

## Project/Programme Concept Note for the Use of Resources from the PPCR Competitive Set-Aside

<b>Country/Region:</b>	Saint Lucia	<b>CIF Project ID#:</b>	
<b>Project/Programme Title:</b>	Supporting climate resilient investments in the agricultural sector in Saint Lucia: provision of small to medium sized loans to farmers, farmer associations, distributors/wholesalers and processing companies.		
<b>Date of Endorsement of the Investment Plan:</b>	August 3, 2011  Saint Lucia's Strategic Programme for Climate Resilience: Under and Beyond the Pilot Programme for Climate Resilience (PPCR), Part Two: Proposed Investment Programme Components for PPCR Funding		
<b>Funding Request (in million USD equivalent):</b>	<i>Grant:</i> N/A	<i>Non-Grant (loan, equity, guarantee, etc.):</i>  USD \$6,100,000	
<b>Implementing MDB(s):</b>	The Inter-American Development Bank (IDB)	<input checked="" type="checkbox"/> Private sector arm <input type="checkbox"/> Public sector arm	
<b>Executing Agency:</b>	Banana Industry Trust		
<b>MDB Focal Point and Project/Programme Task Team Leader (TTL):</b>	<i>Headquarters- Focal Point:</i> Gloria Visconti (gloriav@iadb.org), Inter-American Development Bank	<i>TTL:</i> The project will be led by the Climate Change and Sustainability Division (INE/CCS) in collaboration with the Multilateral Investment Fund (MIF), Inter-American Development Bank	

### I. Project/Programme Description:

It is proposed that non-grant PPCR resources set aside for the private sector are used to deliver a loan scheme to support climate resilient agricultural investments in Saint Lucia. This proposed project will support private actors in the agricultural sector to build the climate resilience of their businesses, encourage the formation of new agricultural niche markets in Saint Lucia and strengthen the current capacity and reliability of national production systems.

The primary objectives of this project are to:

- Build the climate resilience of Saint Lucia's agricultural private sector, protecting businesses and livelihoods from the negative effects of climate variability and change.
- Support the development of the agricultural sector in Saint Lucia by supporting the production of high value and climate resilient crops and produce.
- Increase Saint Lucia's food security, ensuring a year-round reliability of food supply for local markets and export.
- Raise awareness among private actors in the agricultural sector of the importance of investing in products/services that enhance the climate resilience of their operations.

Under the proposed PPCR project, the Saint Lucia Banana Industry Trust, a highly reputable local entity with extensive experience managing loans for farmers in the country, will manage the PPCR loan, providing loans to three potential categories of private actors: individual farmers; farmer associations; and distributors (including wholesalers) and processing companies. The Banana Industry Trust will provide access to micro loans to individual farmers, distributors and processing companies, or larger loans to farmer associations or farmer community clusters depending on the type of project for which finance is requested. The Banana Industry Trust has already agreed it will be the recipient of the loan and manage the PPCR set aside funds<sup>1</sup>.

To support the successful roll out of the PPCR funded loan scheme, the following activities are also being considered for non-grant funding from PROADAPT in the region (separate from this proposal):

- A market analysis to appraise specific market needs on adaptation, actors, existing resources and opportunities for climate resilient investments. (See section VI for additional information).
- The setting up of an insurance facility to provide farmers with adequate insurance products to protect their investments and loan liabilities. An analysis of possible mechanisms to lower insurance premiums through a government subsidy, or finding an alternative route to low risk premium costs, will be undertaken, learning from practices established in other parts of the world to help poor farmers access insurance<sup>2</sup>.
- The design and delivery of an outreach campaign to advertise the loan scheme being offered, accompanying products (such as insurance packages), and to make a clear business case to farmers for participating in the loan scheme. The Banana Industry Trust has agreed to coordinate this, possibly in collaboration with other Saint Lucian agricultural associations.
- Provision of a resilience screening/ business continuity planning service to potential borrowers to help them identify opportunities for which a loan facility may be appropriate.

The expected outcomes of the PPCR funded loan scheme as are follows<sup>3</sup>:

- Increased national food security, sovereignty and sustainability through:
  - Enhancement of food production.
  - Investment in alternative/climate resilient production technologies and crops.
- Development of new agro-processing facilities.
- Improved food storage and availability through the upgrade of food storage facilities.

## **II. Rationale:**

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<sup>1</sup> This has been confirmed by Mr. Brian Louisy, Chairman of the Banana Industry Trust and Head of the Saint Lucia Chamber of Commerce. Teleconference with John Firth (Acclimatise), Gerard Alleng (MDB Focal Point) and Laura Canevari (Acclimatise) - Thursday 25<sup>th</sup> of July 2013.

<sup>2</sup> The Malawi loan/insurance package, the Turkish Catastrophe Insurance Pool and the Caribbean Catastrophe Risk Insurance Facility are examples of insurance systems that target those who can afford the risk-based premium. Examples of insuring those who can afford a small premium but not the full risk-based market price include the Mongolian Index-Based Livestock Insurance Program and the Indian weather risk derivatives crop insurance program. Herders in Mongolia pay only a limited premium payment, insufficient to attract private insurance capital. Only outside support (donors or others “buying” part of the product) can create an attractive market for private insurers in the first several years of the program”. Reference: Linnerooth-Bayer et al. (2008) Climate Insurance as part of a post-Kyoto adaptation Strategy, Discussion paper.

