

Sector - Commercial Banks

Credit lines

1. **Appraisal:** Assess demand, pricing competitiveness, and whether the spread can cover provisions and expenses. Ensure that the objectives of assisting SMEs are well understood. Address product delivery capability shortcomings through training and assistance.
2. **Objectives:** Ensure that the objectives of assisting SMEs are well understood and shared. Reconsider objectives in terms of developing project lending capabilities where reliance is on collateral not risk appraisal. Establish a close link with sub-project eligibility criteria.
3. **Environmental reviews:** Ensure review costs can be covered by the spread. Consider lowering expected standards for intermediary institutions and simplifying procedures.
4. **Markets:** Conduct an in-depth study of the market for the product offered to assess whether sufficient demand exists to ensure complete disbursement within a reasonable time frame.
5. **Local country regulations:** Take account of local regulations when drafting covenants and require evidence of compliance with local environmental regulations.
6. **Foreign exchange:** Explore local financing, despite government promoted cover schemes. In countries without convertibility, target exporting companies with partly foreign currency revenues.
7. **Sub-projects:** Do not underestimate the time involved for reviews - consider preliminary training. Ensure full information is provided in supervision reports.

Agency lines

1. **SMSEs** are seldom exporters or fixed asset investors, and often need strategy diagnosis, quality consultants, local currency, working capital finance and risk capital. To finance SMSEs, talk to banks specializing in them (not blue chip companies), and allow flexible financing of loans.
2. **Agent:** Ensure the agent has the technical skills for the evaluation tasks, and that there is sufficient incentive to pursue the agency line versus traditional business. Keep security arrangements simple, to avoid undermining the agent's ability to support client companies.
3. **Financial projections:** Discount projections for the added uncertainty of potential major structural changes. Sub-project volume growth projections should be consistent with risk assessments.

Equity investment in banking institutions

1. **Privatization of financial institutions:** A strong, qualified sponsor is crucial, and a simple strategy is recommended. Do not assume instant growth in loan portfolios. IFC can help a company's independence by frequent Government communication.
2. **Management:** A strong, qualified and experienced manager is essential.
3. **Performance forecasts:** For newly privatized financial institutions, do not assume instant growth, particularly of the loan portfolio.
4. **Sponsor:** A strong and qualified sponsor is needed for the successful privatization of a financial institution.

Common theme

1. **IFC staff turnover:** Introduce the new Investment Officer to the clients and transfer the knowledge base to ensure a smoother transition. To help alleviate the transition risks, seek strong local board representation.

The above lessons are based on 33 lessons from past IFC investments.
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