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SME DUE DILIGENCE AND VALUATION TRAINING

March 2009

This publication was produced for review by the United States Agency for International Development. It was prepared by Lionel Knight consultant for Shorebank International, a subcontractor to Chemonics International Inc.

FINANCIAL SECTOR PROGRAM

SME DUE DILIGENCE AND VALUATION TRAINING

Contract No. 674-M-00-08-00043-00

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EXECUTIVE SUMMARY

Background

The Financial Sector Program (FSP) supports the U.S. Government's Economic Growth Objective for South Africa. The goal of the program is to expand access to financial services and lower the financing costs for historically disadvantaged Small and Medium Enterprises (SMEs) through reforming the legal and regulatory framework affecting the financial sector and business environment and improving the commercial viability of lending to historically disadvantaged SME's in South Africa.

The assignment undertaken by Lionel (Leigh) Knight ("the Consultant") was to design and conduct a training program on Due Diligence for Lending and Investing to Small and Medium Enterprises and SME Valuation Analysis in order to improve South African SME access to finance through developing stronger institutional support in the field of commercial finance. More specifically, the goal of this initiative was to enhance the ability of special funds to evaluate the long term finance applications of the historically disadvantaged SMEs.

To achieve the above discussed undertaking, the Consultant designed and facilitated a five-day training program intended to build capacities. The training program was designed to assist the special funds in conducting due diligence for long term financing in the form of both debt and equity and to produce valuations of historically disadvantaged SMEs.

The training program was conducted during the period March 9-13, 2009 and included twelve participants[1] from the following special funds with missions to provide financing to disadvantaged small and medium enterprises: (the number of participants from the organizations are in the parenthesis): Barloworld Siyakhula (1); Grofin (2); Identity Development Fund (3); Old Mutual Masisizane (3); Pretoria Portland Cement- Ntsika Fund (1); and Thembani International Guarantee Fund (1). In addition to the above mentioned organizations, the CTO of the USAID's FSP program was also a participant in the training bringing the total number of participants to twelve.

The training course dedicated three days to SME due diligence and one and a half days to SME valuation methodologies. The training methodology employed consisted of highly participatory lectures, case studies, exercises, role playing activities, and a test at the end of the training. The outline for the total five-day training course is contained in **Annex 2**.

The Consultant was asked to design and facilitate a five-day training program on SME Due Diligence and SME Valuation Analysis. The training was to be targeted to individuals working in special funds involved in lending and investing to historically disadvantaged Small and Medium Enterprises.

The principal tasks to be completed under this engagement included the following: (1) review a sample of the participants' CVs in order to ascertain their level of sophistication; (2) review training materials and amend them such that they will be appropriate in the South African context; (3) interview participants to further assess training needs; (4) deliver the training covering SME Due Diligence and SME Valuation Analysis as part of Capacity Building for Special Funds; and (5) conduct a test and evaluate participants' performance

[1] List of participants is contained in **Annex 1**.

Summary: Training Design and Facilitation

The purpose of the SME Due Diligence and SME Valuation Analysis was designed to provide the participants with the tools and skills to assess creditworthiness of borrowers assess and mitigate business and financial risk, analyze company provided financial statements, structure loans, monitor disbursed loans, assess potential problem loans, and learn valuation methodologies related to small businesses.

Following the construction and approval of the course outline, the Consultant conducted the training program covering the topics in the outline. The class participation was high and highly focused. The class was very interactive and participatory with the participants exchanging experiences, concerns, and solutions to issues that were related to the subject matter at hand.

Based on the feedback from the participants on both the Training Workshop Evaluation form and via testimonials received both informally and by e-mail, the training program (including presentation and materials) was well received and deemed a great success. The one significant concern voiced by the participants was the time allocated to cover the depth and volume of material covered in the five days. The valuation segment in particular was cited for not have enough time to fully digest the material. The Consultant concurs with this feedback and recommends that should the course be repeated, the time allocated to the valuation segment be increased.

The participants were administered a test at the end of the training which consisted of 25 questions. The questions were of the true/false, multiple choice; fill the blanks, and calculation nature. Participants were told that there was no pass or fail. Participant test scores indicate that the great majority of the participants understood and retained the salient material that was presented in the training session. Average score for the class was 19 correct answers of the 25 questions. Details on the test scores are contained in the body of the report.

An additional benefit garnered by the training program was the participants' plan to meet on a regular basis to facilitate continuing the dialogue and cross fertilization that was encouraged and fostered in the program. The participants are planning subsequent meetings to discuss solutions to the challenges that they are encountering. This idea was generated entirely at the initiative of the participants. All of the participants are lending / investing to a similar target market and as a result, they are encountering many of the same challenges and concerns within their respective target markets. The FSP program is very pleased with this outcome and is planning to help facilitate this activity.

Summary: Training Needs Assessment

In addition to designing and facilitating the training, the Consultant was asked to conduct training needs assessment with the project's Finance Component Team Leader. The assessment was conducted via discussions with a sample of the participant organizations prior to the training and during the training with the all of the participants. The following table summarizes the training needs of the six private funds that participated in the training program:

Table 1: Training Needs for Specific Special Funds

	Barloworld Siyakhula	PPC-Ntsika	Grofin	IDF	OMM	TIGF
Project Mgmt	X	X		X		X
Impact Evaluation	X	X	X	X	X	X
Problem Loan Mgmt	X	X	X	X	X	X
Portfolio Mgmt	X	X	X	X	X	
Operating a Loan Fund				X	X	
Governance & Compliance	X	X	X	X	X	X
SME Due Diligence & Valuation					X	X
Sector Financing; i.e. Agriculture					X	X

Details of the training needs assessment are contained in the main body of this report.

