

**ANNUAL REPORT ON THE STATUS OF
TRANSFORMATION IN THE FOREST SECTOR
2016/17**



EXECUTIVE SUMMARY

The South African Broad- Based Black Economic Empowerment (B-BBEE) is a government programme aimed at extending the participation of black people into the main stream economy. It is measured through generic or sector specific scorecards. Significant developments have taken place in South Africa between 2016 and 2017 which may have had an influence on the forest's sector response to the B-BBEE programme. Economic downgrades and negative outlooks are notable events which may have impacted transformation in the sector.

As the Industry continued its activities aimed at implementing B-BBEE, the 2016-17 report provides an overview of the performance of measured entities within the Medium and Large Enterprises (MLEs), Qualifying and Small Enterprises (QSEs) and Exempted Micro Enterprises (EMEs) choosing to implement B-BBEE.

The sector maintained a level 4 Black Economic Empowerment (BEE) contributor status qualifying for a 100% procurement recognition level. This level is desirable as it meets most of Government preferred level and criteria for awarding grants, permits and tenders. Some of the measured entities within the MLE category also submitted their underlying information detailing the scores achieved in each of the scorecard elements. This allowed for a comprehensive analysis indicating genuine empowerment.

Continued progress is observed amongst the MLE's Ownership and Skills Development elements. These two elements showed the greatest improvement when compared to the previous performances and the other scorecard elements. This may serve as an indication of the positive effect the priority elements introduced in the new draft Amended Forest Sector Codes (awaiting final gazette) are having on measured entities. Additionally, this could be an indication that the proposed changes are a step in the right direction and have potential to bring about favourable transformation within the forest sector.

Qualifying Small Enterprises continue to perform better in terms of B-BBEE. Even though, the number of reporting entities under this category declined, the average scores achieved were still within suitable levels. Declines in terms of the weighting points were observed in all the elements, with the exception of Preferential Procurement and Enterprise Development. QSEs maintained a level 2 BEE contributor level, with some of the QSEs achieving a level 1 or 2.

Generally, EMEs are automatically a level 4 not unless the black profile is more than 50%, making such entities eligible to claim a level 3 status. Most EME maintained a level 3, indicating an increased black ownership profile, possibly due to the enhancement criteria reserved for either 51% or 100 black owned EMEs in the draft Amended FSC.

This improvement may indicate that EMEs are willing to self-audit and correct to create black owned sustainable businesses. Additionally, EMEs may have realised that the large entities prefer to do business with other business with a good rating as this has a cascading effect on their procurement recognition. Therefore, presenting an opportunity for EMEs to upgrade their BEE level and be further enhanced in the draft Amended FSC.

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ACRONYMS

B-BBEE	Broad-Based Black Economic Empowerment
BEE	Black Economic Empowerment
BO	Black Owned
BWO	Black Women Owned
DAFF	Department of Agriculture, Forestry and Fisheries
DTI	Department of Trade and Industry
EAP	Economically Active Population
ED	Enterprise Development
EME	Exempted Micro-Enterprise
FP&M SETA	Fibre, Processing and Manufacturing Sector Education and Training Authority
FSC	Forest Sector Code (Sector Codes)
FSCC	Forest Sector Charter Council
GDP	Gross Domestic Product
HA/ha	Hectare
HDSAs	Historically Disadvantaged South Africans
MLE	Medium and Large Enterprise
NPAT	Net Profit after Tax
QSE	Qualifying Small Enterprise
SA	South Africa
SAWGU	South African Wattle Growers' Union
SED	Socio-Economic Development
SMME	Small Medium and Micro Enterprises
WSP	Workplace Skills Plan
CSIR	Council for Scientific and Industrial Research

1. INTRODUCTION

Forestry is a key driver for the development of South Africa's local economies, particularly in rural areas where poverty is intensified by lack of employment opportunities. The Forest Sector Charter Council (FSCC) is tasked with monitoring and facilitating transformation of the Forest Sector. Tangible and significant transformation requires a collective and concerted effort by industry, government, communities and labour.ⁱ

Transformation in the sector is envisioned to be primarily driven by compliance of Forestry entities to the Forest Sector Codes (FSC). Transformation is measured by evaluating the extent to which forest entities have met their B-BBEE targets. This requires the inclusion of the rural poor and designated groups of black people, women and youth into all levels of operations, decision making and economic activities in the forest sector and its forwards and backwards linkages.

The FSC serve as guidelines to Forestry entities on the manner in which they can transform their organisations into inclusive and equitable spaces for black people by implementing activities in their organisations that:

- i. Promote sustainable change in the racial and gender composition of **ownership, management** and **control** structures of the organisation to ensure **employment equity**
- ii. Actively **skill** and **develop** black employees for successful integration into key positions in the organisation
- iii. Nurture and support new black-owned and or black-managed enterprises through **preferential procurement** and **enterprise development**
- iv. Support and develop the communities within which they operate through meaningful and sincere forms of **socio-economic development** initiatives

Although some progress has been made since the implementation of the B-BBEE Act in 2003 and the FSC, the forestry sector (much like most industries in South Africa) continues to be characterised by disparities in access to opportunities and benefits for black people, especially black women.

The 2016/17 reporting year marks the Forest Sector Charter Council's 8th year reporting on B-BBEE performance in the Forest Sector. This report will be the last report under the current FSC as the draft Amended FSC have been submitted to the dti for approval. The report will therefore serve as a benchmark to confirm or disconfirm whether the new amendments to the Codes will bring about meaningful and broad-based participation of black people as well as sustainable growth in the sector

ⁱ Forest Sector Charter Council. 2009. *Forest Sector Codes*. Department of Agriculture, forestry and Fisheries.

2. REPORT OBJECTIVES

The report seeks to examine the state of transformation in the Forest Sector. This will be achieved by unpacking the performance of the sector in light of the targets of the scorecards as submitted by participating measured entities. This report will also attempt to translate the scores achieved by measured entities into qualitative data that provides real insight into the status of transformation of the sector.

The final report will provide insight into the following:

- i. The social, political and natural environment in the forest sector and how these factors create the context within which forestry enterprises operate;
- ii. The B-BBEE status of Medium and Large Enterprises (MLEs) in the Forest Sector based on the seven elements of the forest sector scorecard for each of the six sub sectors;
- iii. The B-BBEE status of Qualifying Small Enterprises (QSEs) based on any four elements of the forest sector scorecard for each of the six subsectors;
- iv. The B-BBEE status of Exempted Micro Enterprises (EMEs) based on their black ownership profile and overall B-BBEE performance as a collective;
- v. The actual performance of the applicable scorecard elements against the set 6-10 years' compliance targets;
- vi. The overall transformation status of the industry as a whole and
- vii. The general constraints faced by the FSCC in monitoring and facilitating B-BBEE in the sector and possibly propose some recommendations.



3. SECTOR OVERVIEW

South African commercial plantations cover 1.1% (1 268 443 hectares (ha)) of land and are primarily located in Mpumalanga, Limpopo, KwaZulu-Natal and the Eastern and Western Capeⁱⁱ. Commercial forestry in South Africa can be divided into two sections. The first being the primary sector which involves the growing of trees (plantations), while the secondary sector involves the conversion of timber into various products such as pulp, paper and charcoal amongst others.

In the early 90's, the forest sector contributed to 2.1% (R12 984 million) of South Africa's total GDP while adding to 4.82% of the total value of exports (excluding gold). In 2015/16 Forestry's contribution to gross domestic product (GDP) was down to 0.6% (R88 151 million), adding 2.78% to total exports (excluding gold). It is a common phenomenon that as other sectors grow as a result of economic development, the contribution of agriculture declines. However, agriculture remains a vital sector in the economy through the provision of employment, foreign exchange, and raw materials.ⁱⁱⁱ

The Forest Sector also contributes 12% to South Africa's manufacturing GDP and 35.5% to South Africa's agricultural GDP^{iv}

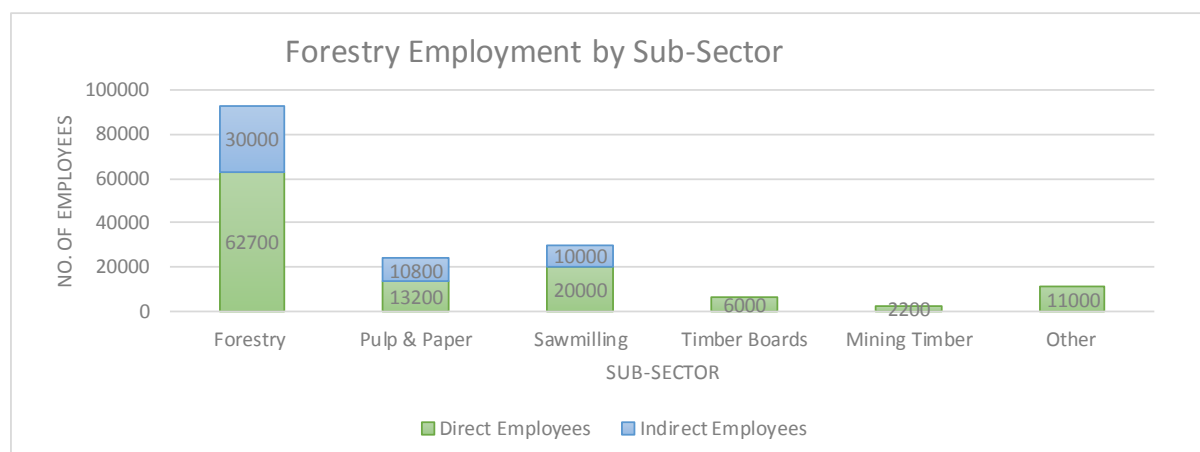


Figure 1: Forest Sector Employment by Sub-Sectorⁱⁱ

Figure 1 above is a breakdown of employment trends in the sector. The Sector employs 165 000 people with the primary grower's sub-sector (plantations, nurseries etc) providing 92 700 direct jobs and 72 300 jobs provided by other sub-sectors including sawmilling; pulp & paper, mining timber etc. As part of its growth strategy, the FSC seek to ensure black people are employed in the sector and that they are further elevated to executive and management positions.

Figure 1 clearly highlights the dominance of the growers and fibre sub-sectors in the forest sector. The forestry, pulp & paper and sawmilling account for 55.9%; 14.6% and 18% of jobs

ⁱⁱ Forestry SA. (2013). *Forestry Facts for the year 2011/12*.

