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Cluster Best Practices for the Caribbean

Private Sector Development Discussion Paper #5

OTF Group

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EXECUTIVE SUMMARY

Overview

The Caribbean is at a crossroads. The Economic Partnership Agreement (EPA) and the CARICOM Single Market Economy (CSME) herald a more liberalized trading environment with all of the potential benefits that come with the freer movement of goods, services, and labor. At the same time, the loss of preferential access to traditional export markets poses a significant risk to the region's future prosperity. Moreover, food security, climate change, a global recession, and the latest natural disaster to befall Haiti all pose new and daunting challenges to the region. If the Caribbean is to overcome these challenges and realize greater prosperity for its citizens it must develop new areas of competitive advantage.

The cluster approach is proven to be an effective instrument of achieving competitive advantage because it enables firms to achieve the "economies of scale" around cooperation, advocacy, and innovation that are needed to successfully compete in global markets. The donor community including the Multilateral Investment Fund of the IDB (MIF), United Nations Industrial Development Organization (UNIDO), The World Bank, and the U.S. Agency for International Development (USAID) have embraced the cluster approach as an effective approach to economic development. It is also a common approach to regional development in most OECD economies.

The cluster approach holds tremendous potential for the Caribbean. A preponderance of MSMEs, small domestic economies, and limited pools of specialized inputs characterize the economy in this region. An approach that focuses on joint action, knowledge sharing, and the development and sharing of specialized inputs suits the Caribbean. Practically speaking, clusters represent an opportunity for SMEs in the Caribbean to access larger and more sophisticated markets, lobby governments for necessary infrastructure and policy reforms, and to jointly develop resources and access markets that would otherwise be unavailable to them individually.

Caribbean Exceptionalism

The success of the cluster approach is not a function of simply *adopting* global best practices but rather *adapting* them to the unique socioeconomic context in which they are applied. Caribbean exceptionalism entails five unique challenges that the cluster approach must address if it is to spur higher rates of growth and prosperity for greater numbers of people in the region.

Government as Master Strategist: Innovation and entrepreneurship in the Caribbean has been effectively crowded-out by a prolonged focus on preserving economic sectors that were essentially "constructs of policy" such as sugar and bananas, leaving the region ill-equipped to confront the challenges of a more open and competitive trading environment.

Small Island Economies: Small islands face unique hurdles; the most prominent being: (i) small and inadequate labor pools, (ii) limited scope to build economies of scale, and (iii) a disproportionate susceptibility to exogenous shocks -- both natural and man-made. The Caribbean is twelve times more exposed to natural disasters than the rest of the world.

High Public Debt: Seven of the ten most indebted countries in the world are in the Caribbean. In 2003 average Caribbean public debt was 96 percent of GDP. Several nations currently carry debt levels of over 100 percent of GDP including Antigua, Dominica, Guyana and Jamaica. The IMF generally considers a 60 percent public debt-to-GDP ratio as the upper limit for sustainability.

High Emigration: The region has the highest emigration rates of skilled labor in the world: 90 percent of university graduates from Guyana emigrate to work abroad, 85 percent in Jamaica, and 80 percent in Trinidad and Tobago. Caribbean countries have lost 10 percent to 40 percent of their labor force to OECD countries from 1965 to 2000.

Poor Regional Linkages: Inter-regional connections remain expensive and relatively unreliable. The World Bank estimates that logistics costs are 16 to 26 percent of GDP and make up between 18 and 32 percent of product value. While tariffs have diminished in the region, oceanic shipping costs have increased by as much as 50 percent.

Key Success Factors for Caribbean Cluster Initiatives

Build Trust: Low levels of trust (i.e., social capital) between the public and private sector is the single biggest obstacle to the cluster approach in the Caribbean because it undermines the joint action that is central to the cluster approach. The trust deficit needs to be proactively addressed throughout the design and implementation of the cluster approach.

Adopt a Demand Driven Approach: Too often there is little to no detailed market research to support the prioritization of particular industries or cluster. A review of national growth plans reveals a lack of informed choice. Over 88 sectors are deemed to be high priority, which is high for a region with a total GDP of approximately $91 billion. It is important to place more attention on vetting the true commercial potential of a particular cluster.

Prioritize Important and Enthusiastic Clusters: The cluster selection process should seek out sectors that are strategically important to the economy *and* possess anchor firms that are prepared to lead by example. A readiness for change can be measured in a number of ways; most notably when firms are willing to co-fund the cluster effort.

Focus on Goals but be Flexible in Approach: Donors should resist the temptation to "pre-program" the cluster work plan from the outset. This was deemed to be an issue across the majority of cluster projects in the region. Adopting a demand driven approach means that specific cluster initiatives will emerge from the market research. The EICF should focus on establishing clearly defined goals whilst providing flexibility in how they are to be achieved.

Leverage the Diaspora: A large segment of the region's Diaspora is highly skilled and relatively affluent representing a powerful network of technical skills, information, business contacts, and financial resources. To date, this group of stakeholders has been largely neglected by the region's cluster projects.

Roll out Robust Communications Campaign: The pervading sense of pessimism and disillusionment in the region is manifest in its high levels of emigration, rising levels of

criminality, and a large and growing informal economy. The EICF could broaden its impact by leveraging the demonstration effect of successful investments through a multi-pronged communications campaign (e.g., business case studies, radio, articles, and TV) targeted at disillusioned/disenfranchised segments of society. A robust communications campaign could help transform the benefits accruing to private firms into more of a public good, where other firms could learn from, and be inspired by, the achievements of their peers.

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INTRODUCTION

Clusters have proven to be an effective approach to economic development because they enable even the smallest of firms to achieve the economies of scale around cooperation, advocacy, and innovation required to build competitive advantage.[1] The premise underlying the cluster approach is that individual firms often face sector-level constraints that they cannot address alone. Therefore, any effort to increase competitiveness must do more than support individual firms. The cluster approach has been widely embraced by the international donor community as well a majority of OECD countries. The Multilateral Investment Fund of the IDB (MIF) alone has undertaken 19 cluster projects covering 71 business networks across 16 countries. The United Nations Industrial Development Organization (UNIDO) has implemented even more cluster projects across Latin America, Asia and Africa. Their experience demonstrates that the cluster approach has successfully stimulated economic growth through product innovation, new processes, access to new markets, and stronger institutions.[2] There is also a large body of empirical research reinforcing the effectiveness of the cluster approach.[3]

The cluster approach holds tremendous potential for the Caribbean. A preponderance of MSMEs, weak value chains, and limited pools of specialized inputs characterize this region. An approach that focuses on joint action, knowledge sharing, and the development and sharing of specialized inputs therefore suits the Caribbean. Practically speaking, clusters represent an opportunity for SMEs in the Caribbean to access larger and more sophisticated markets, lobby governments for necessary infrastructure and policy reforms, and to jointly develop resources and access markets that are unavailable to them individually.

Given that "remarkable inter-cluster differences emerge when considering the specific features of learning, innovation, and industrial organization," a cookie cutter approach to clusters

[1] Orjan Solvell, The Cluster Initiative Redbook, "Clusters: Balancing Evolutionary and Constructive Forces", 2009
[2] Monica Romis, "Competitiveness of Small Enterprises: Clusters, Business Environment, and Local Development", 2008
[3] The most referenced cluster studies include The Cluster Initiative Greenbook, 2003, Solvell, et. al.; USAID's Promoting Competitiveness in Practice: An Assessment of Cluster-Based Approaches, 2003, prepared by the Mitchell Group; and UNIDO's Building Linkages for Competitive and Responsible Entrepreneurship, 2007. Also worth referencing are the OECD best practice assessment of innovation, UN cluster development approaches: UNIDO, World Bank Knowledge Assessment Methodology (World Bank Institute, 2000), Knowledge Economy Development Gateway, diffusion strategy (World Bank, 2003).

should be avoided.[4] This report focuses on how global best practices may or may not be applied to cluster development in the Caribbean. Section 1 surveys global best practices along four key dimensions: Cluster Selection, Participants, Implementation, and Sustainability. Section 2 identifies the unique characteristics that underpin the Caribbean's exceptionalism. Section 3 focuses on how the focus of the EICF should address the region's unique challenges and opportunities. This analysis has guided the identification of high growth potential firms and clusters throughout the Caribbean. This analysis may be found in a separate report entitled *EICF High Impact Investment Opportunities*.

