

PN-ABT-657
92.001

SWAZILAND RAILWAY BOARD STRENGTHENING
OPPORTUNITIES

Prepared Through
SHORT TERM TECHNICAL ASSISTANCE ASSIGNMENT
of the
SWAZILAND RAILWAY TECHNICAL ASSISTANCE PROJECT
Prepared by
DELEUW CATHER INTERNATIONAL LTD

12 November, 1993

12 November, 1993

Ms. Jamie Raile
Project Manager
Swaziland Railway Technical
Assistance Project
USAID
MBABANE
Swaziland

Dear Ms. Raile,

SWAZILAND RAILWAY SHORT TERM TECHNICAL ASSISTANCE
BOARD DEVELOPMENT ASSIGNMENT

Please find attached a report entitled Swaziland Railway Board Strengthening Opportunities. This report was prepared through a Short Term Technical Assistance Assignment of the Swaziland Railway Technical Assistance Project supported jointly by USAID and the Government of Swaziland.

The assignment was conducted over the period 7 September through 29 October covering issues including Board role, composition, administration, operations, management reporting and knowledge with day-to-day Railway Working. The recommendations contained in this report emerged from interviews with Board members and observers and from a Workshop conducted with the Board on 27 October, 1993. Supporting views on management reporting improvements were established through a meeting with senior management on 25 October, 1993.

This report has been submitted to the Chairman of the Board of Directors, with copies also distributed to Board members for adoption during their scheduled 24 November, 1993 meeting.

Thank you for your continuing support.

Sincerely



JOHN R. AVERY
Chief of Party

TABLE OF CONTENTS

<u>SECTION</u>	<u>PAGE</u>
1. Purpose of Assignment	1
2. Approach to Assignment	2
3. Profile of the Board and Its Members	3
4. Duty of the Board	6
5. Survey of the Board	9
6. Trends Among Restructured Parastatals	17
7. Recommendations for Board Strengthening	18
 APPENDICES (Submitted Under Separate Cover)	
A. Railway Act of 1962 Abstracts	A.1
B. Public Enterprise Act of 1989 Abstracts	B.2
C. Board Survey Questionnaire	C.1
D. Board Survey Results	D.1
E. Proposed Quarterly Reporting System	E.1

1.0 PURPOSE OF ASSIGNMENT

1.1 The Swaziland Railway Technical Assistance Project envisaged that the Railway Board of Directors would need to play a more active and concerted role in Railway Affairs with the transition from an expatriate and care-taker team back to Swazi management effective 1 April, 1993. While the Swazi management team is highly qualified and capable of managing the Railway it does not possess the previous depth of experience of the expatriate team thereby possibly meriting closer involvement by the Board.

1.2 The assignment was designed to address the following six issue areas:

- . Role of the Board vis-a-vis Management - to clarify with management what role it expected to play in Railway affairs and what role management was expected to play
- . Board Composition - to examine the breadth of technical, professional, financial and commercial expertise coverage among Board Members to identify augmentation requirements
- . Board Administration - to examine the need for alternative Acting Chairman and Board Secretary approaches
- . Board Operations - to strengthen Board decision-making systems
- . Management Reporting - to examine the adequacy of current reporting cycles and information needed for effective decision-making
- . Acclimation to Railway Working - to establish how the Board can be made more knowledgeable with day-to-day Railway Working

2.0 APPROACH TO ASSIGNMENT

- 2.1 In order to identify Board strengthening opportunities person-to-person interviews were conducted with Board members, with the exception of one member and with several observers of the Board. A questionnaire was prepared to guide the interview process and this questionnaire is presented in Appendix C.
- 2.2 In order to establish the powers, authorities and responsibilities of the Board a review of the Railway Act of 1962 and the Public Enterprise Act of 1989 was conducted. Abstracts of these acts pertaining to the Board and its operations are presented in Appendices A and B respectively.
- 2.3 To ensure that Railway management would support an improved reporting process and system, a brain-storming session was held with senior management on 25 October, 1983.
- 2.4 In order to consolidate the views of the Board Members into a strengthening plan, a workshop was held with the Board on 27 October, 1993.
- 2.5 In order to transfer the knowledge of Swaziland based parastatal restructuring interviews were conducted by the Chief-of-Party with respective Chairmen of restructured parastatals to establish board strengthening initiatives and their effect.
- 2.6 In order to transfer knowledge of recent regional Railway restructuring Botswana Railway and TransNamib Ltd were interviewed to establish the effectiveness of current Board operations.

3.0 PROFILE OF THE BOARD AND ITS MEMBERS

3.1 The Railway Act of 1962 provided that the Minister (i.e. then, Minister of Works) appoint the Chairman and six members of the Board including the CEO, who could serve as Chairman and a voting member. The standing tradition was to have the Principal Secretary (i.e. then, Ministry of Works) recommend candidates implying the selected team was the Principal Secretary's or Minister's team rather than desired Chairman's team or Chairman and CEO's desired team.

3.2 The Public Enterprises Act of 1989, which supercedes the Railway Act, provided that the Minister appoint, with the approval of a Standing Committee of Cabinet, the Chairman and up to eight other members of the Board, including the CEO as a voting member. This provision further limits the ability of a Chairman to effect his or her Board team and negates the Board's ability to select desired management leadership. The act further provides that the Principal Secretaries of the Ministry of Finance and Ministry of Transport and Communications serve as Board Members and that the Public Enterprises Unit be granted an observer role in Board affairs.

3.2 While current legislation strengthens the Government's shareholder position it theoretically and in practice potentially negates

- . the Chairman's ability to form his desired Board leadership Team thereby diluting Chairman leadership and Board effectiveness, and
- . the ability of the Board to select its desired management leadership and the ability to re-appoint or dismiss that leadership.

Together, it must be recognised that while the Railway's performance has been effective and admirable over recent years its ability to continue to perform in this manner depends on external capabilities and wishes (i.e. of Minister of Transport and Communications) rather than it's own ability to influence or effect affairs. The risk of this present arrangement is that the Railway is potentially vulnerable to political and not commercial interests while the Board is charged with commercial performance responsibility.

