

ETM Enterprises (Pvt.) Ltd.^{1, 2}

Harare, Zimbabwe

As the sun rose, filling the clear morning sky with a pink glow, the security guard at the Zimbabwe Commercial Bank (ZCB) said *mangwanani*³ to Nyasha Murewa,^{4, 5} the bank's new director of community and small business lending. Hardly a good morning, Nyasha thought to herself, as she glanced at her watch and realized that she was late once again due to a Harare traffic jam. Hoping to save a few minutes in the building, she dashed to the elevator but found it out of service, bearing the usual "closed for routine repairs" sign. Climbing five flights of stairs to her office, Nyasha wondered if the lights now worked after yesterday's power outage. As she flipped the switch and the lights went on, she saw a note on her desk left that morning by Edwin Chakanesta,⁶ the head of the loan division. "Nyasha, expect to see you tomorrow, 9 a.m., 9th floor conference room for the loan meeting. Plan to discuss whom you selected, what criteria you used for evaluation and what terms to offer."

"I sure hope the elevators are back in operation by tomorrow," thought Nyasha, and she hung up her coat, looked over the morning paper and poured herself a cup of tea. She knew she had a busy day ahead of her. She needed to finalize her recommendations for ZCB's new small business loan program. Traditionally just a lender to larger industry, the bank recently decided to offer loans to small businesses to create opportunities for indigenous people.

Nyasha had tentatively decided ETM Enterprises would be the first small business recipient of a ZCB loan.⁷ ETM,

a medium-sized, family-run, nonagricultural business, Nyasha reasoned, was the type of borrower that was critical to the bank's long-term success.⁸ Eustina and Tawanda Madunhurirwa,⁹ ETM's managing director and chief operations-finance manager, respectively, operated a passenger transport business¹⁰ and sold chickens along with various crops (e.g., maize (corn), beans, onions, carrots, tomatoes, lettuce and potatoes). In addition to these small businesses, Eustina was the director of Zimbabwe's University library, while Tawanda was a tenured professor with an endowed chair in geology and environmental science. He also served as a department chair. They were seeking a loan to expand their transport business.

Although Nyasha had confidence in ETM's management, she nonetheless wondered how the businesses would proceed. No projected balance sheet or profit and loss statement were included in the loan application.¹¹ Nyasha recalled first discussing ZCB's new loan program with Eustina and Tawanda about six months ago at church.¹² When the loan program became operational, Nyasha formally visited Eustina and Tawanda to tell them about the scheme, learn more about their businesses and better understand the size and purpose of the proposed capital expenditures they planned to undertake with the loan.

The Month in Review

After church that day, Nyasha accompanied Eustina to her house, where they prepared tea and snacks and talked about the weather, specifically the drought.

After several months of no rain, the crops were wilting and agricultural yields were down. The hope that their garden would make them self-sufficient while providing extra saleable produce had quickly withered. Their considerable praying was answered when the heavens opened up with a deluge. It rained for most of the month, almost without stopping. Many crops began to mold. Those that did not mold, such as maize, tipped over because of shallow roots. Eustina and her staff then spent several days propping up this basic food.

As the rain continued, several of the neighbor's pine trees toppled. One nearly missed the chicken coop, while another one knocked out the power and telephone lines. It was a holiday weekend, and the weather delayed the repair crews, leaving ETM in the dark and without telephone service for nearly four days.¹³

Weather was only part of the month's concerns. Basic food commodities (e.g., flour, sugar, milk, maize meal) had risen in price by 20% that year, after a 25% increase the previous year. Petrol (regular auto gasoline) prices increased 10% with an additional 7-9% price rise expected. Postage and telephone rates jumped approximately 25%, while license fees for owning televisions and radios rose to Z\$200 from Z\$120 just a year earlier, and newspaper prices increased to Z\$2.00 from Z\$1.50.

As the month end neared, Eustina and Tawanda learned that their university salaries were rising only 15%, less than the rate of inflation,¹⁴ not the 26% initially indicated.

The loan application focused on business information, in particular their plans for expanding their passenger transport business. Clearly this was one part of their business portfolio that could flourish in heavy rains.

Other Matters of Family Concern

ETM's concerns extended beyond drought, power outages and price increases. They further included budgeting for upcoming family educational costs. Tawanda and Eustina believed university education in the United States for their four children was essential. The children were fluent in English and accustomed to American teaching methods. During Eustina and Tawanda's sabbatical in the United States, the children enrolled at public school and received outstanding marks. Two of their children had already earned U.S. bachelor's degrees and were attending graduate school, one in law and the other in medicine. The older children had received substantial scholarships, and relatives in the United States paid the difference. The third child also had completed his bachelor's degree and was awaiting acceptance letters and teaching assistant notification from U.S. public health programs. Their youngest, in her final year of high school, would take her university

placement exams soon. She had scored exceptionally well on the TOEFL (Test of English as a Foreign Language) exam and during the family's sabbatical had taken the PSAT (Preliminary Scholastic Aptitude Test), receiving a score of national merit. However, while they had many friends and relatives in the United States, Eustina and Tawanda both knew university fees there were substantial and continually increasing.

Eustina and Tawanda owned a five-bedroom house in Harare's northwest suburbs. They were actively involved with their church and served on the board at their daughter's school while routinely hosting American students studying in Zimbabwe. However, their home was also a refuge for many "cousins" in poor health, financial difficulty or need of extra encouragement or support.¹⁵ They currently had one "older" cousin living with them, who was seriously sick, apparently with AIDS.¹⁶ Medication costs were increasing, and they wondered how long the pain and suffering would last.