[4] Pietrobelli and Rabellotti, Upgrading in Clusters and Value Chains in Latin America, 2004.

SECTION 1: LESSONS LEARNED FROM GLOBAL CLUSTER INIATIATIVES

1.1 Cluster Typologies

The literature around clusters has been referred to as a "terminological soup". The most widespread definition is from Michael Porter, who defines clusters as:

> Geographic concentrations of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions (for example universities, standards agencies, and trade associations) in a particular fields that compete but also cooperate.[5]

This definition may be further refined into a set of cluster typologies that reflect patterns or common characteristics within a particular type of cluster. An understanding of these typologies is helpful to supporting the development of high growth clusters. Table 1 outlines the various cluster typologies and their relevance from a program design and implementation perspective. The typologies outlined below will be applied to the Caribbean in Section 3 to better inform the support required by potential clusters in the region.

[5] Porter, M.E., "Clusters and Competition: New agendas for companies, governments, and institutions," in *On Competition*, M.E. Porter, ed, Harvard Business School Press 1998. pp 197-198.

Table 1: Cluster Typologies

Dimension	Definition	Relevance
Sector[6]	There are four categories of sector: Traditional manufacturing (textiles, furniture), Resources based (bauxite, timber, fruit), Complex product systems (auto-parts, aeronautics), and Specialized suppliers (software).	Different sectors exhibit different priorities, and different innovation and learning patterns. For example traditional sectors are more apt to lobby for protection, whereas complex product systems require the active involvement of universities and other research organizations.
Functional[7]	*Industrial clusters* (i.e., Porterian) focuses on competitiveness within an individual sector. Industrial clusters may be further segmented into: ▪ *Marshallian clusters* are comprised primarily of locally owned, small and medium-sized businesses concentrated in craft-based, high technology, or producer services industries. ▪ *Hub and spoke clusters* are dominated by one or several large firms surrounded by smaller suppliers and related activities. ▪ *Satellite platforms* are industry clusters dominated by the branch facilities of externally-based multi-plant firms. These branch plants are large and relatively independent. ▪ *State Anchored:* these clusters are driven by a large or non-profit entity and related supplying and services firms.	Marshallian clusters require specialized services, labor markets, and institutions are required to serve firms in the cluster. Smaller firms may evolve in the hub and spoke cluster to buy from or sell to an anchor firm or to take advantage of activities attributed to the anchor firm's presence. Minimal trade or networking takes place among the satellite clusters' branch plants, and the incidence of spin-off activities (entrepreneurship and suppliers) is relatively small.[8]

[6] Taken from Pietrobelli and Rabellotti (2004). Their definition has been expanded to include services.

	The regional cluster is a spatial agglomeration of similar and related economic activity that forms the basis of a local milieu that may facilitate knowledge spill-overs and spur various forms of learning and adaptation. These clusters commonly consist of SMEs.	Their success is driven largely by the stock of the social capital and their physical proximity and the core of their success is centered on strengths in social capital and geographical proximity. Another feature is that constituent firms are not as directly inter-related as those in industrial clusters.
Structural	Vertical Clusters encompass backward and forward linkages along a value chain such as backward ties with suppliers and subcontractors and forward ties with distributors or buyers. Horizontal Clusters encompass linkages between two or more local producers (i.e., competitors). This can include joint marketing of products, joint purchase of inputs, joint development of specialized inputs and the common use of specialized equipment.	Vertical clusters have a higher incidence of hierarchical or quasi-hierarchal relationships owing to prevalence of formal (i.e., enforceable) purchase agreement between stakeholders. Horizontal Clusters are network driven. Firms hold similar power and share their competencies within the cluster.
Life-Cycle[9]	Clusters may be differentiated on the basis of their evolution along the cluster life cycle, which generally follows a 5-stage trajectory: 1. Agglomeration: A region has a number of companies and other actors. 2. Emerging cluster: a number of the actors in the agglomeration start to cooperate around a core activity, and realize common opportunities through their collaboration. 3. Developing cluster: As new actors in the same or related activities emerge new linkages	Provides useful milestones and benchmarks to track cluster evolution.

[7] Markusen, A.R., "Sticky Places in Slippery Space: The Political Economy of Postwar Fast- Growth Regions." Working Paper No. 79, New Brunswick, New Jersey: Center for Urban Policy Research. Rosenfeld, S.A. 1995.

[9] Andersson, The Cluster Policies Whitebook, 2004, pages 29-30.

	develop between all constituent actors. Institutions for Collaboration (IFCs) may emerge. 4. The mature cluster: has reached critical mass of actors. It has developed relations outside of the cluster, to other clusters, activities, regions. There is an internal dynamic of new firm creation through start ups, joint ventures, spin-offs. 5. Transformation: as markets evolve one or more new clusters may emerge or simply an entirely new competitive model may be adopted.	

1.2 Cluster Global Best Practices

This section focuses on the main elements and considerations that make-up the cluster approach. As noted earlier, there is a rich body of literature on cluster global best practices. This report aims to synthesis this information along a set of generally accepted dimensions of the cluster approach as a necessary first step towards the effective both design and implementation of a cluster program in the Caribbean. The primary elements of the cluster approach are: (1) Cluster Selection, (2) Participants, (3) Implementation, and (4) Sustainability.

Cluster Selection

Cluster selection can be a complex process involving economic, social, and political considerations. There is a range of criteria used to guide this stage of the cluster process:

- Growth potential: Clusters should be selected based on their contribution to the economy or because they are seen as strategic for future growth. The best practice is to prioritize "economically important" clusters. Clusters can be ordinarily chosen on the basis of any number of economic metrics; which may include pro-poor related criteria.

- Alignment with national industrial policies: linking the cluster selection process to the country's broader economic strategy helps to ensure goals are aligned and resources effectively allocated.
- Institutional setting: strong inter-personal trust and a competition oriented policy environment are both factors in effective projects. The degree to which they are present should be a key factor in the cluster selection/prioritization process.
- Readiness for change: numbers are important but they do not tell the whole story. Although cluster selection should be aligned with national goals, clusters by their very nature depend on the *active* engagement of firms. Cluster projects with strong private sector support generally have the best success rate. It is the "sweat-equity" of industry leadership, best represented by a financial commitment that ultimately makes the cluster effective.[10]

It is also worth noting that some sectors have proven more responsive to a cluster approach than others. For example, competitiveness initiatives in emergent sectors are more successful on average, than those for established industries. Clusters formed in established industries are more prone to becoming a government lobbying effort. Preservation and protection, not innovation, is the underlying agenda. As such, sectors that are science or technology driven are typically more successful than those in traditional industries.[11]

Cluster Participants

Successful clusters encompass a broad base of participants, including: domestic/international companies, government, the research community, and representation from cross-cutting sectors like finance and ICT. Institutions for Collaboration (IFCs), defined as formal or informal actors that promote interest in the cluster initiative among the actors involved are also deemed to be important.[12] Broad based involvement of this sort necessitates a robust outreach effort to indentify and engage potential stakeholders.

[10] Mitchell, Promoting Competitiveness in Practice: An Assessment of Cluster-Based Approaches, 2003, p 71
[11] Ibid
[12] The Cluster Initiative Greenbook identifies four main categories of actors: firms, government, research agencies, and finance. The Cluster White Book recognizes these four categories plus IFCs.

A broadly participatory process is deemed to be most effective because: (1) it includes the contribution of various public and private actors, none of whom have all of the answers required to inform the design and delivery of a cluster process; and (2) involving local actors as early as possible facilitates the local ownership process required for the success of the cluster. Outlined below is a set of best practices as they relate to the role of each stakeholder.

Facilitator: The facilitator plays a critical role in determining the success of a cluster, "…an inspiring, respected, and dedicated individual, more than any objective measure of cluster potential, can provide the impetus for change."[13] Best practices suggest an industry insider, as opposed to a government official, consultant, or contractor. In addition to strong technical and analytical skills effective facilitators also possess an ability to build trust among participants, and to direct the project without leading it. The facilitator will often play the role of honest broker amongst stakeholders with different priorities so their objectivity cannot be in question.