<sup>3</sup> These outcomes have been identified as deemed of national significance under the SPCR, under Target A3.1 in Appendix 8 “Summary of Actions deemed to be of National Significance for Addressing Climate Change”.

The National Strategic Programme for Climate Resilience (SPCR) and its underlying Investment Plan were developed and subsequently endorsed by the Climate Investment Fund (CIF) in 2011. Taking into account the long term national goals consolidated under Saint Lucia's National Vision as well as needs and priorities identified in the UNFCCC's Second National Communication (SNC) and in the updated National Climate Change Adaptation Policy, the SPCR presents Saint Lucia's blueprint for building climate resilience in the country. While responding to national needs, the Strategy also addresses the need to limit the effects of climate change on agriculture and food security in the region (Strategic Element 4 of the Implementation Plan (IP) for the Regional Framework for Achieving Development Resilient to Climate Change)<sup>4,5</sup>. Based on an appraisal of the SPCR document, and further consultation with key local actors<sup>6</sup>, Saint Lucia presents this proposal for investment in a loan scheme to support private actors in the agricultural sector adapt to a variable and changing climate.

As articulated in the SPCR, agriculture is of critical economic and social importance to Saint Lucia, and is threatened by climate variability and change. In 2009, agricultural activities accounted for 21% of employment in the country<sup>7</sup> and covered 18% of the national territory<sup>8</sup>. As noted by Mr. Brian Louisy, Executive Director as Saint Lucia's Chamber of Commerce, agriculture plays a fundamental role in people's livelihoods and it is the sector most people turn to when the island is affected by a disaster. However, economic and climatic constraints have led the sector to experience a steady decline over the last 10 years. Banana production, the most economically important crop (accounting for 41% of gross agricultural output<sup>9</sup> and occupying 48% of cultivated land<sup>10</sup>), has been strongly affected by low international prices, less favourable rules of access to the EU market<sup>11</sup> (including the dismantling of preferential trading agreements) and climatic events. Damages incurred during Hurricane Tomas in 2010 were shown to affect between 80% and 90% of banana production and estimated to result in weekly income losses of up to Eastern Caribbean \$2.0 million before recovery (approximately US\$741,740). Preliminary estimates put the total damage caused by Hurricane Tomas at US\$281.3 million, of which approximately US\$53.6 million was reported for the agricultural sector<sup>12</sup>. Losses were also experienced due to the prolonged drought that affected the island at the end of 2009 and the beginning of 2010<sup>13</sup>.

Projected climate change impacts include worsening soil conditions, soil erosion and land degradation from flooding; and potentially increased crop loss due to high temperatures and changing rainfall patterns. Intergovernmental Panel on Climate Change (IPCC) projections are an increase in annual temperatures

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<sup>4</sup> Caribbean Community Climate Change Centre (2011): [Delivering transformational change 2011-21: Implementing the CARICOM `Regional Framework for Achieving Development Resilient to Climate Change`](#), Caribbean Community Climate Change Centre, Belmopan, Belize.

<sup>5</sup> Caribbean Community Climate Change Centre (2009): [Climate Change and the Caribbean: A Regional Framework for Achieving Development Resilient to Climate Change \(2009-2015\)](#), Caribbean Community Climate Change Centre, Belmopan, Belize.

<sup>6</sup> Mr Brian Louisy (Head of Saint Lucia Chamber of Commerce); Mr. Crispin d' Auvergne (Chief Sustainable Development & Environment Officer at the Environment Division of the Ministry of Sustainable Development, Energy, Science & Technology); Mr. Kemuel Jn Baptiste (Chief Extension Officer- Ministry of Agriculture , food production, Fisheries and Rural Development)

<sup>7</sup> CARDI (2011), Saint Lucia Country Profile [on-line resource]: <http://www.cardi.org/country-offices/st-lucia/>

<sup>8</sup> Commonwealth Network ,Agriculture Expertise in Saint Lucia, [on-line resource]: [http://www.commonwealthofnations.org/sectors-st\\_lucia/business/agriculture/](http://www.commonwealthofnations.org/sectors-st_lucia/business/agriculture/)

<sup>9</sup> CARICOM (na), Agriculture development profile of Saint Lucia, [on-line resource]:

[http://www.caricom.org/jsp/community/donor\\_conference\\_agriculture/agri\\_profile\\_st\\_lucia.jsp](http://www.caricom.org/jsp/community/donor_conference_agriculture/agri_profile_st_lucia.jsp)

<sup>10</sup> CARICOM (na), [on-line resource]: [http://www.caricom.org/jsp/community/donor\\_conference\\_agriculture/agri\\_profile\\_st\\_lucia.jsp](http://www.caricom.org/jsp/community/donor_conference_agriculture/agri_profile_st_lucia.jsp)

<sup>11</sup> The erosion of preferential treatment for bananas originating from the African Caribbean and Pacific (ACP) countries into the European Union has led to significant declines in export volumes and revenues, which, in turn, has caused severe negative socioeconomic impacts for many traditional ACP exporters, including rising unemployment and social dislocation in rural communities. Source: concept note for a country roadmap for the implementation of a climate proofing process for the vegetable crop sub-sector development plan, in Saint Lucia through personal communication with Mr. Crispin d' Auvergne, Chief Sustainable Development & Environment Officer at the Environment Division of the Ministry of Sustainable Development, Energy, Science & Technology).