ⁱⁱⁱ DAFF. 2010. The declining contribution of agriculture to GDP: is the role of agriculture becoming less important? Department of Agriculture, Forestry and Fisheries. Directorate: Economic Services

^{iv} Sithole, B. 2017. Opportunities and Challenges for the Forest Sector in Contributing to the South African economy – Repositioning the Forestry Sector for Growth. CSIR, University of KwaZulu-Natal.

in the sector respectively. Collectively, they provide over 88% of the Sector’s direct and indirect jobs.

The sector involves a high degree of activity outsourcing through the use of contractors. Contracting activities involve transporting, harvesting and silviculture operations. The outsourcing of forestry from 1990 – 2000 resulted in the creation of an industry with an annual turnover of R600 million and 35000 employees.^v In 2001, there were an estimated 220 forestry contractors employing between 40 and 60% of the 60 000 direct employees in the sector.^{vi}

A large percentage of forest land is owned or managed by private companies. South Africa’s black majority who form over 80% of the population remain under-represented when it comes to land ownership. This is largely a result of the systematic exclusion from land ownership experienced in the past which has been further exacerbated by the slow pace of the land reform and restitution process. This marginalisation has serious consequences on access to and control of forest resources and poses a threat to broad based economic participation.

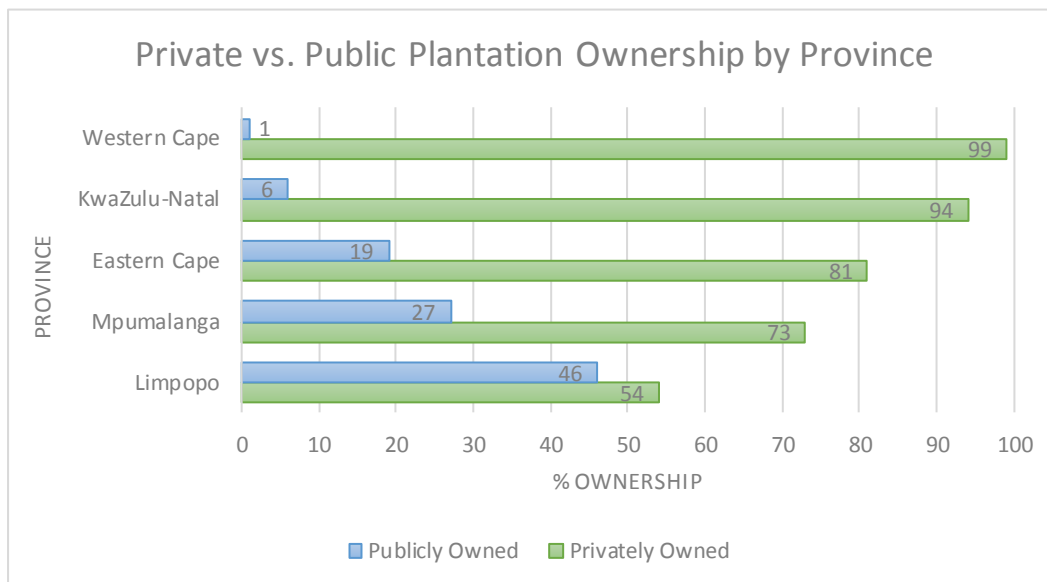


Figure 2: Private versus Public Plantation Ownership by Province

Today, over 80% of forest land is owned privately. Of these privately owned commercial plantations, the largest share is owned by Sappi and Mondi who also have international linkages. There are also approximately 1 800 smaller private commercial timber farmers in the country, who account for the medium-sized players in the forestry sector. In addition to the commercial timber farmers, there are about 25 000 small-scale, timber growers (i.e. emergent growers) that collectively own 1% of land under forestry plantations.^{vi}

In addition, just over 12 000 of these small growers fall under out-grower or other small-scale grower schemes under Sappi, Mondi and the South African Wattle Growers’ Union (SAWGU). An out-grower scheme is a contractual relationship between the grower and the company where the grower sells their timber directly to forestry companies or via timber suppliers.^{vi}

^v Khosa, M. 2000. Forestry Contracting in South Africa. Instruments for sustainable private sector forestry, South Africa series. International Institute for Environment and Development and CSIR-Environmentek, London and Pretoria.

^{vi} Employment Conditions Commission (ECC). 2006. Report of the employment conditions commission on the investigation into a sectoral determination for the forestry sector. Department of Labour.

3.1. SOCIAL AND POLITICAL ENVIRONMENT

There are a number of social and political matters that may have potentially impacted on B-BBEE implementation in the reporting period under assessment. 2016 to 2017 were years fuelled by growing poverty, unemployment and civil unrest.

Some of the major issues and events that may have driven or influenced transformation or lack thereof in the forest sector in the past reporting period include:

i. Fees Must Fall

One such event was the **#FeesMustFall** movement where South African youth stood against the increasingly rising cost of tertiary education. This event highlights the important role that corporates, public sector and civil society at large can play in skills development by providing bursaries to deserving black learners. In the same year the FP&M SETA committed over R3 million to fund forestry related bursaries as well as an additional R3 million to initiate 4 separate small-scale grower training initiatives.^{vii}

ii. The announcement of the new minimum wage for forest and farm workers

In January 2016, South Africa found itself in the middle of wage negotiations with COSATU calling for a national minimum wage of R4 500. At the time, the average forest worker was earning R2 606,78 per month. COSATU suggested an amount of R4 500 using the international standard's benchmark of 40 – 50% of the average wages in the country which at the time stood at R10 000. Forestry representatives voiced their concerns that this amount may lead to large scale job shedding. After a brief period of negotiations, the minimum wage was increased by 6.6% to R2 778,83 per month. This decision was taken with the drought taken into account and its impact on production in the sector.

iii. The approval of the Amended (and more stringent) Forest Sector Codes for B-BBEE by the Forest Sector Charter Council, "FSCC", which now includes Industry and Governments commitments in the sector wide scorecard

In 2016, the Forest Sector Charter Council, together with relevant stakeholder revised and finalised the Draft Amended Forest Sector Codes. The draft Amended Codes were submitted to the dti for approval through the applicable processes as indicated under section 9(5) and 9 (1) of the B-BBEE Act as Amended. These Amended Codes have more stringent targets and would thus accelerate transformation even further once implemented.

iv. The Department of Water and Sanitation (DWS) accepted Forestry South Africa's plea to remove the highly controversial regulations aimed at forcing timber growers to apply for authorisation when switching genera^{vii}

The removal of these regulations provided great relief to the sector and minimised the already cumbersome regulatory environment within which forest enterprises operate.

v. Political Unrest and Economic Downgrades

South Africa's volatile political landscape had a huge impact on the economy, transformation and investment in general. The change in political administration in some major economic hubs in the country may serve as an indicator of the dissatisfaction of the public with current service delivery levels.

^{vii} FSA. 2016. *Forestry South Africa 15th Annual Report*. Forestry South Africa.

In 2017, international rating's agency S&P chose to maintain South Africa's foreign-currency rating and negative outlook. However, the political climate in the Forestry industry improved significantly with Forestry South Africa agreeing on a roadmap with the Deputy Minister of the Department of Agriculture, Forestry and Fisheries (DAFF)^{vii}.

vi. Legislation regarding land reform, water issues and labour continue to hinder progress

In 2016, the Land Claims Court decided to put all land claims made after 1998 on hold after the constitutional court found that parliament did not consult the public before deciding to reopen the window for claims. As progressive as this decision was, possible consequences were not considered in as far as its impact on transformation was concerned. Land is an asset that could be used to leverage business deals in already existing and established companies.

3.2. NATURAL ENVIRONMENT

i. Drought

The plantation forests of South Africa use just 3% of the country's total water resources. Irrigation is never utilised in forest plantation management and therefore rainfall needs to be higher than 750 mm per annum to sustain commercial forestry ^{viii} The 2016 drought had the effect of heightening the sector's awareness of the effects of climate change.

Even though trees are on average more resilient to drought than other agricultural crops, most pests and diseases thrive under conditions of climate change as was observed with the proliferation of the Leptocyte problem especially in KZN. In response to this issue, the King Cetshwayo District municipality provided funding of R1.3 million to assist small-scale growers in their district to re-establish plantations that had been decimated by Leptocyte.^{vii}

Pines have been found to be more resilient to climate change and drought than eucalyptus and wattle. This may be one of the reasons for the observed increase (46.6% to 47.5%) in afforestation of pine and the large decrease (43.7% to 10.1%) in eucalyptus afforestation from the periods of 1980-2016 to the 2016 FY. Switching of genera may have been used as a possible climate change and drought mitigation strategy.^{ix}

On the other hand, the continued neglect of some of the government's exit areas has resulted in uncontrolled growth of invader plants, pests and diseases. The emergence of "pine and wattle jungles" resulted in water loss at catchments, streams and rivers, further exacerbating the water issues South Africa is facing^x.

ii. Exit Areas and Afforestation

The cabinet of 2008 took a decision to recommission some of the Exit Areas especially in the Western Cape region. In 2016, 1107 ha of plantation were afforested. While from 2007 to 2016, an average of 1 730 ha per annum of trees were afforested. The FSC has put an ambitious target of 10 000ha of trees afforested per year. The slow rate of afforestation, coupled with the impact of the exit policy of 2001 in the Southern Cape has had a huge impact on the ability of the sector to continue sustainably and thus sustain employment.^x It is

^{viii} Sabie. 2014. Forestry. Accessed from: <http://www.sabie.co.za/about/forestry/>

^{ix} Godsmark, R. 2017. South African Forestry and Forest Products Industry 2016. Forestry South Africa.

^x Stehle, T. 2016. *Finding Solutions in the Southern Cape*. SA Forestry Online

estimated that South Africa will need a further 1 million ha of afforested area to meet the growing timber demand in the near future.

Current indications are that future afforestation potential could be limited to a maximum of 300,000 hectares, representing an overall increase of just 17% of South Africa's afforested area. Much of this area lies in communally owned areas, particularly in the Eastern Cape. This is a real opportunity to widen participation in the industry and to spread the benefits of a successful industry amongst some of the poorest people.

4. RESEARCH OVERVIEW AND METHODOLOGY

This report was prepared using a combination of primary and secondary research tools. Research was conducted over 3 phases including a desktop literature review, data collection, data analysis and interpretation.

Forestry news and publications in 2016 and early 2017 were collected and used to conduct the literature review. Major sources of information included Forestry SA's (FSA) online platform which organises news articles into months and years, as well as some generic online articles and publications on the sector. This input was critical as it provided some real-time context and background to the conditions under which forestry companies were implementing B-BBEE in 2017

Valid B-BBEE certificates were collected directly from forestry companies through phone calls and emails. Certificates were also sourced from the Mpowered portal, an online database where companies upload their B-BBEE certificates. The majority of submissions accounting for about 80% of the valid certificates were sourced from the Mpowered portal.