Government: Government can bring leadership, legitimacy, and consensus-building assets to the cluster. These competencies are particularly important at the initial stages of the cluster. Given that "government policy impacts on the preconditions for clustering under all circumstances, whether willingly or un-willingly" a pro-active and comprehensive approach should be taken to cluster support.[14] There are a number of direct interventions a government may take to support clusters:

- Broker policies should aim at strengthening the framework for dialogue and cooperation by the various relevant stakeholders involved in clusters, and not favors individual players.
- Demand side policies should seek to increase openness to new ideas and innovative solutions. Training policies may be targeted at upgrading skills and competencies that are essential for effective clustering of SMEs.
- Measures for the promotion of international linkages should be designed with a view to enhancing the interplay between foreign and domestic actors.
- Framework policies should put in place a level playing field marked by effective, fair, and consistent rules for intra-cluster transactions.[15] As the cluster evolves it becomes

[13] Mitchell, Promoting Competitiveness in Practice: An Assessment of Cluster-Based Approaches, 2003, p 71
[14] Ibid
[15] Andersson, The Cluster Policies Whitebook, 2004

government's role to "see the big picture" and provide the macro-level foundations and infrastructure needed to support its growth and competitiveness.

Ultimately, government involvement is important because the cluster approach can provide a platform for public-private dialogue that is informed by the realities of the market, which represents a tremendous learning opportunity for governments to develop more informed and enlightened industrial policies.

Cluster Implementation

There are a vast number of initiatives a cluster may undertake. The focus of this study is on how the cluster chooses its activities. Cluster goals and goal setting are critically important in this regard.

Goals and Goal Setting: the importance of goals is well documented in the cluster, management strategy, and organizational behavior literature. Goals help make priorities explicit to internal and external stakeholders, and allow for performance to be monitored and evaluated. The Greenbook summarizes cluster objectives as falling along six general areas encompassing both input and output related goals: 1) cluster expansion, 2) innovation and technology, 3) education and training, 4) commercial cooperation, 5) policy action, and 6) research/networking. Regardless of area, effective goal setting takes into account the following elements:

- Time horizon: critical to balance short with long term goals. This is important because having some immediate, concrete benefits in the short term helps keep people involved and motivated, while a long term horizon helps to consolidate collective action.
- Scope: there is often a trade-off between being inclusive by taking into consideration the needs of everybody (wish list approach) and looking for a minimum common denominator by identifying a few items that are relevant to all actors. Both approaches have their drawbacks. A wish list approach may paralyze the project if it becomes difficult to reach a consensus. The minimum common denominator approach may focus only on marginal needs

if they happen to be the only ones common to everyone. These two approaches need to be carefully balanced.[16]

- Goal setting criteria: ultimately, the objectives that are agreed on should be closely tied to a set of well-defined priorities. This requires effective tools to map the cluster and assess its strengths and weaknesses relative to the market in which it seeks to compete.[17]

The Greenbook notes that even with a high level of stakeholder engagement, disappointing results can frequently occur due to a lack of a clear vision and quantifiable results. From a technical perspective, the development of the cluster approach has been impeded by a lack of baseline data regarding sales, costs, and profits, upon which the effectiveness of the approach and/or a specific activity can be monitored and evaluated.[18]

Cluster Sustainability

Of the many factors that determine cluster sustainability, the most powerful is the existence of a collective mindset, held by all stakeholders, that collaboration can produce real results. Per the experience of the MIF and UNIDO:

> Probably the main lesson learned for the sustainability of cluster projects concerns the sustainability of collective action, which is at the heart of any cluster project. Collective action is sustainable (lasts beyond the conclusion of the project) when it involves: processes of collective efficiency (new ways of buying, producing, selling, or training human resources); new knowledge whose growth depends on collective work, and new forms of cooperation among firms and between them and institutions (universities, municipal governments, international organizations, etc.). In particular firm associations tend to last when firms go from planning processes together to planning strategies together, when associations involve actors that can keep alive the collective activities

[16] Romis, "Competitiveness of Small Enterprises: Clusters, Business Environment, and Local Development", 2008.
[17] Pietrobelli (2004) stresses the importance of adequate investment in the exploratory and diagnostic phases of the cluster project before any goals or interventions are undertaken.
[18] Mitchell, Promoting Competitiveness in Practice: An Assessment of Cluster-Based Approaches, 2003, p 71

already started or that can generate new opportunities for increased competitiveness, and when there is a mechanism for inter firm governance.[19]

Their experience in this regard underscores the importance of IFCs and the role they play in sustaining joint action over the long run. Other factors deemed important to supporting the sustainability of the cluster include:

- Link to government policy: the more that cluster projects can be transformed into government policy the greater their sustainability. By impacting policy, the benefits of the cluster approach can be transferred from a discontinuous project to a more stable (if not permanent) operating environment.
- Establishment of a public-private partnership: a dedicated office established as a public-private partnership is correlated with success and often important to secure funding down the road. The understanding of shared public-private responsibility is often reflected most in the willingness to finance the project. Funding should come, in part, from the cluster itself. Also, studies suggest monitoring the amount of money a cluster receives is important: too much or too little can stymie the "sweat-equity" and resolve needed for success.

Ultimately the success of cluster projects depends upon the ability of the cluster to deliver tangible benefits to its stakeholders in the form of increased sales and profits, which in turn is influenced by the skills and motivations of the people involved.

[19]Romis, "Competitiveness of Small Enterprises: Clusters, Business Environment, and Local Development", 2008.

SECTION 2: LESSONS LEARNED FROM CARIBBEAN CLUSTER INITIATIVES

The success of the cluster approach is not a function of simply *adopting* global best practices but rather *adapting* them to the unique socioeconomic context in which they are being applied. The Caribbean presents both unique challenges and opportunities that must be reflected in the design and implementation of any cluster project that seeks to spur lasting economic growth. This section provides an overview of the Caribbean economy with an emphasis on its defining characteristics as they relate to the principal elements of the cluster approach described in the previous section. The analysis draws on two DFID Caribbean Growth Scoping Studies conducted by OTF Group in 2008 entitled, "Opportunities for Growth in the Caribbean," and "Binding Constraints to Growth." These two studies have been complimented by a series of interviews with project managers that have implemented cluster projects in the Caribbean over the last five years (See Table 5).

2.1 The Caribbean: Overview

The Caribbean is at a crossroads. The Economic Partnership Agreement (EPA) and the CARICOM Single Market Economy (CSME) herald a more liberalized trading environment with all of the potential benefits that come with the freer movement of goods, services, and labor. At the same time, the loss of preferential access to traditional export markets poses a significant risk to the region's future prosperity. Moreover, food security, climate change, a global recession, and the latest natural disaster to befall Haiti all pose new and daunting challenges to the region.

Perhaps the greatest challenge confronting the Caribbean is defining new areas of competitive advantage. The dominant trend over the last 40 years is one of decline. The average annual per capita growth rate was 3.9 percent in the 1970s, 2.2 percent in the 1980s and 1.9 percent in the 1990s. Per capita GDP growth has continued to be low in the early 2000s (0.8 percent in 2002 and 2003). Approximately 28 percent of the population still lives below the poverty line; moreover, income inequality has been rising since the mid 1990s.[20]

[20] World Bank, "A Time to Choose: Caribbean Development in the 21st Century". 2005.

Market diversification is especially limited. In many cases the top three merchandise exports account for 70 percent of a nation's totals. Merchandise exports have typically been low value-added commodities like bauxite, oil, and sugar. Service industries like tourism and finance now dominate but they are not globally competitive. Though the region has built a prominent tourism industry, it is becoming increasingly commoditized due to its reliance on the easily replicable basic factors of sun, sea and sand.[21] A high degree of price elasticity is the result. Many new economic sectors show promise but their potential remains largely theoretical. A large number of new sectors – such as niche tourism, agri-business, and business process outsourcing –have been incorporated into a number of national growth strategies but there is a marked absence of market research to validate the potential of these sectors let alone their priority status.

