An investigation into the effectiveness of risk management policies employed on credit finance to SMEs: A case study of SEDCO, Bindura Satellite Branch, Zimbabwe

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ABSTRACT

This research is a case study of The Small Enterprises Development Corporation (SEDCO) Zimbabwe, Bindura branch, on Risk Management Policy and Procedures on development credit finance to both rural and urban Small to Medium Enterprises (SMEs) entrepreneurs. The study, aimed at exploring Credit Finance and Financial Credit Risks to which financial markets are exposed to, identify and explore on Risk Management systems, perceptions, management and, their effectiveness to improve and or, enhance standards, reduce or eliminate trading operating risks, in particular in dealing with credit finance management and with policies on risk management for SMEs at SEDCO Zimbabwe. Using pluralistic forms of data sampling techniques, the main data collection tool used was a standard self-completing questionnaire which was administered to obtain responses and interview information from SEDCO Bindura target respondent employees (all categories). A total of 20 questionnaires were administered out of which fifteen were returned completed translating to a seventy five per cent, (75%) response rate. The study made appropriate guideline recommendations on specific issues of relevance of the significance of risk management and risk communication, not only to organizations in the sector, but, for other businesses beyond the financial services market on credit and risk management best practices. Basing on some of the findings, results showed that, although SEDCO has a risk management policy, on which it is dependent to enhance standards and to manage credit risks effectively, the finance sector in its totality, continues to face credit risk exposures some leading to the collapse of organizations, all because, in this post-modern world of technologically complex business world, the risks of the industry are changing and continue to increase dramatically.

Keywords: Effectiveness of risk management policies, credit finance, SMEs, SEDCO Zimbabwe.

INTRODUCTION

Western philosophical interest in the subject of risk in one form or other dates back to the time of the ancient Greeks and Egyptians and of course the Chinese. In insurance business, risk has existed as far back as micro business financing started. In the financial arena, enterprise risks can be broadly categorized as credit risk, operational risk, market risk and other risks.

Risk is the element of uncertainty or possibility of loss that prevail in any business transaction in any place, in any mode and at any time. Credit risk is the possibility that a borrower or counterparty will fail to meet agreed obligations. Globally, more than 50% of total risk elements in banks and financial institutions are credit risk. Thus, the concern over policy of risk management, in particular managing credit risk in organizations within and without financial markets has
grown in importance.

The Small Enterprises Development Corporation (SEDCO) is a government parastatal (herein) cited as a financial institution regulated by the Finance Act in terms of Parliament of Zimbabwe, Small Enterprises Development Corporation Act (Chapter 24:12) of 1983. Established as a development finance institution for small and medium-scale enterprises, the role of SEDCO has developed over the years from just being a development finance institution to a cooperating partner for SMES.

According to the corporation, some of the sectors that benefit from the financing include poultry projects, general dealerships, chemical engineering, manufacturing, clothing, beverages and fisheries. At the time of carrying out the study (2011-2012), statistics for financed projects were still unavailable. However, historically, in 2009, the corporation approved 111 loans amounting to US$323349.04, and during the same period, registered new SMES projects which accounted for 92% of the loans. Proprietorships came second with 7% of the loans and finally cooperatives at 1%.

However, prior to 2009, for 10 years, Zimbabwe experienced a turbulent hyperinflationary economic environment characterized by, the dry-up of foreign lines of credit and other external sources of financing government development institutions from multinational and bilateral agencies, shortages of the much needed foreign currency (then), low capitalization for manufacturing, general shortages of cash in banks and last but not least, shortages of food and basic commodities due to political and socio-economic challenges facing the country (then), brought about mainly by the ushering in of the controversial agrarian land reform much to the distaste of the Western Countries. As if that was not enough, the use of a multicurrency system, immediate past the 2009 (global) unity government of the major political parties in Zimbabwe, relentlessly continued to hamper the progress of many sectors and sub-sectors of the Zimbabwean economic industry resulting to even lower capitalization of businesses. As a result, government developmental funding support to SEDCO over this period also became very thin; precipitating a negative brand perception of the corporation hence SEDCO was not visible on the market until now.

Worse still, over the period, a small margin of 7% interest pegged on loans advanced to clients made it difficult for SEDCO to self-finance. On the other hand, the number of loan applicants on the waiting list increased during this period. Cash shortages in banks implied both limited funding to SMEs and failure by many who by design, characterically, face higher transactions costs in obtaining credit than larger enterprises, culminating in the corporation being exposed to forms of liquidity risks. These forms of risk arise from the fact that the borrower may not be able to repay the principle or interest dues. Credit finance risks that pose risks in the form of failure by many clients to settle their debts have been of major concern to SEDCO as best candidates for financial risk management. SEDCO developed a risk management department which seeks to mitigate the Corporation's exposure to all risks and recover debts through a debt recovery management plan. Although it is SEDCO's key mandate to assume greater risk by championing national development through financial support to revitalize small and medium enterprises, any business activity conducted outside this credit policy is likely to place the institution at materially higher risk of exposure to losses.

The concepts of prudent risk management systems and intervention including by regulatory bodies, have come in the forefront more visibly in the 21st century as a means of providing mechanisms to improve systems, reduce risks of loss and more frighteningly, prevent collapse of operations in the face of changing nature of complex financial risks and their management. The corporation's credit management policies include obtaining a bankable business plan, documents to confirm legal status of the business, relevant operating license and proof of availability of operating premises, collateral security, bank statements and trade references from previous creditors. In as far as credit risk management policies are concerned; SEDCO adopted a reasonable risk rating criteria as well as structured approval levels. The objective of this research work was therefore to among others, investigate credit finance risks the effectiveness of risk management policies and procedures employed and can be employed to enhance standards, assess and manage risks differently, i.e. beyond the traditional analysis and credit risk in which banks have particular strength.

**STATEMENT OF THE PROBLEM**

Notably, as alluded, risk has long been an established concept of academic interest for both pure and social sciences, and it is also a subject generating much controversy among contemporary social theorists; hence this study is not a strange development. For most financial institutions like SEDCO, extending credit comprises the major portion of their business and with it brings risks, particularly credit risks. The credit quality of any financial institution goes hand in hand with its financial soundness. Deterioration in credit quality is often a sign of problems in the institution. The major risk accompanying a weakening of the credit portfolio is the impairment of capital and liquidity and this often results in bad debts and defaults. Defaulting is a unique critical issue of concern to SEDCO as it reduces the Corporation's self financing and lending capacity; therefore it needs to be addressed. This case study was undertaken to explore credit finance trading risks and the effectiveness of risk management policies on development financing to rural/peri-urban communities at SEDCO Bindura, Zimbabwe.
PURPOSE OF THE STUDY

It is obvious that previous research work has been carried out on risk management policies based on its perceived impact on loan advancement and the overall role in managing the lending portfolio. Thus the research, complimentary to relevant works by other social theorists on the area past and present, sought the following:

Identify and evaluate finance credit risks the financial market in general and in particular, SEDCO Bindura/Zimbabwe, is exposed to, the organization’s framework of risk management policy and procedures, its/their management and effectiveness in enhancing standards and managing risks to mitigate against possible losses (actual/potential), in the face of ever changing complex world of financial business;

- To explore the link between credit risk and other forms of risks.
- To make appropriate recommendations on best practice credit risk management based on the findings of the research.

