



WASH WITH
SIMILAR COLOURS
ANNUAL REPORT 2006



The ComMark Trust was established in 2003 as an independent trust with funding from the United Kingdom's Department for International Development and is managed by *EClAfrica*, a South African economic development consultancy. It is based in Johannesburg, South Africa.

The aim of the Trust is to reduce poverty in the region by putting into practice the development approach known as 'making markets work for the poor' (MMW4P), which has become increasingly prominent within the international development community. It does this by working to strengthen selected high-growth commodity and service markets, which are often dysfunctional due to legal, regulatory, policy and business service constraints. It is active in three sub-sectors of the economy: textiles and apparel, agribusiness and tourism. These were chosen because of the large number of people engaged in them and because of the potential for pro-poor growth.

ComMark concentrates on working with government, industry organisations and business rather than on implementing specific projects. Its primary role is as a thought leader and innovator. Where the Trust does engage in specific markets, it works through established partners, providing grant funding and technical assistance. The aim is to play a catalytic role so that ComMark's inevitable exit as a funder will not cause these initiatives to collapse.

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CHAIRMAN'S REPORT



After the third year of the ComMark Trust's existence, the question may rightly be asked as to how far we have come in achieving our goal of reducing poverty by making markets work more effectively in Southern Africa. I think that all who have been closely associated with ComMark have come to realise that

while there has undoubtedly been progress, gaining widespread acceptance among policy makers and stakeholders of the benefits of a market approach towards poverty alleviation is going to take longer than the original architects of the programme appreciated.

During the first two years much time and energy was spent trying to define exactly what ComMark should be doing to achieve its goals. An in-depth review towards the end of 2004 resulted in the adoption of a highly focused approach, limiting future interventions to three chosen sectors: textiles and apparel, agriculture and tourism. Specific objectives for the year ended March 2006 placed major emphasis on ensuring that ComMark activities were effective at an operational level. It is pleasing to report that, in general, good progress was made, and most targets were met. Our interventions in the chosen sectors are beginning to provide successful examples, and these are being used to promote wider acceptance of the market philosophy among the region's opinion makers.

The textile industry in Lesotho, after suffering a number of setbacks during 2005, has regained its momentum and employment is again expanding, with a number of new companies entering the industry. ComMark has played a significant role, and its advice is respected by all stakeholders, including government, the Lesotho National Development Corporation (LNDC) and industry representatives. In particular, we are proud of the successes achieved in ensuring an industry-friendly tax regime, building relationships with international customers, improved productivity through training, and lobbying governments in Europe and the United States to promote the extension of access to those markets. A further exciting development subsequent to year-end was the launch of the Alafa (Apparel Lesotho Alliance to Fight Aids) HIV/Aids project, surely one of the most ambitious programmes attempted by any industry. Its effectiveness in containing the disease will be a critical element in the future progress of the textile and apparel industry.

Good progress has also been made among wool and beef farmers in the former Transkei, with independent surveys providing evidence of the solid gains in productivity and income achieved because of ComMark's interventions. The objective is to facilitate access to commercial markets for poor farmers, thus ensuring that they receive a fair market price for their produce and, at the same time, providing an incentive for them to improve their productivity. A major pharmaceutical company has joined as a partner in the project, as it sees long-term benefits from expanding the market for its products. ComMark

has also established close working relationships with role players in the industry. Our experience will enable ComMark to promote this model in other areas, thus providing a platform from which ComMark can disseminate the lessons learned and promote the concept of making agricultural markets work for the poor.

A link-up with the Royal Agricultural College, Cirencester, established after the year-end, is a breakthrough that will further raise ComMark's profile locally and internationally. Another prospect is the launch of a major new project on food standards – an important constraint on emerging farmers attempting to gain access to mainstream markets.

While the tourism project in Gauteng has taken longer to bed down than we hoped, various interventions are taking shape, and a number of in-depth surveys commissioned by ComMark have highlighted the constraints on the growth of the sector. A study which indicated clearly the benefits of airline liberalisation received considerable media coverage. ComMark has also been active in the Namibian tourism sector and has been successful in promoting the idea of using a market approach to benefit the poorer participants in that industry. A recent increase in manpower capacity subsequent to year-end should bolster the impact and influence which ComMark exerts on the industry in Gauteng.

In view of the modus operandi adopted for the past year, ComMark's influence has inevitably been limited to the sectors in which it has been active. At the same time, every effort has been made to raise the Trust's profile: during the past six months, there has been considerable coverage of the Trust's activities in the media. We believe this is a good start towards shifting our focus from operational effectiveness at a project level to the dissemination of the market philosophy as a means of alleviating poverty. The achievement of that goal remains the major challenge going forward, and it is hoped that ComMark will be granted the opportunity of pursuing that challenge both by its major funder, the United Kingdom's Department for International Development (DFID), and by the continuing support of its other funders.

The resignation of both the chairman and the executive director during the past year, while inevitably disruptive, did not interfere with ComMark's activities at a project level. The staff of ComMark deserve every credit in this regard and, in particular, the acting executive director, Norma Tregurtha, who has done a sterling job of keeping the organisation running efficiently and effectively. We look forward to the appointment of a new executive director.

My thanks go to my fellow trustee, Nku Nyembezi-Heita, for her valuable support and guidance during the past year. We hope that we will be joined by new trustees in the year ahead, which will provide further impetus in helping the Trust achieve its aims.

Anthony Evans
Johannesburg
August 2006

EXECUTIVE DIRECTOR'S REPORT



Commodity and service markets are by nature dynamic. A movement in the exchange rate can close factories overnight, international wool prices can fall and tourists can cancel. Overlaid are a range of policies and regulations that inhibit growth and increase the cost of doing business, infrastructure constraints, unfavourable international trade regimes, and a business sector that is only beginning to realise the potential of the low-income market. Making markets work for the poor in this environment is a challenge, but this is ComMark's mission.

For the past three years ComMark has worked in the textile and apparel, agribusiness and tourism sectors, and through this has learnt valuable lessons on what making markets work for the poor means in practice.

