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GENERAL MANAGEMENT ASSISTANCE CONTRACT (GMAC)

**Contract No: 674-C-00-01-00051-00**

## **ComMark's Wool Industry Strategy and Investment Plan**

Contract or Grantee number: 0140-0204-G-GA44



**ComMark Trust**

This report was produced for review by the CDIE. It was prepared as a performance milestone under Mega-Tech, Inc.'s prime contract. The contents of this report address activities performed under USAID/South Africa's Strategic Objective No. 9: Increased Market Driven Employment

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### **Activity Summary and achievements:**

The National Wool Growers Association (NWGA), a private wool-industry membership-based producer organisation who are mandated to address the development needs of small-scale wool growers and ensure they market their product through the commercial market, recognised the need to develop their original, micro level intervention to ensure it had a bigger sector-wide impact. In 2003 they approached ComMark for funding and their application was successful. They were awarded a three-year accountable grant to expand their activities. ComMark then separately approached USAID through its GMAC Project to contribute funds to this grant. The objective of the ComMark grant to NWGA was to improve the direct participation of emerging wool farmers in the formal wool value chain by selling their product through the auction market system. Participation in this system rests on farmers accessing a range of business services and skills so they can supply a market quality product.

The ComMark grant with USAID contributed to the following objectives:

1. Assisting in the establishment of producer organisations to manage market assets and business information and transactions;
2. Assisting producers to respond to opportunities for higher value sales through improved processing and recording;
3. Encouraging the confidence of buyers and agents in recently established organisations and arranging initial transactions;
4. Assisting producers to secure arrangements for financing investments and sourcing investments.

The Grant Activity Completion Report details the achievements of the grant.

**Contents of this report:**

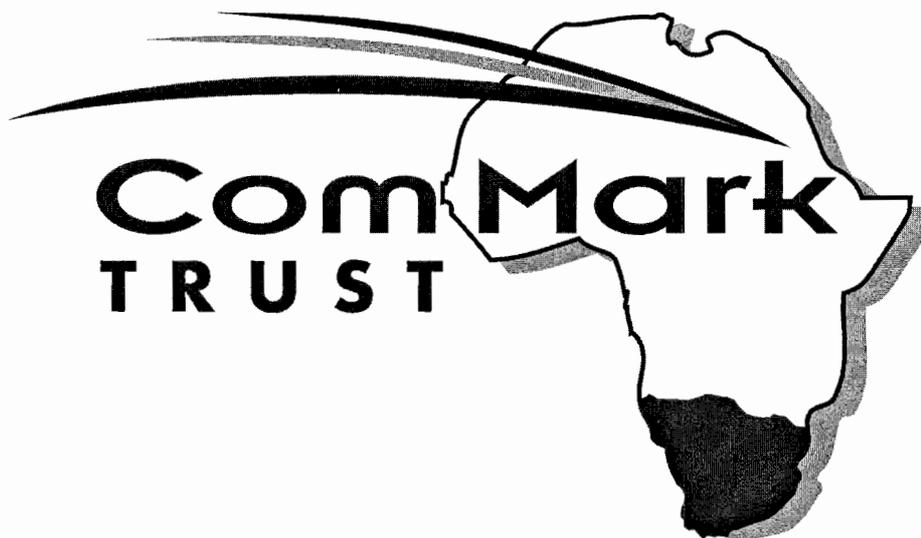
- 1) Grant Activity Completion Report (Nov. 2005); and
- 2) Narrative Progress Report (FY2005).

**Grant Activity Completion Report**

**Grant Agreement 0140-0204-G-GA42**

**The ComMark Trust's /NWGA Eastern Cape  
Wool Sector Programme**

**1 March 2004 – 30 November 2005**



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# Grant Activity Completion Report

## Grant Agreement 0140-0204-G-GA42

### The ComMark Trust's /NWGA Eastern Cape Wool Sector Programme

1 March 2004 – 30 November 2005

“Sheep is the only `gold’ of the Eastern Cape; even the poorest people have sheep in their kraals”

ComMark project adviser

#### Introduction

This report summarizes the progress made with respect to assisting the commercial development of African wool farmers in the Eastern Cape. In March 2003, the ComMark Trust awarded the National Wool Growers Association of South Africa a three year grant to implement a range of market development activities. The outcome of these developments was expected to bring at least 50% of traditional wool farmers into the emergent category (ie from subsistence to small-scale commercial) raising the number to at least 50,000. It was also expected that as a result of the grant, over 100 additional wool-based producer groups would be in a position to process their own clip and transact independently with brokers.

Of the R5.6 million ComMark awarded the NWGA, USAID through its GMAC Project financed R 1,523,508.00 of this amount for the first 16 months of the project. This money was paid to ComMark who undertook the management of the GMAC monies and who are responsible for reporting on the project's progress.

This report will endeavor to summarize the progress of the project with respect to the achievement of project outcomes to date. *It is important to note that the project is on-going and that we will only be able to measure and accurately report on the **final outcome** of the grant at the end of the project (31<sup>st</sup> of March 2007).*

Background information on ComMark, the Eastern Cape wool industry and on the NWGA's development strategy is presented in the first part of this report. The second part of the report details the grant and its implementation while the third part of the report summarizes grant achievements. The report is concluded with a

short summary of the main lessons learnt and recommendations as well as how these can be disseminated.

## **1. Background**

### **1.1. Background to the ComMark Trust and its agribusiness activities**

ComMark stands for *Making Commodity Markets Work for the Poor in Southern Africa*. It is a Dfid-funded project managed by ECIAfrica, a Southern African economic development consultancy. The objective of ComMark is to reduce poverty in the Southern African region through improving the legal, regulatory, policy and business service frameworks that underpin high growth, pro-poor commodity sectors.

ComMark is active in three sub-sectors of the economy namely agribusiness, tourism and garments and textiles. With respect to agribusiness, ComMark believes that the success of the Southern African agribusiness sector hinges on its ability to incorporate the many small-scale farmers working at the periphery of the formal market. One of the gaps the organization has identified is the failure of the private sector to recognize the commercial potential of this neglected group. The objective of ComMark's agribusiness is to connect big business with emerging farmers and bring them into mainstream markets where they can reap the benefits of high prices and of value-adding opportunities.

Aside from working with the National Wool Growers Association on wool in the Eastern Cape, the Trust is also active in the Eastern Cape red meat sector as well as in the wool and mohair sector of Lesotho.

### **1.2. Background to the Eastern Cape and the wool industry**

To inform ComMark's involvement in the South African wool industry, in 2002 the Trust undertook a detailed sub-sector analysis of the wool sector (See Appendix 1). This research revealed that while the global demand for wool was stable, declining production from the major producer (i.e. Australia) meant that there were opportunities for South Africa to increase its share of world wool production. However, it was also noted that increased production was unlikely to come from established commercial farmers due to increased opportunities in other industries such as game farming and mutton production which demonstrated a higher return on investment. This not only created the space for new entrants into the sector but also provided traditional and emerging wool farmers with a growing market and the opportunity to enhance their rural incomes in areas where there were few other employment alternatives beyond migration.

In 2000, the South African commercial sheep herd was estimated as 23 million of which 11 million were merino, 6 million other sheep and 6 million non-wool sheep (i.e. mutton only). Eastern Cape was found to have the largest concentration of

sheep (7.4 million); followed by Northern Cape (5.3 million) and Free State (5 million).

The Eastern Cape and more specifically the Ciskei/Transkei has always been regarded as the region within South Africa with the greatest potential for the development of commercial wool farming within black communities due to sheep holding (3 million sheep). However, in 2000 Eastern Cape production represented only 26 % of wool production, reflecting the low productivity of the former Ciskei and Transkei areas. The Ciskei/Transkei herds represented 13 per cent of the national sheep herd, but were found to only produce 3 per cent of total wool production and 1.4 per cent of value realized at auction.

This relatively low share of total value realised was attributed to low productivity levels as well as low prices received for wool. Low productivity was ascribed to the limited genetic potential of herds as well as herd, pasture and health management constraints. Low prices were found to be a function of poor wool quality and the fact that the majority of producers marketed their wool unclassified, in small quantities to informal traders at very low spot cash prices.

### **1.3. Background to National Woolgrowers Association (NWGA) and their work in the Eastern Cape**

The National Wool Growers Association (NWGA), is a private wool-industry membership-based producer organisation who are mandated to address the development needs of small-scale wool growers and ensure they market their product through the commercial market. In this regard, since 1998 the NWGA has had a programme to provide shearing shed infrastructure, and technical and extension services to wool producers in the former homelands of the Eastern Cape. This original initiative brought a number of emergent producers directly into the wool auction system, and a marked increase in production and income in selected areas was observed. This programme also formed committees of producers to manage the sheds, provided training in classing and animal health, and arranged for the purchase of improved ewe and ram stocks.

While the initial efforts of the NWGA needs to be lauded, the impact of their activities at this point was relatively small. In 2001/2002 less than 12% of the total estimated Ciskei/Transkei clip was marketed directly onto the wool auction floor.

## **2. The ComMark Grant to the NWGA: Grant Activity**

### **2.1. Overview**

The NWGA recognised the need develop their original, micro level intervention to ensure it had a bigger, sector-wide impact and in 2003 they approached ComMark for funding. The NWGA's application was successful and they were

awarded a three-year accountable grant to expand their activities. ComMark then separately approach USAID through its GMAC Project (managed by Mega-Tech), to contribute funds to this grant. The objective of the overall ComMark grant to the NWGA is to improve the direct participation of emerging wool farmers in the formal wool value chain by selling their product through the auction market 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 and currently the NWGA is active in 270 woolsheds, directly servicing more than 9000 farmers.

Employing the estimated 8 additional wool marketing mentors (field workers) necessary to service such a large group of farmers would have required a much larger grant. To reduce this and make the project financially viable, the NWGA approached the Provincial Department of Agriculture to arrange for the secondment of 8 of its extension officers to the NWGA for a 3 year period. This organisation was then able to use grant funds to pay for the running costs associated with making use of field mentors. These relate to their transport, communications and other office costs.

The exact cost components of the grant are set out in Appendix 2. This appendix also indicates which of the cost items are funded from monies paid by Dfid (ComMark) and which were provided for by the GMAC grant. These cost include:

- i) **allowances costs** including travel and subsistence for 12 Production and Market Advisers (4 existing NWGA staff plus 8 seconded government officials) to work with selected wool producer groups primarily in the Eastern Cape and to facilitate links between producers and market agents, suppliers and financial service providers.
- ii) employment costs of a **wool programme director** to supervise the work of the above
- iii) **a training fund available** to the director for training technical staff within communities, demonstration visits, management training within new producer groups, training tools, Production and Marketing Adviser training etc.
- iv) **a small fund** for assisting in the provision of improved stock, production and processing materials, minor building works etc where part of the costs are borne by producers but additional finance can facilitate the market development initiatives of the Advisers (field mentors).

The wool production field mentors are currently responsible for managing and implementing a diverse range of activities. Strengthening shearing shed associations is essential part of this as small-scale farmers need to work collectively to generate sufficient volumes to purchase inputs and services that are beyond an individual farmer's reach. Specialist advice is being provided with the emphasis on getting farmers to produce high-quality wool. Marketing extension is focused on ensuring the sheep are correctly shorn, the wool is well-classed and packaged into wool bales which the broker can market for a high price. Post-transaction support in the form of statement reconciliation is also provided. In addition, the NWGA works around improving credit extension and the provision of transport. Through the ComMark grant, the NWGA was also able to co-fund the purchase of small but essential wool-processing equipment such as wool presses, scales and classing tables. Without access to this equipment it is not possible for farmers to achieve the required standard dictated by the market.

The services rendered to emerging wool farmers in the Eastern Cape as part of the overall ComMark NWGA grant include:

- i) **Organization and strengthening of Farmers Associations:** Emerging wool farmers in the Eastern Cape are organized into a large number of farmer associations. Production advisors assist in the setting up of these associations and regularly attend their meetings to strengthen and build these bodies. With respect to this project, the NWGA directly works with *270 woolshed farmer associations whose membership is in excess of 9000 farmers*. These woolshed associations are organized into four regions and each region holds an annual congress. Furthermore annual provincial and national congresses are also held.
- ii) **Advisory Services and Informal Training:** These services can be divided into two main areas namely technical extension (animal health) and marketing advisory services. With respect to technical advice, here the emphasis is on getting farmers to produce high quality wool. Technical advice relates to information and on-site training with respect to animal health issues, reproduction, grazing management and feed issues. Marketing extension is focused on ensuring the sheep are correctly shorn, the wool is well-classed and packaged into wool bales which the broker can market for a high price. In addition the advisors also work with other private sector players around improving the BDS services to producers such as finance and transport.
- iii) **Formal Training:** The NWGA is currently implementing a formal training programme. This programme follows a logical sequence

with respect to the wool season. From 1 March 2004-30 June 2005 more than 147 farmers and business service providers (shearers) were trained on a number of themes related to wool production and marketing. It must also be noted that the NWGA ran a number of other training courses which were paid for by the Agriseta and not included in this number.

Aside from industry producer training, the marketing and production advisors seconded from the Eastern Cape Department of Agriculture are also undergoing a management training programme to ensure that when they return to their positions in the Department their skills profile has been increased. This is one of the conditions the Eastern Cape Department of Agriculture set as part of their secondment contract. Note that the formal training of the production advisers took precedence in 2005 in support of the train-the-trainer concept. Once formally trained, it is expected that the production advisers will transfer their skills to farmers through informal in-the-field training.

As part of the formal training process , a series of posters as well as a training video (dvd) were produced and distributed in the province.

