WORLD BANK TIP FOR THIRD WORLD LAND DEALS

RICH PICKINGS are in the offing for investors who can identify the targets for public expenditure. With the aid of the World Bank, firms have been offered major clues on where to concentrate activity over the next five years.

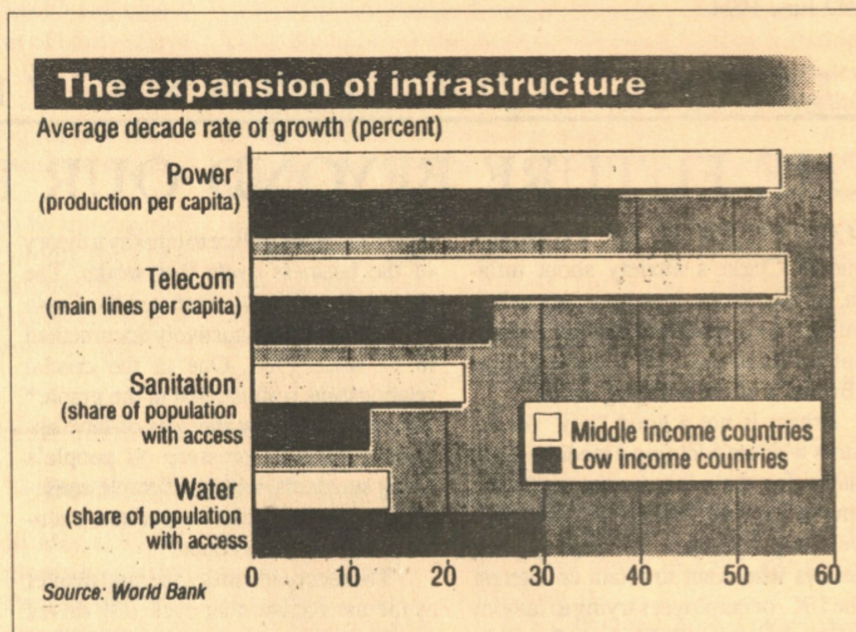
No less than three-quarters of the Bank's lending portfolio will be aimed at housing, related residential infrastructure and projects that include housing. On the basis of this flow of money, it becomes possible for corporate strategists to identify the best-bet borrowers, and narrow down the geographical areas where the money will be spent. For the construction industry, fat contracts are in the offing.

But in addition to the prospects of new investment, evidence is accumulating of a massive waste of resources in the less developed countries (LDCs): investment in new efficiency-raising processes could save an estimated £130 billion every year on infrastructural expenditure.

World Bank officials want the LDCs to plug the waste - £36 billion by improving the efficiency of power, water, telephone and other infrastructure networks; another £82 billion by eliminating the underpricing of infrastructural services such as railways and electricity.

Africa needs a massive roads programme: the continent could have saved reconstruction costs of about £30 billion over the past decade if £8 billion had been spent on maintenance.

All of this is good news for investors: the World Bank acknowledges that the rates of return on infrastructure spending can be up to 60%, considerably higher than on other forms of investment (though the World Bank apparently cannot explain this).



Source: World Bank

THE NEW ATTEMPT by the World Bank to raise awareness on the link between poverty and market-based investment policies is calculated to shift capital to countries that are hungry for development.