Conclusions, Lessons Learned, Recommendations and Way Forward

- Four and a half days were allocated in total for the training: 3 days for SME Due Diligence and 1 ½ days for SME Valuation. All the material was covered adequately, but more time is needed for better coverage, in particular for the valuation portion. Should the course be held again, the Consultant recommends that FSP allocate 4 days and 2 – 3 days, respectively, for the Due Diligence and Valuation modules.
- The mix of very and less experienced participants worked well, with the relatively experienced trainees sharing their experiences and mentoring the less experienced trainees.
- Cross fertilization among the participants was one of the key benefits of the training program. They intend to reconvene regularly to continue exchanging experiences.
- Most of the special funds attending are still new in the field of SME finance. Additional training programs covering topics such as Loan Portfolio Management and Problem Loan Workout would be useful and pertinent, especially given the current economic environment.

SCOPE OF WORK

The Consultant was asked to design and facilitate a five-day training program on SME Due Diligence and SME Valuation Analysis. The training was to be targeted to individuals working in special funds involved in lending and investing to historically disadvantaged Small and Medium Enterprises.

Deliverables

Deliverables for this task include the following:

- Final Report summarizing lessons learned, trainee performance and way forward;
- Facilitate a 5-day training program on SME Due Diligence and SME Valuation Analysis;
- Test of Participants following the training program (Test provided in **Annex 3**); and
- Summary Training Needs Assessment[2].

Summary Tasks

The principal tasks completed under this engagement include the following:

- Reviewed the CVs of a sample of the participants to ascertain their level of sophistication;
- Reviewed Consultants existing training materials and amend them such that they will be appropriate in the South African context;
- Assessed Training Needs;
- Delivered the training covering SME due diligence and SME valuation Analysis as part of Capacity Building for Special Funds; and
- Conducted test and evaluated participants' performance.

[2] Training Needs Assessment was requested by the Finance Component Team Leader, when the Consultant arrived in South Africa to conduct the training. As a result, the request was not a part of the original scope of work. The Consultant agreed to include the Summary Training Needs Assessment as part of the deliverables.

REVIEW SAMPLE OF PARTICIPANTS' CV

The Consultant received and reviewed the CV's of 8 of 12 participants (some participants were not able to provide CVs) prior to the start of training program. The purpose of the review was to determine the skill level of the participants and to make adjustments in the design of the training program based on this review.

The profile of the participants as a group was very diverse on many levels (male/female mix and racial/ethnic mix). A handful (4) of the participants had relatively extensive experience in lending from prior positions, although not necessarily to SMEs. This led to the Consultant to organize the participants into four teams of three participants each for exercises, role playing and case study analysis. This structure enabled each of the experienced lenders to work with the less experienced lenders to share "real world" experiences

The review indicated that all of the participants were involved in providing financing and technical assistance to historically disadvantaged small and medium enterprises. Most of the participants were actively providing financing with the exception of the Identity Development Fund, which is still in the capital raising phase. According to the CV's, many of the participants had some experience in accounting in either an academic or a professional capacity. One of the participants was a CFA (certified financial analyst) and one was CA (certified accountant). However, during the training, it was observed that a number of the participants lacked the ability to interpret the impact of accounting principles on the businesses that they were assessing. This led the Consultant to spend more time on accounting principles than originally planned. Despite this, the experiences that the participants as a group brought to the training from prior positions enabled all of the participants to add to the training experience and trumped any accounting deficiencies that individual participants may have had. Follow up SME Due Diligence and SME Valuation training programs should consider allocating time for addressing accounting principles, despite the experience cited on CV's

DESIGN TRAINING MATERIAL CONSISTENT IN SOUTH AFRICAN CONTEXT

In addition to participant CV's for review, the Consultant received and read several documents to get a sense of the environment for SME's in South Africa. These documents included the following:

1. *"Information Sharing of SMME Financing in South Africa- A Survey of the Landscape" by Michael Turner, Robin Varghese, and Patrick Walker*

2. *"The State of SME Equity Finance in South Africa: A Review of the Industry and the Techniques Used for Successful Investment"*
   by John Hannig and Michelle Joubert

3. *"Financial Sector Program- First Annual Work Plan Presentation*
   (October 2008- September 2009)"

Review of these and other articles and presentations enabled the Consultant to adapt the training materials, including cases and exercises, for the South African context.

The case studies presented in the training had a universal application and resonated well with the participants. The financial information and terminology had to be adjusted to a South African context and the currencies used in the cases transformed to a rand basis.

Training Needs Assessment

The Training Needs Assessment was conducted by Tocher Mitchell, the Finance Component Team Leader and Lionel Knight, the Consultant via interviews on March 5 and 6 with key members of the following organizations: Identity Development Fund, Pretoria Portland Cement - Ntsika Fund, Barloworld Syakhula, Grofin, and Thembani International Guarantee Fund. In addition, the Consultant led a discussion regarding the future training needs that the participants envisioned would enhance their skills and ability to service their target markets. The following were discussed as possible topics for training programs to enhance the participants and their organizations' skills.

Possible Training Areas:

- **Project Management** training that would provide the participants with the tools to manage a project from inception to completion. Topics to be included in this training would be project engagement; project implementation; managing legislation; stakeholder engagement; project syndication; project monitoring; and project assessment of both financial and non financial factors.