<sup>12</sup> Mr. Crispin d' Auvergne (Chief Sustainable Development & Environment Officer at the Environment Division of the Ministry of Sustainable Development, Energy, Science & Technology), Personal Communication.

<sup>13</sup> Simpson, L. (2012), Sectoral Adaptation for the Agricultural Industry, Workshop on the Science of Climate Change and Climate Change Vulnerability and Adaptation, Jamaica. [on-line resource]:

<http://myspot.mona.uwi.edu/physics/sites/default/files/physics/uploads/Agricultural%20sector%20presentation%20-%20Dr.%20Simpson.pdf>.

from 1.9°C to 2.4°C by the end of the century (RCM projections), and decreases in annual average rainfall. Additionally, the Second National Communication suggests that hurricanes in the north tropical Atlantic will likely<sup>14</sup> become more intense, with larger peak winds and heavier near storm precipitation levels<sup>15</sup>. Supporting evidence is provided in a wind speed study commissioned under the Special Programme on Adaptation to Climate Change (SPACC project) in Saint Lucia which concluded that by 2025 Saint Lucia is likely to be impacted by hurricanes category 3-4 (or greater) on an annual basis<sup>16</sup>. Poor agricultural practices affecting soil quality and land condition as well as current land use conversion trends (from prime agricultural land to other uses) exacerbate the vulnerability of this sector<sup>17</sup>.

Despite recent declines in agricultural productivity, and the adverse impacts arising from the climate model scenarios, the sector is perceived as fundamental for the future development of the country. In the National Vision, the agricultural industry is presented as having an increasingly important role in the nation's economy, with a set of measures including agricultural diversification within rich fertile areas of the country presented as a means to ensure future independence of food supply<sup>18</sup>. Strong emphasis is also being given to the expansion of high value crops such as honey and the re-introduction of cocoa<sup>19</sup>.

A review of the agricultural policies in Saint Lucia shows that the major provisions for the sector focus on agricultural diversification, enhancing food security and promoting competitiveness; but do not specifically address climate change. It is also evident that farm level adaptive capacity for addressing climate change impacts is severely limited as noted in a recent study that found that farmers are mostly unaware of the type of soil of their farms, with a large share having no access to sustainable crop alternatives or to current agricultural technology<sup>20</sup>. While the SPCR does not provide an indication on the level of interest from farmers in taking out loans for building climate resilience or the level of investment needed, there is a history of those in the farming industry taking out loans for investment in Saint Lucia<sup>21</sup>.

As a net-food importing country with a growing trade deficit in its food bill over the last 10 years, climate change represents a serious threat to food security and economic development in the country, making the investment in climate resilience both a strategic national and farmer level priority.

### III. Consistency with Investment Criteria

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<sup>14</sup> In the IPCC Summary for Policymakers, outcome results are defined as 'likely' when probability of occurrence is >66%. IPCC AR4 observations have recorded an increase in hurricane intensity in this region since 1970s, correlated with increases in surface temperature. Studies evaluated under AR4 showed that future tropical cyclones would likely become more severe with greater wind speeds and more intense precipitation as it is shown in more recent models. However, a synthesis of different model results indicates that, for a future warmer climate, coarse-resolution models show a consistent increase in precipitation intensity in future storms but become less consistent when estimating changes in tropical cyclones, with results dependent on the model (see IPCC AR4 2007 *The Physical Science Basis*).

<sup>15</sup> Second National Communication on Climate Change for Saint Lucia (2011)

<sup>16</sup> These results are presented in Vickery P. J. (2008), *The Impact of Climate Change on Design Wind speeds in St. Lucia*, Caribbean Community Climate Change Centre, Belmopan, Belize.

<sup>17</sup> Caribsave (2012) Climate change risk profile of Saint Lucia: Summary document.

<sup>18</sup> St Lucia National Vision Plan.

<sup>19</sup> A project is being established by the Government of Saint Lucia in collaboration with the Caribbean Community Climate Change Centre and the European Union –Global Climate Change Alliance aimed at implementing sustainable adaptation activities with multiple benefits via diversified, cocoa-based agroforestry systems.

<sup>20</sup> Caribsave (2012) Climate change risk profile of Saint Lucia: Summary document.

<sup>21</sup> Mr. Brian Louisy, Executive Director, Saint Lucia Chamber of Commerce.

By addressing the aspirations and development goals framed under Saint Lucia’s National Vision, objectives formulated under the National Climate Change Policy, and emerging concerns and needs outlined in the Second National Communication and in the SPCR, this programme delivers on national development policies and planning. This in turn will demonstrate to Saint Lucia how climate risk and resilience can successfully be addressed through development policies and planning, strengthen the case for continuing to include climate resilience in developing planning, and can deliver short and long term benefits for those engaged in private sector activities. Table 1 presents the ways in which the proposed programme can deliver on national and wider Caribbean objectives.

