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PHARMACEUTICAL REFORMS IN UZBEKISTAN

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1.0 SUMMARY

Dr. Peter Hauslohner, Senior Political Economist and Drug Policy Specialist at Abt Associates Inc., visited Tashkent, Uzbekistan, February 19–March 2, 1995, under the auspices of the Health Financing and Service Delivery Reform Project (*ZdravReform*). Dr. Hauslohner's Scope of Work was: (1) to analyze recent reforms in the pharmaceutical industry of Uzbekistan; and (2) to identify possible follow-on activities in support of those reforms already instituted that might be conducted under *ZdravReform*. In addition, Dr. Hauslohner took part in a World Bank "project identification" Mission that visited Tashkent at the same time in the hope of reaching agreement with the Government of Uzbekistan on a possible \$US50 million loan to that country's health sector.

A detailed description and assessment of the pharmaceutical reforms in Uzbekistan is contained in Section 2.0 of this report; Section 3.0 presents a summary of the goals and results of the World Bank Mission, and in Section 4.0, possible follow-up activities under *ZdravReform* are presented and discussed. This report is based on a series of interviews with leading officials and other informants, which are listed in Annex A, and an extensive body of documentary material described in Annex B.

Following are the principal findings of the assessment of Uzbekistan's pharmaceutical reforms:

- Significant reforms have been instituted, most strikingly in pharmaceutical distribution, less so in production and regulation, and Uzbekistan appears to be significantly ahead of Kazakhstan in these respects. Particularly in the pharmacy sector, the Government of Uzbekistan has acted more quickly, more decisively, and often more creatively than its counterpart in Almaty.
- More than 2,200 pharmacies have been privatized, although not by auction, and most are reported to operate with considerable independence. Prices have been freed for all but twenty very basic medicines and supplies; and the Government has instituted a variety of mechanisms to bolster the short-term financial condition of privatized pharmacies, including small loans and temporary tax relief.
- The Government also has begun to pare back its package of formal drug entitlements and may be the first of the NIS governments actually to eliminate a population category (children under the age of three) previously entitled to receive drugs free-of-charge.
- However, many of the reforms instituted thus far must be judged as "suboptimal," particularly if viewed as end-results rather than as steps in an ongoing transition. Manufacturing has been spun off from the Ministry of Health and commercialized, but it remains a state-controlled monopoly. Pharmacies were privatized according to constantly changing, *ad hoc* procedures designed mainly to prevent subsequent closures and unemployment, which has resulted in an industry that is probably too large and whose long-term financial prospects appear poor. Most serious, the

parastatal successor to the state monopoly distributor retains considerable *de facto* control over the pharmacy sector and the potential to severely stunt its future development.

Following are the principal results of the World Bank Mission:

- The likelihood of a project and its magnitude remain uncertain, owing particularly to the reluctance of the Government of Uzbekistan to borrow for investment in nonrevenue producing activities such as health management and financing reforms.
- The Mission also encountered a series of practical obstacles in its discussions with the Government, including: the unavailability of, or a reluctance to provide, key data; poor communications between ministries and difficulty in reaching intragovernmental consensus on key issues; and a serious lack of understanding of the Bank's standard lending and procurement rules. These factors all complicated the Mission's work and suggest the project is unlikely to be approved and implemented as rapidly as the Bank's timetable envisaged at the time.

2.0 PHARMACEUTICAL REFORMS

Before Uzbekistan achieved its independence, pharmaceuticals were supplied (as elsewhere in the former Soviet Union) exclusively by the government, and prices were strictly controlled. For many patients, drugs were provided free of charge or were heavily subsidized. Uzbekistan's domestic production of pharmaceuticals was very limited, accounting for no more than 5–10 percent of the domestic consumption of medicines. Approximately three-fourths of imports were supplied by other republics of the former Soviet Union.

Following the breakup of the Soviet Union, the supply of pharmaceuticals deteriorated markedly, leading to significant shortages. Increasingly, imports of medicines have had to be paid for in hard currency, which has seriously complicated procurement, even from other parts of the former Soviet Union. The Ministry of Health estimates that by 1994, as little as 25–30 percent of the population's estimated pharmaceutical "needs" were being met.