- iv) **Ram Project:** The Agricultural Research Council funds a ram exchange programme – the advisors assist with this project however none of the direct costs are carried by the ComMark project.
- v) **Co-financing of small grants:** The ComMark Small Grants Fund was used to purchase a variety of wool industry assets. These assets include wool presses, wool scales, sorting tables and dipping tanks. The provision of these assets was made available to communities under the following conditions namely:
  - Communities contribute something in return for the asset, this contribution was in the form of cash, labour or matched assets such as the purchase of a complimentary item such as a wool sorting table.
  - In most cases such equipment was not given to specific shearing sheds but rather to communities<sup>1</sup> so that it can be rotated as the need arises – the NWGA production advisers are responsible for coordinating the use of the equipment.
  - A detailed break-down of the assets purchased with the grant is available in Appendix 3.

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<sup>1</sup> For the perspective of the NWGA, a community is defined as a narrow geographical area with a high concentration of wool-farmer producer-associations/shearing sheds.

## 2.2. Key Grant Implementation Issues

Below is a SWOT analysis of the grant implementation process:

### 2.2.1. Strengths

- i) **Brand:** Once the project had started, it gained relatively quick momentum due to the fact that the NWGA as a producer organization was recognized and had support structures in place to assist with implementation.
- ii) **Positive first year results:** The first year's project results were promising. For example, the amount of wool delivered for auction sales increased by more than 67% in one of the areas where the NWGA is active. This was partly due to more farmers moving into formal channels, but also to yield improvements. Increased marketing efficiencies were also achieved. Furthermore, after the first season, communal farmers' average bale weights increased from less than 100kg to 120kg a bale, the minimum weight for a market accepted product.
- iii) **Private sector leverage and embedded services:** Private sector wool brokers are active project partners. As noted the communal farmers who participate in the project market their wool through the country's two largest Port Elizabeth-based wool brokers namely CMW and BKB. Furthermore a number of the services the production advisors are carrying-out can be shifted to the brokers to complement the NWGA's work for example shearing training and transport co-ordination. This is progressively happening.
- iv) **Government-resources leveraged:** The bulk of the project activities are being carried out by government extension agents who have been seconded to work full-time on this project and thus remain on the governments payroll. At the end of the project, when they are reabsorbed into government service they will be able to take the "making markets work" experience and skill they have garnered here and replicate this approach elsewhere.

### 2.2.2. Weakness

- i) **Delayed Start-Up:** As noted, eight of the marketing and production advisors are employed by the Eastern Cape Department of Agriculture and seconded to the project for a three year period. The remaining four production advisors are employed by the NWGA. The secondment of these advisers took some time to finalize, and only officially resorted under the NWGA in late April 2004. Furthermore their vehicles were only delivered in May 2004. This delay in the start-up of grant activities is the primary reason the GMAC grant period for this project needed to be extended from the original 16 months to 20 months.
- ii) **Project Manager Change:** Dr AC Geyer, NWGA project director for the ComMark Wool Development programme resigned from the NWGA with effect of the 1<sup>st</sup> of April 2005. The post was temporarily managed by other NWGA management personnel. Dr Amie Aucamp

replaced Dr Geyer on the 1 of July 2005 and this delay meant the project lost some of its initial momentum, however, by the end of November 2005 this had been regained.

- iii) **Management information systems and office infrastructure:** The production advisers operate out of three regional field offices of the NWGA and this has diluted the organization's ability to monitor their day-to-day work performance and strategic direction. This weakness has been addressed and advisers have been assisted to help prioritize which areas and sheds they must concentrate their efforts on. An improved activity register has also been designed for these workers. It must also be noted that the regional offices are not adequately equipped, office equipment and overall condition of facilities are sub-optimal.
- iv) **Status of seconded government extension workers:** Some confusion exists among the middle management of the Eastern Cape Department of Agriculture, as well as among the production advisers themselves, as to their exact status with respect to lines of reporting.
- v) **Supply of equipment to woolsheds:** The availability of equipment is problematic, there is a large shortage of wool presses and scales in the region, with equipment often having to float from shed to shed. The small grants fund was perceived as insufficient to meet the demand. In addition, the NWGA struggled to timeously prioritize communities/sheds to benefit from this component of the project.
- vi) **Training venues and cost of training materials:** A number of government training venues such as agricultural colleges and schools the NWGA typically made use of in the past, have closed down. This makes it very difficult in certain regions to run farmer-training programmes, as participants have to be taken to venues outside of their community and accommodated for the period.

### 2.2.3. Opportunities

- i) **Increased competition amongst brokers:** The recent launch of Sinethemba Mfama, a BEE wool marketing company, increased the level of competition amongst wool brokers. This increase in competition will hopefully see brokers providing producers with additional services such as credit etc in an attempt to handle their wool
- ii) **Sheep Meat Market Development:** While wool remains the focus of this project, farmers derive a return from their sheep flocks from both the sale of wool and from sheep meat sales. The ComMark red meat project in the Eastern Cape is designing an intervention strategy to more fully develop the market for sheep meat coming out of the communal areas.
- iii) **Innovative Extension Technologies:** Growing recognition within the NWGA around the need to employ innovative extension technologies to reduce the cost of servicing such a large disparate constituency. A

model they are developing is to train prominent NWGA office bearers (so called regional executives) and make them responsible for certain extension activities currently being undertaken by the advisers. In addition, the organization is working with local radio stations to get them to carry agriculture related information.

- iv) **Local Economic Development:** Local municipalities are tasked with designing and implementing LED initiatives and are increasingly drawing on the NWGA to assist them with the agriculture programmes.

#### 2.2.4. Threats

- i) **Low international wool price:** Wool prices for the 2004/2005 season were 17% lower than 2003/2004. However it was noted by one of the broker representatives that it is unlikely that prices will fall further especially for the lower end of the wool quality spectrum. The main consequence of the low prices is the demotivating effect it has had on farmers and is likely to discourage their long term commitment to the industry.
- ii) **Community Orientation:** In commercial agriculture, shearing and classing is done by itinerant band of professional shearers and wool classers that move from farm. This model is not being adopted by emerging farmers because they believe it is important to provide local employment. However as these shearers and classers are only using their skills for a short period of time during the year, their knowledge retention is poor. Furthermore, the returns to the NWGA on the training of these people to improve their skills, is very low.
- iii) **Animal Health Services:** A very bad outbreak of sheep scab took place from May to October 2005. This outbreak can be explained by the government's delay in awarding the tender for its sheep scab campaign. Furthermore the dipping service they provide to farmers is irregular and badly managed. However the private sector has been reluctant to enter the market to fill this gap as the government has not officially withdrawn from direct service provision
- iv) **Transport infrastructure:** This affects the ability of producers to get their wool through the system and to get paid quickly. Woolshed associations have to wait until sufficient bales have been shorn before brokers will send a vehicle for collection and this leads to delays in sale and payment to farmers thus undermining their confidence in the formal marketing system
- v) **Overgrazing:** A communal grazing system means that the establishment of camps to manage grazing is limited – the lack of grazing leads to the high lamb mortality rate currently observed amongst farmer. This also undermines attempts to improve genetic profile of the emerging farmer's herd due to uncontrolled mating.
- vi) **Age profile of farmers:** Certain resistance to change factor associated with age

### **3. Grant Activity Objective Achievements**

#### **3.1. Overview**

The implementation strategy described in part of this report was expected to contribute to the following market development objectives:

- i) Assisting in the establishment of producer organisations to manage market assets and business information and transactions
- ii) Assisting producers to respond to opportunities for higher value sales through improved processing and recording
- iii) Encouraging the confidence of buyers and agents in recently established organisations and arranging initial transactions
- iv) Assisting producers to secure arrangements for financing investments and sourcing investments

The attainment of these objectives was expected to lead to an increase of at least 50% of traditional farmers from the Eastern Cape brought into emergent category, raising the number to at least 50,000. The log-frame below shows the indicators ComMark has used to measure these achievements. Where possible, our progress is indicated alongside the indicator in parenthesis and discussed in the text below.

It must be noted that to attribute these results exclusively to the efforts of this grant would be incorrect as there are a number of other donor and government wool projects being implemented. However, the NWGA programme is the single biggest industry initiative and it is the only project which has a province wide presence.

	OVI's/Indicators
<b>Goal:</b> To increase the incomes of wool and mohair producers in the communal areas of E Cape, Free State and Lesotho and thereby reduce poverty	Margins of 50,000 producers raised by 50%
<b>Purpose:</b> To develop market arrangements favourable to sustainable production	50% of traditional farmers from the Eastern Cape brought into the emergent category  50% of the Ciskei/Transkei wool being marketed through the formal system (2004/2005 season 37.4%)  100 additional woolshed-based producer organizations processing their clip and transacting independently with agents and buyers and realizing prices related to auction market sales (150 additional groups in 2004/05)
<b>Outputs:</b>	
1 Support services to woolshed groups	Number of groups established and levels of self-reliance achieved (2004/2005 an additional 150 woolshed groups established)
2 Technical and management training for higher value addition	Prices realized for higher grades (2004/2005 season saw an increase of 29% with respect to no of classed bales) Lower levels of re-classing Higher average bale weights (2004/2005 season average bale weights increased from 96kg to 121 kgs)
3 Confidence building in market agents and buyers	Numbers of transactions undertaken at woolsheds Increased level of embedded services (increasingly brokers paying extension workers, providing transport and providing woolpacks on credit)
4 Assistance in financing of wool assets and inputs	Numbers of Loan agreements and input supply contracts with associations (increase in industry wool processing assets = 29 wool presses, 67 wool scales, 13 dip tanks, 3 sorting table)

### 3.2. Progress made with respect to Project Purpose

Before reporting on the achievement of the project with respect to the attainment of these objectives (project outputs) set out in the log-frame, it must be noted that the grant is on-track to achieving its purpose. The subsector analysis ComMark undertook in 2002 on the wool industry found that a relative small portion (525,000 kg) of the then total estimated Ciskei/Transkei clip of 4.5 million kg was being marketed directly onto the wool auction floor. This amount has increased to 1,493,761 kgs for 2004/2005. This amount represents 37,4% of the potential/available clip. Thus while the project has made progress, it is clear that the informal marketing system is still playing a significant role and the target is to increase this figure to 50% by 2007.

### 3.3. Progress made with respect to Project Outputs (Objectives)

The NWGA separates the areas making up the former Transkei and Ciskei into four regions or districts. While aggregate monitoring and evaluation information is available for the whole Transkei/Ciskei, very detailed shed-level, base-line information for 2003/2004 is systematically being gathered and assessed on a regional basis. The results presented below pertain on to Region 21. However, as data from other region's filter through, it is clear that the results from this region are a good indication of changes occurring at a provincial level.

**Table 1: Eastern Cape Shearing Sheds by Region 2004/2005**

Region	Number	Weight	% of catalogue sales
20	408	506,772	26%
21	167	311,081	33%
23	214	528,499	56%
24	57	147,417	68%
<b>Total</b>	<b>846</b>	<b>1,493,771</b>	<b>42%</b>

Source: NWGA

With respect to Region 21:

- Within Region 21, there are 167 woolshed associations whose membership is in excess of 2800 farmers.
- These farmers collectively own approximately 100,000 sheep with market value of R40 million.
- The wool marketing season extends from September-June and the 2004/2005 was the first full wool marketing season for the project. The data for the 2003/2004 season is thus the project's baseline data. Table 2 below shows the results of the project with respect to outcomes. These are discussed in more detail below.

**Table 2: Region 21 2004/2005 Results**

	2003/2004	2004/2005	% change
Number of Associations	136	167	23%
Kgs of wool delivered	191,273	311,081	63%
Average kg per bale	95.68	121.12	26%
Binned Bales	989	1516	53%
Binned Bales (existing sheds 2003/04)	928	1129	22%
Classed Bales	992	1280	29%
Classed Bales (existing sheds 2003/04)	972	1107	14%
Classed as % of total (existing sheds 2003/04)	50	47	-6%
Classed as % of total	50	50	0%

(existing sheds 2003/04)			
Nett Cheque (existing sheds 2003/04)	2,850,094	2,642,678	-7%
SA wool price index change			-17

Source: Project results/NWGA

**i) Increase in the number of Farmer Associations (Producer Organizations):** As can be seen from the table above, the number of wool farmers associations increased by approximately 23%, when compared to the 2003/2004 baseline. If this average is used for the whole Ciskei/Transkei area this suggests and additional 150 producer groups can into existence in 2004/2005. This is plausible given that in 2002 when ComMark undertook its sub-sector analysis, only 240 sheds were in existence.

**ii) Higher value addition (increase in the volume of wool marketed through the auction system, lower levels of re-classing ie increased ability to meet grades and standards):** Evidence from Region 21 suggests that the amount of wool which was marketed by communal farmers directly through the auctions, increased by 63%. With respect to wool marketing grades and standards, the weight range for a market accepted product is between 120-180 kilograms. If a bale weighs less or more than this, the broking company must repackage the product and sell it under its own brand (ie reclassing). Furthermore, a number of marketing costs such as transport, bale handling fees, wool packs are calculated per bale, and not per kilogram. Thus, the heavier the bale the lower the kilogram marketing costs. As can be seen from the table, in 2003/2004 the average weight per bale for communal farmers was less than 100 kgs and in 2004/2005 this increased to 120kgs. This increase represents a cost saving of R 300 per bale which, for Region 21, translates into R224,000 - a gross margin increase of 7%. This increase does not take into account the higher per kilogram price that wool sold on the catalogue as opposed to broker bins, achieves.

Binned bales/binned wools not only include underweight bales but also incorrectly classed bales, contaminated bales and bales containing more than 1 wool type. There will always be a few binned bales making up part of the clip as there is not always enough of a single wool type from a particular shed to make up a complete bale. However, the fact that only 50% of all wool bales are marketed under an individual shed's name is too high. As shown in the above table, in 2003/2004 classed bales (or bales sold on a catalogue) made up 50% of the total. In 2003/2004 however this decreased to 46% despite there being an absolute increase in the number of classed bales sold. Most of this decrease can be attributed to the new

associations which came into existence only in 2004/2005 and this suggests an urgent need for increased training for these associations.

