Bishkek is reportedly very low.

According to its documents, SOMARC had planned to achieve sales of 100,000 cycles and to be in 70 percent of private pharmacies by 1997. If SOMARC continues to promote OCs in Kyrgyzstan, it would be worthwhile to improve measurement of private sector sales (e.g., by conducting a pharmacy retail audit and/or pharmacy surveys) and to make the link between Red Apple promotion and increased OC sales.

4.3.5 *The Private Injectable Market*

No injectables were found in the eight pharmacies in Bishkek and it is unlikely that there will be a significant private sector market until the donated supply is exhausted and this method is better established in the health sector. With an estimated need of 5,400 vials in 1995 and 55,700 vials in 1996, and the UNFPA supply of 315,000 vials for 1993 to 1996—and more as requested—it is unlikely that private sector purchase by pharmacies or consumers will be required.

This large volume of humanitarian aid is a definite constraint for the project. However, given the circumstances in Kyrgyzstan—the injectable as a method better suited for rural women, limited purchasing power in rural areas, need for medical monitoring of side effects, and the inability of pharmacists to provide injections—it seems that the injectable is not enough of a priority product to warrant an effort on SOMARC's part to shift consumers to the commercial sector.

4.3.6 The Private Condom Market

A sharp rise in the incidence of sexually transmitted disease and fear of AIDS has led to government and NGO programs in condom distribution. UNFPA alone donated 4.3 million condoms in 1995 and 8 million in 1996. In addition, condoms seem to be available in pharmacies (kiosks were not checked). It is unlikely that a specific condom brand would achieve a sales level significant enough to warrant a full Red Apple promotional effort. Also, for the Innotex condom that was selected for the 1997 work plan, price and affordability would be significant constraints.

4.3.7 Red Apple, Manufacturers, and Distributors

Most of the Red Apple program manufacturers are focusing on the larger markets in Kazakstan and Uzbekistan. In Almaty, SOMARC's efforts to encourage manufacturers to actively enter the Kyrgyzstan market have been unsuccessful. Gedeon Richter seems to be the exception; their products were available in six of the eight pharmacies. One major distributor, Neman, has even built a "Gedeon Richter" pharmacy and has contraceptive display cases and POS materials (not Red Apple) in his two pharmacies. He currently sells contraceptives to approximately 150 clients; he notes that sales are increasing "significantly" in Bishkek and at a much slower pace in rural areas. This distributor was approached by SOMARC two years ago, but has not been contacted since and is minimally aware of the Red Apple program.

SOMARC has assigned AKBAR to purchase media and give POS material to two private distributors. AKBAR has also been assigned to make links between manufacturers and distributors and to encourage the distributors to buy Red Apple products. Astron, a large distributor and wholesaler who purchases from Neman and has three pharmacies, stated that it included Red Apple POS materials with contraceptive sales to pharmacies. However, Astron itself did not have Red Apple POS materials in the Astron pharmacy that the evaluation team visited. SOMARC and Carana selected Astron as the distributor and pharmacy chain that would receive technical assistance in franchising and model pharmacies; SOMARC plans for Aston to receive marketing training under its 1997 work plan.

The above points suggest that in Kyrgyzstan, SOMARC has not played a major role in linking manufacturers with distributors and that the Red Apple concept has not been a major factor in distributor purchases and sales. This is evident from the lack of distributors' contribution to Red Apple marketing or willingness to share sales data. Also, given the market structure where distributors act as wholesale warehouses, the Red Apple program will have to find a more effective way to reach pharmacies. From a programmatic standpoint, SOMARC's use of a subcontractor to play its role in negotiating with distributors or in promoting its products to pharmacies may not be effective without significant management and monitoring.

5. CONSTRAINTS TO PROJECT PROGRESS

The two current project constraints that SOMARC is facing are laws and regulations that hamper the pharmaceutical business and market conditions.

5.1 Regulatory Constraints

The second part of this assessment contains a detailed account of the regulatory constraints faced by the project and recommended actions to remove these barriers. The assessment also identifies those constraints requiring USAID intervention. Following is a summary of the three major regulatory constraints.

5.1.1 Currency Conversion in Uzbekistan

In Uzbekistan, currency conversion licensing has severely restricted the ability of participating program distributors to import pharmaceutical products. For example, for the last six months, Innotech, the firm that markets a condom under the Red Apple program, has had difficulty keeping product in the market because of the importers' inability to convert currency and repay the manufacturer. Although this situation has existed for two years, it is only now seriously affecting the market, since all licenses were canceled in mid-1996. New licenses are subject to different exchange quotas and importers are not always willing to use their quotas to purchase low profit items such as contraceptives.

5.1.2 VAT in Kazakstan and Kyrgyzstan

In Kazakstan and Kyrgyzstan, the 20 percent VAT on contraceptive products affects both the consumer's ability to pay retail prices and the distributor's willingness to purchase low profit items. Some distributors reported that VAT in Kazakstan must, at times, be paid on receipt of goods even if the goods are sold on consignment. This is a definite disincentive for distributors to purchase and stock product.

5.1.3 Medical Quality Inspection in Kazakstan

Imported pharmaceuticals are subject to quality inspection, and since there is only one licensee, the procedure causes delays and increases cost. (See second part of this report for details.)

5.2 Market Constraints

Except for the Uzbekistan currency issue, which may ruin a fledgling contraceptive market, these regulatory issues are hindrances rather than true barriers. Because of their effect on market growth, the marketing constraints under which the project operates are actually much more significant.

5.2.1 *Size of the Contraceptive Market*

Since they represent only 1 to 2 percent of a pharmaceutical firm's business, contraceptives have been a low priority item for the commercial market throughout the world. However, in the CAR markets, demand for modern hormonal contraceptives is starting from a minuscule base and must demonstrate significant sustained growth before promotional investment from manufacturers or distributors can be justified.

5.2.2 *The Changing Marketplace and Evolving Distribution System*

The CAR is a marketplace in transition; the usual private sector distribution systems and market response to demand cannot be counted on in developing project strategies. The fluid distribution system in which manufacturers sell to any distributor with cash or good credit and distributors act as warehouses, relying on many wholesalers to purchase goods and then sell them to pharmacies, makes it difficult to support the contraceptive market with a formal marketing approach. Therefore, market tactics must be innovative and flexible as the market evolves. This is particularly the case since there is no direct contact between distributors and pharmacies (except their own); this lack of contact makes distribution of POS materials, inventory checks, and direct promotional efforts very difficult.

5.2.3 *Large Untargeted Donations of Contraceptives*

Large volumes of free contraceptives will continue to distort the marketplace until the year 2000, and probably beyond. UNFPA, in particular, has pledged to provide commodities as needed. Because both the government and the population are used to free health service, it may be some time before the health system decides to target this humanitarian aid (e.g., to rural areas) or to recover some costs. The presence of donated product in the marketplace emerged as an important issue in discussions with USAID/CAR. USAID plans to work more closely with UNFPA and the MOH to target donations and ensure that the volume of donated product is not excessive.

In the commercial contraceptive market, it is the sheer volume of product—particularly in Kyrgyzstan—that has essentially ensured that a significant private market for injectables will not develop in the near future. Given the relative unfamiliarity of injectables and the need for medical

assistance for the injection, growth of the injectables market through pharmacies (where injections are not allowed) will be constrained. However, the creation of public sector demand may actually lead to more successful overall market growth.

In contrast, the OC market will probably expand through private pharmacies because of the accessibility of the product.

5.2.4 Affordability of Commercial Contraceptives

The cost of retail contraceptives may be a constraint to market growth, especially in poorer economic situations such as Kyrgyzstan. Factors such as inflation and import costs may have increased the prices relative to consumer purchasing power. A repeal of the 20 percent VAT in Kazakhstan and Kyrgyzstan would result in an immediate decrease in the price of contraceptives. As part of the marketing strategy, pricing issues should be reviewed and some research conducted to see if affordability is a real constraint. In this research, it will be important to distinguish between the consumers' ability to pay for contraceptives and the consumers' willingness to pay for them. The affordability of contraceptives may also affect marketing decisions—such as whether to expand beyond Bishkek in Kyrgyzstan.

5.2.5 Rising Cost of Advertising

As a reflection, perhaps, of increased private market activity throughout the CAR, advertising costs have risen sharply—as much as 10 times in one case—in all three countries. Because of these higher advertising costs, the project will have to be more focused and cost-efficient with its media purchases while still ensuring adequate coverage.

6. SUMMARY OF FINDINGS AND CONCLUSIONS

This section focuses on the extent to which SOMARC's CAR project has met its stated project objectives after three years of conducting activities in the three project countries.

6.1 Changing Consumer Behavior to Use Modern Contraceptives

Red Apple advertising and public relations activities have raised consumer awareness, confidence in, and demand for contraceptives and have, therefore, assisted in the overall increase in use of modern methods of contraception. This increase has been noted in all three countries. In addition, through its promotion of OCs and injectables, the Red Apple program has helped to broaden the overall method mix. The shift to hormonal methods has been slow, but the DHS survey and service statistics in each country suggest that the method mix is changing as the number of users increases.

Since SOMARC was the only source of mass-media education on these hormonal methods, it is likely that the project has contributed significantly to the shift to use of these methods. Unfortunately, data from SOMARC's baseline and tracking KAP studies from Kazakhstan were not available for comparison during the evaluation (subsequent review of some of the preliminary findings with SOMARC/Washington has demonstrated that they support the evaluation team's main findings). There are no studies to document the effects of SOMARC's projects in the other countries. SOMARC's PR activities have undoubtedly helped to create a more favorable climate for contraceptive advertising and hormonal methods, since there has been no social or political backlash. Change in consumer behavior has been seen among both private and public sector users; the behavior change in the private sector is important to develop a pool of future users in the private market.

SOMARC's training of 1,060 doctors and 1,063 pharmacists (data supplied from SOMARC/Washington), as part of the overall RHSEP training, has probably improved the quality of service in the CAR and has decreased health provider concern about hormonal methods. This decrease in provider concern has been particularly important in respect to use of the injectable, which is a new method to the health system, and for which product promotion has mostly affected the public sector. The promotion of effective alternative methods of contraception is one component that is contributing to the steadily decreasing abortion rate.

6.2 Changing Consumer Behavior to Purchase Contraceptives Through the Private Sector

Although the number of hormonal method users has been increasing, current sales data suggest that any increased demand at the pharmacy level has been confined almost exclusively to OCs. It

is not clear whether these OC sales represent sales to new users or to users shifting from the public sector. There has been no research to see if sales data represent true market growth or to make any comparison between private and public sector growth.

Alternative data sources can help to estimate the situation in the private market. For example, the 1996 DHS survey in Uzbekistan reported that only 2.8 percent of OC users obtained their cycles from a private pharmacy when public joint-stock Dori-Darmon pharmacies are excluded. When Dori-Darmon pharmacies are included, this figure rises to 25.7 percent. However, since these figures represent only percentages of the 1.2 percent of reproductive age women using OCs, the numbers are very small.

SOMARC reports that since the launch of the project, 426,288 cycles (32,791 CYPs) of project brand OCs have been sold in Kazakhstan and 360,259 cycles (27,712 CYPs) have been sold in Uzbekistan. The Uzbekistan sales figure is influenced by sales of 321,541 cycles which were sold by the ex-government, joint-stock Dori-Darmon pharmacy at heavily discounted prices and purchased through the EU credit line. These sales (reported by SOMARC as project sales) have not been of contraceptives imported via local manufacturers or the local distribution system. SOMARC, however, does support the products promotionally. In contrast, the purely commercial market sold only 38,718 cycles (2,978 CYP). Injectable sales have been minimal at about 1,000 to 2,000 vials in each country except for 22,137 vials (5,534 CYP) of product purchased through the EU credit line in Uzbekistan. No Kyrgyzstan sales data is available.

Country reports indicate that 1997 sales projections of 1.5 million OCs and 50,000 DMPA in Kazakhstan are not likely to be achieved; sales of 500,000 OCs and 20,000 cycles of DMPA in Uzbekistan would be achieved only if sales of discounted product through the joint-stock pharmacy are included.

From a marketing standpoint, the branding of the project products with the Red Apple logo is not working at the retail level, particularly in Kazakhstan. Stickers were seldom on the products and, in some cases, pharmacists had the Red Apple promotional materials, but did not realize that their in-stock contraceptives were part of the program. Therefore, although the Red Apple logo represents a viable concept, advertising and promotion activities are not making a sufficient impact to shift users from the free products in the public sector. In all three countries, the marketing efforts will need major improvements to keep up with an evolving marketing environment.