The collated data from the certificates and some of the underlying information was organised into a database and categorised based on company size, MLE, QSE and EME. The database was also arranged according to the sub-sectors within which the companies operate. The information was further coded into excel spreadsheets to allow for ease in converting the data into graphs and interpretation.

The graphs were then analysed and put into a word document where they were dissected and discussed to provide insight into the activities and trends in the industry's efforts to transform through B-BBEE.

4.1. RISKS

One of the major obstacles to B-BBEE reporting experienced by the Council is the lack of an official and dependable database with all the entities operating in the sector. The database that exists is not exhaustive of the entire industry. For instance, there are reportedly 21 000 small growers operating in the sector. These entities fall under the EME category. However, no certificates were received representative of this group.

Even if the Council had the complete database, there are still struggles regarding reporting and submission of reports. Increasing efforts have been made and are being made to remedy this situation with consideration of the B-BBEE Act as Amended. In the meanwhile, the Council relies on the concept or theory of the Italian economist Vilfredo Pareto devised in 1895 called the Pareto Principle. The economist stated that: "for many events, roughly 80% of the effects come from 20% of the causes".

This principle can be translated into a more useful analogy for the Forest Sector, taking cognisance of Figure 3 below, an excerpt from the Department of Labour’s 2015 Employment Conditions Commission Report. Sixteen large growers control or own over 70% of the plantation area in South Africa. This figure rises to 89.4% when the medium growers are added. In relation to the Pareto principle: 16 companies which are all accounted for in the MLE section of this report, control over 70% of the sectors resources.

In this instance, the “Law of the Vital Few” or Pareto’s Principle can be used to mitigate the risk associated with the minimal number of certificates received.

Ownership category	# of entities	Employers	Area (ha)	% Area
Large growers-private land	11	Sappi, Mondi, Mondi Shanduka, Hans Merensky (Sabie & Mpumalanga), PG Bison (S.Cape & NECF), York, Masonite, Bedrock fibre resources, Realtile Timrite	612 600	48,7
Large growers-State land	4	MTO, Siyaqhubeka (SQF), Amathole Forestry Company (AFC), Hans Merensky (EC:Singisi)	143 300	11,4
SOE: Komatiland forests	1	KLF	127 700	10,1
Medium Growers	1300	-	241 470*	19,2

Figure 3: Plantation Ownership in the Sector. (Employment Conditions Commission Report on the Investigation into the Forest Sector, 2015)



5. SECTOR ANALYSIS

Certificates were collected from reporting entities across the various business sectors. For the year under review, only 77 certificates were received as shown in Figure 4 below. Of the 77, 54 were valid. Valid certificates are certificates verified using the Forest Sector Codes and issued within the financial reporting year.

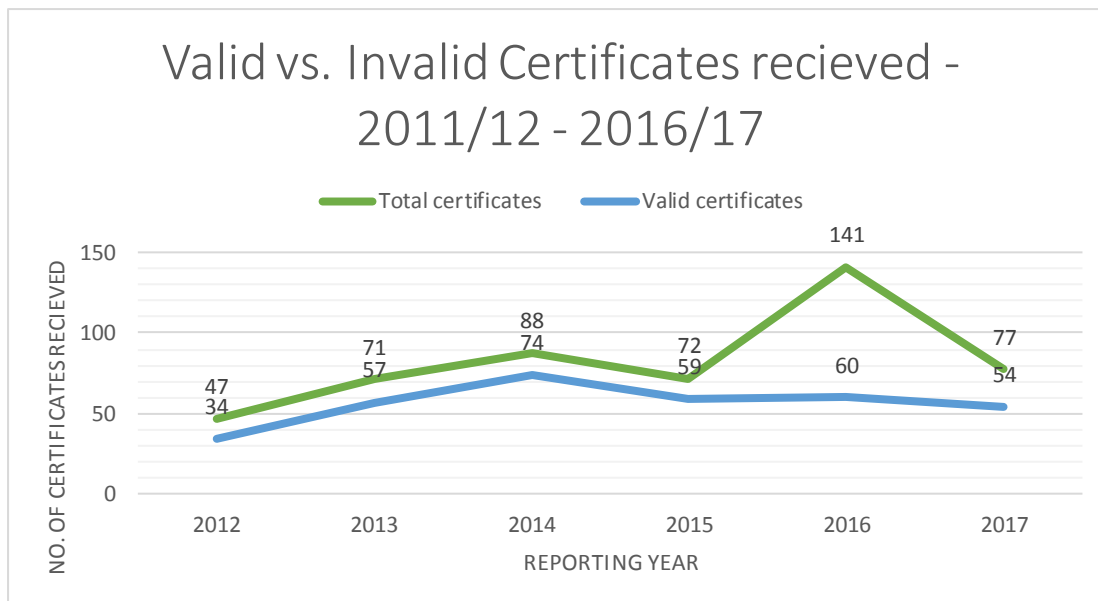


Figure 4: Total Valid and Invalid Certificates Received, 2012 to 2017

The number of both valid and invalid certificates received declined drastically when compared to the previous year. A number of reasons could be attributed to this decline with a possibility that most companies either opted to be assessed using the Amended Generic Codes; other Sector Codes or did not necessarily report because of the draft Amended Forest Sector Codes which were undergoing the gazette process at the time.

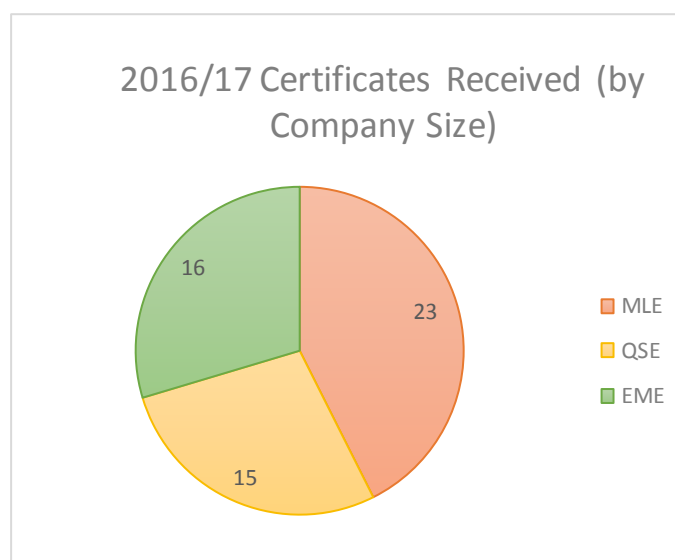


Figure 5: Valid Certificates Received by Company Size

Figure 5 shows the number of certificates received from the different categories of business. The highest number of certificates were received from the MLEs. This number was similar to the number of certificates received in the previous year. Only 19 of these measured entities

reported in the previous reporting year under the MLE category. Five certificates were from new entities.

Only 15 valid certificates were received from the QSEs, a number also similar to the last reporting period. The remainder of the certificates were from EMEs. Most of the information submitted from the EMEs was in a form of an affidavit which was not applicable for the year under review. However, these affidavits were validated as they did not have any potential to distort the findings and analysis of the report.

5.1. MEDIUM AND LARGE ENTERPRISE (MLE) ANALYSIS

MLEs are entities that have a turnover above the R35 million threshold. This is set to change as the approved threshold describing MLEs in the Draft Amended FSC is set above R50 million. Currently MLEs are scored using seven transformation scorecard elements.

Figure 6 below compares the number of valid certificates received from MLEs over 6 reporting periods. It shows that 23 valid MLE certificates were received for the 2016/17 financial year. The number of certificates received remained the same as the previous reporting year.

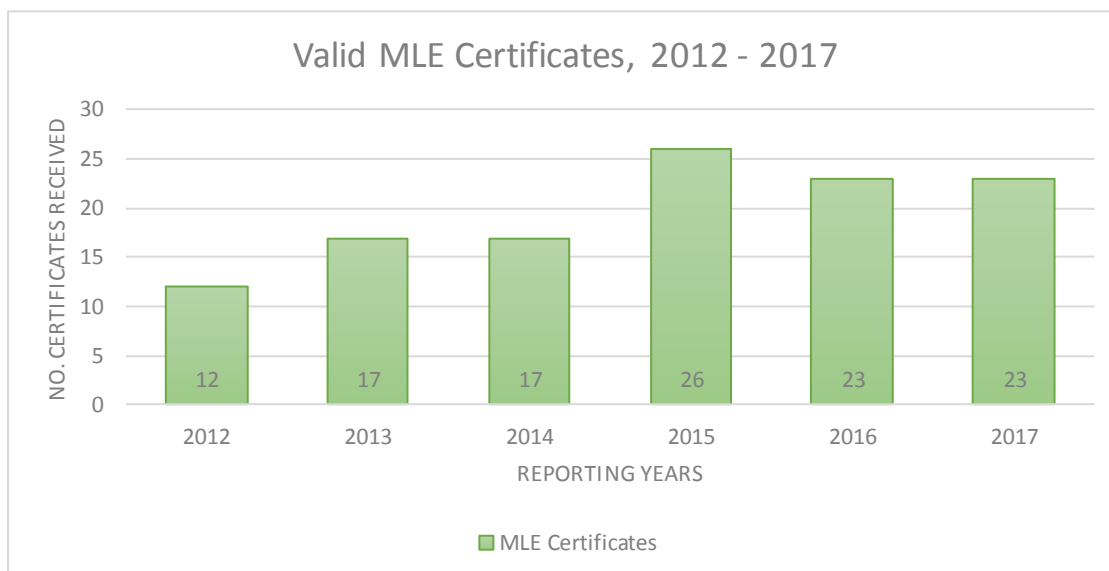


Figure 6: Valid MLE Certificate Submissions, 2012 – 2017

Figure 7 shows the number of certificates received per sub-sector. The pole producers submitted the least number of certificates with the other sub-sectors each submitting 4 certificates each. The highest number of certificates (11) were received from the grower's sub-sector. This can be expected as the largest entities operating within the forestry space exist mainly as growers with almost over 750 000 ha (62.5%) out of a possible 1.2 million ha of plantations under control by the 2 largest entities in the sector.

Unfortunately, the charcoal sub-sector continues to be non-compliant with no valid submission this reporting year. The consistent non-reporting from this sub-sector validates the need to formalise this sub-sector possibly through an association.