RESEARCH QUESTIONS

The paper sought to provide answers to the following research questions:

- What is the framework of risk management policies and procedures at SEDCO Zimbabwe and how effective is/are the policies and procedures in enhancing standards and managing operational risks in the context of accomplishing the corporation’s goals?
- Has the corporation developed, implemented and provided a means to monitor and update on credit repayments, defaults and bad debts?
- How can the many forms of credit risks be mitigated by development finance institutions?

THEORETICAL PERSPECTIVES AND CONCEPTS

Historically, Western philosophical interest in the subject of risk in one form or other dates back to the time of the ancient Greeks and Egyptians and of course the Chinese to the East. In insurance business, risk has existed as far back as micro business financing started. In the financial arena, enterprise risks can be broadly categorized as credit risk, operational risk, market risk and other risks. In this investigation, the researcher focused on previous studies on credit finance and risk management, and, employed among other perspectives, concepts and procedures; social theories, by early classical theorists and positivists the likes of (Carey.S, 1911, Coyle.B, 2000) et al first by defining and dissecting the term(s), risk, credit risk, credit risk management, and, the relationship between credit risk and other forms of business related risks, lending policy, guidelines and other credit risk management fundamentals to achieve the desired objectives.

Risk is the product of a hazard (a situation that can lead to harm) and vulnerability to that hazard. It is defined as ‘the probability that an adverse event occurs during a stated period of time, or results from a particular challenge’ (Royal Society Study Group, 1992). On the one hand, risk management can be defined as ‘the action taken to deal with potential for injury, loss or damage. Banks and finance houses apply best practice risk management concepts when dealing with credit finance to reduce substantial incidents of bad debts. Bank of Jamaica (Feb 1996) stressed that; managing credit risk is a fundamental component in the safe and sound management of all licensed financial institutions. Sound credit risk management involves prudently managing the risk/reward relationship controlling and minimizing credit risks across a variety of dimensions such as quality concentration, currency, maturity, security and type of credit facility. Although the scope of credit risk management will differ among institutions depending upon the nature and complexity of their credit functions and portfolios, a comprehensive operations risk management programme requires:

- Identifying potential credit risks to which the business is exposed.
- Developing and implementing sound and prudent credit policies and procedures to effectively manage and control these risks.
- Developing and implementing appropriate financial technology that helps to reduce costs, and effectively monitor and control the nature, characteristics and quality of the credit portfolio among other variables.

Credit risk has been defined by numerous bodies of theory and authorities in risk management practice as the possibility of financial loss resulting from the failure of a debtor; for any reason failing to fully honor its financial obligations to the
lending institution. In the context of this research, credit risk can be defined as the possibility of loss due to a default or insolvency of the borrower. It further explained the circumstances under which this risk occurs, thus the institution is exposed to credit risk when funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements. Carey (1998) defines credit risk as a form of exposure which may arise from a defaulting account. Ndlovu et al (2010) are of the view that credit and exposure to loss are inherent elements of banking and finance business.

Although credit risk forms a bigger share of the problems facing banks and other financial institutions, it cannot be looked at in isolation. Banks and financial institutions should always consider other ever changing forms of risks when operating, which include market risk, operational risk, business risk, liquidity risk, strategic, reputational risk and compliance risk among others, inherent in the sector. For the purpose of this research, an overview of the following three will be explained:

- Market risk is described by Santomero (1997), as the probability of loss that occurs when say, a transaction that is due fails to settle, resulting in the prices moving against non-defaulting parties.
- Operational risk is also according to Garcia (2000) defined as the potential for incurring losses through unmanageable events, business disruption, inadequately defined controls and failure in return to customer relationship, assets, technology and staff.
- Liquidity risk is the risk that of a firm, having insufficient funds to pay its creditors or meet commitments.

Guided by its lending principles, Small Enterprises Development Corporation (SEDCO) like all financial institutions, provides funding for start-ups to borrowers venturing into the following sector businesses: manufacturing, mining, commerce, construction, services and agro-based projects, and also, to existing businesses to finance special programs and contracts.

The guidelines providing the following information: type of facilities, type of industry or business segment, numbers of borrowers and exposure limits for single or group obligors, should be updated at least annually to reflect changes in the economic outlook and the evolution of the financial institution’s facility portfolio, and be distributed to all lending officers.

Duration of facilities differ according to type of finance – ranging from short term facilities for working capital-up to (12 months); Medium term facilities for capital goods- up to (5 years); term facilities- up to (10 years); Cluster(Booth) Loans for informal sector-up to (3 months). To qualify for a loan an applicant should have collateral, and, generally fulfill the requirements for a normal loan among them, a bankable business plan, and minimum equity contribution of 15% of total cost or proof of past investment into the business (ongoing business concern), relevant operating license, bank balance sheet, trading profit and loss account (3 years), bank statement (current), directors CV’s and non-refundable application fee, 15% interest rate per annum, 2% administrative fee (one-off payment), US$20.00 flat fee per-month service fee and 120 days repayment period (no grace period).

Looking at some of the requirements however, most entrepreneurs especially new projects, will not qualify for loans with SEDCO, and even if they did, the (current) loans at say 15% interest per-annum would put a yoke on their back. Around the world SME loans are usually not as stringent as bank loans. In some cases, entrepreneurs are given a window period of about a year before they need to begin paying back these loans. Longer period of repayment gives low interest rate. Thus, somewhat the SEDCO loans are the opposite. Lending money is a risky business, hence the lender must ensure that he/she has sufficient knowledge to be able to identify and analyze the risks inherent in any lending situation and as a result to be able to come up with a carefully considered decision Cole (1988).

Although some well-constructed finance deals can ricochet i.e., turn into bad debts due to various reasons, some of the unforeseen causatives stem from lack of exercise of due diligence on the part of the lender/lending institution, i.e. disregarding or inadequately following best practice lending vetting processes including verifying the purpose of the loan facility, source of repayment/borrower’s capacity to repay basing on historical financial trends and cash-flow projections and the adequacy of collateral, character, integrity, and reputation of the borrower. Procedurally, a thorough credit risk assessment (due diligence) should be conducted prior to the granting of a facility, and subsequent thereafter, a review must be carried out at least once annually for all facilities. It is essential that risk managers know their customers well to ensure that such parties are in fact who they present themselves to be.

