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SWAZILAND RAILWAY TECHNICAL ASSISTANCE PROJECT

PROJECT FINAL REPORT

PREPARED FOR DELEUW CATHER INTERNATIONAL LTD
BY THE CHIEF OF PARTY

DECEMBER 1993

INDEX

ABBREVIATIONS & ACRONYMS

AA	Administrative Assistant
AID	USAID
CEO	Chief Executive Officer (Swaziland Railway)
COP	Chief of Party
CFM	Mozambique Railway
DANIDA	Danish International Donor Agency
DCIL	DeLeuw Cather International Ltd
DF	Director Finance
DOT	Director Traffic
D(P&A)	Director Personnel and Administration
EOP	End of Project Status
GOS	Government of Swaziland
INTAC	SPOORNET's Automated Accounting System
LTTA	Long Term Technical Assistance
MA	Marketing Advisor
MBO	Management by Objectives
MIS	Management Information Systems
MOU	Memorandum of Understanding
OJT	On Job Training
P	Person Months
R	Rand, equal to the Swazi Emalangeni 1:1
RITES	Rail India Technical & Economic Services
RSA	Republic of South Africa
SADCC	Southern Africa Development Coordination Conference
SATCC	Southern Africa Transport & Communications Commission
SATS	South African Railways (A title now obsolete)
SPOORNET	South Africa Railways
SPRINT	SPOORNET's Wagon Control System
SR	Swaziland Railway
STTA	Short Term Technical Assistance
USAID	United States Agency for International Development

Preface

This is a final Report of the Project by the Contractor and marks the conclusion of a four years assignment on 14 December 1993. The contract itself is funded, however, until a closure date of 31 March 1994. The intervening period will be marked by an absence of all but one Long Term Technical Assistant (LTTA) (Civil Engineer) and the presence of two Short Term Term Technical Assistants (STTA's) undertaking two short-term assignments.

The purpose of this Report is to record the status of the Project up to 14 December 1993. It will also provide views on lessons learnt and point to reasons for the sustainability of the footprints left by the Project.

The Report does not attempt to catalogue the many events that have taken place over the four years; it is submitted that enough has already been chronicled in -

3 x Business Plans
4 x Work Plans
16 x Quarterly Reports
1 x Evaluation Report and
2 x Monitoring Reports.

It remains for USAID to conduct a Financial Audit which is expected to take place next year after Project closure date, in the States.

In terms of the contract accepted by DCIL/Rites, the strategy of the Project was to:-

- Improve the overall management capability of SR
- Improve the operational efficiency in order to make the Railway viable

For the past four years the team has concentrated its efforts on improving the management capability of the Railway and examined and improved many aspects of the business. Not only have management indices provided proof of a satisfactory result but the Railway has made acceptable levels of profitability since the Project took over. The results have demonstrated that the Railway can remain viable under the circumstances detailed in the Business Plan and Viability Strategy analysis. Parallel and most importantly, the training of Swazi staff to continue the work already started has received priority. Both the mid-term Evaluation (November 1991) and Monitoring reports (August 1992 and October 1993) conclude that this aspect of the Project has also been satisfactorily carried out. The Project Team itself believes that the Railway has a viable future and that the Swazi Senior Management team is competent to carry the work on.

Several anticipated events are likely to affect the future of the Railway:-

- reduced traffic and alternative routing resulting in reduced revenue
- continuing and perhaps ever increasing demands by the Trade Union for improved benefits.

As has been frequently pointed out, these factors must be counteracted by reduced operational expenses otherwise the Railway will not remain viable. Swazi management is very well aware of this.

The management team and the Railway as a whole is wished well in the future both by the DeLeuw Cather and Rites organisations.

Project Elements

A. Technical Assistance Elements

1. Before the Project Team assembled in December 1989 contract was awarded by USAID to a contractor to undertake a review of technical assistance requirements of SR and prepare comprehensive scopes of work for the short term technical assistance identified. This report, which was submitted to the Ministry of Works and Communications and the Railway, was completed in April, 1989 and formed the basis of the original strategy adopted by the Project Team.

2. Provision was originally made for approximately 198 person-months for Long Term Technical Assistance (LTTA) but a number of events caused the composition and direction of the team to change, the contract being altered several times to accommodate these changes. The position can be reflected as:

	Person months	
Designation	Original	Actual
CEO	48	48
Director Finance	48	40
Com/Mktg Advisor	36	43
Operating/Traffic Advisor/Director	24	44
System Advisor	24	Nil
Personnel/Tng Advisor	18	33
Tng Advisor	N/A	12
Total	198 pm	220 pm

These changes were brought about by various circumstances arising in the course of the Project such as sickness, structure changes and identifying new tasks.

3. Short-term technical assistance (STTA) of approximately 26 person months supplemented the LTTA effort but while this is still on-going until 31 March

1994, approximately 59 person months have been utilised to-date. These changes were identified in the various Work Plans that were produced and reflect the changing understanding and appreciation of the problems facing the Railway. A total of 33 special studies will have been completed by STTA's at Project closure.

4. An Administrative Assistant was hired locally shortly after the team mobilised and has worked for 47 person months against an AID budget of 60. Personal circumstances and the Project coming to an end in March 1994, have been the cause of this reduction in person months.

5. Whilst subject to audit, total expenditure to-date of the Project, excluding the initial contract referred to in para 1 above, compared with budget is:-

Budget $ 5 706 090
Actual $ 4 876 699

Additional but not significant expenses will be due before Project closure. See Appendix 2 for statement of expenses up to November 26, 1993, compared with Budget.

B. <u>Training Elements</u>

The objective was to increase the effectiveness of Railway senior management. This has been accomplished, verified by the Monitoring Report of October 1993 and other indicators.

<u>Long term training</u>

While the original intention was to finance two Masters degrees for the new Personnel Director and Director of Finance this did not take place, the reason being mainly timing but also a changed perception of needs. Instead, the CEO counterpart spent a year completing his BA degree and an engineering technician, enhanced his qualifications by attending a two year course, both in the States. The latter is to be placed in charge of the Engineering Department early in 1994 after a further ten weeks spent with Burlington Northern Railway.

Training Element

In a comprehensive training plan successfully conducted over the course of the Project, 31 individuals were identified for training, either on job (OJT) or through a variety of Regional and external courses. A total of 281 courses in various disciplines have been completed whilst on-going training has continued to be given to other employees outside the cadre of 31. In this latter connection, a Training Needs study for other grades down to supervisor level has been submitted to Railway management with a view to funding and implementation. Total training costs to date amount to $255 447 against a budget of $338 655 with about $20 000 still to be spent.

Commodities Element

Originally AID was expected to procure for the Railway a computer system, household equipment and furniture together with three motor vehicles for LTTA use. Output was an improved financial data management system in place providing essential accounting and budgetary information on a regular basis.

Both input and output of this element have been met but input in a different way to that originally planned.

As some LTTA's in line positions had been provided with vehicles by the Railway and in order to allow for a common basis of a limited private mileage, an off-setting arrangement was agreed to by AID and the Railway. SR would buy the three cars and AID would pay for items like a photocopier which would normally be for the account of the Railway.

SR bought the three cars for $32 113 and off-set expenditure has amounted to $34 647.

What follows in the next section is a table reflecting the Government of Swaziland contribution budgeted at $1 587 700. The notes describe how each item was calculated and on what assumptions.

COMPARISON OF BUDGET/ESTIMATED ACTUAL COST
REPRESENTING GOS/RAILWAY CONTRIBUTION

October, 1993

	Year 1		Year 2		Year 3		Year 4		Year 5		Totals	
	Budget	Estimate	Budget	Estimate	Budget	Estimate	Budget	Estimate	Budget	Estimate	Budget	Estimate
1. Housing & benefits for LTTAs	12,000	43,350	36,000	61,200	30,000	70,550	6,000	38,250	-	-	84,000	213,350
2. Utilities for LTTA	6,000	10,200	12,000	14,400	13,200	16,600	6,600	9,000	2,200		40,000	50,200
3. Vehicle/Maint/Fuel for LTTAs	6,000	18,280	12,000	24,230	13,200	26,400	6,600	20,200	2,200		40,000	89,110
(Furnishings)	60,000		2,000		2,000		1,000				65,000	
4. Housing maint for LTTAs		15,000		10,000		5,000		5,000				35,000
5. Secretarial support for LTTAs	27,000	13,000	54,000	13,000	64,800	13,000	32,400	13,000	10,800		189,000	52,000
6. C/part salaries/benefits	150,000	-	300,000	45,800	150,000	162,000	100,000	169,000	50,000	3,000	750,000	379,800
7. Airfares-training for C/parts		10,500		7,000		8,000		-		3,500	-	29,000
8. Other staff trained		50,000	50,000	75,000	100,000	25,000	50,000		10,000	-	210,000	150,000
9. Office space		15,750		21,000		23,750		14,250		-	65,500	74,750
10. Supplies/office equipment	7,500	10,000	15,000	10,000	18,000	10,000	15,000	10,000	10,000	-	35,000	40,000
11. MPI/ACCPAC/Network				20,000		-		62,000		-	-	82,000
12. Total	273,550	136,080	491,000	276,630	401,200	410,300	222,600	365,700	90,200	6,500	1,478,500	1,195,210

Notes: Person months used each year 52 73 82 46 253

Conversion rate E/$ @ average rate of E3 to $1

Factors used in above calculations are estimations except where otherwise stated and are as follows:-

Item 1. Rent E2,500 p.m. - $833p.m.

Item 2. Electricity E200; Water E200; Telephone E50; Gardener E150 = E600 = $200

Item 3. 10 x vehicles; 25 x services; fuel at say 1200km/m costing E1,26/litre

Item 4. Estimated.

Item 5. Salary of E1,300p.m. x 3 persons x 4 years

Item 6. Salaries, rents, vehicle maintenance, electricity, water, telephone and gardeners pay

Item 7. USA, India, Tanzania, based on actual costs.

Item 8. Estimated.

Item 9. E750 p.m. for each office plus Administration Assistant

Item 10. Stationery and furniture

Item 11. Actual costs incurred

End of Project Status (EOP)

The Contract between USAID and DCIL/Rites required:

1. Debit/Equity ratio reduced from 408% to 150%

Much time and effort has been expended trying to obtain Government approval for a debt restructuring but little has been achieved. The Railway has on its part serviced the commercial loans and those Government loans properly identified. Two commercial loans have been fully paid up and the South African loan of R8m is under active consideration on an inter-Government basis. A strategy is at last also being formulated by GOS and it is expected that once the new Government finds its feet the matter of restructuring the loan portfolio and establishing agreed conditions and equity principles, this long outstanding matter will soon be resolved. Everything is in place; what is required is Government decision. Should the plans presently envisaged be approved then the debt/equity ratio is expected to be 68%.

2. CEO and Heads of Department functioning effectively

With the exception of the Chief Engineer's position, the balance of posts have been effectively transferred to Swazi's and they are performing satisfactorily although experience, which will come with time, is still lacking.

A civil engineering graduate has been recruited recently and while he is obtaining the necessary railway experience, a technically qualified but non-professional person will next year take over the administration of this Department. At a later stage it will be necessary for management to determine exactly how the department will be managed and the relative merits of the two satisfactory adjudicated and positioned employees.

At an early stage of the Project it became clear that there was much to be done by way of training the balance of the Railway, the Project concentrating per contract only on a cadre of Senior management. An analysis of training needs has been carried out through the project and it remains for Railway management to determine how this aspect can best be dealt with. This is not to say, however, that no other training has been done during the Project assignment. Normal training but without Project funding has continued ever since the European Community contract under the Lome Convention ceased almost coincidentally with the start of the USAID Project. What the Training Needs analysis referred to requires is a more methodical and planned programme aimed at supplementing the work already done. It is an area of great weakness and requires earnest attention.

