

UNIVERSITY OF KWAZULU-NATAL

**The Title “The Minimisation of the Liquidation of Viable Banking Institutions in
Zimbabwe’s Banking Sector”**

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of
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DECLARATION

I Cecil Madondo declare that:

- (i) The research reported in this dissertation/thesis, except where otherwise indicated, is my original research.
- (ii) This dissertation/thesis has not been submitted for any degree or examination at any other university.
- (iii) This dissertation/thesis does not contain other person's data, pictures, graphs or other information, unless specifically acknowledged as being sourced from other persons.
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Signed  this 16th day of September.....2011.

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ABSTRACT

“The Minimisation of the Liquidation of Viable Banking Institutions in Zimbabwe’s Banking Sector”

The Zimbabwe banking sector seems to have almost recovered from the banking crisis of 2003/2006, in a very difficult social, economic and political environment. More than 20 banking institutions were placed under liquidation during the crisis. The rapid rehabilitation can be attributed largely to the corrective measures under the Reserve Bank of Zimbabwe’s active monetary reforms from January 2004, competent top management teams and credible shareholders in most of the banking institutions.

The researcher maintains, however, that it is of paramount importance for the banking sector to implement a second stage of bank restructuring characterised by a market-based system, the application of forward-looking criteria to the system of Regular Banking Restructuring, and, thirdly, effective corporate governance structures.

It can be deduced that by the beginning of 2007 the pace of reform had diminished, reflecting the effects of the prevailing social, economic and political turbulence. In addition, other factors, namely, under-capitalisation, ineffective corporate governance structures, shortages of cash and foreign exchange and a dwindling economy, have continued to threaten the viability of a number of banks. In this situation the Reserve Bank of Zimbabwe, on behalf of the government, is urged to launch a second round of banking reforms.

Two years after the banking crisis, fundamental questions still linger over whether future actions will be based on market mechanisms, or whether bank restructuring reforms will continue. Yet, based on its experience of having overcome the banking crisis, in the teeth of an annual rate of inflation of 231 million per cent (31 July 2008), immeasurably the highest in the world, Zimbabwe can contribute vital practical and up-to-date bank restructuring methodology ideas to countries such as United States, Europe and, indeed, the global financial market generally.

The main objectives of this qualitative research project are as follows:

- To establish the major causes of liquidation or collapse of banks during 2003/2006.
- To determine how some banks survived, while others of similar size collapsed during the period of study.
- To make a contribution to the field by providing practical and effective solutions, in order to minimize the effects of past collapses and forestall similar failures of viable institutions in the banking sector in the future.
- To investigate how corporate governance principles and market-based, regular banking restructuring could be applied in practice, in order to minimize the liquidation of viable institutions.
- To determine what measures ought to be taken regarding bank insolvencies in Zimbabwe.

In this regard, Chapter One offers an introduction with historical background. Chapter Two presents a survey of relevant literature, focusing on corporate governance and bank restructuring, relating to theoretical, practical and methodological issues. The final part of the literature survey covers problems identified by the researcher. Chapter Three details the conducting of the field work, and the strategies and methods of data collection. The samples fall into three categories: first, banks that were placed under liquidation, second, banks that were restructured and third, banks that remained financially sound during the crisis. Chapter Four covers results of field research and qualitative analysis of data. In this chapter the researcher addresses all of the research questions set out in the beginning. Reports are presented with tables of numerical data, graphs or quotes from the interviews and other sources to enhance the discussion of results. Chapter Five covers interpretation and discussion of findings. Early data analysis is applied in order to make preliminary connections between different strands of information. Chapter Six presents the conclusion, with recommendations and notes on the contribution of the study to the field under discussion. Conclusions are naturally based on the findings of the research, and from these flow the recommendations. The emphasis here is on recommendations that are as practical and achievable as possible. Finally, a number of areas that, in the researcher's opinion, call for further research are suggested, in order to expand the body of knowledge in general and to develop the search for further practical banking solutions in particular.

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GLOSSARY

ABG	African Banking Group
AFS	Allied Financial Services
ALCO	Assets/Liabilities Committee
BICEPS	Business Strategy, Internal Control System, Corporate Governance, Ethics in Business, Participation of all Stakeholders, Stakeholder Satisfaction
PBCL	Premier Banking Corporation Limited
CABS	Central African Building Society
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity
CAR	Capital Adequacy Ration
CBZ	Commercial Bank of Zimbabwe Limited
CDH	Century Discount House Limited
CFHL	Century Financial Holdings Limited
CHL	Century Holdings Limited
CMED	Central Mechanical Equipment Department Equipment
CR	Corporate Responsibility
CSR	Corporate Social Responsibility
DCZH	Discount Company of Zimbabwe Holdings
DCF	Discount Cash Flow
EAPs	Employee Assistance Programmes
ENG	ENG Asset Management (Private) Limited
ESAP	Economic Structural Adjustment Programme
FML	First Mutual Limited
FNBS	First National Building Society
FSC	Financial Supervisory Commission
GAM	Guardian Asset Management
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
IT	Information Technology

ITCO	Information Technology Committee
JSE	Johannesburg Securities Exchange
KPI	Key Performance Indicators
KLSE	Kuala Lumpur Stock Exchange
KYC	Know Your Customer
M & A	Mergers & Acquisitions
MD	Managing Director
MICG	Malaysian Institute of Corporate Governance
NAMF	Non-Performing Asset Management Fund
NDH	National Discount House Limited
NPV	Net Present Value
NSE	Namibian Stock Exchange
OE	Operational Effectiveness
P & A	Purchase And Assumption
P & G	Procter & Gambles
PAM	Platinum Asset Management (Private) Limited
PBCL	Premier Banking Corporation Limited
PC's	Personal Computers
PFMA	Public Finance Management Act
RAS	Risk Assessment System
RBS	Risk Based Supervision
RBS	Royal Bank of Scotland
RBZ	Reserve Bank of Zimbabwe
RDH	Rapid Discount House Limited
RFH	Rapid Financial Holdings Limited
RICCO	Risk & Compliance Committee
ROE	Return On Equity
ROI	Return On Investment
ROS	Return On Sales
RTGS	Real Time Gross Settlement
SADC	Southern Africa Development Community
SBOF	Statutory Bail Out Fund

SBSC	Stakeholders Banking Supervisory Commission
SEC	Securities and Exchange Commission
SEOM	SADC Election Observer Mission
SFC	Securities and Future Commission
SFin	Sagit Finance House Limited
SFHL	Sagit Finance Holdings Limited
SIRDC	Scientific Industrial Research and Development Centre
THC	Tudor House Consultants (Private) Limited
UPS	Uninterrupted Power Supply
ZABG	Zimbabwe Allied Banking Group Limited
ZDB	Zimbabwe Development Bank Limited
ZIMPREST	Zimbabwe Programme for Economic and Social Transformation
ZSE	Zimbabwe Stock Exchange

CHAPTER ONE

1.0 HISTORICAL BACKGROUND AND INTRODUCTION

1.1 1980 – 2003

Southern Rhodesia, later to become Zimbabwe, was founded when the British flag was hoisted in what was then called Salisbury, now Harare, on the 12th September 1890. When Zimbabwe obtained its independence on 18 April 1980 the yearly rate of inflation was seven per cent. It soon rose to eleven per cent (January 1981), and continued to increase to twenty-four percent in January 1984. It then decreased to fourteen percent in 1990. According to the *[Reserve Bank of Zimbabwe, Inflation Rates 2008]*, the rate of inflation for July 2008 was two hundred and thirty-one million per cent, the highest in the world.

Since attaining independence in April 1980 Zimbabwe has passed through four main phases of socio-economic development. These are: 1982-1985 Transitional National Development Plan, 1986-1990 First Five Year National Development Plan, Second Five-Year National Development Plan 1991-1995 and 1996-2000 Zimbabwe Programme For Economic and Social Transformation [ZIMPREST].

1.1.1 According to the *[Zimbabwe Transitional National Development Plan 1982]*, the objectives of the government were:

- (a) Removal of the historical distortions and all undesirable characteristics of socio-economic dualism, and establishment of an integrated society.
- (b) Establishment of a socialist state that would accept the role of private enterprise.
- (c) Establishment of a democratic socialist society set in the dynamic framework of a developing economy.
- (d) Removal of all features of the colonial regime.
- (e) Growth and development of the economy with the following priorities:
 - o Rural and agricultural development.
 - o Housing and community service.
 - o Energy development.
 - o Education development for all, with the establishment of vocational schools and technical colleges.
 - o Establishment of National Health Service for all.

In order to attain the aforementioned, entrepreneurs were expected to satisfy the needs of their employees. As a result, enterprises owned by both the government and members of the community were established to manufacture goods and provide essential services. However, the economy of the country did not improve as anticipated, with negative fiscal deficit figures, and some years of negative balance of payments, as depicted in table 1.1:

Table 1.1 General Government Current Account, Zim Million, 1977-1984

	1977	1978	1979	1980	1981	1982	1983	1984
Revenue								
Direct taxes	284	265	281	383	539	707	783	856
Indirect taxes	224	238	261	316	507	709	956	1 055
Fees, sales and recoveries	172	196	214	291	272	321	407	451
Other revenue	85	90	95	116	134	149	189	217
TOTAL	765	789	851	1 106	1 452	1 886	2 335	2 579
Expenditure								
Salaries, wages and allowances	285	309	386	518	626	829	925	1 033
Other goods and services	259	326	344	436	396	499	620	728
Interest	46	55	72	93	125	193	242	305
Subsidies	100	134	90	100	120	169	82	296
Pensions	33	48	60	74	71	77	75	79
Unidentifiable expenditure	33	46	46	18	20
TOTAL	767	918	1 005	1 338	1 497	2 005	2 257	2 752
			-	-	-	-		-
Savings (deficit(-)/surplus)	-2	-129	154	232	45	119	78	173

Source: Zimbabwe Central Statistical Office, Government publication, (1989) p.118

It is apparent that these figures reflect the difference between total revenue collected by the government in the form of direct and indirect taxes, fees, and other recoveries, against expenditure in the form of salaries for civil servants, defence, education, pensions and other, unidentifiable, expenditures. A negative figure implies that the government was spending more than it was collecting. All such negative gaps had to be financed either by domestic or foreign borrowing, international aid and loans, or by printing more money.

It is, however, important to note that during this period the country's manufacturing and agricultural sectors were viable, as evidenced by a favourable balance of payments situation, as depicted in table 1.2 below. The negative figure for the year 1982 could have been a result of the drought.

Table 1.2 Foreign Trade, US\$ million

Year	1980	1982	1983	1985	1987	1990
Exports	1446	1321	1154	1120	1452	1760
Imports	1339	1472	1070	919	1071	150
Balance of trade	107	-151	84	201	381	260

Source: Zimbabwe Second Five-Year National Development Plan (1991), p.1.

It is also important to note that during this period the government partially adopted the ideology of socialism, and in the process introduced health and education for all at minimal cost to the public. These sectors thus depended heavily on government funding. Sustaining these was aided by donor funds, due to the excellent relations that existed in the period immediately after independence.

State participation in the economy was achieved through the formation of several parastatals. Government policy required the provision of health and education for all. However, economic growth during this period was hampered by the 1982/3 droughts, so that the government had insufficient resources to continue with subsidized health and education for the disadvantaged segment of the society.

The conclusion can therefore be drawn that these factors, directly or indirectly, contributed to a rise in the fiscal deficit, which in turn fuelled inflation in the next phase of development, as shown in Table 1. 1 on page 2.

1.1.2 According to the [*Zimbabwe First Five-Year National Development Plan 1986*], in addition to the implementation of political and economic ideas that the means of production, distribution, and exchange should be owned by the members of the community, the government remained focused on the development and ownership of means of production for the benefit of the majority.

It can be inferred that, considering developments in the Socialist Bloc of Eastern Europe, the government realised that economic development would never be achieved on the principles of socialism. As a result, the government introduced new policies of a mixed economy, replacing the old socialist approach. This was demonstrated in the next phase of developments.

In the period approaching the 1990s the government phased out the socialist ideology with the realization of the importance of economic reforms, resulting in the adoption of the Economic Structural Adjustment Programme (ESAP). According to the Central Statistical Office, in 1986 the rate of inflation was eleven per cent, and by December 1990, it was eighteen per cent.

1.1.3 In the terms of the [*Zimbabwe Second Five-Year National Development Plan 1991*]the main tasks of the government were:

- (a) Poverty eradication through rural development.
- (b) Equitable distribution of resources.
- (c) Improvement in the country's export performance through liberalization of foreign trade.
- (d) Domestic deregulation and trade liberalization to stimulate domestic and foreign investments.
- (e) Application of appropriate fiscal and monetary policies.
- (f) International economic cooperation.
- (g) Changes in the country's labour laws, with the objective of increasing worker participation in corporate organizations in order to make labour more efficient.

This was the period that preceded the Lancaster House Agreement, which was valid for ten years from the attainment of independence, and partial amendments to the country's constitution had already begun.

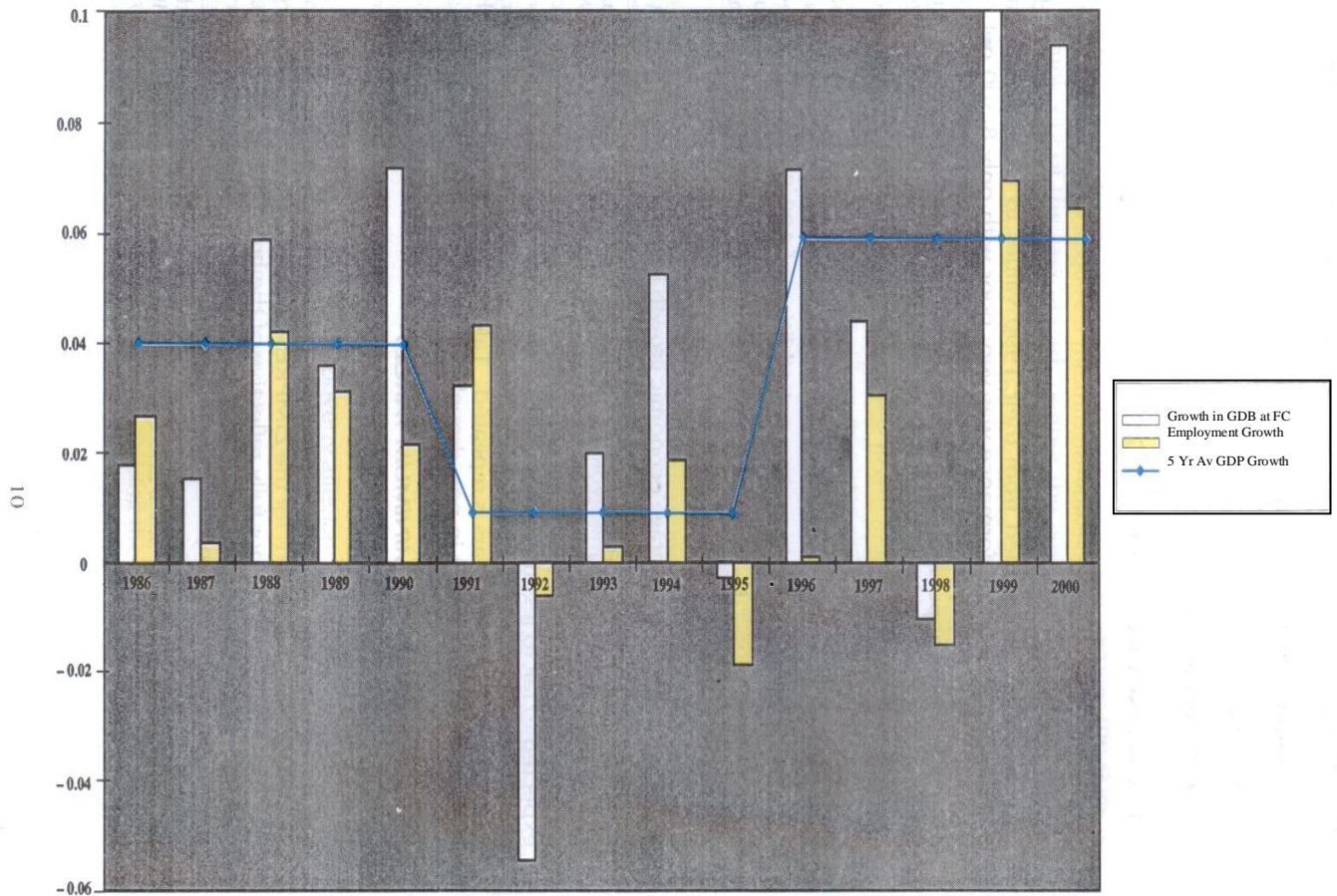
Fiscal policy:

According to *[Zimbabwe Programme for Economic and Social Transformation 1996]* indigenous entrepreneurs needed ready access to loans for fixed and working capital, and this had been denied them by the macro-economic consequences of the budget deficit. The bulk of the population had been hard-hit by the substantial price increases of basic commodities over the last five years. Inflation had been initially exacerbated by the removal of subsidies and the effects of the 1991/92 drought, but the size of the budget deficit had been the root cause of the continued high levels of inflation. This had severely eroded the real incomes of the workers, the self employed and communal farmers.

To achieve meaningful economic growth the government realized the importance of investing in education. This would avoid reliance on expatriates who were normally paid in foreign exchange. The opening of another new university in Bulawayo, the second largest city in Zimbabwe, and additional vocational training colleges imposed a further strain on the budget, which placed yet further demands on the declining revenue base. Financing these deficits meant that the inflation control measures could not be implemented.

The conclusion can be drawn that budgetary control measures were ineffective because of the establishment of too many ministries and government departments at the same time, as depicted in figure 1.1 below:

Figure 1.1. GDP & Employment Growth: 1986-2000 (drought in 1987/88,6% average maintained)



Source: Zimbabwe Program for Economic and Social Transformation (ZIMPREST)(1996-2000) Government of Zimbabwe Publication, p.10.

Banking sector reform

In the process of trade liberalization, the government realized the need to reform the banking sector, which at the time was dominated by five traditional banks, the majority of which were foreign-owned. During this period (1991-1995) interest rates were to be determined by market forces, and the removal of barriers in the banking sector resulted in the opening of new merchant banks, discount houses and commercial banks. The intention was to improve the efficiency and effectiveness of the banking sector, and to make it an agent of development.

The reformation of the banking sector resulted in many new participants, mostly indigenous entrepreneurs, coming into the banking industry, as illustrated below (Table 1.3):

Table 1.3 Banking sector reform

<i>Banking institution</i>	<i>Year of licence</i>
Universal Merchant Bank	1995
National Merchant Bank-NMB	01 June 1993
Trust Merchant Bank	02 January 1996 ***
Genesis Investment Bank	20 July 1995
Commercial Bank of Zimbabwe*	11 November 1991
Agricultural Development Bank**	04 June 1999 ***
Time Bank of Zimbabwe	13 February 2002 ***
First Banking Corporation	07 February 1997 ***

Source: Reserve Bank of Zimbabwe, Bank Licensing & Surveillance (2004) Annual Report, p.71-78.

**Commercial Bank of Zimbabwe was incorporated out of the Bank of Credit and Commerce.*

The Agricultural Development Bank was incorporated out of the Agricultural Finance Corporation.During and after the 1996-2000 Zimbabwe Programme for Economic and Social Transformation [ZIMPREST].*

Most of these banks, with the likes of United Merchant Bank and Universal Merchant Bank, failed due to poor liquidity, management exposure to non-performing lending books, and corporate governance shortcomings, during the 1996-2000 period.

On the other hand, the [*Zimbabwe Development Bank Act [Chapter 24:14] 1984*], saw the establishment of Zimbabwe Development Bank (ZDB), whose focus was mainly financing and resuscitating distressed companies. Some of these include G&W industrial Minerals, Zimbabwe Phosphate Industries, Glue & Chemicals, and Surface Investments.

It can be noted that it was an anomaly for the number of banks to multiply within an exponentially shrinking economy, as shown by the country's GDP performance. It can be inferred that the collapse of Boka's United Merchant Bank destroyed all the confidence that the business community had in the indigenous banking entrepreneurship. The late business tycoon Roger Boka, through his bank, sourced funds in the market using fake Cold Storage Commission bills. These funds were then used in the construction of the Boka Tobacco Sales floor, putatively the world's largest. The Universal Merchant Bank collapsed as a result of its exposure to Mangura Copper mines, which could not survive the worldwide decline in demand for copper.

Most of the new participants in the banking sector diverted from their core banking business and went into speculative activities that included locking short-term investments into non-liquid assets, such as motor vehicles and immovable property. The situation proved to be a time-bomb, and most of the indigenous banks collapsed due to liquidity problems. Those that remained, like Commercial Bank of Zimbabwe, Genesis Investment Bank and First Banking Corporation enjoyed government support, enabling them to survive the competition. Kingdom Bank had institutional investors like the Meikles Group, who could contribute capital in the event of a liquidity crunch, [*Reserve Bank of Zimbabwe, Bank Licensing & Surveillance (2004) Annual Report*].

1.1.4 According to the [*Zimbabwe Programme for Economic and Social Transformation 1996*], the fundamental objective of the government was the same as that outlined soon after independence in February 1981. Growth with Equity, which sought to achieve a sustainable high rate of economic growth and speedy development, in order to raise incomes and standards of living of most Zimbabweans, and expand productive employment of rural peasants and urban workers, especially the former was one of the main objectives.

According to [*Reserve Bank of Zimbabwe, Inflation Rates 2008*], in January 1996 the rate of inflation was twenty-eight per cent and by December 2000 it had increased to fifty-five per cent. The conclusion can therefore be drawn that, the potential long-term benefits of ESAP and ZIMPREST were all distorted by the land invasions and the alleged human rights abuses, which resulted in European nations imposing targeted sanctions against Zimbabwe in 1999. Agricultural production was brought to a virtual standstill, and investor confidence totally destroyed. The obligation to compensate the liberation war veterans and war collaborators added a huge negative impact on attempts to control fiscal deficits.

Moreover, on 14 November 1998, popularly known as “Black Friday”, the Zimbabwean dollar crashed against the US dollar to 37.5 to 1. This was the period when war veterans were each awarded Zim\$50,000 gratuities, and to this day the source of this funding remains unknown. In an effort to control “parallel market” activity, the Minister of Finance, Dr Hebert Murerwa, in his fiscal policy statement in November 2002, banned all bureaux de changes in the country, [*Zimbabwe, Mid-Term Fiscal Policy Review Statement, 2004*].

It can be inferred that the measures intended to secure the benefits of liberalizing the banking sector brought much suffering to many people who had invested their funds in the collapsed indigenous banks. Inflation continued to rise in the period after ESAP and ZIMPREST, and in December 2002 it stood at one hundred and twelve per cent. It rose to five hundred and ninety-eight per cent in December 2003, when the new Governor of the Reserve Bank of Zimbabwe was appointed [*Reserve Bank of Zimbabwe, Inflation Rates 2008*].

In an effort to reduce inflation the Governor unveiled his first monetary policy statement on 18 December 2003. The major thrust was inflation control to two-digit levels, as well as stabilizing the Zimbabwean dollar against other currencies. The Governor identified liquidity support as one of the main factors behind the money supply growth rate, and therefore stimulating inflation. Liquidity support was meant to provide temporary relief to banking institutions that would have experienced a liquidity crisis, but the facility was abused as some funds were channelled towards non-core banking business, [*Reserve Bank of Zimbabwe, Monetary Policy Statement, 2003*].

Having declared inflation as the country's number one enemy, the Governor temporarily removed liquidity support to banking institutions and abruptly limited the Reserve Bank's lender of the last resort function. Banks that had locked short term investments in non-liquid assets suddenly could not access cheap borrowing from Reserve Bank as before. Instead, they were supposed to borrow from other banks in the event of liquidity problems. Other deposit takers, like asset management companies were all required to be licenced, and to stick to the core business of asset management. [*Reserve Bank of Zimbabwe, Monetary Policy Statement, 2003*].

1.1.5 Banking institutions placed under curatorship and liquidation, (2003-2006)

Against this background the country's banking sector was shaken, and a number of banks were closed, and placed under the management of curators, while some were placed under liquidation. Table 1.5 lists the casualties between January 2003 and December 2006:

Table 1.5 Curatorship and Liquidation of Banks

Banking institution	Curatorship Date	Liquidation Date
Genesis Investment Bank Limited	01 July 2002	Reopened 02 January 2003
Platinum Asset Management (Private) Limited		7 April 2004
Rapid Discount House Limited	26 March 2004	25 August 2004
Barbican Bank of Zimbabwe Limited	15 March 2004	(Incorporated into ZABG January 2005)
Royal Bank Zimbabwe Limited	04 August 2004	(Incorporated into ZABG January 2005)
ENG Asset Management (Private) Limited		31 December 2003
Century Discount House Limited		20 January 2004
Intermarket Building Society	12 March 2003	(Curatorship lifted 31 July 2005. Incorporated into ZB Bank November 2006)
CFX Bank Zimbabwe Limited	17 December 2004	Resumed operations 1 March 2006
First National Building Society	2 March 2003	13 April 2005
Intermarket Banking Corporation Limited	12 March 2003	(Curatorship lifted 31 December 2005. Incorporated into ZB Bank November 2006)
Trust Banking Corporation Limited	23 September 2004	(Incorporated into ZABG January 2005)
Time Bank of Zimbabwe Limited	27 October 2004	Under curatorship
Sagit Asset Management (Private) Limited	Licence cancelled on 15 August 2005	
Sagit Finance House Limited	02 March 2003	07 June 2006
CFX Merchant Bank	17 December 2004	Merged with CFX Bank February 2006

Source: Reserve Bank of Zimbabwe, *Troubled Banking Institutions* (2006), p. 10-28.

It is pertinent to mention that Intermarket Banking Corporation, Genesis Investment Bank Limited, CFX Bank Zimbabwe Limited, CFX Merchant Bank and Intermarket Building Society survived curatorship, and are now fully operational.

1.1.6 Public governance

According to the [*Southern African Development Community (SADC), 2008*] the period leading up to the run-off election was characterized by politically motivated violence resulting in loss of lives, damage to property and serious injuries sustained, hindering political activities. Speaking from London at Buckingham Palace on 25 June 2008 in honour of his 90th birthday, Nelson Mandela described these political and socio-economic situations in Zimbabwe as a “tragic failure of leadership”.

It may therefore be asserted that unless the government undertakes effective fundamental political and economic reforms, such as:

- A substantial reduction of the size of the government (in terms of the number of departments, ministries and labour);
- Observing the rule of law, presenting a new constitution in line with international constitutional standards;
- Introducing an independent electoral system;
- Introducing an internationally recognized human rights charter;
- Promote a complete independent judicial system and strict observance of the rules of law;
- Improving international relations with most developed and developing countries;
- Obtaining foreign exchange support from the World Bank and the International Monetary Fund;
- A complete reform of the agricultural, mining, tourism, manufacturing and transport sectors;
- Facilitate the return of specialized farmers and most skilled professionals to Zimbabwe.

The recovery of the economy of Zimbabwe can be long and unsustainable, as this may not attract meaningful capital investment into the country. In addition, the economic and political isolation of Zimbabwe by the UK, EU, USA and other sections of the international community should also be addressed without further delay, in order to facilitate a speedy recovery of the Zimbabwe economy.

1.2 Introduction

The term ‘liquidation’ is a dreaded one in the global market because of its dire consequences. The most common form of liquidation in Zimbabwe is the winding up of business operations by a court. Although the company does not immediately cease to exist as a legal entity, the entire board of directors forfeit control over the company and pass it to, firstly the Master of the High Court, then to the provisional liquidator and finally, to the final liquidator.

The existence of a company as a separate legal entity, which commences upon its incorporation, is terminated by dissolution of the company. In the course of its existence, the company may have acquired assets and incurred liabilities, which have to be dealt with before the company can be dissolved.

The liquidation, or winding up, of a company involves administering a company’s affairs prior to its dissolution. This, in turn, involves ascertaining and realising its assets and applying them, in the payment of liquidation costs, then creditors of the company (according to their order of preference), finally, distributing the residue (if any) among the shareholders of the company in accordance with their rights [*Cilliers & Benade 2004*].

When the term liquidation is applied to a bank it has more far-reaching consequences. According to the [*Banks and Banking Survey 2010*], the banks are there to cause financial intermediation, essentially linking savers and borrowers through an elaborate and trust-based money creation system and on the back of a variety of financial instruments, structures and models. The role of the banking sector is even more critical for an embattled economy like Zimbabwe – where whole sectors and sub-sectors of the economy have been brutalized over the past decade or so!

1.2.1 Motivation

According to [*Hawkins and Turner 1999*], authorities are generally not keen to place banking institutions under receivership because of the three main reasons namely: the systemic threat to the financial system; the disruption of credit relations between a bank and specific borrowers; and the danger of a “credit crunch”. The systemic threat is that a bank’s failure may ‘infect’ other healthy banks, and the broader financial markets.

According to [Meyerman, 2001] there are several mechanisms of infection. One is through the payments system, where one failure may provoke a chain reaction of non-payment by other participants. Another mechanism works through the bank deposit market. One failure may undermine the public's confidence in banks generally, provoking a general run on the banks. Other reasons for not closing banks are the fear of disrupting credit relations, thereby causing a "credit crunch", and a market-wide increase in interest rate spreads, as well as reduction in the availability of credit.

Meyerman argued that the categories of creditors of the bank are varied, and it is difficult for creditors to preserve the economic value of the bank as an ongoing concern under the general legislation. Another important reason appears to be that a bankruptcy court application filed by creditors, even if the application proves unjustified, may terminally damage confidence in a bank.

Meyerman noted, further, that liquidation of banks has huge costs. Guaranteed returns not only increase government expenditure and hence the rate of inflation, but may also tempt some depositors to place their money in high-risk, high-return banks. In practice, the problem is that even when the financial situation does not warrant being considered as a general banking crisis, most governments are inclined to guarantee all deposits in any problem bank so as to avoid paying the political cost of a different measure.

A number of suppliers of goods and services who had business contracts with banking institutions were adversely affected. In addition, some creditors lost money in the sense that creditors could not charge interest after the date of liquidation, as provided by the law of insolvency in Zimbabwe [*Sagit Finance House Limited Liquidator's Report 2006*].

It can be concluded that the government revenue collection base was affected: tax revenue from corporate tax, value-added tax, employees' tax and other forms of taxes paid by banking institutions in the normal course of business were reduced.

A number of depositors and shareholders lost their lifetime investments. Liquidation of viable banking institutions reduced the value of their shares to the extent that the majority of them failed to realise any value, as some companies were suspended from the Zimbabwe Stock Exchange, [*Century Discount House Liquidator's Forensic Report 2004*].

The objective of this study is to address the root causes of the difficulties that resulted in the collapse of more than twenty banking institutions in the course of the banking crisis of 2003/2006, and also to present effective strategies to deal with such insolvencies. A model has been formulated which can be used by top management to minimise the liquidation of viable institutions in the best interest of all stakeholders.

1.2.2 Statement of the problem

From December 2003 to December 2006 the Zimbabwe banking services industry witnessed the collapse of more than twenty commercial banks, asset managers, finance houses, building societies and discount houses. The causes ranged from ineffective corporate governance structures, liquidity challenges, conducting non-core activities, to outright fraud and siphoning of depositors' funds, [*Reserve Bank of Zimbabwe Reflections on: What Went Wrong at Trust and Royal Banks, 2006*].

The collapse was unprecedented, and seriously affected the confidence of depositors in the banking system. It slowed economic growth, and led to the collapse of other businesses.

That the collapse of banking institutions is undesirable, and that it must be avoided is self-evident. The key to any solution lies in understanding the causes of the collapse and thus how they can be managed and prevented in future [*Reserve Bank of Zimbabwe, Troubled Banking Institutions Monetary Policy Review Statement 2005*].

Many recent collapses in Zimbabwe's banking sector have, as their root cause, a conflict between the objectives of the institution and those of the custodians of the institution's assets and financial resources, undercapitalisation, which adds up to ineffective corporate governance structures. The liquidation of such institutions occurs, in the majority of cases, at the expense of all stakeholders as listed above.

While bankers usually blame their failures on external factors such as inappropriate government monetary and fiscal policies, central banks like the Reserve Bank of Zimbabwe attribute bank failures to corporate governance shortcomings. However, the identification of the principal factors in banking institution failures and steps to minimise the liquidation of viable institutions in Zimbabwe banking sector is an empirical issue, which requires qualitative research approaches.

On 30 September 2004 the Bank Licencing, Supervision and Surveillance Division of The Reserve Bank of Zimbabwe responded to the collapse of several banking institutions by issuing Guideline Number 01-2004/BSD on Corporate Governance.

According to Guideline, corporate governance refers to the processes and structures used to direct and manage the business and affairs of an institution with the objective of ensuring its safety, and enhancing shareholder value. The process and structure define the division of power and establish mechanisms for achieving accountability between the board of directors, management and shareholders, while protecting the interests of depositors.

1.2.3 Objectives

Primary Research Objectives:

- (a) To establish the major causes of liquidation or failure of banks during the period under review.
- (b) To find out how corporate governance, business strategies, business ethics and internal control systems can be applied to minimise the liquidation of viable banking institutions.
- (c) To provide effective and practical solutions, in order to minimise the current and future collapse of viable institutions in the banking sector.

Secondary Research Objectives:

- (d) To determine how some banks of similar sizes have survived during the period of study.
- (e) To assess the government's reform policies, especially in the banking sector.
- (f) To determine how to deal with bank insolvency generally in Zimbabwe.

1.2.4 Research Design

In carrying out research work the researcher chose a qualitative research approach. This was based on the grounded theory method combined with narrative, qualitative and archival data analysis.

- (a) The qualitative research approach was not strictly formalised, while the scope was defined, and a philosophical mode of operation adopted. The researcher gained a first-hand, holistic understanding of the phenomena of interest by means of a flexible strategy of data collection.

- (b) This was shaped as the investigation proceeded. Methods of data collection were used to acquire detailed knowledge to guide further study. This rested on the assumption that valid understanding was gained through accumulated knowledge acquired by the researcher through first-hand interactions.
- (c) The purpose of the grounded theory design was to derive theory that links the participants' perspective to general Social Science theories. This design studied the process and focused on the interaction of the phenomena. The data was collected from historical records, interviews and observations.

Theoretical sampling was also used. This term describes the choice of cases through which to gather data and refine concepts [Lancaster, 2005]. Theoretical sampling continued until theoretical saturation was reached. This is when data collection ceases to reveal new data that is relevant to a category, where categories become well developed, and relationships between categories is verified [Saunders, Lewis and Thornhill, 2003].

- (d) Narrative analysis was applied. A narrative is broadly defined as an account of an experience presented in a sequenced way, indicating a flow of related events that, taken together, are significant for the narrator, and which convey meaning to the researcher [Coffey and Atkinson, 1996]. It follows that understanding and meaning was supported through analysing narrative accounts in their originally-told form rather than by seeking to fragment them through a process of coding and categorisation.
- (e) This theoretical method was combined with archival analysis. Documentary secondary data was analysed. Research based almost exclusively on documentary secondary data is termed archival research and, although this term has historical connotations, it can refer to recent as well as historical documents [Van der Velde, Jansen and Anderson, 2004].

In this research documentary secondary data included written documents, such as notices, correspondence, minutes of meetings, financial statements, statutory reports (prepared by liquidators/curators), government policy documents, transcripts of speeches and administrative and public records. Written documents also included textbooks, business/financial journals, magazine articles and newspapers. These were important as raw data sources, and also as a storage medium for compiled data. These sources of data were analyzed using archival data analysis.

Qualitative research methods assisted the researcher to do the following:

- (a) To carry out an investigation where other methods, such as experiments, are neither practical nor ethically justifiable.
- (b) To investigate situations where little detail is known.
- (c) To explore complexities beyond the scope of more 'controlled' approaches.
- (d) To 'get under the skin' of banking institutions in order to find out what really happens with regard to corporate governance, internal control systems, business strategies and business ethics in practice, the informal reality which can only be perceived by those involved.
- (e) To view the case "from the inside out", and to see it from the perspective of those involved.
- (f) To find out how corporate governance, recapitalisation and corporate restructuring strategies can be applied in practice to minimise the liquidation of viable banking institutions.

It is apparent that the effective application of corporate governance, business strategies, business ethics and internal control systems, through controlled participation of all interested parties, can help in minimising the collapse of viable banking institutions. The variables included external factors, which a particular institution is unable to control, such as government fiscal and monetary policies, global inflation and interest rates, and political turbulence within the country. However, notwithstanding these variables, it is envisaged that corporate governance can be applied effectively to achieve stakeholder satisfaction. The qualitative research method in this regard was a mixture of rational, explorative and intuitive, where the skills and experience of the researcher played an important role in the analysis of data.

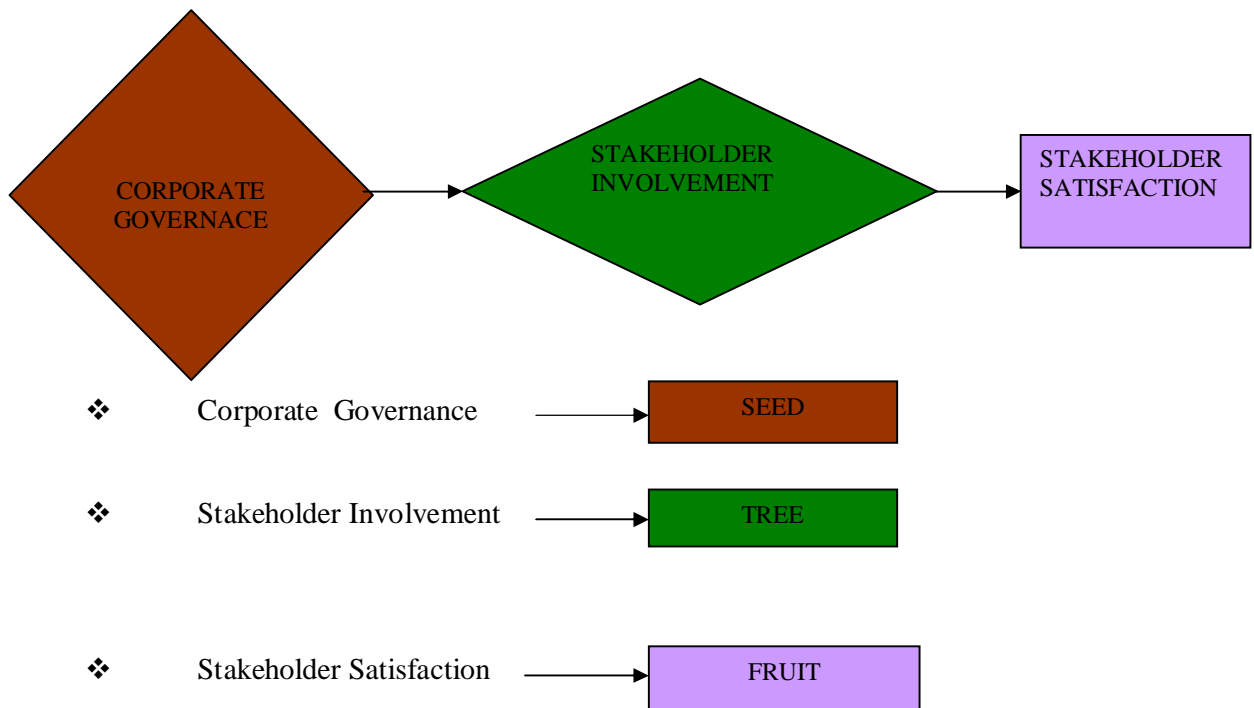
According to [Bryman & Bell, 2003] the trustworthiness of the interpretation of results as the basis of the researcher's findings should be checked and assessed by the following six criteria:

- (a) **Credibility.** The technique for ensuring that interpretation is credible includes looking for negative cases in regard to the emerging hypothesis, testing rival explanations and testing explanations for inconsistencies arising from triangulation of respondents, methods and theories of previous researchers.
- (b) **Conformability.** Qualitative researchers do not generally claim to be detached and neutral scientists. Instead, this researcher holds that by being conscious of his own subjectivity, he should be in a position to understand its effects on his work, thereby allowing participants to express their experiences, values and expectations.
- (c) **Dependability.** An important test of reliability is to replicate findings. In order to increase the dependability of qualitative findings, the researcher should incorporate a temporary team and use multiple independent codes or analysis to code the data.
- (d) **Transferability.** First, the researcher should draw conclusions carefully, ensuring that they are supported by data. Second, he should provide enough description of the research context, the characteristics of the study participants, the nature of their interactions with the researcher and the physical environment for others to be able to decide how transferable the findings are to other contexts.
- (e) **Time.** This is a major factor influencing the acquisition of trustworthy data. Time spent at the research sites, interviewing and building sound relationships with participants contribute to trustworthy data. When a large amount of time is spent with participant; they tend to be more eager to take part. In addition, they are more likely to be frank and comprehensive about what they contribute to the research work.
- (f) **Trustworthiness** of observations, interviews and interview schedules' questionnaire data should confirm the trustworthiness or validity of results. Continual alertness to researcher's own biases and subjectivity should assist in producing more trustworthy interpretations. During the process of planning, collecting and analysing data and writing up findings the researcher should keep in mind the invaluable assistance of others.

According to [Hendrike and Hendrike 2004], corporate governance can be viewed as the control mechanism that ensures that the right checks and balances are in place to prevent the risk of mismanagement from conflicting priorities, misallocation of resources, conflict of interest, misaligned incentives and some of the business weaknesses associated with excessive power.

The objective was to develop a corporate governance-based theoretical model suitable for use by all stakeholders to minimise the liquidation of viable companies in the banking sector. One of the objectives was to make a contribution by developing such a model. The researcher developed “The Tudor House Consultants (THC) BICEPS Model”. The researcher is a director of Tudor House Consultants (Private) Limited, and the company sponsored the research. The model is depicted in the Figure 1.2. It represents corporate governance as the seed, stakeholder involvement as the fruit tree and stakeholder satisfaction as the fruit.

Figure 1.2 Tudor House Consultants (THC) BICEPS Model



This model is based on the practice of corporate governance, stakeholder involvement and stakeholder satisfaction. It is envisaged that all stakeholders -shareholders, management, directors, employees, customers (depositors), creditors, the government and the public at large - can be represented by an independent regulatory body for the banking sector. This can be, for instance, the Zimbabwe Stakeholders' Supervisory Banking Commission (ZSSBC) which is appointed from time to time by Act of Parliament, e.g., the Zimbabwe Banking Act (Chapter 24:20). This model can also be used to measure the effectiveness of the corporate governance structures of a particular organization through empirical qualitative research.

It also envisaged that the ZSSBC be empowered to carry out the following statutory functions:

- (a) Review all appointments and discharge of non-executive directors and independent auditors, and take any necessary corrective action.
- (b) Evaluation and analysis of all current and potential majority shareholders.
- (c) Financial analysis of management accounts and financial statements.
- (d) Review all appointments and discharge of non-executive members and chairpersons of various relevant committees of the banking institution, and take any corrective action deemed necessary.
- (e) Participate in the formulation of national monetary policy.
- (f) Provide information to the Reserve Bank of Zimbabwe on matters of supervision and investigation in the best interests of the banking institution.
- (g) Formulation and implementation of corporate governance policies and procedures for particular banking institutions.
- (h) Formulate strategies to manage insolvency.
- (i) To promote effective communication between all stakeholders including the Reserve Bank of Zimbabwe.
- (j) To institute forensic audits to detect possible fraud or irregularities.
- (k) To promote regular banking restructuring.
- (l) To promote stakeholder involvement, and to guarantee stakeholder satisfaction in the banking sector.
- (m) To nominate and recommend the appointment of liquidators/curators.

The rationale behind the model is, firstly, to make corporate governance practical and effective, secondly, to ensure effective application of the fundamental principles of internal control systems, business strategies and business ethics, and, thirdly, to guarantee stakeholder satisfaction. These must be measured by the increase in value of the business in the best interest of all stakeholders. Shareholder activism is the intervention by individual and institutional shareholders in seeking to influence management behaviour. In order to improve performance, they can make decisions on matters such as dividend policy; growth policy; appointment of auditors; appointment of the board of directors and governance audit [*Hendriks and Hendriks, 2004*].

Naturally, non-shareholders who might have a direct economic interest in the actions of the business, such as management, employees, creditors, customers or depositors and the government, are not currently represented.

In addition, non-shareholders with an indirect interest in the banking institution, such as social and environmental issues, for example, include the public at large and the community that forms part of an institution. These also require full representation. The concept of stakeholder involvement, as opposed to the current shareholder activism, was developed by the researcher to ensure that the direct and indirect interests of non-shareholders are protected before, and also after, the liquidation of a viable banking institution.

The researcher also developed the concept of stakeholder satisfaction to ensure the fulfilment of the direct and indirect interests of all stakeholders, subject to the best interests of the institution, within the standards of governance set by an independent stakeholders commission.

1.2.5 Preview of thesis

Chapter One: This covers the introduction, statement of the problem and research design. This chapter consists mainly of a brief description of the motivation for the research work, a statement of the problems, objectives, a future strategic research design, the envisaged contribution to the body of knowledge of corporate governance. It also adumbrates internal control systems, business ethics and business strategies by the introduction of new concepts of stakeholder involvement and satisfaction. Finally, it outlines the concept of chapters one to six.

Chapter Two – This covers the literature survey, which focused on banking restructuring, corporate governance, internal control systems, business ethics and business strategy, regarding theoretical, practical and methodological issues. The final part of the literature review covers problems that were identified and which other researchers have attempted to solve. The literature review develops from general to specific issues, and this assisted in identifying and developing a theoretical model for the interpretation of the findings and to determine the most effective research methodology.

Chapter Three – This details completion of the field work, strategies and methods of data collection used. In carrying out field work the researcher chose to use a qualitative research approach. Within the Zimbabwe banking sector the researcher identified four commercial banks, two building societies, two finance houses and two discount houses, which collapsed between January 2004 and June 2006, as sources of data and information. In contrast, he also identified four commercial banks, one building society and two merchant banks which performed comparatively well in the same period.

Valuable data was collected from curators and liquidators in respect of collapsed banking institutions, and also from company secretaries in respect of comparatively stable and high-performing banking institutions. The researcher also interviewed and collected data from the Reserve Bank of Zimbabwe, and all stakeholders of the banking institutions under review.

The research strategy was supported by flexible data-collecting methods as follows:

- (a) Interviews: Asking executive and other stakeholders of banking institutions about their opinions and attitudes to matters of corporate governance, internal control systems, business strategies and business ethics as they related to their institutions. Some questions were structured and some were left open-ended. Additional questions were also asked personally using interview schedules (questionnaires).
- (b) Reports: Reviewing data was obtained from sources such as statutory reports, annual financial statements, management accounts, business strategies (plans), minutes of meetings and evaluation reports.
- (c) Observation: This was achieved by direct observation of the behaviour of all interviewees.
- (d) Discussion: Focus groups This was achieved by bringing together group of relevant people like customers, depositors, management, non-executive directors, creditors, government officials and the public to gather information.

Chapter Four – This covers qualitative analysis of the data and results. This involved organising what the researcher saw, heard, and read to enable any reader to make sense of the data. To do so, he categorised, synthesised and searched for patterns in the material. He also ensured that all research questions set out in the beginning were answered. Tables of numerical data, graphs, charts, diagrams or quotes from interviews and other sources were used to enhance the discussion of results, but not to replace the discussion.

Chapter Five – This covers interpretation and findings. Early data analysis was done at the time of collection. This enabled the researcher to remain focused, and to shape the study as it proceeded. Later data analysis was also applied in order to make connections between different pieces of information. This was achieved through coding, a progressive process of sorting and defining the bits of data (observation, field documents) and notes from literature applicable to the research purpose.

The researcher interpreted the results by identifying emerging themes or patterns. In this regard the information covered in the Theoretical and Conceptual Model was used to explain the findings. The research aims and questions were addressed in this chapter. This was intended to connect all aspects of research by showing the links between the patterns emerging in the findings with the discussion from the Theoretical and Conceptual Model and research questions. The trustworthiness of the researcher's interpretation was assessed by four criteria, namely credibility, dependability, conformability and transferability, [Bryman & Bell,2003].

Chapter Six –This chapter covers conclusion, recommendations and contribution. It drew conclusions based on the findings. For example, after establishing what caused the collapse of particular viable banking institutions, and, conversely, how certain institutions managed to grow during the same period, conclusions were drawn and articulated. This chapter also covers limitations faced during research, such as failing to obtain particular documents, or to fix an appointment with a critical participant, and restrictions placed on important documents and information. In this chapter answers are put forward to important questions such as '*How to minimise the liquidation of viable institutions in the banking sector, and what to do with bank insolvency in Zimbabwe*'. In this chapter the researcher postulates plausible recommendations for guiding principles and procedures which can be used by current and future stakeholders.

The recommendations were linked directly to the findings and conclusions. They addressed the root causes of the problems, and not just the symptoms. They were also made as realistic and achievable as possible. One of the objectives of this empirical qualitative research was to make a contribution to the body of knowledge by giving practical solutions to current and future shortcomings in the Zimbabwe banking sector, applicable also to other developing and developed countries.

1.2.6 Concluding Comments

In conclusion to this chapter, the main objective of the research study was to develop practical solutions to current and future problems, and to make a significant contribution to the body of knowledge by the introduction of new strategies. These included stakeholder involvement in the strategic decision-making process, measuring levels of stakeholder satisfaction through empirical research, and, most importantly, the establishment of effective corporate governance structures, regular banking restructuring and recapitalisation of ailing institutions, in order to minimise liquidation of viable banks in Zimbabwe.

CHAPTER TWO

2.0 LITERATURE SURVEY AND REVIEWS

2.1 Introduction

Banking the world over, the establishment and development of viable banking institutions on sustainable basis, plays a critical role for the socio-economic growth of every nation. The strategic economic turnaround of a nation is directly linked to the business performance of its corporate sector whether mining, agriculture, manufacturing or service industry. The success of any economy therefore is dependent upon the level of stability and viability of the banking sector as medium of access to capital for viable projects. According to [Rajandram, 2000], besides the strengthening of the banking system, the restoration of corporate health is deemed to be an equally important task in steering the economy back to its long-term sustainable growth path.

The researcher maintain that a sound and viable banking sector requires a vibrant corporate sector, to ensure significant deposits from the public on sustainable basis. The literature review covered banking restructuring and recapitalization. It indicated how the literature of various authors in this field relates to one another, and how the present project fitted in. The final part of the literature review is focused on corporate governance and its significance to the banking sector in Zimbabwe and the global financial markets. This also covered the problems that the researcher identified and also those that other researchers and authors have attempted to solve. The review also demonstrated how the proposal relates to the work that other authors have done in the same field.

According to [Zoli 2001], the 11 countries studied faced repeated banking sector problems over the period 1991-98, adversely affecting the solvency and liquidity of both state-owned and private banks. Zoli noted this as the origin of banking sector problems. The banking difficulties included ineffective monetary and fiscal government policies, lack of satisfactory supervision and outdated legal framework, and corporate governance shortcomings, in most countries in Europe and Central Asia.

In Nigeria, in respect of the 36 banks that closed between 1994 and 2003, their past examination and closing reports revealed that their failures arose from a number of interrelated factors, such as bad loans and advances, fraudulent practices, undercapitalization, rapid changes in government policies, bad management, lack of adequate supervision, and undue reliance on forex [Ogunleye, 2005].

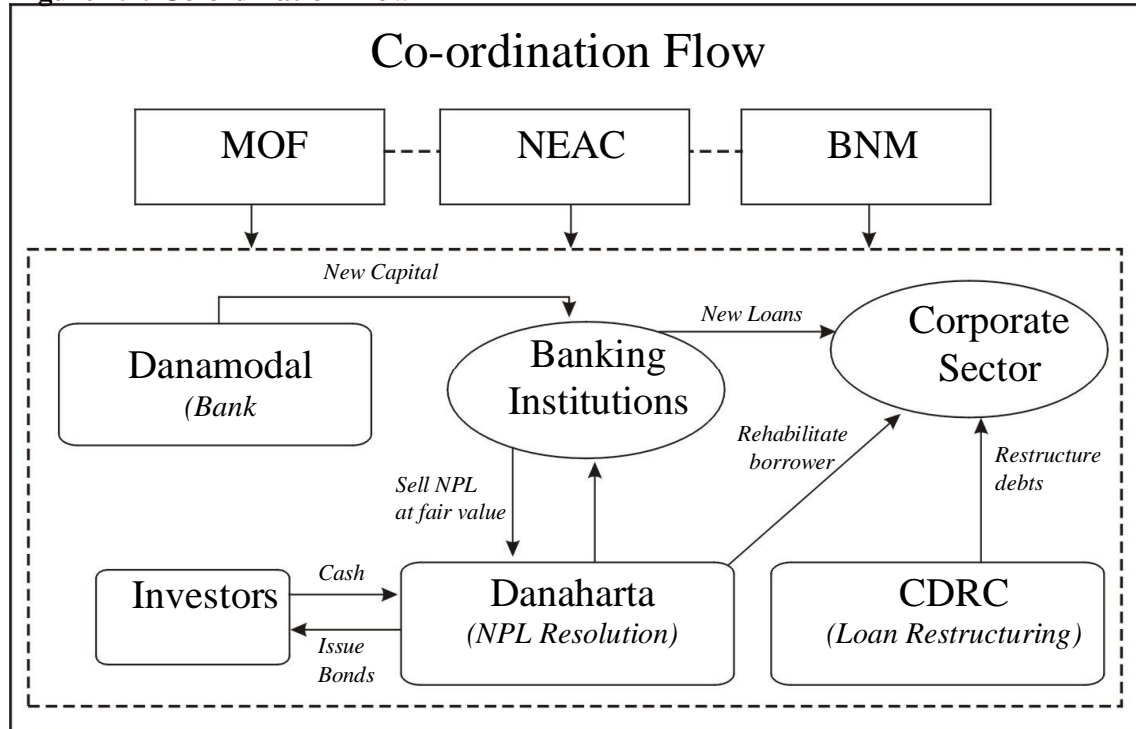
2.2 Bank Restructuring

According to the [World Bank, *Financial Sector 2000*] bank restructuring can be defined as the package of macroeconomic, microeconomic, institutional, and regulatory measures taken in order to correct incentives and to restore problem banking systems to sustainable financial solvency and profitability.

There are three main different strategies that can be used in banking restructuring. The market based solutions (mergers and takeovers), government-based solutions (interim intervention) and the mixed – based solutions (combination of the above), [World Bank, *Financial Sector 2000*].

In mid-1998, the Government of Malaysia initiated financial restructuring of both the banking and corporate sectors, as depicted in the following diagram “Co-ordination Flow” [Rajandram, 2000]:

Figure 2.1: Co-ordination Flow



- Note: (1) MOF – Ministry of Finance Malaysia
 (2) NEAC – National Economic Action Council
 (3) BNM – Bank Negara Malaysia [Central Bank of Malaysia]

Source: Rajandram, C. (2000) *Workouts and Restructurings in Malaysia*, p4.

Rajandram (2000) maintain that an asset management company “Danamodal” was established by way of legislation in June 1998 to remove non-performing loans “NPL” with size of above RM 5 million from the banking sector.

A special purpose company “Danamodal”, was set up in August 1998 to recapitalise and strengthen banking institutions to promote stability. The role of Danamodal was important in so far as to ensure that the banking sector continued to play its role of being a lending conduit to corporations and individuals.

During the same time, (mid 1998) a Corporate Debt Restructuring Committee “CDRC” was established essentially as a steering committee where debts were restructured on an informal basis between the distressed companies and the creditors. The CDRC’s role was to help restructure large corporate debts in excess of RM 50 million. All applications to the CDRC were made on a voluntary basis. The CDRC did not have any legal powers of its own as in the case of Danaharta which obtain its powers from legislation [*Rajandram, 2000*].

It can be concluded that just like what happened in Malaysia, the challenge to the Zimbabwean Government of National Unity [ZGNU] established in 2009 was to initiate recapitalisation of both the banking and corporate sectors by at least US\$22 000 000 000.00. About US\$10 000 000 000.00 was required to pay government foreign and domestic debts, in order to assist the banking sector in attracting new international credit lines [*Zimbabwe Mid-Year Fiscal Policy Review 2011*]. While at least US\$12 000 000 000.00 was necessary for the recapitalisation of both banking and corporate sectors, [*Reserve Bank of Zimbabwe, Monetary Policy Statement 2011*]. Regrettably, nothing fundamental had been achieved by 30 June 2011.

In Zimbabwe the collapse of banking institutions between January 2003 and December 2006 was largely caused by corporate governance shortcomings [*Reserve Bank of Zimbabwe, 2006*]. One of the objectives of this research is to determine how corporate governance, corporate restructuring and re-capitalization can be applied in practice to minimise the liquidation of viable banking institutions. Another objective is to arrive at possible measures to deal with bank insolvency in Zimbabwe.

The researcher developed a model which allows all stakeholders to participate in the strategic decision-making process. The aim is to satisfy the interests of all stakeholders in the best interests of a particular institution. It is common cause that a business cannot survive by satisfying the interests of major creditors alone. Without support from customers, credible shareholders, employees and management, the government, the public and business associates, a viable institution will experience a financial crisis, which may force it into liquidation.

It can be concluded that bank or corporate restructuring strategies must be applied in such a manner, so as to minimise liquidation of viable banking institutions. This is also important to enable all stakeholders to satisfy their divergent interests.

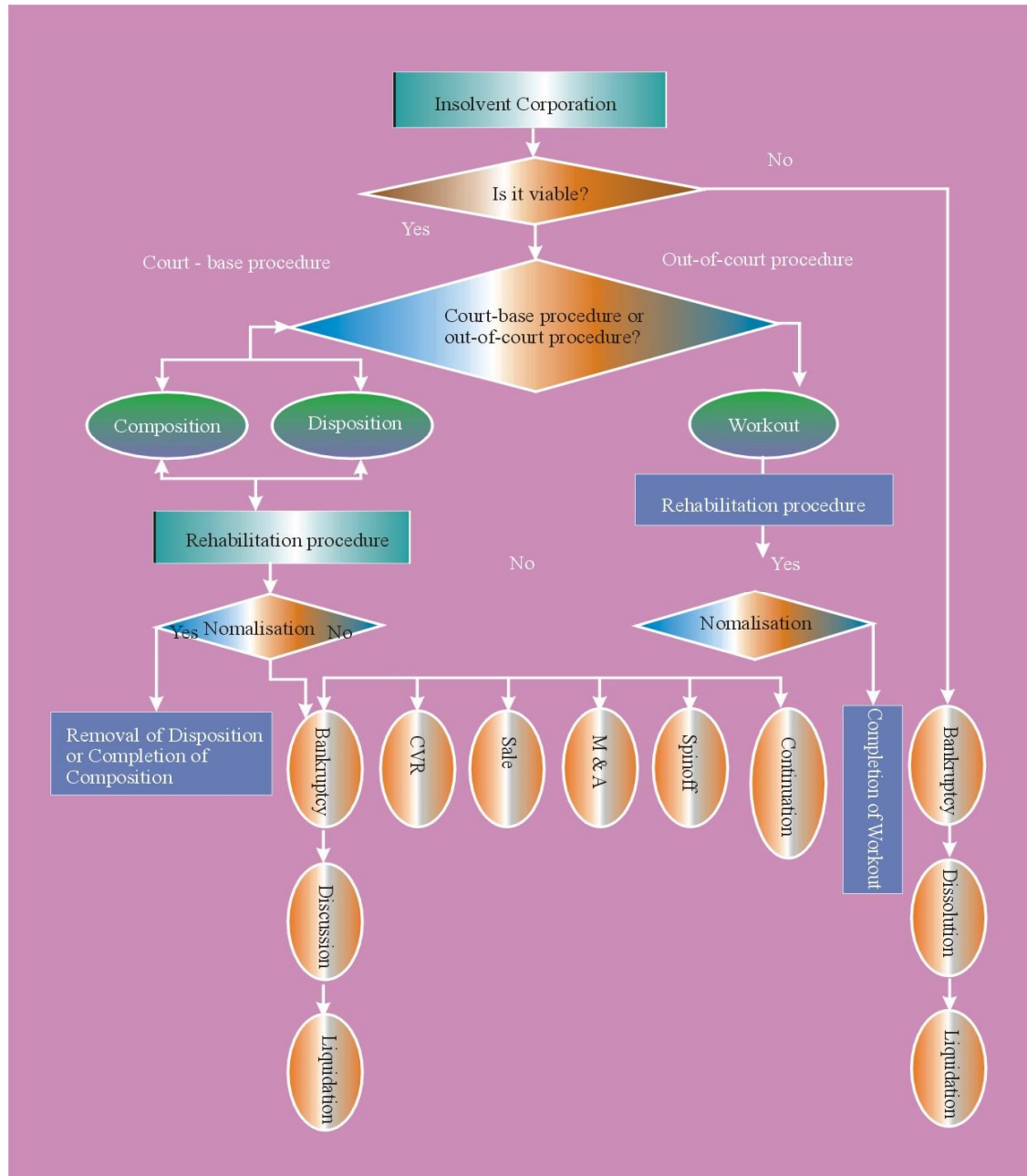
The 2003/2006 banking crisis experienced in Zimbabwe required market-based solutions such as re-capitalization of banking operations by the existing shareholders, mergers and acquisitions, conversion of debt to equity, as well as government corrective measures such as restoring viability of ailing banking institutions, intervention on caretaker basis, purchase of toxic assets from insolvent banks, appointment of a curator and the placement of non-viable and insolvent banks into liquidation. The researcher maintains that under government-based solutions, an insolvent but viable company can also be resuscitated by allowing a credible investor to buy critical assets of the company “lock, stock and barrel”, and trade as an on-going concern without taking over liabilities.

