



Annual Report 2004

Making Commodity & Service Markets work for the Poor in Southern Africa



The ComMark Trust is a regional market development initiative.
ComMark aims to enhance the growth and development of selected
commodity and service markets
in the SACU region for the sustainable benefit of the poor.

ComMark stands for *Making Commodity and Service Markets work for
the Poor in Southern Africa*. It is managed by ECIAfrica, a
South African economic development consultancy.

ComMark Trustees are Anthony Evans, Hixonia Nyasulu,
Nku Nyembezi-Heita and Paul Zille.



COMMARK STAFF

From left to right – back row: Gordon Freer (Monitoring & Evaluation, Learning and Communications Advisor)
Paul Zille (Executive Director) Norma Tregurtha (Agribusiness Specialist)
Front row: Juanita Pardesi (Finance and Contracts Manager) Nomsa Maseko (Administrator)
Kirsten Kennedy (Service Sector Specialist)
Insert: Andy Salm (Textile and Apparel Sector Specialist) Absent: Celestar Sekgala (Receptionist)

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CHAIRMAN'S REPORT



Hixonia Nyasulu



Nku Nyembezi-Heita



Anthony Evans



Paul Zille

ComMark Trust's first year of operation coincides with South Africa's tenth year as a democracy. This is a fitting coincidence in light of ComMark's mission of working to make commodity and service markets work more effectively for the benefit of poor people, and given the enduring legacy of poverty and inequality left behind by *apartheid*. This report outlines the progress we have made towards fulfilling ComMark's mission and the extent of research and investment activities we have undertaken in our first year.

The ComMark Trust was established in August 2003. The Trust is administered by ECIAfrica, a South African economic development consultancy contracted by the UK Department for International Development (DFID) to design the project. ECIAfrica has been retained as ComMark's implementing agency for an initial period of three years from 2003, extendable to five.

Our activities and investments, outlined in detail in the report, reflect a blend of large, strategic investments and a range of targeted research and scoping initiatives which explore sector and theme-related issues relevant to our mission. By definition, a market development approach to poverty reduction is a time-consuming process. It requires a good prior understanding of the determinants of pro-poor growth and the barriers which inhibit it. Moreover, the approach looks beyond the symptoms of poverty to understand its causes, and demands that we locate these and any initiatives aimed at addressing these causes, within a clear understanding of how markets are – or may not be – working in the interests of poor people. We are delighted with the progress the Trust has made in its first year, translating ComMark's vision into tangible initiatives on the ground.

ComMark is mindful of its role as a temporary market development facilitator. As such, it eschews direct interventions in favour of partnerships with long-term market players who share our vision and approach to poverty reduction, and who are directly exposed to the risks associated with their actions. Avoiding the illusion of quick-fix solutions to deeply rooted development problems means that we reject many more initiatives than we adopt, whether these are generated internally or from prospective external partners. We will continue to manage this balance but, by drawing on the lessons of our first year, ComMark is likely to adopt a more focused approach to the fulfilment of our mission and will limit the numbers of sectors we prioritise and the issues we explore.

Finally, in reflecting on a rather breathless first year of operation, it is appropriate for me to extend my thanks, in the first place, to DFID whose bold vision and material commitment has enabled the concept of making markets work for poor people to be put into practice. We are conscious of the daunting responsibility we now have of proving its merits, and of vindicating your good faith in us.

I am also indebted to the small but dedicated staff of the ComMark Trust and to ECIAfrica for their efficiency, insight and application in managing the Trust. Finally, my thanks are due to my fellow Trustees whose ownership and commitment have enabled us to meet the challenges of our first year, and who have helped lay a foundation for accelerated implementation and increased impact in the years to come.

Hixonia Nyasulu

Johannesburg
August 2004



WHAT DOES MAKING MARKETS WORK FOR POOR PEOPLE MEAN, AND HOW DO WE REALISE THIS IN PRACTICE?

Markets and Poverty Reduction

At the heart of ComMark's approach to development lies the conviction that inclusive, well-functioning markets offer the only long-term basis for poverty reduction. This contrasts with the populist view that markets are inimical to the interests of poor people; that markets are the exclusive domain of 'the rich'; and that poor people need in some way to be protected or insulated from them. Instead, ComMark is founded on the reality that, whether as consumers, employees or producers, the way markets work is especially important for poor people. This is because markets offer the principal means through which poor people can participate in economic activity, and can liberate themselves from the powerlessness and dependence of poverty. Where markets work inclusively and competitively, they tend to serve the poor by offering jobs, incomes and access to consumer products and services. Where they work exclusively, are dominated by special interests or are distorted by bad policies or inappropriate regulation markets offer poor people fewer chances to participate and to benefit from the fruits of economic growth.