In advancing the loan, the lender should consider the following among other key issues:

**Character of the borrower**

Credit should only be extended to clients of sound character with ability or capacity to pay. Generally, the borrower’s ability to pay is determined by the management’s expertise, through assessing nature of products, skills of the workforce, condition of fixed assets, and management of information systems.
Purpose of the facility

When offering credit loans, the lender must consider legality of the facility, fitness within the Corporation’s lending policies, and whether the type of finance is appropriate to the purpose.

Amount of the facility

The lender should consider the sufficiency of the amount in relation to the program of financing, reasonableness in relation to the borrower’s income, cash flow forecasts, and desirability of subordinating other loans to lending from the Corporation.

Insurance against non-payment

Security should not be taken as the major reason for lending with the expectation of realizing it but rather as a hedge against unforeseen mishaps outside the control of the borrower. An ideal security should be easy to realize, clear, easy to value, stable, and absence of formalities in its disposal.

Thus, the foundation of an effective organizational credit risk management lies with a well developed and maintained sound credit portfolio that is supported by a prudent and effective formal evaluation process which provides for an independent and objective assessment of credit facility proposals. Details of the analysis however will vary with the areas of credit the institution is engaging in. Commercial credits require extensive analysis; a retail portfolio may not require the same degree of assessment. In all cases sufficient analysis must be made to properly assess the integrity of the borrower, the borrower’s ability to repay and the value of the collateral (Bank of Jamaica, Feb (1996)). And to be effective, policies must be formalized, communicated in a timely fashion, be implemented through all levels of the organization by appropriate procedures and revised periodically in light of changing circumstances.

Further, Credit policies need to contain, at a minimum:-

- A credit risk philosophy governing the extent to which the institution is willing to assume risk.
- A general area of credit in which the institution is prepared to engage or is restricted from engaging.
- Clearly defined and appropriate levels of delegation of approval, and provision or write off authorities and sound and prudent portfolio concentration limits.

These policies need to be developed and implemented within the context of a credit risk management environment that ensures that all credit dealings are conducted in the possible standard of ethical behavior guided by the following explained key variables:-

Credit risk philosophy

This is a statement of principles and objectives that outlines the institution’s willingness to assume credit risk and will vary with the nature and complexity of its business, the extent of other risk assumed, its ability to absorb losses and the minimum expected return acceptable for a specific level of risk. Coyle B, (2000) noted that for the institution to have an effective credit risk management there should be a credit policy in place. After a policy is established and standards are set, the next stage is to gather information through investigations and then analyse it to reach a decision on whether to accept or reject the credit proposal.

Credit risk grading

The credit risk grading is a collective definition based on the pre-specified scale and reflects the underlying credit-risk for a given exposure. A credit risk grading deploys a symbol as a primary summary indicator of risks associated with a credit exposure. Credit risk grading is an important tool for credit risk management as it helps the financial institutions to understand various dimensions of risks involved in different credit transactions. The aggregation of such grading across the borrowers, activities and the lines of business can provide better assessment of the quality of credit portfolio of a financial institution. The risk grading system is vital to take decisions both at the pre-sanction stage as well as post—
Table 1: During appraisal, funding requests must be rated for risks and assigned to one of the following risk class:

<table>
<thead>
<tr>
<th>Risk Class</th>
<th>Score Range</th>
<th>Risk Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>75%+</td>
<td>Very low</td>
</tr>
<tr>
<td>B</td>
<td>60-74%</td>
<td>Low</td>
</tr>
<tr>
<td>C</td>
<td>50-59%</td>
<td>Moderate</td>
</tr>
<tr>
<td>D</td>
<td>25-49%</td>
<td>High</td>
</tr>
</tbody>
</table>

Table 2: The criteria to rate the funding requests can be summarized below:

<table>
<thead>
<tr>
<th>Risk Area</th>
<th>Weight</th>
<th>Maximum Score</th>
<th>Weighted Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership and Directors</td>
<td>0.10</td>
<td>5</td>
<td>0.5</td>
</tr>
<tr>
<td>Management</td>
<td>0.25</td>
<td>5</td>
<td>1.0</td>
</tr>
<tr>
<td>Financial planning ability</td>
<td>0.35</td>
<td>5</td>
<td>2.0</td>
</tr>
<tr>
<td>Collateral Security</td>
<td>0.20</td>
<td>5</td>
<td>1.0</td>
</tr>
<tr>
<td>Economic Sector</td>
<td>0.10</td>
<td>5</td>
<td>0.5</td>
</tr>
<tr>
<td>Total</td>
<td>1.00</td>
<td>25</td>
<td>5.0</td>
</tr>
<tr>
<td>Total Weighted Score%</td>
<td></td>
<td></td>
<td>100</td>
</tr>
</tbody>
</table>

Table 3: The risk classes and criteria are given below:

<table>
<thead>
<tr>
<th>Risk Class</th>
<th>Criteria</th>
</tr>
</thead>
</table>
| A          | -Loan servicing is up to date.  
            | -Operations show consistent profitability.  
            | -Financial stability ratios are high.  
            | -Managed by qualified personnel.  
            | -Stable market. |
| B          | -Past dues of 30-60 days.  
            | -Financial ratios in line with industry.  
            | -Asset exhibits potential weaknesses |
| C          | -Past dues of 60-90 days.  
            | -Asset inadequately protected by net worth.  
            | -Weak financial ratios. |
| D          | -Past dues of 90-180 days.  
            | -Full recovery of interest & fees is doubtful.  
            | -No likelihood of loss of principal.  
            | -Total exposure not fully secured. |
| E          | -Past dues of 180 days.  
            | -Event of rectification did not occur.  
            | -All possible avenues of recovering of the exposure are exhausted.  
            | -Likelihood of loss of principal interest and fees |

sanction stage.
The Basel Committee on Banking Supervision (1988), reported that credit ratings are important as they influence the approval requirements of the proposal depending on the grade it attains. A well-managed credit risk grading system promotes financial institution safety and soundness by facilitating informed decision-making. Grading systems measure credit risk and differentiate individual credits and groups of credits by the risk they pose. (Table 1-3)
Total Weighted Score % = (Weight X Score)/5 X 100

Total weighted score range from 20%-100%. A higher score reflects lower risk. A risk rating should as much as is practical, capture the risks inherent in a particular credit exposure. Funding request falling under risk classes A-C may be accepted into the portfolio while those falling under class D are accepted on an exceptional basis. Ordinarily, requests falling under risk class E should be rejected outright.