- **Problem Loan Management** training to assist the participants in assessing, restructuring and managing problem loans. This type of training will be critical as the loan portfolios of the funds become more seasoned and start to experience more defaults. With the weakening South African economy, this type of training may become more relevant to the participants as the default rate is likely to rise.

- **Portfolio Management** training that would provide the participants with the tools to create and manage a planned and structured loan portfolio; limit concentration risk; diversify the loan portfolio; maximize returns on the portfolio; manage funding sources; and monitor a portfolio of loans.

- **Operating and Managing a Loan Fund** training would be helpful in providing the participants the tools to assess the best loan products and services for the target market; to market their programs; to measure the impact of their activities on the target community and (Impact evaluation could be incorporated into this training); to assess loan operations and portfolio monitoring.

- **Governance and Compliance** training that would review the various South African laws and policies regarding the corporate governance of different business forms in South Africa.

- **Impact Evaluation Course** that would provide the tools to conduct and assess impact studies that measure elements such as job creation etc.

- **SME Due Diligence and SME Valuation Analysis** was suggested for a repeat presentation by some of the participants who have colleagues within their organizations that might benefit from the training.

- **Sector Financing Course** would provide the participants with the ability to analyze and assess companies that are part of a specific sector or industry that have unique business risks. This training would focus on structuring financing that would address risk mitigation in those sectors. An example would be Agricultural or Ag-Processing financing.

- In addition to the training, several of the participants indicated a desire for support from the FSP program in creating a **Credit Scoring System for SME lending**. It is the hope of the participant's that such a scoring system will enable the special funds to improve and speed up the initial screening of candidate SMEs and focus the due diligence and credit evaluation processes. FSP appears to have an interest in exploring this activity.

The above list of training areas are important for operating in the small business environment. Many of the lenders from these special funds do not have extensive lending experience with small businesses. The Consultant appreciates that FSP is limited by budget and time constraints and not all of the training requests are possible. However, based on the current economic environment in South Africa and the fact that some of the organizations are experiencing problem loans, the Consultant believes that there is a need to provide the special funds with the tools to deal with the potential problem loans that might be in the portfolios. This training should be initiated as budget funds become available.

In addition, should FSP decide to facilitate additional training, some of the issues that would be covered in training courses like Governance and Compliance and Impact Evaluation could be included into one or two training programs like Portfolio Management or Operating and Managing a Loan Fund.

The participants in this training were highly motivated and interested in learning and using the materials presented in the training. This was demonstrated by their strong response to the training and their dedication attending the sessions despite intense “regular” work requirements. Most of the organizations were formed since 2007 and are in the early stages of their business life cycles. For any financial business, this is a challenging time for management to deal with growth objectives tempered by the need to maintain portfolio quality. This challenge is magnified for special funds because the client base is by definition “risky”. They must balance the need to lend to companies that are financially and operationally weak with the need to remain sustainable. These special funds will need more support via training and other means of support to enable them to accomplish their goals.

Although all of the organizations could benefit from most of the proposed training programs/workshop outlined above, the section below summarizes the specific training needs of the six organizations that participated in the training program.

Barloworld Siyakhula

Barloworld Siyakhula was established in 2007 as part of Barloworld’s commitment to enterprise development and sustainable BBBEE. Barloworld Siyakhula is a wholly owned subsidiary of Barloworld and provides financial and non-financial support primarily to SME suppliers, contactors, and enterprises as well as assisting in the exploration and development of Greenfield business opportunities within the Barloworld value chain. The fund has committed equity and loans in several businesses including Avis Van Rental Pretoria, Avis Van Rental Western Cape, Moe & Company, Nathi Africa, and Rubber Lay. Barloworld Siyakhula has a strong and experienced managing director who appears very hands-on. The fund is interested in Project Management and Impact Evaluation training to assist in assessing the assessing and managing projects and producing impact reports on the effectiveness of their programs. Problem Loan Management and Portfolio Management training were areas of interest due to the organization’s interest in financing green field projects that might be somewhat out of its normal funding operations.

Grofin

Grofin is a multi-national specialist in SME finance and development. The fund provides financing and mentoring services to its borrowers. The organization has a presence in nine countries and has two offices in South Africa (Pretoria and Durban). The Pretoria office (which attended the training) has made approximately 20 loans totaling about ZAR 50 million. Grofin has indicated that they are experiencing some problem loans and it is believed that the fund could use training in managing problem loans, particularly, since they are relatively thinly staffed. Portfolio Management and Impact Evaluation training will be useful to Grofin as it expands its portfolio and seeks to assess and reconcile the impact of its lending and investing model with it its return criteria of 30% IRR.

Identity Development Fund Managers (Pty) Ltd

Identity Development Fund Managers (Pty) Ltd (IDF) was established in 2008 and is led by women professionals, Identity Partners. The fund is still in the process of raising capital and has not made any loans or investments to date. The organization has a mission to provide financing and technical assistance to black owned SMEs in the rural and peri-rural areas. Due to the organization’s early stage of operations and its thin staffing complement, IDF has a wide range of training needs. Training like Operating a Loan Fund and Impact Evaluation training will be important to a new fund to avoid missteps at the beginning of the process. In addition classes on Portfolio Management will help in establishing credit policies that are in line with the organization’s mission and target market will be beneficial to the organization. Once the organization is actively lending, Problem Loan management will be helpful to avoid potential pitfalls.