Making markets work for the poor is an approach to development that recognises the importance of markets, and in particular, the importance of markets to the lives of poor people. The poor actively participate in markets as workers, consumers and entrepreneurs. However, this does not always serve their interests. By understanding the structure, performance and institutional framework of markets, it is possible to identify and eliminate the systemic barriers that inhibit pro-poor growth. Earlier this year ComMark commissioned a report, *Accelerating Shared Growth – Making Markets Work for the Poor in South Africa*, which explored these concepts in more detail, and carried seven case studies to clarify key themes.

A solid understanding of the way markets operate is the foundation of the making markets work approach, and research has underpinned all of ComMark's activities. ComMark's decision to enter the red-meat sector in the Eastern Cape was based on the fact that, despite owning more than 50% of the provincial cattle herd with an asset value of R3-billion, black producers account for less than 10% of commercial sales. Similarly, our decision to grow the cross-border tourist trade in Johannesburg stemmed from the knowledge that, while

half-a-million people from neighbouring countries visit the city each year, injecting R15bn to R20bn into the economy, they face a barrage of logistical and administrative constraints in going about their business.

In the Lesotho garment industry, it is estimated that one in three workers is infected with HIV/Aids. Research demonstrated that a long-term, industry-driven HIV/Aids intervention would not only enhance the quality of life of garment workers and their families but also create an opportunity for the industry to reposition itself as an ethical sourcing destination – creating jobs in the process. ComMark has been able to take this research and transform it into the Apparel Lesotho Alliance to Fight Aids (Alafa). Alafa involves government departments, service providers, business and labour organisations, brands and retailers, donors and multinational organisations. It acts as a co-ordinating body and fundraiser for the factory-based HIV/Aids programme that addresses both the prevention and treatment components of the disease.

While some of the research ComMark supports is followed by programmes, at other times it is clear that there are organisations and institutions better placed to drive the making markets work agenda in a particular sector. An example of this is the tourism satellite accounting exercise ComMark has funded in Namibia. The objective of this research is to provide evidence to counter a common misperception in government that the tourism sector does not benefit ordinary Namibians. The intention is for this report to provide institutions such as the Namibia Tourism Board with the necessary armoury to claim a bigger share of the budget and encourage investment.

ComMark has reached the point where we are now able to distil some key lessons from our experience. These are discussed below:

- **Globalisation can create opportunities for the poor:** Our work in the garment industry in Lesotho has demonstrated that opportunities exist in the global economy for less developed countries. What is important for those who want to benefit is to understand the nature of the opportunity, and then to devote both public and private resources to taking advantage of it. Our work in Lesotho also shows that this is not simply a case of leaving the private sector to discover global opportunities. Making markets work for the poor requires the construction of a growth alliance between the state and development agencies to enable them to respond to the concerns of the private sector and provide various forms of assistance. This is essentially the situation in Lesotho. The state supports the textile industry in international negotiations, encourages investment in improved productivity and seeks to reduce the costs of its regulations.

- **Your chance of success is enhanced if you build on the assets of the poor and take the activities in which they are engaged as a starting point.** Locating where the poor are in markets and how they can better use their assets must inform the design of any intervention. Making markets work can mean assisting the poor to 'step up' their activities – improve their productivity or income opportunities in existing value chains – or 'step out' – move into new value chains. ComMark's agribusiness activities centre on creating the opportunity for emerging livestock farmers to step up existing activities and enter the commercial mainstream. In contrast our work on airline deregulation is about creating the opportunity for countries in the Southern African region to reduce intra-regional transport costs, enter new value chains and diversify their economies. Both approaches are equally valid and both use existing assets as a point of departure, be this from a sectoral, national or regional perspective.
- **The role of government in shaping markets cannot be ignored.** Markets work best when they are supported by a policy and regulatory framework that is conducive for business to flourish. ComMark has been able to identify where existing frameworks conflict with the interests of the poor. However, we have learnt that identification is not enough; constructive and continuous engagement with policy makers on how to remedy these institutional logjams is a critical second step. While scoping the Johannesburg cultural tourism sector, ComMark identified a number of overlapping and competing statutory bodies with the responsibility for tourism development in the Joburg area. Research identified this as a key industry constraint, and while we brought this to the attention of policy makers we did not actively engage with them on how it could be resolved.
- **Innovation and the scope for replication are essential.** The underlying causes of why markets fail to serve the poor are complex and often appear intractable. Lack of business service markets, infrastructure gaps and high transaction costs are all examples. Rectifying these market failures requires innovative business strategies and models. Innovation is both high risk and high reward, so ComMark has partnered with the private sector to reduce the cost of innovation and encourage the introduction of new business and management models.

A good example is the training and productivity fund ComMark established for the Lesotho textile and apparel sector. Prior to setting up this fund, garment manufacturers were reluctant to invest in training, and especially management training, of local Basotho. ComMark's 50% training subsidy has encouraged them to increase training as well as created a market for training service providers. The scope to replicate successful innovation is also important as this means the initial investment has a wider and bigger return. Following the successful introduction of cattle auctions as part of our red meat pilot project in the Amatole District Municipality in the Eastern Cape, other municipalities have approached our private sector partner, a local auctioneer, wanting to roll out the model throughout the province.

- **Timing and the ability to effect change.** ComMark's decision to intervene in a sector is based on three principles: potential for growth; the capacity to significantly reduce poverty; and sufficient leverage by ComMark and its partners to catalyse systemic change. In practice this third principle has been the most difficult to assess. Timing has emerged as a key determinant. It is difficult to place a new issue on an industry's development agenda. It is much easier to effect change where broad consensus has been reached on the need to address a particular problem.

Understanding who and what drives change is also important. Our experience suggests that leverage is about understanding the political economy of a sector – key personalities, broader socio-economic imperatives and capacity limitations. These are not always clear at the outset. Our engagement in the Ekurhuleni Industrial Cluster Initiative is an example. Only after ComMark had invested in a lengthy research and scoping phase was it clear that the industry's capacity to address key structural issues was severely constrained. Without an industry champion, we were left with no choice but to exit from the sector.

The last point worth noting is that while markets are dynamic, systemic change is a much slower, incremental process – making markets work for the poor takes time. This is best illustrated by ComMark's involvement in the business process outsourcing and offshoring (BPO&O) sector. In early 2004, ComMark collaborated on research to highlight the potential of BPO&O to create jobs and reduce poverty. It was only in 2006 that the South African government identified BPO&O as a priority sector for the country, and began putting the necessary financial and institutional investment behind the industry. While ComMark has a finite lifespan, the same cannot be said for the long-term systemic change we are trying to achieve – and it is this single objective that sets apart the making markets work approach.