All these efficiency improvements did not translate into increased prices as on average the South African wool price declined by more than 17% in 2004/2005 when compared with the previous year.

**iii) Increased confidence:** The increase in confidence in the system can be measured by the increase in the volume of wool traded, specifically if the size of the clip of existing sheds is taken into account. Not only was there an increase in the number of shearing sheds but also an increase in the volume of wool passing through existing sheds (63%). This indicates increased membership as well as increased investment (ie more sheep) in the sector by existing farmers.

An alternative way of measuring the confidence in the system is the extent to which service providers such as brokers are investing in the sector and providing embedded services to producers. As noted, the communal farmers who participate in the project market their wool through the country's two largest Port Elizabeth-based wool brokers namely CMW and BKB. For the first time, these two brokers are deploying field agents in the former Ciskei and Transkei areas. With time, many of the coordinating services rendered by the NWGA to these farmers will form part of the commercial package offered by these brokers and this will ensure the long-term sustainability of the project.

**iv) Assistance in finance of wool assets and inputs:** As a result of this project the availability of wool-presses and other marketing infrastructure in the Eastern Cape increased significantly. This included 67 wool scales, 29 wool presses, 12 dipping tanks and 3 sorting tables. As already noted communities were expected to contribute something in return for the asset. This contribution took the form of cash, labour or matched assets such as the purchase of a complimentary item such as a wool sorting table.

### **3.3. Poverty Impact**

To track the impact of our work on livelihoods in the Eastern Cape, ComMark commissioned a base-line poverty survey in October 2004 and a follow-up survey in October 2005. These surveys were conducted in four areas of the former Transkei/Ciskei, with more than fifty households participating. The results found that poverty levels among the households interviewed had decreased for the period. For example, the percentage of households reporting that their children occasionally went to bed hungry declined from 44% to 34%. Focusing on farming income, this showed an average increase of 18% (from R 4029 to R

4781 per farmer) with the bulk being generated by the sale of sheep and wool (>60%). While income from wool sales declined by 33% due to low wool prices, income from the sale of sheep increased by 63%. It could be argued that this increase is an indication that farmers were divesting from the industry. However, no correlation was found between changes in herd size and changes in income derived from sheep. This increase is therefore better attributed to an improvement in farming practices to an increase in the use of animal health remedies and supplementary feeds which was also observed. At this stage these results are only suggestive as a longer time series is needed to draw more substantiated conclusions and ComMark will once more be executing this survey in 2006 and in 2007.

#### **4. Lesson Learned and Recommendations**

The most important lessons learnt and recommendations are set out below:

**i) Successful Public-Private-Partnership Implementation Model:** The implementation model followed by the NWGA has proved to be successful as it managed to use donor funds to leverage in-kind resources from government within the context of an industry-led intervention. The Eastern Cape government employs 615 extension workers whose activities, and thus impact, are severely hampered by lack of access to sound management and training as well as access to resources such as transport and telecommunications. This project was able to deliver these skills and resources and thus increase the government's return on its extension investment. It is thus recommended that this model be explored to test its suitability to other sectors and provinces where producer association/industry organizations are robust enough to provide the necessary support.

**ii) Dynamic market environment:** Bring emerging farmers into mainstream markets means they may be more exposed to market vagaries. For example the decline in the wool price over the past season meant that many of the financial benefits anticipated from the project have not been realized despite technical targets being achieved. This draws attention to the need to continuously highlight risk factors outside of the project's control. Despite increased risk, operating in commercial markets brings with it more advantages than disadvantages. The support services chain-participants such as brokers are offering farmers out of commercial interest and opposed to philanthropic motive is evidence of this. Donor-supported private sector development must focus on how to catalyze dynamic markets and increase the poor's participation in these.

**iii) Strengthening the Enabling Environment:** Projects are not implemented in a vacuum – their success is underpinned by the broader enabling environment within which they operate. Enabling environment

issues negatively affecting emerging farmers in the Eastern Cape include the current land tenure system, the transport system and animal health policy implementation. These are issues which the national, provincial and local government needs to grapple with and resolve. The NWGA is well-positioned to champion government on these issues and while it has done so, this effort needs to be stepped. It is ComMark's view that in order to contribute to regulatory and policy reform you must first establish credibility through successful project-level interventions - to be heard, you must build your voice from within the sector.

## **5. Public Dissemination Processes**

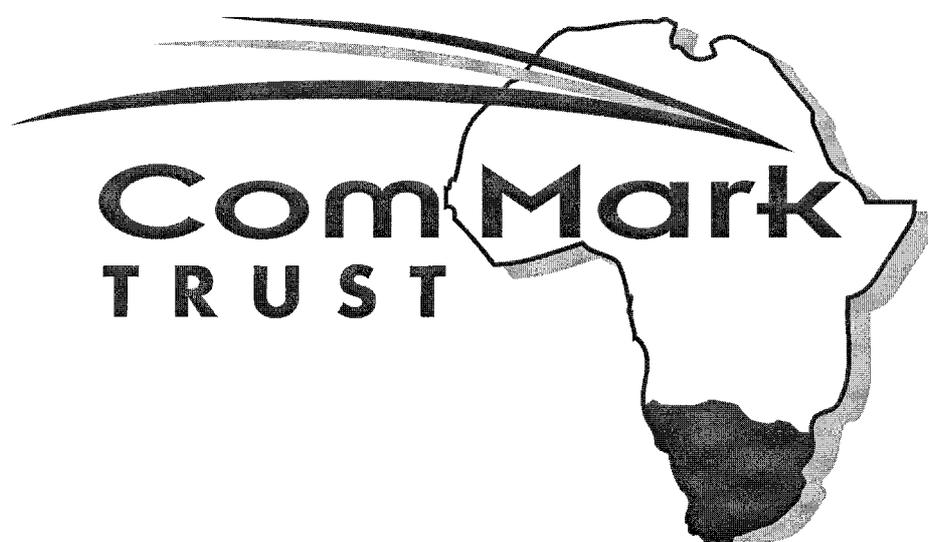
As more results from this project become available in the following dissemination will be followed over the course of the next 12 months.

- i) **Preparation of case-study by July 2006:** This will either be done by ComMark itself with support from Dr John Howell who formed part of the original project design team or as part of the "Regoverning Markets" study (See outline attached in Appendix). This study is part of an IIED project that aims to undertake comparative in-depth empirical analysis of 32 case studies of cases where small-scale producers and SMEs connected successfully to dynamic markets. ComMark submitted a formal application to have the Eastern Cape wool project included in this study and we will be notified of the success of our application in February 2006.
- ii) **Dissemination of case-study:** As part of the "Regoverning Markets" study all case studies will be written up in summary form – a 1-2 page overview, as well as in the form of an in-depth academic article. Regardless of whether this wool project is included thus study, ComMark will follow the same strategy and widely distribute the summary and final case-study either directly or via our website.
- iii) **Dissemination log:** ComMark's resident communications specialist will maintain a detailed dissemination log and this will be submitted to USAID through Megatech at the end of 2006.

# APPENDIX 1

MAKING COMMODITY MARKET WORK FOR  
THE POOR  
SOUTH AFRICAN WOOL SUBSECTOR  
ANALYSIS

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December 2002

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### **List of Abbreviations**

ARC	Agricultural Research Council
BKB	Boere Ko-operasie Beperk
CMW	Cape Mohair and Wool
ECDALA	Eastern Cape Department of Agriculture and Land Affairs
NDA	National Department of Agriculture
NWGA	National Wool Growers Association
SACU	Southern African Customs Union
SSU	Small Stock Unit

## 1 THE INDUSTRY

### 1.1 Overview

There are important differences in the histories of government support to wool farming in South Africa and Lesotho respectively. The Government of Lesotho has provided marketing and technical services to African producers of both wool and mohair on communal lands over several decades, whereas South African production has been dominated by white commercial farmers with relatively little support to producers in the former homelands. However, despite these differences there is effectively a single wool and mohair industry for the two countries with virtually all production being sold through South African auctions or direct to South African processors.

This report is on the wool industry in SA alone, with particular emphasis upon the scope for assistance to emerging and traditional wool producers. A second report covers both the wool and mohair industry in Lesotho.

South Africa and Lesotho (as SACU) are the sixth largest producers of wool (at 47million kg in 2001/02), although they represent only two per cent of world wool trade. Australia is the largest producer (at 550 million kg), followed by New Zealand (195 million kg.) and China (157 million kg).

Over 90 per cent of SACU wool is exported, principally to the European Union (75 per cent of the total) - and since 1999 almost entirely duty free as tariffs only apply at the level of worsted fabric and garments. The other major export markets are China (12 per cent) and Korea (5 per cent).

The SACU wool is generally fine in texture and largely based on the merino sheep. In 2000, the commercial sheep herd was estimated as 23 million of which 11 million were merino, 6 million other wool sheep, and 6 million non-wool sheep (i.e. mutton only).

Eastern Cape has the largest concentration of sheep (7.4 million); followed by Northern Cape (5.3 million) and Free State (5 million) (Lesotho has 1.2 million.). However, Eastern Cape production represents only 26 per cent of wool production, reflecting the low productivity of the former Ciskei and Transkei where some 3 million sheep produce only 3 per cent of the total production (and at significantly lower average value than other regions).

Wool production has declined over time (figure 1), especially in the production from merino wool types (at the expense of dual purpose wool/mutton types).

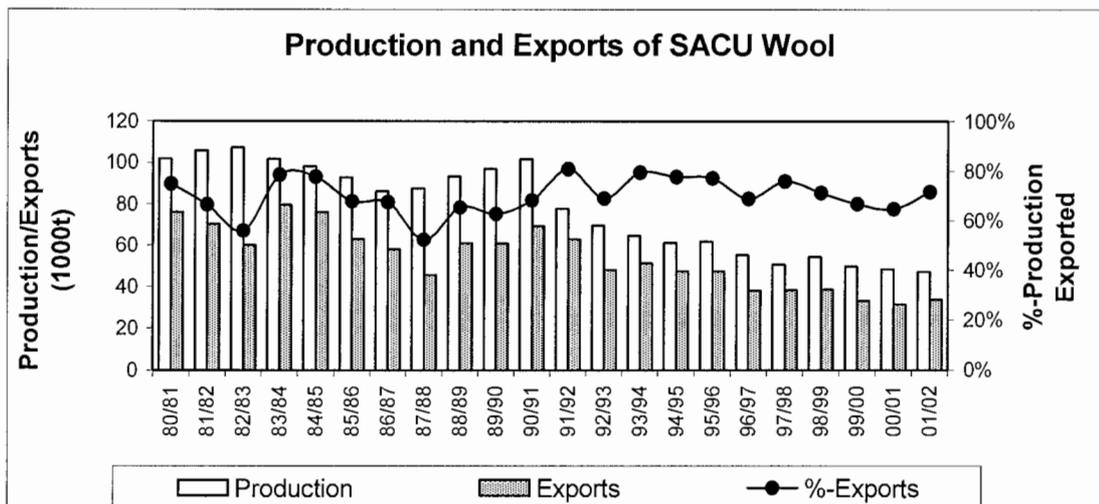


Figure 1: Production and exports of SACU Wool

International wool prices also declined in the 1970s and 1980s (see Figure 2: Nominal and Real Prices) but there has been some recovery in recent years as synthetics have lost ground. In the 2001-02 season, wool prices rose by 38% on the auction floor. (Similarly, mutton prices increased sharply in real terms). However, production continues to decline despite stronger prices. The industry attributes this primarily to stock theft and farm security generally.

The net result, however, is that the wool trade (brokers and processors such as Cape of Good Hope Wool Combers and Gubb and Ings) has underutilised capacity, and the promotion of increased, better quality, output from African wool sheep owners is clearly seen as in the industry's interest.

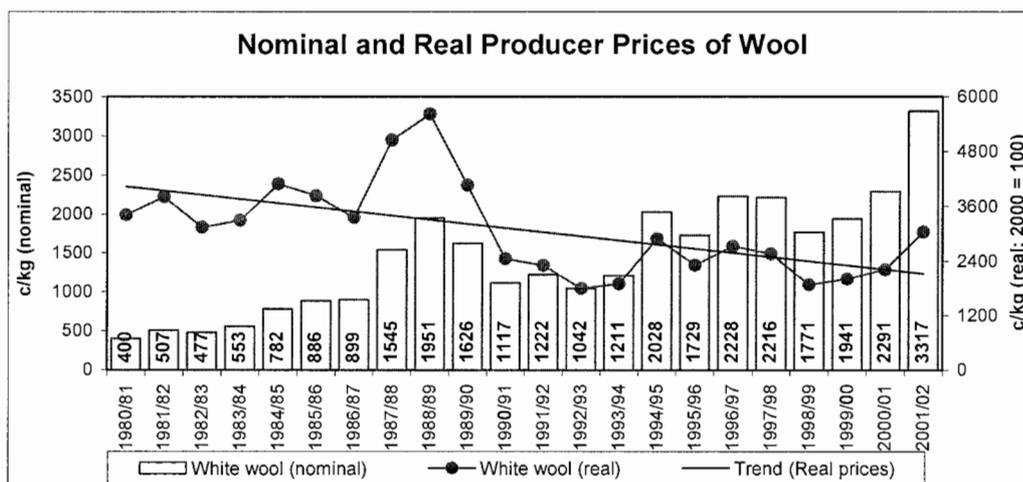


Figure 2: Nominal and Producer Price of Wool

## 1.2 Global Trends in Supply and Demand

During the last four years world wool production has declined from 1208 million kg to 1132 million kg in 2001/2002. The steepest decline has been in the Australian clip – a decrease of over 79 million kg. This reflects the impact of the price decline in the 1990s. However, over the past four years Australian wool exports have been higher than production, as the industry has released carry-over stocks built up during the earlier period of government intervention, which assisted in consolidating the Australian wool market's role in determining world prices.

