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Logistics Brief

Malawi: Turning System Support into System Strengthening

USAID | DELIVER PROJECT 2009

RTT and CML staff loading essential medicine kits into leased RTT vehicles in Malawi for the first delivery run in 2012.

"I want Central Medical Stores to run like CML and RTT. I can see what is available in the store, have access when I want it and get the delivery schedule within 10 days of specifying the delivery targets."

–Doreen, National Malaria Control Program

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In 2011, the Government of Malawi (GoM) approached the donor community for help in addressing the widespread shortages of essential medicines in health facilities throughout the country. The governments of the United Kingdom, Norway, and Germany gave the GoM a grant of U.S.$33 million to procure essential medicines and supplies in the form of kits. UNICEF procured the essential medicine kits and the USAID | DELIVER PROJECT (the project) distributed them to health facilities. To ensure the kits were consistently distributed each month in a secure and accountable way, the donors and the GoM agreed to use the project to manage a private-sector, outsourced storage and distribution solution—the parallel supply chain (PSC). In January 2012, the first shipment of kits arrived in Malawi and was distributed the same month. The PSC has consistently delivered on supply chain performance, visibility, and accountability, providing oversight and contract management of the private-sector partners responsible for storage and distribution. Contracting with Imperial Health Sciences (formerly known as RTT) and Cargo Management Limited (CML)—the local freight and logistics company—the project has helped raise the standard of private-sector logistics services. CML can now offer the health sector higher quality, more sustainable, and more efficient supply chain service.

Breakdown in the Public-Sector Supply Chain

In 2007, the project subcontracted Central Medical Stores (CMS) to distribute malaria commodities in Malawi. As time went on, the CMS was increasingly unable to guarantee the secure delivery of these commodities. This was highlighted by their inability to prove they had completed deliveries to health facilities. In December 2010 USAID and the project decided to look for alternatives to ensure product availability and accountability.

Establishing the PSC

As an alternative to CMS and at the behest of USAID, the project launched a competitive tender and subcontracted a local warehouse and transport company—CML—to manage PSC warehousing and in-country distribution. CML was selected because its capabilities were comparable and competitive with other local logistics firms and they met the project's requirements. However, as donor expectations increased and business requirements grew, CML was faced with increased pressure to meet these expectations, but its capacity had a limit and it was operating at this limit.

Private Sector Support
Donors interested in alternative supply chains to handle their commodities demand state-of-the-art world class logistics management, infrastructure, and systems to ensure visibility and security. In many developing countries, private-sector logistics capacity is far from best-in-class. A concerted effort is needed to help the private sector upgrade to meet donor expectations for supply chain service delivery.

In a strong, growing economy like South Africa's, supply chain capacity is seen as a competitive advantage. Logistics firms compete against each other by making investments to improve the quality of service and reducing costs in order to survive market pressures. The strong, private pharmaceutical sector has fostered multiple private-sector supply channels used by the public sector. This pattern of public utilization of private supply chain assets is becoming increasingly possible as economies develop and as the growing middle class demand access to alternative supply sources for pharmaceuticals.

In contrast, Malawi's economy is less developed; there is a smaller private pharmaceutical distribution sector; and few, if any, logistics companies cater to the pharmaceutical sector. Logistics companies tend to provide services to the agricultural, construction, and mining sectors; they use flat-bed trucks for transport and use bulk storage for commodities. Because of this local gap, donors turned to the private sector outside of the country.

Changing CML Business Operations

As the volume of commodities increased (including for essential medicine kits), CML's warehouse capacity proved to be inadequate. CML needed to adjust its business practices. The decision was made to bring in a project partner from South Africa—Imperial Health Sciences—to establish a pharma-compliant warehousing operation, and to work with CML to increase their distribution capacity. The warehousing function was moved from CML to Imperial, which put in place a warehousing operation that met international standards, including a high-level warehouse management system for inventory management. This enabled CML to concentrate on transportation, its core competency.

CML 2012

CML loads a hired boat to deliver commodities to an island, demonstrating the commitment of the USAID | DELIVER PROJECT to last mile distribution.

To facilitate the necessary changes, the project provided ongoing technical assistance to CML. They were responsive to support and recognized the need to improve their performance. As a result, CML made the necessary investments and organizational changes. To better understand international industry standards, CML funded a study tour to visit transport companies in South Africa. In addition, CML invested its own finances to increase the number of staff and fleets resources. This resulted in CML buying a $50,000 routing and scheduling software solution, with a $7,000 annual maintenance cost. These investments increased after CML's purchase of 15 vehicles, increasing their capacity six-fold. They established a transport department, including four dedicated staff. The routing and

scheduling program has been implemented to automate delivery runs. CML developed comprehensive standard operating procedures (SOPs), key performance indicators (KPIs), and established a deliberate vehicle maintenance plan. Building CML's capacity resulted in significantly reducing costs for donor clients, without compromising the company's viability.

Key Performance Indicators

Description	Nov 2011	Sept 2012
Vehicle utilisation (use of fleet and vehicle space)	Not measured, estimate to have been about 50%	80-90%
On-time delivery	Not measured	47% on planned day; 99% within 2 days of plan (Dec 2012 targets: 80% on planned day; 100% within 2 days of plan)
Fuel consumption	Not measured	Around 5.0 kms/L (target: 6)
Vehicle days lost	Not measured, but significant due to fuel, rain and breakdowns i.e. 20 per month	Currently zero
Transportation by non-CML vehicles	Not measured	Currently reduced to 30% (Target: < 20%)

The company developed SOPs and trained staff to manage all the processes in the transport department—from chain of custody to loading and handover. These include—

- driver and distribution checklist, including chain of custody procedures
- driver debrief
- handling of proof of deliveries
- vehicle security
- obtaining fuel
- managing KPIs.

The final step to ensure the successful operation of the PSC focused on improving communication between the project and CML. Before September 2011, meetings had no fixed agenda or action items, and they did not use KPIs for reporting. A year later, weekly operations meetings had a pre-set agenda, CML transport staff members were housed at the same premises as Imperial, and at a tri-weekly meeting they were able to examine all operational aspects. These changes significantly enhanced the trust and partnership.

CML has shifted from a warehousing company, with some transportation focus, to a professional transport operation. The company can now manage larger volumes, with improved measurable management performance; and they provide better customer service at a lower unit cost.

Lessons Learned

Supply chain professionals stress the need for collaboration, communication, visibility, and trust between partners. While contractual relationships govern the use of third party logistics providers (3PL) like CML, a close working relationship is needed to ensure trust is established and opportunities for improving the quality of service and reducing costs are identified. These cost savings are passed on to donors, allowing more products to be delivered.

CML 2012

CML staff off-loading a delivery to St. Mary's.

In less-developed economies, market forces may not be strong enough to create the necessary private-sector capacity to deliver the pharmaceutical products to the service delivery points as expected by donors. Working with private partners through technical assistance and collaborative contract management can foster and increase the capacity of 3PLs to the point where they are self-sustaining and can respond to the demands of multiple sectors.

Greater certainty about donor commitments and a longer-term plan are also necessary to encourage private investment in transport fleets and storage facilities. In the absence of alternative uses for supply chain assets, investments cannot be justified, unless there is visibility into funding, over a longer time period.

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