3. The operating is to be reduced from 146% to 68%

A review has been made into how this ratio was calculated in the past and recommendations made to the Swazi management team showing how it should be calculated in the future. The previous method of calculation compared with the revised method is shown hereunder:-

Operating Ratio %

Year	Published	Corrected
1988	121.75	97.6
1989	93.17	92.6
1990	92.83	92.2
1991	101.00	85.99
1992	77.42	75.7
1993	80.01	77.0

The principal difference between the two sets of ratios lies in the inclusion and/or exclusion of "extraordinary revenue/expenditure". As has been stated by the last Monitoring Team, 68% is unlikely to be achieved and sustained. However, the fact remains that this ratio, which indicates the financial success of the organisation, has improved and an operating profit is being regularly made.

4. Operations and business Systems developed, accepted and utilized

At the start of the Project it was the intention to have a Systems Advisor appointed as an LTTA for a period of two years. While a Rites person was mobilised he did not undertook any work due to illness. It was then decided not to appoint an alternative until the team had assessed requirements and events have proved this decision to be correct although we would have preferred to have systems in place, tried and tested at the transition stage. The reason for this not having taken place lie largely in two areas. The first is the relative smallness of activities and the lack of any rudimentary up and running data base, be it manual or otherwise. If it wasn't for the obvious benefits to be derived from automation - speed, versatility, reduction in errors and staff savings - a manual system was most suited for the Railway. The second area of difficulty was in establishing what systems should be used. Whilst "off the shelf" systems have been taken up for most of the discerned needs, the principal ones of freight revenue accounting and wagon control have proved illusive. The most obvious and practical course was to hitch onto Spoornet's systems but after having processed this to the stage of actually starting a course of training in freight accounting it was belatedly discovered that their present systems were to be considerably changed and amalgamated and there was little point in going on. Options ranging from engaging system analysts to designing an in-house, customized system to waiting for Spoornet's new system or using a SATCC wagon control system yet to be proved in practice, have caused a considerable delay and the status at present can best be described as uncertain and somewhat messy. This status is most unfortunate as it leaves the Swazi Management with decisions on which experience is an essential ingredient, something that is lacking even with the appointment of a MIS coordinator.

5. Intra SADCC traffic increased from 390,000 net tonnes to 500,000 tonnes p.a.

It has been generally agreed that this was a meaningless objective. A primary object of SADCC was to divert traffic away from South African ports. Now that the political scene has changed, the whole emphasis has been to ensure that the most economical ports (Maputo in case of point) is functioning satisfactorily thereby reducing costs to member states. This latter policy means in effect less intra-SADCC traffic moving, not increasing. The latest Monitoring study confirms this view.

FOURTH YEAR WORK PLAN - OUTPUT COMPLETION

OUTPUT DESCRIPTION	TASK (S)	TIMING	RESPONSIBILITY
1. FINANCIAL CAPITAL STRUCTURE ANALYZED AND RECOMMENDED CHANGES IN PLACE	. Complete but Monitor Government Blueprint Approval	On-Going - No Definitive Schedule	CEO and DF
2. LOAN PORTFOLIO ANALYZED AND LOANS RESTRUCTURED	. Complete but Monitor Government Blueprint Approval	Proposal submitted to Cabinet Dec, 1993	CEO and DF
3. CORPORATE STRATEGY AND PLANNING SYSTEMS ESTABLISHED	. Prepare Update Corporate Strategy and Business Plan (Five Year)	Completed for 1993 Up-date due early 1994	Subcontractor
4. SR RIGHTS PROVIDED AND SAFEGUARDED PER MOU	. Complete but Monitor Government Blueprint Approval and SA Loan Disposition	Completed	-
5. MANAGEMENT INFORMATION SYSTEMS DEVELOPED AND IN PLACE	. SPRINT (re Wagon Control) System evaluated and recommendations on Abandonment/Update Strategy of SPOORNET made	November, 1993	CEO, Director Traffic and Finance
6. REVISED TARIFF STRUCTURE DEVELOPED AND IN PLACE	. No Action Required -	Completed	-
7. FINANCIAL MANAGEMENT PLAN AND SYSTEM IN USE	. Complete Acct Automation-ACCPAC	Systems in use. Technical problems to be overcome by early 1994	DF
	. Costing System Enhancements made and implemented	Completed Aug 1993	-
	. INTAC evaluated Upgrading by SPOORNET and proposals submitted	Completed Nov 1993 but alternatives to be considered	DF
	. Costing System Enhancements made and implemented	March, 1993	DF
	. INTAC evaluated Upgrading by SPOORNET and proposals submitted	April, 1993	DF
8. PERSONNEL MANAGEMENT SYSTEM IMPROVED AND IN USE	. Monitor Exclusion Clause of Recognition Agreement Industrial Court Case	Judgement delivered November 1993 Negotiations with Union start Jan 1993	CEO and D(P&A)

FOURTH YEAR WORK PLAN - OUTPUT COMPLETION

OUTPUT DESCRIPTION		TASK (S)	TIMING	RESPONSIBILITY
9. MARKETING PLAN AND BUDGET DEVELOPED AND IN PLACE	.	No action required - completed	On-going	
10. STAFF TRAINING COMPLETED	.	Support Mr. Ndlovu's Continued Training until Completion	Jan-Mar 1994	DCIL Home Office
	.	Support System Transfer to New SR Staff Train. Mgr.	Completed Apr 1993	-
	.	Programme Objectives, Results and Costs documented	Completed Nov 1993	-
	.	Conduct Senior Management Training Seminars in MBO	Completed Nov 1993	-
	.	Develop MBO's Organisation-Wide and by Department	On-going	CEO
11. SUPPORT BOARD DEVELOPMENT PROGRAMME-(NEW OUTPUT)	.	Comprehensively Brief Board on Railway Operating and Finance	Completed Nov 1993	-
	.	Review Board Repres. and Organization Alt. and Reporting Required	Completed Nov 1993	-
	.	Review Longer Term Institutional Options and Railway Act	Completed Nov 1993	-
12. PREPARE PROJECT-WIDE FINAL REPORT-(NEW OUTPUT)	.	Prepare Final Report	Completed Dec 1993	-

FOURTH YEAR WORK PLAN - MANAGEMENT TRANSITION

ALL COMPLETED BY 31 MARCH, 1993

OUTPUT DESCRIPTION		TASK	TIMING	RESPONSIBILITY
1. RAILWAY CONDITION BRIEFINGS	.	Personnel & Industrial Relations - completed	March, 1993	COP & LTTA
	.	Operating & Commercial	March, 1993	COP & LTTA
	.	Marketing	March, 1993	COP & LTTA
	.	Civil and Mechanical Engineering	March, 1993	COP & LTTA
	.	Finace & Accounting	March, 1993	COP & LTTA
2. SR IN FIELD OPERATIONS AND TRACK REVIEW	.	Review Operating Stations, Track Rehabilitation and Proposed Spurs	February, 1993	COP
3. TRANSFER STRATEGIC AND BUSINESS PLANNING THROUGH FOCUS DISCUSSIONS	.	Diversion, Re-Routing and Road Competition	February, 1993	STTA
	.	Track Rehabilitation and Safety	February, 1993	CE & DOT
	.	Traffic, Cost and Revenue Forcasts	February, 1993	STTA
4. TRANSFER GOVERNMENT BLUEPRINT	.	General Review of Blueprint	February, 1993	CEO
	.	Indigenous Trucking Industry Development Support	October, 1993	STTA
	.	Contracting Non Railway Functions	June, 1993	Subcontractor

FOURTH YEAR WORK PLAN - MANAGEMENT TRANSITION

OUTPUT DESCRIPTION	TASK	TIMING	RESPONSIBILITY
6. STAKEHOLDER DEBRIEFINGS	. Operating Partners Meeting	March, 1993	CEO
	. Employee Transition Briefing	March, 1993	CEO and
	. Customer Transition Briefing	March, 1993	CEO and Marketing Advisor
	. Commercial Lender Transition Briefing	March, 1993	CEO and DF
7. EXECUTIVE AUTHORITY TRANSFER	. Board Media Release on Transition	March, 1993	CEO
	. Function for Stakeholders	March, 1993	CEO

FOURTH YEAR WORK PLAN - GOVERNMENT VIABILITY
BLUE PRINT

OUTPUT DESCRIPTION	TASK (S)	TIMING	RESPONSIBILITY
1. DOCUMENT RIGHT SIZING STRATEGY AND SOCIAL PLAN	. Shorter-Term Right Sizing Strategy & Social Plan completed	March, 1993	COP Subcontractor
	. Transfer Strategy to CEO and Senior Mgt. Team	March, 1993	CEO and Subcontractor
2. ESTABLISH OPERATING SAFETY PROGRAMME	. Operating Safety Programme Objectives and Standards completed	Oct/Nov 1993	Traffic Advisor
	. Operating Accident Avoidance Programme developed	November, 1993	Traffic Advisor
	. Programme implemented	Nov/Dec 1993	Traffic Advisor
3. EVALUATE ACCIDENT RESERVING AND PAYOUT STRATEGY	. Pay-As-You-Go Versus Five Year Deposit Strategy evaluated	November 1993	COP Subcontractor
4. EVALUATE DIVIDEND PAYMENT BASIS	. Basis of Dividend Payment to Government developed	November 1993	COP & Subcontractor
5. SUPPORT CONVERSION OF S.R. DEBT	. Ability to Finance Debt evaluated	January through March, 1993	CEO & DF
6. DEVELOP TRACK MAINTENANCE PROGRAMME	. Develop Programme Design & Inventory Requirements	Aug-Nov 1993	CE & STTA
	. Inventory & Develop Standards conducted	February through April, 1993	CE & SR Staff
	. Progress reviewed	May, 1993	CE and STTA
	. System & Automation developed	November 1993	CE & STTA
	. Training implemented	November, 1993	CE & STTA

FOURTH YEAR WORK PLAN - GOVERNMENT VIABILITY
BLUE PRINT
(Continued)

OUTPUT DESCRIPTION	TASK (S)	TIMING	RESPONSIBILITY
7. DEVELOP SERVICE DIVERSIFICATION TO SUPPORT INDIGENOUS TRUCKING INDUSTRY	. Inter-Modal Handling Facility Plans documented	February, 1993	CEO & MA
	. Door-to-Door Facility Plans documented	February, 1993	CEO & MA
	. Additional Indigenous Opportunities identified	March, 1993	CEO & MA
8. CONTRACTING OF CERTAIN NON - RAILWAY FUNCTIONS	. Current Costs and Service Standards for Automotive & Building Maintenance and Security Services evaluated	May, 1993	STTA
	. Service Standards and Management Requirements developed	May, 1993	STTA
	. Tender Documents for Automotive and Building Maintenance and Security Services developed	June, 1993	COP & STTA
	. Documents and Evaluate Bids Let	On-going and subject to decision and timing	CEO
	. Services and if Responsive and Cost Beneficial contracted	On-going and subject to decision and timing	CEO

FOURTH YEAR WORK PLAN - DEMOBILIZATION

OUTPUT DESCRIPTION	TASK (S)	TIMING	RESPONSIBILITY
1. DEMOBILIZE PERSONNEL ADVISOR	. Handover Notes	January, 1993	COP & D(P&A)
	. Close-out Administrative Affairs	January, 1993	COP & AA
2. DEMOBILIZE MARKETING ADVISOR	. Handover Notes	June, 1993	COP & ADDC/M
	. Close-out Administrative Affairs	June, 1993	COP & AA
3. DEMOBILIZE DIRECTOR OF FINANCE	. Handover Notes	March, 1993	COP & DF
	. Close-Out Administrative Affairs	March, 1993	COP
4. DEMOBILIZE CHIEF ENGINEER	. Handover Notes	March, 1994	CE and Home Office
	. Close-Out Administrative Affairs	March, 1994	CE and Home office
5. DEMOBILIZE TRAFFIC ADVISOR	. Handover Notes	Dec, 1993	COP & DOT
	. Close-Out Administrative Affairs	Dec, 1993	COP & AA
6. DEMOBILIZE ADMIN	. Transfer Assets to GOS	Early Dec, 1993	COP & AA
	. Transfer Billings to DCIL-USA	Mid-December, 1993	COP & AA
	. Prepare Final Project Billing	April, 1993	DCIL Home Office
7. HOME OFFICE PROJECT AUDIT IN CHICAGO	. Schedule Project Audit with USAID	November, 1993	DCIL Home Office
	. Support USAID Project Audit in Chicago	Unknown	DCIL Home Office
8. DEMOBILIZE CHIEF OF PARTY	. Support USAID Final Project Evaluation	March, 1994	To be determined
	. Support Transfer of Project Assets	Early Dec, 1993	COP

Lessons learnt from the Project

1. Supported by established facts, the Project has met its objectives and the effort can therefore be said to have been worthwhile. USAID can consequently take satisfaction that what was perceived as a pressing need by the Government at the time has been met. If there was a hope that this Project would provide a model on which similar projects could be based in the Region, this is likely to be unfulfilled largely because time has tended to overtake events with each railway now undertaking some if not all the main restructuring aspects of this Project. Malawi Railway might possibly benefit from an infusion of management expertise on similar lines to this Project; it is the only one that offers some scope.

