



AID-FOR-TRADE: CASE STORY

CARIBBEAN COMMUNITY (CARICOM)



CARIBBEAN RUM SECTOR PROGRAMME





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Executive Summary

As a substantial employer and an important source of government revenue, rum is a product of critical importance to the social and economic well-being of the Caribbean region. A critical window of opportunity opened with the 1996 European Union (EU) removal of quotas on rum from the Caribbean Forum (CARIFORUM)¹. Nevertheless, this advantage proved to be short-lived, as the EU and the United States agreed to open their markets completely to white spirits later that year. Caribbean producers were now facing the onset of intense competition from low-cost producers in other regions of the developing world. Quick and coordinated response from Caribbean stakeholders resulted in a slightly longer timeframe for the trade liberalisation process and some residual protection against less expensive third country imports.

After four years of negotiation and discussion, the EU approved a program to support Caribbean producers reducing their dependence on commodity bulk exports. This was to be done by improving their competitiveness and moving towards higher-value branded products through a combination of plant upgrading and marketing support. This program began in late 2002 and, after a first extension of three years, was completed in June 2010.

The Caribbean Rum Sector Programme led to:

- (i) The introduction of eighteen new brands and thirty-nine brand variants to the EU market;
- (ii) Participating companies maintaining employment at 6,000 people;
- (iii) A twenty percent increase in direct female employment in the sector since 2003;
- (iv) The undertaking of twenty waste treatment projects by fifteen companies in twelve countries;
- (v) The undertaking of eleven energy and conservation projects in eight countries;
- (vi) A forty percent increase (or approximately USD 250 million) in tax revenues received from participating producers since 2003;
- (vii) A 140 percent increase in the number of tourists visiting rum facilities since 2003;
- (viii) Companies in the region investing approximately €68 million in capital projects; and

¹ CARIFORUM – the Caribbean Forum of ACP Countries is constituted by the Caribbean members of the Cotonou convention between the Africa, Caribbean and Pacific territories and which now have a separate Economic Partnership Agreement (EPA) with the European Union.

- (ix) The strengthening of collaboration among producers in CARICOM with those in the Dominican Republic and Haiti: this has further led to an increase in bargaining power and their ability to develop the Caribbean rum category.

Nevertheless, there were significant shortcomings in the design of the programme. Chief among these was the extremely tight timeframe to achieve all of the planned objectives. These included the upgrading plant and improving waste treatment and the introduction and building of a common Marque of quality to represent all Caribbean rums. Despite the mitigating effects of a 3-year extension to the program, the challenge of building a lasting and sustainable Marque remains unfinished.

The Rum Programme has shown the benefit of close representative private sector input and involvement. Moreover, there must be an in-depth understanding by aid donors and project designers of the practical challenges faced by the private sector in achieving the planned objectives and the time necessary in which to do so.

1. Issues Addressed

The rum industry is critically important to the social and economic well-being of the region and is one of very few value-added products with export potential. The EU is a traditional destination for Caribbean rum, with the large majority of exports being in bulk to European brand owners, for further blending and bottling. The quota system, devised to protect EU producers, imposed high market-entry costs on Caribbean rum exporters. The African, Caribbean, and Pacific Group of States (ACP) had lobbied for the removal of these quotas for several years, eventually leading to the derogation of these measures in 1996. However, the United States and EU agreed later that year to open their markets completely to white spirits by 2003, thereby threatening the survival of the Caribbean rum sector.

The Caribbean rum industry then began, in close collaboration with regional governments, a concerted effort to have the EU recognize the negative impact of the agreement and propose ameliorative measures. These efforts bore fruit, as in 1997 the EU recognized and sought ways to mitigate this negative impact.² In 2000, in the context of the Cotonou Agreement,³ the EU agreed to provide funds for an integrated sector-specific programme for rum.