Back at the Bank: Processing ETM's Loan Application

ETM wanted to expand and update its combi fleet (passenger vans) with the purchase of three additional vehicles, but lacked enough working capital, Nyasha recalled. She wondered if the amount requested (Z\$500,000) was appropriate, and whether the planned used vehicles were the best choices. She made two notes to herself: (1) If the combi business failed, would ETM seek funds for its other businesses? (2) Why purchase three additional vehicles rather than two? ETM wanted to purchase a 16-passenger 1985 Toyota Townace, a 16-passenger 1987 Toyota Masterace and a 17-passenger 1990 Toyota Hiace. Given vehicle costs and anticipated revenues, were these optimal choices? ETM believed that Z\$500,000 was required to cover the purchase and initial maintenance costs. Was this an appropriate amount? Were the planned vehicles the best choices? If ETM did receive the loan, could they repay the estimated Z\$23,200 monthly loan payment? Nyasha added these questions to her list. Since interest, inflation and unemployment rates were important indicators, Nyasha reviewed the Zimbabwe background material on the economy (see Appendix) to weigh their likely impact on ETM projections.

Normally, a loan assessment involves the review of key documents such as a statement of cash flow, balance sheet and income statement, or a full business plan. Unfortunately, ETM had none of these. However, since Nyasha knew ETM personally, she understood their major expense categories, number of vehicles owned, staff size and combi fares. From this basic information, Nyasha drafted an income and expense sheet that examined financial results biannually. See Exhibit 1.

But questions remained:

- How accurate was the drafted income and expense statement?
- Were revenues inflated?
- Were appropriate rates used to project income and expenses?

- During difficult economic times, fares were discounted: how were these tracked?
- Were operating cost assumptions accurate?

Thinking further about these questions, Nyasha found herself in a bit of a quandary. She really wanted to help ETM. Eustina and Tawanda were her cousins, and she knew how a ZCB loan would benefit ETM. On the other

**Exhibit 1
ETM INCOME AND EXPENSES (ALL PRICES IN ZIM\$)**

		1989	1990	1991	1992	1993	1994	1995	1996	1997 (est.)
INCOME										
12 pass, 1984 Toyota Hiace	Vehicle 1	105,840	127,008	196,560	187,425	199,063	240,570	158,400	272,250	292,500
15 pass, 1984 Toyota Hiace	Vehicle 2		158,760	241,920	232,407	245,000	311,850	201,600	346,500	380,250
16 pass, 1984 Toyota Townace	Vehicle 3				247,401	260,313	332,640	216,000	371,250	438,750
16 pass, 1985 Toyota Masterace	Vehicle 4						353,430	230,400	396,000	438,750
Total Income		105,840	285,768	438,480	667,233	704,375	1,238,490	806,400	1,386,000	1,550,250
EXPENSES										
Vehicle Purchases	Vehicle 1	60,000								
	Vehicle 2		68,275							
	Vehicle 3				86,737					
	Vehicle 4						115,200			
Total: Vehicle Purchases		60,000	68,275	0	86,737	0	115,200	0	0	0
Salaries	Drivers	4,850	11,252	13,277	25,767	30,791	51,100	60,000	70,800	83,544
	Conductors	3,200	7,424	8,760	17,185	20,537	34,270	40,800	48,144	56,810
	Bonus		1,000	1,500	3,000	3,800	6,600	8,400	9,912	11,696
Total: Salaries		8,050	19,676	23,538	45,952	55,128	91,970	109,200	128,856	152,050
Insurance	Vehicle 1	1,918	2,283	2,718	3,236	3,853	4,586	5,460	6,500	7,670
	Vehicle 2		2,283	2,718	3,236	3,853	4,586	5,460	6,500	7,670
	Vehicle 3				3,236	3,853	4,586	5,460	6,500	7,670
	Vehicle 4						4,586	5,460	6,500	7,670
Total: Insurance		1,918	4,567	5,437	9,708	11,558	18,346	21,840	26,000	30,680
Petrol and Service	Vehicle 1	184,464	184,648	184,833	185,018	185,203	185,389	185,574	185,760	185,946
	Vehicle 2		184,648	184,833	185,018	185,203	185,389	185,574	185,760	185,946
	Vehicle 3				206,532	206,739	206,945	207,153	207,360	207,567
	Vehicle 4						206,945	207,153	207,360	207,567
Total: Fuel and Service		184,464	369,296	369,666	576,568	577,145	784,668	785,454	786,240	787,026
Route Application	Vehicle 1	500	580	670	780	900	1,050	1,200	1,400	1,600
	Vehicle 2		580	670	780	900	1,050	1,200	1,400	1,600
	Vehicle 3				780	900	1,050	1,200	1,400	1,600
	Vehicle 4						1,050	1,200	1,400	1,600
Total: Route Application		500	1,160	1,340	2,340	2,700	4,200	4,800	5,600	6,400
License and Registration	Vehicle 1	118	141	167	199	237	282	336	400	464
	Vehicle 2		141	167	199	237	282	336	400	464
	Vehicle 3				199	237	282	336	400	464
	Vehicle 4						282	336	400	464
Total: License and Registration		118	281	335	597	711	1,129	1,344	1,600	1,856
Total Expenses		255,050	463,255	400,315	721,903	647,242	1,015,513	922,638	948,296	978,012
NET (income-expenses)		-149,210	-177,487	38,165	-54,670	57,133	222,977	-116,238	437,704	572,238

hand, she realized ETM did not formally track financial transactions. In fact, ETM's cash and budgeting controls were unclear if at all existent. For example:

- How did ETM verify revenue collection versus actual ridership?
- Were expenses paid from daily takings (cash) or centralized payment (checks)?
- How were fuel purchases and vehicle service (repair) records validated?
- What about lost revenues due to vehicle downtime and traffic congestion?
- Did license and insurance fees vary across vehicle size and weight?
- What vehicle purchase records existed (i.e., date purchased, passenger size, fuel type)?
- What about vehicle use outside daily passenger transport (i.e., for driver's personal use)?

She tried to balance these concerns with wondering how best to persuade Edwin and the loan committee. Maybe a few hours talking with Eustina and Tawanda about the combi business, helping them formalize their income and expense records, and reviewing existing control mechanisms and designing new ones would help. Such a meeting would enable ETM to reduce her uncertainty and provide greater documentation for the loan committee. She would call ETM that afternoon to set up an urgent meeting that night.