Credit risk review

According to Cole R (1988) the risk class of all clients on the corporation’s credit portfolio should be reviewed periodically to adequately capture new information and developments. The Bank of Jamaica (1996) purports that reliance on un-reviewed credits and optimistic economic forecasts can lead to a serious undetected deterioration of the credit portfolio. The credit risk management programme of each institution must include procedures governing the regular formal review and re-rating of individual credits. Consequently, lending institutions need to regularly monitor the status of borrowers and re-evaluate individual credits and commitments, and their ratings, particularly credit to owners and directors.

The credit review systems must ensure that an account officer monitors the credit quality and where applicable, underlying security on an on-going basis. The nature, complexity and degree of analysis and the quantity of credits re-evaluated under a credit review process will vary with the type and sophistication of credits in the portfolio. The common objectives of an effective credit review system include:

- Ensuring that the institution is aware of the borrower’s current financial status.
- Ensuring that collateral security is adequate and enforceable relative to the borrower’s current circumstances.
- Ensuring that credits are in compliance with their covenant.
- Providing current information regarding the quality of the loan portfolio.

The risk class within which a client falls after the review process will guide the type of action to be taken by business analysts such as reduced or intensified monitoring activities, recovering action, provisioning and write off.

Credit administration and inspection

According to the Bank of Mauritius (Dec 2003), “financial institutions must ensure that their credit portfolio is properly administered that is loan agreements are duly prepared, renewal letters are sent systematically and credit files are regularly updated”. For this reason, it is essential that the functions of the Credit Administration be strictly segregated from relationship management in order to avoid the possibility of controls being compromised. Thus, a financial institution’s credit administration function should ensure that:

- Credit files are neatly organized, cross indexed, and their removal from the premises is not permitted.
- Credits are appropriately rated.
- Credit files are complete.
- The borrower is making timely repayments of lease rents in respect of charged leasehold properties.
- Collateral value is regularly monitored.
- Information provided to management is both accurate and timely.
- Funds disbursed under the credit agreement are used for the purpose to which they were granted.
- On-site inspection visits of the borrower are regularly conducted and assessments documented.

Concurring, SEDCO’s risk management department stressed that once a loan has been granted; the lending manager through the business analyst should ensure that the account is actively maintained. Once overdue amounts are 30 days, a reminder letter must be sent to the client. Once an account is in arrears of 60 days, the account must be called up and handed over to risk management department for recovery.

Morton (2003) is of the view that banks and other financial institutions should carry out an independent review of accounts not being serviced as per agreed terms and conditions. Further, he believes that financial institutions must have an internal watch as well as a means of identifying assets and accounts that fall under the regulatory problem category. The main purpose of such inspection is to establish whether the account and assets needs debt scheduling or additional funding.

Credit documentation

Documentation is an essential part of the credit process and is required for each phase of the credit cycle, including credit application, credit analysis, credit approval, credit monitoring and collateral valuation, impairment recognition, foreclosure of impaired loan and realization of security. Credit applications must be documented regardless of their
approval /rejection. It establishes the relationship between financial institutions and the borrower and forms the basis for legal action in a court of law. In crafting contractual agreements with borrowers, institutions must ensure these contracts are vetted by their legal advisors, and a separate credit file maintained for each customer.

Disbursements and credit monitoring

Once the credit is approved, the customer should be advised of the terms and conditions of the credit by way of an offer letter. The duplicate of this letter should be duly signed and returned to the institution by the customer. The facility disbursement process should involve the completion of formalities regarding documentation, registration of collateral and insurance cover (Bank of Jamaica, Feb 1996). Credit monitoring involves identifying early signs of irregularity, conducting periodic valuation of collateral and monitoring repayments.

Risk mitigation

Santomero (1997), argues that taking collateral security and obtaining credit derivatives helps to reduce credit risk in the financial sector. While risk mitigation techniques generally reduce risk; they do not eliminate it completely. The application of this technique therefore does not substitute the need for careful and thorough analysis of the borrower but merely complements it.

Collateral Security

SEDCO Act Chapter (24:12) of 1983 allows the corporation to demand collateral security against lending. This is mostly done where the underlying strength of the borrower or the level of uncertainty about its future ability to generate sustainable cash flow is such that it would be prudent to lend on a secured basis. Fleisig (1996) argued that security should have legal references if it is to be deemed acceptable to the lender. In this case, the lender must have clear rights over the assets pledged as collateral and where possible should hold back the title deeds of those assets which can be used to liquidate the assets in the event that the borrower defaults.

Acceptable forms of security

SEDCO has three general forms of securities namely; First, Second and third class securities. First class securities include bank guarantees, note of hand and mortgage bonds. Second class securities include listed shares, cession of lease and mortgage bonds. Third class securities include pledges, cession of life policies and Notaries covering bonds.

Management of delinquent accounts

An account is considered delinquent when a contractually agreed payment is not received on a date initially agreed between the borrower and the corporation. SEDCO’s risk management department is of the view that upon the death of a customer, a provision is created immediately for the outstanding balance. Every effort is made to contact the client to agree on terms on which the outstanding amount is to be repaid as soon as the repayment is not received on due date. Borrowers are treated with courtesy and respect and every attempt is made to assist them where genuine hardships occur. When past dues reach 30 days, the Branch Manager and Portfolio Controller must write a reminder letter to the client.

Empirical evidence on risk management

Researching on credit risk management Lepus (Plc) (2002) sought the opinions of industry participants on the key components of effective credit risk management. Responses by eight banks interviewed were that robust technology was mentioned as a critical component of an effective credit risk management programme. Developing appropriate financial technology backed by effective credit risk policy and procedure implementation, is thought to help financial institutions identify measure, manage, and validate counterparty risk. Moreover, the availability of better information combined with timeliness in its delivery leads to more effective balancing of risk and reward. The research established
that in 25% of the banks interviewed, had a comprehensive and strategic vision for credit policy which was/is vital as it sets guidelines for businesses thus giving rise to effective credit risk management.

A similar research was conducted by Tier, one American Bank in which 25% of the target respondent banks interviewed, argued that achieving desired results entails practicing best practice risk management i.e. having an active portfolio management in the finance business lending book along with real-time credit risk management. Best practice is having good quality data, for example identifying processes that induce data errors, timeliness, real time pre-deal checking, effective credit limits management and a country risk management portfolio in financial institutions.

However, this is largely dependent on the market the bank of financial institution is targeting. In view of the above cases, researchers mainly looked at the technology as the major factor that affects effective credit risk management in financial institutions. In their study, they did not fully explain the circumstances, under which a credit proposal is designed, rated, approved and or monitored which the current study intends to look at.

