

Sector – Infrastructure (excluding power)

1. **Sponsors:** Financial strength, technical knowledge, contacts, commitment and strategy are important. Ensure areas of responsibility are clear. Do not rely on sponsor assumptions. Obtain commitments to list, and to channel future business through the project company.
2. **Expert sources:** Obtain independent projections/estimates (from sources inside and outside of the Bank Group) to mitigate the risks of new markets/technology or sponsor inexperience. Maintain technical assistance for as long as possible.
3. **Shipping:** Be flexible in investment agreements and on procurement. Timely ship purchases can reduce risks. Use specialized external counsel. Staff need on-going training, to maintain knowledge base and given changing staff responsibilities.
4. **Appraisal:** Anticipate lower than expected revenue build up in the early stages. Analyze clients as well as industries. Assess the effects of government regulations on a business.
5. **Competition:** Do not underestimate the response of the competition.
6. **Loan structure:** Be flexible in covenants to accommodate reasonable changes. Tailor repayment schedules to match projected cash flow streams. Hedge any exchange rate risk between the time of raising funds and project completion.
7. **Equity investment:** Consider phasing the capital program. Capture full potential of upside participation through put options and link to non-financial performance indicators. Hedge foreign currency investments.
8. **Project developmental impact:** Pay as much attention to developmental impact as to business and financial issues. Use leverage prior to investment to enhance developmental quality.
9. **Reporting:** Timely and accurate reporting is necessary during the start-up phase to anticipate and respond to emerging problems.
10. **Supervision:** Maintain and update key project documents. Make explicit non-financial performance targets to simplify post-evaluative analyses.
11. **Facility owners:** Customer-owners will not be motivated to maximize company financial performance, so protect the investment through non-financial indicators. Non-customer owners must be strong enough to maintain a balance between relative customer strengths and appropriate tariffs.
12. **Customer sensitivity:** Analyze the customer's business - consider off-take agreements. Encourage customer base diversification. Be conservative in sales volume projections.

The above lessons are based on 47 lessons from past IFC investments.
Last updated December 14, 1998.