2. Whilst considerable effort was expended during Project proposal stage to determine the problems facing the Railway, many significant problems were overlooked probably because those evaluating the process were unfamiliar with a railway undertaking. Two examples of this might suffice to make the point. Safety and discipline on the Railway fell far short of an acceptable level and yet this was only cursorily mentioned in findings preliminary to the tender specifications being issued. The pressing issues of right sizing and industrial relations in the Railway were so dominant and obvious that it should have been readily recognised before the Project started. Had they been, an LTTA with specialist experience in these fields might have been added to the team along with far more emphasis being given to safety in operations. It is apparent that the experts preparing Project specifications were principally concerned with the financial status of the Railway whereas the most critical factor was, and still remains, the safe running of trains. In future similar Projects, therefore, much more care should be given to identifying all the problems by carefully selecting people with experience for this purpose.

3. In retrospect it was perhaps an error in judgement on the Team's part to leave the restructuring and strengthening of the Railway Board so late in the Project. It is now apparent that this should have been done a long time ago and undertaken along with other restructuring proposals of management itself. The reason for not doing so was because the then CEO found little need to rely heavily on Board support but it should have been apparent that this situation was likely to change after the transition to local management.

4. Several important assignments were paid for by the Railway even though they were legitimate items for the Project.

   Job evaluation
   Link working study
   Manpower study
   Hire account adjustments
   "Exemption Clause" case in Court
   Hire of a Perway Instructor.

   USAID would have agreed to pay, in time, but not necessarily from the source considered by the Team to be most appropriate. Delays and frustrations follow the strict observance of the rules resulting in a tendency to choose the short-cut alternative of having the Railway pay. These items should in fact be included as a contribution by Government (the Railway).

   With the added value of hindsight, at least two of the Short term assignments could have been avoided thereby saving 14 weeks of STTA time. One would have been the "Marketing Strategy" which could have been undertaken by the Advisor Marketing who had both the time and expertise. The other was the "Feasibility of deleting Sunday train services" the outcome of which could have been readily anticipated as it was based on a false premises. A more careful appreciation of the problems would have prevented unnecessary expense.

6. An error was made early in the Project where all members of the senior management cadre went through tests to ensure their suitability and ability to undertake studies in the States (TOEFL, GRE, GMAT and SAT). Only two from this group eventually went to the States for degree or advanced technical training (Gideon and Timothy) but expectations were raised amongst the whole group even though attempts were made to warn them that this was "contingency planning".

7. The frequent changes that had to be made and the inevitable gaps in the critical position of the LTTA Director Traffic (Operating) resulted in delays in introducing new procedures and strengthening a very weak but vital part of the organisation. Contract extensions to the LTTA in the capacity of Traffic Advisor would have proved beneficial.

8. Finally, the Ministry of Transport - previously Works and Communications - tended to distance itself from the Project, although more lately a marked change has become evident. There could have been a more bonded commitment for the GOS to act in certain respects. The most obvious case has been in restructuring the GOS loans which, despite repeated attempts, have only really come alive in the past year and are only now being submitted for final approval but are still not finalised.

Factors that should ensure sustainability post Project

1. A young, enthusiastic and professionally trained management Team is in place and acting independently.

2. An awareness by management of its responsibilities in a forecasted changed environment.

3. A willingness to learn.

4. A number of studies covering a wide spectrum of situations is available from which the new management team can derive confidence, encouragement and reference.

5. A legacy by example of how management can and is able to work.

6. A desire amongst senior management to prove that Swazi's can effectively manage the Railway without expatriate assistance.

PROJECT STATUS OF OUTPUTS FOR EACH OF FOUR YEARS

1. FINANCIAL CAPITAL STRUCTURE ANALYZED AND RECOMMENDED CHANGES PROVIDED TO CAPITALIZE SWAZILAND RAILWAY - COMPLETE

A. BACKGROUND — The Short Term Technical Assistance Project conducted in 1989 suggested that SR's financial capital structure would be inadequate to meet short term needs.

B. OUTPUT OBJECTIVE — Evaluate SR's financial capital structure requirements over the period 1990/1991 through 1994/1995 and forward related capitalization Recommendations to Government.

C. PURPOSE RELATIONSHIP — To strengthen and expand the capacity and operational efficiency of regional rail transport in SADCC countries. This output is expected to contribute to a reduced Debt/Equity ratio from 408% in 1988 to 150% by 1993.

D. OUTPUT COMMENT — The severe financial crisis of 1988 subsided through cost control and tariff increase initiatives that generated a surplus in 1989/1990. The Business Plan however anticipated operating deficits starting 1994 due to diversion of present transit traffic.

E. OUTPUT RECOMMENDATIONS — The 1990/1991 Business Plan and Corporate Strategy Report adopted by the SR Board in July 1990 recommended a number of short term traffic retention and cost reduction initiatives. It also recommended that if SR cannot be effectively sized that Government reimburse SR for related over-employment and social service costs. In addition, it recommended that Government finance SR's permanent way costs to put it on a more equal footing with Road Hauliers. Finally, it recommended debt forgiveness since SR would be unable to service it. Together, the above recommendations were designed to defray the contemplated operating deficit.

F. 1ST YEAR STATUS — The SR Board forwarded to Government a request for Debt Forgiveness and the request was under review. The Government did provide SR funding in the amount of E760,000 for selective rehabilitation of the Goba Line.

G. 2ND YEAR STATUS — The request for Government Debt Forgiveness is still under review. Resolution of this request was in part deferred due to the reorganization of the Ministry of Works and Communications the previously responsible Ministry for SR. A new Ministry, the Ministry of Transport and Communications is now responsible for SR. This change has introduced a host of new officials who have had to be familiarized with SR's financial situation and requirements.

The Government programmed an additional E4.5 million for Goba Line Rehabilitation but only E2.5 million was utilised. The pattern of financial support for permanent way rehabilitation appears to suggest an emerging Government policy of funding defensible requirements in lieu of Debt Forgiveness.

Unlike 1990, SR in 1991 did not experience any significant collisions or damage/claims. Excluding the need to establish capital reserves SR in financial year 1991/1992 is expected to generate a profit in the range of E20 million thereby significantly improving its cash position. This temporary position (i.e. because diversion is still expected to take place starting financial year 1994) could confuse SR's need for Debt Forgiveness by Government due to SR's longer term financial constraints and lead to deferral of decision until the need arises. It is therefore necessary that the Project's third year work plan establish a longer term Corporate Strategy and Business Plan that gives renewed direction to capital structure and the need for any debt forgiveness by Government.

H. 3RD YEAR STATUS

The Strategic Re-assessment carried out during July, August and September of the Third Project year re-confirmed that unless substantial cost savings are realized over the period 1993/1994 and 1994/1995, the Railway could again find itself in a deficit position due to anticipated traffic diversion to Maputo. Further, it was noted that any significant operating accidents over the next five years could be extremely disruptive to financial stability since related costs are self-financed.

The Railway adopted a short term strategy of buying out employees to realize right sizing objectives. While this action will erode the Railways present cash surplus position it will lead to substantial future cost reductions.

The Government, as the Railway's owner, as a result of Strategic Re-assessment has prepared a Draft Sustained Viability Blueprint. In addition to supporting Right Sizing through socially sensitive measures, the draft agreement includes umbrella accident financial coverage over the next five years, selective debt restructuring and recognition that the Railway can not finance required track rehabilitation. Together these actions are designed to stabilize the Railway's capital structure over the next four to five years.

The Draft Government Viability Blueprint was prepared for internal review in November, 1992 and will be discussed for endorsement by effected Ministries in March 1993.

I. 4TH YEAR STATUS

A Draft "Strategy concept for SR" (GOS Viability Blueprint) was circulated to all concerned. Certain aspects of the Draft have or are being actioned by either Government or the Railway but a Final strategy paper is still awaited. Of particular significance are the following:-

- Debt Restructuring: a Cabinet paper awaits the attention of the new Government. This paper proposes the restructuring into Grants, Serviceable Loans with conditions stated, Equity.

- Establishment of an Accident Reserve Fund: a study has recently identified a source of insuring against rail accidents and this now awaits consideration by the Railway Board as well as GOS who has undertaken to "top up" over certain amounts and meet catastrophe costs in future.

- Right-sizing of SR staff: an exercise has been completed which reduced the strength by 311 individuals. The cost of doing this has been over E8m borne by the Railway. The viability Blueprint called for a reduction of 290 persons as was to be met from a Social Plan Fund but events overtook this proposal.

- Rehabilitation plans for the East/West lines were proposed but GOS still has to advise how the costs are to be funded. In the meantime, special maintenance work is having to be done on an increasing scale and GOS has made additional grants available to SR towards this; E1.17m having been allocated for y/e 1994.

Many of these aspects will now become the responsibility of SR management but the groundwork has been completed by the Project.

Further down-sizing will become necessary but again the basis for effecting this has been established and it remains only a question of financing this that remains an open issue.

A final decision on the financial structure of the Railway is to be made by Government.

FOURTH YEAR PROJECT STATUS BY OUTPUT (Continued)

2. LOAN PORTFOLIO ANALYZED AND LOANS RESTRUCTURED - COMPLETE

A. BACKGROUND

The Short Term Technical Assistance Project conducted in 1989 found that SR had an excessive Debt/Equity Ratio (i.e. 408% in 1988) and outstanding debt in the magnitude of E100 million. It recommended restructuring of debt and Government forgiveness of loans provided by Government totalling E71.9 million.

B. OUTPUT OBJECTIVE

Determine if SR can service debt over the period 1990/91 through 1994/95 by estimating servicing requirements and seek Government assistance in restructuring of loans.

C. PURPOSE RELATIONSHIP

To strengthen and expand the capacity and operational efficiency of regional rail transport in SADCC countries. This output is expected to contribute to a reduced Debt/Equity ratio from 408% in 1988 to 150% by 1993.

D. OUTPUT FINDINGS

The 1989/1990 trend toward profitability and the expectation that this trend would continue in 1990/1991 enabled the Railway to retire several commercial loans. In addition, SR gained support from Government in deferral of servicing of Government loans until 1993/94. Government also assisted SR in restructuring of the Standard Chartered Bank loan in March, 1990. Together the above have alleviated SR's debt servicing requirements. The Debt/Equity ratio in November, 1990 was 152% but includes deferrals on Government loans.

The 1990/91 Business Plan and Corporate Strategy report found that SR could not effectively reservice Government loans presently deferred in 1993/94 and 1994/95 due to anticipated traffic and revenue diversion.

E. OUTPUT RECOMMENDATIONS

The 1990/1991 Business Plan and Corporate Strategy Report adopted by the Board and the Loan Portfolio Report recommended Government forgiveness of loans totalling E49.2 million. An alternative strategy is to request indefinite deferral of servicing should forgiveness not be supported.

F. 1ST YEAR STATUS

The SR Board forwarded a request to Government for Debt Forgiveness and the Request was under review. Debt Forgiveness was viewed to save SR approximately E5.0 million in costs starting 1993/1994 thereby keeping SR solvent in terms of cash flow.

G. 2ND YEAR STATUS

As noted previously the request for Debt Forgiveness remains unresolved. The 1991/1992 Corporate Strategy and Business Plan established that the timing and degree of traffic diversion would be much less severe than that assumed in the initial plan (i.e. 1990/1991). This tended to alleviate the immediate need for a decision on Debt Forgiveness. However, the plan suggested that SR may not be in a position to service debt beyond the planned five year horizon during which the major input of diversion was expected to take place.