METHODOLOGY

Research design

Bless (1995), defines research design as a programme to guide the researcher in collecting, analysing and interpreting observed facts. In support of this philosophy, Shajahan (2005) defines research design as the specifications of methods and procedures for acquiring the information needed to solve the problem. There are several types of research designs including, experimental, case study for this research, descriptive, social survey, historical and action research. Using the case study approach, the paper contains some quantitative, qualitative, descriptive and social survey pluralistic forms of data collected during observational and self-completion questionnaire based studies, to solicit views from target respondents and allow systematic review of operations at SEDCO on the nature of development finance and risk management. The 20 research participants were all SEDCO employees, male and female, aged above 18 years.

The case study – descriptive and social survey approach adopted in this research study embodies the features of quantifiable data from records i.e., use of statistical analysis, and, qualitative data from target respondents at SEDCO Bindura who are all known to be representative of the wider population of SEDCO Zimbabwe in order to test theories on entrepreneurial credit finance outlined in the previous chapter. The fact that mainly qualitative data was sought in this research style, gives particular emphasis on primacy to descriptions and explanations which are derived from data collected from target respondents views. This study style gives particular emphasis among other variables to uncovering social meanings, definitions, and data collected by a range of methods, which include detailed interviews with the sample population. The focus on particular contexts usually means that in contrast with much quantitative work, qualitative research is also small-scale or ‘micro’ research. The design gives the researcher control over the study process, Saunders et al (2003).

Population and sample size

According to Wagenaar, and Babbie (1983), a research population refers to the aggregated individual units of analysis from which a survey sample will be reviewed. According to Bari-dam (1990), population is defined in two dimensions thus the target and the accessible population. The target population is the entire population which the researcher wishes to generalize; while the accessible population is that proportion or fraction of the target population that is accessible to the researcher. In this study, the researcher used a target population sample consisting of risk managers, business analysts, branch managers, and portfolio controllers in SEDCO. The accessible population of the study consisted of the branch managers, business analysts, finance manager and administrator, and, other personnel at the Bindura satellite branch.

Miller and Wilson (1993) define sample as a group selected from a large population with the aim of yielding information about the population as a whole. According to Crouch and Houdsen (2000), a sample is a limited number taken from a large group for testing and analysis on the assumption that the sample can be taken as a true and fair representative of the whole population. To obtain a representative sample, the researcher, randomly sampled 20 target respondents from across the Bindura SEEDCO units, among them, Branch Manager(s), Portfolio Controllers, Business Analysts and Credit Account Officers.

Committed to the dictates of the study, the researchers used one of the social survey design features, ‘The Non-Random sampling strategy’ sometimes also known as purposive sampling, to obtain questionnaire responses and interview information from a small sample of people selected from the population. Using this strategy, individuals are selected deliberately and with some particular purpose in mind. The major form of non-random sampling is called quota...
sampling in which the population is divided into sub-classes according to attributes or variable, which are seen as being theoretically relevant to the investigation (for example, ethnicity, age, profession / occupation or social class. Whether random or non-random, surveys typically employ a schedule for the collection of data from individuals chosen to be in the sample, the schedule is a composite of questions, some of which invite lengthy, open ended responses and others which merely require a tick in an appropriate box etc.

Method of data collection

According to Flower, F. (1993), “the choice of data collection technique is a critical point in the research process; the decision is seldom easy as there are many factors to consider”. There are various factors affecting the choice of the methods and these are population size, objectives of the study, availability of resources, researcher’s experience, sampling procedures and response rate.

Qualitative and quantitative data for this study was collected from both primary and secondary sources. Generally and contextually, primary data refers say to, observations collected at first hand for the specific purpose of addressing the investigation by the researcher. According to Saunders et al (2009), collecting primary data involves the systematic observation, recording, description, analysis and interpretation of people’s behavior. The framework to the collection of say, observations and to their subsequent analysis for example, are predominantly in the hands of the researcher, are influenced by the issues he/she is addressing and the theoretical ideas brought to bear on such issues. Surveys, interviews and forms of observations collected by other people are a good example. Secondary qualitative data can be found in a wide range of documents constructed by companies or individuals for a host of reasons etc. Quantitative secondary data come in the form of official statistics etc.

In this research, the procedures by which data was collected varied, but mainly involved the administering of a self-completing standard questionnaire, detailed interviews and participant observations. The researcher sent out 20 copies of the standard questionnaires to target respondent sample population out of which 15 completed responses were received. The researchers also reviewed the corporation’s debt recovery procedures and debt write-offs history to determine if the institution had suffered actual losses and the magnitudes in the current and prior calendar years (2009-2010). This information was gleaned from SEDCO computerized borrowers records and reports and captured only those counts of default counts meeting the definition of bad debts.

RESEARCH INSTRUMENTS

In this study, the researcher used mainly, the questionnaire, personal interview and also, electronic media data collection methods.

Questionnaire design

According to Saunders et al (2003), a questionnaire is defined as a general term that includes all techniques of data collection in which each person is then asked to answer the questions that are in a pre-determined order. Brinkerhoff and White (1988), define questionnaires as a data collection instrument that involves asking relatively large numbers of people the same set of standardized questions. However, Haralambos and Holborn (1990) view questionnaires as a gathering instrument that is used to collect data in large quantities from a considerable number of people during a relatively short period of time. The questionnaire for this study was accompanied by a forwarding letter which appealed to the respondents and assured them of the confidentiality of information which they provided during the completion of the questionnaire. The questionnaire was self administered that is, the respondents were given time to complete the questionnaire which the researcher collected later. The questionnaire consisted of twenty-two questions related to risk management. The questions were both open and closed ended.

Validity and reliability of research instruments

Firstly, validity measures the relevance of data to the subject topic or investigation. Secondly, reliability measures the consistency in the measurement of an instrument. According to Leedy (1980:26), reliability deals with the accuracy of the research instruments used. If other researchers were to carry out another similar research, it must produce similar results after using the same instruments under similar conditions (Borg and Gall, 1989).

In this research, the procedures by which data was collected varied, but mainly involved the administering of a self-
completing standard questionnaire. In order to ensure validity the researcher;

- Defined uncommon terms used in the data collection instruments.
- Pre-tested the instruments to improve the questioning techniques.
- Developed a sample that represented the whole population.
- Reliability measures the consistency in the measurement of an instrument.

**Data analysis techniques and presentation**

According to Oppenheim (2000), data presentation is a way of communicating the results from the study. Data analysis starts with an in-depth study of each individual case. This entails sifting through all the data, discarding whatever is irrelevant and bringing together what seems most important. Count or frequency of data collected was analyzed to come up with percentages and was presented using contingency tables. The researcher used contingency table data analyses because presentations are intuitive and easy to communicate, calculations are straightforward and analyses are relatively free of constraining statistical assumptions among other principle benefits.