The Origins of ETM Enterprises

Eustina and Tawanda founded ETM Enterprises following their sabbatical leave to the United States. Although Eustina and Tawanda held tenured university positions, they needed to augment their incomes. This was essential because the Zimbabwe economy had continued to decline.¹⁷ Several business options entered ETM's minds. They could get involved in selling garden produce, chickens and eggs, or making fancy cakes and pastries.¹⁸ These were simple businesses, with low barriers to entry and potentially small yet steady income streams. On the other hand, the passenger commuter service market had substantially more revenue potential compared to these other businesses. But running this business was quite another matter. Their teaching obligations, research responsibilities and family commitments prevented them from handling day-to-day business matters. Employees would be needed to do that. Whatever they pursued, ETM's chosen businesses had to generate consistent income flows with few unpredictable costs.

ETM's transport business currently employed seven full-time and numerous parttime employees. Employee

education levels varied from high school to some university. ETM believed that their relationship with an employee's family was as important as the employee's work history. Tawanda and Eustina knew many of their employees since birth, and employee tenure averaged 9-11 years. As a result, Eustina and Tawanda felt tremendous confidence and trust in their employees. Prior to starting a new employee, Eustina and Tawanda had their current staff meet and talk with prospective hires. ETM also ensured all drivers were licensed as commercial drivers, and the local automobile association (AA) certified their driving records. All ETM drivers had AA ratings of 8.5 or better.¹⁹

The Passenger Commuter Industry

Eustina and Tawanda saw clear trends that made the passenger transport business promising:

- Lack of reliable public (government) urban transport (ZUPCO buses)²⁰
- Distance of employee residences from the city center²¹
- Limited quantity and high cost of privately-owned vehicles²²

In ETM's eyes, people were in a hurry. They were tired of waiting for a ZUPCO bus that would likely never come and wanted something better. So before long, "emergency" taxis (ETs) or "pirate" taxis appeared on the streets. These were often old Peugeot 404 station wagons²³ held together with tape, wire and cloth. Although engine performance and appearance were questionable, ETs ran routinely from the high density suburbs to the city, charging a fixed rate, stopping anywhere and everywhere in between. They were only slightly more expensive than ZUPCO.

Even though a commission regulated emergency taxis and passenger commuters, only a few rigid rules were on the books. For instance, rules addressed vehicle condition, road worthiness and registration. Owners registered for specific routes to avoid area saturation or neglect. After the owners selected a route, the commission assigned starting and ending points—usually starting in the suburbs and ending in the city center. Individual operators decided all other matters such as rates, pickup and dropoff points along the routes and hours of operation. Beginning in 1989, the original ET operators encountered substantial pressure from minivans and larger combis, which operated in the same manner as ETs but carried more passengers.

ETM and the Passenger Commuter Industry

Eustina and Tawanda easily converted their old family

CASE STUDIES

supply van into a passenger van. With a bit of seat construction, they were ready to operate. A close friend from church who had been recently retrenched (fired) agreed to work as a driver for a flat monthly salary. ETM then received its first route.

The combi business did well, netting between Z\$850-Z\$1,250 per day using four vehicles. With these profits ETM purchased other secondhand combi vehicles from auctions or by word-of-mouth. The business looked promising. As one ETM driver explained, “[It’s a] shame, about the only passengers left for ZUPCO [to transport] are children attending government schools . . . and they [ZUPCO] cannot even do this very well.”

If a potential vehicle was in poor condition, friends of Eustina and Tawanda from the church or the university would repair, repaint and have the ETM vehicle on the



ETM's fleet of commuter transit vehicles

road quickly. However, as competition grew, it became harder to find inexpensive secondhand vehicles. The combi business was making money, and ETM wanted to expand, but they now needed vehicles purchased on the “commercial” market where costs were a concern. ETM also wondered how to enhance their revenue stream through other salary and wage packages (e.g., paying an incentive to the driver and the assistant based on number of passengers carried, total revenue generated or a percentage of daily earnings).

ETM believed it had a good thing in the combi business, and the business should grow by adding more vehicles. “It’s all based upon passenger turnover, and as long as cars remain expensive and people continue working in the city center, we will be successful,” Tawanda said. Currently, passenger commuters were charged Z\$2.50 for one-way travel, about Z\$.50 more than ZUPCO. Exhibit 2 shows Anticipated Combi Vehicle Revenues.

In terms of operating expenses, Eustina and Tawanda estimated that combi fares rose about Z\$.50 a year, and 14-17 passenger combis were the optimum size. Although these larger vehicles cost more to purchase and operate than the smaller seven-to-ten-passenger models, obtaining greater financial return was possible given the same fixed costs of driver, petrol, insurance and registration. However, vehicles larger than 17 passengers were not advantageous because they required more passengers and greater waiting time before beginning their return trip. Consequently, these very large vehicles had lower passenger-per-day revenue streams.

Exhibit 2								
ANTICIPATED COMBI VEHICLE REVENUES (ALL PRICES IN ZIM\$)								
Number of passengers/trip		12	13	14	15	16	17	
Assumptions: Combi makes 3 trips/hour; operates for 12 hours/day, 300 days/year		300	300	300	300	300	300	
Rate/Passenger (fare) by year								
*1997	\$3.25	\$421,200	\$456,300	\$491,400	\$526,500	\$561,600	\$596,700	
1996	\$2.50	\$324,000	\$351,000	\$378,000	\$405,000	\$432,000	\$459,000	
1995	\$2.00	\$259,200	\$280,800	\$302,400	\$324,000	\$345,600	\$367,200	
1994	\$1.50	\$194,400	\$210,600	\$226,800	\$243,000	\$259,200	\$275,400	
1993	\$1.00	\$129,600	\$140,400	\$151,200	\$162,000	\$172,800	\$183,600	
*Estimate								