Whatever amount is raised from the sale of assets can be applied to pay liquidation or transaction costs and all creditors including employees in terms of the laws of insolvency. However, it would be necessary to re-brand to enable the new company to gain market share and improve corporate image. All stakeholders would certainly benefit in the medium and long term from the re-capitalization and establishment of effective corporate governance structures.

Unlike Zimbabwe, during the first stage of corporate restructuring in Korea the Financial Supervisory Commission [FSC] was established by the end of 1997 to manage the financial crisis within the banking sector. The FSC went further to appoint independent accounting firms to investigate 12 banks.

During this period insolvent institutions were liquidated or rehabilitated through these two main mechanisms of court-based insolvency and out-of-court workout, as shown in figure 2.2.

Figure 2.2 The Management Procedure for Insolvent Corporations in Korea

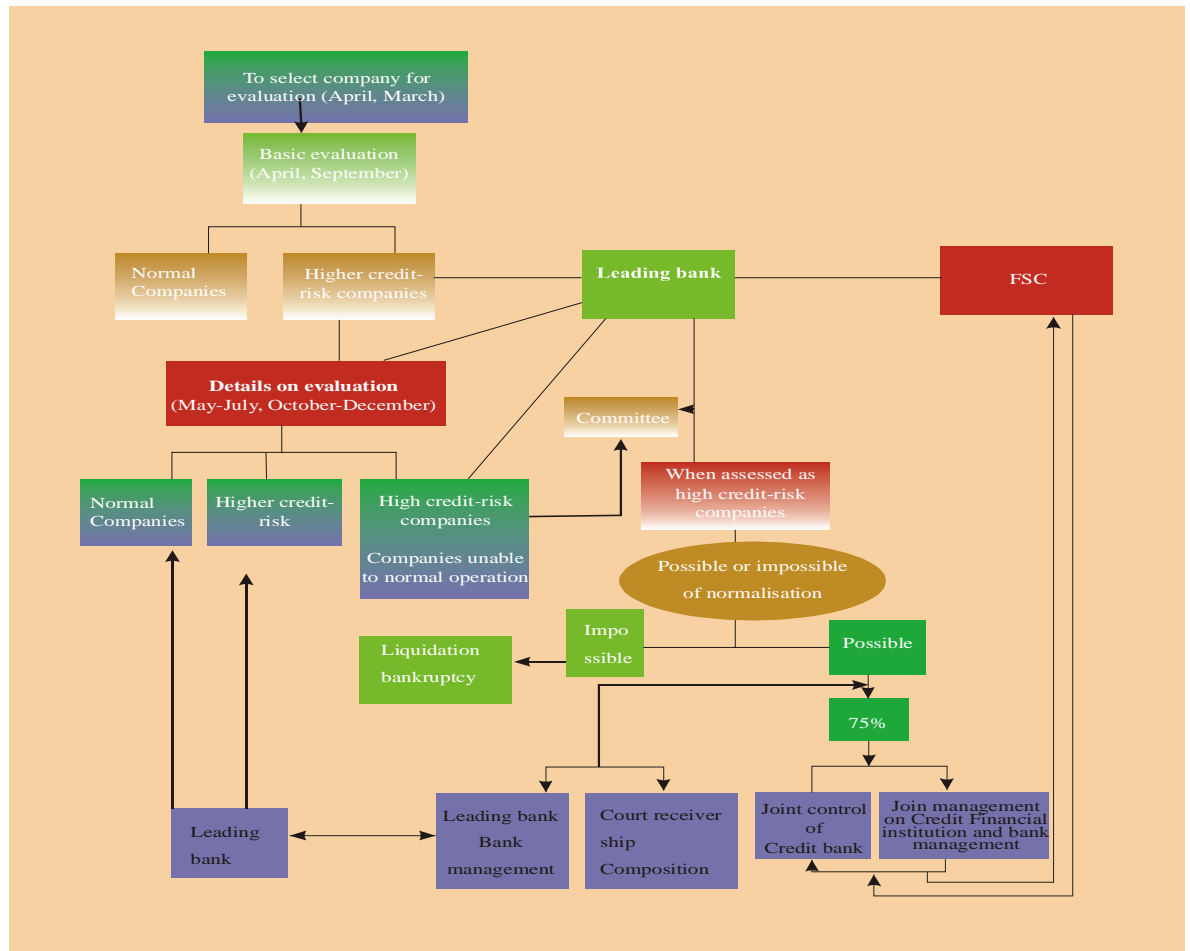


Source: Korea Institute for International Economic Policy (2002), p.10

The researcher maintain that in most corporate restructuring processes, credible shareholders or investors should be allowed to take majority of shares - at least 51%. This can ensure adequate recapitalisation of the business, and can also introduce effective corporate governance structures.

By the beginning of 2000 during the second stage of corporate restructuring, the reforms in this stage were distinguishable from those of the first stage, with reduced government intervention in restructuring the market, depending instead on market mechanisms, as shown in figure 2.3:

Figure 2.3 Systems for Regular Corporate Restructuring



Source: Korea Institute for International Economic Policy (2002), p.36

In Zimbabwe the government and the private sector should also give special attention to the effect of reform on the corporate sector instead of focusing exclusively on the banking sector. For example, the Korean government made great efforts to introduce new systems to reform the structural problems of corporations – the weak financial situation and corporate governance structures [*Korea Institute for International Economic Policy 2002*].

In Zimbabwe, four years having passed since the 2003/2006 banking crisis, the fundamental question is whether the Reserve Bank of Zimbabwe's policies were a real process of corporate restructuring based on market economy principles. Above all, a focus of criticism from stakeholders was the government's delayed reform, and its excessive support for some insolvent banks, non-performing parastatals and farming operations.

The independence within the banking sector is important, particularly to facilitate regular banking restructuring. An effective supervisory framework, internal control and risk management systems should be developed regularly in the best interest of all stakeholders, as recommended in chapter six.

2.3 Recapitalisation

According to the [*Reserve Bank of Zimbabwe, Monetary Policy Statement July 2011*] as at 30 June 2011, 19 out of 25 operational banking institutions were in compliance with the prescribed minimum capital requirements. The table below shows the capitalisation status of the banking sector as at 30 June 2011.

Table 2.1 Capitalisation Status of the Zimbabwe Banking Sector as at 30 June 2011

	Institution	Declared Core Capital – 30 June 2011	Required Minimum Capital
Commercial Banks			
1.	CBZ BANK	51,606,168.49	12,500,000.00
2.	STANDARD CHARTERED BANK	44,311,083.33	12,500,000.00
3.	BARCLAYS BANK	31,984,463.00	12,500,000.00
4.	STANBIC BANK	31,040,475.28	12,500,000.00
5.	BANCABC	30,090,587.02	12,500,000.00
6.	ZB BANK	21,841,502.31	12,500,000.00
7.	FBC BANK	18,532,629.62	12,500,000.00
8.	NMB BANK	18,489,414.66	12,500,000.00
9.	INTERFIN BANK	18,253,127.77	12,500,000.00
10.	METROPOLITAN BANK	18,210,304.00	12,500,000.00
11.	MBCA BANK	16,648,731.90	12,500,000.00
12.	TN BANK	13,676,775.81	12,500,000.00
13.	AGRIBANK	13,578,959.86	12,500,000.00
14.	TRUST BANK	13,407,981.91	12,500,000.00
15.	KINGDOM BANK	2,789,515.53	12,500,000.00
16.	ROYAL BANK	1,006,460.48	12,500,000.00
17.	ZABG BANK	(14,391,244.49)	12,500,000.00
Merchant Banks			
18.	TETRAD INVESTMENT BANK	10,812,345.74	10,000,000.00
19.	ECOBANK (formerly Premier)	8,716,234.79	10,000,000.00
20.	GENESIS INVESTMENT BANK	(525,537.11)	10,000,000.00
21.	RENAISSANCE MERCHANT	Under Curatorship	
Building Societies			
22.	CBZ BUILDING SOCIETY	19,273,878.50	10,000,000.00
23.	CABS	18,805,685.73	10,000,000.00
24.	FBC BUILDING SOCIETY	11,636,674.82	10,000,000.00
25.	ZB BUILDING SOCIETY	12,621,770.81	10,000,000.00
Savings Bank			
26.	POSB	9,585,552.71	-

Source: Reserve Bank of Zimbabwe, (2011) Monetary Policy Statements, p21

As at 30 June 2011, 15 out of 16 asset management institutions were compliant with the minimum paid-up equity capital requirement of US\$500 000.00 [*Reserve Bank of Zimbabwe, Monetary Policy Statement July 2011*]. It can be concluded that as at 30 June 2011 the banking sector had more than 76% compliant. However, the Reserve Bank of Zimbabwe noted that “some banking institutions were bringing in fictitious equity partners to the Reserve Bank of Zimbabwe, to buy time”. The researcher maintains that this calls for efficient banking supervision on the part of the Reserve Bank of Zimbabwe.

The Reserve Bank of Zimbabwe in 2010, “adopted a gradual approach to Basel II and III implementation to allow for a smooth transition and to enable banking institutions to build the requisite capacity to operate in a Basel environment”. A global regulatory framework for more resilient banks and banking systems [*Reserve Bank of Zimbabwe, Monetary Policy Statement 2011*].

According to *Gift Chirozva, (2011)* the Chief Bank Examiner, Reserve Bank of Zimbabwe, the Zimbabwe banking sector in comparison to the rest of Africa is such that “it is generally considered to be well developed and second only to South Africa in Southern Africa. The banking sector was not directly affected by the 2008 Global Financial Crises”.

The main difference with other African banking system is the use of the multi-currency system, wherein Zimbabwe does not have a local currency. The country’s banking supervisory regime as at 30 June 2011 was benchmarked to international best practice and has been endorsed by international standards setting institutions such the International Monetary Fund, said G. Chirozva.

However, according to the *Reserve Bank of Zimbabwe (2011) Monetary Policy Statement*, the banking sector liquidity remains a challenge due to the short-term nature of deposits, the absence of an active inter-bank market and lender of last resort facility at the Reserve Bank of Zimbabwe. It can be concluded that fundamental socio-economic and political reforms are required in order to facilitate a speedy and effective economic recovery, in order to attract bank deposits on sustainable basis.

In 2005, the Central Bank of Nigeria introduced a programme of reforms which created a new minimum paid up capital for all banks, from two billion Naira to 25 billion Naira, with a compliance deadline of 31 December 2005. This reduced the number of banks operating in Nigeria from 89 to 25 “mega” banks [Ojukwu-Ogba, 2009].

Ojukwu-Ogba, 2009 argue that the basic essence of the programme of consolidation was the creation of viable and stable banks with very solid asset bases that could function and compete effectively while still maintaining a safe financial environment for the customers’ deposits.

It can be concluded that in Zimbabwe, considering the size of the economy, level of business activity and the size of the population compared to Nigeria or South Africa, banking institutions can be reduced from 25 (June 2011) to about 12. It is not in the interest of the investing public to give further extensions to banking institutions such as ZABG, Kingdom, Royal, Genesis and POSB. The minimum capital requirements should be raised from US\$12 500 000.00 (31 December 2010) to about US\$25 000 000.00 by 31 December 2012.

2.4 Corporate Governance

Since the turn of the millennium a confluence of events has served to focus the public eye on the prominent topic of corporate governance and its crucial importance to the world of economics. A nervous public grew anxious about the prospect of business failures, job losses and the severe decline of its savings invested in corporate stocks. Questions were raised as to whether the transgressions were confined to the ranks of a few renegades, or whether the wrongdoing was systemic [Colley, 2004].

According to [Mallin 2009], there have been a number of high-profile corporate collapses that have arisen despite the fact that the annual report and accounts appeared to be in order. In essence, corporate collapses affect us all. Why have such collapses occurred? What might be done to prevent them from happening again? How can investor confidence be restored? The answers to these questions are all linked to corporate governance: a lack of effective corporate governance on one hand meant that such collapses could occur; while on the other, good corporate governance can help prevent such collapses happening again, and restore investor confidence.

[Mallin 2009] noted some of the important features of corporate governance:

- (a) It helps to ensure that an adequate and appropriate system of controls operates within a company, and hence that assets may be safeguarded;
- (b) It prevents any single individual having too powerful an influence; and
- (c) It is concerned with the relationship between a company's management, the board of directors, shareholders and other stakeholders.

According to *[Wixley, 2002]* corporate governance is concerned with the structures and processes associated with management, decision-making and control in organizations. He also noted that the board is the focal point of the corporate governance system. It is ultimately accountable and responsible for the performance and affairs of the company. Delegating authority to board committees or management does not in any way mitigate or dissipate the discharge by the board and its directors of their duties and responsibilities. Companies should be headed by an effective board that can both lead and control the company.

The board should comprise a balance of executive and non-executive directors, preferably with a majority of non-executive directors, of whom sufficient a number should be independent of management so that shareowner interests (including minority interests) can be protected.

According to *[Prasad 2009]* corporate governance refers to the relationship that exists between the different participants, defining the direction and performance of a corporate firm. The following bodies are the main actors in corporate governance:

- (a) The CEO, i.e. the management;
- (b) The board of directors; and
- (c) The shareholders.

Other actors who influence governance in corporations/firms are the staff, suppliers, customers, creditors and the community.

Prasad noted that the word "independent" is meant to guarantee accountability, and to design purposeful, well-considered plans for translation into action independently.

According to the *Reserve Bank of Zimbabwe (2006): Troubled Banking Institutions*, the 2003/2006 banking crisis in Zimbabwe was caused mainly by more than 20 banking institutions with deep-rooted structural anomalies, inadequate risk-management systems, poor corporate practices, liquidity and solvency difficulties. They failed to adjust to the difficult macroeconomic environment obtaining in 2003 and 2004.

Based on this it is clear that the focus of corporate governance should not be restricted to ineffective corporate governance structures, such as inadequate risk-management systems, lack of independent non-executive directors or lack of independent governance committees. Corporate governance, through the establishment of relevant committees comprised largely of independent members, should also give special attention to factors which can easily cause corporate failure, such under-capitalization of business activities and lack of regular corporate restructuring. Under-capitalization can be addressed by verifying with the major shareholders or existing shareholders before issuing or renewing banking licenses, to measure whether they have capacity to re-capitalize as and when required.

Second, banking institutions should be directed by law to accumulate statutory capital reserves, and balance this with the payment of dividends to shareholders, bonuses, executive remuneration and advance of loans. The issues of strategic partners or introduction of new shareholders should also be given special consideration by corporate governance as a way of re-capitalizing ailing banking institutions. Accordingly, banking licenses should be renewed regularly, say, every five years, to give the opportunity to the 'statutory supervisors' or central banks to assess every banking institution administering depositors' funds. This must be done regularly. Regular corporate or banking restructuring can be used to address any sign of financial distress, such as poor quality of critical assets, a state of insolvency, a dwindling market share, incompetent management and the business operations being too sensitive to a challenging of a harsh macroeconomic environment.

For example, on 16 September 2010 The Financial Gazette in Zimbabwe published abridged financial statements of Premier Banking Corporation Limited. "The last on-site examination by the Reserve Bank of Zimbabwe was conducted from 15 to 31 August 2007. The overall condition of the Bank was assessed and found to be weak".

The Reserve Bank of Zimbabwe used the CAMELS rating system. CAMELS is an acronym for Capital, Adequacy, Asset Quality, Management Earnings, Liquidity and Sensitivity to market risk. This rating evaluates capital adequacy, asset quality, management, earnings, liquidity and sensitivity to market risk. This rating uses a scale of 1 to 5 where 1 is strong, 2 is satisfactory, 3 is fair, 4 is weak and 5 is critical.

The CAMELS ratings for Premier Banking Corporation Limited were as follows on 31 August 2007:

Table 2.2: PBCL CAMELS Ratings

CAMELS Component	Capital adequacy	Asset quality	Management	Earnings	Liquidity	Composite Rating
Latest risk based supervision rating	5	4	4	5	4	4

Source: *The Financial Gazette, Zimbabwe, 16 September 2010*, www.fingaz.co.zw

However, according to *[The Financial Gazette 2010]* the director’s statement disclosed under- capitalisation that “in its monetary policy the Reserve Bank of Zimbabwe extended the capitalisation deadline for banks from 31 March 2010 to 31 December 2010.

According to *[The Financial Gazette 2010]*,subject to the receipt of all regulatory approvals, the Premier Group has successfully concluded a transaction with Ecobank Transnational Incorporated (“Ecobank”) which will result in a \$10 million capital injection, and final shareholding structures will be announced once a regulatory requirement has been met. The investment by Ecobank will significantly enhance the Bank’s capabilities, and will bring the following benefits to the Bank:

- Becoming part of a strong pan-African financial services group;
- Injection of US\$10 million capital to support growth and achieve regulatory compliance within the deadline of 31 December 2010;
- Introduction of new products and enhancement of the technology platform; and
- Further strengthening of corporate governance structures and processes.

The researcher is convinced that the introduction of Ecobank as new shareholder of the Premier Group and specifically of Premier Banking Corporation Limited can minimise liquidation by improving the capital base in the best interest of all its stakeholders. But it must be asked why it was necessary for Premier Banking to wait for the on-site examination by the Reserve Bank. Corporate governance structures of every banking institution should always address the issues of under-capitalisation and lack of regular banking restructuring.

It can be concluded that, while effective corporate governance structures can satisfy the divergent interests of all stakeholders of an institution through sustainable business growth, this must be galvanised by addressing corporate difficulties of under-capitalisation of the business and a lack of regular banking or corporate restructuring.

2.4.1 Business Success and Failure

According to *[Hendrikse and Hendrikse 2004]* failure is not a crime – it is a part of the free market system, which rewards successful business performance and punishes poor business results. However, to fail because of negligence, mis-governance or the misconduct of directors due to greed and fraud is an abuse of power, and those responsible need to be punished.

Success may be considered a leadership strategy translated into good management. A successful business strategy involves managing the basics of business. There is commitment by everyone concerned to succeed and with it the will and ingenuity to devise tactics and methods to improve productivity and performance *[Hendrikse and Hendrikse 2004]*.

2.4.2 Reserve Bank of Zimbabwe Guideline Number 01-2004/BSD on Corporate Governance

The Reserve Bank of Zimbabwe responded to the collapse of several institutions in the banking sector by issuing Guideline No. 01-2004/BSD Corporate Governance on 30 September 2004. According to the [*Reserve Bank of Zimbabwe Corporate Governance 2004*] refers to the processes and structures used to direct and manage the business and affairs of an institution, with the objective of ensuring its safety and soundness, and enhancing shareholder value. The process and structure define the division of power, and establish mechanisms for achieving accountability between boards in the interest of depositors, and taking into account the effects on other stakeholders, such as creditors, employees, customers and the community.

The Reserve Bank also highlighted sound corporate governance requirements under its Guideline No 01-2004/BSD such as authority and duties of shareholders, separation of owners and managers and board composition.

The Reserve Bank of Zimbabwe Corporate Governance Guideline document was issued in terms of [*Section 45 of the Zimbabwe Banking Act (Chapter 24:20)*]. Its main objective is to make sure that banks are run properly, with integrity and a high level of professionalism, as they are custodians of public funds.

The conclusion can therefore be drawn that the Reserve Bank of Zimbabwe (RBZ), as monetary authorities, have always been blamed for reacting to problems that could have been prevented if their systems had been effective. The need for proper corporate governance structures came into the open at the time of the collapse of Roger Boka's United Merchant Bank, resulting in a systematic risk that spread through almost the entire spectrum of the banking sector.

Subsequently other banking institutions, like First National Building Society, Universal Merchant Bank, to name just two, faced operational problems, some of which were a result of the poor corporate governance, insider loans and non-performing loan books [*Reserve Bank of Zimbabwe 2006, Troubled and Insolvent Banks Policy*].

The need for effective corporate governance structures goes back to the period when companies were registered as separate legal entities. The liberalisation of the country's banking sector that came with the Economic Structural Adjustment Programme (ESAP) saw new players with minimal experience coming into the industry. Though this was a noble idea, proper structures were supposed to have been put in place to make sure public confidence in the industry was not eroded.

The Reserve Bank of Zimbabwe (RBZ), as the monetary authority, fully armed with powers to ensure proper corporate governance structures, characteristically reacts to problems. The corporate governance guideline is not enough on its own without effective implementation, relevant legislation and independent supervision. This is amply borne out by the frequent casualties in the banking sector.

The researcher maintain that most banks were involved in so-called speculative activities because they could abuse the RBZ window of overnight accommodation, which later assumed the function of lender of last resort. Had this function been introduced in good time no banking institutions would have been able to lock depositor's funds in non-liquid assets, the major cause of the liquidity crunch that occurred in early 2004.

In terms of this guideline the RBZ has the authority to object to the appointment of a director whom they consider to be unfit to run the affairs of a banking institution. However, the fact that the guideline has been violated with no meaningful action being taken against the alleged culprits, means that it is not yet a legislative instrument that is enforceable in terms of the laws of the country. Nevertheless, the Guideline has assisted in improving levels of corporate governance within the banking sector - but there is still room for improvement.

2.4.3 Benefits of Corporate Governance

Corporate and business governance should not be seen as an added burden for businesses, but as a catalyst for improved compliance that leads to improved performance. Benefits of business governance increases the value of the institution; nurtures a spirit of enterprise; gives confidence to the market; enhances the reputation of the business; enhances empowerment of all stakeholders; improves efficiency; encourages innovation; enhances competitive advantages; and meets financial, legal and statutory obligations [*Hendrikse and Hendrikse 2004*].

2.4.4 The Role and Benefits of Board Committees

According to [*Hendrikse, and Hendrikse 2004*], the role of the board is to govern and, in particular, to make decisions and to delegate decision-making authority. To do so, it needs to appoint board committees to provide the detailed research, investigation, analysis and recommendations on some or all of its main functional areas. Boards should delegate duties to committees, but never responsibility and authority.

According to [*Dube 2008*], recruitment onto the boards of listed institutions involves the search, selection, nomination, appointment and election processes. There is often confusion in distinguishing between these processes. The recruitment process is often initiated, and perhaps completed, at the instigation of either the Chairman or members of the Board, or the Chief Executive of the company or a material or significant shareholder.

Dube noted further that appointments of the boards of listed institutions via the nomination committees of the board or the search institutions only begin to address issues of board independence and the independence of non-executive directors. How far does this go when, ultimately, the shareholders have the majority voting power to appoint, elect or remove any director at any time? It is argued that an independent non-executive director cannot afford to be independent and go against the wishes and expectations of the majority shareholders and hope to remain on the board. Equally, he or she cannot be independent of the colleagues in the committee which recommends his/her appointment.

Thus, for as long as the appointment of the board or committee members is not independent of certain institutional investors, individuals or groups with personal interests (such as the Executive Chairman, Managing Director, Executive Management Team, major shareholder(s) and Executive Committee Members), the independence and effectiveness of non-executive members is no more than empty semantics, and counter to the best interests of the company and all its stakeholders.

It is envisaged that the establishment of a Stakeholders' Supervisory Banking Commission [SSBC], suggested by the researcher (Chapter 1, p. 21) can make a significant contribution in addressing corporate governance shortcomings connected to lack of independence, by reviewing all appointments and discharges of non-executive members, the chairperson of governance or board committees, and take appropriate corrective measures in the best interest of all stakeholders.

2.5 Business Strategy

Strategic management can be defined as the process whereby all the organizational functions and resources are integrated and coordinated to implement formulated strategies which are aligned with the environment, in order to achieve the long-term objectives of the institution, and therefore gain a competitive advantage through adding value for the stakeholders. Competitive advantage is the edge that an institution has over others. This could be achieved through strategies like lower costs, a wider range of products/services (differentiation) or a focus on a specific niche market segment [Cronje and Maritz, 2010].

Cronje and Maritz argue that the competitive advantage should elevate the organization above its competition. This competitive advantage should fulfil certain criteria. It must relate to an attribute with value and relevance to the targeted customers' segment, be perceived by the customer as a competitive advantage and be sustainable, i.e., not easily imitated by competitors.

According to [Mintzberg, Lampel, Quinn and Ghoshal2003], a strategy is a set of objectives, policies, and plans that, taken together, define the scope of the institution and its approach to survival and success.

According to [Grant 2010], business strategy is concerned with how the institution competes within a particular industry or market. If the institution is to prosper within an industry, it must establish a competitive advantage over its rivals. Hence, this area of strategy is also referred to as *competitive strategy*.

In its broadest sense, strategy is the means by which individuals or organizations achieve their objectives. Common to definitions of business strategy is the notion that strategy is focused on achieving certain goals; and that strategy implies some consistency, integration, or cohesiveness of decisions and actions.

According to [*Pearce II and Robinson 2009*], strategic management is defined as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives. It comprises critical tasks such as:

- (a) Formulate the company's mission, including broad statements of purpose, philosophy, and goals.
- (b) Conduct an analysis that reflects the company's internal conditions and capabilities.
- (c) Assess the company's external environment, including both competitive and general contextual factors.

According to [*Wheelen and Hunger 2004*], strategic management is that set of managerial decisions and actions that determines the long-term performance of an institution. It includes environmental scanning (both external and internal), strategy formulation (strategic or long-range planning), strategy implementation, and evaluation and control. The study of strategic management, therefore, emphasizes the monitoring and evaluation of external opportunities and threats in the light of a corporation's strengths and weaknesses.

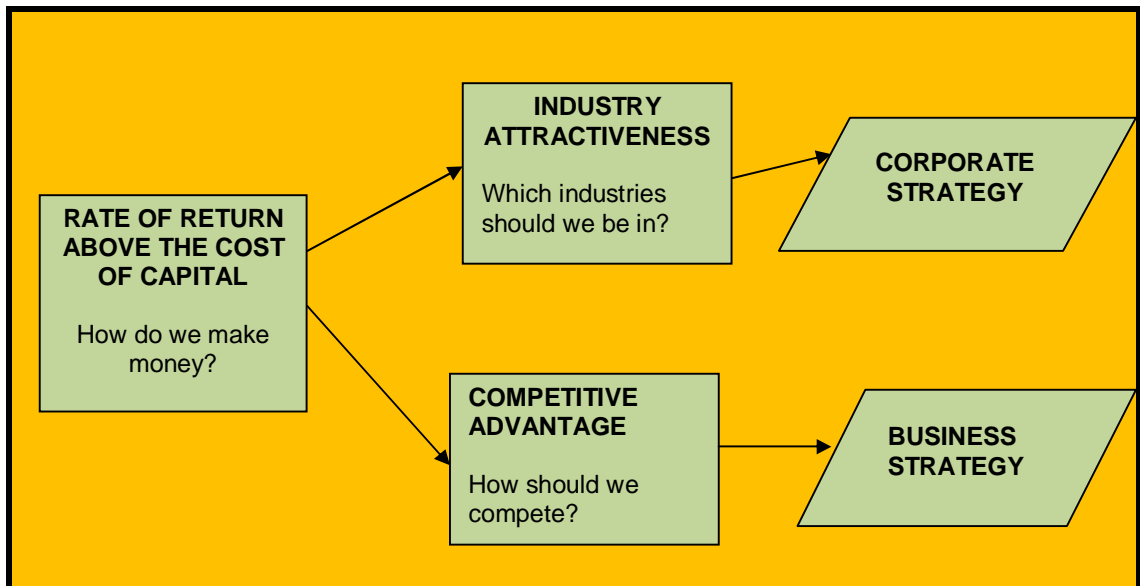
Based on this literature survey it is clear that an effective business strategy should be able to assist an organization in increasing its market share, level of profitability and value of business by gaining a sustainable competitive advantage through unique (but ethical) business activities. The allocation of material, financial and human resources must be directed towards attaining organizational goals within the law, and satisfying customers' needs better than the competition.

According to the [Reserve Bank of Zimbabwe: Troubled Banking Institutions 2006], most banking institutions placed under curatorship during the 2003/2006 banking crisis, such as Trust Bank Corporation Limited, operated without effective business strategies. Most of the activities, such as purchase of bricks, vehicles and immovable property for re-sale, were outside banking core business, and not sustainable. As a result, they failed to increase market share within the banking sector and incurred losses, while other institutions, such as African Banking Corporation Limited (ABC) performed comparatively well. ABC, for example, opened divisional branches within the region of Southern Africa in order to gain a sustainable competitive advantage, considering foreign exchange difficulties in Zimbabwe at the time.

2.5.1 The Sources of Superior Profitability

According to [Grant 2010], the purpose of strategy is basically the achievement of certain goals. For the institution, the basic goal is to survive and prosper. Survival over the long term requires that the institution earns a rate of return on its capital that exceeds its cost of capital. There are two possible ways of achieving this. First, it may locate within an industry where overall rates of return are attractive. Second, it may attain a position of advantage *vis-a-vis* its competitors within an industry, allowing it to earn a return in excess of the industry average, as depicted in figure 2.4 below:

Figure 2.4: Contemporary Strategic Analysis



Source: Grant Contemporary Strategy Analysis, (2010), p.19

2.5.2 Linking Profit to Enterprise Value

Profit maximization translates into maximizing the value of the firm. The value of the institution is calculated in the same way as any other asset: it is the net present value [NPV] of the returns that the asset generates. The relevant returns are the cash flows to the firm. Hence, institutions are valued using the same discounted cash flow (DCF) methodology that is applied to the valuation of investment projects. Thus, the value of an enterprise (V) is the sum of the free cash flows (C) in each year t , discounted at the institution's cost of capital (r). The relevant cost of capital is the weighted average cost of capital (r_{e+d}) that averages the cost of equity (r_e) and the cost of debt (r_d):

$$V = \sum_t \frac{C_t}{(1 + r_{e+d})^t}$$

Where free cash flow (C) is measured as: net operating profit + depreciation – taxes – investment in fixed and working capital [Grant, 2010].

2.5.3 Identifying Key Success Factors

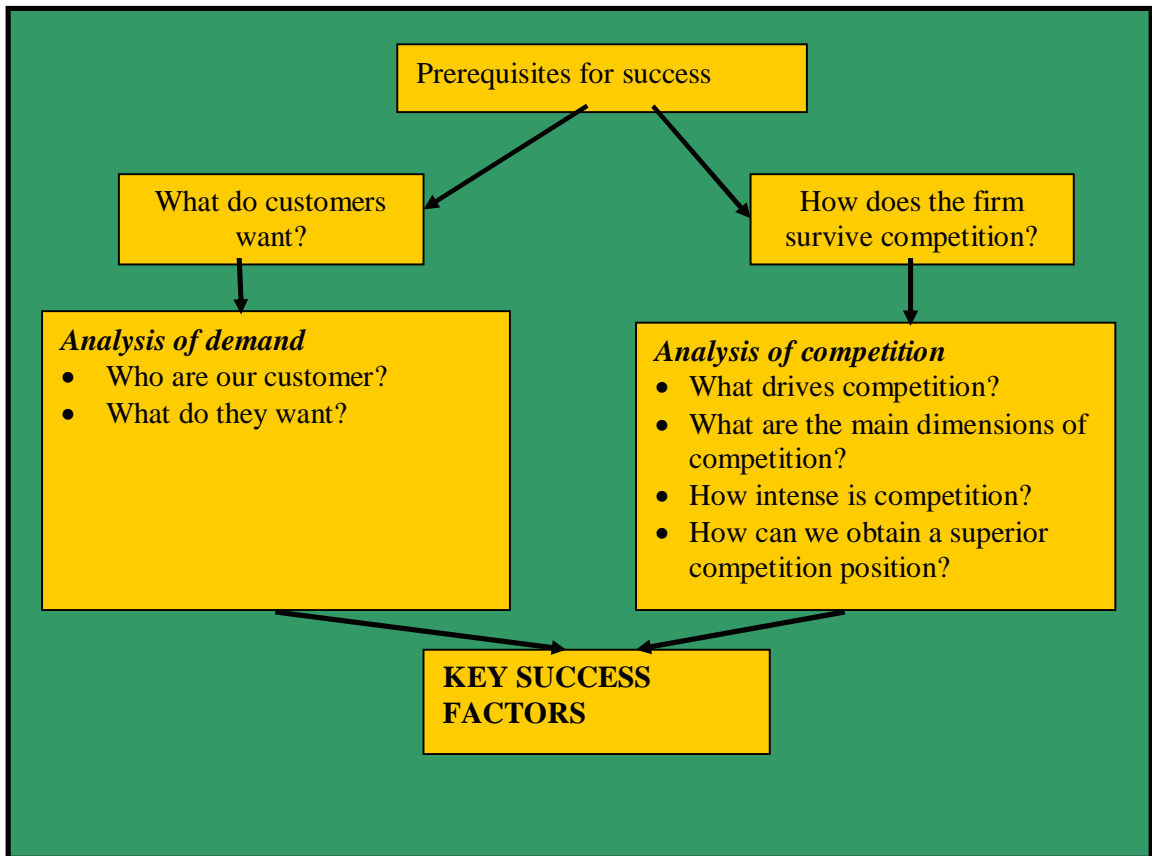
To survive and prosper in an industry, an institution must meet two criteria: first, it must supply what customers want to buy; second, it must survive competition. Hence, two questions can be asked:

- (a) What do customers want?
- (b) What does the firm need to do to survive competition?

To answer the first question an institution need to look more closely at customers of the industry and to view them, not as a threat to profitability because of their buying power but as the *raison d'être* of the industry and as its underlying source of profit. This, in turn, requires that an institution inquire: who its customers are? What are their needs? How do they choose between competing offerings? Once the basics of customers' preferences are recognised an institution can then identify the factors that confer success upon the individual. The second question requires that the nature of competition in the industry be examined. How intense is competition, and what are its key dimensions? [Grant, 2010].

Figure 2.5 below depicts a diagram indicating key success factors:

Figure 2.5: Identifying Key Success Factors



Source: Grant Contemporary Strategy Analysis, (2010), p.88

Based on an interview carried out by the researcher at Stanbic Bank Zimbabwe Limited: Nelson Mandela Branch, with the Branch Manager, Mr I. Hunda (September 2010) and other interviews at other banks, these key success factors suggested by *Grant (2010)* were adopted and applied to identify success factors in retail banking, as depicted in table 2.3 below:

Table 2.3: Identifying Key Success Factors: Retail Banking in Zimbabwe

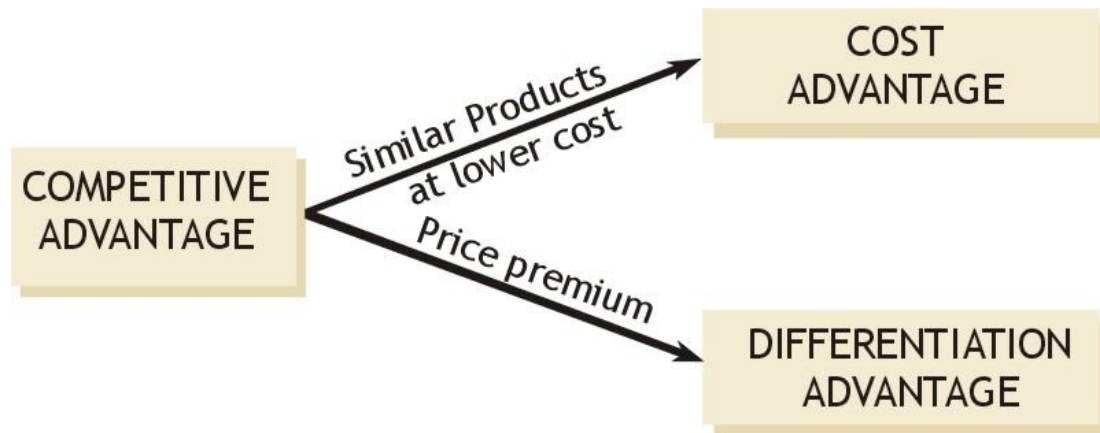
What do customers want? (Analysis of demand)	How do banks survive competition? (Analysis of competition)	Key Success Factors
<ul style="list-style-type: none"> • Customers prefer to deal with a stable bank. • Low interest rates and bank charges. Easy access to information. • Security of deposits and confidential documents. • Customers want to feel safe and comfortable during banking. • Customers prefer to deal with a bank with a wide spread branch networking around the country, region and the world. • Customers have different needs with regard to facilities such as loans, overdraft facilities, financial advice etc. • The majority of customers expect convenient, high-quality, world-class and fast service. • Banking environment must be neat, with sufficient space for parking. 	<ul style="list-style-type: none"> • Flexibility, uniqueness and innovation. • Cost-effectiveness and strong capital base. • Price differentiation can be used to earn a premium. • High barriers to entry and low exit. • Re-branding and improving on corporate image. • Unique services over and above generic ones. • Participation of all stakeholders in strategic decision-making process. 	<ul style="list-style-type: none"> • Satisfying all stakeholders' needs. • Credible institutional investors or shareholders with capacity to re-capitalize the banking operations, and fixed assets requirements. • "State-of-the-art" information technology with effective risk-management systems. • Effective corporate governance structures and staff of high integrity. • Price differentiation requires a wide range of services and convenient banking location. • Customer-oriented research and development programmes. • Cost efficiency requires a comparatively large pool of depositors, compared to borrowers.

Source: Grant Contemporary Strategy Analysis, (2010), p.89

2.5.4 Types of Competitive Advantage

According to [Grant, 2010] an institution can achieve a higher rate of profit over a rival in one of two ways: either it can supply an identical product or service at a lower cost, or it can supply a product or service that is differentiated in such a way that the customer is willing to pay a price premium that exceeds the additional cost of the differentiation. In the former case, the institution possesses a cost advantage, in the latter, a differentiation advantage. In pursuing cost advantages the goal of the institution is to become the cost leader in its industry or industry segment. The following diagram (figure 2.6) depicts these two sources of competitive advantage:

Figure 2.6: Sources of competitive advantage



Source: Grant (2010) Contemporary Strategy Analysis, p.223

2.5.5 Benefits of Strategic Management

According to Pearce II, (2009) in using the strategic management approach, managers at all levels of the firm interact in planning and implementing. As a result, the behavioural consequences of strategic management are similar to those of participative decision-making. For example, strategy formulation activities enhance the institution's ability to prevent problems. Managers who encourage subordinates' attention to planning are aided in their monitoring and forecasting responsibilities by subordinates who are aware of the needs of strategic planning.

According to *Wheelen and Hunger, (2004)* research has shown that organizations that engage in strategic management generally outperform those that do not. The attainment of an appropriate match, or “fit”, between an organization’s environment and its strategy, structure and processes has positive effects on the organization’s performance.

2.5.6 Turnaround Strategy

According to *Channon (2000)*, turnaround strategies can be applied when a business is in decline, but worth saving. It is important to recognize the conditions under which an otherwise successful business may go into decline. Such recognition can suggest appropriate solutions which might aid recovery. Thus, qualitative Business Strategy Analysis can satisfy the divergent interests of all stakeholders of a banking institution by identifying sources of superior profitability, key success factors and sustainable competitive advantages. Effective implementation of a business strategy, based on these factors, can sustainably increase market share, profitability, business value and return on capital of an institution. Based on the literature review on business strategy, it can also be deduced that formulation of an effective business strategy should be based on the marketing principle of satisfying customers’ needs, better than the competition.

According to *Palepu, Healy and Bernard (2002)*, strategy analysis is an important starting point for the analysis of financial statements. Strategy analysis allows the analyst to probe the economics of the firm at a qualitative level so that the subsequent accounting and financial analysis is grounded in business reality.

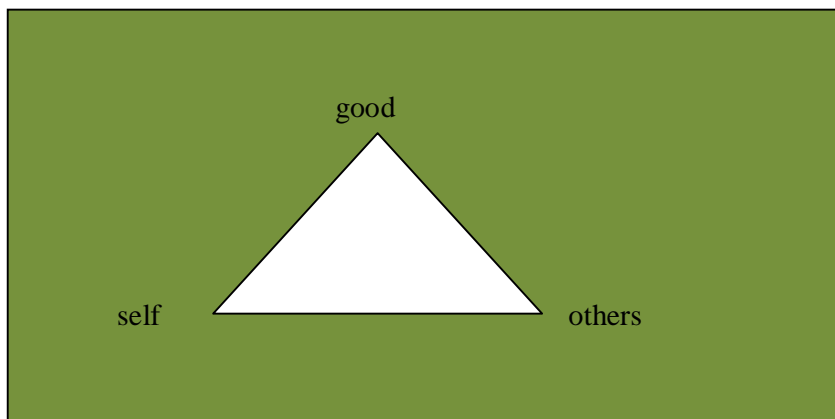
Palepu, Healy and Bernard argue that strategy analysis allows the identification of the firm’s profit-drivers and key risks. This, in turn, enables the analyst to assess the sustainability of the institution’s current performance, and make realistic forecasts of future performance. While an institution’s cost of capital is determined by the capital markets, its profit potential is determined by its own strategic choices: (1) the choice of an industry or a set of industries in which the institutions operates (industry choice), (2) the manner in which the institution intends to compete with other institutions, and expects to create and exploit synergies across the range of businesses in which it operates (corporate strategy). Strategy analysis, therefore, involves industry analysis, competitive strategy analysis and corporate strategy analysis.

2.6 Business Ethics

2.6.1 Business ethics has two aspects. The first involves the specific situations in which ethical controversy arises; the second concerns the principles of behaviour by which it is appropriate to abide [*Chryssides and Kaler, 1996*].

According to *Rossouw (2004)*, ethics is concerned with what is good, or right, in human interaction. It revolves around three central concepts: 'self', 'good' and 'other', as depicted in the figure 2.7 below:

Figure 2.7: Business Ethics



Source: Rossouw Business Ethics, (2004), p.3

Ethical behaviour results when one does not merely consider what is good for oneself, but also what is good for others.

Rossouw argue that ethical behaviour is self-interested, but not selfish. When one knows that her behaviour may have negative consequences for others, but care only about what is good for herself, such action is selfish and unethical. If, on the contrary, one seeks to serve her own interests, whilst simultaneously caring about the interests of others, then her behaviour is self-interested and also ethical.

He suggested that in applying ethics to business the implications of economic activity on the interests of all who are affected by such activity must be considered. Business ethics is concerned with identifying and implementing standards of conduct that will ensure that, at a minimum level, business does not detrimentally impact on the interests of its stakeholders. At an optimum level, business ethics holds standards of behaviour that will enhance the interests of all.

According to *Ghillyer (2010)*, the field of ethics is the study of how people try to live their lives according to a standard of “right” or “wrong” behaviour in both how people think and behave towards others, and how they would like them to think and behave towards others.

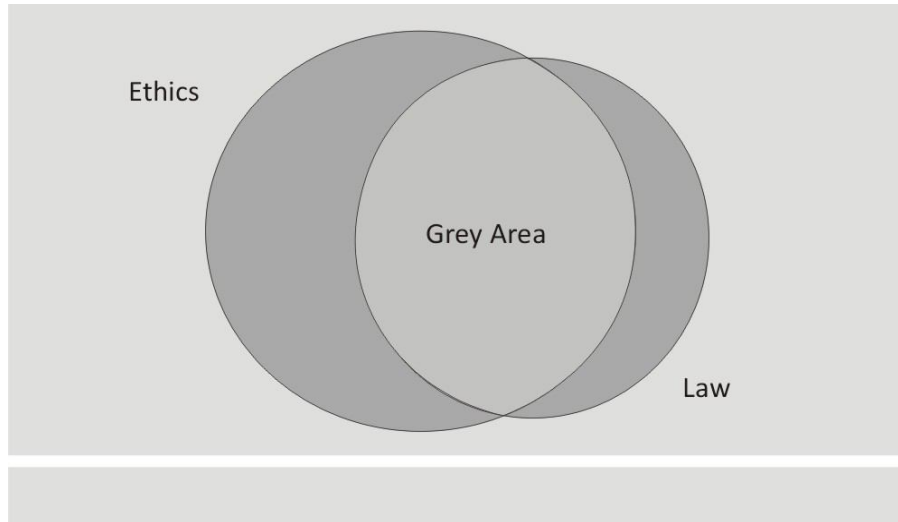
He notes that moral standards are principles based on religions, cultural, or philosophical beliefs, by which judgements are made about good or bad behaviour. These beliefs can come from many different sources: friends, family, ethnic background, religion, school, the media (television, radio, newspapers, magazines, the internet and personal role models/mentors).

According to *Crane and Matten (2009)*, business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed. It is worth stressing that by ‘right’ and ‘wrong’ it is meant morally right and wrong as opposed to, for example, commercially, strategically, or financially right or wrong. Moreover, by ‘business’ ethics, it does not mean only commercial business, but also government organizations, pressure groups, not-for-profit business, charities and other organizations.

They argue that having defined business ethics in terms of issues of right and wrong, one might quite naturally question whether this is in any way distinct from the law. Surely, the law is also about issues of right and wrong? This is true, and there is indeed considerable overlap between ethics and the law. In fact, the law is essentially an institutionalization or codification of ethics into specific social rules.

Perhaps the best way of thinking about ethics and the law is in terms of two intersecting domains (Figure 2.8):

Figure 2.8 The Relationship between Ethics and the Law



Source: Crane and Matten (2009) Business Ethics, p.7

Crane and Matten maintain that in one sense then, business ethics can be said to begin where the law ends. Business ethics is primarily concerned with those issues not covered by the law, or where there is no definite consensus on whether something is right or wrong.

It can be concluded that effective application of business ethics principles by protecting the interests of all stakeholders, establishment of codes of ethics, whistle-blowing and preventing fraud can minimize the liquidation of viable banking institutions.

2.6.2 The importance of business ethics

Strengthening the resolve to prevent fraud

According to *Rossouw (2004)*, an organizational anti-fraud strategy normally commences with the resolve to eliminate fraud. Ethics can play a role in building this resolve. This happens when the need to stamp out fraud is not merely motivated on financial, but also on ethical grounds; staff members may easily dismiss it as something that merely affects the company, but not themselves.

Ultimately fraud can, and indeed has, bankrupted many organizations. The consequences to all stakeholders of the company where this happens is devastating. Thus, by emphasizing the unethical nature of fraud and its consequences for all stakeholders of the organization, the resolve to stamp out fraud can be reinforced.

According to *Crane and Matten (2009)* the following are some of the reasons why business ethics are important:

- (a) The power and influence of business in society is greater than ever before. “Evidence suggests that many members of the public are uneasy with such developments”. Business ethics helps people to understand why this is happening, what its implications might be, and how people might address the matter.
- (b) The demands being placed on business to be ethical by its various stakeholders are constantly becoming more complex and more challenging. Business ethics provides the means to appreciate and understand these challenges more clearly, in order that institutions can meet these ethical expectations more effectively.
- (c) Business ethics can provide people with the ability to assess the benefits and problems associated with different ways of managing ethics in organizations.

Figure 2.9: Understanding Business Ethics

Type of misconduct of co-workers	Percentage of employees observing misconduct
Abusive or intimidating behaviour towards employees	21
Lying to employees, customers, vendors, or the public	19
Situations that places employee interests over those of the organization	18
Violations of safety regulations	16
Misreporting of actual time worked	16
Discrimination on the basis of race, colour, gender, age or similar categories	12
Theft	11
Sexual harassment	9

Types of misconduct observed by employees among their co-workers

Source: Crane and Matten (2009) Business Ethics, p.14

2.6.3 Code of ethics

Numerous businesses and professions now make a point of enshrining in a written code of practice those ethical obligations (and also professional standards) which go beyond their strict legal requirements [*Chryssides and Kaler, 1996*].

According to *Ghillyer (2010)* in order for everyone to begin from the same starting-point, the organization's commitment to ethical behaviour must be documented in a code of ethics.

A well-written code of ethics can do several things:

- (a) It can capture what the organization understands as ethical behaviour.
- (b) It can establish a detailed guide to acceptable behaviour;
- (c) It can state policies for behaviour in specific situations; and
- (d) It can document punishments for violations of those policies.

Rossouw (2004) noted that codes of ethics can serve various purposes in an organization. These can be divided into internal, external, and cultural.

A code of ethics for internal purposes

A code of ethics can be used to achieve a number of internal organizational goals.

- (a) It can raise ethical awareness and expectations by establishing standards of morally acceptable behaviour;
- (b) It can prevent unethical behaviour by stipulating that specific conduct will not be tolerated; and
- (c) It can promote ethical behaviour by articulating the ethical values that should guide members of the organization in their actions and decisions.

A code of ethics for external purposes

A code of ethics can also be adopted to satisfy external stakeholders. This sends a message to external stakeholders that will increase their trust in the organization.

- (a) To promote the reputation of the organization among its external stakeholders;
- (b) To pacify external stakeholders, like special interest groups, who might have expressed concern about specific aspects of an organization's actions; and
- (c) To deflect state interference in the internal affairs of a business, or even an industry.

A code of ethics for cultural purposes

Organizations must constantly adapt to changes in national and international culture. This is reflected in management theories. Rigidity has been replaced by an emphasis on adaptability and individual initiative.

According to *Ghillyer (2010)* if one is involved in drawing up a code of ethics from scratch, the following advice from the Institute of Business Ethics needs to be considered:

- (a) *Find a champion.* Unless a senior person – hopefully the CEO- is prepared to drive the introduction of a business ethics policy, the chances of it being a useful tool are minimal.
- (b) *Get endorsement from the chairman and the board.* Corporate values and ethics are matters of governance. The board must be enthusiastic, not only about having such a policy, but also about receiving regular reports on its operation.
- (c) *Find out what bothers people.* Merely endorsing a standard code, or copying that of another, will not suffice. It is important to find out on what topics employees require guidance.

- (d) *Pick a well-tested model.* Use a framework that addresses issues as they affect different constituents or shareholders of the company. The usual ones are: shareholders, employees, customers, suppliers, and local/national community. Some might even include competitors.
- (e) *Produce a company code of conduct.* This should be distributed in booklet form or via a company intranet. Existing policies, for example on giving and receiving gifts, or private use of company software, can be incorporated. Guidance on how the code works should also be included.
- (f) *Try it out first.* The code needs piloting - perhaps with a sample of employees drawn from all levels and different locations. An external party, such as the Institute of Business Ethics, may comment on drafts
- (g) *Issue the code, and make it known.* Publish and send the code to all employees, suppliers, and others. State publicly that the company has a code and implementation programme that covers the whole company. Put it on the institution's website and send it to joint venture and other partners.
- (h) *Make it work.* Practical examples of the code in action should be introduced into all company internal (and external) training programmes, and also induction courses. Managers should sign off on the code regularly, and a review mechanism should be established. A code "master" needs to be appointed.

According to *Crane and Matten, (2009)* codes of ethics are voluntary statements that commit organizations, industries or professions to specific beliefs, values, and/or actions, and that set out appropriate ethical behaviours for employees. There are four main types of ethical codes: organization or corporate; professional; industry; and programme or group codes of ethics.

Crane and Matten suggest that, in terms of effectiveness, it is perhaps less important what a code says than how it is developed, implemented and followed up. A code imposed on employees without clear communication about what it is trying to achieve and why, might simply raise resentment. Similarly, a code that is written, launched, and then promptly forgotten is unlikely to enhance ethical decision-making. Perhaps worst of all, a code that is introduced, and then seen to be breached with impunity by senior managers or other members of staff, is probably never going to achieve anything apart from raising employee cynicism.

During the 2003/2006 banking crisis in Zimbabwe more than 20 banking institutions collapsed because some of their activities were both illegal and unethical [*Reserve Bank of Zimbabwe: Troubled Banking Institutions, 2006*]. For example, at Royal Bank, Zimbabwe Limited, the directors re-capitalized the bank using depositors' funds, in violation of both the Banking Act and the Companies Act. While at Barbican Bank Limited, the group mixed banking and non-banking business, despite an earlier undertaking by management to desist from the practice, after being warned of the dangers of such practices by the Zimbabwe Reserve Bank.

It can be concluded that establishing and implementing effectively codes of ethics within the banking sector in Zimbabwe and other developing as well as developed nations can minimize liquidation of viable institutions by assisting top management and other stakeholders to analyze business situations and activities, and then make decisions in the best interests of all stakeholders where issues of right and wrong need to be addressed.

The majority of the troubled banking institutions in Zimbabwe operated without codes of ethics, and this doubtless contributed to the liquidation of some of the banks, such as Rapid Discount House Limited (RDH). In RDH the capital shortfall emanated from a high volume of imprudent, unauthorised and non-performing insider loans.

2.7 Internal Control Systems

- 2.7.1** An internal control system - the whole system of controls, financial and otherwise, is established by management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure, as far as possible, the completeness and accuracy of company records. The individual components of an internal control system are known as 'controls' or 'internal controls' [*Millichamp, 2001*].

Millichamp gave some details of internal control systems as follows:

- (a) *Safeguard the assets.* Obviously, allowing assets to be broken, lost or stolen, is unacceptable, and procedures are always devised to safeguard them. Examples are locks and keys, the keeping of a plant register, regular reviews of debtor balances etc. An aspect of this which is often overlooked is that of payment where no benefits have been received, as payment for work that has not been done, or the setting up of liabilities where no benefit has been received, as in the fraudulent purchase and subsequent embezzlement of goods by employees. Both are examples of failure to safeguard assets.
- (b) *Accuracy of the records.* Again, the converse is unacceptable. Examples of procedures to achieve this include one clerk checking the work by another or the use of control accounts, independent comparison of two sets of records, e.g. stock records and stock, or piecework payments and good work put into store.

According to *Reserve Bank of Zimbabwe: Internal Audit Standards In Banking Institutions (2004)*, the core function of an internal audit department is to perform an independent appraisal of the financial institutions' activities as a service to management. The internal audit function plays an important role in helping management to establish and maintain the best possible internal control environment within the financial institution.

The Reserve Bank of Zimbabwe suggested that a sound internal control environment would ensure: adequacy and effectiveness of the internal control system; compliance with policies, procedures, rules, guidelines, directives, laws and regulations; detection of fraud, errors, omissions and any other irregularities; audit of management and information systems; and a participative and consultative role in the development of new products and systems.

According to *Cantrell (2010)* many authorities on fraud believe that the most important measure an organization can take to deter most types of fraud is to design an internal control system that makes it difficult for fraud to be committed and remain undetected - and more importantly that the internal control system is diligently enforced. Internal controls help ensure the accuracy, integrity, and safety of system resources.

The overall responsibility for a secure and adequately controlled system lies with top management. Managers typically delegate the design of adequate control systems to systems analysts, designers, and end users. The corporate information security officer and the operations staff are typically responsible for ensuring that control procedures are followed. The control environment, the accounting system, and control procedures have been identified as the three elements of the control structure most effective in preventing or detecting and correcting material misstatements [Watne and Turney, 2007].

Watne and Turney argue that the control environment, the accounting system, and control procedures have been identified as the three elements of the control structure most amenable for preventing or detecting and correcting material misstatements. They maintain that the control environment represents the collective effect of various factors on establishing, enhancing, or mitigating the effectiveness of specific policies and procedures.

On 25 September 2007 The Business Herald reported: “Nigeria’s banks urged to apply strict internal control systems”, *The Business Herald, Zimbabwe, 25 September 2007* [online] Available at: <http://www.herald.co.zw>

It is apparent from the article published by The Business Herald that effective internal control systems can increase the values of banking institutions thereby minimising liquidation of viable companies.

2.7.2 The Importance of Risk Management and Internal Control

According to *Puttick and Van Esch (2007)* the importance of risk management, which involves the identification of risks faced by business entities and the implementation of systems to mitigate them, has long been recognized. These aspects feature prominently in the literature and in reports and recommendations of various commissions (national and international) appointed to advise on corporate governance and the prevention of fraudulent reporting practices.

Puttick and Van Esch noted that risk management is a process that uses internal control as one of the measures to mitigate and control risk. Some risks cannot be managed through traditional internal control systems, for example, political, technological and legislative risks, and so these have to be managed with flexibility and forward planning. While the total process of risk management, which includes a related system of internal controls, is the responsibility of the board of directors (top management), the execution of the risk management process should be the responsibility of every employee.

It can be concluded that establishment of internal control systems by top management of a banking institution (or any other organization), and effective implementation of such systems by all employees, can minimise liquidation of viable institutions through safeguarding assets, detecting fraudulent activities and taking corrective measures.

It is, however, critical that internal control systems, such as the accounting systems, control procedures and the control environment as suggested by [*Watne and Turney, 2007*] should be regularly tested and revised. This can be achieved by carrying out further empirical research, qualitative analysis and effective implementation of recommendations from them.

Century Discount House Limited [CDH] is a good example of a banking institution which was placed under liquidation (20 January 2004) largely because of ineffective internal control and risk management systems. According to the *Reserve Bank of Zimbabwe, Troubled Banking Institutions (2006)*, “the insolvency was a result of imprudent lending to ENG Asset Management (Private) Limited, a banking institution which operated without a licence for almost two years, and whose holding company had acquired CDH Limited from Century Holdings Limited without regulatory approval”.

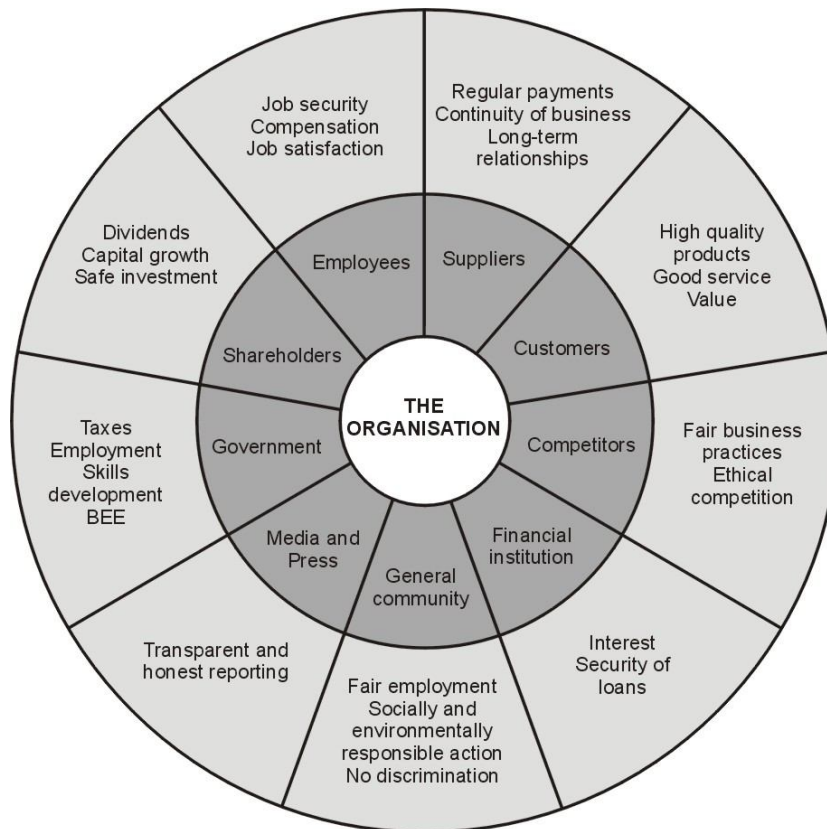
A report prepared by the Chartered Accountants Ernst & Young (14 May 2004) on Investigations Into Allegations of Fraud Perpetrated by senior management of Century Discount House Limited, declared that “on several occasions, the directors and officers of CDH deposited funds worth Zim\$44 653 039 698.25 between March 18th, 2003 and December 31st, 2003 with ENG Asset Management. In the majority of these occasions no security was requested or provided. This was despite the fact that no suitable prior arrangement had been made with CDH’s Assets and Liabilities Committee”.