In a region which suffers a legacy of extreme distortion in the operation of its markets, and is characterized by gross inequality in the allocation of resources and opportunity, 'making markets work for poor people' poses major challenges. Yet it is precisely in the structure of most of the economies in SACU – where strong, modern, skilled and well capitalised channels of production co-exist with informal, unskilled and disconnected sub-economies – that a big part of the solution to poverty lies. By using the capital, organisational and institutional infrastructure of the region's formal markets to drive growth, and by joining up, where possible, the disconnected parts of the value chains that underpin these markets, it is possible to lay the base for more inclusive, sustainable and pro-poor growth.

ComMark's Approach

How exactly does ComMark seek to meet this challenge? The Trust's strategy involves targeting specific commodity and service markets within the region which offer strong growth prospects, which have high pro-poor characteristics (principally in the form of employment generation, small business creation and linkage potential), and where there is an institutional and organizational environment conducive to the establishment of effective public-private partnerships and market-led growth. Within prioritized sub-sectors, we use the analytical tools associated with value chain and sub-sector analysis to develop a clear understanding of the structure and operation of these sectors, to understand the key drivers of and barriers to growth, and the determinants of poor people's participation in, or alienation from, the high value channels within them. This understanding informs the nature and content of ComMark's involvement in any particular sub-sector and the partnerships we enter into to realise our goals.



ComMark's Role

Within ComMark's prioritized sub-sectors, it fulfils the role of a *temporary* market facilitator. This means, firstly, not intervening directly as a player in the market, but rather working with those statutory and non-statutory institutions which have the capacity, ownership and long-term commitment to influence the operation of sub-sector markets. ComMark's interventions are explicitly designed to be *finite*, focused and *facilitative*. This in turn demands that we have a clear vision of the sustainability of a market, process or practice beyond the period of our involvement, and a good understanding of how our support will contribute to this.

To complement ComMark's operational engagements, we pursue an active influencing strategy which aims to communicate the lessons learned from our research and operational activities to a wide audience of decision-makers in the public and private sectors. An effective communication and influencing strategy is essential if we are to facilitate the development of sustainable, market relevant approaches to poverty reduction.






FUNDING PRINCIPLES & CRITERIA

ComMark's development goals have been crystallised into core funding principles which were published in the form of a Guide immediately after our inception. These principles are summarised as follows:

- **High growth:** ComMark investments contribute directly to high sub-sector growth or to policy or regulatory change which is conducive to such growth;
- **Pro-poor:** ComMark initiatives focus on pro-poor benefits and contribute to the realisation of sustainable benefits for large numbers of poor households, producers or consumers.
- **Market development:** ComMark-supported initiatives lead to the improved operation of existing markets and value chains; and should complement or 'crowd-in', rather than displace or 'crowd-out' private investment.
- **Catalytic role:** ComMark will not intervene directly as a player in any market or sub-sector, but will work through existing stakeholders to realise shared market development objectives.
- **Sustainability:** The outcomes of ComMark-financed initiatives should be sustainable beyond the funding period and, above all, should be manifest in the improved, more inclusive, operation of markets.
- **Risk & cost-sharing:** ComMark-financed initiatives will build on, or contribute towards the establishment of inclusive, risk- and resource-sharing partnerships between the relevant market players in a particular sub-sector or market.










GRANT ALLOCATION PER COUNTRY TO END MARCH 2004

	78% South Africa
	R8 227 121
	20% Lesotho
	R2 150 000
	2% Namibia
	R170 000



STUDIES AND RESEARCH

	5% Market Based Land Reform
	R72 000
	16% Making Markets Work Concept Paper
	R229 786
	17% Textiles and Apparel
	R246 846
	27% Wool and Mohair
	R397 873
	12% Natural Products
	R175 000
	7% Red Meat
	R104 330
	16% Tourism
	R229 570

EXECUTIVE DIRECTOR'S REPORT



In the first year of ComMark's operation, we have sought to marry two roles – that of an 'intelligent donor' and a 'principled opportunist'.

In the first role the Trust pro-actively seeks out sectors, problems and partners and designs collaborative programmes of support to overcome constraints to pro-poor growth. The Trust also aims to respond quickly and flexibly to good ideas, where our support may assist in overcoming barriers inhibiting poor people's participation in markets – whether as employees, producers or consumers.

