

THE WEAKEST LINK:

THE STATE OF HUMANITARIAN FLEET MANAGEMENT IN AFRICA

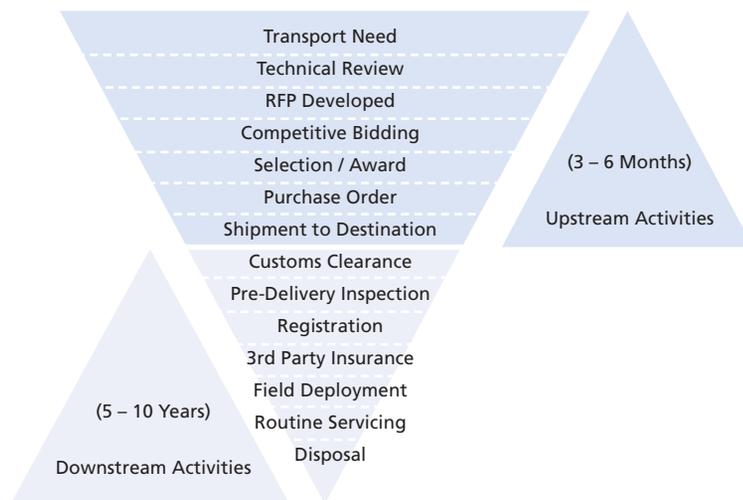
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Projects, people and vehicles are uniquely intertwined in the aid and development sector. One need only scan the headlines from the resurgent crisis in the Democratic Republic of Congo, to the perennial suffering in Sudan or the looming famine in the Horn of Africa to be reminded of the fact that transportation is mission critical to humanitarian work. For decades, aid and development organizations have focused on upstream supply chain strategies, emphasizing price reductions, stockpiling and delivery. Yet, few have tackled the very long period of time after vehicles clear customs and are put to service.

Kjaer Group endeavored to go beneath the surface to shed light on the state of humanitarian fleet management in Africa. To this end, we have partnered with 16 national offices for leading international aid and development organizations. To date, 10 comprehensive fleet assessments have been carried out in 8 countries in Africa spanning more than 800 vehicles in

operation. Our methodology looks at fleet management from 4 lenses: supply chain management, finance and risk, technical management and lastly organizational capacity. What follows borrows heavily from this research and serves to highlight the common trends that are making effective fleet management an aspiration rather than reality.

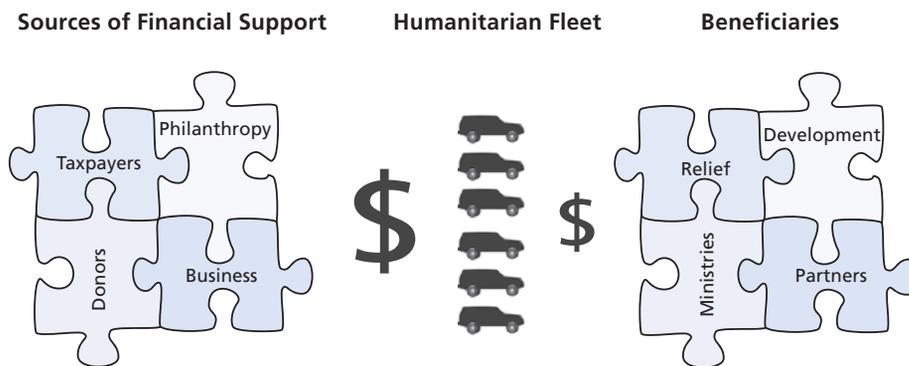
GENERIC SUPPLY CHAIN ACTIVITIES



The central financial objective of a humanitarian organization and therefore humanitarian fleet management is to maximize the percentage of financial support that reaches beneficiaries. After all, as the custodians of donor funding, unnecessarily trapping scarce financial resources in vehicles shows a low degree of accountability and an area for urgent management attention. With the freezing of global credit markets and the

world economy on the verge of a deep recession coupled with spiraling commodity costs, donor largess is bound to shrink. In this climate, aid and development organizations must turn the mirror on themselves to seek areas for cost reductions and operational efficiencies. The facts show that fleet management is the perfect place to begin.

