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Trade and production adjustments in ACP countries Lessons from the Caribbean Rum Programme



**Corinna Braun-Munzinger and
Paul Goodison**

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Trade and Production Adjustments in ACP Countries

Lessons from the Caribbean Rum
Programme

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Paul Goodison

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The **European Centre for Development Policy Management (ECDPM)** and the **Technical Centre for Agricultural and Rural Cooperation ACP-EU (CTA)** facilitated a series of workshops with ACP and EU stakeholders on the role of trade in agricultural development. The workshops focussed specifically on the strategic policy directions and support instruments that foster an integrated agricultural transformation in ACP countries. In this context, CTA and ECDPM have launched a series of discussion papers in order to share the most relevant experiences, success stories and best practices on how Aid for Trade can best support ACP agricultural development.

The **Aid for Trade and Agriculture series** will cover various topics such as experiences from Agricultural Adjustments Programmes and implementation of trade policy reforms, as well as lessons from ACP regions.

The editorial supervision of this initiative is provided by Sanoussi Bilal (sb@ecdpm.org), Francesco Rampa (fr@ecdpm.org) and Vincent Fautrel (fautrel@cta.int).

CTA

Agro Business Park 2

6700 AJ Wageningen

The Netherlands

Tel +31 (0) 317 467100

Fax +31 (0) 317 460067

Website: www.cta.int & www.agritrade.org



ECDPM

Onze Lieve Vrouweplein 21

NL-6211 HE Maastricht

The Netherlands

Tel +31 (0)43 350 29 00,

Fax +31 (0)43 350 29 02

Website: www.ecdpm.org & www.acp-eu-trade.org



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List of Acronyms

ACP	African, Caribbean and Pacific
AIDCO	EuropeAid Co-operation Office
BDS	Business Development Services
BLNS	Botswana, Lesotho, Namibia and Swaziland
CAP	Common Agricultural Policy
CARICOM	Caribbean Community
CARIFORUM	Caribbean Forum of ACP states
CEO	Chief Executive Officer
CSGS	Cost Sharing Grant Scheme
D&M	Distribution & Marketing
DG	Directorate General
EC	European Commission
EDF	European Development Fund
EISP	Economic Integration Support Programme
EPAs	Economic Partnership Agreements
EU	European Union
MCI	Modernisation and Capital Investment
OECS	Organisation of East Caribbean States
PMU	Project Management Unit
SACU	Southern Africa Custom Union
SMEs	Small and medium sized enterprises
TDCA	Trade, Development and Cooperation Agreement
WRISPA	West Indies Rum and Spirit Producers Association
WTEP	Waste Treatment and Environmental Protection

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. 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*’. This joint declaration provided the basis for the subsequent Caribbean rum programme, whose main objectives consisting 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.

In the context of the negotiations of Economic Partnership Agreements, which will in essence require some degree of reciprocal trade liberalisation, many other sectors in the ACP will face similar challenges of competitiveness. In order for ACP states to benefit from increased market access opportunities as well as for them to be able to adapt to increased competition by imports, some support might be needed. However, and although the Aid for Trade Initiative (established under the Doha Development Round) was designed to help address these challenges linked to trade liberalisation, donor support to private sector has so far often proven ineffective due to inappropriate aid delivery mechanisms.

Against this background, the main objective of this study is to analyse and learn from the successful experience of the Integrated Development Programme for the ACP Caribbean Rum Sector. The paper is meant to inform 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.

Operational since 2003, the programme revolves 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. The latter would involve the recruitment of country marketing managers to provide support to brand based marketing initiatives in the target markets of the UK, Spain and Italy. It was felt that by creating and promoting an umbrella marque, covering a multiplicity of brands, a critical mass could be generated which would improve recognition by consumers and which would thereby enable Caribbean rum producers to effectively differentiate their ‘quality’ rum products from the mass of undifferentiated rum products.

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) were built into the programme. These third and fourth elements of the Rum programme, although financially less significant, can be seen as the foundations for the implementation of the programme. Without adequate institutional capacity and technical support, it is inconceivable that the programme could have been developed and implemented as successfully as it did.

Through a detailed analysis of the Caribbean Rum Programme – from its inception and design to its concrete management and implementation – this paper draws some interesting lessons for other sectors which will be similarly confronted with restructuring challenges due to trade liberalisation.

- First and foremost, it is essential that industry leaders themselves have a clear understanding of both the challenges arising from changing market conditions and the scope for market-led, private sector-driven policy and programme responses. External assistance can play an important role, but is no substitute for visionary leadership. Similarly, a sustained advocacy strategy is required.
- Secondly an industry association can play a crucial role in guiding the operationalisation of the industry strategic vision for the restructuring. Management of the programme 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.
- Furthermore, 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. In the same vein, the facility to assist private sector enterprises to engage with EU aid procedures, including documenting and submitting claims, was also key in the success of the programme. The procedures of any programme dealing with private sector 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.
- An important organisational step, which facilitated the management of the programme, is the mutual recognition between local accountancy systems and EDF procedures. The elaboration of an actual manual of procedures designed to promote best business practices proved essential. This was particularly relevant for the tendering process and procurement rules,
- 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.
- Another important lesson from the Rum Programme is that enough flexibility is required 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.
- Finally, a continuous dialogue among all stakeholders helped the early identification of potential problems and as well as the rapid resolutions of difficulties.

1. Introduction: Rationale behind the study

African, Caribbean and Pacific (ACP) countries are currently involved in several processes of trade liberalisation, including economic integration at regional level as well as bilateral agreements with partners outside the region. In particular with the European Union (EU), ACP countries are about to start implementation of new Economic Partnership Agreements (EPAs), which involve significant reciprocal liberalisation of trade. In order for ACP countries to benefit from increased market access opportunities and to be able to adapt to increased competition by imports, the competitiveness of companies in the private sector is crucial.

The importance of measures to accompany trade liberalisation is recognized in the Aid for Trade initiative. This concept originated within the context of the Doha Development Round. In October 2007 Europe outlined its approach in a joint EU Strategy on Aid for Trade, and it is currently working on the modalities and implementation. Complementary to this, ACP countries and regions are elaborating their Aid for Trade strategies and carrying out needs assessments. While the Aid for Trade initiative may not necessarily make available major new financial resources, it provides an opportunity to organise activities to accompany trade liberalisation in a coherent and strategic way and to improve the effectiveness of aid delivery, including through enhanced delivery mechanisms. The question of delivery instruments is particularly relevant, as trade is primarily an activity of the private sector; however, traditional donor assistance procedures are little adapted to the needs of private companies.

In this context, it is useful to look at previous experiences of successful private sector support, with a prime example being the Caribbean rum programme financed under the European Development Fund, which is to be analysed in this study.

Hence, the main objective of this study is to describe and analyse the experience of the Integrated Development Programme for the ACP Caribbean Rum Sector, drawing lessons for programmes being designed elsewhere. The paper is meant to inform policy makers, donors working on private sector support in the context of trade liberalisation, as well as private sector actors.

The paper is organised in five parts, where section 2 summarises the origins and structure of the programme. Section 3 outlines the building blocks of the programme in particular the institutional support and technical assistance components. Section 4 looks at the problems that emerged during the design and implementation phases of the Cost-Sharing Grant Scheme. Section 5 surveys the Caribbean Rum Marke and, finally, section 6 highlights the lessons that can be derived from the Caribbean experience.

2. Origins and Establishment of the Integrated Development Programme for the Caribbean Rum Sector

2.1. Origins of the Rum Programme

The origins of the Integrated Development Programme for the Caribbean Rum Sector (henceforth referred to as the rum programme) can be found in the unilateral decision of the European Union to liberalise access to the EU rum market under an EU/US agreement. This agreement, which was concluded on the fringes of broader trade negotiations, raised immediate concerns amongst Caribbean rum producers over the future value of traditional African, Caribbean and Pacific (ACP) rum sector trade

preferences. Caribbean governments gave immediate voice to these concerns and opened a dialogue with the EU on an appropriate policy response to the challenges which this unilateral EU action would give rise to.

The first objective of these government efforts, which were supported by the coordinated launch of parallel 'private sector diplomacy', was to secure EU recognition of the negative effects which the 'zero for zero' agreement would have on the Caribbean rum industry and an EU acceptance of the need for the provision of adjustment support in response to the policy changes unilaterally initiated by the EU. In response to these representations as early as March 1997 the EU Council of Ministers recognised '*the likely impact of the EU/US agreement on the ACP exports of rum to the EU market*' and confirmed that '*this will be taken fully into account in any further negotiations and arrangements related to the rum sector*'.

With the negotiations for a successor arrangement to the Lomé Convention getting underway, representatives of the Caribbean rum industry lobbied intensively for the inclusion of specific provisions on support to rum producers. This gave rise in December 1999 to the joint ACP-EU declaration on rum (see Box 1), which included an 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. It set out in some detail the main components of the '*integrated sector-specific programme for the development of ACP exporters of rum*' to be established and specified the main source of financing, namely unallocated EDF resources.

Box 1: Declaration XXV: Joint Declaration on Rum

Outlining the main components of the support programme:

'The Community is prepared to provide sufficient funds to finance during the preparatory period, in consultation with the ACP sector concerned, an integrated sector-specific programme for the development of ACP exporters of rum, which could in particular include the following measures:

- *enhancing the competitiveness of existing exporters of rum;*
- *assist in creation of rum marques or brands by ACP region or country;*
- *enabling marketing campaigns to be designed and implemented;*
- *assist ACP rum producers to meet environmental and waste management standards and other norms in the international markets including the Community market;*
- *assist the ACP rum industry to move out of bulk commodity production into higher value branded rum products'*

Identifying the European Development Fund as a source of financing:

'This package of measures will be financed on a national and regional basis, by agreement of both parties, through specific sectoral programmes in accordance with programming rules and methods and, in the short term, through unallocated EDF resources after a decision of the Council of Ministers.'