When scoping and developing its sub-sector interventions, ComMark applies a standardised research method, guided by our internal specialists and implemented by outside consultants. Sub-sector studies are undertaken to understand the determinants of sector growth and the relevance of such growth to the poor in those markets; to grasp the prevailing policy and regulatory environment and its conduciveness to pro-poor growth; and to identify the nature of our potential support and the partnerships which might deliver it.

Sub-sector studies are a time-consuming process, particularly in light of ComMark's interest in moving beyond an appreciation of the symptoms of poverty to an understanding of their causes and the reasons for 'market failure' - why sub-sector markets are not working inclusively of poor people, and how this might be remedied. In many cases the analysis uncovers good reasons, (structural, institutional, organisational), why ComMark should not become involved, especially given our role as a temporary facilitator with a finite mandate. This emphasises the importance of careful pre-scoping of candidate sectors by ComMark's core staff, before detailed studies are undertaken.

A detailed outline of the main interventions we have undertaken over the past year – in the form of sector support projects, studies and small grant initiatives – is presented in a later section of this report. In summary, ComMark's research and related interventions have targeted initiatives which:

- improve policy, legal and regulatory frameworks that inhibit the growth of high potential sub-sector markets (such as in the Namibian tourism sector, the Southern African business process outsourcing and contact centre industries, and the regulatory environment governing the private sector in SA);
- help overcome information, business service and access barriers which inhibit the profitable operation and growth of new businesses in pro-poor markets (e.g. targeting emerging wool farmers in Lesotho and South Africa);
- facilitate market-based approaches to the challenge of upgrading training and productivity in high growth sectors (such as the Lesotho apparel and textile industry); and,
- help design incentive-based policies and financing instruments that are conducive to the creation of effective community-public-private partnerships (in the Lesotho apparel and the Namibian tourism sectors).

Staffing

ComMark is staffed by a core team of versatile specialists, able to identify good opportunities, catalyse strong partnerships and leverage results with limited direct involvement. The Trust also makes judicious use of specialist outside consulting capacity. Beyond the executive director and an administrative core of three staff, ComMark has relied on two sub-sector specialists (one of whom is employed part-time), and one monitoring & evaluation, learning and communication advisor.





EXECUTIVE DIRECTOR'S REPORT

Given the need for ComMark to initiate and guide research and development in relation to our market development mandate, it is likely that a third sub-sector specialist will be appointed in the course of our second year, subject to the recommendations of the strategic review, due in October 2004.

Consultancies

ComMark contracted eight consultancies as part of its research and scoping effort, together valued at one million Rand. Of these, four (worth half a million Rand) were completed by the year's end, while the remainder have been carried into the second year. ComMark will continue to make use of outside consultants, but with more emphasis on fulfilling the information and research requirements of a pro-active, sector and theme-oriented strategy driven by core staff.

RESEARCH COMMISSIONED





Name of Project	ComMark Contribution
Enhancing the livelihoods of poor people and promoting environmental sustainability through the development of a vibrant pro-poor natural products sector in Southern Africa	175 000
Sub sector Analysis of the Beef Industry in the Eastern Cape	104 330
Regulatory Constraints to Air Traffic and Tourism Growth in SA and SACU - Phase 1	79 970
Regulatory Constraints to Air Traffic and Tourism Growth in SA and SACU - Phase 2	149 600
Research into Market-based Solutions to Land Reform	72 000
Employee Attitude and Satisfaction Survey within the Lesotho Apparel Programme	108 036
Making Markets work for the Poor: Development of Foundational Documentation	229 786
Pilot Productivity Audits & Training Needs Analysis of Training and Productivity Service Providers for the Apparel Industry in Lesotho	138 810
	1 057 532

Funding

From a standing start, ComMark's research and grant portfolio grew steadily over the first year of its operation. As the adjacent tables illustrate, ComMark received a total of 20 grant applications with a combined value of R78 million. Of these, eight were approved, two were subject to further review and 11 were rejected. ComMark's grant contribution to approved projects amounted to R10.5 million, representing 39% of their total value. ComMark's resources thus realised significant co-financing. Each Rand contributed by ComMark leveraged additional funding of R1.63 from the recipients' own resources or from other investors.



