The role of PDBs and DFIs in fostering locally led development finance for agricultural transformation

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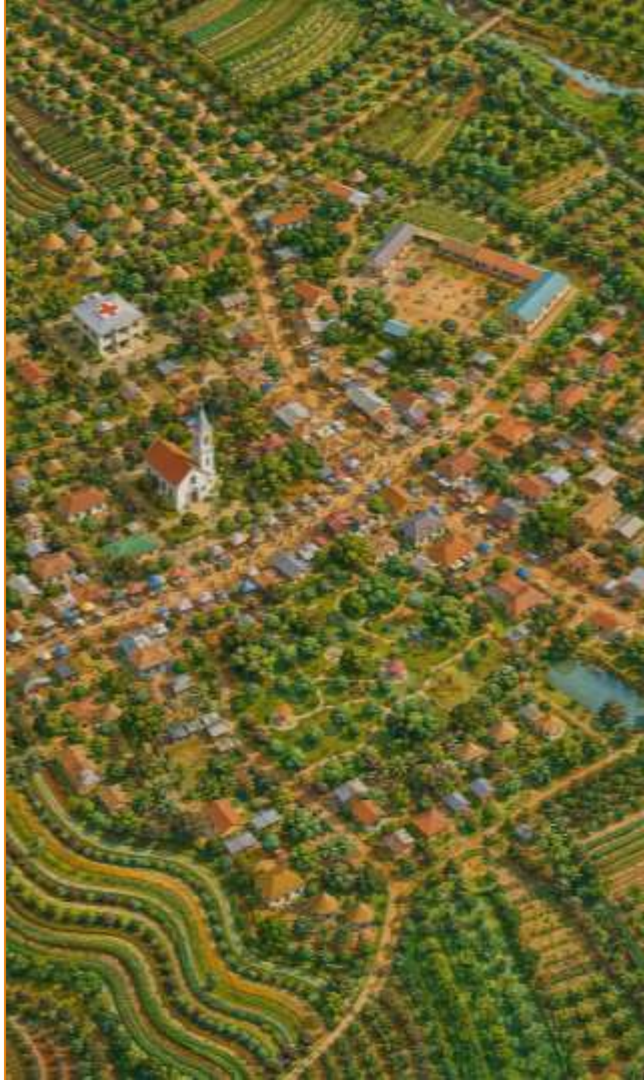
Why locally led development? What is it?

Lack of local ownership and understanding of local context often has made many development initiatives to fail and obstruct long-term economic transformation;

Development that is not owned and led by local agency but imposed or led from the outside by external actors can never be sustainable;

It’s a precondition for economic resilience and transitioning away from ODA dependence in the longer term

Sustainable economic transformation requires quality inclusive growth, economic autonomy, economic justice and locally led development principles is a vehicle to get there.



What is localisation?

Key objectives of localisation:

1. **normative:** locally defined priorities and needs; local ownership of problems and solutions;
2. **instrumental:** improved long-term effectiveness, efficiency, sustainability, success of transformative change and impact of action;
3. **emancipatory:** rebalancing power, building self-sufficiency and reduced dependence on external assistance;
4. **moral:** taking responsibility for historic injustices due to colonialism, exploitative economic relations and changing the pattern of how power, resources are shared and decisions made.
5. **political:** right to self-determination; economic decolonisation; equal partnerships based on trust and respect; democratisation of policy making and shaping countries or communities' development pathway in an inclusive way can work as a counterweight to authoritarian trends;

Who is the ‘local’?

- MSMEs (as defined by the partner country) as a priority
- larger, strategically and systemically important local enterprises*
- the informal sector (where people living in the deepest poverty are concentrated)
- the communities impacted by investment projects
- local or Indigenous knowledge collectors, creators and amplifiers
- trade unions
- chambers of commerce
- local government actors at national, regional and municipal level
- women and young people; both are important demographic groups, with a presence in all the other local categories, but tend to be economically and socially excluded
- underserved, excluded and marginalised groups, such as people with disabilities, ethnic minorities and LGBTQ+ people; both as specific groups and as part of the other local categories.

