



**USAID** | **BOSNIA-HERZEGOVINA**  
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# PROGRAM FOR 8 TRAINING SESSIONS FOR APPRAISERS

USAID FOSTERING AN INVESTMENT AND LENDER-FRIENDLY  
ENVIRONMENT (FILE)

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**USAID FOSTERING AN INVESTMENT AND LENDER-FRIENDLY ENVIRONMENT  
(FILE)**

**PROGRAM FOR 8 TRAINING SESSIONS  
FOR APPRAISERS**

**Introduction to the Program for 8 Training Sessions for Appraisers**

The proposed training program covers the full spectrum of issues related to the status of the appraisers in Bosnia and Herzegovina. In the course of our study, we have found that numerous laws and regulations refer to appraisers, but none of them defines appraisers or their rights, responsibilities, training and certification, and none provides a unified valuation methodology. Additionally we discovered that there is a general misunderstanding of domestic institutions (ministries, agencies, and courts) related to appraisals and the professionals who provide them. The prevailing common opinion among lawyers is that these are court witness experts, while economists treat them as separate professionals specialized in valuation. The second opinion is closer to the international understanding of the appraisers' profession.

Our analysis of the local legislation on court witness experts revealed the inappropriate use and treatment of court witness experts as appraisers. The Law on Court Witness Experts stipulates that a court witness expert could be a professional who among other legal requirements: "... 1. has expert knowledge and skills to present findings and give opinion on determined type of expertise; 2. to meet the requirements of professional conduct and personal qualities worthy for court expert's reputation and is expected to perform expertise truthfully, objectively, and in timely manner; and 3. to have adequate university education and at least 5 years of experience on the job for which he/she was educated for..."<sup>1</sup> Our review of the universities' educational programs shows that, in Bosnia and Herzegovina, there is no university degree whose curricula covers the various subjects relating to appraisals or valuations. Accordingly, there is no professional who has received an adequate formal education for exercising the appraisers' expertise. Further, the lack of formal education, lack continuing professional education, and failure to fully utilize modern valuation techniques leaves BiH with a dearth of appraisers who measure up to the internationally acknowledged standards for the profession.

To address the above listed shortcomings, we have prepared 8 training sessions that will cover the gaps and will resolve the issues of inappropriate approach or valuation of property and businesses. We realize that there various laws requiring different approaches to value, including:

- Valuation for customs purposes;
- Valuation for tax purposes;
- Valuation for insurance purposes;
- Valuation for lending purposes;
- Valuation for investment purposes;
- Valuation for business purposes;

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<sup>1</sup> Law on conditions for performing court expertise (Sarajevo Canton OG No. 10/98). There is variation of this text for the different cantons and for the RS. The Sarajevo text was the most restrictive. Currently the Federal Law on Court Witness Experts is being drafted by a wide group of local experts in cooperation with the Legal department of OHR.

- Valuation for personal purposes (inheritance, divorce, etc.);
- Valuation for bankruptcy and liquidation purposes;
- Valuation for criminal and civil court procedure purposes.

All of the above purposes require specific adjustments to the general approach to valuation, which are adequately covered in the proposed training program.

The training sessions will be interactive, with cases and other practical tools used during each session.

## **Program for Training of Appraisers 8 sessions for professionals**

### **Course Description**

*This course provides the standards and methodological tools to produce high-quality appraiser's reports. The course will cover 8 training sessions for professionals developing their career as appraisers.*

### **Target Audience**

*This course is designed for new and current appraisers to assist them in practical adaptation and implementation of international standards and guidelines on appraisals.*

### **Prerequisite**

*Degree in Finance and accounting or substantive work experience in this field.*

### **Terminal Learning Objectives**

*At the completion of this course, participants will be able to:*

1. *Understand the different standards for value and general valuation concepts and principles, and property types and rights;*
2. *Apply the 3 general approaches to Value: **Cost Approach, Sales Comparison Approach and Income Capitalization Approach;***
3. *Implement in practice the International Valuation Standards for **Market Value Basis of Valuation; Valuation Bases Other Than Market Value and Valuation Reporting***
4. *Professionally conduct the valuations under internationally accepted code of ethics;*
5. *Understand and learn how to implement the International guidelines on Valuation:*
  - GN1 Real Property Valuation
  - GN 2 Valuation of Lease Interests
  - GN 3 Valuation of Plant and Equipment
  - GN 4 Valuation of Intangible Assets
  - GN 5 Valuation of Personal Property
  - GN 6 Business Valuation
  - GN 7 Consideration of Hazardous and Toxic Substances in Valuation
  - GN 8 Depreciated Replacement Cost (DRC)
  - GN 9 Discounted Cash Flow (DCF) Analysis for Market and Non-Market Based Valuations
  - GN 10 Valuation of Agricultural Properties
  - GN 11 Reviewing Valuations
6. *Prepare valuation applications for **Financial Reporting** and for **Lending Purposes;***
7. *Analyze Financial Statements and learn how to identify and gather the data needed for the valuation report;*
8. *Write a valuation report (Case Study)*