**DATA PRESENTATION AND DISCUSSION OF FINDINGS**

Going by the research plan, the procedures by which data was collected varied, but mainly involved the administering of a self-completing standard questionnaire. The researcher sent out 20 copies of the standard questionnaires to target respondent sample population out of which 15 completed responses were received. The other procedures included, for example, participant observation, detailed interviews such as life and employment history interviews, analysis of SMEs loan facility records, company annual reports and board meeting reports, other organizational records including electronic based sources. The results presented in tabular format are as follows:-

**Response rate**

*Table 4.1.* Illustrates numbers of questionnaire sets sent out, completed and returned.

<table>
<thead>
<tr>
<th>Questionnaire</th>
<th>Number</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sent out to respondents</td>
<td>20</td>
<td>100</td>
</tr>
<tr>
<td>Received from respondents-completed</td>
<td>15</td>
<td>75</td>
</tr>
<tr>
<td>Returned from respondents- uncompleted</td>
<td>5</td>
<td>25</td>
</tr>
</tbody>
</table>

Source: Survey

As illustrated in table 4.1, 20 sets of questionnaires were sent out to the respondents. Out of the total, 15 questionnaires were received representing 75% of the response rate while 5 (25%) were returned uncompleted. This means the survey got more than the average response rate and the results a fair representation of the researched population.

**4.2: Gender of the respondents**

*Table 2.2:* Illustrates demographic variables of response in terms of gender.

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>10</td>
<td>67</td>
</tr>
<tr>
<td>Female</td>
<td>5</td>
<td>33</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Survey

From the above table, the majority of the respondents, 10 (67%) respondents were male compared to, 33% females. This seems to indicate that the organization is gender biased in favour of male employees.
4.3: Position of the respondents in the organization

Table 4.3: Illustrates positions of respondents in the organization.

<table>
<thead>
<tr>
<th>Position</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Analysts</td>
<td>6</td>
<td>40</td>
</tr>
<tr>
<td>Risk Managers</td>
<td>4</td>
<td>27</td>
</tr>
<tr>
<td>Portfolio Controllers</td>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td>Branch Managers</td>
<td>2</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Survey

As illustrated in the table above, 6 (40%) of the respondents are Business Analysts followed by Risk Managers at 4 (27%). 3 (20%) were Portfolio Controllers and lastly, 2 (13%) are Branch Managers. These results indicate that the organization has a balanced workforce number. Illustratively, since risk management requires thorough credit analyses and assessments, it would mean there is need for more Business Analysts to carry out project monitoring and evaluation exercises.

4.4 Highest level of education

Table 4.4: Illustrates the educational qualifications of the respondents.

<table>
<thead>
<tr>
<th>Qualification</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diploma</td>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td>Degree</td>
<td>9</td>
<td>60</td>
</tr>
<tr>
<td>Masters</td>
<td>2</td>
<td>13</td>
</tr>
<tr>
<td>PHD</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Survey

As illustrated in table 4.4, more than 60% of the respondents were University graduates with a degree class. Twenty percent of them have attained at least a diploma from reputable Colleges. One individual representing 7% of the respondents had a PHD qualification. The results indicate that the organization considers education to be of importance in the financial services sector. High level of education enhances skills in the management team thereby improving decision making skills in the field of risk management.

4.5: Duration of the respondents at the organization

Table 4.5: Illustrates period of employment or service by respondents by category.

<table>
<thead>
<tr>
<th>Duration</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Year and below</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>2-3 Years</td>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td>4-5 Years</td>
<td>5</td>
<td>33</td>
</tr>
<tr>
<td>5 Years and above</td>
<td>5</td>
<td>40</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Survey

From the survey, 6 respondents representing 40% of the total have worked at the organization for more than 5 years. The majority of the respondents have worked for more than 2 years thus representing 53% of the total employees. This information indicates that the respondents are experienced in the field of risk management since they have worked for the organization for a long time.
4.6: Importance of risk management

Table 4.6: Illustrates responses from employees on their views on how important Directors, management and staff attach to credit risk management.

<table>
<thead>
<tr>
<th>Degree of extent</th>
<th>Response number</th>
<th>Response percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater extent</td>
<td>8</td>
<td>53</td>
</tr>
<tr>
<td>Lesser extent</td>
<td>4</td>
<td>27</td>
</tr>
<tr>
<td>Considerable extent</td>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Survey

From the survey, 8 (53%) respondents were of the view that directors in the organization and other management and staff, attach great importance to risk management, while 4 (27%) respondents agreed that the directors attach importance to risk management to a considerable extent, and the remainder 3 (20%), stated that the management (general), attach some value to risk management on a local scale. It can be deduced therefore that the directors recognize the importance of risk management to the organization.

4.7: Strategic objectives for the Loan Division

Table 4.7: Illustrates the number of respondents who indicated that directors in the organization developed strategic objectives for the loans divisions.

<table>
<thead>
<tr>
<th>Total respondents</th>
<th>Yes</th>
<th>No</th>
<th>% of Yes</th>
<th>% of No</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>12</td>
<td>13</td>
<td>80</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: Survey

Out of the fifteen respondents, 12 representing 80% accepted that the directors developed strategic objectives for the Loans Division. This shows that the risk management policy and procedures is/are approved endorsed by the top echelons of the organization. The majority of the workforce agreed that the directors developed internal rules for the credit risk management.

4.8: Authority in advancing loan booth to borrowers

Table 4.8: Illustrates individuals with greater authority on loan booth advances

<table>
<thead>
<tr>
<th>Position/ level</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branch managers</td>
<td>9</td>
<td>60</td>
</tr>
<tr>
<td>Head office committee</td>
<td>2</td>
<td>13</td>
</tr>
<tr>
<td>Satellite Office Committee</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Finance &amp; Credit Committee</td>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Survey

Above results illustrate that, 9 (60%) respondents believed that there are no individual but committee approval limits within the corporation save for loan booths where managers can approve or delegate approval to the senior officer. Approval decisions are made through a hierarchy of committees from the satellite office, branch, and head office up to the Board of Directors.
4.9: Frequency of Management Monitoring and Evaluation Exercises

Table 4.9: Illustrates how frequent the management conduct monitoring and evaluation

<table>
<thead>
<tr>
<th>Time frame</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annually</td>
<td>2</td>
<td>13</td>
</tr>
<tr>
<td>Semi-annually</td>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td>Quarterly</td>
<td>9</td>
<td>60</td>
</tr>
<tr>
<td>Monthly</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Survey

Above illustrates that, Sixty per cent of the respondents stated that the risk management team carries out their monitoring and evaluation exercise once every quarter. Three people stated that the management conducted monitoring and evaluation on a monthly basis hence the risk management team is very effective as they conform to the organization’s regulations which require the on-going monitoring of the projects to be done at least once every quarter for all loan account holders.

