



CENTRAL MEDICAL STORES TRUST  
*Trusted Partner in Healthcare*

# Business Plan



2015 - 2020



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## Acronyms

<b>Accpac</b>	Sage Software Information System
<b>CEO</b>	Chief Executive Officer
<b>CHAI</b>	Clinton Health Access Initiative
<b>CHAM</b>	Christian Health Association of Malawi
<b>CML</b>	Cargo Management Logistics
<b>CMS</b>	Central Medical Stores
<b>CMST</b>	Central Medical Stores Trust
<b>DFA</b>	Director for Finance and Administration
<b>DFID</b>	Department for International Development (UK)
<b>DHO</b>	District Health Office
<b>DPO</b>	Director of Pharmaceutical Operations
<b>ERP</b>	Enterprise Resource Planner
<b>GOM</b>	Government of Malawi
<b>MHL</b>	Must-Have-List
<b>IAM</b>	Internal Audit Manager
<b>IHS</b>	Imperial Health Sciences
<b>IQC</b>	Indefinite Quantity Contract
<b>JIT</b>	Just-In-Time
<b>KCH</b>	Kamuzu Central Hospital
<b>KPI</b>	Key Performance Indicator
<b>LPO</b>	Local Purchase Order
<b>MCH</b>	Mzuzu Central Hospital
<b>MOF</b>	Ministry of Finance
<b>MOH</b>	Ministry of Health
<b>NAC</b>	National AIDS Commission
<b>NLGFC</b>	National Local Government Finance Committee
<b>ODPP</b>	Office of the Director of Public Procurement
<b>PIMS</b>	Performance Indicator Management System
<b>PMPB</b>	Pharmacy, Medicines and Poisons Board
<b>QAM</b>	Quality Assurance Manager
<b>QMS</b>	Quality Management System
<b>RFQ</b>	Request for Quotation
<b>RMS</b>	Regional Medical Stores
<b>SLA</b>	Service Level Agreement
<b>SOPs</b>	Standard Operating Procedures
<b>WHO MQAS</b>	World Health Organisation Model Quality Assurance System (for Procurement Agencies)

## Message from the Chief Executive Officer

This new Central Medical Stores Trust (CMST) Business Plan was developed with the overall goal of more effectively documenting our direction as an organisation for the 2015-2020 period.

Our five year business plan sets out a clear vision and operational plan to continue on our path of organisation improvement, where we place customer responsiveness and planning at the centre of everything we do. We will implement this business plan by continuously improving our business processes, strengthening unit operations and planning processes, and implementing a financial plan to ensure the operational sustainability of CMST.



Priority initiatives to be implemented under this business plan include improving customer engagement, strengthening sales and distribution functions, initiating health commodity forecasts, and continuing our commitment to ensure the quality assurance of all the medicines and medical supplies we provide to the Malawian population. Under this business plan we expect business growth of 30% over the next 5 years.

In our work to provide the Malawi public health system medicine and medical supplies, we undertake critical, life-saving work. We understand that the effective performance of our services contributes to the confidence in the public health system and is an important factor in ensuring access to high quality health care for the majority of Malawians.

As an organisation, we understand the challenges ahead of us, and this document presents a way forward on how we will address them. In combination with our 2015-2020 Corporate Strategy document, we hope our Board, staff, stakeholders, and future investors find this business plan informative and effective in communicating our vision as an organisation. In light of our critical mission, we encourage all stakeholders to engage with the ideas in this document and to provide critical feedback as we implement it over the next five years. Only together will we be able to strengthen the national supply system to ensure that the people of Malawi have access to the medicines and medical services they need and deserve.

Many thanks again to the CMST and CHAI teams for their work on this document, as well as the Corporate Strategy document, and their overall support to more effectively articulate and document CMST's operational and strategic vision for the next five years.

Kindest regards,

A handwritten signature in black ink, appearing to read 'Feston Kaupa', enclosed in a thin black rectangular border.

Feston Kaupa  
CEO CMST

*Trusted Partner in Healthcare*

## Executive Summary

The Central Medical Stores Trust (CMST) is a Malawi-based and operated not-for-profit organisation that provides medicine and health commodity procurement, warehousing and distribution services to the Malawi Ministry of Health (MOH) and other health care partners based in Malawi. We operate five (5) warehouses with a national reach and have a total of 157 employees.<sup>1</sup> Originally a functional unit under the MOH, we were established as the Central Medical Stores (CMS) in 1969. In 2011 we were re-established as CMST and became a Trust independent from the MOH. The objective of this separation was to strengthen operational performance and to implement a more financially self-sustaining commercial model.

This business plan documents our sales goals for the 2015-2020 operational period. It provides an overview of our operational environment, customers, organisational structure, and overall business model. It was developed through a series of internal staff workshops and discussions and refines the priorities laid out in our 2015-2020 Corporate Strategy. This document updates and replaces the 2013-2018 Business Plan document.

In the 2015-2020 period we will continue to build upon the organisational reforms we began when we were re-established as CMST. Key areas for organisational improvement planned for the next five years include strengthening our customer focus, addressing our outstanding debts, establishing the new national pharmaceutical warehouse in Lilongwe, implementing a hybrid distribution model, improving our ERP functionalities, and establishing the World Health Organisation Model Quality Assurance System for Procurement Agencies (MQAS). The implementation of the 2015-2020 Corporate Strategy and continued progress in the implementation of the 2012 Strategy for Supply Chain Integration are also key priorities in the next five years.

CMST oversees roughly 17% of the total public sector health commodity market,<sup>2</sup> which we aim to increase by strengthening of our sales and marketing functions through implementing the following initiatives:

- *Strengthening customer relationship management through RMS-based sales and marketing teams*
- *Improving and strengthening the order submission process*
- *Initiating quantification and demand planning processes to strengthen organisational supply chain information integration*
- *Strengthening Sales Monitoring and Analytics*
- *Improving product availability at each RMS*
- *Implementing a Public Relations strategy to promote CMST transparency and educate the public on CMST operations and performance*

<sup>1</sup> As of October 2015

<sup>2</sup> In FY2015-16 MOH and NLFGC drug budgets total MWK 14,699Bn (17%) out of the total national and donor budget allocations of MWK88,407Bn (MOH Planning Department, 2015)

In the 2015-2020 operational period we anticipate an increase in annual income as well as expenditures with projected surpluses between 0.98% and 1.37%.<sup>3</sup> Increases in annual operational expenditures (FY2015/16 = MWK 3.5 Bn and FY2019/20 = MWK 9.6Bn), will largely be driven by the operationalisation of the new pharmaceutical national warehouse in 2016, increased annual levels of procurement, as planning staffing increases across various business units. These units include warehousing, logistics and auditing.

Our operational debt, due to delayed or the lack of payment by the MOH has been an ongoing challenge for CMST. In 2016, under a new financing model, CMST will start receiving direct advance quarterly payments for supplies and services from the Treasury Department under the Ministry of Finance. This is expected to clear CMST's outstanding debt, which as of July 2015, stands at MWK7.9Bn. By eliminating our current debts, we will be able to issue more open tender procurements and execute more routine bulk medicine and commodity purchases. This will allow us to achieve more procurement value for money to better stock our warehouses and ultimately improve overall product availability.<sup>4</sup> In terms of value, through improvements in our cash flow, we expect to double our stock position from MWK18.4B in 2015 to MWK40.9B in 2020. Our goal by end of 2020 is to reposition stock to cover eighteen (18) months.

This Business Plan, along with the CMST 2015-2016 Corporate Strategy, documents our organisational direction for the next five years. It is intended for both internal and external stakeholders, as well as other current and future partners. The goal of this document is to more effectively communicate our operational structures, challenges and goals as an organisation. It is intended to guide continuing internal reform initiatives, strengthen organisational planning as well as accelerate internal business unit integration processes.

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<sup>3</sup> *In line with our not-for-profit model, this will be used to cover unanticipated operational expenses*

<sup>4</sup> *As our financial position improves, our goal is to execute at least 2 large international tenders a year.*

## Management & Organisation

### Overview

The Central Medical Stores Trust (CMST) is a not-for-profit organisation that provides health commodity procurement, warehousing and distribution services to the Malawian public health sector. Under our Government of Malawi mandate, our primary client is the Malawi Ministry of Health (MOH). However, as requested and required, we also provide services to private sector clients, such as the Christian Health Association of Malawi (CHAM).<sup>5</sup>

Our headquarters is based in Lilongwe and we have three (3) Regional Medical Stores (RMS). They are located in Mzuzu (RMS North), Lilongwe (RMS Centre), and Blantyre (RMS South). We also operate two (2) rented receipts warehouses in Lilongwe. As of September 2015, we have a total of 157 employees.

Originally we were established as the Central Medical Stores (CMS) in 1969 as an operational unit under the Malawi MOH. CMST became an independent organisation under the CMST Trust Deed which was approved in November 2010. In March 2011 the CMST Trustees were approved, with the Trust itself officially registered in Malawi in August 2011.

The goal of making CMST independent from the MOH was to more effectively address performance issues and to establish a more financially sustainable operational model. The overall strengthening of national procurement, warehousing and distribution capacities of Malawian public sector was also a goal of this reform.

We are overseen by a Malawi Government appointed board made of seven (7) members that represent the various government, commercial and private sectors of Malawi. As an organisation we develop our own policies, strategies and are authorised to hold assets (land, buildings, equipment, and inventory). We maintain our own operating budget, which is funded by our sales revenues. Our budget is entirely managed under the Trust, and is not a part of the Government Budget.<sup>6</sup>

### Mission and Customer Values

As CMST, our mission is to:

*“Improve health in Malawi by ensuring reliable, continuous access to the highest quality medicines and medical supplies through efficient procurement, warehousing and distribution services at the most affordable cost”*

<sup>5</sup> Warehousing services are also provided to Wellcome Trust, a UK-based entity, and Bollore.

<sup>6</sup> Central Medical Stores Trust, 5-Year Business Plan, 2013 – 2015.

In our pursuit to continuously provide value to our customers, we strive to be:

<b>Adaptable</b>	<i>Responsive to the changing customer service and product needs</i>
<b>Affordable</b>	<i>Provide competitive pricing and value-for-money</i>
<b>Customer-oriented</b>	<i>Execute customer-driven organisational management, activities and decision-making</i>
<b>Efficient and Effective</b>	<i>Provide rapid and impactful service delivery</i>
<b>Innovative</b>	<i>Implement supply chain and operational problem solving that considers new perspectives and novel approaches</i>
<b>Professional</b>	<i>Timely, courteous, and responsive in our customer services</i>
<b>Reliable</b>	<i>Dependable and consistent in the quality of service delivery</i>
<b>Public Health Supply Chain Leader</b>	<i>Apply organisational expertise to address national supply chain challenges with stakeholders</i>
<b>Transparent and Accountable</b>	<i>Provide informational accountability to customers, partners and stakeholders</i>

## Senior Management Team

In order to achieve our organisation's mission, our executive management team provides strategic, operational, technical and financial leadership and oversight. CMST's executive leadership is made up of:

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### **Mr. Feston Kaupa, Chief Executive Officer**

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Trained as a business and finance expert, Mr. Kaupa has over twenty (20) years of professional experience in strategic finance and business management in both the private and public sectors. He holds a Master's Degree in Strategic Management and a Bachelor's Degree in Accountancy. He is a Fellow of both the Chartered Institute of Management Accountants (FCMA) as well as the Association of Chartered Certified Accountants (FCCA).

Mr. Kaupa joined CMST in April 2012. Prior to CMST, he worked as the Executive Director of the Natural Resources College (NRC) from 2001 to 2011 where he spearheaded the transformation of the college from a purely public training institution of the Ministry of Agriculture to a commercially orientated institution. This institution recently became a campus of Lilongwe University of Agriculture and Natural Resources (LUANAR). Mr. Kaupa has also worked in various accounting and finance positions for Manica (Mw) Ltd, Electricity Supply Corporation of Malawi Ltd (ESCOM) as well as the Malawi Broadcasting Corporation (MBC).

## **Dr. Moses Chisale, Director of Pharmaceutical Operations**

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Dr. Chisale has over thirty (30) years of experience in pharmacy and pharmaceutical management and has worked for the World Health Organisation (WHO) in various capacities for over 19 years. Trained as a pharmacist, he graduated from the University of Malawi with a BSc in 1979. After earning a certificate in Medical French in 1980 from the University of Clermont, France, he then entered the University of Dijon, France and obtained a State Doctorate in Pharmacy in 1986.

In his various roles at the WHO, Dr. Chisale has provided technical advice and direct technical support on the formulation and implementation of national medicine regulatory and quality assurance policies and systems for many countries in Africa. The rational use of medicines, health commodity supply chain management, and pharmaceutical sector governance were also among the areas in which Dr. Chisale specialised in at the WHO. Dr. Chisale also served as the Principal Pharmacist at Queen Elizabeth Central Hospital from 1987 to 1990. He joined CMST in November 2012.

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## **Mr. Washington Kaimvi, Director of Finance and Administration**

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Mr. Washington Kaimvi is an accounting and audit professional with over twenty five (25) years of financial management work experience. He has worked in various financial management, auditing, human resources management and general administration capacities at a senior level in the private, public and non-governmental sectors; PricewaterhouseCoopers, Malawi Investment Promotion Agency, Petroleum Control Commission, Population Services International, National AIDS Commission, as well as the Ministry of Health are among the organisations he was worked in, in various leadership roles.

He has in-depth experience in finance and accounting, external and internal audits, grants management, and is also experienced in the coordination of multiple donor activities. He is a Fellow of the Association of Chartered Certified Accountants (FCCA) of the United Kingdom, a Certified Public Accountant (CPA) in Malawi, and holds a Bachelor of Commerce in Accountancy. He joined Central Medical Stores Trust (CMST) in January 2015.