It is predicted that due to drought, as well as still declining sheep numbers, Australian wool production will decline further to 500 – 520 million kg by 2002/03. In longer term it is predicted that the volume of exports are likely to continue their downward trend, while the value of exports are likely to be supported by a strengthening of demand later as the global economy improves but with higher oil prices impacting upon synthetics. Wool – although valued as a luxury, 'natural', product - represents a small share of total fibre consumption (The threshold value of wool prices to synthetics (and cotton) prices is considered to be around 3. If the price of wool increases above 3:1, price resistance from manufacturers is experienced. At below 3, the reverse applies).

More broadly, world production is expected to decline until 2004/05 and will be lower than the expected demand. It is therefore predicted that prices will stabilise at high levels, possibly leading to a supply response in the newer producing countries such as China and the FSU 'stans'. SACU countries should, therefore, be well-placed to benefit from long-term market improvements, but this would require a major change in the composition of production.

## 1.3 Trends in Production in SACU

Wool production in SA and Lesotho has dropped by about 50 per cent over the past decade (see Figure 1), although the 2001/02 wool auction season was the third consecutive season of real price increases in the industry. By now, a positive supply response might have been expected.

However, there appear to be more structural changes to commercial wool farming which are unlikely to lead to a significant return to wool production in the former RSA or, for that matter, to Lesotho which is similarly affected by change.

The principal factors, aside from the lack of confidence caused by a decade-long period of price decline, appear to be as follows:

- Lamb meat production has offered a more profitable alternative as real lamb prices have been higher and less volatile than wool prices since 1993/94. This led to a move towards cross breeding with mutton types.

- The accelerating rate of livestock theft since 1990, especially in areas within 20 – 40 km of towns but also in the mountainous border areas.
- The encroachment of human settlement, exacerbating pressure on the pasture land despite the overall reduction in animal populations, especially in Lesotho and parts of former Ciskei and Transkei.
- The better financial returns to the establishment of game farms in traditional sheep farming areas, especially the Northern and Eastern Cape.
- General lack of confidence in the agricultural sector.

Despite these adverse trends for wool production, there has been some evidence of a positive supply response. During the 1997/98 season 79 per cent of South Africa's wool clip fell in the fine and medium category where the sharpest rises have occurred. By 2000/01 this had risen to 83 per cent.

## **1.4 Wool Producers in SA**

Most of the wool production in SA derives from around 9700 commercial farmers owning about 20 million sheep organized into the National Wool Growers Association (NWGA), receiving the services of the two major brokerage firms, and selling largely via the Wool Exchange.

The rest of the production comes mainly from the nearly 3 million sheep owned by around 200 000 black farmers in the former Transkei and Ciskei. This represents 13 per cent of national sheep herd, but currently only produces 3 per cent of total wool production and 1.4 per cent of value realized at auction.

However, there are important differences within black producers. One group –termed ‘emergent farmers’ (see 2.1.2) - is participating in the livestock and pasture improvement schemes instigated by the government and industry in recent years (see 4.0). This group is also beginning to develop confidence in building structures of participation in auction markets, although many remain involved in spot market sales also (see 2.2.2).

There is also a substantial group – possibly 60,000 owners – who remain ‘traditional’ wool farmers: largely unorganized in terms of improvement and market participation, although deriving a significant part of their income from sheep (wool and mutton).

Finally, there are those –possibly 120,000 owners - who have very small herds, have little or no access to grazing or finance to invest in wool production, but nonetheless retain small flocks at low cost, with very little income. These are termed ‘marginal’ producers. The four categories are represented in Figure 4 – Wool Market Map on page 16.

## **1.5 The Wool Industry in SA**

### **1.5.1 Recent History**

Wool prices in SA have always been subject to international markets, but until the mid-1990s (and the Marketing of Agricultural Produce Act which removed many controls); the government had a major influence on the industry. The Wool Board, which had regulated marketing under a single channel, was disbanded and the Board’s effective agent – the Boere Ko-operasie Beperk (BKB) – was subject to competition as an industry supplier and broker.

With the disbanding of the Wool Board, the Wool Forum of industry representatives was formed and Board assets (mostly property) were transferred to a new Wool Trust. Cape Wool SA was established as the implementation arm of the Wool Forum, with responsibility to provide services and administer any grants (for research or development of new producers, for example).

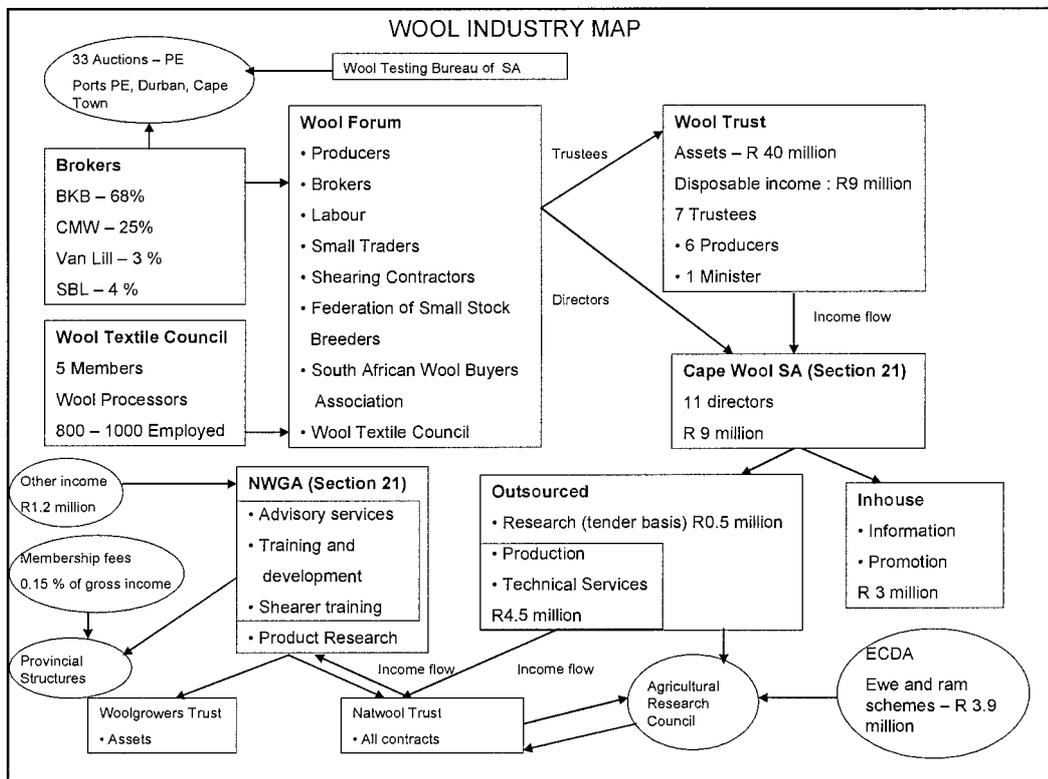
The BKB itself was converted from a co-operative into a company, and some of the former members joined the newly established Cape Mohair and Wool Company (CMW) which was formed following the closure of the Mohair Board.

### 1.5.2 Current Structure

The current structure of the industry is set out in Figure 3 – Wool Industry Map. As indicated above, the Wool Trust is tasked by Government (through the Wool Forum) with financing the transformation of the industry as well as maintaining some of the services provided by the former Wool Board. The Trust performs this ‘small farmer development’ function through annual grants to the NWGA for its development and training programme in Ciskei/Transkei.

The Range and Forage Institute (part of the ARC) also supports the work of the NWGA, particularly through its ewe and ram improvement programme (which is implemented through NWGA) and its trials programme on genetic and pasture improvement. The ARC, since 2002, receives an annual grant from the Eastern Cape Department of Agriculture and Land Affairs for this work.

**Figure 3: Wool Industry Map**



In terms of marketing, the most important recent developments are that there are now a number of buyers and brokers competing for wool. While the main auction activity is dominated by BKB and CMW as registered brokers on the Wool Exchange handling over 90% of the wool traded, there are now other auctions conducted by smaller traders.

The annual income of Wool Trust (after subtracting maintenance of buildings) is just under R9 million. This is paid over to Cape Wool, who utilize a third in-house in the generation and updating of wool statistics and information. The remainder is allocated to research, production and technical services, which is outsourced to the ARC and NWGA. Approximately 45 % of these funds are allocated directly to Ciskei/Transkei for production and technical services. However, in reality a larger proportion is utilized in these areas as these areas also benefits from other activities such as shearer and classer training as well as general extension services.

The NWGA is the apex organization which represents producer interests. It has provincial affiliates, with membership fees charged at 0.15 % of gross income of wool marketed. Fees are subtracted by brokers and are paid directly to provincial structures. Members of affiliated woolshed associations (or producer groups based upon shearing sheds) in the former Ciskei/Transkei also pay the same membership fees.

NWGA has an additional income of approximately R 1.2 million per year which is generated from other sources such as advertisements, partnerships, sale of clothing and management fees. Most of these funds are used for salaries and office costs.

## 2 THE STRUCTURE OF WOOL PRODUCTION AND MARKETING

### 2.1 The value chain for different producer groups

The following sections should be read in conjunction with the wool marketing map (figure 4).

#### 2.1.1 Commercial producers

Commercial wool producers are not a homogenous group as production intensity and diversification levels within the group vary substantially. In the more arid parts of South Africa, wool production often takes place on an extensive and exclusive basis. Sheep are grazed on very large farms with low carrying capacities and farmers concentrate exclusively on wool production (merino sheep).

In higher rainfall areas more diversified and intensive farming often takes place. In these cases wool farming could be one enterprise of a diversified farming operation with crop, beef and mutton farming often playing a more important role in total farm income. Pure wool breeds are sometimes kept, but more often dual purpose breeds are preferred. Sheep are grazed more intensively as the carrying capacities of the grazing are higher or planted pastures are utilized. Additional feed is often given in winter in the form of supplementation with crop residues, hay, lick and concentrates.

Commercial farmers make use of rotational grazing practices, herd management, health and breeding programmes. This would, for example, include controlled breeding and lambing seasons, culling of old stock or poor performers, inoculation programmes, internal and external parasite control and purchasing stock with the best genetic potential from stud breeders. All these practices are aimed at increasing weaning percentages, decreasing mortality percentages and maximizing wool (and/or mutton) yield. On average, commercial wool farmer flocks have weaning percentages in excess of 80 per cent, culling percentages of 20 – 30 per cent and obtain annual wool yields of 4 – 5 kgs/per sheep.

Prices received per kilogram are dependent on micron thickness. Fine wool is considered to be below 20 micron. Medium wool is from 20 to 23 micron and strong wool is above 23 up to 27 micron. During the 2000/01 season only 12.5 per cent of the commercial wool clip fell into the fine and 71 per cent into the medium category.

The majority of the commercial wool producers contract services (supplied by BKB) for shearing and classing and transport to brokers. Processing and marketing cost is a relative small percentage of total income as average prices and yields are relatively high.

Table 1 show that wool income per sheep for commercial producers is substantially above the incomes of the other producers. However, the cost structure of commercial

wool farmers also reflects a significantly higher investment in stock improvement, nutrition and health. A much higher cost structure in overheads (inclusive of labour), capital replacement and debt repayment (not reflected in the margin calculation) will furthermore decrease net wool income significantly if compared to the emergent, traditional and marginal producers.

### **2.1.2 Emerging producers**

Wool producers in the Ciskei/Transkei areas that are currently organized into producer groups (shearing sheds) and largely marketing through auction floor are regarded as emerging producers. Since 1998 an initiative of the National Wool Growers Association in conjunction with the Agricultural Research Council to provide shearing shed infrastructure, technical and advisory services to African producers has brought more of these producers directly into the wool auction system. However, as yet a relative small portion (525,000 kg) of the total estimated Ciskei/Transkei clip of 4.5 million kg is being marketed directly onto the wool auction floor.

Wool marketed in this way originates mostly from the 50 shearing sheds that is currently actively serviced by the NWGA/ARC programmes. At these shearing sheds sheep are sheared by trained shearers, classed, bulked and baled. Shearers and classers are selected from the community, trained by the NWGA and receive payment from the sheep owners for their services during the shearing season. Typically 12 shearers and 4 classers are employed by each shearing shed.

During the last two seasons substantial improvement in income received by emerging producers marketing directly through brokers has been evident. Income from one shearing shed increased from R 94 000 (2000/2001) to R 209 000 in 2001/2002 after technical and extension services and direct access to the market has been provided.

Emerging wool producers farm with merino and dohne merino type sheep. Sheep can not be considered to be purebred and often evidence of mutton sheep influence (coarse wool, with coloured wool and hair contamination) is seen. Some of the more successful emerging producers reside in the former SA Development Trust areas on the periphery of the homelands, which is often commercial farmland that was purchased by government and allocated for use by individuals or groups without reference to local tribal authorities. In these areas rotational grazing practices are frequently followed as some fence and watering infrastructure is often still in existence. A larger portion of emerging producers, however, reside in traditional areas that practise communal grazing practices.

Emergent producers often employ some herd and health management practices although spending per Small Stock Unit is often substantially lower if compared to commercial farmers.

The ARC is in the process of addressing some of these issues through an Integrated Livestock and Crop Development Project for the Eastern Cape. The livestock part of

this project will focus on livestock improvement programmes (ram and ewe replacement programmes). Herd and health management support is currently provided by the extension officer from NWGA, Eastern Cape Department of Agriculture and, to a limited extent, BKB. Current support and extension services are mostly focused on the high potential areas (50 sheds) as manpower and financial restrictions are limiting more extensive services. Emphasis is on controlled lambing seasons, culling of non-productive stock and health management.

