



Responsible Land Governance: Towards an Evidence Based Approach

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SCREENING PROSPECTIVE INVESTORS: FOR LAND-BASED INVESTMENTS

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Abstract

Financial and operational success is an essential pre-condition for agricultural investments to make a positive contribution to development in the host country and local communities. Yet a significant proportion of investors fail, many for reasons that could have and should have been foreseen at the outset of the project. And there is great variation in the extent to which investments deliver development benefits. This underscores the importance of sound pre-screening procedures by host country governments when approached by investors applying for either land, investment incentives or other required approvals.

The pre-screening capacity and procedures of host governments may not be sufficiently functional to successfully screen out investors with unrealistic business models. There appears to be a dearth of guidance available to governments on how to effectively screen out investors that have deficiencies in their plans, and screen in investors that make a positive contribution to the countries development goals. A frequent weakness pre-investment procedures is a failure to properly assess the land tenure implications in land-based agribusiness operations. This can occur due to lax due diligence on the part of investors, or due to weaknesses in host country land legislation or application thereof.

This Master Class will focus on how governments may improve their screening system, with an emphasis on addressing risks related to access to land for land-based investments, which is most frequently cited negative impact of agricultural investments.

Key Words:

responsible investment, land tenure, agriculture, agribusiness, land governance, screening, business model, government, private sector



THE IMPORTANCE OF SCREENING INVESTORS

A global study of the Commonwealth Development Corporation's agricultural investment portfolio found that fifty percent of the projects were classified as failures in financial terms because the "concept was fatally flawed, for example wrong location, wrong crop, or over-optimistic planning assumptions". (Dixie and Tyler, 2012). In a recent UNCTAD-World Bank study (2015), about half of investors were unprofitable and behind operation schedules at the time of survey.

Both studies show most investment result in a mix of positive and negative impacts. The positives in the main relate to economic development in terms of jobs, access to markets, some investments in social infrastructure, improved access to rural infrastructure, the transfer of useful technologies and skills, and in a smaller number of projects, increased production of staple foods. The negatives are most often associated with a lack of consultation with the communities, limited transparency, an absence of mechanisms for resolving disputes, and issues involving land rights.

Failed or struggling investments have consequences that extend well beyond the financial losses incurred by the investors themselves. Failing investments lead to unmet expectations and broken commitments, which can sour relations with the local community. Under-utilised productive resources are another significant detrimental impact. Around a quarter of investments surveyed recently by UNCTAD-World Bank were using less than 10 per cent of their allocated land. If investments fail entirely, they can leave a void in their wake, particularly where local communities have become reliant upon them for employment; or income through out-grower schemes.

This underscores the importance of sound pre-screening procedures by host country governments when approached by investors applying for either land, investment incentives and/or other required approvals.

There appears to be a dearth of guidance available to governments on how to effectively assess business proposals, especially for land-based investments. UNCTAD and the World Bank Group are in the process of developing technical guidance documents to assist host country governments with procedures and systems for screening prospective investors.

LAND TENURE ISSUES AND INVESTOR SCREENING

A frequent cause of operational and financial difficulties at investment sites studied by World Bank and UNCTAD was a failure to adequately address existing and legacy land issues at the investment site, or to conform the length of land lease to production cycles. Investors that did not accurately and completely identify and recognise existing rights to land (including informal rights) found themselves



subsequently dealing with costly and time-consuming land disputes. How the investor intends to access land in order to make productive use of it is a crucial question for which detailed information should be incorporated into the business plans, feasibility studies and impact assessments.

OBJECTIVES AND STRUCTURE OF THE MASTER CLASS

The goal of this Master Class is to share information between presenters and participants on how host country's investor screening processes can most effectively identify those investments that are likely to have a positive development benefits. While there are many dimensions to the screening process, this class will use the issue to land access to illuminate the importance of screening for land-based agricultural investments. The Master Class will be structured as follows:

- UNCTAD and World Bank will make a short presentation of its Knowledge Note on *Screening Prospective Investors* which is under development.
- Presentations will be followed by a group exercise in which participants will discuss positive and negative examples and practices of screening land-based investments.
- The session will end with a moderated group discussion on what legislation, tools and processes are required in order to better ensure the satisfactory recognition of land issues in host countries' pre-investment screening procedures.

INTENDED OUTCOMES OF MASTER CLASS

- Mutual learning through sharing approaches to screening prospective investors.
- Identification of aspects of land access that require greater attention in pre-investment screening procedures.
- Ideas and suggestions for specific tools, processes, guidance documents and other means of improving host countries' ability to screen investors with respect to their approach to land access.