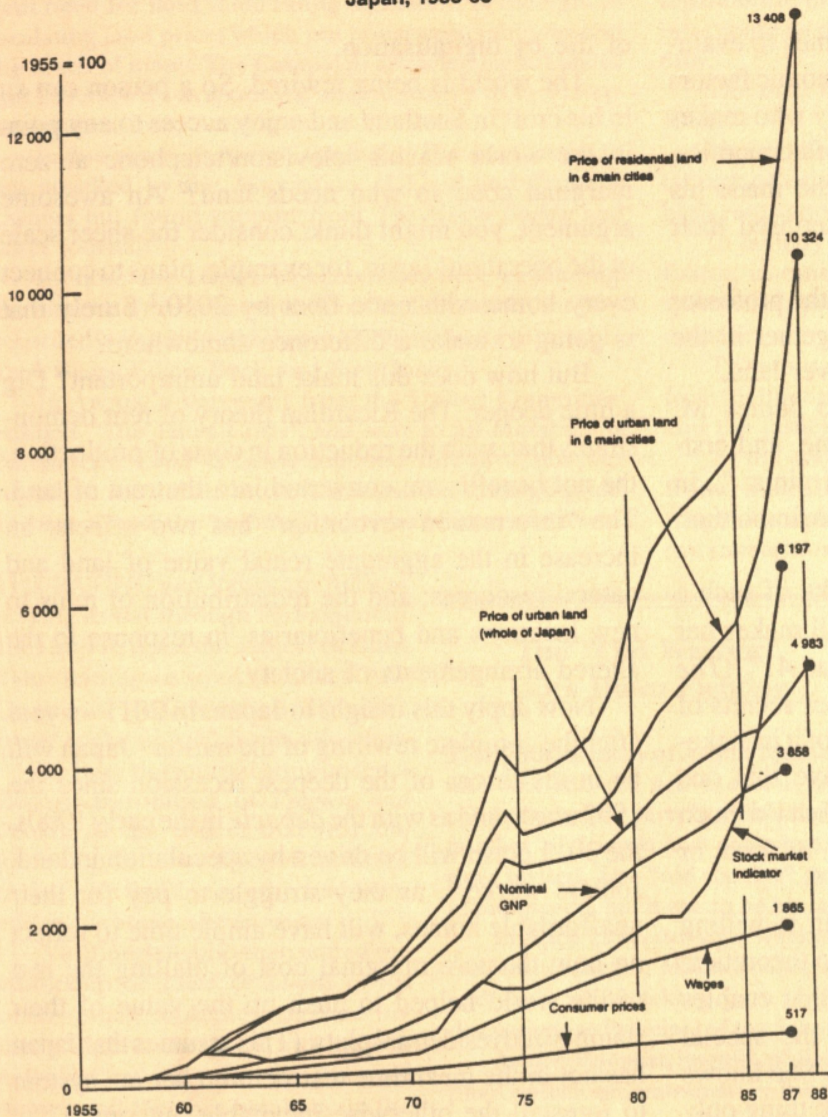
South Africa is showing the way, but she may be exceptional: she has the determination and the internal resources to generate new rates of growth based on a plan of action that is not likely to be adopted by many other countries without the help of foreign investors.

That foreign investment will be searching for the high returns from the low income countries, where the supply of services has been less than efficient over the past 10 years (see chart).

But when all is said and done, are the best returns really from power and telecom services? No they are not, although the Bank is silent on this. The highest returns will be made from the purchase of options to buy the choice sites in the burgeoning cities that are most likely to benefit from the inflow of capital.

The opportunities are particularly good for institutional investors, for they can take a long-term view of growth and maximise the returns on their money. What is the best advice? Buy options on the largest plots of land in the "stress" cities like Buenos Aires, Manila and Harare.

The lesson emerges clearly from the graph opposite, which offers a revealing insight into what has brought Japan to her knees. Since the late 1950s, when



Source: Hasegawa Tokunosuke: Recent data on land prices in Japan Institute of Economic Research on Construction, Tokyo, 1989.

the Japanese economy was shattered by war, the rate of increase of land prices has eclipsed the increases in wages and stocks and shares. The data traces out two 18-year cycles: as Japan grew richer, the net benefits were soaked up in the land market.

A similar financial portrait will emerge for all the fast-growing LDCs of the next 20 years, which will grow faster than European and North American economies. It is true that the economic landscape of the 21st century will not be anything like the postwar years: the new trading arrangements alone will add between $235-274 billion to world income (depending on whether you prefer the estimates from GATT or the World Bank).

This enlargement of the trading market through freer trade provides enormous scope for new players. The transfer of information and micro-chip technology (see page 4) is so swift that new production centres can be opened up in the remotest corners of the world; which means that the heavy investment in education no longer provides an advantage to Europeans and North Americans. The newcomers will muscle in on today's badly-weakened corporations which, already shell-shocked by the onslaught from the tiny tigers of Asia, have yet to devise new strategies for survival.

But although it would make sense for LDCs to block land speculation - the inflow of capital ought to go into job creating and investment - what are the risks of this happening?

The risks are not great. Third World countries take their lead from the OECD countries, and especially from officials of the World Bank and its related financial agencies. On the present evidence, there is no sign of a shift in policy of the kind that would put land deals at risk.

This emerges clearly enough from the World Bank Policy Paper on *Housing: Enabling Markets to Work* (1993). This makes it plain that the World Bank wants investors to shift resources into the residential sector. But its advice to client governments: emulate the tax-and-tenure system that we have in the West. The policy paper makes it clear that people ought to be given the right to borrow money by offering privately-owned land as collateral, with laws to ensure foreclosure on borrowers who fail to make their mortgage repayments.

What appears to be happening, then, is the reformulation of World Bank strategy to encourage a major round of investment in the land-and-capital markets of the LDCs. Someone has to put the bricks-and-mortar in, but - as with Japan in the postwar years - the best profits are will be made from the land beneath the buildings.