COMMARK GRANT EXPENDITURE TO END MARCH 2004

-  **25%** Grants under Review – R4 000 000
-  **3%** Grants completed – R556 602
-  **6%** Studies and Research – R898 802
-  **66%** Active grants – R10 547 120



Status	Total Project Value	Approved ComMark Contribution	%	Co-financing Amounts	Cumulative Amounts Disbursed
OPERATING GRANTS					
TOTAL: Active Grants (8)	27 288 443.00	10 547 120.61	66%	16 741 322.39	320 796.00
TOTAL: Under Review (2)	14 500 000.00	4 000 000.00	25%		
TOTAL: Rejected (11)					
STUDIES AND RESEARCH					
TOTAL: Current Consultants (11)		898 802.80	6%		517 611.80
COMPLETED					
TOTAL: Completed (3)		556 602.10	3%		557 635.81
TOTAL – OPERATING GRANTS, STUDIES AND RESEARCH	41 788 443.00	16 002 525.51	100%	16 741 322.39	1 396 043.61

A disaggregated statement of approved grants is presented at the end of this report.

Grant recipients comprised a mix of NGO, private and statutory entities from South Africa, Lesotho and Namibia. The scale of grant disbursement varied from R5.6 million in support of substantive three-year market development initiatives (in the wool sector in SA) to R50, 000 for once-off market scoping assessments. ComMark's future grant disbursement profile will comprise fewer, larger initiatives to reflect our focus on more strategic investments in a limited number of high potential sectors.

Looking ahead

The past year has provided sound learning and a solid base on which to build future interventions. In addition to the hands-on experience of catalysing change within sectors, we have also developed good institutional relationships and a clear understanding of the challenges and opportunities we face. As such, we plan to undertake a strategic review in October 2004 which will achieve three objectives: a) focus the organisation on a smaller number of high-potential areas, b) engage and help inform the thinking of the region's leading development practitioners, institutions and government departments considering the core systemic and issues underlying poverty and, c) improve ComMark's ability to respond to these challenges by developing and adapting the approaches and analytical tools which we and our partners use.

ComMark's successful establishment and operation has been built on the insight and commitment of many people. In the first place DFID, and Hugh Scott in particular, whose bold vision (and its tireless elaboration and development) made ComMark possible. My Chairman and fellow Trustees have been a steady source of encouragement and guidance, and a reliable point of reference in ensuring that we stay true to our vision, and the principles that underlie it. The support of a number of external consultants who assisted with the design of ComMark and its application has been invaluable, as has been the interest, patience and innovation of our operating partners. Finally, I am deeply indebted to my colleagues in ComMark and ECI Africa for taking such strong ownership of this initiative, and for helping to fulfil its ambitious vision.



Paul Zille

Johannesburg
August 2004

SUB SECTOR ACTIVITY REVIEW



ComMark's methodology aims to intervene in selected commodity and service sub-sectors. In this first year the Trust has invested in the textile and apparel sector, the agribusiness sector and the tourism and business processing outsourcing sectors.

TEXTILE AND APPAREL SECTOR

Lesotho

The first year of ComMark's involvement in this sector culminated in the launching of the Lesotho Apparel Project. A limited amount of support was given to the South African apparel sector and an exploratory visit was conducted to Namibia. It has also been a year of building networks and a number of close collaborations have been achieved, particularly with the Southern Africa Global Competitiveness Hub (SAGCH), based in Gaborone and with the Global Training Partnership. A number of highlights during the year were:

- Presenting the Garment Industry Sub sector Study to the Lesotho Cabinet, having it adopted as an official working document of the Government of Lesotho, and being formally requested by the Government to assist with the implementation of some of the recommendations.
- Planning and implementing the foundational steps for setting up an Apparel and Textile project, based at Lesotho National Development Corporation's offices in Maseru.
- Conducting a productivity audit as a baseline against which to assess future growth and training within the sector.
- Hosting the conference "*Sharpening the Competitive Edge: Developing the market for service providers to the Lesotho Apparel Industry*", as a precursor to the development of an industry training and productivity support initiative.

INCREASING INTERNATIONAL COMPETITIVENESS IN THE LESOTHO APPAREL SECTOR

The apparel industry in Lesotho has boomed over the past five years, attracting fifty thousand workers who have few other opportunities. From its origins as a marginal 'sweatshop' industry, and driven by trade preferences afforded by the Africa Growth and Opportunity Act (AGOA), the Lesotho garment industry has grown rapidly into a well-regulated, globally integrated business. The sector now outstrips government as the largest employer in this impoverished, landlocked country, accounting for US\$5 million per month in wages. However, this new industry is threatened by several developments, ranging from local infrastructure constraints – inadequate supplies of factory sites, storage, import and export facilities, and water supply and treatment plants – to HIV/AIDS, all of which undermine productivity.