6.3 Working with Drug Manufacturers to Import a Wider Range of Modern Contraceptives at Affordable Prices

When the project began, the pharmaceutical manufacturers were already involved, at least to some degree, in the CAR's pharmaceutical markets, but SOMARC has played a significant role in encouraging the pharmaceutical firms to focus on their contraceptive products. For these firms,

the profit and volume (1 to 2 percent) of contraceptives is so much smaller than those of other products that the benefits derived from SOMARC's project advertising, promotion, and training are the only factors that have made their increased effort worthwhile. This was particularly true for Upjohn and Schering. Because both firms were concerned that their injectable products be used correctly, SOMARC's training of health professionals has been of great value to them. The evaluation team cannot predict whether any of the manufacturers will devote significant funds to promoting the Red Apple in the future or if they will promote contraceptives beyond detailing to doctors. Gedeon Richter is the only exception; it currently provides pharmacy POS materials and a small promotional budget to support its OCs.

The SOMARC project has not added significantly to the contraceptive product lines, since OCs, injectables, and condoms were already present or were entering the market when the project began. Gedeon Richter's OC brands were part of the Soviet health system, but their newer formulation brands may have been introduced a little earlier because of SOMARC's presence. Organon and Schering have been slowly entering the markets, but these firms rely more on large government purchases. UNFPA (through the EU loan facility) was poised to introduce injectables into the public sector. Schering and Upjohn have been more concerned about correct use of injectables among medical personnel than about making a significant investment in the small private market. Eczacibasi condoms withdrew from SOMARC's project for financial reasons and the Innotex condoms (and spermicides) have been introduced to the market with limited SOMARC involvement.

Product affordability may be an issue in the marketplace (particularly in Kyrgyzstan), since introductory prices have been affected by inflation and fluctuating consumer purchasing power. The loss of free health benefits by some of the population and the continued free provision of contraceptives through the public sector may confuse the issue of consumer ability versus consumer willingness to pay for contraceptives. SOMARC will need to address this issue through research, price checks, or regulatory changes.

6.4 Ensuring a Constant Supply of Quality Contraceptives through the Private Sector

The SOMARC project has added to the number of distributors who are willing to focus on contraceptive products and increased the number of pharmacies that are stocking contraceptives—about 50 to 60 percent in the pilot cities in Kazakhstan and Uzbekistan. Again, there is a larger market for OCs. However, it is not possible to calculate the increase in the percentage of pharmacies stocking contraceptives, since there is no baseline information and some OCs and condoms were in the market before the pharmacies were privatized and before SOMARC's project began. However, the GIS mapping studies in Kazakhstan's three pilot cities (July 1996) showed that 52 percent of the 404 pharmacies studied had at least one of the Red Apple products—although only 1 percent had injectables. In Uzbekistan's two pilot cities, almost

60 percent of the private and joint-stock (Dori-Darmon) pharmacies carried at least one Red Apple OC brand, while 4 percent and 8 percent respectively carried the Noristerat injectable.

The number of pharmacies that stocked contraceptives because of the Red Apple program cannot be determined, since brochures, logos, and especially package stickers reach a much smaller number of the pharmacies than are actually stocking contraceptives. In fact, in Kyrgyzstan, where SOMARC has played only a minor role in the manufacturer/distributor relationship, Gedeon Richter's OCs are readily available. However, in Kazakstan and Uzbekistan, SOMARC has accelerated the process of selling and stocking contraceptives.

To address the sustainability of this small, private sector contraceptive market, SOMARC has recently focused its activities with distributors on technical assistance in management and operations. The distributors interviewed appreciated the assistance and Romat (Kazakstan) was interested in improving its own pharmacies through the franchising scheme. However, it is unclear how many distributors and pharmacies will benefit from this approach and whether this approach will substantially affect the continued supply of contraceptives (versus other drugs). Redirecting this effort toward all private pharmacies through a strong promotional effort to increase OC stocking and sales would go further toward achieving project goals. For example, the project should target sales efforts toward non-stocking pharmacies and ensure that all pharmacies have promotional and educational materials.

6.5 Evaluation Indicators and Marketing Information

Few specific evaluation parameters were established at the outset of this project. SOMARC\CAR asked to be evaluated more on the basis of the number of distributors in the project and similar outputs. Results of such an evaluation would begin to reflect SOMARC's contribution to building the private pharmaceutical sector. However, USAID's project indicators for the social sector are (1) contribution to increased contraceptive prevalence and decreased abortion rates and, more specifically for SOMARC, (2) increase in percentage of private pharmacies stocking Red Apple contraceptives. USAID also tracks sales data, which are reflected as increasing CYP.

SOMARC has not yet put in place a systematic monitoring system for tracking indicators or relevant marketing information. This lack of baseline data to track the above indicators makes it very difficult to quantify project achievements. A baseline and tracking KAP survey of women in Kazakstan (not available at the time of the evaluation) is, perhaps, the only measure of intermediate results—such as change in consumer attitude—aside from informal telephone tracking studies. Therefore, much of the assessment of objectives reached has been qualitative in nature, except for efforts to match reported sales data with government service statistics and DHS survey results. The GIS survey on percentage of pharmacies stocking products and Red Apple materials has been conducted once in Kazakstan and once in Uzbekistan in late 1996.

Most social marketing and commercial market projects rely on feedback from research—such as pharmacy surveys and audits, pricing data, quick and regular consumer feedback, and review of training results—to gauge the market and adjust marketing strategies. Such a system is especially important in a rapidly changing market in which standard market practices and information systems are not yet in place. SOMARC reportedly has conducted informal consumer surveys and store checks, but these activities were not documented (aside from one 1996 study of pharmacies in Almaty) and they do not replace more formal surveys to document progress.

6.6 Contribution to Mission Private Sector Objectives

During interviews and briefings with the Mission and SOMARC staff, it became clear that SOMARC's primary task has been to meet the Mission's private sector priorities by developing the technical and operational capacity of the private, pharmaceutical sector under very difficult marketing conditions. It was evident that the Mission has worked very closely with SOMARC staff to ensure that the project evolved to address the rapidly changing environment in the early project years. Therefore, success in the project's stated and measured indicators such as contraceptive sales, has only recently become important in project evaluation. The findings below report achievements in private sector development.

SOMARC was designed to provide a private sector context for family planning programs and, in its three years of operation, has demonstrated the viability of the commercial market as a supplier of health services, particularly commercial distribution and retail sale of commercially supplied contraceptives. The OC market and the distribution system are of primary interest; this market and distribution system may not yet be efficient, but the product is available and the chain of manufacturers, distributors, and pharmacies are all, to some extent, involved in selling product. The size of the OC market is very small, but this is to be expected given the transitional state of the entire pharmaceutical market, the relative unfamiliarity of hormonal methods, and the lifelong consumer reliance on government facilities for health services.

The evaluation team was asked whether a contraceptive commercial market would have developed without SOMARC inputs. Looking at the Kyrgyzstan market as an example, the evaluation team feels that the commercial market would probably have slowly evolved, but the major market share would be with one firm—the Hungarian firm Gedeon Richter—and the process would have been slow and uncertain without serving the contraceptive needs of a market transition economy.

SOMARC has transferred significant technology to its six local private sector subcontractors in Kazakhstan and Uzbekistan—the advertising and public relations agencies and the market research firms. In 1993, there were few local capabilities in these areas and SOMARC has needed considerable technical expertise to provide these firms with the technical and business skills to act as subcontractors. These firms now have other clients such as commercial firms and the World

Bank. Some of these groups have also been given responsibility for SOMARC project management with, perhaps, less success—particularly in Kyrgyzstan.

In working together with distributors and pharmacy-outlet owners, SOMARC has also transferred management and operational skills to these private sector businesses. The recent introduction of a franchise model pharmacy component, funded from a special SOMARC enterprise fund, represents another of SOMARC's efforts to improve distributor and pharmacy business and operational capabilities, although it will benefit a limited number of pharmacy owners, at least in the short term. SOMARC included “quality customer service” sessions in pharmacist training to foster a private sector attitude in pharmacies. Therefore, it could be said that SOMARC has assisted in improving the quality, rather than the quantity, of private-market entities.

6.7 Private Sector Development Issues

As the project considers its need to meet both reproductive health and private sector objectives, the issue of commercial contraceptive market sustainability arises. It is unlikely that a significant market for injectables could be developed within the next 5 to 10 years without major funding and a severe decline in free supplies. For OCs, however, a small but viable market could be established to the point where manufacturers may be willing to invest in competitive-market activities.

During 1996, SOMARC, especially in Kazakstan, shifted some of its project focus to technical assistance to build management and marketing skills in the commercial pharmaceutical industry (i.e., distributors and pharmacies). SOMARC made this shift in the hope that an improvement in overall operational capabilities will encourage these distributors and pharmacies to continue to carry the contraceptive products. The franchising of a model pharmacy concept is one example of this type of infrastructure improvement.

Given the limited time remaining in the project (1 to 2 years) to develop the commercial contraceptive market for even one product category, an effort should be made to identify the activities that are more likely to lead to a sustainable market—technology transfer to private businesses or development of consumer demand for OCs to a significant market size. It is possible to include both activities, but the project strategy and the budget for the next two years needs to be prioritized.

7. RECOMMENDATIONS

The evaluation team recommends that the project identify its core successes, and together with manufacturers and key distributors, work toward developing a sustainable commercial contraceptive market. In planning for FY 1998 funding and beyond, USAID/CAR expressed the desire to know from SOMARC at what point the project efforts would be sustainable and how long it would take for SOMARC to reach that point.

1. The project needs to establish a withdrawal strategy and an action plan for the next 20 months (or period of available mission funding) and establish clear objectives and parameters to track the project's progress toward an end point. In light of this recommendation, the proposed 1997 and 1998 Work Plans need to be revised.
2. The project and USAID/CAR must agree on the most strategic approach to achieving sustainability and to reaching the project's objectives. The project and USAID/CAR must decide whether to focus on improving distributor and pharmacy operational capabilities or developing a contraceptive market size sufficient to ensure continued market growth and, hopefully, sustain private industry interest in the market. The evaluation team recommends the latter, since private businesses come and go, but consumer demand is likely to grow with economic and population factors.
3. The project should agree on indicators for tracking progress in reaching the project end point. If market size is the end point, then the indicators at this point in the project are most likely the percentage of pharmacies with Red Apple products and the steadily increasing trends in demand reflected in sales data. If trained private sector partners providing wider availability of contraceptives are the end point, then the current indicators should be changed accordingly. After these indicators are determined, SOMARC needs to do more research and put in place monitoring systems to track both marketing feedback and project progress. This information should be included in reports.
4. Given the limited time and funding for a withdrawal, the project should focus on developing the OC market, the market category that is most likely to reach any significant size in two years. The project should build on the success of the OC market and ensure that a concerted effort is made in all three countries, preferably nationally, to show a trend in market growth that may attract adequate manufacturer and distributor investment in the long term.
5. In order to focus efforts on OC market development, injectables and condoms should be withdrawn from the mix of promoted products. Injectable users are unlikely to shift from government sources in the near future and promotion of condoms will diffuse project efforts. If it is necessary to promote a quality condom for an HIV/AIDS program, this promotion should be done as part of a well-funded program with a wider scope.

6. At this time, the most critical regulatory barrier to project success is the Uzbekistan currency license exchange issue. This barrier is, in the evaluation team's opinion, the one constraint that definitely needs USAID intervention (additional recommendations will be made in the second phase of the assessment). During the evaluation team's discussions with USAID/Uzbekistan, the Mission indicated that it was willing to address the currency exchange issue specifically as it pertains to contraceptives.
7. A number of marketing recommendations can be made for improving project success in a challenging marketplace:
 - Mass-media budgets should be expanded toward a significant campaign in all three countries to specifically address OCs. The campaign should be supported by PR activities.
 - The branding of products with Red Apple logos should be discontinued because of the practical difficulties involved, unless manufacturers are willing to do the branding ex-factory as Upjohn does. As a symbol of quality contraceptives, the Red Apple logo should be registered legally. In promotional activities, the logo will become a symbol of the program; in pharmacies, posters, and POS material, the logo will list the brands endorsed by the program.
 - SOMARC's primary promotional effort should be to strengthen the link between distributors and retail outlets (except to the distributor's own pharmacies). SOMARC should hire promotional teams to increase the presence of displays and brochures in pharmacies stocking Red Apple OCs. Secondly, SOMARC should identify all non-stocking pharmacies and set targets, together with the distributors and local wholesalers, to increase the number of stocking pharmacies.
 - SOMARC should include the OC manufacturers and distributors when planning Red Apple promotional expenditures and should ask the manufacturers and distributors to share a portion of the budget. These distributors and manufacturers should work to set targets for sales and agree (after project end) to take over the program and continue it.
 - If the project focuses on the OC market, there will be less of a need for intensive training of doctors and pharmacists. Injectables training can be provided by Upjohn and Schering, as before. Project training can be combined with promotional efforts such as seminars.
8. Franchising and other private sector technical assistance efforts can continue, but priorities should be set in order to ensure effective use of efforts and funds. The

franchising program would provide in-depth improvement to only one or two major pharmacy chains; therefore, it should not be expanded in the SOMARC program beyond the present special funding allocation. Broader support to the larger pharmacy market, specifically for contraceptives, is more likely to lead to a sustainable market.