*Only specific large companies would fit this ‘local’ category because larger businesses usually have easier access to private capital markets, and they should not be seen as the target of a scarce international development finance.

Key dimensions of localisation:

01

Agency:

Ability of local and national actors to identify their own problems and choose their own priorities and solutions.

02

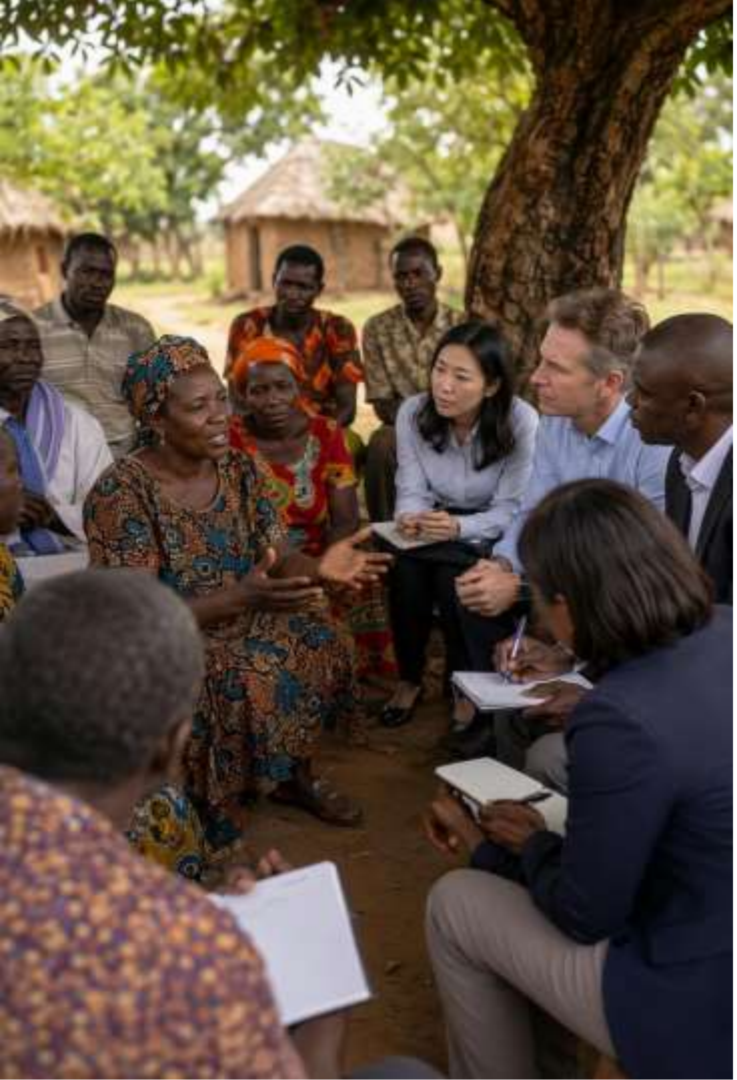
Resources:

Quantity, quality and accessibility of funding transferred directly to local actors.

03

Ways of being:

Respecting the dignity, identity, values and ways of working of local and national actors, using a decolonial lens.