## **CMST Board of Trustees**

As an organisation, CMST is overseen by a government-appointed Board of Trustees. It consists of seven (7) members, four (4) from commerce and industry and three (3) ex-officio members. The CMST Board consists of:

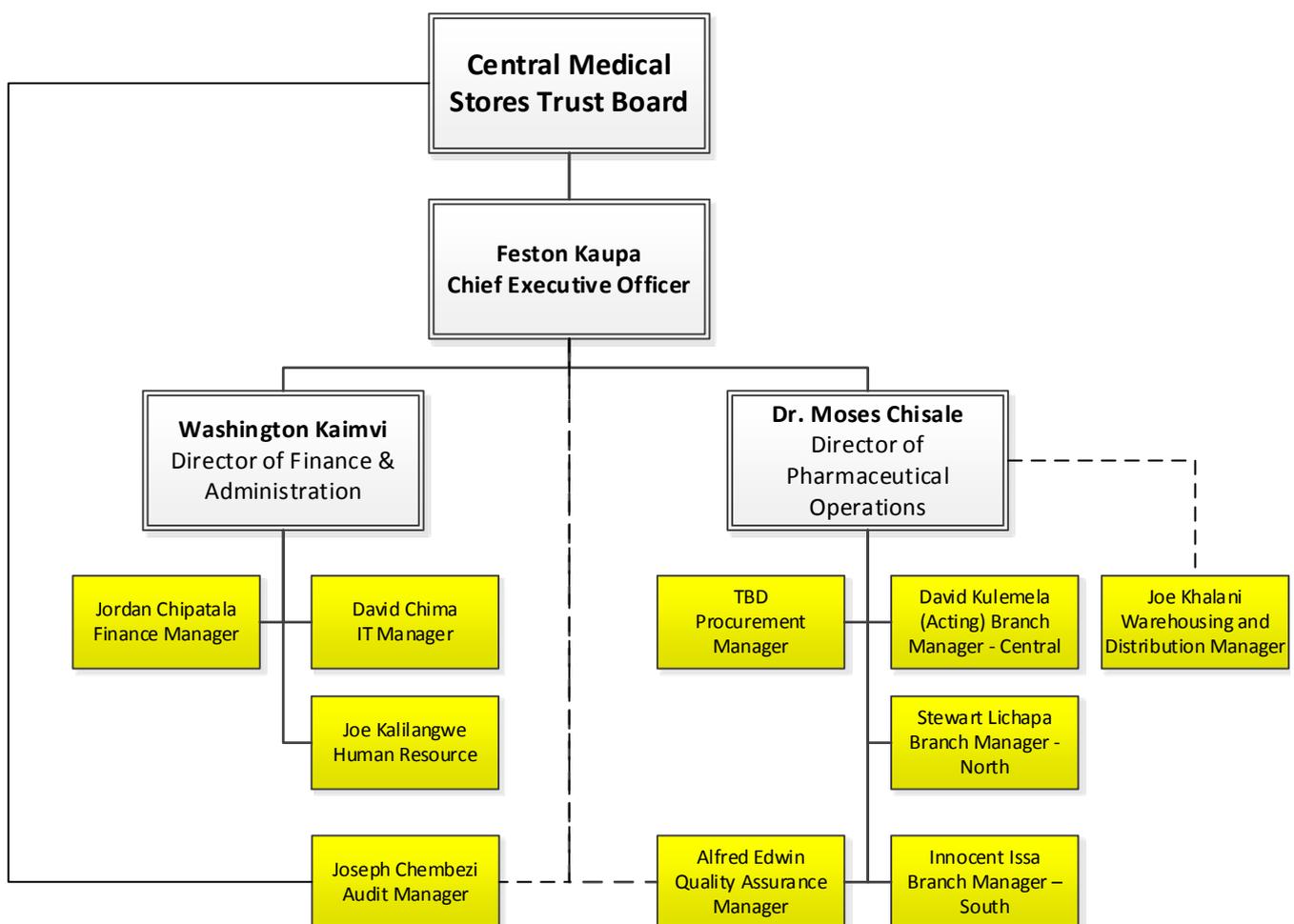
- Mrs Evelyn Itimu, Board of Trustees Chairperson
- Rev. Dr. Archwells Moffat Katani, Member
- Ms Felisah Kilembe, Member
- Mr John Samson Mponda, Member
- Secretary for Health, Ex-officio Member
- Secretary to the Treasury, Ex-Officio Member
- Executive Secretary National Local Government Finance Committee, Ex-Officio Member

The board members each play a critical role in various decision-making committees, which includes the CMST Technical Committee, Finance, Audit and Risk Committee and various Legal and Administrative Committees.

## Organisational Structure

As of September 2015, we have a total of one hundred and fifty-seven (157) staff in our five facilities as well as our headquarters based in Lilongwe. Our organisational structure is as follows (see Annex 1 for RMS staff structure):

### Central Medical Stores Trust Management - October 2015



## Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis

As a part of the review and update of the CMST Corporate Strategy in 2015, over forty (40) CMST staff, suppliers, MOH customers, donors, as well as other technical experts were interviewed and feedback was collected on CMST's performance and operational model. The following themes emerged from those stakeholder consultations, which subsequently informed the development of the 2015-2020 Corporate Strategy:

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Provides high quality products</li> <li>• Good infrastructure and established branch network with national coverage</li> <li>• Wide range of commodities available</li> <li>• Skilled and committed staff</li> <li>• Government support and goodwill</li> </ul>	<ul style="list-style-type: none"> <li>• Order fill rate – <i>still too many stock outs</i></li> <li>• Not “business – oriented”</li> <li>• Order fulfillment period is too long</li> <li>• Long procurement cycle</li> <li>• Inadequate planning and communication with customers and suppliers</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• CMST has a large “monopoly” market</li> <li>• Independent “Trust” status</li> <li>• Expanding services to private sector</li> <li>• Improving inventory management at health facilities</li> <li>• Organisational willingness to improve</li> </ul>	<ul style="list-style-type: none"> <li>• Available funding and outstanding debts</li> <li>• Unstable exchange rate</li> <li>• Uncoordinated product donations</li> <li>• Negative public perception of CMST</li> <li>• Political interference</li> <li>• Only one client</li> </ul>

## Corporate Strategy & Key Performance Indicators (KPIs)

In 2015, the CMST Corporate Strategy was updated and the following six (6) cross-functional strategies were developed. In their design, these updated strategies aim to better integrate CMST business unit activities as well as more effectively build consensus on organisational priorities.

## CMST Corporate Strategy: 2015 - 2020

Strategy	Goal
1. <b>Ensure organizational financial controls, planning, cost-effectiveness and sustainability</b>	<i>Improve operational cost efficiency with the overall goal of ensuring money-for-value to CMST customers and the longer term operational sustainability of the organisation.</i>
2. <b>Build and implement customer-focused organisational systems to become the preferred national health commodity supplier</b>	<i>Establish CMST as the supply chain provider of choice in Malawi by ensuring that customer needs and priorities drive operations, planning and organisational decision-making.</i>
3. <b>Execute procurement planning and operations to efficiently and effectively anticipate and fulfil customer demands</b>	<i>Strengthen procurement planning and operations to ensure that customer demands are met.</i>
4. <b>Establish and utilise information systems to build an organisational culture of planning, responsiveness, accountability and business unit integration</b>	<i>Establish robust information systems to optimise the management of product flow, operational planning and financial management across the organisation.</i>
5. <b>Continuously improve operational and management systems</b>	<i>Establish effective and efficient quality management systems to ensure continuous performance improvement throughout CMST.</i>
6. <b>Engage stakeholders to address current and emerging national public health challenges in Malawi</b>	<i>Collaborate with the MOH and partners to apply CMST market knowledge, infrastructure, and supply chain expertise to improve public health outcomes in Malawi.</i>

As a part of the updated Corporate Strategy, the following ten (10) KPIs were developed to monitor and demonstrate the effectiveness of the Corporate Strategy's implementation.<sup>7</sup>:

Improved customer order fill rate

50%-70% Catalogue items

70%-80% for Must Have List (MHL)

Improved on-time delivery (Actual targets to be determined)

Establish "customer service lead" position at each RMS

Invoices produced with each dispatch and delivered with each delivery note (E.g. Local purchase order (LPO), receipt, transfer voucher and supplier invoice data updated daily in AccPac)

80% on-time order submitted between the 1st and 10th of each month

Reduce the number of emergency Request for Quotations (RFQs) to suppliers by 50%

Procurements executed under framework agreements for the following products: oncology medicines, insulin, intravenous fluids, anti-rabies vaccines, dental cartridges, and surgical sutures

Established QMS and MQAS in place

Establish and implement standardized quality systems to improve organisational efficiency and effectiveness

Established internal expenditure targets for reoccurring expenses (includes distribution costs)

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<sup>7</sup> These KPIs, along with the other indicators in the Corporate Strategy will be further refined in a separate CMST Performance Indicator document.

## Products and Services

CMST was established by the Malawi government with the mandate to procure, warehouse and distribute health commodities for the Malawi MOH. In addition to these core services, we also provide health commodity quality assurance and manufacturing services. While the Malawi MOH is our main customer, we also provide these services to other customers as the need and opportunities arise.

As a health commodity procurement and logistics organisation, our competitive advantage includes the national reach of our infrastructure, a collaborative relationship with the MOH and DHOs, a GOM-compliant, dedicated quality assurance processes. We also have qualified, regionally-based teams of supply chain professionals committed to meeting Malawi's public health commodity challenges.

Our customer-facing products and services consist of:

### Procurement

We undertake the procurement of medicines and other health commodities for our customers in adherence to the policies and guidelines of the Office of the Director of Public Procurement (ODPP). Procurements are initiated when we are not able to meet orders from existing stock at one of our RMS facilities, transit depot warehouses, or from pending consignments in the procurement pipeline. We also execute procurements based on an MOH list of annual requirements informed by the annual MOH-led quantification exercise.

The CMST Product Catalogue lists the medicines and health commodities we offer to our customers. Currently, there are 3,340 products for potential order, which are organised into sixteen (16) classes (see table on the right). In addition, as a subset of that master list, we also maintain a Must-Have-List (MHL), which currently consists of 944 prioritised items. These are fast-moving or high demand commodities which we continuously strive to maintain in full supply at our facilities. We are currently in the process of prioritising the MHL down to roughly 500 items to make it more manageable from both a procurement and supplier management perspective.

CLASS	DESCRIPTION
<b>A</b>	Tablets & Capsules
<b>B</b>	Injectables
<b>C</b>	Vaccines
<b>D</b>	Raw Materials
<b>E</b>	Galenicals
<b>F</b>	Surgical Dressings
<b>G</b>	Sutures
<b>H</b>	Surgical Equipment
<b>I</b>	Ophthalmic
<b>K</b>	Dispensary Items
<b>L</b>	Hospital Equipment
<b>M</b>	Laboratory Reagents and Materials (Supplies)
<b>N</b>	X-Ray Films and Equipment
<b>P</b>	Dental Items
<b>Q</b>	Miscellaneous Items
<b>R</b>	Hospital beddings

As a procurement agent, CMST implements request for quotation (RFQ), sole source, as well as national (NCB) or international competitive bid (ICB) procurements. The method of procurement is determined by the exclusivity of the product under procurement (sole source), if it is an emergency or less than MWK5 million (RFQ), between MWK5 million and MWK100 million (NCB), or is over MWK100 million (ICB). Under ODDP guidelines, our procurements are approved and overseen by the CMST Internal Procurement

Committee (IPC), the CMST Technical Committee, the ODPP, as well as the Procurement Oversight Agent (POA), who is based out of the MOH.

## Warehousing Services

We operate three Regional Medical Stores (RMS), one in each of Malawi's regions (North, Centre and South). This national reach enables us to more effectively supply our customers across Malawi. In addition, each of these RMS is in close proximity to a central hospital. This proximity allows us to more quickly and easily supply Malawi's public tertiary health care system, which is characterised by varied, high volume product demands.

After the installation of racking in 2013, our RMS facilities have a total of 4,000 cubic metres (or pallets) of storage space. Each RMS has cold storage for cold chain items, which totals 260 cubic meters across our three (3) RMS facilities. Since 2013, as a part of our warehouse improvement plan, our RMS facilities have executed updates in security, ambient temperature control, warehouse signage as well the painting of floor guidelines to optimize space and strengthen warehouse worker safety.

We also operate two rented warehouses in the Lilongwe area. The facility in Kanengo, just outside of Lilongwe on the Kamuzu International Airport road, is our main depot warehouse and used for the short term receipt and storage of commodities. It is intended to receive and consolidate products from CMST's suppliers for immediate redistribution to the CMST RMS network. It also segregates and holds products for quality testing (see Quality Assurance section below). The Manobec warehouse, also in Lilongwe, stores the Global Fund to Fight AID, TB and Malaria (GFATM) supported HIV commodities for the MOH. This product is distributed nationally on a quarterly basis by Bollore, a private international logistics firm operating in Malawi. These two rented warehouses maintain a total of 2,700 cubic meters of storage space.

In early 2016, we expect the completion of a new warehouse in Lilongwe, which will replace the two rented facilities. This facility is expected to add an additional 3,000 cubic meters of additional storage space to CMST's overall warehouse capacity. Once the new national warehouse is finalised, and the two rental warehouses are retired, our total storage capacity will total 8,450 cubic meters.

Storage areas at CMST warehouses are closely monitored with routine access to storage areas limited to key operational staff. All of the products stored at our facilities are comprehensively insured by the National Insurance Company (NICO) for unforeseen damage and theft. The security of our facilities is managed by Omega Security, who provide 24 hour security services<sup>8</sup> In addition, the Malawi Police Services also provide 24 hour security at all of our facilities. The closed-circuit television (CCTV) monitoring of all the RMS facilities began in September 2015 and is monitored by both CMST HQ security as well as Omega Security.

<sup>8</sup> Security staff is placed at the gate, outside and inside the warehouse, the car park, office foyer entrance, entrance to the offices. All visitors must be accompanied and must sign in.

## Distribution Services

We currently distribute medicines and health commodities from the three (3) RMS to supply Malawi's five (5) central hospitals, twenty-five (25) district hospitals and over 700 health centres. Our distribution fleet consists of 33 vehicles, ranging from 1 to 30 tonnes (see table on right). Five additional replacement vehicles are currently being procured to upgrade our aging fleet. Our distribution team is knowledgeable about Malawi's road network, and in particular, the rural locations of many of the MOH health centres.

As an example of continued improvements in the distribution function, in September 2015, invoices, packing slips as well as proof-of-deliveries (PODs) began arriving with delivered products to health facilities. In 2016 CMST will be rolling out a new hybrid distribution method (see Distribution in Operational Plan), which is expected to save CMST roughly 20% in distribution and fleet maintenance costs.