Norma Tregurtha
Johannesburg
August 2006



TEXTILES AND APPAREL



It was a tough year for the Southern African apparel and textile sector. The end of the Multifibre Arrangement in January 2005, which restricted competitor country exports by quota, and the strength of the rand-linked currencies against the US dollar squeezed the industry.

The demise of quota was felt immediately as prices softened in the global apparel market by about 12%. It also led to the consolidation of sourcing by many of the major US buyers in a number of countries. China in particular benefited from the end of quota, as seen by the extraordinary surge of its clothing exports into the US and European markets. With denim jeans, one of Lesotho's main export products, China's exports rose more than 1 800% in the first six months of 2005.

The rand's appreciation against the dollar reached a high of R5.65 on December 23, 2005. The strength of the local currency not only eroded the competitiveness of the region's exports, it pushed Southern Africa's retailers into sourcing from China. Regional exporters came under extreme pressure in the international market, and faced severe competition in the local market. The South African apparel industry lost tens of thousands of jobs. Factories closed their doors throughout the region, including Lesotho, where 7 500 jobs were lost in the opening months of the year.

REACTING TO THE CRISIS

ComMark was well positioned to offer assistance to the industry, particularly in Lesotho where the Lesotho National Development Corporation/ComMark Apparel Project has developed considerable momentum over the past two years.

The Lesotho government reacted swiftly to the crisis and set up an inter-ministerial task team comprising industrialists, unions, government ministries and parastatals. This forum was tasked

with retaining Lesotho's industry by devising relief and incentive mechanisms. The ComMark team assisted in the drafting of the team's terms of reference and has been an active member from its inception, providing technical assistance to the government, the Lesotho National Development Corporation (LNDC), industrialists and unions. The most significant new incentive introduced was the 0% tax rate for manufacturers exporting outside the Southern African Customs Union region. ComMark assisted in publicising this important development through the international media.

As hard as the competitive pressures were for Lesotho's manufacturers, they were far less onerous than those in neighbouring South Africa. Manufacturers in this country were under siege as local sales declined because of the surge of Chinese imports. At the same time, the strengthening rand made exports uncompetitive – a situation exacerbated by the additional costs of employment that come with an onerous legal compliance regime.

ComMark continued its support for Clotrade, the association for apparel manufacturers. Clotrade has been active throughout the year in its attempts to prompt the government to adopt policies and procedures to protect the industry from unfair competition, particularly from China. Clotrade has monitored and reported on the enormous surge of Chinese-manufactured apparel into the region, including smuggled and undervalued merchandise.

The organisation is a credible voice for manufacturers and leads their negotiations regarding labour legislation, trade policy and the development of a customised programme for the industry. ComMark's assistance in the form of a financial grant matching members' subscriptions assists the industry to participate fully in issues affecting it.



••••• BECOMING GLOBALLY COMPETITIVE

Labour costs alone do not determine competitiveness. While price is critically important, response time and response reliability also count. Some competitor countries with low labour costs, such as Bangladesh, have not always been able to meet these requirements. Quality of merchandise is also crucial for buyers.

Global competitiveness often depends on effective management systems and strengthening these is important. Becoming more price competitive does not mean reducing the wages of workers but rather increasing productivity through applying industrial engineering, line layout and work-handling techniques. This can mean wages rise while the price of the product comes down.

By exposing Lesotho producers to top-class training providers, ComMark has assisted them to improve their factory efficiencies. The LNDC/ComMark Apparel Project launched a \$1m training co-funding scheme two years ago, designed to stimulate the business service market for training and productivity improvement. So far, 35 firms out of a possible 42, and 18 training service providers have registered for the scheme. Most of the service providers are South African, though some are from as far afield as the US, the UK and Mauritius. A welcome move is that some of these training companies have formed partnerships with Lesotho citizens and have started to employ Basotho staff. Many clothing factories have seen sustainable increases in production line output, sometimes in excess of 25%.

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TURNAROUND

A possible lifeline presented itself in the strategy of encouraging South African manufacturers to establish export-oriented businesses in Lesotho to bolster their regional operations. A number of investment promotion trips were undertaken to carefully targeted companies in South Africa in both the textile and apparel industries, which yielded impressive results. Many companies visited Lesotho as a direct result of the efforts of ComMark and the LNDC, resulting in significant new investment, particularly in the hard-hit Mapotsoe area.

Concurrent with the renewed interest from South African manufacturers, the US and Europe imposed surge protection mechanisms against China, which had the effect of

re-imposing quota restrictions for three years. This led to a gradual improvement in the order books of Lesotho factories, with many of them reopening production lines and moving from short-time to overtime. A new consortium has taken over the largest factory, which closed in early 2005, and there is now an air of optimism in the manufacturing sector.

By the end of April 2006, the decline in employment had been reversed. There is every indication that employment will reach pre-crisis levels during the coming year. Particularly encouraging is the diversity of products and markets that the South African manufacturers are bringing to Lesotho, including 'integrated value chains' that open up the possibility of servicing the European market more effectively.

INTERNATIONAL INITIATIVES

Providing assistance to regional textile and apparel producers involves technical assistance to governments and industrialists in pursuing their interests in international trade policy. The ComMark apparel project regularly provides briefing documents to the government of Lesotho, international organisations and lobby groups. Briefings and financial assistance have been provided to extend the third country provision under the US African Growth and Opportunity Act (AGOA), the rules of origin under the Economic Partnership Agreement with the European Union and the extension of the Duty Credit Certificate Scheme.

Clotrade also helped create the African Cotton and Textiles Federation (Actif), possibly the first industry sector to talk with one voice for the continent of Africa.

During the year ComMark was invited to join the Multi-Fibre Arrangement Forum, a group of international and local stakeholders including brands and retailers, non-governmental organisations, labour groupings, donors and multinational organisations such as the World Bank and the International Labour Organisation. Its aim is to mitigate the effect of the demise of quota on a small number of countries likely to be most affected by it.