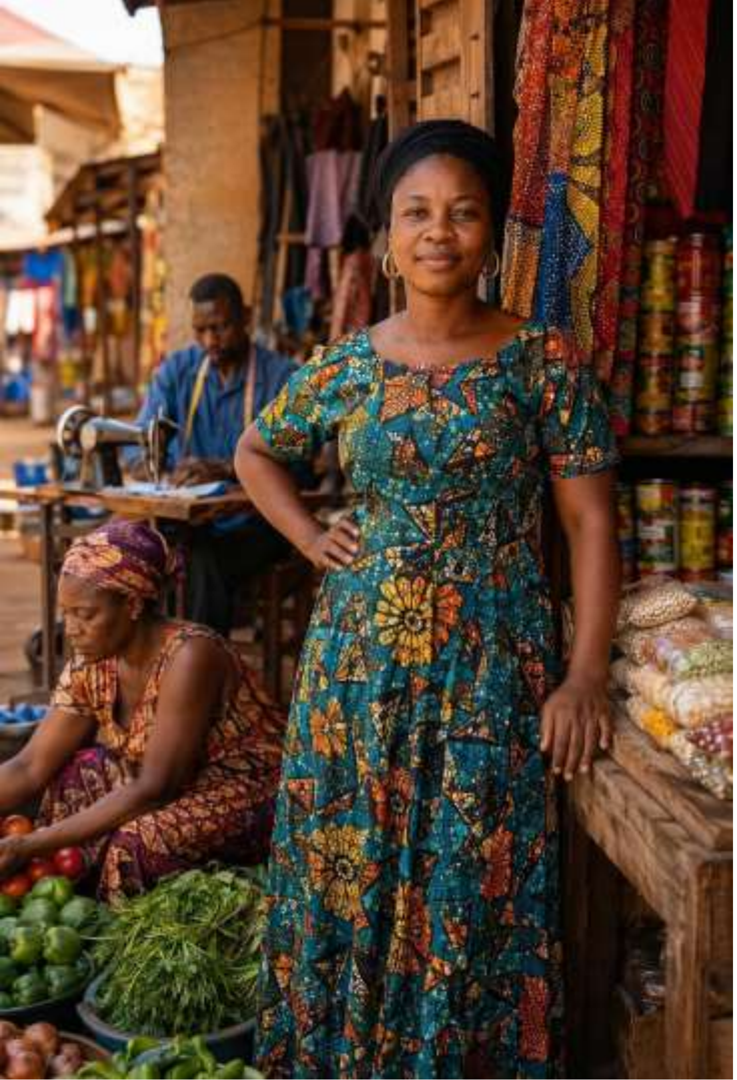
Agency

Ability of local and national actors to identify their own problems and choose their own priorities and solutions

Why: Development which is not owned by local agency but imposed or led from outside can never be sustainable;

Questions to ask:

1. Is there a space, time and opportunity provided where priority challenges and solutions are discussed and identified through meaningful, inclusive engagement and dialogue with the local stakeholders including those who we would consider as the main target groups, f.e. – women, small-holder farmers, environment protection, children, public health, social and industrial development experts etc?
2. are local actors involved in investment decision-making?
3. Are the produced goods and services supporting the needs of local communities and markets?
4. Are the produced goods and services concessional and accessible financially and physically?
5. How are the PDBs/ DFIs Boards demonstrating accountability to the communities they serve?



Resources

Quantity, quality and accessibility of funding transferred directly to local actors in need

Why: economic autonomy and sovereignty; Ownership of economic assets, capital and profits matter.

Questions to ask:

- Are investment funds going to locally owned, managed companies?
- How big share of all funding goes through intermediaries? In case of intermediaries, are these local (PDBs, locally owned financial institutions)?
- Are these funds ultimately going to those most in need? (alignment with ODAand public finance original purpose)
- How accessible or burdensome is the funding (admin, legal, equity requirements, etc?
- Are financial transactions free from donor’s self-interest (profits, further economic/ geopolitical interests etc)?

Diagnosis:

Agency

Identifying local challenges and solutions

- consultations, broader stakeholder engagement – especially with communities and civil society - for definition of priorities, highest needs – ad hoc, not systematic or non existing;
- Intentional alignment with national development strategies, SDGs, climate action plans, NDCs;
- Local vs foreign staff; expertise; presence in partner countries; breadth vs depth

Making decisions

- HQ dominated/ top down
- Weak representation of those who we aim to support in decision making bodies (Board, Investment committees etc)
- Market driven deal sourcing, bankability and commercial viability vs need, urgency

Meeting the local needs

- Not only jobs and income, but production of goods and services which local communities need;
- self-sufficiency vs dependence
- Relatively small share going to LMICs and fragile countries where the greatest needs are

