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**Executive Summary:**

The origins of the Integrated Development Programme for the Caribbean Rum Sector can be found in the unilateral decision of the European Union (EU) to liberalise access to the EU rum market under an EU/US agreement. With the start of the negotiations on a successor agreement to the Lomé convention, the Caribbean rum industry intensified its lobbying efforts for the inclusion of specific provisions aimed at supporting the rum sector. This resulted in December 1999 in the joint ACP-EU declaration on rum, which included the EU commitment to finance ‘*an integrated sector specific programme for the development of ACP exporters of rum*’. This joint declaration provided the basis for the subsequent Caribbean rum programme, whose main objectives consisted in (i) enhancing the competitiveness of existing exporters of rum in the Caribbean region, (ii) assisting in the creation of a rum marque or brands by region/countries and (iii) enabling the design and implementation of marketing campaigns. Operational since 2003, the programme revolved around four substantive elements, intended to be complementary and mutually reinforcing. The first of these elements, which is also the most financially significant, was the multi-window Cost Sharing Grant Scheme (allocation €46.6 million). This scheme was designed to provide direct support to those enterprises in the Caribbean rum sector committed to the core objective of shifting production towards serving the branded high-quality/high-value bottled rum market. As a vital complement to this financial assistance for upgrading production capacities, the Caribbean Rum Marque Programme (allocation €16.9 millions) was established to support the transition of the Caribbean’s rum exports from a “bulk-oriented” approach towards a “brand or value-addition” approach, as well as to build up the “True Rum” campaign. Finally, because undue delays in the process could substantially increase the financing costs of investment and deter pro-active restructuring initiatives, a technical assistance programme, as well as an institutional support to the West Indies Rum and Spirit Producers Association (WIRSPA) was built into the programme.

**Key Lessons for other Aid for Trade Programmes:**

- External assistance can play an important role, but is no substitute for **visionary industry leadership**. Similarly, a **sustained advocacy strategy** is required.
- **Programme management by an industry association** greatly facilitates relationships of trust between programme managers and programme beneficiaries. In this context the role of the public sector should be one of facilitator rather than driver, while the private sector knowledge needs to be brought into the process of programme design, management and implementation.
- **Establish a private sector development facility** to support the elaboration of ‘business plans’, to assist private sector enterprises to engage with EU aid procedures, including documenting and submitting claims. The procedures of any programme need to be light and efficient so as to allow speedy reimbursement of approved expenditures. Qualified staff running the programme management unit who respond quickly is another precondition to success.
- The mutual recognition between **local accountancy systems and EDF procedures**.
- For a cost-sharing grant scheme programme, **the level of co-financing by the EC should be sufficiently high** to provide incentives to the private sector to take risks and pro-actively engage in market-led production and trade adjustment process.
- **Flexibility at the design stage in the allocation of funds** to different components so that it can be ‘demand driven’ and build on success. When designing a programme to support market-led trade and production adjustment processes, it is also essential to allow enough time for marketing and promotion activities.
- A **continuous dialogue among all stakeholders** helped the early identification of potential problems and as well as the rapid resolutions of difficulties.

## 1. Issues Addressed

The origins of the EU Integrated Development Programme for the Caribbean Rum Sector can be found in the unilateral decision of the EU to liberalise access to its rum market under an EU/US agreement. Under this agreement, the trade preferences for traditional African, Caribbean and Pacific (ACP) rum were *de facto* eroded. Being aware of the challenges this unilateral action would give rise to, Caribbean governments immediately gave voice to the concerns of rum producers and opened the dialogue with the EU in order to find an appropriate policy response. With the start of the negotiations on a successor agreement to the Lomé convention, the Caribbean rum industry intensified its lobbying efforts for the inclusion of specific provisions aimed at supporting the rum sector. This resulted in December 1999 in the joint ACP-EU declaration on rum, which included the EU commitment to finance ‘*an integrated sector specific programme for the development of ACP exporters of rum*’.

## 2. Objectives Pursued

The ACP-EU Joint Declaration on Rum provided the basis for the subsequent Caribbean rum programme, whose main objectives consisted in (i) enhancing the competitiveness of existing exporters of rum in the Caribbean region, (ii) assisting in the creation of a rum marque or brands by region/countries and (iii) enabling the design and implementation of marketing campaigns.