The vaccine situation became particularly critical. In 1993 two million children were not immunized, which led to a sharp increase in Uzbekistan in morbidity of poliomyelitis and diphtheria. The Ministry of Health has received donor grants for pharmaceuticals, including emergency relief for vaccines. For a time, there reportedly were problems with quality and reliability of supply, but these apparently are being resolved. According to one source, the Government of Japan has agreed to supply, free of charge, all needed basic childhood vaccines for the next five years (through 1998), although this could not be confirmed.

Since mid-1993, major policy reforms have been instituted in the production, procurement, distribution, regulation, and sale of pharmaceuticals. Most sources report that availability of drugs

has been improving as a result. Also, the European Union in September 1994 agreed to provide a credit worth \$US68 million for the purchase of medicines, which is expected to further ease supply difficulties. The Ministry of Health now estimates that up to 45 percent of the population's drug needs are being met and expects the situation to continue to improve. The following sections examine the Government's reforms in greater detail.

The Pharmacy Sector

With respect to the distribution of pharmaceuticals, the Government's main goal has been to destatize and privatize a substantial portion of the existing pharmacy network. In 1994 the state monopoly previously in charge of pharmaceutical procurement and distribution in Uzbekistan (Uzbek "Farmatsiya") was transformed into a joint-stock association, "Dori-Darmon"; it remains by far the largest wholesaler/distributor of pharmaceuticals in Uzbekistan but now operates on a commercialized basis. Formally, only 35 percent of the shares of Dori-Darmon are supposed to remain in the Government's hands; another 35 percent are to be allocated to employees; and the remaining 30 percent are to be auctioned off to individual or institutional investors. However, critics allege it has been difficult to find buyers for the third portion of shares, and while we were unable to obtain concrete ownership data, it appears that *de facto* the Government continues to own a solidly controlling position in the association. The extent of Dori-Darmon's continuing influence over the pharmacy network will be examined below in Section 2.24.

At the local level, reforms have gone considerably further. The regional (oblast) divisions of the old Farmatsiya also were transformed into independent, commercialized joint-stock companies, although all are still affiliated with Dori-Darmon. In addition, nearly all of the approximately 2,200 community or retail pharmacies in Uzbekistan have been privatized: either as sole or family-owned proprietorships; or as "collective" enterprises owned by the employees themselves.

- Approximately 325 hospital, "specialized" and other pharmacies have not been privatized and apparently continue to be administered by the respective regional divisions of Dori-Darmon.

Initially, it was planned that employee-owned pharmacies would outnumber sole proprietorships by slightly more than 3:1. In practice, sole and/or family proprietorships have turned out to be substantially more popular and currently account for just under half (1,031) of all privatized pharmacies. Mansur Isayev, Dori-Darmon's First Deputy Chairman, expects this number will continue to grow. Isayev and the Ministry of Health agree that, in addition, about 300 "small enterprises" have so far been licensed by the Ministry to buy and sell drugs.

Private and privatized pharmacies also were permitted to set their own prices without restriction, although subsequently the Government reintroduced price controls for a small list of twenty very basic medicines and supplies, labeled items of "First Necessity," which all pharmacies, regardless of ownership, are required to stock. The list includes, for example: aspirin, nitroglycerine, and simple bandages. The price subsidy for these twenty items is financed by a special "price regulation

fund" managed by Dori-Darmon and funded mostly out of turnover revenues earned by the association's regional divisions on sales to pharmacies. The rules governing this fund also specify several other sources of funding, including charitable contributions.

The cost of the subsidy is evidently very small, probably no more than 0.25 percent of total retail drug sales.¹ At the same time, prices for these items are constantly under review, and in at least one important case—*aspirin*—the controlled price recently was doubled. Officially, the main reason for the controls is to keep "first necessity" goods accessible to at least the majority of the population, although not, Isayev made clear, at an intolerable cost to Dori-Darmon. Another, related goal, according to Isayev, is to exert some price restraint on those private pharmacies outside of Dori-Darmon's control.

A proper evaluation of the reforms in the pharmacy sector would require considerably more evidence than we were able to collect during our relatively brief stay in Tashkent and, in particular, good financial and survey data obtained at the grass roots. Some useful things can be said, however, with respect to four key questions: (i) the procedures used to privatize the pharmacies; (ii) the current state of pharmacy finances; (iii) the extent of Dori-Darmon's continuing control over the sector and its capacity to interfere with private sector growth in the future; and (iv) the impact of reforms thus far, particularly on the Government's health budget. However, before proceeding to these points, consideration needs to be given to the overall size of Uzbekistan's pharmaceutical market, which has a significant bearing on the discussion that will follow.