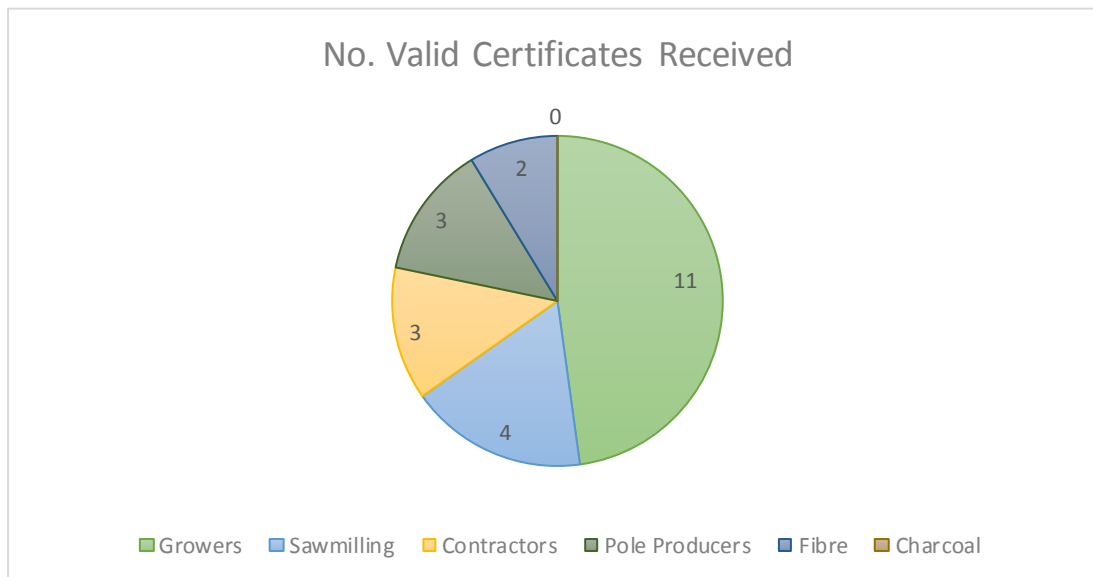


Figure 7: MLE Certificate Submission by Sub-Sector

5.1.1. OWNERSHIP

Ownership is measured by looking at economic interest and voting rights of black people, women, designated groups and broad-based schemes in a measured entity. The target can be achieved through a combination of sale of shares in existing businesses, transfer of state owned plantations and promotion of new black owned enterprises.

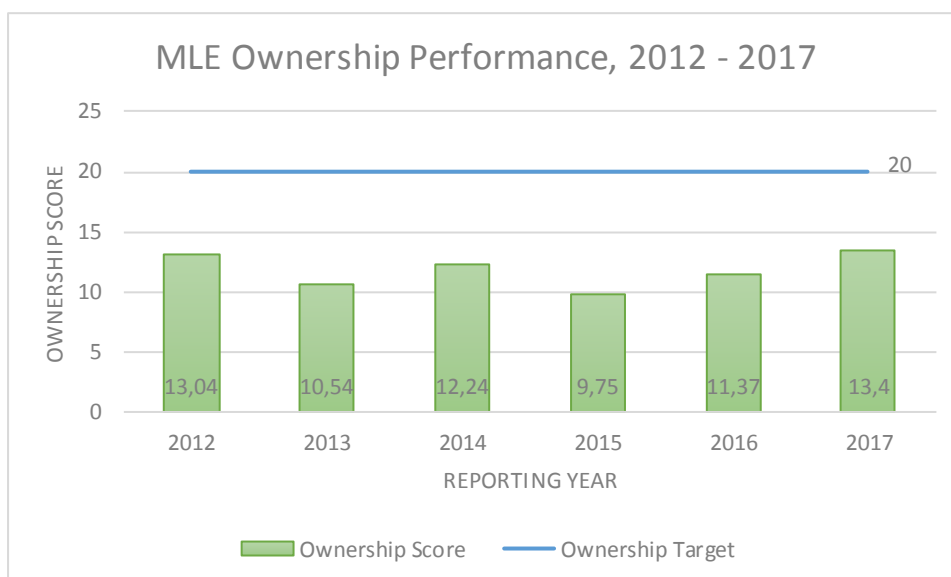


Figure 8: MLE Ownership Performance, 2012 to 2017

The Ownership performance amongst MLEs over the 6-year period is shown in Figure 8. A target of 20 points is set for MLEs. In the 2016/17 FY, the industry scored 13.4 points out of a possible 20 points. This means that the industry has achieved over 65% of their targets for

this element, a score much higher when compared to the previous years. Such a performance could be expected as in the draft FSC (awaiting gazetting), Ownership has been prioritised. Therefore, industry has prepared itself well in order to avoid discounting.

Previously, the Ownership element has proven to be one of the more difficult elements to implement. More so with some groups and sectors of the forestry industry such as family-owned businesses having voiced their concerns during the Council’s frequent “Community-Outreach Projects”.

The B-BBEE Act as Amended requires reporting entities to submit their scorecard certificates with the underlying information. The underlying information is critical as it details how scores have been achieved for each element. Voting rights for black people and women are described under indicators 1.1 and 1.2 in the Ownership element.

Figure 9 below shows the actual performance under indicators 1.1 and 1.2 in the Ownership element. These indicators represent voting rights in the business held in the hands of black people and black women respectively. MLEs are set a compliance target of 25% voting rights for black people and 10% voting rights in the hands of black women.

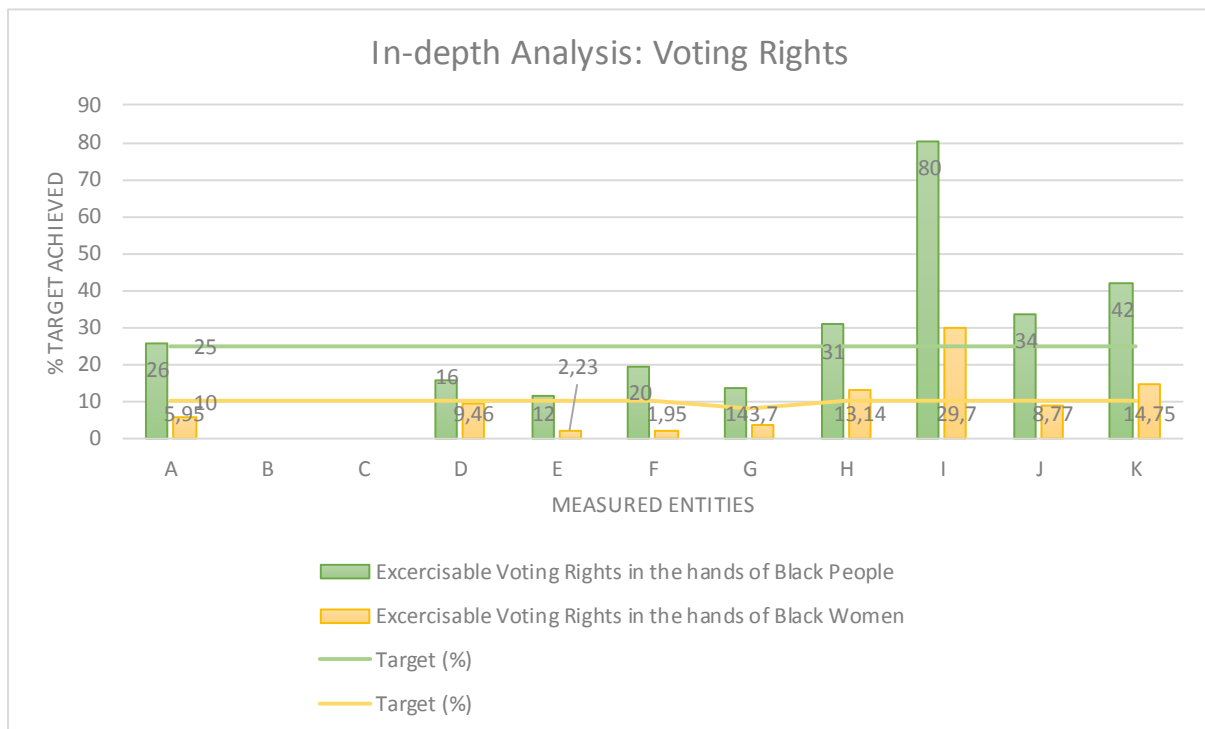


Figure 9: MLE Analysis: Voting Rights in the Hands of Black People

Of 11 entities who submitted underlying information with their certificates, 5 (45.5%) managed to surpass the 25% black voting rights target. Three (3) companies managed to achieve more than 50% of the target while 2 companies did not score any points for this indicator with one of these two being exempted. The performance for indicator 1.2 was quite similar to the performance for indicator 1.1. The same companies who scored good points for voting rights of black people also scored good points for voting rights of black women. It seems then that MLEs are taking this element seriously and starting to implement measures that will allow them to give black people ownership in their businesses.

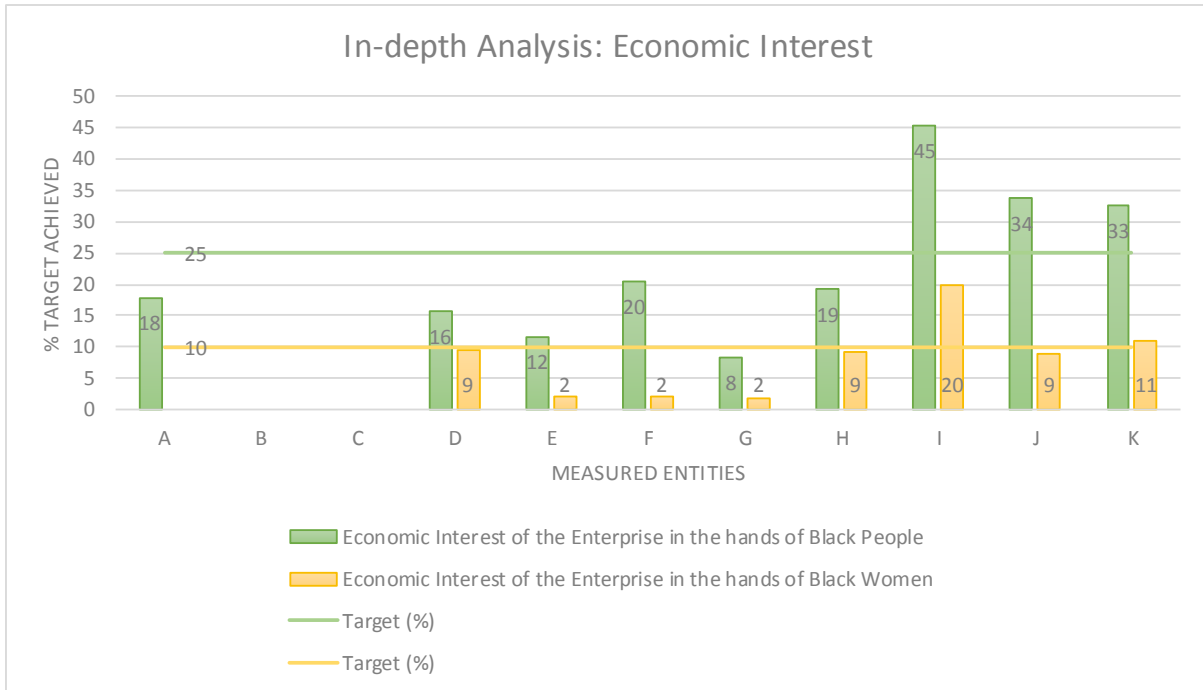


Figure 10: MLE Analysis: Economic Interest in the Hands of Black People

Figure 10 above shows MLE economic interest performance for the 11 enterprises. The compliance targets for economic interest in the hands of black people and black women under indicator 1,3 and 1.4 are 25% and 10% respectively. These give direct black and black women ownership of the enterprise.