These programmes and extension services aim to increase weaning percentages, decreasing mortality percentages and maximize wool (and/or mutton) yield. On average weaning percentages of emerging flocks are below 60 per cent and mortality percentages substantially higher than commercial flocks. When culling percentages of 20 – 30 per cent and male/female progeny ratio of 50/50 is taken into account it is evident that herd expansion rates will be substantially lower than their commercial counterparts. An annual wool yield of 1.8 to 2.4 kg per sheep is generally regarded as a realistic average for emerging producers.

Government scab controlling programmes provide two free treatments (two weeks apart to kill all the stages of the scab lifecycle) per sheep per annum. Treatment is given via injection and is compulsory by law. Input suppliers (Bayer, Intervet, Pfizer and Virbac) organise information days to shearing sheds and have placed smaller container sizes (dip, deworming and inoculations) on the market that is more suitable for emerging farmer use. Shearing shed committees often purchase inoculations and dips or request extension officers to purchase the necessary supplies. All members pay for their own flock's health costs. Supply and information for health management is not considered to be a limiting factor within these groups.

Wool is sheared by shearers at the shed, classed and bulked in 150 kg bales according to the different classes. As various producers will have their wool bulked into one bale the shearing committee will weight each fleece and annotate the relative portion of each fleece to the different classes. Each producer will therefore have a record of his flock's contribution to each bale.

The bales are then either collected by the broker (in the case of large sheds) or transported by the shearing shed to a central collecting point. The brokers seem to require a minimum of 100 bales as bales are collected by inter-link truck. However, there is some indication that exceptions are made especially in cases where road infrastructure do not provide access to an interlink truck. All wool sold through brokers are insured from the moment it is baled even while bales are still awaiting collection.

Wool is transported to the brokers and, if necessary re-classed, and a fee of R0.70/kg charged. Wool is placed on the auction and sold via a bidding system. Commission, handling, and insurance fees are subtracted and a total income per owner is calculated. This is consolidated into one payment to the shearing shed group with a re-allocation schedule per owner issued to the shearing shed committee.

The onus is then placed on the shearing shed committee to cash or bank the cheque and to allocate the funds to each producer. The whole process from shearing to each producer receiving payment normally takes four to six weeks. Time to payment could however vary substantially depending on the waiting period for bale collection and placing of wool on the auction floor.

Prices received per kilogram are dependent on fineness, wool length and contamination. The best sheds received in 2001-2002 prices of around R 28/kg, but the average sheds tend to obtain prices in the R 18 to R 21/kg range.

A portion of these emerging producers however still sell directly to the traders in small unclassified bags and are subsequently receiving prices of R 2.50/kg to R 4/kg. The fairly substantial flow to this marketing channel is probably due to insufficient trust in the long and complicated broker system as well as the fact that traders pay spot cash.

Wool income is seen to be an important income stream to emerging wool farmers. Some income is also generated by the sale of cull and surplus stock and the benefits of improved herd and health management has been demonstrated by the improved income realized in the recent past.

### **2.1.3 Traditional producers**

Traditional producers are regarded as producers with smaller stock holding, residing in communal areas, often in more remote areas than the emerging producers. This group of producers either has use of old shearing sheds (built in the homeland era and in need of rebuilding/upgrading) or does not make use of any shearing shed facilities.

Some government extension services are provided to these farmers, but due to manpower constraints these services are limited. A very small portion of these producers currently market their wool directly to the brokers as the majority of wool is sold directly to traders for cash (R 2.50- R4/kg). Traders then class, bulk and transport the wool either to the brokers or directly to some processors.

Herd, pasture and health management in these flocks are generally considered to be inadequate. Low weaning and high mortality percentages prevent herd growth and often goes hand in hand with the retention of unproductive animals to prevent herd shrinkage. Wool yields are fairly low with yields of 1.2 - 1.8 kg regarded as the norm.

Land tenure systems and communal grazing practices remains a hurdle in the implementation of rotational grazing practices and genetic improvement of stock in the absence of control of cross- and in-breeding. Investment in health management is fairly low if compared to emerging producers, although compulsory scab control seems to take place in most instances.

Generally farm income (and more specifically wool income) plays a relative unimportant part in disposable income as there is often considerable reliance on remittances and pensions.

#### **2.1.4 Marginal producers**

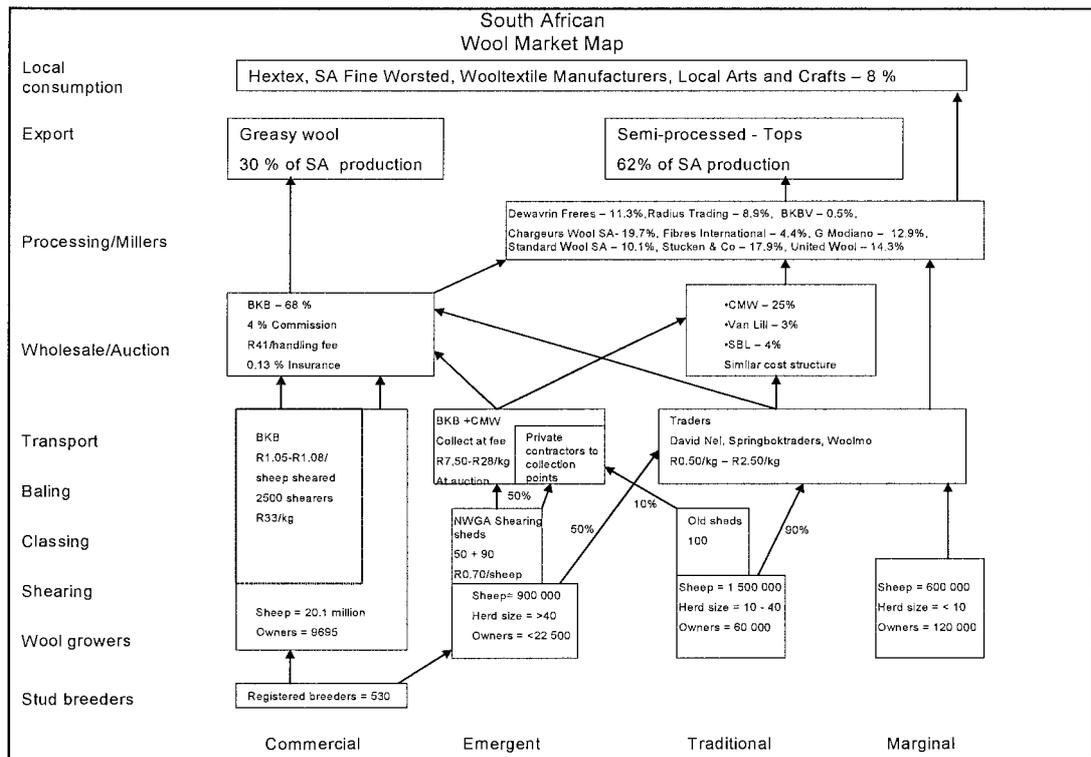
The largest category of sheep owners has very small flocks often in areas relatively close to townships. There is limited access to communal grazing and owners derive only tiny incomes from wool produced. For the great majority, the costs and risks of entering into even the level of trading of traditional producers above are likely to deter investment. No investment takes place in herd and health management, wool are sheared by the owners or in the case of mutton cross bred sheep only sheared occasionally. Wool is exclusively sold to traders for cash and low prices are received. Wool income is regarded as an additional or by-income and wool farming is not seen as a priority when household resource allocation takes place.

Stock holding is mostly aimed at wealth accumulation and ceremonial use with stock only sold in exceptional cases, including at times of family distress (see below 3.2.1 Impact of HIV/AIDS).

## **2.2 Marketing Systems**

Figure 4 (wool marketing map) indicates the main channels of marketing.

**Figure 4: South African: Wool Market Map**



Note: Old sheds were erected during the homeland era and are in need of upgrading/rebuilding.

### 2.2.1 Auction system

Some 70 per cent of the wool produced in South Africa and Lesotho is procured by brokers for sale at auction on behalf of producers. BKB remains the main broker due to its business infrastructure. It has 38 stores across the wool-producing regions, 66 staff engaged in the field, and it can provide a range of services, including shearing, classing, baling and transporting.

The brokerage industry is regulated by Cape Wools SA on behalf of the Wool Trust; and, in effect, members of the National Wool Growers Association pay (through levies) for the services of Cape Wool SA to ensure that standards for wool classing, agent fees, auction transactions etc. are not detrimental to their interests

The wool marketing season extends from mid-August to mid-June. In this period around 33 wool auctions are held at the Wool Exchange in Port Elizabeth.

There are also independent wool auctions taking place (organised by private traders such as SBL, van Lill, and Lenata) and their volume of business growing, possibly due

to marginally lower brokerage costs. Prices at these auctions closely follow the Wool Exchange.

### **2.2.2 Spot Price System**

Local traders, or their agents, largely operate the spot price system. Prices offered are generally much lower than wool going to the auction because wool on offer has not been classed or even weighed in the case of small quantities. The wool eventually reaches traders such as David Nel, Springboktraders, or Woolmo which will normally class and bale the wool for sale or, in some cases of better-prepared wool, sell directly on to the mills for processing.

Commercial farmers are prepared to sell directly, especially if wool is not their principal farming activity, but for traditional and marginal producers the only option at present is likely to be local traders. It is also the preferred option for most as it provides immediate income (they pay spot cash) while the auction system is poorly understood and, as a consequence, not trusted.

### **2.3 Processing**

Thirty percent of South African and Lesotho production are exported in greasy form. Bales destined for export are placed in high density presses (located at all the wool export ports). These presses compress bales into a third of their original size, leading to more bales being packed per container and consequently more cost effective shipping costs.

The remainder of wool production is processed within South Africa. Wool is firstly scoured (grease removed), placed in a carding machine (clumps teased out) and then combed. This clean, semi-processed wool is known as 'tops'. Sixty-two per cent of South African and Lesotho production is exported in semi-processed form, mostly to Europe and the Far East.

South Africa has a technologically-advanced wool scouring and combing industry known for producing high quality semi-processed wool. Major players in this processing sector are all located near Port Elizabeth, with some smaller units in Durban and Cape Town. Market share of individual processors are indicated on the marketing map. Currently substantial excess capacity is evident within the processing sector as only 30% of processing capacity is being utilised.

Only 8 % of domestic production is processed further and consumed in South Africa. Three wool textile companies are important players: Hextex in Worcester, SA Fine Worsted (Cape Town) and Wool Textile Manufacturers located in Standerton.

## 2.4 Margins for different wool producers

Table 1 clearly indicates different margins above direct costs for different categories of farmers.

**Table 1: Margins for different categories of wool producers**

Description	Commercial	Emerging	Traditional	Marginal
Yield	4.5	2.2	1.5	1.5
Price/kg	33.0	21.0	3.8	1.5
<b>Total wool income</b>	<b>148.5</b>	<b>46.2</b>	<b>5.7</b>	<b>2.3</b>
<b>Processing cost</b>	<b>2.2</b>	<b>1.9</b>	<b>0.7</b>	<b>0.7</b>
Shearing cost	1.1	0.7	0.7	0.7
Classing	0.2	0.2	0.0	0.0
Bale pack	0.9	0.9	0.0	0.0
<b>Marketing cost</b>	<b>1.1</b>	<b>0.5</b>	<b>0.0</b>	<b>0.0</b>
Commission	0.6	0.2	0.0	0.0
Handling fee	0.3	0.3	0.0	0.0
Insurance	0.2	0.1	0.0	0.0
<b>Margin above processing and marketing</b>	<b>145.2</b>	<b>43.8</b>	<b>5.0</b>	<b>1.6</b>
<b>Direct cost</b>	<b>55.9</b>	<b>21.1</b>	<b>0.8</b>	<b>0.0</b>
Health costs	7.9	5.6	0.8	0
Feed costs	30.5	6	0	0
Ram costs	17.5	9.5	0	0
<b>Margin above direct costs</b>	<b>89.3</b>	<b>22.7</b>	<b>4.2</b>	<b>1.6</b>

Margins reflected in table 1 excludes transport, labour, overhead, debt repayment or capital replacement costs. These costs were excluded as it varies widely between producers and is a factor of locality, family labour available, current debt levels and intensity of production. Commercial farmers general have a higher labour, overhead, debt repayment and capital replacement cost if compared to farmers in traditional areas. Hence, profit margins above all costs (inclusive of overheads, debt repayment and capital repayment) could be as much as 20 to 60% lower in the case of commercial farmers.

In the margin analysis direct costs were proportioned according to the ratio of wool income to total sheep income. For example, in the case of emerging farmers it was assumed that 43 % of total sheep income is derived from wool and 57 % from the sale of cull animals and progeny. Based on information received form the ARC and NWGA it was assumed that only 20% of income is derived from sale of cull animals and progeny in the case of emerging producers, while 80% is derived from wool income. The margin calculation for traditional and marginal producers, however, allocates all costs to wool income as it is assumed that culled animals are slaughtered for own use and that no progeny sales takes place due to very low weaning percentages and high mortality rates.

Higher investment in marketing, herd and health management is clearly cost-effective for emerging producers as substantially higher margins above direct costs are evident when compared to traditional and marginal producers. There is, however, substantial scope for improvements of income in both the emerging and traditional groups with a fairly small investment in marketing, herd and health management.