Size of the Domestic Market

We were unable to obtain any documentary data on the size of the pharmaceutical market in Uzbekistan—neither total sales, nor sales for any subcategory of product or market segment. However, Isayev did venture a guess that "total sales in the first quarter of 1995" would be about 250 million *som*. Depending on the exchange rate used—25 *som*/\$US1 was the current official rate, 35 *som*/\$US1 was the prevailing black market rate—and assuming equal sales over all four quarters, Isayev's figure implies average annual sales of between **\$US28.6 million** and **\$US40 million**, or a per capita figure of **\$US1.3–1.8**. While the latter figure seems too low on its face, Isayev may have been referring only to sales by the *retail* pharmacy network supervised by Dori-Darmon, but not the hospital sector which, in *normal* conditions, should comprise the largest portion of a country's pharmaceutical consumption, and probably not the sales of the 300 independent enterprises outside Dori-Darmon's supervision. If inpatient drug use is not included in Isayev's figure, and if we assume hospital consumption accounts for 70 percent of total national drug consumption in Uzbekistan (this is the percentage given for Kazakhstan by the local Ministry of Health), total annual drug consumption might be as much as **\$US95–133 million**, or **\$4.3–6.0** per capita. However, hospital sales throughout the NIS probably have declined faster than retail sales, because of state budget

¹ This number is based on: Isayev's estimate of size of the retail market, discussed in the next paragraph; and a rough guess by Bakhtiyer Khashimov, Dori-Darmon's chief accountant, that the total cost of the subsidy for August-December 1994 was about 1.1 million *som*.

constraints, in which case the last estimates would be seriously overstated. If inpatient drug use is not included in Isayev's estimate, and if hospital consumption accounts for 50 percent of total consumption (probably still too high), total annual consumption of medicines supplied by the Dori-Darmon system would be approximately **\$US57–80 million**, or **\$US2.6–3.6** per capita.

These calculations are offered mostly for the purpose of illustration and obviously should be treated with the greatest caution, given their weak and contingent empirical base. But they are not unreasonable on their face, in view of UNIDO's estimate that per capita drug consumption in 1993 for all of the former Soviet Union was approximately \$US8.5. At the same time, the figures, if even approximately correct, reveal how poor the supply situation is, or has become, since independence. For the sake of perspective, WHO estimated that per capita drug consumption in 1988, for all of Eastern Europe and the Soviet Union combined, was about \$US26.

The Privatization Process

Some observers outside of Uzbekistan have alleged that the privatizations were largely fraudulent—essentially a means by which the Government and/or Dori-Darmon were able to turn over state assets to cronies. By comparison, the small number of informants who were queried in Uzbekistan, including the local representative of Bristol-Myers Squibb (BMS), said it was their impression that most privatized pharmacies are genuinely independent, albeit heavily constrained by a number of factors, and not—at least not yet—under the control of "Mafia structures." There is no way presently to decide which of these assertions is the more accurate, nor are they necessarily at odds with one another.

What does seem clear is that the procedures used to privatize pharmacies were largely *ad hoc* and dominated by the desire to ensure there would be no sudden diminution of the population's access to drugs, due to closures, or large numbers of pharmacy workers left unemployed. Thus, instead of being sold by auction, pharmacies were privatized through "competitions (*konkursy*)," in which aspiring owners of a given pharmacy presented business plans to the employees who then either chose a winner or decided to retain collective ownership themselves. It is unclear, however, whether there were, or are even today, any uniform rules and standards regulating the process. The actual procedures and necessary documents were, according to Isayev, worked out by trial-and-error as the process proceeded, and thus there may well have been significant differences between regions and over time in the way the process worked.² In addition, it could not be explained how employees were compensated, if at all, in cases where sole ownership was established. Indeed, there may well have been no compensation, because two key restrictions protecting employees were, according to Isayev, imposed on the process overall: 1) a privatized pharmacy can "never" change its profile, i.e. cease to be a pharmacy, and 2) no staff can be fired. Isayev said necessary staff reductions had been implemented "before" privatization.

² When asked for written material on the process, Isayev pointed to several two-foot high stacks of papers on a shelf, which he described as his "file" on pharmacy privatization.