Old Mutual Masisizane

Old Mutual Masisizane (OMM) was established as a result of the public listing of Old Mutual in 1999 and later the demutualization of the company which left some unclaimed free shares. In 2006, the executive management recommended that some of the proceeds of these shares be used to benefit South Africans and a portion of the after tax proceeds were to be invested through OMM in development initiatives. OMM coordinates the delivery of these initiatives. OMM has partnered with several organizations to help further its mission, which is to promote enterprise development with a focus on women-owned businesses, build capacity, develop skills, provide financial education, and support national economic transformation. Some of its partners are Small Enterprise Fund, Umsobomvu Youth Fund, and WDB Microfinance among others. OMM has a number of training needs. Particular areas of focus include Problem Loan Management, Portfolio Management, and Operating a Loan Fund. OMM has indicated an interest in having other member of their staff attend a repeat of the SME Due Diligence and Valuation Course. The FSP is planning to provide additional assistance to OMM to help them streamline their lending process.

Pretoria Portland Cement- Ntsika

Pretoria Portland Cement - Ntsika (PPC Ntsika) was an enterprise fund that was established in 2007 by PPC to provide debt and equity financing and advisory services to SME companies that are in its value chain. The organization has about ZAR 70 million allocated for its portfolio of loans. Its key operating staff person has substantial financing experience. PPC Ntsika's training needs are similar to Barloworld Sikyakhula's. Project Management, Problem Loan Management and Portfolio Management should be the key areas of training focus.

Thembani International Guarantee Fund

Thembani International Guarantee Fund (TIGF) is an NPO that was established in 1996 to provide development finance guarantees and technical assistance to MFIs and small and medium sized rural agricultural enterprises. As with Barloworld Siyakhula and PPC Ntsika, TIGF's key staff has ample experience in SME finance. TIGF has never had a guarantee called, but it is experiencing some difficulties in its portfolio as the economy weakens in South Africa. Therefore, Problem Loan Management is a course that will be beneficial to the organization. Project Management and Impact Evaluation training are areas that were requested by TIGF to help it in monitoring and evaluating performance. In addition, TIGF cited best practices training on lending to Agricultural and Agro-Processing projects as beneficial areas for training.

Below is a table that summarizes the training needs of each organization.

Table 1: Training Needs for Specific Special Funds

	Barloworld Siyakhula	PPC-Ntsika	Grofin	IDF	OMM	TIGF
Project Mgmt	X	X		X		X
Impact Evaluation	X	X	X	X	X	X
Problem Loan Mgmt	X	X	X	X	X	X
Portfolio Mgmt	X	X	X	X	X	
Operating a Loan Fund				X	X	
Governance & Compliance	X	X	X	X	X	X
SME Due Diligence & Valuation					X	X
Sector Financing; i.e. Agriculture					X	X

DELIVERY OF THE TRAINING PROGRAM COVERING SME DUE DILIGENCE AND VALUATION

The Consultant covered all of the key topics in the outline. Although the training covered all the topics included in the outline, the pace and intensity of the training was rigorous. Fortunately, the class was enthusiastic, lively, focused, and interactive throughout the five days of training.

Future training should consider allocating 4 days for Due Diligence training and 2- 3 days instead of the 1 ½ days actually allocated for Valuation training. The valuation segment is a particularly technical segment especially for the individuals who were more accounting challenged. The valuation segment could have been more effective if the participants had more time to digest the material, raise questions and complete additional exercises. Perhaps de-linking the Valuation Training as a separate training program from the SME Due Diligence program might be a solution.

The class was highly interactive and the participants were all enthusiastic and complementary of the course content and presentation. Based on the feedback from the participants on both the Training Workshop Evaluation Form and in informal testimonials and e-mails, the material was well received. The Consultant generally attained scores of 4 and 5 (1 represents the lowest and 5 the highest score) for knowledge, presentation, experience and overall satisfaction. Annex 4 contains an analysis of the SME Due Diligence and SME Valuation Training Workshop completed by the FSA project.

CONDUCT A TEST AND EVALUATE PERFORMANCE

The Consultant challenged the participants throughout the training via exercises, cases and role playing. In addition, an examination was administered to the participants on the last day of the training program. The participants were given until the close of business March 16 to complete the test and return the answers back to the Consultant and the Finance Component Team Leader. The test consisted of 25 questions based on the material covered during the training program. The participants were informed that there would not be a passing or failing grade and that the test would be used to gauge how well the material from the course was presented by the Consultant and understood and retained by the participants.

The Consultant received completed tests from 11 of 12 participants. As discussed above, the test consisted of 25 questions that included multiple choice, true/false, short essay-fill in the blanks and a question that required calculations. Participants received a point for each correct answer. Thus the maximum score that a participant could receive was 25 points or 25 of 25 correct answers. The average score of the class was 19 of 25 correct answers. Nine of eleven of the participants scored between 16 and 24 correct answers with two participants achieving a score of fewer than 15 correct answers. Strictly on the basis of the test scores, it can be concluded that 81% of the participants understood and retained the material that was presented in the training course. Input from the participants during class exercises and cases indicate that all the participants had at least an adequate level of understanding of the course material.

The following table is a breakdown of the class scoring range:

Table 2: Test Scoring Range

Range of Scores	0-5	5-10	11-15	16-20	21-25
# of Participants	0	0	2	4	5

LESSONS LEARNED

The training sessions were overall very successful for the participants. Despite the rapid pace and heavy workload, the participants demonstrated a real need and desire for training that would be helpful in the execution of their jobs.