**Table 1: Importance of the proposed programme to national and regional objectives**

<p><b>National Climate Change Policy Objectives addressed in this programme<sup>22</sup></b></p> <ul style="list-style-type: none"> <li>Objective B5 (Agriculture): adoption of appropriate adaptation measures to address areas of immediate need where this does not jeopardise or contradict the development of long-term, sustainable strategies for the agricultural sector.</li> <li>Objective B6 (Agriculture): Formulate and implement any other such strategies and measures which may help to ensure food security sustainable food production and sustainability of forest resources.</li> <li>Objective 6 (Water): Assess and address needs for water storage and distribution infrastructure to ensure water availability during drought periods.</li> </ul> <p><b>Agriculture Policy Objectives addressed in this programme<sup>23</sup></b></p> <ul style="list-style-type: none"> <li>Increase the efficiency and competitiveness of agriculture.</li> <li>Promote the adoption of improved, appropriate technological packages.</li> <li>Expand and diversify agriculture, forestry, and fisheries production, value-added goods, and the general market base.</li> <li>Enhance the National Food Security status.</li> <li>Generate new opportunities for income and employment in the rural areas.</li> </ul> <ul style="list-style-type: none"> <li><b>Medium Term Strategic Plans (MTSP) objectives addressed in this programme</b> Productivity and business enhancements.</li> <li>Development of niches.</li> <li>Diversification within the existing sectors in areas of comparative advantage.</li> </ul> <p><b>Regional Implementation Plan Objectives that might be addressed in this programme<sup>24</sup></b></p> <ul style="list-style-type: none"> <li>Research and introduce indigenous and other breeds of cattle, pigs, goats and poultry that are heat tolerant and more feed efficient for commercial meat, milk and egg production by 2020.</li> <li>Develop and make available to farmers grass, grain and forage legume species to support the production of meat, milk and eggs.</li> <li>Develop and implement strategies to secure, store and distribute food supplies and germplasm, particularly for use during low production periods and at times of natural and other disasters.</li> <li>Develop and institutionalize infrastructure and logistics to support post-harvest handling, transportation, distribution and marketing of food within and amongst individual countries, based on needs and local conditions.</li> <li></li> </ul>
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<sup>22</sup> Saint Lucia National Climate Change Policy and Adaptation Plan.

<sup>23</sup> See Singh, R.H. et al. (2005) A review of agricultural policies: Case study of Saint Lucia, Report prepared by the University of West Indies for the CARICOM secretariat.

<sup>24</sup> CCCCC and CARICOM (2012) Delivering Transformational Change 2011-2021: Implementing the CARICOM ‘Regional Framework for Achieving Development Resilient to Climate Change’.

This **programme** will gain leverage from other current regional initiatives, one implemented by the Caribbean Community Climate Change (CCCCC) and one by the Inter-American Institute for Cooperation on Agriculture (ICCA). The first is expected to deliver a regional market study for private sector involvement at the regional level and the second to enhance institutional capacity to support climate smart agriculture in the Caribbean (with activities targeting some of Saint Lucia's agricultural sub-sectors). Information and resources generated through these initiatives will be utilised to support this **programme**, helping not only to build on existing knowledge, but also to demonstrate how national level projects can expand on regional level initiatives.

In addition to achieving climate resilience objectives, this **programme** is expected to lead to co-benefits, in particular from the support of high value crops. For example, providing an opportunity for farmers to enter the honey industry can result in the preservation of forest ecosystems and carbon sequestration.

The **programme** will deliver valuable lessons for the region, including:

- how to coordinate government and private sector actors to support climate resilient investments through a mutually managed trust;
- how to coordinate efforts implemented through national initiatives targeting the private sector with other regional investments;
- identifying climate resilient products that can benefit small farmers in countries experiencing similar climate related stresses to those experienced by Saint Lucia;
- how to utilise business continuity plans as a mechanism to raise awareness in the private agricultural sector and to support continuity of production and year round food supply.

#### **IV. Type of Private Sector Engagement**

PPCR set aside resources requested will be provided under a loan agreement to the Banana Industry Trust. The Trust is administered by a Board of Trustees, made up of representatives from each of the two main banana companies, two from the Ministry of Agriculture, Forestry & Fisheries, one from the Ministry of Finance, three representatives from the Chamber of Commerce (the Head of the Chamber, a representative from the National Fair Trade Organisation and one from Grace Farmers Association<sup>25</sup>), a representative from the Bank of Saint Lucia, a representative from the Banana Emergency Recovery Unit and a representative from the National Authorising Office. The Banana Industry Trust provides an excellent example of a successful Public-Private Partnership (PPP).

In consultation with the Chairman of the Trust, it has been established that although the Trust has primarily been managing funds disbursed to banana farmers, it has the capacity and willingness to manage loans for other agricultural producers. For example, it already supports the cocoa industry and is willing to extend this to other agricultural sectors.