Vehicle Size	Total Number
1 Ton	10
3 Ton	7
5 Ton	3
7 Ton	12
30 Ton	1

## Quality Assurance

As the procurement agent of the Malawi MOH, we are charged with ensuring that government procured medicines and health commodities are safe, efficacious and of the highest quality standard. Under our GOM mandate, our Quality Assurance Unit ensures that all medicines and supplies procured by CMST are inspected, pass CMST quality requirements, and are approved by the Pharmacy, Medicines and Poisons Board (PMPB) to ensure they meet international and local current Good Manufacturing Practices (cGMP). All CMST procured products are tested in the PMPB laboratory and approved before further distribution to health facilities. Products that do not comply with testing requirements are rejected or destroyed. As a part of our service delivery, we also ensure our warehouses meet good warehouse and storage practices to preserve product quality throughout their intended shelf life. We are currently implementing an internal Quality Management System (QMS) to standardise, monitor and strengthen our organisational performance.

## Manufacturing

In order to meet unique product demands from Malawi's Central Hospitals, we began manufacturing two strengths of morphine for palliative care patients in 2012. This service was provided due to the limited number of manufacturers interested in producing this product, particularly in the small volumes that are requested. The manufacture of this product is demand-based and directly delivered to the requesting central hospitals to better manage its short shelf life of three (3) months. In 2015, as of September, we have produced and distributed a total of 870 units of a strong morphine formula (50mg/5ml) and 2,305 units of a weaker morphine formulation (5mg/5ml). We are currently upgrading our production facility at RMS South in order to meet PMPB local manufacturing requirements, and are also exploring the possibility of potentially expanding the number of products we are able to manufacture at our RMS South facility. Other palliative care ointments are the most likely candidates for such future production.

## CMST Market

### CMST Operational Environment

Malawi is a landlocked country with infrastructure limits and is among the most expensive transportation and logistics operational environments in Africa.<sup>9</sup> Additional operating challenges include limited access to FOREX due to a limited export base and unstable foreign currency exchange rates. As a result, medium and longer-term financial and subsequently operational planning is a reoccurring challenge in Malawi.

Due to the significant support of international donors such as the Global Fund, DFID, the Royal Norwegian Government, USAID, among others, health care allocations in Malawi have risen in recent years. The total health care budget has risen from USD545M in FY2011-12 to USD635M in FY2015-16.<sup>10</sup> GOM contributions to the health budget have also increased annually, however, the total annual funding to support the health system, particularly the drug budget, is still insufficient to meet total annual health service delivery needs. Based on intervention-specific targets established by the Health Sector Strategic Plan, drug budgets have only met 46% of costed needs for Fiscal Year 2015-16.<sup>11</sup> In addition, identified inefficiencies in the public health care system put further pressure on these limited health budgets.<sup>12</sup> Due to the implementation of donor-funded, program-specific parallel supply chains, Malawi's health commodity management planning and operational environment is also complex and requires significant coordination (Annex 3).

As a result of drug budget underfunding, there is a chronic undersupply of health commodities and can result in the periodic product stock-outs. Largely manual inventory systems at the health facility level make inventory and procurement planning difficult, with the leakage of health products a continuing national challenge. In addition, due to the limited implementation of good storage practices and continuing health commodity demands, the majority of health facilities do not have adequate storage space for holding medicines and medical supplies, which requires more frequent distributions.<sup>13</sup>

The Government of Malawi is our main customer and despite the centralisation of drug budgets in 2013 we still experience delayed or non-payment (see Debt Management section). In addition, unlike other private sector suppliers, we must be compliant with ODPD procurement and PMPB quality requirements which can extend our lead times for procurement and order fulfilment process. As the procurement agent for the public health sector, our operations and performance are also often the focal point of media reporting related to health commodity undersupply or stock out issues. As a result, CMST is a highly visible organisation with a public profile that must continually be managed.

9 Malawi is ranked 170 (out of 189 countries) in terms ease of trading across borders. On average it costs \$2,200 to export a shipping container, while it costs \$2,895 to import the same container. *Doing Business 2015, Malawi Economy Profile, World Bank 2015*

10 *Resource Mapping, Malawi Ministry of Health*

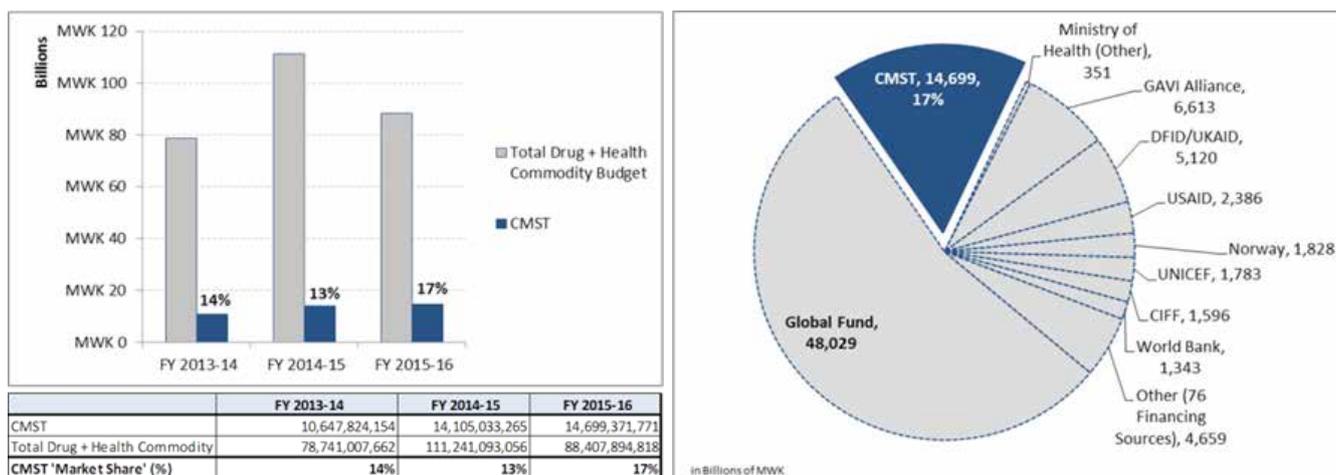
11 "Revised HSSP Costing, Directorate of Planning and Policy Development, April 2, 2015", "Revised HIV-NSP Costing, National Aids Commission, October 2014," "Revised TB-NSP Costing, National TB Program, October 2014," "Draft 2015 Quantification of Health Commodities, Directorate of Health Technical Support Services," and "Preliminary Resource Mapping Round 4 Results, Directorate of Planning and Policy Development, June 24, 2015."

12 *Study of Health Sector Efficiency in Malawi, Options (Funded by DFID) February 2015*

13 "A Rapid Assessment of Health Commodity Storage Capacity for Public Health Facilities in Malawi." USAID| DELIVER, November, 2014.

## CMST Market Share

In the last several years, our total market share of the Malawi public health commodity supply chain budget has been between 14-17%.<sup>14</sup> In FY2015-16 obligated GOM budgets for CMST totalled over MWK14 billion, with most of the dedicated funding for health commodities in Malawi flowing through the parallel supply chains (totals on next page). However, as donors such as the Global Fund, increasingly require that the GOM augment contributions to commodity budgets, opportunities for CMST to expand its market share in the future will likely increase.<sup>15</sup>



## Customer Segmentation

### Malawi Ministry of Health

The Malawi MOH is our main customer, with 20% of MOH sales roughly going to the Northern Region, 35% to the Central Region and 45% to the Southern Region. This is largely due to the distribution of the Malawian population and regional health care service delivery demands. The MOH service delivery points which we supply are segmented by their unique service profiles and consist of the following:

#### A. MOH - Central Hospitals

There are five (5) central hospitals spread across Malawi that provide tertiary, secondary and primary health care services. They consist of Kamuzu Central Hospital (KCH) in the Central Region, Mzuzu Central (MCH) in the Northern Region, and Zomba Central, Zomba Mental Hospital, and Queen Elizabeth Central Hospital (QECH) in the Southern Region. The central hospitals serve as referral hospitals and provide care in the main clinical areas of surgery, medicine and obstetrics and gynaecology. They also provide specialist services in psychiatry, ophthalmology, dentistry and provide laboratory and radiology services. As noted earlier in this document, each of our RMS facilities is conveniently located next to a central hospital (KCH, MCH and QECH), which enables us to easily supply these facilities as needed.

Due to their high patient volumes and range of services, central hospitals require a broader range of commodities in higher volumes. They report on a total of 337

<sup>14</sup> Resource Mapping, Malawi Ministry of Health, 2015

<sup>15</sup> In the Malawi Global Fund 2016-2017 concept note, a two-year commitment of USD8.5M towards ARVs was requested from the GOM.

selected health products in the MOH LMIS. However, based on the total number of items in the CMST catalogue, central hospitals can conceivably order, access and manage up to 3,340 items. As complex organisations, commodity orders from the central hospitals to CMST can be consolidated from as many 57 as in and out-patient wards. The multi-departmental nature of central hospitals along with the lack of integrated hospital-wide inventory management systems pose challenges to the comprehensive and timely submission of orders.<sup>16</sup> The central hospitals also receive commodities directly from the parallel supply chains in various push or pull models, which further complicate the supply management environment in these institutions.<sup>17</sup> Commodity orders from the MOH Central Hospitals are paid directly from the MOH.

## **B. MOH - District Health Offices, District Hospitals and Health Centres**

Malawi's 28 district health offices (DHOs) are another key customer category for CMST. Each DHO is responsible for submitting commodity orders from the health centres within them (which can vary) as well as for their respective district hospitals. In total there are 25 district hospitals nationally. The DHOs consolidate the commodity needs for their respective facilities and submit to CMST before the 10th of each month. The consolidation of these orders across many facilities can be a challenge and result in delayed order submissions. District hospitals provide primary and secondary care and require a reduced range of products compared to Central Hospitals. In the MOH LMIS district hospitals can report on the inventory levels of as much as 254 commodities in the MOH LMIS. Health centres, on the other hand, on average, report on up to 97 products. However, due to variations in their size and catchment area, some health centres can even sometimes report on as much as 276 items.<sup>18</sup>

As with the central hospitals, district-level facilities also receive free commodities directly from the parallel chains under various distribution models, which we believe potentially crowd-outs demand for certain CMST-procured broad spectrum commodities, such as cotrimoxazole and male circumcision kits. CMST commodity invoices for products distributed to the districts are paid for by the National Local Government Finance Committee (NLGFC) for that district out of budgets allocated by the MOH. The reconciliation of payments from the NLGFC has proven to be more of a challenge than payments directly from the MOH.

## **C. MOH Program or Ad-hoc donations**

We also support the MOH by storing and distributing products they receive through both program and ad-hoc donations. Examples of routine donations that support MOH programs include TB products funded by the Global Fund, family planning products from UNFPA, and injectable artesunate from CHAI/UNITAID (Annex 3). More recent examples of ad-hoc donations include the donation of assorted medicines from the United Arab Emirates and the World Health Organisation (WHO). We apply a 10% service fee based on the total value of the donation (see pricing strategy) which is invoiced to the MOH on a quarterly basis. The distribution of these products is based on distribution lists provided by the MOH.

<sup>16</sup> Delayed submission of monthly orders from Central Hospitals is observed to be more common than late orders from DHOs  
<sup>17</sup> Ad-hoc donations arranged by the wards themselves also further complicate the inventory tracking and planning.  
<sup>18</sup> MOH LMIS Data, August 2015

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## Private Sector Customers

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Non-government customers are not our traditional customers. However, we do supply medicines and health commodities to a limited number of CHAM facilities. Currently, these consist of fifteen (15) CHAM hospitals in the Northern Region and ten (10) CHAM hospitals in the Southern Region. CHAM operates under a service level agreement (SLA) with the MOH which is in the process of being updated.

Due to the expected change in MOH SLA eligibility criteria, the number of CHAM facilities under an MOH SLA will likely decrease.<sup>19</sup> As an independent organisation, CHAM has their own wholesaler and are able to procure health commodities directly from private suppliers as needed. As a result, CHAM is less reliant on CMST's supply services.

Currently CHAM maintains an outstanding debt to CMST.<sup>20</sup> However, as a request from the Parliament, we will establish a credit facility with CHAM whereby they will be able to procure from us on credit. While customers in the private sector such as CHAM are not common for us, we believe they represent an important opportunity for growth and will explore this market in the years to come.

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## CMST Supplier Environment

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### **National Suppliers**

We procure about roughly 70% of our commodities by value from local suppliers. The majority of them are wholesalers and not manufacturers. Local wholesalers often do not maintain large stocks in-county, and often only source requested products once they have won a CMST bid. As they require a four (4) week lead time,<sup>21</sup> they are not always in the position to immediately address emergency orders. The advantage of procuring from local suppliers is that they accept credit<sup>22</sup> and in the rare event of product quality issue, we are able to more easily and directly communicate with them for supply replacements.

### **International Suppliers**

When executing emergency procurements or bulk procurements over MWK100M we normally source from international suppliers. The lead-times for non-emergency procurements from international suppliers are usually between eight (8) to sixteen (16) weeks.

As the orders to these suppliers are larger by value and volume, we are able to achieve better cost savings with international suppliers compared to local suppliers. As these suppliers require payment in advance,<sup>23</sup> our internal debt and cash flow issues limit our opportunities to take advantage of the cost saving provided by these suppliers. In addition, as these suppliers only take foreign currencies (USD, GBP, SA RAND, etc.); unfavourable Malawi Kwacha international exchange rates undermine overall CMST procurement purchasing power.

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19 *Previously, a CHAM facility had to be at least 6KM away from an MOH facility to be considered for inclusion in an SLA, this requirement is being increased to 8KM, which will likely reduce the total number of CHAM facilities under an MOH SLA.*

20 *As of October 2015, due to their participation in the donor-funded Primary Health Care "kit" project, CHAM has a total of MWK396M in outstanding debt to CMST.*

21 *Even with a 4 week lead time, it is observed that this lead time is not often met by suppliers.*

22 *Local Purchase Order (LPO) payment terms are 30 days after delivery*

23 *This is done through letters of credit*

### **Prequalified suppliers**

We procure all our medicines from twenty-two (22) prequalified medicine suppliers.<sup>24</sup> These include eleven (11) international and eleven (11) local suppliers. These suppliers have already passed our internal and PMPB product quality requirements and so do not undergo a quality review with each order. Our list of prequalified suppliers is effective for two years, with the current list up for tender in 2017.