4.10: Relationship between credit risk and other risks

From the management’s view about risk forms, if the market risk is high, credit risk also increases. This is because both market and credit risks are affected by changes in cash flows, interest rates and foreign exchange rates. If market risk is low, credit risk decreases. Although the study mainly focused on market risk, the same results are obtained when assessing the correlation between credit risk and other risk forms like liquidity, operational and strategic.

4.11: Detection of loan accounts

Table 4.11: Illustrates the number of respondents whose opinion indicated that the Finance and Administration Department detect early loans that need management.

<table>
<thead>
<tr>
<th>Total respondents</th>
<th>Yes</th>
<th>No</th>
<th>% of Yes</th>
<th>% No</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>12</td>
<td>3</td>
<td>80</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: Survey

Above show that, 12 (80%) were of the view that the finance and administration division detect at an early date loans that need to be managed. The researcher therefore conclude that the risk management personnel have a well planned risk early identification portfolio able to analyse borrowers activity daily and by-monthly and carry out follow ups on the clients.

4.12: Credit rating system of the organization

The table 4.12: (Illustrates the number of respondents who indicated if the institution has a credit rating system benefiting the scale, and nature of its business)

<table>
<thead>
<tr>
<th>Total respondents</th>
<th>Yes</th>
<th>No</th>
<th>% of Yes</th>
<th>% of No</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>12</td>
<td>3</td>
<td>80</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: Survey

Above shows that, 3 (8%) of the respondents indicated that the institution had a credit rating system that benefits the nature of its business. This is true since the institution’s major risk areas are ownership, management, financial planning ability, collateral security and the economic sectors. Since SEDCO is a financial institution which deals in loan financing,
it should consider rating borrowers according to the ownership profile, management expertise and cash flow statement as the analysis of the above factors enables the management to effectively manage risks.

4.13: Insider lending

Table 4.13: (Illustrates the rate of interest charged to insider borrowers (existing workforce))

<table>
<thead>
<tr>
<th>Rate</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed</td>
<td>12</td>
<td>80</td>
</tr>
<tr>
<td>Variable</td>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Survey
As illustrated in the table above, 12 (80%) respondents were of the view that the institution lend to insiders at a fixed rate of interest. Only 3 (20%) respondents said the loans are given to permanent workers with variable interest rates.

4.14: Approval limits of micro-loan applications

Table 4.14: Illustrates the time it takes for micro loan applications to be approved.

<table>
<thead>
<tr>
<th>Period</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 week and below</td>
<td>2</td>
<td>13</td>
</tr>
<tr>
<td>2-3 weeks</td>
<td>4</td>
<td>27</td>
</tr>
<tr>
<td>1 month</td>
<td>9</td>
<td>60</td>
</tr>
</tbody>
</table>

Source: Survey

From the above information, 9 people indicated that all micro loan applications take 4-6 weeks to be approved as it requires intensified monitoring.

4.15: Causes of bad debts

Table 4.15: (Illustrates views of respondents on bad debts and causation)

<table>
<thead>
<tr>
<th>Cause</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor portfolio risk management</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Lending to insiders</td>
<td>2</td>
<td>13</td>
</tr>
<tr>
<td>Political influence</td>
<td>4</td>
<td>27</td>
</tr>
<tr>
<td>High interest rates</td>
<td>3</td>
<td>30</td>
</tr>
<tr>
<td>Adverse selection of borrowers</td>
<td>5</td>
<td>33</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>100</td>
</tr>
</tbody>
</table>

The table above shows that the majority, 15 (33%) of the respondents believed that adverse selection of borrowers contributes to bad debts and defaults. Apart from the causes of bad debts stated above, the researcher discovered some of the causes of bad debts problems as:

- Lending to high risk borrowers
- Micro economic instability
- Diversion of funds into other projects not initially planned for.
- High interest rates.
- Poor portfolio risk management
- Political influence
- Adverse selection of borrowers
High risk borrowers encompass all individuals and or financial institutions whose financial status is not stable. Usually, clients who default are those whose collateral values are or become unstable due to inherent, and or, internal/external factors, i.e. Sector, Inflation, Volatility etc., and, the realization value of such securities is likely to be less than the original valuation.

**Highest Defaulting Sector**

According to the survey, Agriculture as a sector, sub-sector, at 73%, had the highest number of defaulted loans, followed by retail sector with 27% and lastly manufacturing. Some of the reasons behind defaulting are that most of SEDCO’s borrowers are peasant farmers who rely much on proceeds from their fields. For quite some time since the land reform programme started, the agricultural sector has been low in terms of producer prices. As for the retail sector, the reason behind defaulting is that most borrowers tend to be informal hence lack proper documentation i.e. poor management and accounting practices among other issues, hamper their ability to raise enough profit and repay loans.

This chapter presented and analyzed data obtained from the study. Some of the major findings drawn from the research are that:

- The Directors and other personnel of the organization consider risk management to be of importance to the financial service sector.
- Most of the respondents have work experience.
- Approval decisions for loan applications are done by the Head Office Committee.
- There is a strong relationship between credit risk and other risk forms.
- The finance and administration division detect at an early date loans that need to be managed.
- Credit ratings determine the risk class within which a client falls.
- The major cause of bad debt problem is adverse selection of borrowers.
- The agricultural sector has the highest number of defaulters.

**SUMMARY OF THE FINDINGS**

Part of the research plan as described earlier was to obtain questionnaire responses and interview information from 20 SEDCO Bindura employees (all categories). The methodology began by conducting a pilot study in order to determine the applicability of the research topic and to improve the questionnaire’s quality and efficiency in addressing the research objectives. The total population forming the study sample consisted of 20 employees out of which 15 responses to questionnaires and interviews were received. The results of the survey as reported earlier are as follows: As illustrated in table 4.1 in chapter four, it can be noted that 15 people responded to the questionnaire translating to a 75% response rate. The above average response rate is normal to justify the research work.

The 15 respondents (male and female), all blacks, averaged about 3 years (53%), working for SEDCO in SMEs credit finance programme. Six (40%) had spent at least 5 years in risk management/supervisory positions. The remaining 1 (7%), had about a year service in the corporation. Nine (60%) of the respondents claimed a university degree qualification; three (20%), claimed a diploma or certificate, two (13%), claimed a Masters degree and the remainder of one (7%), claimed a PhD qualification. The results expressed strong or very strong belief in highly qualified personnel by the corporation.

The management had developed strategic objectives for the loans division and these objectives are consistent with the institution wide credit and financial risk management strategic goals.

This study reveals that there is a strong relationship between credit risk and other risk forms. This means that financial institutions should not consider credit risk in isolation of other risk inherent in the financial sector.

