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Outsourcing public health supply chain services

*A roadmap for building human resources
capacity*

CASE STUDIES AND CONCLUSIONS

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1 The Côte d'Ivoire central medical store: contracting as a tool to outsource transportation.



Background

Until 2012 Côte d'Ivoire's government-run central medical store (PSP – Pharmacie de la Santé Publique) faced numerous challenges related to financial constraints, payment of suppliers and human resources. The human resource challenges were related to the categories and qualifications of staff, hiring and firing and as well as the government salary mechanisms PSP was required to follow. Between 2012 and 2013 PSP was reformed into a new organisational entity with the same purpose named Nouvelle Pharmacie de la Santé Publique de Côte d'Ivoire (NPSP – Côte d'Ivoire new public health pharmacy). This accelerated development came as a result of a joint effort between the government of Cote d'Ivoire and development partners who together embarked on the reform process.

By 2013 NPSP had been fully transformed and given a new status by an act of parliament. NPSP's status had changed to semi-autonomous and under new regulations it could operate as an independent non-profit entity and private wholesaler, giving it the organisational license to outsource services. With new leadership and a newly-appointed board of directors looking for ways to become more efficient, significant investments were made in warehousing. NPSP also needed investments in transportation, having inherited an aged fleet and an insufficient number of vehicles. However, NPSP was unable to access capital for the large-scale procurement of vehicles. At the same time the small-scale hiring of external transportation in the form of both vehicles and drivers had already taken place.

With its new, more-independent status, NPSP was now tasked with ensuring the distribution of medicine despite a lack of vehicles. This issue was resolved by outsourcing the distribution of all medicine to districts and health facilities as well as most of the internal transport between central and regional stores. Outsourcing began in 2016 and has continued, and approximately 80 to 90 percent of the transport is currently being outsourced.

Outsourcing enablers, working conditions and motivation

The human resources environment at the time of the reform enabled outsourcing to be pursued as a solution to address performance. Both the board of directors and the management team had a sense of urgency to address the historical distribution performance issues. The problems with NPSP's transportation, which included lost medicine owing to leakage and diversion, vehicles that did not adhere to schedules and the need to increase transportation capacity given that its own fleet was old and too small, justified the proposed changes to NPSP. As such, both the board of directors and management were keen to use outsourcing as a tool. By calculating the cost of each of the store's operations, known as

analytical accounting, NPSP was able to calculate and compare the real cost of internal and external services; the evidence that came from this analysis led the decision makers to begin outsourcing. Simultaneously the board of directors made strategic decisions regarding the core functions of NPSP and ultimately the focus of in-sourced operations was placed on the procurement and management of medicine while transportation services were outsourced.

Both the working conditions and the motivation of the management team were fundamental to improvements in efficiency; the management was given the time and resources to analyse the external transportation market and the performance of its own operations. A series of workshops was organised to analyse and document the possible transport solutions and the future organisation of transportation. In terms of motivation, the priority of the new board of directors was to deliver services that offered value for money and to accomplish this without further capital investments.

Implications on the workforce: staffing and skills

During the transformation process there was resistance as both drivers and managers were directly affected by the change, while their fellow workers also feared redundancy. In the short-to-medium term this meant extra investments were made to keep more people on the payroll than was necessary. The resistance was handled by gradually reducing staff numbers and over time transferring drivers and co-drivers to other functions; where possible they were found equivalent work in other government institutions. Outsourcing was therefore carried out by the management team in a phased manner; some transportation services remained internal for two years but were then gradually removed.

Today the outsourcing of transportation services is rooted in both the NPSP management and its workforce. The management recognises that outsourcing transportation allows staff to focus on the core functions of NPSP and for the current NPSP workforce, outsourcing its transportation services is considered more flexible and easier to operate than insourcing. The administrative flow of verifying proof of deliveries and monitoring performance has remained with NPSP and now NPSP has, through its contractors, access to a much larger fleet of different types of vehicles and always has access to suitable transportation. Activities such as monitoring drivers, parking vehicles, maintaining fuel levels and vehicle and tyre maintenance are the responsibility of the transportation contractors.