The 3rd Year Work Plan is expected to extend the Planning Horizon beyond the five year period (i.e. a ten year horizon) in order to more effectively evaluate the magnitude of diversion and viability of subsequent operations in order to establish SR's longer term cash flow position and related debt servicing capacity.

H. 3RD YEAR STATUS

As suggested under output number 1, the Strategic Re-assessment re-examined the Railway's ability to service its debt. The assessment confirmed that debt servicing could not be sustained unless excessive labor and related social service costs could be reduced and potential accident losses controlled.

The Draft Government Viability Blueprint has a number of provisions concerning loan restructuring as follows:

1) the Government will convert loans related to acts of God to equity.

2) the Railway will establish a fully funded Social Plan Fund to finance Right Sizing and Five Year Accident Reserve in exchange for previously unrestructured Government loans to be forgiven or converted to equity.

3) the Railway will service previously restructured Government Loans as well as Commercial Loans.

As indicated above the Draft Government Viability Blueprint is currently under internal Government review and it is assumed that action will be taken prior to the end of March, 1993. If the Draft Blueprint is approved the Railway's debt/equity ratio will be substantially enhanced as will its capital structure.

I. 4TH YEAR STATUS

As indicated earlier, restructuring proposals are being submitted to the New Cabinet. In essence these result in:

	E (000's)	
Debt	41,807	
Equity	61,049	Debt/Equity ratio = 68%

In the meantime the R8m RSA loan is the subject of inter-government discussions with the interest being the focus of attention, the capital having been agreed to be paid by SR.

The proposals for debt restructuring referred to in Output No. 1 apply.

FOURTH YEAR PROJECT STATUS BY OUTPUT (Continued)

3. CORPORATE STRATEGY AND PLANNING SYSTEM ESTABLISHED - COMPLETE

A. BACKGROUND

The "Regional Rail Systems Support Project - Swaziland Government" report prepared for USAID in April, 1988 noted that SR needed to develop a corporate strategy on its mission and role in the Transport infrastructure and needed to develop related planning systems and a supporting Business Plan.

B. OUTPUT OBJECTIVE

Prepare SR Mission Statement and develop Five-Year rolling Business Plan and related Corporate Strategy.

C. PURPOSE RELATIONSHIP

To strengthen and expand the capacity and operational efficiency of regional rail transport in SADCC countries and attempt to meet "Conditions that will indicate the project purpose has been achieved" (i.e. reduced Debt/Equity and Operating Ratio, Business System utilized and intra-SADCC traffic increased).

D. OUTPUT FINDINGS

The 1990/1991 Business Plan and Corporate Strategy report adopted by the Board in July, 1990 established a number of significant findings as follows:

- the Railway is the back bone of export trade and due to the nature of goods moved must continue to be operationally viable

- the Railway is not on a favourable footing with Road Hauliers since Government subsidizes Road Haulier conveyance facilities while SR has been financing its own. Road Hauliers are not paying their fair share for infrastructure maintenance thereby being able to offer customers more favourable rates for movement of import trade. This contributes to SR back-haul limitations and therefore its financial efficiency

- SR is extremely vulnerable to diversion of transit traffic (i.e. represents 80% of traffic) due to regional permanent way improvements to Maputo as well as Maputo Port facilities (i.e. the Plan anticipated a worst case diversion of 43% of traffic by 1993/1994).

E. OUTPUT RECOMMENDATIONS

The 1990/1991 Business Plan set forth a series of short term traffic retention and expansion and cost reduction initiatives as well as longer term financial support initiatives which were adopted by the Board in July 1990. Together these initiatives were designed to keep the Railway financially viable despite the anticipated significant down turn in traffic and revenue by 1993/1994.

F. 1ST YEAR STATUS

Business Planning systems were institutionalized to support annual updating of the Plan. The 1990/1991 erosion in financial position, caused largely by collisions and related costs, coupled with the emerging notion that traffic diversion would be delayed and less severe over the short term suggested that SR re-examine its short term strategy and related business plan.

G. 2ND YEAR STATUS

The 2nd Corporate Strategy and Business Plan was founded on the theory that traffic diversion and the related threat of financial insolvency would be less severe than originally contemplated. This scenario suggested that SR would therefore be provided a window of opportunity to position itself for traffic retention and replacement on the theory that SR has a role in supporting the national economy and the related need to competitively move goods.

The recent strategy with respect to traffic retention focused on implementing service quality and reliability and cost reduction initiatives expected to result in a simplified and more manageable organization. Further, a number of initiatives were put in place to test the potential for shorter and longer term traffic expansion.

Three significant events took place during the 2nd Project Year. First, despite concerns forwarded by SR to the Road Transport Board, road haulier regulations with respect to market entry were relaxed with respect to foreign hauliers. The immediate effect was on import/export traffics in which SR lost all of its previous gains in POL (i.e. petroleum product traffics) over the year to road hauliers. Road competition is expected to potentially impact all other traffics with the exception of sugar.

In order to meet the challenge of road hauliers in import/export traffics, SR found that it needed SPOORNET's support in tariff reduction concessions which SPOORNET was unwilling to meet. This confirmed SR's inflexibility to compete for traffic because its costs are uncompetitive and at present largely fixed with little flexibility for variability and was therefore forced to seek concessions from SPOORNET for traffic and revenue retention.

SR did not gain any significant enhancements in visible improvements in quality or reliability of service and therefore lost some available traffic and revenue. More significantly it was unable to sell enhancement to gain other traffics.

The prospects of increased competition with Road Hauliers and SPOORNET's potential inflexibility in tariff concessions implies that if SR is to remain financially viable it must become:

- a more cost effective/efficient organization thereby creating the flexibility for concessions

- a more pro-active organization that contemplates and can rapidly adjust to competition

- an organization that can offer competitive services in conjunction with SPOORNET.

The 3rd Corporate Strategy and Business Plan must therefore solidify the above directions and in doing so must have the active support of Labor. Should the above be perceived to be impractical then SR's strategy should be to focus on those traffics not likely to be vulnerable to road competition such as certain import/export traffics and through (i.e. transit) traffic recognizing that this latter direction would eventually result in an insolvent Railway.

H. 3RD YEAR STATUS

As planned the Strategic Re-assessment was conducted during the period July through September, 1992 and re-examined five strategic issues including:

1. Traffic Diversion to Maputo

2. Right Sizing the Railway

3. Track Rehabilitation of the older East and West Lines

4. Debt Servicing

5. Accident Reserves and Operating Safety Programme.

As stated previously the Draft Government Viability Blueprint that emerged from Strategic Re-assessment addresses all issues but diversion. Proposed resolutions however are designed to reduce the input of diversion.

Even though the regional economy has been depressed for four years or so, the Railway over the last three years has not experienced related traffic losses until this year. This year a decline in Zimbabwe related transit traffic in containers and general goods was noted. Ironically, it is this same traffic that was considered divertable to Maputo over the next two to five years. Meetings with Zimbabwe industry and shippers suggest a continuation of depressed market with 30 to 40% traffic decline in 1993/1994. So, aside from the threat of diversion, the Railway is threatened with a much shorter term decline in Zimbabwe transit traffics.

The Draft Government Blueprint also requires the Railway to consider a number of initiatives including:

1) assistance in developing an indigenous trucking industry by considering the role of trucking in service diversification

2) contracting railway and non-railway functions if cost beneficial

3) instituting a comprehensive Operating Safety Programme

These elements will be incorporated into the strategy.

The Fourth Year Work Plan will include an update of the Five Year Business Plan which will be developed from the Strategic Re-assessment and Draft Government Viability Blueprint.

I. 4TH YEAR STATUS

It is clear that diversions away from Swaziland route to Maputo are taking place but on an almost insignificant scale and whilst confirmation of peace will eventually bring normality to the corridors, the impact of this on SR is still a number of years away. A recently conducted Project Monitoring Study suggests that the strongest presence of Maputo will be in 1997 or 1998. But it is still anybody's guess. Traffic is less than Budget but this is the result of the economic recession prevailing and not diversions.

The GOS Blueprint required that a number of initiatives be considered and these have been carried out viz

- Indigenous joint venture trucking/rail service
- Divesting non-core activities
- A Safety Plan formulated, a Training Officer position established and safety training commenced.
- Provision of spurs to single customers (in conjunction with the SSA).

The results of these studies have been handed over to SR management for decision.

The work of up-lifting the disused KaDake line is progressing and is scheduled for completion early in the new year. Reclaimed material is being sorted for Railway use or for sale to the public.

A Mission Statement has been written by the CEO and a system of MBO introduced.

A Mission Statement prepared by the CEO has been widely distributed and four 5-year rolling Business Plans will have been completed by Project closure. Three Strategic Assessment Plans have been drawn up over the life of the Project.

4. S.R. RIGHTS PROVIDED AND SAFEGUARDED UNDER SR/SATS MEMORANDUM OF AGREEMENT ON RAILWAY LINK (MOU) - COMPLETE

A. BACKGROUND	The Short Term Technical Assistance Project conducted in 1989 noted that SR should re-affirm that the MOU is still legally binding and that SR needed to submit cash flow statements, that were in arrears since 1986, of the entire north-south line reflecting any surplus or shortfall for each year.
B. OUTPUT OBJECTIVE	Confirm that MOU is legally binding and that MOU will be honoured when SATS is privatized, determine what SR wants out of MOU in terms of reimbursement in the event of past line shortfalls and update/maintain on a current basis north/south line financial analysis.
C. PURPOSE RELATIONSHIP	To strengthen and expand the capacity and operational efficiency of regional rail transport in SADCC countries. This output is expected to both reduce the Debt/Equity and Operating ratios.
D. OUTPUT FINDINGS	USAID engaged legal counsel, who found that the MOU is legally binding and is an inter-governmental instrument to be discussed by the two governments and not respective Railways. The Railway also engaged an accounting firm to update north/south line financial analysis up to year end 1989. Analysis has since been maintained internally on a current basis and outstanding financial matters have also been resolved with CFM.
E. OUTPUT RECOMMENDATIONS	The legal advisor recommended that the Ministry of Finance arrange a consultation with South African counterparts, to reaffirm the validity of the MOU, attain agreement on any calculated shortfall, seek loan resolution and obtain a guarantee that the MOU will be honoured when SATS is privatized.
F. 1ST YEAR STATUS	The SR Board has forwarded a request to the Ministry of Works and Communications that Government enter into negotiations with the Republic of South Africa to re-affirm the validity of the MOU and request forgiveness in repayment of the outstanding north/south line construction loan totalling R8 million which was previously re-scheduled for repayment in 1992 but was subsequently indefinitely deferred. SPOORNET did agree to reimburse SR approximately E3.07 million in previously unremunerated hire costs by off-setting costs against hire charges.
G. 2ND YEAR STATUS	A meeting was held between the Governments of Swaziland and the Republic of South Africa during which the validity of the MOU was re-affirmed. However, it was re-affirmed that the MOU did not guarantee SR any established volume of through traffic and the request for debt forgiveness was denied on the basis of undefensible/unjustifiable grounds. Several follow-on informal meetings were held to explore the RSA's intent as to when it might re-establish its demand for loan repayment as well as to investigate as a more justifiable and acceptable reason for requesting debt forgiveness. An answer to the former has not been provided. An emerging strategy for the latter is to argue that the north/south line is largely to the benefit of the RSA/SPOORNET and that SR will not have the financial capacity to both finance loan repayment and track maintenance costs which are expected to increase over the next five years. Wagon Control System transfer from SPOORNET to SR identified a programming error in SPOORNET's system which resulted in previous errors or overbilling of hire charges. SR has resolved to carry out a detailed retrospective exercise to establish the exact amount of over-billing so that related costs can be recovered from SPOORNET. The amount involved is conservatively estimated at E2 million. We are still cleaning up the past whilst trying to deal with the future.

H. 3RD YEAR STATUS - The Draft Government Viability Blueprint directs the Railway to honor reservicing of the RSA loan of E8 million.