### 3. CONSTRAINTS AND OPPORTUNITIES FOR AFRICAN PRODUCERS

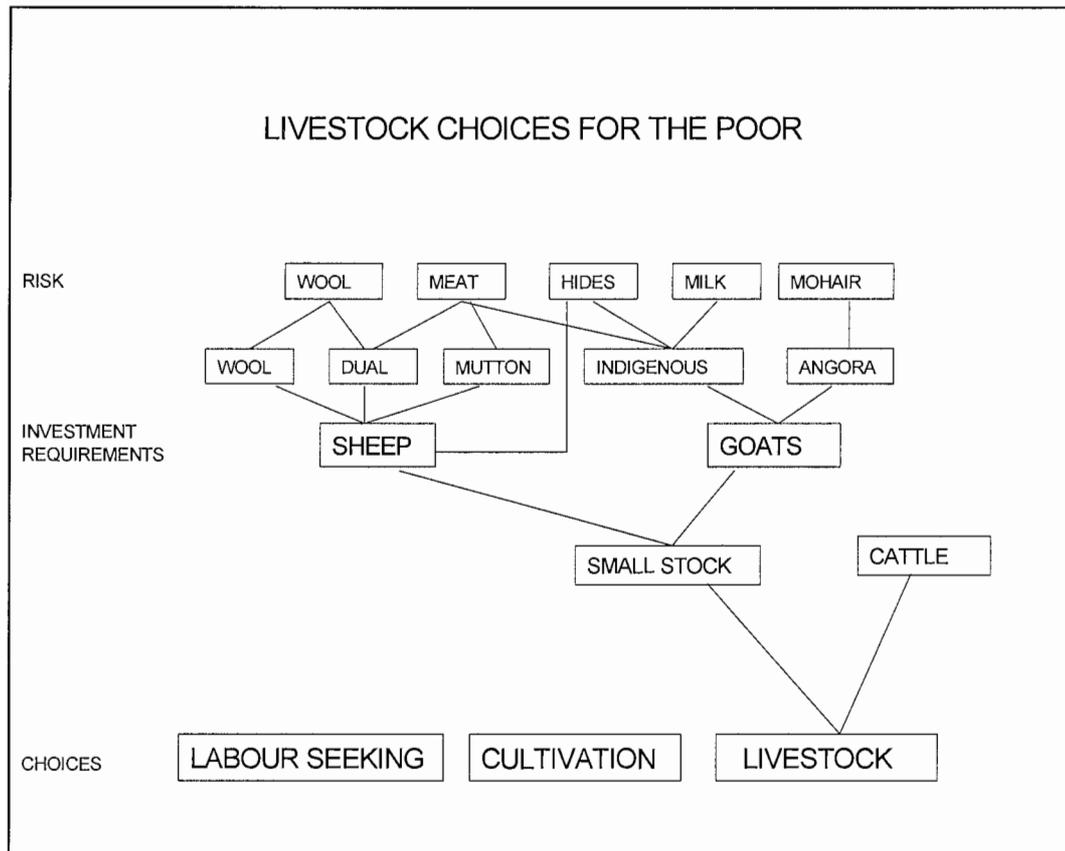
#### 3.1 Nature of the Constraints

As indicated above, it is necessary to categorize African producers in terms of their potential for increasing incomes from wool production. Nonetheless, the constraints to increases production and productivity are similar across all categories, even if in different degrees. These constraints can be listed as **socio-economic** (particularly livelihood choices and risk), **technical** (e.g. genetic quality, lambing rates, feeding, grazing, kraaling, controlling foreign materials, classing etc), and **market confidence** (which covers market access as well as market organization and participation).

#### 3.2 Socio-economics

Households in the rural areas in South Africa typically keep livestock for a mix of reasons. In economic terms, livestock are kept as an asset as well as a production resource. Households will invest in cattle and small stock as a means of saving, or store of wealth. Animals are also slaughtered at ceremonies or important family meetings.

However, as Figure 5 – Livestock: Choices for the Poor - shows, ownership of animals does not necessarily translate into decisions to invest labour or any available cash assets into improving livestock income generally, or into wool production as a specific activity.



**Figure 5: Livestock: Choices for the poor**

Recent household surveys (such as the ARC investigation for the ECDALA: Activity Systems and Livelihoods in Eastern Cape Rural Areas) found that the large majority of stock-keepers had herds of less than 40. Furthermore, the contribution of farm income overall (and not just livestock income) was generally below 10% and often as low as 3%.

The choices being made, therefore, were to seek employment and to use pensions and remittances as a fall-back if work could not be found. In the case of female-headed households, choices in respect of farm income are much more likely to focus on cultivation as stock-keeping has traditionally been the preserve of male family members.

In the case of the ARC study, those who chose sheep and goats as a principal form of livelihood tended to be owners of relatively large flocks (at least 40 animals). These farmers, on the whole, were also relatively innovative: their flocks were mainly merino types; they grazed animals up to 10 hours per day; they dipped and dosed their animals regularly; and supplementary feeding was provided. Returns to sheep farming appeared to be very low however – only R2 200 per year on average.

### **3.2.1 The Impact of HIV/AIDS**

The impact of the incidence of HIV/AIDS on the rural household is obviously the loss of income earning capacity, the diversion of family labour into caring and the onset of unanticipated medical and funeral costs. In these circumstances, asset disposal is a common response and animals are among the first assets to be sold. On the face of it, therefore, the marginal and traditional producers are particularly unlikely to be in a position to develop wool farming: they will lose the labour needed to develop wool production and their small flocks are likely to be sold.

However, it is possible that small stock ownership may not be a major casualty of the economic impact of HIV/AIDS. The labour costs of sheep (and goat) management are low relative to cultivation and it is not difficult to hire herders willing to accept in-kind payment. Furthermore, while animals are simple to dispose of at times of family hardship, the ownership of animals – by the same token – represents a form of insurance against such reverses.

### **3.3 Technical Constraints**

#### **3.3.1 Genetics and Productivity**

The sheep breed with the highest wool production per head of sheep is the purebred merino, followed by dual purpose sheep and merino types (Dohne merino, SA Mutton Merino, Letelle). These are widely used in commercial farming producing an average fleece of 4 – 5 kg/sheep. Against this, the average in the Ciskei/Transkei area is 1.6 kg/sheep.

Indigenous sheep not only tend to have lower yields but also some coloured wool with hair contamination (due to mutton sheep influence). Colored and contaminated wool is less sought after by processors and are therefore priced lower than white uncontaminated wool.

Communal grazing of sheep poses a problem to genetic improvement in the absence of all sheep owners in the community agreeing on castrating most of the male progeny and bringing in rams with better genetic potential. Indiscriminate breeding (with some poor quality males uncastrated) in a communal grazing system leads to cross and in-breeding, decreasing productivity and genetic deterioration.

#### **3.3.2 Herd Management, Nutrition and Health**

Stock improvement alone does not lead to higher productivity. There is also a need to address production constraints such as poor herd, pasture and health management. Participants in rural livelihood surveys in Ciskei/Transkei have indicated fairly low access to agricultural support and extension services. ARC survey participants furthermore indicated major constraints to be sheep diseases, worms, scab, ticks and access to health support and dipping tanks.

In addition, access to clean drinking water as well as proximity to water from grazing areas is a major contributing factor in herd productivity and health. Similarly, access to good quality and sufficient grazing is a major determinant in wool growth as well as weaning and mortality percentages.

High lamb mortalities are mainly due to worm infestations, poor feeding, diarrhea, predators and non-optimal lambing seasons (where insufficiencies in herd management lead to lambing in the coldest months and when grazing is poor). Mortality rates during and after weaning are also very high relative to commercial flocks, principally due to low levels of inoculations against gall sickness and blue tongue disease.

Scab infection has a particularly adverse effect upon yield as sheep infected with scab experience wool loss (in extreme cases up to 75 per cent). Scab infection can easily be controlled by preventative medication, but community organization and pressure is necessary as untreated animals become sources of re-infection. According to law preventative treatment twice a year is compulsory and provided free of charge by the state. It does however seem as if the law is not always enforced in more remote areas.

In the Eastern Cape, several of the better-managed flocks are in the former SA Development Trust areas on the periphery of the homelands, indicating that tenure arrangements based on established user rights (to exclude unwelcome animals for example) are an important component of genetic and pasture improvement. In the absence of fencing in communal areas, rotational grazing and controlled breeding is difficult to apply.

### **3.4 Marketing**

To generate buyer interest and price, wool has to be available in adequate quality, sorted and marketed according to certain standards and sold in bulk (in most instances minimum quantities of at least 100 bales are required by brokers for collection). This requires not only access to herd, pasture and health management, but also local organisation of producer groups (due to relatively small individual flock sizes), market information, confidence in contracting and a reputation with buyers. These remain formidable hurdles in most of the African wool-producing areas, quite apart from the distance from established markets and the transports costs of reaching relatively remote areas with poor vehicle access.

The construction of shearing sheds (with facilities for kraaling, dipping, wool sorting, pressing and baling) serving local producer groups has long been recognised as the principal means of overcoming these market obstacles (as well as a means of promoting improved technology, land management and disease control). It is only in the last few years, however, that efforts have been made to integrate into shed management local ownership of activities such as classing, weighing, recording, and baling, payments and business management generally.

There are currently some 140 sheds with some form of local management in place and there are a further 100 shed sites requiring upgrading/rebuilding (from earlier homeland construction) as well as local capacity building. However, due to limited financial resources it seems as if advisory and extension services is mostly focused on the 50 sheds currently producing sufficient quantities of classed wool to attract brokers.

#### 4 PROGRAMMES FOR WOOL PRODUCERS

In 1999 an attempt was made, principally by the National Wool Growers Association and the ARC Range and Forage Institute, to put in place a pilot project to address as many of these above constraints as possible. The basis was a government grant provided to build or rehabilitate 26 shearing sheds and dip tanks. On this basis, the project formed committees of producers to manage the shed, provided training in classing and animal health, and arranged for the purchase of improved ewe and ram stocks.

The project was managed by a small team (6) of production advisers (mainly ex-wool farmers) recruited by the NWGA. Their role was to provide technical advice (on genetic improvement especially) and assist in organisation. The advisers were also required to ensure that agents knew where and when to purchase wool. Finance was provided by the Wool Trust (which continues to provide around R1.5mn annually to the development and training services' of NWGA) and the National Department of Agriculture (under its Land Care grant programme).

There were immediate financial benefits to the communities (and an estimated 4,000 producers) from the programme with wool to the value of R5m of being produced. The NWGA claim that the same group of producers would only have produced wool to the value of R1m without their support.

There may be a degree of hyperbole about NWGA's achievements, and it is possible that the initial pilots were in relatively favoured areas (in terms of tenure security, especially). But this was an encouraging project by small farmer development standards, endorsed strongly by the ECDALA as well as ARC. In 2001, the NWGA prepared proposals for an expansion phase at the cost of around R12 million annually over three years. This includes capital and labour costs of shed construction of around R5m which, it is proposed, would be partly met by the benefiting community. There is a separate 'marketing' component which appears to amount to a grant of around R1 million per year to assist in financing the work of production advisers.

In the event, the ECDALA has been the most responsive, promising grant support of R3.9 million annually to the Range and Forage Institute of the ARC to conduct trials on pasture management and lamb mortality and, through the NWGA, to establish a programme to introduce new breeds (and remove poor quality stock).

## **5 POSSIBLE COMMARK INTERVENTIONS**

### **5.1 Vision and Purpose**

With global demand for wool stable and major competitors in decline, there are opportunities for SA to increase its share in world wool production. However, the established commercial farmers are unlikely to increase their production given the decline in the number of commercial wool farmers due to the switch into game farming and mutton production.

The potential lies in increasing the production and productivity of African stock-keepers in the former homelands. There are industry interests –from brokers, exporters and processors – to promote such development. Furthermore, there are strong governmental interests in enhancing rural incomes as the poverty impact – in terms of incomes for poor areas with few alternative sources of employment beyond migration – could be significant.

The purpose of a ComMark programme, therefore, would be to identify the critical constraints to the development of wool production and to support measures which addressed these constraints in ways which provided incentives to higher levels of productivity in farming, processing and marketing. The end result of such support would be a greater share by black farmers in the volume and value in total wool production, and significantly higher incomes for a larger group of participants in commercial wool production.

### **5.2 The Dynamics of Change**

However, there are formidable constraints to increased production and incomes from wool. The principal constraints are technical in nature, especially genetic improvement, but most of the technical solutions are known or are capable of being addressed. The problems of technical improvement come up against more intractable problems of production organization, especially in relation to pasture and stock management in communal areas. Finally, there are problems of market access and market development.

As indicated in the market map (Figure 4, page 10) and the Margins Table (table 1, page 10), there are significant gaps between the returns of commercial farmers and those of emergent and traditional farmers. In the case of emergent farmers the dynamic requirement relates to technological improvement, particularly stock quality and pasture management. External research support and improved access to stock breeders and input suppliers are the key areas.

In the case of traditional farmers, these technological improvements are also a priority, but the immediate challenge is to establish groups capable of successfully managing shearing sheds which allow participation in input markets and the higher-value auction

system, and also research and extension services provided by government or the wool industry.

### **5.3 The Challenge of Market Development**

Market challenges also have a technical dimension (as quality is essential for market participation), and clearly have a strong link to the organizational challenge in traditional communities relatively unused to co-operation in enterprise development of any sort. But it is possible to identify specific market challenges which appear to be currently inadequately met, and which should serve to enhance the market position of the poor and provide incentives for innovation more generally.

For producers, there appears to be scope for enhancing value, especially in relation to shearing, classing, baling, storing, negotiating transport etc. Currently, many of these costs are incurred on the producer's behalf because the producer groups have yet to develop their own capacity.

There is also scope for enhancing value by measures which increase the confidence of producers in higher priced auction markets. This is partly a matter of better information on market operations (for example, the weekly market bulletin produced by Cape Wools is rarely available to black producers who, in any event, are unused to instructing brokers on when to hold or sell). But it is also a matter of improving procedures for recording individual contributions to classed bales, monitoring deductions, ensuring prompt payments, explaining price volatility etc.

For buyers and brokers, there is a similar need to build confidence in emerging and traditional producers and to recognize what needs to be done to encourage higher levels of reliability in product and delivery and to recognize the complexity of establishing and sustaining new business arrangements among producer groups with little experience to draw upon.