To help confront these challenges ComMark is working with the Lesotho National Development Corporation, factory owners, and trade unions to develop consensus-based approaches to improve productivity in the textile industry. The aim is to make industry stakeholders aware of the urgent need to transform productivity in the sector and indicate a method for doing so. To this end, ComMark facilitated a trade fair, to stimulate a market for regional service providers to enter the garment industry and to give factories in Lesotho different options for sourcing the services they need. ComMark now plans to explore incentives to encourage industrialists to use and pay for training and other productivity-enhancing services from across the region. These measures are aimed at reinvigorating the industry, facilitating its vertical integration, and preparing it for the long term prospect of life without AGOA.

South Africa

ComMark has also made considerable progress working with sub-sector players in South Africa. ComMark is assisting CloTrade, a national garment industry association, to consolidate its membership and to build its capacity to deal with the issues confronting the domestic industry. The Trust's support will enable CloTrade to identify research and assist government to resolve key policy, trade and regulatory barriers that impede the sector's potential growth and development.



ComMark has also assisted the Johannesburg Development Authority to commission a value chain mapping study of the Johannesburg Fashion District. The fashion district is a clustering of largely informal small-scale clothing manufacturers who have started businesses in the wake of the decline of the formal apparel industry in Johannesburg. This study is now completed and the results are being analysed with a view to delivering appropriate market-related support services to these businesses.

Namibia

An exploratory visit was made to Namibia to meet key stakeholders in the textile and apparel industry. It is possible that the scope for assistance may develop once this sector is fully operational but there is little that ComMark could concern itself with, at this stage of the establishment process.

Swaziland

A scoping study of the Swaziland apparel industry was made during the design stage of ComMark. The industry faces many of the same problems as those evident in Lesotho and would require a similar intervention to address the constraints on the growth and sustainability of the industry. Moreover, the current political context in Swaziland raises important additional considerations which need to be carefully assessed prior to any involvement. To maximise returns on our investment and avoid duplication, we have agreed to form an alliance with the Southern Africa Global Competitiveness Hub (SAGCH). The SAGCH is planning to broadly replicate the ComMark Lesotho Apparel Project in Swaziland using the model and lessons learned in Lesotho. ComMark will continue to monitor developments and, where appropriate, collaborate on the SAGCH/Swaziland apparel intervention.

AGRIBUSINESS

Wool

ComMark's agribusiness activities have focused on the design and implementation of its SACU Wool and Mohair Industry Strategy and Investment Plan. Improvements in the wool industry, due to buoyant international prices and declining international supply have created the opportunity for emerging black African farmers to enter commercial production. Furthermore, the opportunity for these farmers to enhance farm-gate wool values through improvements in shearing, classing, baling and transport, all viewed as market constraints, offered ComMark's partners a clear point of intervention.



GROWING SUSTAINABLE WOOL MARKETS

Thousands of rural households in South Africa's Eastern Cape and Lesotho earn a living from wool farming. Shearing their small flocks of between two and fifteen sheep at home, or communally with their neighbours, these farmers typically sell the fleece to travelling wool traders for about two Rand per kilogram. After sorting, grading, and baling this wool, the traders sell it to an auction broker for 12 to 25 Rand per kilo, depending on its quality. Unaware of prevailing market prices and the crucial price-importance of proper shearing, sorting, grading, and baling, the farmers are failing to reap the substantial returns associated with South Africa's growing commercial wool trade.

ComMark's involvement in the wool sector illustrates its market facilitation approach to commercialise business development services such as veterinary services, shearing, grading. Improving the availability of business services and then helping develop sustainable local markets for these services, at market related prices is crucial to the ability of emerging wool farmers to access commercial marketing channels, improve their dismal returns on farming, and lift themselves out of poverty.

Improving the quality, reliability, and volume of wool from rural communities, and fostering the emergence of a viable community of small farmers, willing to pay for services, will attract commercial brokers, pharmaceutical companies, and other service providers to these areas, previously considered non-viable. Over time, ComMark's mentorship and market facilitation role will wind down, with the aim of leaving behind functioning local wool markets populated by informed and discerning farmers who are linked to international, commercial supply chains.

