Country - Hungary

1. **Venture capital funds:** Thoroughly assess the manager and manager's contract. Relate fees to profit performance/invested capital. Avoid investing where IFC has no role in structuring the fund or there is "political" pressure to invest. Temper overoptimistic deal flow forecasts.

2. **Markets:** Highly profitable markets attract new entrants. Forecasts need to consider individual market components. Identify competitive forces affecting demand and purchasing patterns. Consider product price and quality in market projections.

3. **Liberalizing economies:** Consider the impact of rapid changes on a project's market. Imported used EU products, such as cars, can be major sources of competition to local products. Keep business plans simple as socialist management converts to private.

4. **Exports:** Forecasts of exports to former socialist economies are inherently unreliable. A foreign partner is of limited export assistance if it has no business relations with the main users. Review back-up export marketing agreements carefully.

5. **Management:** Good, qualified management is crucial. Converting a socialist management into a private one is difficult. Management training programs should be carefully designed and periodically reviewed.

6. **Sponsors:** Strong support and commitment are essential. Even sponsors who know their business well may make mistakes in entering a new market.

7. **Appraisal:** Take account of trends in the economic environment, and review back-up agreements carefully.

8. **Prices:** Long-term contracts should reflect market price determinants. Forecasting margins is preferable to forecasting prices, but margins too can change substantially.

The above lessons are based on 25 lessons from past IFC investments.
Last updated December 1998.