FINANCIAL "PASS THROUGH"



The Weakest Link

Looks can be deceiving. Rather than looking at each individual vehicle that comprise a fleet, our methodology looks at the aggregate of all vehicles vis-à-vis the policies, tools and culture of fleet management at national operations. Broadly speaking, fleets operate in 3 generic phases throughout their lifecycle. The first phase we are calling Arrival, which covers arrival to the country of use, clearance and pre-delivery inspection

(PDI), which is typically carried out by authorized dealerships. The next phase is Field Deployment, which refers to insurance and registration, deployment to the area of use and ongoing service maintenance. This is the period of time when the "keys are in hand" and the vehicle is a productive asset for the organization. Finally, the last phase of fleet operation is the End of Lifecycle, which includes "as is" sale and disposal.

In consideration of the above, most organizations we surveyed have three broad criteria determining the length of time and the conditions to take a vehicle out of service. This represents the proverbial lifecycle of the fleet. The 3 disposal criteria most often seen are 1) Age – typically 5 years; 2) Mileage – a range of 150,000 to 250,000 KMs; 3) Condition – referring to accidents or a runoff of maintenance costs. Against any of these measures, the state of the fleet is showing desperate signs of decay making it the weakest link in the humanitarian supply chain.

Using age, it is not uncommon to see fleets where 50-60% of vehicles in operation violate organizational disposal policies and recommended industry standards. Applying mileage targets with 150,000 KMs or, generously, 250,000 KMs, and this pattern holds true. Two aspects of this fleet profile are particularly damaging to the safety, predictability and effectiveness of operations. The first is that newer vehicles are over-utilized (often exceeding 60,000 KMs travelled per year) exacerbating fleet deterioration. The second is that maintenance costs become increasingly unpredictable over time and grow exponentially when utilization patterns are not harmonized. For these two reasons, organizations that decommission obsolete vehicles in a timely manner are able to dramatically reduce the size of the fleet (between 30 and 40%) without impacting program delivery.

When considering the above factors, it begs the question what triggers the purchase of a new vehicle? Arguably organizations should focus on right sizing the fleet, as it appears there are more units in operation than necessary. The parting gift of decommissioning obsolete vehicles is a 9 to 14 step disposal process that impacts entire national management teams and the long tail of liability arising from selling used vehicles “as is” to the public or donating them to local partners. With this heavy organizational burden, it is no wonder humanitarian fleets operate under such strain. In order to understand the pressures that create this economic trap, we must turn our attention to the financial and risk management parameters governing fleets.

Generic Disposal Process – Selling “As Is”:

- Step 1 Identify vehicle set for disposal based on age, mileage or condition.
- Step 2 Assess condition and residual value.
- Step 3 National Director (or Donor) approval of disposal.
- Step 4 Set reserve price, if sold.
- Step 5 Advertise sale to the public for up to 2 weeks.
- Step 6 Form bid opening committee with management team (often includes local minders).
- Step 7 Select the highest bidder.
- Step 8 Grant up to 2 weeks for highest bidder to respond.
- Step 9 If deadline passes with no response, repeat from Step 6 selecting second highest bidder.
- Step 10 Make vehicle available for inspection and, if satisfactory, dispose of asset and repeat process.

Fragmentation and Disappearing

There is a peculiar relationship between aid and development organizations and donors. This is a relationship governed by demand and supply factors, which when over simplified means that donors supply what aid and development organizations demand. The onus also rests with donors where there are often strings attached that make responsible fleet management difficult. In the first instance vehicles that are procured are fully expensed at the moment of purchase. Functionally, one of the largest tangible assets “disappears” from the balance sheet and thus the financial radar. As a result the long term financial consequences of operating a fleet of vehicles at best remains elusive and at worst, entirely unknown.