**Exhibit 3
ANTICIPATED VEHICLE PURCHASE COSTS (ALL PRICES IN US\$)**

Vehicle Description (year, brand and model, engine size, passenger capacity, and fuel type)	Import (into Durban) or Local (already in Harare)	Price	Durban Port Duty (port handling fees: fixed fee or percentage of vehicle price, highest fee used in final price calculation)		Clearance Fee (fixed fee)	Customs' Duty (Percentage based upon if vehicle is used for commercial vs passenger service)	Import Tax (fixed percentage of vehicle price)	Sales (fixed percentage of vehicle price)	Insurance (fixed fee)	License & Registration (fixed fee)	Commis- sion	Transport (cost to transport vehicle from Durban to Harare)	Total Vehicle Cost (Commercial Total Fees)	Daily Running Costs Regular Engine: cost/km (based upon 720kms/day (operating 12 hours/day, making 3 trips/hr, and covering approximately 20kms/trip))	Daily Running Costs Diesel Engine: cost/km (based upon 720kms/day (operating 12 hours/day, making 3 trips/hr, and covering approximately 20kms/trip))	Yearly Running Costs Regular Engine: cost/km/300 days/year (less insurance, registration and license)	Yearly Running Costs Diesel Engine: cost/km/300 days/year (less insurance, registration and license)	Vehicle Cost+ Yearly Running Costs Regular Engine	Vehicle Cost+ Yearly Running Costs Diesel Engine
			fixed fee	percentage		commercial						total fees	cost/km	cost/km	regular engine	diesel engine	regular engine	diesel engine	
1983 Nissan Caravan, 1.2L, 12 pass., Regular	L	\$16,825	\$400	1.78%	\$150	25%	19.5%	24.5%	\$650	\$40	\$1,000	\$6,250	\$8,490	\$0.26	\$0.29	\$55,038	\$61,518	\$72,553	\$79,033
1984 Toyota Hiace, 2.0L, 16 pass., Regular	I	\$6,060	\$400	107.868	\$150	\$1,515	\$1,182	\$1,485	\$650	\$40	\$1,000	\$6,250	\$18,731	\$185.76	\$207.36	\$55,038	\$61,518	\$73,769	\$80,249
1985 Mitsubishi Delica, 2.3L, 17 pass., Regular	I	\$6,035	\$400	107.423	\$150	\$1,509	\$1,177	\$1,479	\$650	\$40	\$1,000	\$6,250	\$18,689	\$185.76	\$207.36	\$55,038	\$61,518	\$73,727	\$80,207
1985 Toyota Townace, 1.8l, 14 pass., Regular	I	\$5,500	\$400	97.9	\$150	\$1,375	\$1,073	\$1,348	\$650	\$40	\$1,000	\$6,250	\$17,785	\$185.76	\$207.36	\$55,038	\$61,518	\$72,823	\$79,303
1985 Toyota Townace 2.0L, 16 pass., Diesel	I	\$5,565	\$400	99.057	\$150	\$1,391	\$1,085	\$1,363	\$650	\$40	\$1,000	\$6,250	\$17,895	\$185.76	\$207.36	\$55,038	\$61,518	\$72,933	\$79,413
1986 Toyota Hiace, 2.4L, 17 pass, Diesel	I	\$7,475	\$400	133.055	\$150	\$1,869	\$1,458	\$1,831	\$650	\$40	\$1,000	\$6,250	\$21,123	\$185.76	\$207.36	\$55,038	\$61,518	\$76,161	\$82,641
1987 Toyota Masterace, 2.0L, 16 pass., Diesel	L	\$19,800							\$650	\$40			\$20,490	\$185.76	\$207.36	\$55,038	\$61,518	\$75,528	\$82,008
1988 Nissan Vanette, 1.5L, 15 pass., Regular	I	\$5,830	\$400	103.774	\$0	\$1,458	\$1,137	\$1,428	\$650	\$40	\$1,000	\$6,250	\$18,193	\$185.76	\$207.36	\$55,038	\$61,518	\$73,231	\$79,711
1989 Toyota Masterace Surf, 1.8L, 15 pass., Regular	L	\$18,620							\$650	\$40			\$19,310	\$185.76	\$207.36	\$55,038	\$61,518	\$74,348	\$80,828
1990 Isuzu Fargo, 2.4L, 17 pass., Regular	L	\$17,925							\$650	\$40			\$18,615	\$185.76	\$207.36	\$55,038	\$61,518	\$73,653	\$80,133
1990 Toyota Hiace, 2.4L, 17 pass, Diesel	L	\$21,500							\$650	\$40			\$22,190	\$185.76	\$207.36	\$55,038	\$61,518	\$77,228	\$83,708

Exhibit 4
ETM'S RANKING ACROSS THE FIVE C'S

Factor	Grade *	Comments
Character	5	Standing in the Community; Church Relationships; Family; University Responsibilities and Positions; Hosting U.S. Exchange Students
Stability	3.5	Other Businesses; Other Responsibilities (e.g., home, family); Zimbabwe Economy; Financial Controls and Formal Budgeting
Capacity	4	
Income	3.5	University Jobs; Other Businesses; Equity in Home; Family Overseas; Combi Business on the Rise
Employment	4.5	Tenured; Department Chair; Published and Doing Research
Payment Record	4	Minimal Experience with Large Commercial Loan; Usually Cash, Bills Paid on Time; Less Familiar with Credit, but Appears Timely
Capital and Collateral	4	Other Businesses; Investments; Parents and Church; Diverse Skill Base
Available Assets	4	House; Personal Cars; Savings and Investments; Combis
Insurance	4	Health Insurance; Life Insurance
Conditions	4	Zimbabwe Economy; ZCB Loan Guarantee Program; Popularity and Support for Small Business Development; Higher Barriers of Entry Due to Cost; Potential Saturation of Market

* Grade is based on a one to five (1-5) point scale. One indicates criteria clearly not attained, three equates to moderately attained and further review necessary, and five equals criteria clearly attained.

Eustina and Tawanda estimated that each day their combis operated about 12 hours and covered approximately 720 kilometers. From current automobile association statistics, they knew that vehicle running costs averaged about Z\$26 per kilometer.²⁴ Each combi averaged between two and four trips per hour (suburbs city suburbs city) and operated about 300 days a year. ETM paid drivers a fixed monthly salary of Z\$1,250 and conductors (drivers' assistants) Z\$850 monthly. To avoid accidents and maintain accurate fare collection, each combi had both a driver and a conductor.

