

Country - Philippines

1. **Sponsors:** Financial strength and commitment are crucial. Multiple roles can lead to conflicts. Consider preemptive rights to follow-on projects. Be cautious of foreign sponsor start-up ventures. A sponsor no longer active in a market may have lost staff/contacts; an active one often will have conflicts of interest in local affiliates.
2. **Appraisal:** Compare the FRR with similar projects. Review IFC lessons. A strong market at appraisal may not remain strong. Be cautious when projecting prices both in cyclical industries and if technological developments are likely to reduce costs.
3. **Markets:** Do not underestimate the difficulty involved in introducing a new product. A strong market attracts new entrants. Consider competition from new producers and other producers adopting the same technology. Discourage speculative raw material build-up.
4. **Lenders' supervisor:** When in-house project management teams are used, a lenders' supervisor can help monitor progress as well as alleviate the problems of inadequate performance incentives and uncontrolled project management fee escalations.
5. **Loan structure:** Consider including loan pre-payment penalties. Base debt servicing capacity on historically low prices or margins. Consider a pre-payment fee to compensate for transaction costs on small loans.
6. **Supervision:** IFC should allocate a separate budget for supervision visits. Field Offices with project supervision responsibility should develop IAR capability. Annual technical visits are important during hotel construction.
7. **Environmental and safety guidelines:** Agreement outside the normal loan covenants can add leverage. Develop mechanisms to ensure compliance such as an independent audit.
8. **Equity investment:** Avoid straight equity stakes where conflicts of interest may arise or the sector has yielded poor returns. Quasi-equity investments allow for upside participation.
9. **Second-hand equipment** can be a cost-effective means of gaining competitive advantage. Use different operating projections than if using new equipment.
10. **Capital markets projects** involving institution building can take time to show a successful trend. An indigenous financial services company can have a competitive advantage over foreign controlled companies.
11. **Power:** Small power plants can produce significant developmental benefits in a short time frame. For power consumers, push strongly for standby generating capacity where shortages are common.

The above lessons are based on 39 lessons from past IFC investments.
Last updated December 1998.