The Railway continued its retro-active review of wagon hire charges during the year. The total amount recovered to date is E5 million. The exercise will be completed by the end of June, 1993 and it is anticipated that an additional E1 million will be recovered.

Significant concessions were obtained in locomotive (ie diesel) hire charges and hiring was structured for a longer contractional period. Daily diesel locomotive hire rates were reduced from E2,700 to E1,300 which made the phase out of steam pragmatic from a cost perspective.

During the Fourth Year Joint Facility Fee, Wagon Hire and Tarpaulin concessions will be sought.

I. 4TH YEAR STATUS Mention has been made that the RSA loan of R8m will have to be met by SR but negotiations on interest charges are going on between the two Governments. Whilst attempts were made to invoke the Memorandum of Agreement in favour of SR, this met with little success by the South African delegation. Considerable success, however, was achieved by having the SPOORNET/SR Business Agreement examined in detail and significant savings can be expected. This together with the overcharges detected in the Hire Account makes it imperative that all such charges continue to be scrutinised with the utmost care. Approximately E7m has been credited as a result of the Hire account checking exercise. It is continuing and at present rate of progress will take several more years to bring it up to date.

An opinion established that whilst the MOU was legally binding and was applicable to Spoornet, the successors of SATS, the content made it of little practical value. This has been borne out by discussions of the R8m RSA loan. An analysis of NRL profit/losses is being submitted annually to Spoornet.

FOURTH YEAR PROJECT STATUS BY OUTPUT (Continued)

5. MANAGEMENT INFORMATION SYSTEMS ESTABLISHED - COMPLETE

A. BACKGROUND

The Short Term Technical Assistance Project conducted in 1989 found that SR Senior Management lacked timely and meaningful information for effective decision-making. Further, it found a significant lag in information generation cycles. The Project recommended that Management Information System needs should be analyzed and established where possible during first year of the Long Term Technical Assistance Project and that a System be in place providing SR with comprehensive data on operating variable cost and revenue during the second/third year of Project.

The First Year Work Plan of the Long Term Technical Assistance Project deemed it inappropriate to rapidly proceed with computerization since time was needed to identify management information requirements. An STTA was scheduled for the period June through September to define requirements and prepare an automation plan. Further, emphasis was placed on implementing operating procedures and identifying wagon control information needs.

B. OUTPUT OBJECTIVE

Prepare an automation plan, strengthen operating procedures and identify wagon control system requirements to improve management information.

C. PURPOSE RELATIONSHIP

To strengthen and expand the capacity and operational efficiency of regional rail transport in SADCC countries. This output is expected to contribute to "Operations and business systems developed, accepted and utilized".

D. OUTPUT FINDINGS

The STTA Automation Planning assignment was deferred from June through September, 1990 to March through June, 1991 because other critical work which would impact MIS requirements had to precede Automation Planning. For example the cost allocation planning and costing framework exercise would dictate accounting system modifications and this work was not scheduled for completion until August, 1990. Hence the Automation Planning exercise was scheduled prematurely in the Work Plan.

Working Time Book, Roster and Crew Link and Train Working Regulations were scheduled for completion by August, 1990. The STTS assignment did not proceed until November, 1990 and Working Time Book and Roster and Crew Link was completed in February, 1991 and implementated in March, 1991. Train Working Regulations were implemented in September, 1991. Accident Notification and Response procedures were implemented in December, 1990.

Wagon Control Procedures were scheduled for development, relying on the SATS/SPOORNET system, in the period September, 1990 through February, 1991. This work was deferred and will be rescheduled for the 2nd Project Year Work Plan. The collisions of July and August, 1990 required extensive management attention and this contributed to deferral of work.

A Long Term Technical Advisor (LTTA) to cover Civil Engineering Department responsibilities with full Executive Authority was committed to the project effective October 1990 whose responsibility it would be to introduce a Permanent Way Maintenance Management System in 1991 in the Second Project Year.

E. OUTPUT RECOMMENDATIONS

No significant recommendations have emerged due to general deferral of work.

F. 1ST YEAR STATUS

Limited progress was achieved relative to the 1st Year Work Plan.

G. 2ND YEAR STATUS

The Automation Plan was completed in July, 1991 but a comprehensive strategy for its implementation has not been agreed upon among SR management. At issue are the questions of:

. what base systems SR needs particularly if it contracts out certain Railway and non-Railway functions: and

. whether it should build custom systems or acquire commercially adaptable systems.

Working Regulations were fully implemented during the 2nd Project Year. Revised Train Working Regulations were introduced and those involved in adhering to revised regulations were familiarized with them. The new Working Time Book, Roster and Crew Link system was introduced and then revised because they did not provide adequate flexibility in the event SPOORNET did not meet its train timetable - (i.e. in the event of missed runs).

SPOORNET's Wagon Control System has been successfully transferred to SR but has not attained its desired level of efficiency due to modem dial-up limitations. A dedicated telephone line is needed and it may not be available for connection between SR and SPOORNET offices until the end of the 3rd Project Year. The system needs to be transferred for internal use from the Commercial Department to Operating as well as implemented at Mpaka. The system, despite present limitations, has offered improved wagon control and inquiry on goods in transit.

SPOORNET is finalizing INTAC, its accounting system. SR's intent is to establish on-line access to this system so that it can extract pertinent hire billing information in order to reduce the present inter carrier billing/payment cycle covering traffic revenue and various hire charges due SPOORNET. This system is expected to come on-line during the first half of the 3rd Project Year.

Limited progress was made in the establishment of a Permanent Way Maintenance Management System due to the unanticipated personal difficulties of the LTTA Civil Engineer and the need to replace him during the 2nd Project Year, both on a temporary and longer term basis. Despite the above disruption a Permanent Way Maintenance Management Programme is under development and will be completed prior to the end of the 2nd Quarter of the 3rd Project Year.

The Project Team, supported by USAID's Project Evaluators, have determined it critical to establish a definitive longer term SR Organization and Operation Plan by the 3rd Quarter of the 3rd Project Year. This plan will establish desired in-house direct control functions versus functions to be contracted out either to simply management control or attain cost reductions and productivity enhancements. In view of this intent it may be premature to finalize the automation strategy since it would not be effective to develop systems for functions that could/would be ultimately contracted to others. We therefore intend to defer further automation (i.e. aside from Wagon Control and INTAC) until that Organization Plan has been accepted. The major systems in question include accounts, stores and mechanical systems.

H. 3RD YEAR STATUS - SPOORNET's SPRINT Wagon Contol System became operational during the year through introduction of a modem. The system needs to be extended to the field to verify location of delayed wagons. In addition, a system needs to be introduced for control over local traffic wagon hire.

SPOORNET's INTAC Billing/Accounts Receiveable System has been introduced with extensive training provided to staff by SPOORNET. The System will become operational by April, 1993.

After the Railway made its commitment to the above systems SPOORNET advised the Railway of its intend to abandon these systems and move towards a new generation system over the next two years. The above systems have therefore become temporary solutions. The Fourth Year Work Plan will examine the Railway's best long term option of either committing to SPOORNET's new generation of systems or building its own systems.

The Permanent Way Maintenance Management System accomplished little progress over the year due to the untimely resignation of the Chief Civil Engineer in August and the related delay in replacing him. The system is now scheduled for implementation over the period February through October, 1993 of the Fourth Project Year.

Cost beneficial contracting of railway and non-railway functions was examined during the year. Automotive workshop, residential building maintenance and security services were targeted as potential areas to be examined in more detail during the Fourth Project Year. This will not effect the automation strategy.

I. 4TH YEAR STATUS A special study has recently been completed into the SPOORNET freight accounting system INTAC and its wagon control system SPRINT. The recommended alternative to INTAC is to have a custom designed system to meet the special circumstances prevailing. Whilst the intention of SPOORNET is to amalgamate both systems into one called Gemini it is also apparent that SATCC, through a USAID funded project, is anxious to introduce a PC networked system that is compatible with the system to be used by SPOORNET. Satellite communications are also mooted. Much remains to be explained and discussed before such a radical system is introduced. Assignment concluded and transferred to management.

The Permanent Way Maintenance System has been satisfactorily installed but the intention is to have the STTA involved return for three weeks early in 1994 to ensure that the important start of a new accounting year proceeds without hitch.

A MIS coordinator has been appointed by the Railway which should facilitate the overall automation work being undertaken. Emphasis must be given to allowing the local talent to practice what they have been taught and this includes the Coordinator.

Complaints have been received about the frequency of breakdowns in the equipment purchased by the Project. An examination reveals that the UPS units, many of which have burnt out, do not have the capacity to cope with the extraordinary surges in power experienced in Swaziland. Authority has been obtained to replace these auxiliary units with adequate surge capabilities specified.

A management plan for automation has been submitted, an in-house Wagon Control System for local supplemented by Sprint is recommended, and generally management information has been improved. It is, however, a long process which is on-going.

A management plan for automation on SR has been completed and wagon control system requirements have been implemented or identified. The process, however, is on-going.

6. REVISED TARIFF STRUCTURE DEVELOPED AND IN PLACE - COMPLETE

A. BACKGROUND

The Short Term Technical Assistance Project conducted in 1989 found that SR's tariff system required rationalization in terms of classes and pricing. Line profit/loss analysis was also recommended to identify profit generating customers and commodities.

B. OUTPUT OBJECTIVE

Develop an improved full cost allocation and costing basis by commodity and determine cost recovery characteristics of the present tariff system. Recommend tariff class and pricing changes. Further, examine any SPOORNET hire charge inequities and resolve them in future Business Agreement negotiations.

C. PURPOSE RELATIONSHIP

To strengthen and expand the capacity and operational efficiency of regional rail transport in SADCC countries by introducing a more commercially and cost oriented tariff structure which can lead to reduction in the operating ratio.

D. OUTPUT FINDINGS

An STTA was engaged during the period July and August, 1990 to develop a costing model using 1988/1989 data. The resulting report was submitted on schedule and costing information was internally updated for 1989/1990 and 1990/1991.

An STTA was engaged during the period October through December, 1990 to evaluate present tariff system classes and pricing. The report was prepared on schedule.

Line profit/analysis was not conducted because the present accounting system cannot readily support such analysis. This analysis is also considered redundant with the tariff analysis because the latter identified cost recovery inequities. Further, certain SPOORNET hire charge inequities have been identified and brought to SPOORNET's attention.

E. OUTPUT RECOMMENDATIONS

Work in this output area resulted in a number of significant recommendations as follows:

1. the present accounting system does not allocate costs to functions and activities which therefore limits costing by type of movement and commodity. The system requires restructuring and this will be taken into consideration by the MIS STTA scheduled to arrive in March, 1991.

2. transit traffic is generally above cost recovery but increases are warranted in Phosphoric Acid and General Goods. Transit traffic should be oriented to Train Load Traffic and Back Haul.

3. local traffic is generally below cost recovery and significant increases are warranted in Molasses, Fruit, Timber Products and Coal.

4. delays in service are costly and have a significant negative effect on cost recovery.

Warranted tariff adjustments cannot be made on a one-time basis due to severity of impact - they must be phased in. Further, tariff increases may be inelastic for certain commodities which reinforces the need for cost containment or Government subsidization.

F. 1ST YEAR STATUS

Costing systems and tariff analysis were completed. SR's accounting system requires restructuring in functions and activities in order to capture cost information required by the costing system. Tariff adjustments were budgeted and implemented for financial year 1991/1992 but full ajustments would require phasing-in over several years.

6. 2ND YEAR STATUS

Required accounting system modifications were made so that costing information could be captured for the Costing System during the 3rd Project Year. This requires maintenance of two manual systems including a general ledger system and cost system which is cumbersome and could be simplified through implementation of an automated Accounting and Costing System.

Concessional Rates were examined but not implemented as this relates to import/export traffic. They are however considered as the need arises during negotiation of traffics.

One of the benefits of having established an improved working relationship with SPOORNET is that we have learned more about their tariff structures and costs. The loss of POL traffic to road hauliers confirmed that:

. SPOORNET is critical in offering customer tariff concessions for import/export traffic and since their costs and tariffs are lower than SR's have no incentive to support concessions.

. SR's costs for import/export traffic must be brought in line with or lower than SPOORNET's if it is to be successful in regaining or expanding traffics.

