Screening and Selection of Investors

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Contents

What are feasibility studies and business plans?

Feasibility studies principally address the economic and technical viability of the proposed project.

- They should also address the key social and environmental factors that may undermine the project viability….
- …and they should be turned into ***business plans*** for ongoing operations.

- These are the principal documents to screen.

Why screen investors and projects?

- Commercial viability
- Socio-economic benefits
- Minimise potential harm
- Most investors promise a lot; not all are able to deliver.
- To check that investor intentions align with national development goals.

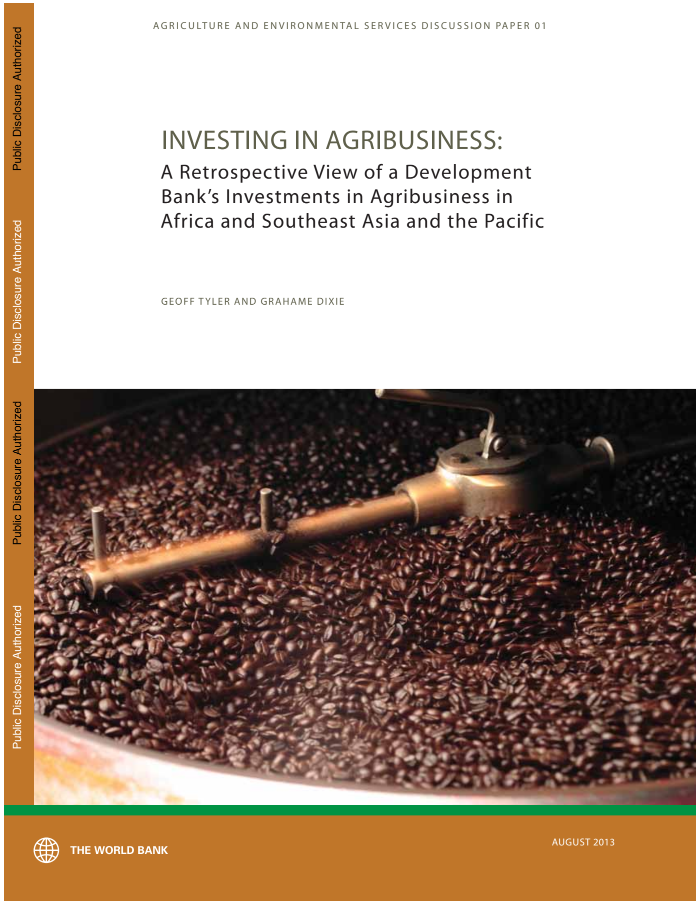
Who should conduct them?

Primary responsibility of the investor.

- Conducted in accordance with host country regulations and agreements. Monitored and verified accordingly.
- Verified by an independent expert.
- If *conducted* by an independent expert, the investor must be fully aware of contents and be able to translate findings and recommendations into the business plan.

What happens when they are not done properly?

- *Half of all projects fail*: "concept was fatally flawed, for example wrong location, wrong crop, or over-optimistic planning assumptions"
  → I.E. Poor feasibility studies and business planning.
- One-quarter of investors use less than 10% of the land acquired



Sources: World Bank and UNCTAD

Some examples

- Poultry in Gambia
  - UK consumers afraid to buy Gambian eggs.

- Coffee in Vanuatu
  - Plantations established in cyclone zone.

- Rubber in Cambodia
  - Extracted timber but inexperience in rubber.

- Rice in Ethiopia
  - An «unexpected» native bird population.

- Jatropha in Mozambique
  - Change of corporate strategy by parent.

Why do investors not adequately conduct them and governments not screen?

Quick Group Exercise: For five minutes, discuss with your neighbour:

- 1. Why would investor not conduct full feasibility studies and business plans?
- 2. Why might governments not screen investors?

Why do investors not adequately conduct them and governments not screen?

- Lack of experience or internal expertise to do so.
- Local or national governments do it for investors.
- New investor takes over existing operation without doing its own due-diligence.
- Treating obligations as a "box ticking" exercise, not seriously incorporating findings into operations on the ground.
- To "get the deal done" quickly.
- No serious intention to develop the land; asset speculation.
- Intention to implement only part of the business plan.

The overall approach to screening

- **IT IS NOT EASY… and, unfortunately, there is no perfect system or check-list that can be applied to all investments.**
- Informed judgement is required.
- Rely on external expert opinion, where possible.
- But even with limited capacity and resources, simply by asking the right questions of investors, many of the worst will be excluded.
- Learn lessons from experience of past and other countries.
- Make sure awarding of concessions does not happen too fast for the capacity to screen.

Key Elements to be Screened

Financial capacity of the investor.

- Financial assessment, including cash-flow, income statement, balance sheet forecasts.
- Primary sources of funding and contingency funds.
- Costing of consultations, impact assessments, community development programs.
- Relationship between parent company and investment.
- Time-horizon of investors.

Organisational structure, management and Directors.

- Experience and qualifications.
- References and referrals.
- Agricultural experience and technical expertise.

Key Elements to be Screened

Site Assessment

- Infrastructure requirements versus availability.
- Identification of existing land rights.
- Availability of land to meet investors requirements versus local community needs.

Technical feasibility of business plan

- Land area and technical assessment of soil.
- Climatic suitability.
- Water source and reliability.
- Sourcing of inputs e.g. fertilizer, machinery.
- Production assumptions.

Key Elements to be Screened

- Human resources and staffing plans.
  - Staff numbers and composition (locals, women).
  - Recruitment strategy and employment policies (e.g. pay, health and safety).
- Market demand projections.
  - Demand projections.
- Environmental impact and feasibility.
  - Expected environmental risks and management strategy.
- Business model.
  - Plans for involvement of outgrowers, processing etc.
  - New cultivation operations can be particularly risky.
- Approach to consultations with communities and other stakeholders.

Key Elements to be Screened

Potential to deliver broader social and economic benefits

- Community development agreements or programs
- Local sourcing commitments
- Gender equality strategy
- Training of local staff
- Technology transfer to outgrowers or contract farmers
- Plans for infrastructure development

Final points

The process of screening DOES NOT end with approval of the investment.

- System of ongoing monitoring and enforcing adherence to commitments.

- Material changes to the operation should require an update to the business plan.
  - Notification or re-approval.

Thank You!

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