The ComMark team has participated in the activities of the Lesotho group of the forum, including a country visit by the group and the organisation of a high profile multi-stakeholder conference in Maseru in May 2006. The forum plays a vital role in the sustainability of Lesotho's apparel industry by bringing an international focus to the country, mobilising resources and activities and raising the profile of Lesotho's apparel industry. ComMark is active in the forum and provides financial support for its Lesotho-based activities.

THE APPAREL LESOTHO ALLIANCE TO FIGHT AIDS – ALAFA

The ComMark Trust received funding from DFID to investigate, design and implement a long-term intervention to address the HIV and Aids pandemic among textile and apparel workers in Lesotho. The research, conducted by the Edinburgh-based consultancy HLSP, indicated that not only was such an intervention feasible but it was essential for the long-term health of the industry. A number of prevention and treatment models were investigated, with the consultants concluding that the most effective model should be led and delivered by the private sector.

A model was developed into a full-scale project called Alafa – the Apparel Lesotho Alliance to Fight Aids. It is significant that the first funding for the project was from Gap Inc for a prevention and treatment pilot in a large apparel factory employing 4 500 workers (representing 10% of the apparel workers in Lesotho's industry). This factory produces Product Red T-shirts, with part of the profits from sales being contributed to the Global Fund to Fight Aids, Tuberculosis and Malaria.

The alliance was launched at a high-profile event in May 2006 attended by Bono of U2, the Prime Minister of Lesotho and members of his cabinet, the British High Commissioner to South Africa and Lesotho and the American Ambassador to Lesotho.

Irish Aid has also committed funding to Alafa, and the project has been included in Lesotho's funding proposal for round six submitted to the Global Fund. The project has achieved significant international recognition. The next step is a major drive to raise funding to roll out the intervention across the entire industry. If sufficient funding is found, Alafa will provide prevention, counselling and treatment for 45 000 workers, their spouses and families.



CONSCIENCE CONSUMERISM

Conscience consumerism – or ethical shopping – is becoming big business in the US and UK as resistance to brands and retailers sourcing from sweatshops becomes a cause. It is estimated that British shoppers spent £25bn on ethical goods and services in 2005, and much of this was on 'guilt-free clothing'. Lesotho is becoming known as an ethical sourcing destination – and supplying this niche market is one of the local industry's selling points.

Lesotho's global image was boosted when U2 frontman and activist Bono visited the country in May and attended the launch of the ALAFA programme. Bono parting words were that he would lobby to change the European Union trade rules regulating duty-free imports. The singer is also one of the founders of the Product Red campaign, a labeling scheme aimed at attracting funding from commercial brands and consumers to fight AIDS. It involves the sale of specially designed items with a distinctive red label or red items of clothing. Funds generated will go to programmes supported by the Global Fund to Fight AIDS, Tuberculosis and Malaria, mainly for women and children in Africa. Partners are: American Express, Converse, Gap, Giorgio Armani and Motorola.

Ethical clothing line EDUN, launched in 2005, by Ali Hewson and Bono with New York clothing designer Rogan Gregory is using its clout to highlight the issue of sustainable employment in the fashion world. The company, which sources in Lesotho, applies the principles of fair trade, which is to redistribute the profits fairly back along the supply chain.

AGRIBUSINESS

At first glance, women who gather marula nuts in the remote Ondangwa area of Namibia, wool farmers in the Eastern Cape and fishermen in Mozambique seem worlds apart. However their lives have a lot in common: all are entrepreneurs trying to make a living on the periphery of the formal agricultural economy. All have assets that could be realising better prices. Unlocking these dead assets and bringing these farmers into mainstream commercial value chains, local and global, has been the main thrust of ComMark's work in the agribusiness sector.

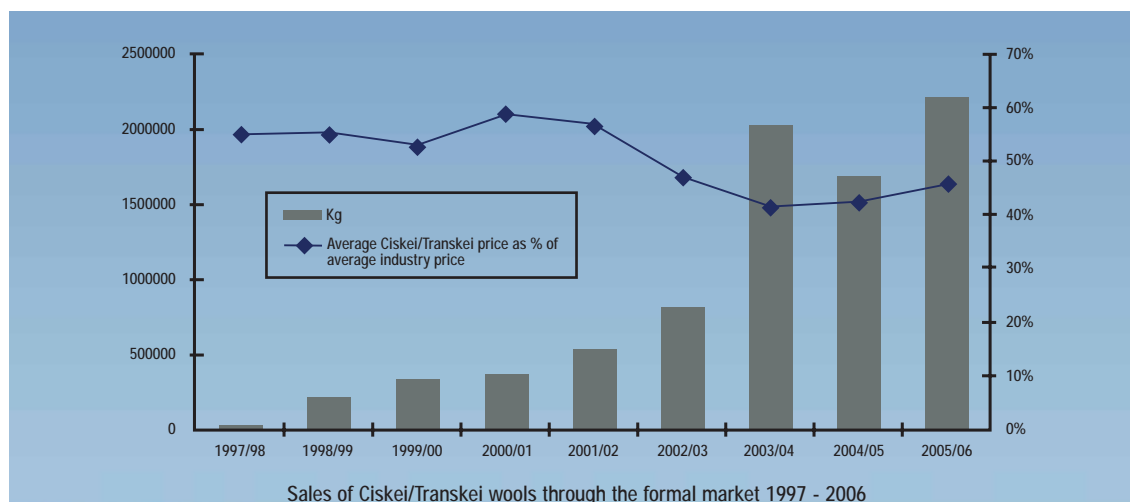
EASTERN CAPE WOOL FARMERS

There are about 200 000 small-scale wool farmers in the former Ciskei/Transkei area of the Eastern Cape. Since March 2004, ComMark has funded a National Wool Growers Association programme aimed at providing these farmers with the necessary support services to enable them to market their wool through the formal auction system. Participation in this system rests on farmers accessing a range of business services and skills so they can supply a market quality product. Facilitating the provision of these has been the focus of

ComMark's grant to the association, which is active in 300 of the bigger woolsheds directly servicing more than 10 000 farmers.

The graph below details the results of this intervention. The initial increase in volume in 2003/2004 was a response by farmers to a dramatic increase in the wool price during the previous season. The challenge was to lock these emerging farmers into the formal market. This meant ensuring that they would continue to benefit when the wool price declined to previous levels.