[21] OTF Group "DFID Caribbean Growth Scoping Study: Binding Constraints to Growth", 2008

Table 2: Cluster Projects in the Caribbean (2005 – Present)

Project	Country	Donor	Timeline	Clusters
Rural Economic Diversification Project (RED)	Dom. Republic	USAID	2008-2011	Avocados, bananas, cocoa, coffee, root crops and tubers, mangos
Consorcio Dominicano de Competitividad Turística (CDCT)	Dom. Republic	USAID	2003-2011	9 tourism clusters (community based)
Guyana Trade and Investment Support (GTIS)	Guyana	USAID	2004-2013	Aqua-culture, fresh produce, timber, tourism (birding)
Shared Vision for Inclusive and Prosperous Haiti	Haiti	USAID	2009-2010	Animal husbandry, BPO, fruits and tubers, garment assembly, tourism
MarChe Haiti	Haiti	USAID	2008-2011	Agribusiness, handicrafts, tourism
Watershed Initiative for National Natural Environmental Resources (WINNER)	Haiti	USAID	2009-2014	Cocoa
Développement Economique pour un Environnement Durable (DEED)	Haiti	USAID	2008-2011	Castor beans, cocoa, vanilla
Private Sector Development Project (PSDP)	Jamaica	EU	2004-2009	Eggs, fashion & apparel, fish, gifts & crafts, music, Negril, small ruminants, tourism, visual & performing arts, wellness
Competitiveness, Markets, Investments and Trade (COMMIT)	Jamaica	USAID	2002-2006	Agribusiness, music, ornamental fish, tourism
Caribbean Trade and Private Sector Development Project (CTPSD)	OECS	EU	2008-2011	Agro products, business support organizations, film and entertainment, furniture and home accessories, light mfg
ICT Clusters Project (eTecK)	Trinidad & Tobago	GoT&T	2008-2009	BPO Healthcare, IT Energy Services

A summary profile and analysis of each project may be found in Appendix I.

2.2 Caribbean Exceptionalism

Outlined below are the five dominant features that define the region's distinctiveness from a socioeconomic perspective relative to the cluster approach.

Feature #1: Government as Master Strategist. A lack of innovation in the region is the binding constraint that lies at the heart of the Caribbean's poor growth performance. Innovation and entrepreneurship have been effectively crowded out by a prolonged focus on preserving economic sectors such as bananas and sugar that were essentially "constructs of policy". [22] More

[22] Empirical evidence shows that policy induced trade preferences provide transient economic benefits at best. Trade preferences have not delivered sustained growth because they have diverted investment and limited resources and entrepreneurship into sectors that are not necessarily ultimately competitive; reduced the pace of trade liberalization in the recipient countries owing to their being left out of the reciprocity-based system, and limited the benefits owing

significantly, the former system of trade preferences has bestowed a legacy of government-led economic development in the Caribbean. The World Bank observes, "past growth does not appear to have been driven by a strategic agenda for competitiveness. Rather, the dominant focus has been to try to hold on to special and differential treatment on export and import trade as long as possible, with less attention to the long-run costs of such a strategy".[23] This economic model empowered government to act as *Master Strategist* – leaving the region ill-equipped to confront the challenges of a more open and competitive trading environment. The damaging legacy of Government as Master Strategist is manifest in three ways.

1. Poor Choices, Poor Outcomes. Good strategy starts with informed choice. The majority of national competitiveness strategies in the region have been driven by national governments with limited input from the private sector. As a result, choices are not market driven and there is there is no broad-based ownership of the national plan. A review of several national economic strategies (e.g., Jamaica, Trinidad and Tobago, Guyana) reveals a lack of prioritization suggesting sector selection may be driven more by public policy considerations than demand-side analysis. Table 3 provides a list of the sectors in the region deemed to be "high priority" by national governments. Over 88 sectors are listed, a relatively high number given the region's total GDP of USD $91 billion. In many instances, there is little to no market research supporting their "high growth potential" designation.

2. The low level of trust between public and private sector. Low levels of trust have impeded public private dialogue and greatly constrained the collective action that lies at the heart of the cluster approach. Surveys conducted during the Jamaica Cluster Competitiveness Project (JCCP) found that 84 percent of respondents agreed that trust between the public and private sector was amongst the worst in the world. A more recent survey in Haiti found that only 15 percent of respondents agreed that there was a high level of trust between the public and private sector.[24]

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to complicated rules of origin and predictability of preferences. Source: *World Bank (2005), "A Time to Choose: Caribbean Development in the 21st Century"*.

[23] World Bank, 2005, "A Time To Choose: Caribbean Development in the 21st Century," p xviii

[24] Mental Model survey Results conducted by OTF in 2002 (Jamaica) and 2009 (Haiti).

David Jessop has cited this lack of trust and the costs it carries in the context of the EPA negotiations.[25]

3. A weak and fragmented private sector. The benefits of rent seeking behavior have come at the cost of collaboration amongst firms. The diverging interests within the private sector have been institutionalized in the large array of private sector organizations that have emerged. This fragmentation has produced a large number of organizations that lack the technical and/or financial capacity to effectively serve their members. Moreover, the private sector across the region has found it difficult to articulate common positions when engaging the public sector. The IICA's recently released Pre-Feasibility Study for Agribusiness Clusters in the Caribbean singles out the fragmented private sector as the single biggest challenge to implementing the cluster approach in the region.[26]

[25] David Jessop The View From Europe, The Gleaner,, May 2nd, 2008
[26] Clustering for Competitiveness in Agriculture, PreFeasability Studies for Selected Agribusiness Clusters in the Caribbean, Inter American Institute for Cooperation in Agriculture (IICA), Alister Glean, Harry Seeram, Richard Rampersaud, 2009.

Table 3: Priority Sectors in the Caribbean: Market or Policy Driven?

Antigua & Barbuda	**Grenada**	**Jamaica (con't)**
Tourism	Tourism	Nigril & Jamaica MSME
Agriculture	Spices	Authentic Gifts/Crafts
Fisheries	Fish	Fashion
Barbados	**Guyana**	Entertainment
Tourism	Agribusiness	Manufacturing
Construction	Agriculture	Agro-processing & Agribusiness
Light industry	Seafood and Aquaculture	ICT/Knowledge services
Financial services	Light Manufacturing	Creative industries & film
IT/BPO	Forest products	Tourism
Financial Services & Insurance	Sustainable Tourism	Professional services
Belize	IT-enabled Services	Bauxite and mining
Tourism	Mining	**St. Lucia**
Agriculture (fair trade products)	BPO	Bananas
Agro-processing	Energy	Paper paperboard products
Furniture manufacturing	**Haiti**	Electronic/Electrical products
International financial services	ICT/Knowledge services	Processed foods
Dominica	Financial Services	Apparel and textile
Eco-tourism	Construction	**St. Vincent & Grenadines**
Agribusiness	Fruits and Tubers	Hotel development
ICT	Animal Husbandry	Light manufacturing
Film and entertainment	Tourism	Agro-processing
Off-shore banking	BPO	**Trinidad and Tobago**
Geo-thermal power	Remittances	Downstream Petrochemicals
Dominican Republic	Subsistence farming	Yachting
Mangos	Cocoa	Fish and Fish Processing
Eco-tourism	Garments	Merchant Marine
Tourism	Coffee	Printing and Packaging
Furniture	Agro-processing	Music and Entertainment
Manufacturing	Essential Oils	Film
Sugar	**Jamaica**	Food and Beverage
Coffee	Aquaculture	Services
Tobacco	Visual and Performing Arts	BPO Healthcare

Feature: #2: Small Island Economies. Small economies face a number of unique hurdles:

- **Small and Inadequate Labor Pools**. The availability of human capital is limited by the small populations that make up the region. The smallest in the region, Montserrat is home to just over 5,000 people.[27] Further undermining the regions' stock of human capital are: (i) the high prevalence of HIV/AIDS (1 percent), particularly amongst the normally most productive segment of the population 15-44 year olds,[28] (ii) high levels of emigration – particularly for skilled labor, and (iii) the poor quality of higher education due in part to the weak linkages between universities and private industry.[29]
- **Limited Economies of Scale:** Nations with small GDPs have little prospect of building economies of scale enjoyed by larger nations. Small domestic markets do not provide the demand on a scale that helps industries develop globally competitive cost structures. Moreover, the relatively small size of domestic markets in the region limits the number of players and the degree of inter firm rivalry that can serve as a source of learning and innovation.
- **Exposure to Exogenous Shocks***:* The devastating earthquake that struck Haiti on January 12, 2010 is a reminder that small island nations are highly susceptible to exogenous shocks -- both natural and man-made. Climate Change represents a new and daunting threat to the region. Economists estimate financial losses to CARICOM's tourism industry alone to be approximately US$ 268 million to US$ 1.3 billion. The total potential cost to the region is estimated to be US$ 1.5 to US$ 9 billion per year. If a high-impact scenario is adopted, damage could cost between 24 percent and 103 percent of GDP depending on the island.[30]

[27] CIA World Factbook, Montserrat, https://www.cia.gov/library/publications/the-world-factbook/geos/mh.html
[28] OTF Group, July 2008, "DFID Caribbean Growth Scoping Study: Binding Constraints to Growth" p 14
[29] Ibid p 15
[30] Sources: CDERA, 2003: "Adaptation to Climate Change and Managing Disaster Risk in the Caribbean and South-East Asia"; The Economist, 2004: "Hurricane Ivan -Counting the Cost"; The Economist, 2007: "Natural disasters - Protecting Life but not yet Livelihoods."

Research indicates that the man made shocks that occur when large trading partners fall into recession are amplified in small economies.[31]

Feature: #3: High Levels of Public Debt. Seven of the ten most indebted countries in the world are in the Caribbean. Unsustainable public programs and industrial strategies have led to spending that has far outstripped receipts over the past fifteen years. In 2003 average Caribbean public debt stood at 96 percent of GDP. Several nations currently carry debt levels of over 100 percent of GDP. The IMF generally considers a 60 percent public debt-to-GDP ratio as the upper limit for sustainability. The need to service high levels of government debt have: (i) crowded out private investment, (ii) left banks overly dependent on government bonds and thus ill-equipped to lend to private sector, and (iii) limited the government's ability to invest financial, training or market development resources into their economy. Government procurement, which is cited as a powerful tool to support cluster development, is not a viable option since the government has little scope for such expenditures.

Feature #4: High Levels of Emigration. The region has the highest emigration rates of skilled labor in the world: 90 percent of university graduates from Guyana emigrate to work abroad, 85 percent in Jamaica, and 80 percent in Trinidad and Tobago. Approximately 12 percent of the region's labor force has migrated to OECD member countries over the period 1965–2000. [32] If you accept Gary Becker's assertion that "Human capital is the only capital with the potential for unlimited returns," then the opportunity cost associated with this loss of energy and ideas is almost incalculable. Indeed, emigration is only partially offset by financial remittances from abroad to the Caribbean. A recent IMF study has shown that, while very significant (amounting to about 13 percent of CARICOM's total GDP in 2002, and roughly US$ 3.3 billion in 2005), remittances to the Caribbean cover only about half the total cost of lost labor.[33]

[31] Miller, PKF Hospitality Research, "Caribbean Hotel Profits Hit Hard by Economic Recession," available at http://www.tourismroi.com/InteriorTemplate.aspx?id=33460
[32] Emigration and Brain Drain: Evidence from the Caribbean IMF Working Paper 2007.
[33] Ibid

Feature #5: Weak Intra-regional Trade Linkages. The Caribbean has a long history of openness to trade and foreign direct investment; however the vast majority of trade and investment flows occur with partners outside of the region. Although regional bodies such as CARICOM and the CSME have helped to foster greater coordination at the institutional and policy level, intra-regional commerce remains relatively weak. Very few clusters or value chains extend beyond a single country. Trade patterns bear this out. Trade within the region accounts for just 9 percent to 13 percent of total trade (depending on how it is counted), of which over 70 percent is dominated by Trinidad and Tobago. For example, CARICOM markets accounts for just 8.2 percent of Belize's exports. Indeed, the region has lagged behind its peers in the growth of its intra-regional trade: in the 1990s, intra-CARICOM merchandise trade expanded by an average 10 percent a year; in comparison, intra-CACM (Central American Common Market) exports grew by 15 percent, intra-Andean exports by 24 percent, and intra- MERCOSUR (Southern Common Market) exports by 26 percent. Merchandise trade remains expensive and relatively unreliable. The World Bank estimates that shipping related logistics costs within the region amount to 16-26 percent of GDP and make up between 18-32 percent of product value. While tariffs have diminished in the region, oceanic shipping costs have increased by as much as 50 percent.[34]

The region must overcome these challenges if it to realize the potential benefits of the Economic Partnership Agreement (EPA) and increased levels of regional integration through the Caribbean Single Market Economy (CSME). Both agreements hold the potential to fundamentally transform the region, moving it away from the preference-based model to a more liberalized trading regime.

[34] OTF Group, July 2008, "DFID Caribbean Growth Scoping Study: Binding Constraints to Growth" p 13

SECTION 3: KEY SUCCESS FACTORS FOR CARIBBEAN CLUSTERS

The cluster approach holds tremendous potential for the Caribbean. A preponderance of MSMEs, small domestic economies, and limited pools of specialized inputs characterize the economy in this region. As such, a technical approach that focuses on joint action, knowledge sharing, and the development and sharing of specialized inputs is uniquely well suited to the Caribbean. This section identifies the defining typologies of clusters in the Caribbean and presents a set of best practices that tailor global best practices to the unique characteristics of the region. The recommendations are based primarily on interviews with cluster project managers in the region.

3.1 Cluster Typologies

Per Table 4, there are seven defining features of clusters in the Caribbean:

1. *Absence of organic clusters*: despite their geographical proximity, the Blue Mountain Coffee growers of Jamaica, the dairy farmers in Wallerfield, Trinidad & Trinidad, or the region's numerous tourism destinations display a low-level of joint action. Most of the clusters reviewed in this report have been engineered by government or the donor community.
2. *Prevalence of horizontal clusters:* the vast majority of clusters in the region are composed of locally owned SMEs who compete with one another and possess similar capabilities. There is a relatively limited number of vertical clusters.
3. *More old economy than new economy:* the majority of clusters are resource-based or traditional service industries versus complex or specialized clusters.
4. *Absence of regional clusters*: although regional conglomerates like GraceKennedy, Neal and Massey, as well as firms such as Sandals and SuperClubs operate throughout the region, poor inter-regional logistics, a limited number of regional institutions, and the lack of a regional mindset, have limited the development of region-wide clusters.
5. *Trust deficit trumps proximity*: although both industrial and geographical clusters across the Caribbean are grouped in tight proximity owing to the small geographical area of most countries in the region, they have failed to overcome low stocks of social capital and

particularly the lack of trust between the public and private sector. The severity of this problem is magnified by the prevalence of horizontal clusters, which do not automatically benefit from the usually well-defined and enforceable obligations of sales contracts that govern the interaction of firms in a vertical cluster.

6. *Clusters are still maturing*: the vast majority of clusters in the region are still emerging. This relatively low level of cluster maturity is due primarily to low stocks of social capital throughout the region. Weak infrastructure and institutional capital have also impeded the development of clusters in the Caribbean.
7. *Clusters are still maturing*: the vast majority of clusters in the region are agglomerations or still emerging clusters. This relatively low level of cluster maturity is due primarily to low stocks of social capital throughout the region. Weak infrastructure and institutional capital have also impeded the evolution of clusters in the Caribbean.