Finally, there is a need to consider market infrastructure at the producer level. The construction of shearing sheds is an essential component of building incentives for production, but it is equally essential that communities are prepared to manage both production and processing in ways that will attract buyers and broker services.

Current estimates are that wool shed infrastructure and supporting services cost around R150 000 per unit. This includes R130 000 capital costs of a shearing shed with handling kraal, sorting table, wool bins, wool press, shearing boards, dip tank, water tank, and toilet. Training costs for the first year – in shearing, classing, health control, recording and marketing – are estimated at R8 000 with management support costs at R9 000.

#### **5.4 Nature and Scale of Intervention**

This type of local-level market development is clearly more addressed to existing small-scale producers – whether emergent or traditional – than marginal producers unlikely to have sufficient output to contribute to producer organizations. For traditional producers, the priority appears to be to improve productivity and encourage value-addition (necessarily through group activity) and to develop capacity to negotiate more effectively with buyers. For emergent producers, developing market confidence is the likely priority, but this needs to be linked to greater attention to quality and willingness to invest in stock improvement.

The main mechanisms of support are training in wool production and marketing at the local group level, technical and business services, and applied research related to productivity.

These activities are broadly in line with current programmes, although at present it is the technical problems which are receiving the most attention (and the management problems the least). The current investment from the industry and government is in the order of R5.5 million annually. Earlier calculations by the ARC were that the entire population of what we are terming traditional and emergent producers could be provided with infrastructure and support similar to the pilot shearing sheds at a total cost of R15 million, this is almost certainly an under-estimate; but the ARC also calculated that the potential returns (in terms of additional revenue) to such an investment (assuming, say, 50% of the target population responded to the incentives provided) was in the order of R 45 million annually.

#### **5.5 Partnerships**

If ComMark were to support the wool industry in the way suggested above, the direct partnerships would be with the producer groups and, to a lesser extent, the brokers or buyers. Thus, the most obvious contractual partner would be the NWGA, although wider government and industry buy-in could favor the Wool Trust, with NWGA (along with ARC and possibly the two main brokers as sub-contractors for specific tasks).

#### **5.6 Questions Prior to Intervention**

The most difficult question to answer on wool production potential is the extent to which investment in wool is seen by as an attractive proposition against alternative income opportunities. Furthermore, where wool is seen as an attractive proposition, it is important to ascertain if there are any particular factors (such as tenure arrangements, lack of local conflict over grazing, presence of full-time farmers willing to take management responsibility) which both influence success and simultaneously indicate reasons for caution elsewhere where these conditions do not apply.

Related to this incentives question is the issue of poverty. While most wool farmers appear to have low incomes and are vulnerable to a range of possible adversities (including stock theft, severe climates, and animal and human illnesses), it is not evident that wool farmers are necessarily among the poorest in rural areas.

On market issues, more analysis may be required on the limitations of the auction system from the perspective of African producers. Some evidence suggests that management arrangements (unreliable collection, slow payments, unexplained deductions etc) are a disincentive to participation. If so, emphasis may be put upon addressing such limitations.

### **5.7 Impact Measures**

Aggregate revenue from wool production is the simplest measure, but there is a danger that revenue increases may accrue to the better-endowed areas and better-off producers. It would also be necessary to look at numbers of associations formed, measures of self-management and participation, number of members etc,

In addition, employment effects could be measured, especially number of female classers engaged and level of payment, and skills acquired.

Environmental measures would include voluntary grazing controls, pasture recovery rates, and erosion around water points.

APPENDIX 2

THE COMMARK TRUST

MEGATECH - INCOME AND EXPENDITURE STATEMENT  
April 2004 - November 2005

	Megatech (April 2004 - November 2005)			
	Budget - Actual April 2004 - March 2005	Budget - YTD April 2004 - July 2004	Variance	Actual %
Income				
Grants: Megatech	R 1,466,168.23			
<b>Total Income</b>	<b>1,466,168.23</b>			
Expenditure				
Payment Tranche 1 - 31 May 2004	111,364.00	110,774.23	589.77	99%
Payment Tranche 2 - 31 August 2004	214,229.00	214,079.00	150.00	100%
Payment Tranche 3 - 30 November 2004	480,181.00	480,031.00	150.00	100%
Payment Tranche 4 - 28 February 2005	413,729.00	413,579.00	150.00	100%
Payment Tranche 5 - 31 July 2005	304,005.00	247,705.00	56,300.00	81%
<b>Total Expenditure</b>	<b>1,523,508.00</b>	<b>1,466,168.23</b>	<b>57,339.77</b>	
Surplus / (Deficit)		R 0.00		

	Megatech (April 2004 - November 2005)				DFID (April 2004 - November 2005)				TOTAL EXPENSED TO DATE
	Budget R	Actual R	Variance R	Actual %	Budget R	Actual R	Variance R	Actual %	
NWGA - Training and development of communal wool farmers in the Eastern Cape and Free State Year 1 - March 2004 - February 2005									
Personnel Costs									
Project Director	442,250.00	442,250.00	0.00	100%	471,975.00	76,951.73	395,023.27	16%	519,201.73
Administrative for project	228,750.00	228,750.00	0.00	100%	244,125.00	46,999.00	197,126.00	19%	275,749.00
Short Term Project Staff (eg. Accountant)	54,900.00	54,900.00	0.00	100%	59,590.00	11,278.00	47,312.00	19%	66,178.00
<b>Total</b>	<b>725,900.00</b>	<b>725,900.00</b>	<b>0.00</b>	<b>100%</b>	<b>774,690.00</b>	<b>135,228.73</b>	<b>639,461.27</b>	<b>17%</b>	<b>865,128.73</b>
Travel and Subsistence Costs									
NWGA Project Staff	273,500.00	222,880.75	50,619.25	81%	273,500.00	222,880.75	50,619.25	81%	222,880.75
Production and Marketing Advisors									
Allowances (12 Advisors) *	1,747,746.00	812,495.50	935,250.50	46%	1,747,746.00	812,495.50	935,250.50	46%	812,495.50
<b>Total</b>	<b>756,500.00</b>	<b>320,490.88</b>	<b>436,009.12</b>	<b>42%</b>	<b>756,500.00</b>	<b>320,490.88</b>	<b>436,009.12</b>	<b>42%</b>	<b>320,490.88</b>
Personnel Costs - Training									
General Manager	45,000.00	45,000.00	0.00	100%	49,575.00	17,000.00	32,575.00	34%	62,000.00
NWGA Senior Technical Officer	45,240.00	45,240.00	0.00	100%	49,335.00	16,760.00	32,575.00	34%	62,000.00
NWGA Senior Marketing Officer	47,010.00	47,010.00	0.00	100%	47,565.00	14,990.00	32,575.00	32%	62,000.00
<b>Total</b>	<b>137,250.00</b>	<b>137,250.00</b>	<b>0.00</b>	<b>100%</b>	<b>146,475.00</b>	<b>48,750.00</b>	<b>97,725.00</b>	<b>33%</b>	<b>186,000.00</b>
Other Direct Costs									
NWGA Office Costs (Stationery, communication etc)	213,500.00	213,500.00	0.00	100%	143,500.00	17,334.55	126,165.45	12%	230,834.55
Goods and Materials	446,858.00	446,858.00	0.00	100%	233,981.00	53,661.89	180,219.11	23%	393,196.11
<b>Total</b>	<b>660,358.00</b>	<b>660,358.00</b>	<b>0.00</b>	<b>100%</b>	<b>377,481.00</b>	<b>36,377.34</b>	<b>341,103.66</b>	<b>-10%</b>	<b>624,030.66</b>
<b>Total</b>	<b>1,523,508.00</b>	<b>1,523,508.00</b>	<b>0.00</b>	<b>100%</b>	<b>4,076,492.00</b>	<b>1,503,518.52</b>	<b>2,572,973.48</b>	<b>37%</b>	<b>3,027,026.52</b>

Notes:

	Band Amt	Charges	Total Received
Funds Received			
Megatech - 1st Tranche - 22/07/2004	R 110,924.23	150.00	R 110,774.23
Megatech - 2nd Tranche - 14/02/2005	R 214,229.00	150.00	R 214,079.00
Megatech - 3rd Tranche - 22/03/2005	R 480,181.00	150.00	R 480,031.00
Megatech - 4th Tranche - 22/08/2005	R 413,729.00	150.00	R 413,579.00
Megatech - 5th Tranche - 10/11/2005	R 247,855.00	150.00	R 247,705.00
<b>Total</b>	<b>1,466,928.23</b>	<b>750.00</b>	<b>1,466,178.23</b>
Payments to NWGA			
19/04/2004 - Investec Tr 7	270,796.00	270,796.00	
31/08/2004 - Investec Tr 9	365,870.60	365,870.60	
04/10/2004 - Investec 45A	424,415.83	424,415.83	
11/01/2005 - Investec 68 A	409,581.28	409,581.28	
20/04/2005 - Investec 68 D	498,758.32	498,758.32	
01/07/2005 - Investec 105 B	406,715.04	406,715.04	
20/09/2005 - Investec 127A	215,571.27	215,571.27	
24/10/2005 - Investec 138A	215,571.26	215,571.26	
15/12/2005 - Investec 151A	542,853.81	542,853.81	
<b>Total</b>	<b>3,351,133.41</b>	<b>3,351,133.41</b>	
Expensed to Date	2,970,876.52	2,970,876.52	
Available Funds (Forecast Q4)	380,256.89	380,256.89	
NWGA	2,970,876.52	2,970,876.52	
Video Production	56,150.00	56,150.00	
<b>Total</b>	<b>3,027,026.52</b>	<b>3,027,026.52</b>	

**Appendix 3**  
**COMMARK TRUST - ASSET REGISTER (SMALL GRANTS)**

Opening Balance: Megatech Budget available for Producer Group Capital & Consumables (Yr 1 & Yr 2)										446,858.00	
Less: Loss on Foreign Exchange										-97,189.34	
Total Amount Available										349,668.66	
REGION	RESPONSIBLE	LOCATION	ITEM	PURCHASED FROM	PURCHASE DATE	UNIT PRICE	BALANCE				
20	XL Nyamela	Willowvale Community	Single Base Mech. Wool Press	Charmwood & Steel	21.01.05	8,131.45	341,537.21				
20	XL Nyamela	Elliottdale (Casa WGA)	Single Base Mech. Wool Press	Charmwood & Steel	21.01.05	8,131.45	333,405.76				
20	XL Nyamela	Engcobo	Single Base Mech. Wool Press	Charmwood & Steel	21.01.05	8,131.45	325,274.31				
20	XL Nyamela	Willowvale Community	Wool Scale	ADH Scales	13.01.05	315.00	324,959.31				
20	XL Nyamela	Elliottdale (Casa WGA)	Wool Scale	ADH Scales	13.01.05	315.00	324,644.31				
20	XL Nyamela	Engcobo	Wool Scale	ADH Scales	13.01.05	315.00	324,329.31				
21	Z Wapi	Middledrift (Sabi Loc)	Single Base Mech. Wool Press	Charmwood & Steel	21.01.05	8,131.45	316,197.86				
21	Z Wapi	Peddle (Qaga Location)	Single Base Mech. Wool Press	Charmwood & Steel	21.01.05	8,131.45	308,066.41				
21	Z Wapi	Zwellitsha (Agric. Office)	Single Base Mech. Wool Press	Charmwood & Steel	21.01.05	8,131.45	299,934.96				
21	Z Wapi	Middledrift (Sabi Loc)	Wool Scale	ADH Scales	13.01.05	315.00	299,619.96				
21	Z Wapi	Peddle (Qaga Location)	Wool Scale	ADH Scales	13.01.05	315.00	299,304.96				
21	Z Wapi	Zwellitsha (Agric. Office)	Wool Scale	ADH Scales	13.01.05	315.00	298,989.96				
23	N Mphuting	Lady Frere (Dept. Agric)	Single Base Mech. Wool Press	Charmwood & Steel	21.01.05	8,131.45	290,858.51				
23	N Mphuting	Calia (Dept. Agric)	Single Base Mech. Wool Press	Charmwood & Steel	21.01.05	8,131.45	282,727.06				
23	N Mphuting	Cofimvaba (Dept. Agric)	Single Base Mech. Wool Press	Charmwood & Steel	21.01.05	8,131.45	274,595.61				
23	N Mphuting	Lady Frere (Dept. Agric)	Wool Scale	ADH Scales	13.01.05	315.00	274,280.61				
23	N Mphuting	Calia (Dept. Agric)	Wool Scale	ADH Scales	13.01.05	315.00	273,965.61				
23	N Mphuting	Cofimvaba (Dept. Agric)	Wool Scale	ADH Scales	13.01.05	315.00	273,650.61				
24	LL Makaula	Ngwetsheni/Lipindo/Ncome	Single Base Mech. Wool Press	Charmwood & Steel	21.01.05	8,131.45	265,519.16				
24	LL Makaula	Mahlakal/Kete-Kete/Bitiko	Single Base Mech. Wool Press	Charmwood & Steel	21.01.05	8,131.45	257,387.71				
24	LL Makaula	Lower/Upper Toakwana/Isolobeni	Single Base Mech. Wool Press	Charmwood & Steel	21.01.05	8,131.45	249,256.26				
24	LL Makaula	LL Makaula	Wool Scale	ADH Scales	13.01.05	315.00	248,941.26				
24	LL Makaula	LL Makaula	Wool Scale	ADH Scales	13.01.05	315.00	248,626.26				
24	LL Makaula	Qumbu	Wool Scale	ADH Scales	13.01.05	315.00	248,311.26				
	LH Nel	Roving - with LH Nel	2 x Wool Scales	ADH Scales	31.08.05	560.00	247,751.26				
							247,751.26				
	*	East London	56 x Wool Scales	ADH Scales	18.10.05	14,280.00	233,471.26				
	*	East London	12 x Dipping Tanks	JP Jensen	18.10.05	66,000.00	167,471.26				
	*	East London	4 x Wool Presses	Charmwood	18.10.05	30,132.00	137,339.26				
	*	Port Elizabeth	36 x Zipdip	Intervet	18.10.05	7,414.11	129,925.15				
	*	East London	1 Set of Equipment	Charmwood	18.10.05	26,577.95	103,347.20				
	*	East London	12 x Wool Presses	Charmwood	30.09.05	85,887.03	17,460.17				
	*	East London	3 x Wool Sorting Tables	Charmwood	30.09.05	5,571.75	11,888.42				
	*	East London	6 x Wool Scales	ADH Scales	30.09.05	1,710.00	10,178.42				
			Transport of all of above equipment			5,000.00	5,178.42				
	*		24 x Zipdip to be purchased			4,942.80	235.62				
	*		<b>Executive in each community to decide on recipients (to be allocated in due course)</b>								

# Appendix 4

## REGOVERNING MARKETS PROJECT

### The Keys to Inclusion of Small-Scale Producers in Dynamic Markets

Call for case study proposals for Project component 2:  
analysis of innovative practice in connecting smallholder  
producers with dynamic supply chains

*The following is a call for case study proposals to be widely disseminated into the academic environment in Southern Africa. Feel free to communicate it to other researchers that may have interest in it. Alliances between academic institutions to develop a proposal are welcome.*

*A maximum of 5 proposals per institution will be considered.*

#### **1. Regoverning Markets' project context and outline**

Rapid changes are taking place in the structure and governance of national and regional agrifood markets in developing countries, affecting the ability of agriculture to contribute to economic growth, poverty reduction and sustainable rural development. Small-scale agriculture, which supports the livelihoods of the majority of rural poor, is poorly prepared for these changes.