² A Memorandum of Understanding was reached between the United States and the US to lengthen the transition period; in addition, the EU establishing a specific duty on low-value rum from non-ACP sources to provide some residual protection for ACP imports.

³ The Cotonou Agreement is the most comprehensive partnership agreement between developing countries and the EU. Since 2000, it has been the framework for the EU's relations with 79 countries from Africa, the Caribbean and the Pacific (ACP).

2. Objectives Pursued

The stated objectives of the programme were to transform the ACP Caribbean rum sector from a primarily commodity-based exporter to high-value branded rum, thus enhancing the competitiveness and profitability of this important export sector. Alongside these overall objectives was the expectation that dependence on commodity exports would decrease, overall employment would be maintained and environmental management would improve.

3. Design and Implementation

In late 2000, a study⁴ commissioned by the EU made recommendations for a €70 million programme of support to the industry. By 2002, a financing programme was approved for €70 million in resources from the EU, to be co-financed by €75 million from the Caribbean rum sector. The programme, proposed for implementation over a four-year period, had three main components:

- (i) A cost-sharing grant scheme⁵ to support plant upgrading, waste treatment, quality improvements, training and business services;
- (ii) Support for marketing efforts including the creation of a common brand; and
- (iii) Co-financing support for brand promotion; and strengthening of the producer association, the West Indies Rum and Spirits Producers' Association (WIRSPA).⁶

In agreeing that the industry association would implement the project, the EU and CARIFORUM recognized the need not only to strengthen the association in the long-term, but also recognised the need for the considerable financial commitment of the sector to the process as well. The producers had to provide over €70 million of their own resources in order to access grants worth approximately €46 million in EU resources for plant upgrading, waste treatment and marketing. In addition, the full cost of the investment had to be made by the company up front in order to be refunded by the promised grants. The sector association itself had to co-finance the cost of the project management unit, which was to be set up to implement the project; this requiring the association's members to pay additional fees. In addition, the association also had to provide a financial guarantee worth sixty percent of its annual budget throughout the program in order to access the grant funds.

⁴ Enhancing the competitiveness of the Caribbean rum industry, November 2000, Diagnosis

⁵ The scheme consisted of four 'Windows' for modernisation & capital investment; waste treatment & environmental protection; quality improvement & business development; and marketing and distribution.

⁶ WIRSPA - The West Indies Rum & Spirits Producers' Association Inc was founded over 40 years and represents the national rum associations in most CARIFORUM countries.

4. **Problems Encountered**

Despite a unique design process that fully involved all stakeholders and an agreement on several key elements that facilitated the successful implementation of the programme, several problems emerged along the way.

(i) **Programme timing:**

- The four-year timeframe, corresponding with the standard EDF⁷ template, substantially affected the two major elements of the program: the design and promotion of the common brand, and the investments to be made with support from the grant scheme. Stakeholders already recognized this constraint in early 2004, barely twelve months after programme's launch. Despite the full cooperation of the Commission, the formal extension of the programme (from 2007 to 2010) was finally approved only in April 2006.

(ii) **Programme design:**

- (a) The brand's programme design anticipated the undertaking of market research, designing the brand and starting an advertising campaign to occur simultaneously within the first year. In reality, this was highly impractical. In fact, the EU insisted on a preliminary research study to elaborate on the marketing strategy, as well as to evaluate the usefulness of the brand. Only following the completion of these elements, and the agreement by the brand owners of the brand and marketing strategies, could a promotional campaign begin. There were also issues related to complex EDF procurement rules that delayed implementation of the campaign.
- (b) At the same time, WIRSPA was working to refine brand regulations and to achieve buy-in for the subsequent development of a three-tier brand. With the contracting firm hired in late 2007, and the campaign launched in early 2008, there was less than two full years of brand promotion in the market with a consequent impact on brand awareness.⁸

The grant scheme encountered many challenges. Most of these difficulties centered on ways to manage the implementation of a variety of plant upgrades, waste treatment, marketing and other business development projects undertaken by the companies in a short period of time.

