

# CLIMATE INVESTMENT FUNDS

May 31, 2017

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**[Approved by mail]: Caribbean-Saint Lucia- Supporting climate resilient investments in the agricultural sector in Saint Lucia- (PPCR, PSSA) (IDB) (PPCRLC506A) – IDB Responses to UK Comments**

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- The issue is really absorptive capacity of the Executing Agency Laborie Credit Union, the original amount was predicated on earlier discussions with the two institutions that were first considered but which proved unfeasible as partners. The revised loan financing is based on estimated take up by the clients of Laborie Credit Union and also reflects the fact that this institution does not wish to over inflate its liquidity position and the fact that this type of lending is a new line for our partner. There is however interest in further uptake if this approach proves successful via a second round of financing.

- MIF's experience in the agricultural sector in the Caribbean tells us that given the small scale subsistence models that dominate agriculture in most islands, and although farmers and fisher folk are aware of the impact of climate change on their livelihoods, the current model of price taking, selling via wholesalers cannot support new investment in mitigation measures. MIF has found in the Caribbean in particular that access to more profitable channels must accompany new investment by producers. So the low appetite is in fact reflective of the model of farming that is prevalent in the targeted population at this time, i.e. small scale, limited co-ordination and limited access to more viable market channels (tourism and supermarkets) given lack of assurance to buyers on availability and quality. It's a circular issue as climate change poses risks to farmers in terms of assuring buyers of availability and quality. In addition in the past there has been some crowding out of loan financing by grant resources available to farmers following the loss of preferential access to European markets for bananas which are the islands dominant crop. The loans are granted based on the ability to pay and the cash flow from the productive actives does not always show ability to pay. Producers do access the markets as they should. The general production strategies do not enable the farmer to maximize market share. Production is not market driven. It is unplanned and availability is inconsistent (causing gluts and shortages) hence the market imports quite a lot of produce which can be available locally. The Project will address this issue by implementing techniques of production planning and scheduling using appropriate information systems. Purchasing Officers and Chefs from the market will inform what is produced and when it is produced. Local producers are making sub-optimal use of the market. The Project is geared at changing that.

- Based on MIF's discussions with Laborie Credit Union (LCCU) and the current provider of parametric insurance, pricing as a standalone product is a key barrier to uptake. Laborie Credit Union sees the bundling (and financing) of key insurance products (property, parametric and possibly life) with the loans as a way to encourage farmers to uptake as well as mitigating default risk in the loan portfolio and to borrowers. The current model in use at the LCCU is that the Co-operative pays part of the insurance premiums. In this case part of the cost of the insurance will be borne by the Black Bay Farmers Co-operative as operational expenses. This would be an additional benefit of membership or else the cost of insurance could be prohibitive or a deterrent to some Members. The team has also been in discussions with MUNICH RE from when the concept note for this initiative was first presented to the PPCR S-C since they have successfully implemented a parametric insurance scheme for farmers in the Caribbean (e.g. Jamaica and Saint Vincent and the Grenadines). These conversations informed the inclusion of such insurance scheme in the project and the team plans to keep incorporating the lessons learnt, best practices and recommendations from the MUNICH RE experience to improve the proposed scheme and ensure farmers and cooperatives fully understand the benefits and how the insurance policy works in order to support the uptake of it.

- There is very limited information related to gender related barriers in Saint Lucia to accessing finance, which was a general finding of a recent review commissioned by the Caribbean Development Bank (2016) on gender issues affecting the services sector. However some general observations from the study indicated that in St. Lucia: (i) access to collateral is a major conditioning factor, particularly as men tend to dominate in the ownership of collateral material. This means that in the case of large enterprises, men will have the collateral available to secure the necessary finances. In St. Lucia women are the majority of owners of micro-enterprises, whereas small and medium enterprises are mainly owned by men. (ii) Enterprises led by women are “necessity based” whereas those often led by men are “opportunity based” (longer timeline, greater potential for job creation) which may suggest that women are less likely to seek funding for projects from lending institutions.

MIF has learned over the years that in smaller states including the Caribbean collateral/security acceptable to financial institutions is rarely held by women, it is usually held by male head of household or jointly, therefore this poses a barrier to women seeking access to finance from formal sources falling back on more informal (unreported) and traditional models (e.g. in Trinidad and Tobago even today women contribute an agreed amount to a savings on a weekly, fortnightly or monthly basis and proceeds are paid out on agreed intervals to one member at a time this is called a “sou sou” and is prevalent today as a source of informal financing and is also still used in other Caribbean states).

The project intends to address precisely the barriers explained before (during the implementation phase). More specifically, it was the intention of the insurance scheme to provide security to borrowers and lower the risk associated to the loans (that is also why it is being promoted as a package) so that some of these barriers are lowered and financing is made available to individuals that would normally not qualify as eligible. The results matrix of the project there has been updated to include gender disaggregated targets for: (i) the number of people who gain access to micro insurance products and (ii) the number of producers that gain access to green finance, on the basis of data from the Small Enterprise Development Unit (SEDU), Ministry of Commerce, St. Lucia on the percentage of businesses owned by women in the agricultural, forestry and fishing sector (CDB, 2016 report).