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While vehicles may “disappear” financially, they are very real and their mounting costs and growing numbers serve as reminders of their existence. Another challenge arises with the fragmented nature of humanitarian operations. Commenting on the explosion of parallel operations in aid recipient countries, The Economist recently noted that “the problem is that aid is fragmenting: there are too many agencies, financing too many small projects, using too many different procedures. Fragmentation is the opposite of effectiveness.” (A Scramble in Africa Sept. 4th, 2008). This pattern is noted when looking at the structure of operations for individual national offices.

Rather than allocating transport capacity to field projects from a centrally managed fleet, entire vehicles are allocated to field operations indefinitely. This stems from the funding pattern, wherein organizations request project-specific funding that calls for a vehicle or vehicles to be procured in support of a specific operation. The result is that it becomes difficult to “untie” the vehicle from the project, thus making centralized fleet management a very complex endeavor. The power base for fleet decisions is completely undermined by this structure, as field projects who “own” the vehicles are able to veto any centrally mandated decision or policy – such as routine servicing, record keeping and, eventually, disposal. Regardless of arcane donor restrictions, such as donating vehicles to implementing partners and “tied aid” wherein goods must be procured from national businesses, it is in the best interest of aid agencies to change this structure. This will produce leaner more effective operations releasing a large proportion of financial resources for core activities. While it is no substitute for fleet management, all vehicles should appear on the balance sheet applying straight line depreciation, making the long term financial consequences apparent to national management.

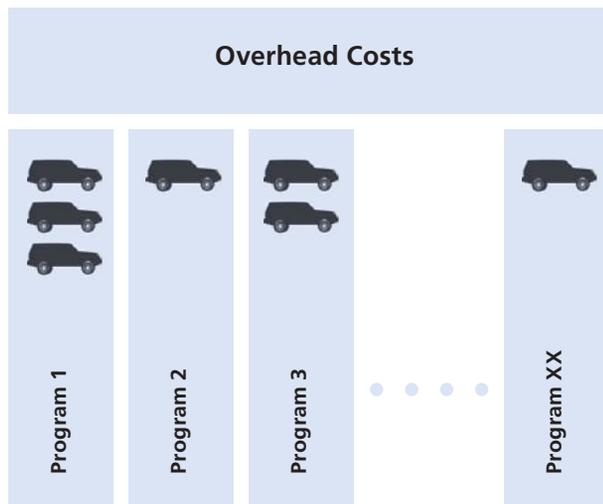
An insurmountable financial burden is created by the advanced age and mileage profile of fleets. This shows the vicious cycle that many national operations are laboring under when it comes to fleet management and the value of a holistic fleet assessment. Considering that many national fleets are between 50 and 60% obsolete, refreshing this fleet via traditional procurement mechanisms would bankrupt the organization. Additionally, few donors would be in a position to fund the purchase of 50 vehicles for a national operation. Herein the principles of gradualism espoused by leasing or asset finance come to play and over any 12 month period would represent a fraction of the costs of outright purchase. Naturally, one must account for the cumulative nature of long term finance, which would create the perception that it is more expensive. However, when considering net present value, freed cash flow and recaptured residual value, long term finance solutions represent a positive investment. The brilliant aspect of finance agreements is that they will enable local operations to "close the loop" and set up contract terms that match their stated fleet lifecycle policy. In effect, if humanitarian organizations are to be in compliance with their own standards, long term financial tools are part of the solution.

One cannot buy homeowner's insurance when the house is on fire. The same holds true with fleet insurance programs, which are not only a vital component of responsible fleet management, they are part of the broader social responsibilities organizations carry when operating a fleet. Starting outside of a vehicle and working our way back to the driver, occupants and, ultimately, the entire international organization, the predominant practice of insuring fleets

via local policies with little or no oversight needs to be reengineered. First, vehicles that are procured in hard currencies (e.g. Yen, Euro or US Dollars) are subjected to high degrees of volatility and, in the case of Zimbabwe, hyper inflation. This point alone often makes insurance policies as valuable as the paper they are printed on. Add to this a host of hidden costs, compounded deductibles (where a percentage of an assets' value is paid during a claim) and the inability to verify the solvency of insurance carriers, for instance via AM Best ratings, and it becomes clear humanitarian fleets are running unnecessarily high risk. Theft and collision are finite risks. However damages to third parties are resolved using the infinite creativity of a judge's imagination and millions of applications of the laws and regulations governing insurance. With the transnational nature of liability and the low liability limits that are available in most local policies, this gap in protection must be addressed.