3.3 Over the history of the Railway, different Board/Management models have been applied including:

joint Chairman/CEO model during system construction, start-up and normal operations

- . weak Chairman and weak CEO model during system expansion
- . supportive Chairman and strong CEO model during the restructuring of the last four years

The emerging model is one of a restructuring seasoned Chairman, relatively new to Railway Working Board and capable but commercially untested management team. A significant unknown factor at this time is whether or not the senior management will be able to effect sustained commercial practices among mid and lower level management and with the Union and its membership.

3.4 Against this back-drop it needs to be recognized that while the purpose of the Public Enterprises Act is designed to institute the privatization of parastatals, the PEU's intentions for the Railway are unknown because it is not a problem child and therefore not of resolution priority. While this is a favourable position to be in, the fact is that it creates a cloud of uncertainty about the desired future of the railway including:

- . is it to move toward a private enterprise independent of Government, or
- . is it to continue as is indefinitely

One could conclude, as is true of life, that priority attention is given to problem children rather than performing children and this practice is not equitable. Since the Government is the Railway owner it needs to establish its intentions for the Railway's future to provide direction for the Board.

3.5 The members of the Board, their background and their terms of service are as follows:

- . Mr. B.A.G. Fitz-Patrick, Chairman of Board of Directors; Agro-Business in Malkerns; and a previous member of Parliament appointed on 1 March, 1992 with term running through 28 February, 1995.
- . Mr S.E. Dlamini, Board Member; Manager of Security Services with Swazi Milling Company in Manzini; former Prime Minister of Government of Swaziland; appointed on 1 August, 1991 with term running through 31 July, 1994.

- . Mrs M. Fakudze, Board Member representing the Principal Secretary of the Minister of Finance with the position of Under Secretary with the Ministry of Finance; appointed on 1 January, 1993 with term running through 31 December, 1996.
- . Prince Lonkhokhelo Dlamini, Board Member; Manager with the Central Bank of Swaziland; appointed on 1 July, 1991 with term running through 30 June, 1994.
- . Mr. G. J. Mahlalela, Board Member and Chief Executive Officer of the Railway, appointed on 1 April, 1993 with indefinite term due to position.
- . Mr. R.M. Shabalala, Principal Secretary of the Ministry of Transport and Communications; appointed on 1, October, 1991 with indefinite term due to position.
- . Mr. L. Sithebe, Board Member retired Manager of the Commonwealth Development Corporation; appointed on 1 April, 1991 with term running through 31 March, 1994. Chairman of PTC Board.

The Board has one Alternate Member for Mrs. Fakudze, Mr. J. Jackson, Director of the Public Enterprise Unit of the Ministry of Finance. In addition, the Board has one Observer, a position designated to the Public Enterprise Unit, to Ms. Anne McKiernan of that unit. Ms. McKiernan recently replaced Mr. W. Ndlovu.

4.0 DUTY OF THE BOARD

4.1 According to the Railway Act of 1962, "it shall be the general duty of the Railway (i.e. Board of Directors) so to exercise its powers under this Act as to provide or to secure and promote the provision of an efficient and adequate system of public transport of goods and passengers by rail with due regard to economy and safety of operation and to supply the needs of Swaziland for rail services to the fullest possible extent consistent with the resources of the Railway".

4.2 The Railway Act of 1962 appears to suggest that the Swaziland Railway Board of Directors has three major duties for which it can be held accountable:

- . provision of efficient and economical services
- . provision of service with due regard to safety of operation
- . provision of services consistent with the resources of the Railway.

The Act goes on to define expenditure not to exceed revenue as follows" it shall be the object of the Railway (i.e. Board of Directors) so to exercise its functions and perform its duties as to ensure that all its revenues from whatever source are not less than sufficient to meet all its outgoings properly chargeable to revenue account one year to another."

In summary, the central duty of the Board of Directors is to ensure the Railway operates on a commercial basis with emphasis of efficient and economical service for the customer and safety in operations over goods moved and the people involved in provision of service.

4.3 The Railway Act of 1962 goes on to suggest that "the Board shall in the exercise of the powers conferred give effect to any direction on matter of policy which may from time to time be given to it by the Minister, in particular the Board shall in the following matters not exercise the powers of the Railway without the prior consent of the Minister:

- (a) any important question of railway policy of an international character requiring an agreement with any Government authority or person owning or operating any railway in any territory adjacent to Swaziland with respect to the persons by whom and the terms on which the parties are respectively concerned shall be operated

- (b) the establishment of the basic rates and fare structure or any radical alteration thereof;
- (c) the raising of new capital whether by direct approach to the public or by borrowing from the Government
- (d) any construction of a new railway
- (e) capital expenditure of any work involving one hundred thousand Emalangenzi or more
- (f) any other important matter as regards policy"

The Public Enterprises Act added three items requiring Minister approval as follows:

- (a) the closure, sale, divestment of any major part of the business or assets
- (b) adjustments to the level or structure of staff salaries and wages or other terms and conditions of service if adjustment is above annual rate of inflation
- (c) the expansion of operations if expansion exceeds 15% of capital employed or 10% of fixed assets.

4.4 The Railway Board in concert with Management in April, 1993 adopted a Mission Statement which acknowledges its legislated duty. The broader purpose of the Mission Statement was to communicate and re-assert among Railway employees the key objectives of the Railway. The Mission Statement is as follows:

"The Mission of Swaziland Railway is to be the total transportation service of choice for the Southern African Community". This will be accomplished by:

- . Maintaining a service that is responsible to our customers changing needs;
- . Ensuring safe and secure working conditions for our employees and the general public, taking into account our physical impact on our country's environment;
- . Improving profitability through cost-effective measures and increasing market share;
- . Providing our employees the opportunity for personal development; and
- . Maintaining the integrity of our relationship with our suppliers.

4.5 It should be noted that in the past Railway Boards failed in ensuring that expenditures did not exceed revenue from one year to another. To defray this type of derilection of duty among parastatal Boards in the future the Public Enterprise Act of 1989 placed into law provisions for removal of Chairman of Boards of Directors and Board Members including civil action damages if individual or collective negligence is evident.

The Public Enterprise Act of 1989 also contains expected standards of Board Member attendance. The PEU is in the process of circulating these standards among parastatal Boards. Essentially, the provisions call for the removal of chronically absent Board Members.