Currently, we are establishing five (5) indefinite quantity contracts (IQC) with suppliers for the following items: oncology medicines, insulin, intravenous fluids, anti-rabies vaccines, dental cartridges, and surgical sutures. The objective of these IQCs is to agree to a lower, fixed unit costs regardless of the quantity ordered and achieve improved cost savings. We plan to expand this list of items during the 2015-2020 period.

### **Buy Malawi Campaign**

In support of the Buy Malawi Campaign (BMC), in 2013 the GOM, CMST and the Pharmaceutical Manufacturers Association of Malawi (PHAMAM) entered into a framework agreement for CMST to exclusively procure forty-two (42) selected items (Annex 2) from five (5) local manufacturers. This includes SADM, Kentam, Pharma Nova, Victoria Pharmaceuticals, and Malawi Pharmacies Limited. The goal of this agreement is to support the local manufacturing industry and strengthen the overall business environment in Malawi.

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<sup>24</sup> Each prequalified entity supplies a list of medicines that is also prequalified by CMST.

## CMST Marketing & Sales Plan

### Overview

Our goal as CMST is to establish ourselves as the supply chain provider of choice in Malawi.

As a part of our 2015-2020 business plan we will establish dedicated marketing and sales functions. Previously, these were responsibilities that have been shared across multiple business units. We will also establish dedicated customer service teams to lead customer communications, issue resolution follow-ups and overall customer relationship management. The strengthening of our customer and sales focus as an organisation is a critical priority in the implementation of this business plan.

As we implement this business plan, we understand that we operate in a competitive environment and that we must continually win our business. We have identified the following factors that help to differentiate us from other public and private supply chain service providers in Malawi. These differentiators will serve as the foundation of our marketing, customer outreach and sales activities.

Organisational Differentiator	Rationale
<b><i>Commitment to serving the Ministry of Health and Malawi</i></b>	As a Malawian organisation, we are personally committed to ensuring that the people of our country receive the medicines and medical supplies they need. We invest in the long term sustainability and success of our organisation in order to meet this commitment.
<b><i>The provision of highest quality medicines and supplies</i></b>	We hold the products that pass through our facilities to the highest quality standard. As an organisation that serves the public sector, CMST employs rigorous quality testing under the oversight of the PMPB and prioritises the traceability of products both in and out of our facilities.
<b><i>The widest distribution network in Malawi</i></b>	Our regionally-based facilities allow us to have a national reach and enable us to more quickly address customer issues. It also allows us to better establish and maintain direct relationships with our customers to better understand and adapt to their service needs.

## Marketing and Sales Plan

In order to achieve our sales targets for the coming five (5) years (see below), win new business and build customer confidence in our services, CMST will implement the following sales and marketing initiatives.

### **A. Strengthen customer relationship management through RMS-based sales and marketing teams**

The establishment of sales and marketing functions at the RMS facilities is the cornerstone of our customer relations strategy for the 2015–2020 period. A key initiative in this strategy is the establishment of regionally-based Customer Service Representatives at each RMS. This role will be responsible for leading our customer engagement strategy to ensure that our services meet customer needs and expectations. As an internal dedicated resource to ensuring customer satisfaction, they will lead customer communications, monitor the fulfilment of orders, and troubleshoot any process issues that may delay or compromise the quality of our service delivery.

These customer service representatives will also directly support DHOs and our customers to better track their drug and commodity budgets and address any invoicing issues. They will also elevate any financial issues to the MOH and the NLGFC as they arise. As a part of our RMS-based sales and marketing team, we will also establish a Sales Analyst position. These analysts will be dedicated to monitoring and analysing sales trends (see below) and will support the Customer Service in engaging our customers to improve our service capacity as an organisation.

#### Reaching, retaining and increasing our customer base

Through the Regional Sales and Marketing teams, we will reach our customers through routine meetings, emails and phone calls. Quarterly zonal meetings and a recently established DHO WhatsApp group will also be ways in which we will more directly communicate and engage with our customers. We will also utilise our website to communicate more general CMST operational information, including the roll-out of new products or any updates to our product catalogue.

#### Customer relationship effectiveness monitoring

We will assess the effectiveness of our customer engagement based on our supply chain performance indicators. These include order fill rate, the number of emergency orders, stock turnover rate, and measuring progress against quarterly sales targets. This responsibility will be transitioned from the RMS Pharmacist-In-Charge (PIC) to the new RMS-based sales and marketing teams. The Quality Assurance Unit as well as the Internal Audit Unit will also support this monitoring.<sup>25</sup>

### **B. Improve and strengthen the order submission process**

Orders submitted from customers initiate the operational planning cycle for our organisation. The information they provide inform our distribution, procurement and RMS restocking cycle. It is critical that orders are submitted on time and are accurate. As a part of our organisational KPIs, we aim to achieve an 80% on-time order submission rate by mid-2016. In order to achieve this target, our customer service representative will work with the DHOs and Central Hospitals to address any barriers or bottlenecks to the timely submission of their orders. We will also roll

out an online ordering system in early 2016 to further facilitate the timely submission of customer orders.

### **C. Initiate quantification and demand planning processes to strengthen organisational supply chain information integration**

Under the CMS model, as a part of the MOH, we relied on the MOH quantification and forecasting process to understand customer demand. We will now initiate our own forecasting and demand planning processes based on the data from the actual orders we receive from our customers. In 2016 our logistics team, with support from our RMS customer sales representatives, will begin the development of biannual product demand forecasts. The demand trends identified for each product will be used to validate our commodity procurements and better inform and implement our RMS stocking plan. Currently, the RMS stocking plan is guided by a formula based on the regional distribution of the Malawian population (p.17). As central hospitals submit the most emergency orders and require the broadest range of products, demand planning and forecasting for these facilities will be particularly prioritised. The overall goal of initiating CMST-owned forecasting and demand planning process is to ensure that we are a demand-driven organisation, and are able to more effectively reduce the risk of over and under procurements.<sup>26</sup>

### **D. Strengthen Sales Monitoring and Analytics**

Each RMS has a monthly and quarterly sales target. Through our regional sales and marketing team, we will strengthen the monitoring and analysis of our performance against those regional targets. By understanding the root causes why a monthly sales target has, or has not, been met, we will be able to more effectively identify and subsequently resolve any planning or operational issues. We will also aim to reconcile booked sales against actual invoices paid and will work with the NLGC and the MOH to streamline and accelerate the invoice payment process.

### **E. Improve product availability at each RMS**

If we as CMST are to retain and win new customers we must fulfil their commodity requests in the amounts they need. CMST currently has a 59% product availability rate for items in our product catalogue, and 77% product availability for the products on our MHL. As outlined in our Corporate Strategy, our KPIs include improving our order fill rates by achieving 50-70% product availability for our catalogue items and 70%-80% product for our MHL.<sup>27</sup> This will be achieved by moving away from “spot” emergencies towards more national and international competitive tenders. Ideally our goal is to float two (2) international tenders each year. We will aim to reduce the number of emergency RFQs to suppliers by 50% which will be achieved through improved product demand planning (see above).

### **F. Implement a public relations strategy to promote CMST transparency and educate the public on CMST operations and performance**

We will also be able to maintain current customers, and eventually expand their numbers, if they have confidence in us as an organisation. We will build this confidence through an active public relations campaign. We will start producing brochures and newsletters intended for internal and external stakeholders to

<sup>26</sup> In the coming years, we explore a model to transition to a RMS requisition or “pull” based system to stock the RMS facilities.

<sup>27</sup> Target order fill rates will vary from product to product as relevant to its context. A separate indicator document will be developed which will contain the details of our internal performance indicators.

more proactively update the public and partners on CMST performance and our progress towards organisational reform goals. We will also implement a journalist workshop to better educate journalists on CMST operations and national supply chain challenges. In addition, we will produce a radio documentary program that will better educate the Malawian public on national supply chain issues and what we as an organisation are doing to address them.

## Pricing Strategy

Among the main goals of establishing CMST was to set up a financially-independent health commodity procurement, warehousing, distribution service provider that would be able to fund its own operations through a service-fee model. However, despite the change in models, CMST maintained the pricing structure that was implemented under CMS even when it was re-established as CMST. In 2014 we updated our tiered pricing structure below to better reflect our current financing model. The goal of our pricing model is to better cover our operational costs, mitigate the challenge of deferred customer payments, implement cost controls, and achieve a level of cash flow that will allow us to execute bulk medicine and commodity procurements.

### Product Catalogue Item Costs – Varies

The individual cost of items in the CMST catalogue and MHL varies from product to product. We take into account the variance of costs between suppliers and select the average cost for each product. Our product costs are in Malawi Kwacha, while supplier costs, both national and international, are usually in foreign currencies, such as the US Dollar or South African Rand, which can pose currency exchange planning challenges.

### Full procurement, warehousing and distribution services – 20%

We apply a 20% fee for the provision of the full complement of CMST's services, which includes procurement, quality assurance, storage as well as distribution. This fee is applied to the cost-in-freight (CIF) costs of the product. This is a flat fee that is applied regardless of the weight or the amount of time a product is stored at our facilities. This is the pricing structure for most of our MOH-funded products.

### Storage and Distribution (Donated products) – 10%

Periodically the MOH receives a donation which CMST stores and distributes based on distribution a list provided by the MOH or the donor. We apply a 10% fee, based on CIF of the donated products. In the past, these donations (both ad-hoc and routine) have come from such organisations as the United Nations Population Fund (UNFPA), the World Health Organisation (WHO) and the Global Fund.

## Sales Forecast

Our five (5) year sales forecast for CMST is based on identified 2010-2014 trends with the assumption of an annual 30% increase. The class for tablets and capsules includes most essential medicines, and the most frequently requested items in the catalogue. The galenicals category includes the raw materials used the in-house production of morphine. While the miscellaneous items category includes items that are specially requested by the customers. In the past, these have included control drug books, prescription pads, as well as requisition books. The DFID funded products come from multiple classes and make up 14% of the annual projected sales as per the table below:

	2015 / 2016	2016 / 2017	2017 / 2018	2018 / 2019	2019 / 2020	
CLASS	MK'000	MK'000	MK'000	MK'000	MK'000	
A:Tablets/capsules	6,607,258	8,589,435	11,166,266	14,516,145	18,870,989	32%
B: Injectable	1,078,647	1,402,242	1,822,914	2,369,788	3,080,725	5%
C:Vaccines	212,608	276,391	359,308	467,100	607,231	1%
D:Raw Materials	59,348	77,153	100,299	130,389	169,505	0%
E:Galenicals	1,006,597	1,308,577	1,701,150	2,211,495	2,874,943	5%
F:Surgical Dressings	2,498,674	3,248,276	4,222,759	5,489,586	7,136,462	12%
G:Sutures	1,410,318	1,833,413	2,383,437	3,098,468	4,028,009	7%
H:Surgical Equipment	2,407,270	3,129,452	4,068,287	5,288,773	6,875,405	11%
K: Dispensary Items	79,663	103,562	134,630	175,019	227,525	0%
L:Hospital Equipment	154,213	200,477	260,621	338,807	440,449	1%
M: Laboratory Reagents and Materials	496,461	645,400	839,020	1,090,725	1,417,943	2%
N: X-Ray Films and Equipment	491,391	638,808	830,450	1,079,585	1,403,461	2%
P: Dental items	191,118	248,453	322,989	419,886	545,851	1%
Q: Miscellaneous Items	604	785	1,020	1,326	1,724	0%
R: Hospital Beddings	126,266	164,145	213,389	277,406	360,627	1%
TB:TB Products	1,001,752	1,302,278	1,692,962	2,200,850	2,861,105	5%
DFID Products	3,020,006	3,926,007	5,103,810	6,634,953	8,625,438	14%
Distribution Revenue on Donations	104,845	136,299	177,188	230,345	299,448	1%
<b>Annual Projected Sales Total</b>	<b>20,947,040</b>	<b>27,231,152</b>	<b>35,400,498</b>	<b>46,020,647</b>	<b>59,826,841</b>	
				<b>Grand Total</b>	<b>189,426,178</b>	

## Sales Targets – By Region

The Southern Region is expected to continue having the most sales due to its large population as well as its' three (3) central hospitals.<sup>28</sup>

	2015 / 2016	2016 / 2017	2017 / 2018	2018 / 2019	2019 / 2020	
REGION	MK'000	MK'000	MK'000	MK'000	MK'000	
SOUTH (45%)	9,426,168	12,254,018	15,930,224	20,709,291	26,922,079	
CENTRE (35%)	7,331,464	9,530,903	12,390,174	16,107,226	20,939,394	
NORTH (20%)	4,189,408	5,446,230	7,080,100	9,204,129	11,965,368	
<b>TOTALS (MK)</b>	<b>20,947,040</b>	<b>27,231,152</b>	<b>35,400,498</b>	<b>46,020,647</b>	<b>59,826,841</b>	
				<b>Grand Total</b>	<b>189,426,178</b>	

## Sales Targets – By Customer Segment

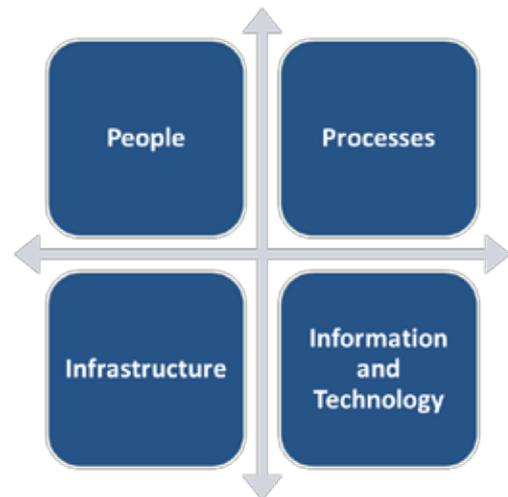
District hospitals and health centres will continue to be our largest customer category. We anticipate this customer category to increase through the opening of new health centres. The “Others” category includes the distribution of donated products to health facilities, which incurs a 10% fee.