Source: Cotonou Agreement Final Act

To a remarkable extent the specifications in the declaration were to guide the design and operationalisation of the instruments established within an integrated approach to supporting trade and production adjustment in the Caribbean rum sector. From the outset an explicit aim of the rum programme was to **enhance the competitiveness and profitability of Caribbean rum producers by assisting in the transition from the export of bulk rum to the export of high quality - high value branded rums**. It was based on a clear understanding of the trends in the global rum market, and provided a clear and sustainable market-led response to the challenges posed by the erosion of preferences in the rum sector.

This highlights the importance of clearly conceptualising at an early stage of the process, the challenges faced and the favoured policy response required. Put simply it is far easier to influence at an early stage perspectives on the nature of the challenge faced and the appropriate policy response required, than to attempt to change these perspectives at a later stage. Early engagement however, needs to be followed up by **sustained engagement** to ensure that the focus on the underlying objectives is maintained in a way which is operationally realistic for the intended beneficiaries. This requires **sustained, effectively resourced, engagement throughout the process, from conceptualisation of the challenges faced, to the operational implementation of the programmes set in place in response to these challenges**.

The Caribbean rum industry through its association the West Indies Rum and Spirits Producers' Association (WIRSPA), played an active role in this lobbying and advocacy process, from the initial stages of recognising and defining the problem faced (March 1997), through to the signing of the implementing agency contract (June 2002). Throughout this process WIRSPA maintained a close working relationship with Caribbean governments (including national diplomatic representatives accredited to the EU) and the CARICOM Secretariat. Rum industry drafted negotiating position papers which were routinely integrated into national and regional negotiating briefs as the process developed.

This close industry engagement with the process contributed to the building of alliances with stakeholders in the ACP and in Europe who were, for different reasons, ready to support the approach to the mobilisation of restructuring support favoured by the Caribbean rum industry. This continuous engagement by WIRSPA required the mobilisation of both financial resources (described by one key player as a 'war chest') and human resources and included the recruitment of a European based advisor. This facilitated regular contacts with Caribbean diplomatic representatives to the EU, European Commission (EC) officials and representatives of EU member states with an interest in the elaboration of the envisaged rum programme. Throughout this process rum industry positions were taken on board by both concerned Caribbean governments and the regional organisation, with the CARICOM/CARIFORUM Secretariats supporting this pro-active industry engagement and endorsing the approach of managing the programme through the WIRSPA Secretariat.

Following the conclusion of the ACP-EU Joint Declaration on Rum 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. The Development Directorate of the European Commission had a distinct lack of experience in this area at the beginning of the 21st century. 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 the mindset of EC officials. 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 (see section 4.3.3).

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, resolved¹. 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 2002². This was followed by the signature of the service contract between the Secretariat of the Caribbean Forum of ACP States and WIRSPA in June 2002³, the official launch of the programme in August 2002, and the operational commencement of the rum programme at the beginning of 2003.

2.2. Structure of the Rum Programme

The rum programme had four substantive elements, which were intended to be complementary and mutually reinforcing (see Table 1). Financially the most significant of these elements was the multi-windowed **cost sharing grant scheme** (CSGS). The aim of this component was to provide direct support to those enterprises in the Caribbean rum sector, which were committed to the core objective of shifting production towards serving the branded high quality-high value bottled rum market. A total of €46.6 million was allocated to this scheme. A notable feature of the cost sharing grant scheme was that once projects submitted for funding had been approved, the applicant enterprise then had to **pre-finance** the activities. Under such arrangements, upon submission of relevant supporting documentation and proof that the activities had taken place, the agreed percentage contribution to costs incurred was then reimbursed from the scheme.

The second most important element financially was the **Caribbean Rum Marque Programme** (allocation €16.9 million), which aimed to support the establishment and use of an ‘**Authentic Caribbean Rum**’ Marque, which would provide the umbrella for the marketing and promotion activities of affiliated rum producers. The marketing and promotion activities initiated under this programme and the associated ‘True Rum’ campaign, were seen as a vital complement to the financial assistance for upgrading production capacities provided via the various cost sharing grant scheme windows.

These two elements were seen as directly complementary. Because investing in the consolidation and development of high quality branded rum production, makes no sense if no remunerative export markets

¹ These questions keep coming up however whenever similar initiatives to the Caribbean rum programme are proposed by ACP representatives, the Caribbean rice programme being a case in point.

² Agreement No. 6503/REG ‘Integrated development Programme for the Caribbean rum sector’ (REF/7633/000) EDF VIII

³ Service Contract REG/7633/000 EDF VIII

could be found for the premium and 'luxury purchase' products manufactured. Equally, there is no sense in promoting high quality, branded Caribbean rum, if there was insufficient supply to meet the expanded demand for high quality Caribbean rum.

The third and fourth elements of the programme, while financially less significant, can be seen as the foundations for the implementation of the programme. These consisted of programmes of institutional support to the WIRSPA (initial allocation €3.4 million) and technical assistance support (initial allocation €2.1 million). 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 case⁴.

Table 1: Integrated Development Programme for the Caribbean Rum Sector

Programme Element	Allocation €
Support to Caribbean Rum producers (CSGS – 4 windows)	46,600,000
WIRSPA – institutional support	3,450,000
Caribbean Rum Marque Programme	16,900,000
Technical Assistance	2,100,000
On-Going Monitoring	950,000
Total	70,000,000

Source: European Development Fund

2.3. Decision-Making Structures

To oversee the programme a **Steering Committee** (SC) was established as the main decision making body for the programme. Its responsibilities included providing oversight of the overall programme and the review and approval of project submissions made under the Cost Sharing Grant Scheme. The Steering Committee consisted of:

- a representative of CARIFORUM Secretariat⁵ (Chair of the Steering Committee);
- a representative of the Caribbean Development Bank;
- a representative of the Caribbean Congress of Labour;
- a representative of the Cave Hill School of Business⁶;
- a representative of the French overseas territories;

⁴ This 'success' is in comparison to other experiences of the implementation of EDF financed programmes designed to address production and trade adjustment challenges, for example, the Economic Integration Support Programme for Botswana, Lesotho, Namibia and Swaziland (BLNS). This latter programme, for which a financing agreement was signed in February 2001, was intended to provide adjustment support, explicitly linked to the regional consequences of the implementation of the EU-South Africa Trade, Development and Cooperation Agreement (TDCA). This was seen as multi-phased, comprehensive support programme. It was envisaged that a multiplicity of activities would be initiated to assist BLNS private sector to enhance their competitiveness. Unfortunately this programme was never operationalised and the concept was quietly abandoned. In 2005, the allocated funds were re-deployed into an institutional support programme for the Southern Africa Custom Union (SACU) Secretariat.

⁵ When the rum programme was established programming of EDF resources was managed by a CARIFORUM Programming Unit in Guyana, under the guidance of the CARIFORUM Secretary General (who is also the CARICOM Secretary General). More recently this unit has been integrated into the CARICOM secretariat and the head of the unit who sat on the Steering Committee representing CARIFORUM member states is now the Executive Director for Resource Mobilisation.

⁶ A representative of Cave Hill Business School was brought in after the initial establishment of the Steering Committee to make it easier to secure a quorum for decision making on project applications.

- a representative of WIRSPA (Chairman of WIRSPA);
- the CEO of WIRSPA (who acted as Secretary to the Programme Steering Committee);
- EC representative (observer status only).

The Steering Committee thus consisted of representatives of the rum industry, public sector officials (from the CARIFORUM/CARICOM Secretariats) and independent persons with specialist knowledge, including a representative of the regional trade union confederation. In addition in order to facilitate decision making across what was a regionally representative structure, a fax decision making procedure was established. This served to accelerate decision making around project funding applications.

While the Steering Committee as a whole took decisions on the policy and operational issues linked to programme implementation, project applications were considered by a smaller group, consisting of those members with no direct commercial interests in the rum sector. Given the commercially sensitive nature of data contained in project applications from individual companies, the Chairman of WIRSPA and the representative of the French overseas territories were obliged to recuse themselves from the part of the Steering Committee meeting which dealt with the review and approval of project applications⁷.

2.4. Role of Public Sector Bodies

Given the prominent role of the private sector association in the design and management of the rum programme, a re-definition of the role of public sector bodies was called for. The regional organisations, CARIFORUM/CARICOM, played an important '**facilitating role**', both in terms of the establishment of the programme and its subsequent management. This involved: supporting the rum industries favoured modalities for the establishment and management of the programme; taking legal responsibility for the programme through the signing of the financing agreement, while delegating implementation responsibility entirely to the regional private sector association, through the conclusion of an implementing agency contract; and acting as a conduit for funding and programme reporting. Significantly, while this added an extra administrative step to the whole aid deployment process, it did not constitute a significant obstacle to programme implementation. The close involvement of the CARIFORUM representative in the programme Steering Committee, played an important role in the smooth functioning of the programme, with WIRSPA largely being left to get on with the day to day management of the programme.

The clearly defined, yet limited, constructive role played by the CARIFORUM Secretariat finds reflection in the role of the EC delegation and wider EC services. While the EC delegation had only observer status on the Steering Committee, it nevertheless played an active and constructive role in the deliberations of the Steering Committee on policy issues and in the project review and approval process⁸. This active operational engagement of the EC delegation was important role to facilitate the approval of annual work programmes. The active participation of the EC in Steering Committee discussions and deliberations (alongside more informal exchanges) also enabled the EC to identify at an early stage possible problems which might arise under EU procedures. This often prevented, contributed to a speedy resolution of, problems, which in turn avoided delays in programme implementation. In addition the establishment of informal dialogues on sensitive issues meant that such issues could be resolved without formally requiring a decision of the Steering Committee.

⁷ Linked to these commercial confidentiality considerations, all staff members of the WIRSPA Secretariat were required to sign confidentiality agreements, related to the corporate information provided as part of the project submission process.

⁸ While technically having no vote on grant applications, the EC delegation would receive grant applications and would indicate 'no objection' or request clarifications.

Despite the close working relationship established between WIRSPA and the EC Delegation the procedural requirements for approving 'riders' to the service contract inevitably resulted in delays in implementing programme activities. These delays, which arose from a need to revisit the basic design of the programme or modify agreed contracts, potentially hold important lessons for the design of similar production and trade adjustment support programmes elsewhere in the ACP. It suggests a need to **build into the design of the programme more flexibility in financial allocations under programmes aimed at supporting market led, production and trade adjustment processes**. Such flexibilities are essential, since no official, be they EC, national or regional officials, can predict with complete accuracy how market conditions and the needs of beneficiaries will evolve during the production and trade adjustment process.

