



ZCAS University

BBA 5202 CORPORATE GOVERNANCE AND BUSINESS ETHICS

MID SEMESTER TEST

23 OCTOBER 2023

16:30-19:30

TIME ALLOWED: THREE (3) HOURS (plus 5 minutes to read through the paper)

INSTRUCTIONS:

1. **Section A:** This question is **compulsory** and must be attempted.
2. **Sections B:** There are **Three (3)** questions in this section. Answer **ANY Two (2)** questions from this section.
3. This question paper carries a total of **100 marks**.
4. Candidates must **not turn this page** until the invigilator tells them to do so.

SECTION A: Question 1 is Compulsory and must be Attempted

Read the passage below and then answer the question which follows it.

What Caused Bank of Zambia (BOZ) to Close Development Bank of Zambia (DBZ)?

By News Diggers Newspaper (July 24, 2023)

The Development Bank of Zambia (DBZ) has started a process of writing off “non-performance” loans amounting to K693.5 million which were issued to some politically exposed persons (PEPs). About K71,603,789 million has since been written off, according to sources within the Ministry of Finance who fear that the execution of the debt cancellation was illegal as it did not have blessings from the Secretary to the Treasury.

DBZ Board Chairman, Noel Nkhoma, has however explained that the decision to write off non-performing loans was a directive from the Bank of Zambia, in accordance with the law, stressing that authority had actually been sought from the Minister of Finance. According to correspondence obtained by News Diggers, the directive to cancel the loans from at least 19 projects, most of which belong to politically exposed persons (PEPs) came from the Bank of Zambia.

“The Development Bank of Zambia has a loan book characterised by high Non-Performing Loans (NPL). The high NPL is as a result of unsustainable loans and accrued interest. The high NPL portfolio is in contravention of regulation nine of the Classification and Provisioning directives, 2020. The Bank of Zambia in their 2022 Examination Report of the Bank directed that K693.5 million should be written off. In this regard, the Bank has proposed that 19 projects should be written-off. These write-offs are proposed in such a way that they also help to improve the liquidity position of the Bank and therefore enable the Bank to resume its lending operations,” read the report.

Further information contained in the report revealed that DBZ had over K1.2 billion in loans, out of which 87 per cent were non-performing. “The total loan book for the Bank is K1,203,030,255 as of November 25, 2022, the NPL stands at 87 percent while the IFRS 9 impairment is 35.8 per cent. Despite an improvement in the collections, the NPL still remains high, this is because the Bank is not lending out the money collected due to its regulatory capital challenges. It is

advisable that the Bank continues with collections to help improve its regulatory standings,” read the correspondence.

“Site visits conducted by the Bank have revealed that several projects are non-operational. The promoters of these projects have been unable to raise funds to meet their loan obligations. However, the promoters have opted to raise funds from other sources to liquidate their outstanding obligations. Despite the efforts made in raising these funds, most of these projects are unable to raise enough cash flows to meet their outstanding debt obligations and have requested to have a portion of their loans written-off”.

Some of the projects whose loans were being written off as contained in the report included former Health Minister Dr Chitalu Chilufya’s Henry Court Yard Limited, which had an outstanding loan of K18.5 million, of which the bank would write off K11.5 million, leaving a payable amount of about K7 million.

“Henry Courtyard Limited obtained a facility in the sum of K5.8 million for the purpose of expansion of Henry Courtyard Hotel in Mansa, refinance a loan held at Cavmont Bank and finance operational working capital. In addition, the client later obtained an additional facility in the sum of K2 million for working capital purposes. However, only K6.9 million was disbursed. The project is currently non-performing despite being operational. The current outstanding loan amount is K18.5 million as of November 25, 2022. The Bank has recovered K10 million through payments which represents 145 per cent of the amount disbursed. In this vein, we recommend that the client pays K7 million as full and final settlement of the outstanding debt. This entails that K11.5 million will be written off and 247 per cent of the total amount disbursed will be recovered,” read the correspondence.

Another facility whose loan was being written off was the Nomads Court Lodge which would have about K6.1 million debt cancelled. “Nomads Court Lodge Limited obtained a facility of K9.4 million for the purpose of purchasing of Mwiza Lodge, expansion, working and refinancing a loan held with CEEC. The loan was fully disbursed. The project is operational while the loan is non-performing. The current outstanding loan amount is K11.6 million as of November 25, 2022. The bank has recovered K13.4 million through payments which represents 143 per cent on the amount disbursed. In this vein, we recommend that a total of K6.1 million be

written-off and the client pays an additional K6.1 million. This will result in the recovery rate of 208 percent on the amount disbursed”.