	2015 / 2016	2016 / 2017	2017 / 2018	2018 / 2019	2019 / 2020	
SALES BY CUSTOMER SEGMENTS	MK'000	MK'000	MK'000	MK'000	MK'000	
DISTRICT HOSPITALS & HEALTH CENTRES	11,520,872	14,977,134	19,470,274	25,311,356	32,904,763	55%
CENTRAL HOSPITALS	7,959,875	10,347,838	13,452,189	17,487,846	22,734,200	38%
CHAM & OTHERS	1,466,293	1,906,181	2,478,035	3,221,445	4,187,879	7%
<b>TOTALS(MK)</b>	<b>20,947,040</b>	<b>27,231,152</b>	<b>35,400,498</b>	<b>46,020,647</b>	<b>59,826,841</b>	

# Operational Plan

## Overview

In support of the achievement of our 2015-2020 sales targets, as well as the implementation of our 2015-2020 Corporate Strategy, we will execute an operational plan organised along the following dimensions: A) people, B) processes, C) infrastructure, and D) information and technology. Our priorities and plans to execute and strengthen each of these dimensions is as follows:



## I. People

The staff at CMST are our most valuable asset. As an organisation, we want to make sure that we have the right staff with right skills in the right positions. Our Human Resource (HR) Department ensures and oversees all aspects our staff resourcing,<sup>29</sup> development, motivation, welfare, and policy development initiatives.

As we roll out our sales and marketing teams at the RMS-level and operationalise the new national warehouse in Lilongwe in 2016, we will align our staffing and skills to meet our changing operational requirements. In order to better manage personnel needs for the 2015-2020 period, we will build on the new performance indicator management system (PIMS) established under the IHS capacity building initiative. This system provides a platform for managers to provide feedback in their staff, and helps to more effectively align individual employee performance with the individual requirements of a particular position.

In the 2015-2020 period we will prioritise the development and standardisation of comprehensive HR policies and procedures. We will develop SOPs and policy documents concerning staff development, HIV workplace policies, as well as disciplinary guidelines. We also plan on undertaking a comprehensive review of our organisational functions and structure and will conduct a comprehensive re-evaluation of staff roles, qualifications and remuneration before mid-2016. We will also align staffing and training plans to the 2015-2020 Corporate Strategy before the end of 2015.<sup>30</sup> By the end of 2015 we will develop performance targets and work plans for each staff member and will be implementing quarterly staff performance reviews.

## II. Processes

In order to support the implementation of the Sales Plan activities, the following key management processes and systems will be strengthened and standardised with the goal of improving operational efficiency and effectiveness.

<sup>29</sup> Includes staff planning, recruitment and selection

<sup>30</sup> Staff training will prioritise skills building in customer management, health commodity forecasting, sales and marketing functions, etc.

## **A. Organisational Governance & Oversight**

### Implementation of the 2015-2020 Corporate Strategy

CMST's Corporate Strategy document provides an implementation and monitoring framework to ensure that CMST's activities and resources are aligned towards shared organisational goals. In order to ensure that CMST operational activities work towards these priorities, our Senior Leadership and Business Unit Managers will collaborate to implement, monitor and report on our progress in implementing these strategies and achieving their intended goals (See 2015-2020 CMST Corporate Strategy document).

### Development and Monitoring of Business Unit Workplans

In order to strengthen our planning capacity, we will more effectively formalise our workplans and their monitoring as a part of our routine management activities. We have developed a new work planning tool which each business unit will complete to more effectively ensure that workplan timelines, inputs and deliverables are clear and understood. These will be routinely reviewed, updated on a quarterly basis, and will be proactively shared across the organisation to strengthen cross-functional coordination, planning and management oversight. All internal business units will complete their workplans by December 2015.

### Risk Management Monitoring

In 2015 an internal audit unit was established at CMST. The goal of this unit is support CMST improve our organisational risk management, corporate governance and internal controls. The CMST risk management framework was approved by the CMST Board in August 2015 and a risk register will be completed by the end of 2015. This risk register will consist of a list of identified risks based on impact and the likelihood of their occurrence. The goal of this framework is to either remove or mitigate identified organisational risks. Each year our audit team will develop a risk mitigation plan, which will be approved by the CMST Trustee Board, which will include an implementation plan to address those organisational risks.

As a part of our risk management initiative, in November 2015, we will begin participating in Deloitte's "Tip-off" Hotline service. This is a fee-based whistle-blowing service used by over 30 organisations in Malawi. It allows employees and the public to anonymously report instances of fraud, theft or any ethical concerns to a hotline. This service then compiles reported incidences for action by an internal CMST Anti-Fraud Committee to be established by the end of 2015.

### Performance Indicator Management System (PIMS)

As noted in the People section above, we will continue to roll-out the PIMS systems to all our units. This will strengthen manager oversight on staff performance in order to better identify areas of improvement and better guide staff to task or role requirements.

### CMST Reform Committee

In 2010 donors and the MOH established the parallel supply chains (PSCs) to address governance and capacity concerns at CMST as it transitioned from a functional unit under the MOH to an independent organisation. As the PSCs (see Annex 3) were not intended for permanent implementation, in 2012 CMST and its partners

developed the Joint Strategy for Supply Chain Integration to better identify a path for the reintegration of the PSCs into the national, CMST system. The plan is made up of thirty-six (36) indicators that demonstrate various aspects of CMST's operational capability (see Annex 4). While the formal monitoring of progress against the strategy did not commence until early 2015, CMST is committed to continuing its progress against these milestones. By the end of 2015 a DFID-funded evaluation will be conducted to assess CMST's reported progress against these milestones. In the next five years we will ensure that the priorities of the integration plan are also a part of the implementation of the Corporate Strategy and the Business Plan.

## **B. Financial Management**

The management of CMST's debt is the main priority of our financial plan. In addition, priorities include strengthening overall financial controls and management, improving customer invoicing, and also implementing the new funding mechanism which consists of direct funding from the Treasury Department (See Financial Plan section).

## **C. Quality Management Systems**

The continuous improvement of our internal operational and management systems is one of our six (6) corporate strategies. The goal of this strategy is to continuously improve the efficiency and effectiveness of our operations to establish an organisational culture that is self-critical, open to change, and committed to improving our customer service performance.

As laid out in the Corporate Strategy, we will continue to improve the quality assurance systems in all units through the continued roll-out and implementation of the CMST Quality Management System (QMS). Activities included in this quality framework include establishing SOPs, implementing the PIMS system (see above), standardising document and information management systems, as well as developing other unit-specific guidelines and instructions. These activities will be monitored by a dedicated QMS Administrator which will be hired by March 2016. In addition to the current QMS, CMST will simultaneously implement the WHO Model Quality Assurance System (WHO MQAS). This quality standard (Annex 5) has been endorsed by international donors, including the Global Fund, and we aim to achieve this standard by mid-2017.<sup>31</sup>

The Pharmacy, Medicines and Poisons Board (PMPB) tests all the medicines that pass through the CMST system. In some instances this can take as long as three months.<sup>32</sup> As a result, in order to better meet customer expectations, we will be working with the PMPB to expedite this process by implementing skip batch testing for all products starting early 2016.

<sup>31</sup> Some elements of this MQAS have already been initiated under the QMS work as well as under procurement SOP development work

<sup>32</sup> This is in part attributed to the limited capacity and resources of the PMPB.

## **D. Public Relations**

The health commodity stock-outs have been an ongoing challenge in Malawi. The national media frequently report on product stocks outs at health facilities and at the central hospital level. As we are often at the centre of these media reports, we will proactively engage with the media to ensure that their reporting is informed and reflects the complexity of the supply chain challenges faced by Malawi. By mid-2016, we plan on holding a journalist workshop to train journalists on supply management principles and concepts so they are able to more accurately and effectively report on these critical issues. Other stakeholders we will more proactively engage include patient groups, health rights NGOs, as well as other health advocacy organisations.<sup>33</sup>

In addition, in order to strengthen the transparency of CMST, we will also begin to better inform the public on our operations and reform progress to date.<sup>34</sup> We plan on developing a radio series on CMST as well as developing promotional articles for national newspapers. Our public relations (PR) team will also develop a quarterly newsletter, brochures, and other targeted promotional materials to better update our stakeholders on our operations and our reform. As previously noted, in order to more effectively reach out to our customers a DHO WhatsApp group was established in September 2015. We will also start sending out bulk text messages to remind our customers of our order submission deadlines and to inform them of other process requirement issues.

## **E. Product Selection**

The latest CMST catalogue was released in hard copy in October 2015. It lists a total of 3,340 medicines and health-related commodities that customers can procure through the CMST procurement system. In collaboration with our partners,<sup>35</sup> we will update this product masterlist on a quarterly basis and post the updated versions on the CMST website.<sup>36</sup> In addition to the master catalogue, we also maintain the product MHL. This list includes items which CMST aims to have in full supply. Currently, there are 944 MHL items, of which, roughly 40% are laboratory items. In order to make it a more manageable list, we aim to collaborate with our partners to reduce this list to less than 500 by the end of 2015. Our goal is to have the MHL cover 90% of our customer demands, with the rest covered under the master catalogue.

In order to reduce delays in the order process caused by back and forth communications on product specifications, we will also develop a document that will provide guidance on product specifications to better support our customers during the order submission process. This task will be led by the Director of Pharmaceutical Operations in 2016.

<sup>33</sup> As an example, we have partnered with the Palliative Care Association of Malawi to promote palliative care product standardisation

<sup>34</sup> Our commitment to transparency will be founded on the parliament's pending Access to Information legislation.

<sup>35</sup> The CMST product specification process will also be guided by changes in the regulatory environment and national and WHO treatment guidelines and policies

<sup>36</sup> <http://www.cmst.mw/>

## **F. Procurement**

As a core business function, we will continue to build the capacity of our procurement function and procurement team. Currently, we have six (6) staff in the procurement unit and will add two (2) additional staff to improve our internal process times and work load. The recruitment of a new Procurement Manager, which is currently being led by an external recruiting agent, is a critical priority, and is targeted for completion in early 2016.

In 2015 internal standard operating procedures (SOPs) were developed and once approved by the CMST Senior Leadership, an internal training program will be rolled out before the end of 2015. The objective of these SOPs is to standardise activities, internal process-times and to improve overall procurement performance. In addition, we also aim to improve our procurement function by streamlining our MHL, providing more robust guidance to our customers, as well as executing more procurements under framework agreements/IQCs with prequalified medicine suppliers. In 2015 we developed a supplier performance assessment tool to monitor and evaluate CMST suppliers to better manage the order fulfillment process and to inform decision-making related to future contract awards.

Our goal is to move away from an implementation model characterised by “spot” or emergency orders to one based on planned and consolidated orders. This will be achieved by the clearing of CMST debts which will provide the needed cash flow to execute bulk procurements as well as improving the timeliness of order submissions. In addition, we will undertake CMST-owned forecasts and quantifications (see Marketing and Sales Plan section) to inform our procurements and improve product availability at our RMS facilities.

## **G. Forecasting & Quantification**

As noted earlier (see Marketing and Sales Plan), CMST will initiate our own forecasting and demand planning process under our Logistics Unit. While AccPac has a supply planning functionality we will explore other forecasting methods and not limit ourselves to our current data management systems.

In late 2015 we began the process of expanding our Logistics team so that we are more adequately staffed to develop these forecasts and to also ensure that other inventory information is more effectively utilised for organisational planning and decision-making.

## **H. Distribution**

Since mid-2014, we have been collaborating with Imperial Health Sciences (IHS) on the joint national distribution of CMST-procured products and over USD24Million in DFID-procured essential medicines. In 2015, a distribution model study funded by DFID was conducted and a hybrid distribution model was recommended to achieve cost savings. Under this model, CMST will only 1) distribute commodities internally from the central depot warehouses to the three RMS and 2) distribute from the RMS facilities to the five central hospitals. A third party logistics provider (3PL) under contract to CMST will then execute the direct distribution of products

to Malawi's health centres. Currently, this distribution is being conducted by Cargo Management Logistics (CML) under contract to IHS under the larger DFID contract. When the DFID-funded IHS contract with CMST ends in 2015, this 3PL sub-contract will transfer to CMST until mid-2016 in order to complete the distribution of the DFID commodities. After June 2016 this contract will then be reopened for competitive bidding. Under this new model, we are expected to save 20% in fleet maintenance and repair costs.<sup>37</sup>

In addition to the implementation of the hybrid distribution system, as a priorities, we will reduce intra-CMST redistribution costs by the end of 2016, strengthen procurement planning processes, improve inventory control systems, and collaborate with suppliers to implement Just-In-Time (JIT) supplier deliveries. In order to more effectively support the implementation of these activities, we are currently in the process of restructuring and expanding our internal logistics unit.

### III. Infrastructure

#### Warehousing Improvement Plan

The completion of the new national pharmaceutical warehouse in Lilongwe is our main warehousing priority. The completion and operationalisation of the warehouse is expected in early 2016. In addition to the increased storage space this new facility provides, it will also allow us to end the renting of the Kanengo and Manobec warehouses, which will save CMST MWK223,000,000 a year in rental costs. The products currently stored and materials handling equipment utilised at the rental warehouses are expected to be transitioned to the new warehouse by April 2016.

The DFID-funded CMST-IHS contract was originally to end at the close of 2015, but will be extended to mid-2016 due to the procurement of additional essential medicines by DFID. Once the contract ends, the equipment funded by DFID installed at the IHS warehouse will be moved to the new national warehouse. This new equipment is expected to further accelaterte the operationalisation of the new national warehouse.

Priorities for the 2015-2020 period also include achieving PMPB pharmaceutical certification as well as International Standard Organisation (ISO) quality certifications. Under the warehouse improvement plan, planned upgrades to our facilities included the installation of forced ventilation systems, air conditioning, and the implementation of warehouse floor and wall improvements. These are planned for the current CMST warehouses as well as the pending national warehouse. The flammable storage facility at RMS Central is also planned for refurbishment. Upgrades to the RMS sections specifically designated for the storage of TB products will also occur.

By the end of 2016, we also plan on upgrading of our warehousing material handling and safety equipment. This includes procuring additional hand pulleys (5), electric pedestrain stackers (2), fire extinguishers (6), temperature monitoring probes (8) and refridgerators (2) for the Lilongwe RMS.