Road Haulier Market entry deregulation has removed SR's previous market protection in that SR can no longer protect itself through transport market regulation in competition for service. De-regulation is significant to SR in that if it is to retain or expand import/export traffic it must:

. become familiar with road haulier cost and tariff structures in order to know in which traffic and haulage distances it can compete

. become pro-active in identifying emerging competitive trends

. be able to offer related competitive services.

The previous Tariff and Costing analysis only examined present cost recovery for traffics. It did not examine the competitiveness of costs and tariffs with SPOORNET nor Road Hauliers. This needs to be examined within the context of longer term SR restructuring.

Finally, the continuing economic downturn of the World Economy has affected certain transit and export traffics which experienced a decline in the 2nd Project Year. The net effect is that tariffs have become more inelastic limiting SR's ability to increase tariffs for improved cost recovery. The budgeted average rate of increase for financial year 1992/1993 is 7% but in negotiation a higher rate will be arrived at although this may be difficult to attain. Depressed world markets, lack of parity between SPOORNET tariffs and costs, and removal of road haulier market protection mandate that SR assess its cost effective niche in the competitive market with road hauliers and bring its cost structure into harmony with SPOORNET.

H. 3RD YEAR STATUS - As committed in the Third Year Work Plan emerging tariff increase inelasticity among customers and tariff competitiveness with road hauliers examined.

The analysis of tariff increase inelasticity among customers revealed that over the next two years, due to continuation of depressed regional and international economies, it will be extremely difficult to increase tariffs commensurate with inflation. Additional pressures will be applied by SPOORNET which has relatively lower costs and can temporarily absorb losses. This factor, evaluated in Strategic Re-assessment hightens the need to immediately reduce the Railways fixed cost base.

The Railway's competitive position vis-a-vis comparative transport distances and delivery schedules revealed that it is overpriced by 10 to 20%. The analysis noted that the trucking industry which is coping with a depressed market has adopted low fleet investment strategies and hence has adopted an agressive pricing strategy. Traffics considered vulnerable were cross border traffics particularly those that may be re-routed to Maputo, conditioned on trucking deregulation, and import traffics.

To offset this competitive challenge the Railway has adopted the following strategies:

1) introduction of spur lines for major originating traffics like sugar and coal to commit industries to rail service

2) introduction of a dry port to offer improved distribution services for export and import container and general goods traffics as well as simplification of customs handling and administration.

Finally, the Project has considered adoption of the Oscar Costing Model advocated by SADCC as a longer term automation solution. Model analysis will be completed early in the Fourth Year of Project.

I. 4TH YEAR STATUS Finally a cost based tariff system has been firmly implanted on SR. It is a simple system which can be readily adapted and all concerned have been adequately trained. A lack of frequent opportunity, like many other things on SR, may result in rustiness and an excuse for calling in "experts" once again, something that management must guard against. An easy to read and understand manual has also been written.

Note is made elsewhere relating the status of such matters as spurs and the dry port at Matsapha, and OSCAR, the wagon tracking system advocated by SATCC/USAID has already been commented on. All these aspects relate to the assignment as vehicles in which to apply the latest costing and tariff systems.

This assignment is complete and handed over to management.

A cost based system of tariff setting, a manual and training has been carried out. Changes in policy have been effected and Spoornet hire charges have been challenged and rectified.

FOURTH YEAR PROJECT STATUS BY OUTPUT (Continued)

7. FINANCIAL MANAGEMENT PLAN AND SYSTEM IN PLACE - COMPLETE

A. BACKGROUND

The Short Term Technical Assistance Project conducted in 1989 found significant accounting control and budgeting weaknesses. It recommended improvements in the system of controls and computerization of accounting and budgeting systems.

The 1st Year Project Work Plan submitted to USAID in February, 1990 suggested that a number of initiatives were required to strengthen SR's financial management capability and that together these were more critical than computerization. SR on its own initiative engaged its external auditor to review the adequacy of the system of accounting and internal controls and to recommend improvements of materiality to SR. SR also engaged experts to review the adequacy of its purchasing and stores management procedures. The above work was completed in May, 1990 and improvements are being implemented.

The Work Plan anticipated STTA assignments in Asset Evaluation and Depreciation Practices and in Risk/Liability Reserves and Claims Management. These areas were deemed critical to SR's financial structure.

B. OUTPUT OBJECTIVE

Strengthen information on SR's assets and liability reserve position, improve system of controls in purchasing, stores, assets and claims and improve financial information reporting.

C. PURPOSE RELATIONSHIP

To strengthen and expand the capacity and operational efficiency of regional rail transport in SADCC countries by improving SR's operations and business systems.

D. OUTPUT FINDINGS

Major areas noted with control weaknesses by SR's external auditor were in purchasing and stores, asset management and depreciation and claims management. In purchasing and stores it was noted that improvement controls were required in requisitioning, inventory movement and valuation. In asset management it was found that a historic cost basis was used for depreciation, that assets had not been revalued in recent years and that the register was not up to date. In the claims area the assessment was focused on accident liability reserves and their adequacy. An adequate reserve could not be established based on historic costs.

E. OUTPUT RECOMMENDATIONS

Stores control improvements were focused on an upgraded Kardex system which has been implemented at Sidvokodvo. It was recommended that asset depreciation be based on replacement cost rather than historic cost. This change would increase asset value from E122 million to E346 million. Asset life cycle assumptions were also recommended for change having the effect of reducing annual depreciation. Both recommendations are expected to have a positive effect. In addition the asset register was updated. With respect to accident liability it was recommended that insurance coverage be considered or that Government make an annual provision for reserves.

F. 1ST YEAR STATUS

Significant gains were made in financial management control and these are as follows:

- an improved purchasing and stores management system has been introduced at Sidvokodvo and personnel trained - Mpaka requires implementation
- a cost allocation and costing methodology have been introduced and staff trained in system updating
- an asset register has been established and personnel trained in its maintenance
- insurability fo accident claims is being considered
- a performance budgeting and reporting system for goods moved and revenue has been introduced for monthly reporting
- a performance budgeting system for expenditures is under development
- the general reliability in numbers has improved
- the Annual Report for 1989/1990 was issued within 3 months of year end.

G. 2ND YEAR STATUS

The objectives of the 2nd Year Work Plan were four fold as follows:

- establish Accident Claim Liability Reserve policy
- size fleet requirements and means of traction and compare buy to lease costs
- maintain costing and asset systems and introduce automated Financial Management Systems
- evaluate contracting of functions.

An Accident Claim Liability Reserve of E5 million was established based on what amount SR could practically support f m projected five year revenue generating capability. The reserve amount was not based on SR's liability history since outside experts indicated that the degree of liability had varied so extensively over the past three to five years that it was impossible to project potential future liability.

A decision was made to abandon steam traction and to replace steam traction with diesel traction. This is expected to have the peripheral effect of freeing up 30 employees or more. Steam traction requirements will be replaced by diesel traction. Leasing/hiring of Diesel Traction is expected to continue since sources are available and SR does not have the financial capacity to buy diesel traction. Wagon requirements were sized and SR expects to continue hiring through SPOORNET and CFM.

The Cost Allocation/Costing Model was maintained as was the previously established Asset Register.

An automated Accounting and Budgeting system was to have been implemented by the end of the 1st Quarter of the 3rd Project Year but work on this did not progress as planned. As indicated previously the SPOORNET INTAC system (i.e. SPOORNET's automated accounting system) was under development during the year and is only now nearing completion. Since SR's intent is to access this system for billing/receivables purposes the question arose of how this system could be integrated into SR's potential automated accounting system and whether or not integration could be accomplished with a commercially available Accounting System or whether SR's Accounting System would require custom development. A decision on how to technically proceed will be made during the 1st Quarter of the 3rd Project Year.

The feasability of contracting out a variety of functions was to be conducted internally and completed by July, 1991. Due to the sensitivity of this work it was determined that the work should be contracted through an independent consultant. Terms of Reference were developed and issued to qualified consultants and proposals were received by the end of the 2nd Project Year. Consultant selection is underway and analysis is now scheduled for completion by the end of May, 1992.

The SR, through the end of the 3rd Quarter of its 1991/1992 Financial Year is performing above budget with respect to profitability.

H. 3RD YEAR STATUS - As planned through the Third Year Work Plan an expenditure accounting system has been introduced - the ACCPAC system. Major modules of the system include:

.general ledger
.accounts payable
.cash book
.inventory control
.fixed asset register

This has been an exhaustive exercise since it entailed the following steps:

- .general computer literary training of staff
- .application module training of staff
- .restructuring of accounts and allocation codes
- .pilot testing of system
- .input of accummulated records
- .hardware communication planning and implementation
- .hardware and software support
- .maintenance of parallel manual system

The system is expected to become fully oparational by April, 1993 even though the fixed asset register and stores application systems may lag slightly due to year end closing of asset and stock valuation.

In addition, the position of a Management Systems Manager has been resolved. The position has been advertised and someone is to be engaged by March, 1993. This position will be responsible for systems support, hardware and software maintenance and data storage/security.

I. 4TH YEAR STATUS

The general accounting package, ACCPAC, continues to be augmented and adapted but may be considered fully operational.

The Fixed Asset Register has been up-dated using Railway funds and there are plans by management to revitalise the automation of the Stores system.

An Asset Reserve Account has been established.

As stated in another section, a MIS coordinator has been appointed, but only fairly recently and her Railway experience still has to be expanded before she can be a fully useful member of the team.

The Asset Register was re-drawn and up-dated and a Capital Reserve established. Stores procedures have been strengthened and Accident Reserve funding together with insurance submitted for approval.

8. PERSONNEL MANAGEMENT SYSTEM IMPROVED AND IN USE - INCOMPLETE

A. BACKGROUND

The Short Term Technical Assistance Project conducted in 1989 identified personnel management system weaknesses. This included job descriptions and salary structure, ineffective personnel evaluation procedures and limited information on personnel and past training.

Prior to the start-up of the Long Term Assistance Project, SR at its own cost initiated a job assessment exercise which was designed to lead to new job descriptions, ratings and salary structure. This study was completed in May/June 1990 and implemented in September/October, 1990.

The 1st Year Work Plan submitted to USAID in February, 1990 requested an expansion in scope in this output area by adding: 1) the development of a labor negotiation strategy in view of the prevailing unionization situation at that time; 2) Conditions of Service stipulation and discipline/grievance procedures to support administration of a potential labour contract; 3) a labor force sizing exercise to identify excess or redundant staff (as well as under-staffing areas) for cost reduction; 4) performance and meritorious service incentive schemes; and 5) policy investigations into accommodation and cost-of-living adjustment.

B. OUTPUT OBJECTIVE

Develop labor negotiation strategy and related agreement administrative procedures; size the organization for productivity and cost reduction opportunities; develop framework for systematic performance evaluation and incentive mechanisms, improve information on personnel and past training; and improve policies on accommodation and cost-of-living adjustments.

C. PURPOSE RELATIONSHIP

To strengthen and expand the capacity and operational efficiency of regional rail transport within SADCC countries by defining career paths, productivity improvements and training requirements.

D. OUTPUT FINDINGS

In retrospect this output area was unintentionally overscoped for the 1st Year Work Plan. For example it was envisioned that labor/union negotiations would be concluded by October, 1990. Rather, no agreement has been attained and the "Exclusion" aspect is now in Industrial Court for ruling. In addition, the Job Assessment exercise which was completed in May/June 1990 required implementation, which became more extensive than contemplated because it required presentation to various employee groups. Together the above absorbed the majority of the Personnel Advisor's time and other sub-outputs therefore slipped. Finally, due to the periodic outside duties with MOWC by SR's Director of Personnel the LTTA Personnel Advisor was required to fill the latter's daily responsibilities.

E. OUTPUT RECOMMENDATIONS

The Job Evaluation exercise is now fully implemented by SR and it resulted in pay increases for 75% of personnel and reductions for 25%. Organization-wide job descriptions are now in place. Ultimately, an across the board increase of 5% had to be made.

A macro staff sizing exercise was conducted to determine preliminarily the magnitude of excess and redundant staff as well as reductions that may be available through contracting opportunities. The magnitude of reduction was 23% in staff with a potential cost reduction of E2.0 million per annum.