For many of the participants it was their first time working and meeting with individuals who were involved in the same general mission, financing historically disadvantaged SME's. The opportunity to compare experiences, challenges, successes and contacts was a unique opportunity that is leading the group as a whole to organize a kind of association that will meet on a regular basis to continue discussions among the different funds. The USAID FSP will facilitate the continuation of these meetings.

The following are key conclusions and lessons learned from the training:

- **Time allocated for Valuation was Insufficient**

Combining the Due Diligence and Valuation Analysis segments was accomplished, but it have been better if more time was allocated for the Valuation segment. As mentioned above, the Valuation segment is very technical and one and a half days is not enough time to cover such a subject, particularly for participants that are being exposed to the subject for the first time and are not proficient in accounting and financial principles. It is suggested that the Valuation segment be increased to two or three days and be considered a separate course. This would allow for greater background discussion on the fundamentals of the subject and more exercises and cases.

- **Accounting Proficiency**

Despite the level of accounting cited in the CV's of the prospective participants, time should be allocated and built into the training to sufficiently cover certain salient accounting principles. Even though the participants all had at least some background in accounting, the Consultant found that a review of certain salient accounting principles was helpful in discussing many of the topics in the Due Diligence section (ratio and cash flow analysis) and in the Valuation Analysis segments.

- **Team Building Benefit**

Conducting training with a blend of experienced and less experienced participants worked well, particularly when mixed teams were set up for working on exercises, cases, and role plays. The experienced participants were able to complement the formal aspect of the training by being able to share their experiences with different types of borrowers and financing situations. Thus, the training venue became an opportunity for the participants and the Consultant to discuss how different challenges might be addressed in the future by employing some of the tools being used in the training session. This led to the participants' desire to form a type of association that would enable the participants to meet on a regular basis to discuss issues related to lending to disadvantaged SME's. The FSP has indicated an interest in facilitating this process.

- **Challenges of the Special Funds**

The funds represented in the training are at early levels in their "life cycles". One organization is still in the capital raising stage and is yet to make a loan. Others like Barloworld Siyakhula, PPC-Ntsika Fund, Grofin, and Old Mutual Masisizane are actively providing financing to SME's. One fund, Thembani International Guarantee Fund (TIGF) is a guarantee fund with some of its own unique concerns. Although the Consultant was not able assess in depth the organizations, it was observed that all of the funds except TIGF had been established since 2007 and as a result have loans that are for the most part unseasoned. Some of the loans are still in the grace or moratorium phases. As a result, the impact of the organizations lending practices, risk assessment, monitoring and problem loan solving skills are yet to be tested. As the economy in South Africa continues to feel the impact of the global recession, several of the loans and the organizations may encounter challenges to their portfolios and the organizations themselves. The FSP program may need to provide assistance (advisory or training) to these organizations to help them weather the challenges in loan portfolio management that they are likely to encounter.

- **SME Challenges**

It was not within the scope of work of the Consultant to assess the needs of the SME's that are receiving financing and technical assistance from the special funds. However, based on discussions with the participants and others, it is evident that the SME's are in great need of training and assistance covering topics such basic business practices, marketing, financial management, business planning, and accounting, etc. The Consultant Recognizes that this type of training is beyond the scope of the FSP but; the Consultant believes that association building among historically disadvantaged SMEs might be helpful in ultimately providing a forum where training and advisory assistance can be provided to a large number of potential needy business owners.

WAY FORWARD

The Way Forward will be determined to a significant degree by the level budget and time that can be allocated to the training of the special funds. As discussed earlier, the majorities of the special funds are in the early stages of their life cycles and will likely undergo significant change as they move to a more mature stage. As a result many of the organization's needs may not be fully formed. However based on the discussions that have taken place, these organizations will need support in several areas over time. The Consultant understands that the budget among other constraints will determine the level of support and training that can be achieved. Thus, given these constraints, setting priorities is going to be important, because not all of the training and support requirements can be met.

In the short term, the Consultant recommends that the following training programs be considered priorities when it is appropriate from a budget and timing perspective: Problem Loan Management; Portfolio Management; Project Management; Operating and Managing a Loan Fund. Each training program should be done over a three-day time period. These were selected because of the importance that this type of training will have in helping the funds to remain sustainable in the future. Finally, although not a training request, FSP should consider facilitating the Credit Scoring for SMEs. The participant organizations feel that it is necessary and it is an objective for the FSP project.

ANNEX 1 – PARTICIPANT LIST

Name	Company	Designation
Matthew Govender	Barloworld Siyakhula	Managing Director
Miekie Smidt	Grofin	Business Development Manager
Siya Gogo	Grofin	Business Development Manager
Dinao Lerutla	Identity Development Fund	Chief Investment Officer
Polo Radebe	Identity Development Fund	CEO
Mphethe Tau	Identity Development Fund	Business Development Associate
Zimkhitha Mhlanga	Old Mutual Masisizane	Senior Project Manager
Benna van der Merwe	Old Mutual Masisizane	Enterprise Development Specialist
Mzoli Ndzamela	Old Mutual Masisizane	Enterprise Development Specialist
Rashied Essop	Pretoria Portland Cement - Ntsika Fund	Enterprise Development Manager
Norman Buckham	Thembani International Guarantee Fund	Chief Executive Officer
Alan Hackner	USAID	Financial Sector Program Manager