SUB SECTOR ACTIVITY REVIEW CONT



Two strong industry bodies actively working with emerging wool producers, namely TEBA Development and the National Wool Growers Association (NWGA), were identified as by ComMark as strategic grant partners. With the Trust's assistance, NWGA has developed a programme to train and deploy a number of extension officers to serve as wool-shed marketing mentors, providing specialized technical assistance to emerging producers. The objective of this assistance is not only to increase producer returns, through enhancing the farmers' technical capacity, but also to enhance their understanding of the structure and performance of the domestic and international wool markets. Over time, both the Trust's and the partner's market facilitation interventions will wind down, leaving behind functioning local wool markets populated by informed and discerning farmers who pay market-related prices for quality services to improve their yields.

TEBA Development was established by the South African mining industry to implement development activities among Southern African communities receiving remittances from mineworkers. In 2002 it successfully piloted a wool sector animal health, shearing and marketing programme in Mafeteng, Lesotho. ComMark's grant to this organization will enable TEBA to expand their activities to three additional wool growing areas in Lesotho. These activities focus on providing Lesotho wool producers with an alternative to the present government-owned and operated wool-shed marketing chain. The present system does not provide the farmers with access to inputs and advisory services, and the marketing services provided are erratic, confusing and subject to extensive leakages. The TEBA grant will be used to develop a transparent and credible marketing system using local private traders including other business development service providers such as input suppliers and extension agents, who will increasingly charge farmers market-related rates for their services.

The third component of ComMark's Wool Industry Investment Plan - support to the Government of Lesotho to implement its wool industry privatization programme, is fundamental to the long-term commercial sustainability of the Lesotho wool industry. This initiative is expected to commence in the latter part of 2004.

SUB-SECTOR RESEARCH

Red Meat

Aside from its activities in the wool sector, over the past year ComMark also commissioned two comprehensive research studies on the red meat and natural products sub-sectors. The objective of the red meat study was to analyse the dynamics within the Eastern Cape cattle industry to determine the opportunities and challenges they face when entering the formal commercial livestock sector. This study was motivated by the fact that the cattle off-take from the communal areas tends to be very low, (under five percent), compared to commercial farmers, (about 30 percent), limiting the potential returns to communal farmers. The results of the analysis suggest a number of interventions that can be undertaken to better embed these producers within formal livestock marketing channels and thereby enhance the pro-poor nature of the sector. However, this research also draws attention to the complexity of increasing herd off-take rates in a communal grazing environment and in situations where livestock is not only seen as a means of production, but also as a store of wealth. For this reason any future role for ComMark in the sector is unlikely.

Natural Products

With support from ComMark, the International Conservation Union (IUCN) undertook a number of research and scoping studies to formulate a comprehensive strategy designed to promote and develop the Southern African natural products industry. From ComMark's perspective, the importance of the natural products sector stems from its ability to target large numbers of remote rural households which have limited access to alternative livelihood opportunities. The research illustrated that while the natural products industry is still in its infancy, some intervention around certification and trade regulations may be warranted to ensure poor producers gain access to high value supply chains.

SERVICES SECTOR

The tertiary sector of the South African economy, including service industries has for some time accounted for the largest share of GDP. According to recent research this percentage share continues to increase. As part of its strategy to support high growth sectors with strong pro-poor characteristics, ComMark began to identify and scope high potential industries in the services sector.

Business Process Outsourcing (BPO)

In recent years the Business Process Outsourcing (BPO) sector in South Africa has emerged as a source of intense domestic interest. As a global industry it has generated dramatic revenue growth and job creation in destination countries. India has been first to market



as a premier destination based on its low labour costs and high technical capability. The Indian industry, with an annual turnover in excess of US\$24 billion, has created over 200 000 call centre agency jobs. Increasingly, global firms are looking for alternative destinations and South Africa is considered to offer distinct comparative advantages, but to date has not been able to attract the main source of large BPO projects – US and European multinationals.

To exploit its potential comparative advantages and overcome the impediments, South Africa needs to understand and articulated its value proposition. This understanding should inform a strategy which aligns the interests of all statutory and private sector stakeholders.

ComMark has begun to facilitate the development of this integrated strategy and, together with industry and national government representatives, will commission a joint study to investigate the nature and extent of South Africa's value proposition and differentiation from other destination countries.

Tourism

ComMark has developed a momentum of work in the Namibian tourism sector - the third largest and the fastest growing sector of the Namibian economy. By virtue of its "flat" structure this sector offers significant potential for pro-poor development principally in the form of SME growth and employment generation. To date, ComMark has provided assistance to the Namibian Tourism Board to audit and develop a greater understanding of the supply side capacity and quality of the industry, and in conjunction with the Ministry of Environment and Tourism, has also part-funded an investigation into the constraints to private sector investment in rural conservancies. The studies have guided ComMark's understanding of the sector and supported the development of strong partnerships for future collaboration.

