

# The Financial Issue

## Newsletter

# Macedonia Competes

**Conventional wisdom suggests it is a struggle to access finance in these economic times, but the MCP Financial Platform is demonstrating that companies can access new investment by adopting competitive financial strategies focused on business growth.**



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In April of 2009, TTK Bank approved a 100,000 Euros (\$134,000) loan that will allow Bams Trejd to move forward on a 200,000 Euro (\$274,000) investment that will improve its positioning in the regional construction materials market.

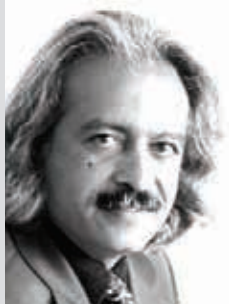
The investment involves the construction of a new warehousing and exhibition facility near Bitola on the road to Ohrid, strategically positioned between Greece and Albania where the company exports most of its goods. With the new facility, Bams Trejd expects to achieve exports of \$125,000 within the next eight to nine months—up five times from previous years—and exceed \$250,000 in annual exports from 2010 onward. Increased demand from tapping new markets is expected to generate eight full-time jobs, not including the labor hired to build the new facility. Although conditions in the global construction industry are difficult, Mirjana Trpcevska, Managing Director at Bams Trejd, felt it was important to move forward on this investment, as construction continues to thrive in the region, especially in Albania, Montenegro, Kosovo and Greece.

Bams Trejd is one of eleven companies that already received financing from local financial institutions to expand their businesses with the assistance from one of MCP's eleven Financial Platform Facilitators.

Established in the spring of 2008, the Financial Platform tackles a common mismatch between supply and demand of financial services. Companies may cite obstacles to obtaining financing, but financial institutions often complain in turn about the lack of credible proposals. The MCP Financial Platform engages a pool of professional Macedonian financial advisors who collaborate with companies to clearly formulate business expansion strategies and investment plans for Macedonian companies, and work to find a financial solution that best fits those strategies. The Platform's efforts mitigate the "access to finance" challenge that so often impedes companies' growth.

### Message from Nimish Jhaveri

MCP Chief of Party



**D**ear Col-  
leagues and  
Partners,  
It is with  
great plea-  
sure that I  
introduce

the first newsletter from USAID Macedonia Competitiveness Project. I hope this newsletter, and others published every quarter, provide insight into our Project's activities, describe the value and impact of our work, and present the perspectives of our clients and partners. In this inaugural edition, we focus how we use our Financial Platform to develop the competitiveness of Macedonian companies while addressing their needs for capital. Future newsletters will focus on other initiatives we are undertaking, such as foreign direct investment, workforce development, global supply chain integration and infrastructure development. We will be providing updates on our efforts to bolster competitiveness, forge strategic partnerships and expand employment and exports across important Macedonian sectors, such as fashion and apparel, automotive/tool and die, light manufacturing, ICT and even green technologies. We will also invite guest

writers to offer their thoughts and analyses of these and other critical development issues and initiatives in Macedonia today.

I feel it is important that the Financial Platform was chosen as the first topic. In times of economic crisis, it is critical that donor programs such as MCP ensure that capable and forward-thinking companies are able to access the finance needed to grow—despite the many challenges—and position themselves for a return to more stable markets.

One guiding principle of our project is that significant investment is required for Macedonian companies to create or enhance jobs. As such, supporting companies willing to take the initiative to grow, upgrade and modernize is a top priority for our financial facilitators and the MCP staff.

I truly believe that the Financial Platform presents a sustainable model for Macedonia and other countries. The model focuses on fee for services and payment by performance. Companies are learning the value—through lower-cost loans and cost savings from re-engineering—of engaging consultants. In time, we expect to see a market for professional marketing and financial services that thrives without donor support.

I hope you enjoy the newsletter.

**A**s of June 1, 2009, eleven companies have “graduated” from the financial platform and received over 2 million Euros (\$2.9 million) of approved financing, allowing them to make investments totaling nearly 4 million Euros (\$5.5 million) to pursue business opportunities for sustained growth. Another 26 companies

are currently working through the financial platform and expect to reap an additional 9 million and 11 million Euros in financing and total investment, respectively. If these companies' plans come to fruition, the platform will help deliver a total of 15 million Euros in investments and will create over 600 new jobs in Macedonia.