9. For Uzbekistan, USAID and SOMARC need to decide whether Dori-Darmon is to be considered a commercial entity. Although it is a joint-stock company (partially government-owned), Dori-Darmon is selling Red Apple OCs and injectables at heavily discounted prices of products purchased through the EU credit line and is, thus, distorting the private sector market for at least the next two to three years. While supporting Dori-Darmon contradicts USAID's strategic private sector objectives, there are sound marketing reasons for supporting its sale of Red Apple products. The EU loan supporting procurement of contraceptives demonstrates Uzbekistan's strong commitment to expanded use of modern contraceptives and to move away from a reliance on donated product. The Red Apple program is creating product demand and providing promotional materials and pharmacist training for Dori-Darmon. A rapid increase in sales will help Dori-Darmon sell their remaining EU-financed stock in 2 to 3 years so that a more normal market can be established, since Dori-Darmon will most likely have to purchase additional contraceptives on the open market. Dori-Darmon sales should be separately reported in SOMARC sales reports.
10. If SOMARC expands activities throughout all three countries and starts a project in Turkmenistan, ideally there should be additional human resources assigned to the region. Specifically, the Kazakstan project may need a full-time country manager; Kyrgyzstan needs more local consultant time and the regional manager needs the time to focus on strategic issues and evaluation parameters. In addition, funding allocated to Turkmenistan should be adequate to start a full-scale marketing program and to cope with potential constraints anticipated in this new market.

**LEGAL AND REGULATORY
ENVIRONMENT FOR CONTRACEPTIVE
MARKETING IN THE COMMERCIAL
SECTOR: KAZAKSTAN**

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LIST OF ABBREVIATIONS

ABA	American Bar Association
AVSC	Association for Voluntary and Safe Contraception
CA	Cooperating Agency
CAR	Central Asian Republics
GOK	Government of Kazakhstan
JHPIEGO	Johns Hopkins Program for International Education in Reproductive Health
JHU/PCS	Johns Hopkins University/Population Communications Services
MOH	Ministry of Health
MOIT	Ministry of Industry and Trade
NGO	nongovernmental organization
POLICY	Policy Analysis, Planning, and Action Project
POPTECH	Population Technical Assistance Project
RHSEP	Reproductive Health Services Expansion Program
SOMARC	Social Marketing for Change (project)
VAT	Value Added Tax
WTO	World Trade Organization

EXECUTIVE SUMMARY

Based on this assessment of the legal and regulatory environment for contraceptive marketing in Kazakhstan's commercial sector, it appears that marketing constraints rather than legal and regulatory constraints have had the most negative impact on Red Apple project sales performance and on the overall commercial contraceptive sales in the Republic of Kazakhstan. The primary constraints to growth of contraceptive sales seem to be (1) the impact of relatively low contraceptive demand—caused primarily by consumer and provider resistance to hormonal contraceptives—on retailers' and importers' use-of-cash-for-product-purchasing decisions; and (2) the absence of a pro-active promotional and sales infrastructure within the distribution chain.

There are, however, some legal and regulatory constraints involving commercial sector pharmaceuticals that prevent the commercial sector from operating optimally—with greatest ease and at lowest cost—to ensure a consistent supply of high quality contraceptives in the Kazakhstan marketplace. These constraints do not appear to be focused on contraceptives per se; they apply to all pharmaceutical products and operations.

The primary legal and regulatory constraints to optimal operation of the commercial pharmaceutical sector are the following:

- The inconsistent application—through lack of knowledge or corruption—of the existing regulatory framework, particularly in the customs area;
- The 20 percent Value Added Tax (VAT) that is applied to pharmaceutical products, including contraceptives, and the timing of its collection;
- The number of government agencies and ministries involved and the lack of transparency in the process of issuing the import licenses and certificates of compliance necessary for importation; and
- The absence of a segmentation policy within the Ministry of Health (MOH) that provides free or low-cost contraceptives to potential users through public-sector outlets.

Constraints such as the inconsistent implementation of regulations, especially in customs and importation, may not be easily changed through short-term interventions. However, other constraints might be changed through short-term interventions.

The consultant recommends that the following efforts be made to change the current laws, regulations, and policies that affect commercial, pharmaceutical-sector operations:

- Reduce (i.e., to 10 percent or to 0 percent) the VAT on pharmaceuticals or at least on contraceptives;

- Include contraceptives in any existing opportunities for delayed payment of the VAT that are open to other types of pharmaceuticals;
- Clarify the authority to certify drugs for importation (Medstandart or Standarty);
- Implement annual licensing of importers, rather than shipment-by-shipment licensing;
- Create a list of established, registered drugs and brands that do not need to be tested on a shipment-by-shipment basis;
- Rationalize the fees charged for licenses and necessary importation certificates;
- Eliminate the Ministry of Trade's involvement in import licensing for pharmaceuticals; and
- Segment the pharmaceutical and contraceptive market between the public and private sectors.

Based on an analysis of the evaluation data, the consultant recommends the following mechanisms to alleviate the current constraints to conducting business in the commercial pharmaceutical sector:

- Improve liaison between the United States Agency for International Development's (USAID) social transition projects and USAID's market transition projects,
- Improve government-to-government advocacy,
- Strengthen selected nongovernmental organizations (NGOs) as advocates for change, and
- Provide technical assistance to the MOH to develop and implement a segmentation strategy for providing pharmaceuticals and contraceptives.

1. INTRODUCTION

The Reproductive Health Services Expansion Program (RHSEP) for Central Asia was initiated by USAID in 1993. The purpose of this program is to reduce dependence on abortion for fertility control by promoting safe, modern contraception. The RHSEP has been implemented through a team of five global population contractors: Association for Voluntary and Safe Contraception (AVSC), the Johns Hopkins Program for International Education in Reproductive Health (JHPIEGO), Johns Hopkins University Population Communication Services (JHU/PCS), Options for Population Policy (OPTIONS), and Social Marketing for Change (SOMARC).

SOMARC designed and implemented a contraceptive marketing project, the Red Apple Project, which is the main component of USAID/Central Asian Republic's (CAR) contraceptive reproductive health program. USAID/CAR has invested heavily in SOMARC's project to increase the availability of contraceptives through the private sector and, to ascertain the project's success, has requested that the Population Technical Assistance Project (POPTECH) field a two-part evaluation of the Red Apple Project. The first part of the evaluation focused on the technical and marketing aspects of the Red Apple Project to date. Believing that "further progress in contraceptive marketing in Central Asia is hindered by the lack of a legal and regulatory climate conducive to market expansion and the development of a viable commercial sector," USAID/CAR requested that the second part of the Red Apple Project evaluation provide "an update of the legislative environment and the potential for the commercial sector, especially in marketing of contraceptives, in Kazakstan and Uzbekistan."

The following chapter, which represents the results of the second part of the Red Apple Project evaluation in Kazakstan, is organized into three major sections: (1) a description of the laws and regulations that govern the commercial pharmaceutical sector, (2) a discussion of the significant regulatory constraints to growth of contraceptive sales in the commercial sector, and (3) recommendations for interventions to resolve existing legal and regulatory constraints.

2. METHODOLOGY

The sources of information on which this study is based include personal interviews; translations and summaries of relevant laws, orders, and decrees of the Republic of Kazakstan; and reports and assessments prepared by USAID's contractors and/or various international donor agencies.

The consultant conducted personal interviews with MOH officials—especially in the areas of maternal and child health and pharmaceutical control; a leading family planning service provider within the government system; private pharmacy owners; commercial-sector pharmaceutical importers; staff of local management consulting firms; and USAID staff, consultants, and contractors working in legal reform, commercial law, taxation, pharmaceuticals, contraceptive marketing, and healthcare reform.

The consultant reviewed Kazakstan's laws, orders, and decrees, which had been collected by the Carana Corporation. (See Appendix E.) The consultant also reviewed customs classifications and fee schedules. (See Appendix F.)

The consultant also reviewed documents that were prepared by USAID offices and by USAID's contractors working in privatization, contraceptive marketing, and women's reproductive health. (See Appendix B.)

3. LAWS AND REGULATIONS GOVERNING THE COMMERCIAL PHARMACEUTICAL SECTOR

Considerable change has occurred in the pharmaceutical sector since the early 1990's when the Government of Kazakhstan (GOK) authorized private operation of pharmacies and private importation and sale of pharmaceutical products. For example, of the 1,083 pharmacies in the country (Carana report, 9 August, 1996) perhaps as many as 90 percent are now privately owned. (The Red Apple evaluation team estimated that perhaps 1,400 or more pharmacies are operating in Kazakhstan.) Methods of retail operation and product distribution, however, still function largely as they did in the Soviet era. In its 1996 analysis, the Carana Corporation gives a clear picture of the current pharmaceutical system in Kazakhstan. The experts interviewed by the consultant indicated that the picture presented in Carana's 1996 analysis is still accurate. (See Appendix G.)

The laws and regulations that govern the operation of Kazakhstan's commercial pharmaceutical sector generally focus on the following areas:

- Licensure and inspection of retail pharmacies,
- Licensure to conduct business in the pharmaceutical sector,
- Registration of pharmaceutical products and brands,
- Licensure of pharmaceutical companies for each shipment to be imported,
- Quality assurance and compliance of imported pharmaceutical products and brands,
- Application or non-application of customs tariffs to pharmaceutical products, and
- Application of VAT to pharmaceutical products.

The Carana Corporation collected and summarized Kazakhstan's laws and regulations regarding the operation of the pharmaceutical sector for inclusion in its "Pharmaceutical Information Packet" (Section 6, June 1996). (See Appendix E.) The process of licensing and importing pharmaceutical products for distribution and sale in Kazakhstan is outlined in the Carana report, "Kazak Pharmaceutical System Analysis." (See Appendix G.)

4. CONSTRAINTS TO GROWTH OF CONTRACEPTIVE SALES IN THE COMMERCIAL SECTOR

The consultant assessed the constraints to increased sales of contraceptives in Kazakhstan's commercial sector on the basis of experience from USAID/CAR's Red Apple contraceptive marketing project, the evaluation team's analysis of the Red Apple project (outlined in the first report), and interviews with commercial sector companies. Based on this assessment, it appears that the major constraints are (1) the impact of relatively low contraceptive demand—caused primarily by consumer and provider resistance to hormonal contraceptives—on retailers' and importers' use-of-cash-for-product-purchasing decisions; and (2) the absence of a pro-active promotional and sales infrastructure within the distribution chain. That is, marketing constraints rather than legal and regulatory constraints appear to have had the most negative impact on Red Apple project sales performance and on overall commercial contraceptive sales in Kazakhstan.

4.1 Legal and Regulatory Constraints

There are, however, some legal and regulatory constraints involving commercial sector pharmaceuticals that do prevent the commercial sector from operating optimally—with greatest ease and at lowest cost—to ensure a consistent supply of high quality contraceptives in the Kazakhstan marketplace. These constraints do not appear to be focused on contraceptives per se; they apply to all pharmaceutical products and operations.

All governments that consider safeguarding the public health a responsibility, initiate a system of laws and policies that regulate the availability and distribution of pharmaceutical drugs. These regulatory systems are not necessarily an undue constraint on the ability to conduct business in the commercial pharmaceutical sector; they may, however, be considered constraints on the reasonable ability to conduct business in the commercial pharmaceutical sector (1) where they do not or are not necessary to protect the public health, (2) where the bureaucratic implementation processes for these laws cause unnecessary delays and/or product shortages, (3) where the fees charged for required certificates and licenses exceed their reasonable value, and (4) where inconsistent implementation of the regulations—through either lack of knowledge or corruption—deleteriously increase the time, costs, and risks of conducting business.