3 out of 11 (27%) of the measured entities achieved the full target points for indicator 1.3. This means these three companies are 25% BO. 2 Companies, out of the three, also achieved the full target points for BWO. This means these companies are 10% BWO.

Table 1: Statistical Breakdown of Direct Black and Black Women Ownership in MLEs

	Direct Black Ownership	Direct Black Woman Ownership
<i>Minimum</i>	0	0
<i>Q1</i>	2,9	0,48
<i>Mean</i>	20,84	8,04
<i>Median</i>	19,35	6,35
<i>Mode</i>	0	0
<i>Q3</i>	30,54	12,59
<i>Maximum</i>	69,39	28,78
<i>Standard Deviation (SD)</i>	18,61	8,26
<i>No. of entities scoring 0% Ownership</i>	6	6
<i>Entities scoring above 0% but below 51% Ownership</i>	14	16
<i>No. of 51% BO entities</i>	0	0
<i>Entities scoring above 51% but below 100% Ownership</i>	2	0
<i>No. of 100% BO entities</i>	0	0
<i>Total number of entities</i>	22	22

Table 1 above provides a statistical breakdown of the direct black and black women ownership amongst reporting MLEs. The Forest Sector has committed to a target of 30% black ownership throughout the entire industry by 2019. During this reporting period, we are less than 2 years away from 2019 yet it has proved difficult to gauge the true ownership profile of the industry due to the low number of entities reporting and the even lower number of entities submitting the underlying information with their B-BBEE certificates.

However, it is useful to use information from reporting MLEs as they possess a significant share of the market, resources and income of the sector. The average direct BO for the MLE group is 20.84% while the average BWO is 8.04%. Take note that the BO is inclusive of BWO. While this is below the 30% target set out in the codes, it may improve with time or increase significantly when evaluated with QSEs and EMEs.

The mode is of slight concern as it indicates the most frequent value. 9 (39%) entities scored 0% ownership for both BO and BWO therefore most MLEs have no black ownership or representation. Q3 tells us that 75% of the reporting entities have a BO below 30.54%. While 25% of the reporting entities have BO below 2.9%.

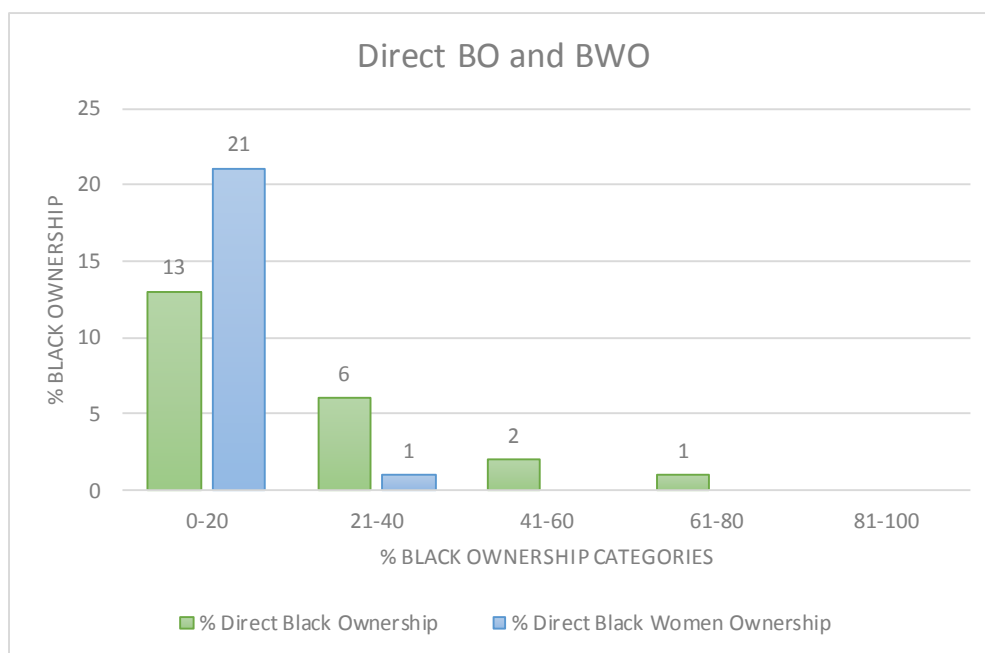


Figure 11: Distribution of BO and BWO amongst MLEs

Table 1 shows that mean > median for both BO and BWO. This tells us that the data is skewed to the left. This is evident when looking at Figure 11 above. It means that most entities scored values to the left of the mean which is 20.84 (BO) and 8,04 (BWO).

5.1.2. MANAGEMENT CONTROL

Figure 12 shows the performance of MLEs in the Management Control scorecard. In this element, the set target is 10 points mainly for having black people in board, executive, senior and other top management positions. For instance, an entity that has at least 40% of their senior positions filled by black people qualifies for 3 points in the scorecard.

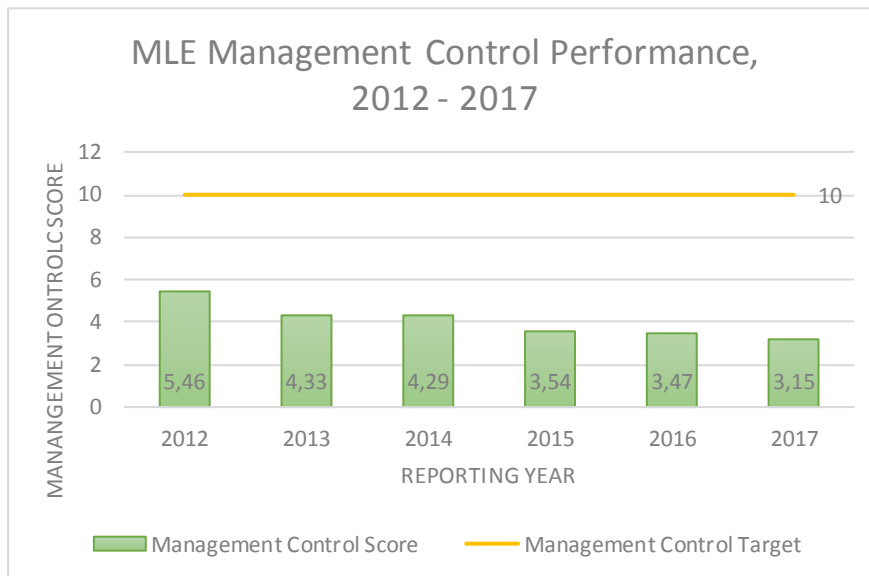


Figure 12: MLE Management Control Performance, 2012 to 2017

The Management Control element is one that consistently underperforms compared to the other elements and may serve as an indicator of the power or say that black people may or not have in these large enterprises. The industry year-on-year average over 6 years is 4 out of 10 and the 2016 score is significantly below that average.

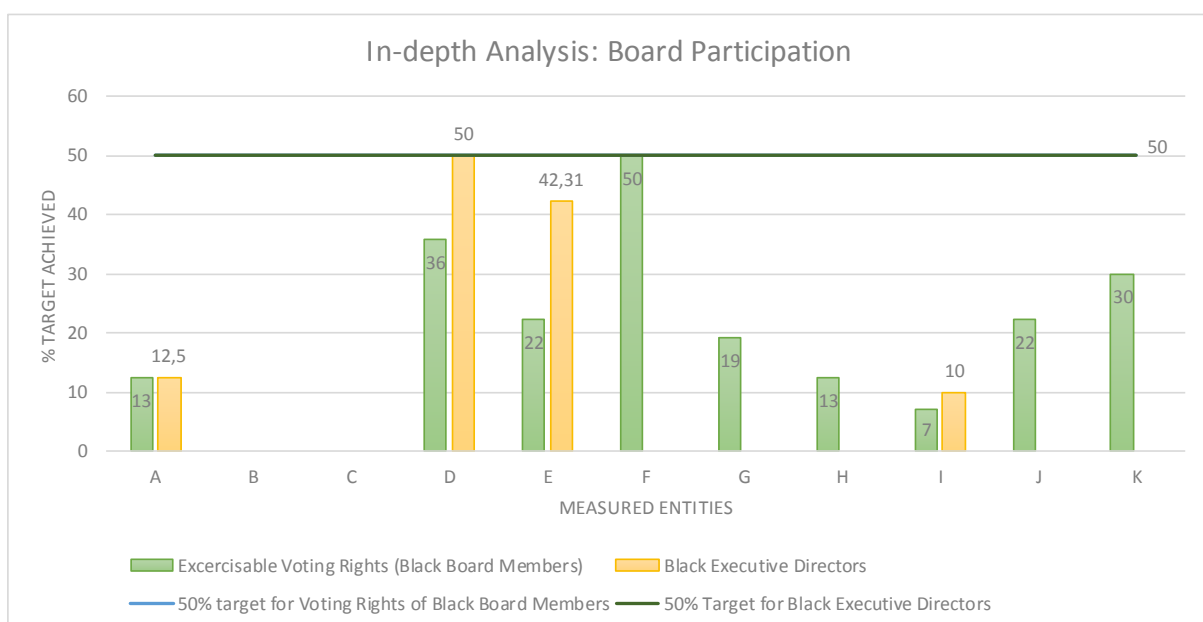


Figure 13: MLE Analysis: Board Participation by Black People

Figure 13 shows MLE performance under indicators 2.1 and 2.2 of the Management Control element. MLEs are required to comply with a target of 50% of “exercisable voting rights” in the hands of black board members (Indicator 2.1). This is to ensure that blacks are well represented at board level where important decisions are taken about the company and how its operations affect its employees and the community at large. Only 1 (9%) measured entity achieved the full target for this indicator and 4 (36,4%) achieved above 50% of the target, i.e. 25% voting rights in the hands of black board members. The overall performance in this indicator was average with 4 entities achieving less than 50% of the target and 2 entities scoring zero.