Lessons learned & critical success factors (CSF) from outsourcing transportation services

- To drive the outsourcing process it was essential that the board of directors focus on delivering value for money within the existing capital restrictions. NPSP did not have the capital to invest in its own vehicles and could therefore not provide the needed services with insourced resources.
- It was important that an informal guiding coalition including high-level officials from both government and donor organisations supported change to ensure the transition to

outsourcing, even after the formal steering committee for the reform had been dissolved. Donors had provided a capital injection at the onset of the process which made it possible to fund the transition, and remained close to the NPSP board through a board member with status as an observer.

- The management team's ability to perform analyses, financial accounting and strategic planning led to a vision and strategic plan. This gave direction and aided the decision-making process pertaining to outsourcing and regarding which services to keep internally.
- Investing in the removal of barriers, in the form of resistance to change from personnel and managers who might become redundant, was key. This investment came in the form of an additional cost to move personnel and a gradual reduction in staff.
- The technical capacity to manage contracts was built through on-site technical assistance from experts on the subject.
- Change was instituted by gradually transitioning to outsourcing over several years. Initially the process met resistance but after five years the new processes and mindset had become accepted.

2 Mozambique central medical store: contracting as a tool to outsource transportation



Background

The Central Medical Store of Mozambique (CMAM) is responsible for the procurement and distribution of medicine to public health facilities. Since 1986 the management (procurement, storage and distribution) of medicine and health commodities had been outsourced. But by 2006, following a change in government, the management of warehousing and distribution once again became the responsibility of CMAM, which began operating as a traditional central medical store, procuring, storing and distributing medicine and health commodities for public health facilities. It was at this point that the administration of human resources and vehicles to distribute medicine became a challenge for CMAM. Between 2008 and 2010 this challenge turned into a major issue with medicine piling up at CMAM and expiring centrally without being distributed to health facilities.

The transportation challenge was solved through a combination of donor support and outsourcing transportation to private sector companies. CMAM's outsourcing operations have since advanced and today the government is responsible for overseeing 50 percent of the contracted transportation, while USAID manages the other 50 percent through contracts with its implementing partners Chemonics and VillageReach.

For CMAM the central pile up of and inability to distribute medicine was the catalyst that led to change. Through the lens of PtD's human resources for supply chain management (HR4SCM) maturity levels, CMAM was at level one (foundation) when the health supply chain problems emerged. It remained at this level while all distribution was outsourced and managed by the USAID-funded supply chain management system (SCMS) project. In the years that followed CMAM has gradually developed, gaining competence in both the analysis and management of external contractors. Today CMAM is between level two (emergent) and level three (functional), and manages contracts and performs analyses for 50 percent of the outsourced transportation, which is funded by the government, while the other 50 percent is managed by USAID implementing partners.

Implications on the workforce: staffing, skills, working conditions and motivation

For CMAM and the donors the pile up of medicine and lack of distribution between 2008-2010 was essential to driving change; the lack of medicine at health facilities combined with expirations and losses resulted in increasing pressure on CMAM's management. These problems meant that an immediate solution to the distribution of medicine needed to be found. This combined with the availability of donor funding and technical assistance from the SCMS project provided a strong motivation for CMAM's management and the Ministry of Health (MoH) to outsource much of the distribution of medicine. With little internal resistance

owing to the considerable need from health facilities and the limited numbers of insured drivers and vehicles, CMAM was able to quickly outsource transportation on a large scale.

Initially CMAM had neither the capability to oversee contracting processes nor the knowhow to manage the contracts thereafter; contract management support was therefore offered by the USAID-funded SCMS project: initially the USAID implementer oversaw outsourcing and thereafter provided technical assistance to CMAM to enable CMAM to take over the contracts and administrate the contracts themselves.