Tax and tariff laws and regulations, when designed and implemented without considering their impact on the availability and affordability of essential pharmaceutical products, may also unduly constrain the commercial-sector's participation in the delivery of pharmaceutical products to the public.

4.2 Primary Legal and Regulatory Constraints in the Commercial Pharmaceutical Sector

In Kazakhstan, the primary legal and regulatory constraints to optimal operation of the commercial, pharmaceutical sector appear to be the following:

- The inconsistent application—through either lack of knowledge or corruption—of the existing regulatory framework, particularly in the customs area;
- The 20 percent VAT applied to pharmaceutical products including contraceptives;
- The number of government agencies and ministries involved and the lack of transparency in the process of issuing import licenses and certificates of compliance necessary for importation; and
- The absence of a segmentation policy within the MOH to provide free or low-cost contraceptives to potential users through public-sector outlets.

4.2.1 *Inconsistent Implementation of the Regulatory Systems, Particularly Customs*

Although there are no import duties levied against pharmaceutical products (including contraceptives), the pharmaceutical distributors and USAID's contractors working in the area of customs reform think that the difficulties in dealing with the customs and importation system are, perhaps, the primary problem in conducting business.

The inconsistent implementation of regulations in the customs system is widely thought to be because of (1) extremely low salaries for inspectors, supervisors, and other officials; (2) fees and taxes that are perceived as so excessive that bribes are considerably cheaper than compliance; (3) rapid change in regulatory requirements; (4) unclear regulations; and (5) inefficient communication of regulations and changes to customs officials throughout the system and country, as well as to importers.

Regardless of the cause of this inconsistent implementation of customs regulations, it adds considerably to the importers' business costs—which are, of course, passed along to wholesalers, retailers, and consumers through product prices—as well as to the likelihood that products will not be consistently available in the marketplace.

Following are examples of the constraints caused by the current customs regulations and/or their inconsistent implementation:

- (1) Customs Fees. The law requires that a customs inspector accompany any road shipment of imported product from its point of entry into Kazakhstan to Almaty,

where the goods pass through customs. The inspector's presence ensures that the goods are not diverted before the customs duties are assessed. The inspector who accompanies the truck is paid 100 ecu if he travels only within his district and 200 ecu if the trip to Almaty requires that he pass out of his district. In practice, an inspector joins the truck at the border and rides with it just until it passes out of his district, whereupon he collects 200 ecu and departs. A second inspector then gets on the truck and rides it just until it passes out of his district. He collects 200 ecu and departs. This process continues until the truck reaches Almaty. Instead of paying one 200 ecu fee for a customs inspector to accompany the imported shipment to Almaty, an importer may pay up to ten of these fees, depending on where his truck entered Kazakhstan. The law does not specifically forbid this practice, so the importer has no legal recourse.

- (2) The Local Communications System. The inadequacies in Kazakhstan's communications systems cause delays in the dissemination of information. It can take months for information on a change in the customs regulations to reach certain border outposts. Although the importers using those entry points may know of these changes, the customs inspectors do not and will, therefore, require the importers to follow the obsolete rules.
- (3) Storage Fees. The rate charged by customs to importers to store goods while they await customs clearance is 10 cents per kilogram per day. (The first three days of storage are free.) A shipment weighing 2,500 kilograms that is held in customs for even 10 days beyond the initial free period will cost the importer approximately US\$2,500 in storage fees. An importer is, therefore, willing to bribe customs officials to move goods speedily through the customs process, because the amount of the bribe required is considerably less than the potential storage fee.
- (4) Changing Customs Regulations. A pharmaceutical importer recently attempted to import a shipment of goods into Kazakhstan. The importer obtained and paid for the required licenses and certificates, but by the time the goods arrived at Almaty, the customs regulations had changed. The importer was told that he would have to re-do his completed paperwork (i.e., pay for new certificates and licenses) because the change had occurred after he started the importation process.

Retail pharmacy owners reported having difficulty conducting business because of the opportunities for irregular payments that are created by mandated health, sanitary, and fire inspections of their pharmacies. Carana's report, "Kazak Pharmaceutical System Analysis," (see Appendix G) contains detailed examples of such occurrences. According to a number of sources, the threat of a visit from the tax inspector is used to encourage business owners to pay these irregular "fees" to health inspectors and/or the police and to prevent business owners from reporting the corrupt officials.

4.2.2 Value Added Tax Especially as Applied to Pharmaceutical and Contraceptive Products

In Kazakstan, the prevailing 20 percent VAT is a major constraint on the ability of many importers to conduct business. It appears to especially constrain smaller companies without special privileges.

The rate and amount of the various taxes that must be paid on pharmaceuticals and contraceptives are major constraints from a public health standpoint because of the impact that these taxes have on the price to the consumer. The higher the taxes, the higher and less affordable the consumer price becomes, and, therefore, the less accessible the product is in the commercial marketplace. Additionally, as the product's cost to the importer increases, its final profitability becomes increasingly important. At current levels of demand, contraceptives do not yield a large profit to importers; consequently, importers may be more likely to invest their available cash in products that will bring a quicker, larger profit.

In a country like Kazakstan, where the MOH plainly states that it cannot afford to continue to provide free health services and pharmaceuticals to the entire population, the ability of a growing number of consumers to afford the healthcare (including pharmaceuticals) that they need from the commercial sector is increasingly important. For many consumers, a 20 percent higher price may constitute a serious constraint to their access to essential pharmaceuticals and contraceptives in the commercial sector. (It would be interesting to compare the costs to the MOH of providing free contraceptives to "middle income and upper lower income" consumers who might purchase contraceptives in the commercial market at a 20 percent reduction in price, to the revenue that would be lost by the government if the 20 percent VAT were not levied on contraceptives.)

In many countries, the levying of VAT replaces an increase in unpopular income taxes or allows for a decrease in politically unpopular income tax rates. Kazakstan's 20 percent VAT is comparable to the VAT of a number of developed countries. (It does not appear, however, that the population of Kazakstan is as able to pay a 20 percent tax on virtually all consumer goods as are the populations of developed countries.) Pharmaceuticals sold in Great Britain, for example, are not exempted from the VAT, nor are they sold at a reduced VAT rate. In Kazakstan, pharmaceutical products—specifically contraceptives—are not exempted from or assessed a lower than 20 percent VAT, although some types of goods, such as "school aids," are exempted from the VAT.

Tax experts (USAID contractors and consultants) explain that a reduced rate (i.e., 10 percent) or a "zero rate" VAT for particular types of goods is more financially advantageous to the importer than is exemption from the VAT for the goods in question. This zero rate is advantageous because importers can claim taxes paid on VAT zero-rated goods, but not on VAT-exempted goods. According to commercial pharmaceutical importers, the Pharmacists Association has written a letter to the MOH requesting relief from the VAT for pharmaceuticals in general. However, the current status of that request is unknown, since the MOH has not yet formally responded.

The difficulties caused for pharmaceutical importers by the amount of the VAT that they must pay are compounded, for some, by the fact that they must pay the tax when the goods enter Kazakhstan, not when they sell them into the distribution system. Since most pharmaceutical importers sell their products into the marketplace on consignment, it can be over 30 days before they begin to receive payment from their customers. The pharmaceutical importers must, therefore, pay the 20 percent VAT on the goods before they realize any revenue from the importation.

The regulations concerning this VAT payment are not completely clear, however. According to USAID's contractor that works on VAT issues, pharmaceutical and other importers do not have to pay the VAT until the end of the month in which the goods enter the country. However, according to USAID's contractor that works in customs reform, that delay in payment is granted only to pharmaceuticals that fall within the customs classification numbers 3000 to 3004; hormonal and spermicidal contraceptives are classified as number 3006.6 and, therefore, are not eligible for delayed VAT payment. (At least one importer confirmed that this was his company's experience.) A major pharmaceutical importer indicated that he has a special letter from the GOK that gives him three months from the time of import to pay the VAT. He stated that such a letter is available to any company that meets certain conditions, but that most pharmaceutical importers do not know about this possibility.

4.2.3 Regulatory Layers in the Importation Process

According to most companies that import pharmaceuticals, delays and inconsistencies in the regulatory process controlling importation hamper their ability to operate efficiently in the marketplace. However, importers occasionally admit that they are able to "find ways" to deal with these constraints.

The following five agencies are involved in regulating the importation of pharmaceuticals:

- The MOH
- The Ministry of Industry and Trade (MOIT)
- Medstandart
- A foreign contractor (previously Societe Generale de Surveillance, S.A.) that validates the price of goods in the country of export
- The customs service

Each of these agencies issues certificates or licenses of some kind for each imported shipment of goods; each of these agencies also charges fees for each certificate or license issued.

There are numerous instances of lack of transparency in this process and of requirements that are not necessary for the protection of the public's health. These regulatory constraints and suggestions for their change are discussed at some length in the Carana study, "Kazak

Pharmaceutical System Analysis." (See Appendix G.) The most problematic of these constraints are as follows:

- (1) Agency Disagreement Over Proper Certificates. The MOH, Medstandart, and the JSC Standarty disagree over which agency is legally competent to certify pharmaceuticals. Medstandart requires importers to obtain certificates from (and pay fees to) JSC Standarty, but the MOH will not accept these certificates.
- (2) License Fees. The MOIT charges approximately US\$131 to issue an import license for every pharmaceutical shipment. Since the customs service collects information on quantity, type, and value of all imported articles, there is no apparent reason for the MOIT to charge fees and issue licenses to collect the same information.
- (3) "Pre-registration" of Pharmaceutical Shipments. The "pre-registration" of pharmaceutical shipments by a foreign contractor to confirm invoice prices and specifications adds considerably to the time required to import product into Kazakhstan. Customs officials often make these same checks when the product enters the country.
- (4) Importation Licenses. An importer must obtain an import license for each shipment brought into the country. If the regulatory intent is to ensure the trustworthiness of the importer, an annual license should suffice.
- (5) Certification of Medicine. Each type of medicine in a shipment must be certified—at a fee of US\$48 per type of medicine. These laboratory examinations seem unnecessary when evaluating long-established brands whose formulations have not changed over many years and whose safety has been verified by the country of origin.

The license and certificate fees charged by the government for importation of pharmaceuticals into Kazakhstan are considered by importers, as well as by USAID ex-patriate advisors, to be well above the costs to the government of issuing them. (See Appendix F.) According to USAID's contractor that works in customs reform, the process of Kazakhstan's entering the World Trade Organization (WTO) may ameliorate these irrational fees (perhaps within the next six months), since the WTO requires a justifiable, rational fee structure for membership.

4.2.4 Absence of a Ministry of Health Policy for Segmentation of the Contraceptive Market which can be Implemented

Segmentation of any market means division of the total market population into subgroups that are identified by selected characteristics such as gender, age, income and ability to pay, geographic location, and lifestyle. Successful market segmentation allows for maximized efficiency of marketing activities (through targeting advertising messages, prices, or other elements of the marketing mix to the concerns, desires, and needs of specific groups) as well as maximized efficiency of product and service delivery channels (through eliminating unnecessary overlap of delivery systems). In a world where public sector resources are finite, segmentation of the contraceptive market appears to be essential to the long-term sustainability of any women's reproductive health program.

Kazakstan's public sector provides contraceptive services and products—to the extent that they are available—to any woman who comes to a public sector healthcare outlet to obtain them. These goods and services are provided free or at a low cost to all—when providing product or services no distinction is made in regard to a woman's ability to pay. That is, there is no significant segmentation of the contraceptive market by the public sector according to the consumer's ability to pay.

The commercial sector's ability to increase its participation in the delivery of contraceptives to women who want or need them (i.e., to expand sales) is limited, at least in part, by the extent to which commercial products and prices must compete with free products or low-cost medical services provided by the public sector to women who could otherwise afford to buy them in the commercial sector. Constraints on demand for contraceptives in the commercial sector are especially important in marketplaces, like Kazakstan, where the level of product demand plays an important role in the purchasing decisions made by importers, distributors, and retailers with limited cash reserves.

It is difficult to ascertain the size of the market segment in Kazakstan that is reasonably able to pay for its contraceptive needs in the commercial sector. In many markets, it is difficult to differentiate between consumers' ability to pay and their willingness to pay for contraceptive products. It is especially difficult in a contraceptive market like Kazakstan where consumers have multiple sources of income (most of them "unofficial") that, in order to evade taxes, are not always correctly reported and where reliable databases on household income and expenditures do not appear to exist.