3. The Institutional Support and Technical Assistance Components

3.1. Getting to Grips with Capacity Building Issues

It was recognised from the outset that institutional capacity development and technical assistance support would be essential components of any production restructuring support programme in the rum sector. This in no way reflected shortcomings in the regional producer association (which was professionally managed, but lightly staffed⁹), but rather reflected the ambitious nature of the programme. This support was primarily seen in terms of strengthening the administrative capacity to manage the programme. The challenges related to identifying and elaborating an operational strategy for the re-positioning of the sector and ensuring full industry 'buy-in' to specific trade and production adjustment processes, was only partially understood and accommodated in the formal programme design. However, with flexibility built into the capacity building programme it was possible to launch a far more extensive engagement with industry stakeholders than initially envisaged.

Given the size of the programme a major capacity building component, initially accounting for 7.9% of total funding, was launched; consisting of three basic instruments:

- a facility for institutional capacity building support to WIRSPA;
- a technical assistance facility;
- the Business Development Services window of the cost sharing grant scheme¹⁰.

3.2. Institutional Support

This programme component transformed WIRSPA from a part time secretariat into an 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

⁹ Just how professionally managed and results focussed the WIRSPA Secretariat was, is aptly demonstrated by the success achieved in securing EU recognition and endorsement of the need for restructuring support and following this through to programme establishment.

¹⁰ While this component was technically part of the cost sharing grant scheme, it played an important role in building the capacity of companies to get to grips with the competitiveness, market and production adjustments required in response to the changed market realities. It can therefore be seen as part of the wider capacity building required to facilitate successful production and trade adjustment in response to preference erosion.

programme needs (see Table 2), 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.

Table 2: Evolution of WIRSPA's staffing

Before Rum programme	Initially Under Rum Programme	Currently
Chairman Secretary Accountant (P/T)	CEO Project Admin Officer Chief Financial Officer Technical Assistance (Permanent) Administrative Officer 1 Administrative Officer 2	CEO Project Admin Officer Chief Financial Officer Technical Assistance (now P/T) Project Monitor Head of Marketing Project Accountant Project Accountant (P/T) Administrative Officer 1 Administrative Officer 2 Administrative Officer 3 Administrative Officer 4 (Short term accountancy support) Contracted Marketing consultants in 3 target markets.

Source: WIRSPA Secretariat

In terms of supporting industry players in accessing rum programme money funding was used to finance seminars, commission studies and market surveys and maintain a database of relevant technical expertise for addressing specific technical issues faced. The seminar programme ranged from training on accessing the cost sharing grant scheme, through the design of the rum marque programme to seminars on specific technical issues. While these seminars were seen as valuable, with hindsight a more extensive rolling programme of seminars would have been useful, given the varied pace of company engagement and staff turnover.

Of fundamental importance to the overall success of the programme was the ongoing and constant dialogue between the WIRSPA Secretariat and target beneficiary companies. This helped identify problems at an early stage and avoided undue delays in programme implementation. This constant interaction also facilitated the elaboration of the rum marque and the 'True Rum' campaigns in ways which kept all concerned rum producers actively involved.

This close dialogue is in marked contrast to other experiences of PMU based restructuring programme management elsewhere. Under other programmes serious friction often emerged between industry stakeholders and PMU staff, to the detriment of programme design and implementation. This is a result of such units remaining external to the private sector based production and trade adjustment processes

which they are intended to support. **The integration of the PMU into the WIRSPA Secretariat represents an important lesson for the design and management of production and trade adjustment support programmes elsewhere in the ACP.**

Critical to the ongoing dialogue process was the position of trust and confidence which the WIRSPA Secretariat enjoyed vis-à-vis its members. This greatly facilitated stakeholder buy-in to the process and even fostered enhanced cooperation amongst members, on the basis of a shared vision for the future positioning of the Caribbean rum industry. A case in point is the joint action taken in assisting Organisation of East Caribbean States (OECS) rum producers in overcoming difficulties in procuring supplies of molasses. This has served to deepen the EC rum programme beyond the scope of the initial ambition of the programme.

Funding for studies focussed on general topics, such as how to enhance support to Small and Medium Enterprises (SMEs) under the programme on specific technical issues such as addressing waste treatment and environmental protection issues, as well as on the compilation of a 'Best Practice Guide to Rum Production'.

3.3. Technical Assistance Support

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.

3.4. Capacity Building through the Business Development Services Window

The drawing up of business plans proved to be one of the most valuable long term benefits of the programme, as highlighted by various stakeholders interviewed, since it contributed to raising the general standards of business management within the industry. It also helped individual enterprises operationalise the long term industry vision in ways which were directly relevant to the day to day operation of the enterprise. While business plan development support was probably the most useful contribution under the business development services window, it was by no means the only contribution. Funding was also used to provide company specific technical training, capacity building support and technical assistance support.

4. The Cost Sharing Grant Scheme Component

4.1. Structuring the Cost Sharing Grant Scheme

While the EC has a long tradition of using cost sharing grant schemes 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.** Cost sharing grant schemes, 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 cost sharing grant schemes, ceilings may be set on how much individual companies can obtain, both under each window and in total.

Within these parameters, cost sharing grant schemes 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 cost sharing grant schemes, 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 cost sharing grant scheme 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 €10,000¹¹. 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 interventions¹².

Under the Caribbean rum programme the four specific windows established within the cost sharing grant scheme 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 (see Table 3).

Thus, under the **modernisation and capital investment window**, the range of activities which could be co-financed included: the purchase of new equipment; the improvement or installation of new testing facilities; the installation of IT systems and even the establishment of new production lines and whole new distilleries. Similarly under the **distribution and marketing window**, activities which could be co-financed, ranged from market research and new product development through the identification of new distributors to support for promotion and trading activities. Under the **waste treatment and environmental protection window**, activities which could be co-financed ranged from feasibility and pilot studies to determine and test disposal methods and environmental impacts, through upgrading of facilities to meet new environmental standards to capital investments in energy saving projects.

¹¹ See Annex 1 for the decision making procedures associated with the general cost sharing grant scheme and Annex 2 for the decision making procedures associated with the small grants facility.

¹² Beyond the cost sharing grant scheme facility, technical assistance support had a particular focus on addressing the problems faced by SMEs in accessing programme funding.

Critically, under the **business development services window**, vital support was extended to individual enterprises in developing the **business plans** which provided the foundation for the submission and consideration of applications for co-financing under the various cost sharing grant scheme windows. The business development services window also provided co-financing for: staff training; the employment of technicians for project design; and the conduct of feasibility studies for firm level projects. Thus we find that **specific windows were established to address specific restructuring needs**, with complementarities and synergies being built into the various windows.

Table 3: The Rum Programme Cost Sharing Grant Scheme Windows: Allocations and Activities

Window	Activities on which costs can be shared
<p>Modernisation and Capital Investment (MCI)</p> <p>Initial allocation €14.7 million (increased to €24.5 million)</p>	<ul style="list-style-type: none"> • New distilleries, • Fermenters; • Distillation units; • Bottling lines; • Production facilities; • Ageing and blending facilities; • Water treatment • Molasses storage • System automation; • IT systems upgrades – finance supply chains • Upgrading of laboratory and testing facilities
<p>Waste Treatment and Environmental Protection (WTEP)</p> <p>Initial allocation €9.8 million</p>	<ul style="list-style-type: none"> • Feasibility and pilot studies to determine and test disposal methods and environmental impacts. • Upgrading and installation of new systems to meet environmental standards and international best practice such as bio-methanisation; • Treatment ponds and ferti-irrigation; • Marine outfalls; • CO2 capture; • Energy saving projects (e.g. cogeneration and recycling waste oils).
<p>Distribution and Marketing (D&M)</p> <p>Initial allocation €21.7 million (decreased to €11.4 million)</p>	<ul style="list-style-type: none"> • New product development and testing; • Market research; • Identification of distributors; • Trade and consumer brand building promotions.
<p>Business Development Services (BDS)</p> <p>Initial allocation €3.5 million (decreased to €0.9 million)</p>	<ul style="list-style-type: none"> • Development of business plans, • Quality training and certification; • Technical supervisor training (production and marketing), • Feasibility studies, • Technical consultancies.

Source: European Development Funds, Financing Agreement, Midterm Review, interviews

4.2. Accessing the Cost Sharing Grant Scheme

In order to be eligible for support under the rum programmes' cost sharing grant scheme a company was required to ferment and distil rum in a Caribbean ACP country from sugar cane juice, molasses or syrup. If a firm was eligible for assistance than a two stage process needed to be followed to secure support:

- submission of a company level business plan;
- submission of project applications.

A **business plan** had to be approved before companies were eligible for support under the CSGS¹³. The business plans submitted by the individual companies were required to demonstrate how the firms planned activities would contribute to the attainment of the programmes underlying objectives. This was intended to ensure that the investments made with support from the cost sharing grant scheme actively contributed to the attainment of the underlying production and trade adjustment objectives which EU assistance was intended to support.

Thus we find under the rum programme, activities were eligible for support where they were **undertaken by an eligible firm** and were in **direct support of the firm's approved business plan for the production and marketing of high quality, branded rum**.

Once applications were submitted the programme administrators aimed to take a decision within thirty days (see Annexes 1 and 2 for details). Once the project was approved and a '**letter of agreement**' signed and despatched to the company, the company concerned could go ahead and undertake the activities specified in the application. Only eligible expenditure which had been incurred **after** the project had been approved by the Steering Committee could be reimbursed. A companies own financial contribution had to be made from the companies own financial resource or from loans contracted for the purpose. Significantly, firms needed to pre-finance the full cost of the project activities and then seek reimbursement of the co-financed contribution. To secure reimbursement companies needed to follow procurement rules and rules relating to the provision of original supporting documentation and prove of activities. Only if these procurement rules were met and full supporting documentation was submitted were reimbursements made. It was essential under this type of scheme that **eligible companies understand the procedures to be followed to successfully make reimbursement claims for approved expenditures**.