### The CFO you never had

Experience has shown that many managers in Macedonia have limited knowledge of corporate finance. Where they are used, financial officers perform accounting roles (see later article). Often, those responsible for finance lack the critical skills normally offered by CFOs in other countries, including management accounting, financial planning and analysis, budgeting and control systems. When it comes to approaching financiers or potential business partners, they require professional support to develop business strategies, financial forecasts and ultimately sound, comprehensive and bankable financial proposals. The Platform's facilitators fill this gap, offering management consulting services on a cost-share basis between MCP and the client companies. In some cases, the facilitators “share” costs up front, only getting a portion of their fees upon successful approval of a proposal by a bank.

### Building Stronger Companies for 'Real World' Finance

Many ‘access to finance’ initiatives tackle companies' capital needs through grants or ‘soft lending terms.’ The MCP Platform takes a different approach by working with companies to take the steps necessary to approach lenders on ‘real world terms.’ These terms mean banks not only demand a sufficient rate of interest, but also a company with strong financials, good corporate governance, and efficient management and processes (demands that are heightened during a credit crunch).

This means that MCP facilitator's responsibilities go beyond drafting an attractive business plan and financial proposal. They use companies' desire to obtain financing to drive internal restructuring, management improvements and process re-engineering required to make a company ‘bankable’ in the eyes of a modern lending institution. Facilitators evaluate performance of product lines to re-orient

MCP Financial Platform Approved and Pipeline Financing and Investment By Sector  
( In Euros as of June 1, 2008, one year into program)

Sector	Approved Financing		Financing in Pipeline		Projected Total		
	Value of Financing	Total Investment	Value of Financing	Total Investment	Value of Financing	Total Investment	Jobs Projected
<b>Agriculture and Food Processing</b>	700,000	1,100,000	2,190,000	2,620,000	2,890,000	3,720,000	129
<b>Light Manufacturing</b>	705,000	1,130,000	4,197,000	5,525,000	4,902,000	6,655,000	346
<b>Trade and Services</b>	730,000	1,745,000	2,535,000	2,705,000	3,265,000	4,450,000	168
<b>Total</b>	2,135,000	3,975,000	8,922,000	10,850,000	11,057,000	14,825,000	643



companies towards a more profitable market strategy, and look for opportunities to cut costs. They streamline expansion plans and establish implementation timetables to enhance the likelihood of success and optimize return on investment. The outcome is not only a new facility or piece of machinery, but a healthier, competitive company better able to weather the tough times while growing rapidly in the good times.

### **Merging interests to facilitate finance, during economic crisis and the long run**

An economic crisis often prompts companies to 'freeze' and 'wait and see' before taking action. Forward-looking companies recognize the need to invest: to reduce costs with-

out sacrificing quality, improve productivity, develop new products or position themselves for more stable markets. The Financial Platform helps companies think through their plans and obtain financing in an otherwise unfavorable environment.

At the same time, banks—which face higher reserve requirements, tight credit conditions and more non-performing portfolios—are eager to be presented with well-considered, bankable proposals. They take comfort in the knowledge that companies going through the MCP Financial Platform process are more likely to survive the downturn and thrive in the long term—and thus prove to be profitable borrowers.

MCP Financial Platform Approved and Pipeline Financing and Investment By Sector.

( In Euros as of June 1, 2008, one year into program).

### **Developing market for fee-based consulting services**

As its facilitators help companies, the Platform is supporting the evolution of a market for professional

consulting services. Initially, many companies balked at paying up to 60 percent of facilitators' fees. That has started changing as companies see the value of engaging professionals. Companies' growing willingness to pay for financial and management services will encourage the growth of a consulting industry not reliant on donor subsidies to offer their services. The experience gained from the MCP Platform will support the emergence of more professional and capable service providers able to support business expansion for years to come.



## The CFO You Never Had

**S**cope and Benefits of MCP Financial Platform Service Offerings  
Experience has shown that a lack of knowledge and skills in corporate finance within companies limits the number of high quality and bankable investment proposals presented to

banks, making it even harder to access finance. This problem exists throughout various industries in Macedonia (and other countries as well). Smaller firms generally have only the very basic accounting functions, mainly for tax purposes. Even bigger companies

that have a formally designated Chief Financial Officer (CFO) position and/or a Financial Management Department rarely demonstrate the full scope of responsibilities expected of CFOs in more developed economies. These include:

Treasurer Function	Cash Manager	Credit Manager	Capital Expenditures	Financial Planning
Controller Function	Tax Manager	Cost Accounting Manager	Financial Accounting Manager	Data Processing Manager (MIS)