ANNEX 2 – COURSE OUTLINE

OUTLINE
SME DUE DILIGENCE & VALUATION TRAINING

I. DUE DILIGENCE SEGMENT

DAY ONE

A. Participant Welcome and Program Orientation
B. Review Pre-Course Exercise-Center Road Child Care Center
C. The Credit Process
D. Introduction of Concepts and Terminology
- Defining Creditworthiness
- The 5 "C"s of Credit
- Asset Conversion Cycle ("ACC")
- Business Risks and Mitigants
- Statement Logic
- Business Characteristics and their Impact on the Financial Statements

E. The Evaluation Process
- Conducting the Interview
- Understanding the Lender's and Borrower's Objectives
- Assessing Management
- Using the ACC as a Tool in the Interview Process
- Necessary Information
    - Business Plan
    - Company Financial Statements
    - Personal Financial Statements
    - Breakeven Analysis

F. Assessing the Quality of the Financial Information

DAY TWO

G. Role of Equity
H. Accounting Risk
I. Types of Statements
J. Financial Statement Analysis – Review
- Spreading the Financial Information Provided by Company
- Analyzing the Financial Statements
- Ratio Mechanics
- Ratio Analysis

K. Company Cash Budget Analysis
L. Cash Flow Analysis
- Background – Why the cash flow statement an important analytical tool?
- Tools for measuring cash flow
- The Cash Flow Statements
    - Direct Cash Flow Statement
- Mechanics for constructing the Direct Cash Flow Statement
- Analyzing the Cash Direct Flow Statement
- Assessing the viability of a business, i.e., company's ability to generate cash and repay its obligations on a timely basis

DAY THREE

M. Reviewing Financial Projections
- Assessment of Projection Assumptions

N. Loan Structuring
- Lending Rationales

O. Problem Loan Management Issues
- Defining Characteristics
- Major Causes of Problem Loans
- Detecting Problem Loans
- Restructuring and Resolving Problem Loans

P. Alternative Sources of Financing for SME's

II. VALUATION SEGMENT

DAY FOUR

Q. Basic Principles of Valuation Analysis

R. Assessing the Purposes of Valuation

S. Challenges of Valuing Small vs. Large Companies

T. Key Valuation Considerations
- Valuation Principles
  - Value Definition
  - Price vs. Value
  - Risk
  - Company Dynamics
- Valuation Methodologies Summary
  - Comparables Valuation
  - Asset Based Valuation
  - Market Based Valuation

DAY FIVE

- Valuation Methodologies (continued)
  - Discounted Cash Flow (DCF) Valuation
- Other Valuation Issues
  - Valuing in Emerging Markets
- Wrap Up
- Test

ANNEX 3 – TRAINING PROGRAM TEST

1. Please define creditworthiness.
2. Please complete the following sentence: Business risks results in the shrinkage in the…
    a. Liabilities of the company
    b. Expense of the company
    c. Equity of the company
    d. Sales/ Revenues of the company
    e. Book value of the assets of the company
3. Which company will have the shortest ACC between a trading company of copper ore or a manufacturer of copper products?
4. Which company will have the longest ACC between a trading company of cooper ore or a retailer of copper masks and crafts?
5. Which company would likely have the greatest level of business risk based on its ACC.
    a. Trading company of copper ore
    b. Manufacturer of copper products
    c. Retailer of copper masks and crafts
6. Using statement logic, would an increase in long term debt at the end of fiscal year 2006 to purchase new and efficient machinery result in a _____?
    a. Increase in Interest expense in 2006
    b. Increase in Interest expense in 2007
    c. Increase in cost of good in 2007
    d. Decrease in net profit after tax in 2006
    e. Increase in the dividend in 2007
7. Covenants should optimally be used to___________.
    a. Punish a company for not meeting its projections
    b. Early warning to the lender of potential problem
    c. Inform the lender that the borrower has violated the agreement
    d. Indicate that the company is nearing bankruptcy
    e. All of the above
8. Covenants should be set based on which set of projection scenarios?
    a. Best case
    b. Most likely case
    c. Worse case
9. In conducting sensitivity analysis on projection, the best case scenario should come from the lender after careful review and discussion with the borrower.
    a. True
    b. False
10. Credit Risk is defined as the risk that a loan will either not be paid or will not be paid on time.
    a. True
    b. False

11. In the credit process, what element of the process is critical for keeping the loan on track following disbursement?
    a. Evaluation
    b. Loan approval
    c. Loan Workout
    d. Monitoring
    e. All of the above
12. When looking at accounting risk, the lender/investor, which elements can most negatively impact the company? Please circle all that apply.
    a. Overstated revenues
    b. Understated revenues
    c. Overstated expenses
    d. Understated assets
    e. Understated expenses
13. Return on Equity is defined as:
    a. NPAT / Liabilities
    b. NW / NPAT
    c. NPAT / Sales
    d. NPAT/ Total Assets-Liabilities
    e. NPAT / Dividends
14. ROS (Return on Sales) measures a company's?
    a. Asset management
    b. Liability management
    c. Efficiency
    d. Leverage
    e. Profitability
15. Working Investment is_________.
    a. Current Assets – Current Liabilities
    b. Current Assets -- Total Liabilities
    c. Cash + Account Receivables – Current Liabilities
    d. Accounts Receivable + Inventory- Accounts Payable + Accrued Expenses
    e. Total Assets – Total Liabilities
16. If you had 10 minutes to assess projections, which assumptions would you focus your time on?
    a. Net Income
    b. Cost of Goods Sold
    c. Liabilities
    d. Sales
    e. Capital Expenditures
17. What kind of lending facility would you use to structure the financing of a delivery truck by a commodity company?
    a. Line of credit
    b. Letter of Credit
    c. Term loan
    d. Short term note payable