The results for 2004/05 and 2005/06 are evidence of the association's success in realising this vision. At present more than 55% of the wool produced by emerging farmers is marketed through the auction system. Furthermore Ciskei and Transkei farmers are getting higher prices for their wool than ever before. Whereas they used to get only 42% of the average industry price, they are currently getting 46%. This shift into the formal wool market has translated into an estimated annual income increase of R7m for these farmers, compared with previous levels.



Sales of Ciskei/Transkei wools through the formal market 1997 - 2006



LESOTHO WOOL AND MOHAIR FARMERS

ComMark has followed a different approach to developing the wool market in Lesotho. Here the focus has been to work with private licensed traders to ensure that smaller growers in remote areas of the country who are not serviced by government shearing sheds derive some of the benefits of supplying a formal market. ComMark extended a grant to Teba Development in 2004 to encourage private traders to adopt an alternative business strategy. The success of this strategy has been an increase in traders' profitability, higher producer prices and the provision of services such as access to animal health products and training for farmers.

In the 2005/06 production year more than 4 200 farmers used the services of the private traders, increasing the scale of the project threefold since the first season. Wool yields have increased by more than 17% since the project began, and there has been a notable gain in the proportion of better-class wool.

The rationale in choosing to work with the private sector in Lesotho was the scope for the replication of the model. Since 2003, the Lesotho government has indicated its intention to divest itself of shed ownership and operations. ComMark anticipated that this industry deregulation would create an opportunity for private traders to expand. This deregulation has not taken place. Instead, a number of government-sponsored agricultural development programmes have been investing in shed upgrading. There is also no evidence that government is likely to reduce the subsidies, both hidden and open, that farmers shearing through government sheds enjoy – putting the private sector at a disadvantage.

ComMark and its partners need to resolve these problems in the coming year. They affect the programme's sustainability as well as the real return on our investment. A series of events and workshops have been planned to explore the issues in more detail.

RED MEAT

Cattle constitute one of the biggest assets owned by emerging farmers in the Eastern Cape. However, at less than 3% per annum, this asset also offers the lowest rate of return on investment. Reasons for this include a lack of access to formal marketing channels, poor animal health markets, and a lack of information on market prices and grading systems. In June 2005 ComMark launched a programme in the Peddie district of the Eastern Cape to address these matters in a systemic way and improve the functioning of livestock markets. ComMark partnered with the Triple Trust Organization to provide training around grading and market information, with more than 1 000 emerging farmers benefiting. We also initiated an auction programme with private sector partner Sinethemba Mafama, a Black Economic Empowerment (BEE) livestock marketing company.

More than 10 auctions were held from November 2005 to March 2006 and while this component of the programme struggled in the beginning, with few cattle put up for sale by farmers, a limited buyer pool and the perception of collusion, this is now one of ComMark's success stories (see box).

●●●●● GETTING THE PRICE YOU DESERVE

ComMark's cattle auctions in the Eastern Cape are more than a place to sell cattle. Other farmers come as observers and walk away with information about prices and markets. Anecdotal evidence suggests that this has changed the power relationship between farmers and local cattle speculators. After attending an auction, farmers know the value their stock and they are using this to negotiate market-related prices.

The auctions have also become a place to do business with hawkers and traders selling refreshments, agricultural products and even airtime. Developing auction markets so that they serve these multiple functions is time-consuming – and trust and credibility are central. Auctions are successful only if there are enough buyers and sellers to create a competitive market. ComMark has been working with farmers, explaining the auction process and convincing them to participate. Expanding the limited Eastern Cape buyer pool has also been a priority. Our experience suggests that entrenching cattle auctions in rural areas takes time. Then comes the crucial tipping point – that one, significant auction where a large number of cattle are put up for sale with a group of buyers actively competing for the stock. It took ComMark the best part of a year to reach this point.



TEN

SELL BY DATE
21.09.2006

R/kg
119.95

MASS kg
0.736

617

R88.28



CERTIFICATION AND THE NATURAL PRODUCTS SECTOR

Natural products have enormous business potential. These plants, such as baobab and marula kernels valued for their oil, are harvested from the wild or organically cultivated. They are increasingly in demand from the cosmetics, medicinal and decor industries. Recent estimates are that this global trade amounts to \$65bn annually.

The trade in indigenous plants is entrenched in the informal economy and their use is widespread in the region. However, the commercialisation of indigenous products is coming into sharper focus. Around 2 000 households in South Africa are known to be engaged in commercial trade in marula products, earning about R1.1m. In Namibia, in 2002, about 4 000 rural members of the Eudafano Women's Cooperative earned about \$200 000 from the sale of marula kernels to the Body Shop in the UK.

In July 2005, ComMark awarded The World Conservation Union (IUCN) a grant to work with three primary producer groups of natural products in Southern Africa to help them improve their market access through acquiring certification. In turn the IUCN has partnered with PhytoTrade Africa, the Southern African Natural Products Trade Association, to launch the Natural Futures Programme, a joint initiative to develop Southern Africa's natural products industry.

ComMark is funding part of this joint venture, specifically around certification. There is a range of certification systems, such as the organic, fair trade, bio-trade and forestry council systems, with much overlap. The IUCN is working to develop a single certification system that encompasses all the elements. A single system would reduce the cost and administrative burden for emerging producers and also help them access and entrench themselves in these lucrative niche markets.

FARMERS

Farmers in rural areas are often held back by the daily stress of getting essential supplies and transporting their produce to markets. A drive to town can add R10 and upwards to the cost of essential supplies like animal feed and fertiliser.

ComMark is funding the Lima Rural Development Foundation to work with suppliers to develop direct, sustainable market links between suppliers and farmers. The foundation's Abalimi Phambili project provides extension services to around 6 000 farmers in six districts in the Eastern Cape. However, without the integration of these new farmers into commercial value chains, there is no guarantee that if Lima's project ends they will continue to have access to the supplies that they need in order to farm. These range from day-old chicks to seedlings and fertiliser.

This project entails working with both farmers and input suppliers who have failed to service this market. ComMark is supporting an initiative to encourage commercial suppliers to sell size-appropriate products in remote areas, such as through local trading stores, as well as investigating innovative solutions for payment and credit arrangements.

NEW DIRECTIONS

The 2006/07 year will see two major changes in the agribusiness portfolio. The first will be the implementation of the Regional Standards Programme, due to start in September 2006. This programme aims to assist emerging farmers in Southern Africa to access supermarkets in the EU. ComMark will be managing a £4m project to put in place a process to make farmers meet quality standards required for EU markets.