Airline Regulation

Over the past few years South Africa has been one of the fastest growing international tourist destinations. However, many in the South African tourism industry feel hampered by the perceived restriction on international airlines' flights to South Africa. Less publicised but more prevalent restrictions on international air traffic occur between many African countries, resulting in limited flights and high airfares on many routes, while important city pairs are not linked by air at all.

The potential of the tourism sector to create pro-poor growth throughout Southern Africa led ComMark to commission a position paper on the regulation of international flights to and from Southern Africa and the mechanism whereby available frequencies and landing slots are allocated between the competing carriers. The commissioned research examines this situation and suggests alternatives. Southern African countries can grow air traffic and at the same time strengthen their airline industries and domestic tourism sectors with the correct combination of strategies.

The initial research prompted ComMark to commission second phase research, working more closely with the relevant statutory authorities. This collaborative research is currently underway.

REGULATORY ISSUES

The regulatory environment in which business operates is a crucial determinant of economic growth. In recognition of this the ComMark Trust is co-funding a number of studies identifying regulatory constraints to business growth in South Africa.

The Regulatory Cost Impact Study, (RCIS), conducted by the Small Business Project is nearing the end of its first phase. The RCIS is a comprehensive study of the regulatory cost of doing business in South Africa. Surveying more than 1500 businesses across all sectors and of all sizes, the survey is the first of its kind in South Africa, and a ground breaking study internationally. It is expected that the results of this survey will be available in early 2005. A private sector-funded dissemination phase will publicise the findings to key decision makers in government and the private sector.

An investigation undertaken by the Law Review Project drew on international data sources and assimilated and collated economic and social indicators of economically successful states that have also delivered social benefits. The analysis then plots these indicators to provide a comprehensive illustration of which economic and social policies correlate with sustained economic growth and social stability. This research has been completed and the Trust hopes to make the results available to the public after presentation to private sector, government and political decision makers in the last quarter of 2004.

All of ComMark's finalised research is available to the public on its website, www.commark.org.



FINANCIAL STATEMENTS AT 31 MARCH 2004

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

REPORT OF THE INDEPENDENT AUDITORS

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

We have audited the financial statements of The ComMark Trust for the period ended 31 March 2004. These financial statements are the responsibility of the trustees, while our responsibility is to express an opinion on these financial statements based on our audit.

SCOPE

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

AUDIT OPINION

In our opinion, the financial statements fairly present, in all material respects, the financial position of the trust at 31 March 2004 and the results of its operations and cash flows for the period then ended in accordance with South African statements of generally accepted accounting practice.

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

BALANCE SHEET AT 31 MARCH 2004



	Notes	2004 R
ASSETS		6 025 189
Non current assets		17 172
Equipment	2	17 172
Current assets		6 008 017
Vat receivable		59 696
Cash and cash equivalents	3	5 948 322
TOTAL ASSETS		6 025 189
RESERVES AND LIABILITIES		6 025 189
Reserves		5 340 240
Surplus at end of period		5 323 068
Equipment fund	4	17 172
Current liabilities		684 949
Accounts payable		681 263
Taxation	5	3 686
TOTAL RESERVES AND LIABILITIES		6 025 189



INCOME STATEMENT AT 31 MARCH 2004

	Notes	7 MONTHS TO 31/03/2004 R
INCOME		8 164 451
Grants – DFID		8 089 920
Other income – deposit refunded by DFID		60 932
Interest received		13 599
EXPENDITURE		2 819 442
Administration and Management	6	835 046
Monitoring and Evaluation, Impact assessment and Communication	7	16 359
Implementation, Studies, Research and Training	8	1 465 696
Operating Grants	9	502 341
UNEXPENDED SURPLUS FOR THE PERIOD		5 345 009
TRANSFER TO EQUIPMENT FUND	4	(18 255)
Equipment acquired, at cost		(18 255)
TAXATION	5	(3 686)
S A Normal taxation		(3 686)
BALANCE AT END OF PERIOD		5 323 068