5. RECOMMENDATIONS FOR RESOLUTION OF EXISTING CONSTRAINTS

5.1 Recommended Changes in Current Laws and Regulations

The two most important legal and regulatory constraints to business owners' ability to conduct business efficiently in the commercial pharmaceutical sector appear to be the inconsistent implementation of the regulatory framework and the VAT. These constraints, especially in the areas of customs and importation, may not be easily changed by short-term interventions. (This does not mean, however, that these issues should not be addressed wherever possible.) While the chances for success are difficult to predict, opportunities for short-term intervention to resolve at least some of the constraints presented by the VAT and its collection do appear to exist. Other constraints—such as the number of government agencies and ministries involved in the importation process and the absence of an implementable segmentation strategy within the MOH to provide contraceptives—may also be changed through short-term interventions.

The consultant recommends that the following efforts be made to change current laws, regulations, and policies that affect commercial, pharmaceutical-sector operations:

- Reduce (i.e., to 10 percent or to 0 percent) the VAT on all pharmaceuticals or at least on contraceptives;
- Include contraceptives in any existing opportunities for delayed payment of the VAT that are open to other types of pharmaceuticals;
- Clarify the authority to certify drugs for importation (Medstandart or Standarty);
- Implement annual licensing of importers, rather than shipment-by-shipment licensing;
- Create a list of established, registered drugs and brands that do not need to be tested on a shipment-by-shipment basis;
- Rationalize the fees charged for licenses and certificates necessary for importation;
- Eliminate the Ministry of Trade's involvement in import licensing for pharmaceuticals; and
- Segment the pharmaceutical and contraceptive market between the public and private sectors.

5.2 Recommended Mechanisms for Achieving Change

Based on an analysis of the information gathered for this evaluation, the consultant recommends the following mechanisms to change current constraints to conducting business in the commercial pharmaceutical sector:

- Improve liaison between USAID's social transition projects and USAID's market transition projects;
- Improve government-to-government advocacy;
- Strengthen selected NGOs as advocates for change; and
- Provide technical assistance to the MOH to develop and implement a segmentation strategy to provide pharmaceuticals and contraceptives.

5.2.1 *Improved Liaison Between the United States Agency for International Development's Social and Market Transition Projects*

Despite the past levels of liaison among USAID's projects, it appears that renewed opportunities for sharing of information and priorities are needed. Some of the technical assistance and advice given to various agencies of the GOK by some of USAID's market transition projects (in legal reform, trade and investments, or commercial law, for example) may not have fully taken into account the social or health needs and objectives identified by USAID's social transition projects. By the same token, some social transition projects seem to be unaware of the regulations being developed with assistance from the market transition projects and of the information and/or advocacy opportunities offered by these projects. USAID's existing market transition projects are already addressing or can address issues such as reduced VAT rates for pharmaceuticals and contraceptives, inconsistent implementation of regulations, excessive fees for licenses and certificates, and unwieldy importation processes.

Additionally, in the consultant's opinion, the policy and regulatory issues that prevent effective operation of the commercial pharmaceutical and contraceptive sector cannot be successfully addressed unless one agency or contractor is made explicitly responsible for coordinating and initiating activities in this area.

The consultant, therefore, specifically recommends the following actions:

- Identify one USAID contractor (perhaps Abt, SOMARC, or the Policy Analysis, Planning, and Action project [POLICY]) to develop and implement a strategy and work plan to change the policies and regulations that constrain the commercial pharmaceutical and contraceptive sector;

- Identify one USAID contractor (perhaps Abt or SOMARC) to work as an advocate and raise awareness of the policy and regulatory needs of the commercial pharmaceutical sector—and specifically contraceptive availability in the commercial sector—among USAID's other projects that are providing relevant legal and regulatory technical assistance to the GOK;
- Implement quarterly meetings of USAID's social and market transition projects to discuss current activities, to identify policy and regulatory needs and concerns, and to develop areas of collaboration to achieve USAID's goals; and
- Identify one USAID contractor (perhaps the American Bar Association (ABA) through an "information coordinator") to alert (while there is still opportunity for comment and input) all USAID-funded agencies and contractors to developing legislation and to circulate copies of all new legislation to each of USAID's CAs.

5.2.2 Government-to-Government Advocacy

Depending upon its policy priorities and decisions, USAID/Almaty management may decide to present selected constraints of greatest importance to the Ambassador or other appropriate high level official for discussion on a government-to-government level. In the opinion of the consultant, a 10 percent or 0 percent VAT for pharmaceuticals, particularly contraceptives, should be considered by USAID management as one such constraint. USAID should also consider discussing at a government-to-government level the effect of widespread corruption in the regulatory system on the overall development of the national economy.

5.2.3 Strengthening of Selected Nongovernmental Organizations as Advocates for Change

Kazakhstan's developing NGOs are speaking out on issues that are relevant to their constituencies. Among these NGOs are two associations of "pharmacists": one for importers, distributors, and retailers in the pharmaceutical sector and one for domestic pharmaceutical manufacturers. These local associations serve a critical function in sustaining advocacy for the commercial pharmaceutical sector. In fact, the Pharmacists Association, discussed earlier in this paper, has already written to the MOH requesting relief from VAT for pharmaceuticals. The "Pharmacists Newspaper"⁷⁷⁷ is reportedly a vehicle for editorial comment as well as for publication of new laws and regulations that govern the pharmaceutical sector and its publisher is said to be an active member of the Pharmacists Association.

⁷⁷⁷This newspaper is said to have a contract with the MOH to publish new regulations relevant to the pharmaceutical sector.

NGOs like the Consumers Union may also represent sustainable advocacy for consumer interests such as the affordability of necessary pharmaceuticals, like contraceptives, within the commercial sector.

On the basis of these observations, the consultant recommends the following actions to strengthen existing NGOs as advocates for change in the pharmaceutical sector:

- Develop a list of NGOs that could reasonably advocate for availability and affordability of pharmaceuticals and contraceptives in the commercial sector; and
- Identify a USAID contractor (perhaps SOMARC or POLICY) to design and implement a plan to provide technical assistance to selected NGOs in areas that strengthen their capabilities as advocates for change, such as media training, strategy development, advocacy techniques including use of the media, and development of local constituencies and funding.

5.2.4 Technical Assistance to the Ministry of Health

While efficient segmentation of the contraceptive market among public, private and non-profit, and private and commercial sectors will probably not be actualized in the short term, the need for segmentation of the contraceptive market is sufficiently important to long-term sustainability of any women's reproductive health program in Kazakhstan that the foundations for segmentation should be laid as quickly as possible.

The consultant recommends, therefore, that USAID provide technical assistance (perhaps through Abt or POLICY) to the MOH to develop a segmentation strategy to provide contraceptives and contraceptive services.

Effective segmentation of the contraceptive market in Kazakhstan should provide, as it does in other countries and markets, opportunity for increased commercial-sector participation in contraceptive delivery and contraceptive services as well as more equity in the public sector system for healthcare service delivery.

**LEGAL AND REGULATORY
ENVIRONMENT FOR CONTRACEPTIVE
MARKETING IN THE COMMERCIAL
SECTOR: UZBEKISTAN**

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LIST OF ABBREVIATIONS

ABA	American Bar Association
AVSC	Association for Voluntary and Safe Contraception
CA	Cooperating Agency
CAR	Central Asian Republics
CEELI	Central East European Law Initiative
GOU	Government of Uzbekistan
JHPIEGO	Johns Hopkins Program for International Education in Reproductive Health
JHU/PCS	Johns Hopkins University/Population Communications Services
MOEER	Ministry of External Economic Relations
MOH	Ministry of Health
NGO	nongovernmental organization
OC	oral contraceptive
POP	Office of Population (USAID)
POPTECH	Population Technical Assistance Project
RHSEP	Reproductive Health Services Expansion Program
SAMO	State Anti-Monopoly Organization
SOMARC	Social Marketing for Change (project)
VAT	Value Added Tax
USAID	United States Agency for International Development
WTO	World Trade Organization

EXECUTIVE SUMMARY

While Uzbekistan's existing legislation grants the right to operate private businesses, including pharmaceutical-sector businesses, and while high level government spokespeople, including the President, publicly endorse privatization, the overall legal and regulatory environment for the private sector appears to be less favorable now than in the recent past.

Businesses in the private and commercial sector, especially businesses that depend on imported products, are greatly affected by the recently adopted regulations controlling and limiting access to foreign exchange. Uzbekistan's pharmaceutical sector is based predominantly on imported products and all contraceptives are imported. The Deputy Chairman of Dori-Darmon, the joint-stock pharmaceutical company of which the government owns 30 percent, estimates that 10 to 15 of the 300 companies with current convertibility rights import pharmaceutical products. If one estimate of a US\$2,000,000 per month total convertibility quota for pharmaceuticals is correct, then this figure represents trade expenditures of only US\$1 per person for pharmaceuticals per year. If this rough estimate is even doubled, the new total represents trade expenditures of only US\$2 per person per year. Since most pharmaceuticals used in Uzbekistan must be imported, these possible per capita totals seem low and, at best, imply a policy of dependence on public sector and donor aid sources for a significant part of the population's pharmaceutical needs.

As early as March 1997, the Oily Majlis may enact new legislation to levy an 18 percent Value Added Tax (VAT) on most consumer goods. While basic foods will be taxed at a reduced rate of 10 percent and prosthetic devices will be granted an exemption, the current draft of the legislation provides no relief from the 18 percent VAT for pharmaceuticals or, specifically, for contraceptives.

Aside from the overwhelming impact on the commercial pharmaceutical sector of convertibility regulations and the potential impact of the proposed VAT, there are other laws and regulations that govern the operation of the commercial pharmaceutical sector. These regulations generally focus on the following areas:

- Licensure and inspection of retail pharmacies,
- Licensure of pharmaceutical importers,
- Registration of pharmaceutical products and brands,
- Licensure and registration of pharmaceutical shipments to be imported,
- Quality assurance and compliance of imported pharmaceutical products and brands, and
- Application of customs tariffs to pharmaceutical products.

The impact of the regulations governing currency convertibility overshadows the importance of other laws and regulations relevant to the operation of Uzbekistan's commercial pharmaceutical sector. For private sector businesses, the impact of having little or no access to the hard currency necessary to import pharmaceuticals and contraceptives makes other regulatory issues related to registration, importation, and distribution almost irrelevant.

However, the impending legislation that will levy an 18 percent VAT on consumer goods, including pharmaceuticals and contraceptives, will probably also have a significant impact on the role of the commercial sector as a source of pharmaceuticals and contraceptives for the consumer.

The consultant recommends, therefore, that efforts for regulatory reform be concentrated in the following areas to alleviate the constraints that have an overwhelming impact on the availability and affordability of contraceptives in the commercial sector:

- Increase the availability of currency conversion for importation of pharmaceuticals, and specifically for contraceptives; and
- Reduce (e.g., to 10 percent or to 0 percent) the proposed VAT on pharmaceuticals or, specifically, on contraceptives.

In Uzbekistan, the available mechanisms for changing policies and regulations appear to be somewhat more limited than in some other countries. The consultant, therefore, recommends the following mechanisms to move toward changing current constraints on the commercial pharmaceutical and contraceptive sector:

- Increase demand for contraceptives to build pressure for change,
- Improve liaison between the United States Agency for International Development's (USAID) social transition projects and USAID's market transition projects,
- Identify influentials supportive of the women's reproductive health program,
- Implement government-to-government advocacy.

1. INTRODUCTION

The Reproductive Health Services Expansion Program (RHSEP) for Central Asia was initiated by USAID in 1993. The purpose of this program is to reduce dependence on abortion for fertility control by promoting safe, modern contraception. The RHSEP has been implemented through a team of five global population contractors: Association for Voluntary and Safe Contraception (AVSC), Johns Hopkins Program for International Education in Reproductive Health (JHPIEGO), Johns Hopkins University Population Communication Services (JHU/PCS), Options for Population Policy (OPTIONS), and Social Marketing for Change (SOMARC).