5.0 SURVEY OF THE BOARD

5.1 Person-to-person interviews were conducted with all Board Members, with the exception of Mr. S. E. Dlamini who was unavailable due to an on-going security case at his place of employment. In addition, the PEU Observer was interviewed along with the Transport Advisor of the Ministry of Transport and Communications Mr. C. Matshulla and the former Railway Board Member and Chief Executive Officer Mr. J.R. Avery.

The objective of the interview was to:

- . clarify the Role the Board wished to play vis-a-vis the new management team, the role the Board wished to play vis-a-vis external reporting and the role the Board wished the CEO to play vis-a-vis the Board
- . establish if the Board was satisfied with its current expertise mix relative to directing Railway affairs with the new management team, whether or not the Board Members perceived government official representation on the Board as beneficial or in conflict and whether or not the Board should be expanded to its authorized level of nine members.
- . determine if Board Members envisioned the need of appointing a Vice Chairman, designate a Secretary other than the CEO, organize into Board Committees or designate a second-in-command to the CEO to strengthen Board administration.
- . establish satisfaction with reporting of minutes, setting of agenda and Board decision-making correspondence and use of legal/audit representatives to strengthen Board operations.
- . determine satisfaction with current management reporting and timing of revised annual budget to ensure a full picture of liquidity.
- . clarify Board Member interest in gaining more familiarity with Railway Working if they perceived a need to become more familiar with the Railway.

5.2 The interview process entailed distribution to each interviewee, on an advance basis, a survey questionnaire, which they were encouraged to complete in advance of the interview. Interview appointments were established with certain Members during the Board meeting in September, 1993. Interviews with others were set as based on either their return to Swaziland or as agreed upon contact/confirmation dates. Interviews required one and one-half to two hours of discussion.

5.3 Appendix D contains a copy of individual Board Member and observer views. The identify of each respondent is kept confidential in the interest of candor in views and suggestions.

5.4 The results of the survey are presented below. When the term majority is used it refers to the majority of all respondents, (i.e. not just Board Members) and when the term minority is used it refers to minority of all respondents.

5.4.1 ROLE OF THE BOARD

Role in Policy & Operations - All participants indicated the Board should confine itself to policy matters, and leave the implementation of policy to management conditional to reporting of impediments. A minority of participants indicated that:

- . agenda were too oriented to daily/monthly affairs at the expense of focusing on strategically important policy and action.
- . management was reporting tendering and investment placement actions after the fact and that this practice should be changed.
- . one-half of Board Membership indicated that the Auditors should be agents of the Board, not management and that the Board should be made privy to all preliminary findings, not just be the recipient of final reports.

Board or Chairman Interface with Minister - the majority of respondents indicated that all interface with the Minister should be through the Chairman supported by the Chief Executive Officer. They recognised the need to keep the Minister informed on policy affairs and liquidity. They suggested quarterly briefings with the Minister.

A minority held that there should be no contact with the Minister unless political support is needed for certain issues. They suggested that the Principal Secretary of the Ministry of Transport and Communications serve as the channel for progress reporting.

It should be noted that the Railway Act and Public Enterprise Act specify that the Minister of Transport and Communications, in particular, is to approve certain actions and be kept informed.

Chief Executive Officers Role Vis-a-Vis the Board - the majority indicated that the CEO's major role is that of the Chief Executive Officer reporting on management performance and obtaining legislatively mandated approvals of the Board. The majority held that the CEO should not be a voting member of the Board since he or she should not be in a position of both advocating a certain policy or resolution and effecting its outcome by vote.

It should be noted that the Board does not currently reach consensus by vote but rather by discussion and collective formation of an acceptable resolution.

Chief Executive Officer's Role vis-a-vis Minister, PEU and Cabinet - the majority held the view that the CEO should have no contact with the Minister-unless approved in advance by the Board with subsequent reporting of outcome to the Board. The general lead should be through the Chairman with CEO participation.

We must be reminded that Ministers will be Ministers who will act as they wish or need and summon the CEO. Since all members may be difficult to reach for quorum on authorizing the CEO to proceed, perhaps the Board should consider formation of an Executive Committee that approves these types of immediate request requirements.

The majority of respondents indicated that the CEO should have freedom to act on behalf of the PEU on a working partnership basis and to meet statutory requirements. This suggests the desire for transparency with the PEU.

The majority of respondents also indicated that the CEO should have no direct contact or make representation to the Cabinet without the Chairman in the lead.

5.4.2 COMPOSITION OF THE BOARD

Swazi Nation Representative - the Railway Act specifies that one member of the Board be a Swazi Nation Representative, emanating from the colonial era. The Public Enterprise Act is silent on this requirement. The Board does not currently have a designated representative. The majority believe that representation is not necessary since all Board Members are Swazi nationals with the best interest of the country in mind.

A minority suggested that the Minister decide if this type of representation is needed. The role of this representative would be to be impartial to the views of the Government, the Board, the union and management in providing independent advice to the King, as necessary.

Conflict-of-Interest of the Principal Secretary of the Ministry of Finance and the Principal Secretary of the Ministry of Transport and Communication in Board Membership - the majority hold that the Principal Secretary of the Ministry of Finance's representation on the Board is in conflict with Board decision-making since the member cannot bind his/her decision to her Ministry. They note that representation has not been consistent among designees nor is attendance regular. They therefore question the value of membership and representation particularly since significant reporting and approval controls are in place enabling the Ministry of Finance to support/not support/re-direct decisions.

The minority held that Ministry of Finance representation was the only true shareholder representation on the Board since the Ministry represents Government's financial stake in parastatals. It was excluded from this representation prior to the Public Enterprises Act.

The majority held that there was theoretical value in Principal Secretary of the Ministry of Transport and Communications representation on the Board since the Railways home Ministry is T&C and representation could keep the Board abreast of prevailing Government conditions and policy as well as road competition policy.

A minor view held that Government representation was unnecessary and that the Board should be composed of a mix of private sector/commercially oriented directors who would not be prone or vulnerable to Government thinking since all significant financial well-being controls are placed with and available to Government.

Board Expertise Mix - all members indicated dissatisfaction with lack of, engineering, and accounting/finance expertise among the Board.