The idea is to improve the expertise and production capacity of the Southern African agricultural sector so that it can compete on an equal footing with its European counterparts. If Southern African farmers meet EU quality standards, EU supermarkets may be able to source more products from the region, locking local farmers into global value chains.

The second shift will see a greater emphasis on the replication of ComMark projects by others, and a more concentrated focus on policy and regulatory issues affecting the sector. Post-settlement support in the context of land reform and the importance of agriculture in the AsgiSA (Accelerated Shared Growth Initiative for South Africa) framework are among the new areas of work ComMark will be pursuing.

TOURISM

ComMark's interest in tourism is driven by the sector's pro-poor features. It is labour intensive. It has a multiplier effect, creating jobs in everything from the provision of accommodation and food to transport, banking and entertainment. By its nature the industry is fragmented, with a diverse private sector and government intervention at local, provincial and national levels. ComMark's attempts to find a place for itself in this complex institutional terrain have taken longer than anticipated.

Our experience has highlighted the importance of timing and partner selection and the need to work closely with government policy makers. In particular we have seen the value of research when it feeds into an existing policy process.

The focus of ComMark's tourism portfolio over the past year has been on growing the Johannesburg cross-border trade, developing the Namibian tourism sector and regulatory issues.

CROSS-BORDER TRADE

Johannesburg is not an obvious travel destination but increasingly the city has something that tourists from the rest of Africa want – shops. Retail tourists from Africa are big spenders, laying out more on average than those coming from Europe for holidays. Around 450 000 shopping tourists arrive by road and at least 90 000 by air, bringing in between R15bn and R20bn a year. These traders are supporting economic growth in their own countries through the multiplier effect.

The trade is also creating a new support industry. A preliminary study of the accommodation provided for cross-border shoppers in Johannesburg identified a lack of appropriately-priced accommodation and storage facilities at the lower end of the market but also uncovered a vital, formal and informal, sub-economy of the city.

Unlike other visitor categories, such as leisure and conferences, this channel is growing at about 3% a year and stands out as having potential for further growth. However, research indicates that long-distance transport inefficiencies, poor transport within the city, difficulties with getting VAT (Value Added Tax) rebates, lack of storage, problems with customs, visas, safety and security – actual and perceived – and xenophobia are costing the city hundreds of millions of rands in lost revenue. If these issues could be addressed, this economic sector could grow to new heights.

ComMark's intervention in this sector fortunately coincided with the emergence of a business association, the Cross-Border Shopping Forum, representing the larger retail and accommodation businesses servicing this market. The forum represented a natural strategic partner for ComMark, and to

facilitate and fast-track the establishment of a section 21 company, ComMark gave the forum a grant. The Joburg Cross-Border Shopping Association has now been legally constituted with a board of directors representing suppliers of goods, transport logistics, accommodation, storage, tourism and banking.

The intention is that the association will become a self-financing service organisation that will drive the growth of the retail tourism trade.

NAMIBIA

ComMark has funded and steered a number of initiatives in the Namibian tourism sector, the fastest growing sector of the economy. These include co-funding a tourism-product audit for the Namibian Tourism Board and support for the membership consultation that informed the Federation of Namibian Tourism Association's Broad-Based Black Economic Empowerment charter.

A challenge in working in tourism in Namibia is a misperception within sectors of government and the community that tourism is a marginal activity, dominated by white owners and tourists, and therefore not important to the general economy – and even less so to ordinary Namibians. One consequence is significant public under-investment in this sector.

To quantify the immense benefits of the tourism economy for growth and job creation, ComMark and the Embassy of Finland funded a tourism satellite accounting exercise, conducted by the World Travel & Tourism Association. The results of this study will be released in September 2006. Preliminary findings indicate a high potential for growth. They also show that the broader tourism economy accounts for 72 000 jobs and will contribute 18% of the country's GDP in 2006. These figures are 50% higher than has been historically estimated. It is anticipated that this report will persuade the government of the importance of investing in tourism.

ComMark also identified the need for a financing instrument that would facilitate investment and partnerships in tourism as well as help realise the industry's BEE charter targets.

Financial support for the Namibian initiative was agreed in August 2005 and a broad-based BEE investment facility was developed with significant co-funding available from the European Union. The Development Bank of Namibia did not, however, follow through and the ComMark board reluctantly decided to reallocate ComMark's commitment. However, there is still a strong interest and appetite within the private tourism sector at all levels for such a facility.

COST OF REGULATION

ComMark is funding research to determine the costs of regulation to the South African tourism industry. This is a follow-up to the study undertaken in 2005 by development and research organisation SBP, which clearly indicated that tourism has one of the highest compliance costs because of the numerous regulations it has to abide by.

SBP's tourism survey is being tailored to provide data on the costs of regulations to cross-border shoppers and will make recommendations regarding the regulatory environment for both conventional tourism and cross-border shopping.

The findings of this study are due for release in September 2006. The Department of Environmental Affairs and Tourism (DEAT) have indicated their desire to incorporate these findings in the cabinet document on AsgiSA (Accelerating Shared Growth for South Africa), to be produced before the end of 2008.

••••• READY TO TAKE OFF

Name

African countries that have opened up their air travel to competition are reaping real benefits. Kenya, Egypt and Uganda have liberalised their air transport markets with generally positive results. Air traffic within South Africa has surged in the 10 years since liberalisation of the domestic market. Since the launch in South Africa of low-cost, no-frills airlines in 2001, enabled by liberalisation, the domestic air travel market has grown by more than 50%.

Address

However, air travel between many African countries remains highly regulated. On routes between many Southern African Development Community (SADC) countries, competition and capacity are restricted, flight frequency is low and ticket prices are high. On two thirds of these routes business and leisure travellers have to be content with an average of one flight every second day.

Suburb/City

Country

The fact that the supply of seats is so restricted can make it as expensive to fly from Johannesburg to Luanda as from Johannesburg to London, three times the distance.

Telephone

The importance of tourism has also been acknowledged by the New Partnership for Africa's Development (NEPAD), which sees it as one of the sectors with the most potential to contribute to the economic regeneration of the continent. However, the highly regulated nature of regional air travel continues to present a major barrier to growth in the industry and its associated economic benefits.