F. 1ST YEAR STATUS

The major focus of work was on implementing the Job Assessment System, developing a Pension Plan, preparing revised Discipline, Grievance and Conditions of Service regulations, design and implementation of a Personnel and Training Information System and supporting the Exclusion Agreement negotiations.

Staff sizing, the implementation of a personnel evaluation system, the development of a performance/meritorious service scheme; the preparation of a revised accommodation policy and the development of a cost-of-living adjustment policy were deferred to the 2nd Project Year.

Finally, it was envisioned that the labor/union agreement would be in place in mid-1991.

G. 2ND YEAR STATUS

The labor/union agreement was not attained during the 2nd Project Year. The Exclusion Agreement is now in litigation and SR during the 2nd Project Year made several efforts to settle litigation out-of-court but was unsuccessful in achieving this. A conclusion to litigation may not be attained during the 3rd Project Year due to allotted time and frequency of appearance limitations imposed by court as well as the number of individuals scheduled to appear to provide testimony. Only one day of testimony is available every three months and if this process runs its course litigation may not be completed until early the 4th Project Year.

Discipline Regulations were submitted to the Union and a counter proposal was offered by the Union. The gap between the two proposals is considered significant thereby implying extended negotiations. This will take place during the 3rd Project Year. Conditions of Service regulations were developed and are undergoing modification so that they can be issued on a complete basis.

The Pension Plan was fully implemented and a cost-of-living adjustment position for Financial Year 1991/1992 was successfully negotiated. The Accommodation Policy was developed using a points system to properly place employees into vacant housing and a data base was developed to identify which employees are located in available housing.

The staff sizing analysis was to be conducted informally and completed by October, 1991. SR determined it more appropriate to conduct this analysis through an independent consultant who was engaged through competitive process by the end of the 2nd Project Year. This work is now scheduled for completion in March 1992.

Work on the planned performance evaluation and incentive system was deferred due to the perceived potential resistance by the Union to additional changes. The time has not been right to proceed with the introduction of such a system in view of all other matters currently under consideration.

Finally, the Personnel Training System introduced during the 1st Project Year has been maintained.

The Union initiated a request for a 13th Pay Check and this matter is currently under consideration. SR's strategy will be to link this to labor productivity enhancements.

The overall pattern of events now suggests a protracted process with no simple solutions and with the outcome highly uncertain. Negotiations have demanded extensive time from the CEO and personnel staff and do distract attention away from the Project and normal Railway business. Furthermore, the lack of an Agreement implies that SR cannot enforce the level of discipline necessary to upgrade service reliability.

H. 3RD YEAR STATUS - The Exclusion Clause of the Recognition Agreement remained in litigation in the Industrial Court with no foreseeable resolution.

The 13th pay check was provided and tied to performance.

Discipline regulations remained unresolved.

Conditions of Service regulations were modified and were issued.

The Staff Sizing Analysis was initiated in March, 1992 and abandoned in April, 1992 due to Union non-support

Work on the Performance Evaluation and Incentive Pay System was deferred due to the impracticality of trying to introduce it.

Senior Management Training proceeded as scheduled (ie see Output 10).

Despite the above overall impass between Managemet and the Union, Management proceeded with termination of Steam Traction and related redundancy of workers. After some delay in effecting the initiative and re-examination of vacancies the initiative was achieved. With the support of Government a socially sensitive buy-out strategy was adopted among those employees effected which facilitated right-sizing by 81 or so employees.

Since the work measurement study had to be abandoned it was decided to establish right sizing through peer comparison to contiguous and regional railways. This resulted in establishing the right-sizing objective of 290 employees which has been adopted in the Draft Government Viability Blueprint.

The Draft Government Viability Blueprint requires the Railway to adopt a socially sensitive right-sizing strategy and Fund. A buy-out strategy was adopted accompanied by various social services and a Fund of approximately E10,0 million was reserved from Railway cash resources.

After closure of the Steam buy-out a major break-through ocurred whereby the Union suggested extending the buy out on an organization - wide basis. An adoptive strategy was formulated with plans to effect it in the period January through March, 1993. It is anticipated that this exercise could potentially meet the Railway's immediate right-sizing objective.

Employment contracts were introduced among senior management employees in order to set the framework for annual perfomance evaluation and related remuneration.

Finally, the right-sizing initiatives have highlighted the need to prepare and implement a social plan for the survivors of right-sizing since right-sizing creates instability. The major envisioned components include:

- renumeration adjustments amongst the lower rank-and-file and upper management
- competency enhancement of employees through training investment to ensure upward mobility or outward placement
- consideration of contracting with railway employees of non-railway functions to ensure future job preservation
- consideration of business diversification for job preservation.

I. 4TH YEAR STATUS

Right-sizing of the Railway, which started with the redundancy of the steam locomotive staff, continued into the fourth year. In all 311 individuals were either dismissed or were bought out, an exercise which cost E8 million paid for by SR. This point is emphasised as it is unusual for a railway to be able to afford the large amount of money as they are normally in a bankrupt or near bankrupt position when they have to take this action. The method by which the buy-out was negotiated will now form a basis on which to negotiate further down sizing but this can only occur when the Railway has sufficient funds for the purpose. It is suggested that ultimately the size of the Railway should be no bigger than 500 employees, a further reduction being required of 238, undertaken in stages, over a period of time as circumstances demand.

A manpower audit was completed (NPI) paid for by the Railway. Whilst the timing of this audit was about a year late - held up by objections from the Trade Union and only agreed to by "buying out" as part of the severance package referred to above - it nevertheless provided a useful yardstick and while a rationalisation exercise finally came up with a slightly higher number of positions (51) the difference is accounted for by positions that were inadvertently missed or misunderstood by the NPA Audit.

Judgement has been finally delivered in the Industrial Court, much in favour of the Railway on the Exclusion Clause. This now, after more than two years, opens the way for a formal Recognition Agreement to be negotiated with the Union. Considerable work has already been done on this but it now remains for the Swazi management team to negotiate it to finality. The delay was beyond the powers of the Project to avoid and it was necessary to pursue the issue as it has now established an important point of principle for all employers/employees in Swaziland.

No attempt has been made to introduce a Performance Evaluation and Incentive Pay System, primarily because the industrial climate has made such an attempt virtually impossible of success during the whole period of the Project.

Right-sizing has taken place (311 positions reduced) and a Training Needs analysis completed. The way is now clear for the Recognition Agreement to be negotiated after more than 2 years of litigation. Performance evaluations and incentive schemes have not been attempted.

FOURTH YEAR PROJECT STATUS BY OUTPUT (Continued)

9. MARKETING PLAN AND BUDGET DEVELOPED AND IN USE - COMPLETE

A. BACKGROUND

The Short Term Technical Assistance Project conducted in 1989 found that SR could experience some future transit traffic diversion due to regional port areas improvements to Maputo. In view of some potential traffic loss SR was encouraged to explore service retention and diversification opportunities as well as increase back-haul traffic.

B. OUTPUT OBJECTIVE

Assess timing and magnitude of potential traffic diversions; identify retention opportunities; explore service diversification needs and costs; identify customer relations enhancement requirements; and evaluate structure and orientation of an advertising program.

C. PURPOSE RELATIONSHIP

To strengthen and expand the capacity and operational efficiency of regional rail transport in SADCC countries by marketing SR services and increasing intra-SADCC traffic on SR from 390,000 tons to 500,000 tons.

D. OUTPUT FINDINGS

SR at its own cost engaged a recognized Southern Africa and international transport economist in March, 1990 to undertake regional traffic diversion analysis. This conservative analysis indicated that diversion of transit traffic could begin as early as 1993 (i.e. fiscal year 1992/1993) with a significant loss of traffic (i.e. 43%) by 1994 (i.e. fiscal year 1993/1994) and subsiding impact thereafter. While this analysis was based on physical infrastructure improvements and comparative cost of movement it also assumed political stabilization within Mozambique and in RSA/Mozambique relations. The above diversion would result in operating deficits in 1993/1994 and 1994/1995 since local replacement traffic did not appear to be available. Trends over the year now indicate that analysis was overly conservative and that diversion will be much slower.

SR also undertook at its own cost a customer attitude survey. This survey completed in April, 1990 found that SR customers have become increasingly concerned about service reliability and tariff increases. The majority of customers are totally reliant on SR due to the nature of commodities moved and are becoming increasingly inelastic in tariff increases due to their pricing limitations with commodities.

SR at its own cost undertook a Road Haulier survey at border posts to observe: 1) the types of commodities hauled into the country since little information is available on importation; 2) the frequency or tonnages of traffic; and 3) the extent of imposed Road Haulier licensing, user fees and overloading. This survey is designed to provide better information on back-haul prospects as well as non-competitive Road Haulier practices.

The Government has also requested SR to coordinate a Dry Port Study and a modest facility opened for operation on April 1, 1993 which will enhance SR's position in export and import of general merchandise. A detailed feasibility study is contemplated as this project will cost about E4 million for Phases I and II.

The SR Marketing Department has added two staff to focus on Customer Requirements Planning and Service Promotion/Advertising. The Department has also:

1. established experimental Door-to-Door Service in Matsapha

2. introduced a petroleum product express train from Durban to Matsapha

3. Assessed Msoko Station for fuel deliveries in anticipation of Maloma Mine Start-Up

4. worked closely with Maloma Mine which has opened up in October, 1993.

Finally, the Marketing Department has in place a local and transit traffic commodity and revenue reporting system to monitor actual traffic against budget.

E. OUTPUT RECOMMENDATIONS

The above initiatives suggest that Market Planning thus far has focused on: 1) an improved understanding of traffic diversion and its impact; 2) actions to attract new traffic; 3) improved custom relations; and 4) participation in longer term initiatives that can enhance SR's position. This year's focus has been practical.

F. 1ST YEAR STATUS

SR undertook regional traffic diversion analysis which was incorporated into the First Corporate Strategy and Business Plan. In addition the preparation of a Marketing Plan and Budget was initiated and scheduled for completion in March 1991.

G. 2ND YEAR STATUS

SR updated its regional traffic diversion analysis for incorporation into the Second Corporate Strategy and Business Plan. Changing trends from that observed during the 1st Project Year coupled with improved regional familiarization enabled us to conclude that the timing and degree of division would be less severe than previously anticipated over the period 1991/1992 through 1995/1996.

The Marketing Plan and Budget was completed as scheduled and accepted by the Board. The Marketing Plan suggested that traffic expansion focus on export/import traffic including pulp, containers and petroleum products. Success was only attained in pulp traffic in which 50,000 tonnes per annum were added. While gains were temporarily made in container traffic, gains achieved were lost due to present container carrying limitations. In addition, while gains were made in petroleum traffic these were gains in turn lost to road hauliers.

As requested by Government, SR coordinated the Dry Port Study financed by DANIDA. A DANIDA engaged consultant examined the project's feasability. While a final report has not been issued the consultant's preliminary conclusion is that a Dry Port facility has limited feasability in Swaziland. SR is currently exploring the feasability of using a handling vendor (i.e. to pick-up, temporarily store and transfer to the mode of transport customer goods) to provide container door-to-door services. Enhanced equipment is also required to facilitate handling of all container sizes. The current market for containers is estimated at 70,000 annual tonnes of which SR carries 28,000 annual tonnes. The longer term market is estimated in the magnitude of 140,000 annual tonnes.

The Commercial Department has been amalgamated with the Operating Department which together are now referred to as the Traffic Department. The Department will have the following Assistant Directors: 1) Operating, 2) Commercial and 3) Marketing. Negotiations are underway to hire the Assistant Director Marketing position. This is expected to result in the institionalization of the Marketing function.

Service standards have been developed for overall system wide performance as well as by commodity. Standards are in use for sugar, pulp and containers. Other standards remain to be adopted. A major shortcoming at this stage is that data monitoring systems are not in place to measure actual performance against standards.

Future of coal traffic has become uncertain over the last year. Emaswati Colliery is faced with significant tariff increases imposed by CFM in its transport of the coal largely bound for Kenya. Furthermore the future of the Maloma Mining Project appears uncertain given depressed world-wide markets. Coal previously represented the major growth area for export/import traffic.