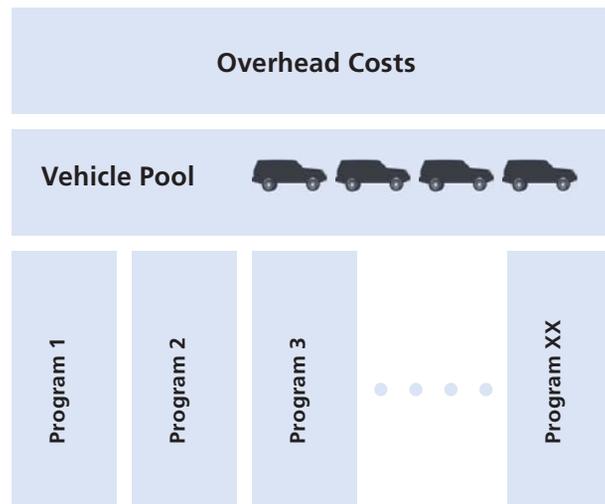
Human suffering knows no boundaries, but local insurance policies do and most typically operate within the borders of the countries where coverage is issued, splintering humanitarian organizations into national clusters with limited regional coordination. Questions about finance, risk and control systems lead us inevitably to look at the technical tools and processes around humanitarian fleet management. In this next section of our fleet assessments we have learned about a preponderance of data and data collection methods, which speak to a prevailing "culture of audit" with little meaningful connection to ongoing fleet management decisions. Consider the administrative burden of insuring fleets in 30 countries, with 30 policies, languages, currencies and legal systems. This logic also applies to critical fleet data.

The prevalent practice allocates vehicles:



- > Program-specific funding.
- > Undermines management structure.
- > Hidden costs under overhead cost.
- > Program "owns" the vehicle overrides decisions.

The recommended practice allocates transport capacity:



- > Funding depends on activity and determined by TCO.
- > Programs charged per kilometer.
- > All cost are transparent.
- > High utilisation rate equals reduced fleet size.

Culture of Audit

The motor vehicle logbook, found in the glove compartment of most humanitarian vehicles, is the centerpiece of data collection. This outmoded data recording tool may be a necessary evil for years to come, as the spread of fleet data systems is slow to take root in the humanitarian sector. No matter what system prevails, what is lacking is an overall fleet strategy grounded in key performance indicators and success measures. When asked how many vehicles are in operation at a national, regional or global level, there is an alarming level of variance which suggests that the technical side of fleet management has fallen prey to the aged fleet profile and the fragmented nature of financial structures.

When considering tangible assets like vehicles, the most critical metric to follow is the total cost of ownership (TCO). Without this measure it is difficult to predict when operating costs have exceeded procurement costs. Moreover benchmarking and developing a definition of ideal fleet performance to match local conditions will be a haphazard process. In professional fleet management, the measure of a vehicle's TCO is derived from a host of cost drivers. In the humanitarian context, we propose setting a starting point which factors the largest ongoing operating costs, such as depreciation, maintenance, fuel and insurance. With this basic measure in order, progressive and often hidden cost drivers must be added, such as administration and disposal among others.

Format and flow matter with data collection. And from the daily, weekly and monthly checks that are performed on vehicles, it is not uncommon to see thousands of sheets of paper filed and stored in customized Excel spreadsheets for small to medium sized fleets over the course of a year. What

is confounding about this is that it appears to be set up to withstand an auditor's scrutiny, but has no meaningful linkage to proactive fleet decisions. Critical data, such as a vehicle's accident record, ongoing maintenance costs and other information can typically be pieced together as a composite of paper receipts, Excel readouts and log-book records covering portions of the vehicle's lifecycle. Rarely are organizations able to furnish a complete TCO considering the 4 or 5 largest cost drivers mentioned above for a vehicle's entire service. This is extraordinarily troubling as a fleet's maintenance cost structure and reliability deplete dramatically with age and mileage.