It should be noted that the Board over two years ago suggested an accounting expert as a potential Board Member to the Principal Secretary of the Ministry of Transport and Communications and no response has been received.

Board Expansion to Nine Members - the majority do not favour expansion to nine members but note that it may be necessary if:

- . a quorum environment is to be achieved for all meetings under present attendance patterns.
- . government representation and CEO voting rights are not rationalized to accommodate the noted expertise requirements.

A minority of representatives suggested that expertise be supplemented through former South Africa railway executive representation on the Board but this initiative was viewed to be potentially counter-productive to effective Board/Management relations.

Another minority of representatives suggested that the P.S. memberships be designated to respective Ministry professionals in accounting and finance and engineering areas so that these individuals can inform their Ministries on respective affairs while the Board can merit from their professional expertise.

Board Ex-Officio Members - the majority did not favour use of ex-officio members as a means of supplementing Board expertise because ex-officio members could not be held accountable for their recommendations. The majority favoured use of ex-officio members only for specialized requirements that may emerge from time-to-time.

5.4.3 BOARD ADMINISTRATION

Acting Chairman/Vice Chairman - All respondents indicated that the Board, not the Minister, as provided in the Railway Act, should appoint an Acting Chairman in the absence of the Chairman, which is allowed by the Railway Act only in the absence of Ministerial action.

Respondents are split in their view for the need of a Vice Chairman whose only designated role would be to serve as Acting Chairman during planned absences of the Chairman.

Board Secretary - All members acknowledge that the present CEO's three roles with respect to Board operations and administration are excessive. This roles include: 1) CEO reporting performance and recommending policy action; 2) Board member considering appropriateness of recommended CEO action and suggesting policy direction; and 3) Secretary of the Board recording discussion and resolution.

Respondents are split on resolution as follows:

- . those that believe the CEO should not be a voting member of the Board, suggest, that if the CEO is relieved of this responsibility, he can fulfill the responsibility of the Secretary; and
- . those that believe the CEO should retain his voting rights as a Board member believe that his Secretarial responsibilities should be transferred to senior management to the Director of Personnel and Administration who should select a Recorder who can be held in confidence.

Board Committees - the majority do not favour the use of Committees of the Board, with the possible exception of a three Member Audit Committee to be involved in internal audit planning and reporting and annual financial audit and management control system reporting.

Management Chain-of-Command - all respondents suggest that the CEO should designate a permanent second-in-command to cover his absences. Respondents are split over which position should be designated by the CEO. Those not affiliated with Government favour the CFO while those affiliated with Government favour the Director of Personnel and Administration.

5.4.4 BOARD OPERATIONS

Recording of Minutes - the Majority is satisfied with this process - they note, however, that the bulk of back-up documents should be reduced.

Agenda Structure - the agenda structure issue assumed a number of dimensions as follows:

- . a majority of members indicated that they should be regularly consulted on items they wished to be placed on the Board agenda, suggesting the agenda should not be confined to the interests of the CEO and Chairman
- . minority suggested that the Board's approach to meeting should be changed by introducing brief affairs oriented monthly meetings and concentrating on quarterly reviews
- . a minor position was to recommend no more than seven meetings per year to be dedicated to the following:
 - 4 quarterly review
 - 1 annual budget
 - 1 revised budget
 - 1 annual accounts and internal audit

The majority suggested that the CEO recommend an affairs decision-making structure in order to focus Board decision-making and improve record keeping, reporting and monitoring.

Furthermore, another minority indicated that the agenda was overly dominated by current affairs, some of which should not be on the agenda, at the expense of focusing on larger strategic issues.

Finally, another emerging view was that if the Secretary of the Board responsibility could be transferred to a member of senior management, the capacity could be created to scan agenda interests among members prior to agenda setting by the Chairman and CEO.

Chief Executive Officer Decision-Making Correspondence - the prevailing view was that; 1) the CEO should introduce a suggested one-page format for decision-making for each agenda item; 2) the CEO should indicate a clear statement of recommendation for Board action; and 3) the CEO should cause a reduction of back-up report/justification report documentation by the forwarding Department Head.

In addition, the CEO should systematically report on follow-up action and any impediments to effecting Board decisions.

Legal/Audit Representation - the majority of respondents indicated preference to continue involvement of legal and audit advisers of record on an as needed basis due to cost consideration. They, however, noted that use of expertise needed to be planned on an advance rather than retroactive basis for timely decision-making.

5.4.5 MANAGEMENT REPORTING

Satisfaction with Reporting - the majority of respondents are pleased with organization reporting progress but indicated that reporting is not yet sufficient to glean overall liquidity position. In particular, they note deficiencies in department expenditure, capital expenditure, debtors, creditors, operating performance and safety reporting.

Satisfaction with Heads-of-Department (HOD) Quarterly Reporting - the majority of respondents consider this initiative beneficial but suggested; 1) that the CEO should have a larger role in overseeing performance; 2) that department to department overlaps need to be eliminated, and 3) that the presentation requires advance rehearsals to ensure adequate interpretation and efficient delivery.

Revised Budget - the majority of respondents indicated that it is desirable to revise the budget after six months of operations, if necessary, to be submitted to the Board for ratification no later than the eighth month.

A minority of respondents suggested that consultants be used to validate the reasonableness of revised budget for the Board in the future.

5.4.6 OTHER SUGGESTIONS

Three issue areas emerged from interviews and these were as follows:

- . Government's intended future for the Railway remains un-established by the PEU due to priority attention by the PEU to more problematic parastatals. It was suggested that the Board set forth a five year privatisation plan, which is the stated general objective of Government, and present it the PEU, rather than await action by an understaffed organization;
- . the Board institute an informal review process on Railway quarterly performance with the Minister lead by the Chairman and CEO in order to keep the Minister informed; and
- . the financial auditor's responsibility to the Board, not management, needs to be reinforced, including awareness of preliminary findings.

5.4.7 RAILWAY WORKING INTEREST

Respondent interest was not uniform in this area and responses ranged as follows:

- . all areas pertain to areas of management control and Board should not delve into areas;
- . have CEO organize a one-time presentation by Heads-of-Department on all areas and update annually in areas of change;
- . select from among issue areas and place on annual agenda for presentation by Heads-of-Department; and
- . focus on regional railway issues and Swaziland Railway's context in these issues.