Pharmacy Finances

Although these procedures and restrictions would seem, on their face, sufficient to insure against quick closures of existing pharmacies and a sudden increase in unemployment, they also helped to ensure that most privatized pharmacies would find themselves in a weak financial position. Most of the new owners are unlikely to have much capital for investment (or to cover the inevitable fluctuations in current revenue); nor do they have much maneuvering room to alter their short-term costs and revenues. However, the Government has addressed the problem of pharmacy finances in a number of creative ways. First, the State Property Committee, *Goskomimushchesto* (GKI), has reportedly distributed 2.5 million *som* worth of loans to pharmacies to build up working capital, and Dori-Darmon expects this program to be renewed in 1995. Second, in November 1994 pharmacies were given several temporary tax benefits (good until 1 January 1996), including, a 50-percent reduction in income taxes and exemptions from all taxes and duties owed on commodity exports used to generate funds for the purchase of imported drugs, as well as relief from the required sale to the state of a portion of the hard currency earned on such sales. Third, also in November, UzFarmProm, the association of domestic manufacturers, was permitted to sell its own products to Dori-Darmon on consignment, and the volume of consignment deliveries has shot up since: from a few ten thousand *som* the first month, to an expected 3 million *som* in February 1995. Fourth, in August 1994 the Government instructed local authorities to make available to the regional divisions of Dori-Darmon a considerable amount of so-called decentralized funds, i.e. locally produced commodities, that Dori-Darmon could then sell or barter for drugs, while repaying local governments in *som* out of the profits subsequently earned on the sale of the drugs obtained in this manner.³ Fifth, the Government recently began to pare back the number of ambulatory patients entitled to receive drugs free of charge or at heavily subsidized rates from any pharmacy regardless of ownership—which begins to reduce the vulnerability of pharmacies to chronic late- or nonpayment by the underfinanced local health departments that are responsible for reimbursing pharmacies for the costs of these benefits.

The most serious constraint on the financial condition of the pharmacy sector as a whole—felt most acutely by drug wholesalers and distributors, and indirectly by retailers—arises from the current limitations on currency exchange and the ensuing severe shortages of hard currency, which has made procurement, even from other republics of the former Soviet Union, extremely difficult. Thus, macroeconomic stabilization and liberalization of the rules governing currency exchange are probably critical to assuring a fundamental improvement in the financial status of the pharmacy sector over the medium term.

Dori-Darmon's Continuing Influence

³ A total of 9.033 billion Russian rubles worth of "decentralized funds" was supposed to have been made available, then worth approximately \$US4.5 million or as much as 10-16 percent of annual retail sales.

Despite Dori-Darmon's formally "private" status, and despite the formal independence of its regional affiliates, it's clear that the successor to Farmatsiya remains very much an integrated, centralized operation in practice, with considerable ability to discriminate among retail (and hospital) pharmacies and thus great potential to hinder further private sector growth. The fact that the association is still *de facto* government-controlled is almost beside the point.

- Dori-Darmon remains by far the largest importer and distributor of pharmaceuticals and is certain to remain so for some time, particularly so long as there remain tight state controls on currency exchange.
- Even if nominally independent, Dori-Darmon's regional affiliates similarly are likely to have but one main supplier for the foreseeable future; while the regional warehouses these affiliates control give them a huge advantage over potential competitors and can be expected to serve as a formidable barrier to entry at the wholesale and retail levels.
- Apart from these structural advantages, Dori-Darmon and its regional affiliates have other sources of leverage to deploy against both competitors and noncompliant pharmacies. These include: administration of the price regulation fund for the twenty "first necessity" products; informal advice ("help" Isayev called it) given to GKI, regarding the distribution of small loans intended to support the working capital of private pharmacies; and ownership of the only quality control laboratories currently located outside Tashkent, which are required to test and certify all products before they can be sold.
- Finally, Dori-Darmon directs Uzbekistan's only drug information service, which (unlike the case in Kazakhstan) seems to have avoided staff or budget cuts, and on which pharmacists and physicians depend heavily for knowledge of new drugs, new information on old drugs, and so forth.

A number of developments already in the works could diminish Dori-Darmon's influence and potential ability to restrain trade. The Ministry of Health, for example, intends to assume responsibility for all regulatory functions, and a draft decree establishing the corresponding regulatory department within the Ministry reportedly has been approved by Minister Karimov and is said to be resting on President Karimov's desk, awaiting his signature. Uzbekistan's growing involvement with the International Monetary Fund and World Bank is likely to mean swiftly mounting pressure to liberalize currency exchange rules, which, in combination with the proliferation of private retailers, should facilitate the entry of new, independent suppliers to compete with Dori-Darmon. In the very largest markets, i.e. Tashkent, the association's dominance could erode fairly quickly, as appears to have happened in Almaty.