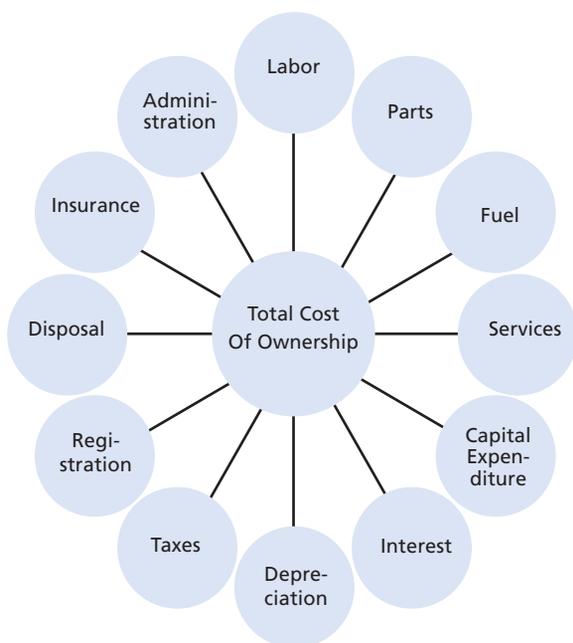
The opacity of fleet data confounds efforts to harmonize activities and processes across countries and regions. There is little transparency or standardization in fleet management and if a regional logistics officer wants to know what is going on with a fleet in Uganda, a trip to the country is necessary. It is now up to executive management and national management to shine a light on their fleet priorities giving the legion of hard working logisticians, fleet managers, transport officers and (most importantly) drivers the overall direction they need. As the final section of our methodology will show, despite numerous organizational and capacity obstacles, a strong foundation for change is evident in national operations.

Foundations for Change

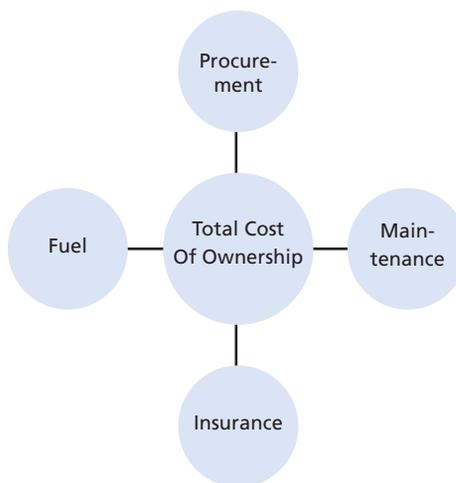
Many humanitarian agencies are boastful about the size of their fleets. It is taken as a sign of impact and reach. Unquestionably a vast fleet of vehicles is required to tackle the vast development challenges the world faces. Yet, it is striking to see the low organizational priority and powers that are granted to fleet managers. Often fleet managers or transport officers are 4 or 6 reporting lines removed from national management. Moreover critical ongoing duties such

Total Cost of Ownership Structure

Standard TCO Structure:



Recommended Starting TCO Structure:



as insurance, journey management, maintenance, and others are dispersed across multiple people and departments. These functions and tasks need to “speak to each other” and not sit in distinct silos in an organization and at different levels. When asked “how many vehicles are under your management?” the answer rarely equals the sum of all vehicles in operation. Most often national fleet managers indicate that they are directly responsible for vehicles at the headquarters level or in the capital – even still their level of empowerment is low.