## IV. Information and Technology

The Information Communication and Technology (ICT) Unit is made up of nine (9) staff members, comprised of two (2) technical staff and seven (7) data entry clerks. They sustain internal electronic hardware and software support to all CMST staff. They oversee and maintain the website, email, file servers, active directory services as well as the Sage 300 ERP (AccPac) system.

### Sage 300 ERP (AccPac) system

As the Enterprise Resource Planner (ERP) for CMST, the AccPac system manages multiple organisational functions. These include various procurement (supplier requisitions, LPOs), inventory management (stock reports, transfers, sales) as well as financial management functions (payables, receivables, general ledger, etc.)

While AccPac includes most of the required functions, outstanding user requirements and user interface requirements need to be better understood. As a result, one of the priorities of the ICT team is to conduct an internal functional review of AccPac before the end of 2015. The installation of barcode scanners to improve inventory stock accuracy as well as the roll out of an online customer ordering system via the CMST website are also both priorities by mid-2016. In late 2015, current stock position data was made available for the first time on the CMST website, and over the 2015-2020 period, ICT will improve and expand our online inventory and order reporting capability to our customers. The goal is to eventually have real-time order status and order history reporting to our customers. In addition, our ICT teams will make reports for internal management decision-making more user friendly in order to promote data use for decision-making.

In order to more effectively manage our stocks, the ICT section will also introduce a separate warehouse management system with inventory planning, pipeline and more robust reporting functionalities that will integrate into the AccPac system. We will also explore the implementation of RFID inventory tracking to strengthen product storage and distribution monitoring with the goal of implementing in our facilities by 2017.<sup>38</sup>

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<sup>38</sup> Ideally these systems will be 3G based and track all product movements within CMST facilities, products in-transit, as well as products at the health facility level

## Financial Plan

### Overview

The CMST was established on the concept of implementing a self-financing service-fee-based model. Under this model, revenues collected through the provision of CMST procurement, warehousing and distribution services would fund internal operations. Proceeds from the donor-funded, UNICEF-implemented Primary Health Care (PHC) project,<sup>39</sup> as well as DFID essential medicines Component I and II procurement contributed the recapitalisation of CMST after it became independent from the MOH. As of June 2015, a total of MK 17.7bn in recapitalisation funds were collected.

In order to procure stock to sell to our customers and for the CMST self-financing model to work, timely and full payments from customers to CMST must occur. However, since CMST was re-established, payments from the MOH for services rendered have been a continuing challenge. While MOH drug budgets were centralised in July 2013 in part to address this problem, delayed payments from the MOH and NLGFC have still been experienced. As of June 2015, we still have an outstanding MWK7.9bn in arrears from the MOH.

### Debt management plan

When CMS was re-established as CMST in 2011, it inherited a total of debt of MWK 3.1bn from CMS. Over two billion (2.1) of this debt was paid by the Treasury, leaving a total debt of MWK1.035bn, which was a challenge during CMST's start-up phase.

This outstanding debt had accumulated over the years through the delayed or lack of payment from the MOH and GOM. Prior to the centralisation of drug budgets, hospitals and districts directly reconciled their invoices directly with CMST on a monthly basis. Under this decentralised model, MOH drug budgets were not ring-fenced and some of the funding originally allocated for medicines and other health commodities were used to procure other identified facility needs, such as fuel, food and vehicle repairs. While a cash and carry model has been proposed on many occasions over the years,<sup>40</sup> given the critical role CMST plays in supporting the public health system in Malawi, it is an idea that has not gained much GOM or partner support.

In July 2013 the national drug budgets were centralised, whereby rather than being paid directly by the DHOs and central hospitals, CMST was to be paid directly from the MOH and the NLGFC. The MOH was to directly pay for supplies and services provided to the central hospitals. The NLGFC was to directly pay for supplies and services provided to the district hospitals and health centres. While this new mechanism was largely developed to ensure CMST received more timely payments, due to continuing budget deficiencies<sup>41</sup> as well as overall administrative delays, the new mechanism was less impactful in addressing CMST's debts as originally designed. CMST's debt since it was established is as follows (next page):

<sup>39</sup> This was UNICEF-implemented essential medicines national kit distribution project implemented from January 2012 to September 2013.

<sup>40</sup> Private sector customers like CHAM, Malawi Blood Transfusion, and Blessings Hospitals implement both cash and carry as well as credit arrangements.

<sup>41</sup> In the 2015-16 GOM fiscal year the MOH and NLGFC has a total of roughly MWK 15 bn of GOM budget support for the procurement of medicine and health commodities, which is well below the estimated MWK 34 bn

**CMST Organisational Debt****by Cumulative Fiscal Year****(in MWK Billion)<sup>42</sup>**

FY2011-12.....	3.657
FY2012-13.....	4.284
FY2013-14.....	4.457
FY2014-15.....	9.357
FY2015-16.....	7.954

In 2016, under a new financing model CMST will be paid directly from the GOM Treasury on a quarterly basis. This new model is expected to more directly address delayed or non-payment issues to CMST. This payment in effect will be an advance payment for the commodities provided for next quarter. Ideally, the total received each quarter will be 25% of the total MOH drug budget. However, each subsequent payment will also be contingent on approvals by the MOH and NLGFC based on a reconciliation of invoices, in which case, varied disbursements from quarter to quarter are expected. However, the actual operationalisation of this funding mechanism is still to be detailed by the GOM in continuing discussions.

The first payment of this mechanism in early 2016 is expected to clear most of CMST's current debt. As previously mentioned in this document, the improvement of our cash flow and the elimination of our debt will allow us to more routinely execute bulk procurements to improve overall stock position and national product availability.

In 2015, in order to better manage and track our debt, we also began including invoices with product deliveries. We will also begin conducting monthly debt reconciliation follow-ups with the MOH and the NLGFC. We will also began more regular engagements with the CHAM secretariat to better manage their outstanding debt to CMST. Overall, the continued engagement with the GOM, our primary customer, on the issue of outstanding debt to CMST is and will continue to be a critical success factor in the implementation of our 2015-2020 business plan.

## Income Statement

As a not-for-profit organisation, we aim to cover our operational costs along with a 1% surplus to cover unanticipated expenses. Increases in operational costs during the 2015-2020 period are largely due to staff increases in the auditing, warehousing, logistics, and distribution sections.

### STATEMENT OF COMPREHENSIVE INCOME

#### INCOME

	2015 / 2016	2016 / 2017	2017 / 2018	2018 / 2019	2019 / 2020
	MK'000	MK'000	MK'000	MK'000	MK'000
Sales	20,947,040	27,231,152	35,400,498	46,020,647	59,826,841
Cost of sales	17,455,867	22,692,627	29,500,415	38,350,539	49,855,701
<b>Gross profit</b>	<b>3,491,173</b>	<b>4,538,525</b>	<b>5,900,083</b>	<b>7,670,108</b>	<b>9,971,140</b>

#### Other Income

Disposal Proceeds	25,300	30,000	5,000	5,000	5,000
Investment Income	223,457	234,630	246,361	258,679	271,613
Rental income	34,080	37,488	41,237	45,360	49,897
Warehousing Revenue	116,235	127,859	140,644	154,709	170,180
	<b>399,072</b>	<b>429,976</b>	<b>433,242</b>	<b>463,748</b>	<b>496,689</b>

<b>Total income</b>	<b>3,890,245</b>	<b>4,968,501</b>	<b>6,333,325</b>	<b>8,133,856</b>	<b>10,467,829</b>
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#### EXPENSES

Operating expenses	1,867,775	2,334,718	2,918,398	3,647,997	4,559,997
Depreciation	143,678	179,597	224,496	280,620	350,775
Board expenses	65,463	81,829	102,286	127,857	159,822
Audit fees	38,881	48,601	60,752	75,940	94,925
Staff costs	1,569,139	2,039,881	2,651,846	3,447,399	4,481,619
<b>Total expenses</b>	<b>3,684,936</b>	<b>4,684,627</b>	<b>5,957,777</b>	<b>7,579,814</b>	<b>9,647,138</b>

<b>Surplus/(Deficit) for the year</b>	<b>205,309</b>	<b>283,875</b>	<b>375,548</b>	<b>554,042</b>	<b>820,692</b>
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<b>Surplus/(Deficit) as a % of Sales</b>	<b>0.98%</b>	<b>1.04%</b>	<b>1.06%</b>	<b>1.20%</b>	<b>1.37%</b>
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## Balance Sheet

Our asset base is expected to expand due to the new national warehouse and the transfer of the IHS-procured equipment to CMST. In order to improve product availability, we plan on increasing our available stocks from MK18bn to MK40bn by 2020.

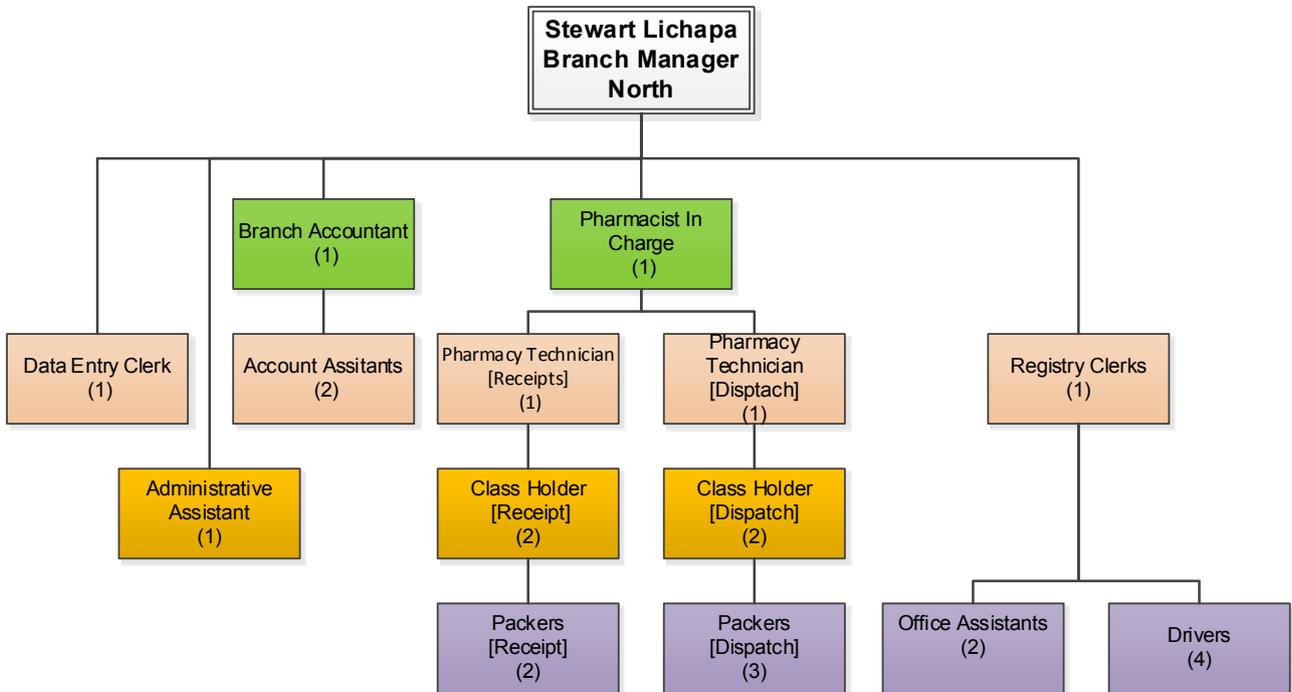
<b>STATEMENT OF PROJECTED FINANCIAL POSITION</b>					
	<b>2015 / 2016</b>	<b>2016 / 2017</b>	<b>2017 / 2018</b>	<b>2017 / 2019</b>	<b>2019 / 2020</b>
	<b>MK'000</b>	<b>MK'000</b>	<b>MK'000</b>	<b>MK'000</b>	<b>MK'000</b>
<b>ASSETS</b>					
<b>Non-current Assets</b>					
Property, plant and equipment	3,234,498	4,204,848	6,307,272	7,568,726	9,082,471
<b>Current assets</b>					
Stocks	18,430,335	22,544,987	27,504,884	33,555,959	40,938,269
Receivables	7,926,618	8,262,971	9,089,268	9,667,633	10,492,050
Cash and cash equivalent	2,321,627	2,669,871	3,070,351	3,530,904	4,060,540
<b>Total current assets</b>	<b>28,678,580</b>	<b>33,477,829</b>	<b>39,664,503</b>	<b>46,754,495</b>	<b>55,490,859</b>
<b>Total Assets</b>	<b>31,913,078</b>	<b>37,682,676</b>	<b>45,971,775</b>	<b>54,323,221</b>	<b>64,573,330</b>
<b>FUNDS AND LIABILITIES</b>					
<b>Funds</b>					
Treasury/Capitalisation Fund	18,749,728	23,834,729	30,897,050	38,209,579	47,105,635
Revaluation Reserve	1,794,989	1,794,989	2,205,424	2,205,424	2,205,424
Accumulated Fund	7,155,822	7,361,131	7,645,006	8,020,553	8,574,595
Surplus for the year	205,309	283,875	375,548	554,042	820,692
<b>Total Funds</b>	<b>27,905,848</b>	<b>33,274,723</b>	<b>41,123,027</b>	<b>48,989,598</b>	<b>58,706,345</b>
<b>Current liabilities</b>					
Payables	4,007,230	4,407,953	4,848,748	5,333,623	5,866,985
<b>Total funds and liabilities</b>	<b>31,913,078</b>	<b>37,682,676</b>	<b>45,971,775</b>	<b>54,323,221</b>	<b>64,573,331</b>