⁷ The European Development Fund (EDF) is the main instrument for providing EU aid for development cooperation in the [African, Caribbean, and Pacific](#) (ACP) States and Overseas Countries and Territories (OCT). Each EDF is concluded for a period of five years. The 9th EDF allocated EUR 13.5 billion for the 2000-2007 period and was part of the Cotonou Agreement.

⁸ Conventional wisdom is that the process of building a credible brand Marque is a process spanning over many years.

- **Financing:** With a high level of co-financing required (seventy percent on average) and the pre-financing requirement, companies had to negotiate a variety of instruments to obtain needed funds for investment.
- **Sequencing and project management:** Firms had to sensibly sequence their investments within a short time period, and the resources necessary to properly manage several, sometimes substantial, projects placed a heavy demand on their human resources.
- **Transfer of Resources:** Although the programme design allowed for re-allocation of resources where there was most demand, in practice when it was required to transfer resources from marketing support to plant upgrading, this took considerable time to accomplish and left many firms' projects on hold.
- **Late utilization of resources:** Many waste treatment projects required feasibility studies and regulatory approval before the go-ahead could be given. This resulted in late utilization of the resources under this "window" and potential loss to firms that could not undertake projects in time.
- **EDF requirement:** The standard EDF requirement for original financial documentation placed a strain on companies who having practiced normal commercial arrangements in their operation, now had to meet additional documentation requirements or risk having their reimbursement claims rejected. This proved particularly problematic for marketing activities where service suppliers did not understand or adhere to this requirement from firms.
- **Global Economic Crisis:** The worldwide economic downturn that took hold towards the end of the program required many companies to adjust their investment plans (especially in the area of marketing investment), and eventually resulted in a lower take-up of grant funding than might otherwise have been the case.

5. **Factors for Success**

- (ii) Key to the successful management and implementation of the program was the positive and collaborative relationship between the main stakeholders – the sector itself, represented by WIRSPA; the governments and their representative through the CARCOM Secretariat; and the European Commission and its Delegations in the Caribbean, in particular, Barbados. Once the programme was in implementation, there was a practical understanding of the peculiarities of the programme that prompted an openness and flexibility to dealing with challenges as they arose. For example: the first extension request received speedy consideration, even if it actually took a long period of time to accomplish.
- (iii) Once it was established that the average co-financing requirement of seventy percent was restricting firms from accessing the grant funds, the EU (on WIRSPA's recommendation) agreed to increase the grant portion to fifty percent, with sixty-five percent for waste treatment. This resulted in an increase in take up of funds, particularly for the waste treatment investments, which produce no direct payback.

- (iv) The EU again showed flexibility towards the end of the programme by permitting a three-month extension in payments to enable projects close to completion to receive their reimbursements. This had the dramatic result of increasing the payments to firms by almost €10 million and reducing the number of projects that did not benefit from grants.
- (v) On the part of the project management unit, extensive assistance and frequent visits enabled the firms to receive practical assistance in all stages of their projects: from preparation and submission of grant applications, to reporting and claim submissions.
- (vi) Due to the extensive financial share to be contributed by companies (averaging seventy percent), they were free to select the supplier of their choice and thus allowed to bypass EU requirements to select suppliers from EU/ACP sources only. Nonetheless, programme management could insist on particular suppliers if they felt it necessary⁹.
- (vii) Grant funds were eligible for use for purpose-built buildings (such as bottling halls and ageing warehouses) and investment in barrels for ageing of rum. This was important because the shift to higher-value premium products required producers to increase the stock laid down for ageing in small wooden barrels rapidly (a critical element in achieving premium status) and in an environment where up to ten percent of product is lost to evaporation annually.
- (viii) Companies could apply for interim reimbursement of promised grants at agreed stages of completion of investment and marketing projects, an important element in reducing the heavy initial financing requirement placed on the sector. This was also very significant in ensuring smaller producers were also able to take full advantage of the available grants.
- (ix) Approval of grant requests was facilitated by the existence of a fax approval system in between meetings of the programme's steering committee, which was charged with approving grant requests and with overseeing the overall programme. The ability of the programme management unit to approve small grants under €10,000, subject to ratification by the committee, also speeded up the process.
- (x) Firms had to submit business plans in order to be eligible for grants. This was a highly useful process for many firms not accustomed to strategic planning, particularly the smaller companies, and helped them focus on priorities, and stage their investments.