#### **V. Innovation**

Although farmers in Saint Lucia have historically been able to access loans from the Banana Industry Trust, this is the first time that the Trust will provide loans to support investments identified as climate resilient.

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<sup>25</sup> Grace Farmers is a formally established Farmers Organization operating in Saint Lucia. The National Fair Trade Organization is a national agency created in response to the "fair trade" labelling opportunities available for premium pricing of bananas and other crops.

Stemming from the possible technical assistance that will accompany this programme under PROADAPT, a number of innovative features will be established. Firstly, a detailed market study accurately defining farmer needs, current practices and opportunities may be undertaken, to better inform the selection of farmers and farming investment options that may benefit from the Trust loan. Additionally, an insurance facility may be established through non-loan funded technical assistance. Historically, farmers have been exposed to debt burdens arising from unanticipated losses and increasing costs restricting their ability to repay loans. For example, farmers may have invested in irrigation that has been damaged by a storm event and had their crops destroyed, leaving a debt burden and no ability to fund repayments from current income or future increases in productivity. The debt burden, together with fall in revenue, reduces their access to future credit further exacerbating their ability to recover<sup>26</sup>. Through technical assistance, an insurance facility will be considered providing farmers in Saint Lucia with loan and crop insurance, both of which have been identified by the Trust and the Chamber of Commerce as essential and innovative support mechanisms.

## **VI. Technology, Product, and/or Business Model:**

### **Technology and Product**

The Banana Industry Trust, which has already benefited over 3,000 farmers through other programmes<sup>27</sup>, will be responsible for managing loan credit lines provided to farmers or farming associations, supporting investments in climate resilient products. Distribution and processing companies wishing to strengthen their supply chain through adequately retrofitting and climate proofing their infrastructure (e.g. upgrade of storage facilities) will also be eligible for loans. As Saint Lucia expands its agricultural production into higher value crops, processing facilities will be required to secure high value returns for the country<sup>28</sup>.

The types of technology/ product/ services which will be eligible to be covered by PPCR loans will be defined using the adaptation investment needs, opportunities, and actions deemed of national significance for addressing climate change challenges identified under the SPCR and other national planning documents<sup>29</sup> for the agricultural sector. These include:

- On farm soil and water conservation practices.
- Establishment of water recycling and conservation measure.
- Implementation of organic agriculture and certification programmes for sustainable land use in agriculture.
- Construction of emergency water stores and decentralised farm tanks or micro dams in strategic locations.
- Upgrading of food storage facilities or establishment of new facilities to broaden existing food distribution network and retrofitting other relevant infrastructure.
- Development of agro-processing facilities.
- Introduction of salt water and drought tolerant crops.

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<sup>26</sup> This was noted as a critical issue by Mr. Kemuel Jn Baptiste (Chief Extension Officer- Ministry of Agriculture, food production, Fisheries and Rural Development) who embraced the idea of setting an insurance facility to help protect farmers from debt in the advent of a natural disaster.

<sup>27</sup> Personal communication provided by Mr. Brian Louisy, Chairman of the Banana Industry Trust, 29/07/2013.

<sup>28</sup> Evidence of interest in expanding high value crops such as honey and cocoa was provided Mr. Crispin d’Auvergne (Chief Sustainable Development & Environment Officer; Environment Division; Ministry of Sustainable Development, Energy, Science & Technology) and Mr Brian Louisy (Head of Saint Lucia Chamber of Commerce).

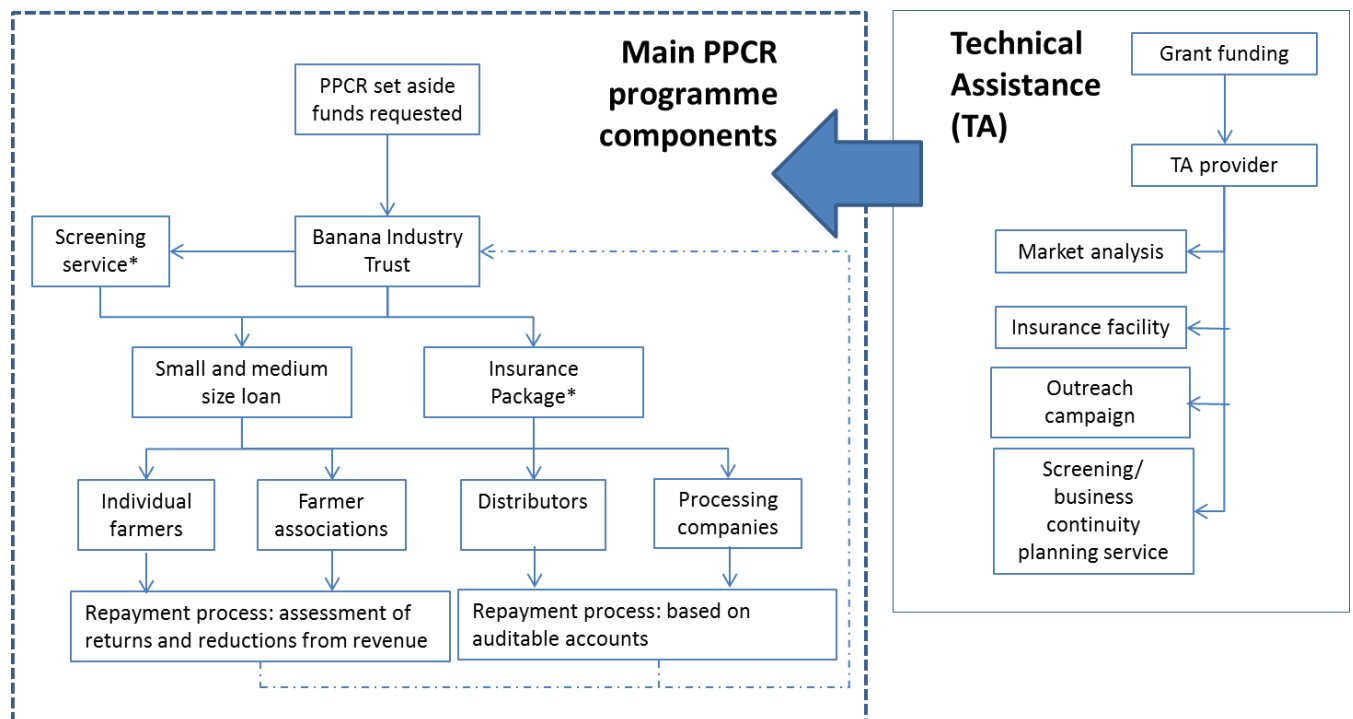
<sup>29</sup> Actions deemed of national significance are identified in Saint Lucia’s Strategic Program for Climate Resilience (SPCR) ‘blue print’ “*PPCR and beyond*”.