e. None of the above

18. Asset protection lending should always be the “second way out” of a loan.
    a. True
    b. False
19. What is the best way of detecting a problem loan
    a. Discussion with the borrower
    b. Annual report
    c. Quarterly report
    d. Supplies to the borrower
    e. Rumor heard on the grape vine
20. What valuation technique would you use if the company is considering liquidation?
    a. Asset Based
    b. Discounted Cash Flow
    c. Market Based
    d. Fair Market Value
    e. None of the above
21. Fair Market Value is the price that would be negotiated in an open and unrestricted market between a willing, knowledgeable and not anxious buyer and a willing, knowledgeable seller transacting at arm's length.
    a. True
    b. False
22. Please name a key weakness to utilizing Market Based Valuation Techniques?
23. Why is the Discounted Cash Flow Valuation Technique viewed as the “gold standard” of valuation techniques?
24. Why does Free Cash Flow not include depreciation and amortization, interest, and taxes?

25. Please calculate the WACC (the Weighted Average Cost of Capital) for a company based on the following assumptions.

    Gov’t ten-year treasury: 9%
    Gov’t one-year treasury: 5%
    Market return: 12%
    Company average cost of debt: 8%
    Company corporate tax rate: 20%
    Beta: 1.1

    Company Balance Sheet:

Cash	100	Notes Payable	120
Accounts Receivable	200	CPLTD	80
Inventory	300	A/P	100
Pre paid Expenses	50	A/E	80
Other Current Assets	20	Other Current Liabilities	20
Total Current Liabilities	670	Total Current Liabilities	400
PP&E (net)	500	LTD	200
Long term Investments	100	Net Worth	670
Total Assets	1270	Total Liabilities & Equity	1270

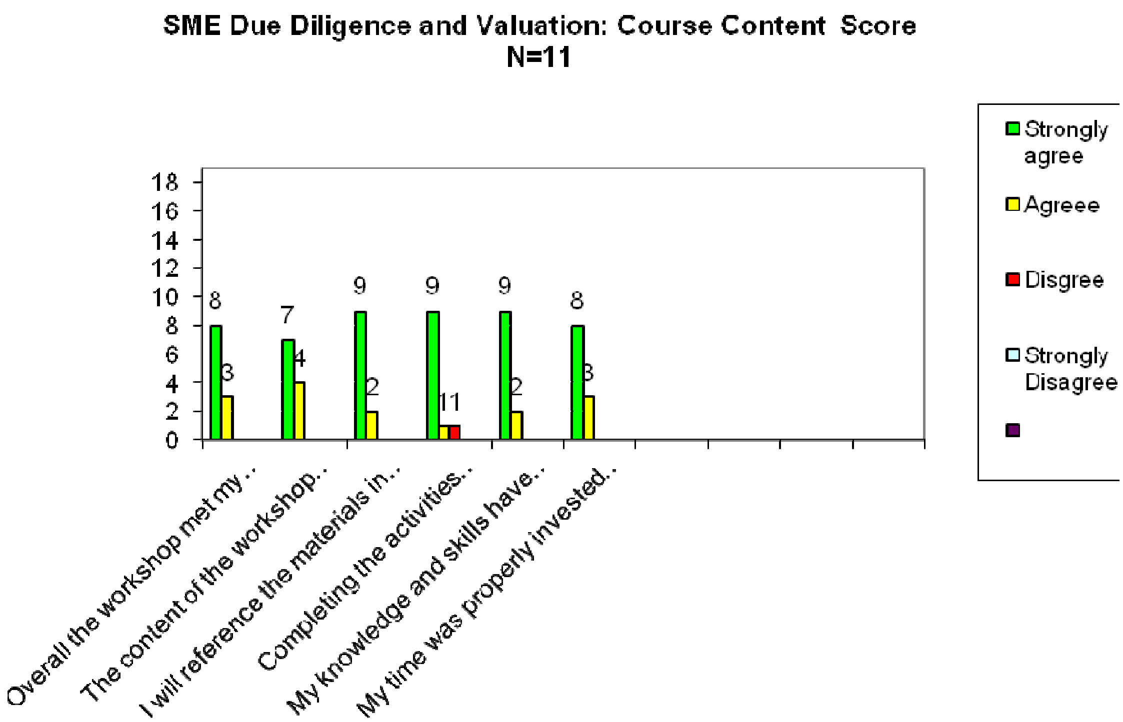
ANNEX 4 – EVALUATION FOR SME DUE DILIGENCE AND SME VALUATION WORKSHOP

SME Due Diligence and Valuation Training Workshop:

During the week of the 09-13 March 2009, FSP conducted an SME Due Diligence and Valuation training workshop. The purpose of the workshop was to enhance the ability of special corporate funds loan professionals to evaluate the long-term finance applications of HD SMEs. A total of 12 loan professionals including senior managers attended the week long training. All of the participants were BBE beneficiaries as defined by the BEE Act represented by 5 women ad 5 men.

