Country - Brazil

1. **Sensitivity analysis:** Discount financial projections for major uncertainty and change in markets, technology, industry, sector or country. Consider historically extreme price levels and cycles, as well as delays, low yields, etc. Structure investments to succeed under adverse conditions.

2. **Sponsors:** Technical and financial strength and commitment are critical. If sponsors supply or purchase inputs or outputs, ensure a proper monitoring system is in place. Although difficult, attempt to assess whether sponsors can work well together.

3. **Diversified groups:** Analyze all significant businesses of a group, to ensure that the company can meet all its financial requirements. Diversified businesses can better withstand economic problems, but can also add "off project" risks.

4. **Management:** Quality is critical. When diversifying, ensure adequate monitoring is in place so that management does not concentrate on the new business line to the detriment of the old. Board representation may mitigate the risks related to family-owned businesses.

5. **Investment decisions:** Avoid locking into the original operational concept if improvements can be made. Focus on low cost producers. Do not rely on government programs. A thorough industry study is important.

6. **Equity investment:** To avoid potential dilution, strengthen equity clauses, and take local legal advice. Consider ways to protect IFC's interest should there be major corporate changes. In integrated group operations, invest near cash flow-generating operations to avoid transfer pricing profit leakage.

7. **Loan structure:** Be flexible, to allow response to market signals, and, if the investment is not at risk, in enforcing covenants. Ensure that the borrower has an adequate management accounting system in place prior to disbursement.

8. **IFC's developmental role:** Strengthening a client's access to international funding sources is an important role, as is educating the client in the use of alternative financial instruments.

9. **Agency lines:** Keep things simple - too many details to be negotiated may detract from the ability to support client companies. Consider IFC secondment to assist in the initial implementation period. Volume growth projections must be consistent with the risks.

10. **Prices:** In supply intra-group agreements, base pricing on market indicators or return on investment. Price projections should take account of future expansion plans. Government pricing policies cannot be expected to protect a project from significant price falls.

11. **IFC reporting requirements:** Notify departments of all changes. Ensure compliance prior to disbursement. Full reporting is necessary for supervision work.

The above lessons are based on 48 lessons from past IFC investments.
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