Eustina and Tawanda knew passenger incomes were highly cyclical. As the end of the month neared, a family's available cash dropped. Many families did not routinely budget, but instead continued spending available cash until the next check arrived. Consequently, other things being equal, people stopped riding commuter vans at month-end in favor of ZUPCO buses. On the other hand, when weather was especially poor (such as when it rained), riders opted for commuters rather than wait for ZUPCO. As the quantity of combis and ETs grew, riders became increasingly selective. Riders no longer "jumped" into any type of vehicle. Instead, they waited for higher quality vehicles. Thus there were incentives to own newer vehicles.

Vehicle Purchasing: Local Supply Versus Import

Vehicles purchased overseas were significantly cheaper (often half the price) than comparable vehicles purchased locally. Exhibit 3 shows how ETM anticipated its vehicle costs. Vehicles purchased outside Zimbabwe required payment in U.S. dollars. Port handling fees for Zimbabwean goods, however, were payable in South African rand (the port of entry was Durban, South Africa). Durban port charges (the port handling fee) were either R100²⁵ or 1.78 % of the vehicle purchase price, whichever was higher. All custom duties, import taxes and sales tax were payable in Zimbabwe dollars. The port charged a Z\$1,500 clearance fee for initial inspection and parking lot storage. In addition to a port charge and a clearance fee, the government assessed taxes and duty based on vehicle purchase price. These include 25% customs duty,²⁶ 19.5% import tax, and 24.5% sales tax.

Finally, buyers could either transport the vehicle themselves or pay Z\$6,250 for an outside transport company to move the vehicle. Transport time from South Africa was usually two to three days once the vehicle arrived in Durban. Actual time from order to delivery varied from five weeks to three months. Vehicles were also available locally, at a higher cost, pending transfer of payment, registration and title.

Loan Criteria

Over the past months, Nyasha encountered first-hand the truth behind the comment, "Bank lending tends to be more of an art than a science, and assessing credit risk with limited information is often a skill developed over time." With limited financial statements with which to work, she recalled a university business class that taught lenders to consider the 5 C's when evaluating a loan: character, capacity, capital, collateral and conditions. While this approach might not provide a detailed assessment of the proposed cash request, given the Zimbabwe context, the nature of small business loans and ZCB's recent entry into small business lending, it was a useful assessment tool. Nyasha's initial 5 C assessment is seen as Exhibit 4.

Character reflects the loan recipient's integrity, honesty and morality. It also reflects the recipient's commitment to repay the loan and abide by the loan contract's terms and conditions.

Capacity reveals the loan recipient's ability to repay the loan along two dimensions: financial and personal. In financial terms, the applicant must have enough income to cover the loan. Additionally, cash flows must be consistent rather than irregular. As for personal, the ideal candidate will continue in his or her current job or take an equivalent job. Spending patterns should also remain fairly constant. Capacity also addresses whether the loan recipient can sustain unexpected expenses.

Capital considers the unexpected. The successful recipient has a contingency plan and adequate resources should an unexpected expense arise. Therefore, supplemental or alternative income sources should exist.

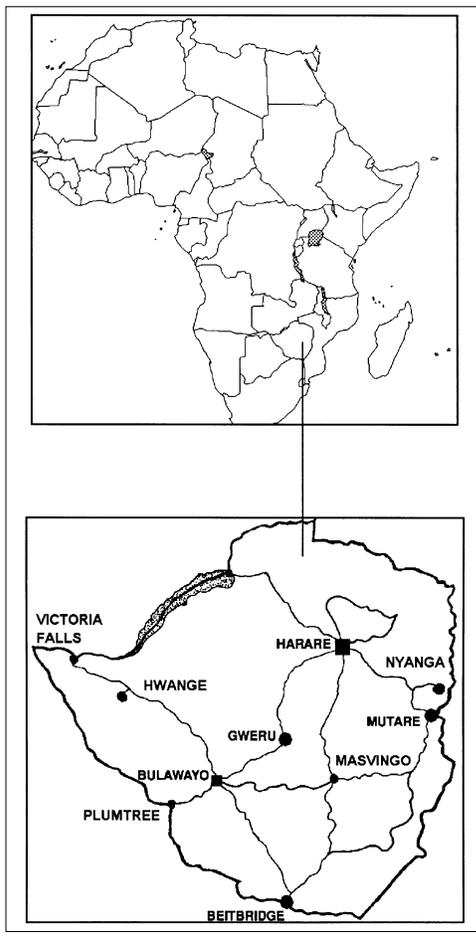
Collateral is assets that are easily sold, readily available and of equal or greater value than the amount of the loan requested. If the applicant does not repay the loan, the collateral must cover the loan amount.

Conditions refer to the business environment. The environment should promote small business and provide a healthy market for the type of business seeking the loan. Moreover, barriers to entry and risk must be evaluated.

In addition to these five conditions, Nyasha considered the following factors: the cost for purchasing another transport vehicle locally or internationally, the number of additional new vehicles needed, the passenger capacity of each vehicle, their running and maintenance costs, the type of fuel required, the potential new revenue streams, the proposed changes in tax rates, the anticipated customs charges and the possibility of currency devaluation. She also asked ETM about the time delay from combi purchase until its actual use.

As for lending criteria, she wanted to keep it simple.

Exhibit 5
MAPS OF AFRICA AND ZIMBABWE



Scanning local interest rates, she saw that rates varied between 35-42%. ZCB suggested 40% for its larger and longer term loans; most of its small loans were from 34-38%. She picked 37% over three years. Again, based on other lenders in the area, the application fee was Z\$100, with a 3.5% processing and administrative fee. The first loan required a nonrelative to co-sign.