6.0 TRENDS AMONG RESTRUCTURED PARASTATALS

6.1 The Government of Swaziland, through the Ministry of Finance's, Public Enterprise Unit, has had a parastatal restructuring process underway for the last three to four years. Certain of the organizations restructured or under-going restructuring were interviewed to determine action in Board strengthening as part of the restructuring process. Developments underway with the Swaziland Electricity Board (SEB) and the Water Service Board (WSB) suggest the following:

- . strong Chairman with business acumen who are also major users of parastatal service are sought who are being given the opportunity to recommend their Boards
- . government representation is relaxed to an observer role because Boards are under performance contract
- . Board memberships range from six to nine members with CEO's as voting Board members
- . Board meetings are operated on a vote basis
- . the Board Secretary is either the CEO or a senior management member
- . Chairman control the review of minutes and setting of agenda and only decisions are recorded
- . Board meetings are intended to cover no more than six meetings per year.

6.2 Interviews were also conducted with one well performing parastatal - the Dairy Board. Unique aspects of Board operations are as follows:

- . the Board selects its own Chairman for a one year term
- . the Board also selects a Vice Chairman, solely to stand-in for the Chairman, for a one year Term
- . one Board position of nine is dedicated to consumers.
- . minutes are read aloud by the Secretary at each meeting
- . Board meets as required

6.3 While TransNamib Limited and Botswana Railways were contacted on Board role, composition, administration and operations, both were found to be handicapped by over-government control either with respect to policy or freedom of views of Board members. Accordingly no significant transfer concepts are available.

7.0 RECOMMENDATIONS FOR BOARD STRENGTHENING

7.1 The Railway Board of Directors needs to recognise that all desired strengthening actions cannot be effected immediately since some actions fall within the realm of legislative changes which will take time to effect. For example Government representation on the Board, the ability of a Chairman to recommend his or her Board team, the ability to hold a CEO accountable only to the Board, whether or not the CEO should be a voting Board member or strictly a CEO appointed by the Board cannot be resolved until the Railway's future institutional form is resolved by Government. It is therefore necessary to formulate both a shorter term action plan that identifies actions the Board can take to strengthen its operation while also focusing on a longer term plan on future Board operations. Exhibit 1 presents the recommended Board Strengthening Actions.

7.2 The Recommended Shorter Term Action Plan is presented below by issue area and strengthening actions are specified either for immediate action (i.e. prior to start of new financial year) or for shorter term action (i.e. starting or during the new financial year)

7.2.1 ROLE OF THE BOARD

- . Re-confirm Board's interest in policy areas specifically legislated outside pervue of management, with the CEO
- . review present management spending/tendering authority limits and revise with Minister approval
- . re-confirm Chairman to lead all interfaces with Minister, but appoint Executive Committee to authorise CEO interfaces as they emerge
- . re-confirm financial auditor responsibility to the Board with CEO and auditors
- . introduce quarterly review with Minister lead by Chairman and supported by CEO

7.2.2 COMPOSITION OF THE BOARD

- . inform Minister that Swazi Nation representation is not required by Public Enterprises Act and that Minister should decide if representation is needed.
- . inform Minister of expertise supplementation requirements and suggest alternative avenues are available as follows:

RECOMMENDED BOARD STRENGTHENING ACTIONS

ISSUE AREA	IMMEDIATE	SHORT TERM	LONGER TERM
1 <u>ROLE OF THE BOARD</u>	Reconfirm Policy Interest with CEO Review Spending/Tendering Authorities Re-confirm Chairman Leadership with Minister with CEO Introduce Quarterly Review with Minister Re-confirm Auditor Responsibility		Prepare Railway Institutional Plan for Privatisation and Gain Gov't Endorsement * Clarify Chairman's Ability to Form Board Team
2 <u>COMPOSITION OF THE BOARD</u>	Inform Minister on Swazi Presentation	Advise Minister of Board Needs through Following Alternative 1. Expanding to Nine Member 2. Establish through 1994 Term Completion 3. Create through P.S. Representations	* Clarify CEO Board Role and Ability of Board to Appoint * Clarify Gov't Representation on Board.
3 <u>BOARD ADMINISTRATION</u>	Appoint Vice Chairman Request the CEO to designate a Second in Command - preferably CFO or DUP & A Create Executive Committee (Chairman and Two Members)	Relieve CEO of Secretary Duty - Appoint Director of Personnel & Administration - have Secretary Co-ordinate Agenda among all Members	
4 <u>BOARD OF OPERATIONS</u>	Request CEO to Create Reduction in Agenda Back-Up Reports Request CEO to Institute Agenda Structure Format Request CEO to Introduce One-Page Decision-Making Format	Introduce Decision-Making by Vote	
5 <u>MANAGEMENT REPORTING</u>	Implement Monthly Policy Affairs Quarterly Reporting Direct Management To Establish Data Capture Systems for Quarterly Reporting	Implement Recommended Quarterly Management Reporting System Implement Budget Revision After Sixth Month Operation	* Implement Business Line Management Reporting System

1. to expand Board membership, which is not desired by the Board to nine members to gain engineering and accounting/finance expertise
2. to put these requirements in place through three Board member terms scheduled for completion in 1994
3. to provide requirements through Principal Secretary memberships by having PS's designate professionally qualified staff for Board membership

7.2.3 BOARD ADMINISTRATION

- . obtain Minister approval to select Vice Chairman whose sole duty will be to fill-in for the Chairman during planned and unplanned absence - this is designed to create a defined chain-of-command. Vice Chairman should be appointed by Board with Minister approval.
- . relieve the CEO of this duty and designate Director of Personnel and Administration as Secretary. This Secretary should seek the Chairman's and CEO's approval of minutes and set the agenda with the Chairman after ascertaining the CEO's and Board Member's requirements.
- . use the previously recommended Executive Committee to be involved in Financial Audit and Internal Audit scope setting, fee negotiation and preliminary reporting. The Executive Committee might be composed by the Chairman and two other members, excluding the CEO (i.e. the latter's primary role would be to be involved as the head of management to be part of Executive Committee considerations).
- . request the CEO to designate the Chief Financial Officer (CEO) as second-in-command - this is designed to formalize command and ensure that another individual is fully familiar with all aspects of Railway affairs.