Indicator 2.2 requires MLEs to have at least 50% of their executive directors as black people. The industry performed poorly in this regard with 1 entity achieving the target and 1 other achieving 80% of the target. 8 MLEs scored zero in this element indicating that they have no black executives in their companies.

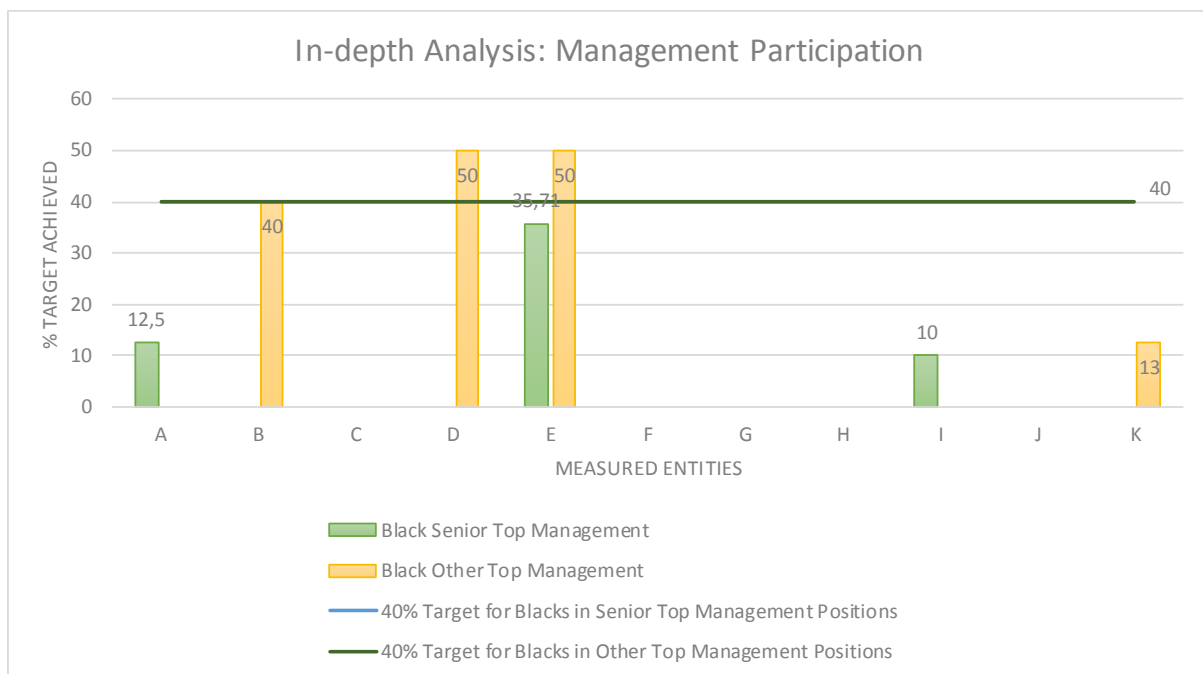


Figure 14: MLE Analysis: Management Participation by Black People

Figure 14 above gives the performance of MLEs under indicator 2.3 and 2.4. These indicators look at participation of black people in top management positions. Performance is poor especially with participation of black people in senior management positions. No entities scored the full target of 40% black senior managers while 1 other entity achieved 80% of the compliance target. 8 out of 11 entities have no senior black managers. The figures are slightly better for indicator 2.4 for black people in other management positions. 3 entities managed to achieve or exceed the full compliance targets for this indicator.

The poor performance in the Management Control element is persistent and may show either a reluctance from industry to place black people in control of their companies or may indicate a lack of qualified black people in the industry for these positions. However, the MLE performance for this element is promising especially under indicators 2.1 and 2.2 which measure board participation. Hopefully, the increasing representation on black people at board level in these entities will influence the selection, promotion and or appointment of deserving black people in future.

5.1.3. EMPLOYMENT EQUITY

Figure 15 below shows the performance of MLEs under the Employment Equity Element. The target weighting points is 15. This is one of the elements where 6-10-year targets have been set. This year marks the first of these years. This element is all about representation of black people across all levels of management in the business. Points are given for having disabled employees (2), senior (5) middle (4) and junior (4) black employees as a certain percentage of the total employees. An entity is incentivised for exceeding the economically active population (EAP) targets under all the indicators in this element.

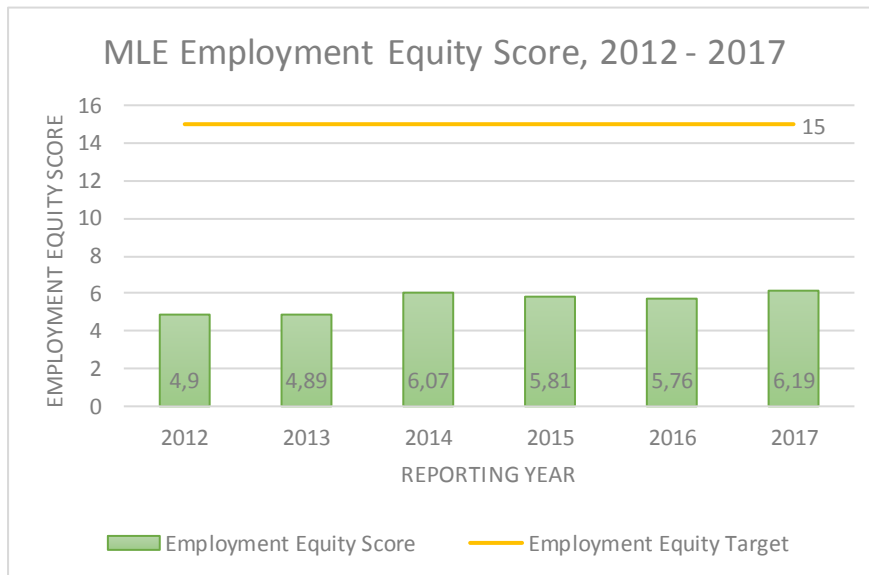


Figure 15: MLE Employment Equity Performance, 2012 to 2017

Figure 16 below further describes the performance of MLEs within the Employment Equity element. MLEs are faring better in reaching their junior management level targets than the other management levels. This may be due to a number of reasons. Possibly, these companies are skilling youth and placing them in junior management positions. This may be viewed positively as these junior employees may one day enter the middle and senior management positions and begin to increase the performance in the other management categories.

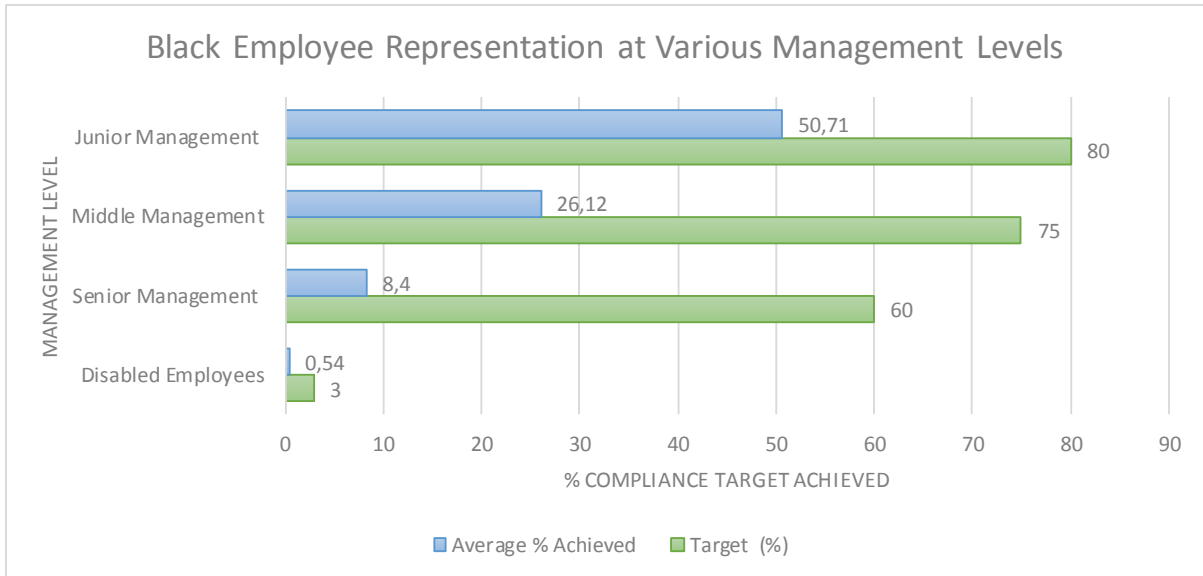


Figure 16: MLE Black Employee Representation at Various Management Levels

Figure 16 also indicates the representation of disabled employees under MLEs. The compliance target under the 6-10 reporting years is 3% for “differently-abled” employees as a percentage of all employees. Only 2 entities manage to score any points on this indicator, with one scoring the full 3%.

Due to the varied nature and severity of disabilities, it may become difficult for people living with disabilities to work in in-field forestry operations. The draft Amended FSC have thus made a provision for companies to be measured against this indicator only for office-based operations.

In South Africa alone, 4.3% of the South African population is disabled. Considering the current unemployment rate of 27.7%, people with disabilities may find it even more difficult to secure employment. ^{xi}

It is vital that this indicator is emphasised as much as that of black people and black women. Every sphere of society enjoys its own form of privilege, thus differently-abled and other marginalised groups should not be neglected.

5.1.4. SKILLS DEVELOPMENT

MLEs are required to provide opportunities for training and development to their black employees including the differently-abled. This is to address South Africa’s critical skills shortage. The forest entities submit their workplace skills plan (WSP) to the Fibre, Processing and Manufacturing (FP&M) Seta which are used to extract and define the core and critical skills for the sector.

Figure 17 below shows the Skills Development performance for MLEs in the sector. Skills Development lies at the heart of B-BBEE as is fundamental to achieving the targets set out in most of the other elements.

^{xi} SABPP. 2017. Fact Sheet: People with Disabilities. Number 2017/09. SA Board for People Practices.