- Adoption of alternative production strategies (e.g. hydroponics).

The market analysis proposed for inclusion in the PROADAPT programme for additional grant funding (see Sections I and V) will help to refine the list of appropriate technologies, products and services eligible for a loan. Additional information will be provided by analysing market needs with respect to adaptation, including the potential for new niche markets and expansion of high value climate resilient crops. Examples will be explored such as drought- flood- or salt- tolerant crops, development of greenhouses to counter unfavourable climatic conditions and seed and fertilizer storage for sustainability beyond disaster and fast recovery.

### Business Model

As presented in Figure 1, PPCR set aside non-grant funds would be delivered to the Banana Industry Trust. The Trust would then provide loans to individual farmers, farmer associations and/or distributors/processors in order that they may make climate resilient investments. Potential loan recipients will have to demonstrate that their proposed investments will have a direct and measurable effect on the climate resilience of their activities. To reduce the lending risk for PPCR and the Banana Industry Trust, borrowers will be required to take out insurance to protect them in the event that their invested assets are lost due to natural hazards or their cost base and/or revenue earning capacity is adversely affected. (The insurance facility does not yet exist and has been identified for inclusion in the PROADAPT programme). The Banana Industry Trust has proposed that loan repayments will be deducted from revenues before payments are made by distributors/processes. The repayments will only be made if there has been an increase in returns to the farmer, sufficient to cover the loan and interest. This model has been applied previously by the Banana Industry Trust. A similar model will operate with loans to distributors and processing companies, where their repayments will be based on auditable accounts.



**Fig. 1 Programme business model.** \* Screening service and insurance facility to be provided through technical assistance.



The technical assistance support provided by the PROADAPT programme may also be able to assist the Banana Industry Trust in providing a resilience screening/ business continuity planning service to potential borrowers to help them identify opportunities for which a loan facility may be appropriate. A possible model would be for the Trust to provide the service at a reasonable fee, refundable if the farmer, farming association, distributor or processor accepts the loan<sup>30</sup>.

A discussion with the Saint Lucia Ministry of Agriculture has revealed that farmers have been exposed to debt burdens in the past arising from unanticipated losses and increasing costs restricting their ability to repay loans (see Section V)<sup>31</sup>. There is a risk that introducing additional loans for farmers will lead to similar debt burdens. In order to mitigate this risk, the development of the PPCR loan facility is dependent on technical assistance for the proposed insurance scheme, and a market study and screening process to identify realistic and achievable increases in revenue for farmers, distributors and processors.

## VII. Market

Banana is the main agricultural export commodity of Saint Lucia. It not only dominates agricultural land use in the country (48% of agricultural land) but also its economic life. From a land resource utilization perspective, coconut is next, accounting for 42% of the cultivated area. Agricultural activities in the country also include vegetable, food crops, livestock (sheep and goat) as well as fisheries. However, with a small land base, many small-sized farms, low levels of technology use and low levels of investment, producers in Saint Lucia are unable to achieve economies of scale and are high-cost producers, which negatively affects the price competitiveness of exports. According to the latest available agricultural census approximately 30,000 acres of land were under agricultural holdings in 2007, covering a total of approximately 10,000 holdings. Approximately 30,000 individuals (about 20% of the national population and a significantly higher proportion of the working age population) are recorded as being employed in this sector<sup>32</sup>.