## 3. Design and Implementation

### 3.1. Design issues

Following the conclusion of the ACP-EU Joint Declaration on Rum in December 1999 a key issue which needed to be addressed was how precisely EU funding should be used in support of a **market led, private sector based** restructuring process. Procedures of the European Development Fund (EDF) had been designed largely with state to state cooperation in mind and this state focussed approach still tended to dominate. Despite this reality EC officials showed a remarkable openness to finding solutions to the problems faced in moving over to private sector designed and managed aid deployment arrangements.

Issues faced included addressing the issue of bank guarantees, the procurement procedures to be followed and the terms and conditions under which public funds could be deployed in support of private sector based restructuring processes. The solutions found included channelling funds through the regional organisation, so as to avoid any major requirement for bank guarantees to be lodged and the elaboration of a specific “manual of procedures” to guide the implementation of the rum programme.

These arrangements however did not sit easily with all EU institutions. A number of EU member states expressed concerns during the design phase of the programme, relating to the fundamental question of whether EDF grants should be given to commercial companies and whether ACP companies should be supported in marketing efforts on the EU market in products which potentially compete with EU products. Questions were also raised with regard to the consistency of the proposed programme with wider EU poverty eradication policy objectives. To varying degrees these questions were taken up and satisfactorily, albeit not comprehensively, resolved. Once again the rum industry played an active role in seeing the process of programme design across these hurdles.

As a consequence of the resolution of these questions at the EDF Committee meeting in November 2001, EU member states agreed to the final version of the financing proposal for the Caribbean rum programme. A €70 million Financing Agreement was subsequently signed between the EC and the member states of the CARIFORUM in January 2002. This was followed by the signature of the service contract between the Secretariat of the Caribbean Forum of ACP States and WIRSPA in June 2002, the official launch of the programme in August 2002, and the operational commencement of the rum programme at the beginning of 2003.

The €70 million Integrated Development Programme for the Caribbean Rum Programme was structured as follows:

- i. Multi- Window Cost Sharing Grant Scheme (allocation €46.6 million)
- ii. Caribbean Rum Marque Programme (allocation €16.9 million)
- iii. Institutional support (allocation €13.45 million)
- iv. Technical assistance (€2.1 million)
- v. Ongoing monitoring (€0.95 million)

As will be explained next, the multi-window cost sharing grant scheme (CSGS) constituted the key component in the design stage of the entire programme, followed by the institutional support and technical assistance elements considered as the foundations for the implementation of the programme.

While the EC has a long tradition of using CSGS to support private sector projects, the reality is that such schemes need to be designed and managed in the light of the specific policy objectives and the specific contexts within which the adjustment process is taking place. CSGC, as the name suggests, involve the grant co-financing by the EC of specific agreed activities with private companies or other economic actors. The percentage contribution to each approved activity varies from scheme to scheme and can vary within individual schemes depending on the features of a particular 'window' or in some cases the nature of the applicant. In addition, under CSGS, ceilings may be set on how much individual companies can obtain, both under each window and in total.

Within these parameters, CSGS are 'demand driven' and generally operate on a 'first come-first served' basis. However to avoid the marginalisation of small and medium sized enterprises within CSGS, complementary activities are commonly established to facilitate the access of **SMEs** to the scheme. This was certainly the case under the Caribbean rum programme, both within the CSGS itself and within the wider programme. A small grants facility was established, which had lighter decision making procedures (decision by the WIRSPA Secretariat, subject to subsequent ratification by the Steering Committee) on funding requests up to a total of €10,000. This facility was extensively used by SMEs and provided an early return to companies on investments being made, since many of these projects involved immediate cost saving interventions.

Under the Caribbean rum programme the four specific windows established within the CSGS were:

- the 'modernisation and capital investment' window;
- the 'distribution and marketing' window;
- the 'waste treatment and environmental protection' window;
- the 'business development services' window.

Provided the measures contributed to the attainment of the overall programme objectives a wide variety of activities could be financed under each of these windows.

### *3.2. Implementation issues*

Because undue delays in the implementation process could substantially increase the financing costs of investment and deter pro-active restructuring initiatives, a technical assistance programme, as well as an institutional support programme to the West Indies Rum and Spirit Producers Association (WIRSPA) was built into the programme. These elements can be seen as the foundations for the implementation of the programme.

Technical assistance for implementing the programme, both long term and short term, was provided by the consulting company LINPICO. This company was selected from applicants responding to an open tender notice after a careful assessment by a selection committee consisting of CARIFORUM, WIRSPA and the EC. The work of the long term technical assistance advisor was fully integrated into WIRSPA, yet on an independent basis and functioning as an effective 'quality control' in the management and administration of the programme. Short-term technical assistance was provided in response to specific identified needs from a special facility. While this facility was managed by LINPICO, WIRSPA maintained an active role in all recruitment decisions, thereby

ensuring the relevance to industry needs of the technical assistance provided. To facilitate the use of these resources WIRSPA established a database of experts, so that the right person could be recruited for the task at hand.