(Adopted from Corporate Finance by Ross/Westerfield/Jaffe, 7th ed. 2005)

**O**ver the past year, MCP's financial facilitators have used successful consultancy services (as measured in approved financing) to demonstrate the value and benefits gained from analysis, tools, and management process that would typically be organized by a skilled CFO. Below are examples of the types of services provided by MCP Financial Facilitators:

Service Provided	Scope of Service	Benefit to the client
Financial modeling and planning	<ul style="list-style-type: none"> <li>- Translates specific business model of a firm in a flexible, long-term planning tool</li> <li>- Planning of both resource and financial indicators</li> </ul>	<ul style="list-style-type: none"> <li>- Informed long-term perspective</li> <li>- Inter-dependencies of key business indicators</li> <li>- Sensitivity analysis</li> <li>- Alternative scenario generation</li> <li>- Valuation of the business</li> </ul>
Cost and Management Accounting	<ul style="list-style-type: none"> <li>- Application of management accounting principles in analyzing past and forecasting future business performance</li> </ul>	<ul style="list-style-type: none"> <li>- Better understanding of the current business model</li> <li>- Upgrade of the product/service mix</li> <li>- Improved profitability</li> <li>- Proper cost allocation and revised pricing policy</li> </ul>
Investment Decision Analysis	<ul style="list-style-type: none"> <li>- Capital budgeting analysis based on incremental project cash flows</li> <li>- Cash cycle analysis</li> <li>- Trade credit policy and terms</li> </ul>	<ul style="list-style-type: none"> <li>- Decision making tool for ranking and approving investment projects</li> <li>- Inventory control and optimization</li> <li>- Short-term finance strategy and instruments</li> </ul>
Financial Decision and Strategy	<ul style="list-style-type: none"> <li>- Analyze different scenarios in raising capital and combinations of instruments (debt, equity and mezzanine)</li> <li>- Business and equity valuation</li> </ul>	<ul style="list-style-type: none"> <li>- Decision making tool for optimal financial strategy and structure</li> <li>- Risk assessment in different scenarios</li> <li>- Value management of the firm</li> </ul>

If you are a Macedonian company interested in learning more about services provided by the MCP Financial Platform, contact Mirjana Makedonska at [mmakedonska@carana.com](mailto:mmakedonska@carana.com), or +389 (0)2 3215 744

**Company Perspective:  
VIPRO**

VIPRO is one of the Macedonia's largest manufacturers and exporters of processed fruits and vegetables. Over the past 10 years, the company has enjoyed robust growth, increasing its operational capabilities, developing new products, expanding into new markets and increasing revenue and profitability. The company is well established in the Macedonian market and has a strong foothold within the former Yugoslavia, European markets, USA, Canada and Australia.

not corporate finance. The company engaged MCP Financial Platform's facilitators to upgrade their internal financial planning and management, develop a long-term investment strategy to guide current and future expansion projects, and present potential lenders with a clearly formulated financial proposal they could believe in. VIPRO and the MCP financial facilitator went through an intensive process of evaluating their production and sales by product lines and developed a structured multi-year growth and expansion strategy. Viktor Petkov, owner and Manager of VIPRO, considers its MCP facilitator a

have more structured understanding of our business. We are now able to improve our internal processes and make cost savings that will make us stronger in the long run."

**"With the help of the MCP facilitators, we have more a structured understanding of our business."**



Similar to the usual pattern of Macedonian SMEs, VIPRO's growth has been made possible through internal investments, recycled profits and small loans from Macedonian commercial banks. Recently, however, its management decided to take a bold step towards a new growth trajectory and move forward with plans to build a new plant. The 5,000 m2 modern facility will be built to European standards and increase VIPRO's production capacity tenfold. For an investment of this scale, recycled profits and piece-by-piece loans would not be sufficient. VIPRO's management recognized they needed professional services to get the level of financing required for the investment. After all, their core capability is food processing,

crucial partner in their expansion activities. "Cooperation with the MCP facilitators was excellent!" he said. "We worked closely together and developed a real investment strategy and business plan aligned with our company's growth aspirations." As Mr. Petkov noted, the facilitators not only helped VIPRO complete the documentation for financing from banks and financial institutions, but also helped educate the company on production processes, business operations, profit margins per product lines, etc. "Most of the financial management data has been cloudy to us. We didn't have a clear picture about the productivity and profitability of different production lines in our company," Mr. Petkov said. "With the help of the MCP facilitators, we

