

# USING PRIVATE SECTOR FIRMS FOR OUTSOURCED TRANSPORTATION IN PUBLIC HEALTH SYSTEMS

## VillageReach Technical Note



## Introduction

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This technical brief has been developed to share lessons learned from increasing private sector participation in public health supply chains. VillageReach is supporting Governments to work with private sector logistics firms with a focus on transportation of health commodities from provincial/district level to health facilities in the DRC, Malawi and Mozambique. Outsourced transport using transport management firms has been implemented on a national scale in Mozambique after introducing the use of private transporters in Tete province between 2015-2018 with funding from the Vitol Foundation. In 2018 the Ministry of Health (MoH), with support from VillageReach and funded by USAID, launched the use of transport management firms in Zambézia province through the Last Mile Supply Chain program. As of early 2021, two transport management firms (Bolloré Transport & Logistics and Agility) managed a number of transporters across 10 provinces, delivering medicines, vaccines and medical supplies to over 600 health facilities and improving medicine and vaccine availability through regular deliveries supported by an electronic proof of delivery system. More information on the Mozambique implementation can be found [here](#).

### **WHAT IS NEEDED TO MANAGE TRANSPORTATION IN PUBLIC HEALTH SUPPLY CHAINS?**

Health Facilities need to receive regular on-time, in-full shipments with products transported following medical standards for shipping and handling. In order to work well and be cost effective, many management activities are required, including: Defining service requirements and standard operating procedures; identifying optimal transportation routes; setting performance targets for delivery duration, times and cost; identifying and contracting transporters; training drivers and delivery personnel to meet medical standards; maintaining technology (vehicle tracking, proof of delivery etc.); gathering delivery data and evaluating performance; defining and managing performance improvement plans; managing and paying supplier invoices. Government can either perform these activities internally or outsource to private sector firms.

**Private sector engagement options:** Assuming Government has decided to outsource, it has two major options when it comes to working with the private sector. These options determine which management activities will be conducted by government versus the private sector. One option is for government to contract directly with companies whose main activity is to provide transportation. These firms are often referred to as Third-Party Logistics firms (3PLs). According to the Association for Supply Chain Management's APICS Dictionary (16th Edition), 3PLs are "A third party that provides product delivery services. This third party may provide added supply chain expertise."

Another option is for Government to contract with companies who don't provide transportation with their own vehicles but instead provide transport management services. These firms are often referred to as Fourth-Party Logistics firms (4PL). According to the Association for Supply Chain Management's APICS Dictionary (16th Edition), "The 4PL organization is an interface between the client and multiple logistics services providers."

These two models are illustrated in Chart 1: Government outsourcing of transport vs. Government outsourcing of transport management.

The differentiating factor between the two models is that in Model 1 Government only outsources the **execution of transport**, while in Model 2 Government outsources both **transport execution and transport management activities**.

While some logistics service providers also offer warehousing, freight forwarding, customs clearance and other services, our focus in this article will be on transportation.

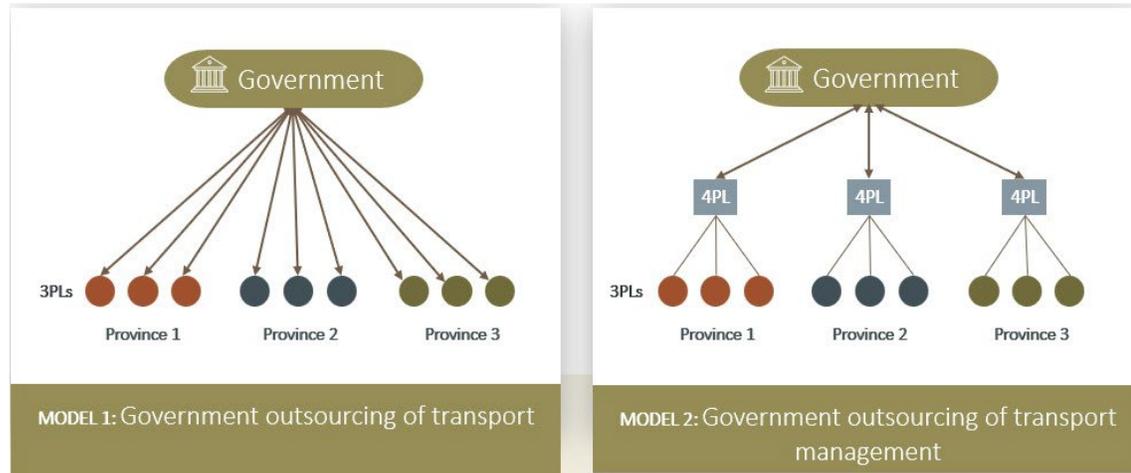


Chart 1: Government outsourcing of transport vs. Government outsourcing of transport management.

