CIF CLIMATE INVESTMENT FUNDS

EVALUATION & LEARNING INITIATIVE

SAINT LUCIA'S EXPERIENCE WITH PRIVATE SECTOR CLIMATE ADAPTATION

This report examines the climate change adaptation efforts to date of private firms in Saint Lucia as well as the impact of the government's initiatives aimed at encouraging private sector adaptation. It draws lessons from two CIF-supported adaptation financing initiatives—the Climate Adaptation Financing Facility (CAFF), implemented by the Saint Lucia Development Bank (SLDB), and the Sustainable Agribusiness for Laborie and Environs (SABLE)/SmartClime, implemented by the Laborie Cooperative Credit Union (LCCU)—as well as stakeholder interviews, a survey of businesses, and other sources. The findings and recommendations may also be relevant to other Small Island Developing States (SIDS), especially those in the Caribbean region.

CONTEXT

Saint Lucia is a SIDS that is highly vulnerable to the adverse impacts of climate change, due to its location along the north Atlantic hurricane corridor, small surface area, irregular topography, and large concentration of people and infrastructure along the coast. Its climate vulnerability is exacerbated by socio-economic factors, including its reliance on tourism and agriculture (two highly climate-sensitive subsectors), high unemployment, and reliance on costly imported food and fuel.

Saint Lucia's private sector consists of many micro and small businesses and a few large businesses. Most businesses are either microbusinesses with fewer than five employees (77 percent of all firms) or small businesses with six to 50 employees (22 percent), and only 1 percent are large firms with more than 51 employees (2009 private sector assessment).

The Government of Saint Lucia (GOSL) has been collaborating over the past two decades with local, regional, and international organizations to enhance the island's capacity to adapt to climate change. GOSL has recognized the private sector's critical role in the national climate adaptation effort in all its key policy documents and is committed to promoting and strengthening private sector engagement in climate adaptation. Specifically, the *2020 Private Sector Engagement Strategy,* a part of Saint Lucia's National Adaptation Plan, seeks to encourage private sector actors and business associations to help lead the national adaptation effort, combining private sector innovation with technical and financial resources to build the country's long-term climate resilience.

The country's experience to date is represented in a "roadmap" of four preconditions, developed for this study, that helped to assess the readiness of Saint Lucia's private sector to invest in adaptation and to identify potential areas for government intervention (see Figure 1).

QUICK FACTS

PUBLICATION DATE
December 2021

RELEVANT CIF PROGRAM
Pilot Program for Climate Resilience (PPCR)

EVALUATION FIRM
Environmental Governance Consulting[1]

RELEVANT COUNTRIES
Saint Lucia

To access the full study, please click here or scan the QR code.

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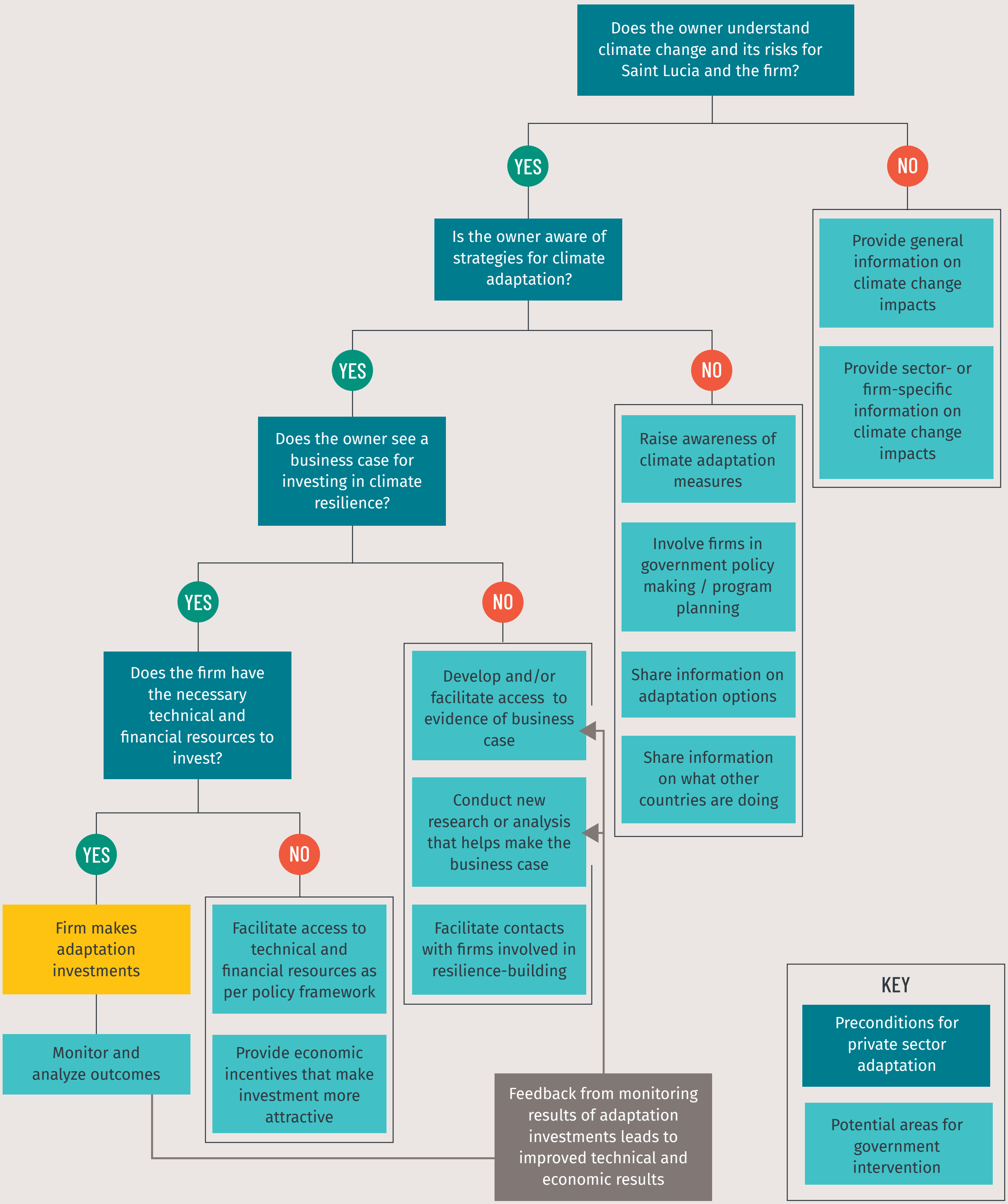
[1] This report, prepared by CIF, summarizes a more detailed study undertaken by Environmental Governance Consulting (EGC) that investigated the impact of climate change on the private sector in Saint Lucia, the private sector's experience in building climate resilience, and the actions by the Government of Saint Lucia (GOSL) to promote private sector climate adaptation.