Nevertheless, in the short run and for as long as the retail pharmacy sector remains financially precarious, Dori-Darmon is likely to retain considerable influence, especially outside of Tashkent, and one can expect Dori-Darmon's officials to use their advantages to reward friends and punish enemies, and, in general, to obstruct possible competitors. The effect will be to increase costs, reduce efficiency, and discourage entry. In short, unless its influence is somehow limited, Dori-Darmon will itself serve as a growing barrier to the kind of price, product and service competition that privatization is supposed to bring.

Impact of the Reforms

As noted, most sources in and out of the Government of Uzbekistan seem convinced that supplies of pharmaceuticals recently have begun to improve, and that the reforms instituted in the pharmaceutical sector are mainly responsible. The Ministry of Health estimates, for example, that 40–45 percent of the population's drug "needs" are now being met, compared with a figure of 25–30 percent prior to the reforms. In addition, Dori-Darmon claims that the finances of the privatized pharmacy sector are presently sound: Isayev insisted that net debt is less than one percent of sales and that most individual pharmacies are financially healthy. However, none of these figures could be confirmed on the basis of documentary reports or other written material.

At the same time, rapidly rising prices, as well as numerous anecdotal reports, suggest strongly that the population's access to drugs probably has declined, possibly significantly, although there are no reliable price or household survey data that would confirm this conclusion either. Thus, more definitive findings on the impact of these reforms on the population will have to await the collection, or provision by the Government, of more solid evidence.

It seems likely that the reforms also have reduced the Government's budgetary costs somewhat, or at least what would otherwise have been the growth of these costs in the absence of reform, although it is, again, impossible to be certain in the absence of reliable aggregate financial data embracing all levels of the system and all institutions. On the other hand, the Government's continuing financial obligations in this area are substantial. Thus, all pharmaceuticals consumed in the course of treatment in hospitals still are to be dispensed free of charge, although hospital physicians recently were permitted to issue their patients prescriptions for drugs not in stock in the hospital pharmacy that patients and their families may purchase privately. Meanwhile, despite a new willingness to review public drug entitlements, noted above, the Government continues to maintain a long list of ambulatory patients entitled to receive needed drugs free of charge or at a significant discount.⁴ Finally, there are also the costs of the GKI loans and tax benefits mentioned earlier, although their impact on the Government's budget is likely quite small (albeit still unknown).

⁴ Very recently, "children up to the age of three" were eliminated from the list of beneficiaries. Instead, an added child payment provided through the Ministry of Social Welfare has been instituted to cover the loss of this benefit, which from a public finance standpoint is a decided improvement over the price subsidies offered previously, both in terms of efficiency and equity.

Privatization of the pharmacy sector and the consequent diversification of sources of financing should lead to the release of additional revenue for pharmaceutical procurement, and the claimed improvement in supplies appears to substantiate this expectation. Privatization also may better enable financially well-off patients to buy their drugs outside the state sector; this may allow at least a portion of the current cost of meeting these patients' needs to be shifted from the state budget to households. The resulting budgetary savings may be relatively small, however, given the presently very modest purchasing power of the majority of the population, although more information on actual household budgets and buying patterns is needed to confirm this and determine the amount of funds involved. More substantial savings are likely to be realized only as a result of: 1) a reduction in the overall volume of state-mandated benefits (e.g. by eliminating more benefits and by means-testing for eligibility); 2) a reduction in overall demand for benefits and increased cost recovery (e.g. by instituting nominal and/or carefully targeted co-payments); and 3) major changes in procurement and in prescribing patterns, particularly in hospitals (e.g. by instituting severely restricted and carefully managed formularies).

Pharmaceutical Manufacturing

With respect to production, the most important stated goal of the Government of Uzbekistan is to increase the domestic output of essential drugs, vaccines, and other medical supplies and thereby to decrease the country's dependence on imports. Presently, the domestic industry in Uzbekistan consists of one major chemical-pharmaceutical manufacturer, three scientific-research institutes each with some productive capacity, and a handful of small enterprises producing various auxiliary materials. In 1993 the industry was reorganized into a joint-stock company, UzFarmProm, which functions on a commercialized basis, although the government remains the owner of a controlling packet of shares. According to the chairman of UzFarmProm, Kabul Shadiyev, production and employment contracted by 20–30 percent but recently stabilized and may now be increasing. First-ever production of BCG and antityphus vaccine is reported to have begun at the Tashkent Institute of Vaccines and Serum.