Under this type of scheme, given the requirement for companies to finance 'up-front', the efficiency with which eligible claims are documented, submitted, processed and reimbursed can have important implications for the cash flow of companies engaged in restructuring activities. Rapid reimbursement of eligible costs can reduce the financing costs of investment activities, while lengthy delays in the processing of eligible applications can substantially increase the financing costs of investment activities and deter pro-active restructuring initiatives. This is why **institutional support and technical assistance programmes** can play a vital role in the efficient management of cost sharing grant schemes.

A major advantage of cost sharing grant schemes 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 cost sharing grant schemes 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.

¹³ With the exception of support from the business development services window for the drawing up of a business plan.

4.3. Lessons from the Design Phase

4.3.1. Defining Clearly Specific Objectives

A critical issue which needs to be addressed in the design of any cost sharing grant scheme aimed at supporting trade and production adjustments in response to policy changes, is the ***specific objectives*** to be promoted through the programme. These may be ***quite distinct from general EU development policy objectives***.

Thus, under the Caribbean rum programme these specific objectives were clearly defined, namely to ***enhance the competitiveness and profitability of Caribbean rum producers, by assisting them in making the transition from production and export of bulk rum to the production and export of high quality-high value, branded rums***. The clear and unequivocal definition of this objective and its acceptance at the highest political level in the EU, was to have a profound effect on the process of project selection and the scope for activities which could be financed under the Caribbean rum programme cost sharing grant scheme. Put simply, provided the planned activities clearly contributed to this underlying objective and were justified on financial and economic grounds, the project was eligible for support and would secure the agreed contribution, provided proof of eligible expenditures could be documented in line with EU requirements (notably, submission of original invoices and verifiable evidence that the works, services or supply contracts had been fulfilled).

Under any cost sharing grant schemes aimed at supporting specific trade and production adjustments, similar ***specific objectives*** need to be defined, with clear measurable targets being set. This provides a transparent framework within which decisions on project applications to the cost sharing grant scheme can be assessed.

4.3.2. Determining the Level of Co-Financing

Putting together a cost sharing grant scheme 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 underestimated 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.

In many ACP countries when major policy changes are underway the 'natural' response to the production and trade challenges faced is to refocus on the local market, not embark on an ambitious export marketing and production adjustment programme. In this context if the co-financing grant contribution is set too low, private companies may have little interest in taking up funding from within the scheme, in order to pursue what amounts to an ambitious export orientated marketing and production adjustment programme. The perceived 'risk', given the high level of own resource mobilisation, is simply seen as too great.

This is illustrated by the reply of one of the Caribbean region's rum distillers, when asked what his response to the changed market conditions would have been in the absence of the rum programme. The answer was straight forward and illuminating. It was argued that in the absence of the EU support programme the side of the business dealing with the import and distribution of both alcoholic and non-alcoholic beverages would have been expanded, while the rum production side would have been increasingly focussed on local and regional markets. This would have reduced the value of rum production and decreased employment levels on the production side. This type of response can be seen as the 'natural' response of small and medium sized ACP enterprises to policy changes which result in significant changes in a company's market position.

The availability of EC assistance in support of a pro-active industry strategy to reposition the Caribbean rum sector in the light of evolving global demand for high quality branded rums averted the 'natural' response. In our illustrative company, with EC assistance, new product lines were developed and new marketing strategies were set in place. As a result production levels have been restored to around 80% of the level prevailing prior to the commercial disaster of the loss of a major supply contract previously concluded with an EU supermarket chain¹⁴.

Against this background, it should be noted that the major take-up of funds under the cost sharing grant scheme increased dramatically after the mid 2007 decision to raise the level of the EC co-financing contribution from 30% to 50%, (in the case of the 'waste treatment and environmental protection' window, to 65%). This raising of the ceiling on the EC co-financing contribution coincided with further modifications which saw the financial ceilings for grants to individual projects and the ceiling for allocations for individual companies also increased (doubled)¹⁵. This resulted in a rapid increase in the take up of funds with nearly 50% of funding decisions being approved in 2008¹⁶.

This suggests that in the design of a cost sharing grant scheme, ***careful consideration needs to be given to the level of EC co-financing required under the various windows to effectively encourage private operators to pro-actively engage with the production and trade adjustment processes required to reposition the industry in the face of the market changes underway.***

4.3.3. Pre-empting Problems in Tendering and Procurement

Normally under EU funded aid programmes in favour of ACP countries, there is a requirement that goods and services be procured either in EU or ACP countries. However in some ACP regions and sectors, the supply capacities for capital equipment are under developed and the EU is not the normal source of supply. In this context difficulties can arise under EU co-financed programmes, when procurement restrictions cut across normal commercial sourcing decisions. In these circumstances implementing cost sharing grant schemes under conventional EU procurement arrangements can undermine the specific objectives of the programme, by locking companies into inappropriate or non-competitive sources of supply.

Under the Caribbean rum programme these potential problems were **addressed at the design stage**. This was done through the elaboration of a detailed ***manual of procedures*** in close consultation with EC officials from both AIDCO and DG Development. The principal features of this ***manual of procedures*** was an acceptance that, given the nature of the Caribbean rum sector and the co-financing arrangements set in place, **tendering and procurement under the cost sharing grant scheme should follow best corporate practice**. Provided that the process was transparent and demonstrably in line with good business practices, normal EDF tendering and procurement rules were waived. The Steering Committee in assessing an application could require prudent shopping by insisting on at least three quotes for all activities to be undertaken. In practice, WIRSPA insisted on three quotes for all procurement activities except where this was commercially impractical¹⁷. However it was found that for virtually all substantial projects the companies generally followed a three quote tender process in order to get value for money.

¹⁴ The contract was lost to a rum producer in a French overseas territory, which with the benefit of substantial Common Agricultural Policy (CAP) assistance was able to undercut the ACP Caribbean company in supplying rum for own label bottling. As a result production declined from a 24 hour a day operation, 7 days a week, for 40 weeks of the year, to a 24 hour a day operation, five days a week for 28 weeks of the year. It was this production decline which EC support under the rum programme has helped to reverse.

¹⁵ More details can be found in the sections dealing with implementation. (3.7 – 3.11)

¹⁶ However, it should be noted that this increased uptake of fund also coincided with the natural completion of programme preparation processes, which generally took much longer than envisaged in the inception report.

¹⁷ In some instances, where it was not possible to secure three tenders (e.g. the supply of maturation barrels), or single tenders were obviously the most competitive, this requirement could be waived.

In addition it was agreed that while, wherever possible and commercially viable, procurement should be from EU or ACP sources of supply, where a commercial case existed for procuring goods and services elsewhere, then this should be allowed. This general exception greatly simplified the tendering and procurement process. Although it also required close scrutiny of procurement activities throughout the programme to ensure that these provisions for sensible, commercially based exceptions, were not abused. This on occasion led programme administrators to call for more bids to be sought or for the possibilities for European sourcing to be further explored. However, no evidence of abuse of these exceptions was ever detected and overall the tendering and procurement processes proceeded smoothly, with minimal disruption of normal Caribbean rum industry sourcing arrangements.

4.3.4. Building in Flexibility

As the implementation of the rum programme got underway it became apparent that demand for funding under the '**modernisation and capital investment**' window substantially exceeded the initial allocation. This required a rebalancing of the financial allocations within the overall cost sharing grant scheme programme. However, since this had not been built into the design of the scheme, riders to the financing agreement and implementation contract were required. Securing this rider for the reallocation of funds between the various windows of the cost sharing grant scheme took over a year. This held back the commitment of funds under the most successful of the four windows the '**modernisation and capital investment**' window, and led to a bottleneck in the administration of applications after the rider was approved and the newly re-allocated funds became available in August 2008¹⁸.

With the date of the closure of the overall programme approaching, this one year delay has posed a risk of forfeiture of around €8 million, some 17% of the allocation to the cost sharing grant scheme. This holds important lessons for the design of multi-windowed cost sharing grant schemes. In this context the EU's own approach to the allocation of rural development spending to different 'axis' offers a useful example. Under the EU's rural development regulation only minimum allocations are indicated under each of the four axis of support. The sum of these minimum allocations falls far short of 100% of the available funding. This allows considerable flexibility in the actual deployment of funds between the four different axis of support set out in the basic regulation.

A similar approach would appear to be appropriate in the structuring of financial allocations to cost sharing grant schemes established to support restructuring processes, with **minimum allocations to each window being stipulated** (up to say a total of 60% of available funding), with the scheme having the possibility of **rebalancing funding to the different windows** in the light of **actual demand for support** from the intended beneficiaries. Such provisions, to a limited extent, already exist under EU contracts. The need is simply to expand the scope of such flexibility under cost sharing grant schemes, so as to allow the utilisation of funds to be 'demand driven'.

4.4. Implementation Phase

4.4.1. Administration of Reimbursements and other Causes of Delay

Under the Caribbean rum programme an early problem emerged with regard to the reimbursement procedures to be followed under EDF rules. Delays in reimbursing approved and eligible expenditures were variously attributed to:

¹⁸ The application to reallocate funds between windows had been made in July 2007

- a) the unfamiliarity of applicants with the administrative requirements for reimbursement, which gave rise to a slow rate of claims for reimbursements¹⁹;
- 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 Brussels²⁰.

The cumulative effect of these administrative delays under the rum programme was to double the length of time initially estimated as required for the processing of reimbursement claims. Some of these delays were quite serious, with it being found that *'larger more complicated projects regularly over-run the target dates set out in the original applications'*²¹. Indeed, in the case of 15 large projects it was found that *'the average duration from signature of the Letter of Agreement (LOA) to final reimbursement has been 29.4 months'*²². These kinds of delays can be quite serious, particularly where projects have been co-financed on the basis of short term loans. Under such circumstances, delays can lead to increased financing costs for the investments being made. This can undermine the returns from these investments, and thereby undermine the ultimate goal of enhancing competitiveness.