She spent the better part of the day doing the analysis. As she completed her preparations, the sun began to set. She pulled together her notes, calculator, ETM information and wrapped up her work for the day to go meet with ETM. For her meeting tomorrow, she now had selection criterion (the five C's), a good assessment of ETM's situation and an overall understanding of economic conditions in her country. Considering these standards, Nyasha believed ETM's loan request was appropriate. Despite her remaining questions, she had confidence in ETM and believed that if ETM's successes continued, ZCB's image would surely improve. Given the loud call for indigenization in the country, ZCB would be seen as a strong promoter of small- and medium-

sized black-owned businesses.

Nyasha put on her coat and walked down the hall to the elevator. To her surprise, just as the elevator doors opened, Edwin Chakanesta, the head of the loan division, emerged from his office and followed her into the elevator. Riding together down to the lobby, Edwin learned of her decision and then raised the question, "So, a passenger transport business appears to be ZCB's first loan? Sounds risky. I am curious to know what selection criteria you employed and your analysis of the industry. By the way, don't forget diesel fuel prices go up tomorrow." As the elevator doors opened, Edwin said manheru.²⁷ Nyasha wondered if she had fully considered all the options and made the appropriate assessment.

Appendix

Zimbabwe Background Information

The Great Stone City²⁸

Zimbabwe is approximately 150,870 square miles, or slightly larger than Montana, and similarly landlocked. Located around Zimbabwe are South Africa to the south, Mozambique to the east, Zambia to the north and Botswana to the west. See Exhibit 5.

Called Rhodesia when it was part of the British empire, Zimbabwe became an independent nation in 1980, ruled by a black majority²⁹ with Robert G. Mugabe as its Prime Minister and later its President. He was still in office at the time this case was written. English is the official language taught in school and used in business, but two other languages are spoken: Shona and Ndebele. The Shona people (largely in the northern part of the country) constitute 71% of the population, and the Ndebele people comprise 16%. Ninety-nine percent of Zimbabwe's population is black, with the remaining population consisting of whites,³⁰ Europeans and Asians.³¹

Since independence just 16 years ago, peace, higher literacy levels, increased access to food, technology, vehicles and entertainment options, as well as increased access to tourist destinations, are noticeable improvements. However, Zimbabwe's roads, housing, water and sanitation systems and hospitals are quickly decaying. The country's ability to sustain a growing population is increasingly uncertain. Without a port, Zimbabwe is dependent on its road, rail and air links, yet all three transportation methods are inefficient, with immediate need to expand their conditions, capabilities and access. At the same time, corruption and increasing government control are prevalent. Specific examples include preventing private telephone systems access to licenses, awarding airport expansion contracts to the highest bidder (the President's nephew), reducing airtime for

CNN world news and restricting the editorial freedom of Zimbabwe newspapers.

Agriculture remains a significant part of Zimbabwe's economy. However, since considerable portions of Zimbabwe are arid, drought is an ongoing concern. From 1992 to 1994 and again in 1995, Zimbabwe faced its worst droughts since 1911. Agriculture, the traditionally strong performer and vital sector of the economy, suffered output declines of 25%, cutting national economic growth (real GDP) to 1-2% versus the decade high of 7.4% in 1994.³²

This had a dramatic impact on the economy, with cascading negative consequences. Unemployment rose. Reduced agricultural exports cut foreign currency inflows. To prevent starvation, importing food pushed up government debt. As a result, food prices rose. Without adequate water, Lake Kariba hydrologic dam, a major energy source, stopped operating, forcing Zimbabwe to buy energy (petroleum, natural gas, electricity) from its regional neighbors. These neighbors were unreliable suppliers; they faced substantial costs, and they were inconsistent in delivery (e.g., Mozambique faced post-civil war conditions, South Africa recently attained independence and Zambia's distribution system was completely undependable and incomplete). Finally, a rapid population transition from rural to urban areas placed further stress on Zimbabwe's fragile support system.

Zimbabwe currently faces chronic unemployment, a significant problem. Each year between 200,000 and 300,000 students graduate school, yet only 20,000 to 30,000 find jobs. The remaining 90% struggle, attempting to live with meager jobs and insufficient pay and benefits. Thus many individuals have pursued small businesses, but are quickly blocked by legislation, expensive licenses and their lack of established credit.

In 1990, with funding from the International Monetary Fund and the World Bank, the Government of Zimbabwe launched a "Framework for Economic Reform," or an Economic Structural Adjustment Program (ESAP). ESAP targeted four main areas: (1) deregulation of the domestic economy through market-driven competition and the reduction in government subsidized parastatals;³³ (2) trade and exchange liberalization facilitated by a reduction in foreign exchange and import restrictions; (3) stabilization of inflation and interest rates and (4) reduction of government budget deficits from ten to five percent by cutting 25% of the civil service employees.³⁴

The Government reduced its budget deficit by 2.5-3%, and attained minimal short-term progress in privatization, stabilizing unemployment, lowering inflation and controlling currency devaluation. However, while ESAP should improve Zimbabwe's economy in the long-term,

hardest hit were those at the lowest economic and social levels. They are unable to live with the higher prices for goods and services and the severe contraction in government social services. One scholar noted, "Rural peasants, urban slum dwellers, female headed households and children of the poor have felt the effects of structural adjustment most severely."³⁵

Meanwhile, Zimbabwe has great potential. The country is peaceful with a high literacy rate. Its people are friendly, hardworking and resourceful. High quality and quantity of food, technology, vehicles and entertainment options are available to those financially well-off or the international visitor paying cash. Tourist destinations offer unparalleled scenery, including majestic waterfalls, open savannas, magnificent mountains and impressive national parks with vast wildlife holdings. Natural resources such as natural gas, coal, ferro alloys and nickel are abundant. Europe routinely imports fresh flowers and vegetables from Zimbabwe. Zimbabwe is one of the largest exporters of flue-cured tobacco, sold to buyers worldwide.