The leaders of UzFarmProm have mapped out an ambitious development program and are aggressively seeking investment from all possible sources, including foreign investors and potential joint venture partners. However, there presently exist numerous obstacles to the attraction of such investment, including: macro-level factors (the lack of macroeconomic stability); structural factors (weak property rights, the incomplete privatization of UzFarmProm); and sectoral factors (incomplete reform of the distribution system, an underdeveloped regulatory system, and manufacturing practices that do not correspond to international standards). More fundamentally, it is presently very uncertain whether domestic production, even if technically feasible, can ever be economically feasible, owing to such factors as: the relatively small size of Uzbekistan's internal market for most pharmaceutical products; very serious uncertainties regarding export potential; and the relatively low price of many essential medicines available on the international market, particularly so-called generic medicines and basic vaccines. Before significant investments from private sources (domestic or foreign) can be expected, not only will existing macro-level, structural and sectoral obstacles have to be removed, the basic economic and technical feasibility of domestic

production, including the economic advantages of investment in such production over a continued reliance on imports, will have to be demonstrated clearly and decisively.

3.0 THE WORLD BANK MISSION

The purpose of the Bank's "project identification" Mission was: (1) to reach agreement with the Government of Uzbekistan on the main components of a health sector Project the Bank has offered to the Government, which is to be financed by a loan of up to \$US50 million and is tentatively scheduled for 1997; and (2) to design detailed Terms of Reference for an international consulting firm that will be hired to help the Government of Uzbekistan prepare the Project, work to be financed out of a \$US750,000 grant from the Government of Japan.

The Mission was led by Ms. Jeni Klugman from the Bank, who was joined by her colleagues: Mr. Robert Liebenthal (chief of the Human Resources Division for Russia and Central Asia), Mr. Michael Mills (Principal Economist), and Mr. Hjalte Sederlof (Senior Specialist on Health Management). Also participating in the Mission were: Ms. Kathy Langwell, KPMG Peat Marwick (Consultant on Health Financing); and Dr. Timmy Hetlund, World Health Organization (Consultant on the Basic Package of Medical Services).

The Mission was for the most part favorably impressed by the policy goals of the Ministry of Health, particularly its strong stated commitment of support for private sector growth, and by the generally high quality of the Ministry's senior officials. Also, significant progress appears to have been achieved in terms of privatizing health services, although it was difficult to assess the impact of various legislative acts (apart from the pharmacy sector) owing to a lack of good data and the inability of Mission members to visit sites outside of Tashkent.

- Besides pharmacy services, dentistry services have largely been privatized; many health facilities, including feldsher stations, have been permitted to provide "additional services" on a commercial basis; a law permitting private medical practices has been passed; and very recently, according to Ministry officials, clinical facilities were permitted to open up so-called commercial departments, evidently to provide on a fee-for-service basis services already being provided on a publicly-financed basis.

The Mission was likewise favorably impressed by the Health Ministry's initial selection of priorities for the Project: (1) design of a minimum package of health benefits, to be financed publicly and available to all citizens; (2) reform of the health management system; and (3) health financing reform, with particular emphasis on private sector development. Development of the pharmaceutical sector was identified as a secondary priority, perhaps because the production and distribution of medicines and vaccines are no longer the direct responsibility of the Ministry.

However, a few days into the Mission, the Ministry of Health was overruled by other organs in the Government, and assistance to the pharmaceutical sector became the leading component of the draft

Project prepared by the Bank's team. The main reason given for this reordering of priorities was the reluctance of the Government to borrow for investment in sectors promising no immediate return in revenue that could be used for repayment of the loan. Thus, the components of the revised Project were listed in the following order: (1) development of the pharmaceutical sector; (2) design and implementation of a minimum package of health services; and (3) health management reform and financing reform. The Mission proposed that assistance under the second and third components be concentrated in two regions (oblasts) to be selected jointly by the Government and the Bank.

Although considerable progress was achieved with respect to both of the Mission's primary goals, the team was unable to reach final agreement on the text of an Aide Memoire (defining the proposed Project and basic issues yet to be resolved) or of the draft Terms of Reference, before leaving Uzbekistan. It was hoped that agreement on the two documents would be reached by correspondence in the following 1–2 weeks, and this is in fact what transpired.