2.8 Stakeholder Involvement /Satisfaction

One of the biggest mistakes managers can make is to forget about the most important factor when it comes to management, namely, the human being. It does not matter how technologically advanced an organization is, how much client value (good-will) the organization has, how low the costs are or how high the quality is, the real difference is made by the human resources at the organization's disposal. Employees are the most important catalyst in implementing the strategies of the organization. The strategic plan and top management are not the key drivers of strategy implementation, as is often implied – the drivers are the employees [Cronje and Maritz, 2010].

These authors however noted that “engaging stakeholders is no easy task, and the claims and expectations of the various internal and external stakeholders may be conflicting”. Figure 2.10 depicts some of these diverse stakeholder claims and expectations:

Figure 2.10: The Claims and Expectations of Stakeholders

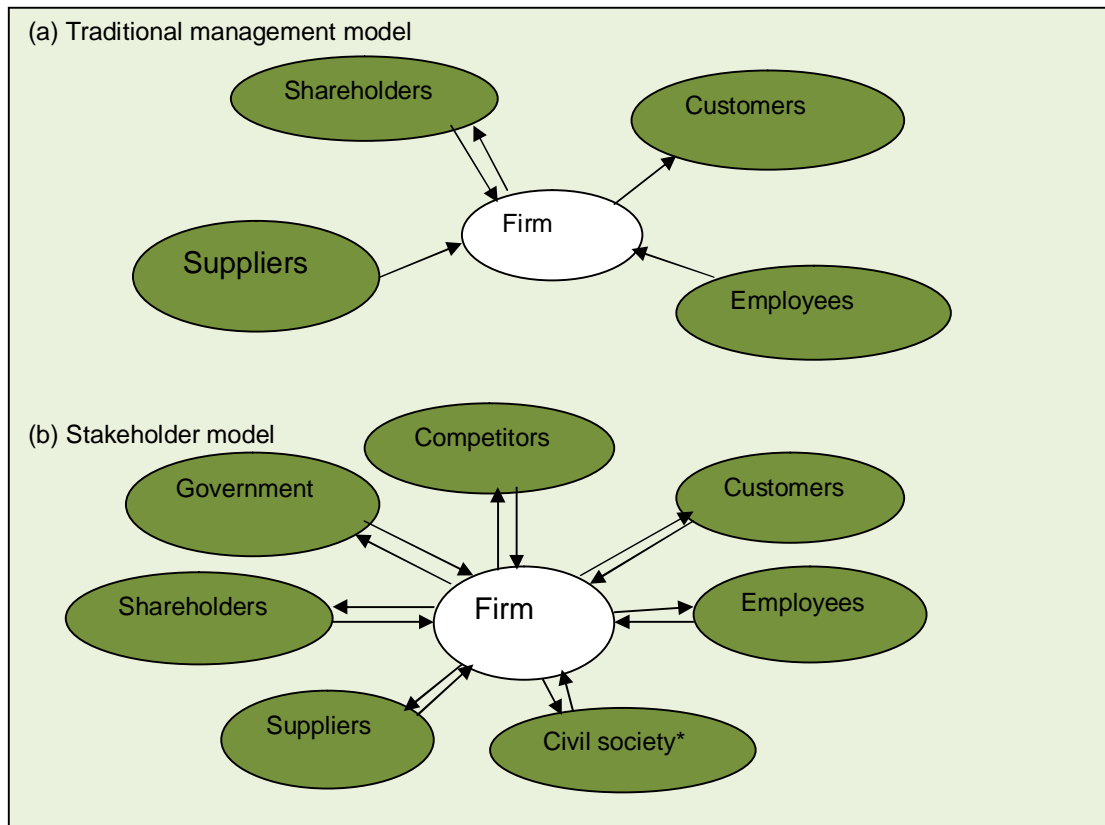


Source: Cronje and Maritz (2010), *Strategic Management*, p.59

A stakeholder of an institution is an individual or a group which benefits from, or is harmed by the institution; whose rights must be respected, or may be violated, by the corporations [Crane and Matten, 2009]. Crane and Matten maintain that this definition makes clear that the range of stakeholders differs from institution to institution, and, even for the same company, in different situations, tasks, or projects. Using this definition, then, it is not possible to identify a definitive group of relevant stakeholders for any given institution in any given situation.

In Figure 2.11 below, one can find the stakeholder view of the institution, where the shareholders are one group among several others. The company has obligations, not only to one group but also to many other constituencies that are affected by its activities. The institution is thus situated at the centre of a series of interdependent two-way relationships. It is important to remember that stakeholder groups might also have duties and obligations to their own set of stakeholders, and also to the other stakeholders of the corporation.

Figure 2.11 Stakeholder theory of the firm



*By Civil Society, “It means pressure groups, local communities, non-governmental organizations, etc”. Source: Crane and Matten (2009) *Business Ethics*, p.59

According to *Mallin (2009)*, stakeholder theory takes account of a wider group of constituents rather than focusing on shareholders. A consequence of focusing on shareholders is that the maintenance or enhancement of shareholder value is paramount, whereas when a wider stakeholder group, such as employees, providers of credit, customers, suppliers, government, and the local community is taken into account, the overriding focus on shareholder value becomes less self-evident. “Enlightened value maximization utilizes much of the structure of stakeholder theory but accepts maximization of the long-run value of the firm as the criterion for making the requisite trade-offs among its stakeholders ... and therefore solves the problems that arise from multiple objectives that accompany traditional stakeholder theory” [*Mallin, (2009)*].

The test of effectiveness of governance is the degree to which an organization is achieving its purpose. All business organizations have multiple stakeholders, whose needs must be considered to achieve sustainable success. In the current system, corporate directors are legally required to represent the best interests of the company’s shareholders, not those of all the various stakeholders. It is true that shareholders generally invest in a business to make money on their investment, but the purpose of the investors should not be confused with the purpose of the business. It is serving the needs of its stakeholders that most businesses find their purpose [*Colley, Doyle, Logan and Stettinius, 2005*].

According to *Puttick and Van Esch (2007)*, it is the board’s duty to present a balanced and understandable assessment of the company’s position in reporting to stakeholders. The quality of the information must be based on the guidelines of openness and substance over form. Reporting should address material matters of significant interest and concern to all stakeholders.

Reports and communications must be in the context that society now demands greater transparency and accountability from institutions regarding their non-financial affairs, including, for example, their employment policies and environmental issues.

Puttick and Van Esch (2007) maintain that reports should present a balance between the positive and negative aspects of the activities of the company, and that the directors' report should include statements that include the following areas:

- (a) Adequate accounting records and an effective system of internal controls have been maintained;
- (b) Appropriate accounting policies, supported by reasonable and prudent judgements and estimates, have been used in the preparation of the financial statements;
- (c) No reason to believe the business will not be viable in the year ahead, or an explanation if it is believed otherwise.

It can be deduced that the effectiveness of corporate governance structures in an organization, can all be measured scientifically through empirical research and qualitative analysis. It is important that all stakeholders in a business environment are given a genuine opportunity to participate in strategic decision-making. For example a teller in a banking hall has direct, daily contact with most customers of a banking institution and he or she is therefore privileged with vital information from customers, which can be used to formulate a business strategy. An effective business strategy can assist in sustainably increasing market share and the value of the business. As a result, this can minimise liquidation of viable institutions.

Every banking institution has its stakeholders, with a divergence of interests. The scientific measurement, based on empirical evidence of the degree of participation of all stakeholders in strategic decision-making processes, and the degree of satisfaction of all stakeholders, can be a practical measure of corporate governance effectiveness.

According to the *Reserve Bank: Troubled Banking Institutions (2006)*, one of the lessons from the 2003/2006 banking crisis was that "in order to promote effective market discipline, banks must adequately disclose information which will allow members of the public to make rational decisions". Sagit Finance House Limited was placed under liquidation on 7 June 2006.

According to the forensic audit report prepared by the liquidator, “the core business of Sagit Finance was lease finance. The lending book was financed largely by depositors’ funds. This was a result of the hyper-inflationary environment, which had affected the viability of the lease/finance business. The company had no proper information technology software package to manage their loan book. This resulted in manual computations of the loan, a situation prone to errors and manipulations”.

It can be concluded that the degree of participation of key stakeholders, such as customers and employees in strategic decision-making processes was very low in this case. The banking institution also failed to satisfy the divergent interests of all its stakeholders.

2.9 Concluding Comments

In this chapter, the researcher selected by analyses of relevant literature, in order to achieve the objectives of this study as outlined on page 16 [Chapter one]. The literature survey on corporate governance, regular banking restructuring and re-capitalization formed the foundation on which ailing banking institutions can be prevented from sliding into a state of bankruptcy. The banking sector need to be developed on what has been achieved after the 2003/2006 banking crisis arguably the most significant corporate event which necessitated fundamental reforms in Zimbabwe banking industry after independence in 1980. The minimisation of liquidation of viable banking institutions cannot only be achieved through corporate governance, bank restructuring and re-capitalisation but must be supported by the most efficient and effective monetary and fiscal policies initiated by government in order to attract foreign investment. Effective and fundamental political and socio-economic measures are also important in order to promote the confidence of the banking in the banking sector to ensure the continued growth of deposit base and to keep the banking sector stable, viable and sound.

The next chapter details strategies and methods of data collection used, based on the said literature review.

CHAPTER THREE

3.0 FIELD RESEARCH: METHODOLOGY DESIGN AND METHODS

3.1 Background

The Research Proposal: “*How to Minimise the Liquidation of Viable Companies in Zimbabwe’s Financial Sector*”, was approved by the Graduate School of Business - University of Kwazulu Natal on 8 October 2004. The researcher then proceeded to carry out a comprehensive literature survey on the preferred areas of Corporate Governance, Banking Restructuring and Recapitalization. This was carried out largely by review of data from local, regional and international textbooks, journals, financial/business newspapers, financial statements of banking institutions, reports prepared by curators/liquidators in Zimbabwe and statutory instruments and guidelines issued by the Reserve Bank of Zimbabwe from 9 October 2004 to 31 December 2006, as well as monetary and fiscal policy documents issued by the Government of Zimbabwe. The researcher also attended business and professional seminars, and used the Internet.

During the month of April 2005 the researcher drafted six sets of interview schedules (questionnaire forms) relating to the various topics, and at the end of April 2005 received a letter of support from Dr Mark Dent. An ethical clearance approval was received from the research office (reference number HSS/06049A, signed by Ms Phumelele Ximba, 23 February 2006).

This enabled the collection of data from the following banking institutions in Zimbabwe:

- Central African Building Society
- Kingdom Bank Zimbabwe Limited
- Stanbic Bank Zimbabwe Limited
- First National Building Society
- Royal Bank of Zimbabwe Limited
- Time Bank Zimbabwe Limited

- Rapid Discount House Limited
- Century Discount House Limited
- Sagit Finance House Limited
- ENG Asset Investments (Private) Limited
- First Banking Corporation Zimbabwe Limited
- African Banking Corporation Limited
- Merchant Bank of Central Africa Limited
- Century Bank Zimbabwe Limited
- Platinum Asset Management (Private) Limited
- Barbican Bank Zimbabwe Limited
- Reserve Bank of Zimbabwe
- CFX Bank Zimbabwe Limited
- Trust Bank Zimbabwe Limited

Most of the information was collected from 22 April 2005 to 30 June 2006. The data collection strategy also covered other stakeholders of the banking institutions, such as employees, suppliers of goods and services, shareholders, customers, management, the government and members of the public.

Collecting data from Beverly Building Society, Barclays Bank of Zimbabwe Limited and Standard Chartered Bank Zimbabwe was difficult. However, in the end a fair sample was obtained of the entire Zimbabwe banking sector covering the period 1 January 2003 to 31 December 2006.

At the beginning of October 2008, the researcher requested for the research topic to be changed from “*How to Minimize the Liquidation of Viable Companies in Zimbabwe’s Financial Sector*” to “*How to Minimize the Liquidation of Viable Institutions in Zimbabwe’s Banking Sector*”, and a second ethical clearance letter was issued on 5 December 2008.

The researcher submitted his dissertation for examination towards end of 2008. When the examination was finally completed by all three examiners in June 2011, the external examiner suggested to the researcher to amend his research topic to read “*The Minimisation of the Liquidation of Viable Banking Institutions in Zimbabwe Banking Sector*”, and a third ethical clearance letter was issued on the 23rd September 2011, under reference number HSS\0049\06D.

3.2 Introduction

Effective research must be purposeful, with a clearly defined focus and reasonable and attainable goals, with defensible, ethical, and repeatable procedures, and with evidence of objectivity. The reporting of procedures, with their strengths and weaknesses, should be complete and honest. Appropriate analytical techniques should be used, and conclusions should be limited to those clearly justified by the findings. Reports of findings should be clearly presented and professional in tone, language, and appearance. The research objective and its benefits should be weighed against potentially adverse effects [*Cooper & Schindler, 2003*].

Cooper and Schindler maintain that the relationship between participants and the researcher is important. Both share the obligation of making a research proposal meaningful. Several factors complicate this relationship, such as ethical considerations. Changes in the research environment can also complicate the relationship, and the researcher must safeguard against negative changes.

3.3 Research Approach

The researcher used a qualitative research approach, characterised by procedures which are not strictly formalised; a well-defined scope and a more philosophical approach. A flexible strategy of data collection provided a first-hand, holistic understanding of the data.

The research methodology was shaped as the investigation proceeded. Methods of data collection were largely chosen for their effectiveness in acquiring in-depth knowledge to guide further study. This approach rests on the assumption that a valid understanding can be gained through accumulated knowledge acquired first-hand by a single researcher.

The ability to explore data or to seek explanations by a qualitatively-based approach gives greater scope for ethical and other issues to arise. The resulting personal contact creates the possibility of using non-standardised questions, and enables one to observe 'face-to-face'. This also creates the opportunity to develop the researcher's knowledge incrementally, thus giving the researcher a greater level of control of the process.

That greater control was exercised with care, in order for the researcher to remain within appropriate and acceptable parameters. For example, in face-to-face interviews the researcher endeavoured to avoid overzealous questioning and pressing participants for a response. Doing so would have made the situation stressful for the participants. The researcher also made it clear to all interview participants that they had the right to decline to respond to any question. In face-to-face interviews it was, of course, necessary to arrange a time mutually convenient for the researcher and participants.

3.4 Methods of Data Collection

The research approach to data collection is often referred to as the research methodology. Although there are several facets to the design and categorisation of research methodologies, a common criterion is the various approaches to data collection [Lancaster, 2005]. The researcher has used the following qualitative research methods with regard to data collection:

Grounded Theory Method. In grounded theory data collection starts without the formation of an initial theoretical framework. Theory is developed from data generated by a series of observations. These data lead to the generation of predictions that are then tested in further observations which may confirm or contradict the predictions. Grounded theory procedures are designed to build an explanation or to generate a theory around the core theme that emerges from the data. Such an approach may therefore result in the analysis being conducted in a less formalised and proceduralised way, while still maintaining a systematic and rigorous approach to arrive at a grounded explanation or theory [Saunders, Lewis and Thornhill, 2003].

Two essential features of grounded theory are that it is concerned with the development of theory out of data, and that the approach is iterative (or recursive, as it is sometimes called) meaning that data collection and analysis proceed in tandem, repeatedly referring back to each other [Bryman and Bell, 2003]. The researcher collected qualitative data from the relevant sources, such as banking institutions and individuals, in order to identify key themes, patterns and categories.

Naturally, the researcher had his own hypotheses and values while looking for and explaining patterns and categories in the data. However, the concepts and categories were derived from the empirical data, and, as far as possible, the researcher assessed such data with an open mind, applying the principles of grounded theory. Grounded theory does not set out to test a hypothesis or a preconceived set of ideas. These shape the research process and the methods of data collection.

Any framework or recommendations developed by the researcher are instead derived from, and grounded in, empirical reality. Grounded theory, and the approach to the analysis of qualitative data to which it gives rise, represents an inductive and holistic approach to research. Because the researcher was mostly interested in producing results and making recommendations aligned to the research problem, rather than the development of grand theories, grounded theory with its analysis techniques was extremely useful.

The purpose of the grounded theory design is to derive a theory that links the perspective to general social science theories. This design studies the process, focusing on the interaction of the phenomena. Data was also collected from historical records, interviews and observations. It was analysed by identifying codes and comparing the concepts in findings with the relevant theories. The findings were communicated as an analytical story in a narrative style [Bryman and Bell, 2003].

The researcher considers that grounded theory and its concomitant analytic approaches can be extremely valuable, particularly where the researcher is not certain about the nature of the research problem and the information required for assessing and resolving it. It offers explanations relevant to a particular set of circumstances and situations, such as the statements in this study: “*How to minimise liquidation of viable institutions in the Zimbabwe banking sector*”. Grounded theory procedures are designed to provide explanations within the central theme that emerges from the researcher’s data.

Some prominent advocates of grounded theory lay down fairly precise procedures for each of the stages of the qualitative analysis outlined below [Saunders, Lewis and Thornhill, 2003]:

- (a) **Categorisation.** The first activity involves classifying data into meaningful categories derived from the data or from the researcher’s theoretical framework, which should “fit” what the researcher would have revealed. The identification of these categories will be guided by the purpose of the research, aligned to the research question and objectives.
- (b) **‘Unitising’ data.** The next step in the analytical process will be to attach relevant clusters of data, referred to as units of data, to the appropriate categories that have been devised. A unit of data may be a number of words, sentences, a complete paragraph, or some other discrete package of textual data that fits the category.
- (c) **Recognising relationships and developing categories.** Generating categories and reorganising data according to theme, or designing a suitable matrix and placing the data within its cells, engages the researcher in analysing the data. This analysis continues in the search for key themes and patterns or relationships in the rearranged data. This may make it necessary to modify the categories and to continue to rearrange the data in the search for meaning in the data set.
- (d) **Developing and testing hypotheses.** In the course of seeking patterns within the data and relationships between categories hypotheses are developed in order to test them. A hypothesis is “testable proposition”. The appearance of a possible relationship between categories will need to be tested if an actual relationship is to be demonstrated.

(e) **The interactive nature of the process**

This course of events demonstrates that data collection and analysis, and the emergence and verification of relationships and conclusions are interrelated and interactive processes. Analysis occurs both during and after the collection of data. This analysis helps to shape the direction of data collection, especially where following a more inductive, grounded approach.

(f) **Analytical aids**

In addition to typing up the recording or notes made of a research session, and assigning units of data to appropriate categories, making a record of additional information facilitates the process by assisting in recall of the context and content of the interview or observation. *Saunders et al* suggest summaries of interviews, observations and documents, and also interim notes, self-memos, and a diary. These authors conclude that once the notes have been made a summary of the key points that emerge from undertaking this activity can be made. At this point the principal themes that have emerged from the interviews or observations will be apparent, and ways to explore these further in forthcoming data collection sessions will suggest themselves. It will be possible to identify apparent relationships between themes. These need to be recorded for later reference while seeking to establish their validity.

Criticisms of grounded theory

According to *Saunders et al (2003)* in spite of the frequency with which it is cited, and the universally high regard in which it is held, grounded theory is not without its limitations, of which the following can be briefly outlined:

- (a) Several writers take the view that it is desirable that researchers are sensitive to existing conceptualisations, as a focus for their investigations, so that they can build upon the work of others.
- (b) Related to this is the fact that researchers are often required to spell out the possible implications of their planned investigation. This prediction of outcome is disdained in grounded theory.

- (c) There are practical difficulties with grounded theory. The time taken to transcribe tape recordings of interviews, for example, can make it difficult for researchers, especially when they have to meet deadlines, to carry out a genuine grounded theory analysis, with its constant interplay of data collection and conceptualisation.
- (d) It is somewhat doubtful whether grounded theory in many instances actually results in theory. As previously suggested, it provides a rigorous approach to the generation of concepts, but it is often difficult to identify what theory, in the sense of an explanation of something, is being put forward.

Notwithstanding these criticisms, the researcher considers grounded theory to offer the most effective general strategy for conducting qualitative data analysis, though how far the method is followed could vary from study to study. Grounded theory was applied by the researcher to investigate specific corporate problems in order to solve them. It can be used thus to support applied research, which is primarily concerned with operational problems that require solutions. The focus in this type of research is on practical matters, for example (again) the theme of this research: *“What to do with insolvent banking institutions in Zimbabwe”* and *“How to minimise liquidation of viable companies in Zimbabwe’s banking sector”*

Applied research has assisted in developing a model. In the course of solving problems, practice-oriented business researchers encounter new questions and problems, and find ways to solve them.

In applied business research the questions often stem from a particular institution or bank official and are presented to the researcher. Therefore, applied business research often has a distinct starting point. For example, researcher and stakeholder(s) have to exchange information or reach agreement on the exact nature of the question at the outset. Grounded theory, supported by applied research, pays more attention to questions such as: What is the value of the study? For whom is this study interesting? Again, the emphasis in applied business research is on usability and practical relevance.

It can be concluded that, despite the emphasis on usability, applied business research is based on scientific methods. It is fundamental research, and therefore is scientific. Whether research can be considered scientific or not depends on the methods rather than on the research objective.

3.5 Case Study Research Method

Case studies place more emphasis on a full contextual analysis of fewer events or conditions and their interrelations. Although hypotheses are often used, the reliance on qualitative data makes support or rejection more difficult. An emphasis on detail provides valuable insight for problem solving, evaluation, and strategy. This detail is secured from multiple sources of information. It allows evidence to be verified, and avoids missing data [Cooper and Schindler, (2003)].

According to *Vander Velde, Jansen and Anderson (2004)* if the aim of the research is to conduct an intensive study of a phenomenon within the total, natural surroundings, a case study is the appropriate method. The case study is often used to describe, rank and explore data with the aim of generating hypotheses or illustrating an existing theory. In the latter situation, the case study is typically used to illustrate or clarify a theoretical argument. Where the case study is used as a basis for theory development; this is referred to as grounded theory.

Vander Velde, Jansen and Anderson maintain that an advantage of the case study is that it can provide deeper insight into the ways in which people and departments respond to, hold mutual expectations of, and accommodate their behaviour to each other. For case study research, an a priori theory is preferable; where many individual case studies are conducted without the unifying principle of a theory, the research becomes hit-or-miss. However, these theoretical concepts must not be distractions while conducting the case study.

The researcher developed a model called Tudor House Consultants [THC] Model, described in detail above (Chapter 1, p 20-21). In the following chapter, “Qualitative Analysis of Data”, several case studies, highlighted by the *Reserve Bank of Zimbabwe, Troubled Banking Institutions (2006)*, and also some from reports prepared by curators/liquidators in Zimbabwe were analysed. It is envisaged that the model can be useful in minimising liquidation of viable banking institutions in Zimbabwe and other developing and developed countries.

3.6 Archival Research Method

According to Saunders et al 2003 documentary secondary data are often used in research projects that also use primary data collection methods. They can also be used on their own or with other sources of secondary data, in particular for historical research.

In evaluating secondary data sources, Saunders et al suggest that secondary data be viewed with the same caution as any primary data collected by the researcher. They note that it is necessary to be sure that they will facilitate the answering of the research question(s) and the meeting of objectives. The benefits associated with their use must be greater than the costs, and, of course, access to the data must be possible.

The researcher used a combination of primary and secondary data in this study. Notwithstanding difficulties faced in using secondary data, qualitative analysis of such data can offer rich opportunities, not least because the tendency for qualitative researches to generate large and unwieldy sets of data means that much of the material remains under-explored.

3.7 Narrative Analysis

For Saunders et al grounded theory involves fragmentation of qualitative data to further the process of analysis, while others regard this as inappropriate. Those advocating more interpretative approaches suggest that the researcher should retain the integrity of the collected data and commence analysis from the basis of the verbatim transcripts or complete sets of notes thus produced.

Saunders et al maintains that the primary method of collecting data in these approaches must be the in-depth interview. As part of this process, it is probable that participants will provide accounts in the form of narratives, or stories. The researcher may also deliberately encourage this by asking participants to provide responses in this form. A narrative is broadly defined as an account of an experience that is told in a sequenced way, indicating a flow of related events that, taken together, are significant for the narrator and which convey meaning to the researcher.

Saunders et al argue that understanding and meaning are likely to be promoted through analysing narrative accounts in their originally-told form rather than by fragmenting them through a process of coding and categorisation. This is not to say that such accounts cannot also be subjected to this categorisation.

According to Saunders et al (2003) narrative, as a story with a beginning, middle and an end will broadly follow a perceptible structure. The structural elements often present in narratives take the following form:

- (a) What is the story about?
- (b) What happened, to whom, whereabouts, and why?
- (c) What consequences arose from this?
- (d) What is the significance of these events?
- (e) What was the final outcome?

Saunders et al concluded that in this way, narrative analysis may be used as a means to explore linkages, relationships and socially constructed explanations that naturally occur within narrative accounts, where fragmentation of these into categories and themes would therefore be rendered unnecessary. Second, the structural elements present in narratives may also help in analysing each narrative account and perhaps to comparing the course of events in different narratives where this is considered likely to be beneficial. The researcher largely used narrative analysis on case studies, with regard to banking institutions placed under liquidation.

3.8 Qualitative Sampling

The purpose of taking a sample is to obtain a result representative of the whole population being sampled without going to the trouble of examining each individual element. The problem is that no sample can be guaranteed to be representative. If a large number of different samples are taken from the same population, some would overestimate and others underestimate the true figure. The margin, or limit of error, is a measure of this uncertainty in the representativeness of the sample [Fisher, 2007].

Sampling is the process or technique of selecting a part of a population for the purpose of determining parameters or characteristics representative of the whole population. There are five main reasons for sampling instead of a census; economy, time, the large size of many populations, the inaccessibility of some of a particular population and accuracy/precision [Gani Guler and Laxton, 2004].

For all research questions where it would be impracticable for you to survey the whole population a sample must be selected. This is important whether a predominantly qualitative or quantitative research strategy is envisaged. It might be possible, for instance, to obtain permission to collect data from only two or three organizations [Saunders et al 2003].

According to the *Reserve Bank of Zimbabwe, Annual Report (2004)*, during the 2003/2006 banking crisis, the banking sector in Zimbabwe was mainly composed of 17 commercial banks, 6 merchant banks, 6 building societies, 4 finance houses, 6 discount houses and about 35 asset management companies. The Reserve Bank of Zimbabwe noted that some asset management companies such as ENG Asset Investments (Private) Limited were not registered with the Reserve Bank of Zimbabwe.

The researcher collected data from 10 commercial banks, 1 finance house, 2 discount houses, 2 building societies, 1 merchant bank, 3 asset management companies, as well as from the Reserve Bank of Zimbabwe and other stakeholders such as banking institutions placed under liquidation and curatorship. It can therefore be concluded that the sample used by the researcher was a fair representative of the banking sector at the time because of the reliability and validity of the sample.

3.9 Ethical Considerations and Limitations

Researchers often work independently, with significant latitude in designing and executing research projects. All research designs should include safeguards against causing mental or physical harm to participants, and should make integrity a first priority. Ethical issues in research reflect important moral concerns about the practice of responsible behaviour in society [Cooper and Schindler, 2003].

‘Ethically well-considered’ means that the conduct of research and its findings may not cause any harm, directly or indirectly, to any party involved in the research [Vander Velde, et al, 2004].

According to Lancaster (2005), examples of ethical issues which arise, particularly where the research forms the basis of a student dissertation, include:

- (a) Whether the researcher will disclose to members of the organisation the existence of the research study, and if so, which members will be privy to the information gathered;
- (b) Where the research study is disclosed to members of the organisation, how much information regarding, for example, the nature and purpose of the research, will be divulged, and to whom;
- (c) How much ‘power’ the researcher will be given, for example, with regard to requiring organisational members to participate in the research, provide information.

3.10 Qualitative Data Analysis

In qualitative research the results are not directly numerical in nature, but are composed, for example, of words (narrations or descriptions of behaviour) which must later be categorised and quantified (converted into numerical values). Generally speaking, qualitative research requires more time afterwards, during the data analysis phase, since the various answers have to be quantified. In qualitative research, however, calculations still need to be made and the statistics understood. The only difference is that the data is quantified afterwards instead of beforehand [Vander Velde, et al 2004].

As a general rule, information is considered to be qualitative if it cannot be analysed by means of mathematical techniques. Qualitative research allows in-depth analysis of problems, opportunities and situations in the business environment, and it has the advantage in some instances of being less costly than quantitative research techniques for gathering data [Gani, Guler and Laxton 2004].

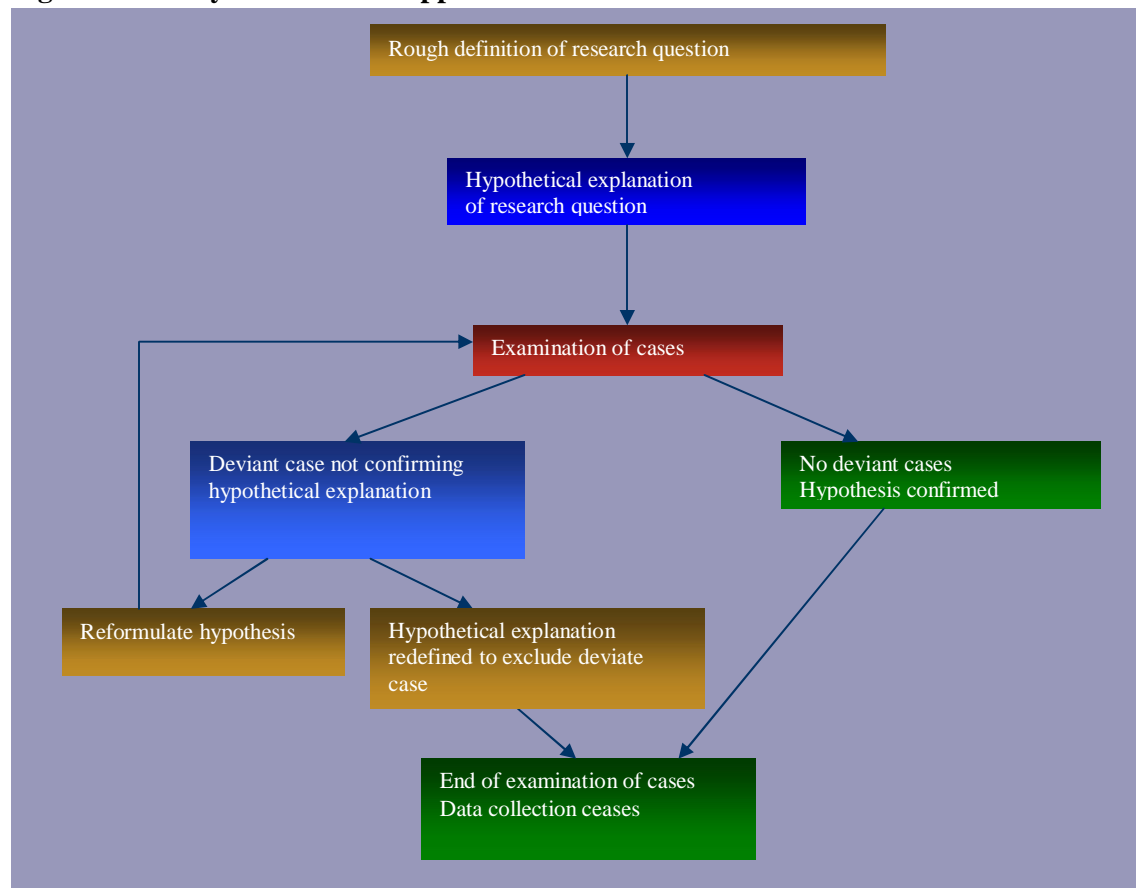
Qualitative analysis involves data not amenable to numerical measurement. This is not to suggest that all qualitative data cannot be translated into data that is amenable to quantitative techniques. However, some qualitative data simply cannot be subjected to numerical measurement and analysis, even if the researcher should wish to do so. This potential conflict concerning unquantified qualitative data, has led to two broad alternative ways of analysing it, namely content analysis and grounded theory [Lancaster, 2005].

Lancaster noted that with content analysis, essentially, the researcher decides in advance what is being looked for and measured through the qualitative research, and then develops frameworks of classifications for assessing the content of the data with regard to these measures. In grounded theory, therefore, the researcher takes the qualitative data and attempts to identify key themes, patterns and categories from the data itself.

According to *Saunders, et al, (2003)* the features of qualitative data indicate the diverse nature of qualitative analysis. To add to this, or because of it, there is no standardised approach to analysis. These categories indicate a number of broad ways of differentiating approaches to qualitative analysis. In this way, some approaches adopt a much lower level of structure. Related to this, some approaches may be highly formalised and proceduralised, whereas others rely much more on the researcher's interpretation.

One difference between qualitative and quantitative data analysis is that, with the latter, analysis invariably occurs after the data has been collected [Bryman and Bell, 2003]. General approaches, like grounded theory (analytic induction), are often described as iterative i.e., there is a repetitive interplay between the collection and analysis of data. Analytic induction is an extremely rigorous method of analysis, because encountering a single case that is inconsistent with a hypothesis is sufficient to necessitate further data collection or a reformulation of the hypothesis. Furthermore, selection of cases must be sufficiently diverse as to have adequately challenged the theory (ibid). This is depicted in Figure 3.1 below:

Figure 3.1 Analytic Induction Approach



Source: Bryman and Bell (2003) *Business Research Methods* p.246

According to Bryman and Bell (2003), analytic induction is an approach to the analysis of data in which the researcher seeks universal explanations of phenomena by pursuing the collection of data until no cases remain that are inconsistent with a hypothetical explanation (deviant or negative cases).

3.11 CAMELS Rating System

According to the *Reserve Bank of Zimbabwe, Troubled And Insolvent Banks Policy (2004)* the RBZ adopted an internationally recognized rating system in the evaluation of the performance and condition of the banking institutions in its purview. Reserve Bank of Zimbabwe maintain that this standardised rating system also facilitates the identification of those institutions whose financial, operational, managerial or compliance weaknesses require special supervisory attention and/or warrant a higher than normal degree of supervisory concern. The Reserve Bank regards the rating system as an important tool in promoting financial stability.

The ratings are assigned to each of the six components, and then an overall, or composite, rating is assigned. Ratings are on a scale of 1 to 5 with respect to safety and soundness. Under the CAMELS system, each banking institution is assigned a composite rating based on an evaluation and rating of six essential components of its financial condition and operations.

These component factors assess adequacy of capital, quality of assets, capability of management, quality and level of earnings, adequacy of liquidity and sensitivity to market risk. Evaluations of the components take into consideration the institution's size and sophistication, the nature and complexity of its activities and its risk profile. Composite and component ratings are assigned based on a 1 to 5 numerical scale. 1 is the highest rating, indicating the strongest performance and risk management practices and the lowest cause for supervisory concern. 5, the lowest rating, indicates the weakest performance, inadequate risk management practices, and the highest cause for supervisory concern.

According to the *Reserve Bank of Zimbabwe, Troubled And Insolvent Banks Policy (2004)* the CAMELS components are summarized as follows:-

- **Capital Adequacy**
Financial institutions are expected to maintain capital levels commensurate with their risk profiles and the strength of management.
- **Asset Quality**
Asset quality is the quantity of existing and potential credit risk associated with the loan and investment portfolios, other assets and off-balance sheet transactions.

- **Management**
Management performance is evaluated against virtually all factors considered necessary to operate the bank within accepted banking practices and in a safe and sound manner.
- **Earnings**
Earnings are evaluated in relation to quantity, trend, sustainability and quality of the institution's earnings.
- **Liquidity and Funds Management**
Liquidity and funds management are evaluated in relation to the overall effectiveness of asset and liability management, among other things.
- **Sensitivity to Market Risk**
The sensitivity to market risk component reflects the degree to which changes in interest and foreign exchange rates, and commodity and equity prices can adversely affect a financial institution's earnings or economic capital.

The researcher applied CAMELS rating system in analysing banking institutions.

3.12 Tudor House Consultants – BICEPS Model

In addition to the CAMELS rating system, the researcher applied the BICEPS model in qualitative analysis. BICEPS is an acronym for Business Strategy Analysis, Internal Control Systems Analysis, Corporate Governance Analysis, Ethics in Business Analysis, Participation by All Stakeholders Analysis and Stakeholder Satisfaction Analysis. Under the BICEPS model each banking institution is assigned a composite rating based on the level of effectiveness of corporate governance and rating in terms of the abovementioned six components of corporate governance.

Analysis of these components can be applied to any corporate or banking institution, regardless of size, business activities, internal or external factors of the business.

Once the ratings have been assigned to all six components an overall, or composite, rating is assigned. Ratings are on a scale of 1 to 6 which then reflect the effectiveness of corporate governance, stakeholder participation in strategic decision-making, and the resultant stakeholder satisfaction.

Composite and component ratings are based on a 1–6 numerical scale, with 1 as the highest rating, indicating the most effective practice in the three parameters. The achievement of being assigned a numerical scale I would be expected to be reflected in an increase in market share, volume of sales, business value and levels of profitability, all on a sustainable basis. A banking institution would also be expected to be financially sound. While a numerical scale 6, the lowest rating, naturally, indicates ineffective or insufficient application of corporate governance considerations, and would be expected to be reflected in financial distress, threatened viability or even liquidation of viable institutions. This would come at the expense of all stakeholders.

The components of the BICEPS MODEL are analyzed as follows:

- **Business Strategy Analysis**

A business strategy formulated and implemented by top management should assist an organization in increasing its market share, level of profitability and the value of business by gaining a sustainable competitive advantage through unique but legal and ethical business activities. The strategy should come up with goals and policies which are consistent and achievable. In formulating a business strategy, management must be guided by the marketing principle of satisfying customers' needs better than competition.

An effective business strategy must also include internal and external environmental scanning and then come up with plans to deal with opportunities and threats in the light of a company's strengths and weaknesses. The main purpose of a business strategy should be to survive and prosper in the best interest of all its stakeholders.

It is important that the maximization of profits is directly linked to maximizing the value of an organization as measured by its net present value of returns or cash flows generated by its assets. Cash flows must also be linked to the institution's ability to increase its market sales and level of profitability.

A banking institution or company can first formulate alternative business strategies, second judge the value of cash flows linked to each strategy, third, estimate cost of capital for each alternative strategy and then finally, choose the most effective strategy that generates the highest possible net present value.

An organization and a banking institution in particular can gain a competitive advantage by attaining a higher level of profitability over its competitors through service differentiation in such a way that a customer will not object to pay a premium price that exceeds the extra cost of the differentiation. This can be achieved by rendering high quality unique services that are different from the generic banking services. BICEPS MODEL therefore can be applied to measure the effectiveness of a particular business strategy through empirical business research.

- **Internal Control Systems Analysis**

It is the function of the board of directors to establish “water tight” internal control systems in order to safeguard assets and information systems of an organization from fraudulent manipulation of records. Fraud can reduce the value of a business to the extent that it may end up in liquidation at the expense of all stakeholders. All organization are faced with different forms of risks and again it is the function of top management to minimize such risks. The BICEPS Model can therefore be applied to measure the effectiveness of internal control systems of a particular organisation through further research.

- **Corporate Governance Analysis**

The establishment of effective corporate governance structures within an institution is to ensure that the main objectives are achieved in the best interest of the company and all its stakeholders. Corporate governance must therefore be linked to the increase in value of business and business growth.

The appointment of independent non-executive directors and members of various committees is an important attribute of corporate governance. The level of integrity and competence of top management is also important. Corporate restructuring on a regular basis and the ability by the major shareholders to recapitalize the operations and fixed assets of the business is critical for the survival of any company and particularly banking institutions. The BICEPS MODEL can therefore be applied to measure the effectiveness or existence of corporate governance of a specific banking institution for example.

- **Ethics in Business Analysis**

It is incumbent upon the board of directors, management and staff to make the right ethical decisions on behalf of an organization and in the best interest of all stakeholders. Unethical decisions can tarnish the image of an organization and it can be demonstrated that this can result in a decrease in market share, sales, profitability levels and the value of business. Business ethics principle can be applied through ethical codes of conduct to reduce fraud and to promote profit maximization.

Business ethics is certainly not about protecting one's own interests only but the interests of others. The right ethical decisions are therefore sustainable in the long run as compared to fraudulent, immediate and short run gains. Effective application of business ethics by protecting the interests of all stakeholders, establishment of codes of ethics, whistle-blowing and preventing fraud can minimize the liquidation of viable companies. The BICEPS MODEL can therefore be applied to measure the effectiveness of business ethics through further empirical research.

- **Participation of All Stakeholders Analysis**

The researcher maintains that all stakeholders must be allowed to participate in, or at least must be consulted about strategic decision-making. In order for an institution to improve its image it is necessary for all stakeholders to participate in strategic decisions. For example, in a banking hall, bank tellers and security personnel have direct communication with valuable customers and they receive important information every day.

These employees should therefore be allowed to participate in the formulation of the business strategy of the banking institution. Contributions by all stakeholders, including constructive criticism is therefore critical for the success of every institution. The degree of participation of all stakeholders can therefore be analyzed by the application of the BICEPS MODEL.

- **Stakeholder Satisfaction Analysis**

Banking and corporate institutions must be aware that the body of stakeholders have different and conflicting interests. As a way of minimising the liquidation of viable institutions the top management should attempt to understand and then at least try to satisfy the needs of all stakeholders consistent with the best interest of the institution. Analysis of the stakeholder satisfaction component can therefore be applied to measure the level of satisfaction by all stakeholders and its link to sustainable business growth. In order to obtain co-operation from, say, customers, employees, shareholders and creditors, top management should satisfy the needs of such stakeholders in the best interest of the institution. It is therefore important for management to know whether or not their strategic decisions are satisfying the interests of different groups of stakeholders. Stakeholders satisfaction analysis can therefore be applied through empirical research to measure level of satisfaction and its effects to the institution.

3.13 Prediction of Financial Distress and Turnaround

According to *Palepu, Healy and Bernard (2000)* a number of multi-factor models have been designed to predict financial distress. One such model is the Altman Z-score model. The model predicts bankruptcy when $Z < 1.20$. Palepu et al argue that the range between 1.20 and 2.90 is labelled the “gray area” and the Altman Z SCORE MODEL is shown below:

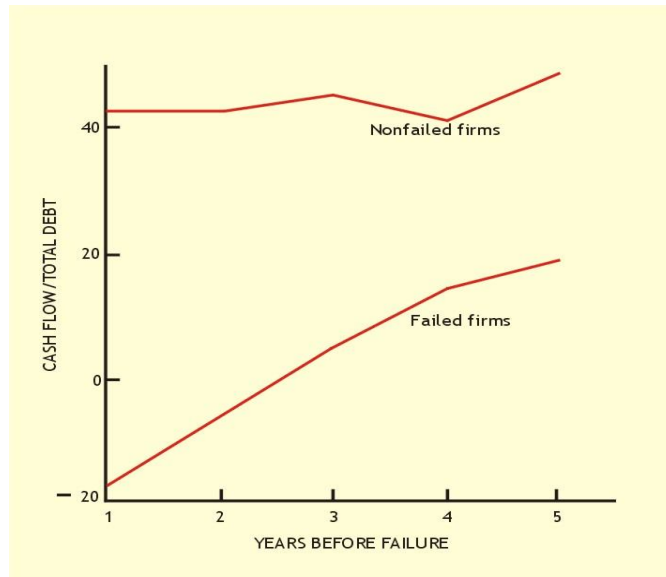
$$Z = .717 (X_1) + .847 (X_2) + 3.11 (X_3) + .420 (X_4) + .998 (X_5)$$

Where X_1 = net working capital/total assets
 X_2 = retained earnings/total assets
 X_3 = EBIT/total assets
 X_4 = shareholders' equity/total liabilities
 X_5 = sales/total assets

Altman worked with a sample of corporations that filed for bankruptcy. Starting with 22 financial ratios, he selected the 5 that did the best combined job of predicting bankruptcy. These ratios were used to discriminate between bankruptcy and non bankrupt firms, using data from 1 to 5 years prior to bankruptcy. As expected, the predictive accuracy of the multiple **discriminant** model declined with the increase in years before bankruptcy [*Van Horne, 1989*].

The Z- Score model itself was the following:

Figure 3.2 Comparison of mean values for failed and nonfailed firms



Source: Van Horne, (1989) *Financial Management and Policy*, p.731

$$Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + .6X_4 + 1.0X_5$$

Where X_1 = working capital to total assets

X_2 = cumulative retained earnings to total assets

X_3 = earnings before interest and taxes to total assets

X_4 = market value of equity to book value of total liabilities

X_5 = sales to total assets

Van Horne maintained that the Z ratio is the overall index of the multiple discriminant function. Altman found that companies with Z scores below 1.81 (including negative amounts) always went bankrupt, whereas Z score above 2.99 represented healthy firms. Firms with Z scores in between were sometimes misclassified, so this represents a gray area. On the basis of these cut offs, Altman suggests that one can predict whether or not a company is likely to go bankrupt in the near future.

According to *Correia, Flynn, Uliana and Wormald, (2010)* a statistical technique called multivariate discriminant analysis (MDA) is used to classify the ratios into one of two groups, such as failed or non-failed, based on a set of predesignated ratios. The technique, based on regression analysis, establishes coefficients for the ratios that minimize misclassification. Most of the discriminant analysis has been used to classify companies as subject to financial distress or not. This classification is made on the basis on each company's characteristics as measured by its financial ratios.

Correia et al (2010) maintain that the best known of these models was developed by Edward Altman who applied MDA to a sample of companies and developed a discriminant function that classified companies either as failed or successful. Altman model is as follows:

$$z = 0.012x_1 + 0.014x_2 + 0.033x_3 + 0.006x_4 + 0.999x_5$$

Where

- x_1 = net working capital/total assets
- x_2 = retained earnings/total assets
- x_3 = EBIT/total assets
- x_4 = market value of common and preferred stock/book value of debt
- x_5 = sales/total assets

It should be noted that the first four variables are expressed as percentages, not as decimals. Altman found that the mid-point of his distribution was 2.675 and that a zone of uncertainty existed from 1.81 to 2.99. This meant that if the model was applied to a company and a score of between 1.81 and 2.99 was obtained, a classification could not be made with certainty.

However if the score was below 1.81, the company was almost certain to fail while if the score was above 2.99 the company was almost certain to succeed. The researcher also applied the Altman Z Score Model in carrying out analysis of some of the banking institutions.

3.14 Field Interview Schedules (Questionnaires)

The interview is probably the most widely-used method in qualitative research. The flexibility of the interview is what makes it so attractive. The term ‘qualitative interview’ is often used to refer to the different types of interview methods used in qualitative research. Such interviews tend to be less structured than the kind associated with survey research. A point to note here is that in qualitative research no single interview stands alone: “It has meaning to the researcher only in terms of other interviews and observations” [Bryman and Bell, 2000].

In this research semi-structured interviews were used. The interview schedules (questionnaires) covered the subjects of Corporate Governance, Internal Control Systems, Business Strategies and Business Ethics. Data, including financial records, were obtained from corporate secretaries and directors of various banking institutions. In Zimbabwe, like many other countries, corporate secretaries and directors act as a link between the board of directors and the other stakeholders. Two additional schedules were used to collect data from the Reserve Bank of Zimbabwe and the rest of the stakeholders: employees, shareholders, customers, management, business associates, as well as suppliers of goods and services. With regard to banking institutions placed under liquidation or curatorship from January 2004 to December 2006, data and financial records were obtained directly from liquidators and curators. This also covered data on bank restructuring.

Bryman and Bell maintain that a further point to bear in mind is that the researcher needs to be flexible in his/her approach to interviewing in qualitative research. This advice has not just to do with needing to be responsive to what participants say, and following up interesting points that they make, but also with such matters as varying the order of questions, following up leads and clearing up inconsistencies in answers. Flexibility is important in other respects too, such as coping with audio-recording equipment breakdowns and refusals by participants to allow recording of the interviews.

3.15 Corporate Governance Interview Schedule

The corporate governance interview schedule was designed to measure the formulation, implementation and effectiveness of corporate governance principles and policies in the best interests of all stakeholders. The objective was to determine how corporate governance principles and policies can be used to minimise liquidation of viable institutions.

Question 1 *State name of your organisation.* The question thus identified a specific institution within the banking sector based on the sample.

Question 2 *What is your position in your organisation?* The topic of Corporate Governance must be addressed by a senior executive within an institution. In the case of Central Africa Building Society (CABS), the interview schedule form was completed and answered by the Corporate Secretary and the General Manager: Finance & Treasury.

Question 3 *For how long have you been with your organisation?* A senior executive who has worked at an institution for five or more years would be expected to have a complete knowledge of all its activities. In this case the General Manager Finance & Treasury at the date of the interview had worked there for 35 years.

Question 4 *How many directors are there in your organisation?* The number of directors is usually determined by the volume of the business activity. In this regard CABS had 12 directors.

Question 5, *How many of these are non-executive directors?* Every institution is expected to have a majority of independent non-executive directors in order to ‘police’ the executive directors. CABS had 10 non-executive directors out of a total of 12.

Question 6 *Explain how each non-executive director (including the chairman) was identified and engaged.* The idea here was to determine whether all stakeholders took part in the appointment of independent non-executive directors - considered best practice, especially in public institutions. More important, the non-executive directors should be completely independent from the executive directors and major shareholders.

Question 7 *How many governance committees are there in your organisation? Public institutions, including private companies, controlling the working lives of thousands of people and managing assets worth billions of dollars on behalf of the public, should have at least all of the critical governance committees, such as the Finance & Audit, Risk Management & Legal, Credit & Liabilities and Business Development.*

Question 8 *State the name of each committee, with the composition of each, and the number of non-executive and executive members. Also indicate whether the chairperson is an executive or non-executive board member.*

The researcher considers that the main governance committees should consist of a majority of independent non-executive directors in the interests of objectivity and safeguarding the interests of shareholders and others. They should have the knowledge and ability to challenge management and expose strategic issues which the board as a whole needs to know about.

Question 9 *Explain how the board of directors has aligned the goals of the organisation with those of all stakeholders, namely equity holders, employees, suppliers of goods and services, the government, customers and the public. Stakeholders have various, sometimes conflicting, interests, and alignment of the goals to these interests generally can be achieved only through the participation of stakeholders in the formulation, implementation and control of principles and policies.*

Question 10 *Briefly describe how the business and corporate strategies of your organisation are formulated and implemented. The concern, again, is that this should be done through the participation of all stakeholders.*

Question 11 *How are the board members expected to act where the interests of shareholders conflict with the interests of the company? This question seeks to determine whether in such cases the board of directors would keep the interests of the company paramount, as it ought to.*

Question 12 *Briefly explain the fiduciary responsibilities of your board members.* The question is concerned with whether the board would exercise the outmost good faith, honesty and integrity, acting independently of any outside instruction or influence. The directors should always act in the best interests of the company, and not those of particular sectors.

They are expected to avoid situations of conflict of duties/interests, disclosing potential conflicts as early as possible. Based on principles of democratic management, members of the board should be prepared to disagree with colleagues on the board, including the chairperson and the Chief Executive Officer.

Question 13 *Have the directors in your organisation delegated statutory obligations, especially sections 140, 176, and 186 of the Companies Act (Chapter 24:03)?* While the board members may delegate some of its responsibilities to management and governance committees, they are not expected to delegate statutory obligations such as these, and should be held responsible and accountable in their individual, personal capacities.

Question 14 *In your opinion, are all your non-executive directors aware of the economic, social and political environment in which the institution operates, and do they really understand how the organisation makes money?* Non-executive directors are required to bring special skills or knowledge to the institution. The appointments should not be based on personal relationships with the majority of shareholders, executive directors or other parties.

Question 15 *Indicate which of the following models best fits your organisation in terms of the degree to which the board is engaged in influencing management decisions and the company's direction:*

- (a) *The Passive Board* – a board that functions at the discretion of the Managing Director, and limits its activities and participation.
- (b) *The Certifying Board* – a board that certifies to shareholders that the Managing Director is doing what the board expects and that management will take corrective action when needed.

- (c) *The Engaged Board* – a board that provides insight, advice and support to the Managing Director and his/her team. It also seeks out appropriate industrial and financial expertise to add value to decisions.
- (d) *The Intervening Board* – a board that becomes intensely involved in decision-making on key issues and convenes frequent, intense meetings, often at short notice.
- (e) *The Operating Board* – a board that makes key decisions that management then implements, and also fills gaps in management experience [*Hendrikse and Hendrikse 2004*].
- (f) *None of the above.*

If your answer is 'none of the above', please support your answer, with examples if possible. The idea here is not to classify boards too rigidly. These characterisations are, after all, essentially models. In practice, boards move back and forth across the scale in their level of engagement, changing with issues and circumstances. Thus, a 'passive' or 'certifying' board in crisis may temporarily become 'intervening' in order to, say, remove the Chief Executive Officer, and then become 'operating' until a new leader is in place. This was the pattern in a number of banking institutions, such as Century Holdings, Trust Holdings, Premier Banking Corporation and Metropolitan Zimbabwe Bank.

Selecting a particular level of engagement provides the philosophical framework for subsequent operations. Merely having that conversation is a significant first step towards improved board performance. The board may find that it disagrees sharply with the executive team about its role, or that individual directors hold divergent views, making it difficult to act in concert. Having characterised itself and management, the board can evaluate each subsequent decision from fidelity to the model [*Hendrikse and Hendrikse 2004*].

Question 16 On 30 September 2004 the Reserve Bank of Zimbabwe responded to the collapse of more than half a dozen financial institutions by issuing Guideline Number 01-2004/BSD, entitled Sound Corporate Governance Requirements through its Bank Licensing, Supervision and Surveillance Division.

- a) *Explain how shareholders can ensure that the board of directors is constantly held accountable for efficient and effective governance of the institution. According to Hendrikse and Hendrikse (2004) this can be achieved by the process of shareholder activism, an intervention used principally by institutional investors on behalf of individual shareholders to engage with companies in which they have shareholdings.*
- It is not simply a question of buying and selling shares, but of using their voice to influence management behaviour in the pursuit of better performance *Hendrikse, (2004)*.
- Hendrikse noted that activist shareholder activities include direct negotiation with top management and trying to coordinate activities with those of other shareholders. This can also be achieved by the appointment of independent auditors and participation of all stakeholders in the formulation and implementation of strategic policies.
- b) *Indicate the number of managers or directors (if any) with direct or indirect shareholding, with details of their percentages. Managers and directors managing public assets or funds, whether in public or private institutions, are expected to hold not more than 5% direct or indirect shareholding, as more than this is against basic principles of business governance.*
- c) *Explain how your institution has complied with provisions of sections 32, 34, 35, 36, 37 and 40 of the Zimbabwe Banking Act (Chapter 24:20). These provisions are:*

Section 32 provides that “no banking institution shall purchase its own shares, or shares in any institution through which it conducts banking business, or make any loan or advance on the security of such shares”.

Section 34 provides that “no banking institution shall engage in non-banking business without permission from the Registrar of Banking Institutions, in consultation with the Reserve Bank of Zimbabwe”.

Section 35 provides that “no banking institution shall knowingly extend credit to, or for the benefit of, any of its officers or directors, or any person who holds a significant interest in the banking institution, or any close relative”.

Section 36 provides that “every banking institution shall keep proper books of accounts, and at the end of each financial year prepare financial statements in accordance with such accounting standards, as may be prescribed”.

Section 37 provides that “every banking institution shall maintain, within Zimbabwe, such records as are necessary to reveal clearly and correctly the state of its business affairs and financial condition; and of its transactions, so as to enable the Registrar of Banking Institutions and the Reserve Bank of Zimbabwe to determine whether the banking institution has complied with the Banking Act”.

Section 40 provides that “the board of every banking institution shall appoint an audit committee consisting of a chairman, who shall not be an executive member of the board, and at least two other persons, who shall not be members of the board of directors. The functions of the audit committee shall be to assist the banking institution’s board to evaluate the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied in the day-to-day management of the institution’s banking business”.

It can be concluded that most of the banking institutions which collapsed during the banking crisis of 2003/2006 failed to varying degrees to comply with these statutory requirements, besides other infringements.

- d) *Explain how your organisation can ensure that every board member, and especially non-executive directors, attends at least 75% of the board meetings of your institution. Non-executive members should be paid a fair remuneration based on market trends, coupled to their performance and effectiveness. In the banking sector board attendance should be reported to the central bank and the association of bankers for review and analysis. In addition, non-attendance for no good reason should also result in instant dismissal of irresponsible members.*

- e) *Explain whether Guideline Number 01-2004/BSD (Sound Corporate Governance Requirements) has transformed your institution with regard to management systems, profitability, business growth, shareholding, good return on investments and stakeholder satisfaction. The purpose of the question was to measure the effectiveness of the Reserve Bank’s Guideline.*

Question 17 *Explain your organisation's main social and environmental responsibilities. Give examples.* According to *Hendrikse and Hendrikse (2004)*, the economic performance of a business is the foundation of its success. The bedrock of business is sustainable profits. On profits also is based the contribution of business to social and sustainable development. Hendrikse argues that these profits are the foundation of the history of business success that has stood the test of time.

In addition to these questions the researcher obtained the following authority and information, either directly from institutions or via participants, for qualitative analysis:

- (a) Audited Financial Statements covering the period 1 January 2003 to 31 December 2006;
- (b) Board and Governance Committee minutes (same period);
- (c) Certified Copy of the Trading Banking License;
- (d) Certified Copy of the Certificate of Incorporation;
- (e) Certified Copies of Memorandum/Articles of Association;
- (f) Authority to attend and observe a number of Board/committee Meetings between 1 September 2005 and 30 September 2007; and
- (g) Authority to interview a number of customers, suppliers of goods and services, employees, shareholders, Zimbabwe Revenue Authority, the Reserve Bank of Zimbabwe and independent non-executive directors.

The researcher failed to obtain certain authority, data and information from about 25% of the targeted banking institutions, but managed to find alternative sources for the information. Similar research methods were applied in the cases of Internal Control Systems, Business Strategies, Business Ethics, Stakeholder Involvement, Stakeholder Satisfaction and banking restructuring within the targeted banking sector.

3.16 Concluding Comments

The determination of the most effective strategy and procedure of business research methodology and data collection, is one of the most significant stages of the qualitative research. Both primary and secondary data provides the researcher with the basis for quality source of information and at the end problem solving and decision making. It is therefore critical to take note that some types of data and data collection methods are similar as well as different from each other.

Accordingly, details of the fieldwork, methods of data collection and analytical strategies were covered in detail in this chapter. These included Research Approach, Case Study Research Method, Archival Research Method, Narrative Analysis, Qualitative Sampling and Qualitative Data Analysis.

In addition to the above, the researcher adopted CAMELS Rating System an internationally recognised rating system in the evaluation of the performance and conditions of the banking institutions. CAMELS was adopted by the Reserve Bank of Zimbabwe before the 2003/2006 banking crisis in Zimbabwe.

The Risk Assessment System [RAS] a method used by the Reserve Bank of Zimbabwe to identify, evaluate, document and communicate the assessment of the quantity of risk, the quality of risk-management, and the direction of risk at each banking institution, was also adopted by the researcher [*Reserve Bank of Zimbabwe, Troubled And Insolvent Banks Policy 2004*].

The researcher also adopted the Altman Z-Score Model generally used by business analysts to predict bankruptcy of corporate and banking institutions.

The aforementioned methods techniques and strategies were applied in the next chapter in carrying out Qualitative Data Analyses, including Tudor House Consultants – (THC) BICEPS MODEL developed by the researcher.