Local access to produced goods and services:

- Export markets vs local markets,
- for upper-middle class consumers;

Diagnosis:

Resources

Local ownership

- Majority of DFIs investments in UK/G7 businesses and domiciled offshore
- Limits local capital market development
- Mixed evidence regarding FDI and poverty reduction

Focusing on those most in need:

❿significant share of investment support large corporations and billionaire-owned businesses;

❿Only about fifth – reach LMICs and fragile/ conflict-affected countries;

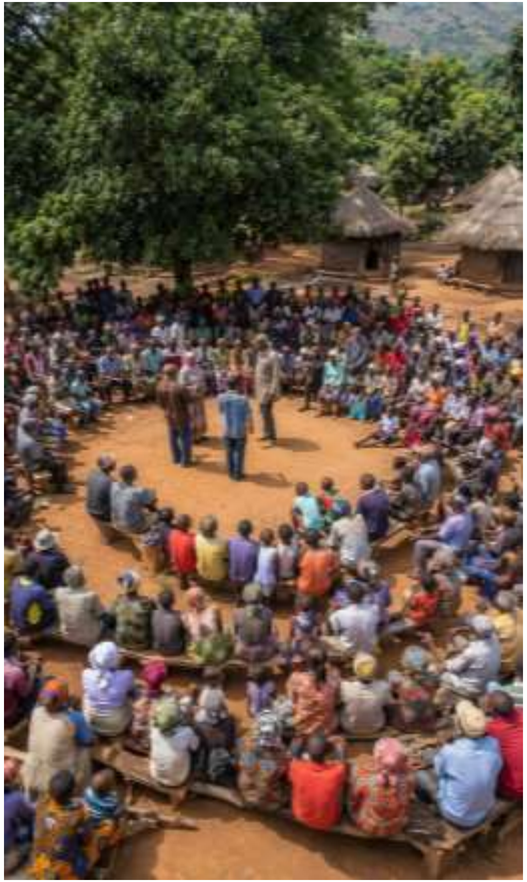
- The informal sector – reached only indirectly;
- Micro and small and medium-sized enterprises (MSMEs) reached mostly via intermediaries but less oversight re impact
- Despite clear development and climate action agenda, investments in fossil fuel, luxurious hotels, etc

Access to funding

- High investment thresholds, reliance on intermediaries and persistently high costs of capital ➔ locally embedded enterprises – the backbone of local economies – struggle to access development finance