CASH FLOW AT 31 MARCH 2004



	Notes	7 MONTHS TO 31/03/2004 R
Cash flows from operating activities		
Surplus for the period		5 345 009
Adjusted for :		
Interest received		(13 599)
Operating surplus before working capital changes		5 331 411
Working capital changes		
		621 567
(Increase) in accounts receivable		(59 696)
Increase in accounts payable		681 263
Cash generated by operations		5 952 978
Interest received		13 599
Net cash inflow from operating activities		5 966 577
Cash flows utilised in investing activities		
		(18 255)
Acquisition of equipment, at cost		(18 255)
Net increase in cash resources		5 948 322
Cash and cash equivalents at beginning of period		-
Cash and cash equivalents at end of period	3	5 948 322

TABLES

COMMARK GRANTS – ACTIVE, UNDER REVIEW AND REJECTED AT END OF MARCH 2004

	ComMark Contribution
APPLICATIONS RECEIVED	
Approved/Active Grants	R10 547 121
Under Review	R4 000 000
Rejected	
IMPLEMENTATION, STUDIES, RESEARCH AND TRAINING	
Textiles and Apparel	R246 846
Wool and Mohair, Agribusiness	R397 873
Natural Products	R175 000
Red Meat	R104 330
Tourism	R229 570
Research into Market Based Solutions to Land Reform	R72 000
Making Markets Work	R229 786
COMMARK ALLOCATION PER COUNTRY	
South Africa	R8 227 121
Lesotho	R2 150 000
Namibia	R170 000

COMMARK GRANTS – ACTIVE, UNDER REVIEW AND REJECTED AT END OF MARCH 2004 BY SUB SECTOR

Sector	Number of Grants	Total Project Value	Approved ComMark Contribution	Co-financing Amounts	ComMark Contribution (%)
Wool and Mohair	2	20 500 000	7 700 000	12 800 000	38
Services Sub Sectors and Regulatory Reform	3	4 788 443	1 847 121	2 895 190	39
Textile and Apparel	3	2 000 000	1 000 000	1 000 000	50
Totals	8	27 288 443	10 547 121	16 695 190	39
Percentage		100%	39%	61%	



COMMARK GRANTS – ACTIVE, UNDER REVIEW AND REJECTED AT END OF MARCH 2004 BY RECIPIENT

Status	Name of Applicant/Institute	Country	Sector	
Active Grants	Total Project Value for all Active Grants	27 288 448	Total ComMark Contribution	10 547 120
Active Grant	National Woolgrowers Association of South Africa (NWGA)	South Africa	Wool and Mohair	
Active Grant	Small Business Project (SBP)	South Africa	Services Sub Sectors and Regulatory Reform	
Active Grant	Lesotho National Development Corporation (LNDC)	Lesotho	Textile and Apparel	
Active Grant	Namibia Tourism Board (NTB)	Namibia	Services Sub Sectors and Regulatory Reform	
Active Grant	Law Review Project (LRP)	South Africa	Services Sub Sectors and Regulatory Reform	
Active Grant	Johannesburg Development Agency (Pty) Ltd (JDA)	South Africa	Textile and Apparel	
Active Grant	TEBA Development	Lesotho	Wool and Mohair	
Active Grant	Clotrade	South Africa	Textile and Apparel	
TOTAL: ACTIVE GRANTS (8)				
Under Review	Total Project Value for all Grants under Review	14 500 000	Total ComMark Contribution	4 000 000
Under Review	The Centre for Development and Enterprise (CDE)	South Africa	MMW4P	
Under Review	The Centre for Development and Enterprise (CDE)	South Africa	Services Sub Sectors and Regulatory Reform	
TOTAL: GRANTS UNDER REVIEW (2)				
TOTAL: REJECTED (11)				

COMMARK STUDIES AND RESEARCH AT END OF MARCH 2004 BY SECTOR

Status	Name of Consultant/Organisation	Country	Sector	
STUDIES AND RESEARCH – CURRENT				
Current	Consultant	South Africa	Wool and Mohair, Agribusiness	
Current	IUCN	South Africa	Natural Products	
Current	National Emergent Red Meat Producers Organization	South Africa	Red Meat	
Current	Consultant	South Africa	Tourism	
Current	Triple Trust Organization	South Africa	Red Meat	
Current	Consultant	South Africa	Red Meat	
Current	Consultant	South Africa	Land Market	
TOTAL: CURRENT CONSULTANCIES (7)				
STUDIES AND RESEARCH – COMPLETED				
Completed	Sechaba Consultants	Lesotho	Textiles and Apparel	
Completed	Consultant	South Africa	Tourism	
Completed	Consultant	South Africa	Making Markets Work	
Completed	Consultant	Lesotho	Textiles and Apparel	
TOTAL: COMPLETED CONSULTANCIES (4)				

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