CHAPTER FOUR

4.0 RESULTS OF RESEARCH ANALYSIS

4.1 Introduction

The previous chapter discussed the various data collection strategies and methods. This chapter is concerned with the processes that follow this. Specific approaches to qualitative data analysis were applied, along with coding, which was the main feature of most of these approaches. According to *Gani, Guler and Laxon (2004)*, once the data are collected, attention is directed to analysing it. The purpose of analysis is to generate meaning from the collected raw data.

Qualitative analysis involves the analysis of data that is not amenable to numerical measurement. This is not to say that nonqualitative data can be translated into data amenable to quantitative techniques. For example, the measurement of attitudes, essentially a qualitative dimension, can be translated into numerical attitudinal scales that can then be analysed using quantitative techniques [*Lancaster, (2005)*].

Lancaster adopted the following as “the three key steps in analysing any form of qualitative data, and therefore common to any of the techniques of qualitative data analysis”:

(a) Data reduction

This, the first step in analysing qualitative data, is the process of selecting, focusing, simplifying, abstracting and transforming qualitative data by identifying and organizing it into clear patterns.

(b) Data display

The second stage in analysing qualitative data involves presentation in ways which enable others to assess, interpret and evaluate the researcher’s interpretations and conclusions.

(c) **Conclusion drawing and verification**

The third element in developing more systematic techniques of analysing qualitative data is drawing definitive conclusions from the data. Conclusions may emerge much earlier in the research process inasmuch as the sorts of data collected and the reasons for this, may stem from initial ideas, or ‘early conclusions’, of what the data may reveal. Final conclusions, however, will arise only from the complete analysis of the qualitative data after data reduction and data display.

Consonant with the main objectives of the research topic, the researcher applied these methods of qualitative analysis to the banking institutions placed under liquidation during the 2003/2006 banking crisis, both to those that were restructured and those which survived. The analyses also measured the effectiveness of corporate governance, internal control systems, business strategies and business ethics in these institutions.

The analyses also focused on banking restructuring and re-capitalisation of banking institutions. The monetary and fiscal policies of the Reserve Bank and the Ministry of Finance and Economic Development were also analysed.

4.2 QUALITATIVE ANALYSIS OF BANKING INSTITUTIONS PLACED UNDER LIQUIDATION DURING THE JANUARY 2004 - DECEMBER 2006 BANKING CRISIS

The following is a sample of banking institutions placed under liquidation during the crisis:

4.2.1 Century Discount House Limited (CDH)

A firm of Chartered Accountants, Ernst & Young (Zimbabwe) reported in their Forensic Report in May 2004, that between March 2003 and December 2003, the executive managers of CDH siphoned depositors' funds in the amount of Zim\$45 billion by failing to disclose their transactions with a company that operated without obtaining a banking license from Reserve Bank of Zimbabwe, ENG Investments (Private) Limited [*Century Discount House Limited (2004) Ernst & Young Forensic Report*].

In April 2003 the holding company of CDH, Century Holdings (Private) Limited signed an Agreement of Sale with ENG and until the placement of CDH under liquidation in January 2004, no approval had been obtained from RBZ.

It is apparent that the key stakeholders, such as depositors, creditors, RBZ, management and staff, business associates, the public and potential customers, were never consulted (through stakeholder analysis) and were not given the opportunity to participate in strategic decision-making. It also took 12 months for RBZ to take corrective measures and this was at the expense of the investing public. It is also astonishing that the credibility and integrity of ENG as potential investors were never checked by the management and shareholders, as would be expected under conditions of due diligence. [*Century Discount House Limited (2004) Liquidator's Report*].

This was, of course, grossly unethical conduct on the part of the top management of CDH. All codes of business ethics naturally stipulate morally acceptable behaviour in the institution.

In May 2004 the liquidator of CDH instituted both criminal and civil proceedings against CHL and the top management of both, as provided by Zimbabwe Companies Act (2000) [Chapter 24:03].

A few days before the court hearing in May 2006 the respondents offered as settlement to pay an amount of Zim\$16 billion, in order to discharge the total shortfall outstanding in High Court Proceedings – Case Numbers HC3768/2004 and HC5151/2004. The depositors eventually received all their funds, though the money had lost value due to high inflation. It also lost value due to the ‘time value of money’. The depositors were allowed to charge interest only up to the date of liquidation (20 January 2004), and it took them a full three years to receive what was considered ‘a paltry sum of money’.

Regrettably, it took the RBZ almost a year to take the corrective action of placing CDH under liquidation on 20 January 2004, from January 2003, High Court of Zimbabwe, Case Number 544/04, in order to minimize further losses. The Zimbabwe Depositors Protection Fund made interim relief payments to the depositors at the commencement of liquidation, but the amounts were regarded as insignificant and unacceptable.

Qualitative Analysis – Using the CAMELS Rating System

(a) Capital Adequacy

In 2003 Century Discount House Limited incurred a loss of Zim\$31.9 billion, resulting in a negative equity position of Zim\$31.7 billion. There was no capital injection forthcoming from the existing shareholders, resulting in the institution’s capital adequacy ratio deteriorating from a position of 23% on 31 October 2003 to -65% on 31 December 2003, against an average market performance of 29%. Other loans were largely in the form of unsecured advances to ENG, as well as ordinary staff loans and housing, vehicle and overnight loans.

Other assets were made up of motor vehicles, computer equipment, fixtures and fittings, prepayments for vehicles and insurance claims. This is depicted in table 4.2.1 below:

Table 4.2.1 CDH –Capital Adequacy

Asset	Amount Zim\$	Units	Weighted (per cent)	Weighted Units
• Treasury Bills & Government Bonds	6 664 485 000	12	0%	0
• Mortgage Loans	25 194 390	0	50%	0
• Other Loans	45 011 831 036	81	100%	81
• Other Assets	399 512 005	7	100%	7
• Cash	0	0	0%	0
Total	-	-	-	88

Table 4.2.2 CDH-Equity and Liabilities

EQUITY AND LIABILITIES	AMOUNT	UNITS
• EQUITY	31 739 576 730	-57
• LIABILITIES	87 436 599 159	157

Source: [Century Discount House Limited (2004) Liquidator's Report].

$$\text{Capital Adequacy Ratio (CAR)} = \frac{\text{Equity} - \text{Units}}{\text{Asset-Weighted Units}}$$

$$= -57 \left(\frac{\quad}{88} \right)$$

CAR = -65%. Capital adequacy ratio (CAR) is the percentage of its risk-weighted credit exposure.

(b) Asset Quality

Towards the end of 2003 the institution was technically insolvent because 75% of its asset book was made up of Zim\$ \$44 billion in unsecured advances to the unlicensed institution ENG. In addition, CDH had the following non – liquid assets (Zim\$):

- Ordinary staff loans 19 million
- Housing loans 58 million
- Vehicle loans 15 million
- Overnight loans 1 billion
- Fixed Assets 1.147billion

The asset quality, as a function of the quantity of existing and potential credit risk associated with the loan and investment portfolios, other assets and off–balance sheet transactions, was very poor for a banking institution, according to the Camels Rating System.

(c) Management

It can be concluded that the top management team lacked technical competence, leadership, administrative ability and integrity. In many instances they failed to comply with banking laws, regulations and supervisory guidelines and directives, and also failed to maintain business ethical standards and international banking best practice. The ineffective corporate governance structures culminating in corporate governance shortcomings [*Century Discount House Limited (2004) Liquidator’s Report*].

(d) Earnings

In terms of the *Zimbabwe Banking Act (Chapter 20:20)* and peer group comparisons, the core business of a discount house is the discounting of bills, including the buying and selling of financial instruments on behalf of customers and itself. The institution made a loss of Zim\$31.9 billion for the year ended 31 December 2003, which was due mainly to the provision for bad and doubtful debts of Zim\$33.026 billion. The provisions were largely attributed to the Zim\$ 44 billion unsecured exposure to ENG, a non–performing loan.

Due to poor market confidence, the institution failed to source relatively cheap funds from the market, resulting in interest expense of Zim\$ 23.7 billion. Without an injection of fresh capital from the existing shareholders, the institution failed to underwrite any meaningful business, resulting in the incurred loss of Zim\$ 31.9 billion.

(e) Liquidity and Funds Management

Because of the non-performing loan book of ZW\$ 44.4 billion to ENG, the institution had a negative liquidity gap of Zim\$ 30.8 billion. There was a mismatch of assets and liabilities, with a total liquid assets being Zim\$ 7.4 billion against total deposits (liabilities) of Zim\$37.8 billion.

The institution therefore lacked the capacity to honour its obligations to depositors upon maturity of their investments, which were, on average, seven-day investments, resulting in a liquidity crisis that led to its collapse.

According to *Section 16 of the Zimbabwe Statutory Instrument 205 of 2000 Banking Regulations*, CDH was not allowed to have an exposure with any third party that exceeded 25% of the institution's capital base of Zim\$ 1.6 billion. This provision exists in order to avoid a high concentration risk. In this case the risk developed into a systematic risk, following the collapse of ENG Investments, which had a multiple effect on other banking institutions dealing with it, including CDH. Discount houses in Zimbabwe are required to concentrate on their core business of bill discounting. Depositors' funds, which constituted a large portion of CDH's liabilities, were diverted to non-banking activities, which likewise failed to produce profits.

If the institution had concentrated on its core business of bill discounting, including buying and selling of financial instruments for third parties and itself, the chances of a liquidity crisis would have been minimal, as bills are easily converted to cash to satisfy the depositors' needs.

(f) Sensitivity to Market Risk

Changes in interest and foreign exchange rates, and also in commodity and equity prices adversely affected CDH's earnings, as the institution became too sensitive to the economic and political turbulence in Zimbabwe. This came about because the management lacked the ability to identify, measure, monitor and control exposure to market risk. Interest rate risk exposures arising from non-trading positions was great and complex.

Also, the sensitivity of the banking institution's earnings and the economic value of its capital to adverse economic and political changes in market risk was very high. Below is a tabulated summary of the position of Century Discount House on 31 December 2003:

Table 4.2.3 CDH Latest CAMELS Ratings- December 2003

CAMELS Component	31 December 2003
Capital Adequacy	5
Asset Quality	5
Management	5
Earnings & Provisions	5
Liquidity & Funds Management	5
Sensitivity to Market Risk	5
Composite Rating	5

Qualitative Analysis Using BICEPS Model

(a) Business Strategy Analysis

The core business of most successful discount houses in Zimbabwe is the discounting of bills, including the buying and selling of financial instruments on behalf of customers and itself. CDH raised most of its revenue from the public (depositors).

Depositors' funds, which constituted a large portion of the institution's income, were diverted to non-banking activities, which did not result in sustainable profitability and competitive advantage.

The institution operated without an effective business strategy, which ought to have identified key profit drivers and business risks. Competitive business strategy involves being different, and hence deliberately choosing different but legal and ethical sets of activities in order to deliver a unique mix of value. CDH lacked the ability to create a unique and valuable position involving a different set of activities. As a result the company failed to gain a competitive advantage on sustainable basis.

(b) Internal Control Systems Analysis

The top management of CDH frequently advanced funds, worth a total of ZW\$ 44,6 billion, to the unlicensed asset management institution ENG, mostly without security being requested or provided. This was despite the fact that no suitable prior arrangement had been made with CDH's Assets and Liabilities Committee (ALCO).

This was also in direct contravention of Zimbabwe banking regulations, under which maximum exposure to ENG at any given time should have been Zim\$ 400 million, which represents 25% of the CDH capital of Zim\$ 1,6 billion. Any amounts in excess of Zim\$ 400 million advanced to ENG were in direct contravention of the *Zimbabwe Banking Act Regulations Statutory Instrument 205 of 2000*, and were clearly not in the interests of the investing public.

The top management of CDH failed completely to establish watertight internal control systems to safeguard assets of the company, detect fraudulent activities and take corrective measures where required.

(c) Corporate Governance Analysis

CDH failed to establish effective corporate governance structures. The majority of non-executive directors and members of various committees were not independent of the executive directors and major shareholders. For example, the directors and officers of CDH were aware from 29 July 2003 that trading with ENG was risky [*Century Discount House Limited (2004) Ernst & Young Forensic Report*].

It is astonishing that they continued trading with ENG up to 31 December. The non-executive directors and key members of the governance committees, such as the Assets/Liabilities Committee, were clearly not independent of the executive directors or of the majority shareholder Century Holdings Limited.

The majority shareholders lacked the capacity to re-capitalise the business operations on a when-required basis. There were no strategies for regular restructuring the company. All this indicates serious short comings in CDH's corporate governance.

(d) Ethics in Business Analysis

CDH management failed to apply basic business ethics in the fight against fraud. The top management failed to develop and implement a code of ethics. For example, the directors and officers of CDH concealed from the investing public that CDH had changed ownership from CHL to ENG, notwithstanding the fact that the regulatory authorities had not sanctioned the change. CDH, on the other hand, continued to use the facilities of CHL, thereby confusing the depositors [*Century Discount House Limited (2004) Ernst & Young Forensic Report*].

The directors and officers continued to advance depositors' funds to ENG even after the latter had started defaulting on repayments due on 18 November - grossly unethical conduct on the part of management. They also continued to accept funds from depositors while fully aware that there was a high likelihood that these depositors would probably not be paid back. Deposits continued to be accepted right up to the closing of the institution by the Reserve Bank (2 January 2004).

(e) Participation of All Stakeholders Analysis

The majority of employees of CDH were opposed to its being sold to ENG. About 75% of CDH's total revenue was raised from the depositors. But these depositors (customers) or their representatives were never consulted. Surely no institution could hope to increase market share, profitability and business growth on a sustainable basis without support from its existing and potential customers. The Reserve Bank Zimbabwe, as the monetary authority representing the government, was informed about detailed transactions which took place between CDH and ENG from January 2003 only at the end of December 2003 [*Century Discount House Limited (2004) Liquidator's Report*].

The chief Operating Officer of CHL, Nyamazana, the most qualified banker within the group, was also opposed to the strategy of selling CDH to ENG. His recommendations on behalf of employees and management were dismissed by the majority shareholders in what was later described as “autocratic fashion”. The researcher insists that in order for an institution to gain a sustainable competitive advantage, all stakeholders must participate in strategic decision-making, or at least be consulted, either directly or through their representatives. In this case, stakeholders were not consulted until CDH was placed under provisional liquidation [*Century Discount House Limited (2004) Liquidator’s Report*].

(f) Stakeholder Satisfaction Analysis

CDH top management failed completely to safeguard the deposits of the investing public. Instead, these funds were used to finance non-banking activities, such as unsecured loans to ENG and other persons linked to the majority shareholders. The Zimbabwe Revenue Authority was deprived of a source of revenue following the liquidation of CDH on 20 January 2004. The interests the employees, in terms of job security and other benefits, were treated with disrespect. Although CDH’s Credit committee established dealing limits for individual officials of Zim\$ 400 million, they were ignored.

The researcher believes that the Reserve Bank of Zimbabwe could, at least, have minimized losses to the depositors by implementation of efficient, effective supervisory mechanisms and guidelines, such as those mentioned in the recommendations at the end of this research paper. Banking and corporate institutions therefore must be mindful of the fact that all stakeholders have, different interests that may, and often do conflict with one another. As a way of minimizing the liquidation of viable institutions, top management should make an effort to understand, and then, at least, attempt to satisfy the needs of all stakeholders. In this case it is clear that the interests of most stakeholders were ignored.

Below is a tabulated summary of the position of Century Discount House on 31 December 2003, using the BICEPS Model:

Table 4.2.4 Summary of the Position of CDH on 31 December 2003, Using BICEPS Model

BICEPS Component	31 December 2003
• Business Strategy Analysis	F '6'
• Internal Control Systems Analysis	F '6'
• Corporate Governance Analysis	F '6'
• Ethics In Business Analysis	F '6'
• Participation of All Stakeholders Analysis	F '6'
• Stakeholder Satisfaction Analysis	F '6'
• Composite Rating	F '6'

Based on the financial statements of CDH as at 31 December 2007, the Altman Z – Score Model for CDH on 31 December 2007 was as follows:

$$Z = 1.2 x_1 + 1.4 x_2 + 3.3x_3 + 0.6 x_4 + 1.0 x_5$$

$$Z = -1.61$$

Where:

$X_1 = 0.68$ being the percentage of working capital / total assets.

$X_2 = - 0.57$ being the percentage of retained earnings / total assets.

$X_3 = -0.56$ being the percentage of earnings before interest plus taxes /total assets.

$X_4 = - 0.36$ being the percentage of equity / total liabilities.

$X_5 = 0.44$ being the percentage of sales / total assets.

A score above 3.0 indicates financial soundness, whereas a score below 1.81 indicates significant credit and viability difficulties, and points to financial distress and probable bankruptcy. A score between 1.81 and 3.0 indicates question marks, suggesting immediate curatorship or bank restructuring. The CDH score of –1.61, below 1.81, caused it to be placed under liquidation on 20 January 2004 by the Reserve Bank of Zimbabwe.

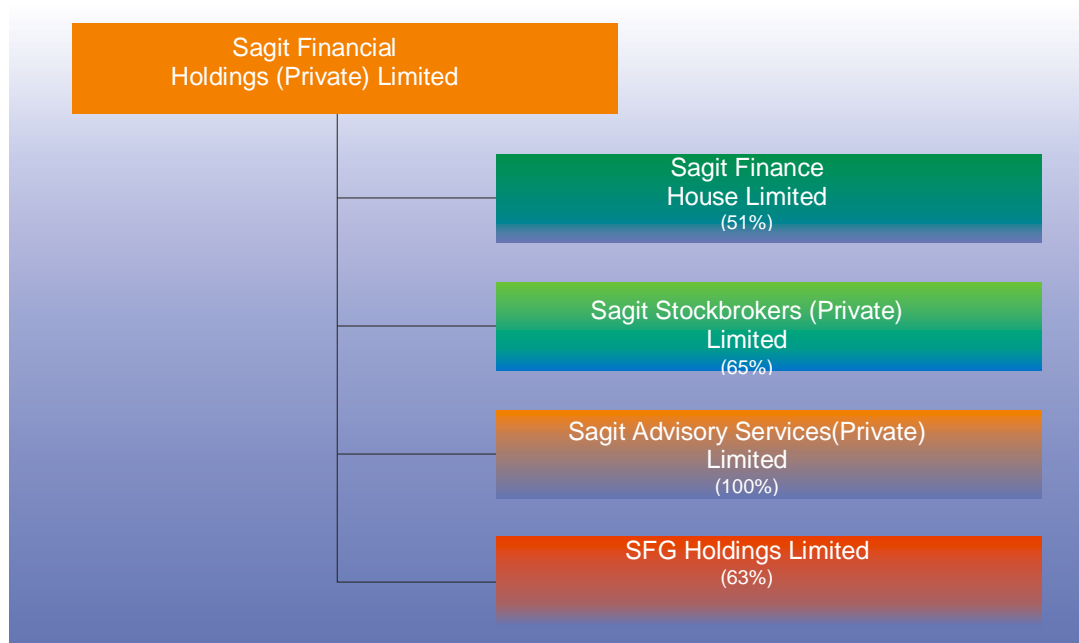
4.2.2 Sagit Finance House Limited

Background

Sagit Finance House came into being with the incorporation of Sunpol Finance House Limited in 2002. The new institution was issued with a licence to operate as a finance house on 18 August 2003.

Its main function was to conduct the business of financiers, investors, and a finance house. It was to invest funds at interest on the security of freehold land, shares securities and any other properties, whether movable or immovable. In July 2004 the name Sunpol Finance was changed to Sagit Finance House Limited (SFH) following the acquisition of 51% of the financially-distressed Sunpol Finance Company Limited by Sagit Financial Holdings (Private) Limited [*Sagit Finance House Limited (2005) Liquidator's Forensic Report*]. The structure of the holding company is shown below in figure 4.2.1:

Figure 4.2.1 Structure of Sagit Financial Holdings (Private) Limited



Source: Sagit Finance House Limited Liquidator's Forensic Report (2005), Office of Master of High Court Zimbabwe, p.6

The shareholding structure of Sagit Financial Holding, which had a 51% equity stake in the finance house, was as follows:

Table 4.2.5 SFHL Shareholding Structure

Shareholding Structure	% Holding
Nhodza	19.0%
Gwena	16.0%
Kainga	16.0%
Anderson Executors	9.7%
Rinashe	8.8%
Management and staff	5.7%
Maramba	4.0%
Ascona	3.2%
C&F Investments	3.2%
Polyoak Investments	3.2%
Stanslus Goredema	3.2%
Nare	3.1%
Zvirevo	2.5%
Wallridge	2.2%
Goredema	0.2%
Total	100%

Source: SFH Liquidator's Forensic Report (2005), Office of Master of High Court, Zimbabwe, p. 7

Table 4.2.6 SFHL Board Members

Name of Director	Designation
Nyagura	Non-Executive Chairman
Mupotsa	Non-Executive Deputy Chairman
Rinashe	CEO of SAGIT Financial Holdings
Nyamambi	Managing Director (executive)
Kainga	Non-Executive
Muronda	Treasury Director (executive)

Source: SFH Liquidator's Forensic Report (2005), Office of Master of High Court, Zimbabwe, p.7

Table 4.2.7 SFHL Non-Board Members

Name of Director	Designation
Makwamure	Chief Finance Officer
Zvirevo	Lending Director

Source: SFH Liquidator's Forensic Report (2005) Office of Master of High Court, Zimbabwe, p.7

All shareholders of SFHL were also direct investors in SFH in their own right.

The researcher maintains that the Reserve Bank should have checked and analysed the integrity and credibility of the shareholders of both SFHL and SFH before the acquisition of Sunpol, since it was an institution administering depositor's funds. From the outset there were clear corporate governance deficiencies, and unfortunately the monetary authorities failed to detect them [*Sagit Finance House Limited (2005) Liquidator's Forensic Report*]. Table 4.2.8 below shows the effective shareholding structure of the finance house, after taking into account the direct and indirect equity holdings of all shareholders:

Table 4.2.8: Total Direct and Indirect Shareholding Structure of Sagit Finance House Limited

Shareholder	Direct shareholding	Indirect Shareholding	Effective Shareholding
Sagit Financial Holdings (Pvt) Ltd	51.0%	-	
Kainga	7.92%	8.16%	16.08%
Gwena	7.92%	8.16%	16.08%
Nhodza	4.90%	14.10%	19.00%
Anderson Executor & Trust	4.85%	4.90%	9.75%
Rinashe	4.44%	4.48%	8.93%
Gope Investments P/L (Nhodza)	4.41%	-	-
Trust Nominees (Holdings staff & Management)	2.86%	2.89%	5.75%
Ascona Holdings (foreign company in BVI)	1.63%	1.64%	3.27%
Maramba	1.59%	2.04%	3.63%
Nare	1.59%	1.60%	3.19%
C&F Investments (Mutyambizi)	1.56%	1.62%	3.18%
Polyoak Investments (Mutangadura)	1.56%	1.62%	3.18%
Goredema	1.27%	1.62%	2.89%
Zvirevo	1.27%	1.29%	2.56%
Wallbridge	1.13%	1.14%	2.27%
Goredema	0.10%	0.14%	0.24%
Total	100%		100%

Source: *SFH Liquidator's Forensic Report (2005)*, Office of Master of High Court, Zimbabwe, p. 7

On 2 March 2006 the Reserve Bank of Zimbabwe officially closed the business operations of SFH with a view to minimizing financial losses to the depositors. On 21 March the Reserve Bank of Zimbabwe filed a court application to place it under provisional liquidation. The provisional order was granted on 12 April, and confirmed as final on 7 June [*Sagit Finance House Limited (2005) Liquidator's Forensic Report*].

Key Findings

In September 2004 the group CEO, Gwena (also a 16% shareholder), issued a financial guarantee to Guardian Asset Management (Private) Limited (GAM) for a ZW\$11.8billion loan that was advanced to Wedzera Petroleum Company, without adhering to the dictates of prudent corporate governance principles [*Sagit Finance House Limited (2005) Liquidator's Forensic Report*]. There was no apparent benefit to Sagit Finance Limited (SFin). In May 2005 the former group CEO, Maramba coerced SFH top management to novate the Zim\$11.8billion Wedzera debt into money market placement with SFin, thereby exposing it to a liquidity and solvency risk, given the amount involved in comparison to the capital base.

Between October 2005 and January 2006 the group acting CEO of SFH, Rinashe, by means of numerous violations of statutory and banking regulations, caused irreparable damage to SFin in the form of a loss of ZW\$66.6 billion, especially through the following prejudicial banking transactions in table 4.2.9:

Table 4.2.9 Prejudicial Banking Transactions

Prejudicial transactions	Zim\$	Parties
Liquidations of part of TBs	2 900 000 000	Maramba
Novation of GAM debt	14 120 000 000	Maramba
Transfers to admin account	8 000 000 000	Rinashe & Mufudze
Payment to PBC	16 600 000 000	Rinashe & CFO
Transfer from Sfin trading account	5 592 842 612	Rinashe & Mufudze
Transfer from Sfin trading account	6 400 000 000	Rinashe & Mufudze
Liquidations of TBs	30 000 000 000	Rinashe
Transfers of assets/ liabilities	12 482 528 772	Masenda & Maramba
GAM Interest	36 720 000 000	Marimba & Rinashe
Total Zim\$	132 815 371 384	

Source: SFH Liquidator's Forensic Report (2005), Office of Master of High Court, Zimbabwe, p.19.

The *Zimbabwe Banking Act (Chapter 24:20)*, which regulates banking institutions, does not regulate holding institutions that are parent to financial institutions. In this case the Reserve Bank of Zimbabwe regulated SFin, but not SFH. The top management of SFH therefore violated ethical codes of conduct, knowing very well that they were not under the supervision of the monetary authorities.

In June 2006 the liquidator of SFin instituted both criminal and civil proceedings against SFH and its top management. Some months before the court hearings in February 2007 the respondents offered settlement to pay an amount of Zim\$132.8 billion, in order to discharge the total shortfall outstanding in High Court of Zimbabwe proceedings (case number HC/249/07). While most depositors eventually received all their funds, the money had lost value due to high inflationary pressures and the 'time value of money'.

The researcher believes that the Reserve Bank of Zimbabwe should have carried out a detailed examination of the relationships, reputation and credibility of shareholders of Sagit Finance House Limited before issuing a banking licence. From this qualitative analysis it is clear that the Reserve Bank of Zimbabwe should focus not only on the management team, but also on shareholders' credibility and reputation.

In addition, none of the shareholders of SFin possessed the financial resources to recapitalise the banking institution at the critical moment of financial distress. The shareholders of SFin, and top management were no more than a group of intertwined and unethical speculators.

Analysis of Sagit Finance House Limited Using CAMELS Ratings

(a) Capital Adequacy

From the date of incorporation the institution experienced capitalisation difficulties, and recorded the lowest capital levels of all the banking institutions. Apparently SFin was one of the two institutions that failed to meet the stipulated Zim\$75 billion in new capital. The institution was critically undercapitalized, with a *negative* capital base of Zim\$93.1 billion. The capital deficit was attributable to a loss of Zim\$106.09 billion, arising from a provisioning shortfall for non-performing loans.

The adjusted capital base for the institution on 31 December 2005 was as depicted in table 4.2.10 below:

Table 4.2.10 SFH Capital Adequacy

CAPITAL ADEQUACY	Zim\$ million
Ordinary Paid-Up Share Capital	300
Share Premium	14,939
Retained Loss (previous years)	(7,483)
Retained Loss (current year)	(106,097)
Tier 1 Capital	(98,341)
Tier 2 Capital	860
Tier 3 Capital	4,419*
Net Capital Base	Zim\$(93,061)

* This refers to capital allocated to operational risk.

Source: Reserve Bank of Zimbabwe, Report of Examination, (2006) p.24

For the institution to have achieved a 10% capital adequacy ratio a total capital injection of Zim103.56 billion would have been required: Zim\$93.01billion to cover the capital deficit and Zim\$10.5 billion to achieve the minimum capital adequacy ratio of 10%.

In addition, the institution's shareholders were required to inject a minimum of Zim\$853.56 billion by 30 September 2006 to comply with the US dollar-linked minimum capital requirement of Zim\$750 billion for finance houses.

The examination by the Reserve Bank of Zimbabwe on 13 February 2006 noted that there was conflict between the major shareholders, which compromised their ability to inject the required capital. An example of this was the protracted legal wrangle between Anderson Executors & Trust and Nhodza.

(b) Asset Quality

Ninety-five per cent of the total loan book of Zim\$123.79 billion consisted of adversely classified loans with significant risk. The top management of SFin admitted to the officials of the Reserve Bank of Zimbabwe that contingent liabilities of Zim\$108.41 billion from the holding company (SHL) had been crystallised.

Asset quality was therefore very weak, on the basis of high levels of non-performing insider loans, poor credit sanctioning and ineffective internal control systems, lack of board and senior management oversight, poor risk-management systems, and inadequate loan loss provisions.

(c) Management

Management was very passive, as evidenced by the total collapse of corporate governance structures, lack of effective board and senior management oversight, unorthodox insider dealings, poor risk-management systems and practices, and poor financial performance of the institution. The board was weak, passive and indecisive, and had a tendency to leave important policy decisions to senior management, and then absolving itself of responsibility and accountability [*Sagit Finance House Limited (2005) Liquidator's Report*].

From the date of incorporation the institution experienced a high turnover of both board members and senior management. Furthermore, the institution failed to attract new board members. There was no clear business turnaround strategy for improving the financial position. Management relied on disunited shareholders with poor business acumen [*Reserve Bank of Zimbabwe (2006), Report of Examination*].

(d) Earnings

SFin incurred a loss of Zim\$106.10 billion for the year ended 31 December 2005, due mainly to a provisioning shortfall of Zim\$111.85 billion. The losses were mainly attributed to a large portfolio of non-performing insider loans and other ill-structured, underhand deals initiated by the holding company, SFH.

The top management of SFin actually advised officials from the Reserve Bank of Zimbabwe on or about 16 February 2006 that the institution's profitability had been sacrificed for liquidity. They said: "At the moment there is no meaningful business to generate sustainable returns", according to the forensic report prepared by THC. Earnings and provisions were therefore critical. The loss position resulted in the erosion of the institution's capital base until it reached a negative capital of Zim\$93.06 billion.

Liquidity and Funds Management

In this situation management of liquidity and funds was critical because of the negative liquidity gaps in all the time bands, and the use of depositors' funds to meet the obligations of the holding company. The institution reported an understated gap of Zim\$50.2 billion on 6 February 2006. However, the actual gap on the same date, after taking into account the holding company transactions, amounted to Zim\$144.77 billion. The overall condition of the institution was therefore rated "5" on 31 December 2005, indicating a critical condition on the basis of the negative capital base, marginal profitability, non-performing loan book, the liquidity crisis and the collapse of corporate governance systems and structures.

(f) Sensitivity to Market Risk

Rapid changes in interest and foreign exchange rates, commodity and equity prices and operational costs adversely affected SFin's earnings, as the institutions became too sensitive to the economic, social and political problems in Zimbabwe. The major shareholders failed to re-capitalize the business at the most critical time. Management was therefore unable to secure material, human or financial resources, or to identify, measure, monitor or control exposures to market risk.

The complexity of interest rate risk exposures arising from non-trading positions was very high. In addition, the sensitivity of both earnings and economic value of capital to adverse economic and political changes, i.e., to market risk, was also very high. Below is a tabulated summary of the position of Sagit Finance House Limited on 31 December 2005:

Table 4.2.11 Summary of the position of Sagit Finance House Limited 31 December 2005.

Latest CAMELS Ratios

CAMELS Component	On 31 December 2005
Capital Adequacy	5
Asset Quality	5
Management	5
Earnings & Provisions	5
Liquidity & Funds Management	5
Sensitivity to Market Risk	5
Composite Rating	5

Source: Reserve Bank of Zimbabwe (2006), Report of Examination of Sagit Finance House Limited].

Qualitative Analysis - BICEPS Model

(a) Business Strategy Analysis

The key profit driver of a finance house in Zimbabwe is to carry out the business of financiers and investors by investing money at interest on the security of freehold land and shares, securities and any other properties, whether movable or immovable. SFH, by contrast, offered a broad range of lending facilities, consisting mainly of corporate lending, finance leases, operating leases and customised lease structures. In addition, SFH also offered a number of treasury products, which included retail banking and money market instruments trading. The adjusted profit position on 31 December 2005 was as shown below:

Table 4.2.12 SFH Adjusted Income Statement on 31 December 2005

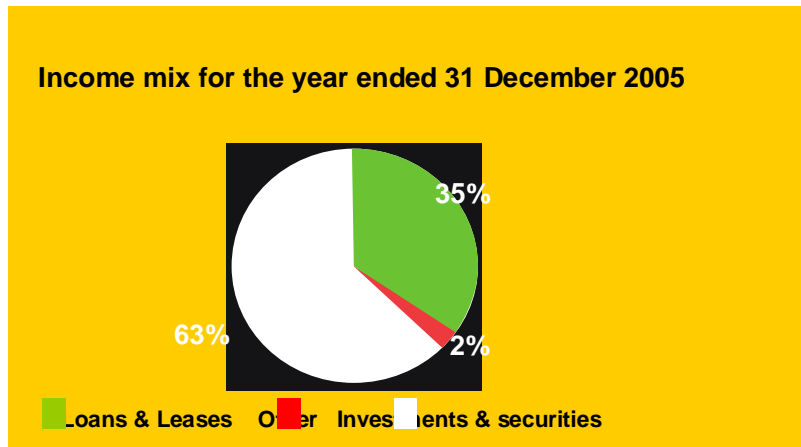
Adjusted Income Statement on 31 December 2005	Zim\$m
Interest income	59,641.00
Interest expenses	(35,168.00)
Net interest income	24,473.00
Non-interest income	464.00
Operating expenses	(19,184.00)
Provisioning shortfall*	(111,850.00)
Net Loss for the year	(106,097.00)
*Breakdown of shortfall:	
Premier banking	\$64.24
Stanbic/Sagit Financial Holdings	\$19.00
Provisioning shortfall arising from promissory notes and reclassification of loans	\$28.61
Total shortfall on provisions	\$111.85

Source: Reserve Bank of Zimbabwe, Report of Examination, (2006) p.21

The provisions shortfall arose from non-performing insider loans initiated at the holding company level. Interest expenses contributed 68% of total expenses, while staff costs contributed 14% compared to 7% on 31 December 2004.

In view of the excessive reliance on income from non-core business, the quality and consistency of earnings was compromised, particularly with the volatility of interest rates. The pie chart below (figure 4.2.2) shows the institution's income mix for the year ended 31 December 2005:

Figure 4.2.2 Income Mix for the Year ended 31 December 2005



Source: Reserve Bank of Zimbabwe, Report of Examination, (2006) p.23

The excessive reliance by the institution on income from non-core business, and the continued high-level treasury activities in income contributions, reflected the inability of SFH to grow a quality loan book for generating sustainable earnings. The top management failed completely to formulate a unique and sustainable business strategy, in compliance with banking regulations and guidelines.

(b) Internal Control Systems Analysis

The fraud by SFH shareholders and Group CEO's in siphoning funds from SFH, Stanbic Bank Zimbabwe Limited trading account and money market placements resulted in a drain of Zim\$66.592 billion from depositors' funds. In one instance Rinashe, in collaboration with Mufudze, circumvented SFin's other signatories, and between October 2005 and January 2006 they defrauded the institution of Zim\$66.592 billion [*Sagit Finance House Limited (2005) Liquidator's Report*].

Because of the lack of internal control systems, SFHL initiated unsustainable funding structures, which later caused the collapse of SFH. For example, on 16 May 2006, the former CEO of SFin, Maramba, novated a Zim\$14.12 billion Guardian Asset Management debt into money market placement, with no subsequent cash inflows into SFH.

(c) Corporate Governance Analysis

Corporate governance structure deficiencies were caused by the incestuous relationship between SFH and SFH, which compromised the operational independence of the SFH board and management. SFHL’s interference in SFH exposed it to high liquidity risk, as well as risking the security of the depositors’ funds.

There was no clear separation of the managements of the holding company and the finance house, and business deals were sealed by the holding company on behalf of the finance house. The institution also operated without effective committees such as the Audit and Risk Management Committee, Creditors/Liabilities Committee, Management Committee and Business Development Committee. Most non-executive directors were not independent of the holding company, other shareholders or the executive directors. Consequently, there was total corporate governance collapse and lack of continuity, as evidenced by a high turnover of board members and senior management in 2005 [*Sagit Finance House Limited (2005) Liquidator’s Report*]. This is illustrated by the following table 4.2.13:

Table 4.2.13 Turnover of Board Members and Senior Management in 2005

Individual	Status	Date of Resignation
Wisper Gwena	Non-Executive Director	July 2005
Paul Nare	Finance Director	April 2005
Stanford Maramba	Non-Executive Director (Group. CEO)	October 2005
Cleopas Makoni	Non-Executive Director	December 2005
Nick Nyamambi	Managing Director	28 February 2006

Source: Reserve Bank of Zimbabwe, Report of Examination (2006)p.31

In addition, the institution completely failed to attract new board members.

(e) **Ethics In Business Analysis**

SFin's top management failed to formulate and implement basic business ethics principles in the fight against fraud. It also failed to develop (still less implement) a code of ethical conduct. For example, the depositors' funds, some of them of pensioners, were used to pay off obligations of the holding company SFH. An amount of Zim\$19 billion, for instance, was debited from the SFin treasury account in December 2005 to pay Stanbic Bank [*Sagit Finance House Limited (2005) Liquidator's Report*]. This necessitated an unauthorised overdraft on the account of SFH. Also, the GAM investment account with the finance house indicated that a number of huge withdrawals were made from this account.

These were actually made on the instructions of the CEO of SFH. Some of the withdrawals are shown in the table 4.2.14 below:

Table 4.2.14. SFH Withdrawal of Funds

Maturity Date	Maturity Value Zim \$billions	Type of Withdrawal
18/07/05	18.23	Transfer to Stanbic
21/10/05	17.35	Transfer to Premier Bank Corporation
21/10/05	15.72	Transfer to J.W. Jagers
26/10/05	16.35	Transfer to Anderson Executors and Trust
10/11/05	10.67	Early redemption
Total	78	

Source: Reserve Bank of Zimbabwe, Report of Examination (2006) p.39

Several other withdrawals, including early redemptions, were made on different dates, totalling Zim\$29.46 billion. This was unethical conduct on the part of the major shareholders and top management of SFin.

(e) Participation of All Stakeholders Analysis

All stakeholders were never consulted, if only to hear their views. The management and employees of SFH were side-lined. The depositors or their representatives were never involved in strategic decision-making, despite their contribution of about 80% of the institutions' revenue. The stakeholders were not supplied with accurate information for decision-making purposes.

The core business of SFH was lease finance. The lending book was financed largely by depositors' funds. The hyper-inflationary environment affected the viability of the lease finance business. The institution had insufficient information technology to manage their loan book. Loans were thus computed manually, a situation susceptible to errors and manipulation [*Reserve Bank of Zimbabwe (2006), Report of Examination on Sagit Finance House Limited*].

Sagit Asset Management, in collusion with SFHL officials, concealed a Zim\$30 billion gap between its assets and liabilities in a payout plan erroneously approved by the Reserve Bank of Zimbabwe on 30 August 2005. The researcher believes that the RBZ acted without correct and detailed information. The RBZ also lacked the capacity to carry out a detailed forensic audit and analysis of documents at that time.

(f) Stakeholder Satisfaction Analysis

SFH top management failed to safeguard the deposits of the investing public. Ineffective internal control systems resulted in outright siphoning of depositors' funds from the SFH trading and administration account to SFHL for the benefit of particular shareholders. The interests of the customers were thus violated. The Reserve Bank of Zimbabwe, as the monetary authority representing the government, was never consulted or informed about questionable transactions that took place between SFH and SFHL [*Sagit Finance House Limited (2006) Liquidator's Report*].

The Zimbabwe Revenue Authority was deprived of a source of revenue following the liquidation of SFin on 12 April 2006. Employees' and management's interests of job security and other benefits connected with employment were disregarded. Lack of motivation resulted in the decrease of the revenue base and the value of the business. Dissatisfaction resulted in lack of co-operation by all stakeholders, and so the institution was placed under liquidation on 12 April 2006 [*Sagit Finance House Limited (2006) Liquidator's Report*].

Below is a tabulated summary of the position of SFH on 31 December 2005 using the BICEPS model:

Table 4.2.15 Summary of the Position of Sagit Finance House Limited on 31 December 2005 – using BICEPS Model

Biceps Component	Asset at 31 December 2008
• Business Strategy Analysis	F'6'
• Internal Control Systems Analysis	F'6'
• Corporate Governance Analysis	F'6'
• Ethics In Business Analysis	F'6'
• Participation of Stakeholders Analysis	F'6'
• Stakeholder Satisfaction Analysis	F'6'
Composite Rating	F'6'

ALTMAN Z – Score Model for Sagit Finance House Limited based on 31 December 2005 financial statement was -13.45 as shown below:

$$Z = 1.2x_1 + 1.4x_2 + 3.3x_3 + 0.6x_4 + 1.0x_5$$

$$Z = - 13.45$$

Where:

$X_1 = -0.86$ is the percentage of working capital to total assets.

$X_2 = -3.00$ is the percentage of retained earnings to total assets.

$X_3 = -3.00$ is the percentage of earnings before interest plus taxes/total assets.

$X_4 = -0.45$ is the percentage of equity to total liabilities.

$X_5 = 1.95$ is the percentage of sales to total assets.

With a score of, -13.45, so far below the cut-off of 1.81, liquidation was inevitable. Sagit was, accordingly, placed under liquidation on 12 April 2006.

4.2.3 Platinum Asset Managers (Private) Limited

Background

Platinum Asset Managers (Private) Limited was incorporated on 19 February 2003. The main objective was to carry out the business of asset management, promoting and managing unit trusts. The institution operated without a banking licence, and was placed under liquidation on 7 April 2004.

It is not clear why the Reserve Bank of Zimbabwe failed to stop the institution from operating for almost thirteen months without a banking licence. Members of the public who had invested funds with it lost their investments.

According to an affidavit by one of the directors, Magaya, filed with the High Court of Zimbabwe (case number HC2878/04) for a provisional order winding up the institution, it was no longer viable for it to continue trading as a result of the withdrawal of trading limits by some of the institution's counter parties. This led to the institution ceasing to trade in early December 2003. It thus accumulated a substantial overdraft in its trading account. As a result, it was forced to dispose of its trading assets at a loss in order to liquidate the overdraft. This shows that the institution operated without an effective and sustainable business strategy.

By 31 December 2003 the institution had incurred a loss of Zim\$249 930 839.00. The situation remained unchanged for January 2004. It did not trade in January as it was awaiting the granting of its Asset Management Licence by the Reserve Bank. During this month the institution suffered a loss of Zim\$1 350 972 987.00

In February 2004 the institution incurred a further loss of Zim\$368 842 270.00. There was a clear mismatch in interest earned in December 2003 and January 2004. The institution earned Zim\$19 411 305.00 in interest, whereas the interest it paid for the investments placed with it amounted to Zim\$803 424 986.00. In that respect alone it suffered a loss of Zim\$783 953 681.00 [*Platinum Asset Managers (Private) Limited, (2004) Liquidator's Report*].

To show more clearly how the mismatch in interest earned and paid affected the profitability of the business, in December 2003 it paid out interest of Zim\$1 987 875 128.00, as against interest received of Zim\$ 2 355 441 601.00

Liquidity had also been seriously affected by the collapse of Century Discount House, with which it had placed some investments. As a result of CDH's collapse, the institution had been exposed to the amount of Zim\$939 000 000.00 in respect of matured investment which could not be paid immediately.

Risk-management policies were thus very poor a substantial amount was placed with a single institution without obtaining first-class security to protect the depositors' funds.

Qualitative Analysis using the BICEPS Model

(a) Business Strategy Analysis

Platinum raised most of its revenue from the public (depositors). Depositors' funds, which constituted about 95% of revenue, were, diverted to non-banking activities, which did not result in sustainable profitability. The company operated without an effective business strategy, and as a result failed to achieve a sustainable competitive advantage. It failed to identify key profit drivers and business risks associated with asset management.

Platinum Asset Management failed completely to create a unique and sustainable position involving a different but legal set of activities within its market segment. As a result, it could not increase its market share, profitability, and promote business growth. The institution also failed to obtain a banking licence before its liquidation on 7 April 2004.

(b) Internal Control Systems Analysis

Platinum failed completely to keep proper books of accounts as required by section 140 of the Zimbabwe Companies Act (Chapter 24:03).

On 29 October 2003, Platinum Financial Holdings (Private) Limited borrowed Zim\$250million from Platinum Asset Managers. There was no proof of this having been paid back. On 23 July 2003 a cheque for Zim\$100million was issued in favour of Forebank Financial Services, supposedly to meet “brokerage fees”. There was also no evidence of transactions to justify such brokerage fees, nor was there any explanation of what actually transpired prior to this cheque being issued [*Platinum Asset Managers (Private) Limited, (2004) Liquidator’s Report*].

The researcher considers that these ‘fees’ were too high for any sort of brokerage, especially considering the size of the operations of Platinum Asset Managers.

Platinum Asset Managers also provided a bridging loan of Zim\$100million to Oilex (Private) Limited in October 2003. Oilex provided collateral security in foreign currency as follows:

- US \$17300 was made available on 1 October 2003.
- SAR 37 000 (South African Rands) was deposited into the Platinum Financial Holdings’ African Banking Corporation account in Botswana instead of Platinum Asset Manager account.

Apparently the Zim\$100million advanced to Oilex (Private) Limited was paid in the form of a bank-certified cheque issued by First Banking Corporation Limited, under instructions from Platinum Asset Managers’ top management.

According to the forensic audit report prepared by Imperial Consultants (Private) Limited at the request of the liquidator of Platinum Asset Managers, there was no evidence whatsoever to indicate that the Zim\$110 191 780.82 (plus interest) due on 31 October 2003 was paid back on that date or at any time thereafter [*Platinum Asset Managers (Private) Limited, (2004) Liquidator’s Report*].

The institution failed completely to formulate and implement watertight internal control systems, or to safeguard its assets. By 31 March 2004, Platinum Asset Managers was technically insolvent, and accordingly was placed under final liquidation on 2 June 2004.

The Liquidator threatened both criminal and civil action against the top management of Platinum Asset Managers. On 14 December 2007 the management paid an amount of Zim\$555 236 186.65 for the benefit of the depositors. While most of the depositors eventually received all their funds, the money had lost value due to high inflation and the “time value of money” [*Platinum Asset Managers (Private) Limited, (2004) Liquidator’s Report*].

(c) Corporate Governance Analysis

The top management lacked the level of integrity and competence to manage a banking institution. The company operated without independent non-executive directors. Its corporate governance structures failed to set up effective governance committees such as Business Development, Audit and Risk Management, Assets/Liabilities and Recruitment and Human Resources Development Committees. Platinum Asset Managers lacked the checks and balances to ensure that directors and managers operated in the best interests of all stakeholders by optimising returns and minimising risk, and also abuse of power by leaders and the majority shareholders.

The majority shareholders, instead of making sure that the bank obtained a licence or to recapitalise the business, decided instead to steal depositors’ funds. Platinum Asset Managers and its holding company shared the same directors and shareholders. Independent non-executive, directors and internal and external auditors, were never appointed. This was, of course, an unacceptable situation for a banking institution managing public funds.

(d) Ethics In Business Analysis

Platinum Asset Managers top management failed to apply basic business ethics in the fight against fraud. They failed to develop and implement a code of ethics. A foreign currency account, for example, was opened with African Banking Corporation in Botswana in September 2003 in the name of Platinum Financial Holdings, the major shareholder (account number BWPALT001CALUSD0001). Another account was likewise opened in the name of Lepound Investments (Private) Limited (account number BWPLEP0002CALUSD0009) at the same time. Again, the resolution and mandate were signed by the directors of Platinum Asset Managers (Private) Limited [*Platinum Asset Managers (Private) Limited, (2004) Liquidator’s Report*].

The Platinum Financial Holdings account was closed on 8 March 2004 (the same day a special resolution was passed by the directors to liquidate Platinum Asset Managers) and the money transferred to the Lepound Investments' Account. Later, US\$26 000 was transferred from the Lepound Investment Account to Topnet Trading Limited's bank account with Lloyd's TSB in the UK. There was no evidence of any records from the accounting system pertaining to the ultimate fate of this foreign currency held in GB Pounds, US Dollars and South African Rands, equivalent to US\$ 109 182 in total. Nor was there any sign of material business capital expenditure or purchases to warrant the total consumption of this money.

Clearly, externalisation of such foreign currency was in breach of the Reserve Bank of Zimbabwe's exchange control regulations, and hence a motive for concealing these foreign currencies and the activities related to them.

The conduct by the top management was unethical and certainly not in the best interests of the company.

(e) Participation Of All Stakeholders Analysis

Most of the key stakeholders, such as the depositors, The Reserve Bank and the employees were not consulted in the strategic decision-making process. For example, the company operated for almost 13 months without a banking licence and without informing the investing public, employees, business associates and the Reserve Bank of this. Key stakeholders were also not involved in the appointment of non-executive and independent directors. Employees and management, for example, talk to customers almost daily. The institution is therefore expected to share information with employees and management, and to use such information as a basis of formulating and implementing a business strategy [*Platinum Asset Managers (Private) Limited, (2004) Liquidator's Report*].

Stakeholders therefore have the right to participate actively in the business activities of an institution. Their interests may be affected, positively or negatively, by good or poor governance. They can also exert influence over the business activities and its results.

(f) **Stakeholder Satisfaction Analysis**

Funds were used to buy foreign currency for the benefit of management and shareholders. The Zimbabwe Revenue Authority was deprived of a source of revenue following the liquidation of Platinum Asset Managers. Employees interests of job security and other benefits connected with employment were treated with contempt.

The researcher maintains that the Reserve Bank of Zimbabwe should have stopped the institution from operating without a banking licence. The RBZ also failed the depositors and the public by allowing shareholders without adequate capital to register a financial institution. In addition, the top management lacked the integrity, business acumen and competence to manage depositors' funds. It follows, therefore, that the interests of most of the stakeholders were not satisfied.

Below is a tabulated summary of the position of Platinum Asset Mangers (Private) Limited on 31 March 2004 using the BICEPS Model:

Table 4.2.16 Summary of the Position of Platinum Asset Managers (Private) Limited on 31 March 2004 using the BICEPS Model

BICEPS Component	on 31 March 2004
• Business Strategy Analysis	F'6'
• Internal Control Systems Analysis	F'6'
• Corporate Governance Analysis	F'6'
• Ethics In Business Analysis	F'6'
• Participation of All Stakeholders Analysis	F'6'
• Stakeholder Satisfaction Analysis	F'6'
Composite Rating	F'6'

4.2.4 Rapid Discount House Limited

Background

Rapid Discount House Limited (RDH) was incorporated on 11 September 1997. The institution's certificate of registration as a discount house was issued by the Registrar of Banks and Financial Institutions on 15 October 1997. The main function was to carry out the business of discounting bills and purchasing short-term investments.

The institution's authorised capital was Zim\$200 000 000.00, comprising 200 000 000 ordinary shares of Zim\$1.00 each. All the shares were issued, and the institution was a wholly-owned subsidiary of Rapid Financial Holdings Limited (RFH). On 31 July 2004 the shareholders of RFH were as follows:

Shareholder	Number of Shares	%
Rapid Financial Holdings Limited	200 000 000	100

On 31 July 2004 the shareholders of Rapid Financial Holdings Limited were:

Table 4.2.17 Shareholders of Rapid Financial Holdings Limited

Shareholder	No. of shares	%	Beneficiary
Highgate Investments P/L	500 000	25	Musuwo
Rapid Investment P/L	480 000	24	Nhema
Catchemount Investments P/L	500 000	25	Promoters of RDH
Employee Share Option Scheme	200 000	10	Staff
Sachmore Investment P/L	170 000	8.5	Sachikonye
Blue Falcon Investments P/L	50 000	2.5	Chiromo
Mugwara	50 000	2.5	Mugwara
Estate Late Dambe	50 000	2.5	E/L Dambe
	2 000 000	100	

Source: Rapid Discount House Limited Liquidator's Report (2004) Master Office of Master of High Court, Zimbabwe, p.1-13

The researcher is convinced that the Reserve Bank of Zimbabwe should have examined and analyzed the integrity and credibility of the shareholders of both RDH and RFH before issuing its banking licence on 15 October 1997. It is apparent from the above table that RDH was indirectly owned by a group of individuals without the financial or material resources to recapitalise the business of a banking institution.

On 26 March 2004 the RBZ placed Rapid Discount Limited under curatorship, having established that the company was no longer in a sound financial condition. It was hoped that RDH would recapitalize or overcome its liquidity and solvency difficulties and become a successful business. It was also hoped that recapitalisation would be achieved through a combination of factors, such as introducing additional funding from the existing and new shareholders, and through a debt-equity swap between the existing shareholders and the major creditors.

Rapid Discount House Limited failed to attract new investors while under curatorship, and as a result it was placed under liquidation on 25 August 2004.

According to the final report prepared by the curator on 19 July 2004, the prospective investors considered the funding requirements of the institution as “too big to make an investment in RDH viable”. In other words, it was not worthwhile. At the same time the existing shareholders “were unwilling and unable to put up the required capital”. As a result, the curator recommended to the RBZ that the institution be placed under liquidation.

Qualitative Analysis – Using BICEPS Model

a) Business Strategy Analysis

The key profit drivers of a discount house are to carry out the business of discounting bills and purchase of short term investments. RDH, in contrast, had the investing public as the major source of its revenue.

According to the Liquidator (2004), top management departed from the core business. They imprudently invested depositors' funds in speculative activities and issued non-performing loans. Funds were granted to borrowers without signed Acknowledgement of Debt Forms. No follow-ups were made on unserviced loans. All this created huge negative liquidity mismatches, which resulted in the institution failing to meet maturing obligations. Inevitably, this led to the collapse of the institution, as happened on 25 August 2004.

b) Internal Control Systems Analysis

Section 140, subsection (1) of the Zimbabwe Companies Act (Chapter 24:03) requires institutions to keep proper books of accounts. Subsection (2) of the Act further requires the books to give a true and fair view of the institution's affairs and explanations of its transactions.

According to the Liquidator (2004) of RDH; "the existence of deliberate and misleading entries in the institution's financial records compel us to comment that for the purpose of the said section 140 of the Zimbabwe Companies Act (Chapter 24:03) the institution did not keep proper books of account and (sic) watertight internal control systems".

c) Corporate Governance Analysis

According to the Liquidator (2004), "the institution collapsed mainly as a result of gross mismanagement. The institution's business was not conducted with a high level of integrity and professional diligence". At the date of liquidation the institution operated with two executive directors, Mwaturura and Mugwara, with no independent non-executive directors. Messrs Musuwo (former MD), Chinamasa (former Deputy MD) and Dambe were removed from the board and from management of the institution by order of the Reserve Bank of Zimbabwe because of misgovernance, and the company placed under curatorship.

The institution failed to establish effective corporate governance structures such as Business Development, Audit and Risk Management, Assets/Liabilities or Recruitment and Human Resources Development Committees. These committees should, of course, be chaired by competent, qualified and independent professionals. The majority of members in such committees are also required to be completely independent of executive directors and majority shareholders. Owing to mis-governance, RDH lacked the checks and balances for directors and managers to operate in the best interests of all stakeholders as described above. As a result, the institution was placed under liquidation, at the expense of all stakeholders.

d) **Ethics in Business Analysis**

RDH failed to apply basic business ethics in the fight against mis-allocation of financial resources and fraud. Top management also failed to develop and implement a code of ethics in order to promote business growth; for example, in November 2003, RDH participated in the purchase of debentures in Capital Alliance (Private) Limited. Depositors' funds of Zim\$4.2 billion were invested. Fourteen months later (January, 2005) the liquidator of RDH received only Zim\$2.3 billion in full and final settlement. The depositors thus lost both capital and the opportunity to earn open market interests or returns. This conduct was grossly unethical, and in flagrant violation of the best interests of the investing public and the institution [*Rapid Discount House Limited, (2004) Liquidator's Report*].

Table 4.2 18 Schedule of Assets and Liabilities of RDH on 31 August 2004 (Zim\$)

Assets	Estimated Value
Motor Vehicles	1 239 371 149.62
Bank Balances	849 474 100.74
Treasury Bills	2 918 723 644.45
Bankers Acceptances	4 700 000 000.00
NOCZIM Bills	462 000 000.00
Quoted Shares	992 046 533.00
Debtors	11 000 000 000.00
Office Furniture and Equipment	<u>88 277 757.08</u>
	<u>Zim\$ 22 279 893 184.89</u>
Liabilities	
Depositors funds	42 192 412 623.00
Overdraft	3 467 872 792.92
ZIMRA Potential Claim	424 000 000.00
Claim by Employees	<u>84 689 941.70</u>
	168 975 387.62
Net (Liabilities)	<u>(24 000 000 000.00)</u>
	<u>Zim\$ 22 279 893 184.89</u>

Source: RDH Liquidator's Report (2004)Office of Master of High Court, Zimbabwe, pp.1-13

It is clear from the above that the business of RDH was financed mainly from the depositors' funds of Zim\$42.1 billion. The main asset was non-performing debtors of Zim\$11 billion. The conduct of business was unethical from the beginning in 1997, and by August 2004 it was insolvent, and accordingly placed under liquidation.

e) **Participation Of All Stakeholders Analysis**

Most of the key stakeholders, such as the depositors, the Reserve Bank and employees were never consulted in the strategic decision-making process. For example, public funds were used to finance its non-banking activities. Key stakeholders did not participate in the appointment of committee members, non-executive and independent directors. The credentials of shareholders were never examined by all stakeholders or their representatives.

f) **Stakeholders' Satisfaction Analysis**

The top management failed completely to safeguard the deposits of the investing public. Instead, these funds were used to finance non-banking activities at the expense of the depositors. The Zimbabwe Revenue Authority was deprived of a source of revenue following the liquidation of RDH in August 2004. Employees' interests of job security and other fringe benefits connected with employment were treated with disrespect. Creditors also failed to recover almost 65% of their funds. Top management lacked the integrity, business acumen or competence to manage the depositors' funds. As a result, the institution failed to increase market share or to promote business growth. Clearly, the interests of most stakeholders were never satisfied. Below is a tabulated summary of the position of RDH on 31 August 2004:

Table 4.2.19 Summary of the Position of RDH on 31 August 2004.

BICEPS Component	31 August 2004
• Business Strategy – Analysis	F'6'
• Internal Control Systems - Analysis	F'6'
• Corporate Governance - Analysis	F'6'
• Ethics In Business – Analysis	F'6'
• Participation of All Stakeholders - Analysis	F'6'
• Stakeholder Satisfaction – Analysis	F'6'
Composite Rating	F'6'

4.2.5 ENG Asset Management (Private) Limited

Background

ENG Asset Management (Private) Limited (ENG) was incorporated on 12 December 2002 (Company Number 16302/2002). The main business of the institution was to manage investments for third parties, specifically to: buy and sell, underwrite, invest in exchange or otherwise acquire, hold, manage, develop, deal with any bonds, stocks, loan, obligations, shares, debenture stocks, mortgages, obligations and securities of all kinds, including money market instruments and securities issued and guaranteed by government.

In April 2003 ENG acquired the entire shareholding in Century Discount House Limited (CDH) from Century Financial Holdings (Private) Limited, the holding company of CDH. Because of the requirements set out by statute and the Reserve Bank regarding the management of discount houses, ENG could not automatically take over the business of CDH before satisfying the regulatory requirements, such as obtaining a banking licence [*ENG Asset Management (Private) Limited (2004), Liquidator's Report*].

From April 2003 ENG traded with CDH. The transactions were such that monies received from CDH customers or depositors would be invested with the unlicensed ENG. This was supposedly “for a premium and into higher-yielding investments”, according to the forensic auditors’ report. The total amount CDH invested with ENG by 31 December 2003, was ZW\$ 45 billion, none of which was received back by CDH until its liquidation on 20 January 2004 [*ENG Asset Management (Private) Limited (2004), Liquidator's Report*].