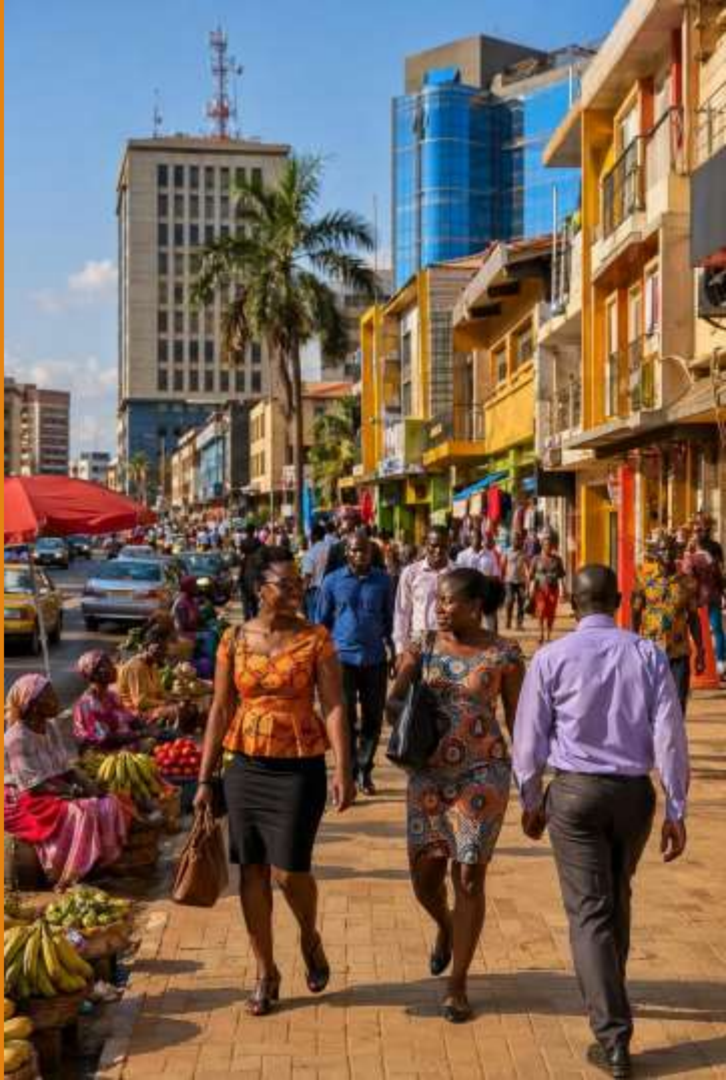
Way forward: AGENCY

- ensuring clear **alignment** with national development strategies, industrial policy, climate action strategies and plans and the SDGs agenda;
- establish **standardised, formal, meaningful, inclusive, binding and regular consultations with local stakeholders** (e.g., government, civil society, MSMEs, communities, research centres, think tanks, farmers, women entrepreneurs, informal sector entrepreneurs) **on both country-level investment strategies**
- implement **a civil society engagement framework** and specific, inclusive and meaningful engagement mechanisms within countries
- mandatory and publicly available stakeholder engagement plans;
- PDBs-CSO coalition launched by the Finance In Common could **develop a guide on the role of DFIs in advancing locally led development.**
- Review and reform the membership and representation of decision-making bodies, ensuring there is adequate diversity and expertise linked to social and economic development and rights.
- Support the building of **local and regional supply chains** to advance economic resilience and self-sufficiency in critical, strategic sectors, such as food, energy and transport;
- Prioritise **local value addition** and adopt an ecosystem's view.
- Explicitly target the people on lowest incomes.



Way forward: RESOURCES

- Prioritise **locally owned and led businesses** which are fully embedded in the local economy;
- revisit DFIs' approach to **tax and the use of offshore jurisdictions** to maximise the development impact of investments in advancing modern, reliable, local capital markets and legal systems;
- Define clearly **'most in need'** and focus on them directly co-creating finance instruments which work;
- Develop accessible finance instruments supporting **informal economy actors;**
- Enhance research on investing in local M**SMEs;**
- For DFIs to collaborate with **NDBs as the key local partners** accessing local expertise, delivering local development agenda and building local capital market;
- Devote share of PDBs' profits **supporting local CSOs** to strengthen accountability and social infrastructure;
- More proactive effort to reduce **cost of capital rates**
- Lower **thresholds for direct investments**
- Make it **mandatory** for investees to make direct contribution **addressing specific social, economic or climate agenda needs.**



Regarding agriculture investments…

Key challenges/ questions:

- Balancing local food insecurity with food production for exports; food sovereignty vs vulnerability of global food chains;
- Agriculture practice: industrial vs regenerative and agroecological; big agribusiness vs smallholder farmers;
- Mixed evidence regarding trade and export led growth reducing poverty;
- Engaging farmers meaningfully in decision-making;

*In countries such as Ghana, Kenya and Senegal, more than 50% of arable land is used to grow export crops, yet these countries are also importing more than US $3bn in food for local consumption. In total, 42 African countries are designated as 'net food-importing developing countries' by the World Trade Organization. On an annual basis, for example, Africa pays about US $75bn for imported cereal which could surpass US $110bn by 2025

*One of the priorities of Development Bank Ghana is to reduce its import bill by US $500m by supporting local production for local needs to enable a more equal playing field with imported goods and bring down prices for consumers without jeopardising local producers' livelihoods

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Thank you for your attention!

Report is available here

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