After ten years the outsourcing of transportation has been built into all levels of CMAM. The skills of management have been adapted to outsourcing, as have the work processes and competences of the workforce.

Lessons learned and CSFs from the outsourcing of transportation services in Mozambique

- The sense of urgency created by the 2008 to 2010 crisis was key to driving the process of outsourcing the majority of the transportation. Medicine was not reaching health facilities and there was an urgent need for distribution from the central medical store.
- There was a guiding coalition of high-level MoH executives pushing for change and a development partner willing to fund the outsourced transportation; these were organised in a technical working group.
- The strategic vision needed to guide the process was created with technical assistance from the USAID-funded SCMS project.
- Barriers, such as staff resistance to change, were removed by the MoH and personnel that were no longer needed for transportation services were moved to other functions within the government.
- There were many short-term successes, including an increase in the number of deliveries reaching health facilities. In the long term the mechanism created stable supply that health facilities could trust.
- Change was instituted by transferring knowledge and processes from technical assistance to CMAM personnel who were able to assume the management of some of the outsourced transportation services funded by the government.

3 National Medical Supplies Fund (NMSF) of Sudan: contracting as a tool to outsource supply chain services



Background

In 2011 the management of the Sudanese National Medical Supplies Fund (NMSF) began considering outsourcing both its storage and transportation operations and as well the services related to storage and distribution to private contractors to improve the efficiency of NMSF. The NMSF management realised that gathering evidence of the organisation's lack of efficiency and the efficiency of private companies, as well as the involvement of relevant high-level decision makers, was key to improving the performance of the NMSF.

The first step was for the management to assess the performance of the NMSF and consider which services could be outsourced. Thereafter they ensured that the regulations were in place to allow the NMSF, as a government entity restricted by government rules, to outsource some of its services. Outsourcing was not seen as a goal in itself but rather as a useful tool to increase health supply chain efficiency.

Implications on the workforce: staffing, skills, working conditions and motivation

The existing NMSF management team began by gathering evidence to understand which services were available in Sudan and at approximately what cost, as well as evidence to assess the NMSF's operations and efficiency. This exercise demanded a greater understanding of outsourcing and as such the management carried out desk reviews, visited neighbouring countries and undertook formal training. It also required agreement on which analyses to perform to comprehend the efficiency of the NMSF.

The results of quick assessments performed by the upper management were used to make the case to the NMSF board of directors for services to be outsourced. The board agreed that the analyses and strategic planning showed that services like maintenance, security, cleaning and transportation should be outsourced. The issue was promoted to parliament who passed an act to pave the way for outsourcing; owing to regulation, outsourcing hadn't previously been an option for government institutions such as the NMSF.

The evidence demonstrated that the board of directors' political leadership and the energy and commitment of the NMSF management team were instrumental in bringing the act of parliament to pass. With the analytical work performed internally by the management team a change in legislation allowed for outsourcing to be adopted as a tool for SCM. What's more, the motivation and capacity of the management team were built through combined investments in external training, participation in international workshops, peer to peer presentations and a consideration of experiences in comparable countries. Small management groups participated in workshops and conferences where they were able to meet managers from other countries that undertake similar outsourcing operations. Participation in larger meetings also gave

managers an insight into the mentality of international organisations and large private companies who used outsourcing as a tool.

The board of directors was directly involved in the move towards outsourcing; for one, interactions with the NMSF management ensured they were aware of the evidence and the case for recruiting private contractors. It was important to have the board of directors' support given that it was the board itself that would raise the regulation changes with parliament. The NMSF management developed the capacity to monitor and manage external contracts through an approach beginning with formal training and relatively small contracts to outsource some transportation or security, drafting standard operating procedures and understanding the operational and financial follow up mechanisms for these smaller contracts. Gradually, the NMSF began arranging larger contracts, including contracts for large transportation tasks.