It was clearly not in the best interests of stakeholders of either CDH or ENG to invest these huge sums of public funds with an unlicensed institution, especially since no effective corporate governance structures had been put in place in either.

Supervision by the Reserve Bank of Zimbabwe in this regard was unsatisfactory, and consequently the investing public lost funds to ENG executive directors and shareholders. Because of this gross mismanagement by ENG executive directors, the institution was technically insolvent by 31 October 2003. As a result, it was placed under voluntary liquidation on 31 December, in terms of a special resolution passed by the directors [*ENG Asset Management (Private) Limited (2004), Liquidator's Report*].

Qualitative Analysis – Using the BICEPS Model

(a) Business Strategy Analysis

ENG raised most of its revenue from CDH depositors. The company operated without an effective business strategy, and as a result failed to achieve a sustainable competitive advantage and to increase value of the business. The institution failed to identify key profit drivers or to identify business risks associated with investment management. Contrary to the core business of the institution, the top management of ENG invested the money in illiquid assets, as opposed to liquid assets such as money market instruments. The illiquid assets included vehicles and immovable properties with a total open market value in excess of Zim\$100 billion by 31 October 2003 [*ENG Asset Management (Private) Limited (2004), Liquidator's Report*].

Responsibility rests with the Reserve Bank of Zimbabwe for failing to stop an institution (ENG) from conducting its business activities without a banking licence for almost a year.

(b) Internal Control Systems Analysis

ENG failed to maintain proper books of account, as required by the provisions of section 140 of the Zimbabwe Companies Act (Chapter 24:03). Its financial statements were largely prepared from incomplete records. The institution failed to engage independent external, or internal, auditors.

The main purpose of internal control systems is to safeguard the assets of the business, including funds from the investing public. ENG failed completely to introduce effective watertight internal control systems or to safeguard the depositors' funds. As a result, the depositors lost more than Zim\$163 billion dollars in 2003 [*ENG Asset Management (Private) Limited (2004), Liquidator's Report*].

(c) Corporate Governance Analysis

The top management lacked the integrity and competence to manage a banking institution managing depositors' funds. The majority shareholders were also executive directors, such as Muponda and Watyoka. The company's corporate governance structures were flawed, in that it failed to establish effective governance committees as listed previously. The majority shareholders lacked the credibility and financial resources to recapitalize the business. ENG also lacked the checks and balances for directors and managers to operate in the best interests of all stakeholders, to optimize returns, minimize risk and prevent abuse of power by the executive directors and majority shareholders.

(d) Ethics In Business Analysis

ENG top management failed to formulate and implement basic business ethics principles in the fight against fraud. The management also failed to develop and implement a code of ethical conduct. For example, ENG purchased illiquid and long-term assets from short-term depositors' funds. It also invested heavily in shares on the Zimbabwe Stock Exchange, but stock prices collapsed towards end of 2003, and so it was unable to pay back depositors. ENG could not cope with the increased working capital requirements of rapidly expanding financial obligations. It invested in luxury vehicles and in low-yielding assets such as Treasury Bills and Bankers Acceptances, which were intended to provide security when attracting public depositors. In most cases, the top management failed to act to protect the interests of the stakeholders. Such conduct was manifestly unethical.

(e) Participation of All Stakeholders Analysis

Most of the stakeholders, such as the depositors, the Reserve Bank of Zimbabwe, the major creditors and the employees, were not consulted in the strategic decision-making process. For example, the company operated for almost a year without a banking licence and without informing the investing public, employees, business associates or the Reserve Bank of Zimbabwe of this fact. Moreover, key stakeholders did not participate in the appointment of non-executive and independent directors or of governance committees such as Audit, Risk Management and Business Development Committees.

(f) Stakeholder Satisfaction Analysis

ENG top management failed to safeguard the deposits received from CDH and the investing public. The interests of the customers were therefore not satisfied. The Zimbabwe Revenue Authority was deprived of a source of revenue following liquidation. Employees and management's interests of job security and other benefits connected with employment were treated with disrespect.

Thus, the interests of most stakeholders were not satisfied. Below is a tabulated summary of the position of ENG on 31 December 2003, using the BICEPS Model

Table 4.2.20 Summary of the Position of ENG Asset Management (Private) Limited on 31 December 2003 -BICEPS Model

BICEPS Component	31 December 2003
• Business strategy – Analysis	F'6'
• Internal Control Systems – Analysis	F'6'
• Corporate Governance – Analysis	F'6'
• Ethics in Business – Analysis	F'6'
• Participation of all Stakeholders - Analysis	F'6'
• Stakeholder Satisfaction – Analysis	F'6'
Composite Rating	F'6'

4.2.6 First National Building Society

Background

First National Building Society (FNBS) was registered and licensed as a building society in Zimbabwe on 10 June 1996. The main business of FNBS in terms of the Zimbabwe banking regulations (2000) was the raising and maintenance of a fund from which to grant loans, to customers and others, on security of a mortgage or hypothecation, with or without other approved collateral security [*First National Building Society (2006), Liquidator's Report*].

(a) Shareholders

The shareholding structure of FNBS on 31 January 2002 is as shown in the table below:

Table 4.2.21: Shareholding Structure of FNBS

Investor Shareholdings	% shareholding	Zim\$
Zimnat Life Assurance Company	4.40%	49 614 844
Lesal & Strongline Investments (Private) Limited	89.74%	1 011 917 292
ZIMRE Holdings Limited	2.74%	26 386 076
Mining Industry Pension Fund	1.76%	19 845 938
ZESA Pension Fund	1.17%	13 193 038
Parity Ventures	0.59%	6 652 899
	100%	1 127 610 087

Source: First National Building Society Liquidator's Report (2006) Office of the Master of High Court, p.3

From the table it is clear that Lesal Investments (Private) Limited (registered under number CR199/96) and Strongline Investments (Private) Limited (registered under number CR199/97) were the major shareholders, with 89.74%. Analysis of Lesal and Strongline records showed that these companies were owned by the Managing Director and the Finance Director of FNBS, Messrs Ruturi and Musona respectively. The Reserve Bank and the Registrar of Banks failed to anticipate the risk of issuing a banking license to a banking institution with more than 89% of its shares indirectly controlled by two executive directors.

The Directors of FNBS, before the Society was placed under curatorship, were as follows:

Table 4.2.22: FNBS Directors placed under curatorship

Name	Residential address	Position
M Mahachi	25 Lyndhurst Road, Monavale Avondale, Harare	Non-executive Chairman
S Rutiri	80 Folyjon Crescent, Glenlorne, Harare	Managing Director & Chief Executive
N B Musona	72 Harare Drive, Northwood, Mount Pleasant, Harare	Finance Director
C Mwaturura	4 Elston Road, Chisipite, Harare	Non-executive Director
D Karim	53 Tredgold Drive, Lincoln Green, Harare	Non-executive Director

Source: Due Diligence Review Report prepared on FNBS by AMG Global- Chartered Accountants (2004), p.4

According to basic corporate governance principles non-executive directors must be independent of the executive directors and the major shareholders. The non-executive chairman of FNBS Mahachi, was also a director of Platinum Asset Managers (Private) Limited, which was placed under liquidation on 7 April 2004, while Mwaturura the non-executive director of FNBS, was also a non-executive Chairman of Century Financial Holdings Limited (CFHL) which collapsed in 2004, following the liquidation of its subsidiary, Century House, on 20 January 2004.

The researcher maintains that non-executive directors of a banking institution should be appointed by a commission or committee of stakeholders completely independent of the major shareholders and executive directors. Details of the function of such an independent commission will be recommended in the final chapter. On 7 February 2003 the Reserve Bank placed FNBS under curatorship, as provided by section 55 of the Zimbabwe Banking Act (Chapter 24:20) because it was technically insolvent. The curatorship period was repeatedly extended until 27 February 2004 when the Reserve bank of Zimbabwe filed a court application with the High Court of Zimbabwe, placing FNBS under liquidation on 24 March 2004.

Qualitative Analysis of FNBS - BICEPS Model

(a) Business Strategy Analysis

FNBS raised most of its revenue from project development mortgages. Thus property development advances constituted approximately 60% of the society's mortgage portfolio on 31 December 2002. This concentration exposed the society to significant credit risk, as shown table 4.2.23 below:

Table 4.2.23 Analysis of Business Strategy

Customer	Exposure Z\$000	Value of Security held Zim\$ 000	Difference Zim\$ 000
Pentanville Investments	784 649	540 000	244 649
Fireside Investments	254 191	-	254 191
Goal Line Investments	109 681	165 000	(55 319)
Laymstock Investments	103 705	25 000	78 705
Total	1 252 226	730 000	522 226

Source: First National Building Society Curator's Report to the Reserve Bank of Zimbabwe (2002), p.1-2

Table 4.2.24: FNBS Financial Statement

	32 months ended 30 September 2005 \$000	12 months ended 30 June 2002 \$000	12 months ended 30 June 2001 \$000
Interest income	2 632 469	1 626 273	963 921
Interest expense (see note 5.4.2)	(2 022 484)	(1 027 189)	(793 195)
Net interest income	609 985	599 084	170 726
Other operating income	331 658	628 336	186 659
Total income for the period	941 643	1 227 420	357 385
Operating expenses (see note 5.4.3)	(7 939 657)	(339 799)	(95 171)
Profit before written-offs	(6 998 014)	887 621	262 214
Other – write offs	(1 140 800)	-	-
Net (loss)/ profit for the period	(8 138 814)	\$887 621	\$262 214

Source: FNBS - Due Diligence Review Report prepared by AMG Global (Chartered Accountants), (2004), pp. 7-12

Contrary to the core business of the institution, of raising and maintaining a fund from which loans could be granted, the top management failed to identify sustainable and key profit drivers. As a result, it could not increase its market share or profitability, and was unable to promote business growth.

(b) Internal Control Systems Analysis

Bank reconciliations for the General Administration and Money Market Administration Accounts, which were the most important bank accounts, were not prepared for the period July 2001 to May 2002. It is astonishing to learn that these reconciliations were only prepared for the year-end audit of June 2002, and that, after June they were not prepared monthly. The latest available reconciliations for the two accounts were for 30 September and 30 November 2002 [*FNBS Due Diligence Review Report prepared by AMG Global Chartered Accountants 2004*].

Failure to produce reconciliations regularly was a fundamental lack of internal control systems for a banking institution, and this created an environment conducive to the perpetration and concealment of fraudulent activities, errors and irregularities, at the expense of all stakeholders. Cash and bank balances on 31 December 2002 consisted of the following:

Table 4.2.25: FNBS Cash and Bank Balances

	Ledger Balance Zim\$	Bank Statement Balances Zim\$	Difference Zim\$
Zimbank current account	9 958 447.05	-	9 958 447.05
Zimbank salaries account	(3 333 115.37)	-	(3 333 115.37)
Zimbank stop orders	19 120 078.87	-	19 120 078.87
Zimbank treasury	116 747 346.13	-	116 747 346.13
CBZ-DDO account	2 392 739.86	2 710 408.56	(317 668.70)
CBZ-General admin	(140 428 418.22)	83 600 505.77	(224 028 923.99)
CBZ Salaries	5 728 360.70	3 070 890.98	2 657 469.72
Money Market admin	1 305 549 714.39	125 643 790.68	1 179 905 923.71
Century Bank	1 684.04	1 422.10	261.94
CBZ FNAM Account	1 500 000.00	-	1 500 000.00
Cash on hand	26 666 500.00	26 666 500.00	-
Total	1 343 903 337.45	241 693 518.09	1 102 209 819.36

Explanatory note: The 'difference' column shows the unreconciled balances for the various bank accounts on 31 December 2002 and do not necessarily equate to the misstatements in these bank balances.

Source: FNBS - Due Diligence Review Report prepared by AMG Global (Chartered Accountants), (2004) p.8

Bank reconciliations prepared for these accounts were never reviewed by an independent senior official, which reflects an ineffective internal control system. Thus the reconciliations had material errors and inconsistencies which could easily have been observed by an independent audit official. There was ineffective segregation of duties, as the Financial Director could initiate, authorise and process journal vouchers, for which he alone had explanations.

According to the audit report dated 31 December 2002, prepared by KPMG (chartered accountants) in Harare, there were many journal vouchers being posted as reconciling items relating to miss-posts between the individual bank accounts: “Cash and bank balances constitute approximately 19% of the society’s assets. It is therefore imperative that bank reconciliations are prepared urgently for December 2002, and reconciling items cleared, in a bid to establish the accuracy of these balances. Based on the nature of the reconciling items on the reconciliations reviewed, we are of the view that the bank and cash ledger balance of Zim\$1.3billion on 31 December 2002 may be materially misstated”.

In Zimbabwe, the First National Building Society top management also failed to introduce effective, watertight internal control systems or to safeguard the business assets, including the depositors’ funds. All this led to the institution being placed under liquidation on 24 March 2004, at the expense of all stakeholders, including those employees who lost their jobs.

(c) Corporate Governance Analysis

The institution’s corporate governance structures were flawed, in that it failed to establish effective governance committees. Such committees should normally be chaired by independent and competent professionals. The majority of members of governance committees should be non-executive, and independent of the executive directors and the majority shareholders. These majority shareholders lacked the credibility, financial or material resources to re-capitalise the business.

FNBS clearly lacked the checks and balances for directors and managers to operate in the best interests of all stakeholders, to optimise returns, or to minimize risk and the abuse of power by the executive directors and majority shareholders. Ineffective corporate governance was one of the factors that resulted in the liquidation of the institution on 24 March 2004.

(d) Ethics in Business Analysis

Musona, the Financial Director of First National Building Society (FNBS), with control over public funds, used a substantial amount of those funds for his own benefit. According to an affidavit dated 3 February 2003, hastily prepared by lawyers of FNBS, Musona did not deny having used these funds, though he was not sufficiently truthful and straightforward to reveal to the stakeholders the amounts he took. Nor was he sufficiently open to reveal the assets he had acquired with those funds.

The Liquidator wrote (2006): “Given the dishonest behaviour of the respondent (Musona) in misusing the funds, and further given the fact that the respondent has to make a full and candid disclosure to the Applicant (FNBS), there is a real risk that the respondent will dispose of assets or hide the same, in order to avoid such assets being found and utilized to repay the amounts owed to the applicant.

Accordingly, in order to protect the interests of the Applicant (FNBS) and other creditors, it is critical that a provisional order be granted as a matter of urgency in order to allow the Provisional Trustees appointed by the Master of High Court of Zimbabwe, to take immediate control of the Respondent’s estate (Musona) and protect the interest of depositors”.

FNBS management failed to formulate or implement basic corporate business ethics principles in the fight against fraud. In addition, the management failed to develop and implement a code of ethical conduct. In most cases, the Financial Director (Musona) used public funds to satisfy his personal needs, which conduct was clearly unethical.

(e) Participation of All Stakeholders Analysis

Most of the stakeholders, such as the investing public, the Reserve Bank of Zimbabwe, the major creditors and employees, were never consulted in the strategic decision-making process. Nor did key stakeholders participate in the appointment of non-executive and independent directors, or governance committees, such as Audit and Risk Management, Assets and Liabilities or Business Development committees.

It is apparent that participation of all stakeholders in strategic decision-making can be used to minimize financial risk and liquidation of viable banking institutions.

f) Stakeholder Satisfaction Analysis

FNBS management, including the, non-executive directors failed to safeguard the assets of the banking institution and the deposits of the investing public. The interests of the customers were therefore not satisfied. The Zimbabwe Revenue Authority was deprived of a source of revenue following liquidation. Employees, and management’s interests of job security and other benefits connected with employment were treated with disrespect. Clearly, the interests of most stakeholders were not satisfied. Below is a tabulated summary of the position of First National Building Society on 31 March 2004, using the BICEPS Model.

Table 4.2.26 Summary of the Position of First National Building Society on 31 March 2004 - BICEPS Model.

BICEPS Component	31 March 2004
• Business Strategy – Analysis	F ‘6’
• Internal Control Systems – Analysis	F ‘6’
• Corporate Governance – Analysis	F ‘6’
• Ethics In Business – Analysis	F ‘6’
• Participation of All Stakeholders - Analysis	F ‘6’
• Stakeholder Satisfaction – Analysis	F ‘6’
Composite Rating	F ‘6’

4.3 QUALITATIVE ANALYSIS OF BANKING INSTITUTIONS RESTRUCTURED DURING THE 2003/2006 BANKING CRISIS IN ZIMBABWE.

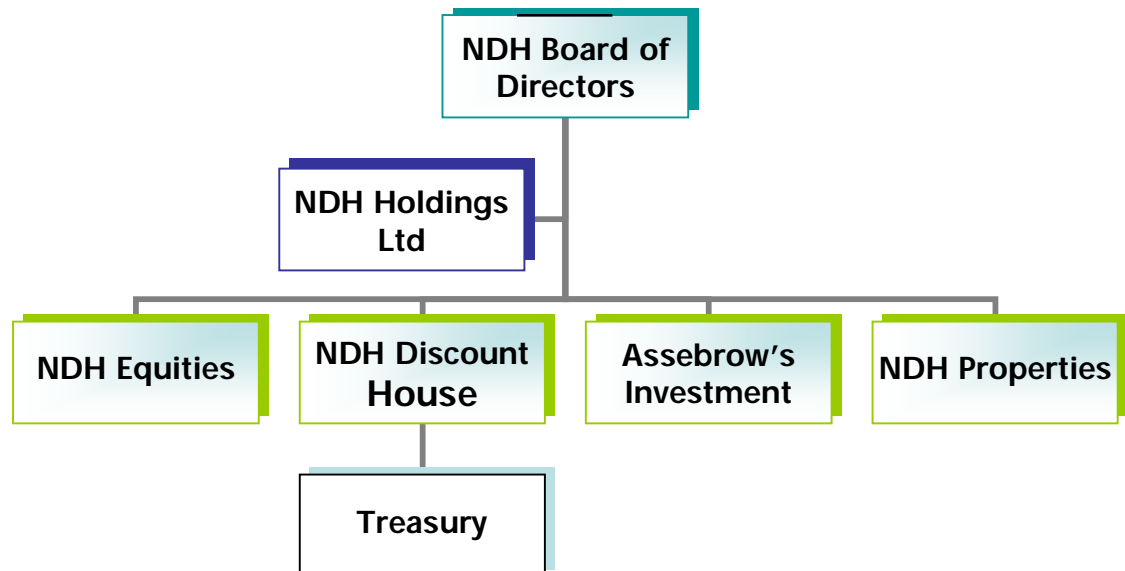
4.3.1 National Discount House Limited

Background

National Discount House Limited operates in the discount house market, engaging in services such as Bankers' Acceptances, Corporate Bonds and Bills, Government Treasury Bills, Time Deposit Accounts, Interest Rates Agreements, Negotiable Certificates of Deposit, Promissory Notes and Commercial Paper. It is the flagship and founder institution from which the NDH Holdings Limited brand has grown over the last nine years. The institution is registered as a discount house under the Zimbabwe Banking Act (Chapter 24:20) and has been in operation since January 1995.

The group structure of NDH Holdings Limited is as follows:

Figure 4.3.1 NDHGROUP STRUCTURE



Source: NDH Annual Report/Financial Statements (2003), Available at www.ndh.co.zw

However, because of the exceptions of the Monetary Policy statement announced by the Reserve Bank Governor before the banking crisis that “current financial services challenges at that time and the contagion suffered following the collapse of ENG Asset Management (Private) Limited and the substantial exposures to Elan Suisse, cumulatively reduced the capital base, resulting in the institution becoming undercapitalized according to the new capital guidelines issued by the Reserve Bank of Zimbabwe (RBZ) towards end of December 2003”.

The researcher maintains that the RBZ should ensure that all shareholders of banking institutions have the capacity and credibility to recapitalize when required. This was not the case before the 2003/2006 banking crisis and changed only with the First Quarter Monetary Policy statement issued by the RBZ on 30 April 2008.

Under item 5.21 of the new policy on Corporate Governance Practices the RBZ noted with concern the level of non-compliance by some banking institutions, including wilful avoidance of vetting of shareholders and other accountable officers. The RBZ issued a monetary policy to the issue stating that, “with immediate effect, all shareholders with holdings of 5% and above are required to be formally vetted by the RBZ. All banking institutions shall, ... ensure compliance with this requirement in respect of existing and prospective shareholders who have not been formally vetted by the RBZ”.

While this is sound monetary policy, it must be noted that the vetting should be carried out by independent firms of chartered accountants, forensic auditors or management consultants, in close consultation with the RBZ. An Independent Stakeholders’ Commission or Committee of a particular banking institution should be responsible for appointing independent firms to carry out the task. The researcher considers that at present, the Reserve bank of Zimbabwe lacks the capacity, flexibility and depth required to carry out this task at regional, national and international levels. Before the National Discount House Limited (NDH) was reconstructed exposures and the resultant write-offs were caused by inadequate internal control systems/risk management policies and excessive overriding of mandatory regulatory procedures and policies by directors.

NDH was probably the first banking institution in Zimbabwe to implement a market-based corporate reconstruction approach or voluntary restructuring in response to the banking crisis. According to the NDH Annual Reports the board of directors approached the Reserve Bank in March 2004 with a “robust voluntary restructuring strategic plan”. The institution was not allowed to transact new business for 12 months in order to facilitate a smooth restructuring programme.

National Discount House Limited before reconstruction 31 December 2003

Following the collapse of several banking institutions during the banking crisis, amongst them the ENG Management and Century Discount House, NDH was exposed to these institutions, which resulted in its not being able to pay depositors, thereby failing to meet its obligations. It became apparent that the management should have carried out a detailed due diligence exercise on both CDH and ENG before making huge deposits on behalf of the investing public. The problems which affected NDH following the collapse of ENG, and the large write-offs in respect of exposures to Elan Suisse, hastened the need to formulate alternative strategic survival measures including medium to long term plans.

Before restructuring, the business of NDH was characterized by aggressive buying and selling of securities; a huge client base, at times supported by political connections, high risk-taking at times without regard to sound banking practices, and no proper due diligence on counterparties.

The institution was well-connected politically, and as a result would secure deals which under normal circumstances it would not get. The conduct of the management was, therefore, unethical. The short-term benefits from political connections were never translated into a sustainable and unique competitive advantage.

At the time of the banking crisis the institution operated without effective corporate governance or Board Committees such as Audit, Asset/Liability Remuneration, Information Technology, Risk & Compliance, Business Development and Ethical Conduct. The majority of the institutional shareholders were directly connected with the Government, with limited capacity to re-capitalize the business of the institution. Also, the majority of the non-executive directors were not completely independent of the executive directors. Some of them clearly lacked banking expertise and experience.

ALTMAN Z-Score Model for National Discount House Limited, 31 December 2003

Based on the financial statements of NDH for the year ended 31 December 2003.

$$Z = 1.2x_1 + 1.4x_2 + 3.3x_3 + 0.6x_4 + 1.0x_5$$

Z – Score: 0.46

Where:

X_1 = is the percentage of working capital to total assets = 0.01

X_2 = is the percentage of retained earnings to total assets = (-0.13)

X_3 = is the percentage of earnings before interest plus taxes to total assets = (-0.23)

X_4 = is the percentage of equity to total liabilities = (-0.09)

X_5 = is the percentage of sales to total assets = 0.26

In terms of the interpretation of scores detailed above, the score of 0.46. is far below 1.81, itself reflecting problems. The institution posted losses for the year 2003, which, after making the necessary provisions, resulted in negative equity. The losses were the result of ineffective internal control systems and the uncontrolled exposure to ENG Asset Management, which resulted in the institution borrowing expensive money (Zim\$20billion) from the Reserve Bank to minimize liquidity problems. Unfortunately, this resulted in high-interest expenses, which further eroded the institution's revenue. All this resulted in the clear indication of significant credit problems represented by the Z-value of 0.46.

With negative equity, a negative funding gap and diminished market confidence, the institution's deposit base became highly volatile. It can be concluded that the management took an effective strategic decision in embarking on market-based restructuring in order to avoid immediate liquidation as the company was undercapitalized.

National Discount House Limited after restructuring, 31 December 2006

The institution was capitalized in two ways: first, by the conversion of debts (depositors' funds) into equity through a scheme, approved by the High Court as provided for by the Zimbabwe Companies Act (Chapter 24:03); and second, by the injection of fresh capital by a consortium of individuals and institutions.

While the shareholders of both National Discount House and National Discount House Holdings, now made up of a diverse section of top Zimbabwean businesses, large corporate and “high net worth”. It can be deduced that most shareholders are still connected to the government, through departments such as the National Social Security Authority, CBZ Holdings Limited, ZABG Holdings Limited, the Ministries of Labour and Social Welfare, Climax Investments (Private) Limited, Netone and Central Mechanical Equipment Department Equipment (CMED).

The Government shareholders resistant to diluting their shares in order to accommodate a strategic partner with international banking expertise and with the level of foreign currency and capital required. This may affect the long-term operational effectiveness of the institution in the current economic, social and political environment.

It is however pleasing to note that, following restructuring the institution, it was engaged in aggressive buying and selling of securities, though now with closely-supervised risk-management, watertight internal control systems and synergistic deals with the equity division. All this gives a sustainable competitive advantage, growing client base, all with proper due diligence in line with the RBZ guiding principles and regulations, and the Know Your Customer (KYC) concept. The risk and compliance functions were in place by end of 2006 to ensure that deals are done in accordance with regulating guidelines and limits.

The key profit drivers of the institution were interest income from treasury bills, Bankers’ Acceptances and trading income from buying or selling of commercial paper and financial instruments by end of 2006. The institution is also involved in trading in stocks on the Zimbabwe Stock Exchange. However, while trading in stocks, the institution should ensure that they do not use public funds instead of their own financial resources, clearly distinguished from depositors’ funds.

While the current non-executive directors were appointed by shareholders and depositors, such appointments should also take into account the views of other stakeholders, and non-executive directors should remain independent of the major shareholders and the executive directors.

According to the *NDH Annual Report/Financial Statements (2003)*, the following measures, absent before restructuring, were implemented during and after restructuring to ensure good corporate governance, internal control systems and risk management structures:

- Reorganization and re-constitution of the board of directors. This was done with a view to ensuring the representation of all stakeholders, thus ensuring transparency and broad representation.
- Establishment of a Governance Risk Management Committee. This resulted in all governance committees being led by non-executive directors, thus ensuring the independence of management. The Reserve Bank of Zimbabwe (RBZ) also instituted a system whereby board members or senior managers of a banking institution had to undergo vetting to determine whether they were fit and proper candidates to lead a banking institution. Requirements, including tax clearance, police clearance, declaration of assets, declaration of directorship in other companies, professional integrity, banking experience, had to be met before RBZ approval.
- Establishment of a Risk Management Department.
- Establishment of a succession plan within the Group.
- Prospective shareholders of the banking institution had to be scrutinized and approved by the RBZ to ensure integrity.

Internal control systems were enhanced by the establishment of Risk Management and Compliance departments. These ensured that limits on banking transactions (deals) were adhered to. Procedure manuals and board policies were rewritten and approved by both the RBZ and the Board before implementation. The policies thus approved included a general code of conduct for the institution as a whole and a specific one for dealers. The code included business ethics. Principles and practice of stakeholder participation and stakeholder satisfaction were also introduced.

ALTMAN Z-score Model for National Discount House Limited, 31 December 2006

After restructuring, and based on the financial statements for the year ended 31 December 2006, the Z-score was 3.8

$$Z = 1.2x_1 + 1.4x_2 + 3.3x_3 + 0.6x_4 + 1.0x_5$$

$$= 3.8$$

Where:

X_1 = is the ratio of working capital to total assets = 0.78

X_2 = is the ratio of retained earnings to total assets = 0.66

X_3 = is the ratio of earnings before income tax to total Assets = 0.66

X_4 = is the ratio of equity to total liabilities = 55.88

X_5 = is the ratio of sales to total assets = 0.44

With a score of 3 indicating a sound institution, the score of 3.8 indicated that NDH was sound after restructuring. The capital injection due to the conversion of depositors' ("customer") funds into equity resulted in the institution underwriting meaningful business, thereby increasing the retained profits from Zim\$-25.4 million (retained loss) in 2003 to a Zim\$209 billion retained profit in 2006. The shareholders' funds also increased from Zim\$ -10.1 million in 2003 to Zim\$447 billion in 2006.

According to the interview between the researcher and Mr G. Munjilo a Senior Manager of NDHL in 2007, following the completion of the restructuring, the interests of all stakeholders: customers (depositors), creditors, shareholders, employees, the public, the government (Zimbabwe Revenue Authority) and business associates were generally satisfied.

4.3.2 C.F.X Bank Zimbabwe Limited

Background

Registration

The registration of CFX Bank took place on 26 October 2004, when Century Bank Zimbabwe Limited ceased to function as a commercial bank. This necessitated the process of change of name from Century Bank to C.F.X Bank [*CFX Annual Report/Financial Statements 2004*].

Curatorship

When the Reserve Bank of Zimbabwe established that CFX Bank was undercapitalised, it was placed under curatorship on 17 December 2004.

Restructuring Approach

CFX adopted a combination of market-based solutions and government-based solutions. This mixed approach allows interested parties to use a combination of restructuring strategies depending on the needs of a bank at a particular point in time.

Accordingly, the curator of CFX Bank (2004), formulated an effective banking strategy of restructuring the institution in the best interests of all stakeholders. An alternative approach would have been to persuade external investors to continue to inject funds into the institution. However, this task would have been very difficult, considering the urgency of the matter, as well as the social, economic and political turbulence in Zimbabwe.

A second option was to apply for amalgamation with the Zimbabwe Allied Banking Group (ZABG), controlled by the Reserve Bank of Zimbabwe on behalf of the government. (This institution has been challenged by at least three banking institutions in Zimbabwe because of lack of effective legal framework to support its existence), a third option was to apply for liquidation.

The researcher considers that monetary authorities should always guard against mismanagement of public resources during banking crises. In a banking crisis one of the most urgent decisions that monetary authorities must make is to determine which banks are viable and which are not. The difficulty lies in distinguishing between illiquid and insolvent banks, given that many banks' assets do not have a ready market value. Monetary authorities can therefore minimise use of taxpayers' funds by the purchase of non-liquid assets from illiquid but viable banks at a profitable discount, instead of lending unlimited amounts non-viable and illiquid banks. However, the main objective here is to minimize liquidation of viable banking institutions at the lowest possible cost.

Sanction of the restructuring

CFX Bank's scheme of restructuring was approved by the High Court on 6 January 2006, as provided for by the Zimbabwe Companies Act (Chapter 24:03).

CFX Bank before restructuring –December 2004.

Financial state

According to the CFX Annual Report/Financial Statements (2004) the investigations by the curator revealed the following:

- “That there was a financial gap of Zim\$63bn in the system, due mainly to manipulation of financial records in the bank's computer system, Equation ® ('Equation' is the name of the computer banking system used at CFX Bank). Financial statements automatically generated by the computer did not balance because of improper human interference”. The researcher is convinced that the bank's corporate governance structures, internal control systems and risk management systems were not effective, based on the overall performance of the institution before restructuring in December 2004.
- “Further, there were differences between system-generated accounts and those presented as monthly management accounts, due mainly to manipulation of figures to reflect non-existent profits”. The researcher considers this conduct of the top management unethical and fraudulent.
- “There was an accumulated loss of Zim\$115bn on 31 October 2004. This was a clear lack of effective business and corporate strategies, as the bank operated without a sustainable and unique competitive advantage”.
- “The bank's liabilities exceeded the assets by Zim\$171bn on 31 December 2004. The bank was thus technically insolvent”.

- “Throughout the year interest paid exceeded interest received”. As a result the difference between income earned from interest and the cost of borrowing indicated on undesirable financial position during the year ended 31 December 2004.

Top 20 shareholding of CFX Financial Services before restructuring, December 2004
CFX Bank, CFX Merchant Bank and CFX Asset Management Company are wholly-owned subsidiaries of CFX Financial Services. The holding company, CFX Financial Services, is the listed entity on the Zimbabwe Stock Exchange. Listed below are the top 20 shareholders of CFX Financial Services on 31 December 2004.

Table 4.3.1 Top 20 shareholders of CFX Financial Services on 31 December 2004

	Short name	Number	Country	Shares	Percent
1	MALONEY	52285389	ZW	377,334,312	25.00%
2	CENTURY	52285386	ZW	150,933,724	10.00%
3	WOLPERT	52285020	ZW	122,544,908	8.12%
4	NETLINE	52284960	ZW	88,000,000	5.83%
5	CAMPHILL	52271571	ZW	86,357,328	5.72%
6	EBC	52285392	ZW	75,466,862	5.00%
7	CHIKWANGWARI	52285905	ZW	66,033,504	4.37%
8	GWATIRINGA	52285401	ZW	58,486,818	3.87%
9	BROWN	52285899	ZW	35,236,854	2.33%
10	LOADED	52285311	ZW	32,000,000	2.12%
11	CAMPHILL	52284441	ZW	28,652,254	1.90%
12	BUTLER	52285404	ZW	27,010,713	1.79%
13	CHADWICK	52285407	ZW	18,866,716	1.25%
14	MAZAMBANI	52285395	ZW	17,147,505	1.14%
15	KERRICK	52285896	ZW	16,016,622	1.06%
16	REALTIME	52269903	ZW	14,034,680	0.93%
17	OAK	52286235	ZW	13,912,629	0.92%
18	CURTIS	52285911	ZW	13,573,223	0.90%
19	HAYES	52285902	ZW	13,573,223	0.90%
20	MUZEMBE	1051259	ZW	13,206,701	0.88%

Source: CFX Annual Report/Financial Statements (2004), Available at: www.cfxbank.com

Most of the top 20 shareholders of CFX Financial Services lacked the capacity or credibility to re-capitalise CFX Bank. For example, Maloney was an individual, and at the same time an executive director of CFX Merchant Bank with 25% shareholding. Century Holdings was directly responsible for the liquidation of one of its subsidiaries, Century Discount House, on 20 January 2004.

Altman Z-score Model for CFX Bank on 30 September 2004

Based on CFX Bank's financial statements for the year ended 30 September 2004, the Z-Score was -0.98. This is unsound for a banking institution.

$$Z = 1.2x_1 + 1.4x_2 + 3.3x_3 + 0.6x_4 + 1.0x_5$$

$$= -0.98$$

Where

X_1 is the percentage of working capital to total assets = (-0.6)

X_2 is the percentage of retained earnings to total assets = (-0.5)

X_3 is the percentage of earnings before income tax to total assets = 0.08

X_4 is the percentage of equity total liabilities = (-0.36)

X_5 is the percentage of sales to total assets = 0.4

ZW\$

• Working Capital	(-183 595)
• Earnings Before Income Tax	25 849
• Total Assets	306 215
• Equity	(-170 315)
• Sales	128 627
• Total Liabilities	476 530

The Z-score of -0.98 indicates serious problems, and, indeed, by the end of September 2004 the bank was technically insolvent. When it was placed under curatorship on 17 December 2004, the bank had a negative funding gap and a negative equity. This was a result of the high interest cost, which had exceeded the amount of interest received, resulting in a negative net interest income. By the end of September 2005 the bank had an accumulated loss Zim\$163 bn.

The Z-score of -0.98 indicated significant liquidity difficulties, due largely to the following factors:

- Undercapitalization of the business.
- Nonperforming insider loans. For example, CFX Bank was exposed to CFX Asset Management (Private) to the extent of Zim\$14bn. This was in addition to the loans advanced to top management.
- Huge investment of financial resources in non-performing and non-liquid banking assets.

CFX Bank after restructuring 31 December 2006

The CFX Bank debts consist largely deposits from the customers, were converted into equity. The operations of CFX Merchant Bank another subsidiary of the holding company, CFX Financial Services were combined to form a single entity to operate under one banking license of CFX Bank. The plan was cost effective in that a single banking institution was authorised to render both services of the merchant bank and commercial bank with a single license issued to CFX Bank.

The plan prevented imminent liquidation of CFX Bank and at the same time it was removed from the administration of a curator. As a result all stakeholders and especially customers became shareholders of banking institutions listed on the Zimbabwe Stock Exchange. Stakeholders participated in the strategic decision making process by being represented at the top management level of the holding company, CFX Financial Services Limited.

The curator concluded in 2006 by underlining that “in the absence of interested strategic investors, and given the above factors of the turnaround strategy, it was strongly believed that this was the best restructuring approach with a view to avoiding the liquidation of a viable banking institution. Extension of the curatorship, or exploring other alternatives, would have resulted in further losses for depositors’ investments due to the prevailing hyper-inflationary pressures”. It is also pleasing to note that most stakeholders were given the opportunity to participate in the strategic decision-making process throughout the restructuring period and beyond.

Licences

Before the operations of the holding company were reorganized, the subsidiaries operated with three licenses as follows:

Table 4.3.2 Licences

Institution	Licence
CFX Bank	Commercial Banking
CFX Merchant Bank	Merchant banking
CFX Asset Management	Asset Management

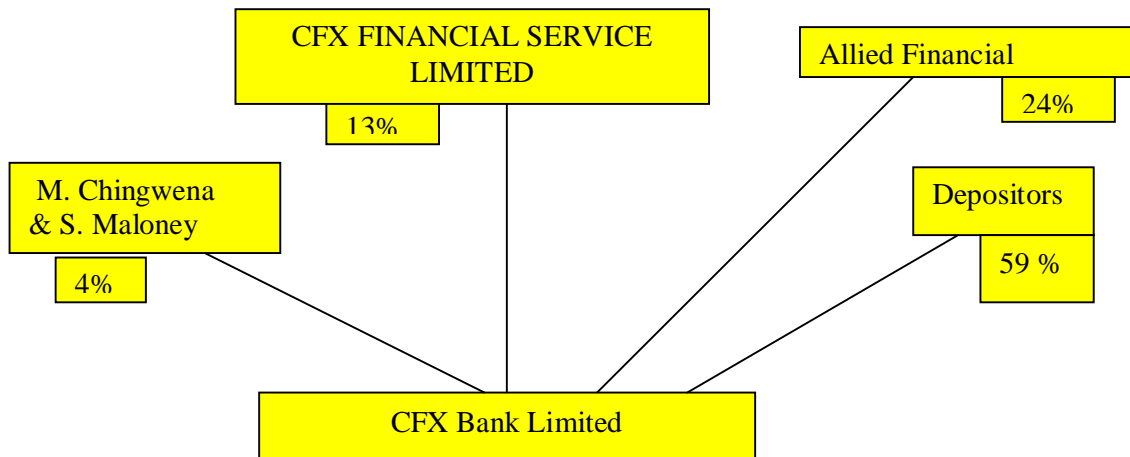
Source: CFX Annual Report/ Financial Statements (2004), Available at: www.cfxbank.com

Following the bank restructuring, the operations of CFX Bank and CFX Merchant were combined into a single entity, CFX Bank under once commercial license.

Shareholding Structure

CFX Financial Services Limited was then finally structured as depicted in the following figure 4.3.2 below:

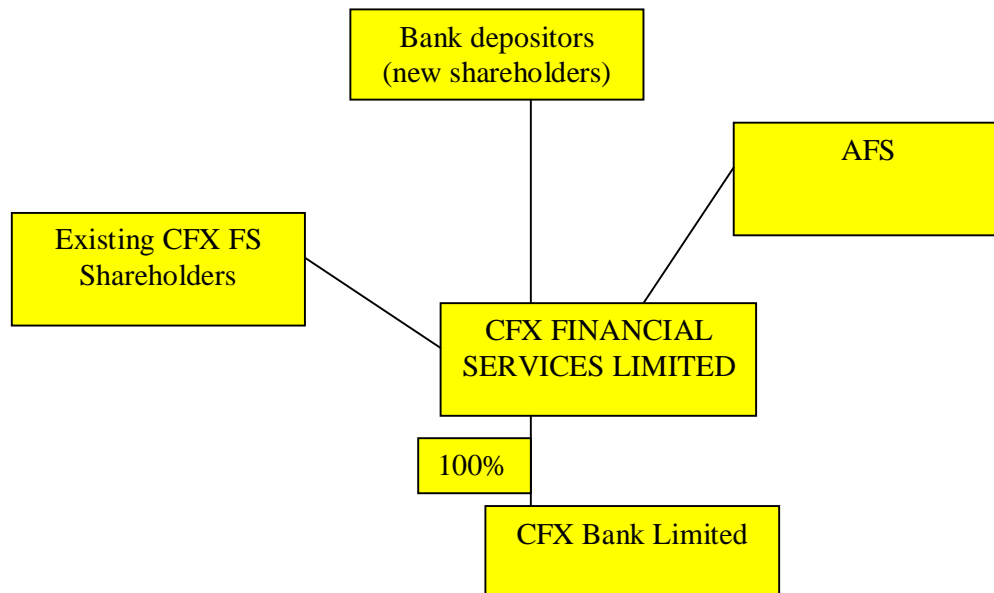
Figure 4.3.2 Stage 1 – Conversion of deposits and cash injection.



Source: CFX Annual Report/Financial Statements (2004), Available at: www.cfxbank.com

Figure 4.3.3 Stage 2 – Exchange of new bank shares for CFX FS shares

All converted shares in CFXB under the arrangement were swapped for shares in the holding company, CFXFS, the listed entity on the ZSE.



Source: CFX Bank Annual Report/ Financial Statements (2004), Available at: www.cfxbank.com

It can be concluded from the curator’s (2004) report that while the shareholding structure is more diverse, the major shareholders are essentially the Allied Financial Services (AFS), a special-purpose vehicle owned by the government (24%) and the depositors (59%).

The researcher maintain that a “strategic partner”, together with other credible institutional investors with local, regional and international banking expertise, and the level of foreign currency and capital required by CFX are still required. This would help CFX to achieve a strong capital base and to set up effective corporate governance structures for the future. In other words, CFX should undergo a second stage of restructuring, characterised by a market-based system and effective application of the criteria for regular corporate restructuring. The government should also disinvest and allow local or regional credible investors to take over its shares.

Altman Z-score Model for CFX Bank 31 December 2007

Based on CFX Bank financial statements for the year ended 31 December 2007, the Z-Score was 0.65.

$$Z = 1.2x_1 + 1.4x_2 + 3.3x_3 + 0.6x_4 + 1.0x_5$$
$$= 0.65$$

Where

X ₁ is the percentage of working capital to total assets	= (-0.19)
X ₂ is the percentage of retained earnings to total assets	= 0.015
X ₃ is the percentage of earnings before income tax to total assets	= 0.03
X ₄ is the percentage of equity to total liabilities	= 1.01
X ₅ is the ratio of sales to total assets	= 0.15

Zim\$

• Working Capital	(-2 261 483)
• Earnings Before Income Tax	362 814
• Retained Earnings	175 752
• Total Assets	11 575 037
• Equity	5 824 331
• Sales	1 740 011
• Total Liabilities	5 750 706

This score of 0.65 indicates a still unsound condition. While the institution showed a significant improvement from -0.98 in September 2004 to 0.65 by 31 December 2007, the Z-score was still below the cut-off 1.81 percentage. It is, however, important to note that the restructuring programme was not an overnight event, as it involved re-branding and restoration of market confidence, which had adversely affected indigenous banks generally, especially those that were placed under curatorship from January 2004.

On 31 December 2006 the CFX incurred a net loss after tax of Zim\$258 million, and this severely affected its equity position. Deferred taxation as a result of the revaluation of assets resulted in a negative working capital position of Zim\$2.2bn. As already mentioned in (d) above, following the 2006 restructuring, CFX Bank should undergo a second stage of restructuring, and pave the way for credible local, regional or international investors to takeover its shares.

4.3.3 Trust Banking Corporation Limited (Trust Bank)

Background

Trust Banking Corporation commenced its operations in January 1996 as a merchant bank, and converted its licence to a commercial bank in 2000. [*Reserve Bank of Zimbabwe (2006), Reflections on: what went wrong at Trust and Royal Banks*].

According to prior on-site examinations by Reserve Bank of Zimbabwe over the years, Trust Bank experienced a number of deficiencies in asset quality, liquidity and internal control systems, among other factors.

Independent Investigations

In December 2003 the RBZ instituted an independent investigation of Trust Bank as provided for by the provisions of the Zimbabwe Banking Act. The investigation confirmed a liquidity gap of Zim\$100 billion on 12 December 2003, against the bank's understated liquidity gap of Zim\$70 billion. The disparity indicated that the bank was misrepresenting the gravity of the problem in order to continue accessing the RBZ as lender of last resort facilities, under the pretext that the problems were of a temporary nature.

The researcher considers that when Trust Banking Corporation having commenced its operations as a merchant bank, converted its licence to a commercial bank in 2000, the Reserve Bank of Zimbabwe and the Registrar of Banks failed to carry out a detailed examination of the management and major shareholders of Trust Bank.

The authorities should have declined to register the bank or issue a banking licence on the basis that:

The major shareholders (Trust Holdings Limited) lacked the capacity and credibility to re-capitalise operations in the best interest of all stakeholders.

- The executive directors of Trust Bank had direct and full control of Trust Holdings Limited, the holding company of Trust Bank.
- The majority of the management lacked banking expertise, integrity, competence and the necessary qualifications to run a banking institution administering depositors' funds.
- Top management lacked the ability to establish effective corporate governance structures in the best interests of all stakeholders.

Trust Banking Corporation Limited before restructuring in December 2003.

According to the curator in (2004), “the investigation confirmed material non-performing insider loans granted without formal loan agreements and proper due diligence. Examples were: TMB Nominees - Zim\$23.8 billion; Trust Holdings Limited -Zim\$6.8 billion and other insiders Zim\$17.6 billion”.

In (2004) the curator also revealed that, “the liquidity gap was compounded by massive withdrawals, speculation-restricted maturity rollers and insignificant deposits. As a result, the bank was compelled to attract new depositors at interest rates of up to 850% per annum, while other banks were paying 500% for the same products. Some of the risk-averse depositors were demanding security because of the bank’s increased corporate image of risk”.

As part of a strategy for minimizing liquidation of viable banking institutions in future, it is apparent that the curator should have initiated both criminal and civil proceedings against the management of Trust Bank, based on the gravity of the evidence.

The researcher maintains that this section should also apply to the Zimbabwe Banking Act, and should give curators sufficient authority to carry out their responsibilities, in the best interests of all stakeholders.

Altman Z-score Model for Trust Banking Corporation Limited on 31 December 2003

According to Trust Banking Corporation Limited, annual report and financial statements for the year ended 31 December 2003, the Z-Score was -0.55.

$$Z = 1.2x_1 + 1.4x_2 + 3.3x_3 + 0.6x_4 + 1.0x_5 \\ = -0.55$$

Where

X ₁ is the percentage of working capital to total assets	= (-0.0156)
X ₂ is the percentage of retained earnings to total assets	= 0.0238
X ₃ is the percentage of earnings before income tax to total assets	= 0.1419
X ₄ is the percentage of equity to total liabilities	= 0.0072
X ₅ is the percentage of sales to total assets	= 0.39

	Zim\$
• Working Capital	(752 696)
• Earnings Before Income Tax	23 940 858
• Retained Earnings	9 686 525
• Total Assets	557 936 462
• Equity	6 406 178
• Sales	219 250 333
• Total Liabilities	551 530 314

With a cut-off at 1.81, Trust Bank's score of -0.55 clearly indicates a sign of corporate failure. Specifically, it indicated significant financial distress and viability difficulties, as evidenced by the lack of working capital, reduction in retained earnings and the fact that operations were largely financed from creditor loans instead of shareholders' equity.

The score of -0.55 also indicates a state of insolvency, because of a balance sheet showing a liquidity gap of Zim\$100 billion on 31 December 2003. As a result of the negative impact of the liquidity crunch, Trust Bank had no choice but to seek a bail-out from the Reserve Bank of Zim\$100 billion.

With its bad corporate image, the bank's deposit base became highly volatile due to diminished market confidence, thus causing an unanticipated deposit run. This became a vicious circle, as the deposit run resulted in dwindling retained earnings, and eventual liquidity crunch.

Banking Restructuring Approach

The Reserve Bank of Zimbabwe, on behalf of the Government, initiated a centralized approach. The insolvent, non-viable Trust Bank Limited remained afloat through support from the RBZ. The officers from the RBZ were tasked to examine the financial records, with sufficient authority to set aside any decisions made by the executive. According to the Reserve Bank of Zimbabwe, this corrective action was necessary in order to minimize financial risk in the best interest of all stakeholders [*Reserve Bank of Zimbabwe (2006) Reflections on: what went wrong at Trust and Royal Banks*].

The researcher maintains that this method was not necessarily effective in preventing detrimental consequences, because deposit runs were anticipated by the public. In addition, the decision to carry out a bailout was made informally, without effort on the part of the management. It was important to ensure that the rescue strategy was formulated through a transparent process, and with objective judgment on the bank's viability.

Transfer of Bank Assets into Zimbabwe Allied Banking Group (ZABG)

According to Reserve Bank of Zimbabwe report of 3 May 2006, the bank's outstanding Troubled Bank Fund (TBF) loans were converted to equity. In addition, deposits and sundry creditors above Zim\$5 million were also converted to equity. After conversion, founding shareholders' shares were written off against accumulated loss, with the result that they had no further interest after the conversion of TBF loans and other liabilities into shares in ZABG.

Court Action by Trust Bank

Trust Holdings, the sole shareholder, lodged an application in 2004 to the High Court seeking to interdict the amalgamation of the bank into ZABG, on the grounds that the Reserve Bank and the curator were not empowered by law to do so. The application was dismissed with costs in March 2005, by the Supreme Court of Zimbabwe.

A further appeal to the Supreme Court was dismissed on 5 September 2005, on the grounds that Trust Holdings should have appealed to the Reserve Bank of Zimbabwe against the curator's decision to transfer or sell the assets. Trust Bank argued that the curator had no authority to transfer all the assets of the institution to ZABG. "The sale of the assets and liabilities was not preceded by any consultation with, or participation of, all stakeholders". Trust Bank further argued that the assets were not subjected to an independent and professional valuation. According to the argument, the curator dissuaded a potential partner, NedBank of South Africa, from participation. Further, "the curator was at fault because he had wrongly overstated the liabilities of Trust Bank, and had adopted a hostile attitude. He had prejudged the matter in that, before any investigation, he had decided that the Bank should be placed in the care of ZABG".

Supreme Court of Zimbabwe's View

The Supreme Court shared the view that the curator had had no authority to sell or transfer the assets of a banking institution, and that they had therefore acted unlawfully in entering into the agreement with ZABG. Accordingly, the sale and transfer of assets of the banks to ZABG were declared null and void, and of no force or effect [*Reserve Bank of Zimbabwe (2006) Troubled Banking Institutions Monetary Policy Review Statement*].

The Supreme Court, however, also ruled that Trust Holdings had no power to file the court application because it had not obtained the authority of the curator. Instead, Trust Holdings should have appealed to the Reserve Bank of Zimbabwe, as provided for by the provisions of Section 55 (4) of the Zimbabwe Banking Act, before approaching the courts. The Court underlined the fact that "the sale that had taken place with the approval of the RBZ would not necessarily mean that the RBZ could not have objectively determined such an appeal". It concluded by saying that "in the event of an adverse decision being given by the RBZ, it could be challenged in the High Court of Zimbabwe".

The researcher considers that the legal banking framework in Zimbabwe needs to be reviewed in order to ensure that a workout strategy is formulated and implemented through a transparent process, with an objective judgment on the viability of banks. Instead of appealing to the RBZ against a curator appointed and remunerated by the RBZ, an Independent Banking Commission should be established to act as an arbitrator, and to promote effective public governance in the best interests of all the stakeholders.

In addition, a curator should be appointed and supervised by such an independent banking commission, and remunerated from statutory contributions drawn from the banking industry over time, in close consultation with the RBZ.

Second Stage of Bank Restructuring

Following the (2006) restructuring, the researcher also maintain that the Zimbabwe Allied Banking Group should go through a second stage of restructuring. This should be characterized by a market-based approach, involving the appointment of an arbitrator to address the differences between parties, and facilitate participation of all stakeholders in the strategic decision-making process. The government should disinvest, and allow partnership between indigenous credible bankers and international strategic partners to take over, in close consultation with all interested parties. The institution should also go through the process of change of name, re-branding, merger or acquisition, and promote effective corporate governance. Such measures would allow the matters between Trust Holdings, Royal Bank, other banking institutions on the one hand, and the RBZ on the other, to be resolved without prolonged litigation, in the best interests of all stakeholders.

On 17 July 2008 the *Zimbabwe Financial Gazette* (p C4) published a notice by the Reserve Bank dated 30 June 2008: "Take note that the RBZ hereby extends the period of curatorship for Royal Bank Zimbabwe Limited and Trust Bank Corporation Limited until all litigation has been finalised. The litigation relates to claims lodged with the High Court and appeals lodged with the Administrative Court by the shareholders and certain creditors of Royal Bank Zimbabwe Limited and Trust Holdings Limited, against the RBZ, curators and against the Registrar of Banking Institutions' intention to cancel the registration of the said banking institutions. Both matters remain pending in the High Court and in the Administrative Court. Further, take note that the RBZ has extended the appointment of the curators to 31 December 2008".

It can be concluded that the monetary authorities, on behalf of the government, should always guard against the mis-application of taxpayers' funds during and after banking crises.

4.4 FINANCIALLY SOUND BANKING INSTITUTIONS DURING 2003/2006 ZIMBABWE BANKING CRISIS

The following is a sample of financially sound banking institutions that survived the 2003/2006 banking crisis.

4.4.1 Central African Building Society

Background

According to P. Cameron, General Manager Finance (2006) Central African Building Society (CABS) was registered as Central African Building Society Limited under the Companies Ordinances on 6 July 1949. Under the Building Societies Act (1951) it was registered under certificate no 2 as a Building Society. This followed turbulence in Congo-Zaire during the early 1960s which resulted in the exodus of white Belgians from that country to the then Southern Rhodesia, now Zimbabwe.

There was little confidence in the future of building societies in Southern Rhodesia, and this, together with a credit crunch prevailing at the time, led to large-scale repossessions of mortgaged properties. Numerous building societies existed, and were forced to amalgamate. CABS amalgamated with the then Old Mutual Building Society and the Bulawayo and National Building Society to become Old Mutual Building Society, stated P. Cameroon.

On 21 October 1961 two major events took place. First, the Certificates of Registration of Bulawayo and National Building Society and of Central Africa Building Society were cancelled. Second, Old Mutual Building Society changed its name to Central African Building Society, and was issued with a Certificate of Registration as provided for by Section 70 (5) of the Southern Rhodesia Building Societies Act, of 1951.

According to the *Central Africa Building Society (2006) Annual Report/Financial Statements* the main business activities of CABS have been the raising and maintenance of a fund from which loans may be granted to:

- Members and others on security of a mortgage or hypothecation with or without other approved collateral security;

- Members on security of pledge of their permanent shares in the society; and
- Depositors on security of pledge of their fixed deposits in the society; and, generally, the carrying on and transaction of all such business as is provided for by the Building Societies Act.

Qualitative Analysis using the BICEPS Model May 2003/June 2006

(a) Business Strategy – Analysis

According to the financial statements for the year ended 30 June 2004, the key profit drivers for CABS were fixed deposit interest income (sixty-one percent), advances interest income (twenty percent) and treasury bills interest income (eleven percent). CABS has a ‘footprint’ network system all over Zimbabwe, and enjoys support from its major shareholder Old Mutual, an international financial institution with foreign exchange and a strong capital base. By end of 2007, CABS was undoubtedly the largest building society in Zimbabwe.

CABS posted a net surplus of Zim\$53 million for the year ended 30 June 2004, and retained earnings of Zim\$49.3 million. For the year ended 30 June 2006 the institution posted another surplus this time of Zim\$4.2 trillion dollars, while most others, such as First National Building Society and Intermarket Building Society, incurred losses.

According to P. Cameron the General Manager Finance (2006) the business strategy was formulated from the following strategic factors:

- Continually seeking improved products to outmanoeuvre competitors.
- Top management strongly believes that institutions that encourage effective strategic management generally outperform those that know nothing about it.
- The institution scans the international, external and internal environments by monitoring, evaluating, and disseminating relevant information to all key members of staff, via e-mail.
- Innovation, flexibility and responsiveness are important key success factors. In addition, key strategic factors include return on equity and asset growth above the inflation rate. Operating costs and cost/income ratios are kept well below the inflation rate.
- Top management strongly believes that business strategy in concept is not enough. Strategy, according to the General Manager: Finance and Treasury, must be understood, formulated, accepted and implemented by all members of staff, through participation in the strategic decision-making process.

- CABS dominates its chosen market sector (niche) of fixed deposits, mortgage services and investments, but is, however, mindful of threats from other banking institutions.
- Top management remains committed to its marketing principle of satisfying customers' needs more effectively than the competition.
- In May 2006 the researcher requested and received the following documents from CABS management for study and analysis:
 - Copies of the institution's business and corporate strategies covering the period 2003/2006.
 - Correspondence, documents and minutes relating to strategic management covering the period 2003/2006.

The institution's strategy management efforts resulted in increased sales and market share, increase in business growth and general stakeholder satisfaction through "diversification of products and focus on electronic delivery". This was confirmed during the interview (9 May 2006) with the General Manager: Finance and Treasury, P.N Cameron, who joined CABS in 1972.

(b) Internal Control Systems - Analysis

The Audit Committee, Risk Management and Assets and Liabilities Committees were established in 1996, eight years before the 2003/2006 banking crisis. The chairpersons of these committees are independent non-executive directors, and not the chairperson of the board of directors. The organisational and reporting structure of the internal audit function is independent of the everyday management internal control process, as the Internal Audit report directly to the Audit Committee.

The major shareholder, Old Mutual, was responsible for the appointment, remuneration, performance appraisal, transfer and dismissal of the head of internal audit. The researcher maintains that this function should be carried out by an independent Stakeholders' Committee, in order to protect the interests of other stakeholders, including customers, creditors, employees, the government and the public in general.

- CABS' internal audit department has an audit charter, a standard audit plan, audit manual, a standard audit programme and internal control questionnaires. The audit plan is formulated in consultation with External Audit to prevent any duplication of effort.

- With regard to compliance with institution's policies of observing all procedures, rules, guidelines, directives, laws, and regulations - as well as detection of fraud, errors, omissions and any other irregularities, Cameron (2006) confirmed that "internal audit ensures that operations are conducted in terms of established procedures and statutory requirements". In addition, internal auditors are also guided by the International Auditing Guideline on Audit Sampling.
- CABS internal audit reports cover the following items: An executive summary of the institution; period covered by the audit; the scope and objectives of the audit; the magnitude and significance of problems; recommended solutions or preventive actions; auditees' comments on the issues with recommendations, and remedial measures taken or proposed to address audit issues; management's achievements noted during the internal audit; and an overall conclusion.
- The General Manager: Finance and Treasury confirmed that "the critical operational areas which entail significant risks to the operations and the financial condition of CABS include credit operations, treasury operations and information systems, and not derivatives and investments in Debt and Equity Securities".
- Securities held in the Treasury Bills investment (and not trading securities) account for a considerable proportion of the institution's assets. Apparently there are no inferior-quality securities that may adversely impact on CABS's financial position. The internal auditors are well-trained, and conversant with the institution's investment strategy, the risk inherent in investment, policies and procedures, accounting and financial reporting, and legal and regulatory requirements.
- CABS has a robust, watertight internal control framework tailored to the specific circumstances of the business, which are viewed by the top management as part of daily operational activities. "With the situation in Zimbabwe, where over seventy per cent of revenue is generated by dealing and investment securities, this requires watertight internal control and special emphasis from audit. The Executive Management Committee has the full responsibility of establishing and implementing internal control systems," Cameron stated.

- According to the General Manager: Finance and Treasury, the following internal controls are being implemented by CABS:
 - Dealing limits, which are closely monitored.
 - Computer-generated exception reports.
 - Limits of authority for every individual and department.
 - Exposure limits for each department.
 - Fixed Asset Register, maintained and updated monthly.
 - Top management are regularly required to declare interests in other institutions.

In addition, the following objective and internal controls were used by CABS with regard to cash received; cheques received by post and delivery, and Real Time Gross Settlement (RTGS) deposits, said Cameron.