⁹ In fact programme management as a rule insisted on prudent shopping wherever practicable, and particularly for large investments, and encouraged EU/ACP sourcing

- (xi) Incorporated in the programme were contracts for technical assistance from industry experts with one technical advisor based in the project management unit and supported by a team of specialists, who provided advice both to the project management unit and to firms. There was also a system of continuous monitoring of the programme and beneficiary projects; this proved especially useful for a second opinion on eligibility of certain activities, procurement practices and confirmation of deliverables¹⁰.

6. Results Achieved

Key achievements and indicators are:

- (ii) Eighteen new brands (and thirty-nine brand variants) have been introduced to European markets because of the programme. These new entries come primarily from smaller, more vulnerable producers. Their efforts at market penetration could fail unless continued support is provided through, in particular, the Authentic Caribbean Rum Brand.
- (iii) Employment by companies participating in the programme has been maintained at circa 6,000 persons, despite investment in modernisation, including automation and new technology; also, there is clear evidence of skills upgrades translating into higher quality jobs¹¹.
- (iv) Direct female employment in the sector has increased by twenty percent since 2003.
- (v) Fifteen companies in eleven countries undertook twenty waste treatment projects. These projects reduced the release of untreated waste in populated areas, thus making a positive impact on the environment.
- (vi) Eleven renewable energy and conservation projects have been undertaken in eight countries, reducing the use of fossil fuels and the carbon footprint of the producers. Six of these projects are significant investments ranging from €450,000 to €2.9 million.
- (vii) Taxes paid by producers participating in the Rum Sector Programme to regional governments have increased by over forty percent since 2003 to well over USD 250 million.

¹⁰ Grants could only be paid following the confirmation of a 'deliverable', a result arising out of the company investment, which was attested to by the programme management unit.

¹¹ Final Report of the Ongoing Monitors, Sept 2010 and anecdotal evidence. Investments in quality control, instrumentation and process control have resulted in the creation of more technical positions.

- (viii) The rum industry is linked closely to the tourism industry as a part of the region's heritage and culture. Visitors to rum facilities increased by 140 percent since 2003.
- (ix) World recession has affected developing countries' ability to complete capital projects and suppressed exports. Despite this, companies in the region invested some €68 million in capital projects. Rum consumption in world markets remains buoyant.
- (x) Collaboration among producers in CARICOM with those in the Dominican Republic and Haiti has strengthened their bargaining power and their ability to grow the Caribbean rum category. The producers now speak with one voice to the governments and they are linked in the market through the Marque. The collaboration among these traditionally distant private sector groups is unique in the region.
- (xi) In the context of falling sugar production and consequent reduced availability (and increased prices) of molasses, the main raw material for rum, a strengthened rum industry has the potential to revitalise sugar cane growing areas in line with an increasing trend to invest in cane production for direct use in rum making.

Furthermore, the Authentic Caribbean Rum Marque was designed and registered as a legal trademark belonging to WIRSPA for the benefit of the sector. The conditions governing the use of the marque have been agreed and a process of achieving brand owner buy-in to the concept and its utilization is largely completed. The Marque logo can be placed on bottles, packaging and promotional materials of brands that have signed an appropriate license agreement with WIRSPA. While each brand will maintain its individual character and identity, this guarantees quality, authenticity and provenance.

