

Sector – Power

1. **Contracts:** Closely investigate the conditions under which contracts are awarded, and the risk-reward balance between the producer and the host country. If there are fairness concerns about contractual arrangements, avoid participation.
2. **Hydrology potential:** Obtain an independent opinion, particularly if the host government takes the risk. Discount for inherent risks if inadequate data is used.
3. **Loan structure:** Consider including a pre-payment fee to help compensate for small loan transaction costs. Foreign currency financing is risky for companies supplying a domestic market.
4. **Political risk:** Changes in government can bring re-examination of infrastructure projects. When a government plays a major role in a project, take care to avoid conflicts of interest.
5. **Sensitivity analysis:** Consider the effect of adverse changes to macro-economic variables. Assess for low production scenarios, and the consequences to the host country.
6. **Sponsors:** Good sponsors are vital. Do not rely on a foreign sponsor to assess hydrology risks.
7. **Issue resolution:** IFC's ability to influence contractual arrangements is limited after investment commitment.
8. **Small power plants** can provide significant developmental benefits in a short time frame in countries with an urgent need for additional power.
9. **Pioneering ventures:** IFC's work in project structuring and regulatory framework improvement benefit future similar projects.
10. **Pre-emptive rights** to invest in inter-affiliate follow-on projects can hedge against advantage being taken of IFC-financed projects.
11. **Foreign exchange exposure:** Encourage swaps to reduce exposure.

The above lessons are based on 18 lessons from past IFC investments.
Last updated December 14, 1998.