<b>Training Methodology</b>	<i>Participative presentation with guided discussion, exercises and partial training material development using the knowledge and skills presented in the course.</i>
<b>Course Date and Time</b>	<i>To be determined.</i>
<b>Maximum Participants</b>	<i>15 – 20 participants.</i>
<b>Course Materials</b>	<p><i>The course materials consist of the following components:</i></p> <ul style="list-style-type: none"> <li>◆ <i>Participant Guide;</i></li> <li>◆ <i>How to Write a Valuation Report; and</i></li> <li>◆ <i>Course Development Templates/Case Studies.</i></li> </ul>

## **Short annotation to the training sessions**

### **Training session 1: Understand the different standards for value and general valuation concepts and principles, and property types and rights**

This training session will acquaint the participants with the different standards of value:

- Market Value
- Fair Market Value
- Depreciation Replacement Cost
- Highest and Best Use Value
- Utility Value

Participants will also learn how to distinguish between legal (ownership), accounting (tangible intangible, depreciation) and economic (utility and productivity) concepts in regard to treating assets in a valuation process.

This training session will also provide the participants with the needed knowledge on property types and rights. Property is categorized in 4 categories - Real, Personal, Business, Financial along with the various rights (bundle of rights) and types of interests and sub-interests related to it.

This session is designed to round out the knowledge of local candidates to enable them to become certified appraisers<sup>2</sup>. Most of the candidates are expected to have accounting and financial backgrounds, with knowledge of the legal rights subject to valuation and the way economics treats the assets. The design of the session resolves certain issues that were identified when reviewing how appraisals have been conducted in the past and sets up a new approach towards the subject of valuation in general.

### **Training session 2: Apply the 3 general approaches to Value: Cost Approach, Sales Comparison Approach and Income Capitalization Approach**

The session is aimed to conceptualize the different approaches that an appraiser applies in regard to whether he is required to estimate market value or a defined non-market value. The *valuation approach* will be presented as a compilation of the generally accepted analytical

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<sup>2</sup> *It is expected that the appraisers' expertise will be defined in the new Federal Law on court witness experts and will be required an appropriate certification of their skills and knowledge. Currently in RS and FbiH the different institutions affected by the appraisers work (Ministry of Finance, Privatization Agency) are also looking for possible certification of the profession of appraisers.*

methodologies that are in common use. This session stresses the three market-based valuation approaches (Cost Approach, Sales Comparison Approach and Income Capitalization Approach).

The training session will provide general knowledge on the variety of methodological instruments that are used in the valuation process and their proper application and selection in regard to the task order, the assumptions made, or the available data.

The training course will rectify certain bad practices of applying the cost approach and more recent misuses of the comparison approach, which we have identified when assessing the past work of the appraisers. This training session is aimed to turn around the thinking of the experts conducting valuations in regard to the utility value (market value) of the appraised object. This will happen with the proper introduction of the participants to the Income Capitalization approach and the Sales Comparison approach. We will also inform the participants of the limitations of these approaches, especially in emerging market economies.

Special attention will be given to risk assessment (Country, business, industrial, individual, systematic and non-systematic) and its affect on expected rates of return (investment, dividend, IRR, etc.) and the discount rate. Participants will be introduced to various methods for determining the discount rate (WACC - weighted average cost of capital), which is crucial for the proper implementation of the Income capitalization methods of valuation (DCF – Depreciated Cash Flows, Simple Capitalization).

### **Training session 3: Implement in practice the International Valuation Standards for Market Value Basis of Valuation; Valuation Bases Other Than Market Value and Valuation Reporting**

The training session is designed to introduce the participants to International Valuation Standards. This seminar will focus on the appraiser's viewpoint of markets, price, cost, and value. The session will discuss the different bases for valuation (market, asset, non-market).

The seminar will refresh different economics categories and discuss the interrelationship of the four factors that are associated with any product, service, or commodity (utility, scarcity, desire and purchasing power). The discussion will cover the concepts of supply and demand and their influence on forming prices on the market. The distinction between price, cost and value will be drawn out. The distinction between Market Value (drawn from data specific to appropriate markets, i.e. valuations based on cost, sales comparison and income capitalization) and Non-Market Value (value in use, going concern value, investment value or worth, insurable value, salvage value and liquidation value) will be discussed in detail.

Finally the participants will be provided with the tools for proper communication of the result of the valuation, i.e. the standards to apply when writing the valuation report.

The seminar is aimed to harmonize the domestic practice with the international practice when conducting the valuation and when presenting the report. This will provide for promotion of domestic business and will ensure equal treatment of investment opportunities by foreign investors, when choosing in which emerging market to invest.

### **Training session 4: Professionally conduct the valuations under the appraisers code of ethics**

This training session is aimed to introduce the participants to the International Code of Professional Conduct and Ethics of the Appraisers. Although this Code does not have any formal authority in law, it discusses important issues related to the professional conduct of appraisals.