AIRWAYS LIBERALISATION

Air transport benefits are primarily seen in the context of tourism. However, both the lack of reasonably frequent direct flights and the high cost of travel among African countries are barriers to trade and investment in the region. Benefits from improved business travel access and cost would also be substantial.

Over the past year ComMark has been overseeing a research study that will make recommendations on measures to promote the liberalisation of air transport among African states, with particular emphasis on states in the Southern African Development Community (SADC).

A headline report was released in November 2005, *The Economic Benefits of Liberalising Regional Air Transport – A Review of Global Experience*. This report indicated that Southern Africa's economic growth and job creation could be significantly higher if governments lifted the limits they have placed on airline flights between their countries.

The report generated good publicity globally and in South Africa and has been widely quoted. Airline deregulation is now a core objective in the South African government's AsgiSA plan to achieve 6% growth.

This report has been followed by an econometric study to explore the economic cost of the regulatory constraints of the air transport industry. A final report incorporating the findings of the comparative global research will be launched in October 2006.

The Department of Transport has had access to material and also provided input. It has been made clear that the department would like to include the report in the government document on the Yamoussoukro Declaration which will be produced before the end of 2006.

NEW DIRECTIONS: ON THE WAY TO 2010

The potential of tourism to contribute to foreign exchange earnings, employment and income generation, and as a development catalyst, are the usual reasons given by governments for supporting tourism. The scope is there. The World Tourism Organisation estimates that there will be 77.3m international arrivals in Africa by 2020.

However, for tourism to fulfil its developmental role in the region there has to be a co-ordinated effort to address issues such as marketing, efficient and safe transport – both land and air – tourism infrastructure, the development of products that are tailored to meet demand, skills development and improvements in the quality of service.

With hundreds of thousands of visitors expected to visit the region for the 2010 Soccer World Cup, ComMark has identified this mega-event as an opportunity for the Southern African region to get its ducks in a row.

ComMark Trust, in consultation with the Regional Tourism Organisation of Southern Africa, drew up proposals for SADC member states to consider as part of an action plan of how SADC can benefit from the World Cup. The SADC Council of Ministers at their annual summit approved the action plan and requested that ComMark facilitate this proposal by mid-2007.



ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2006

Please note that a full set of financial statements is available on request from the ComMark office.

REPORT OF THE INDEPENDENT AUDITORS

To the Trustees
THE COMMARK TRUST
(REGISTRATION NUMBER: I.TRUST 5706/03)

We have audited the financial statements of The ComMark Trust set out on pages 2 to 16 for the year ended 31 March 2006. These financial statements are the responsibility of the Trustees, while our responsibility is to express an opinion on these financial statements based on our audit.

SCOPE

We conducted our audit in accordance with International Standards on Auditing which require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

AUDIT OPINION

In our opinion, the financial statements fairly present, in all material respects, the financial position of the trust at 31 March 2006 and the results of its operations and cash flows for the year then ended in accordance with South African statements of Generally Accepted Accounting Practice.



Douglas & Velcich
Chartered Accountants (SA)
Registered Accountants and Auditors

Johannesburg
8 June 2006

REPORT OF THE TRUSTEES

FOR THE YEAR ENDED 31 MARCH 2006

The Trustees present their report, together with the audited financial statements of the Trust for the year ended 31 March 2006.

GENERAL

The ComMark Trust was registered on 22 August 2003. It aims to support and promote policy, institutional and operational initiatives that facilitate the development and improved operation of commodity and service markets for the benefit of the poor in Southern Africa.

STATEMENTS OF RESPONSIBILITY

The Trustees are responsible for the maintenance of adequate accounting records, the preparation and integrity of the financial statements and related information. The auditors are responsible to report on the fair presentation of the financial statements. The financial statements have been prepared in accordance with South African statements of Generally Accepted Accounting Practice.

The Trustees are also responsible for the Trust's systems of internal control. These are designed to provide reasonable, but not absolute assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect misstatement and loss. Nothing has come to the attention of the Trustees to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the period under review.

The financial statements have been prepared on the going concern basis, since the Trustees have every reason to believe that the Trust has adequate resources in place to continue in operation for the foreseeable future.

RESULTS FOR THE PERIOD

The results of operations for the period are fully disclosed in the attached financial statements.

EQUIPMENT

During the year under review, the Trust acquired equipment to the value of R67,780 (2005: R65,943).

POST BALANCE SHEET EVENTS

No material fact or circumstance has occurred in the conduct of the affairs of the Trust between the balance sheet date and the date of this report.

TRUSTEES OF THE TRUST

The Trustees during the period under review were as follows:

A R Evans (Chairperson)

N Nyembezi-Heita

P N W Zille

T H Nyasulu – resigned 29 September 2005

BALANCE SHEET

AT 31 MARCH 2006

	Notes	2006 R	2005 R
ASSETS		2 634 993	6 859 921
Non current assets		111 725	65 721
Equipment	2	111 725	65 721
Current assets		2 523 268	6 794 200
Accounts receivable		22 511	3 189
Vat receivable		239 302	389 378
Taxation	4	3 915	–
Cash and cash equivalents	3	2 257 540	6 401 633
TOTAL ASSETS		2 634 993	6 859 921
EQUITY AND LIABILITIES		2 634 993	6 859 921
Equity and reserves		482 234	5 351 309
Project and operating funds		370 509	5 285 588
Equipment fund		111 725	65 721
Current liabilities		2 152 759	1 508 612
Taxation	4	–	–
Accounts payable		2 152 759	1 508 612
TOTAL EQUITY AND LIABILITIES		2 634 993	6 859 921

INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2006

	Notes	2006 R	2005 R
INCOME		17 565 034	16 538 740
Grants	5	17 378 275	16 365 088
Other income		6 250	2 963
Interest received		180 509	170 689
EXPENDITURE		22 408 316	16 510 049
Administration and Management	9	5 684 333	2 984 657
Implementation, Studies, Research and Training	10	616 368	5 597 264
Monitoring and Evaluation, Impact Assessment and Communications	11	730 128	227 327
Operating Grants	12	15 377 487	7 700 801
(DEFICIT)/SURPLUS FOR THE YEAR		(4 843 282)	28 691
TAXATION		(4 017)	(228)
SA Normal Taxation	4	(4 017)	(228)
BALANCE AT END OF YEAR		(4 847 299)	28 463