Table 4.4.1 Objectives and internal controls used by CABS

Area of Business	Objectives	Internal Control Measures
<ul style="list-style-type: none"> ○ Cash received. ○ Cheques received by post and delivered. ○ RTGS deposits. 	<ul style="list-style-type: none"> a) To ensure that all cash delivered, cheques received by post and RTGS depositors are accounted for and accurately recorded in the relevant books of account. b) To ensure all such receipts are promptly and intactly deposited in the client's or company's bank account 	<ul style="list-style-type: none"> ○ Mail register cheques are deposited and receipt sent to client. RTGS deposits are immediately deposited on receipt ○ These are checked against the RTGS notification. ○ Deeds notes and the Society's official receipts are despatched to clients for all deposits made.

- Cameron mentioned that the type of fraud most likely to occur through the bank accounts is the generation of fictitious CABS cheques which are used by fraudsters to make payments. "Security features on CABS cheques are publicized frequently, but attempts to commit fraud continue from time to time. CABS top management therefore carry out daily bank reconciliations to minimize and isolate these cases".

The directors nonetheless delegate internal control systems to management, and are generally satisfied with receiving reports on control issues and the status of corrective actions. The researcher maintains that directors must not delegate internal control systems to management. They should take responsibility themselves and be themselves accountable to all stakeholders. Internal control measures and risk-management guidelines should therefore be reviewed and implemented regularly.

CABS top management is convinced that the benefits from the institution's internal control measures have far exceeded the cost of establishing and implementing internal control systems. It can be concluded that this is a sound measure of effective application of risk-management and internal control systems.

The researcher received the following from top management for research:

- A sample of internal control reports 1 May 2004 to 30 June 2006.
- Samples of Internal Audit Committee minutes 1 May 2004 to 30 June 2006.
- Audit Charter and Plan.
- Audit Manual and Programme.
- Internal control questionnaires.
- Authority to attend and observe relevant meetings between 1 January 2004 and December 2006.

The researcher maintain that the management of CABS has established effective financial and non-financial systems of controls. These have enabled them to carry on the business of the institution in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure, as far as possible, the completeness and accuracy of the records before, during and after the 2003/2006 banking crisis.

(c) Corporate Governance - Analysis

- According to P. Cameron, General Manager Finance (2006), CABS has twelve members on the Board of Directors, ten of whom are non-executive directors, designated "A-Class Shareholder (Old Mutual)". The major shareholder is responsible for identifying appropriate professionals who are specialists in their field of endeavour, and required to provide meaningful input to the banking situation.

- The researcher maintain that, while the major shareholder is expected to play a strategic role, participation of other stakeholders such as customers, employees, creditors, the government and the public should be taken seriously when appointing directors, and especially non-executive directors.
- The ALCO Committee drives the most appropriate strategy for the Society in terms of the mix of assets and liabilities; determines the appropriate level of liquidity and ensures that agreed wholesale funding limits are not exceeded. It also ensures that the appropriate structure of the balance sheet in terms of funding mix, capital adequacy and risk-management policy should have more non-executive than executive members.
- The chairperson should also be a non-executive member, totally independent of executive members. For example, according to the annual reports and financial statements for the year ended 30 June 2006 (p. 11) the committee failed to convene even a single meeting during the course of the year which is not a good corporate governance practice. The chairperson of the committee was also the Managing Director, K.Terry, according to Annual Report (p 2). CABS losses included more than Zim\$100 billion to a fraudster, a certain 'C. Ndlovu', said Cameron.
- According to the General Manager: Finance and Treasury, "the board tries to ensure that shareholder expectations are attained, while at the same time operating within the legal framework and complying with all statutory requirements. In order to achieve shareholder satisfaction, support from clients is needed, and to achieve this motivated and efficient staff is required. Supply and service agreements are also entered into with all suppliers of goods and services to ensure efficient and effective business operations" (personal conversation). The researcher maintain that while it is critical to satisfy the needs of the 'A' class shareholder (Old Mutual), the interests of other stakeholders should also be considered, said Cameron.

As a means of formulating and implementing business and corporate strategies the executive management have an annual retreat where the objectives for the coming year are agreed on. These are reviewed monthly and presented to the Board for approval. “Board members are expected always to act in the best interests of the society”, according to Cameron. Board members also ensure that the executive management acts responsibly in terms of parameters set by the board. The board sets limits, rules and regulations, and ensures that depositors’ funds are held safely and profitably.

- The researcher considers that in order to satisfy the needs of all stakeholders, representatives of stakeholders should participate in strategic decision-making process.

There is conclusive evidence that CABS has effective corporate governance practices with respect to all its statutory obligations, especially the provisions of sections 140, 176 and 186 of the Zimbabwean Companies Act (Chapter 24:03) and provisions of sections 18 (2) 19 and 20 of the Zimbabwe Banking Act (Chapter 24:20). For example, “The Board receives monthly, half-yearly and annual financial statements. Audit is currently conducted by external auditors KPMG (Chartered Accountants), Group Internal Audit and Internal Audit, said Cameron. The auditors report directly to the Audit Committee, who oversee production of the interim and final results. The Board is directly responsible for these functions”, Cameron said. The institution’s non-executive directors come from a business background, and fully understand the environment in which CABS operates and makes money.

- On 30 September 2004 the Reserve Bank of Zimbabwe responded to the collapse of more than a dozen banking institutions by issuing Guideline Number 01-2004/BSD, entitled Sound Corporate Governance Requirements. To ensure that directors are constantly held accountable “the shareholder is responsible for the appointment of the Board of Directors. This ensures that the directors are accountable, and responsible for the efficient and effective governance of CABS. Executive directors have no say in the appointment of directors. Directors are required to hold only 50 shares each and the percentage holding is less than .01%. CABS reports board attendance to the Reserve Bank of Zimbabwe, and eleven of the twelve members show over 75% attendance. Board members are paid a set fee, and all committee work is paid on attendance.

CABS was of the view that the Guideline has transformed the institution with regard to management systems and risk-management. “Before the Guideline, CABS was operating in terms of guidelines set by the parent company (Old Mutual PLC). These have been aligned to that of the Reserve Bank. Risk management has been enhanced and management systems improved as a result. This is particularly true of reconciliations”, said Cameron.

- CABS used the “Engaged Board” model. Thus, the Board provides insight, advice and support to the Managing Director and the management team. It also seeks out sufficient financial expertise from the banking sector to add value to decisions. It appears that the purpose is to ensure that boards are not squeezed into rigid boxes, said Cameron.
- CABS’s main social and environmental responsibilities include making large donations to sports bodies and charitable organisations. It has also reduced charges and minimum balance requirements for the elderly (pensioners), and has produced a product with minimal charges for the mass “unbanked” market.
- The researcher feels that CABS might do well to consider social responsibilities such as supporting more popular sports in the country, making contributions towards educational and medical utilities, collection of refuse in high-density areas and assist water supply utilities, as well as growing trees and other plants across the country.

The researcher was authorized by CABS management to collect the following documents for research:

- Annual reports and financial statements 2004/2006.
- Board and committee minutes 2004/2006.
- Attend and observe some board/committee meetings.
- Interview customers, suppliers of goods and services, employees, shareholders, the government and non-executive directors about its operations.

In the researcher’s opinion, while there was room for improvement, corporate governance structures for CABS were effective and sound during the 2003/2006 period of study.

(d) Ethics in Business - Analysis

- CABS has a Code of Business Ethics. It ensures that executive directors satisfy their personal interests, while remaining concerned about the interests of all other stakeholders. “People with defective moral upbringing and unethical behaviour have been restrained from tarnishing the image of the institution through anonymous tip-offs, which carry rewards” said Cameron on whistle-blowing. In addition, people who operate outside the norms are disciplined in terms of the Code of Conduct.

- CABS management regards the Association of Building Societies as a united body, representing the interests of societies to the regulatory authority and various government institutions. In this way CABS is given the opportunity to attend to the interests even of its competitors. Notwithstanding the competitive nature of the banking sector, CABS feels it can afford to be concerned about the interests of its competitors without necessarily jeopardizing its own chances of survival in the market.

- CABS regards business ethics as prerequisite for sustained success, and, indeed, for excellence in business. In other words, management strongly believes that it is possible to be both ethical and successful in business. According to the General Manager Finance and Treasury: “Yes, ethics are essential, and without them the business will not be successful”.

In order to ensure that everyone in the institution acts with integrity, CABS has taken steps such as including ethics guiding regulations in performance management contracts, recruitment policy documents, monthly appraisals processes and the performance-based remuneration system. CABS has, over the years, used business ethics principles and guidelines to minimize fraud. “The culture developed over the years has continually minimized fraud. People are aware that any fraudulent activity is pursued with vigour, and reports are made to the Zimbabwe Police for prosecution”, Cameron stated.

- CABS has also cultivated an ethical culture over the past five years through the adoption and institutionalisation of a code of ethics. The organisational culture has aligned the code of ethics to disciplinary procedures in order to gain the status of a living document. The Board has therefore developed, implemented and institutionalised ethical performance based on its code of business ethics.

The researcher was authorised by management to obtain the following documents for research:

- Copy of the Code of Ethics developed, revised, implemented, reported on and institutionalised from the year 2002 to 2006.
- Correspondence and minutes relating to the institution's disciplinary procedures from the year 2002 to 2006.

The researcher feels that the top management should go further, and report ethical performance and benefits (if any) in the annual report and financial statements, something not done in 2003/2006. Management should also communicate monthly reports, obtain feedback and then prepare reports for effective implementation. CABS management should also establish a Business Ethics Committee.

(e) Stakeholder Participation – Analysis

Stakeholder participation should ensure that the direct and indirect interests of all stakeholders, including non-shareholders, are protected in normal operations and also in the event of collapse. From the minutes record of CABS, management and shareholders have fully participated in all strategic decision-making process.

The government has participated to some extent through the supervisory role of the Reserve Bank of Zimbabwe and the Association of Building Societies, operating as a united body in making representations to the regulatory authorities and several government institutions. There is, however, no conclusive evidence of the participation of the customers, creditors and the employees or their representatives.

In the Risk Committee minutes of the sixth Audit Committee meeting (25 July 2005), paragraph 6 (b) concerns raised in the reports were: “No formal documented procedures for risk-management reporting. No risk-management workshops were conducted with low-level staff. Job description of a risk manager did not include the prerequisite qualification. Some requirements by the RBZ have not been implemented and/or attended to. Bank tellers, for example, have direct contact with customers.”

The views of both customers and employees should be taken into account when formulating and implementing business or corporate strategies. This is necessary for the purpose of improving the image of the institution and also for increasing market share and the value of business.

(f) Stakeholder Satisfaction – Analysis

The researcher maintains that the effectiveness of corporate governance structures of an institution should also be measured by the degree of satisfaction by all stakeholders. The following are the views of a selection of CABS customers (reported verbatim):

Table 4.4.2 Stakeholder Satisfaction Analysis of a Participant (Tinashe Denhere), March 2007

Tinashe Denhere - has been banking with CABS, First Street Branch , Harare, for the past 7 years	
Question	Answer
○ For how long have you been banking with CABS?	○ 7 years
○ What do you think about these long queues, especially during pay days?	○ At CABS we do not talk of long queues during pay days. Its every day, it is so boring and painful.
○ What do you think are the causes?	○ The tellers are very slow when serving people. My main worry is I need to know the reason why CABS and Beverley cannot be able to go and collect their money straight from the Reserve Bank. I have got two days coming here and I am told there is no cash but you would find some people who bank with other banks getting their money every day. WHY? The Governor of the Reserve Bank should address this to us if possible.
○ Are you happy with the services at CABS?	○ Honestly speaking not happy and I think the Government should monitor the situation at CABS. It seems as if they are always on “GO SLOW” such that we will hate the Government.
○ Why are you not opening accounts with other banks?	○ These days you will be wasting your time because you will find long queues everywhere and I can not meet the requirements for these other banks. Amount needed to open the account.
○ What do you think is the solution of these long queues?	○ CABS should go and get their money from RBZ straight not getting it from other banks. ○ They should look very carefully on the issue of always saying ‘WE ARE OFF LINE, NO ELECTRICITY AND NO CASH’. I don’t know where did they got these three statements. You have to expect one of these three statements when ever you reach at CABS.

**Table 4.4.3 Stakeholder Satisfaction Analysis of a Participant (Shame Musengi)
March, 2007**

Shame Musengi - has been banking with CABS, Jason Moyo Branch , Harare, for the past 9 years	
Question	Answer
○ How long have you been banking with CABS?	○ Since 1999, which is now almost 9 years.
○ What do you think about these long queues at CABS especially during pay days?	○ Why talking of pay days? Come here on the first day of next month and you will agree with me that you experience long queues every day at CABS.
○ What do you think are the causes of these long queues?	○ “Politics”.
○ Why do you say so?	○ If you want money here, then you should have a relative who works here. All these people have been told there is no cash here, but a friend of mine who is here, got the money because his brother works here. I am talking to him if he can also take my withdrawal slip and give it to his brother may be I will get cash today but now the problem is, he will need to be paid.
○ Are you happy with the services at CABS?	○ No. Maybe after this discussion I will be happy. May you please help me, please!
○ Why are you not opening accounts with other banks like Kingdom, FBC or CFX?	○ The reason why I am sticking to CABS is because they have many branches around the country. As you can see I am a soldier we move around the country so if I change this bank I will suffer when I travel outside Harare. What I can do may be is to change from CABS to POSB because they also have many branches outside Harare, but I know you do agree with me that POSB and CABS are like brothers. They do the same, very long queues everyday.
○ Is there any solution to these issues?	○ Every teller should work with a policeman or a soldier behind. Honestly speaking you will not see these people spending hours outside. Time is money my brother. ○ Thank you and I hope you are going to solve our problem.

Table 4.4.4 Stakeholder Satisfaction Analysis of a Participant (C. Kambawa), March 2007

C. Kambawa – has been banking with CABS, Chitungwiza Branch, for the past 22 years.	
Question	Answer
○ How long have you been banking with CABS?	○ 22 years
○ What do you think about long queues especially during pay days?	○ As you can see I have been here since 04.00 am, Zimbabwe time and there is no hope that I will get the money today. I have been coming here for the past four days and I managed to withdraw cash only yesterday and today I am just praying and may be I will win. These long <i>queues</i> are boring.
○ What do you think are the causes of these long queues?	○ Mismanagement of CABS.
○ Why do you say so?	○ Come and see why I am saying this? They should be five tellers saving these thousands of people outside but as you can see only one teller is saving people and do you think he will be able to save all these people? If you get in those back doors you should find them sitting inside there. “Very, very poor management”.
○ Are you happy with the services at cabs?	○ How can I be happy with this? I am even very angry with these people. I am looking for the manager. I need money today.
○ Why are you not opening accounts with these other banks like Kingdom or CBZ?	○ I really want to do that but for me to open the account I need to have cash. I even tried to open with FBC and I was told some shocking amounts. They need THIRTY TRILLION for me to open the account, yet here I am waiting to withdraw three trillion. How many days can I take to raise THIRTY TRILLION? I have got a family to feed. The situation is just dangerous. May be you may help me, what can I do?
○ What do you think must be done to solve these problems of long queues?	○ You know the answer. May be you want me to get arrested or get my account closed.

The researcher considers that CABS, the Reserve Bank of Zimbabwe and the government should be requested to attend to the following as a matter of urgency:

- With the large number of customers, the Directors of CABS should engage the Reserve Bank of Zimbabwe and ensure that they receive sufficient cash timeously and with sufficient support. ATMs should always work effectively, preferably 24 hours a day, and with sufficient cash.

CABS should also train their branch managers and staff, and ensure that they satisfy customers' needs better than the competition. In addition, the branch managers and staff of CABS should be motivated and encouraged to observe basic business ethics principles. Information technology should also be improved in line with socio-economic pressures in Zimbabwe and allow customers to use VISA –electronic systems, for example, to make purchases from most retail shops. They should do bench-marking and see how Standard Chartered Zimbabwe Limited Bank VISA –electronic systems is doing it. Directors of CABS should also take responsibility for easing the suffering of their customers by deploying a sufficient number of efficient tellers around the country. Customers should be allowed to withdraw all their cash at once.

- The RBZ should also institute close supervision, including independent investigations, and also present monetary policies, in order to minimize the suffering of customers and the public.

The Government should play a role too, for example, by allowing customers to withdraw sufficient cash from retail shops. It should also implement fundamental changes on matters of political, social and economic reforms.

It can be concluded that CABS should not only satisfy the needs of shareholders, top management, creditors and the government, but should also take the views of customers and non-managerial staff seriously. These stakeholders will play a major role in the success of CABS well into the future. Below is a tabulated summary of the position of Central African Building Society on 30 June 2006.

Table 4.4.5 Summary of the Position of Central African Building Society, 30 June 2006.

BICEPS Component	Composite Rating
○ Business Strategy – Analysis	A1
○ Internal Control Systems – Analysis	B2
○ Corporate Governance – Analysis	B2
○ Ethics In Business – Analysis	C3
○ Participation Of All Stakeholders – Analysis	B2
○ Stakeholder Satisfaction – Analysis	C3
Overall Composite Rating	B2

This composite rating of CABS shows a satisfactory position, with effective corporate governance structures.

Qualitative Analysis using the Altman Z-Score Model.

$$Z = 1.2x_1 + 1.4x_2 + 3.3x_3 + 0.6x_4 + 1.0x_5$$

The following table represents computations for the years ended 31 December 2004 and 31 December 2006 respectively, based on the annual reports and financial statements for CABS.

Table 4.4.6 Computations for the years ended 31 December 2004 and 31 December 2006

Ratio Details	Model Coefficient	31 December 2004		31 December 2006	
		Ratio	Score	Ratio	Score
○ Net Working Capital/Total Assets	1.2	0.066	0.0792	0.033	0.0396
○ Retained Earnings/Total Assets	1.4	0.184	0.2576	0.242	0.3388
○ Earnings Before Income Tax/Total Assets	3.3	0.199	0.6567	0.242	0.7986
○ Shareholder’s Equity/Total Liabilities	0.6	0.525	0.315	0.660	0.396
○ Sales/Total Assets	1.0	0.550	0.55	0.596	0.596
Altman Z – Score Model =			1.8		2.2

KEY:

Balance Sheet Items/Income Statement Items	31 December 2004	31 December 2006
	Zim\$ 000's	Zim\$ million
o Net Working Capital	17 720 028	588 851
o Earnings Before Income Tax	53 318 901	4 196 460
o Retained Earnings	49 318 901	4 196 460
o Total Assets	267 981 777	17 337 203
o Equity	92 363 376	6 897 911
o Sales	147 356 510	10 326 315
o Total Liabilities	175 618 401	10 439 292

The sound shareholders' equity/liabilities ratio strengthened the institution's balance sheet, with the total shareholders' equity increasing from Zim\$ 14.8 million in June 2003 to Zim\$92.3 million in June 2004. The significant contributing factor was doubtless sound corporate governance structures compared with banking institutions placed under liquidation and the 'A' Class Shareholder, Old Mutual. This assisted in boosting market confidence during the period that saw the collapse of more than twenty indigenous banks, said Cameron.

The institution's operations continued to improve, with the Altman-Z Value improving from 1.8 (June 2004) to 2.2 (June 2006), a level well beyond financial distress. This was likewise attributed to sound corporate governance structures and a credible major shareholder, Old Mutual. The institution recorded a growth in assets and equity after recording a net surplus of Zim\$4.2 trillion in 2006. There was no volatility in terms of deposit base, as the institution continued to enjoy good market confidence throughout Zimbabwe.

(c) **Qualitative Analysis using Risk-Based Supervision Policy Framework Guideline Number 2-2006/BSD, (Reserve Bank)**

On 28 February 2007 the Reserve Bank awarded a **2** (satisfactory) off-site rating, based on information available to the examiners on 31 December 2006. The following table shows the selected key indicators used.

Table 4.4.7. Central Africa Building Society Selected Key Indicators December 2006

KEY RATIOS	Dec 2005	June 2006	Sept 2006	Dec 2006	Ind. Ave
MEASURES OF CAPITAL ADEQUACY					
Equity to assets	28.97%	43.70%	42.02%	69.50%	49.06%
Tier 1 ratio	34.54%	40.70%	46.99%	41.02%	40.00%
Capital adequacy ratio	54.80%	73.57%	66.31%	81.94%	77.85%
Net capital base	\$1.48 b	\$8.08 bn	11.87 bn	\$69.38 bn	\$24.89 bn
MEASURES OF ASSET QUALITY					
Total loans & advances	\$454.83 m	\$1.30 bn	\$1.64bn	\$4.23 bn	\$2.15 bn
Adversely Classified Loans/Total Loans	3.50%	4.83%	10.1%	3.40%	2.22%
Provisions for loan and lease losses/Total loans	9.86%	0.73%	573.14%	0.45%	0.68%
Provisions for loan and lease losses/ACL	0.73%	15.04%	5674.16%	13.31%	30.56%
Large exposures/capital	1.63%	0%	0%	-	15.92%
Specific provisions/adversely classified loans	31.73%	0%	0%	-	2.60%
MEASURES OF EARNINGS					
Return on assets (ROA)	13.08%	23.81%	13.46%	31.23%	26.66%
Return on equity (ROE)	45.15%	54.48%	32.02%	44.65%	55.33%
Net Interest Margin	17.66%	27.47%	20.17%	31.41%	34.77%
Cost/Income	26.14%	58.19%	59.27%	27.41%	51.18%
Cost of deposits	30.86%	53.70%	27.30%	26.01%	31.05%
Yield on advances	45.27%	72.73%	45.63%	58.62%	51.62%
Net profit/loss	\$471.48 m	\$4.39 bn	\$3.79 bn	\$31.11 bn	\$11.67 bn
LIQUIDITY AND FUNDS MANAGEMENT					
Total deposits	\$3.027 tn	\$8.52 bn	\$14.35bn	\$28.54 bn	\$12.67 bn
Prudential liquidity ratio	83.78%	86.44%	95.52%	85.22%	130.28%
Total deposits/total assets	59.24%	46.05%	50.86%	27.60%	37.54%
Total loans/total deposits	15.03%	15.24%	11.46%	14.82%	17.76%
CUMMULATIVE GAP					
0-30 Days	(\$1.607bn)	(\$4.52 bn)	(\$5.28b)	(19.30 bn)	(\$32.48bn)
0-90 Days	(\$24.34bn)	(2.63 bn)	(\$5.12b)	(\$18.40bn)	(\$29.75bn)
0-360 Days	\$11.92 bn	(\$2.16 bn)	(3.17 bn)	(\$7.35 bn)	\$2.91 bn
INTEREST RATE SENSITIVITY RATIO					
3 months	123.60%	72.43%	59.10%	27.48%	53.87%
6 months	126.49%	74.11%	65.85%	34.34%	109.65%
12 months	323.59%	77.38%	71.20%	64.54.%	136.44%

Source: Reserve Bank of Zimbabwe, *Offsite Quarterly Report on CABS (31 December 2006)*, p.2

The RBZ was, however, concerned that “the society has not yet fully complied with the corrective order issued on 1 December 2005, in respect of appointment of additional directors to the board, and strengthening of risk-management systems”. The Reserve Bank grading of 2 (satisfactory) owed much to three parameters. In market share and ranking the society commanded pole position in terms of asset base (60.18%); advances (49.16%) and deposit base (56.30%).

According to *Reserve Bank, (2006) Offsite Quarterly Report*, based on the assessment of CAMELS factors and stress testing, the results are summarized as follows:

- **Capital Adequacy** was rated 1(strong). CABS was adequately capitalised with a capital base of Zim\$69.38 billion, and capital adequacy ratio of 81.94%. The growth in the capital position is attributable to retained earnings of Zim\$32.13 billion and revaluation reserves of Zim\$34.73 billion, recorded during the period under review. Both earnings and shareholders provided adequate support to its actual and projected capital requirements.
- **Asset Quality** was rated 1(strong). The exposure to credit risk declined, as evidenced by the fall in the ratio of adversely classified loans to total loans from 10.1% (30 September 2006) to 3.4% (31 December). Although the loan book increased from Zim\$1.62 billion to Zim\$4.22 billion over the quarter, it constituted only 4.10% of the society’s total assets of Zim\$103 billion on 31 December 2006.
- **Management** was rated 2 (satisfactory). The society has taken too long to comply fully with the corrective order of 1 December 2005 in respect of appointment of additional directors to the board and the strengthening of risk management systems. This reflects alack of responsiveness to issues raised by regulatory authorities. Management has, however, maintained the society in a sound condition in a difficult macroeconomic environment.
- **Earnings** were rated 1 (strong). The society recorded a net surplus of Zim\$32.08 billion in the six months ended 31 December 2006, compared to Zim\$471.48 million in the comparable period in 2005. Income from investments and securities accounted for 88.43% of total income, followed by mortgages, which contributed 11.07%. CABS’s income mix reflects the operating environment with prohibitive lending rates, which resulted in reduced activity in mortgage business. The institution’s cost to income ratio of 27.41% was below the industry average of 51.18%. This low ratio was attributed mainly to the significant increase in income [*Reserve Bank (2006) Offsite Quarterly Report*].

- **Liquidity and Funds Management** was rated 1(strong). Funding risk was low, as evidenced by a 100% increase in the deposit base from Zim\$14.35 billion to Zim\$28.54 billion over the quarter ended 31 December 2006.

- The society had negative mismatches in the 0-30, 0-90 and 0-360 time bands. However, it had sufficient liquid assets in the form of Treasury Bills to enable it to meet its obligations as they fell due. Its place in the Old Mutual Group gave it a strong fall-back position in the event of a liquidity crunch.

- **Sensitivity to Market Risk** was rated 2(satisfactory). CABS liability-sensitive book, as reflected by interest sensitivity ratios of 27.48%, 34.34% and 64.54% in the 3,6 and 12 months, respectively, exposed it to high market risk in an environment of rising interest rates. However, stress tests results indicate that a 100% increase in interest rates would have resulted in the institution's capital adequacy level declining to 48.61% from 81.94%, other things being equal.

It can be concluded that while the results of the Reserve Bank of Zimbabwe were based on off-site examination, the researcher agrees with the findings, as they correspond to fundamental issues highlighted using both the BICEPS and the Altman Z-Score models.

4.4.2 Stanbic Bank Zimbabwe Limited

Background

Stanbic Bank was registered in 1989; a 'family member' of the Standard Bank Group, Africa's largest banking operation. The Group operations in Africa are, as then, managed through African Banking Group (ABG), based in Johannesburg, South Africa. The oldest ABG operations are Standard Bank Namibia, established in 1915, and Standard Bank Swaziland, founded in 1988. With the acquisition of the ANZ Grindlays Banking in 1992 with its operations network in eight countries, the Group began expanding into Sub-Saharan Africa, including Zimbabwe, said A. Tsimba the Head, Legal and Corporate Governance.

Besides Zimbabwe, in 2006 Stanbic operated in 17 African countries including South Africa. The bank offers retail and commercial banking services, treasury operations and all forms of trade financing. With the support of Corporate and Institutional Banking and Standard Bank, London, corporate clients in Africa have access to project finance, privatisation, structured lending and the channelling of aid and concessionary lending to Africa.

The Standard Bank is committed to a single-brand strategy, the only exception being the use of the Stanbic Bank brand in certain of its African operations, where it is legally required to clearly differentiate itself from the UK-based Standard Chartered Bank PLC.

Qualitative Analysis – using BICEPS Model, 1 January 2004 / 31 December 2006

Business Strategy – Analysis

The key profit drivers of Stanbic Bank have been, and remain, income from interest fees, commission income and trading income. Based on historical cost figures, the institution achieved a satisfactory profit after tax of Zim\$232 million, a 673% increase from the Zim\$30 million achieved in 2003, when several indigenous banks were experiencing profitability difficulties. Interest income grew by 633%, although driven by the high interest rates at the beginning of the year 2004, said Tsimba.

This was largely because of inflationary pressures, where average inflation for the year was 381%, and the Zimbabwe dollar depreciated from Zim\$824 to the US dollar in December 2003 to Zim\$5 800. In order to avoid being outmanoeuvred by aggressive competitors, corporate and business strategies are formulated at least annually, until socio-economic stability returns.

The key strategic factors of Stanbic include “serving our customers, being pro-active, working as a team, respecting each other and serving our people”. According to the Company Secretary of Stanbic, business strategy is not enough when it comes to leading. “There should be a balance between business strategy and being able to lead your subordinates effectively to achieve the strategy”, in order to achieve the main objectives of the institution.

In 2007 Stanbic management recognised that it was dominating the chosen market segment within the banking industry. However, it aims also to enter and specialise in other areas that generate income, considering that there is merit in diversifying the bank’s business.

Ethics in Business – Analysis

According to the Head, Legal and Corporate Governance, A.Tsimba the executive directors are effectively serving their personal interests, while also caring about those of other stakeholders. This is largely because there is a structured balance between the serving of the business, stakeholders and personal interests.

The bank has a code of business ethics. People with defective moral upbringing and unethical behaviour have been restrained from tarnishing the image of the institution. “The Bank has recently rolled out new vision and values which everyone is expected to be abide by. To date these have been well-accepted and followed”, says Tsimba. In addition, the bank rewards staff for ethical behaviour. Stanbic also believes in ensuring long-term sustainability by harmonising the needs of all stakeholders, in particular, by being relevant to the societies in which they operate. Tsimba shares the view of others that it is possible to be both ethical and successful in business.

She mentioned the bank's values of "upholding the highest levels of integrity" noting that it "is one of the new values recently rolled out across the Group". The institution has consistently produced guidelines for business ethics principles, and minimises fraud by ensuring that all staff abide by them.

The bank has also cultivated an ethical culture through the adoption of a code of ethics. For example, in 2004 it adopted the Corporate Governance Guidelines and the Banking Code of Ethics issued by the Reserve Bank, and in 2005 it produced a new issue of vision and values, said Tsimba.

These measures are highly commendable particularly in contrast to other banking institutions placed under liquidation during the 2003/2006 banking crisis. In addition, top management should report on ethical performance and benefits (if any) in its annual reports. They should also establish a Business Ethics Committee.

Internal Control Systems – Analysis

The Corporate Audit Committee was established in 1999, four years before the 2003/2006 banking crisis. The chairperson is an independent non-executive director. The Chairman of the Board of Directors is not part of the Corporate Audit Committee. The institutional and reporting structure of the internal audit function is completely independent of the everyday management internal control process.

The Internal Audit Department plays a significant role in ensuring that the bank's policies and procedures are followed. It is also involved in the prevention, detection and investigation of fraud and other irregularities. The Internal Auditors are also guided by the International Auditing Guideline on Audit Sampling.

The main items covered by the internal audit reports include an executive summary; period covered; the scope and objectives; the significance of problems; causes of these problems; recommended solutions or preventive actions; auditors' comments on the issues and recommendations, and remedial measures taken or proposed to address the audit issues; management's achievements noted during the internal audit; and overall conclusion.

The management believes that credit and treasury operations, derivatives, investment in debt and equity securities and information systems are critical operational areas, which entail significant risks. These have the potential for adverse impact on operations and financial condition. It can be deduced that, with investment and trading securities making up a relatively minor proportion of the bank's assets, management should not allow derivatives and investments in debt and equity securities to operate at significant risks; they are not supposed to be part of their core business.

Stanbic internal auditors are well conversant with investment strategy, the risk inherent in investment, policies and procedures, accounting and financial reporting and legal and regulatory requirements. The institution has a robust, watertight internal control framework. These are tailored to the specific aspects of the business considered by the top management as part of daily operational activities. They are reviewed frequently to ensure they remain updated and in keeping with market trends. The head of Risk-Management responsible for establishing internal control systems in close consultation with all departments, and ensuring that they are observed, said Tsimba.

The following are the objectives and internal control measures with respect to cash received, cheques received (delivery and by post), and Real Time Gross Settlement (RTGS) deposits, said Tsimba.

Table 4.4.8. Objectives and internal control measures

Area of Business	Objectives	Internal Control Measures
<ul style="list-style-type: none"> ○ Cash received. ○ Cheques received by post and delivered. ○ RTGS deposits. 	<ul style="list-style-type: none"> a. To ensure that all cash delivered, cheques received by post and RTGS depositors are accounted for and accurately recorded in the relevant books of account. b. To ensure all such receipts are promptly and intactly deposited in the clients' or company's bank account. 	<ul style="list-style-type: none"> ○ Procedures and manuals are in place for handling cash deposits, cheques received and RTGS deposits. ○ They are also constantly checked by the Risk Control Unit and Internal Audit Department.

Aisha Tsimba, head of Legal and Corporate Governance, considered that money-laundering on dormant accounts and abuse of the institution's accounts by staff members (usually authorised signatories) are the types of fraud most likely to occur. These areas of potential risk are assessed regularly and corrective action taken.

The directors are satisfied with delegating internal control systems to management, and also with receiving reports on control issues with the status of corrective actions: "They are certainly kept updated on major and critical issues". The researcher maintains that the Board of Directors ought not to delegate these functions entirely. Instead, they should take full responsibility, and be accountable to all stakeholders. Internal control measures and risk-management guidelines should therefore be continually reviewed and implemented under the direct guidance of the Board, said Tsimba.

Stanbic management has shown, from retained earnings in 2003 and 2006 that the observable benefits from the institution's internal control measures have far exceeded the cost of establishing and implementing them, surely a good measure of effective application of risk-management strategies and internal control systems.

The researcher is satisfied the management of Stanbic Bank has established an effective financial and non-financial system of controls and risk-management strategies. As a result, business is carried on in an orderly and efficient manner, in adherence to management policies; safeguarding of assets and completeness and accuracy of the records. This applies to the periods before, during and following the 2003/2006 banking crisis.

Corporate Governance – Analysis

On 8 May 2006 Aisha Tsimba, mentioned above as Head of Legal and Corporate Governance, confirmed that the institution had twelve directors, ten of whom were non-executive. These are identified and engaged "through the Board Appointment and Nominations Committee. This would be applicable to all directors". Prospective directors' names, qualifications and details are forwarded to the Reserve Bank of Zimbabwe for approval. The Board of Directors approves appointments, subject to all regulatory approvals being met.

The researcher maintains that the executive directors should not be responsible for nominating and appointing non-executive directors. The latter should be independent, as they are expected to 'police' the executive directors. While major shareholders are expected to play an important role in the appointment of executive directors, the appointment of non-executive directors needs wide consultation with representatives of other stakeholders: customers, creditors, employees, the Reserve Bank of Zimbabwe and members of the public. This could be achieved by the establishment of the Stakeholders Commission, recognized by the *Zimbabwe Banking Act (Chapter 24:20)*.

The Board of Directors has ultimate responsibility for risk management, which includes evaluating key risk areas and ensuring that processes for risk management and systems of internal control are implemented. To assist in this the Board has appointed a number of risk committees, which include the Audit, Credit and the Risk Management Committees. The other governance committees include Loans Review, Asset and Liability, the Human Resources and the Executive Committees. These committees are composed largely of non-executive directors, and are chaired by non-executive directors.

It is commendable that the Board takes ultimate responsibility for risk management and systems of internal control. However, the appointment of various committee members should take into account the views of other stakeholders to ensure high levels of integrity, competence and independence. All stakeholders should also participate in the formulation and implementation of strategic decisions made by the various committees.

The Board of Directors has aligned the goals of the institution with those of all stakeholders "by participating in budget, strategy issues, without taking an executive role in these" said (Tsimba). In order to formulate business and corporate strategies, individual units propose strategies which are considered by the Executive Committee. They are then discussed in various committees, and finally tabled at the Board Meetings for final approval. Where the interests of major shareholders conflict with those of the institution, the Board is expected to make an independent decision in the best interests of the institution.

The researcher maintains that while the board members may delegate some responsibilities to management and governance committees, they should not delegate statutory obligations, such as the provisions of sections 140, 176 and 186 of the Zimbabwe Companies Act (Chapter 24:03). However, it is pleasing to note that all non-executive directors are aware of the economic, social and political environment, and understand well how the organisation makes money. This is attributable to a detailed induction programme for new directors. Performance is measured by their effectiveness and stakeholder satisfaction.

The board engagement in influencing management decisions and overall direction is determined by the “Engaged Board” model. “Thus, board members provide insight, advice and support to the Managing Director and management team. It also seeks industry and banking expertise to add value to decisions, said Tsimba.

Each member of the Board of Directors is required to sign a terms of reference and performance contract, and is thus held accountable for efficient and effective governance. The bank has complied with most of the provisions of the Zimbabwe Banking Act (Chapter 24:20), especially current sections of 18 (2), 19, 19(1) and (b) and 20.

These measures are carried out by the company secretary, who ensures that required regulatory approvals are sought, and that directors do not contravene any provisions of the Act. Keeping updated records of directors’ shareholding and other directorships has also assisted significantly.

In order to ensure that every board member, especially non-executive directors, attend at least seventy-five per cent of the board meetings, meeting dates are agreed upon and confirmed by all members at least ten working days before the meeting. In addition, the company secretary ensures that every director is not over-committed in other areas which would affect his or her commitment to the Board.

According to Tsimba, the *Guideline on “Sound Corporate Governance Requirements”* has improved the institution’s management systems. The Guideline has also increased profitability, value of business, return on investments and stakeholder satisfaction. “However, being part of an international group, Stanbic subscribed to international corporate governance standards and recommendations, e.g., King’s Report, before the issuance of the Guideline”.

Although not giving practical examples, the management insists that “the institution is very involved in social and environmental responsibilities. This is regularly reported at board level. “We believe in giving back to the community” (Tsimba).

The researcher maintains that Stanbic Bank directors should, ideally, also consider supporting most popular sporting activities in Zimbabwe, making contributions towards educational and medical utilities, collection of refuse in high-density areas and assist in water supply utilities, as well as growing and maintaining trees or vegetation across the country.

Stakeholder Participation – Analysis

Stakeholder participation seeks to ensure that the direct and indirect interests all stakeholders, including non-shareholders, are protected, in normal operations or in the event of collapse. From data collected from the management, top management, shareholders, and, to a lesser extent, the government (Reserve Bank of Zimbabwe), it is clear that stakeholders have participated in all strategic decision-making process.

There is, however, no conclusive evidence that non-managerial staff, customers and creditors have participated. The researcher considers that this is necessary for the purpose of improving the image and increasing the market share and the value of business of the bank.

The views expressed in the table below expressed the majority of the non-managerial staff interviewed by the researcher at various branches:

Table 4.4.9 Stakeholder Participation – Analysis of a Participant, April 2007

Question	Answer
○ State the name of your institution	○ Stanbic Bank Zimbabwe Limited
○ What is your position within the institution?	○ Team Leader Customer Service
○ For how long have you been with the institution?	○ Eight years
○ Is it necessary for you to participate in the formulation of your institution's business strategies or planning process?	○ Yes
○ If the answer is Yes, please explain why it is necessary, and how this can be done.	○ It is necessary because I am in contact with customers on a daily basis. This gives me an idea of what they really want. I understand customers' needs thus I can make suggestions to retail business units on how we can improve our services depending on customers' needs.
○ How many times (if any) have you participated in the formulation of business strategies of your organisation?	○ None.
○ State your personal and essential needs.	○ Transport ○ Food ○ Housing ○ Clothing ○ Study
○ Has your institution assisted you in satisfying any of your personal and essential needs?	○ Yes, by giving me allowances for transport and food. Stanbic also avails loans for me to be able to meet my needs. They have given me house loans, car loan and study loans.
○ In your opinion, do you think your institution is satisfying the needs or interests of all stakeholders, namely shareholders, suppliers of goods and services, the government (ZIMRA or RBZ), customers, employees, management and the public in general?	○ Yes, to a large extent, since it has been making substantial profits, adhering to stipulated regulations, providing a variety of products, paying the employees and availing loans to them and giving back to the community through donations etc.
○ Explain how your institution would benefit from satisfying the needs of all stakeholders in question above.	○ Stanbic benefits in that more investments are channelled into the bank, more customers open accounts, staff members develop more and more and a great reputation is developed in the community, which gives it a good name.

While the majority of non-managerial staff were generally happy as far as personal needs and training are concerned, they feel that there has not been meaningful participation in the formulation of the business strategies of the institution.

Stakeholder Satisfaction – Analysis

As mentioned above, the degree of satisfaction of all stakeholders must be considered as an index of the effectiveness of the corporate governance structures of an institution. The following are the views of some stakeholders:

Table 4.4.10 Stakeholder Satisfaction – Analysis of a Participant (Ventcent Goto) April 2007

Ventcent Goto has been banking with Stanbic, Masasa Branch , for 6 years	
Question	Answer
○ How long have you been banking with Stanbic Bank?	○ Six years
○ What do you think about these long queues, especially during paydays?	○ Stanbic Bank used to be a very good bank but these days if you want to be served fast then you should go to their very good branches, such as Westgate and Belgravia. I don't know; may be it is because that is where you find many white people. I tell you these branches are just good. Man. If you are in a hurry, do not go to the Nelson Mandela branch. They are very slow and I am very anxious to know why.
○ What do you think are the causes?	○ I think its poor management in some branches. All tellers should work, but you find that of all the six tellers who should be working, only two will be serving these hundreds of people on the queue. Where are the other four?
○ Are you happy with the services at Stanbic Bank?	○ I am not happy at all. These people should work.
○ Why are you not opening accounts with other banks?	○ I am just hoping that with good management Stanbic will be like what it used to be. Again at times it is better than other banks. May be if they fail I will try N.M.B. bank - not all these other banks.

Table 4.4.11 Stakeholder Satisfaction – Analysis of a participant (Brian Munyangadzi) April 2007

Brian Munyangadzi has been banking with Stanbic, Park Lane Branch , Harare, for nearly 5 years	
Question	Answer
○ How long have you been banking with Stanbic Bank?	○ Nearly five years now.
○ What do you think about these long queues, especially during paydays?	○ These days with the situation in Zimbabwe you get queues everywhere. Its not paydays only. Every day is now payday in Zimbabwe. Long queues are everywhere and every day.
○ What do you think are the causes?	○ The situation in Zimbabwe man. You know the situation.
○ Are you happy with the services at Stanbic Bank?	○ I am not happy at all but otherwise it is not their fault. Only at Nelson Mandela Branch where the manager is supposed to tell the tellers to be fast. That branch is just so slow.
○ Why are you not opening accounts with other banks?	○ Man I have told you that you get queues everywhere and at any bank and may be at NMB is where you cannot get a queue. As long as the bank is here in Zimbabwe then you should expect these long queues.
○ What do you think are the solutions to these long queues?	○ At the moment I do not have the answer to that but may you please come and see me after the talks between our political leaders in South Africa.

**Table 4.4.12 Stakeholder Satisfaction – Analysis of a Participant (Stamble Gumbo)
April 2007**

Stamble Gumbo has been banking with Stanbic, Nelson Mandela Branch, Harare, for 12 years.	
Question	Answer
○ How long have you been banking with Stanbic Bank?	○ Twelve years now.
○ What do you think about long queues, especially during paydays?	○ I think the Governor of Reserve Bank should answer when it comes to paydays. Everyone should take his or her salary once. For example, most of us are paid salaries which are less than 600 dollars (revalued), but for me to get that I must go to the bank two times which is two days.
○ What do you think are the causes?	○ The withdrawal limits. The Governor should increase it to at least 1000 dollars (revalued), you will not see these long queues. People do not have money.
○ Are you happy with services at Stanbic Bank?	○ I am happy with Stanbic although they have to tell their tellers to be fast at times.

The researcher is satisfied that Stanbic is doing fairly well in satisfying most of the interests of all its stakeholders. There is however room for improvement on payment of cash to customers. They should, however, ensure that the ATMs are always operating effectively, preferably 24 hours a day, and with sufficient cash. The bank should also train branch managers and staff, especially of the Nelson Mandela Branch, to ensure that they satisfy customers' needs better than the competition. Information technology should also be improved, in line with socio-economic pressures, and all customers ought to be able to use credit cards to make purchases from most shops. They should also do benchmarking, and see how Standard Chartered Zimbabwe, Limited, a member of the group, is managing payment of cash. Stanbic should also do more on matters of social and environmental responsibilities, in order to improve its image.

The Reserve Bank of Zimbabwe should also devise monetary policies designed to minimize the unnecessary suffering of members of the public. For example, with the high inflation, they should be allowed to withdraw their salaries in a single operation. Cash withdrawal limits should be reviewed weekly. The Government should increase its effectiveness, and implement the fundamental changes mentioned above.

Below is a tabulated summary of the position of Stanbic Bank Zimbabwe Limited -31 December 2006.

Table 4.4.13 Summary of the Position of Stanbic Bank Zimbabwe Limited, 31 December 2006

BICEPS Component	Composite Rating
○ Business Strategy – Analysis	“A1”
○ Internal Control Systems – Analysis	“A1”
○ Corporate Governance – Analysis	“B2”
○ Ethics In Business – Analysis	“B2”
○ Participation Of All Stakeholders – Analysis	“B2”
○ Stakeholder Satisfaction – Analysis	“A1”
Overall Composite Rating	“B2”

The composite rating of the bank showed a satisfactory position, and indicated the effectiveness of sound corporate governance structures.

Qualitative Analysis – using the Altman Z-Score model for Stanbic Bank Zimbabwe Limited

$$Z = 1.2x_1 + 1.4x_2 + 3.3x_3 + 0.6x_4 + 1.0x_5$$

$$= 1.15$$

The following table represents computations for the years ended 31 December 2004 and 31 December 2006 respectively, based on Stanbic annual reports and financial statements.

Table 4.4.14 Computations for the years ended 31 December 2004 and 31 December 2006

Ratio Details	Model	31 December 2004		31 December 2006	
	Coefficient	Ratio	Score	Ratio	Score
○ Net working capital/total assets	1.2	0.077	0.0924	0.137	0.1644
○ Retained earnings/total assets	1.4	0.082	0.1148	0.171	0.2394
○ Earnings before tax/total assets					
○ Shareholder equity/total liabilities	3.3	0.170	0.561	0.268	0.8844
○ Sales/total assets	0.6	0.116	0.0696	0.343	0.2058
	1.0	0.309	0.309	0.434	0.434
Altman Z – Score Model =			1.15		1.93

KEY:

Balance Sheet /Income Statement Items	31 December 2004	31 December 2006
	Zim\$ Million	Zim\$ 000's
○ Net working capital	164 731	18 199 789
○ Earnings before tax	364 906	35 512 092
○ Retained earnings	175 135	22 675 239
○ Total assets	2 140 287	132 322 313
○ Equity	221 841	33 823 038
○ Sales	662 334	57 466 803
○ Total liabilities	1 918 446	98 499 275

Stanbic Bank's relatively low Z-Score Model score of 1.15 on 31 December 2004 was largely attributable to weak Net Working Capital/Total Assets, Sales/Total Assets and Shareholder Equity/Total Liabilities ratios.

Stanbic Bank's business operations, however, improved, with the Altman-Z Value improving from 1.15 (December 2004) to 1.93 (December 2006), under very difficult political and socio-economic conditions. The bank's relative success was largely attributed to effective management, sound corporate governance structures and efficient supervision by the Banking Licensing Supervision and Surveillance Division of the Reserve Bank of Zimbabwe after the 2003/2006 banking crisis, especially the effective implementation of the Guideline. Stanbic Bank also, being a member of Standard Bank Group, assisted in improving its capital base and its corporate image in the eyes of the investing public.

Qualitative Analysis using Risk-Based Supervision Policy Framework Guideline Number 2-2006/BSD, (Reserve Bank)

The Reserve Bank conducted its last on-site examination, using the risk-based supervision methodology, on 31 December 2005, and awarded an overall composite rating of 1 (strong). Results from the CAMELS rating scale are summarised below:

Table 4.4.15 Results from the CAMELS rating scale

CAMELS Component	31 December 2006
Capital adequacy	1
Asset quality	1
Management	1
Earnings	1
Liquidity	1
Sensitivity to market risk	2
Overall Composite Rating	1

KEY

Composite Rating	Notes
○ 1 Strong	sound in every respect.
○ 2 Satisfactory	fundamentally sound.
○ 3 Fair	some degree of supervisory practices or conditions
○ 4 Weak	unsafe and unsound practices or conditions.
○ 5 Critical	extremely unsafe and unsound practices or conditions; a critically deficient performance; often contain inadequate risk management practices relative to the institution's size, complexity and risk profile; and are of the greatest supervisory concern.

The Reserve Bank of Zimbabwe conducted its last on-site examination in 2005. Based on assessment of CAMELS factors and stress testing, the results are summarized below:

Capital Adequacy was rated 1 (strong). The institution was adequately capitalised, with shareholders' funds increasing from Zim\$220 377 in 2004 to Zim\$ 1 762 842 in 2005.

Asset Quality was rated 1 (strong). While the loans and advances to customers increased from Zim\$252 540 in 2004 to Zim\$626 807 in 2006, 74% of total assets were in the form of cash and cash equivalents, and high-quality financial instruments. There was no exposure to credit risk.

Management was rated 1 (strong). The level and quality of oversight and support of all activities by the Board of Directors, management, and, more importantly, effective corporate governance structures such as Risk Management, Audit, Credit, Loans Review, Asset and Liability and Human Resources Committees were all rated strong.

Earnings were rated 1 (strong). Total sales increased from Zim\$640 924 in 2004 to Zim\$3 214 812 in 2005. Profit before tax also increased from Zim\$341 634 in 2004 to Zim\$ 2 206 185 in 2005, indicating a high level of earnings, including trends and stability.

Liquidity was rated 1 (strong). Funding risk was low, as evidenced by the increase in cash and cash equivalents of 162%, and of high-quality financial instruments of 222%. It simply means that the institution had sufficient liquid assets to meet its obligations as they fell due.

Sensitivity to market risk was rated 2 (satisfactory). The sensitivity of the bank's earnings and the economic value of capital to adverse changes in interest and foreign exchange rates, commodity and equity prices was sound. It can be concluded that the institution fell short of a strong composite rating (1) because of the prevailing socio-economic and political instability, including an ultra-high inflation rate.

The results, as indicated by the Reserve Bank of Zimbabwe on-site examination, using risk-based supervision methodology, Tudor House Consultants BICEPS model and the Altman Z-Score model used by the researcher, have all shown similar patterns of results, based on qualitative analysis.

4.4.3 Kingdom Bank Zimbabwe Limited

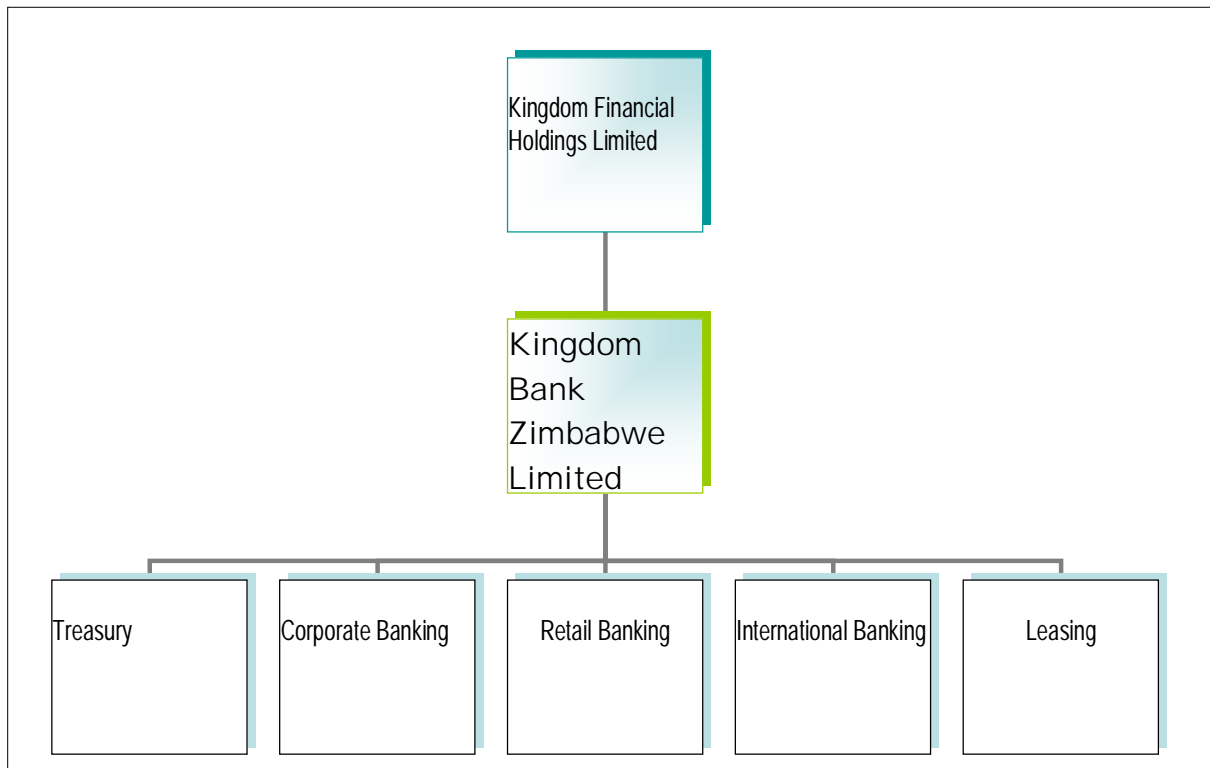
Background

The Discount Company of Zimbabwe Holdings (DCZH), listed on the Zimbabwe Stock Exchange (ZSE), was merged with Kingdom Bank Limited in 2000, and changed its name to Kingdom Holdings Limited. In the same year the acceptance house licence was converted to that of a commercial bank [*Kingdom Bank Zimbabwe Limited, Annual Report/Financial Statements, 2002*]. This development saw the launch of Kingdom Bank Zimbabwe Limited in 2001, when the first branch was opened. In 2002 the group introduced leasing and micro-finance services to cater for the needs of its wide clientele in the banking sector.

The group featured in the top ten quoted companies of the Zimbabwe Stock Exchange in 2001, and was voted the top company on market capitalisation.

The group structure of Kingdom Holdings Limited is shown below:

Figure 4.4.1 Group Structure of Kingdom Holdings Limited



Source: *Kingdom Bank Zimbabwe Limited, Annual Report/Financial Statements (2002)*,

Available online at: www.kingdom.co.zw

Qualitative Analysis – using the BICEPS Model - 1 January 2004 to 31 December 2006.

Business Strategy – Analysis

- According to 31 December 2004 financial statements, interest income (50%), commission income (30%) and gains from dealing in foreign currencies (20%) were key profit drivers for Kingdom Bank. Foreign currency dealings involving international settlement of transactions on behalf of customers complied with Exchange Control Regulations, but were risky and unsustainable because payments “could be misdirected or delayed, raising the possibility of a claim against the bank”, as the bank’s external auditor warned.
- By the end of 2006 foreign currency dealings were greatly diminished. The bank incurred a loss before taxation of Zim\$30 372 in 2004. Thanks to effective implementation of business and corporate strategies from 2005 and world-class supervision by the Reserve Bank from September 2004, the institution posted a profit before tax of Zim\$21 116 940 000 in 2006.
- In order to avoid being outmanoeuvred by aggressive competitors or newcomers, the bank’s corporate and business strategies were reviewed continuously. Top management strongly believes that institutions that engage in effective strategic management generally outperform those that do not. Strategic management efforts, such as high-quality information technology, marketing strategies and service delivery to customers have resulted in improved market share (sales), business value and, most importantly, sustainable stakeholder satisfaction.
- Top management also believes that business strategy is not enough to ensure leadership in the field. Legal Corporate Executive, F. Mafunga said: “Other factors, such as leadership innovation, vision, social responsibility, ethical conduct and sound business practices are also factors to be considered”. The researcher considers that a business strategy is ineffective unless it is understood and accepted by most stakeholders. In addition, all stakeholders must be consulted in the formulation and effective implementation of corporate and business strategies.

It can be concluded that most banks operate in a competitive environment. With many sources of competitive advantage available, each bank needs to determine its own route to specialisation, and then to understand its rationale, underlying economics, business ethics and the key strategic success factors.

In this regard, Kingdom Bank dominated the chosen niche market within the banking sector. Non-generic services offered include the following:

- Point-of-sale, ATMs, electronic banking via internet and cellphone.
- Foreign exchange, including foreign currency accounts and travellers' cheques.
- American Express Charge Cards (for foreign currency account holders).
- Unit Trusts for the relatively small investors.
- Consultancy services with regard to exchange control, floatations, management buy-out arrangements, restructuring and underwriting.

Internal Control Systems – Analysis

- Kingdom Bank's Audit Committee was established in 2000, four years before the banking crisis. The institution's reporting structure of the internal audit function is independent of the day-to-day executive management internal process, said Mafunga.

The Audit Committee is responsible for the appointment, remuneration, performance appraisal, transfer and dismissal of the Head of Internal Audit. The Internal Audit Department has an audit charter, a standard audit plan, audit manual, a standard audit programme, and internal control questionnaires.

The main duties and responsibilities of the Internal Audit Department in its monitoring of the institution's policies, procedures, rules, guidelines, directives, laws and regulation, and also detection of fraud, errors, omissions or any other irregularities is, in the words of F. Mafunga: "to perform an independent review and appraisal of the institution's business activities and functions as a service to Management and the Board of Directors". Mafunga is the bank's Legal Corporate Executive. He notes that the institution's internal auditors are guided by the International Auditing Guideline on Audit Sampling.

Items covered in reports include an executive summary; period covered; scope and objectives; significance and magnitude of the issues; the causes of issues and recommended solutions or preventive actions. They also cover auditors' comments on the issues and proposed recommendations, and remedial measures, taken or proposed; management's achievements noted during the internal audit; and, finally, an overall conclusion.

Mafunga noted that: "treasury operations and information systems are critical operational areas, which entail significant risks that may have an adverse impact on the operations and financial condition of Kingdom Bank". Management holds this view, and yet, by contrast, believes that credit operations, derivatives and investments in debt and equity securities do not entail similar risks.

The researcher agrees with Kingdom management in this view. Banks should not use depositors' funds to invest in debt and equity securities. Derivatives outside the bank's core business should also be avoided. Credit operations should not be allowed to entail significant risks, as this can be managed through watertight internal control systems and effective risk-management strategies.

Investment and trading securities (such as public shares) should not account for too great a proportion of a bank's assets. They should invest in government bonds, which are secure, and avoid investments of inferior quality.

Kingdom Bank's internal auditors are conversant with the institution's investment strategy; the risk inherent in investment; policies and procedures; accounting and financial reporting, and legal and regulatory requirements. The Board of Directors has the responsibility of establishing and implementing internal control systems.

The fundamental internal controls include controls of credit and treasury operations, minimizing and control of derivatives, continuous review of investments and information systems, and review of operational systems.

The objectives and internal control measures with respect to cash received, cheques posted or delivered, and real time gross settlement deposits are tabulated below:

Table 4.4.16 Objectives and Internal Control Measures

Area Of Business	Objectives	Internal Control Measures
<ul style="list-style-type: none"> ○ Cash received. ○ Cheques received by post or delivered. ○ RTGS deposits. 	<ul style="list-style-type: none"> a. To ensure that all cash delivered, cheques received by post and RTGS depositors are accounted for and accurately recorded in the relevant books of account. b. To ensure all such receipts are promptly and deposited intact in the clients' or the company's bank accounts. 	<ul style="list-style-type: none"> ○ Dual system of checking that entries are correct ○ End-of-day reconciliations. ○ Spot checks. ○ Written instructions from client. ○ Confirmation of transactions with correspondent banks.

Source: Kingdom Bank Zimbabwe Limited, (2002) Annual Report/Financial Statements

- According to F. Mafunga the Legal Corporate Executive the following are the most common types of potential fraud:
 - Employees falsifying documents.
 - Fraudulent movement of funds into wrong accounts.
 - Short-term use of clients' funds for unlawful gain.
 - Connivance between employees and external parties to commit fraud.

The board of directors is, however, quite prepared to delegate internal control systems to management, and are generally satisfied with receiving reports on control issues and the status of corrective actions. The researcher maintains, however, that directors ought not to delegate internal control systems to management. They should take responsibility, and be accountable to all stakeholders. Internal control measures and risk management guidelines should therefore be reviewed and implemented regularly.

Mafunga stated that “Fraud prevented due to the internal control measures has exceeded the cost of establishing and implementing them”.