In certain Zimbabwe suburbs, the visitor quickly notices beautifully decorated homes and gardens, often surrounded with gates. Grocery stores are clean and amply stocked. Nearby, upmarket hotels stand among shops with new fashions prominently displayed. Varied entertainment centers and recently built or refurbished sporting venues offer fun in peaceful surroundings. Westernized food courts, fresh bakeries and excellent restaurants complement shopping centers and strip malls in the two largest cities. Given this environment, it is possible to believe that doing business of any type in Zimbabwe is easy. With the modern conveniences such as plentiful shops, cars, airports, banks, modern facilities and advanced technologies (computers, fax machines, laser printers), business activities are well supported.

However, contrasts remain. Around the tall steel and glass buildings and late model cars in the downtown areas, many street vendors sell cigarettes, newspapers, fruit and candy to the passing masses while homeless parking boys hustle for spare change.

NOTES

1. (Pvt.) Ltd. means private limited, referring to a privately held company.

2. This case was written by Michael Eber of the Atkinson Graduate School of Management, Willamette University, Salem, Oregon. Prior to Zimbabwe, Eber worked for an economic, market research and management consulting firm, as well as the U.S. Environmental Protection Agency (EPA). He also traveled throughout Africa and Oceania. Eber is a Colorado native. The case is intended as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

CASE STUDIES

3. A Shona greeting meaning "Good morning." In Ndebele, the greeting is "livuke njani."

4. Pronounced "Nie-osh-a Moo-ray-wah."

5. Nyasha, a black woman in her late twenties, has a certificate in economics and completed one year of university before leaving due to cost. After running her own small business, she began a banking career with a micro-enterprise lending organization as an accounts clerk and finance officer (bookkeeper). Nyasha then moved to ZCB as a senior finance officer and was later promoted to her new position. Lending to indigenous black-owned businesses was a new business area for the bank, not a conventional career step for white Zimbabwe bankers.

6. Pronounced "Ed-win Chaw-can-es-ta."

7. ZCB participated in a new USAID micro and small enterprise development loan guarantee program. USAID guarantees 50% of the loan risk, and the bank is responsible for the remainder. Two of the five major commercial banks in the country participated. It is interesting to note that three of the five banks were foreign owned (South Africa and U.K.), and one of these participated. ZCB is locally owned, but it was once a part of the ill-fated BCCI, the Islamic Banking group based elsewhere in the British Commonwealth that went out of business a few years before amid charges of corruption.

8. Competing small business loan applications being considered by ZCB came from: a construction company, a Zimbabwe art and textile exporter, an international fruit and vegetable exporter, a solid waste recycling operator and people seeking funds to purchase a restaurant or food product franchises.

9. Pronounced "U-steen-a and Tah-won-da Mad-un-hu-ree-wah."

10. Small privately-owned passenger vehicles transport people from the suburbs to the city. They are called combis or combi vans. Being in the combi business or the passenger commuter industry are equivalent. These terms are used interchangeably throughout the case.

11. Such limited financial information helped to make this new business area quite different from established areas of the bank, where lending decisions were based on common forms of financial analysis.

12. Religion and church are serious issues in Zimbabwe. While the population is largely Christian, there is a move towards more evangelical forms, or Pentecostalism. Many, especially those in the rural areas, see religion as a provider of hope and inspiration, and most participate in church activities for the social network and business contacts.

13. Although it was a holiday weekend, the crews from ZESA (Zimbabwe Electric Supply Authority) and PTC (Posts and Telecommunications Corporation), two government-owned monopolies, sought work opportunities because wages are often double the usual Monday-to-Friday rate. Substandard telephone service is common throughout Zimbabwe and a frequent topic in the news. For instance, the May 30, 1996, *Business Herald* noted:

"Zimbabwe has one of the poorest telecommunications systems in Africa . . . with a high failure rate, slow service response time, tremendous backlog (given the current rate of new installations and the present backlog, it would take PTC 14 years to meet the present demand), and non-standard 20-30 year old worn out and obsolete equipment. The net impact: failure in luring foreign investment and possible lawsuits for loss of business."

14. Exchange Rate (average 1US\$:Z\$):

1990	1991	1992	1993	1994	1995	1996	1997 (est.)
2.5	3.6	5.1	6.5	8.2	8.7	10.2	12.0

15. Family relationships, whether immediate or distant, are a meaningful element of Zimbabwe society. If one family member is doing especially well, usually financially, that family becomes a "haven" for all other family members. The "thriving" family member then assists the others financially and emotionally.

16. AIDS (Acquired Immunity Deficiency Syndrome) was hugely under-reported in Zimbabwe. The Zimbabwe government estimated the number of AIDS and AIDS-related cases at ten percent of the population, and that about one percent of the population (over 100,000 people) would die of AIDS within the next 18 months. However, non-government agencies predict that over 65% of the Zimbabwe military is HIV-positive. One of the many indicators of misunderstanding regarding AIDS was evident in a recent comment by former Zimbabwean vice-president Joshua Nkomo at the graveside of his son who died from AIDS: "AIDS was brought to Zimbabwe by white people who intended to wipe out the black population and take its land and wealth . . . however [whites] were not smart enough to make sure they had the cure."

17. Economic Indicators:

	1990	1991	1992	1993	1994	1995	1996	1997 (est.)
Real GDP Growth (%)	2.2	3.2	-5.8	.9	7.4	-3.2	7.0	5.6
Consumer Price Inflation (%)	17.7	23.2	42.1	27.6	22.2	22.6	21.0	18.0
Population (millions)	9.4	9.6	10.4	10.6	10.9	11.3	11.8	12.3
Formal Sector Unemployment (%)	-	-	-	44.5	46.0	48.0	45.0	50.0

Sources: *Financial Gazette*. Harare: Zimbabwe, 25 April 1996, p. 6;

Economist Intelligence Unit Limited. "Zimbabwe-4th Quarter." 1995. Country Report. New York: NY;

Economist Intelligence Unit Limited. "Zimbabwe-1st Quarter." 1996. Country Report. New York: NY;

U.S. Embassy. "Country Commercial Guide Zimbabwe." Harare: Zimbabwe, June 1995;

U.S. Department of Labor, Bureau of International Labor Affairs. "Foreign Labor Trends." Washington DC: Government Printing Office, 1994.