However, the likelihood of a Project and its magnitude appear very uncertain at this point. The proposed pharmaceutical sector component is likely to be scrutinized closely and skeptically within the Bank; and even if approved, spending on this component is likely to be small. On the other hand, the willingness of the Government of Uzbekistan to borrow for investment in the nonrevenue producing health sector, particularly in such areas as management and financing reform, remains equally in doubt.

The Mission also encountered a series of difficulties in its discussions with the Government, including: the unavailability of, or an unwillingness to provide, necessary data; poor communications between ministries and a poor ability to reach intragovernmental consensus on key points; and a serious lack of understanding of (and probable poor ability to implement) the Bank's standard lending and procurement rules. These difficulties all contributed to the Mission's failure to reach final agreement on the Aide Memoire and Terms of Reference; and they suggest the Project is unlikely to be ready for approval by the Bank in the Spring of 1996, as the Bank's current timetable envisages.

4.0 RECOMMENDATIONS FOR FOLLOW-UP ACTIVITIES

The pharmaceutical component of the project proposed by the Bank Mission consisted of three separate elements. Two of these elements involve health financing issues; would require a significant amount of technical assistance during project preparation; and therefore *might* be activities that *ZdravReform* could support.

Reduce The Budgetary Cost of Drug Benefits

One element proposed that a detailed assessment be undertaken of government-mandated and -financed pharmacy benefits, i.e. drugs dispensed without charge or at a subsidized rate, and that measures be designed to lower the fiscal cost of these services and to improve their delivery. Specific activities could include the following:

- assess the likely demand for government-mandated and -financed drugs (both physical volume and financial cost) in the next five years, based on current law, anticipated morbidity, and prevailing treatment patterns;
- review actual utilization of drugs by representative samples of patient groups (beneficiaries), including cost and therapeutic effectiveness, compared with utilization in other countries;
- assess current mechanisms for the finance and delivery of government-mandated benefits and develop means by which the budgetary cost of these benefits might be reduced. Such measures could include: a narrower and/or more carefully targeted package of basic services (minimum benefits); means-testing for some groups; partial cost recovery through co-payments; and restrictive formularies.

Strengthen Private Pharmacy Sector Finances

A second element proposed that a detailed assessment be undertaken of the current financial condition of the pharmacy sector, including both state-owned and private establishments, and that if necessary means be developed to bolster the finances of private pharmacies and to ensure that any competition between state-owned and private establishments is conducted on a "level playing field." Specific activities could involve the following:

- review the financial conditions and prospects of a representative sample of state- and privately owned pharmacies, including the cost and/or impact of: the required delivery of government-mandated drug benefits; mandatory stocking of items on the list of "first necessity"; current tax and other subsidy benefits provided to the pharmacy sector; and existing access to credit;
- design a new reimbursement mechanism for pharmacies that deliver government-mandated drug benefits; and develop other measures that could allow drug benefits to be delivered by private pharmacies on a contractual basis.

An Evaluation of Pharmacy Privatization

Another possible activity, not included in the World Bank project, would be to evaluate the impact of pharmacy privatization. The purpose of an evaluation would be twofold: 1) to aid the Government of Uzbekistan develop means of continuing and extending its program of rationalizing and privatizing pharmaceutical distribution; and 2) to develop evidence that would assist other governments in Central Asia to reform their pharmaceutical sectors. Although initial indications are that pharmacy privatization in Uzbekistan has resulted in improved availability of medicines, health professionals and ordinary consumers continue to voice concerns that privatization will lead to a

diminution in public access to needed medicines. In other countries in the region, this concern has been sufficient to stall needed reforms. An evaluation of the effects of privatization on (1) the economic viability of pharmacies, (2) the supply and prices of needed medicines, and (3) the level of satisfaction of physicians and patients could: bolster the government's confidence in the correctness of its policy, help to identify remaining (or new) problems, and assist the government in developing means of eliminating those problems, thus extending reform further.

