

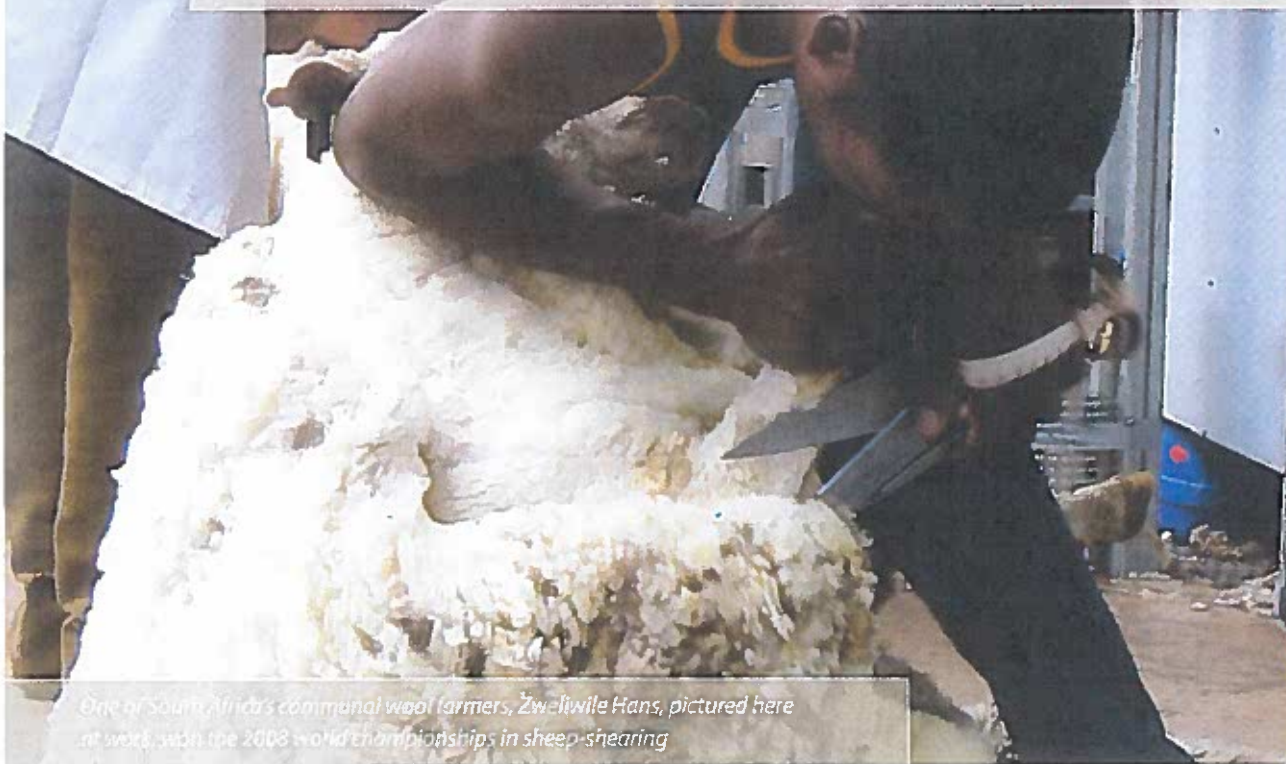


2007/2008 ComMark Annual Report



steady progress in the wool market

communal wool farmers



One of South Africa's communal wool farmers, Zweliwile Hans, pictured here at work, won the 2008 world championships in sheep shearing



The communal woolgrowers' project has been a notable success for ComMark and for thousands of communal wool farmers who have both increased their yields and more than doubled their incomes in the past two years.

ComMark's decision to support pro-poor commodity market development in the form of wool production in the former "homelands" of the Ciskei and Transkei, which are now part of the Eastern Cape, was based on an assessment of:

- The success of existing efforts to address technological constraints in wool production; and
- Global supply and demand trends for wool, which indicated that the demand for wool in apparel and furnishing was recovering after a long-term decline.