7.2.4 BOARD OPERATIONS

- . request the CEO to institute a system of no more than three to four pages of agenda item back up reports by Department Heads to reduce paper bulk. The CEO should of course allow exceptions as warranted.

- . request the CEO to suggest an agenda structure format with immediate effect, to be modified as necessary over the remainder to the year.
- . request the CEO to introduce a one-page decision-making format for each agenda item with immediate effect that is modifiable over the remainder of the financial year. The Board Secretary should be made responsible for ensuring that follow-up reporting is placed on future agenda's as initially requested by the Board.
- . request, the CEO to plan legal/audit representation on any Board agenda item, on a advance basis, in conjunction with the Chairman, in order to effect Board decisions in a timely manner.

7.2.5 MANAGEMENT REPORTING

While the Board recognizes management's interest in creating full transparency in management operating and financial performance it should suggest that transparency be balanced with need-to-know or materiality considerations.

Conversely, the Board needs to recognize that management reporting systems are evolutionary in the sense that capturing of information cannot be effected rapidly and comparison to previous year performance requires establishment of bench marks on that performance. These benchmarks are not presently available in all areas for previous years by quarter and are being established this financial year.

In addition, during the current year, expenditures cannot be correlated to work production or performance targets. While next year's budget will be zero-based and correlated to respective work production performance targets, this system is not available for immediate effect.

In consideration of the above, two significant recommendations are forwarded for the Board's consideration as follows:

- . implement a monthly policy affairs oriented Board meeting agenda that generally excludes performance/position reporting, allowing for exceptions as appropriate
- . implement a quarterly performance and position reporting Board meeting agenda and process whereby

1. the CEO reports on strategic Corporate Performance;
2. the CFO (Chief Financial Officer) reports on Corporate Financial Position;
3. the DOT (Director of Traffic) reports on Corporate Commercial Position; and
4. the HOD's (Heads-of-Department) provide performance reports in their areas of departmental performance responsibility.

Exhibit 2 presents an overview of the recommended monthly versus quarterly reporting processes and their content. The intent is to segregate policy affairs decision-making from performance/position reporting in order to crystalize the latter toward a trend and corrective action system. The system of course should be exception based to accommodate notable performance/position deviations as they emerge so that the Board can take necessary corrective action.

Exhibit 3 gives consideration to the annual activities that require Board approval. This exhibit incorporates the above recommended Board Agenda content approach. This Exhibit was created to recommend a potential content agenda for the Board over the remainder of this financial year and next financial year with one major exception as follows:

- . management cannot meet the Board's requirement to provide a revised annual budget by the eighth month of operations or November, 1993 because automated reporting is still undergoing implementation

Exhibit 4 presents a recommended approach for Quarterly Management Reporting to the Board, effective the new Financial Year. The larger strategy underlying the recommended system is two fold as follows:

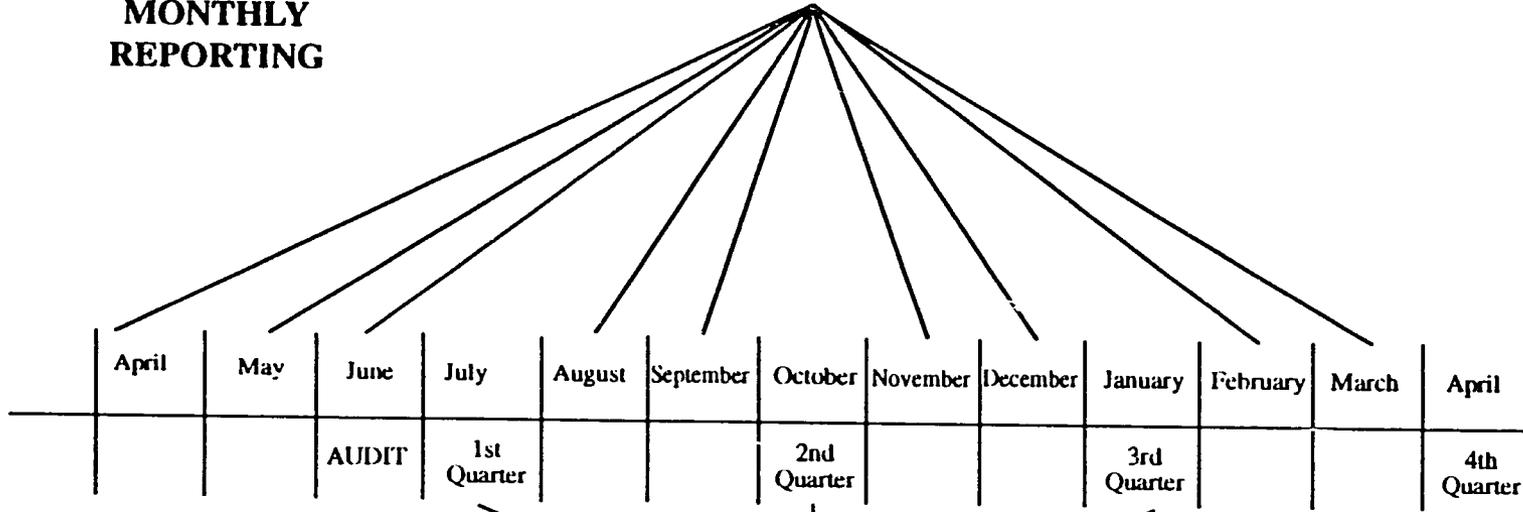
- . to introduce a management reporting environment which places members of senior management into their proper areas of focus/responsibility thereby inducing them to orient themselves into these areas of management and control; and
- . to provide meaningful indicators of strategic and non-financial performance to serve as an underlying barometer as to how well as functions are managed, as well as potential improvement opportunities.