18. Eustina, expert cook and pastry maker, furthered her skills during a sabbatical in the United States. At the time she attended advanced cooking courses specializing in desserts under Maida Heatter, the master pastry chef.

19. The AA, for a fee, graded motorists on a risk scale from 1-10 based upon accidents, speeding tickets and other motor vehicle violations. A 1 indicates high or extreme risk, while a 10 reflects minor or no risk.

20. ZUPCO (the Zimbabwe United Passenger Company) was the government's passenger transport business. This monopolistic and highly subsidized operation transported passengers from the suburbs to the city. However ZUPCO was plagued with problems. For instance, buses ran infrequently or failed to show, because breakdowns were common and drivers were not keen on getting anywhere quickly. As a result, people living as close as 12-20 kilometers from city center (normally a 10-20 minute commute) arrived at work after 9:30-10 a.m., even though they were at the bus queue (line) at 5 a.m. At the end of the day, people would complete work between 4:30-5 p.m. and wait several hours for the bus. Often, they would not return home before 10 p.m.

"Simply speaking, ZUPCO drivers have no incentive to perform," noted one of ETM's drivers. The ETM driver went on to explain this about ZUPCO: "ZUPCO drivers were paid regardless of how many passengers were collected, how often a route was completed, or how timely they traveled from one stop to the next. In some sense, the drivers believed they were

providing a special service to the community and did not feel any great reason to hurry. Besides, the faster they drove or the more times they completed route, the more fuel the buses consumed, therefore costing more money to run that bus. ZUPCO was a highly subsidized and poorly managed government monopoly. As a result, ZUPCO never saw the revenue but only the expenses!"

21. Whites typically lived in the northern suburbs and blacks lived in the southern suburbs, often 25-40 kilometers away from the city center. The housing density in white suburbs was less than in black suburbs. Furthermore, services (water, electricity, sewer) and incomes were less in black than white areas. Less income coupled with larger family sizes resulted in less disposable income available for transportation or vehicle purchase.

22. From 1965-1980 (during UDI, or the Universal Declaration of Independence), Zimbabwe's imports were severely restricted, and few choices existed for buying cars. Those that did exist were extremely expensive. However, in 1985, the Bulawayo paper, *The Chronicle*, first reported a story later referred to as the "Willowvale Scandal." The story centered on the sole Zimbabwean auto maker, Willowvale Motors, and the long waiting list for new cars. Buyers often waited 9-18 months following payment. Yet, numerous government ministers utilized their positions of influence and "jumped the queue." In addition to moving ahead on the waiting list, they would order several cars at once, often at discounted prices. When *The Chronicle* printed the story and allegations were investigated, five ministers resigned. Meanwhile, instead of promoting *The Chronicle's* journalist, the paper reassigned the writer to cover less substantial news outside the region.

23. Peugeots are built throughout Africa, including Zimbabwe, a former British colony. According to locals, Peugeots are popular cars given their long-lasting and reliable performance, and their appropriateness for the African environment (e.g., heavy shocks, substantial axles and large cargo spaces). Another reason Peugeots exist in Zimbabwe stems from UDI-induced trade restrictions that limited other imports. Under UDI sanctions, even Peugeots were unofficially imported.

24. Per kilometer vehicle statistics were based on regular fuel engine size between 1.6 and 2.7 liters, with a base purchase price between Z\$100,000-380,000 and the cost of petrol, lubrication, oil, and sundry repairs. Diesel fuel vehicles ran at Z\$.29 per kilometer.

25. US\$1 = 4 South African rand.

26. Normally "passenger" vehicles were assessed at 105% duty since Zimbabwe is actively encouraging local vehicle purchase. However, if purchasing a vehicle for "commercial" purposes, the government drops the customs duty to 25%. High duties were set by the Zimbabwe government to protect local businesses from less expensive goods coming from South Africa.

27. A Shona greeting meaning "Good evening." In Ndebele, the greeting is "litshone njani."

28. Zimbabwe comes from the Shona word meaning great stone city or stone houses.

29. Despite the political change, the white minority still controls many large businesses and retains significant land holdings. In an effort to reverse white ownership, the Government of Zimbabwe began a program called indigenization: converting executive positions, businesses and land back to blacks. The controversy surrounding indigenization remains, as noted in the June 1st, 1996, issue of the *Zimbabwe Independent*: "Race issues are not new to Zimbabwe . . . the gap between whites and blacks is widening to the detriment of the latter. [On the other hand], some believe that blacks are unfit to govern and they lack the requisite skills pointing out other independent African countries that economic collapse is the rule of the day when blacks are left to their own devices. [Meanwhile], there remains lots of stupid intransigence within white circles and

pathetic paranoia of a group clinging to a bygone era and living out of their Tudor style shopping malls cocooned in privileges which for the most part they have not earned but by which are theirs merely by accident of birth."

30. An important distinction is made between whites and Europeans. While white Zimbabweans were initially of European descent, their families, often two, three and possibly four generations back were born in Zimbabwe (or formerly Rhodesia). Consequently, white Zimbabweans believe they are just as much "indigenous" people as black Zimbabweans. Europeans are the more recent arrivals who are now residents of Zimbabwe.

31. Zimbabwe Ministry of Information, Posts and Telecommunications. *Independent Zimbabwe 1995*. Harare, Zimbabwe: Government Printing, April 1995.

32. U.S. Embassy. *Country Commercial Guide: Zimbabwe*. Harare, Zimbabwe: U.S. Embassy, June 1995.

33. Government owned and regulated businesses such as commodity boards, telephone system, broadcasting, airlines and minerals marketing boards.

34. Bell, R., Peters, G., and Ndiweni, M. "Zimbabwe: Financial Sector Assessment," *Gemini Technical Report #85*. Bethesda MD: Developmental Alternatives, Inc., August 1995.

35. Nichols, P.M. "Swapping Debt for Development: A Theoretical Application of Swaps to the Creation of Microenterprise Lending Institutions in Sub-Saharan Africa," *International Law and Politics*, 1994, 27(43), 65.