While the natural inclination would be to change the organizational structure and place fleet management where it rightfully belongs – as part of national management. It is uncertain that this change would produce the desired effects unless it is backed by strong support, clear policies, full authority and an overall fleet strategy. Rarely does one find a comprehensive fleet policy that encompasses vehicle condition, utilization, maintenance, insurance, driver's rights, disposal and many other areas. At best, policy positions for these areas are laid down in distinct manuals and procedures. In order to set the paradigm shift that humanitarian fleet management requires these disparate policies must come together forming the overarching principles of fleet performance. The point of departure for this change is strong, as often individual policies offer clear guidelines, which are stringently adhered to by key personnel. The reams of cost records, logbooks and other data that are studiously gathered are evidence that the building blocks are in place for enhanced fleet effectiveness and thus enhanced programmatic delivery.

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If willingness is in place and policies come together, then the missing element is a dedicated capacity building program. The senior most management level for national offices is transient in nature, with senior managers and expatriates reassigned to new posts after a few years. Therefore the common refrain “you don’t get fired for buying a Landcruiser” reflects an attitude where status quo is acceptable. Thus in order to ensure long term success and true ownership of fleet initiatives, change must be rooted in local national staff, who are not only career employees, they are eager for further professionalization and resources. Skills transfer and capacity building are the cornerstones of effective development.

When considering the 4 pillars of our fleet assessment methodology (Supply Chain, Finance, Technical and Capacity), it is clear that the human element is the most important. Not only does the humanitarian fleet enable millions of beneficiaries to be reached, it is clearly a source of income for thousands of locally-hired drivers, mechanics, logisticians and fleet managers. If you are on or near a road in Africa you are most likely an economic actor, which heightens the duty of care with which humanitarian vehicles must operate. Our assessments have shown an abysmally low level of performance when it comes to driver’s training and occupational safety. Behind the wheel training is infrequent and if it is carried out it is rarely backed by an incentive system that rewards good behavior and forms part of ongoing professional development. Instead, we noted that many policies towards drivers are punitive in nature and hand down harsh penalties for accidents,

including financial liability, termination and withholding pay. This is so in cases where negligence is proven, but who bears the responsibility when an accident occurs in a vehicle that is 15 years old, has 500,000 KMs on the odometer and where the driver has no rights? Placing the burden of proof on drivers is an unfair and entirely insurable practice that should be immediately stopped.

Going beneath the surface of a subject as complex as humanitarian fleet management is a difficult task and while there are unique pressures at play in the humanitarian sphere, agencies cannot afford to be passive. Acting to address the major obstacles outlined above will free up scarce financial resources for core activities and create operations that are safer and more effective. In pure financial terms, if national offices are able to afford vast aged fleets with high mileage, then the alternative is certainly possible. Considering the 3 major phases of a fleet’s lifecycle, Arrival, Field Deployment and End of Lifecycle, the following practices and tools will help ameliorate the state of the humanitarian fleet. In stage 1 organizations must work to right size the fleet not only in terms of size, but also in terms of vehicle composition to match local transport requirements. Additionally the triggers for new vehicle procurement must be carefully managed and planned in order to leverage the best combination of price and delivery.

In stage 2, where fleets spend 95% of their usable life, they must fall under an empowered fleet management structure with a measurable strategy and objectives. Managed

maintenance and the outsourcing of critical services, such as fuel, can help create predictable and transparent cost structures using the total cost of ownership measure outlined above. Harnessing the power of information systems along with performance metrics creates transparency and will help ease critical operating decisions. Add to this a regime of ongoing behind the wheel driver’s training and responsible levels of fleet insurance and national operations will enjoy high levels of morale, enviable safety records and increased effectiveness.

Lastly in stage 3, an “arms length” disposal is possible by leveraging outsourced finance or leasing contracts that match an organizations fleet lifecycle policies. Alternatively, national offices should consider simpler end of lifecycle strategies, such as bulk auctions, which can ease the bureaucracy and help mitigate the risks of “as is” disposals. These can be carried out in conjunction with local auto dealers and form part of a certified pre-owned program, which is common place in developed countries. While we would rather appeal to altruism to institutionalize improvements in humanitarian fleet management, the competition in the market for donor funding and philanthropy will be won by organizations that reach higher levels of accountability, operating efficiency and impact.

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