### CHOOSING YOUR PRIVATE TRANSPORTER MODEL

Choosing between the two models depends on your priority objectives and your internal capacity to manage logistics. Choosing to contract directly with transporters requires an associated organization and sufficient staff to manage transporters, whereas contracting with a transport management firm requires a smaller organization but one capable of providing the needed oversight.

STARTING POINT	PRIORITY OBJECTIVE(S)	OPTIMAL CHOICE
Strong logistics management capability with needed organizational structure and staffing	Improve transport resource availability while avoiding Capex and maintenance associated with government-owned vehicles	<b>Government outsourcing of transport</b>
Decision to develop only logistics management capability and organization in order to focus Ministry of Health staffing on core health service provision activities	Improve transport availability and capacity utilization; improve cost of internal fleet, external transporters, or combination of both  Optimize delivery service and costs through technology, data and route optimization	<b>Government outsourcing of transport management</b>

Chart 2: Choosing between transport outsourcing models

Be careful as many transport service providers are not able to provide the full suite of transport management services. Most are “basic” transport service providers, and only buy and manage transportation services. They will meet your need for moving products on time from point A to point B, will contract and pay transporters on your behalf. This will have the benefit of simplifying your management activity. More “advanced” service providers can provide additional value-added services including route optimization, transporter training and development, transport data analytics and process improvement studies, all which can contribute to lower costs and higher levels of service.

## Lessons learned

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We share some of our key learnings applicable to both outsourcing models below:

**Clearly define your needs and requirements:** Getting alignment on the services you want is important to make sure you get the contract you need and that you select the right providers. Is transportation enough or do you also need proof of delivery data? What about additional services such as visibility data or collecting inventory data at health facility level, managing reverse logistics of accumulated/expired medicines or managing cold chain for vaccines distribution? You will need to work with all stakeholders to define your service requirements and understand the impact on your existing organization.

**Make sure your contracts are clear:** The service requirements, performance criteria and methods for measuring performance must be clearly described in your contracts. Here are some examples of questions you will need to answer while defining a contract: What data must be provided by the transportation firms? Will proof of delivery data be collected electronically or manually? What access will you have to the transporter information systems? For longer term agreements, the contract should set expectations for year-on-year performance improvements, particularly for costs.

**Understand the importance of collaboration:** While having a clear contract is fundamental, the contract is only the start of having a productive relationship with a private sector firm. Collaboration will be key to cost efficiency and service quality. For example, changes may be required in government operational practices to avoid mobilizing the wrong vehicle sizes or having vehicles waiting to start deliveries or combine cargo to optimize use of vehicle capacity. How will these changes be identified, evaluated, decided upon and managed?

**Plan for a ramp-up period:** Transport service providers operate across multiple industries, which allows them to develop expertise and invest in tools and processes. However, these firms may not have experience in transporting health products and working with public health supply chain stakeholders. Therefore, a ramp-up period may be required. You may need to invest in building transportation firms' understanding of transportation procedures for health commodities such as vaccines and how to work with provincial, district and health facility managers.

**Organize to manage the transport service provider relationship:** There is a general perception that having contracts in place is all that is needed to productively engage with private sector firms, but contracts are only the beginning. Getting value from transport service providers requires active collaboration enabled by a Service Level Agreements (SLAs) and Quarterly Joint Performance Reviews. In addition, you will need a Ministry of Health relationship manager who understands transportation to work with the private sector. Ministry of Health finance personnel will also be needed to support the relationship manager and provincial managers to review costs, data and to agree and implement cost reduction plans and actions plans to improve the KPIs.

While working with private sector transportation firms may require investments and changes in Ministries of Health, VillageReach believes that the effort is well worth it. Fortunately, there are a number of tools that can be leveraged in navigating private sector engagement in transportation. In 2020, an Outsourcing Toolkit (OSTK) was developed to support governments as they consider outsourcing. OSTK development was led by Africa Resource Centre (ARC), with support from the United States Agency for International Development (USAID), the Global Fund to Fight Aids, Tuberculosis and Malaria (The Global Fund), and the Bill & Melinda Gates Foundation. Looking at existing implementations, such as VillageReach's Last Mile Supply Chain program in Mozambique, can also be a good source of insight for governments wanting to learn more.

For more information, please contact:

**Alvaro Lopes**

Outsourced Logistics Expert & Team Lead

[alvaro.lopes@villagereach.org](mailto:alvaro.lopes@villagereach.org)

**Esselina Brito**

Outsourced Transport Advisor

[esselina.brito@villagereach.org](mailto:esselina.brito@villagereach.org)