Such an evaluation probably could be completed within three weeks by a three-person team consisting of a health/business economist, a pharmacist, and a survey design expert. Their scope of work might include the following:

- A seminar would be held at which representatives from the government and Dori-Darmon would present evidence on the effects of pharmacy privatization.
- A working group would be formed to develop means of measuring the impact of privatization on establishments, the overall supply/price of drugs in an oblast or city, and the success of physicians and patients in obtaining needed drugs. This will presentation of the idea of using "tracer lists" of drugs to measure supply and price, and provision of tracer lists developed for use elsewhere in the NIS.
- Concrete indicators and survey instruments would be developed and tested and approved by the working group, including tracer lists designed in accordance with local conditions.
- Samples of establishments, physicians and patients would be constructed, surveyors instructed, and the surveys implemented.
- The working group would be reconvened to analyze the results of these surveys and to develop recommendations on the basis of the results for further refining and extending pharmacy reforms.

The principal deliverable would be a set of specific recommendations to the Government of Uzbekistan and the USAID Regional Mission in Almaty concerning additional needed reforms and evidence on the benefits of privatization that could be shared with other Central Asian governments and audiences.

ANNEX A

INTERVIEWS

Group Meetings With Other Members of the World Bank Mission

S. Karimov, Minister of Health

A. Yarkulov, Deputy Minister of Health

M. Turtayev, Chief, Main Economic Administration, Ministry of Health

Ye. Rakhimov, Economic Advisor to the Minister of Health

Individual Meetings

B. Yuldashev, Deputy Minister of Health for Construction and Chairman of the Pharmacological Committee.

A. Yunuskhodzhayev, Deputy Chairman of the Pharmacological Committee.

K. Shadiyev, Chairman, State Joint-Stock Concern, UzFarmProm.

A. Ibragimov, UzFarmProm, Chief, Department for Development of Production.

K. Rakhmatullayev, General Director, State Joint-Stock Association, "Dori-Darmon."

M. Isayev, First Deputy General Director, "Dori-Darmon."

B. Khashimov, Chief Accountant, "Dori-Darmon."

J. Muratkhodzhayev, Regional Representative, Bristol-Myers Squibb.

Frederique Frenkel, Country Manager, The Futures Group.

Meeting At The U.S. Embassy, 2 March 1995

Ms. Sharon White, Deputy Chief of Mission

Mr. David Mandel, Country Director, USAID

ANNEX B

DOCUMENTARY MATERIAL

I. Government Decrees and Other Official Documents

- Decree of the Cabinet of Ministers of the Republic of Uzbekistan (RU), 11 March 1994, No. 132, "On Destatizing and Privatizing Pharmacy Facilities of the Ministry of Health (MOH) of the RU."
- Decree of the Cabinet of Ministers of the RU, 6 August 1994, No. 404, "On Urgent Measures For Improving the Supply and Distribution of Pharmaceutical Products and Medical Supplies in the Republic."
- Joint Ministry of Finance/Ministry of Health Instructions, 26 August 1994, "Temporary Rules on the Formation and Utilization of the Fund for Price Regulation in the State Share-Holding Association, "Dori-Darmon," For Reimbursing Price Differences For Medicines and Supplies of First Necessity."
- Order of the President of Uzbekistan, 8 November 1994, No. 404, "On Additional Measures For Filling the Internal Market with Pharmaceuticals and Medical Supplies."
- Instructions, Approved by the Minister of Health, 26 April 1994, "Registration and Approvals for Use of Pharmaceuticals and Medical Supplies in the Republic of Uzbekistan."
- *Express-Bulletin No. 1* (1995), "Medicines Registered, Re-registered and Permitted for Use in the Republic of Uzbekistan," issued by the Pharmacological Committee of the MOH, RU.

II. Unofficial Documents and Nonpapers

- Ministry of Health Report on "The State of Health in the Republic of Uzbekistan and the Main Directions of State Policy in the Field of Health" (undated but apparently very recent).
- Detailed Information on Current and Planned Production, Planned Investment Projects, and Anticipated Personnel Needs of UzFarmProm, prepared by Mr. A. Ibragimov, Chief, Department for the Development of Production, UzFarmProm, 24 February 1995.

- List of Patients Entitled to Receive Pharmaceuticals Free or at Subsidized (50%, 80%) Rates; based on Annex 2, Cabinet of Ministers decree of 8 January 1993, No. 15.
- Informal Note describing Pharmacological Committee of the MOH, RU, dated 21 February 1995. [According to a hand-written note at the bottom, this information was prepared for First Deputy Minister of Health, Sultanov, to be given at a meeting in Geneva, 30–31 March.]
- Informal Organization Chart of the proposed new Main Administration for Quality Control and Standardization of Medicines and Medical Devices, provided by the MOH, RU.