It was recognised early on in the Caribbean rum programme that since recipients cannot change the EC procedures, more active support was needed for companies to deal with EC procedures (preparing projects, submitting projects, seeking reimbursement). An expansion of **corporate 'handholding'** in dealing with EC reimbursement procedures beyond that initially envisaged was provided in the course of 2008. While this required an expansion of the administrative staff dealing with the reimbursement process, it yielded positive results. In 2008 actual reimbursements were close to 2007 levels, but the number of claims processed increased. In 2009 the quantum of reimbursements increased dramatically. Significantly the flexibility built into the technical assistance and capacity building components of the wider programme, provided sufficient room for the expansion of these 'hand-holding' activities and encouraged WIRSPA to adopt a more proactive approach to supporting companies in submitting reimbursement claims.

An additional innovation, which greatly facilitated the processing of reimbursement claims was the decision to allow the submission of partial claims for individual components of the project, while the overall project was still on-going. This greatly assisted in ensuring that all relevant documentation required to justify the reimbursement claim was actually submitted. It also relieved the companies of some cash flow problems, especially when implementing large projects.

Thus we find the experience of the rum programme demonstrates that administrative problems faced can be addressed through developing proactive initiatives at an early stage in programme implementation. Firstly, the administrative requirements for submitting valid claims should be **clearly defined and explained to potential recipients**, so that eligible companies are precisely aware of the paper trail which needs to be maintained for the submission and early payment of eligible claims. Secondly,

¹⁹ The reality is that even though WIRSPA's second technical seminar in April 2003 explained the claim procedures, there were many actors in each company which were part of the administrative process of compiling reimbursement claims. In this context there is no effective substitute for sending WIRSPA staff out into the companies to work with the people concerned within their own corporate context.

²⁰ These last two problems have emerged more recently but are important since they impact on large volumes of resources.

²¹ See Integrated Development Programme for the Caribbean Rum Sector (8 ACPTPS 125 REG/7633/000), Programme Implementation Report for the Year 2008, p.21, WIRSPA.

²² *ibid*

mechanisms should be set in place for **supporting eligible companies in preparing reimbursement claims**, through **systematic monitoring** of the claims process and the establishment of **mechanisms for timely interventions** where problems emerge. Thirdly, the **required staff** needs to be set in place at the **required level** to facilitate the smooth administration of project submissions and the processing of reimbursement claims. For example, developing links to the accountancy departments of the companies concerned, so that accountants could talk to accountants about what was required, proved particularly effective.

Just what the staffing requirements are likely to be, at what levels (within the host organisation, within the PMU, or at a devolved level to facilitate work with applicants), needs to be worked out as part of the programme design process. In this context it is essential that the need for 'handholding' support is recognised, since EU procedures and standard corporate practices may vary greatly, with the professional competencies in the latter area not necessarily easily translated into the former area. However, it needs to be recognised that given the intrinsic difficulties faced in making these assessments, flexibility will need to be built into the staffing arrangements.

4.4.2. The Business Development Services Window was essential

The 'business development support' window provided technical assistance to the preparation of projects and programme applications and to determining the technical options open for 'waste treatment and environmental protection' activities as well as for the development of the 'business plans'. The support to the elaboration of business plans proved particularly valuable in getting the programme underway, since these were a prerequisite for the submission of project applications under the CSGS.

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.

The potential benefits to be gained through the development of proper business plans, particularly for small and medium sized enterprises, should not be under-estimated. **This suggests that proper funding of such measures within cost sharing grant schemes is essential.** However, for this latter dimension to be developed, **business development services need to be extended in close association with the industry institution which is conceptualising and dynamising the restructuring and adjustment process.** This is perhaps the wider relevance of the Caribbean rum programme experience under the 'business developments services' window.

4.4.3. The Modernisation and Capital Investment Window was most successful

Overall the 'modernisation and capital investment' window proved to be the most successful of the windows under the Caribbean rum programme cost sharing grant scheme. By the end of September 2009, 99% of funds finally allocated²³ to this window had been committed to specific projects, while fully 60% of the final allocation of funding had been disbursed.

²³ In June 2008 the amount allocated to this window had been increased to €24.5 million from the original €14.7 million following a reallocation of funding between the windows.

The mid term review of the rum programme had earlier noted that by mid 2008 overall 20 companies had received assistance for modernisation and investment, including for such activities as:

- the purchase and installation of new bottling equipment;
- an expansion of rum aging facilities;
- the purchase and installation of new blending equipment;
- the purchase and installation of entire new distilleries.

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.

This leads to the critically important issue under any production and trade adjustment programmes: ***what is the impact of the activities supported under the cost sharing grant scheme on the production costs and underlying competitiveness of ACP production in the sector targeted for support?***

Clearly, if the aim of EU financed production and trade adjustment programmes is to reduce the costs and improve the competitiveness of production in ACP countries, so as to ensure a long term commercially viable basis for ACP production in the sector concerned, then ***the individual activities supported have to demonstrably contribute towards the attainment of this underlying objective.***

This is the major lesson for trade and production adjustment related cost sharing grant schemes in other ACP countries, namely: ***selection criteria for the projects and programmes to be supported must include indicators as to the contribution of the proposed initiatives to cost reduction and production efficiency. The enhancement of competitiveness***, such that ACP producers can maintain, on a sustainable basis, production, employment and income levels, despite the policy changes which have transformed the underlying market realities faced, must constitute the ***essential criteria for project selection and the overall assessment of the success of EU established support programmes.***

4.4.4. The Distribution and Marketing Window more challenging

Under the 'distribution and marketing' window 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 expenditures²⁴.

This raises the issue of whether there are certain types of activities in certain sectors which are in fact poorly suited for inclusion in cost sharing grant scheme initiatives. It should be noted that this does apply

²⁴ An additional problem was that the 'distribution and marketing' window could not be opened until the marque concept had been fully developed.

to all types of trade restructuring initiatives. It suggests however that **marketing and distribution activities under any cost sharing grant scheme need to be carefully designed**, to take into account the specificities of the sector.

4.4.5. Waste Management and Environmental Protection Window needed extra push

Problems with regard to the initiation of activities under the 'waste management and environmental protection' window 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. In addition, it needs to be acknowledged that this area of activity was not initially a priority for Caribbean rum producers when it came to dealing with the production and trade adjustment challenges faced. However, a combination of an expansion of the EU co-financing to 65% and the increased deployment of technical assistance support in getting to grips with waste management and environmental protection issues, eventually saw project approvals under this window take off in 2008, with 85% of initial funding being committed in this one year alone. These two new developments appear to have encouraged companies to make hard financial decisions on the choices of technology options for waste management, investments in electricity co-generation and the installation of bio- digesters. Indeed, this window now appears to be very well subscribed, with by the end of September 2009, 96% of funds allocated to this window being committed and 33% of the funds allocated to this window being disbursed.

It can be argued that the expansion of EU co-financing encouraged companies to address a number of issues which would not otherwise have had an immediate call on corporate financial resources. This may hold important lessons in other sectors across the ACP, most notably in the sugar sector. In the sugar sector, estate based production systems have traditionally provided a host of social services (education, health, housing, public utility provision and social amenities) to their workers and the communities from which their workers are drawn. Reductions in the administratively determined EU price for raw sugar imports from ACP countries, by reducing overall revenues, is encouraging a number of companies to disengage from these long standing areas of social service engagement. Against this background, a high level of EU co-financing for transitional activities linked to social service provision could well encourage these companies to re-define their ongoing engagement with social service provision.

5. The Caribbean Rum Marque Component

5.1. Recognising the Importance of Trade Adjustment Support

Support for the creation of a Caribbean rum marque, branding activities and targeted marketing initiatives to develop premium and 'luxury purchase' components of the EU market were both implicitly and explicitly referred to in the joint declaration on rum. While some marketing issues were accommodated under the 'distribution and marketing' window of the cost sharing grant scheme, a specific allocation was made to a dedicated programme for the elaboration of an 'Authentic Caribbean Rum' Marque. This programme was explicitly aimed at assisting Caribbean rum producers in restructuring production and trade to serve the growing 'luxury purchase' component of the global rum market. A market component where consumer purchase decisions are not based primarily on price considerations, but attributes and perceptions of the 'quality' of the product being purchased. By shifting production towards serving such components of the market, it was hoped that the Caribbean rum industry could build for itself a long term future beyond the lifetime of the preferential access previously granted on EU markets. Shifting **production** towards 'quality' branded bottled rum was only one dimension of the problem, **developing and consolidating a brand identity** which effectively assisted Caribbean rum producers in

marketing their product into this ‘luxury purchase’ component of the market was seen as essential.

Activities initiated under this component of the programme consisted of the creation and promotion of an ‘Authentic Caribbean Rum’ Marque, with the key objective of effectively supporting the *‘transition of Caribbean rum exports from bulk commodity to branded and value-added rums’* and the launch of a ‘True Rum’ campaign, involving amongst others the recruitment of country marketing managers to provide support to brand based marketing initiatives in the target markets of the UK, Spain and Italy. It was felt that by creating and promoting an umbrella marque, covering a multiplicity of brands, a critical mass could be generated which would improve recognition by consumers and which would thereby enable Caribbean rum producers to effectively differentiate their ‘quality’ rum products from the mass of undifferentiated rum products. This it was felt would facilitate the targeting of the growing ‘luxury purchase’ component of the international rum market and enable Caribbean rum producers using the marque to gain premium prices for their branded bottled rum products.

In designing the rum marque programme care needed to be taken to leave commercial activities to individual companies. This does not mean that no assistance was available under the programme in support of the marketing efforts of individual companies. Once the ‘distribution and marketing window of the cost sharing grant scheme was opened, each company was free to apply for support in line with their own priorities. Equally companies could request information services from the country marketing managers employed under the rum marque component of the programme²⁵. However while country marketing managers could facilitate contacts with distributors and even share benchmark information on the kind of deals which could be sought, considerable care was taken in ensuring the country marketing managers did not get involved in commercial negotiations.

Taken together, activities undertaken under the ‘Authentic Caribbean Rum’ marque programme and the ‘True Rum’ campaign, with support from the country marketing managers and co-financing from the ‘distribution and marketing’ window would, it was hoped, serve to reposition the Caribbean rum industry within that market component from which premium prices could be secured.