SOMARC designed and implemented a contraceptive marketing project, the Red Apple Project, which is the main component of USAID/Central Asian Republic's (CAR) contraceptive reproductive health program. USAID/CAR has invested heavily in SOMARC'S project to increase the availability of contraceptives through the private sector and, in an effort to ascertain the project's success, has requested that the Population Technical Assistance Project (POPTECH) field a two-part evaluation of the Red Apple Project. The first part of the evaluation focused on the technical and marketing aspects of the Red Apple Project to date. Believing that "further progress in contraceptive marketing in Central Asia is hindered by the lack of a legal and regulatory climate conducive to market expansion and the development of a viable commercial sector," USAID/CAR requested that the second part of the Red Apple Project evaluation provide "an update of the legislative environment and the potential for the commercial sector, especially in marketing of contraceptives, in Kazakstan and Uzbekistan."

This chapter, which represents the results of the second part of the Red Apple Project evaluation in Uzbekistan, is organized into three major sections: (1) a description of the laws and regulations that govern the commercial pharmaceutical sector, (2) a discussion of the significant regulatory constraints to growth of contraceptive sales in the commercial sector, and (3) recommendations for interventions to resolve the existing legal and regulatory constraints.

2. METHODOLOGY

This study is based on information sources that include personal interviews; translations and summaries of the relevant laws, orders, and decrees of the Republic of Uzbekistan that could be obtained during the consultant's visit; and reports and assessments prepared by USAID's contractors and/or various international donor agencies.

The consultant conducted personal interviews with Ministry of Health officials—especially in the areas of pharmaceutical control; private pharmacy owners; commercial sector pharmaceutical importers; pharmaceutical distributors and manufacturers; United States Embassy staff working in the foreign commercial service; and USAID consultants and contractors working in legal reform, international trade, taxation, and contraceptive marketing.

When available, Uzbekistan's laws, orders, and decrees relating to commercial pharmaceuticals and contraceptives were collected, translated, and reviewed. (See Appendix H.)

The consultant consulted documents prepared by USAID and by USAID's contractors working in contraceptive marketing and women's reproductive health. (See Appendix B.)

3. LAWS AND REGULATIONS GOVERNING THE COMMERCIAL PHARMACEUTICAL SECTOR

3.1 Recent Legislation

While Uzbekistan's existing legislation grants the right to operate private businesses, including pharmaceutical-sector businesses, and while high level government spokespeople, including the President, publicly endorse privatization, the overall legal and regulatory environment for the private sector appears to be less favorable now than in the recent past.

According to one ex-patriate legal advisor in USAID's American Bar Association (ABA) Central East European Law Initiative (CEELI) Project, Uzbekistan's recently enacted legislation is moving toward increased government control and diminished rights for private individuals and entities in such areas as access to information. For example, new legislation on "Implementation of Legislation" states that only public associations (government-affiliated) have a right to initiate legislation and to provide input into new legislation. This new legislation virtually prevents nongovernmental organizations (NGOs) from effectively representing the concerns and needs of their constituencies and from advocating for change. Another piece of recent legislation that established the State Anti-Monopoly Organization (SAMO) regulates competition and gives the government the authority, without judicial intervention, to close companies, seize assets, and transfer parts of companies to other entities. Under this same legislation, individuals are required to "self-incriminate" themselves if they are questioned by the prosecutor's office. The ABA CEELI Project must now get permission from the Department of International Relations of the Ministry of Justice to speak with government officials who the project has worked with in the past. Close government control of the media is widely acknowledged.

3.2 Impact of Foreign Exchange Quotas

Businesses in the private and commercial sector, especially businesses that depend on imported products, are greatly affected by the recently adopted regulations controlling and limiting access to foreign exchange. (Uzbekistan's pharmaceutical sector is based predominantly on imported products. All contraceptives are imported.) During the first three quarters of 1996, approximately 1,400 businesses held patents for conversion of foreign exchange and were thus able to import products for sale in Uzbekistan. It is estimated that under the new regulations governing convertibility, only 300 businesses have been allotted quotas for conversion. Dori-Darmon's Deputy Chairman estimates that 10 to 15 of the 300 companies with current convertibility rights import pharmaceutical products.

The following table shows the estimate of the possible dollar value of the conversion quotas currently available to pharmaceutical importers.

Table 1**Conversion Quotas (US\$Value) Available to Pharmaceutical Importers**

Importer	US\$ Value Per Month of Conversion Quota
Pharmako	173,000
Iverson	35,000
Business Centre	4,500
Kamilla	73,000
Dori-Darmon	8,000
Jurabek	500,000
Farmaceft	3,000
Pharmed	500,000
Lahissam	
IbenSina	
Total	1,296,500

Source: Input from several pharmaceutical distributors.

If this total is arbitrarily increased by approximately US\$700,000 per month to cover any underestimations of quotas and quotas of companies not listed, the US\$2,000,000 per month total convertibility quota for pharmaceuticals represents trade expenditures of only US\$1 per person for pharmaceuticals per year. If this rough estimate is even doubled, the new total represents trade expenditures of only US\$2 per person per year. Since most pharmaceuticals in Uzbekistan must be imported, these possible per capita totals seem low and, at best, imply a policy of dependence on public sector and donor aid sources for a significant part of the population's pharmaceutical needs.

3.3 Potential for Change in Current Foreign Exchange Quotas

A representative of the USAID's project on international trade and the entry of Uzbekistan into the World Trade Organization (WTO) has stated that it could be up to 10 years before the Uzbekistan market operates freely. He also stated, however, that with current constraints on convertibility, the local market could see "severe problems" in five to seven months. The representative believes that it will take such severe problems to persuade the government to make changes in its currency conversion policies. To support his opinion, he referred to the President

of Uzbekistan's recent speeches and to the fact that seventeen foreign ambassadors met with resistance when they recently called on the President to lobby for changes in the government's convertibility policy. He suggested that over time, the desire of the government to enter the WTO may provide some leverage to develop and adopt a more rational regulatory framework.

3.4 Constraints in the Regulatory Environment

The lack of transparency in the current regulatory environment is verified by ABA CEELI staff and by pharmaceutical importers. These importers, for example, can offer no explanation for the government's decisions on who has been given convertibility quotas and on the amount of each quota given. The existence of corruption in the implementation of the existing regulatory framework is almost universally acknowledged.

3.5 Value Added Tax Legislation

As early as March 1997, the Oily Majlis may enact new legislation to levy an 18 percent VAT on most consumer goods. While basic foods will be taxed at a reduced rate of 10 percent and prosthetic devices will be granted an exemption, the current draft of the legislation provides no relief from the 18 percent VAT for pharmaceuticals or, specifically, for contraceptives. The drafting of the VAT legislation has taken place over the last two years with USAID-funded technical assistance from Barents Group. This proposed legislation now faces a second reading in the next session of the Oily Majlis (March/April). According to the Barents Group ex-patriate staff, this legislation may well be passed at this second reading.

3.6 Laws and Regulation that Govern the Commercial Pharmaceutical Sector

Aside from the overwhelming impact on the commercial pharmaceutical sector of the convertibility regulations and the potential impact of the proposed VAT, there are other laws and regulations that govern the commercial pharmaceutical sector. These regulations generally focus on the following areas:

- Licensure and inspection of retail pharmacies,
- Licensure of pharmaceutical importers,
- Registration of pharmaceutical products and brands,
- Licensure and registration of pharmaceutical shipments to be imported,

- Quality assurance and compliance of imported pharmaceutical products and brands, and
- Application of customs tariffs to pharmaceutical products.

(See Appendix H for copies of the available, relevant regulations.)

3.7 Regulatory Process for Importation of Pharmaceutical Products

The process for importation of pharmaceutical products does not appear to be documented in a single place, but based on the consultant's interviews with pharmaceutical importers, the following list of steps in the regulatory process for importation of pharmaceutical products has been developed:

- (1) Conclusion of a contract between the importer and the manufacturer of the goods to be imported.
- (2) Approval and registration of the contract by the Ministry of External Economic Relations (MOEER); this process requires input from several departments including the "department of pricing" and the "department of demand".
- (3) Issuance of a license or "passport" for imported goods: the license has seals/signatures from three organizations; MOEER, the Bank, and the customs service.
- (4) Issuance of a "card of import" (an outline summary of the details of the shipment) that is signed by the Bank and the customs service.
- (5) Shipment of goods by the manufacturer along with a certificate of analysis, a certificate of compliance, and a certificate of origin—all of which are provided by the manufacturer.
- (6) Customs clearance. (As of September 1996, a 1 percent customs duty is levied on all pharmaceuticals.)
- (7) Laboratory testing of samples from each shipment by the Pharmacological Committee of the MOH. (A representative of the Pharmacological Committee indicates that the MOH now has a "contract" with several manufacturers that allows these manufacturers to import specified products and brands with only semi-annual laboratory testing, rather than shipment-by-shipment testing.)

3.8 Prices Charged by Pharmacies for Essential Pharmaceuticals

According to Dori-Darmon's Deputy Chairman of the Board, there are approximately 4,500 pharmacies in Uzbekistan. Of these, he estimates that 3,400 are owned privately by individuals or by groups of individuals (in limited partnerships).

The Uzbekistan government regulates the prices charged by pharmacies on only 20 items of "urgent necessity"; basic products such as gauze and iodine. These set prices are quite low; pharmacy owners say that the set prices for some of these products fall below their cost. All the set prices are said to fall below the "market price."

The MOH has developed a list of "vital for health" products, which it reviews annually with the World Bank. Contraceptives are not on this list. According to Dori-Darmon's Deputy Chairman of the Board, the MOH is preparing a law that will require all pharmacies to stock the products on this "vital for health" list. Since the constraints on convertibility will not currently allow the implementation of this law, the MOH is deferring enactment until conversion constraints are relaxed.

3.9 New Legislation of Drugs and Pharmaceutical Activity

A new Law of the Republic of Uzbekistan on Drugs and Pharmaceutical Activity is being drafted. The draft has been passed to the ABA CEELI project staff and to USAID for comment. The current draft, made available to the consultant in a summarized translation (see Appendix H), appears to be similar to the pharmaceutical legislation of a number of countries. Two points that may warrant further comment by USAID are (1) the meaning of Article 3, which states that the government "provides control for drug prices"; and (2) Article 17, which appears to prohibit advertising of medical products. In a number of other countries including the United States, some prescription drugs (Rogaine, hormonal therapy for menopause, and oral contraceptives) are now being advertised in print and broadcast media.

4. CONSTRAINTS TO GROWTH OF CONTRACEPTIVE SALES IN THE COMMERCIAL SECTOR

4.1 Impact of the Regulations that Govern Currency Convertibility

The impact of the regulations governing currency convertibility overshadows the importance of other laws and regulations relevant to the operation of Uzbekistan's commercial pharmaceutical sector. For private sector businesses, the impact of having little or no access to the hard currency necessary to import pharmaceuticals and contraceptives makes other regulatory issues related to registration, importation, and distribution almost irrelevant.

However, the impending legislation that will levy an 18 percent VAT on consumer goods, including pharmaceuticals and contraceptives, will probably also have a significant impact on the role of the commercial sector as a source of pharmaceuticals and contraceptives for the consumer. In the proposed legislation, pharmaceuticals and, specifically, contraceptives are not exempted from the VAT or assessed a VAT rate lower than 18 percent; some types of goods, such as "basic foods," are assessed a reduced VAT rate of 10 percent and prosthetic devices are exempt from the VAT.

The rate and the amount of the various taxes that must be paid on pharmaceuticals and contraceptives are major problems from a public health standpoint because of the impact that these taxes have on the price to the consumer. The higher the taxes, the higher and less affordable the consumer price becomes and, therefore, the less accessible the product is in the commercial marketplace. Additionally, as the product's cost to the importer increases, its final profitability becomes increasingly important. At current levels of demand, contraceptives do not yield large profits to importers; consequently, importers may be more likely to invest their available cash in products that will bring a quicker, larger profit.

4.2 Other Legal and Regulatory Constraints

There are other legal and regulatory constraints that prevent—to a considerably smaller degree than the two major constraints discussed above—the commercial sector from operating with greatest ease and at lowest cost to ensure a consistent supply of high quality contraceptives in the Uzbekistan marketplace. A major importer with a large convertibility quota reports that the importation process is no particular problem now that her staff knows the documentation required and since "the government supports the private sector." However, a smaller importer with a much smaller convertibility quota reports that the importation process takes "a lot of effort." This smaller importer goes on to say that the most difficult part of the process is obtaining the import license from the MOEER. According to the regulation, she indicates, the import license should be obtainable within two weeks, but, in practice, the process often takes longer than two months. In 1996, the MOEER issuance fee for an import license was 2,000 soum per contract approved.