Table 4: Caribbean Cluster Typologies

Project	Sector	Functional	Structural	Life-Cycle
Rural Economic Diversification Project (RED)				
Avocados, bananas, cocoa, coffee, root crops and tubers, mangos	Resource based	Marshallian	Horizontal	Developing
Consorcio Dominicano de Competitividad Turística (CDCT)				
Nine tourism clusters	Traditional	Regional	Horizontal	Developing
Guyana Trade and Investment Support (GTIS)				
Aqua-culture	Resource based	Marshallian	Horizontal	Developing
Fresh produce	Resource based	Hub and spoke	Vertical	Developing
Timber and value-added wood products	Resource based	Hub and spoke	Vertical	Developing
Tourism	Traditional	Marshallian	Horizontal	Emerging
MarChe Haiti				
Agribusiness	Resource based	Marshallian	Horizontal	Developing
Handicrafts	Traditional	Marshallian	Horizontal	Developing
Tourism	Traditional	Marshallian	Horizontal	Emerging
Watershed Initiative for National Natural Environmental Resources				
Cocoa	Resource based	Marshallian	Horizontal	Developing
Développement Economique pour un Environnement Durable				
Castor beans, cocoa, vanilla	Resource based	Marshallian	Horizontal	Developing
Private Sector Development Project (PSDP)				
Eggs	Resource based	Marshallian	Horizontal	Emerging
Fashion & apparel	Traditional	Marshallian	Horizontal	Developing
Fish	Resource based	Marshallian	Horizontal	Developing
Gifts and crafts	Traditional	Marshallian	Horizontal	Developing
Music	Traditional	Marshallian	Horizontal	Developing
Negril	Traditional	Regional	Horizontal	Developing
Small ruminants	Resource based	Marshallian	Horizontal	Developing

Tourism	Traditional	Marshallian	Horizontal	Developing
Visual and performing arts	Traditional	Marshallian	Horizontal	Developing
Wellness	Traditional	Marshallian	Horizontal	Emerging
Competitiveness, Markets, Investments and Trade (COMMIT)				
Agribusiness	Traditional	Marshallian	Horizontal	Developing
Music	Traditional	Marshallian	Horizontal	Developing
Ornamental fish	Traditional	Marshallian	Horizontal	Emerging
Tourism	Traditional	Marshallian	Horizontal	Developing
ICT Clusters Project (eTecK)				
BPO Healthcare Services	Specialized	State anchored	Horizontal	Emerging
IT Energy Services	Specialized	State anchored	Horizontal	Emerging
Caribbean Trade & Private Sector Development (CTPSD)				
All 7 clusters	Traditional	Marshallian	Horizontal	Agglomeration

3.2 Key Success Factors (KSFs)

KSF #1: Build trust. Low levels of trust between the public and private sector affect the growth and prosperity in the region. The cluster's emphasis on joint action represents a tremendous opportunity to address this constraint. Outlined below are five cluster best practices proven to build trust:

1. Cluster selection should be open and inclusive. In an atmosphere where government is seen to play favorites, the cluster selection process/criteria should be established ex-ante and proactively communicated to all stakeholders. The selection process should be done by a panel that includes both public and private sector stakeholders. The PSDP and JCCP in Jamaica successfully adopted this approach to insulate the project from accusations of favoritism. Conversely, the two clusters that made-up the ICT Clusters Project in Trinidad and Tobago (eHealth and Oil & Gas Business Process Outsourcing) were unilaterally chosen by a government agency. The project was never able to fully dispel suspicions that the cluster process was really about securing new lines of business for the government agency.

2. Cluster facilitator should be a "professional stranger". Whereas global best practices suggests that an industry insider makes for the best facilitator, this approach may well prove counter-productive in the Caribbean. Again, fears of favoritism in business communities where everyone knows everyone suggests that a technically competent outsider is best placed to play the critical role of honest broker. The majority of clusters projects in the region were managed by outsiders. The PSDP's use of local facilitators to build local capacity met with mixed success. OTF's experience with the use of local facilitators in the Caribbean is also decidedly mixed. The use of local consultants in both Jamaica (JCCP) and Trinidad (ICT) prompted some cluster members to leave the cluster citing a lack of trust in the facilitator's neutrality. In both cases the local facilitators were seen to be self-dealing – i.e., seeking business ideas for their own interests.

3. Temper the role of government: great care needs to be taken when engaging the government in the cluster process given their dominant role in the economy. Their support is critical to ensuring alignment with national goals but they cannot be seen to be leading the process otherwise the cluster process runs the risk of amounting to either a policy exercise on the part of the government or a lobbying effort on the part of the private sector. The government's role should evolve over the course of the project. Specifically:
   - Senior government officials at the Ministerial level should be leveraged to endorse the selection of a particular cluster. This will serve to signal that the cluster is a national priority and has the government's blessing.
   - Civil servants with the appropriate technical expertise should be involved with the cluster on an on-going basis. Government representation may include officers from the national standards organization, investment promotion agency and sector regulatory bodies.
   - Government interventions should be driven by market research. This will help to promote a more outward oriented cluster approach.

   The EICF should carefully balance its engagement of the public and private sector. As donors, national governments are the IDB's official partners; however, the EICF represents an excellent opportunity for the IDB and DFID to strengthen their relationships with the region's private sector.

4. Establish realistic short-term goals to build trust and momentum. There is a high degree of pessimism towards economic growth initiatives in the Caribbean given the region's poor growth performance over the last 30 years. To overcome this pessimism, cluster initiatives should establish short and long term goals.
   - Short term goals: "Early accomplishments are essential in fostering trust and need to be incorporated in early action plans".[35] Success should be broadly communicated in a timely manner to foster greater commitment to the cluster approach. A shared vision for the cluster is imperative but equally important is agreement on the intermediate steps to get there. As one project director in Haiti commented, "We have created a big vision with small steps."[36]
   - Longer term goals: serve to define success and enable progress to me monitored and evaluated. Longer term goals are easier to establish once a sufficient degree of trust exists for cluster members to share sales, costs, and profit related information. Seeking baseline data before a sufficient level of trust has been created within the cluster may put prove counter-productive. The Jamaica Cluster Competitiveness Project waited until a number of smaller milestones had been obtained before requesting financial information from participating firms.

5. Make the trust issue explicit. No problem can be solved until it is recognized. The cluster facilitator should employ "productive communication technologies" to identify latent belief systems that are undermining productive public-private dialogue. Project managers in Haiti, Jamaica, and the Dominican Republic all saw cited the need to address the trust issue early and explicitly. One particularly effective communication technology used in Jamaica and Haiti was a "mental model survey." Respondents from both public and private sectors were asked about critical economic development issues including the "role of the government" and "competence of the private sector." The survey results made latent beliefs and opinions explicit allowing for a data-driven conversation on how to address issues identified.

[35] Value Chains and The Cluster Approach Transforming Relationships to Increase Competitiveness and Focus on End Markets, microREPORT #148 USAID, October 2008. p.6.
[36] Interview with Mike Godfrey

KSF #2: Adopt a demand driven approach. Too often there is little to no detailed market research to support the prioritization of particular industries or clusters. A review of national growth plans reveals a lack of informed choice. Over 88 sectors are deemed to be high priority, which is high for a region with a total GDP of approximately $91 billion. It is important to focus on vetting the true commercial potential of the cluster. A market research driven approach is particularly important for the Caribbean where the identification of niche markets (versus a mass market approach) is critical given the region's inability to compete on scale. Firm-level, demand-side data gleaned from buyer surveys has the added benefit of dispelling long held assumptions about the market and can guide the often contentious process of establishing cluster priorities and activities. Project managers in the Dominican Republic have used robust market research as a critical tool to weaning cluster members away from various government programs replete with subsidies to very uncompetitive products. [37] The importance of a demand driven approach highlights the benefit of vertical clusters where key buyers reside in country and are willing to work with their suppliers and other relevant organizations to build a stronger value chain. This approach brings the market to the cluster and has been effectively employed by the Guyana Trade and Investment Support Project (GTIS).

KSF #3: Prioritize important and enthusiastic clusters. Economically important sectors should be chosen, but the selection criteria needs to go beyond a sector's current or potential contribution to GDP. The cluster selection process should seek out sectors that are strategically important to the economy *and* demonstrate a readiness for change. The cluster should be mapped out in detail with key individuals and firms identified. Their willingness to participate in the cluster is critical to securing the broad-based buy-in necessary for its success. Both cluster practitioners and the cluster literature stress the need to develop good tools to map clusters. Use of DFID's Drivers of Change survey should be considered. The readiness for change criterion is particularly important in the Caribbean where collective action is frequently undermined by a fragmented private sector and weak private sector organizations. Moreover, small domestic

[37] Interview with Jesus de los Santos. Per Santos: the onion sector in the DR wanted to diversify to watermelon production for export. Onion production carries a government subsidy whereas watermelons did not. Even so, farmers saw the benefit from the demand side research and sought the clusters help in moving away from the government plan to pursue this market opportunity.

economies with just a few industry players can often reduce inter-firm rivalry and instill an unhealthy degree of passiveness amongst incumbent firms. Individuals and firms that seek new markets, technologies, and partnerships should be the focal point of the cluster approach. The majority of cluster projects in the region, such as the PSDP, JCCP, and DEED, structured the cluster selection process as a de facto bidding process to introduce a degree of self-selection. No such process was undertaken in Trinidad & Tobago, where the government simply picked the clusters. Consequently, it took over six months to secure a satisfactory degree of firm participation.