In specific areas (in particular waste management and environmental protection), technical assistance was used in a proactive way to identify needs of particular beneficiaries. Some companies felt more generalised use of comprehensive technical assistance support at company level would have been useful. However the process of business plan formulation and the small grants scheme allowed many of these potential needs to be addressed already under more limited arrangements.

The Institutional Support programme transformed WIRSPA from a part time secretariat into a full time, efficiently managed secretariat which included a dedicated Programme Management Unit (PMU). Even with this transformation in the scale and scope of the activities of the WIRSPA Secretariat it remained fully responsive and accountable to its members. Staffing levels were progressively expanded in response to programme needs including the temporary recruitment of accountancy services to deal with a large cluster of reimbursement claims. Critical to this whole process of expansion of the WIRSPA Secretariat was the strong involvement in the staffing decisions. This was essential, since only part of the overall staff costs were covered by the rum programme budget. Throughout, while the EC had to approve all posts and consultants were used to manage the recruitment process, all staffing decisions were made by WIRSPA. For major components of the programme, such as the implementation of the marketing aspects around the Caribbean Rum Marque component, this even involved formal presentations by bidding companies to the WIRSPA Board.

#### **4. Problems Encountered**

Putting together a CSGS which is consistent with local realities and needs, is by no means a straight forward affair. It soon became apparent that the initial design of the scheme underestimated the difficulties faced in getting relatively small scale producers to 'buy-in' to the idea of adopting pro-active production and trade adjustment strategies in response to the challenges arising from the process of preference erosion. The designers of the scheme under-estimated the attraction of the 'natural' response of relatively small scale ACP enterprises to trade changes, namely to refocus on *existing* market components where the competitive threat is not so intense.

Another problem emerged during the implementation phase and more specifically with regard to the reimbursement procedures to be followed under EDF rules. Delays in reimbursing approved and eligible expenditures were variously attributed to:

- a) the unfamiliarity of applicants with the administrative requirements for reimbursement, which gave rise to a slow rate of claims for reimbursements;
- b) the extra administrative workload falling on companies in preparing applications for support and maintaining the paper trail for submitting eligible reimbursement claims;
- c) conflicting claims for original documents, with customs services and EDF regulations often requiring the same original invoices;
- d) delays in replenishing operational bank accounts from the programme funds held in Brussels;
- e) administrative changes in the accounting system in Brussels.

Under the 'distribution and marketing' window of the CSGS problems were faced at two levels. Firstly, EDF documentation requirements were held to have discouraged companies from submitting applications for support with marketing activities under the 'distribution and marketing' window. Secondly, where applications were submitted and approved, almost inevitably real challenges were faced in securing reimbursement of funds for approved activities, since often these activities were carried out by distributors in Europe who were wholly

unfamiliar with EDF procedures, in a context where business practices were often highly specific to the sector, making it very difficult to maintain the paper trail required to secure reimbursement of eligible expenditures.

Other problems included the initiation of activities under the 'waste management and environmental protection' window which arose as a result of the difficult technological choices faced in getting to grips with costs of meeting the obligations faced under new national and international regulations.

## **5. Factors for success/failure**

Without the necessary technical assistance and perhaps more importantly, the substantial expansion of the core administrative capacity of the regional industry association and the engagement of additional administrative assistance, it is inconceivable that the programme could have been developed and implemented as successfully as has proved to be the case.

Rum companies pointed out that a key factor for successful programme management was the responsiveness of WIRSPA staff, who would quickly react to any inquiries, helped identify problems at an early stage and avoided undue delays in programme implementation. This goes in hand with clear conceptualisation at an early stage of the challenges faced and the favoured policy response required, as well as dealing with tendering and procurement issues up front.

Furthermore, it was recognized that the small grants facility established under the CSGS, with its relatively light decision making procedures was extensively used by SMEs and yielded immediate returns in terms of efficiency gains and cost savings. A multiplicity of small scale interventions made an important contribution to the modernisation and enhancement of the business culture in the Caribbean rum sector, effectively equipping the sector to deal with 'post-preference' market realities.