Asked to explain why the bank executed the non-performing loan write-offs without approval from the Secretary to the Treasury, Nkhoma said, in an interview, Wednesday, that it was not true, saying the letter had actually been written to the Minister of Finance.

“It is not true, just understand in this context; before this board was appointed, there was an examination which was done by the Bank of Zambia. Now that Bank (DBZ) is regulated by the Bank of Zambia. So, every so often, they do what you call an examination of the bank. Now one thing that they came to discover or to establish was that the bank was charging interest on interest; if you borrow K100 the interest alone is K200. So the bank says, no there is a limit on what you call interest capping which is 100 per cent, you cannot charge someone interest more than what he has borrowed to double or 100 per cent more than what he has borrowed, the capping must be 100,” he explained.

“There were some loans which were delinquent, none performing. And Bank of Zambia after examination... some of them, there was not even sufficient security, yes, some of them were impacted by the pandemic and so many things. But what the bank of Zambia did, they come and classified the loans, [directed to] write off what they call excess interest of about six hundred and ninety something million. Now, in banking that is what they call a supervisory directive, you cannot challenge it because the condition of a license is that you are regulated, so if you are regulated the bank of Zambia has powers to give what you call supervisory directives. Now when we came on board, we hesitated to execute that, then they wrote another letter to me to say, we gave you this directive and you are still not implementing it, can you do it within 30 days failure to which we shall invoke supervisory action. Supervisory action can even be the removal of the board or suspending your license or withdrawing your license. We needed to meet as a board to review that directive and after that, it had to go through the committee and from the committee, which is investment committee of the board, it has now been escalated to the main board and a board decision to that effect has been passed. Now we cannot effect that without what you call treasury authority”.

Nkhoma explained that the right person to seek authority from was the Minister of Finance. “Yesterday (Tuesday) they did communicate to me because I’m out of the country that the letter

going to the Minister of Finance is ready and I gave a go ahead yesterday that before we do this, let it get the necessary approval. Because under the Development Bank of Zambia Act, it is only the minister who has got powers to write off an asset, so that is what has been done,” he said.

Asked whether the execution of writing off the selected loans had already been done before authority had been sought, Nkhoma said the process had been initiated, but not executed in full.

“In terms of passing the entries, in the P and L, the profit and loss, that has been done, the adjustment has been done, but it is the actual write-offs on the individual accounts which has not been done until treasury approval is secured and that can only be granted by the Minister of Finance, that is where we are. Those which were recoverable, we recovering, you can write off interest but if there is an underlining asset in terms of security, you pursue the security. But for those which are none recoverable, what can you do? Most of them they were getting monies which were with inflated securities; you find someone has got two chicken runs but has gotten five million, and the security is the chicken run, so what do you recover from the chicken runs, nothing. You write off, maybe, four million, five million, just like that,” he said.

Nkhoma explained that about 90 per cent of the loans that DBZ disbursed were to politically exposed persons. “Yes a lot, almost 90 per cent. So what we have been now trying to do, we are rewriting our governance policies, to strengthen them and to ensure that those PEPs, due diligence must be done. I’m not saying that PEPs cannot borrow, but they should borrow having met the minimum due diligence and credit worthy criteria; sufficient security, sufficient guarantees and so on,” he said.

Required:

Provide a critical analysis of issues bordering on corporate governance and business ethics which could have necessitated the eventual closure of the Development Bank of Zambia. What sound policy remedies could be suggested to mitigate the violation of corporate governance and business ethics pillars in public institutions to help these organizations operate optimally and profitably? (50 marks).

SECTION B: Attempt any TWO (2) Questions from this Section

Question 2

You are on a flight to attend an International Mining Indaba in India as a board member of one of the mining companies in which ZCCM Investment Holdings has some stake. You noted some discussions discrediting the significance of corporate governance ethos to business excellence. Provide a well-illustrated discourse in advocacy for entrenchment of corporate governance and business ethics in the management and administration of corporate entities. **(25 marks)**

Question 3

Critically analyse the role of corporate social responsibility in enhancing the smooth operations of an organization. Identify and briefly evaluate areas of Corporate Social Responsibility for your organization or any other which you know. **(25 marks)**

Question 4

Your organization is aware that one of the courses you are doing at ZCAS University is Corporate Governance and Business Ethics. The Human Resources Office has organized a training programme for the middle management team and you have been enlisted as one of the trainers. You are required to provide an elaborate analysis of what corporate governance and business ethics is and its application to the business context that your organization is involved in. You have been given 40 minutes to exhaust your presentation. **(25 marks)**

End of Test!