With the help of the financial facilitators, VIPRO's initial proposal for 300,000 Euros was approved, with another 200,000 Euros currently in the approval process. Combined with the company's own funds, a total 1 million Euros investment is expected. The expansion is already underway, with the new facility expected to be fully functional in April 2010. VIPRO plans to double its production and exports over the next two years, from 2.5 million to 5 million units per year. At full production capacity, the new facility will have the capability to produce up to 20 million units annually. VIPRO's engagement of MCP facilitators was part of its innovative practice of focusing on what it does best, and utilizing outside expertise to perform other critical business functions. "We came to the conclusion that we have outgrown our internal capacity to perform all business functions and therefore we are outsourcing some of these services. We are using external sales and procurement agents," Mr. Petkov said. "We saw real value in engaging the USAID MCP financial consultants, and we agreed to cost share their services with the USAID Project."

**Company Perspective:  
ZAVAR:**

**Z**AVAR designs and manufactures metal works for industrial and residential uses, specializing in the production of stainless steel (INOX) processing equipment, pressure tanks and pipes for the food, chemical and pharmaceutical industries. It is currently developing a line of designer stainless steel radiators for residential and commercial purposes.

Since opening in 1998, the company has enjoyed steady growth, with customers in Macedonia and elsewhere in Europe. As ZAVAR grew, its managers prudently recycled profits to invest in new capabilities and product offerings. Although its managers had a vision for the company, ZAVAR's General Manager Marta Grnarova, says that investments

**“While the information confirmed what we already thought, it’s different when you see your company in numbers.”**

and upgrades were often “temporary solutions” to manage growth. For example, the company often retrofitted existing facilities to meet new production demands or increased numbers of orders. While these efforts would mitigate demand of immediate orders, they were not optimal for the long-term growth of the company.

In 2008, however, it became clear that the scope of their growth and new business lines required a significant investment to “get it right, with-

out compromise,” says Grnarova. The company needed to invest in a new facility to house the production of larger industrial items and improve productivity and work flow. Furthermore, to engage new and larger customers, they needed to update their business strategy.

wouldn't fit in the main production facility. This made the process vulnerable to bad weather, which often caused work stoppages, adding costs and increasing risk of delayed delivery. In the new facility, different operations—involving clean stainless steel versus “dirty” black steel—will

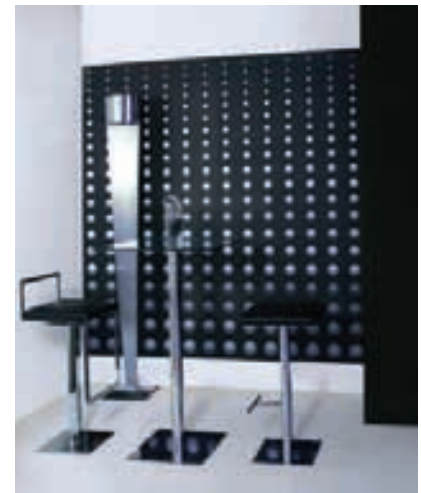


The challenge was that ZAVAR's management is made up of engineers, who lacked the internal capabilities for strong financial analysis. The company engaged a MCP financial facilitator who specializes in larger financial proposals to approach a range of possible financiers. Together, they carried out an in-depth analysis of business performance across ZAVAR's eight business lines, reviewing the labor costs, productivity and profitability of each line. “We are more informed and thus better able to plan the dynamics of developing the company and implementing the investment and expansion.” Grnarova said.

With the new analysis and financial proposal developed by the MCP facilitators, ZAVAR is better able to approach possible financiers. Presently, the company is pursuing multiple options with an outcome expected by the end of the year. Once constructed, the new facility will have a dramatic impact on ZAVAR operational capability and production throughput. In the past, 50 percent of the metal work was done outside, because it

be separated. A ceiling crane will ease the movement of heavy pieces, significantly increasing productivity. The latest technologies and equipment will be installed, allowing the company to implement traceability processes needed to become certified for a welding standard critical to attracting new customers.

ZAVAR expects that the new facilities will enable it to double its capacity, employment, sales and profitability over the next three years.



## A Financial Perspective NLB Lizing

**N**LB Lizing offers companies wishing to expand a different option to the traditional financing model: leasing. Their financial products give companies the ability to utilize an asset without owning it. NLB Lizing is also an important financing partner under the MCP Financial Platform, with five approved financing deals.