5.2. Elaboration of the ‘Authentic Caribbean Rum’ Marque

The foundations for the design of the ‘Authentic Caribbean Rum’ Marque were laid through a thorough analysis of trends in the global rum sector and a detailed analysis of the structure of rum consumption in major markets. This enabled a clear identification of the types of consumers which could best be targeted to secure premium prices for ‘quality’ rums (see Box 2) and the routes to reach these consumers, in ways which maximised returns to the Caribbean rum producers.

While ‘Connoisseurs’ were seen as offering scope for the expansion of sales of premium priced dark rums, with consumption largely taking place ‘off trade’ (i.e. in the home), the greatest potential for the expansion of premium priced rum sales was seen as being to the ‘adventurers’ and ‘sophisticates’ market components. These were classified as the ‘new authentic’, consumers who take a more informed approach to their consumption of spirits. These consumers, typically aged 25+ are more likely to read the label on the bottle, visit the website of a producer, discuss their consumption preferences with friends (and recommend new products) and seek out new tastes. This target group was thus seen as being the principal market for ‘Authentic Caribbean Rum’.

²⁵ It had initially been envisaged that the country marketing managers would be employed using financing from the ‘distribution and marketing’ window. However, it was decided to transfer the funding of these posts to the broader rum marque programme component, when the initial approach (involving companies securing support under the ‘distribution and marketing’ window to ‘buy’ the time of country marketing managers) rapidly revealed itself as unworkable.

This market analysis provided **a vision of where to take the Caribbean rum industry, beyond the lifetime of EU trade preferences**. While this vision of the future market focus for Caribbean rum producers had been developed and elaborated in close association with Caribbean rum industry leaders, the problem still remained of how to **secure individual rum producers buy-in to the specific programmes and activities which would be needed to realise this vision**²⁶.

Box 2: Consumer Profiles in the Target Markets for ‘Authentic Caribbean Rum’

‘Adventurers’:	Want to feel their choices in spirits are individualistic and selective. They are keen to try new tastes and experiences and exemplify the newly emerging ‘cult of the individual’ – selecting products that set them apart from the crowd.
‘Sophisticates’:	Want to feel their choices show style and sophistication. They choose high quality brands and price is not an issue.
‘Connoisseurs’:	Feel they have an appreciation of the subtleties of the drinking experience. They are passionate and respectful of specific types and brands of spirits.
‘Hedonists’:	Want to feel in touch with the latest trends in spirits and use this to feel part of the group. Spirits are part of every activity, every occasion and set their mood
‘Sharers’:	Want to fulfil their role as providers, as sociable hosts. They rely on the popularity and familiarity of mainstream appeal. Representing a low level of consumption across all spirit categories, sharers show no particular preferences for any drinks brands or sectors.
‘Comfort Seekers’:	Want to feel comforted by the spirits they drink. Creatures of habit they are less involved with spirits and stick to what they know and love.

Source: Unlocking the potential for Authentic Caribbean Rum, WIRPSA, 2009

This is a common problem across industries in small ACP economies facing trade and production adjustment challenges. The reality is that if small scale producers in the ACP are to be encouraged to pro-actively respond to trade challenges arising from preference erosion (or tariff liberalisation), then public sector ‘pump priming’ support can play a vital role. Even with ‘pump priming’ support potentially available, the idea that companies should respond to major trade challenges by investing in ambitious and costly **market led** production and trade adjustment processes remains a hard concept to sell. This is particularly so when companies are coming under financial pressure and engagement with the adjustment process requires the mobilisation of a substantial volume of the companies own financial resources. It is against this background that **far more time was required to secure rum industry stakeholder buy-in to the rum marque campaign** (and to encourage the uptake of funds under the cost sharing grant scheme) **than was initially envisaged**.

²⁶ Issues also needed to be addressed as to how the new premium brands would relate to the wider product range which a company might be producing. This is an important issue, since in many companies the bulk of production will remain concentrated in non premium brands. Industry stakeholders needed to get to grips with this issue at the conceptual level, before committing substantial levels of own financial resources to ambitious trade and production adjustment initiatives.

Equally it had been assumed that it would be a relatively straight forward process to achieve consensus amongst rum producers on the design and promotion of a Caribbean rum marque to target the identified market. However in reality the process of building trust and collaboration amongst traditionally competitive producers in developing a common approach and a pro-active trade adjustment strategy, required extensive discussions and deliberations to balance the interests of large and medium sized producers, established and emergent exporters, established and new producers, all of which had different starting points and different interests in the development of common marketing initiatives (see Box 3).

Box 3: Discussion Points in the Consultations on the Marque and the True Rum Campaign

- *How long should the campaign run?*

The initial idea of running a one-year campaign in the UK only was abandoned when the extension of the programme became clear, in favour of a multi-year campaign comprising the UK, Spain and Italy.

- *Which markets within the EU should be targeted?*

The market research by TNS had identified the UK, Italy and Spain as the most promising markets. However, initially, agreement was reached on the campaign targeting the UK market only, because more beneficiaries were present there already than were active in the other markets. The geographic focus of the campaign was extended to all three markets when it became obvious that with the extension of the programme more time would be available for the campaign.

- *Should the campaign also target markets outside Europe?*

Some argued that marketing should not be limited to Europe, as Caribbean companies also have other major export markets and the fasted growing markets may be found outside Europe. Nevertheless, it was decided to focus the campaign on selected European markets, due to the need to concentrate the limited funds available in a targeted way. Another argument in favour of the EU market was that the programme was designed in assisting Caribbean producers to remain competitive in Europe despite the zero-for-zero agreement.

- *Should there be a single logo for the marque or differentiation by quality?*

The initial design foresaw only one layout for the marque, labelling products as “Authentic Caribbean Rum”. However, in consultations with beneficiaries it became obvious that there was a need to differentiate (in particular to accommodate the needs of producers targeting the premium product market), resulting in the adoption of the three tiered marque.

- *Who should be eligible to apply for a license?*

The WIRSPA Board of Directors decided that in a first phase of establishing the marque, only brands from within the ACP Caribbean should be eligible. However, the licensing agreement is already designed in a way that allows opening up the scope to brands from the wider Caribbean region at a later stage.

Source: Authors' Computation

Early on it became apparent that smaller brands and non-traditional exporters of bottled branded rum, had more interest in the rum marque programme than, larger established exporters which already had extensive marketing campaigns underway. These interests all needed to be reconciled before decisions could be taken on:

- the nature of the rum marque to be applied (a single marque or a tiered marque system);
- the quality standards to be applied to rums eligible to use the marque;
- the markets to be targeted through the 'True Rum' campaign designed to launch the 'Authentic Caribbean Rum' marquee and the duration of this campaign.

All of this led to delays in the design and the launch of the 'Authentic Caribbean Rum' marque and associated 'True Rum' campaign.

This experience under the rum programme serves to highlight the **extended time frame required for the conceptualisation, consensual based design and operationalisation of trade adjustment programmes**. A time frame which needs to be further extended when one takes into account the time required to **situate a new product in target markets and consolidate its market position**. Against this background **15 to 20 year timeframes for the conceptualisation, design, implementation and consolidation of successful trade adjustment programmes should not be seen as excessively lengthy**. This is wholly consistent with the adjustment time frames seen as required under the EU's own internal restructuring efforts.

It should be noted that in retrospect, Caribbean rum industry stakeholders felt that the thorough airing of issues and concerns which took place in the course of the elaboration of the rum marque campaign were in fact necessary to ensure that a genuine consensus was built on the way forward for the rum sector. The intrinsic delays were not seen as time wasted but rather time invested. An investment in building consensus that over time is yielding advantages to the industry.

Against this background the delays which were faced (both intrinsic and those arising from EU procedures) have only become a substantive problem as the closure date for the Integrated Development Programme for the Caribbean Rum Sector has approached.

5.3. Launching the Marque and the 'True Rum' Campaign

In terms of the launching of the 'Authentic Caribbean Rum' marque and the associated 'True Rum' campaign, the whole process took much longer than initially envisaged. In part, as previously noted, this was a result of intrinsic difficulties associated with the design of the programme and securing industry buy-in. However it was also in part a result of the procedures adopted for the tendering and procurement of the services required for the implementation of the marketing campaign activities. Which of these sources of delay were most significant is difficult to determine.

For example, had the EU not insisted on using standard tendering procedures, would the process of selection of the consultants contracted to implement the marketing activities have been quite so rigorous as was in fact the case? With standard EDF tendering procedures being used the WIRSPA Secretariat and the WIRSPA Board vetted applicants most rigorously. Not only was WIRSPA involved in drawing up the short list of candidate companies (completed March 2007), but they insisted that shortlisted companies make presentations to the WIRSPA Board on how they intended to implement the envisaged marketing campaign. These presentations, made in May 2007, proved invaluable in selecting the winning bid, and ensured the high quality of the marketing expertise brought to bear in the implementation of what was an ambitious marketing campaign. Indeed this process of selection of the winning bid enabled WIRSPA members to continue to play an active role in the design of the marketing campaign, despite the use of standard EDF procedures, which elsewhere have served to keep private sector bodies at arms length.

Equally, while initially a decision had been taken in June 2005 to launch a one year marketing programme in the UK, EC objections eventually led to the launching of a multi-country, multi-annual campaign in April 2008. This was initially seen as an unnecessary delay. However, subsequently a number of rum companies reported that this multi-country campaign enabled them to more swiftly and more easily penetrate non-traditional markets in Spain and Italy than would have been the case in the absence of this wider programme²⁷.

Thus, while all in all five years were to elapse from the operational commencement of rum programme and the signing of the contract for the implementation of the 'Authentic Caribbean Rum' marque and associated 'True Rum' marketing campaign, this was not generally seen as time wasted. However the late conclusion of financing agreements for the implementation of the 'True Rum' campaign (late 2007) and the launching of the campaign only in April 2008, have meant that only 20 months remains for the rolling out of the 'True Rum' campaign before the closure of the EC financed programme under which it is being implemented.