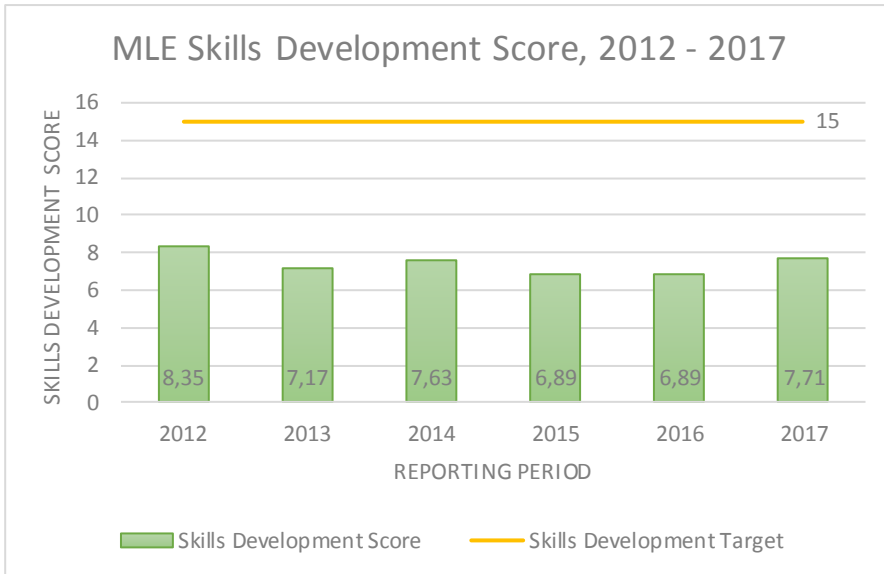


Figure 17: MLE Skills Development Performance, 2012 to 2017

This year's Skills Development score has increased significantly from the past two reporting periods. This may be due to that this element has been given a priority status in the draft Amended FSC and entities are putting a lot of effort to ensure they achieve the required targets. However, the average hovers just above 50% of the target which implies that MLEs have a lot more work to do to solve the current skills deficit.

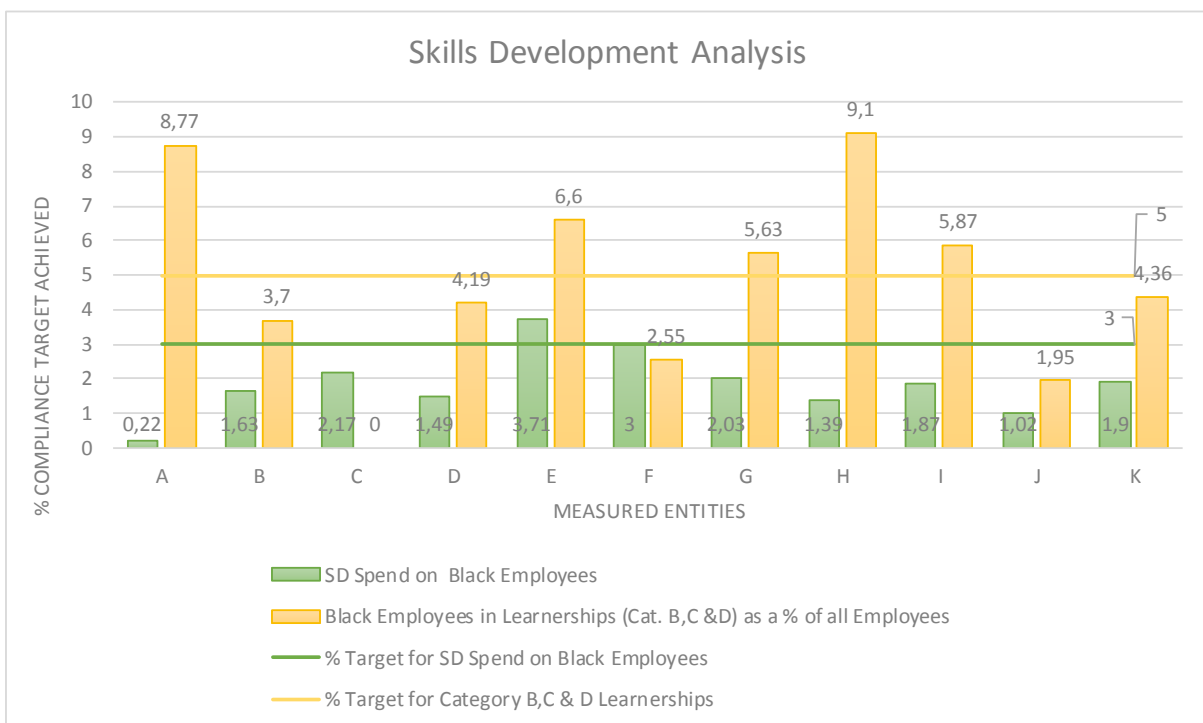


Figure 18: MLE Analysis: Skills Development Spend

Figure 18 shows the score a handful of MLEs are achieving on some Skills Development sub-elements relative to the compliance targets set out in the FSC. Two entities achieved the full target of for Skills Development spend. No entities scored zero in this indicator, expectedly so considering the skills development levy that is being paid by most companies.

MLEs are also finding it a challenge to skill black employees with disabilities. This possibly correlates to the low representation of employees living with disabilities as shown in Figure 16 under the Employment Equity.

5.1.5. PREFERENTIAL PROCUREMENT

The aim of the Preferential Procurement scorecard is to encourage businesses to source their supplies from BO businesses and or business that are BEE compliant. Preferential Procurement is the basic method through which BEE is implemented or enforced. Business who do not implement BEE are likely to lose business sooner or later. The procurement effect begins at state level where the public sector only procures from BEE compliant entities, a principle that is being adopted by even privately owned large or medium entities. Some companies are interested and or dependent in state business. Thus, the effect filters down to even entities that do not directly supply government are affected.

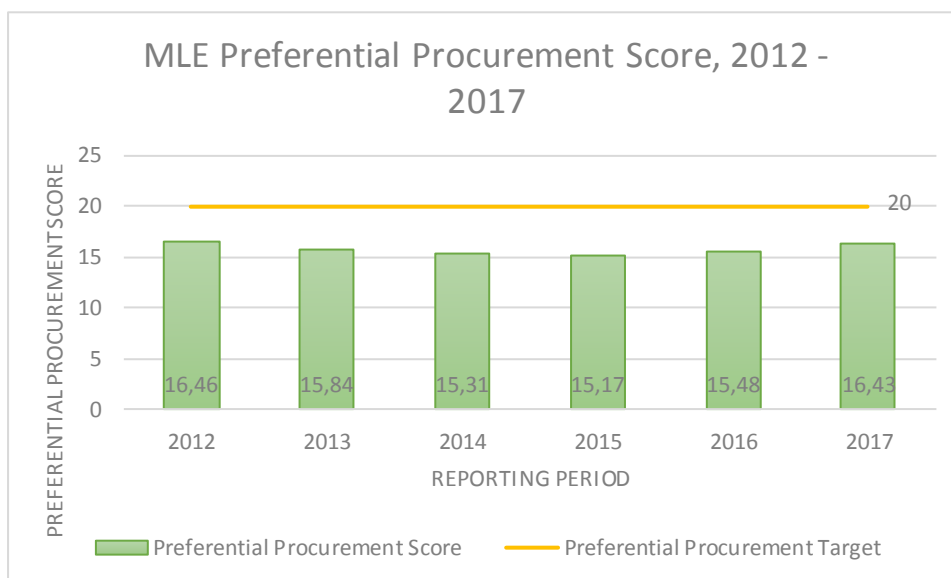


Figure 19: MLE Preferential Procurement Performance, 2012 to 2017

An enterprise with a good Preferential Procurement score spends at least 70% of their procurement spend on companies with good BEE recognition. A good Preferential procurement score can also be achieved by spending at least 15% procurement spend on QSEs and EMEs and lastly and also spending at least 20% procurement spend on companies that are 50% BO or 30% BWO. MLEs achieved an overall score of 16.43 out of a possible 20 points as shown in Figure 19 above.

The industry year-on-year average over 6 years is 15.78 points which is above 75% of the target. This is good as it means that goods and services are being purchased from businesses that have a good BEE rating, thus empowering black businesses and black suppliers.

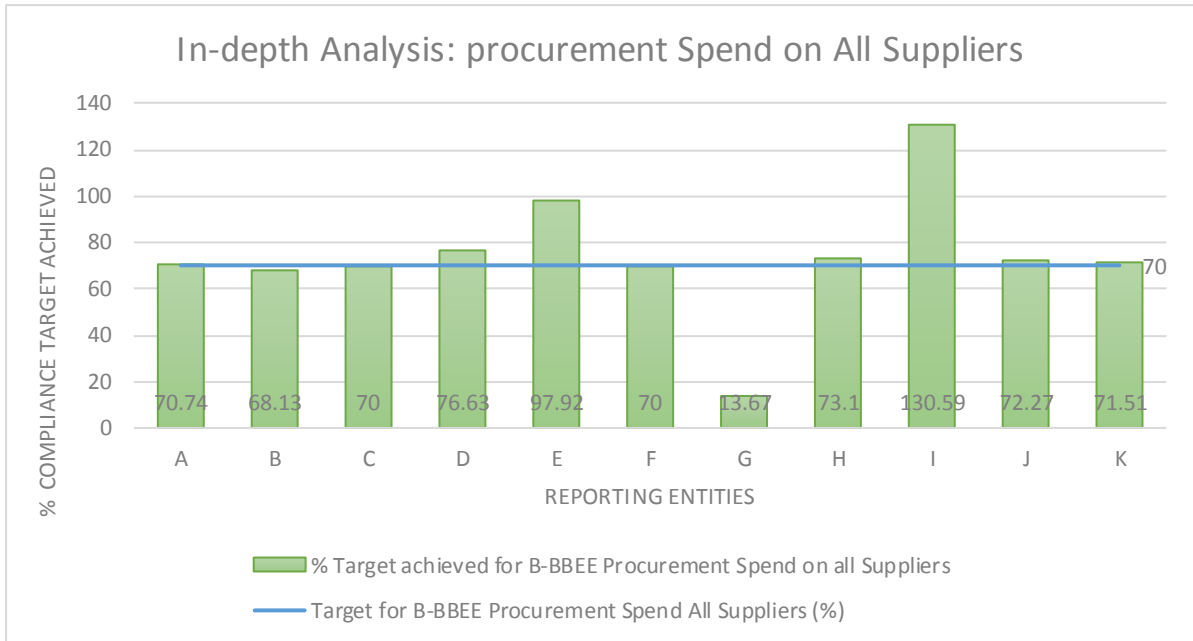


Figure 20: MLE Analysis: Procurement Spend on all Empowered Suppliers

Figure 20 shows that of the 11 MLEs that submitted underlying information, 81.8% managed to reach the target of 70% for procurement spend on all empowered suppliers. This sub-element is responsible for 12 points out of the total 20 points for this element. This gives a better indication of why the MLE Industry Preferential Procurement performance is above average.