Maja Lape Trajkova, General Manager at NLB Lizing, noted that in times of tight credit, leasing can be an ideal way to acquire and use assets compared to other traditional options. There is no need to have a mortgage or collateral (other than the leased equipment or facilities themselves). Since leasing companies operate within a different regulatory regime and risk structure than banks, they “have more space to work” and can often offer more flexible, and/or more attractive terms, Trajkova said.

Leasing companies might be more flexible than traditional banks during a credit crunch, but they still look for sound, bankable financing proposals from companies that request their services. That is why Marija Tanasoska, from NLB Lizing’s Risk Department, appreciates getting proposals from companies that have worked with MCP financial facilitators. Applicants may submit all of the re-

quired documentation for financing, but often their business plans focus on “what they want to buy or lease, what they want to make, and where they want to sell” Tanasoska explained. In many cases, they submit raw information without an analysis of the market, sector, exports and risks, making it hard to determine the viability of the company and the proposed project.

**“You don’t need to own an asset to make a profit, you need to use the machinery to make a profit.”**

On the other hand, proposals that NLB Lizing has received from MCP Financial Platform clients not only present good ideas, but offer a well considered plan with a “bigger picture of the entire project” that is critical to considering whether to offer an applicant funding. Tanasoska feels that the financial facilitators offer value in many specific ways, including sensitivity analyses; considering different financial services to deter-



mine the optimal financing option (or combination thereof) to utilize; scheduling financing and staging the implementation projects; and clearly articulating the why and how of the investment. Most importantly, the facilitators identify potential problems and find solutions to ensure the project moves smoothly.

The information and analyses provided in MCP Financial Platform proposals give NLB Lizing staff a level of comfort during the consideration and negotiation process. Clearly articulated proposals that stress the right issues make it easier to believe in the project, a critical step towards financing approval.

## Continued Evolution of the Financial Platform: Equity, Venture Capital, Joint Venture and M&A Services

**T**o date, most Financial Platform interventions have focused on debt financing, with only a few projects involving some level of equity financing. The Competitiveness Project is presently developing an “Equity Platform” service with a structure

similar to the Financial Platform. Pre-selected MCP Equity Finance Facilitators would work with Macedonian companies interested in attracting equity investors, venture capital or joint venture partners for specific projects. Facilitators would assist with company/project valuation, collaborate with the MCP foreign investment team to find appropriate investors/strategic partners and assist with negotiations (as appropriate). In cases where a Macedonian company already has potential investors, MCP would work to accelerate the process

and help companies ensure that any proposed deal is in their interest and that of their shareholders.

MCP already offers a foreign investors program with a range of services. This new platform, however, will better respond to equity funds, venture capital funds and investors looking for M&A targets. The platform will also complement its market linkage activities in target sectors by focusing on identifying foreign companies interested in strategic partners/suppliers for the production of goods and/or delivery of services.

## USAID Macedonia Competitiveness Project (MCP):

### Who we are and what we do

**M**CP supports initiatives to stimulate foreign and domestic investment, capture higher value export markets, alleviate supply chain bottlenecks, and generate significant numbers of new jobs for Macedonia.

The USAID Competitiveness Project focuses on three broad initiatives:

- Attract foreign direct investment (FDI) and improve the performance of channels promoting FDI
- Identify, develop and capture markets in identified priority sectors
- Resolve critical implementation hurdles for domestic and international investors

The project is market-led and investment-driven. It assesses the needs of international buyers/investors and identifies priority sectors with the

greatest potential for employment and higher value exports, including:

- Information and Communications Technology (ICT);
- Fashion & Design (includes apparel, footwear and furniture);
- Light Manufacturing (includes electromechanical, automotive parts, machine tooling)

The Competitiveness Project offers technical assistance to support foreign and domestic investments and enhance Macedonian firms' connections to global supply chains, by focusing on interventions in:

- Workforce development
- Access to financing and markets
- Infrastructure, including industrial and logistical parks
- Productivity, supply chain effectiveness and new technology

The Competitiveness Project welcomes ongoing applications for partnerships with market maker companies (to connect with suppliers), investors, business associations, financial institutions, educational service providers and infrastructural service providers. A Review Committee selects the partnerships that best meet the following criteria:

- Contribute measurably to significant new investment, job creation, and export value
- Address major constraints to investment and competitiveness in priority sectors with the greatest potential for Macedonia
- Leverage co-financing and commitments by partners, also leading to sustainable capacity.

This newsletter was developed by USAID Macedonia Competitiveness Project team members:

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