From the research findings, the majority of respondents showed that they were aware of the existence of SMEs capital financing risks and pointed out that, Sector, Liquidity and Inflation risks etc. are among some of them. Similar to general risk management, financial risk management requires identifying its sources, measuring it, and plans to address them.

Also from the study, confirmed is that financial risk management can be qualitative and quantitative. As a specialization of risk management, financial risk management focuses on when and how to hedge using financial instruments to manage costly exposures to risk.

**CONCLUSION**

The purpose of this study was to investigate on the effectiveness of risk management policy and procedures employed on development loans advanced to both rural and urban entrepreneurs by The Small Enterprise Development...
Corporation (SEDCO) Zimbabwe.

Our examination of The Small Enterprises Development Corporation world of credit finance for Small and Medium Scale Enterprises shows that the corporation has developed a Financial risk management framework of policies and procedures upon which it is dependent on to enhance standards and to manage credit finance operational risk effectively. The Corporation’s Operational Financial risk policies and procedures are constantly reviewed and updated. However in practice, having policies does not mean anything unless all staff within SEDCO Zimbabwe is aware of the various policies and how they impact them personally and the organization. This means in this complex world of financial business, it is vital that all members of SEDCO are clear of what is expected of them in executing the Corporation’s mandate not only as a lender but as a partner to SMEs. Failure to follow policies and procedures can have significant financial or reputational risks to the Corporation.

From the research findings, characteristic of previous researches on small enterprise development, the existence of capital financing risks some of them as pointed, i.e., Liquidity, Inflation, and bad debt risks etc., some of them confirm to a plethora inherent challenges that the lending sector and SMEs encounter.

For example, prior to 2009, for 10 years, as was alluded to, Zimbabwe experienced a turbulent hyperinflationary economic environment characterized by, the cut of foreign lines of credit, shortages of the much needed foreign currency (then), low capitalization, general shortages of cash in banks and last but not least, shortages of food and basic commodities due to political and socio-economic challenges brought about mainly by the ushering in of the controversial agrarian land reform much to the distaste of the Western Countries. As if that was not enough, the use of a multicurrency system, immediate past the 2009 (global) unity government of ZANU PF & MDC, relentlessly continued to hamper the progress of many sectors and sub-sectors of the Zimbabwean economic industry resulting to even lower capitalization of businesses. Worse still, over the period, a small margin of (7%) interest pegged on loans advanced to clients by SEDCO made it difficult for the Corporation to be self-financing. On the other hand, the number of loan applicants on the waiting list increased during this period. Cash shortages in banks implied failure by many clients to repay their loans thereby exposing the Corporation to even higher degree of credit financial risks worth several millions of dollars.

One of the best insights on SEDCO credit policy and procedures is that: only after high due diligence, funding be advanced to businesses in sectors like manufacturing, mining commerce, construction and agro-based project mainly for start-ups, expansion, modernization and rehabilitation. The credit risk management process allows the Corporation to record and quantify the level of operational risks within these businesses and to document actions that must be taken in order to mitigate, eliminate or accept the risks.

Beyond the credit financing best practice rules and policies however, most borrowers still find it difficult to service their loans within the agreed time frame. Among the defaulting sector is the agricultural field which over the period under study, was mainly affected by the poor producer prices among other variables. To hedge against risk stemming from the delayed loan repayments, SEDCO has put a collateral ‘call’ close, on secured assets to be able to successfully pursue debt legally. However this action is pursued as a last resort when no alternative solution can be agreed.

Last but not least, our analysis show that, in this increasingly complex world of business, SEDCO and generality of Credit Finance businesses cannot avoid all forms of risk, nor would it wish to, as this would stifle business performance and reduce potential rewards. The challenge for SEDCO’s Operations Risk Management is to mitigate the risk(s) (potential/actual), to an acceptable level, whilst avoiding over control.

RECOMMENDATIONS - GUIDELINES FOR ORGANIZATIONS:

The lessons to be learnt from the SEDCO case study credit and risk management include specific issues of relevance to organisations in the sector. However, it is clear that these have importance and relevance way beyond the financial services sector. Clearly some of the issues have been outlined in previous research recommendations on the topic:

Risk Policy: Properly designed and implemented organizational credit and risk management policy.

Record Keeping-Documents Signing: A risk management policy requiring that all customer documents be signed in an employee’s presence, including signature cards, payable instruments, credit applications and loans documents.

Credit Cycle: For documentation purposes: institutions must establish policies on information to be documented at each stage of the credit cycle.

Risk Check-list: In terms of credit processing, institutions should have a checklist to ensure that all required information is in fact collected.
Due Diligence: Financial institutions should set out pre-qualification screening criteria which would act as a guide for their officers to determine the types of credit to approve. The criteria include rejecting applications from blacklisted customers.

Creditworthy: In as far as credit appraisal is concerned; institutions should establish well designed credit appraisal criteria to ensure that facilities are granted only to creditworthy customers who can make repayments from reasonably determined sources of cash flow on a timely basis.

Contingency/Reviews: In terms of credit administration, the management must regularly review the results of the stress tests and contingency plans.

Bad Debts/Write-offs: The management must have appropriate criteria for credit provisioning and write offs. Clients on one hand should seek to invest in projects with fast returns to avoid legal action and ultimate loss of assets.

Type of Credit facility: Borrowers must choose a credit facility with favorable interest rates so that they will find the cost of repayment bearable.

Improving rural SMEs access to finance: Improving rural access to finance should be concerned with improving efficiency of the Rural Finance Market.

A case study of, ‘The Collapse of Barings Bank’ and concluding guidelines for organisations where specific issues of relevance were outlined by Fox-Andrews and Meaden (1995), shortly after the collapse, is a case in point. Fox-Andrews and Meaden commented that:

- Market participants must have effective information and risk management systems.

The emphasis on risk management systems is interesting given that the former - collapsed Barings Bank, did have in place the formal mechanism of a group: Asset and Liability Committee. This group was designed to take an overview of risks facing the organisation as a whole but it was clearly ineffective in that role. According to the investigation findings, a major aspect of the committee’s failure seems to have been in communication about risk; there was little evidence of a properly established two-way process with checks that decisions made by the Asset and Liability Committee were being followed. In view of this two or more factors of risk management are underscored:

More thorough going systems were/are probably needed in many organisations within the banking and financial sector, because the risks of the industry are changing and increasing dramatically and, because, traditional models of financial risks have proved inadequate.

Other risks which seem less obviously relevant to the industry have grown in importance as the financial markets have come to be dominated by technology which reduces the impact of time and distance. Globalization of financial services is one of the key factors which have transformed the pattern of risk which financial services need to handle.

Organisations, operating in the financial markets, therefore need to focus on assessment of risk which goes beyond the traditional analysis of credit risk in which banks have particular strength.

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