This recovery was largely the result of wool gaining market share relative to synthetics as European and North American consumer demand for 'natural' products produced on a sustainable basis increased, and demand surged in China. The 2006/07 season therefore saw a record average price of R25.94 per kg secured from the South African wool auction.

Moreover, local white commercial farmers have moved away from wool production into more profitable game farming and mutton production, leaving a gap in the market.

The challenge to successfully supporting wool production as a pro-poor intervention is essentially technological – improving the genetic quality of flocks, increasing reproduction rates and reducing mortality rates. However, a number of different interventions are needed to meet this challenge. Breeding schemes must be established, the problems of managing stock and pastures under communal land ownership have to be addressed, animal disease control and nutrition have to be improved, and training in shearing and wool classing has to be expanded. At the same time, severe infrastructural constraints have to be addressed, including the building or rehabilitation of woolsheds, as well as organisational and institutional issues that arise around promoting market access and improving the operations of value chains.

The communal wool farmers intervention, implemented by the National Woolgrowers Association (NWGA), has attracted financial support from a number of institutions as well as government. For example, grants from municipalities to promote local economic development has enabled the building of woolsheds, support for training has been provided by the Eastern Cape Department of Agriculture (ECDA), a European Community-funded University of Pretoria project supports animal

health improvements and the Agricultural Research Council (ARC) provides support and expertise for a ram improvement project, while 'mentorship' costs are covered by the National Department of Agriculture. In line with its 'making markets work for the poor' development approach, ComMark's support of the intervention is essentially in the area of market development and has the following objectives:

- o The organisation of producers into effective wool associations capable of advancing the interests of their members in producing higher quality wool;
- o The regular and consistent participation of brokers in the marketing of associations' wool;
- o The growth in private sector services to wool producers.

The impact of ComMark's support is measured mainly in relation to the participation of communal producers in the higher value auction system and the extent to which they are able to narrow the gap in wool incomes between existing large scale commercial producers and themselves.

Another objective has been to ensure that wool extension services are being delivered on a sufficiently broad basis, and to re-direct the focus of extension work onto marketing and business development aspects of wool production. The ECDA therefore agreed in 2004 to deploy a number of its extension staff on wool development. ComMark agreed to finance the allowances of such staff and the NWGA has been responsible for administering these, as well as providing professional and technical direction to the ECDA staff. It was an arrangement that could easily have unraveled due to the dual nature of responsibilities involved. However, it has been a considerable success, in large part due to careful management by the NWGA and the good working relations it has established with the ECDA.

At the end of the period under review, 5 200 communal wool producers were registered with the NWGA. But the total number of beneficiaries is about 7 500, since many of the producers represent informal groups of three or four individual flock owners that pool their flocks for purposes of shearing, classing and recording. The NWGA is focusing its attention (in terms of commercial market development) on about 310 producer associations, which means that our implementation partner can work more specifically on areas requiring improvement (for example, increasing clean yield and eliminating poor classing) at each woolshed. This also allows for more effective analysis of the different components of successful wool marketing on an association-by-association basis.

The intervention has made a significant impact on overall production and value, with the 310 associations together producing 84% of the total production sold via the auction in 2005/06. Detailed performance records for 47 sheds (associations) in Hewu in the Chris Hani municipality shows an increase in gross value of 132% from the previous year, with a 14% increase in volume traded through the auction. The intervention has also effected substantial increases in income for these communal wool producers; there has been an increase of nearly 80% in income from 2003/04 to 2006/07 (from about R17,8 million to about R30,8 million). And in the last financial year, 2007/08, income increased by about 48% to R45,5 million.