The pharmacy owners that the consultant interviewed reported that the process of obtaining a license to operate a pharmacy is only "normally" difficult. The fees charged in the process change annually, they say. The required sanitary, health, and fire inspections of pharmacy premises create opportunities for "irregular" payments to inspectors, but pharmacy owners say that such practices are never "officially" mentioned. A visit from the tax inspector is the major threat if one does not "work properly."

5. RECOMMENDATIONS FOR RESOLUTION OF EXISTING CONSTRAINTS

5.1 Recommended Changes in Current Laws and Regulations

The two most important legal and regulatory constraints to conducting business efficiently in Uzbekistan's commercial pharmaceutical sector are (1) the current controls on currency conversion and (2) the about-to-be-enacted 18 percent VAT. Because these two constraints overshadow all other regulatory problems confronting the commercial pharmaceutical sector, it does not make sense to spend programmatic resources in attempting to ameliorate these secondary or tertiary constraints.

The consultant recommends, therefore, that efforts for regulatory reform be concentrated in the following areas to move toward alleviating the constraints that have an overwhelming impact on the availability and affordability of contraceptives in the commercial sector:

- Increase availability of currency conversion for importation of pharmaceuticals, and specifically for contraceptives; and
- Reduce (e.g., to 10 percent or to 0 percent) the proposed VAT on pharmaceuticals, or specifically on contraceptives.

5.2 Recommended Mechanisms for Achieving Change

In Uzbekistan, the available mechanisms for changing policies and regulations appear to be somewhat more limited than in some other countries. This government seems, by all accounts, unusually resistant to persuasion and to learning from the experience of others. Recent legislation has significantly weakened the legal standing of NGOs and, therefore, their ability to effectively represent their constituencies and to advocate for change. (See discussion in Section 3.) According to one ex-patriate advisor in legal reform, the MOH "struggles for last place" with the Ministries of Communication and Transportation in influence within the government. There appears to be an underlying reluctance or fear of speaking out in opposition to government policy among the general population. Further, the media are closely monitored by the government to ensure that messages are supportive of government policy.

The consultant, therefore, recommends the following mechanisms to move toward changing current constraints on the commercial pharmaceutical and contraceptive sector:

- Increase demand for contraceptives to build pressure for change,
- Improve liaison between USAID's social transition projects and USAID's market transition projects,
- Identify influentials supportive of the women's reproductive health program, and
- Implement government-to-government advocacy.

5.2.1 Increased Demand for Contraceptives to Build Pressure for Change

The primary purpose of increasing demand for modern contraceptive methods in Uzbekistan is to improve the health of women of reproductive age. A commercial effect, however, may also be achieved by increasing demand for contraceptive products; increased consumer demand—and, therefore, increased opportunity for profitability—will encourage commercial sector importers to devote a larger percentage of whatever convertibility they have to purchasing contraceptives.

The second purpose of increasing demand is that increased demand for contraceptive products in an environment of limited supply leads to product shortages. (Contraceptive supply in Uzbekistan is limited by available hard currency and lack of donor support.) Shortages of necessary products, while seemingly extreme, can be effective in creating pressure for reform that will lead to increased, sustainable supply in the longer term. Such supply shortages may increase the impact of government-to-government lobbying for reform in currency conversion regulations. While the government has a two to three year supply of contraceptives (as it now does according to the Deputy Minister of Health for Pharmacology), it will probably feel no pressure for reform. Reduction in public sector stocks will increase the government's need for the private sector as a source of contraceptives.

The consultant specifically recommends the following:

- Continue the programmatic emphasis on provider and consumer education on the safety and personal benefits of hormonal contraceptive use,
- Increase the emphasis on advertising in specific sites where contraceptives are available for sale (for both retailers and consumers),
- Monitor contraceptive stock levels in the public and private sectors.

5.2.2 *Improved Liaison Between the United States Agency for International Development's Social and Market Transition Projects*

Despite the past levels of liaison among USAID's projects, it appears that renewed opportunities for sharing of information and priorities are needed. Some of the technical assistance and advice given to various agencies of the Government of Uzbekistan (GOU) by some of USAID's market transition projects (in legal reform, trade and investments, or commercial law, for example) may not have fully taken into account the social or health needs and objectives identified by USAID's social transition projects. By the same token, some social transition projects seem to be unaware of the regulations being developed with assistance from the market transition projects and of the information and/or advocacy opportunities offered by these market transition projects. Issues such as reduced VAT rates for pharmaceuticals and contraceptives, inconsistent implementation of regulations, excessive fees for licenses and certificates, and unwieldy importation processes can be or are already being addressed through the work of USAID's existing market transition projects.

Additionally, current policy and regulatory constraints in the commercial pharmaceutical and contraceptive sector cannot, in the opinion of the consultant, be addressed with full success unless one agency or contractor is made explicitly responsible for coordinating and initiating activities in this area. The consultant, therefore, specifically recommends the following:

- Identify one USAID contractor (perhaps Abt or SOMARC) to develop and implement a strategy and work plan to achieve policy and regulatory change that will resolve the constraints on the commercial pharmaceutical and contraceptive sector;
- Identify one USAID contractor (perhaps Abt or SOMARC) to advocate for the policy and regulatory needs of the commercial pharmaceutical sector—and specifically for contraceptive availability in the commercial sector—among other USAID projects that are providing relevant legal and regulatory technical assistance to the GOU;
- Implement a quarterly meeting of USAID's social and market transition projects to report on current activities, to identify policy and regulatory needs and concerns, and to collaborate where possible, to achieve USAID's goals; and
- Identify one USAID contractor (perhaps ABA through an "information coordinator") to alert (while there is still opportunity for comment and input) all USAID-funded agencies and contractors to developing legislation and to circulate copies of all new legislation to each USAID's Cooperating Agencies (CAs).

5.2.3 Identification of Influentials Supportive of the Women's Reproductive Health Program

In an environment where NGOs have little or no ability to advocate for change, influential individuals appear especially important in the reform process. In Uzbekistan, a member of the advisory board of the Red Apple Project, for example, also sits on the Board of Directors of the Future Healthy Generation Fund. This fund is sponsored by the President's wife. Such personal connections may be useful in advocating for change in areas of mutual concern among influential individuals.

5.2.4 Implementation of Government-to-Government Advocacy

While government-to-government advocacy has not proved to be especially effective in working with Uzbekistan's present regime (See Section 3), pressure for reform at higher levels of the government needs to be maintained to support efforts for reform at other levels and through other channels. Depending on its policy priorities and decisions, USAID management may decide to present selected constraints that are of the most concern to the Ambassador or other appropriate high level official for discussion on a government-to-government level. The consultant recommends that USAID consider the impact of limited access to currency conversion and the likely impact of the VAT on affordability of pharmaceuticals and contraceptives as such constraints.

The cost of widespread inconsistency or corruption in the regulatory system to overall development of the national economy should, perhaps, be discussed at this level also.

APPENDICES

APPENDIX A

Scope of Work

Evaluation of Reproductive Health Services Expansion Program

M/OP/ENI is requested to extend POPTECH Delivery Order CCP-3024-Q-10-3012-00 Number 19 which was executed on September 30, 1995 by the ENI/OP Office to POPTECH for the amount of \$126,259 for the purpose of conducting an Evaluation of the Reproductive Health Services Expansion Program (RHSEP) for Central Asia. The estimated completion date for the order is December 31, 1996. The order is funded under the ENI Health Services Improvement Project 110-0004. The PACD for 110-0004 is December 31, 1998. It is requested that the DO be extended to December 31, 1997. This evaluation originally planned for the RHSEP, in the Fall of 1996 was postponed and the scope of work modified to better reflect the current needs of the reproductive health program in Central Asia. The results of this evaluation will help the mission better direct its earmark family planning funds.

I. Background: High rates of maternal morbidity and mortality among NIS women have been linked to a dependence on abortion for fertility control. The dependence on abortion is related to a distrust, both on the part of health providers and their clients, of modern contraceptive methods, based on previous experiences with poor quality intrauterine devices (IUDs) and side effects from high dosage estrogen oral contraceptives from the former USSR.

The Central Asian RHSEP Program was initiated in 1993 to reduce dependence on abortion for fertility control through the promotion of safe modern contraception. The recent DHS results indicate success. The RHSEP Program was designed to be implemented with active support from the mission through a team of 5 Global Population contractors, (AVSC, JHPIEGO, JHU/PCS, SOMARC and OPTIONS) providing short term assistance on a regular basis. MACRO is also carrying out DHS surveys in Kazakstan, Uzbekistan and Krygyzstan. The RHSEP is currently being implemented in the five republics of Central Asia: Kazakstan, Uzbekistan, Krygyzstan Republic, Turkmenistan and Tajikistan. Activities have focused on: technology updates and clinical contraceptive training; training of trainers; the development of modernized clinical delivery services; information, education and communication (IEC) programs in modern contraceptive technology for health providers and the public; reproductive health policy; surveys and contraceptive social marketing. The RHSEP model has also been followed in Ukraine, Russia and Moldova in developing Women's Reproductive Health Programs.

In 1995 an internal assessment of the RHSEP Central Asia program was carried out. Based on the results of the assessment, USAID/CAR would like to focus the scope of work of this evaluation on contraceptive social marketing program which is the main thrust of USAID/CAR's contraceptive reproductive health program. The social Marketing Program also contributes to

Mission's strategic objective in market transition and lessons learned from this evaluation will assist the Mission in developing its FY 1998 strategy for using family planning earmark funds.

II. Scope of Work:

The USAID/CAR (Almaty) FY 98 strategy for the RHSEP will focus exclusively on the contraceptive social marketing program in Kazakhstan and Uzbekistan, Kyrgyzstan, and Turkmenistan and on clinical contraceptive training and related activities in Tajikistan. In Krygyz Republic new activities will focus on integrating FP in health reform programs. While SOMARC has initiated some traditional social marketing activities in Central Asia eg: a product logo and related advertising, the almost complete lack of a private sector and general lack of business expertise in the CAR countries of the former USSR has required much more effort in developing the SOMARC programs than in other regions. CAR physicians and pharmacists, as well as their clients, were unfamiliar and suspicious of modern contraceptives particularly hormonal, based on their poor experience with products of the Soviet Era. A great deal of effort has been expended on the part of all the cooperating agencies working in the RHSEP to reach health professionals and the general public with the latest information on the health and safety aspects of modern contraceptives. Also in the CAR, pharmacists lacked the management and operational skills to manage a private business. SOMARC in conjunction with the OPTIONS Project (now closed) and the USAID funded ABT Health Reform Project has participated in training courses for pharmacists providing technical information and management skills for the private pharmaceutical sector. AVSC and JHPIEGO also part of the RHSEP team have provided training in contraceptive technology, clinical contraceptive skills and clinical services management for physicians in 33 training sites in the 5 CARs.

Further progress in contraceptive marketing in Central Asia is hindered by the lack of a legal and regulatory climate conducive to market expansion and the development of a viable commercial sector.

As time and funds are limited for SOMARC activities, USAID/CAR is anxious that SOMARC be able to progress to the next phase of activities to develop sustainable markets for contraceptives.

USAID/CAR has requested that the delivery order for the proposed evaluation be extended at no cost and that the scope of work be amended to reflect the current mission strategy and revised indicators and results. On this basis the proposed initial evaluation will be rapid assessments.

Assessment 1: The first assessment will be carried out in mid January, 1997. The purpose of this assessment is to evaluate the social marketing project in Kazakhstan, Uzbekistan and Kyrgyzstan. This assessment will require two consultants for about 14 days each with combined knowledge and skills in:

(1) familiarity with the USAID contraceptive or other social marketing programs; and

(2) commercial sector development in Central Asia, especially in Kazakhstan and Uzbekistan and Kyrgyzstan.

The SOMARC report will provide an overview of CAR SOMARC activities since 1994, on a country by country basis as well as overall for Central Asia, and overview of proposed workplans for 1997-98, and a full discussion of the constraints SOMARC currently faces in each country. The consultants will then develop a report which provides:

- (1) A review of achievements to date and how the current program contributes to the Mission's wider private sector objectives.
- (2) Identification of appropriate directions for USAID/CAR to undertake with SOMARC and CAR governments to alleviate constraints;
- (3) Immediate actions required to remove constraints to progress in developing the private pharmaceutical sector;
- (4) Identification of barriers that are currently either beyond the scope of USAID, the SOMARC Project or will continue to be a chronic problem;
- (5) Provide recommendations and an implementation plan for addressing the identified barriers.

