

Sector – Textiles

1. **Markets:** Do not underestimate the difficulty of introducing a new product. Strong markets attract new entrants. Be cautious of consumption increase assumptions. Attempt to forecast competing capacity as well as demand. Consider whether higher quality really matters.
2. **Sponsors:** Strengthen sponsor checking and supervise closely if concerns are expressed. A technical partner may not overcome inexperience. Industry inactivity may imply loss of staff/contacts. Be aware of sponsor expansion plans. Ensure agreement on IFC's project role.
3. **Management:** Strong, responsive management is key. Supervise closely where concerns are expressed. Overly centralized decision making affects operations and long-term strategy. Transforming a family company to a formal corporate structure is difficult.
4. **Competition:** Do not underestimate the response of the competition. Globally competitive players can be created given the right support. Be cautious of expanding into customer markets. Avoid investing if international competitiveness is not addressed.
5. **Appraisal:** A strong market at appraisal may not remain so. In projections, take account of growth plans. Examine the availability of downstream processing capacity where demand for a product depends on it. Appraise existing operations not just expansion plans.
6. **Loan structure:** Conservative financing is critical. Consider all-encompassing covenants with caps for selected clients for greater flexibility. Encourage borrowing in the same currency as needed for procurement.
7. **Equity investment:** Review investments in low margin businesses cautiously. Invest near cash flow generating operations to avoid transfer pricing profit leakage. Where the put-priced return is the most likely outcome, ensure that it provides an adequate spread over the loan yield, or consider the alternative of a subordinated loan.
8. **Prices:** Do not base prices on historical averages when technological developments are likely to reduce costs. Base pricing in supply agreements on market indicators or return on investment. Selling price projections should take account of expansion plans.
9. **Transfer pricing:** Establish a routine reporting requirement at the outset. Be wary of profit leakage due to transfer pricing.
10. **IFC role:** Aim to support mid-size internationally competitive companies. Once IFC's role in an investment is identified, consider whether IFC can fulfill the intended role.
11. **Client relations:** Developing close working relations with the client can ensure good communication regarding transfer pricing matters and ultimately help maximize potential return.

The above lessons are based on 42 lessons from past IFC investments.
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