

Sector – Cement and Construction Materials

1. **Investment structure:** Be flexible and conservative. Match the loan currency to that of revenues. Do not rely on the client to assess material changes. Good communications benefit restructuring efforts. Put options can allow upside participation. Cancellation fees may not act as deterrents.
2. **Appraisal:** Assess the main drivers of economic growth. Be aware that prices/margins may be at historic highs. Compare the FRR to similar projects. Review lessons information. Assess post-appraisal changes prior to the Board Meeting. Ensure security packages are obtainable.
3. **Competition:** Do not underestimate the response of the competition. Location is important. Assess the risks of excess capacity, and of small plant investment where large plants exist. Subsidizing a competing state firm may be considered politically preferable to closure.
4. **Sponsors:** Evaluate for technical skills, financial strength and commitment, reliability, good reputation and the ability to deploy on-site management. Take care when a sponsor is involved in the same industries and markets as the project and structure accordingly.
5. **Management:** Experience and dedication is crucial. Remedy any deterioration from changes in control as quickly as possible. Local language capability in an expatriate team is important. Assist family-owned businesses to establish a strong corporate style.
6. **Markets:** Analyze the main drivers of the domestic market and the economy to create a band of scenarios. Prices/margins may be at historic highs. Do not rely on government subsidies or non-free market prices. Consider factors affecting past trends or relationships.
7. **Transition economies:** Do not base a project on free market assumptions. Agency decisions may not be based on business grounds. Analyze a range of potential economic scenarios. Value plants by likely useable capacity based on projected market potential and prices.
8. **Foreign exchange:** Make base projections in local currency units and convert to constant US dollar. Specify assumptions about inflation and exchange rates. Encourage swaps to reduce exposure. Local financing of imported equipment raises exposure to devaluation risk in financing plan.
9. **Environmental requirements:** Be clear on IFC's requirements when there is an equity holding only. Close cooperation with technical specialists can help environmental assessment when a site visit is not scheduled.
10. **Site visits:** Schedule regular information gathering visits where company reporting is limited, and a visit when the project is completed to assess IFC liabilities.
11. **Supervision:** Field Offices with supervision responsibility should develop IAR capability. Technical involvement is necessary for effectiveness. Consider a visits budget.

The above lessons are based on 43 lessons from past IFC investments.
Last updated December 14, 1998.