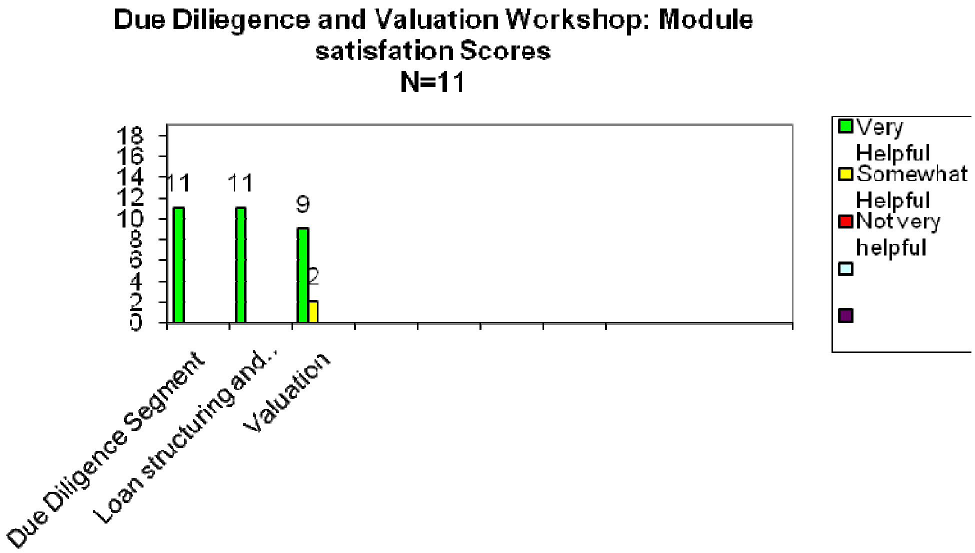
Facilitation Methodology
The facilitator commenced by reviewing attendees' knowledge levels through a thorough examination of their resumes resulting in a short listing and interviews of participants. The workshop was interactive and participatory.

Figure 1



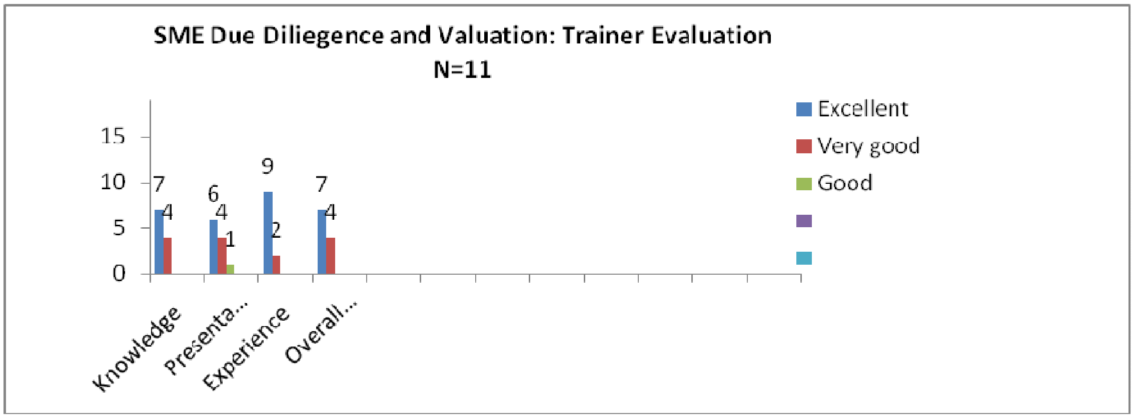
Participants were asked to rate the workshop based on their satisfaction level: "strongly agree" was the highest, while "strongly disagree" was the lowest possible score. On the statement about the overall satisfaction with the workshop, 73 % of the participants strongly felt that the workshop met their needs and expectations while 27 % agreed with the statement. The level of satisfaction with the content scored higher as well, 64 % of the participants felt strongly that the content of the workshop was useful and 36% agreed with the statement. Participants concurred that the materials and methodologies thereto provided were of high quality, 82% of the participants strongly felt that the activities enhanced their learning experience. Furthermore, 82% of the participants felt strongly that materials and activities have increased their levels of knowledge and skills while 73 % of participants also strongly agreed that their time was utilized effectively and the training workshop was an excellent investment. However, one participant felt that the material was too abstract for none-accountants.

Figure 2



The scores for this section ranged from very helpful to not so helpful. Participants scored satisfaction with modules the highest. There was a 100% strong concurrence on the due diligence segment as well as Loan Structuring and Problem Loans. While still not low, the valuation segment received 82 % score indicating that, among other things, the 18% perceptive scores represents junior loan professionals with less exposure to these methodologies. In addition, fewer comments were written on the valuation segment. Participants' appreciation comments corroborate the statistics concerning due diligence and valuation. Commenting on due diligence as a learning experience which will help improve performance, a participant wrote, "detail of analysis, use of asset conversion cycle in templates for analysis will help me understand SMEs better as well as define the purpose of the loan". Another participant wrote, "Evaluating risks based on the asset conversion cycle and how to mitigate it will assist in evaluating business management, financial needs".

Figure 3: SME Due Diligence and Valuation Training: Trainer Valuation



Finally, the teacher rating were determined based on the scale that ranged from excellent = the highest score and good= the lowest that participants chose. Of the total participants, 82% acknowledged the experience of the trainer by scoring it the highest. 55 % of the participants felt that was excellent, while 36 % felt it was very good.

Conclusion:

In general, participants felt the training was exceptional. A select few participants felt that the valuation segment was technical. There is a need for more local case studies and time devoted to unraveling them.