Sector – Timber, Pulp and Paper

1. **Loan structure:** Conservative financing is important. Be flexible in debt servicing schedules. Ensure clients fully understand the conditions of disbursement. When results or conditions exceed expectations, consider modifying covenants.

2. **Sponsors:** Financial strength and commitment are important, as are business integrity, managerial ability and willingness to listen to outside experts. Ensure proper monitoring where sponsors supply inputs or purchase outputs.

3. **Economic uncertainty:** Be conservative. Base investments on judgments of management and underlying comparative advantage. Closely monitor the impact of rapid economic and political change on markets. Diversified operations give rise to safer investments.

4. **Price cycles:** Ventures subject to large cyclical price swings require strong backing. Consider the market's position in relation to the price/demand cycle. Low prices may continue for extended periods as production is sustained in anticipation of market improvement.

5. **Technology:** State-of-the-art technology may not be appropriate to the country's resource base or workforce. Vague performance guarantees in equipment supply contracts can be dangerous. Base sensitivity analyses over a period that accounts for technological change.

6. **Management:** Good managerial ability is essential. Ensure that the management contract makes the managing company accountable for its actions.

7. **Markets:** Even experienced sponsors/suppliers make mistakes entering new markets. Assess market changes as well as historical price volatilities.

The above lessons are based on 23 lessons from past IFC investments.
Last updated February 1, 1999.

Operations Evaluation Group
International Finance Corporation
2121 Pennsylvania Avenue NW
Washington DC USA 20433

Additional Information:
Help Desk: 202 458-2299
Fax: 202 974-4302
www.ifc.org/ifcext/oeg.nsf/