In recognition of these development challenges, an intensive *two-year programme* (sept. 2005- sept. 2007) of *collaborative research and policy support* is starting to understand the *keys to inclusion* for small-scale producers into these agri-food systems under different degrees of restructuring.

The focus is on *dynamic restructured national and regional markets*<sup>1</sup> that are *displacing existing chains* and their *interface with small-scale farmers and local rural economies*. The objective is to *inform public sector policy and private sector strategies with practical approaches*, and *engage with policy processes*, taking advantage of comparisons across countries and regions and thereby the range of degrees of market restructuring and the differing policy environments.

Three components contribute to achieving the programme goal:

- **Component 1: Empirical research:** To generate high quality and policy-relevant research contributing to public and private sector policy formulation at national and international levels, and build research capacity;
- **Component 2: Development of innovation and good practice:** To identify best practice in connecting small-scale producers and SMEs with dynamic markets; and
- **Component 3: Research-to-policy platforms:** To engage with policy processes through structures and processes for policy dialogue between key public and private sector stakeholders, which bring poor and small-scale rural producers into policy making; and thereby inform future public and private sector policy with practical approaches that allow them to anticipate trends in market restructuring.

Work will be undertaken in eight regions—in Latin America, Central and Eastern Europe, Asia (3 regions) and Africa (3 regions) —with a decentralized *consortium* of leading academic and independent research organizations mainly developed during the first phase.

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<sup>1</sup> i.e. chains that feature prominently modern agri-processors and/or supermarkets.

## **2. Component 2 outline**

Component 2 of the programme is a comparative in-depth empirical analysis of 32 case studies of cases where small-scale producers and SMEs connected successfully to dynamic markets, i.e. cases of innovation<sup>2</sup> in policy principles, business models, small farmers' collective action strategies, and in intervention strategies and methods of development agencies.

These case studies will be developed on the basis of the following **questions**:

1. The innovation and its context: What are the main characteristics of the innovation and of its immediate context, both at the level of the supply chain and of directly relevant meso and macro trends, policies and institutions?
2. Evolution: How did this innovation emerge over time and how its evolution led to greater degrees of inclusion<sup>3</sup> of small farmers and/or rural SMEs? What were the critical stages and the critical success factors in the evolution of the innovation?
3. Evidence of inclusion: What are the costs and benefits of the innovation, and how are they distributed across different actors in the supply chain? What is the evidence of effectively greater inclusion of small farmers and/or rural SMEs, as a result of the innovation? What did the small farmers and/or rural SMEs gain or lose? Are these results sustainable?
4. Drivers: What explains the greater degree of inclusion? What were the key drivers in terms of policy principles, business models, collective action and support systems?

And now what...? What is the potential for scaling up or replication? What are the key challenges?

The **milestones** of Component 2 are:

<b>Activity</b>	<b>Time Period</b>
Call for case study proposals, and selection of initial 16	Nov–Dec 05
16 case studies implementation	Jan–Jun 06
Synthesis and emerging issues	Aug 06
Open call for second round	Sep 06
16 case studies implementation	Nov 06–Apr 07
Draft synthesis papers	Aug 07
Synthesis workshop	Sep 07
Final version of reports	Dec 07
Dialogue through national and regional platforms of farmers, industry and retailer sectors and government representatives	Continuous

The methodological framework relies on the simultaneous, "side-by-side" analysis of a supply chain and an innovation, as they evolve together through time. It consists of **7 elements of analysis**:

1. The innovation
2. The supply chain and its segments
3. The macro and meso context
4. The history of the innovation against the evolution of the supply chain
5. Explaining inclusion or exclusion

<sup>2</sup> The cases to be analyzed are called 'innovation' because they countervail the tendency that small-scale farmers and rural SMEs become excluded from markets as supply chains evolve in complexity. They represent a departure from the context-specific status quo, i.e., from the conventional way of thinking and/or acting in relation to the participation of small-scale farmers and rural SMEs in dynamic markets.

<sup>3</sup> Inclusion is defined as *the capacity of small-scale producers and rural SMEs to sustain their participation in a given supply chain and restructured market as it evolves*. It can take different forms, from mere participation as individual suppliers, to collective action with other suppliers to meet basic demands for volume and consistency of supply, to becoming a specialized supplier on the basis of value-adding activities, to becoming co-owner of a supply chain or one of its segments.

6. Forms and costs/ benefits of inclusion
7. The potential for up-scaling/ replication

The **final report** of the case study will have the form of (a) a sheet with killer facts, ready for distribution to policy platforms, private companies, farmer organisations and NGOs; and (b) a Journal-type article, ready for publication. The article will be written in the main language of the country in which the case study is conducted, and, once reviewed, approved and edited, will be translated into English. The maximum length of the article will be of 20,000 words, including the full content, from the title to the list of references. If necessary, more than one such article can be prepared and submitted per case study, in order to cover all the important aspects of the case study; in this case, each article must be self-standing.

### **3. Selection process**

A double process of selection will be held:

- first at the Southern African level under the responsibility of the regional coordinator Andre Louw out of the proposals he will receive,
- and then out of these pre-selected case studies (5 per region) at the general project level under the responsibility of the component 2 coordinators.

To enable the comparative analysis and draw policy lessons from it, the selection will ensure the representation of a variety of situations:

1. Countries in different stages of market restructuring
2. Procurement systems that vary in their stage of development along the 'four pillars of change:' (a) centralization of procurement, (b) specialized, dedicated wholesalers, (c) private grades and standards, and (d) preferred suppliers.
3. Cases that represent the four forms of inclusive chain development: (a) chain segments; (b) chain partners; (c) forward integration; (d) chain co-ownership

Sufficient preliminary information must be available about a potential case study to be able to classify it *ex ante* according to these three dimensions. Final selection results will be communicated by the 31<sup>st</sup> of December.

### **4. Form to submit proposals of case studies**

All case studies should focus on experiences whose context and resources are not exceptional. They must be feasible to be replicated or to guide practice elsewhere, i.e. to inform private and public sector actors as well as producer organisations to foster greater inclusion of small-scale producers in dynamic markets. All case studies must focus on experiences that have been in operation long enough so as to allow for the drawing of lessons and conclusions.

#### **A. THE CASE STUDY (maximum 4 pages)**

Please make sure to highlight the merits of the case study – How does this case study contribute to understanding the issues that are central in the Regoverning Markets programme?

1. Background information – Please describe the place and country, the main characteristics of the small-scale producers or the rural SMEs, and the main characteristics of the supply chain in which they operate.
2. The innovation – Please describe the innovation that will be the subject of the case study. The innovation can be of the following types: public policy, private sector business models, collective action by small-scale producers and rural SMEs, or strategies and methods of development agencies. Please inform when the innovation was initiated.

3. The market and its supply chain – Please provide information to allow us to understand the market context of the innovation. In particular, we would like to understand the degree of market restructuring through some indication of the use of private grades and standards, centralized distribution centres with or without modern logistics, specialized and dedicated wholesalers, and/or longer term relationships with preferred suppliers.

4. Forms of inclusion – Please provide information to allow us to understand what are the specific forms in which the small-scale holders or rural SMEs are included in the restructured market: As individual suppliers of primary products? As organized suppliers of primary products? As specialized suppliers of food processors or retailers on the basis of different types of value-adding activities? As co-owner of a supply chain or of one of its segments?

#### B. THE ORGANIZATION(S) RESPONSIBLE FOR THE CASE STUDY

1. Basic information of the leading organization – Please provide the full name and acronym of the organization that will be responsible (leader) for the case study, the name and title of a contact person, postal address, telephone and fax numbers (including country and city codes), emails and web page if available.

2. Basic information of other (partner) organizations participating in the case study - Please provide the full name and acronym of other organizations that will participate the case study, their postal address, telephone and fax numbers (including country and city codes), emails and web page if available. Please describe the established contacts with key stakeholders and their willingness to cooperate in the study.

3. Experience and capacity of the leading organization in conducting applied research, case study research, and/or action research – Convince us that the leading organization is well qualified to do high quality case study work! Describe its most important projects and activities in the past years that are relevant to Regoverning Markets programme. Inform us of its publications and its human resources. Very importantly, tell us about its networks and relationships with organizations in the public and private sector as well as in civil society.

4. The project leader and key team members – Please attach the curricula vitae of the person who will be the leader of the case study and of other important team members.

#### **Contact**

Proposals and/or questions regarding any aspect of this call are to be directed to the regional coordinator:

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## ***GMAC Grantee Narrative Report***

**Grantee: ComMark**  
**Agreement No. 0140-0204-G-G-GA42**

**Report for the period:**  
 **October 1, 2004 through September 30, 2005**

Please complete a one-two page narrative summary of your main accomplishments between October 1, 2004 – September 30, 2005.

Since the late 1990s, the NWGA (National Wool Growers Association) has provided shearing-shed infrastructure and technical and extension services to wool producers in the former homelands in the Eastern Cape. Producer committees have been set up to manage the sheds, provide training in classing and animal health, and arrange for the purchase of improved ewe and ram stocks. This initiative has brought more emerging producers directly into the wool auction system, and there have been marked increases in production and income in selected areas.

ComMark was able to build on this experience and in March 2004 (with support from USAID through its GMAC programme), it awarded the NWGA a grant over three years to expand its work in the Eastern Cape. In the past, emerging farmers in the region typically sold their wool clip to itinerant traders for low prices. This in turn inhibited investment in stock improvement, facilities and processing equipment. The objective of this grant is to break this cycle by opening the formal auction system to these farmers where they will be able to realise better prices. This rests on farmers accessing a range of business services and skills that will allow them to supply a market-acceptable product.

As a result of the ComMark/USAID Grant, the NWGA is able to work with 270 woolshed farmer associations whose membership is in excess of 9 000 farmers. Strengthening these associations is essential as small-scale farmers need to work collectively to generate sufficient volumes to purchase inputs and services that are beyond an individual farmer's reach. Specialist advice is being provided with the emphasis on getting farmers to produce high-quality wool. Marketing extension is focused on ensuring the sheep are correctly shorn, the wool is well-classed and packaged into wool bales which the broker can market for a high price. Post transaction in the form of statement reconciliation is also provided. In addition, the NWGA works around improving credit extension and the provision of transport. The ComMark/USAID Grant is also being used to co-fund the purchase of small but essential wool-processing equipment such as wool presses, scales and classing tables. Without access to this equipment it is not possible for farmers to achieve the required standard.

With respect to the outcome of these activities, the results of the first year are promising. Preliminary results show that both the quantity and quality of wool from the emerging sector increased. The amount of wool delivered for auction sales increased by more than 50% due to more farmers moving into formal channels, and to yield improvements. Wool sold through the auction system nets a return of between R 2.00 and R5.00 more than wool sold through local traders. Increased

marketing efficiencies were also achieved. For example, over the past season communal farmers' average bale weights increased from less than 100kg to 120kg a bale, the minimum weight for a market-accepted product This represents a direct cost saving of 50 cents per kg, which translates into a average of R65.00 per producer.

Whether these efficiency increases contributed to poverty reduction is unclear as wool prices this season were 17 percent lower than the 2003/2004 season.

The table below shows a profile of the project's beneficiaries gathered in October 2004. This survey is currently being repeated for the 2004/2005 year to measure the outcome of the grant on poverty reduction.

NWGA project beneficiary-household poverty survey – Oct 2004 (N=51)

Average household size	Total	7.6
	Adults	2.3
	Children	5.3
Average monthly household income (Rands)	Total	R 1,376
	Per adult	R 598
Sources of Income (%)	Grants	59%
	Employment	15.5%
	Wool and Sheep	15.5%
	Other farming and trade activities	10%
Livestock Assets (Number per household)	Sheep	56.7
	Cattle	10
	Goats	3.5
Household Assets (% of households who own)	Radio	82.4%
	TV	41.2%
	Fridge	31.4%
Self -reported poverty Indictors (% of households where)	Children go to bed hungry	43.1%
	Borrow to pay school fees	78.4%