The seminar will cover topics as: what is the scope of valuation work and how it is defined (assumptions, limiting conditions, characteristics of appraiser); what are the main ethics principles to be followed (integrity, conflict of interest, confidentiality and impartiality); what are the competences that the appraiser should have when conducting the valuation (acceptance of

instructions, outside assistance, efficiency and diligence); to whom and how to disclose the information learned during the valuation process and how to report values.

Different ethics cases will be analyzed in an open discussion. Participants will be encouraged to develop cases based on their own experience and discuss the possible ethics issues and how they should be resolved.

### **Training session 5: Understand and learn how to implement the International guidelines on Valuation:**

*GN1 Real Property Valuation*

*GN 2 Valuation of Lease Interests*

*GN 3 Valuation of Plant and Equipment*

*GN 4 Valuation of Intangible Assets*

*GN 5 Valuation of Personal Property*

*GN 6 Business Valuation*

*GN 7 Consideration of Hazardous and Toxic Substances in Valuation*

*GN 8 Depreciated Replacement Cost (DRC)*

*GN 9 Discounted Cash Flow (DCF) Analysis for Market and Non-Market Based Valuations*

*GN 10 Valuation of Agricultural Properties*

*GN 11 Reviewing Valuations*

The seminar is designed to develop the knowledge acquired in the previous 4 sessions by providing practical guidance to the appraisers on how to approach the range of issues described above (“guidance notes” GN1 to GN11). The presentation will include partial case studies covering different issues related to the guidance notes. It is expected that experts can discuss issues from their own practice and find the right solutions in an open discussion. We are hoping that, at this seminar, certain rules of thumb could be derived and used later in practice and in other training sessions as BiH specific valuation guidelines.

### **Training session 6: Prepare valuation applications for Financial Reporting and for Lending Purposes**

This session will cover two specific applications for the valuation report.

First, the participants will be introduced to the standards for presenting the valuation applications for financial reporting. This part of the seminar will cover the purpose of accounts, international accounting standards, accounting concepts and conventions. Special attention will be placed on treating assets for valuation purposes with regard to the valuation standards and the guidance notes. The seminar will also include discussions of auditing and valuation techniques for making proper account adjustments and provisions in regard to the assumptions made by the appraiser.

In the second part of this training session participants will be introduced to the accepted international standards on reporting for lending purposes and the practical application of the international valuation and accounting standards. The participants, guided by the moderator, will build simple “Decision Tree,” summarizing how an entity determines whether it applies IAS 40 for investment property; IAS 16 for Property, Plant and Equipment for owner-occupied property; or IAS 2 for inventories for property held for sale in the ordinary course of business.

At the end of this training session, participants will be able to fully understand and apply international valuation standards and will have substantial knowledge on the provisions of international accounting standards.

**Training session 7: Analyze financial statements and learn how to identify, and gather the data needed for the valuation report**

The training session is intended to introduce participants to the various types of and methodologies for financial statements (Balance Sheet, Income Statement and Cash-Flow Statement, Working capital budgeting). The participants will be acquainted with different sources of information that appraisers use and refer to in their reports. The information gathering in regard to market prices, indexes, inflation, correlation of different factors, etc. is a crucial preparatory part of the valuation process. Further, participants will be introduced to various financial techniques (ratio analysis) used when analyzing financial statements, and other investment and financial tools used in processing market data.

At the end of the seminar, participants will be able to prepare a business and financial operational model of the entity subject to valuation. This model will reflect all assumptions that the appraiser has made. The participants will be able to project future opening balance sheets, income statements and cash flow statements in regard to the application of the DCF (Depreciated Cash Flow) valuation method. This will be used as a base for developing different scenarios related to debt restructuring, sale of non-core assets and/or divisions (workshops), which do not contribute to the company profitability and where the proceeds from their sale could be better used for repaying existing debt or financing working capital. The ability to do this analysis, projections, scenarios and plans will be extremely useful in the course of developing reorganization plans in a bankruptcy proceeding.

**Training session 8: Write a valuation report (Case Study)**

The training session will focus on developing a case study, which will result in the writing of a full valuation report. The objective of the exercise is to cover everything that has been learned in the previous training sessions and to additionally strengthen the knowledge of the participants. The participants will be broken into groups of 3 or 4, and the moderator will discuss with each group separately the task. Focus will be placed on the implementation of the standards for writing a valuation report, i.e., the proper definitions of terms and assumptions, the valuation limitation and information availability, and the relationship to the accounting standards. The group will have to determine the context in which a valuation figure is reported and the accuracy of the figures that will be presented. The moderator will specifically stress on the value conclusion, which should make reference to market evidence, and procedures and reasoning that support that conclusion at the effective date of the valuation.

It is expected that, after this exercise, appraisers will be more self confident and capable to cope with valuation tasks. The session will end with analysis and presentation of the valuation report.