PROPOSED BOARD CONTENT REPORTING CONCEPT

CORPORATE POLICY AFFAIRS REPORTING

- CUSTOMERS
- OPERATIONS
- FINANCE
- LABOUR RELATIONS
- TENDERING
- CONTRACTING
- ENGINEERING

MONTHLY REPORTING



QUARTERLY REPORTING

CORPORATE PERFORMANCE REPORTING

- CEO - PERFORMANCE OVERVIEW
- CFO - FINANCIAL POSITION
- DOT - COMMERCIAL POSITION
- HOD - DEPARTMENTAL POSITION

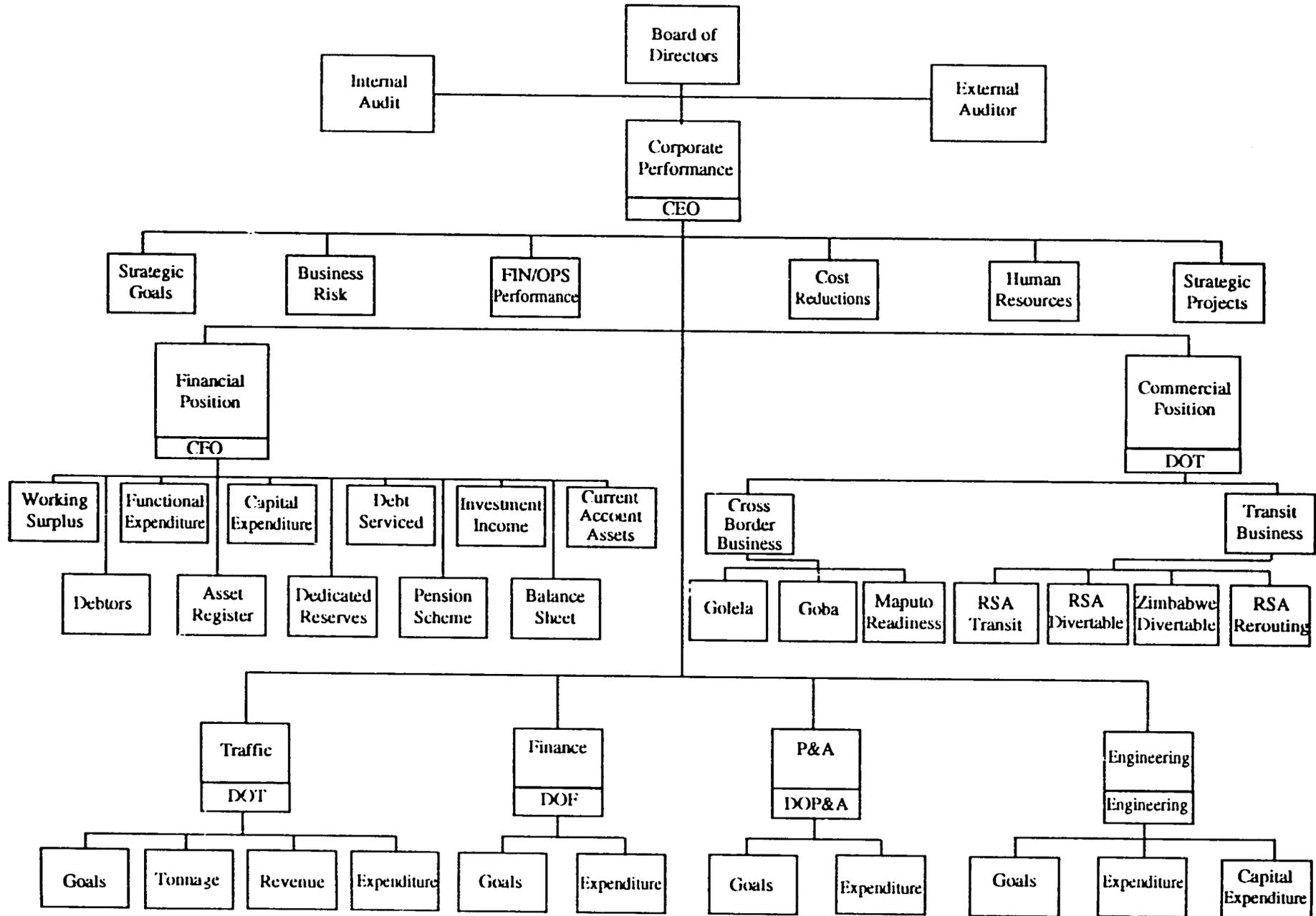
EXHIBIT 3

PROPOSED ANNUAL BOARD AGENDA

ITEM	APRIL	MAY	JUNE	JULY	AUG.	SEPT.	OCT.	NOV.	DEC.	JAN.	FEB.	MAR.
BUDGETING	→	→	→	→	→	→	→	Revised Estimate	→	Prepare Estimate	Seek Approval	Adopt Estimate
INTERNAL AUDIT	Annual Report	→	→	→	Report	→	→	Report	→	Report	→	Appoint Auditor
FINANCIAL AUDIT	→	Preliminary Audit	Annual Report	→	→	→	→	→	→	→	→	Appoint Auditor
PEU REPORTING	Quarter Report	→	Audit & Management Report	Quarter Report	→	→	Quarter Report	→	→	Quarter Report	→	→
MONTHLY POLICY AFFAIRS	Monthly Report	Monthly Report	Monthly Report	→	Monthly Report	Monthly Report	→	Monthly Report	Monthly Report	→	Monthly Report	Monthly Report
QUARTER CORPORATE POSITION	Quarter Report	→	Annual Report	Quarter Report	→	→	Quarter Report	→	→	Quarter Report	→	→
MINISTER REPORTING	Quarter Report	→	Audit & Management Report	Quarter Report	→	→	Quarter Report	Revised Estimate	→	Quarter Report	Approve Estimate & Auditor	→

EXHIBIT 4

PROPOSED QUARTERLY REPORTING STRUCTURE



The suggested segregation of quarterly reporting is within three tiers as follows:

1. the Chief Executive Officer whose focus would be on corporate Strategic Performance including goal achievement status, business risk related performance, financial and operating performance, cost saving realization, human resource position and strategic project position.
2. the Chief Financial Officer whose focus would be on corporate Financial Position while the Director of Traffic would focus on Commercial Position.
3. the Heads of Department who would report on goals status and expenditure position.