The Marque is approved for use by fifteen companies (both large and small) and it will soon become more visible on the shelves of stores and bars around the world. Though currently restricted to brands that are indigenous to the ACP Caribbean region, WIRSPA is reviewing options for the Marque's medium (and longer-term) development that would see its use extended geographically and possibly used across a wider range of true rums of Caribbean origin.

Formally launched in 2008 with a €10 million marketing campaign in the UK, Spain and Italy designed to promote the marque and build the Authentic Caribbean Rum category, the campaign significantly over-delivered against its original targets.

In addition to providing a guarantee of quality and authenticity, the Marque tells a story of heritage, individuality and uniqueness for Caribbean brands under a common umbrella. In this way, the Marque and its promotional campaign opened the doors for new brands and existing ones seeking distributorship. This is of particular importance for the many smaller brands in the region.

7. Lessons Learned

Several important lessons are worth mentioning in relation to the design and implementation of the Caribbean Rum Sector Programme:

- (i) Involvement of the beneficiaries in the design and implementation of the project – the involvement of WIRSPA from the start – allowed for the programme design to be much closer to what was required in the end. Important derogations (especially on procurement) and understandings were incorporated, which made a normally complex programme workable. It is also important to work out ways to deal with often out-of-date financial regulations used by funding agencies that do not fit current commercial norms in the private sector.
- (ii) In order to attract beneficiary funding, co-financing must be set at a level that makes it financially viable for the private sector in view of the potential for hidden (or ineligible) costs, and the need to carry the whole burden of initially financing a project. In addition, some investments, for example those in waste treatment, have no financial return but almost could be classed as public goods. A higher grant portion should be devoted to these types of activities.
- (iii) Sufficient time must be made available in order to achieve a sensible level of accomplishment in relation to some activities. Clearly more time had to be accorded to establishing a common brand for rum. The project design did not appreciate the necessary sequencing or timeframe required for these activities.
- (iv) Private sector firms have different capability levels depending on their size and experience, but few are set up to manage many investment projects across a wide range of processes simultaneously. More time needs to be provided to allow the firms to properly plan and implement these activities if they are to be properly done and be sustainable. Extensive supervision, especially for smaller companies, turns out to be essential in all aspects of activity, as is short-term specialist technical expertise.
- (v) Partnership, mutual trust and consensus are watchwords for successful implementation with the private sector. Key stakeholders need to operate in a framework of shared responsibility and delegation of authority as appropriate. Certain types of decisions such as reallocation of funds should be devolved away from bureaucratic machinery towards properly constituted project oversight committees.
- (vi) Consensus is a vital element where private sector assets are at risk or funds are to be leveraged. Decisions cannot be imposed in such circumstances and timeframes/frameworks must be allowed to accommodate development of buy-in and commitment.

8. Conclusion

All independent assessors¹² have adjudged the Caribbean Rum Sector Programme to be a well-managed private sector programme that achieved many of its aims. That the programme was largely successful is due to many factors, not least of which was the excellent cooperation and trust between the key stakeholders (WIRSPA, the CARICOM Secretariat, and the European Commission) and the use of flexible arrangements to maximise the potential benefits of program.

This success can also be attributed in large part to a well-organised private sector association, which was involved in the development of the project and charged with its implementation. Also important was the strong support from the Caribbean governments, which appreciated the importance of this key export sector and the understanding of the EU officials charged with processing the project to approval, and overseeing its implementation.

Important lessons were learned, not least of which is that such programmes benefit from close representative private sector input and involvement. Yet there must also be an in-depth understanding by aid donors and project designers of the practical challenges faced by the private sector in achieving the planned objectives and the time necessary in which to do so.

¹² The Rum Programme has been the subject of several assessments, including midterm and final project evaluations, continuous monitoring by a firm contracted by the EU, several external EU monitoring missions; and a case study by ECDPM/CTA on trade and production adjustments in ACP countries.