STATEMENT OF CHANGES IN RESERVES

FOR THE YEAR ENDED 31 MARCH 2006

	Equipment Fund R	Project and Operating funds R	Total R
Balance at 31 March 2004	17 172	5 323 068	5 340 240
Net income for the period	–	28 463	28 463
Transfer to equipment fund	65 943	(65 943)	–
Depreciation for the year	(17 394)	–	(17 394)
Balance at 31 March 2005	65 721	5 285 588	5 351 309
Net deficit for the year	–	(4 847 299)	(4 847 299)
Transfer to equipment fund	67 780	(67 780)	–
Depreciation for the year	(21 776)	–	(21 776)
Balance at 31 March 2006	111, 725	370 509	482 234

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2006

	Notes	2006 R	2005 R
Cash flows from operating activities			
Cash received from donors		17 515 279	16 035 180
Cash paid to providers and grantees		(21 764 169)	(15 682 701)
Cash (utilised in)/generated by operations	6	(4 248 890)	352 479
Interest received		180 509	170 689
Taxation paid		(7 932)	(3 914)
Net cash (outflow)/inflow from operating activities		(4 076 313)	519 254
Cash flows utilised in investing activities			
Acquisition of equipment, at cost		(67 780)	(65 943)
Net (decrease)/increase in cash resources		(4 144 093)	453 311
Cash and cash equivalents at beginning of year		6 401 633	5 948 322
Cash and cash equivalents at end of year	3	2 257 540	6 401 633



COMMARK GRANTS – ACTIVE AND COMPLETED TO THE END OF MARCH 2006

Name of Applicant/Institute	Country	Sector
National Woolgrowers Association of South Africa	South Africa	Agribusiness
TEBA Development	Lesotho	Agribusiness
Triple Trust Organization	South Africa	Agribusiness
IUCN	South Africa	Agribusiness
LIMA	South Africa	Agribusiness
University of Botswana	Botswana	Agribusiness
Lesotho National Development Corporation	Lesotho	Textile and Apparel
Clotrade	South Africa	Textile and Apparel
Lesotho Textile and Apparel Training and Productivity Fund	Lesotho	Textile and Apparel
African Coalition for Trade	Lesotho	Textile and Apparel
Namibia Tourism Board	Namibia	Tourism
ECMAC	South Africa	Services and Regulatory Reform
Centre for Development and Enterprise	SACU	MMW4P
Total project value		56 830 361
Total ComMark contribution – active grants		24 398 011
Johannesburg Development Agency	South Africa	Textile and Apparel
Namibia Tourism Board	Namibia	Tourism
Federation of Namibian Tourism Associations	Namibia	Tourism
Ekurhuleni Cluster Initiative	South Africa	Manufacturing
University of Witwatersrand	South Africa	Manufacturing
Law Review Project	South Africa	Services and Regulatory Reform
SBP	South Africa	Services and Regulatory Reform
Total project value		5 380 943
Total ComMark contribution – completed grants		2 700 518
Total cumulative active and completed grants		27 098 529

COMMARK STUDIES, RESEARCH AND PROJECT IMPLEMENTATION – ACTIVE AND COMPLETED TO THE END OF MARCH 2006

Project Name	Country	Sector
Eastern Cape red meat project implementation	South Africa	Agribusiness
Lesotho garment Industry – HIV/AIDS project (ALAFA)	Lesotho	Textile and Apparel
Cultural assimilation programme for the Lesotho textile and apparel Industry	Lesotho	Textile and Apparel
Industrial diversification in Lesotho: Research project	Lesotho	Textile and Apparel
Feasibility study: Fabric knitting mill/dye house for Lesotho	Lesotho	Textile and Apparel
An assessment of Joburg's accommodation constraints to the growth of the cross-border shopping sector	South Africa	Tourism
Cost of regulation to the South African tourism sector	South Africa	Tourism
Namibian community-based tourism	Namibia	Tourism
An assessment of Joburg's cross-border overland shopping sector	South Africa	Tourism
Regulatory liberalisation of intra-African air transport to promote pro-poor economic growth	South Africa	Tourism
Communications – Specialised TA support	SACU	Communications
Monitoring and Evaluation: Red meat producer training and market information project	South Africa	Monitoring and Evaluation
Testing the efficacy of the ComMark Lesotho training co-financing fund	Lesotho	Monitoring and Evaluation
Monitoring and Evaluation – Specialised TA support	SACU	Monitoring and Evaluation
Total ComMark contribution – active studies and research		4 022 793
Research into the establishment of Fairtrade South Africa as a commercially sustainable producer service organisation	South Africa	Agribusiness
Botswana ostrich subsector analysis	Botswana	Agribusiness
Support for emerging growers in the South African cotton industry	South Africa	Agribusiness
Development of an electronic BEE resource centre for the citrus industry	South Africa	Agribusiness
Design and feasibility study of the natural products' enterprise programme	South Africa	Agribusiness
Subsector analysis of the beef industry in the Eastern Cape	South Africa	Agribusiness
Research into the viability and sustainability of group certification for organic farming	South Africa	Agribusiness
Agribusiness sector research support (TA)	South Africa	Agribusiness
Review of Lesotho garment manufacturers' AGOA fabric sourcing requirements	Lesotho	Textile and Apparel
Pilot productivity audits and training needs analysis	Lesotho	Textile and Apparel
Botswana textile subsector analysis	Botswana	Textile and Apparel
Employee attitude and satisfaction survey	Lesotho	Textile and Apparel
Assessment of the feasibility of Johannesburg's cultural tourism potential	South Africa	Tourism
Scoping of high-potential pro-poor growth sectors in SA	All	All
An investigation into the global value proposition of the South African business process outsourcing and offshoring industry	South Africa	Business Process Outsourcing
Research into market-based solutions to land reform	South Africa	Land Market
Development and dissemination of an MMW4P concept document	South Africa	MMW4P
Annual poverty assessment of targeted wool producing communities and households in the Eastern Cape	South Africa	Monitoring and Evaluation
Total ComMark contribution – completed studies and research		4 792 621
Total cumulative active and completed grants		8 815 414



Nº 6
BOTTLES

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