The Banana Industry Trust, the main borrower, has in the past assisted farmers to recover from shocks and help them cope with changing market conditions. Records provided by the Banana Industry Trust<sup>33</sup> show that historically farmers have accessed loans from this Trust, primarily to support investments in irrigation infrastructure and drainage. One of its early interventions to support farmers came in the form of a credit facility for the purchase of inputs and the rehabilitation and replanting of fields after a severe drought in 2001. The funds were targeted at certified farmers and approximately 1,000 farmers were eligible to access the available funds (a total of US \$2.2M provided by the Government between 2001 and 2005 with US \$2.17M successfully disbursed<sup>34</sup>).

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<sup>30</sup> There is an interesting current opportunity to build on existing activities being undertaken at the regional level. Under the regional ICCA project (see Section III) a training of trainers in climate proofing is being undertaken. Outputs from this process will include a trainer's manual on climate proofing and 3 certified trainers in Saint Lucia. This could become a resource that the Banana Industry Trust could draw on to help farmers identify which climate proofing options may be more suitable to their needs.

<sup>31</sup> This was noted as a critical issue by Mr. Kemuel Jn Baptiste (Chief Extension Officer- Ministry of Agriculture, food production, Fisheries and Rural Development). Personal Communication. Teleconference between Mr. Baptiste and Laura Canevari (Acclimatise) 30<sup>th</sup> July 2013

<sup>32</sup> 2007 Saint Lucia Census of Agriculture: Final Report, Ministry of Agriculture, Forestry and Fisheries. Available on-line: [http://www.fao.org/fileadmin/templates/ess/ess\\_test\\_folder/World\\_Census\\_Agriculture/Country\\_info\\_2010/Reports/STL\\_ENG\\_REP\\_2007.pdf](http://www.fao.org/fileadmin/templates/ess/ess_test_folder/World_Census_Agriculture/Country_info_2010/Reports/STL_ENG_REP_2007.pdf).

<sup>33</sup> See Information provided in the Banana Industry Trust website: <http://www.bananatrusterslu.com/index.php?link=aboutus>.

<sup>34</sup> Information available at <http://www.bananatrusterslu.com/index.php?link=aboutus>. Note that this information has not been updated since 2008

More recently the Trust has been involved in broader natural resource management projects under a 4M EUR EMF (Environment Management Fund) funded programme which includes: alternative cropping, water supply systems and group water exploitation, solid and liquid waste management and land stabilisation among others.

In Saint Lucia most banana farmers engage in mix cropping activities, a practice that has been strongly encouraged, given the positive experience in helping farmers recover from Hurricane Tomas. Extending the support of the Trust to other agricultural products is also in alignment with the agricultural diversification strategy that is currently supported by the Government under its National Vision Plan. Likewise. The Banana Industry Trust has also identified agricultural diversification, exploration of new niche markets and overcoming the dependency on a single crop as measures to build its resilience<sup>35</sup>. The extension of the Trust services to other agricultural sub-sectors and products and the identification of other agricultural and high value or resilient crops under this programme is therefore deemed as very feasible and in the best interest of the nation. The Trust has also confirmed its willingness to accept the proposed loan.

Discussions with Mr Crispin d’Auvergne (Chief Sustainable Development & Environment Officer; Environment Division; Ministry of Sustainable Development, Energy, Science & Technology) and Mr Brian Louisy (Head of Saint Lucia Chamber of Commerce) indicate that future expansion of agribusinesses and the introduction of new agricultural products is possible, may build upon existing facilities and can provide access to new markets. There are a number of agribusinesses operating in the country, and the Ministry of Agriculture, Food Production, Fisheries and Rural Development has shown interest in the further expansion of some of these facilities (especially those engaging women in community based products)<sup>36</sup>. The Banana Industry Trust, the Chamber of Commerce and the PPCR national focal point have all identified a potential market opportunity for Saint Lucia to exploit high-value niche products (e.g. honey and cocoa).

### **VIII. Financial Plan (Indicative):**

The budget proposed below is a very high level estimate of the financing required to implement this programme. As explained in Section VI the final selection of suitable and locally sound climate resilient measures and the total number of different products that will be supported under this loan scheme is in part dependent on market study results that are intended to be provided through grant funded technical assistance. While the SPCR provides estimates for public sector agricultural investments, it does not provide estimates of credit required by the agricultural private sector in Saint Lucia for building resilience. Accordingly, it is not possible to provide an exact value of required investments.

In this context, it is estimated that the amount provided for this loan should equal the maximum amount that the Trust has previously shown that it has the capacity to manage effectively (4M EUR, equivalent to US\$ 5.3M). An additional 15% has been added to this on the assumption that this sum is required to cover

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<sup>35</sup> Saint Lucia Country Strategy Paper for the Banana Industry, Agricultural Diversification and The Social Recovery of Rural Communities.

<sup>36</sup> From personal communication with Mr. Kemuel Baptiste (Chief Extension Officer- Ministry of Agriculture , Food production, Fisheries and Rural Development), 30<sup>th</sup> of July 2013.

fund management costs. As such the proposed loan is \$6.1M. It is recommended that this value then be refined during programme development.