The Railway remains not well positioned to retain or increase export/import traffic. While quality of service was slightly improved through the introduction of timetables it still requires enhancement. SR's tariffs and cost are not on par with SPOORNET which makes it difficult to attract service through pricing. Finally, for certain traffic SR needs to provide door-to-door service which it can not now provide.

The loss of petroleum traffic demonstrates that the Railway does not yet have a pro-active marketing/market preservation culture. Market intelligence with respect to customers and road hauliers needs to be upgraded.

H. 3RD YEAR STATUS - The strategic Re-assessment updated regional traffic diversion and routing analysis. The analysis lead to the following conclusions:

. Cross Border Sugar and Coal traffics will be partially re-routed over the next few years to Maputo

. Zimbabwe transit traffic will be partially diverted to Maputo over the next few years

. While a number of physical rail and port improvements are in place efficient mangement capability is not and will remain a barrier over the foreseeable future.

Dry part facilities in Matsapha are under development aimed at increasing export and import container market share. The operation is expected to start-up in April, 1993.

The Railway also initiated spur line agreements with the sugar industry in general and with the new Maloma Mine concession with the aim of solidifying related traffics over the longer term.

An improved operating reporting system was introduced providing better information on perfomance per service standards. The system remains to be tailored to perfomance reporting by commodity.

The Marketing Section has improved sustantially in its cross-border traffic intelligence but must still enhance its transit traffic intelligence particularly Zimbambwe related traffics since these are divertable and over the shorter term are experiencing declines due to a depressed local and international economy.

As mentioned above the Maloma Coal Mine concession came on line during the year and will become a major source of coal replacement traffic given the closure of the Emaswati Colliery.

Finally an Assistant Director of Marketing was engaged during the year and completed a number of training attachments. His major task over the Fourth Project Year will be to amalgamate the Marketing and Commercial sections.

I. 4TH YEAR STATUS Trends can be detected for local cross border traffic to reroute to Maputo now that hostilities have ceased in Mozambique but apart from this there have been no significant diversions. The regional drought, however, has affected this traffic, most noticeably sugar where more better paying markets in the Region are being exploited by SSA, Swaziland not being affected as much by the drought. These diversions, however, are aberations and are not likely to persist as long term markets. There has also been a heavy demand in local industry (Cadbury and Coca Cola) for refined sugar which, because of the short haul involved, is now going by road and this has affected rail traffic from Ubombo (ex Phuzamoya).

The Dry Port at Matsapha appears to be settling down with TEU's increasing. Every effort is being made to achieve a good service and the Durban train has achieved a fair record of reliability with transits of 70 hours being achieved.

The loading spur off the main line just north of Nsoko is operational but technical problems at the Mine have resulted in lower outputs than anticipated. A weighbridge at the Siding is still to be installed.

Generally the new Marketing Section is settling down but as expected results are difficult to see. The Section is required to keep abreast of customer requirements and to work in harmony with their wishes.

An economic appraisal funded jointly by SR and SSA reveals negative to marginal benefits from providing siding spurs to the three sugar mills, including the most likely prospect of Ubombo. It is now up to the SSA to decide what action they wish to pursue and for SR to determine their stance in the matter.

The likely impact and timing of traffic diversions have been forecast and a Marketing Section introduced to combat losses and gain new traffic. A Public Relations position has been created.

10. STAFF TRAINING COMPLETED - COMPLETE

A. BACKGROUND

The "Regional Rail Systems Support Project - Swaziland Component" found that SR's Senior Management required systematic on-the-job and external training and development without necessarily specifying the type and duration of training and development. The Short Term Technical Assistance Project conducted in 1989 reinforced this need and suggested that a detailed assessment be made during the 1st Year of the Long Term Technical Assistance Project. This assessment was conducted and the detailed Senior Management Training Program was developed. Plans were included in the program for implementation to take place during the 2nd and 3rd project years.

B. OUTPUT OBJECTIVE

Determine who should be involved in Senior Management Training and Development, prepare specific training/development plans, implement the plan and have candidates in place for take-over prior to the end of the project.

C. PURPOSE RELATIONSHIP

To strengthen and expand the capacity and operational efficiency of regional rail transport in SADCC countries by improving the management capability of SR senior management staff. Conditions for achievement include SR CEO and department heads trained for their jobs, in place and functioning effectively.

D. OUTPUT FINDINGS

Work in this area was initiated by identifying potential senior management candidates and asking them to participate in English Speech Proficiency, Comprehension and Aptitude Testing. This was generally completed by June, 1990. In addition all LTTA were required to identify and evaluate their counterpart's training needs. This analysis was also completed in June 1990. An STTA used this information during the period October and November, 1990 in preparation of the Senior Management Training Program. Candidates approved by the SR Board in November, 1990 and USAID approved the Program and Budget in early December, 1990.

E. OUTPUT RECOMMENDATIONS

Intensive in-country training in 1991 to early 1992, limited formal university education in 1991 and 1992 and on-the-job development generally in 1992 and 1993.

F. FIRST YEAR STATUS

Senior Management Training Program was approved in December 1990. Under the original project design, counterpart training would have been well underway at the conclusion of the first contract year. The delay in implementation of the training program relates to the fact that a training budget was not included in the original project contract and that identification of counterparts was seriously delayed due to the forced changes which were set in motion before the project began and a series of subsequent resignations and accidents which significantly reduced the pool of available counterparts.

G. SECOND YEAR STATUS

The full implementation of the Senior Management Training Plan was delayed in the beginning of the second project year due to travel restrictions imposed by the Gulf War. The program was approved by USAID in December 1990 but an amendment adding this component to the project contract was not executed until July, 1991. In this period, partial implementation was initiated.

The initial phase began early in the 2nd project year. The plan called for STTA assistance for 4 man-months during the 2nd year pending full scale implementation. The initial STTA implementation work and review of work requirements during the 2nd year indicated it was not possible to effectively implement the program using part-time technical assistance. A change to the implementation strategy to employ a LTTA for a 12 month assignment beginning in mid 1991 was proposed and approved. The LTTA began the assignment in August 1991. In addition to implementation tasks, the LTTA was assigned to institutionalize on-the-job skills acquired during the Senior Management Training Program and to Train a counterpart 26 Training Manager.

Program implementation began in July 1991. Progress has been made in Training and in Institutionalization of on-the-job skills acquired during the training. Specific progress as follows:

* CEO Counterpart and Manager of Works have been placed in academic programs in the United States.

* Group seminars conducted for all managers in Management by Objectives, Finance for Non-Financial Managers and Budget Preparation.

* Civil and Mechanical Engineering staff trained in Project Management and in Maintenance and Work Management Systems.

* Commercial Marketing Officers trained in a variety of marketing skills at RITES.

* Personnel and Administration staff together with Union executive trained jointly in Labor/Management Negotiating skills.

* Personnel of various departments trained in the application of a job profiling and selection methodology.

* Phase one of management information technology introduced to various managers and department heads.

* Management Effectiveness program attended by CEO designate.

* A job-rotation program has been completed within Swaziland Railway by the CEO designate.

* On-the-job institutionalization of skills has been undertaken for most managers in setting and completing MBO and in annual budget preparation.

Since initiation of the program training units have been delivered generally on schedule. The ongoing problem in this output area involves counterpart selection as discussed below.

One of the two significant events during the Second Project Year involved recommendations made by the mid-term evaluation team. In their report a recommendation was made that the scope of training should be expanded to include management training for mid and lower level managers and skill training for the SR labor force.

In response to this observation, the Project Team conducted a training needs analysis in order to scope and price an expanded training program. This information will be presented to USAID in order to receive their input and direction on the potential implementation of such a program.

The other event of major significance, and one having a great bearing on overall project success, involves continued delays in identification of counterparts. The most difficult areas are Finance, Personnel and civil Engineering. A Finance candidate has been identified but is not yet on the Railway payroll. A final selection process is underway for a Personnel Director and it is felt a qualified candidate will be hired as a result of this process. The Civil Engineer situation is not able to be resolved within the schedule of this project.

There do not exist any Swazi qualified Railway Civil Engineers. Thus the options are to take a railway employee and train him to be a civil engineer or take a civil engineer and train him in railways. Both of these options require more than two years. We are currently pursuing the first alternative as we have a railway employee in the US in order to obtain an engineering education foundation via an Associate Engineering Degree.

The net effect of the counterpart situation is to put the ultimate success of the project into question. The third year will identify if there is a need for more extensive counterpart development.

H. 3RD YEAR STATUS - Significant progress was made in selection of counterparts in the areas of finance, marketing and personnel. The engineering post remains problemmatic but periodic position advertising and informal searches continue.

The majority of the Swazi Senior Management Training was completed over the year. Highlights are as follows:-

1) the Designate CEO completed his formal education and a subsequent railway attachment in the United States.

2) the Designate Directors of Traffic and Finance completed foreign railway attachments.

3) the Assistant Director of Marketing completed attachments at SPOORNET and a foreign railway.

4) a number of staff completed training in basic computer skills.

Per the suggestion of the USAID mid-term evaluators, the Project undertook an assessement of lower management and labour training needs. The Railway is currently examining the study to determine priority areas with the aim of budgeting certain aspects in financial year 1993/1994. The Railway is considering the adoption of a longer term competency training programme as part of its Right Sizing Social Plan.

Finally, a Management Localization Plan was prepared for the transition of the Swazi Executive and Senior Management Team into Executive Authority by 1 April, 1993. This Plan was approved by the Project Steering Committee in mid December, 1992.

I. 4TH YEAR STATUS The transition process was successfully accomplished. Timothy Ndlovu returned from the States in August having successfully obtained an Associate degree in Applied Science in Civil Engineering Technology from Delaware Tech. He will return in the new year for three months to work with Burlington Northern Railroad concentrating in tender and allied work. Thereafter he returns to start a transition process under the one remaining LTTA, Srinivasan, (who from April will be on direct contract with the Railway) leading to Timothy taking over the administration of the Engineering Department. Srinivasan will leave on 31 October, 1994. Recently a young Swazi graduate civil engineer has been engaged as a Trainee. He will spend up to two years with a regional railway such as Spoornet. Management will then have to decide how best to accommodate both Timothy and the Trainee, Bofana Matsebule, in the Engineering Department.

All other counterparts are satisfactorily performing in their appointed roles and the latest Monitoring Study has reported well on each of the individuals. Out of 53 courses scheduled for the senior management cadre, only one remains outstanding and this is a relatively insignificant course for which we appealed for applicants to undertake distance tuition in English language skills. There were no applicants. 4 other courses were cancelled at various times and for various reasons.

The important additional Training Needs Study which has catalogued all near future requirements by the Project will now be the responsibility of management, the assignment falling outside the purview of the Project itself.

Senior management training has been completed and counterparts were in position to take over responsibilities by 1 April, 1993.

Appendix 2

FINANCIAL REPORT

THROUGH NOVEMBER 26, 1993

	Budget	%Utilised	Cumulative Expenditures
Long Term TA			
Salary	980,588	98%	965,693.88
Overhead	1,241,146	98%	1,214,475.57
Travel & Transportation	345,845	74%	256,404.52
Allowances	19,324	99%	19,206.43
Subtotal	2,586,903		2,455,780.40
Short Term TA			
Salary	176,684	80%	141,795.00
Overhead	305,926	87%	266,223.83
Consultants	378,181	86%	326.868.27
Travel and Transportation	431,305	69%	299,686.91
Subtotal	1,292,096		1,034,573.01
Home Office Support			
Salary	66,695	89%	59,466.76
Overhead	95,694	89%	85,430.76
Travel & Transportation	88,399	87%	76,704.01
Subtotal	250,788		221,601.53
Other Direct Costs	410,324	90%	367,421.25
Commodities	116,800	100%	117,831.67
Training	338,655	75%	255,447.14
Total Cost	4,995,566	89%	4,452,655.00
Subcontract Admin.	14,869	100%	14,943.79
Fixed Fee	116,898	76%	89,101.81
Award Fee	578,757	55%	319,999.00
Total Cost Plus Fee	5,706,090	85%	4,876,699.60