A key obstacle to outsourcing government services was internal pressure from personnel who would lose their jobs owing to the contracting of private companies; the NMSF management therefore chose to not dismiss obsolete personnel but instead allocated them alternative work inside and outside the CMS. The management also stopped hiring new personnel and over time the total number of personnel gradually diminished. This meant that in the short term there was a significant additional cost connected to the outsourcing of services, but the gains in efficiency and service level were so significant that this compensated for the additional cost.

There are many examples of improved efficiency achieved by outsourcing activities in Sudan including clearing, transportation, loading and off-loading of containers, and security. For instance private operators off loaded 40-foot containers filled with medical commodities in two hours, while previously it took CMS personnel eight hours to do the same. In another example, the clearing of tax-exempt donor-funded medicine was carried out by private clearing agents in ten days, while the same task took CMS personnel 45 days, incurring large demurrage costs.

Critical success factors and lessons learned from outsourcing to transportation providers in Sudan

- The need to change the NMSF's operations was created by collecting evidence of the large improvements in services that could be achieved by outsourcing. This evidence was used to flag the need for a renewed strategy to the board of directors, the government and parliament.
- A guiding coalition was built within the NMSF, comprising the management team, which developed rapid analyses and strategic plans.
- The strategic vision and initiatives were communicated to the board of directors and ministry, who supported the proposed changes.
- The most significant barrier to overcome was potentially-obsolete personnel. This was done by finding ways to keep the personnel in the short-to-medium term and reducing their number over time.
- Short-term gains were noticed, including faster processing, more-reliable transportation and greater product availability at health facilities.

- The NMSF management team's engagement in the issue and the momentum it sustained was key to accelerating and instituting change.
- Despite the relatively small cost of retaining staff in the short term, the visual cost benefit shows gains were made; this is evidenced by much shorter clearing times, faster loading operations and better security.

4 What was essential to the successful adoption of outsourcing

Across the three case stories, and two further examples of countries where outsourcing has been discussed but not been implemented, three factors appear essential to the implementation of large-scale outsourcing:

- The gathering of evidence to make the case for decision makers.
- Backing from top management and the political level.
- Mitigating the issue of personnel losing their jobs.

In all three cases there was evidence of a lack of internal efficiency, yet the possibility to have the same services performed via private contractors. These circumstances, however, do not always lead to the adoption of outsourcing as illustrated by an example from Ethiopia (Source: Pamela Steele, October 2021):

The EPSA Central Medical Store in Ethiopia underwent a process to consider opportunities to outsource some of its transportation. A consultancy firm facilitated the process and a study trip was part of the work. The managers of EPSA who participated recognised that outsourcing transportation could be beneficial to the organisation. Ultimately though, the highest level of management and the political level considered that the risks, and particularly the issues related to the management of obsolete personnel, outweighed the possible advantages.

In this example, the highest level of management and the political level did not consider outsourcing to be the best approach and it was therefore not adopted. This was also the case in Namibia (Source: Ian Ryden, October 2021):

Today Namibia has significant private sector capacity which CMS Namibia could use for storage and distribution in the country. This has not yet happened though, mainly owing to broad resistance to the changes that will impact the workforce. Investing in the management of this resistance is therefore important if Namibia is to be able to use the resources of private contractors.

Across these five examples it is clear that backing from top-level management and the political level is essential to the successful adoption of outsourcing. The most significant obstacle is securing the faith of personnel whose functions may become obsolete with the advent of outsourcing.

The PtD roadmap for outsourcing offers a pathway to assess the maturity level of an organisation and its outsourcing. It also suggests how to manage internal processes and human resources as well as develop evidence to allow an organisation to plan strategically and develop a beneficial relationship with the top-level management and the political level.

The roadmap also offers guidance for how to manage the three key aspects:

- 1) Having managers who gather information.
- 2) How to manage obsolete personnel.
- 3) How to obtain backing from the highest political level.



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