Against this background a strong case exists for further extension to be granted to the implementation of this EC financed programme, **to allow a more realistic time frame for the implementation of this critically important marketing component of this ambitious integrated trade and production adjustment support programme.** While procedurally second extensions are no longer considered following amendments to the 8th EDF rules, the granting of a special dispensation by the responsible EU authorities (EU Council of Ministers) would appear to be warranted, given the potential value of this programme as a 'model' for future **market led, private sector based production** and **trade** adjustment support programmes across the ACP. This is permitted through unanimous decision of the Council. This would appear to be particularly relevant at the current time, as, across the ACP, both ACP and EC officials are seeking to get to grips with how to design and implement effective Economic Partnership Agreement (EPA) related production and trade adjustment support programmes.

5.4. Implementing the 'Authentic Caribbean Rum' Marque and the 'True Rum' Campaign

Central to the commercial value of the 'Authentic Caribbean Rum' marque is securing recognition of WIRSPA's right to the exclusive use of the designation. Against this background the rum marque has now been registered by WIRSPA in 41 individual countries and as a European Community mark, covering the 27 member states of the European Union. Since securing this legal protection is an expensive business, the selection of the countries in which the marque was registered was based on either the potential of the export market or the potential to produce competing rum products. Registrations are also ongoing for specific elements such as the script 'True Rum' used in the marketing campaign and the three 'tier marque', which constitute subcategories of the rum marque classification.

These measures are designed to ensure that only companies licensed to use the marque, are exclusively able to gain commercial advantages from the marketing efforts initiated within the framework of the rum marque and associated 'True Rum' campaign.

The introduction of the 'Authentic Caribbean Rum' marque on the European market is being complemented by the 'True Rum' campaign which targets the 'new authentic' consumer group in the UK, Spain and Italy. In these markets multi-dimensional, country specific marketing campaigns have

²⁷ In reality country marketing activities were rolled out in line with the increased market interest of industry members in the particular market. Thus the UK marketing manager was hired first and the Spanish and Italian marketing managers hired subsequently, once industry members had begun to develop a presence in these markets. This avoided tying up scarce financial resources in an unproductive manner.

been launched backed by the activities of country marketing managers. The country marketing managers work closely with brand owners in identifying distributors and in getting close to target markets, but stay away from purely commercial negotiations.

While the development of the 'Authentic Caribbean Rum' marque and general raising of consumer consciousness of high quality Caribbean rums arising from the 'True Rum' campaign benefit all quality rum producers associated with the campaign, the marketing support extended through country marketing managers and through the 'distribution and marketing' window of the cost sharing grant scheme have been of greatest significance for smaller Caribbean rum producers. These companies have often been assisted in developing for the first time clear marketing strategies and in accessing new previously unexploited markets. The benefits accruing to companies with established export strategies or with corporate linkages to international food and drinks companies are less immediately apparent, although the heightened consumer interest and awareness is providing an enhanced basis for their own marketing efforts for the promotion of premium brand high quality rums.

In terms of immediate material benefits the marketing programme is at an early stage, with many of the companies benefitting from the programme taking a much longer time frame for the realisation of meaningful, commercially profitable export expansion. The years 2012/13 onwards are likely to be when the real benefits of current marketing efforts begin to pay dividends. This is particularly the case in the current economic climate where across a multiplicity of sectors 'down purchasing' has occurred in response to the economic and financial crisis²⁸.

6. Lessons for other ACP Trade and Productions Adjustment Programmes

Having had a close look at the design and the implementation challenges of the Integrated Development Programme for the Caribbean Rum Sector, a dozen interesting lessons can be drawn to inform other 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.

6.1. Sustained Advocacy for What Sector Restructuring Requires

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.*** External assistance can play an important role, but is no substitute for visionary leadership from within an industry. Raising awareness among policy-makers of industry needs, requires sustained advocacy work, using resources generated from within the industry. This will then have to be followed by a concerted effort to move from general policy commitments to the implementation of operational programmes, in way that are consistent with the underlying needs of the industry. Throughout this process an inclusive form of industry leadership needs to be practiced, so that the industry as a whole with varying levels of commitment and enthusiasm, moves forward together. Only on this basis can sector based production and trade adjustment programmes be set in place which efficiently respond to changed market realities.

²⁸ Thus we find even in the EU's exports of value added food products, often the volume of exports has remained unchanged while the value of EU exports has declined as consumers 'down purchase'. In the context of the Caribbean rum sector this means that the benefits of the 'Authentic Caribbean Rum' marque campaign arise not only in terms of sales of the 'premium brands' carrying the marque, but also from sales of other brand products, which may benefit from 'down purchasing' on the back of increased consumer awareness of particular brands.

6.2. Ensuring Industry Management of Assistance Programmes

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. Management of the programme by an industry association greatly facilitates relationships of trust between programme managers and programme beneficiaries. Further, efficiency can be enhanced by making use of organisational structures and networks of an existing organisation instead of creating a parallel institution, such as an external programme management unit. Effective management by an industry unit requires appropriate core staffing and the availability of flexible technical assistance and institutional development support which can respond to the challenges arising in the course of the implementation of the core programme.

6.3. Making Independent Technical Advice Available

Even though it is essential that the industry undergoing adjustment should define and manage the adjustment programme, 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. In order to ensure industry ownership, the necessary technical assistance to efficiently implement the envisaged programme needs to be integrated with industry structures, while maintaining technical independence. In the case of the rum programme, the long term technical adviser was a full member of the WIRSPA team and formally reported to the CEO of WIRSPA. A database of short term technical advisers ensured that companies could draw on external expertise in specific areas as needed at any time during the programme.

6.4. Redefining the Role of the Public Sector

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. This means redefining the role of the ACP public sector as that of a **facilitator *not* a driver** of the process of production and trade restructuring. This is probably one of the most important lessons arising from the experience of the design and implementation of the Caribbean rum programme. A positive side effect of delegating day to day management to the private sector is that it reduces the burden of programme management that rests on public officials, an important consideration in small ACP economies facing significant restructuring challenges. This also has implications for the way the EC delivers support. Space needs to be given for strong local private sector involvement in programme design and management. This is different from the current practice apparent under certain of the EC sugar protocol accompanying measures country programmes, where the local private sector is kept at arms length.

6.5. Building Support Services into Cost Sharing Grant Schemes

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. Using the 'business development services' window for this purpose proved essential to getting the CSGS operational under the Caribbean rum programme, since the approval of a 'business plan' was an essential prerequisite for accessing funding under the CSGS. Without such support

applications for EC co-financing would almost certainly have been submitted at a much slower rate, undermining the implementation of the programme, and would probably have been more restricted to larger eligible enterprises.

Equally, early and effective information dissemination on how a CSGS works is essential (on eligibility of firms, the activities which can be supported, application procedures and reimbursement procedures). This information work however also needs to be ongoing so as to meet new challenges thrown up in the course of the implementation of the programme.

Of critical importance to the design of cost sharing grant schemes is the inclusion of **facilities which assist private enterprises, particularly small and medium sized enterprises, in engaging with EU aid procedures**. Of particular importance is the establishment of **appropriate support services to assist eligible beneficiaries in documenting and submitting claims under cost sharing grant schemes**.

6.6. Determining the level of Co-Financing

The experience of the Caribbean rum programme suggests a need to make sure the co-financing contribution of the EC is sufficiently large to provide an incentive to 'risk taking' through pro-actively engaging in market led production and trade adjustment processes. The appropriate level of EC co-financing 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.

6.7. Management of Cost Sharing Grant Schemes

Procedures for the management of cost sharing grant schemes 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.

Rum companies also pointed out that a key factor for successful programme management was the responsiveness of WIRSPA staff, who would quickly react to any inquiries. A precondition for this is an appropriate number of qualified staff at the PMU.

In addition, the importance of small grant activities in encouraging companies to get to grips with cost saving measures needs to be recognised. A small grants facility can also help companies learn about the application and reimbursement procedures. These lessons can then be applied to larger requests. A small grants facility is also better suited for reaching out to smaller and more vulnerable stakeholders. However, the disproportionate administrative burden involved in small grants facilities needs to be borne in mind since this can lead to 'administrative overload' for the organisation administering the CSGS.

6.8. Building Flexibility into the Allocation of Funds

Flexibility in the allocation of funds between windows would appear to be essential so that programmes can be 'demand driven' and build on success. Under the rum programme, delays occurred because reallocation of funds across different windows of the CSGS was only possible after riders to the service contract had been prepared and approved by the EC. Hence flexibility needs to be built into programme design. An approach where by the sum of minimum allocations to each window is only a certain percentage of allocated funds (e.g. 60%), allows the remaining funds to be directed to the areas of greatest demand, without the delays associated with seeking a rider to the initial contract. This can greatly facilitate programme implementation in an uncertain market context. Ensuring 'demand driven' utilisation of cost sharing grant scheme funds would appear to be wholly consistent with the Paris Declaration on aid practices, which places a high priority on recipient led aid deployment practices.

In planning programmes the 'gestation period' for different types of activities needs to be taken into account, so as not to unnecessarily tie up funding. This is particularly important under annually financed programmes (e.g. the EU sugar protocol accompanying measures programme).

6.9. Ensuring Procedural Consistency or Mutual Recognition

It would appear to be important to ensure consistency or at least mutual recognition between local accountancy systems and EDF rules. This could be done by the EC undertaking an organisational audit to ensure the methods of control of the local implementing body are equivalent to the controls required under EDF rules. The standard procedures of the local implementing agency can then be followed where equivalence of controls exists. It would also appear possible to anticipate certain types of procedural problems in the light of the experience under other programmes and address these in the programme design phase.

6.10. Dealing with Tendering and Procurement Issues Up Front

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. This involved securing EU acceptance that:

- a) on condition that the process was transparent and demonstrably in line with good business practices, normal EDF tendering and procurement rules should be waived, although as a rule three tenders were often required by the programme Steering Committee;
- b) when commercially justified, procurement of goods and services may take place outside of the normal EU-ACP geographical area.