KSF #4: Focus on goals but be flexible in approach. Donors should resist the temptation to "pre-program" the cluster work plan from the outset. This was deemed to be an issue across the majority of cluster projects in the region. Adopting a demand driven approach means that high impact cluster initiatives should emerge from the market research. Thus, the EICF should focus on establishing clearly defined goals whilst providing flexibility in how they are to be achieved. This problem was particularly acute in the Jamaica PSDP. The PSDP was deemed to introduce a distortion into the industry because SMEs and facilitators involved in the process were mainly concerned with respecting pre-established roadmaps and formal procedures instead of adapting their action plan to real problems/opportunities arising along the way. The PSDP could not adjust its cluster action plans prompting facilitators to hide the evolving targets of their cluster, forcing them to align real decisions to the approved schedule of activities. In effect, fulfilling procedures, in order to secure the grant, became the real final objective of the cluster instead of pursuing new innovations and markets.38 The EICF should focus on establishing clearly defined goals with broad-based support whilst providing flexibility in how they are to be achieved.

KSF #5: Leverage the Diaspora. A large segment of the region's Diaspora is high skilled and relatively affluent representing a powerful network of technical skills, information, business contacts, and financial resources. There is a large body of literature that asserts that an essential pre-condition to accessing financial and human capital is a healthy stock of social capital. Social

[38] Paolo Gurisatti and Thomas Miorin, STEP Consultancy Final Report on Jamaica Intervention January-June 2009, August 2009. Page 2.

capital includes the friends, colleagues, and more general contacts through which a person receives opportunities to identify and use other forms of capital. Per noted HBS Professor Ronald S. Burt, "social Capital is the final arbiter of competitive success."39 The region's Diaspora represents such a network but has been largely neglected by the region's cluster projects. There are proven models to draw upon in this regard. The Mauritius and Ireland are two examples of small island economies that have developed very successful strategies to leverage the financial and technical resources of their Diaspora.40 Although one cluster project in Haiti project sought to tap the Diaspora there has been very little effort or innovation in this area. 41 The opportunity cost of this neglect is significant.

KSF #6: Roll out a robust communications campaign. The pervading sense of pessimism and disillusionment in the region is manifest in its high levels of emigration, rising levels of criminality, and a large and growing informal economy. The informal economy in the region is estimated to be 24 percent of GDP in Trinidad and Tobago to over 35 percent in Jamaica.[42] In effect, large numbers of people are excluded from the formal economy either by choice or circumstance. This deprives the government of much needed tax receipts for economic and social programs thereby serving as a further brake on growth. The EICF could help break this cycle by showcasing successful firms and clusters to as wide an audience as possible. A multi-dimensional communications campaign (e.g., business case studies, radio, articles, and TV) could leverage the success of an individual firm or cluster to inform and inspire an exponentially larger group of companies or industries. The campaign could highlight the benefits of market research, collaboration and innovation thereby re-enforcing the benefits of clusters. Moreover, a robust communications campaign could help transform the benefits accruing to private firms into more of a public good, where other firms could learn from, and be inspired by, the achievements of their peers.

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[39] Burt, Structural Holes: The Social Structure of Competition, (Harvard U Press, Cambridge, 1992)
[40] World Bank, A Time to Choose, Caribbean Development in the 21st Century (2003) page 54.
[41] Per Mike Godfrey, DAI: Chief of Party DEED, "Haitian Diaspora is very dynamic. They send a lot of money back to Haiti. As a project we have the specific tactic to engage with the Diaspora to invest, through grants and loans, and for activity in the region. For example, we invite them to come for a week and volunteer." interviewed November 18, 2009
[42] Figures and table taken from IMF publication "Eastern Caribbean Currency Union: Selected Issues," March 2007.

Ultimately, the Caribbean's future prosperity will depend on its ability to identify new areas of competitive advantage. No one group of stakeholders can achieve this by themselves. By focusing on proven market opportunities employing proven cluster best practices, COMPETE CARIBBEAN and the EICF can point the way to a more competitive and more prosperous growth model that benefits a greater number people in the Caribbean.

TABLE 5: LIST OF INTERVIEWS

PROJECT MANAGER	PROJECT	DATE OF INTERVIEW
Eric Kacou Managing Director OTF Group	Shared Vision for a More Inclusive & Prosperous Haiti	November 20, 2009
Rob Henning Director OTF Group	Shared Vision for a More Inclusive & Prosperous Haiti	November 20, 2009
Mike Godfrey, Chief of Party DAI	Développement Economique pour un Environnement Durable (DEED)	November 18, 2009
Jesus de los Santos Project Director Abt Associates	DR Rural Economic Diversification Project (RED)	November 18, 2009
Luis Chavez Chief of Party Chemonics	DR Competitiveness Project	November 17, 2009
Maurice Wiener, Chief of Party	MarChe, Haiti	December 2, 2009
Carl Larkins, Director Carana Corporation	Guyana Trade and Investment Support (GTIS)	November 1, 2009
Patrick Henry, Director Carana Corporation	Guyana Trade and Investment Support (GTIS)	January 27, 2010
Douglas Pulse Economic Growth Officer USAID	USAID, Washington	April 23, 2010
Robert Glass, Technische Zusammenarbeit	(GTZ) GmbH, Barbados	April 12, 2010
Mr. Vincent Philbert Head Export Development Unit	OECS-EDU, Dominica	August 23rd. 2010

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Appendix I: Matrix of Cluster Projects in the Caribbean

Note: (✓) denotes whether information was derived from project evaluation "E" and/or interviews with project manager "I".

Country	Project	Timeline	Budget (USD)	Clusters	E	I	Summary Analysis
Dominican Republic							
Competitiveness and Policy Program (CPP): improve the international competitiveness of the DR while also improving the lives of the poor. DR's accession to CAFTA was the main impetus of project.		2003-2007	$7.2 million	6 Tourism: ▪ Romana-Bayahibe ▪ Puerto-Plata ▪ Barahona ▪ La Vega/Constanza ▪ Samaná ▪ La Altagracia 3 Agribusiness: ▪ La Vega horticulture ▪ Jarabacoa coffee ▪ Bani-Mangos	✓	✓	▪ Focus was on cluster process versus clusters as entities. Project sought to support greater PPD and other strategic alliances more so than institutionalize clusters. ▪ Gains made across all clusters but there is need for a longer term commitment to entrench competitive and collaborative mindsets. ▪ Cluster Facilitators considered critically important. Facilitators overstretched as they were responsible for 2+ clusters each. ▪ Very judicious use of grants to ensure motivation for participation in clusters was to improve collaboration versus secure funding. Goal was to "change mindsets versus transfer resources."
Rural Economic Diversification Project (RED): support diversification to more open agriculture markets in non-traditional agricultural products.		2008-2011	$11.7 million	9 Agricultural: ▪ Avocados ▪ Bananas ▪ Cocoa ▪ Coffee ▪ Forestry growers and furniture ▪ Fresh produce ▪ Mangos ▪ Root crops ▪ Tubers	✓	✓	▪ Project audit concluded RED is providing considerable assistance to the agricultural sector but majority of support is for traditional sectors. Only 9 of 15 clusters envisioned have been identified. ▪ Contractor "has no criteria for defining or evaluating success". No performance indicators adopted by the clusters and no baseline data obtained. ▪ No plans to support sustainability of clusters have been developed. ▪ Audit team recommends grants and loans be more closely tied to TA and targeted clusters.