<b>Source of Funding (by type of instrument, equity, debt, guarantee, grants, credit lines, etc.)</b>	<b>Amount (USD million equivalent)</b>	<b>Percentage (%)</b>
Project developer		
MDBs		
PPCR	\$6.1M	100
Local banks		
Other investors		
Bilaterals		
Others*		
<b>TOTAL</b>	<b>\$6.1M</b>	<b>100</b>

\*There may be scope for co-financing through the Disaster Vulnerability Reduction Project (DVRP) requested under the SPCR. This should be explored during programme development.

## **IX. Expected Results and Indicators**

Examples provided below:

<b>Results</b>	<b>Indicators</b>
Improved on-farm water supply	Number of new or retrofitted rain water harvesting and/or sewage water recycling systems Number of on farm reservoirs and micro dams built
Upscale investments in climate resilient infrastructure for the agricultural sector	Aggregated value of climate resilient investment in infrastructure supporting the agricultural sector
Increased reliability of food supply throughout the year	Number of farmers or farm associations that have implemented a new business continuity plan. Changes in market prices for food.
Diversification of agricultural produce	Increased revenues in climate resilient and high value crops
Increase awareness and buy in of farmers, resulting in increased interest for climate resilient products	Number of loan applications and loans provided. Total number of farmers, farmer associations, distributors or processors benefitted
Increase climate resilience of storage facilities for agricultural products	Number of new and retrofitted storage facilities, including on farm storage facilities and cold-storage facilities at ports. Number of storage facilities with alternative energy production
<i>Note: results and indicators are expected to be refined based on the proposed market study and continued project scoping.</i>	

## X. Implementation Feasibility and Arrangements

Based on the call for this activity under the SPCR which was developed based on a long consultation process which incorporated the views of private sector actors<sup>37</sup>, and the existing experience of the proposed borrower, the implementation of this programme is considered to be financially feasible.

Regarding timelines, as stated on the PPCR website, the expected PPCR sub-committee endorsement of project concepts will occur on November 1st 2013. As stated in the CIF 'Procedures for allocating PPCR resources'<sup>38</sup>, one of the criteria for assessment will be 'implementation feasibility within 9-18 months after funding approval' (p4), and thus with the project developed by April 2015.

The separately proposed, grant-funded market study, set up of insurance facility, screening/business continuity service and outreach programme are projected to take approximately up to 9 months in total (although individual elements will be delivered on shorter timescales). Further discussions are required with the PROADAPT fund managers to agree the delivery timetable for the technical assistance support.

This programme is planned to start appraisal of potential loan applications within 9 months (once the technical assistance support areas have been completed and subject to PROADAPT funding being made available). It is proposed that initial endorsement for the loan programme is provided on November 1<sup>st</sup> 2013, with final approval provided once the grant-funded technical assistance projects have been completed. In the case that technical assistance projects are completed between November 2013 and July 2014, final approval of the loan programme and disbursement may then proceed from August 2014.

## XI. Potential Risks and Mitigation Measures:

Potential risks	Mitigation measures
Introducing loan schemes for farmers and other private sector actors in the agricultural sector may lead to debt burdens arising from unanticipated losses and increasing costs restricting their ability to repay loans.	Loans must be supported by innovative insurance cover and an effective market analysis and screening process to identify realistic and achievable increases in revenue (as described in this concept note).  Implementation of this programme is conditional upon grant funded technical assistance to support the market analysis, insurance scheme set up and development of a screening/business continuity tool.
The successful implementation of this programme is dependent upon the completion of the market analysis. The risk is that provision of technical assistance to support this	Discussions with the IDB PROADAPT programme to access grant funding to support the market study are underway. This programme concept note has been prepared with

<sup>37</sup> See Appendix 9 of the SPCR on key contributors Saint Lucia's SPCR and Investment Plan

<sup>38</sup> CIF (Feb 25<sup>th</sup> 2013). Procedures for allocating PPCR resources on a competitive basis from an agreed set aside of resources. This is understood to be a period for developing the project idea/ 'implementation feasibility' work.

<p>study may be delayed, delaying the implementation of this programme.</p>	<p>the full co-operation and assistance of the PROADAPT fund manager to identify leverage and synergistic opportunities.</p>
<p>The need for insurance products that protect farmers from unexpected losses has been identified for this programme. The risk is that provision of technical assistance to set up the relevant insurance facility is delayed/ not provided.</p>	<p>Discussions with the IDB PROADAPT programme to access grant funding to support the insurance facility are underway. This programme concept note has been prepared with the full co-operation and assistance of the PROADAPT fund manager to identify leverage and synergistic opportunities.</p>
<p>For the loan scheme to succeed there is a need for enough buy-in from local farmers and distributors. The risk is that not enough actors may acknowledge the benefit provided by the loan and that an insufficient number of loan applications are submitted to the Banana Industry Trust.</p>	<p>The development of an outreach campaign to raise awareness among farmers on the benefits provided by investing in climate resilience measures has been proposed for grant funding. The Banana Industry Trust has agreed that they would coordinate this. The development of a screening/business continuity tool will also provide opportunities to provide practical demonstrations of how the loans can provide real financial benefits.</p> <p>Discussions with the IDB PROADAPT programme to access grant funding to support these activities are underway. This programme concept note has been prepared with the full co-operation and assistance of the PROADAPT fund manager to identify leverage and synergistic opportunities.</p>