## Working capital analysis

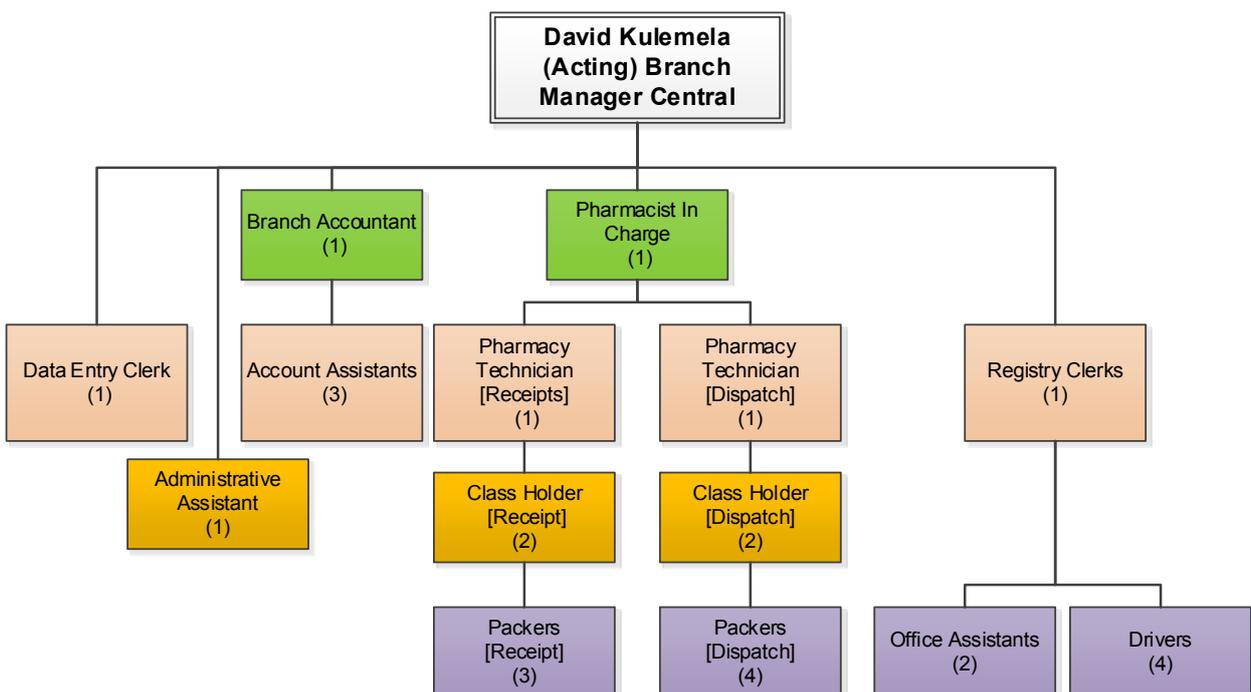
We expect to increase our inventory levels from the current MWK18bn to MWK40bn by 2020 with the aim of covering about 18 months of demand. This increase in stock will come from the receipt of MWK8bn in arrears, as well as the implementation of more routine funding from the quarterly funds from the Treasury, which will enable us to float larger tenders for medicines and medical supplies. Increases in Treasury funds will also assist in increasing inventory and capital equipment. Our cash and cash equivalents are expected to improve from the current MWK2bn average level to about MWK4bn level by 2020. Improved liquidity will also improve the timely payments to suppliers, with a goal of payment within sixty (60) days.

# Annex 1: CMST Branch and Receipt Warehouse Organograms

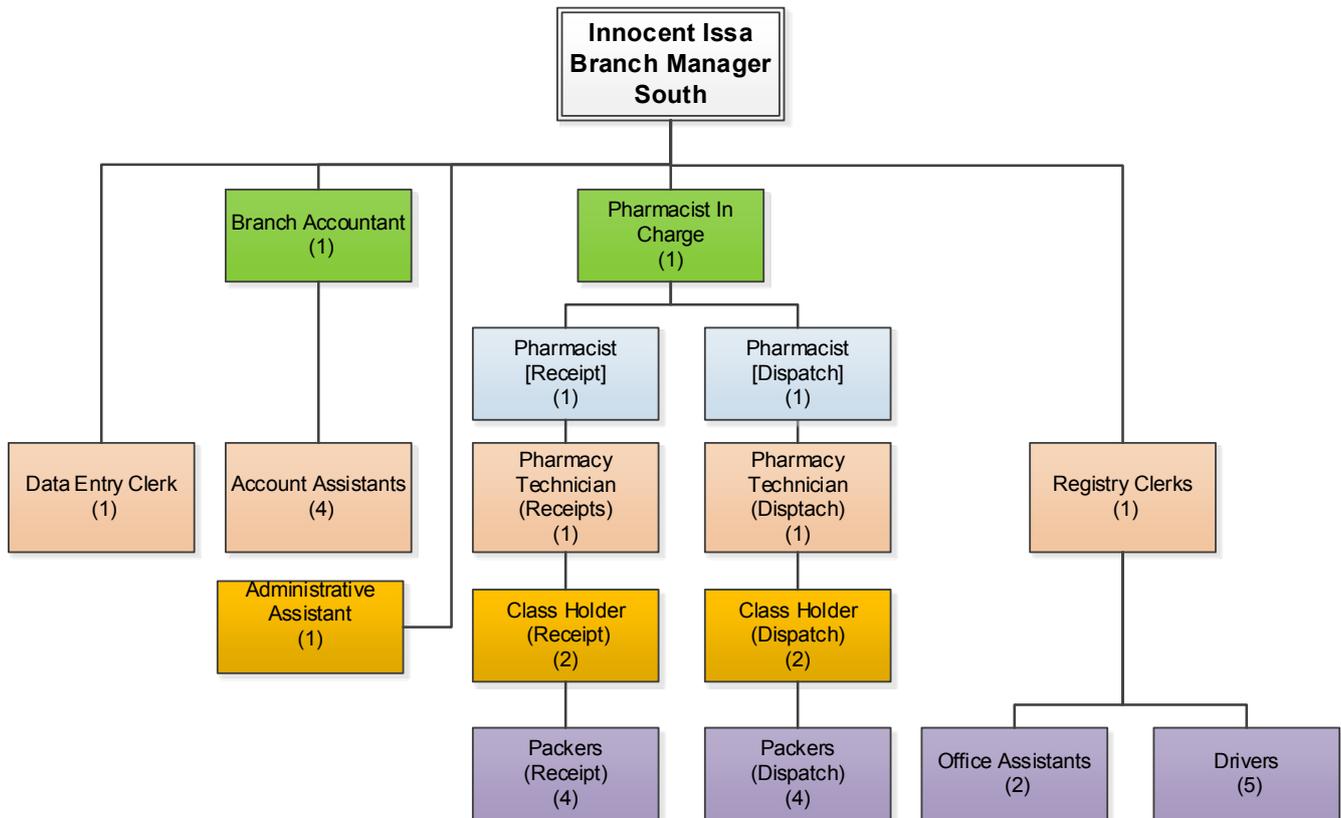
## CMST Northern Branch – Staff Chart – October 2015



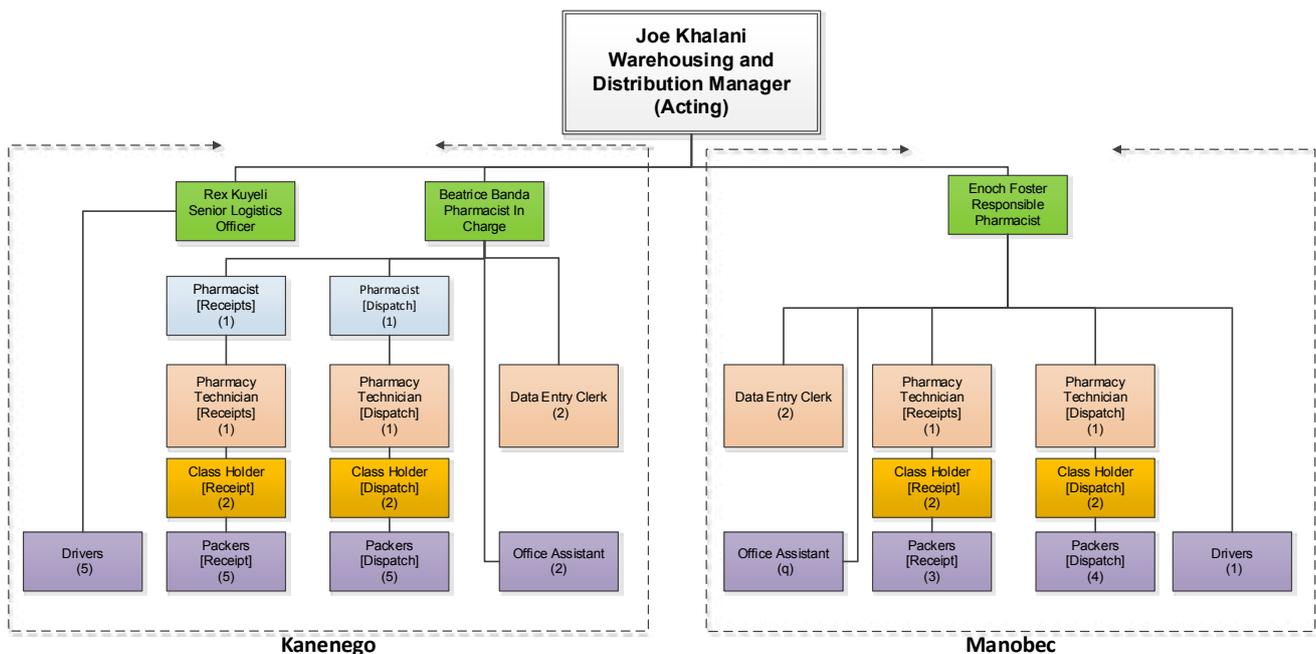
## CMST Central Branch – Staff Chart – October 2015



## CMST Southern Branch – Staff Chart – October 2015



## Receipt Kanengo & Manobec Warehouse Staff Chart – October 2015



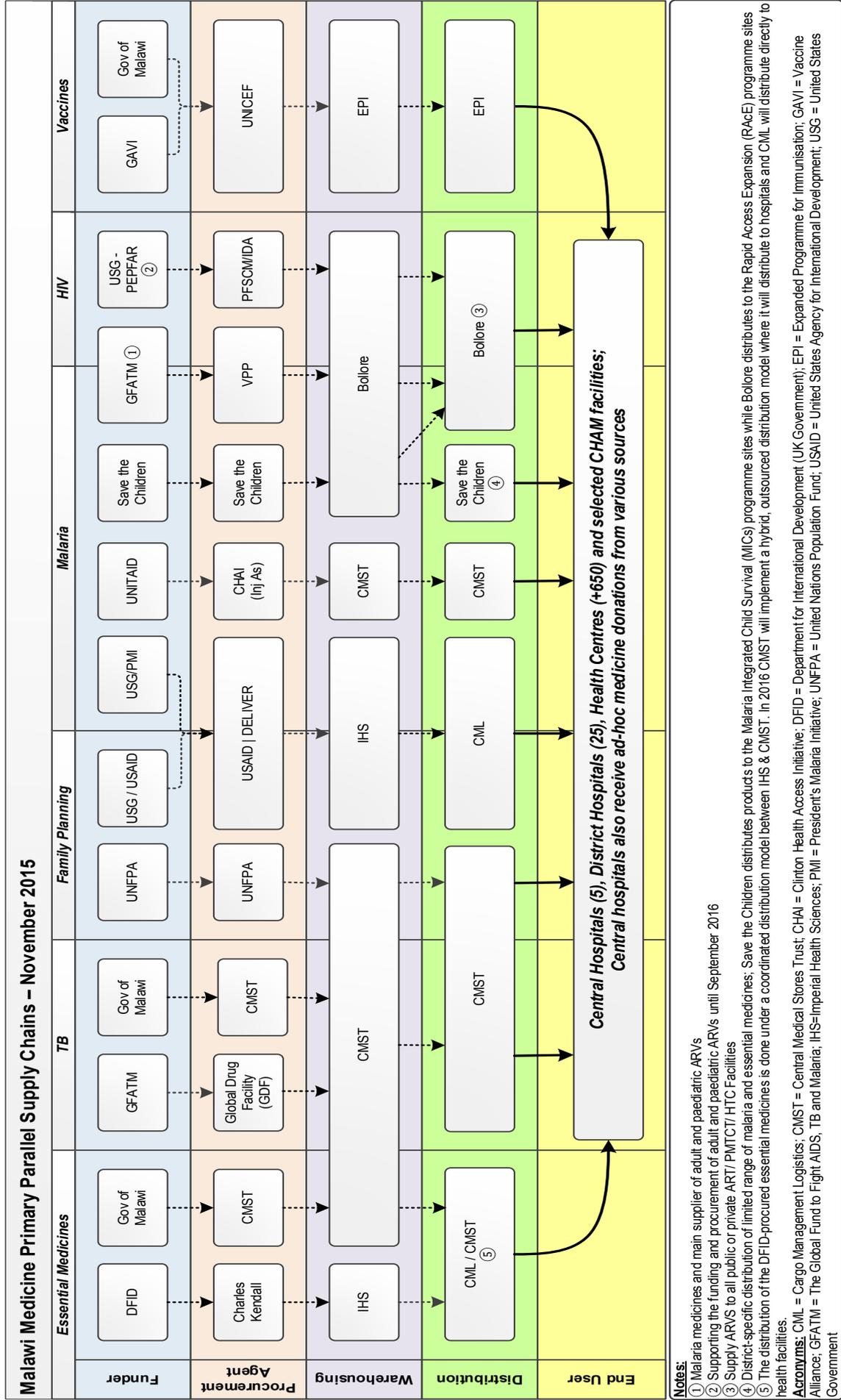
## Annex 2: Buy Malawi Campaign List of Items

The table below lists the items that are a part of the Buy Malawi Campaign Strategy and have been agreed for sourcing from local suppliers.