This suggests that elsewhere in the ACP, if cost sharing grant schemes are to be used to support production and trade adjustment processes in pursuit of commonly agreed objectives, then **similar manuals of procedures should be compiled**. Programme managers would however have a concomitant obligation to take seriously their role in ensuring best business practices are followed and that exceptions granted are not subject to abuse. However the benefits in terms of speed and ease of implementation of programme activities arising from a comprehensive approach to tendering and procurement issues (particularly in 'remote' ACP regions) would appear to warrant the effort invested,

since it ensures the deployment of EC managed assistance does not cut across normal commercial sourcing decisions. This is essential if underlying programme objective with regard to **enhancing efficiency, reducing costs and improving overall competitiveness** are to be achieved.

6.11. Allowing Sufficient Time for the Design and Implementation of Marketing and Promotion Activities

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. However, the design (including ensuring full stakeholder buy-in) and subsequent implementation of complex and innovative marketing initiatives, takes much longer than conventional development cooperation programmes. 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. Indeed, timeframes for the implementation of these activities may need to be much longer than those allowed under current EDF rules. Procedural rules changes may thus be required to enhance the effectiveness of EU assistance in this critically important area.

6.12. 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. For example, regular dialogue took place:

- *Between WIRSPA, the EC delegation and the CARIFORUM Secretariat:* Representatives met in the Steering Committee, but staff also exchanged frequently on a more informal basis as questions emerged.
- *Between the PMU in the WIRSPA Secretariat and rum companies:* WIRSPA organised seminars to present the programme and to consult with member companies on the way forward, for example on the design of the marque. Further, companies described WIRSPA staff as very responsive, answering quickly to inquiries and visiting companies in person if required.
- *Among rum companies:* The seminars organised by WIRSPA on programme procedures or on technical issues also provided an opportunity for networking among companies within the industry. Companies report that this stimulated mutually beneficial cooperation among companies that were formerly hesitant to share information or even joint activities among competitors.
- *With other stakeholders in the region:* Membership of the Steering Committee was composed in a way to include a variety of perspectives, including the protection of weaker social groups. An example of this approach is the presence of a trade union representative who fully took part in all decisions.

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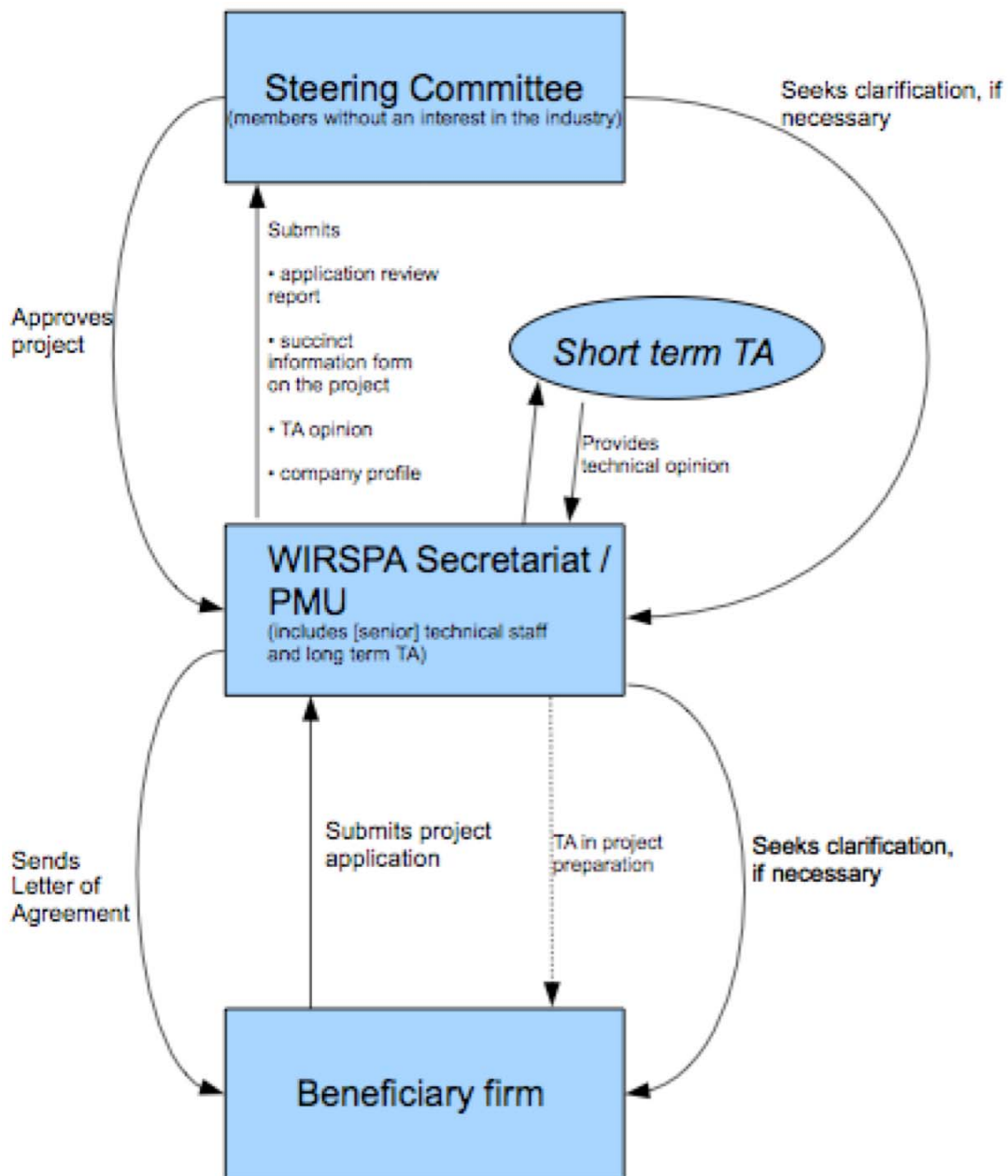
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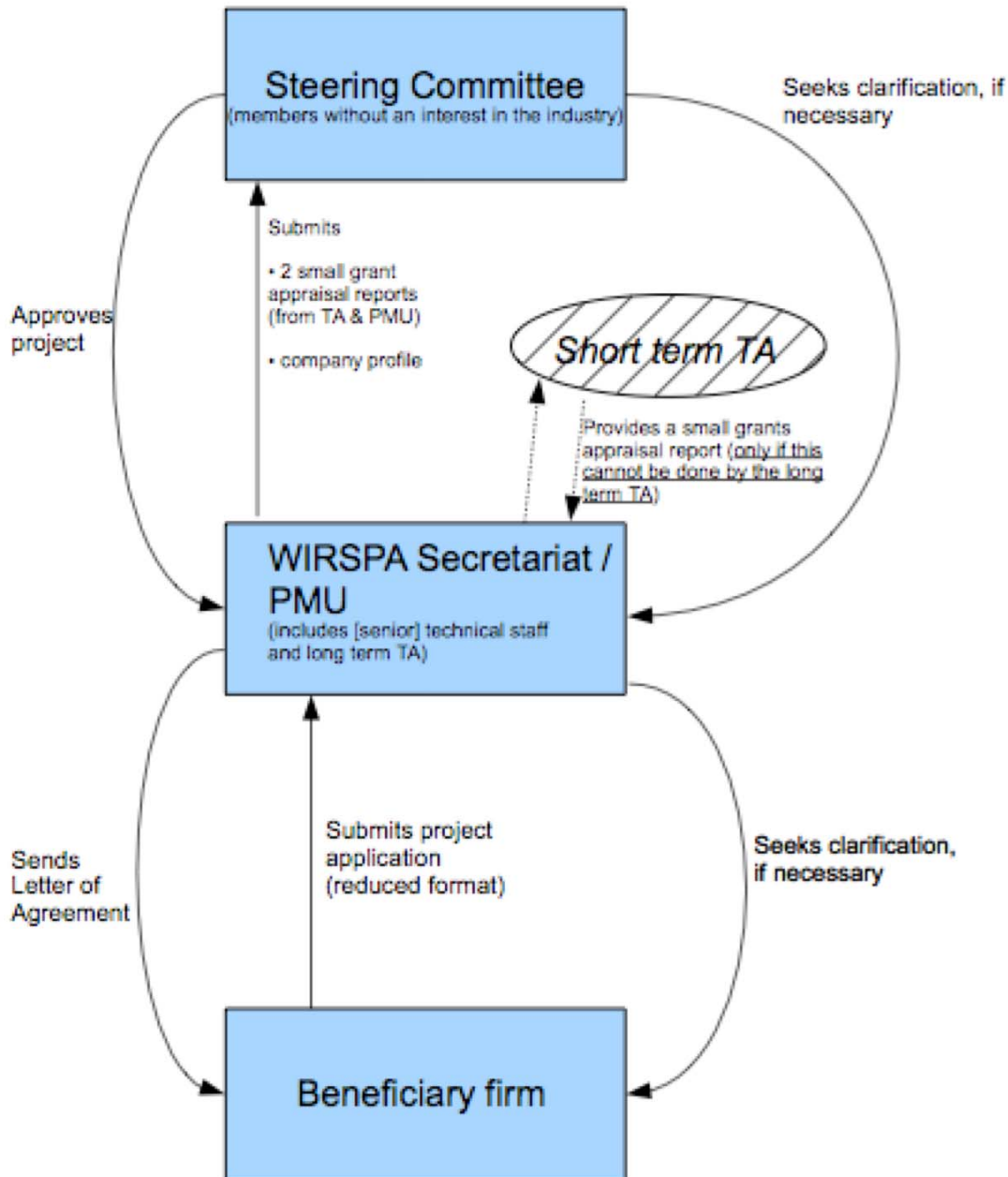
Annex 1

Regular application procedure under the CSGS



Annex 2

Application procedure for small grants



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European Centre for Development
Policy Management

ecdpm

HEAD OFFICE SIÈGE

Onze Lieve Vrouweplein 21
6211 HE Maastricht
The Netherlands *Pays Bas*
Tel +31 (0)43 350 29 00
Fax +31 (0)43 350 29 02

BRUSSELS OFFICE BUREAU DE BRUXELLES

Rue Archimède 5
1000 Brussels *Bruxelles*
Belgium *Belgique*
Tel +32 (0)2 237 43 10
Fax +32 (0)2 237 43 19

info@ecdpm.org
www.ecdpm.org
KvK 41077447



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