Figure 1:
PRECONDITIONS FOR PRIVATE ADAPTATION AND POTENTIAL GOVERNMENT RESPONSES



KEY FINDINGS

1 **There is considerable scope to expand adaptation measures in both small and large firms.** Among the 161 firms interviewed (23 large and 138 small), 48% of the large firms and only 20% of small firms had implemented at least one climate adaptation or mitigation measure.

2 **Private sector understanding of climate change risks and opportunities is limited.** Although the majority of those interviewed were generally aware that climate change was occurring, understanding of specific effects was limited. In addition, very few respondents could identify an opportunity, such as demand for new products or services, that climate change might create for the business.

3 **Most of the surveyed firms had received no financial or technical support with adaptation.** Those that had mentioned NGOs as the most common source of assistance, while interactions with GOSL were the least common. This suggests that firms consider NGOs credible on adaptation and mitigation matters. Of the 44 percent of respondents who had heard of the CAFF, only two percent had attempted to access it.

4 **Efforts may be needed to identify and disseminate successful private sector adaptation strategies by firms – both within Saint Lucia and the region.** Information and examples of successful climate investments by competitors can be motivating, suggesting a role for the government in facilitating knowledge sharing where gaps may exist.

5 **Finance alone is not sufficient to encourage private sector investment in adaptation.** An understanding of climate impacts, business cases, and technical solutions are all necessary as well. Government support to help firms achieve all the preconditions for adaptation investment will be key.

RECOMMENDATIONS

- **More targeted communications, outreach, and support to the private sector are needed to fully engage both small and large businesses.** Suggestions include:

  → **Adopt a two-pronged approach, one focused on small firms and another on large firms,** with distinct strategies and possibly different lead agencies to help the two groups navigate their respective adaptation pathways.

  → **Consider alternative ways to target firms, such as through value chains.** Encouraging firms from the same value chain to work together on adaptation may be effective, due to their interdependence and shared interest in preserving their livelihoods.

  → **Develop clear and compelling climate messages tailored to the needs and challenges of specific audiences.** This can help ensure that climate change messages reach and are understood by target groups, and motivate private firms.

  → **Create an "adaptation hub."** This would be an easily accessible place where the private sector can find information on adaptation opportunities, technical and financial support, and networking opportunities, as well as make their needs known to GOSL.

- **Consider alternative ways to get technical support to potential "adaptors."** Financial institutions have some capacity to provide technical advice to their borrowers, but real engagement needs to occur earlier in the adaptation cycle when business owners are trying to understand the business case for investing. Consider collaboration with academic institutions or the creation of a national or regional technical center.

- **Ensure public support for adaptation is leveraging private investment.** Public resources to subsidize adaptation are extremely limited. GOSL could continue testing different adaptation financing approaches and carefully monitor the results to see whether they contribute to the demand for and supply of private financing.

FINDINGS FROM THE SABLE/SMARTCLIME AND CAFF INITIATIVES

The two CIF-supported adaptation financing initiatives achieved positive outcomes. SABLE provided climate resilience training to 145 producers and helped local farmers achieve double-digit sales growth. CAFF provided 264 affordable loans totaling XCD6.19 million (USD2.29 million) to households and small businesses over its first four years.

However, the initiatives also demonstrate the challenges of adaptation lending, including **lower-than-expected demand, modest loan sizes, and significant overhead costs.** SmartClime's interest rate exceeded the rates already available in the local market. CAFF's rigorous loan approval process discouraged some borrowers. Target groups, including farmers and fishers, were reluctant to borrow without assurances that there is a business case for adaptation.

These two initiatives demonstrate that more effort is needed to manage the risks associated with mobilizing private finance for adaptation investments. One lesson is that initiatives of this nature **require resources to generate effective private sector demand**. Another lesson is that technical capacity is key; **lenders need to understand the unique characteristics and risks involved in adaptation lending**, while **borrowers need help with project preparation** and to negotiate the borrowing process.