Appendix I: Matrix of Cluster Projects in the Caribbean

Consorcio Dominicano de Competitividad Turística (CDCT): Move local SMEs and community based tourism enterprises towards self-sufficiency and sustainability. Project builds upon work of the CPP.	2009-2012	$4.7 million	9 tourism clusters: ▪ La Altagracia ▪ Romana-Bayahibe ▪ Santo Domingo ▪ Barahona ▪ Pedernales ▪ Constanza ▪ Jarabacoa ▪ Samaná ▪ Puerto Plata		✓	▪ Project is an alliance of partners entailing the National Competitiveness Council, the National Network of Tourism Clusters and the Dominican Alliance for Sustainable Tourism. ▪ Activities include product upgrading, as well as marketing and promotion of community tourism. ▪ No formal evaluation has been conducted.
Guyana						
Guyana Trade and Investment Support (GTIS): market led approach to expansion of non-traditional exports. Focus is on facilitating business relationships that result in new deals.	2004-2013 (2 phases)	$7.4 million (Phase 2)	4 Clusters: ▪ Aqua-culture ▪ Fresh produce ▪ Timber ▪ Tourism (birding)		✓	▪ Activities include marketing and promotion, trade shows, FAM tours, investment briefs, relationship brokering. TA to meet international standards. ▪ Identification of anchor firms has proven to be an effective platform from which to strengthen the cluster (value chain). ▪ Focus on "deals" has highlighted the need to make investments further up the value chain relating to infrastructure and training. These investments may not have otherwise been made without clear link to new sales. ▪ Strong momentum behind GTIS stands in stark contrast to Guyana Competitiveness Program, which has been halting. ▪ No formal evaluation has been conducted.

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Haiti						
Shared Vision for Inclusive and Prosperous Haiti: bring leaders of the public and private sector together to develop national strategy based on high priority clusters.	2009-2010	$238,000	5 Clusters: ▪ Animal husbandry ▪ BPO ▪ Fruits and tubers ▪ Garment assembly ▪ Tourism		✓	▪ Activities focused on the development of strategic plans for five key sectors, institutional strengthening, as well as the fostering of improved dialogue between the public and private sector. ▪ Project team underestimated time required to build consensus due to complicated operating environment with an enormous number of stakeholders to be consulted. ▪ Presidential Working Group on Competitiveness (GC) lacked power to implement changes itself and had to work through other, more official channels. This slowed implementation. ▪ No formal evaluation has been conducted.
MarChe Haiti: facilitate development of competitive market chains focusing on agriculture, tourism and handicrafts.	2008-2011	$14.9 million $9 million for optional 2 yr extension.	8 value chains: ▪ Cocoa ▪ Coffee ▪ Crafts ▪ Mangos ▪ Plantations ▪ Sweet potatoes ▪ Tourism (North) ▪ Yams		✓	▪ Activities focused on reinforcing market chains for handicrafts and tourism. ▪ Business development services and finance/investment services are two key components of program. ▪ Project launch delayed by one year to 2009. Focus has been shifted to disaster relief in response to January 2010 earthquake. ▪ No formal evaluation has been conducted.
Watershed Initiative for National Natural Environmental Resources (WINNER): increase farmer productivity and reduce Haiti's environmental, infrastructural, and economic vulnerability through watershed management.	2009-2014	$126 million	1 clusters: ▪ Cocoa		✓	▪ Works with over 200 farmer associations to create micro watershed management plans, strengthen farmer associations, provide access to extension services and vital supplies (seeds, fertilizers, credit, tools), and restore protective tree cover. ▪ Focus has been shifted to disaster relief in response to January 2010 earthquake. ▪ No formal evaluation has been conducted.

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Développement Economique pour un Environnement Durable (DEED): focuses on environmentally sustainable development in two watershed areas through commercial agricultural and alternative livelihood development. Focus on watersheds of Limbé & Montrouis.	2008-2011	$18 million	4 clusters: ▪ Arts and crafts ▪ Castor beans ▪ Cocoa ▪ Vanilla		✓	▪ Activities include design of participatory land use maps and agreements, establishment of conservation and biodiversity priorities and public policy, planting of seedlings, product development training to artisans, production related TA for farmers. ▪ Project seeking 20% increase in household income, 50,000 hectares of fragile land protected as a result of 50% reduction in annual cropping on unsuitable hillsides; 2,500 hectares in priority areas preserved to improve biophysical conditions of ecosystems; improved livelihoods for 15,000 households. ▪ Focus has been shifted to disaster relief in response to January 2010 earthquake. ▪ No formal evaluation has been conducted.
Jamaica						
Private Sector Development Project (PSDP): The primary purpose of the programme was to enhance the competitiveness of MSMEs and strengthen their support institutions.	2004-2009	€28.67 million	10 Clusters: ▪ Eggs ▪ Fashion & apparel ▪ Fish ▪ Gifts & crafts ▪ Music ▪ Negril SMEs (tourism) ▪ Small ruminants ▪ Tourism ▪ Visual/performing arts ▪ Wellness	✓	✓	▪ Composed of 12 components. Activities ranged from institutional strengthening, capacity building, product development, PPD support, marketing and promotion, policy research and support, as well as grants. ▪ Results are predominately input related: 16,000 business interventions, facilitated some $4.5 million in loans to 100 firms, grants provided to MSMEs. ▪ Project was deemed to be over-programmed. Complete workplan with milestones required to be eligible for funding. Subsequent efforts focused on respecting workplan while "hiding" evolving targets and "aligning" real decisions to what

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						was previously approved. ▪ Timeline too short. Clusters need more than 2 years. Project did create much more receptive environment for future cluster work. ▪ Budget too small at under €1 million per cluster. ▪ Cluster Facilitators took on too much of an administrative role versus group facilitation and trust building.
Competitiveness, Markets, Investments and Trade (COMMIT): focused on the competitiveness of three sectors- agribusiness, tourism, and entertainment. Project built on work of Jamaica Cluster Competitiveness Project (JCCP).	2005-2007	$2.2 million	3 Clusters: ▪ Agribusiness ▪ Music ▪ Ornamental fish Tourism	✓	✓	▪ Activities included market research, cluster strategy formulation, marketing and promotion support, training, institutional strengthening, policy research, and streamlining of govt. Also provided grants. ▪ Designed as a 4 yr project it was reduced to less than 2 yrs with a crime and security component introduced into program. ▪ Reduced timelines and shifting priorities sapped momentum and destroyed trust of partners and cluster participants. ▪ Hand-off was hurried undermining sustainability of initiatives.
OECS						
Caribbean Trade & Private Sector Development (CTPSD): Overall objective is to support integration of CARIFORUM countries into the world economy in order to enhance regional economic growth and help alleviate poverty.	2008-2011	€ 1,539,232	7 clusters: ▪ Agro Products ▪ Business Support Organizations ▪ Creative arts ▪ Film and Entertainment ▪ Food and Beverage ▪ Furniture and Home accessories ▪ Light manufacturing	✓	✓	▪ Activities include capacity building for CEDAs and EDU, industry diagnostics, training workshops, and business development services to SMEs. ▪ Per the EU report "Effectiveness to date is poor. There are neither clear indicators formulated at Project Purpose level nor baseline reference data, and there is no reference to achievement of these indicators in the reporting." ▪ The cost-sharing principle between firms, BSOs and EDU also support general

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						sustainability. ▪ Ownership seems good as there are focal points in all member states, which are predominantly providing information, but also coordinating the national activities on a variety of aspects related to economic integration. ▪ EDF rules for open tenders deemed very onerous and have slowed implementation.
Trinidad & Tobago						
ICT Clusters Project: to diversify economy away from oil and gas to new economy sectors focusing on ICT.	2008-2009	$2.2 million	2 Clusters: ▪ BPO Healthcare ▪ IT Energy Services		✓	▪ Activities included selection of two high priority of clusters, mobilization of stakeholders, development of sector strategies, brokering of increased business dealings between local IT providers and international oil companies operating in Trinidad and Tobago. ▪ Project budget was cut when price of oil fell precipitously in 2009. ▪ Impact of project was limited by short timeline as well as deficit of trust between eTeck and the private sector. Participating firms were suspicious that any promising business opportunities would be appropriated by the government. ▪ No formal evaluation has been conducted.