Assessment 2: Once the achievements and constraints to the social marketing project has been identified, the second assessment will be carried out to provide the Mission with an update of the legislative environment and the potential for the commercial sector, especially in marketing of contraceptives, in Kazakhstan, Uzbekistan and Kyrgyzstan. This assessment which will be carried out in February 1997 for about 15 days will require expertise of one consultant with knowledge in legal and regulatory policies related to the imports and sales of pharmaceuticals, contraceptives and related items.

This assessment will focus on:

1. What are the legal and regulatory policies related to the promotion of contraceptive marketing in Kazakhstan, Uzbekistan and Kyrgyzstan?.
2. Do these policies and legal framework support commercial sector involvement? If so to what extent?.
3. What are the recommendations for addressing constraints imposed by these policies and legal frameworks?

III. Reporting Requirements

The Contractor shall be responsible for providing:

A draft of each assessment for Mission review, an edited draft incorporating mission comments within 14 days after mission submits comments, and a final report.

IV. Time Line

The activities under this Delivery Order are expected to be completed by June 30,1997.

V. Projected Budget

Technical Assistance
Travel/PerDiem Other

Assessment 1-31 days x 2	\$68,204.00
Assessment 2-31 days x 1	\$34,100.00
(Average daily cost per day)	\$1,100.00
Communication/Materials	\$23,955.00
Logistics in the country	
Total	\$126,259.00

APPENDIX B

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APPENDIX C

List of Contacts (Midterm Evaluation of SOMARC's Projects in the Central Asian Republics)

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BRIF (Market Research-SOMARC subcontractor)

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Mr. Erlan R. Karimov, Deputy Director of Branch, Romat Pharmacy Company

Mr. Valeriy G. Smirnov, General Director, Astana-MedService

NGOs

Ms. Zuriat Sybankulova, Director, Pharmacists Association

Ms. Alevtina Shalamova, Deputy Director, Pharmacists Association

Owners/Operators of Retail Pharmacies

Visits were made to seven pharmacies in locations throughout Almaty

Red Apple Project Evaluation Team

Dr. Rita Leavell, Consultant, Team Lead

Mr. Richard Pollard, Consultant, Team Member

List of Contacts
(The Legal and Regulatory Environment
for Contraceptive Marketing
in the Commercial Sector: Uzbekistan)

USAID

Mr. David Mandel, Country Representative

U.S. Embassy

John D. Breidenstine, Senior Commercial Officer, The Commercial Service

Ministry of Health

Deputy Minister for Pharmacology

Dori-Darmon State Joint Stock Association

Mr. Mansur H. Isaev, First Deputy Chairman of the Board

USAID-Funded Projects

Mr. William Klawonn, WTO Attorney, Booz Allen and Hamilton, Trade and Investment Project

Mr. Robert Hilgen, Direct Tax Advisor, Barents Group, Tax Reform Project

Mr. John Fordyce, Indirect Tax Advisor, Barents Group, Tax Reform Project

Mr. Victor Aronow, Attorney, American Bar Association CEELI Project

Ms. Elena Kim, Legal Assistant, American Bar Association CEELI Project

Ms. Margarita Gokun Silver, Country Manager, SOMARC/Red Apple Project

Pharmaceutical Importers

Ms. Munira J. Qorieva, General Director, Jurabek

Owner, Samarkand Importer

Owner, Landel Company

Nicolas Mechtcheriakov, Country Representative, Innotech

Pharmacy Owners and Managers

Abdullah Kore Pharmacy

Iben Sima Company Pharmacy

Dori-Darmon Pharmacy #150

Eid Medical Joint Venture Pharmacy

Dr. Reddy's Laboratories, Ltd.

Iverson Pharmacy

Dori-Darmon Pharmacy #40

Others

Mr. Georgiy I. Petrunin, Vice-President on Legal Matters, International Law Consulting Firm
FICON

Red Apple Project Evaluation Team

Dr. Rita Leavell, Consultant, Team Leader

Mr. Richard Pollard, Consultant, Team Member

APPENDIX D

SOMARC/CAR Budget and Expenditures to October 1996 (US\$)

1. In-country Expenditures by Country									
	Training	Advertising	PR	Research	Distribution	Office	Total	Unspent	Budget
Kazakstan	53,866	139,043	151,893	53,905	15,000	36,382	450,089		
Uzbekistan	76,624	30,747	26,878	20,625		4,800	159,674		
Kyrgystan	40,013						40,013		
TOTAL	170,503	169,790	178,771	74,530	15,000	41,182	649,776		
2. Other In-country Expenditures									
Subcontractor D.A. ODC							36,273		
Subcontract T.Baugh							35,648		
Travel							605,561		
Equipment and Supplies							47,386		
Other Direct Costs							172,561		
Subtotal							897,429		
TOTAL IN-COUNTRY EXPENDITURES							1,547,205	769,985	2,317,190
3. Labor (The Futures Group and consultants)							1,900,277	1,037,308	2,937,585
COMBINED TOTAL							3,447,482	1,807,239	5,254,775
							66%	34%	100%

Source: The Futures Group

No detailed discussions on the budget were possible during this evaluation. The above data is the latest made available; however, the Futures Group reported that budgets had been largely expended by December 31, 1996.

Appendix E available in hard copy only

APPENDIX F

Kazakhstan's Customs Classifications and Fee Schedules

Table A.1

Customs Fees

Type of Payment	Rate for Services Rendered in customs value or in ECU
Levy for customs processing of goods transferred through the customs boundary by legal and natural persons	0.2%
Levy for customs processing of goods and vehicles outside designated areas and/or outside working hours of customs bodies	.4%
Levy for storage of goods in warehouses established by customs bodies for temporary storage	0.04 ECU Per 1 kg gross per day
Levy for storage of vehicles transferred as goods	3 ECU per unit per day
Levy for storage of goods in customs warehouses established by customs bodies	0.02 ECU per 1 kg gross per day
Levy for storage in specially-adapted premises (with use of specific equipment, establishing special temperature regime, etc.)	0.03 ECU per 1 kg gross per day
Levy for Customs' accompaniment of goods outside the zone of activities of customs administration	100 ECU
Levy for Customs' accompaniment of goods outside the zone of activities of customs administration	200 ECU
Levy for information and consultation	5 ECU

Source: Government Resolution 1061 (August 28, 1996).

Table A.2

Goods Subject to Excise Tax

Tariff Code	Goods	Import Rate
2207, 2208, or 2905	All alcohol	3.5 ECU/L
2207, 2208, or 2905	Liqueurs and vodka products	3.0 ECU/L
2207, 2208, or 2905	Vodka	3.0 ECU/L
2207, 2208, or 2905	Fortified drinks, juices, and balsam	3.0 ECU/L
2204 (except 2204.30), 2205, or 2206	Wine	0.8 ECU/L
2207, 2208, or 2905	Cognac	3.0 ECU/L
2204 (except 2204.30), 2205, or 2206	Champagne	0.8 ECU/L
2203	Beer	.02 ECU/L
2204 (except 2204.30), 2205, or 2206	Wine-making ingredients	0.8 ECU/L
2402	Tobacco products and other products containing tobacco	2.0 ECU per 1000 units
0301, 0302, 0303, 0304, 0305, or 1604	Sturgeon and salmon, their roe, and delicacies made therefrom	100%
7113, 7102.39000, 7114, 7115	Gold, platinum, or silver jewelry	40%
From 4301-4303, 650692000	Cured and non-cured furskins (except mole, rabbit, dog, deer, and sheepskins)	50%
From 4301-4303, 650692000	Wearing apparel made of natural fur (except mole, rabbit, dog, deer, and sheep)	50%
From 4301-4303, 650692000	Overcoats, short coats, jackets and mantles with decoration made from fur (except mole, rabbit, dog, deer, and sheep)	50%
From 420310000	Clothing made of natural leather	50%
From 701321, 701331, 701391, 940510500	Objects made of crystal, including lighting appliances	50%
From 2709	Cruel oil	7 ECU per ton
From 271000610, 271000650, 271000690	Diesel fuel	6 ECU per ton
From 271000330, 271000350	Gasoline (other than aviation gasoline)	31 ECU per ton
870321-870324, 870331-870333	Passenger automobiles	10-25%
870321900, 870322900, 870323900, 870324900, 870331900, 870332900, 870333900	Passenger automobiles (more than 10 years old)	20-50%
870421, 870431	Lorries with a carrying capacity under 1.25 ton	15%
870421390, 870421990, 870431390, 870431990	Lorries with a carrying capacity under 1.25 ton (more than 10 years old)	30%
From 9303, 9304, 9305	Firearms and gas weapons (other than those for the needs of State agencies)	40%

Source: Government Resolutions 1747 (December 31, 1996), 1748 (December 31, 1996).

Table A.3

List of Goods, Import Whereof Shall Be Carried Out Under License

Name of Goods	Code of Commodity Nomenclature	The Ministries and Departments Whose Prior Approval is Required
Chemical agents for plant protection	3808 (only preparation for plant protection)	Ministry of Agriculture, Ministry of Ecology and Bio-Resources
Pharmaceuticals, medical equipment	2936-2939, 2941, 3001-3004, 3006, 9013, 9018-9022	Ministry of Health Protection
Pharmaceuticals for veterinary purposes and veterinary equipment	2936-2939, 2941, 3001-3006, 9018-9022	Ministry of Agriculture
Narcotics and psychotropic agents, venom	According to the List Defined by the Government of the Republic of Kazakhstan	Ministry of Health Protection, Ministry of Ecology and Bio-Resources
Enciphering devices (including enciphering equipment, parts for enciphering equipment and software for enciphering), instructive and technical documentation relating to enciphering devices (including both design and maintenance)	8471 (only enciphering equipment), 847330000, (only to enciphering equipment), 854390900 (only for enciphering equipment)	CNS, State Technical Commission of the Republic of Kazakhstan on the Protection of Information
Devices for protection from combat poisonous substances, components and accessories therefor	According to the List Defined by the Government of the Republic of Kazakhstan	Ministry of Defense
Instructive documentation relating to products of military designation (design and operation)		Ministry of Defense, State Technical Commission of the Republic of Kazakhstan on the Protection of Information
Powder, explosive devices and pyrotechnics	360100000 (except for hunting powder) 360200000, 3606, 3604	Ministry of Internal Affairs
Industrial waste	2618-2620, 3915	Ministry of Ecology and Bio-Resources
Opium Raw Material	1211909	Ministry of Health Protection
Service and civil armaments	According to the List Defined by the Government of the Republic of Kazakhstan	Ministry of Internal Affairs
Special technical devices intended for performance of special operative and investigation efforts, devices for protection of information, other devices of double application (including parts thereto, software), instructive and technical documentation relating to special technical devices (including both design and maintenance)	8301, 8517, 8518, 8520, 8521, 8525, 8526, 8527, 8528, 8531, 9013, 9022 (only special technical devices, devices for protection of information and other devices of double destiny) 8529, 8543 (only for special technical devices)	Committee for National Security

Table A.4

List of Goods, Import Whereof Shall be Carried Out with the Permission of the Government of the Republic of Kazakstan

Name of Goods	Code of Commodity Nomenclature
Armaments and military equipment, special components for their manufacture, works and services in the sphere of military technology collaboration	871000000, 8802 (except for 880211100, 880212100, 880220100, 880230100, 880240100), 8803 (except for 880310100, 880320100, 880330100, 880390910), 880400000, (only the military designation), 8805 (except for 880520100, 890600100, 930100000, 930200, 9305 (only to combat arms), 9306 (except for 930610000, 930629100, 930629200, 930629100, 930629200, 930629400, 930630910, 930630930, 901310000 (only the military designation), 901320000 (only the military designation), 901380000 (only the military designation), 9014 (only the military designation), 8525 (only the military designation), 8526 (only the military designation)
Nuclear materials, technologies, equipment and installations, special non-nuclear materials, sources of radioactive radiation, including radioactive waste	2612, 2844, 2845, 380110000 (only nuclear pure graphite), 8401

**Although not noted in the summaries, the current fee for obtaining a license for the importation of pharmaceuticals from the Ministry of Industry and Trade (MIT) is 20 times the "monthly evaluation index" or about 11,000 tenge currently. Resolution No. 1127 (April 16, 1995). In order to obtain a license from MIT, the importer must first obtain an approval from the Ministry of Health Protection. The USAID Trade and Investment Project was advised on 20 February 1997 by a representative of that ministry that a fee of US\$13 is charged for such approvals. The project was not able to confirm the legislative basis for this fee.

Appendices G and H available in hard copy only