#	Product	Unit of Issue
1	Amoxicillin 125mg/5ml Powder for Suspension	1x100ml
2	Amoxicillin 250mg Capsules	1x1000
3	Cotrimoxazole 480mg Tablets	1x1000
4	Erythromycin 250mg Capsules	1x1000
5	Doxycycline 100mg Capsules	1x1000
6	Quinine Sulphate 300mg Tablets	1x1000
7	Salbutamol 4mg Tablets	1x1000
8	Aspirin 300mg Tablets	1x1000
9	Paracetamol 500mg Tablets	1x1000
10	Metronidazole 200mg Tablets	1x1000
11	Indomethacin 25mg Capsules	1x1000
12	Magnesium Trisilicate Tablets	1x1000
13	Phenobarbitone 30mg Tablets	1x1000
14	Chloramphenicol 250mg Capsules	1x1000
15	Aminophyllin 100mg Tablets	1x1000
16	Ibuprofen 200mg Capsules	1x1000
17	Sulphadoxine 500mg / Pyrimethamine 25mg Tablets	1x1000
18	Paracetamol Syrup 120mg/5ml	100ml
19	Albendazole 200mg	1x1000
20	Metformin 500mg Tablets	1x1000
21	Syringe autodestruct 2ml with 23G needle.	Each
22	Syringe autodestruct 5ml with 22G needle	Each
23	Syringe autodestruct 10ml with 21G needle	Each
24	Long Lasting Insecticide Treated Nets	Each
25	Benzoic acid 6% + salicylic acid 3% lotion	1x500ml
26	Benzoic acid 6% + salicylic acid 3% ointment	1x500g
27	Benzyl benzoate application 25%	1x500ml
28	Calamine lotion + sulphur 2%	1x500ml
29	Calamine lotion aqueous	1x500ml
30	Cetrimide 15% + chlorhexidine 1.5% solution for dilution	1x5L
31	Chlorhexidine 1.5% solution	1x5L
32	Gentian violet paint, aqueous 1%	1x500ml
33	Methylated Spirit	1x5L
34	Parafin liquid	1x500ml
35	Povidone iodine 10% in alcoholic solution	1x500ml
36	Salicylic acid 10% ointment (in YSP)	1x500g
37	Salicylic acid 5% + sulphur 5% ointment (in EO base)	1x500g
38	Tetracycline eye ointment 1%, 3.5g	Each
39	Zinc oxide & salicylic acid paste BP (Lassar's), 500g	Each
40	Zinc oxide 15% ointment (in EO base), 500g	Each
41	Zinc oxide 15% ointment + sulphur 5%, 500g	Each
42	Zinc paste compound + sulphur 5%, 500g	Each

### Annex 3: Malawi Parallel Supply Chains

The following graphic illustrates the principal parallel supply chains currently in operation in Malawi.



## Annex 4: Joint Strategy for Supply Chain Integration Milestones (2012)

In 2012 the Government of Malawi, the Central Medical Stores Trust (CMST) and development partners drafted the Joint Strategy for Supply Chain Integration. In 2015 formal reporting against these milestones began through the CMST Reform Committee, which is led by the MOH-Health Technical Support Services.

### Phase 1: CMST Recapitalisation, reform and successful management of current products

**Description:** *Third party support through PSC systems continues as CMST reforms are implemented. CMST concentrates on demonstrating successful fulfillment of existing functions related to donated products, namely warehousing and distribution of TB commodities, as well as UNFPA-procured FP commodities.*

Area	Sub-Area	Benchmarks	Indicators
Distribution	Distribution Planning	<b>1. Ability to execute distributions of donated commodities (TB and FP) on-time</b>	Distributions conducted according to predetermined timelines for all SDPs
Financial Management	Risk mitigation for losses	<b>2. Transparent, cost-effective insurance policy and claims process in place and functional to mitigate losses (due to theft or damage) of products covering both storage and distribution</b>	1) Losses incurred and compensated included in routine financial reporting, and insurance policy in place covering both storage and distribution 2) Insurance policies sourced competitively and premiums negotiated with evidence of competitive price
Financial Management	Business Plan	<b>3. Revised CMST business plan adopted by Board of Trustees based on stakeholder feedback</b>	Revised business plan available
Financial Management	Business Plan	<b>4. Detailed information on CMST actual operating costs available</b>	Costing of CMST business plan completed and shared with stakeholders
Financial Management	Transparency	<b>5. Annual financial audits completed in line with international accounting standards and results made available to stakeholders in a timely manner</b>	Audits for 2011 & 2012 completed and shared with the GOM, Health Donor Group, and Financial Management & Procurement Technical Working Group (FM&P TWG)
Financial Management	Transparency	<b>6. Routine financial reporting covering all revenues, expenditures, debts, assets, and profit and loss accounts provided to stakeholders</b>	Quarterly and annual reports made available to GOM, HDG, and FM&P TWG, including quantitative data as well as qualitative description of sources and uses of all revenue
Governance	Contract management	<b>7. Effective management and oversight procedures for any third party logistics provider developed and implemented</b>	Availability and implementation of management and oversight SOPs for 3PL contracts
Governance	Policy environment	<b>8. Existence of a code of ethical conduct for CMST Board of Trustees and all staff</b>	Availability of a code of conduct and conflict of interest statement for all CMST Trustees and staff

Governance	Policy environment	<b>9. Transparent reporting of ethics violations and disciplinary measures taken</b>	Ethics violations committed by CMST officers or staff (i.e. theft, embezzlement, forgery) documented and reported within 15 days to MOH and development partners, and updates on disciplinary actions taken provided monthly until case is resolved
Governance	HR needs at CMST	<b>10. Human resources policies to support recruitment, retention and performance</b>	HR policy in place and implemented
Human Resources	HR needs at CMST	<b>11. Key positions at CMST central and regional levels filled based on organisational chart</b>	Vacancy rate for all established positions at central and regional level
Inventory Management and Storage	Inventory Management	<b>12. Tracking of commodity availability through use of key tracer products in CMST</b>	Tracer commodity list developed for CMST
Inventory Management and Storage	Inventory Management	<b>13. Visibility of TB and FP products in real-time within CMST facilities</b>	Stock status reports for TB and FP commodities provided to National Stock Status Database and shared with development partners and MOH programs monthly (within 10 days)
Inventory Management and Storage	Inventory Management	<b>14. National TB Program reporting requirements met</b>	CMST providing regular reporting and data to the MOH as required by the National TB Program
Inventory Management and Storage	Inventory Management	<b>15. Inventory management and control procedures for CMST warehouses brought in line with international standards</b>	1) Inventory management & storage SOPs developed and available 2) Min-max levels adhered to for donated products 3) PMPB certification obtained for all warehouses managing donated products
Inventory Management and Storage	Inventory Management	<b>16. Stock outs of TB products eliminated</b>	Number of days stocked out of TB commodities, by commodity type and CMST facility
Inventory Management and Storage	Inventory Management	<b>17. Accuracy of inventory record keeping</b>	Percentage of commodities for which physical inventory counts match internal records (stock card or electronic) per month
Inventory Management and Storage	Security	<b>18. Adequate physical security at CMST- operated warehouses managing donated commodities</b>	Security plan / SOPs developed and implemented for CMST warehouses
Inventory Management and Storage	Security	<b>19. Systems in place to quantify and report on lost TB, FP and other donated products due to expiry, theft, or damage</b>	Percentage of quantities of each product lost per total quantities available for use (opening stock plus quantities received) in the past year
Procurement	Transparency	<b>20. Procurement audits conducted for CMST procurements</b>	Audit reports conducted annually and results shared with stakeholders

## Phase 2: CMST Successfully expands essential drugs supply chain to all service delivery points

**Description:** CMST increases volume and scale of service to all levels, facilities in conjunction with the phase-out of the Essential Drugs kit program

Area	Sub-Area	Benchmarks	Indicators
Procurement	Distribution Planning	<b>21. Ability to deliver essential commodities to Service Delivery Points nationwide on a monthly basis, either using 3PL provider, in-house fleet or a combination of both</b>	% of Service Delivery Points receiving monthly deliveries
Distribution (Transport Management)	Distribution Planning	<b>22. SOPs including accountability measures (e.g. supervisor spot checks, documentation of vehicle use) available and implemented to ensure appropriate and proper use of transportation fleet.</b>	Availability of SOPs and evidence of implementation
Distribution (Transport Management)	Transport Security	<b>23. Adequate transport safety and security to ensure the security of commodities throughout distribution</b>	Percentage of quantities of each product lost or damaged in transit per total quantities available for use (opening stock plus quantities received) per quarter
Inventory Management and Storage	Inventory Management	<b>24. Stock availability for essential drugs and medicines</b>	% of tracer products in CMST catalogue/ inventory stocked out per quarter
Inventory Management and Storage	Inventory Management	<b>25. Visibility of inventory throughout CMST system to CMST clients and stakeholders</b>	Stock status reports for all CMST products provided to National Stock Status Database and shared with development partners and clients monthly
Inventory Management and Storage	Security	<b>26. Adequate physical security at all CMST operated warehouses to ensure protection of commodities</b>	1) % of CMST warehouses (owned and leased) meeting minimum security requirements; 2) Security plan / SOPs developed and implemented for all CMST warehouses
Inventory Management and Storage	Security	<b>27. Systems in place to quantify lost products due to expiry, theft, or damage for all products</b>	Percentage of quantities of each product lost per total quantities available for use (opening stock plus quantities received) per quarter
Inventory Management and Storage	Storage within CMST	<b>28. Good Storage Practices (GSP) adhered to in all CMST operated (owned and leased) warehouses to ensure quality and integrity of Products</b>	Storage SOPs developed and implemented and PMPB certification obtained for all CMST warehouses

### Phase 3: Integration of additional PSC warehousing and distribution functions in a phased manner based on capacity

**Description:** PSC supply chain functions integrated to CMST based on business case and demonstration of capacity; decision-making program-by-program

Area	Sub-Area	Benchmarks	Indicators
Inventory Management and Storage	Storage Capacity	<b>29. Ability and capacity to cost effectively warehouse additional commodities currently handled by PSC (either in-house or through a 3PL provider)</b>	Adequate storage capacity in place to meet requirements for taking on additional commodities (either in-house or through a 3PL provider) at reasonable cost to the GOM or relevant donor agency
Distribution (Transport Management)	Distribution Capacity	<b>30. Ability to cost-effectively distribute additional commodities currently handled by PSC (either in-house or through a 3PL provider)</b>	Sufficient distribution capacity available relative to program needs for specific commodities (either in-house or through a 3PL provider) at reasonable cost to the GOM or relevant donor agency
Distribution	Distribution Planning / Planning routes	<b>31. Effective management and oversight procedures for third party logistics providers implemented</b>	Availability and implementation of management and oversight SOPs for 3PL contracts

## Phase 4: Integration of procurement functions

**Description:** CMST progressively assumes responsibility for procurement functions

Area	Sub-Area	Benchmarks	Indicators
Procurement	Management	<b>32. National procurement law and standards of practice adhered to by CMST</b>	All procurements approved by both POA and ODPP
Procurement	Management	<b>33. Procurement process ensures efficiency and value for money</b>	1) Unqualified procurement audit reports (no major findings) by an independent agent 2) Ability to undertake procurements at competitive prices compared to external procurement agent
Procurement	Procurement	<b>34. Transparent tender process which encourages fair competition based on international good tendering practices</b>	Publicly advertised requests for bids/request for quotes solicited; bids advertised with sufficient time to attract adequate competition; international good-tendering practices adhered to
Quality Assurance	Procurement	<b>35. Transparent prequalification process publicly available, and prequalified list of products and manufacturers which adhere to GMP</b>	Prequalification policy and system in place which clearly defines procedures for prequalification; and list of prequalified products/vendors available with evidence of selection in line with prequalification policy
Quality Assurance	Product Quality	<b>36. Procurement processes ensure quality products are procured</b>	1) SOPs for procurement processes including explicit quality assurance measures developed and implemented 2) Proportion of products procured in last quarter from SLA-approved and/or WHO-Prequalified manufacturers

## Annex 5: CMST Quality Management System (QMS) and WHO Model Quality Assurance System (MQAS)

In 2006 the World Health Organisation (WHO) Expert Committee on Specifications for Pharmaceutical Preparations (ECSP) adopted the Model Quality Assurance System (MQAS) Guideline to assess the quality standards and systems of procurement organisations. Donor organisations, including GFATM, have endorsed MQAS and have made it a part of their quality assurance policy, CMST has committed to meeting MQAS requirements in their 2015 – 2020 Corporate Strategy (currently being finalised). In addition, due to the overlapping requirements, by striving to achieve the comprehensive of MQAS, CMST would also achieve ISO-9000 and Malawi Pharmacy Medicines and Poisons Board (PMPB) certifications as a part of the process. As a result, achieving MQAS is a high priority for CMST.

### MQAS Modules

Module	Scope <sup>43</sup>	Areas of Operation
<b>(I) General Requirements for procurement agencies quality system</b>	General requirements for procurement agencies including premises, equipment, transport and documentation (such as SOPs, confidentiality, code of conduct and complaint handling).	Premises, Equipment, Transport; Human Resources; Organisation; Ethical Considerations; Computers; Financial Systems; Documentation; SOPs; Records Maintenance; Contract Arrangements
<b>(II) Prequalification</b>	Prequalification is one of the key elements in ensuring purchase and supply of pharmaceutical products of acceptable quality. The prequalification process can be subdivided into two major parts, i.e., product-related assessment and manufacturer-related inspection.	Prequalification principles; key persons and responsibilities; Key Steps Defined; Cost Recovery

<sup>43</sup> Quality Assurance of Medicines: Review of the MQAS and preparation of a harmonized assessment tool for procurement agencies, WHO Drug Information Vol 27, No. 4, 2013

<b>(III) Purchasing</b>	Procurement should be carried out with the aim of purchasing effective quality assured products and not be focused on price alone. The term "procurement" in this Module relates specifically to the purchase of health sector goods from manufacturers or suppliers. The module describes key activities in purchasing pharmaceutical products, as well as the recommended organisational structure of the procurement agencies which carry out these key activities.	Procurement Strategies; Procurement Methods; Key Activities; Organisation and Responsibilities; Monitoring of Prequalified Suppliers; Policy on donations
<b>(IV) Receiving and Dispatch</b>	The procurement agency should ensure that pharmaceutical products purchased are received and stored correctly and in compliance with applicable legislation and regulations. Products should be received and stored in such a way that quality and integrity is preserved, batch traceability is maintained and stock can be rotated.	General arrangements; pre-shipment quality control; Receiving Stock; Post-Procurement Control;  Rejected materials; Storage of materials; Re-packing and re-labeling; stock control; Documentation and written instructions
<b>(V) Distribution of Purchased Products</b>	The PA (or contracted party) should have a well-managed distribution system meeting the objectives of ensuring constant supply of quality medicines. Distribution should be conducted in accordance with general principles of Good Manufacturing Practice (GMP).	Transport conditions; Cold Chain; Dispatch procedures;  Dispatch containers; Dispatch Records;  Port of Entry
<b>(VI) Reassessment</b>	Quality of products and services should be continuously monitored. This process includes reassessment.	Re-evaluation of manufacturers;  Reevaluation of products; Monitoring performance of contractors



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