Appendix E presents the proposed Quarterly Management Reporting System. This system was reviewed with Senior Management on 25 October, 1993 with Management's response to the system as follows:

- . the three tiered approach to reporting as well as related content was favourably received
- . while individual departments can generate respective information it will be necessary to designate on individual responsible for collecting the report and to possibly interpret information on a first cut basis, prior to senior management reviewing the report - a Business Planner position at Grade 5 in the Marketing section was previously approved but not filled and this position could be used, in part, to support this work.
- . commercial position reporting will require improved data collection because transit times are not now recorded by commodity by gateway.
- . absenteeism reporting will take time to effect because this area requires definition as to what constitutes unauthorised absenteeism, how absenteeism will be reported and recorded, what action will be taken to reduce unauthorised absenteeism and gaining union support for this area of control.

7.2.5.1 Chief Executive Officer's Corporate Performance Report

It is recommended that the CEO focus his review on six issue areas including:

1. Corporate Goals status including market share, cost control, unions, human resources, and policy.
2. Business Risk associated with the a) Market with respect to customer production changes, SPOORNET reroutings and road competition; b) Expenditures with respect to lease and hire charges, over and unforeseen expenditure, and capital expenditure with respect to bidding patterns and contractor performance; c) Assets with respect to fixed and current asset losses; d) Labour Stability and d) Unauthorised Absenteeism.
3. Financial performance with respect to overall profit position and department expenditure position.
4. Operating performance with respect to organization-wide safety position and department production
5. Cost reductions as contained in Business Plan including employment base, business simplification, business agreements, operating rationalization, non-core business rationalization, devolvment, remuneration, line items and claims.
6. Human Resource Development position with respect to positions filled/unfilled, promotions' substandard work, dismissals, retirements and person undergoing development
7. Strategic Capital Project position including track rehabilitation, spurs, sidings, traction and wagon conversion.

7.2.5.2 Chief Financial Officer's Corporate Financial Position Report

The recommended system follows that recently introduced by the Director of Finance and includes the following:

- . Surplus on Working
- . Recurrent Expenditure by Function
- . Capital Expenditure on total projects and Total Procurements
- . Debt Servicing
- . Creditors Aging
- . Investment Income
- . Current Account Assets
- . Debtors Aging
- . Asset Register
- . Dedicated Reserves
- . Pension Scheme
- . Balance Sheet

7.2.5.3 Director of Traffic's Corporate Commercial Position Report

The intent of this report is to establish position by type of traffic, by Gateway, by strategic traffic type and be level of customer service as well as to report on Maputo Readiness and PORTNET traffic preservation readiness.

The reports are as follows:

- . Cross Boarder Business report by Gateway by strategic traffic with notation on tonnage and transit time planned versus actually provided
- . Transit Traffic Business Report monitoring Strategic RSA tonnages and levels of service, RSA divertable to Maputo, Zimbabwe/Maputo diversion, RSA reroutings and RSA new traffics
- . Maputo Operational Readiness Report noting changes in line, service, storage and handling and security readiness
- . PORTNET Traffic Preservation Report noting service and pricing practice changes designed to defray Maputo diversion.

7.2.5.4 Heads of Department Quarterly Report

It is recommended that the Head's of Department focus on status of departmental goals and recurrent expenditure. Two additions to this requirement include:

- . the Director of Traffic providing a comprehensive tonnage and revenue position report; and
- . the Engineer providing a detailed Capital Project Expenditure report.

It is generally proposed that Department/Section expenditure reports follow the current structure with three exceptions as follows:

- . break-out personnel emoluments by management and labour in order to establish costs for better control
- . break-out labour wages into normal, single overtime and double overtime pay for more effective budgeting and control
- . break-out the interchange of rolling stock expenditure line item which is currently substantial into a number of more manageable cost components.

The zero-based budgeting process to be initiated in January may bring about a number of additional changes but are not expected to be extensive.

7.3 The Longer Term Strengthening Plan is envision to take place over the next two to five years driven by a potential institutional change or transformation of the Railway into a public for profit organization. The envisioned steps in this process are set forth below.

7.3.1 The Railway after debt resolution and track rehabilitation finance policy resolution by Government should embark on the development of a plan for the institutional transformation of the Railway into a publicly-held for profit corporation. Part of this process would focus on preparing a Performance Contract to guide the implementation of the divestiture of Government ownership.

As suggested by several Board Members it is recommended that the Railway drive this process rather than await proposal from the PEU. The Railway should develop their plan in concert with the PEU and Ministry of Economic Planning and Development to ensure the plan receives full endorsement. The PEU can also provide funding for the engagement of a consultant who can assist the Railway in preparing such a plan.

In the formation of the plan specific attention needs to be given to the following:

- . authorities and responsibilities of the Board - TransNamib Limited may be a useful model for this;
- . appointment of the Chairman and his authorities to select a Board Director team
- . number of Board members and the desired skill mix
- . role of the CEO vis-a-vis the Board and the Board's ability to appoint/dismiss the CEO
- . role of Government representation on the Board

It should be noted that Board strengthening along the above lines should take place as it has at the SEB at the start for the transformation process.

7.3.2 As the Railway moves toward a publicly-held corporation it should restructure its management reporting systems and report on its lines of business. Exhibit 5 illustrates the potential structure of a business reporting oriented system focused on Cross Boarder and Transit Business revenues and direct expenditures and Administrative Services to support these two business lines. It should be noted that the Cross Boarder Business would in particular focus on station generated revenue and charges and related expenditures to better focus investments in stations while the transit business system would focus more on revenue and various components of interchange of rolling stock costs. This system would require re-organization according to business lines implying that the Railway needs to enhance its human resource capability to support this management approach.

BASIS OF REVENUE & EXPENDITURE REPORTING

CROSS BORDER

A. REVENUE

- Tarrif Rev/Station
- Charges/Station

B. EXPENDITURES

- Marketing
- Operating
- Commercial/Station
- Security/Station
- P&A/Station
- Total Station
- Direct Perm Way
- Traction
- Carriage & Wagon
- Finance Charges
- Safety

BUSINESS LINE BASIS

TRANSIT

A. REVENUE

- Tarrif Rev

B. EXPENDITURES

- Marketing
- Operating
- Joint Facilities
- Direct Perm Way
- Traction
- Finance Charges
- Safety

SERVICES

A. REVENUE

- Investment Income

B. EXPENDITURES