Corporate Governance – Analysis

- In September 2006 F. Mafunga confirmed that Kingdom Bank had 12 directors, made up of 2 executive and 10 non-executive directors. “The chairman is appointed by other directors, following the normal appointment of the Board of Directors”. The researcher maintains that the chairman of the Board of Directors managing depositors’ funds should not be appointed by other directors, especially executive directors. The candidate should also be a non-executive director, and is generally expected to ‘police’ executive directors. The appointment of the chairman should, therefore, be made by the shareholders, in close consultation with other stakeholders.

- According to the management, non-executive directors of the bank are recommended for appointment by shareholders, other directors and clients. The remuneration committee then considers their remuneration, after which recommendations are made to the Board. In considering appointment and remuneration the Board may interview the candidate before giving its approval. In addition, the appointment has to be approved by the Reserve Bank. A police clearance, tax clearance and an affidavit to the effect that the candidate has not been convicted of a criminal offence, is not insolvent or has not been a director of a failed bank, is also required.

The appointment, finally, has to be reviewed by the shareholders at the annual general meeting. The researcher maintains that non-executive directors should never be appointed by executive directors. While major shareholders are expected to play a major role in the appointment of all directors, they need to be more careful when appointing non-executive directors and the non-executive chairman. Close consultations should take place between all stakeholders, including minority shareholders.

- Kingdom Bank has six governance committees: The Audit and Finance committee had four non-executive directors. The Remuneration Committee is composed of one executive and four non-executive directors. The Risk Management Committee is composed of one executive and three non-executive directors. The Credit Review Committee has one executive and three non-executive directors. The Executive Committee has two executive and four non-executive directors. Finally, the Credit Approval Committee has one executive and three non-executive directors.

The researcher considers that these committees should include other stakeholders such as employees and customers also, in order to have a holistic understanding of the business and, more importantly, to satisfy the needs of all stakeholders.

While the Board of Directors is responsible for the formulation of the overall business and corporate strategies, which are then implemented by management, the views of all stakeholders should be taken into consideration, from the formulation of strategic decisions to their implementation. However, it is pleasing to note that where the interests of shareholders conflict with those of the institution, the interests of the institution are considered above the others.

- Kingdom Bank uses the “Engaged Board” model, which provides insight, advice and support to the Managing Director and the management team. It also seeks financial expertise from the banking sector to add value to decisions.

In practice, boards should be flexible across the scale, their level of engagement changing with issues and circumstances.

While the Guideline (Number 01-2004/BSD entitled *Sound Corporate Governance Requirements*, issued by the *Reserve Bank of Zimbabwe* (30 September 2004) in response to the collapse of more than a dozen banks has proved highly effective, most of the banks have acknowledged that it has transformed their management systems for the better, leading to improvements in profitability, business value, return on investments and stakeholder satisfaction.

According to Mafunga, “the guideline has had no noticeable effect, as the institution had largely complied with its provisions prior to the issuance of the guidelines. Some Board members represent the interests of shareholders on the Board of Directors. Shareholders also raise matters at the annual general meeting”. He also indicated that at least five managers represent 10% direct or indirect shareholding, while at least five directors represent 70% direct or indirect shareholding. It can be concluded that this shareholding structure is not consistent with the Guideline.

A shareholding of 80% should not be controlled by managers and directors, either directly or indirectly. The researcher maintains that this figure ought to be no more than 10%. Top management should seriously consider selling their shares to institutional investors with the capacity and credibility to recapitalise the business when required, and to other local, regional or international strategic partners.

- Kingdom Bank’s main social and environmental responsibilities include helping orphans suffering from AIDS, and contributing to the fight against AIDS. It takes students on attachment to help them gain experience. It has also participated in the construction of schools in rural areas, in order to bring education to those who could not otherwise receive it.

Ethics in Business – Analysis

- Kingdom Bank has a code of business ethics. Executive directors have served their personal interests, while also caring for the interests of other stakeholders. People with defective moral upbringing and unethical behaviour have been restrained from tarnishing the image of the institution by being asked to leave, while the reward for good ethical behaviour is that such people remain with the institution for an indefinite period.

In order to ensure integrity throughout the company, Kingdom Bank has cultivated an ethical culture in the five years before the banking crisis through the application of a code of ethics. This code has been linked to disciplinary procedures, in order to gain the status of a living document. The Board of Directors has carefully fostered the code of business ethics throughout the institution.

- It is apparent that the directors should report ethical performance and benefits (if any) in the annual reports and financial statements. This was not done in the statements of 2003/2006. They should also issue monthly reports, obtain feedback from these, and then prepare reports for effective implementation. The bank should also establish a Business Ethics Committee.

Stakeholder Participation – Analysis

Stakeholder participation should ensure that the interests, direct and indirect, of all stakeholders, including non-shareholders, are protected, in normal operations or in the event of collapse. The data, suggests that management and shareholders have fully participated in all strategic decision-making processes. The government has participated to some extent, through the supervisory role of the Reserve Bank of Zimbabwe. There is, however, no conclusive evidence of the participation of other stakeholders, such as customers, non-managerial employees or creditors. Bank tellers, for example, have direct contact with customers. The views both of customers and employees should therefore be taken into consideration when formulating and implementing business and corporate strategies. This is indeed necessary for improving the corporate image and increasing market and business growth.

Stakeholder Satisfaction – Analysis

The effectiveness of corporate governance structures of an institution should be underpinned by the greatest possible degree of satisfaction for all its stakeholders.

The following are views of some Kingdom Bank stakeholders - customers:

Table 4.4.17 Stakeholder Satisfaction – Analysis of a Participant (D. Matandirotya), May 2007

D. Matandirotya - has been banking with Kingdom, Chitungwiza Branch, for three-and-a-half years	
Question	Answer
○ How long have you been banking with Kingdom Bank?	○ If not mistaken, three-and-a-half years.
○ What do you think about long queues, especially during paydays?	○ I am surprised to hear these words (during paydays) Long queues are not there during pay days only. These days its paydays every day. Honestly speaking unless if you are banking with NMB Bank like you guys wearing black suits, you have money, unlike me. I can not even afford to go with my only one suit to dry cleaner.
○ What do you think are the causes?	○ The Reserve Bank.
○ Why do you say so?	○ Look at my bank statement, chief. How much is it? Its almost ten thousand dollars (ZW\$10 000). Now tell me, how many days can I take to withdraw it with the current cash limit withdrawal of ZW\$500? I need at least twenty days. Meaning I do not have to miss a single day because if I miss then I will get next salary before finishing my last salary. So the maximum withdrawal is very low at the moment. At least five thousand dollars (\$5 000) per day will do. Chief, I tell you, you will not find any long queues because people do not have money. The current maximum withdrawal is just the problem.
○ Are you happy with the services at Kingdom?	○ I am not happy. What these people have to do is to make sure all the tellers are at their positions before 08.00 hours. You will find that at 08.00 hours only three or four tellers will be serving people, yet there are three or four counters without tellers. The bank manager should monitor the tellers and tell them to be fast and also tell them no calls accepted during working hours.
○ Why are you not opening accounts with other banks?	○ The situation is just the same and you would find sometimes Kingdom with small queues. Unless doing it for the sake of withdrawing money at two banks per day. But where would I get the cash to open the account. They need cash almost four thousand yet I get five hundred dollars per day - a father of four. Boss, it pains me and otherwise I will cry if I keep on talking to you.

Table 4.4.18 Stakeholder Satisfaction – Analysis of a Participant (Ronald Ncube), May 2007

Ronald Ncube - has been banking with Kingdom, First Street Branch, for four years	
Question	Answer
○ How long have you been banking with Kingdom Bank?	○ It is now four years
○ What do you think about long queues, especially during paydays?	○ I am now used to these long queues. You will get long queues everywhere, man. In Zimbabwe it is not something that can surprise. At Kingdom Bank sometimes the queues will be better because their ATMs are always working.
○ What do you think are the causes?	○ I think it is because of shortage of paper to print more notes. If they print more notes at the Reserve Bank then that means they will raise the withdrawal limits and you would find that many people will be going to bank only once per month. People do not have money, Chief. It is only that the withdrawal limit per day is too low. A person with two thousand dollars in his/her account will have to go to the bank four times. Now if the withdrawal limits will be two thousand dollars you would take it once and forget about going to the bank, especially people like me.
○ Are you happy with the services at Kingdom Bank?	○ I used to be happy, but now I am not happy at all. They are very slow when serving people, especially during the afternoon.
○ Why are you not opening accounts with other banks like CBZ, Stanbic and FBC?	○ It is all the same these days. I even wanted to try and open with Stanbic Bank. The aim was if I open two accounts I will be able to withdraw five hundred dollar at Kingdom Bank and five hundred dollars at Stanbic Bank per day, but I failed because I had no cash to open that account. It is so painful. Boss I tell you I am suffering, yet I have got a lot of money in my account.

Table 4.4.19 Stakeholder Satisfaction – Analysis of a Participant (James Banda), May 2007

James Banda - has been banking with Kingdom, S. Machel Branch, for three years	
Question	Answer
○ How long have you been banking with Kingdom?	○ It is now three years.
○ What do you think about long queues, especially during paydays?	○ It is not during paydays, boss. It is every day except on Sunday only.
○ What do you think are the causes of queues?	○ I do not want to say much because if I tell you the truth you will flash an Identity Card to me. You look like a Central Intelligence Organisation man. You will arrest me soon after this discussion
○ What do you think is the solution?	○ I think the talks between the three presidents of major political parties in Zimbabwe. Come to me after the talks boss. `
○ Are you happy with the services at Kingdom Bank?	○ I am happy because it is not their problem. What else can they do? They get the instructions from Reserve Bank, and I think you also know where Reserve Bank gets their instructions. Boss, come to me after the talks of these political parties.
○ Given a chance, would you want to open some accounts with other banks like Stanbic, CBZ and FBC?	○ May be after the political talks. Right now will not because it is all the same boss. Where can I get the cash to open that account? It is so painful.

The researcher maintains that the Kingdom Bank top management, the Reserve Bank of Zimbabwe and the Government should attend to the following without unnecessary delays:

- All banking institutions in Zimbabwe, should engage the Reserve Bank of Zimbabwe to ensure that withdrawal limits are in line with the current inflationary pressures in Zimbabwe. ATMs should always work effectively, 24 hours a day, and with enough cash. Branch managers and staff should be trained regularly to ensure that they satisfy customers' needs better than the competitors. The information technology should be improved in order to allow customers to use VISA-electronic systems, and make purchases from most retail shops.

- They should also do bench-marking with institutions such as National Merchant Bank Zimbabwe Limited (NMB) and Standard Chartered Bank Zimbabwe Limited to determine how they are satisfying needs of their customers.
- The Reserve Bank should make available sufficient cash to allow members of the public to withdraw all their salaries at once, considering the shortages of goods and services in the country. The institution should also seek assistance from the World Bank, International Monetary Fund and from continental banks in Africa. More importantly, they should adopt monetary policies designed to minimize the suffering to the banking public.
 - Below is a tabulated summary of the position of Kingdom Bank on 31 December 2006, using the THC- BICEPS model.

Table 4.4.20 Summary of the Position of Kingdom Bank on 31 December 2006 using the THC- BICEPS Model

BICEPS Component	Composite Rating
○ Business Strategy – Analysis	B2
○ Internal Control Systems – Analysis	B2''
○ Corporate Governance – Analysis	B3
○ Ethics In Business – Analysis	B3
○ Participation Of All Stakeholders – Analysis	B2
○ Stakeholder Satisfaction – Analysis	B3
Overall Composite Rating	B2

The composite rating of Kingdom Bank showed a satisfactory position, and indicated acceptable corporate governance structures. There is room for improvement, however, on the fundamental issues of corporate governance, recapitalization, business ethics, and stakeholder satisfaction.

Qualitative Analysis, using the Altman Z-Score Model, for Kingdom Bank Zimbabwe Limited

$$\text{Altman Z-score} = 1.2x_1 + 1.4x_2 + 3.3x_3 + 0.6x_4 + 1.0x_5$$

The following table represents computations for years ended 31 December 2004 and 31 December 2006, based on Kingdom Bank annual reports and financial statements.

Table 4.4.21 Computations for years ended 31 December 2004 and 31 December 2006

Ratio Details	Model Coefficient	31 December 2004		31 December 2006	
		Ratio	Score	Ratio	Score
o Net working capital/total assets	1.2	-0.047	-0.0564	0.161	0.1932
o Retained earnings/total assets	1.4	-0.035	-0.049	0.211	0.2954
o Earnings before tax/total assets					
o Shareholder's equity/total liabilities	3.3	-0.048	-0.1584	0.327	1.0791
o Sales/total assets	0.6	0.030	0.018	0.287	0.1722
	1.0	0.626	0.626	0.447	0.447
Altman Z-Score Model :			0.38		2.19

KEY:

Balance Sheet /Income Statement Items	31 December 2004	31 December 2006
	Zim\$ Million	Zim\$ 000's
o Net working capital	-29 670	10 430 457
o Earnings before tax	-30 372	21 116 940
o Retained earnings	-21 863	13 620 160
o Total assets	625 215	64 538 353
o Equity	1 870	14 380 126
o Sales	391 612	28 871 113
o Total liabilities	623 345	50 158 227

Kingdom Bank Zimbabwe Limited scored 0.38 on 31 December 2004. However, the Z-Score Model Value improved tremendously, reaching 2.19 on 31 December 2006.

The good financial performance strengthened the institution’s financial position, with the net working capital increasing from \$-29 670 million in 2004 to Zim\$10 430 457 000 in 2006; earnings before tax increased from Zim\$-30 372 million in 2004 to Zim\$21 116 940 000 in 2006; retained earnings also increased from Zim\$-21 863 million in 2004 to ZW\$13 620 160 000 in 2006, while shareholders, equity increased from Zim\$1 870 million in 2004 to Zim\$ 14 380 126 000 in 2006 [*Kingdom Bank Zimbabwe Limited, (2003) Annual Report/Financial Statements*].

The significant contributing factor was undoubtedly the implementation of effective corporate and business strategies from 2005, careful supervision by the Reserve Bank of Zimbabwe, especially from September 2004, acceptable corporate governance structures and financial support from credible shareholders, One such was Econet Wireless, a Zimbabwean company with offices in South Africa, Nigeria and UK. This helped in boosting market confidence during the crisis that saw the collapse of more than twenty indigenous banks.

Qualitative Analysis – using the Risk-Based Supervision Policy Framework, Reserve Bank – Bank Licensing, Supervisions and Surveillance Guideline Number 2-2006/BSD

According to the Reserve Bank of Zimbabwe “the last on-site examination of Kingdom Bank Limited was carried out on 31 December 2006, and it assessed the overall conditions of the bank to be satisfactory”.

The CAMELS ratings are summarised in the following table:

Table 4.4.22 CAMELS ratings summary

CAMELS Component	31 December 2006
Capital Adequacy	1
Asset Quality	1
Management	3
Earnings	1
Liquidity	3
Sensitivity to Market Risk	3
Overall Composite Rating	2

According to the Reserve Bank of Zimbabwe, the following is a summary of the results of the last on site examination conducted in December 2006, based on Assessment of CAMELS Factors and Stress Testing:

- **Capital Adequacy was rated 1 (strong).** The institution was adequately capitalised, with shareholders' funds increasing from Zim\$146 152 000 in 2005 to Zim\$14 380 126 000 in 2006.
- **Asset Quality was rated 1 (strong).** While customers' indebtedness for acceptances increased from Zim\$ 85 746 000 in 2005 to Zim\$1 055 507 000 in 2006, 92% of total assets were in the form of balances at bank and cash; financial assets; securities and advances. There was no exposure to credit risk.
- **Management was rated 3 (fair).** The level and quality of oversight and support of all institution's activities by the Board of Directors, management and corporate governance structures such as Audit and Finance, Remuneration, Risk Management, Credit Review, Executive and Credit Approval Committees was fair.
- **Earnings was rated 1 (strong).** Total sales increased from Zim\$759 635 000 in 2005 to Zim\$28 871 113 000 in 2006. Profit before tax also increased from Zim\$77 265 000 in 2005 to Zim\$21 116 940 000 in 2006, thus indicating a high level of earnings, including trends and stability.
- **Liquidity was rated 3 (fair).** Funding risk was moderate, with a ratio of 1.2:1. A ratio of 2:1 would be preferable. Nevertheless, the institution had just sufficient liquid assets to meet its obligations as they fell due. The bank should establish an Assets/Liabilities Committee, and take corrective measures to improve its liquidity levels.
- **Sensitivity to market risk was rated 3 (fair).** The sensitivity of the bank's earnings, and the economic value of capital to adverse changes in interest rates, foreign exchange rates, commodity prices, or equity prices was moderate.

The bank should focus on core business, unique but sustainable operations, in line with banking regulations. The researcher is, however, convinced that the sensitivity to market risk composite rate of 3 could be improved to 1 or 2 in a more stable social, economic and political environment.

The researcher is pleased to note that the findings, as indicated by the Reserve Bank on-site examination, using Risk-Based Supervision methodology, THC –BICEPS Model and the Altman Z-Score Model have shown similar results and complemented each other.

The aspects of shareholding structure, recapitalization, corporate governance structures, recruitment and effectiveness of top management, stakeholder participation in strategic decision-making and business ethics should be reviewed and overhauled. The institution should engage the services of non-executive directors who are totally independent of major shareholders and executive directors. Non-executive directors are expected to ‘police’ the executive directors and management in the best interests of the bank.

4.5 RISK ASSESSMENT SYSTEM (RAS) – RISK MATRIX

The researcher interviewed L. Mataruka, the Divisional Chief of Bank Licensing, Supervision and Surveillance of the Reserve Bank on 11 September 2008. He was informed that all banks in Zimbabwe were now required to make a full disclosure of the results of the on-site risk-based examination by the Reserve Bank of Zimbabwe. This was to be published in the local newspapers, together with interim financial results or annual financial statements. These interim financial results and annual financial statements would be checked and approved by the Reserve Bank before publication. The rationale was to ensure that members of the public, the government, business, and also investment, financial and stock analysts were well-informed about the financial position of banks.

The Reserve Bank of Zimbabwe uses the Risk Assessment System (RAS) to provide a structured framework for measuring and assessing risk. This is a method of identifying, evaluating, documenting, and communicating the assessment of the quantity of risk, the quality of risk-management, and the direction of risk at each bank. It takes both a current and a prospective view of the institution’s risk profile.

While the Reserve Bank of Zimbabwe applies the RAS to banks, the banks themselves are not required to adopt a similar process. Reserve Bank of Zimbabwe examiners are, however, expected to discuss RAS assessments with bank management, in order to reach a common understanding of the risk profile of the institution, upon which regulatory activities will be based. According to L. Mataruka, for each risk category bank examiners make the following assessments:

- **Quantity of risk** – refers to the level of risk, characterized as low, moderate, or high.
- **Quality of risk management** - refers to how effectively risks are identified, measured, controlled and monitored by management, and is characterised as strong, acceptable, or weak.
- **Overall Composite risk** – refers to a summary judgement on the level of supervisory concern by the Reserve Bank of Zimbabwe. It is characterised as low, moderate, or high.
- **Direction of risk** – refers to the probable change in a bank’s risk profile over the next 12 months, and is characterised as decreasing, stable, or increasing.
- **Credit Risk** is the current and prospective risk to earnings to capital ratio, arising from the fact that a debtor may default on payments.
- **Liquidity Risk** is the present and prospective risk to earnings ratio, arising from a bank’s ability to meet its obligations when they fall due.
- **Interest Rate Risk** is the risk of losses due to unfavourable changes in interest rates.
- **Foreign Exchange Risk** - foreign exchange risk is the current or prospective risk to earnings and capital arising from negative movements in foreign exchange rates.
- **Operational Risk** is the direct or indirect loss arising from ineffective internal control systems, incompetent staff, or external events such as unpredictable catastrophes.
- **Legal and Compliance Risk** is the current and prospective risk to earnings or capital arising from violations of statutory provisions of the law and banking regulations.
- **Strategic Risk** arises from the fact that the top management of a bank might fail to formulate business and corporate strategies, resulting in a decrease in earnings or capital.
- **Reputation Risk** is the risk of negative public opinion or perception, leading to a loss of confidence and/or severance of business relationships, such as happened to most indigenous banks during the crisis.

While the Reserve Bank of Zimbabwe’s Guideline on the Risk Assessment System – Risk Matrix was issued in 2006, it is not clear why its implementation began only during the first six months of 2008. The researcher maintains that while the Guideline is consistent with international standards, and also that it can satisfy the interests of all stakeholders, its implementation needs to be improved, so that members of the public can benefit from it. Recommendations will be made in the final chapter. The following are some of the banks which implemented the risk based Supervision Policy Framework during the six months of 2008, by publishing results in the newspapers:

4.5.1 Zimbabwe Allied Banking Group (ZABG)

On 18 September 2008 the *Financial Gazette* published Zimbabwe Allied Banks Group’s half-year financial results for the six month ended 30 June 2008. This was based on the Risk Based Supervision Policy Framework.

Table 4.5.1 Summary of CAMELS Ratings of 30 June 2008

Capital Adequacy	3	Fair
Asset Quality	2	Satisfactory
Management	3	Fair
Earnings	3	Fair
Liquidity	3	Fair
Sensitivity to Market Risk	3	Fair
Composite Rating	3	Fair

Source: *Financial Gazette*, ZABG – *Financial Results (2008)*, Available online at [:www.fingaz.co.zw](http://www.fingaz.co.zw)

Table 4.5.2 Summary of Risk Matrix

Type of Risk	Level of inherent risk	Adequacy of Risk Management Systems	Overall composite Risk	Direction of overall composite Risk
Credit	Moderate	Acceptable	Moderate	Increasing
Liquidity	Moderate	Acceptable	Moderate	Stable
Interest rate	Moderate	Weak	High	Stable
Foreign Exchange	Low	Weak	Moderate	Stable
Strategic	High	Acceptable	High	Stable
Operational	High	Acceptable	High	Increasing
Legal and Compliance	Moderate	Acceptable	Moderate	Stable
Reputation	Moderate	Acceptable	Moderate	Increasing
Overall	Moderate	Acceptable	Moderate	Stable

Source: *Financial Gazette*, ZABG – *Financial Results (2008)*, Available online at www.fingaz.co.zw

Based on the CAMELS ratings,, the composite Rating on 30 June 2008 was 3 (fair). This exhibits some degree of supervisory concern in one or more of the component areas generally less capable of withstanding business fluctuations, and more vulnerable to outside influences. Based on the Risk Matrix, the overall composite risk was expected to be stable in the next 12 months from 1 July 2008. However, credit risk, operational risk and reputation risk were shown to be increasing.

The researcher maintains that Zimbabwe Allied Banking Group should go through a second stage of bank restructuring with the focus on re-capitalisation, shareholding structure, corporate governance structures and re-branding, in close consultation with all its stakeholders, and in the best interests of the institution. The institution should be privatised, and should look for a regional or international strategic partner.

4.5.2 Standard Chartered Bank Zimbabwe Limited

On 11 September 2008, the *Financial Gazette* published Standard Chartered Bank Zimbabwe’s half year financial results of 30 June 2008, based on Risk-Based Supervision Policy Framework:

Table 4.5.3 CAMELS RATING

Component ratings	Latest rating 31/12/05	Key	
Capital Adequacy	1	1	Strong
Asset Quality	1	2	Satisfactory
Management	2	3	Fair
Earnings	1	4	Weak
Liquidity	1	5	Critical
Sensitivity to Market Risk	1		
Composite Rating	1		

Table 4.5.4 Summary Risk Matrix

Type of risk	Level of risk inherent risk	Adequacy of risk systems	Overall composite management risk	Direction of overall composite risk
Credit	Low	Acceptable	Low	Stable
Liquidity Risk	Low	Acceptable	Low	Stable
Interest Rate	Moderate	Strong	Low	Stable
Foreign Exchange	Low	Strong	Low	Stable
Strategic Risk	Moderate	Acceptable	Low	Stable
Operational Risk	Moderate	Acceptable	Moderate	Stable
Legal & Compliance	Low	Strong	Low	Stable
Reputation	Low	Strong	Low	Stable
Overall	Low	Strong	Low	Stable

Source: *Financial Gazette, Standard Chartered Bank – Financial Results (2008)*, Available online at: www.fingaz.co.zw

Based on the CAMELS ratings, the composite rating on 31 December 2005 was 1 (Strong). Standard Bank was “sound in every respect, was most capable of withstanding the unpredictable factors of business conditions, and was resistant to outside influences, such as economic instability in their trade area”. As a result, the bank exhibited the strongest performance and risk management practices relative to its size, complexity, and risk profile. There was no cause for supervisory concern.

Based on the Risk Matrix, the overall composite risk was expected to be stable in the next 12 months from 1 July 2008. Standard Bank is an international bank with credible and financially strong shareholders. It should improve on management, and minimize, as far as possible, operational risk. Some of the provisions of the Zimbabwe Indigenous Act (Chapter 24:20) should not be allowed to affect its operations and shareholding structure. Recommendations in this regard will be made in the final chapter.

4.5.3 Metropolitan Bank of Zimbabwe Limited

On 5 September 2008 the *Business Herald* reported financial results of Metropolitan Bank for the six months ended 30 June 2008, using the Risk-Based Supervision Policy Framework – Guideline Number 2-2006/BSD:

Table 4.5.5 Results of Metropolitan Bank for the six months ended 30 June 2008.

March 2006 CAMELS* Ratings

CAMELS COMPONENT	RATING
Capital Adequacy	4
Asset Quality	3
Management	4
Earnings	3
Liquidity	3
Sensitivity to Market Risk	4
Composite Rating	4

Summary RAS Ratings

RAS COMPONENT	LATEST RBS RATINGS
Overall Inherent Risk	High
Overall Risk Management System	Weak
Overall Composite Risk	High
Direction of Overall Composite Risk	Increasing

Source: *Business Herald, Metropolitan Bank of Zimbabwe Limited, Financial Statements (2008)*, Available online at: www.herald.co.zw

Table 4.5.6 Summary Risk Matrix

Type of Risk	Level of Inherent Risk	Adequacy of Risk Management System	Overall Composite Risk	Direction Overall Composite Risk
Credit	High	Weak	High	Increasing
Liquidity	Moderate	Weak	High	Increasing
Interest Rate	High	Weak	High	Increasing
Foreign Exchange	Low	Weak	Moderate	Stable
Strategic Risk	High	Weak	High	Increasing
Operational Risk	High	Weak	High	Increasing
Legal & Compliance	High	Weak	High	Increasing
Reputation	Moderate	Weak	Moderate	Increasing
Overall	High	Weak	High	Increasing

Source: *Business Herald, Metropolitan Bank of Zimbabwe Limited, Financial Statements, (2008)*, Available online at: www.herald.co.zw

Based on the CAMELS ratings, the composite rating on 31 March 2006 was 4 (Weak). The Reserve Bank of Zimbabwe reported in 2006 that, “Metropolitan Bank was generally unsafe, with unsound practices or conditions. There were serious financial or managerial deficiencies that resulted in unsatisfactory performance. The weaknesses and problems were not being satisfactorily addressed or resolved by the Board of Directors and management. Based on the Risk Matrix, the overall composite risk was expected to increase in the next 12 months from 1 July 2008”. The researcher maintains that Metropolitan Bank must as a matter of urgency sell its majority shareholding to another bank, such as Zimbabwe Allied Banking Group or Kingdom Bank, or to any other strategic partner, in close consultation with the RBZ, in order to minimize the risk of insolvency and non-viability. The RBZ, for its part, should start taking corrective measures in order to forestall the otherwise inevitable collapse of the bank.

4.5.4 Conclusions and Verification

The researcher calls to mind the research problem shaping this study: *The Minimisation of the Liquidation of Viable Banking Institutions in the Zimbabwe Banking Sector*. The collapse of more than twenty banks during the banking crisis occurred at terrible cost to many: taxpayers, employees, depositors, the government, some shareholders, suppliers of goods and services and the public in general.

The initial ideas and hypotheses were that the liquidation of viable banks could be minimized by, first, the establishment of effective corporate governance structures; and, second, regular banking restructuring and good “public governance”. This should be in the form of effective banking supervision, monetary and fiscal policies, as well as democratic political structures.

4.5.5 Summarized Results

The sample of banks was categorised in the three groups, based on the following factors:

- First, six banks placed under liquidation during 2003/2006. The main cause of liquidation was ineffective corporate governance structures and gross mismanagement. The other factors which significantly contributed to the collapse of these banks were low levels of banking supervision by the Reserve Bank and undercapitalization (associated with corporate governance). Liquidation of viable banks can therefore be minimized by the establishment of effective corporate governance structures. It must be emphasised that the major problems which resulted in liquidation of most banks started one to eight years before the onset of the crisis.
- The second category was in respect of three institutions restructured during the crisis. Again, ineffective corporate governance structures, undercapitalisation and low level of banking supervision were the major causes. Other contributing factors were an outdated legal framework and ineffective 'public governance' in the form of monetary and fiscal policies by the government, as well as social, economic and political instability.
- The third category comprises the six financially sound banks. These banks performed very well, considering the social, economic and political circumstances. They maintained strong financial positions, largely because of sound corporate governance structures.

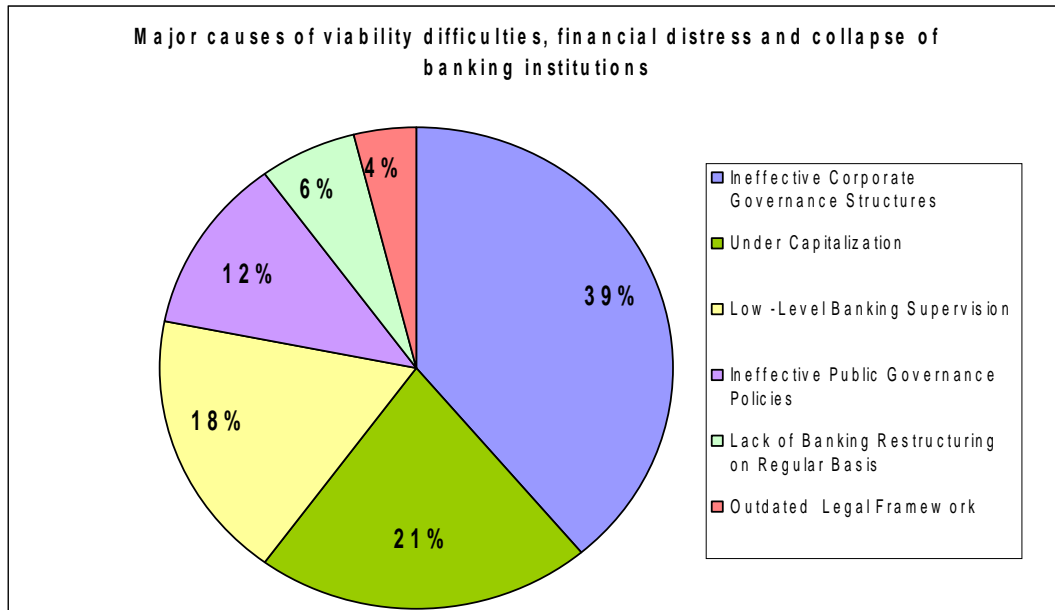
In addition, they were adequately capitalized by credible international shareholders. Other banks, such as African Banking Corporation and First Banking Corporation improved their financial positions by opening sister companies within the region as a way of minimizing the effects of the socio-economic and political conditions. While most banks in this category performed very well, some of them, such as Zimbabwe Allied Banking Group (ZABG) and Metropolitan Bank, will certainly need to go through a second stage of bank restructuring in order to minimise viability difficulties.

The following table and pie-chart show, in percentage terms, the major factors which resulted in the collapse of most banks during the crisis. The same factors contributed to financial distress and viability difficulties of other banks. Recommendations for dealing with the major causes are outlined in the final chapter.

Table 4.5.7 Major factors which resulted in the collapse of most banks during the crisis

Number	Major causes of viability difficulties, financial distress and collapse of banks	Percentage %
1	Ineffective Corporate Governance Structures (Gross Mismanagement)	39
2	Under-capitalisation	21
3	Low Level of Banking Supervision (Reserve Bank)	18
4	Ineffective Public Governance (Monetary and Fiscal Policies, Social, Economic and Political Turbulence)	12
5	Lack of Regular Banking Restructuring	6
6	Outdated Legal Framework (Certain Provisions of the Zimbabwe Banking Act, Ch24:20)	4
	Total	100%

Figure 4.5.1 Major causes of viability difficulties, financial distress and collapse of banking institutions



4.5.6 Concluding Comments

As depicted in the abovementioned pie-chart, figure 4.5.1, there is conclusive empirical evidence that Ineffective Corporate Structures (0.39), Undercapitalization (0.21), Low-Level Banking Supervision (0.18), Ineffective Public Governance Policies (0.12), Lack of Banking Restructuring on Regular Basis (0.06) and Outdated Legal Framework (0.04) contributed significantly to the demise of more than 20 banking institutions in Zimbabwe. In majority of cases, liquidations do not discriminate viable institutions from the non-viable, resulting in the inevitable demise of affected institutions. The source of distress of many institutions is largely related to financing, which when resolved will significantly improve their prospects and viability [Rajandram, *Workouts and Restructurings 2000*].

The interpretation and summary discussions of the aforementioned results are highlighted in the next chapter.

CHAPTER FIVE

5.0 INTERPRETATION AND SUMMARY DISCUSSION OF FINDINGS

5.1 Introduction

The final stage of the narrative analysis is the important one of interpreting the research findings. It is difficult to communicate raw data either to stakeholders, managers of an institution or other researchers. Although the precise purpose of a particular analysis may differ, all analyses are ultimately concerned with explaining and understanding, which, in turn, may lead to the development of new concepts and theories [*Lancaster, 2005*].

It follows that the form and effectiveness of the analysis and interpretation, is crucial to developing recommendations and action programmes. Effective data analysis, supported by the selection of appropriate analysis methods, is therefore essential.

5.2 Interpretation of Field Research Analysis

Between January 2004 and December 2006 more than twenty banking institutions in Zimbabwe collapsed. The majority were placed under liquidation, while a few were placed under curatorship at the instance of the Reserve Bank.

While the banking crisis itself began in January 2004 (when ENG Asset Management was placed under liquidation, 31 December 2003), the causes of the crisis began in the mid 1990s, following the reformation of the banking sector, which resulted in many new participants entering the field, mostly indigenous entrepreneurs. The government initiated the Zimbabwe Program for Economic and Social Transformation (ZIMPREST1996-2000). While the concept was laudable, its implementation in the banking sector was not. For example, there was the anomaly of the number of banking institutions mushrooming in the context of an exponentially shrinking economy, as shown by the country's Gross Domestic Product performance (Chapter 1, figure 1.1, p 7).

According to the findings of the overall qualitative research, the major causes were first, ineffective corporate governance structures and gross mismanagement; second undercapitalization; third, low level of banking supervision (Reserve Bank of Zimbabwe); fourth, ineffective public governance (fiscal and monetary policies, socio-economic and political turbulence); fifth, lack of regular banking restructuring, and sixth a number of outdated provisions of the Zimbabwe Banking Act (Chapter 24:20).

5.2.1 Banking Institutions Placed Under Liquidation, 2003/2006

The table below gives a sample of banking institutions placed under liquidation during the banking crisis.

Table 5.1 Banking Institutions Placed Under Liquidation, 2003-2006

No	Name of Banking Institution	Date of Liquidation
1	ENG Asset Management (Private) Limited (ENG)	31 December 2003
2	Century Discount House Limited (CDH)	20 January 2004
3	Platinum Asset Management (Private) Limited (PAM)	7 April 2004
4	Rapid Discount House Limited (RDH)	25 August 2004
5	First National Building Society (FNBS)	13 April 2005
6	Sagit Finance House Limited (SFin)	7 June 2006

- (a) **ENG Asset Management (Private) Limited (ENG)** collapsed because of gross mismanagement by two executive directors, Muponda and Watyoka. The company was technically insolvent by 31 October 2003. These executive directors were also the individual majority shareholders. They lacked both credibility and the required level of capital to recapitalise the banking operations. Their corporate image was so poor that the institution could not attract local, regional or international investors. Corporate governance structures were flawed, as evident in its failure to establish effective governance committees, such as Audit, Risk Management and Assets and Liabilities Committees. The company was managed without independent non-executive directors, and the two executive directors lacked the integrity and competence required by the monetary authorities to manage a banking institution charged with managing public funds.

- (b) **Century Discount House Limited (CDH)** executive directors likewise lacked integrity and competence. For example, the directors and management became aware from 29 July 2003 that trading with ENG Asset Management (Private) Limited (ENG) was risky. Astonishingly, they continued these transactions up to 31 December of that year. The non-executive directors and key members of the governance committees, such as Assets/Liabilities Committee (ALCO) were not independent of executive directors and majority shareholders. CHL also lacked the capacity and credibility to re-capitalise the banking operations of CDH.
- (c) **Platinum Asset Managers (Private) Limited** and its holding company shared the same directors and shareholders. No non-executive and independent directors, or internal or external auditors were appointed. The institution operated without effective governance committees, such as an Assets/Liabilities Committee. The Executive Directors generally lacked the integrity or competence to run an institution managing public funds. The majority shareholder, Platinum Financial Holdings, needed to make sure that a banking license was obtained, and that they could re-capitalise the banking operations: instead they decided to steal the depositors' funds.
- (d) According to the Liquidator of **Rapid Discount House Limited**, Maxwell Mubaiwa of Ernst & Young, "the institution collapsed mainly as a result of gross mismanagement. The institution's banking operations were not conducted with a high level of integrity or professional diligence". At the date of liquidation the institution was operating with two executive directors, Mwaturura and Mugwara, with no independent non-executive directors.

Like the others mentioned above, this banking institution failed to establish effective corporate governance structures, such as Audit and Risk Management Committees. RDH was indirectly owned by a group of interrelated individuals without the financial resources to recapitalise the business.

- (e) The Executive Directors of **First National Building Society**, Messrs Ruturi and Musova, also lacked the integrity or competence to manage a banking institution. The majority shareholders, Legal Investments and Strong line Investments, were owned directly by the Executive Directors. The institution's corporate governance structures were flawed, and there were no effective governance committees.

- (f) Corporate governance structure deficiencies in **Sagit Finance House Limited (SFin)** were caused by the incestuous relationship with its major shareholder Sagit Financial Holdings (SFH), which compromised the operational independence of the institution's Board of Directors and management. SFH's interference in SFin exposed the finance house to high liquidity risk as well as risking the security of the depositors' funds. Most members of the board of directors lacked professional integrity. The board was also weak, passive and indecisive, and manifested the unprofessional tendency of leaving important policy decisions to senior management, absolving itself of business responsibility, including statutory responsibilities.

There was no clear separation of the holding company and SFin management, and business deals were sealed by the holding company on behalf of SFin. The institution also operated without effective governance committees, such as the Assets/Liabilities Committee. Most of the non-executive directors were not independent of the holding company, other shareholders or the executive directors.

Undercapitalisation

There is conclusive evidence that the business operations of ENG, CDH, PAM, RDH, FNBS and SFin were started without sufficient capital to run banking operations. This was largely because the shareholders were groups of related individuals, without the capacity, credibility or financial resources to inject sufficient capital, as prescribed by banking regulations and guidelines. Because of their poor corporate image, they failed to attract credible local, regional or international institutional strategic partners or investors. SFH, for example, experienced capitalisation difficulties from the very date of incorporation.

It recorded the lowest capital levels of all the banking institutions. According to the Reserve Bank, SFin was one of the two institutions that failed to meet Zim\$75 billion new capital requirements on 30 September 2005. The institution was critically undercapitalized, with a negative capital base of Zim\$93.1 billion. In addition, the shareholders were required to inject a minimum of Zim\$853.6 billion by 30 September 2006 in order to comply with the US dollar-linked minimum capital requirement of Zim\$750 billion for finance houses.

Century Discount House incurred a loss of Zim\$31.9 billion, resulting in a negative equity position of Zim\$31.7 billion during 2003. There was no capital injection from the existing shareholders, resulting in the institution's capital adequacy ratio deteriorating from an unsound position of 23% on 31 October 2003 to *negative* 65% on 31 December 2003; this compared to an average market performance of 29%.

By the end of 2003 the company was technically insolvent, as 75% of its current assets were made up of Zim\$44 billion, in the form of an unsecured loan to ENG Asset Management (Private) Limited, itself insolvent at the time.

Low Level of Banking Supervision

- (a) ENG Asset Management's dealings with Century Discount House began in April 2003. The nature of the transactions was such that funds received from CDH customers or depositors would be invested with the *unlicensed* ENG, supposedly "for premium and higher-yielding investments". The total amount invested by CDH with ENG, not recovered until its liquidation on 20 January 2004, totalled Zim\$45 billion.

It was obviously not in the best interests of stakeholders of either CDH or ENG to invest huge sums of public funds with an unlicensed institution, especially in view of the absence of effective corporate governance structures in either of them. Supervision by the Reserve Bank was poor, and this contributed to the loss of funds by the investing public to ENG Executive Directors and shareholders, and the subsequent liquidation of Century Discount House.

- (b) On 1 April 2003 Century Holdings Limited concluded an agreement with ENG Asset Management for the disposal of the entire shareholding of CDH to ENG, at a price of Zim\$1.55 billion. This sale was not approved by the Reserve Bank until after CDH had been placed under liquidation.

On several occasions between 14 April and 31 December 2003 the Executive Directors of CDH deposited Zim\$44.7 billion of customers' funds with ENG. In most of these cases no security was requested. This was in spite of the fact that no authority was obtained from CDH's Asset/Liabilities Committee. This was in direct contravention of Banking Regulations. Under section 39 of the Banking Regulations (2000), maximum exposure to ENG at any given time should have been Zim\$400 million - 25% of CDH's capital of Zim\$1.6 billion.

On 30 October 2003 the Managing Director of CDH created an off balance-sheet book in order to cater for ENG's high appetite for cash. As a result of misleading representations, false monthly returns, such as the 'BK6', were filed with the RBZ. The Reserve Bank apparently lacked the capacity and resources to examine this 'BK6' and take corrective action in time.

There was a questionable delay in informing the RBZ about the scandal. The Chief Operating Officer, M. Nyamazana reported the financial distress and critical viability difficulties of CDH to the RBZ only on 30 December 2003. On 2 January 2004 the RBZ officially closed CDH, and on 20 January 2004 the banking institution was placed under liquidation.

- (c) Sagit Financial Holdings (Private) Limited (SFH) initiated unsustainable funding structures, resulting in a loss of Zim\$132.8 billion, thereby placing its operations in financial distress. The Reserve Bank of Zimbabwe's clear guidelines to the banking sector on avoiding indulgence in non-banking transactions via associate institutions were totally ignored. The RBZ should have carried out a detailed examination of the relationships, capital base, reputation and credibility of shareholders of Sagit Finance House Limited, before issuing a banking license.

- (d) Platinum Asset Managers (Private) Limited operated without a banking license from 19 February 2003 to its liquidation on 7 April 2004. It is not clear why the Registrar of Banking and Financial Institutions or the Reserve Bank of Zimbabwe failed to stop the institution from operating for *almost 13 months* without a banking license.
- (e) Rapid Discount House's certificate of registration as a discount house was issued by the Registrar of Banks and Financial Institutions on 15 October 1997. Here again, the monetary authorities should have examined details of the capital base, integrity and credibility of the shareholders of both RDH and Rapid Financial Holdings before issuing the license.
- (f) First National Building Society (FNBS) was registered and licensed as a building society on 10 June 1996, as provided for under section 7 of the Building Societies Act (Ch 24:02; certificate no. 5). Both the Reserve Bank and the Registrar of Banking and Financial Institutions failed to anticipate the operating risk of issuing a banking license to an institution with more than 89% of its shares indirectly controlled by two executive directors with a personal friendship.

Lack of Regular Banking Restructuring

In Zimbabwe regular banking restructuring has not been implemented, and autonomy within the banking sector should be guaranteed. For the smooth operation of the system of regular banking restructuring, an effective banking supervision and day-to-day "credit health" checking should be more fully developed, and applied by banking institutions themselves, without government intervention. This would ensure that the level of capital is always adequate, both in quantity and quality, in the best interests of all stakeholders.

Ineffective Public Governance

In July 2008 Zimbabwe had the highest yearly official inflation rate in the world, of 231 million percent. The average inflation rate within the Southern Africa Development Community (SADC) was about 15 percent. The government should undertake the following immediate and fundamental reforms to ensure that banking and corporate institutions remain focused on their core business, unlike the practice during - and after - the banking crisis.

- (a) Reduction of the size of the government in terms of number of departments, ministries and labour. This would assist in reducing government expenditure and levels of taxation. Funds should be channelled towards the manufacturing, farming and mining sectors, and help to create employment, which is estimated at over 80%.
- (b) Drafting of a new constitution, in line with SADC and international constitutional standards. This will help in improving political leadership and democratic structures. Political power should be transferred from a few political leaders into the hands of the majority of Zimbabweans.
- (c) Introduction of an independent electoral system would give all Zimbabweans the opportunity to nominate leaders of their choice in a calm political environment. It would also assist in attracting investments in Zimbabwe from institutional, individual and governmental foreign investors.
- (d) Introduction of an internationally-recognized human rights national charter and the rule of law would help the country in improving international relationships with most developed and developing countries, and the lifting of targeted economic sanctions, to the benefit of all Zimbabweans.
- (e) Obtaining foreign exchange support from the International Monetary Fund, World Bank and similar financial institutions in Africa. This should help in improving the supply of goods and services, and reduction of the inflation rate to a level in line with most countries within the SADC.
- (f) A competitive and effective reform of the agricultural, mining, tourism, manufacturing and transport sectors would assist in the increased production of goods and services, creation of employment and generation of foreign exchange.
- (g) The return of most skilled professionals and specialised farmers would give Zimbabwe a competitive advantage in terms of human resources, and social and economic development.
- (h) Monetary and fiscal policies should be made effective, and be based on the principle of cost-and-benefit analysis. Monetary authorities should focus on banking and financial regulations. Procurement of agricultural machinery, equipment and inputs, for example, should be left to effective parastatals, and largely to the private sector. The government should also make sure that the national revenue base for taxation is sufficient to cover government expenditure, in the best interests of the country.

These measures are necessary to keep the banking industry stable, viable and strong. They would also help the banking sector in attracting additional capital from credible local, regional and international strategic partners. It is envisaged that the above measures can also assist in attracting comparatively huge deposits and capital into the banking sector, thereby minimising liquidation of the viable banking institutions in Zimbabwe.

Review of Certain Provisions of the Zimbabwe Banking Act (Chapter 24:20)

In order to assist the monetary authorities to deal effectively with the banking crisis, insolvency, restructuring and supervision, it is necessary to review, and, where necessary, introduce changes to specific provisions of the Banking Act (Chapter 24:20). This regulates banking institutions, but not holding companies that are parent to them.

For example, the Reserve Bank regulated Sagit Finance House, but not Sagit Financial Holdings. The Board of Directors of Sagit Financial Holdings took advantage of this, and conducted transactions without following ethical codes of conduct, knowing that they were not under the supervision of the Reserve Bank. It is therefore necessary to review and introduce additional provisions and regulations to the Banking Act, for example, section 45.

It is also necessary to introduce new laws to provide for the establishment of a Bail-Out Statutory Fund, an Independent Stakeholder Banking Commission and Regular Banking Restructuring. Details of these recommendations will be given in the final chapter.

5.2.2 Banking Institutions Restructured (2003/2006)

The following is a sample of banking institutions restructured during the 2003/2006 banking crisis.

Table 5.2 Banking Institutions Restructured (2003/2006)

No	Name of Banking Institution	Date
7	National Discount House Limited	March 2004
8	CFX Bank Zimbabwe Limited	17 December 2004
9	Trust Banking Corporation Limited	23 September 2004

Three corporate restructuring methodologies are used worldwide: centralised (government-based) approach; market-based, or decentralised, approach, and the London, or mixed, approach. The Board of Directors of National Discount House used the market-based approach in restructuring itself. On the other hand, the curator of CFX Bank Zimbabwe used the London approach, while the curator of Trust Banking Corporation used the centralised approach.

- (a) Before National Discount House was restructured its viability had been adversely affected by mismanagement, ineffective corporate governance structures and under-capitalisation. Its business was characterised by aggressive buying and selling of securities; a huge clientele base, at times supported by political connections, high risk-taking, at times without regard to sound banking practices, and no proper diligence on counter parties. At the time of the crisis NDH operated without effective corporate governance structures or governance committees, such as the Audit, Asset and Liability Committees. The majority of the institutional shareholders were directly connected with the Government, with limited capacity to re-capitalize. Furthermore, most of the non-executive directors were not completely independent of the executive directors. Most, too, lacked banking expertise and integrity.

The restructuring process initiated by the top management was nonetheless successful, in that it prevented the institution from sliding into a state of insolvency.

- (b) CFX Bank was also affected by gross mismanagement, undercapitalisation and ineffective corporate governance structures. According to a forensic report prepared by the curator, “There was a system financial gap of Zim\$63 billion dollars, due mainly to manipulation of financial records in the bank’s computer system, (Equation ® is the computer banking system used at CFX Bank). This meant that the financial statements that were automatically generated by the computer system were not balancing, because of improper human interference”.

Forensic investigations carried out by Ernst & Young at the instance of the curator highlighted undercapitalisation as one of the major corporate factors that contributed to the demise of the bank. “The Bank was never adequately capitalised, and had always faced challenges related to its under-capitalisation”, stated the report. The restructuring strategy initiated by the curator was also successful, and prevented liquidation of a viable banking institution, in the best interests of all stakeholders.

- (c) Trust Banking Corporation’s viability difficulties were caused largely by ineffective corporate governance structures, gross mismanagement, undercapitalisation and poor supervision by the Reserve Bank of Zimbabwe.

In December 2003 the Reserve Bank of Zimbabwe instituted an independent investigation, which confirmed a liquidity gap of Zim\$100 billion on 12 December 2003, against the Bank’s stated liquidity gap of Zim\$70 billion.

Features of mismanagement included non-strategic rapid expansion of the bank with no effective internal control and risk management systems, and poor asset and liability management. This was manifested in the investment of short-term funds in non-liquid assets, such as real estate, immovable property and bricks, and the buying and selling of shares on the Zimbabwe Stock Exchange (ZSE). These transactions were conducted through the major shareholder, Trust Holdings Limited, at a time when the bank was already experiencing financial distress.

“The Bank was not focusing on its core business, and was therefore operating outside the confines of the Zimbabwe Banking Act and Regulations by engaging in non-banking activities through a wholly-owned special purpose vehicle known as TMB Nominees” according to a report prepared by the Reserve Bank of Zimbabwe in 2003.

While the Reserve Bank of Zimbabwe’s efforts succeeded in avoiding immediate liquidation, the restructuring process has not been completely successful, in that it has been characterised by unnecessarily prolonged litigation.

On 17 July 2008 the Zimbabwe Financial Gazette (pC4) published a notice by the Reserve Bank dated 30 June 2008: “Take notice that the Reserve Bank hereby extends the period of curatorship for Trust Bank Corporation Limited and Royal Bank Zimbabwe Limited until all litigation has been finalised”.

5.2.3 Financially Sound Banking Institutions During the Banking Crisis (2003/2006).

The following is a sample of financially sound banking institutions during the crisis:

Table 5.3 Financially Sound Banking Institutions During the Banking Crisis (2003/2006).

No	Name of Banking Institution	Date
10	Central African Building Society	1 January 2004
11	Stanbic Bank Zimbabwe Limited	1 January 2004
12	Kingdom Bank Zimbabwe Limited	1 January 2004
13	Zimbabwe Allied Banking Group	1 January 2004
14	Standard Chartered Bank Zimbabwe Limited	1 January 2004
15	Metropolitan Bank of Zimbabwe Limited	1 January 2004

It is commendable that most of these banking institutions, like several others, performed exceptionally well during the crisis, despite the worst socio-economic and political turbulence in living memory, reflected in an inflation rate of 231 million per cent (31 July 2008), by far the highest in the world.

The main factors which contributed to their sound performance were effective corporate governance structures, competent and high integrity management, credible institutional shareholders and capital adequacy.

The researcher maintains that some of the banking institutions, such as Kingdom Bank, Zimbabwe Allied Banking Group and Metropolitan Bank should now go through a second stage of banking restructuring. This should be characterised by movement towards a market-based system. The first-stage reforms introduced by the Reserve Bank of Zimbabwe in December 2003 have contributed greatly to restoring confidence in Zimbabwe. However, by 2006 the pace of reform had slowed, indicating the effects of the continuing socio-economic and political crisis. In addition, undercapitalisation, ineffective internal control and risk-management systems, and poor corporate governance, have continued to threaten the viability of some banking institutions.

The global financial market experienced a critical financial crisis in 2008 especially in the US and most European countries. In this situation it is advisable for the Reserve Bank of Zimbabwe to launch a second round of reforms to address the difficulties and restore confidence. The second stage of restructuring should be market-based, characterised by regular banking restructuring and, more importantly, sound corporate governance structures.

- Stanbic Bank provided a model worthy of imitation. Its credible institutional shareholder, Standard Bank had assisted it in gaining a sustainable competitive advantage in areas of capitalization (capital adequacy). Through the support of corporate and institutional banking by Standard Bank London, corporate clients in Africa had access to project finance, privatisation, structured lending and the channelling of aid and concessionary lending to Africa.

Stanbic offered concessionary lending to corporate clients in Zimbabwe by Standard Bank London, for the purposes of project finance, privatisation and structured lending. This strategic alliance assisted it to increase its market share.

Stanbic's Board of Directors had ultimate responsibility for risk management, which included evaluating key risk areas, and ensuring that processes for risk management and systems of internal control were implemented effectively. To assist in fulfilling this corporate responsibility, the board appointed governance committees, such as the Asset/Liability Committee. These committees were composed largely of non-executive directors, who were completely independent of executive directors, and were also chaired by non-executive directors. These effective corporate governance structures, competent management, effective internal control systems and risk-management played a major role in the success of the bank.

- According to the financial statements for the year ended 30 June 2004, key profit drivers for Central African Building Society (CABS) were interest on fixed-deposit (60%), interest on income advances (20%) and interest on treasury bills (11%). CABS had a 'footprint' network system all over Zimbabwe, and enjoyed the support of its major shareholder, Old Mutual, itself an international financial institution with foreign exchange and a sustainable capital base.

CABS had seven governance committees, such as the Risk Management Committee. All the committees were comprised largely of non-executive members, who were totally independent of the executive directors.

- The non-executive directors of Kingdom Bank were recommended for appointment by shareholders, other directors and clients. The remuneration committee then considered their remuneration, after which recommendations were made to the board. The board then met to consider the recommendations, which included interviewing the proposed directors before approval. In addition, the director concerned had to be approved by the Reserve Bank. A police clearance, tax clearance and an affidavit to the effect that the candidate had not been convicted of a criminal offence, was not insolvent, or had not been a director of a failed banking institution was also required. The appointment then had to be reviewed by the shareholders at the next annual general meeting.

Kingdom Bank had six governance committees, such as the Audit and Finance Committee, with at least four non-executive directors and an executive director.

During the banking crisis the bank managed to raise additional capital from credible institutional shareholders, such as Econet Wireless, an indigenous mobile telephones institution with international offices in countries such as South Africa, Nigeria and the UK.

By thus fulfilling the demands of good corporate governance and practice, these banking institutions survived the 2003/2006 banking crisis, despite the difficult socio-economic and political instability.

5.2.4 Concluding Comments

The summary is the most important part of the report. It is its heart and core. A true summary gives the high points of the entire body of the report [*Cordwell, D. and Herbst, F. 2004*].

From the sample of banking institutions placed under liquidations during the 2003-2006 banking crisis in Zimbabwe, the major causes were ineffective corporate governance structures, inadequate risk management systems and undercapitalisation. It is however pleasing to note that from the sample of 3 banking institutions restructured, using both the market-based solutions and government-based solutions, the strategies were effective and successful in the sense that it prevented the banking institutions from being placed under liquidation in 2006.

While from a sample of 6 financially sound banking institutions during the 2003-2006 banking crisis in Zimbabwe, like several others, survived mainly because of effective corporate governance structures, sound risk management systems and adequate recapitalisation.

The majority of the banking institutions such as Kingdom Bank, National Discount House, Zimbabwe Allied Banking Group and Metropolitan Bank nevertheless required a second stage of bank restructuring and recapitalisation 2 years after the 2003/2006 banking crisis, in order to maintain them sound and viable in the best interest of all its stakeholders.

CHAPTER SIX

6.1 CONCLUSION, RECOMMENDATIONS AND CONTRIBUTION

6.1.1 Introduction

The management of a banking crisis is highly complex, and inevitably attracts huge taxpayers' funds, either individual or general in its origins. There is, however, a number of effective measures that can be implemented to deal with bank insolvency, such as regular restructuring; market-based solutions such as strategies for recapitalisation by shareholders, existing and potential investors; agreements with creditors or depositors and mergers and acquisitions. Besides these are government-based solutions, involving intervention; appointment of a curator; capitalisation with public resources. Liquidation of non-viable banking institutions is, of course, unavoidable.

Experience also indicates that a sound and stable banking sector requires effective corporate governance structures by all banking institutions. This is because the implementation of effective corporate governance structures can minimize collapse of viable banking institutions, and hence the overall costs of a banking crisis can be reduced.

In particular, there are elements present in all banking crises that exacerbate the costs of the problem:

- o Absence of adequate control measures (these vary with prevailing circumstances), and ineffective monetary and fiscal policies.
- o Lack of effective social, economic and political corrective action, poor banking supervision, regulatory forbearance and absence of timely solutions.
- o Clear preference for government-based solutions while overlooking the possibility of using private resources, and the low priority given to cost-effectiveness in the allocation of public resources.
- o Distortions brought about by the type of solutions chosen in terms of moral hazard, and a lack of coherent strategies backed by adequate, financial, human, technical and material resources.

Practical solutions in dealing with future banking crises in Zimbabwe should address these shortcomings. In general, this depends on an adequate regulatory and legal framework determining mandatory special measures, based on the origin and gravity of problems, and, concomitantly, a banking authority that has the will, autonomy and power to implement a firm and clear monetary policy.

Considering that banking legislation cannot anticipate all possible situations, especially when the crises have systemic implications, it is also necessary to have an efficient, effective, independent stakeholders' banking commission, instituted by an Act of Parliament. This commission, specialising in banking crises, should be endowed with representatives of all stakeholders, competent professionals and financial, human and material resources in order to operate.

6.1.2 Conclusion

In drawing conclusions the researcher notes that more than four years have passed since the 2003/2006 banking crisis in Zimbabwe. The question at issue is whether the policies pursued by the Reserve Bank of Zimbabwe on behalf of the government have assisted in minimizing the liquidation of viable banking institutions. The government's delayed response was severely criticised, as was its excessive support for insolvent banks such as Barbican Bank, Royal Bank of Zimbabwe, and also the funding of ineffective parastatals and farming operations, all from taxpayers' funds.

It is however, pleasing to note that while the government concentrated on injecting large amounts of taxpayers' funds into insolvent banks through the formation of the Zimbabwe Allied Banking Group (ZABG), an attempt was made to eliminate fundamental difficulties through the issuing of, for example, Guideline Number 01-2004/BSD on Corporate Governance and Guideline Number 2-2006/BSD on Risk-Based Supervision Policy Framework in September 2004 and June 2006 respectively.

Regrettably, these measures allowed insolvent banking institutions to remain in the market and to continue to waste financial resources. ZABG Bank restructuring became, in effect, a process of "bankruptcy suspension".

A second stage of banking restructuring should be made to ensure that market-driven mechanisms for such restructuring take hold. For this task restructuring intermediates such as the Non-Performing Asset Management Fund and Bank Bail-Out Statutory Fund should be further developed, using appropriate technocrats. In addition, measures should be put in place for facilitating mergers and acquisitions, in both the domestic and international markets.

The autonomy of banking institutions should also be guaranteed, especially for the smooth operation of the system for the regular restructuring of banks. This should now be introduced in the second stage. In addition, effective supervision by the Reserve Bank of Zimbabwe, and a monthly credit-risk checking system should be more fully developed by banks, without government intervention.

