

## WHERE IS THE LINK BROKEN

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**In Y 2008 A CLIENT OF OURS** received a loan from the Bulgarian subsidiary of a large first class European bank for an investment project of over EUR 10 million, without a business plan. Five banks were fighting to provide the loan. At that time no one was examining the profitability and return on investment, neither the sustainability of the business, the management of the loan portfolio and other company risks, on which the condition of the companies depends, as well as the ability to repay the loans. Many companies at that time were taking loans for their business, but were investing them in real estate, because there the profit was high.

Now, in Y2012, the problem loans are over 24% of the total loans, the relationships business-banks are in a specific phase – there is available money, but loan activities are not moving. The banks are repeating – give us good projects and we will provide financing. The companies, which are applying for loans, even those with approved projects for European programs, are being rejected regularly by the banks. And this is the correct approach, because many companies which have already realized projects under European programs have gone bankrupt, despite the grant money – up to 50% of the total amount of the project.

The struggle among the banks for good clients is severe, but there is no discussion on the subject “Good Project”. And the tension between the banks and the companies has not been reduced. The trust between the two sides is at ground level. One side is assessing the level of risk as being high, while the other side considers that it is impossible to work without risk, and that the risk should not be completely transferred only on the back of the client, especially those which have acted correctly until now, which some of the banks do..

The crisis really severely hit everyone, but was not the only factor. Now, the lessons from the mistakes have to be remembered. Not only the economic environment and the attracted external problems should be accused. They will not disappear, neither today, not tomorrow, nor the day after. The current environment is the new normal situation for many years to come. There are companies which have a potential, but do not implement it in practice, because they cannot present themselves adequately in front of the banks, so as to be financed successfully.

There is no universal recipe for good projects. It depends on the sector, on the size of the business, on the market environment, on the financial condition of the

company, etc. Each project is evaluated individually, by a number of complex criteria, but there is a fundament, on which should be based.

The banks should provide to the business in maximum clarity their criteria for a good project and how important it is, that it is properly structured. The transparency in the determination of the costs for the loan, including the interest amount, is of great importance and this would regain some of the trust between the sides. Collaterals should not be the determining factor for loan approval. They are a necessary, but insufficient condition, because cash-flow is more important and its stability. And there is no way that the risk could approach zero level.

On the other hand, the companies should learn how to adequately assess where is the critical debt level, which they could bear; to carefully contemplate how much money to request and with which parameters, and without forgetting the requirement for working capital; to carefully prepare their project business plans, so that the bankers could clearly understand all the positive points, as well as the capability of the company to develop normally and to repay its loans. No risks or threats should be hidden, because the company and the bank are in the same team. They should have financial management, because otherwise unfavorable things will happen. And there will be other crises, but if the relevant buffers have been made, and there is good financial management, the problems could be overcome.

If the companies cannot manage these activities alone, then they should outsource them to capable financial consultants. This is the usual practice in the civilized world, where we are working. Even financial management could be outsourced to an external company, the same way that is done with accounting and legal services.