Wool Production : EC Communal Areas

SEASON	KILOGRAM	VALUE COMMUNAL (RAND)	NATIONAL PRICE CENTS/KG	COMMUNAL PRICE CENTS/KG
97/98	222 610	1 502 908	1 225	675
99/00	336 700	1 965 557	1 102	584
01/02	535 911	6 927 640	2 277	1 293
03/04	2 029 556	17 768 955	2 109	876
05/06	2 222 883	14 954 931	1 695	673
06/07	2 345 991	30 791 496	2 594	1 313
07/08	2 809 551*	45 514 726	3 239	1 620

* Estimated

An important contributing factor to the increase in value has been the number of bales delivered, as opposed to bins of wool, or binned bales, which require re-classification before sale. If the quality of the wool from a specific shearing shed is poor or inconsistent, or if the shed or individual farmer does not produce enough good quality wool to make up a wool bale, the separate sections of varying quality wool are packed into bins, which must then be reclassified. Thus the NGWA

has focused its market development efforts on increasing the number of bales delivered. It has had measurable success in meeting this goal. Over the past year, there has been a 28% increase (from 544 to 699) in the number of bales delivered, and a 13% decline in the number of binned bales (down to 383 from 438).

Of particular interest in the 2006/07 data from Hewu is the fact that a significant number of producers have been successfully incorporated into the formal, higher value auction system – rather than selling their wool for spot cash as in the past. About seven sheds (or 250 producers) now work through their associations and engage brokers when selling their wool produce, rather than doing so individually. This also meant that the gap in gross margins between commercial and communal farmers was narrowed substantially; communal wool farmers participating in the programme have been able to produce and market their wool clip more efficiently to secure higher prices relative to the national average.

In addition to increased prices and level of formal auction participation, the NWGA also measures the progress of communal wool farmers towards 'commercialization' in terms of technological improvements, including higher lambing ratios, wool yields and growth rates under communal versus commercial conditions. Although such technological improvements have largely been achieved as a result of support provided outside of ComMark's assistance to the programme, ComMark's distinctive contribution in this regard has been to ensure that the technological improvements and infrastructure development are geared towards the development of market potential. We also aim to ensure that the market structures that are established are inherently self-sustaining and have the capacity to continue operating after the period of large-scale grant assistance is wound down.

We are happy to report that during the period under review, indications of such sustainability have been positive. For example, the NGWA has noted the independence of its associations, manifested in the fact that all four of the regions participating in the programme (representing over 800 associations) organized regional congresses without intervention by the national association. In addition, some associations are now contracting transport and other services independently and they are questioning brokers on their costs and commission levels. They are also engaging directly with private suppliers of veterinary medicines and breeding stock.

The NWGA programme has been demonstrably successful in enlarging the production capacity of communal wool farmers in the former Ciskei and Transkei, and in ensuring that such capacity has been translated into higher incomes among a substantial group of wool producers.

The challenge ahead is twofold: to ensure that the current level of technical and marketing support financed from industry and government grants becomes less necessary as associations are able to take more responsibility for managing their own affairs, and – as a consequence – resources are released that allow our implementation partner, NWGA, to provide services to the more than 500 woolshed groups that may be producing below their potential. In addition, there are two particular challenges that represent a new model for wool production.

In terms of longer term growth of African farmers within South African agriculture there is a need to look beyond current communal grazing, however well adapted to commercial wool production, and into the transfer of larger individual units into African ownership. In this way, there is the opportunity of expanding production by taking advantage of land (particularly properly fenced and developed sheep farms) being made available in the commercial areas. The NWGA is in a position to facilitate this next step and is also well-placed to provide the 'post-settlement support' that everyone engaged in the agricultural sector agrees is necessary but, in practice, is finding difficult to put into operation.

Second, wool growers have sold through the auction because, currently, it offers the best possible returns. It is, however, simply a market mechanism: if other, more profitable, ways of selling wool are possible, they need to be investigated.

One possibility is directly contracting into major apparel markets, with a price premium based upon the sourcing of the wool. Organically produced wool is one option, but the certification process is complex (for example, there are specific requirements regarding nutrition and sustainable grazing, among other things) and not particularly advantageous to communal land producers with relatively small flocks. Fair trade wool is easier to certify and clearly suited to procurement from low-income farmers who are disadvantaged under current market arrangements. The main option appears to be the formation of an export company that can procure wool from associations that are managed in a way to ensure 'fair trade' labeling and certification. Then the benefits of the fair trade price guarantees and profit margins will be channeled back to the associations.