It is imperative for the government to implement effective and fundamental social, economic and political reforms in close consultation with all stakeholders, in order to facilitate a speedy recovery of the Zimbabwe economy. It is also important to improve regional and international relationships with most developed and developing countries. Zimbabwe must also seek financial support from regional and international banking institutions, such as the World Bank.

Banking Institutions operate in a complex and dynamic global financial market, in which restructuring should be a continuous process. Practical, effective measures should be taken to overcome old methods and inefficiencies, and to create a smoothly-functioning system, while ensuring equitable burden-sharing in the global market economies.

The banking system should be predictable, equitable, and transparent, and should protect and maximize value for the benefit of all stakeholders and the economy in general. The resulting system should preserve capital and productive capacity, and also create employment. At the end of 2008, the estimated rate of unemployment in Zimbabwe was more than 80%.

Timely action will, without doubt, promote social welfare, sustainable economic development, and political stability both in Zimbabwe itself and the SADC. More importantly, improving practical matters of corporate governance, the internal and external business environment, and establishing operational bank restructuring and insolvency corrective systems should not be delayed until the onset of another crisis.

6.1.3 Recommendations

The following recommendations are directly linked to the researcher's findings and conclusions. The objective here is to address the root causes of the difficulties, and not merely the symptoms, of the collapse of more than 20 banks during the 2003/2006 banking crisis. The recommendations suggest realistic and achievable methodologies which can be used in order to minimize bank insolvency and its effects.

In regard to qualitative techniques, the researcher distinguished between content and grounded techniques of analysis; discussed the key steps in analysing qualitative data; and introduced the intriguing techniques of semiotics for analysing interactions and processes in institutions. Finally, the researcher highlighted the fact that the presentation and recommendations of the analysis of data need to be user-friendly, realistic and achievable in meeting the needs and requirements of all stakeholders.

Mismanagement and corporate governance structures

Most banks collapsed during the crisis largely because of gross mismanagement and ineffective corporate governance structures. The establishment of an independent Zimbabwe Stakeholders Banking Supervisory Commission (ZSBSC) is recommended.

This ZSBSC should be enacted through an Act of Parliament. Transparency is at the core of effective corporate governance structures, as it allows all stakeholders to monitor top management, and to prevent executive directors and controlling shareholders from taking action in their own interests at the expense of the institution.

The ZSBSC should be empowered to undertake the following:

- o The reform of corporate governance structures within the banking sector focusing on, first, improving the transparency of bank managements; second, strengthening minority shareholders rights; third, increasing the responsibility of controlling shareholders and all stakeholders, and fourth, improving intra-group relationships.
- o Review all appointments and discharge of non-executive directors, independent external auditors, forensic auditors and investigators by banks, and take any necessary corrective action.
- o Scrutinising of current and potential shareholders of a bank.
- o Rigorous analysis of financial records and business operations.
- o Review all appointments and discharge of non-executive members and chairpersons of all governance committees, such as the Assets/Liabilities Committee (ALCO), and take corrective action as necessary.
- o Participate in the formulation and implementation of corporate governance policies and procedures within the banking sector.
- o Formulate restructuring strategies and methodologies to manage banking insolvency.
- o Appointment, supervision and remuneration of curators and liquidators of all banks, in close consultation with the office of the Master of High Court of Zimbabwe and the Reserve Bank of Zimbabwe.
- o Interpretation of banks' financial results, and ensuring dissemination of information to all stakeholders namely shareholders, customers (depositors), creditors, the government, employees and members of the public.
- o Ensure participation of all stakeholders in the strategic decision-making process and, more importantly, measure the degree of satisfaction by stakeholders, and take any corrective action where deemed necessary.

The members of the Zimbabwe Stakeholders Banking Supervisory Commission should be totally independent, and should also represent all the stakeholders. More importantly, they should be professionals of high integrity, and must have sufficient material, human and financial resources to manage the commission. Members of the commission appointed through an Act of parliament should not exceed more than five years in office.

It is further recommended that representatives from both individual banks and the Reserve Bank should be part of the ZSBSC.

Capitalisation

Undercapitalisation contributed significantly to the collapse of many banks during the crisis. Capitalisation is the amount of money invested in an institution and the conversion of revenue reserves into capital reserves through, for example, a scrip issue. These funds are critical for financing the operations of the bank and to ensure public confidence.

The ZSBSC should regularly check the levels of capital adequacy. The examination of capital adequacy should also be carried out before a bank is issued with a banking license. Banks are required to maintain capital levels commensurate with their risk profiles and the strength of their top management. The SBSC should evaluate capital adequacy based on the level and quality of capital and the overall financial position of a bank. The ZSBSC should also ensure effective implementation of the Basel III: A global regulatory framework for more resilient banks and banking systems.

Supervision and timely diagnosis of the problem

- o The liquidation of some banks was a result of a low level of bank supervision. The SBSC should undertake realistic and timely diagnosis of any banking problems.
- o Through close supervision it is possible for the Reserve Bank of Zimbabwe to detect signs of future insolvency problems, using leading indicators such the Altman-Z Score model.
- o A practical way to get a perspective on the future is by examining the quality of the main processes in operation in the bank.
- o The effective way to guarantee timely detection of problem banks is by having a monetary policy of regular supervision.
- o Having identified potentially problem banks, it is necessary to evaluate in detail the problems, with special emphasis on the quality of loans and the sufficiency of capital reserves.
- o There should be total and full access to all information of the problem bank, with no information withheld from the supervisors.
- o Where lack of expertise occurs among the personnel working within the Reserve Bank, the supervisor should have the flexibility and resources to outsource work to technocrats from firms of management consultants, forensic auditors, chartered accountants and retired top bankers.
- o Adequate internal control and risk-management systems, particularly in the areas of loans classification reserves and interest accrual are essential for the quality of diagnosis

Public Governance

The current social, economic and political crisis (with an official annual inflation rate of 231 million per cent in 31 July 2008), has given rise to critical shortages of basic needs such as water, food, medical care, shelter, education and transport. This human catastrophe has a direct long-term bearing on the viability of the banking sector, as this will detract from attracting sustainable deposits. The rate of unemployment is estimated at over 80%, causing the banks a huge loss of a potential deposit base. It is therefore recommended that the government should, as a matter of urgency, improve public governance, and undertake fundamental political and economic reforms. These should include substantial reduction of the size of the government in terms of number of departments, ministries and labour; drafting of a new constitution in line with international constitutional standards; introduction of an independent electoral system and internationally-recognized human rights National Charter; a complete independent judiciary system and strict observance of the rules of law. Improvement in international relations with most developed and developing countries; obtaining foreign exchange support from the World Bank and the International Monetary Fund, an exhaustive reform of the agricultural, mining, tourism, manufacturing and transport sectors, and also the return of specialised farmers and skilled professionals to the country.

Monetary and fiscal policies should be formulated and implemented, based on the principle of cost-and-benefit analysis.

Banking Restructuring On a Regular Basis

While some banks have performed very well under these very difficult conditions, most, such as ZABG and Metropolitan Bank, will need to go through a second stage of restructuring as a means of minimizing viability difficulties. It should be characterised by a market-based system. The distinguishing feature of these reforms from those of the first stage introduced in December 2003 should be that the government should reduce its intervention, depending instead on market-driven mechanisms.

The second stage of restructuring should be implemented in conjunction with a system for regular bank restructuring. Under this programme, banks should allow high credit-risk banks to restructure quickly.

The proposed ZSBSC should be empowered to assess business and corporate strategies of high credit-risk institutions, and classify them as viable or non-viable. For institutions classified as viable and able to provide normal operations, the ZSBSC would assume full responsibility for providing financial support from a statutory Bail-Out Fund. Banks experiencing a temporary liquidity problem would receive short-term loans, after signing an agreement promising to carry out self-restructuring. Institutions facing structural liquidity problems, but able to recover, would gain loan adjustments, provided they agree to improve their management and corporate governance structures. Institutions classified as non-viable should be liquidated by means of transparent exit procedures. The ZSBSC should regularly monitor banks and determine whether their mechanisms are working properly.

In order to co-manage financially-distressed banks by banking institutions or by the creditor banks themselves, a committee composed of financial institutions should be established. This committee would select financially-distressed banks, and devise co-management strategies, indicate expiration dates of loans, adjust loans or granting of new credit, and discuss management normalization procedures. Banks which do not agree with decisions made by this committee can request to purchase loans.

The system of regular restructuring has to be managed by financial institutions through a committee, but supervised or monitored by the ZSBSC. Regular banking restructuring would help to renew capital adequacy and effectiveness of corporate governance structures (see figure 2.3, Chapter 2, p. 33).

Legal Framework and Banking Legislation

- o The Banking Act (Chapter 24:20) should have clear rules governing the Reserve Bank of Zimbabwe's role in restructuring, without adversely affecting market-based solutions or forced liquidation. Intervention should be directed at cases where there are clearly difficulties due to mismanagement, ineffective corporate governance structures, and where capital is weak, though still positive.
- o Banking legislation should allow, in a flexible way, for the capitalisation or the absorption of the problem institution by another bank.

- o In the same approach, private alternatives to intervention and/or forced liquidation need to be offered, allowing the major creditors of the bank to transform part of their deposits into capital, thus permitting the problem bank to continue in the market.
- o Similarly, to avoid distortions in the market incentives, the legislation should consider ways to facilitate forced liquidation, incorporating matters like the sale of group assets, allowing the bank to accept important discounts if there are offers of prepayment, and, if there are many simultaneous liquidations, allowing collective actions and defining a maximum term for the liquidation process.
- o It is desirable to have rules establishing the use of obligatory graduated corrective measures, culminating in mandatory closure.
- o Mandatory restructuring must not postpone action until the banks get the authority established through legislation.
- o Particular units, such as the capital/asset ratio should not be the only variable used by monetary authorities to prompt intervention in a bank.
- o This rules-based approach should be supplemented by giving more discretion to the monetary authorities under particular conditions of systemic risks.
- o The Bail-Out Fund should be established through legislation. All financial institutions would be required to make contributions based on, say, 3% of their annual gross sales. The funds would be managed by a committee appointed by the Stakeholders Banking Supervisory Commission from time to time. The government would also be required to make annual contributions through the annual fiscal budgets. The International Monetary Fund, the World Bank and other such financial institutions in the region would be requested to donate funds from time to time, especially “seed money”.

The funds would be used largely to purchase non-liquid and non-performing assets of viable but financially-distressed or insolvent banking or financial institutions during a crisis or a restructuring process. This would be expedited through the operation of a Non-Performing Asset Management Fund (NAMF). Depositors of a bank placed under liquidation should also benefit from such a fund in the event of any shortfall from the liquidation process. In addition, depositors should be paid a market-based rate of interest up to the date of payment of their capital funds, rather than the date of liquidation of a banking institution.

The NAMF could re-sell non-liquid and non-performing assets to investors through acquisitions and mergers, or simple acquisitions, at a premium. Use of taxpayers' funds would be minimized.

- o The Banking Act (Chapter 20:24), which regulates banks, does not regulate holding institutions that are parent to banks. Provisions should be made in the Act to allow the monetary authorities and the proposed SBSC to investigate, obtain unlimited information and, most importantly, to take corrective action in institutions that are parent to banks, where deemed necessary.

- o The Companies Act (Chapter 24:03 Section 318) provides that “any business of an institution which was being carried out recklessly or with gross negligence; or with intent to defraud any person or for any fraudulent purpose; the High Court of Zimbabwe may, on the application of the Master of the High Court, or Liquidator or Judicial Manager or any creditor of, or contributory to the institution, if it thinks its proper to do so, declare that any of the past or present directors of the institution or any other persons who were knowingly parties to the carrying on of the business in the manner or circumstances aforesaid, shall be personally responsible, without limitation of liability, for all or any or the debts or other liabilities of the institution as the court may direct.

In addition, every director of the company, or other person who was knowingly a party to the carrying on of the business in manner aforesaid shall be guilty of an offence and liable to a fine or to imprisonment for a period not exceeding two years, or to both such fine and such imprisonment.” The curators or administrators of banks, together with the Governor of the Reserve Bank of Zimbabwe would need similar powers. Taking into account that it may be virtually impossible for an insurance fund to quantify the expected cost of a banking crisis, it must be available to estimate losses, considering the resources necessary to implement in-depth solutions of problem institutions, where forced liquidation is viewed as neither just nor equitable.

- o The proposed Indigenisation and Economic Empowerment Bill (Chapter 14:33), should not be allowed to affect adversely the shareholding structures of banks, as this may cause another crisis. Local, regional and international strategic investors or partners must be allowed to control at least 51% of the issued shares, and must also be authorised to remit reasonable dividends to their countries in a future free-market Zimbabwe.

One of the main reasons why banks have collapsed around the world, and specifically in Zimbabwe during the 2003/2006 banking crisis, was under-capitalization due to lack of credible and financially-sound institutional shareholders.

6.1.4 Contribution

More than 20 banks collapsed, largely because of ineffective corporate governance structures and undercapitalization. There was also lack of regular banking restructuring.

As a means of resolving the problems of mismanagement and ineffective corporate governance structures, the Reserve Bank of Zimbabwe has adopted the internationally-recognised CAMELS rating system for evaluating the performance and condition of banks. The Reserve Bank of Zimbabwe adopted Basel II and III: International framework for liquidity risk measurement, standards and monitoring.

The Reserve Bank of Zimbabwe also uses the Risk Assessment System (RAS) to provide a structured framework for measuring and assessing risk. RAS is a method of identifying, evaluating, documenting and communicating assessment of the quality of risk, the quality of risk-management, and the direction of risk at each bank. It takes both a current and a prospective view of the institution's risk profile.

The researcher is convinced that these methodologies, including models suggested by several authors or researchers, such as the Altman's Z-Value model, have not measured and evaluated in sufficient detail the effectiveness of corporate governance structures. He is also convinced that all stakeholders: shareholders, customers (depositors), employees, the government, business associates, creditors and the public (or their representatives) must be allowed to participate, or at least be consulted, in the strategic decision-making process. This applies especially to a bank or public company administering public funds. Again, this has not been measured or evaluated in detail by the methodologies and models mentioned above.

The other difficulty with these models is that they have not measured the real level of satisfaction of all stakeholders, or its link to sustainable business growth. The effectiveness of corporate governance should be linked to increase in value of business through empirical research.

Yet the effectiveness of corporate governance structures must necessarily be measured by the degree of satisfaction derived by all the stakeholders. Banks must be aware of the fact that all stakeholders have different, and often conflicting, interests. As a way of minimizing the liquidation of viable institutions, the directors and managements should make an effort to understand, and then at least attempt, to satisfy the needs of all stakeholders.

Most banks placed under liquidation during the banking crisis failed completely to satisfy the needs of depositors (customers) and other stakeholders, such as the non-managerial staff.

Accordingly, the researcher has made a contribution to the field by developing the Tudor House Consultants (THC) BICEPS model.

The THC BICEPS model considers empirical research and qualitative analysis of corporate governance structures, fundamental analysis of external factors affecting banking institutions (such as the effects of monetary and fiscal policies and public governance (largely by the government)) and its effects on all stakeholders.

Qualitative analysis of these components can be applied to any banking or corporate institution, regardless of size, business activities or internal/external factors affecting the business.

The ratings are assigned to each of the six components, and then an overall, or composite, rating is assigned. Ratings are on a scale of a numerical scale of 1 to 6 with respect to the effectiveness of corporate governance, level of stakeholder participation in strategic decision-making and the resultant stakeholder satisfaction. 1 is the highest rating, indicating the most effective practice. This should result in a sustainable increase in market share, volume of sales, value of business and levels of profitability.

6.1.5 Limitations

Collecting all the required data, such as financial statements, minutes of various governance committees and participating in meetings in respect of some banks (e.g., Beverly Building Society, Barclays Bank of Zimbabwe and Standard Chartered Bank Zimbabwe) was difficult. For example, the researcher wrote to Standard Chartered Bank Zimbabwe on 15 November 2006, and their response the following day was as follows: "... I regret to advise that we are not in position to participate in your research at this time. In the circumstances, we return herewith the documents and schedules sent to us. We ... wish you all the best in your research initiative". The reply was signed by Nilesh Trivedi, head of Legal and Compliance, Standard Chartered Bank.

In spite of this, a fair sample of the entire banking sector of Zimbabwe covering the period 1 January 2003 to 31 December 2006 was obtained in the end. In addition, when all of the banks were directed by the Reserve Bank of Zimbabwe to make a full disclosure of their financial results for on-site risk-based examination from January 2007, some useful information became available in the press, though with certain limitations. In addition, some top management of particular banks were "not available" to take interviews.

6.1.6 Areas For Future Research

The collapse of viable banks represents an enormous challenge for the Reserve Bank of Zimbabwe. While there are various solutions to deal with a future crisis, such as market, government and 'mixed' restructuring approaches, they are very difficult to implement, especially when the crisis involves more than just individual cases. Inevitably, managing the bank restructuring process generates huge costs, borne by the taxpayers, and typically results in distorting basic market rules and fuelling inflationary pressures.

In Zimbabwe the collapse of banks was largely the result of corporate governance malpractice. Of further interest, therefore, would be to determine the most effective methodologies of implementing corporate governance; how to deal with the problem of public policy involved in regular bank restructuring; undercapitalisation; the main factors increasing the costs of banking crises in Zimbabwe (and also other countries), and the most effective methods of bank restructuring. The effectiveness of corporate governance structures in a company can be measured and linked to the increase in value of the business and stakeholder satisfaction, through empirical research.

6.17 Concluding Comments

Finally, the market-based approach, and the complete autonomy of banks should be applied. Essentially, for the smooth operation of the system of regular bank restructuring, effective supervision by the monetary authorities, and more importantly, adequate and regular risk management systems should be more fully developed and implemented, without government intervention.

The Reserve Bank of Zimbabwe initiated banking reforms in 2004 which not only resulted in building greater confidence in the banking sector among the depositing and investing public, but also assisted in the development of sound, viable and competitive banking institutions in Zimbabwe notwithstanding the socio-economic and political turbulence highlighted in chapter one. The measures also prevented the collapse of the banking sector during the 2008 global financial crisis that witnessed the liquidation of some giant banking institutions such as the Freddie Mac and Fannie Mae in United States of America.

The banking sector in Zimbabwe should however remain focused on introducing new products/services in order to meet the ever changing needs of the customers and promote the continued growth of the deposit base. This can be achieved by regular bank restructuring, recapitalisation, and effective corporate governance structures.

It is also essential for the Government of Zimbabwe to carryout effective fundamental socio-economic and political reforms as recommended in this chapter, in order to attract capital investment for both the banking and corporate sectors. There is conclusive empirical evidence and the researcher is satisfied that the abovementioned measures when implemented effectively, can minimise the liquidation of viable institutions in the Zimbabwe banking sector in order to satisfy the divergent interests of all its stakeholders.

LANGUAGE CERTIFICATE

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For Attention: Professor Will Akande
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re: Doctor of Business Administration Degree: Mr Cecil Madondo: Student No. 204520522

This is to confirm that I have read through the thesis of Mr C. Madondo: **“HOW TO MINIMIZE THE LIQUIDATION OF VIABLE INSTITUTIONS IN ZIMBABWE’S BANKING SECTOR”**

I have checked the manuscript for typographical errors and syntax, grammar and style. I have suggested changes where necessary. The result is a greatly improved document.

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APPENDIX 'A'
REGISTRATION PROCEDURES – EXHIBITS

23 MAY 2006 12:30

TUDOR HOUSE 263 4 748964

NO. 849 P. 2

Cecil Madondp

From: "June King" <Kingj1@ukzn.ac.za>
To: <tudor@mweb.co.zw>
Sent: Friday, October 08, 2004 11:47 AM
Subject: re proposal presentation

Dear Cecil

Presentation of DBA Research Proposal

I am pleased to advise that the Higher Degrees & Research Committee members who attended your recent presentation have approved your proposal on the proviso that any comments and/or recommendations made by members of the Committee be incorporated into the research project. Accordingly, the recommendation has been made to the University that your registration for the DBA Degree be continued through to next year.

Congratulations on an impressive presentation. We look forward to working with you on the actual research project.

Yours sincerely

Mr WT HARRISON

Acting Director

Please find our disclaimer at <http://www.ukzn.ac.za/disclaimer>

10/8/2004

Appendix (B)



21 April 2005

To Whom It May Concern

Dear Sir/Madam

DBA RESEARCH THESIS

Cecil Madondo. Student No. 204520533.

This letter serves to confirm that Mr Cecil Madondo Student Number 204520533 and passport number AN150180 is studying a Doctor of Business Administration Degree with the University of Kwazulu-Natal, Durban, South Africa.

He is currently conducting fieldwork in the areas of corporate governance, strategic management, internal control systems, business research methods and business ethics. Any assistance in respect of the aforementioned would be appreciated.

Yours faithfully

June King
For Dr Mark Dent
Acting Deputy Head of School
Graduate School of Business

Graduate School of Business

Postal Address: Graduate School Building, Francois Road, Durban 4001, South Africa

Telephone: +27 (0)31 260 1105

Facsimile: +27 (0)31 260 1235

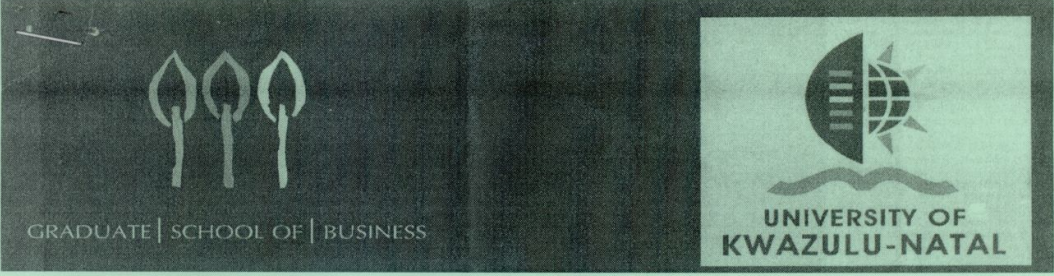
Email: gbs@ukzn.ac.za

Website: www.gsb.ukzn.ac.za

Founding Campuses: ■ Edgewood ■ Howard College ■ Medical School ■ Pietermaritzburg ■ Westville

APPENDIX 'B'

DATA COLLECTION AND METHODOLOGIES – EXHIBITS




GRADUATE | SCHOOL OF | BUSINESS

UNIVERSITY OF KWAZULU-NATAL

DOCTOR OF BUSINESS ADMINISTRATION DEGREE

Interview Schedule (Questionnaire Form)

Research Question:

To find out how liquidation of viable companies can be minimised in Zimbabwe ^{banking} financial sector? 

Area of Research: SAMPLE [ANALYSIS - SEE THESIS PAGES 106 - 234]

Corporate Governance

1. Please state name of your organisation
CENTRAL AFRICA BUILDING SOCIETY
2. What is your position in your organisation?
GENERAL MANAGER FINANCE + TREASURY
3. For how long have you been with your organisation?
35 YEARS
4. How many directors are they in your organisation?
12
5. From the abovementioned number, how many are non-executive directors?
10
6. Explain how each non-executive director (including the chairman) was identified and engaged.
 - (a) 'A' Class Shareholder (Old Mutual) identifies appropriate people who are leaders in their field of endeavour and who will provide meaningful input to the Society.

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(f)

7. How many governance committees are available within your organisation?

7

8. State name of each Committee, composition of each committee stating (number of non-executive and executive members). Please also indicate whether the chairperson is an executive or non-executive board member.

- (a) Audit Committee 4/0 Chairman non executive
- (g) Loans Review Committee 2/1 Chairman non executive
- (b) Risk Management Committee 2/3 Chairman non executive
- (c) General Committee 4/1 Chairman non executive
- (d) Executive Committee 0/9 Chairman executive
- (e) ALCO Committee 0/7 Executive chairman
- (f) Staffing + Remuneration Committee 2/1 Chairman Non Executive

9. Explain how the board of directors has aligned the goals of the organisation with those of all stakeholders namely equity holders, employees, suppliers of goods and services, the government, customers and the public.

The board tries to ensure that shareholder expectations are attained whilst at the same time operating within the legal framework and complying with all statutory requirements. In order to achieve shareholder expectation "delighted clients" are needed and to achieve this motivated and efficient staff are required. Service level agreements are entered into with all suppliers of goods and services to

ensure ongoing operations and stability.

10. Briefly explain how business and corporate strategies of your organisation are formulated and implemented.

Executive management have an annual retreat where the objectives for the coming year are agreed on. These are reviewed monthly and presented to the board for approval.

11. How are the board members expected to act where the interests of shareholders conflict with the interests of the company?

Board members are expected to always act in the best interests of the Society.

12. Briefly explain the fiduciary responsibilities of your board members.

Board members ensure that the executive acts responsibly in terms of parameters set by the board. The board sets limits and rules and regulations and ensure that depositors funds are safe guarded.

13. While the board members may delegate some of its responsibilities to management and governance committees, explain whether or not directors in your organisation have delegated statutory obligations especially sections 140, 176, and 186 of the Companies Act (Chapter 24:03)?

The board receives monthly financial statements and half yearly and annual financial statements. Audit is conducted by KPMG, Group Internal Audit and Internal Audit. These report directly to the Audit Committee who oversee the production of the Interim and final results. The Board is directly responsible for these functions.

14. In your opinion, are all your non-executive directors cognisant of the economic, social and political environment in which the company operates and do they really understand how the organisation make money.

The Society's non executive directors come from business backgrounds and fully understand the environment in which we operate and how the Society makes money.

15. Please indicate which one of the following models best fits your organisation as far as the degree at which the board is engaged in influencing management decisions and the company's direction.
- (a) **The Passive Board** – for example a board functions at the discretion of the Managing Director and limits its activities and participations.
 - (b) **The Certifying Board** – for example it certifies to shareholders that the Managing Director is doing what the board expects and that management will take corrective action when needed.
 - (c) **The Engaged Board** – for example provides insight, advise and support Managing Director and management team. It also seeks out sufficient industry and financial expertise to add value to decisions.
 - (d) **The Intervening Board** – becomes intensely involved in decision making around key issues and also convenes frequent, intense meetings often on short notice.
 - (e) **The Operating Board** – for instance makes key decisions that management then implements and it also fills gaps in management experience.
 - (f) **Non- of the above.**

.....
 If your answer is non of the above or (f), please support your answer and give an example.

.....
 16. On the 30th September 2004 the Reserve Bank of Zimbabwe responded to the collapse of more than half a dozen financial institutions in Zimbabwe, by issuing Guideline Number 01-2004/BSD entitled **Sound Corporate Governance Requirements** through its Bank Licensing, Supervision and Surveillance Division.

- (a) Explain how shareholders can ensure that the board of directors is constantly held accountable and responsible for the efficient and effective governance of the institution?

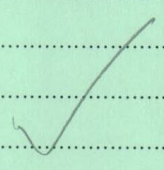
The Shareholder is responsible for the board of directors appointment. This ensures that the directors are accountable for ^{and} responsible for the efficient and effective governance of CABS. Executive directors have no say in the appointment of directors.

(b) Please indicate the number of managers or directors (if any) with direct or indirect shareholding and details of their percentages.

- >
- > Directors are required to hold 50 shares each.
- > The percentage holding is less than .01%.
- >
- >
- >
- >
- >

(c) Explain how your institution has complied with provisions of section 18(2), 20, 19, 19(i) and (b) of the Banking Act (Chapter 24:20).

- 18: fully compliant
- 19: "
- 20: "
- 21: "



(d) Explain how your organisation can ensure that every board member and especially non-executive directors attend at least 75% of the board meetings of your institution.

We report board attendance to the Reserve Bank
Eleven out of twelve members have over 75% attendance. Board members are paid a set fee and all committee work is paid on attendance.

- (c) Please explain **whether or not** Guideline Number 01-2004/BSD (Sound Corporate Governance Requirements) has transformed your institution with regard to management systems, profitability, business growth, shareholding, good return on investments and stakeholder satisfaction.

The Society was operating in terms of guidelines set by the parent company (Old Mutual plc). These have been aligned to the above guideline. Risk management has been enhanced and management systems improved as a result. This is particularly true of reconciliations.

17. Explain your organisation's main social and environmental responsibilities. Please give examples.

Makes sizeable donations to sports bodies and charitable organisations. Has reduced charges and minimum balance requirements for the elderly (pensioners) and has produced a product with minimal charges for the mass (unbanked) market.

*** The candidate is requesting the following documents from management for examination and analysis.

	YES	NO
(a) Audited Financial Statements covering the period 1 January 2002 up to 31 st December 2005.	✓
(b) Board and Committee minutes covering the period 1 January 2002 up to 31 st December 2005.	✓
(c) Certified copy of the Bank License.	✓
(d) Certified copy of the Certificate of Corporation	✓
(e) Certified copies of Memorandum/Articles of Association	✓
(f) Authority to attend and observe at some Board/Committee Meetings between 1 st September 2005 to 31 st January 2006.	✓

(g) Authority to interview **some** customers, suppliers of goods
and services, employees, shareholders, Zimbabwe Revenue
Authority, the Reserve bank of Zimbabwe and Non-Executive
directors.

Candidate Signature [Signature]

this 9th day of May 2005/2006.

Participant Signature [Signature]

this 9th day of MAY 2005/2006.

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GRADUATE | SCHOOL OF | BUSINESS



DOCTOR OF BUSINESS ADMINISTRATION DEGREE

Interview Schedule (Questionnaire Form)

Research Question:

To find out how liquidation of viable companies can be minimised in Zimbabwe ^{banking} financial sector?

Area of Research: SAMPLE [ANALYSES-SEE THESIS PAGES 106 - 234]

Strategic Management

1. Please state name of your organisation

..... CENTRAL AFRICA BUILDING SOCIETY,

2. What is your position in your organisation?

..... GENERAL MANAGER FINANCE + TREASURY,

3. For how long have you been with your organisation?

..... 35 YEARS

4. How often do you renew your organisation in order to avoid being outmaneuvered by aggressive competitors or newcomers?

..... Continually seek improved products to outmaneuver
our competitors. Innovation is included in performance
contracts

5. If your organisation keep doing what it is doing now, what will it look like in five years?

..... The staff complement will diminish and branch
network reduce with increased reliance on
electronic delivery channels

.....
.....
6. In your opinion, do you accept that companies that engage in effective strategic management generally out perform those that know nothing about strategic management.

Yes:

7. Every organisation is expected to scan the international, external and internal environments by monitoring, evaluating, and disseminating of information from the said environments to all key members of staff within the company. Otherwise, top management becomes isolated from developments in the business units, and lower level managers lose sight of the corporate mission and objectives.

In your opinion is the above being practiced in your organisation?

E-mail has made effective the dissemination of this information.

8. Has any strategic management efforts in your organisation resulted in improved sales, business growth and stakeholder – satisfaction?

Yes: Diversification of products + Concentration on Electronic Delivery

9. Innovation, flexibility and responsiveness are probably the key success factors in your financial industry. However, what are the key strategic factors for your organisation or any of your branches or business units?

Return on Equity : Positive to inflation

Asset Growth : "

Operating costs : 85% of inflation.

Cost Income Ratio less than 50%

10. Within your organisation, is strategy enough when it comes to leading?

Strategy is not sufficient on its own. Reputation and other factors are also required to lead. (communication)

11. It is strongly believed that most financial institutions operate in the specialisation competitive environment. With many sources of advantage the specialist aims to be distinctive and excel in certain competitive dimensions which often appeal to a narrow target market. With many sources of advantage available your organisation needs to determine what is the route taken to specialisation and then understand its rationale, underlying economics and the strategic success factors.

In your opinion, is the business of your organisation currently dominating the chosen market sector within the financial industry?

Building ^{Society} niche CASS has increased market share
dramatically.
Financial institutions: Total market share increased
now seen as a threat to banks.

*** The candidate is requesting the following documents from management for examination and analysis.

	YES	NO
(a) Copy of the current corporate strategy for your organisation	✓
(b) Copies of at least three business strategies from your business units or branches.	✓
(c) Any correspondence and minutes relating to strategic management	✓

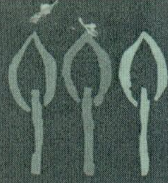
Candidate Signature

this 9 day of May 2005/2006.

Participant Signature

this 9th day of MAY 2005/2006.

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DOCTOR OF BUSINESS ADMINISTRATION DEGREE

Interview Schedule (Questionnaire Form)

Research Question: SAMPLE [ANALYSES - SEE THESIS PAGES 106-234]

To find out how liquidation of viable companies can be minimised in Zimbabwe ^{banking} financial sector?

Area of Research:

Business Ethics

1. Please state name of your organisation.

PREMIER FINANCE GROUP

2. What is your position in your organisation?

Chief Risk & Compliance Officer

3. For how long have you been with your organisation?

4 1/2 years

4. In your opinion are the executive directors serving their personal interests, whilst at the same time caring about interest of other stakeholder (namely employees, customers, suppliers of goods and services, Zimbabwe Revenue Authority, shareholders and the public).

Yes eg Employees now get salary adjustments every 2 months and the salaries are paid twice per month, Taxes are paid to ZimRA on time, etc.

5. Does your organisation have a code of business ethics?

Yes

6. Within your organisation, explain how people with any defective moral upbringing and unethical behaviour have been restrained from tarnishing the image of your company. Have you rewarded any people for ethical behaviour?

Promotion of good behavior through corporate values, culture etc. However the org has a recruitment criteria that minimised engagement of people who do not fit the premier person. (values)

Yes.

7. Because of the competitive nature of business in your industry today, can your organisation really afford to bother about the interests of its competitors without jeopardizing its own chances of survival?

Yes. Always look at what competition does in order to position ourselves correctly. Also this sector can suffer from risk of contagion.

8. Is business ethics a prerequisite for sustained success, and more so for excellence in business? In other words is it possible to be both ethical and successful in your business?

Yes. Unethical behaviors tend to catch up with organisations in one way or the other either through bad publicity, lawsuits, criminal proceedings, loss of market share etc. These things would impact on business and its potential for success.

9. Briefly explain some of the steps which have been taken by your organisation in order to ensure that all people in the company act with integrity.

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10. From your own experience, has your organization ever used business ethics principles and guidelines to minimize fraud?

Yes.

- The values promote ethical behaviour.
- Unethical behavior is punishable through a disciplinary procedure.
- Unethical behaviour can be reported to senior management.

.....

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.....

11. Explain whether or not your organisation has cultivated an ethical culture and climate within the past five years, through the adoption of a **code of ethics** and its institutionalization.

- Yes. The Code is in place and it outlines the expected behaviours among employees and directors.
- Tone from the top - the CEO has been travelling from branch to branch to talk about the Premier Culture and values as a way of showing corporate commitment to ethical behaviour

12. In your opinion, can the current culture in your organisation allow a **code of ethics** (linked to the company's disciplinary procedure) to gain the status of a living document?

Yes.


13. Please state whether your board of directors has ever developed, implemented, institutionalised or reported ethical performance based on a **code of business ethics**.

Yes. A report on board performance for the Bank and asset management firm is sent to RBZ annually.

*** The candidate is requesting the following documents from management for examination and analysis.

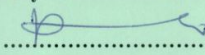
	YES	NO
(a) Copy of the code of ethics developed, revised, implemented, reported on or institutionalised within the past five years.
(a) Any correspondence and minutes relating to the code of ethics (linked to the company's disciplinary procedure) for the past five years.

Candidate Signature



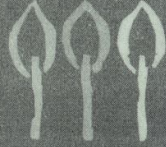
this 13 day of April 2005/2006. ²⁰⁰⁷

Participant Signature

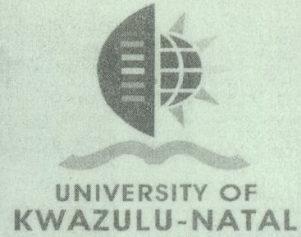


this 13th day of April 2005/2006. ²⁰⁰⁷

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


UNIVERSITY OF
KWAZULU-NATAL

DOCTOR OF BUSINESS ADMINISTRATION DEGREE

Interview Schedule (Questionnaire Form)

Research Question:

To find out how liquidation of viable companies can be minimised in Zimbabwe ^{banking} financial sector? 

Area of Research: SAMPLE [ANALYSIS-SEE THESIS PAGES 106-234]

Internal Control Systems

1. Please State name of your organisation

..... KINGDOM FINANCIAL HOLDINGS LIMITED

2. What is your position in your organisation?

..... COMPANY SECRETARY

3. For how long have you been with your organisation?

..... 5 YEARS

4. Is there any Audit And Finance Committee within your organisation and when was it established? Is the chairperson of the committee an independent non-executive director as well as the chairperson of the board of directors?

..... YES. IT WAS ESTABLISHED FROM INCEPTION OF THE
..... INSTITUTION (10 YEARS)

5. In your opinion is the organisational and reporting structure of the internal audit function independent from the everyday management internal control process?

..... YES

6. Between the Audit & Finance Committee and the Executive Directors who is responsible for the appointment, remuneration, performance appraisal, transfer and dismissal of the head of internal audit?

THE AUDIT & FINANCE COMMITTEE IS RESPONSIBLE FOR THE APPOINTMENT

7. Please confirm whether or not your internal audit department has an audit charter, a standard audit plan, audit manual, a standard audit programme and internal control questionnaires in place.

YES IT HAS ALL OF THE ABOVE

8. Kindly explain the main duties and responsibilities of your internal audit department with regard to compliance with company policies, procedures, rules, guidelines, directives, laws, and regulation, as well as detection of fraud, errors, omissions and any other irregularities.

MAIN DUTY IS TO PERFORM AN INDEPENDENT REVIEW AND APPRAISAL OF THE COMPANY'S ACTIVITIES AND FUNCTIONS AS A SERVICE TO MANAGEMENT AND THE BOARD. THIS INCLUDES AN APPRAISAL OF THE ADEQUACY AND EFFECTIVENESS OF INTERNAL CONTROL SYSTEMS; COMPLIANCE WITH POLICIES, PROCEDURES, RULES, GUIDELINES AND DIRECTIVES; DETECTION OF FRAUDS, ERRORS, OMISSIONS etc.; MANAGEMENT AUDIT; I.T. SYSTEMS AUDIT

9. To the best of your knowledge, are your internal auditors guided by the International Auditing Guideline on Audit Sampling.

YES, THEY ARE

10. Please state whether or not the following items are covered by your internal audit reports:

	YES	NO
➤ An executive summary;	..✓..
➤ Date of report and period covered by the audit;	..✓..
➤ The scope and objectives of the audit;	..✓..
➤ The significance and magnitude of the problems or issues;	..✓..
➤ The causes of the problems or issues;	..✓..
➤ Recommended solutions or preventive actions	..✓..
➤ Auditees comments on the issues and recommendations, and remedial measure taken or proposed to be taken to address the audit issues;	..✓..
➤ Management's achievements noted during the internal audit;	..✓..
➤ Overall conclusion	..✓..

11. From the following operations or units, please indicate the critical Operational areas which entail significant risks that may have an adverse impact on the operations and financial condition of your organisation?

	YES	NO
❖ Credit operations✓..
❖ Treasury operations	..✓..
❖ Derivatives✓..
❖ Investments In Debt And Equity Securities✓..
❖ Information systems	..✓..

12. Is investment and trading securities accounting for a sizeable proportion of your organisation's assets? Give example of securities of inferior quality that may have an adverse impact on your organisation's financial position.

... INVESTMENT AND TRADING SECURITIES FORM A SIZEABLE PORTION OF THE COMPANY'S ASSETS BUT MOST OF THE INVESTMENTS ARE

...IN GOVERNMENT BONDS WHICH ARE SECURE, WE
AVOID INVESTMENTS OF INFERIOR QUALITY

13. Based on question 12 are you able to confirm that your internal auditors are conversant with;

- | | YES | NO |
|--|-----|-------|
| <input type="radio"/> Investment strategy | ✓ | |
| <input type="radio"/> Risk inherent in investment | ✓ | |
| <input type="radio"/> Policies and procedures | ✓ | |
| <input type="radio"/> Accounting and financial reporting | ✓ | |
| <input type="radio"/> Legal and regulatory requirements | ✓ | |

14. Does your organization ^{HAVE A} robust and 'water tight' internal control framework tailored to the specific circumstances of the business which are viewed by the top management essentially as part of daily operational activities?

YES

15. Within your organization who has the responsibility of establishing and implementing internal control systems?

...MANAGEMENT OF THE VARIOUS UNITS WITH THE
HELP OF EXTERNAL EXPERTS WHERE NECESSARY

16. Please briefly explain five types of internal controls being implemented by your organisation.

- (1) CREDIT OPERATIONS CONTROLS
- (2) TREASURY OPERATIONS CONTROLS
- (3) DERIVATIVES
- (4) INVESTMENTS AND INFORMATION SYSTEMS
- (5) OPERATIONS

17. Please explain the objective and internal controls measures used by your organisation with respect to cash received, cheques received by post and delivery, and rtgs deposits.

AREA OF BUSINESS	OBJECTIVES	INTERNAL CONTROL MEASURES
<ul style="list-style-type: none"> ➤ Cash received. ➤ Cheques received by post and delivered. ➤ Rtgs deposits. 	<p>a) To ensure that all cash delivered, cheques received by post and rtgs depositors are accounted for and accurately recorded in the relevant books of account.</p> <p>b) To ensure all such receipts are promptly and intactly deposited in the clients bank accounts or company's bank account</p>	<ul style="list-style-type: none"> ○ (1) DUAL SYSTEM OF CHECKING THAT ENTRIES ARE CORRECT (1) END OF DAY RECONCILIATIONS ○ (1) SPOT CHECKS (1) WRITTEN INSTRUCTIONS FROM CLIENT REQUIRED ○ (1) CONFIRMATION OF TRANSACTIONS WITH CORRESPONDENT BANKS ○ ○ ○

18. Please outlining most common types of fraud which are most likely to occur through the bank account.

- (1) EMPLOYEES FALSIFYING DOCUMENTS
- (2) MOVEMENT OF FUNDS INTO WRONG ACCOUNTS FOR PURPOSES OF FRAUD
- (3) ~~USING FUNDS~~ USE OF CLIENTS FUNDS BY EMPLOYEES ON A SHORT TERM BASIS FOR UNLAWFUL GAIN
- (4) CONNIVANCE BETWEEN EMPLOYEES AND EXTERNAL PARTIES TO COMMIT FRAUD

19. Based from your experience, are your directors satisfied by delegating internal control systems to management and are they generally satisfied with receiving reports on control issues and the status of corrective actions.

YES


20. In your opinion are the anticipated benefits from your organisations internal control measures exceeding the cost of establishing and implementing internal control measures?

YES, VERY SUBSTANTIALLY AS THESE INTERNAL CONTROL MEASURES HAVE HAD A NOTICEABLE AND NOTICEABLE EFFECT ON THE BOTTOM LINE

*** The candidate is requesting the following documents from management for examination and analysis.

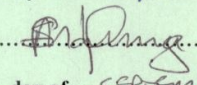
- | | YES | NO |
|---|-------|---------|
| (a) At least five internal control reports covering the period 1 January 2002 up to 31 st December 2005. | | ✓ |
| (b) Some Internal Audit Committee minutes covering the period 1 January 2002 up to 31 st December 2005. | | ✓ |
| (c) Audit Charter and Plan | | ✓ |
| (d) Audit manual and programme | | ✓ |
| (e) Internal control questionnaires | | ✓ |
| (f) Authority to attend and observe at relevant meetings between 1 st September 2005 to 31 st January 2006. | | ✓ |

Candidate Signature


.....

this^{4th}..... day of^{September}..... 2005/2006.

Participant Signature


.....

this^{4th}..... day of^{SEPTEMBER}..... 2005/2006.

**** *Strictly Private & Confidential And Not For Publication.*



GRADUATE | SCHOOL OF | BUSINESS



UNIVERSITY OF
KWAZULU-NATAL

DOCTOR OF BUSINESS ADMINISTRATION DEGREE

Interview Schedule (Questionnaire Form)

Research Question:

How to minimise the liquidation of viable companies in Zimbabwe banking sector.

Stakeholder Participation. SAMPLE [ANALYSES-SEE THESE PAGES 106 - 234]

- 1 Please State name of your institution..... *Stanbic Bank*
.....
.....
- 2 What is your position within the institution?..... *Customer Consultant*
.....
.....
.....
- 3 For how long have you been with the institution?..... *4 years*
.....
.....
- 4 Is it necessary for you to participate in the formulation of your institution's **business strategies** or planning process.....
..... *Yes*

5 If the answer is Yes please explain why it is necessary and how this can be done? Sound
corporate governance encourages board of directors to consider employee positions before decisions are passed. This can be achieved through employee participation, quality circles and wider consultations with employees on the ground before decisions are made by the board.

6 How many times (if any) have you participated in the formulation of **business strategies** of your organisation?
At branch level we participate when ever a meeting is held fortnightly.

7 Detail in point form your **personal** and **essential** needs:

- > food and security.
- > gaining professional experience congruent to my area of interest and studies.
- > social interaction.
- > motor vehicle & house

8 Has your institution assisted you in satisfying any of your **personal** and **essential** needs? Yes
for my studies I receive study loans at 0% interest rates and for food they provide basic groceries every quarter of the year as for my social interaction needs they have a sporting facility that can be utilised by anyone who is willing to take part. They also provide us with house loans in form of bonds and car loans also.

9 In your opinion, do you think your institution is satisfying the needs or interests of **all** stakeholders namely shareholders, suppliers of goods and services, the government (ZIMRA or RBZ), customers, employees, management and the public in general?.....

stanbic bank satisfies all the needs and interests of stakeholders and shareholders.

10 Explain how your institution would benefit from satisfying the needs of all stakeholders in question 9 above

By complying with the needs of the RBZ and ZimRA this means that the bank will benefit by that customers will be confident with the bank there is no risk of deposits runs a tax gain a wider market share by maintaining high compliance standards.

Candidate Signature



this 31 day of March 2007.

Participant Signature



this Reik day of 31 MARCH 2007.

*** Strictly Private & Confidential And Not For Publication.

APPENDIX 'C'
LIMITATIONS – EXHIBITS



Standard Chartered Bank Zimbabwe Limited
Head Office
2nd Floor, Old Mutual Centre
Cnr Third St/Jason Moyo Ave
Harare, Zimbabwe
Tel +263 (0) 4 253801
Fax +263 (0) 4 252329

Date 16 November 2006

Your ref:

Our ref: LC/nst

Mr. Madondo
Tudor House Consultants Pvt Ltd
2nd Floor, West Wing
Intermarket Centre
Cnr. Kwame Nkrumah Avenue/First Street
Harare

Dear Sir

Re: DBA Degree - Research

I refer to your letter dated 15 November 2006 and our telecon regarding the same.

I regret to advise that we are not in a position to participate in your research at this time.

In the circumstances, we return herewith the documents and schedules sent to us. We take this opportunity to wish you all the best in your research initiative.

Yours faithfully

Nilesh Trivedi
Head of Legal and Compliance

Directors: H.P. Mkushi (Chairman), W. Matsaira* (Chief Executive), S. Nhakaniso*, A.J. Laurie, S.V. Rushwaya,
* Executive A.R.T. Manzal*, T.J. Aaker, M. P. Mutasa

APPENDIX 'D'
LITIGATION – EXHIBITS

MEMORANDUM OF AGREEMENT

entered into by and between

CECIL MADONDO

(In his capacity as the Liquidator of Sagit Finance House and hereinafter referred to as the "the Liquidator")

and

1. **SAGIT FINANCIAL HOLDINGS LIMITED;**
2. **SHAFT FINANCE (PRIVATE) LIMITED;**
3. **CODEVILLAN INVESTMENTS (PRIVATE) LIMITED;**
4. **C & F INVESTMENTS (PRIVATE) LIMITED;**
5. **RUTONDEDZO HERBERT MARK RINASHE;**
6. **ARNOLD MUFUNDE;**
7. **CHAMUNORWA CHARLES MUTYAMBIZI**

(The first Defendant in High Court proceedings HC/249/07 and 2nd-7th Defendants who consent to be joined as parties to this agreement represented herein by **FRANCIS CHIRIMUTA** of Gula Ndebele Legal Practitioners, he being duly authorized thereto, and hereinafter referred to as "the Defendants")

1. INTRODUCTION

- 1.1 The Liquidator instituted proceedings out of the High Court under case number HC/249/07 (*hereinafter referred to as "the Civil Proceedings"*) against the Defendants for an order in terms of Section 318 of the Companies Act declaring that they be personally liable for all the debts of Sagit Finance House Limited, a financial institution which was placed in liquidation by an order of the High Court granted on 12th April 2006 under CR number 8/06.
- 1.2 The Defendants hereby make an offer to the Liquidator to settle the Civil Proceedings and any and all ancillary Claims arising therefrom, on a purely without prejudice basis and without admitting liability.
- 1.3 The Liquidator hereby accepts the offer and the parties set out herein the full terms and conditions of their agreement.

2. DEFINITIONS

In this Agreement unless the context indicates a contrary intention, the following words and expressions shall have the following meanings

- 2.1 **"Agreement"**-this document:
- 2.2 **"Civil Proceedings"**-proceedings instituted by the Liquidator of Sagit Finance House to recover Sagit Finance House indebtedness from Sagit Financial Holdings.
- 2.3 **"Claims"**- Sagit Financial Holdings indebtedness to Sagit Finance House in terms of Section 318 of the Companies Act.
- 2.4 **"Companies Act"**- Companies Act (Chapter 24:03).
- 2.5 **"Criminal Proceedings"**-criminal proceedings which may be instituted by the Liquidator of Sagit Finance House Limited against the Defendants in terms of Section 318 of the Companies Act.
- 2.6 **"Currency"**- figures referred in this agreement are restated in the new currency pursuant to the new currency revaluation introduced in August 2006.
- 2.7 **"Defendants"**-the defendants in High Court matter case number 249/07 and all those who consent to be joined as partners to the dispute.
- 2.8 **"Liquidator"**-Cecil Madondo, in his capacity as the Liquidator of Sagit Finance House Limited.
- 2.9 **"Parties"**-the liquidator and the Defendants.

3. ORDER OF COURT

3.1 This Agreement shall be lodged with the Registrar of the High Court in the Civil Proceedings and the Parties shall consent to the terms thereof being made to the order of the Court upon signature hereof.

4. PAYMENT

4.1 The Defendants have paid to the Liquidator, without accepting liability and purely in the interests of amicably resolving the dispute between the Parties, the amount of \$132.8 million (*one hundred and thirty two million eight hundred thousand dollars*), which is inclusive of \$5.575 million used to finance the acquisition of 63% shareholding in SFG Insurance by Sagit Financial Holdings through its investment vehicle called Pilasine Investments in May 2005.

5. CIVIL PROCEEDINGS

The effect of this Agreement is to terminate the Civil Proceedings.

6. CRIMINAL PROCEEDINGS

The Liquidator shall swear to an affidavit upon Signature of this Agreement recommending staying of the intended prosecution of the Defendants.

7. LEGAL COSTS

The Parties shall pay their own legal costs in respect of both the Civil and the Criminal Proceedings.

8. NO FURTHER CLAIMS

Other than Claims as provided in this Agreement, the Parties shall have no further Claims whatsoever against each other.

9. CREDITORS CLAIMS

Creditors who lodged claims which have been examined by the Liquidator have been paid in full.

10. CONFIDENTIALITY

The terms of this Agreement and all related documents and the negotiations related thereto are strictly confidential and none of the Parties shall at any time after the date of this Agreement, disclose the same to any person other than the Judge in Chambers, the Master of High Court, the Registrar of High Court, the Public Prosecutor, Rotten Row Magistrate's Court and the Attorney General's Office and the Creditors of

Sagit Finance House Limited, for the limited purpose of bringing finality to the dispute between the parties.

11. WHOLE AGREEMENT

The Parties acknowledge that this Agreement contains the whole agreement between them. No representations or warranties expressed or implied are made by either of them save for those warranties and representations contained in this Agreement.

Thus done and sworn to at Harare this 25th day of April 2007




Cecil Madondo-Liquidator
SAGIT FINANCE HOUSE LIMITED

WITNESS:

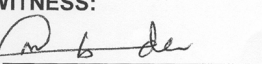
1. 

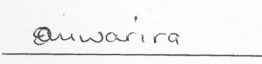
2. 



Francis Chirimuuta-Attorney
**REPRESENTING THE DEFENDANTS
BY VIRTUE OF POWER OF ATTORNEY
AND RESOLUTIONS**


WITNESS:

1. 


2. 

APPENDIX 'E'

OFFICIAL INFLATION RATES – EXHIBITS



Welcome to the Reserve Bank of Zimbabwe



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Thur, October 23, 2008

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Inflation Rates (2001=100)

Year	All Items CPI	Year On Year Price Increases
1990	29.6	15.5
1991	36.8	24.3
1992	52.3	42.1
1993	66.7	27.5
1994	81.6	22.3
1995	100.0	22.5
1996	121.4	21.7
1997	144.3	18.9
1998	190.1	31.7
1999	301.3	58.5
2000	469.6	55.9
2001	100.0	71.9
2002	233.2	133.2
2003	1084.5	365.0
2004	4880.3	350.0
2005	16486.4	237.8
2006	184101.1	1016.7
2007	12562581.7	6723.7

Year	Month	All Items CPI	Monthly Price Increases	Year On Year Price Increases
1999	Jan	234.5	3.76%	44.13%
	Feb	256.6	9.42%	49.97%
	Mar	276.8	7.87%	52.76%
	Apr	282.8	2.17%	52.70%
	May	286.8	1.41%	52.96%
	Jun	292.4	1.95%	55.20%
	Jul	306.5	4.82%	63.65%
	Aug	313.5	2.28%	68.82%
	Sep	325.8	3.92%	69.69%
	Oct	337.4	3.56%	70.40%
	Nov	347.9	3.11%	81.21%
	Dec	354.6	1.93%	66.90%
2000	Jan	365.7	3.13%	55.95%
	Feb	382.1	4.48%	48.91%
	Mar	417.4	9.24%	50.79%
	Apr	434.7	4.14%	53.71%
	May	455.1	4.69%	58.68%
	Jun	465.7	2.33%	59.27%
	Jul	470.2	0.97%	53.41%
	Aug	481.3	2.36%	53.52%
	Sep	527.7	9.64%	81.97%
	Oct	542.6	2.82%	60.82%

<http://www.rbz.co.zw/about/inflation.asp>

10/23/2008

	Nov	542.6	0.00%	55.96%
	Dec	550.4	1.44%	55.22%
2001	Jan	71.1	4.32%	57.01%
	Feb	74.6	4.96%	57.73%
	Mar	80.5	7.88%	55.77%
	Apr	84.5	4.92%	56.94%
	May	87.6	3.72%	55.48%
	Jun	94.8	8.21%	64.42%
	Jul	99.0	4.41%	70.03%
	Aug	105.0	6.03%	76.13%
	Sep	121.7	15.94%	86.24%
	Oct	133.0	9.26%	97.90%
	Nov	137.0	2.98%	103.80%
	Dec	144.6	5.57%	112.10%
2002	Jan	154.1	6.60%	116.73%
	Feb	161.4	4.73%	116.26%
	Mar	171.8	6.41%	113.30%
	Apr	180.8	5.25%	113.97%
	May	195.0	7.90%	122.51%
	Jun	203.5	4.34%	114.54%
	Jul	221.3	8.78%	123.51%
	Aug	246.8	11.51%	135.07%
	Sep	292.0	18.32%	139.90%
	Oct	324.7	11.21%	144.17%
	Nov	377.3	16.20%	175.51%
	Dec	432.2	14.54%	198.93%
2003	Jan	474.9	9.87%	208.09%
	Feb	518.0	9.08%	220.87%
	Mar	563.4	8.77%	227.98%
	Apr	667.5	18.49%	269.23%
	May	780.2	16.88%	300.11%
	Jun	945.1	21.14%	364.53%
	Jul	1105.5	16.96%	399.51%
	Aug	1299.6	17.56%	426.61%
	Sep	1622.3	24.83%	455.60%
	Oct	2032.1	25.26%	525.84%
	Nov	2714.6	33.58%	619.46%
	Dec	3019.9	11.24%	598.75%
2004	Jan	3432.4	13.66%	622.83%
	Feb	3638.9	6.02%	602.55%
	Mar	3852.0	5.85%	583.74%
	Apr	4038.8	4.85%	505.05%
	May	4281.3	6.01%	448.75%
	Jun	4674.1	9.17%	394.55%
	Jul	5117.2	9.48%	362.90%
	Aug	5386.1	5.25%	314.44%
	Sep	5702.9	5.88%	251.53%
	Oct	6279.6	10.11%	209.01%
	Nov	6766.5	7.75%	149.26%
	Dec	7028.7	3.87%	132.75%
2005	Jan	8017.1	14.06%	133.57%
	Feb	8268.2	3.13%	127.22%
	Mar	8616.9	4.22%	123.70%
	Apr	9251.2	7.36%	129.06%
	May	10462.3	13.09%	144.37%
	Jun	12354.2	18.08%	164.31%
	Jul	18155.8	46.96%	254.80%
	Aug	19666.7	8.32%	265.14%
	Sep	26224.6	33.35%	359.85%
	Oct	32087.7	22.36%	410.98%
	Nov	40758.1	27.02%	502.35%
	Dec	48205.6	18.27%	585.84%
2006	Jan	57175.6	18.61%	613.17%
	Feb	72927.0	27.55%	782.02%
	Mar	87337.5	19.76%	913.56%

	Apr	105734.3	21.06%	1042.93%
	May	135329.6	27.99%	1193.49%
	Jun	158708.8	17.28%	1184.65%
	Jul	198559.7	25.11%	993.64%
	Aug	256564.7	29.21%	1204.56%
	Sep	294583.7	14.82%	1023.31%
	Oct	375478.8	27.46%	1070.16%
	Nov	488604.6	30.13%	1098.79%
	Dec	665774.1	36.26%	1281.11%
2007	Jan	968338.9	45.45%	1593.62%
	Feb	1334521.7	37.82%	1729.94%
	Mar	2008932.1	50.54%	2200.20%
	Apr	4 032 633.7	100.7%	3 713.9%
	May	6,265,734.3	55.4%	4530.0%
	Jun	11,666,826.7	86.2%	7251.1%
	Jul	15,358,172.2	31.6%	7634.8%
	Aug	17,171,312.8	11.8%	6592.8%
	Sep	23,808,624.6	38.7%	7982.1%
	Oct	56 098 958.3	135.62	14 840.65%
	Nov	129 826 060	131.42%	26 470.78%
	Dec	441 490 130.8	240.06%	66 212.30%
2008	Jan	974925192.9	120.83%	100580.16%
	Feb	2201964728.0	125.86%	164900.29%
	Mar	8395791848.8	281.29%	417823.13%
	Apr	26240307207.5	212.54%	650599.00%
	May	139964814259.6	433.40%	2233713.43%
	June	1314718233514.3	839.30%	11268758.90%
	July	35500566912457.9	2600.24%	231150888.87%

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APPENDIX 'F'
ETHICAL CLEARANCE – EXHIBITS



**UNIVERSITY OF
KWAZULU-NATAL**
**INYUVESI
YAKWAZULU-NATALI**

Research Office, Govan Mbeki Centre
Westville Campus
Private Bag x54001
DURBAN, 4000
Tel No: +27 31 260 3587
Fax No: +27 31 260 4609
Ximbap@ukzn.ac.za

23 September 2011

Mr C Madondo (204520533)
Graduate School of Business

Dear Mr Madondo

PROTOCOL REFERENCE NUMBER: HSS/0049/06D
NEW PROJECT TITLE: The Minimisation of the Liquidation of Viable Banking Institutions in Zimbabwe's Banking Sector.

APPROVAL AND CHANGE OF DISSERTATION TITLE

I wish to confirm that ethical clearance has been granted full approval for the above mentioned project:

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach/Methods must be reviewed and approved through an amendment /modification prior to its implementation. In case you have further queries, please quote the above reference number. PLEASE NOTE: Research data should be securely stored in the school/department for a period of 5 years

Best wishes for the successful completion of your research protocol.

Yours faithfully

.....
PROFESSOR STEVEN COLLINGS (CHAIR)
HUMANITIES & SOCIAL SCIENCES RESEARCH ETHICS COMMITTEE

cc. Supervisor Dr A Kader
cc. Mrs C Haddon


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