While initially companies interviewed had felt that the business plan process was a necessary burden to be shouldered in order to access co-financing, in reality it was subsequently identified as one of the most valuable dimensions of the programme. The process of business plan development enabled companies to get to grips with cost and efficiency issues, as well as encouraging the development of a longer term vision of where individual companies were headed. In many respects therefore it was the time invested in the development of thorough business plans, which laid the foundations for the subsequent success achieved under other cost sharing grant scheme windows.

## **6. Results Achieved**

The mid-term review of the rum programme noted that by mid 2008 overall 20 companies had received assistance for modernisation and investment. Several companies reported having achieved cost reductions of between 15-20% as a result of the projects initiated within the framework of the rum programme, while other companies were able to recover from the commercial devastation of losing a major supply contract with a European supermarket chain. Still other companies were able to expand their product range and modernise the production process. Many companies also made extensive use of the small grants facility to finance small scale interventions, which yielded immediate returns in terms of efficiency gains and cost savings. This focus on implementing a multiplicity of small scale interventions which yielded immediate cost savings and efficiency gains, made an important contribution to the modernisation and enhancement of the business culture in the Caribbean rum sector, effectively equipping the sector to deal with 'post-preference' market realities.

A major advantage of CSGS is that they mobilise additional private sector financing. Under the rum programme EC funding of €46.6 million, resulted in associated total investment of €108 million, to which should be added non-reported associated private investment which probably took the total mobilised investment to around €150 million. In addition CSGS can greatly speed up the implementation of market led, private sector based, production and trade adjustment measures. However, the realisation of this potential is critically affected by the basic design and administrative efficiency with which the cost sharing grant scheme is managed.

## **7. Conclusion (lessons for other Trade and Production Adjustment Programmes)**

Several interesting lessons can be drawn to inform other AfT Programmes and private sector players who are facing restructuring challenges in the face of trade liberalisation, donors who want to provide adjustment support, as well as policy-makers who often represent the interface between these two groups of stakeholders.

- 1) It is essential that industry leaders themselves have a clear understanding of the challenges arising from changing market conditions and of the scope for market led, private sector driven policy and programme responses.
- 2) A key aspect that contributed to the success of the rum programme is the coordination and leadership role of WIRPSA. As in the case of the rum programme, an industry association can play a crucial role in guiding the operationalisation of the industries strategic vision for the restructured sector in the light of the evolving market context.
- 3) It is useful to draw on external expertise for fresh ideas based on best practice elsewhere and to ensure an independent monitoring of quality standards in project preparation.
- 4) If programme design and implementation is to be market led and thereby build commercial viability for the future, it is essential that private sector knowledge is brought into the process of programme design, management and implementation.
- 5) Establishing a facility to support the elaboration of 'business plans' appears to be an essential complementary measure to any cost sharing grant scheme targeting small and medium sized ACP enterprises.
- 6) The appropriate level of EC cofinancing should be determined at the design stage, with a view to ensuring the early take up of allocated funds and broad based industry buy-in to proactive market led production and trade adjustment processes. The EC co-financing contribution may also need to vary in the light of the size of the enterprise or the nature of the activities being supported. However at all times the co-financing contribution should be set at a level which encourages a pro-active response to the trade and production adjustment challenges faced.
- 7) Procedures for the management of CSGS need to be light and efficient. Speedy reimbursement of approved expenditures is crucial for private companies and can greatly improve the accessibility of CSGS facilities to small and medium sized enterprises. In certain economic circumstances this can be vitally important for enhancing competitiveness.
- 8) Flexibility in the allocation of funds between windows would appear to be essential so that programmes can be 'demand driven' and build on success.
- 9) It would appear to be important to ensure consistency or at least mutual recognition between local accountancy systems and EDF rules.
- 10) A major lesson arising from the Caribbean rum programme is the importance of dealing with tendering and procurement issues up front, during the programme design stage. Here the elaboration of specific manuals of procedures, designed to promote best business practices proved essential.
- 11) Marketing and promotion activities are essential to any market-led trade and production adjustment process. Without effective support in this area, production adjustments can on their own yield little benefit. In addition market-led marketing and promotion activities, by their very nature, need to be responsive to changing market conditions. This suggests it is essential that the timeframes for the implementation of marketing and promotion measures are driven by the economic realities on the

ground (including the evolving market situations and broader macro-economic context) and not EU aid procedures.

- 12) Ensuring continuous dialogue among stakeholders. Throughout the duration of the rum programme, close dialogue took place among all stakeholders concerned. This allowed identification of potential problems at an early stage. The informal processes of dialogue established also facilitated a rapid resolution of potential areas of difficulty.