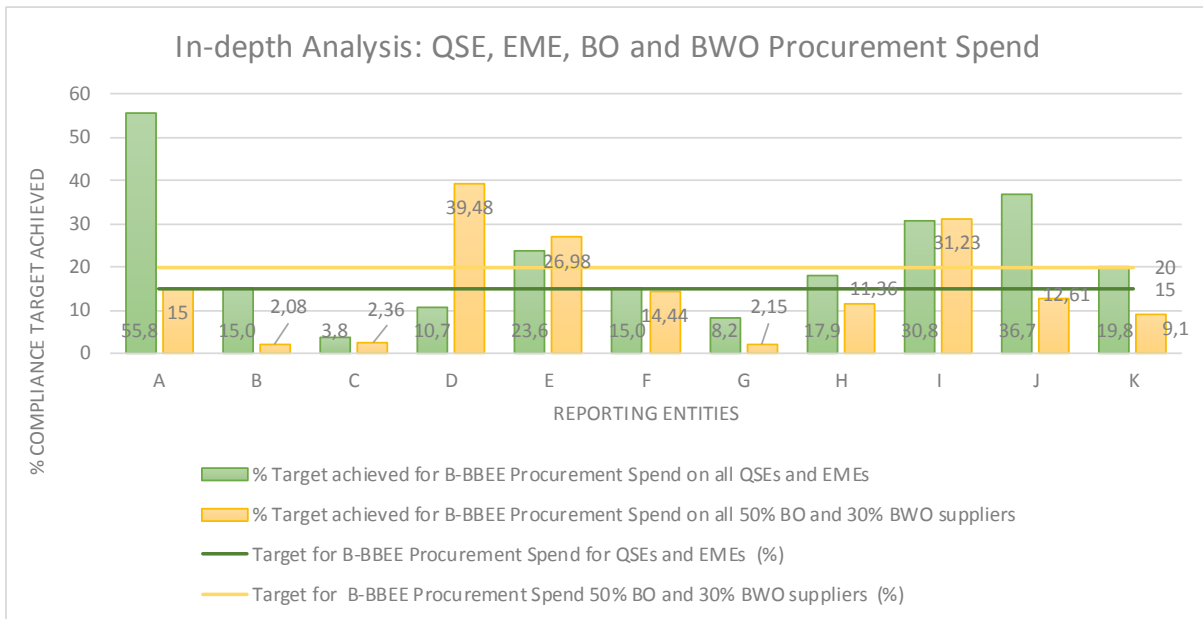


Figure 21: MLE Analysis: Procurement Spend on QSE, EMEs; BO and BWO Enterprises

Figure 21 provides a clearer picture of where MLEs are possibly obtaining and losing points with regards to reaching the remaining 8 points under indicator 5.2 and 5.3. Some empowered suppliers are black owned or still in their emerging or start-up phase as shown in Figure 21. These types of businesses are targeted under the Preferential Procurement element to ensure the sustainability, competitiveness and growth of these entities as well as inclusivity in the industry as whole.

MLEs are required to spend at least 15% of their procurement budget on QSE and EME suppliers. Approximately 72% of the measured entities met this target with 55% of these exceeding the target. This may indicate the buying power of industry and their willingness to participate and excel in the Preferential Procurement element.

Procurement spend on 50% BO or 30% BWO suppliers seems to be a more difficult indicator to achieve amongst MLEs with only about 27% reaching or exceeding the compliance target.

The rationale for the poor performance in this indicator could be either a lack of 50% BO and or 30% BWO suppliers in the industry or the inability of these businesses to meet demand and/or requirements or simply the resistance to empowering BO business by some entities.

5.1.6. ENTERPRISE DEVELOPMENT

According to the FSC, MLEs are required to spend at least 3% of their net profit after tax (NPAT) on enterprise development initiatives. This element is aimed at creating new businesses and thus new avenues for the participation of black people in the mainstream economy. The industry has consistently performed well in this target achieving 14.21 out of a possible 15 points, as shown in Figure 22 below. The industry average dropped slightly this year from the previous score of 14.82.

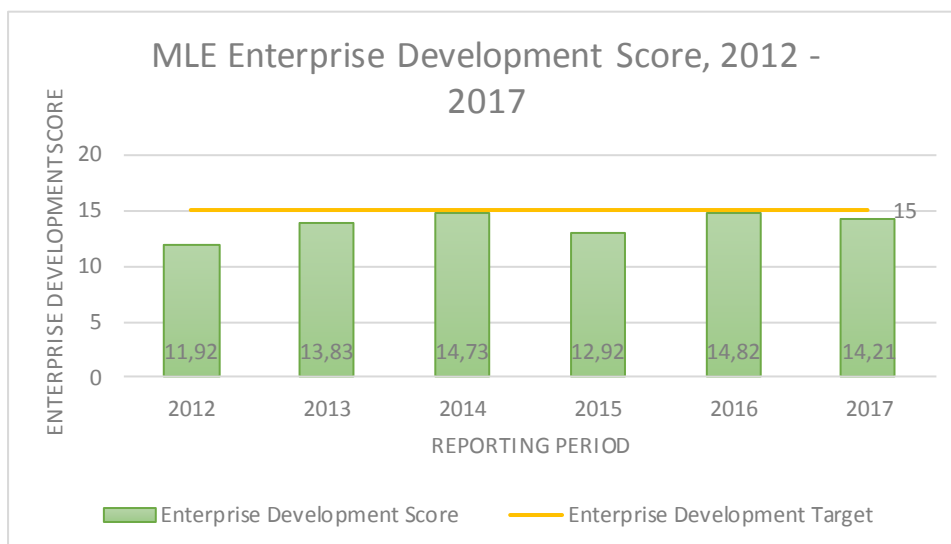


Figure 22: MLE Enterprise Development Performance, 2012 to 2017

A more in-depth analysis of the scores achieved by MLEs shows that the strong point for MLEs lies in indicator 6.1 which requires entities to spend at least 3% of their NPAT on ED initiatives. This indicator is given a score of 12, which 100% of the measured entities met.

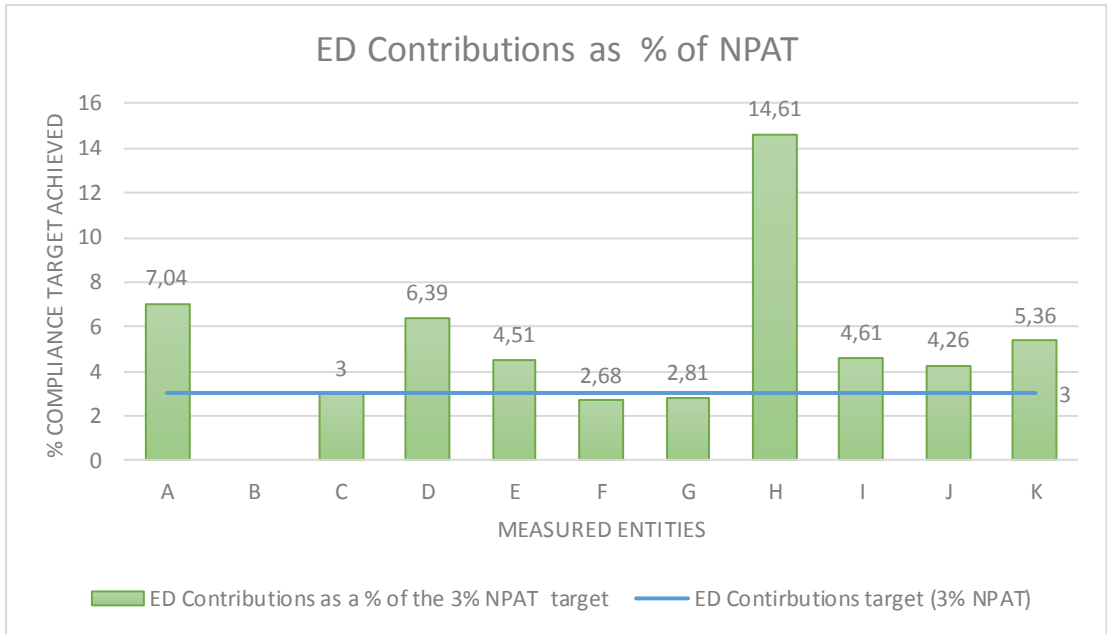


Figure 23: MLE Analysis: ED Contributions as a % of NPAT

7 out of 11 entities exceeded the Enterprise Development contributions target which is set at 3% of NPAT.

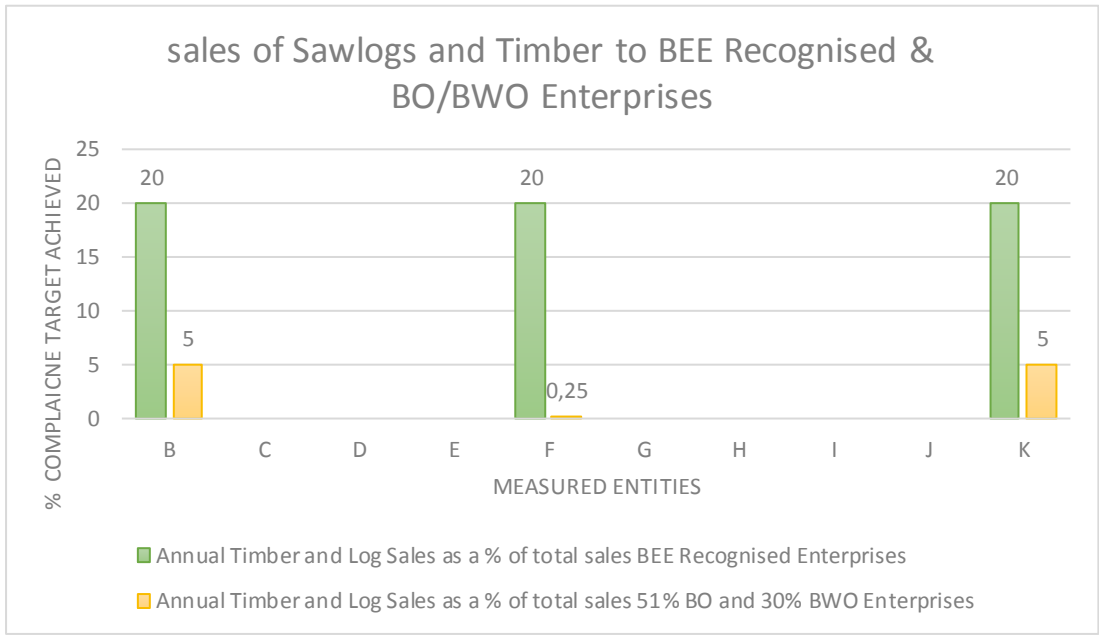


Figure 24: MLE Analysis: Sawlog and Timber Sales to Empowered Enterprises, BO and BWO Enterprises

MLEs in the growers and sawmilling sub-sectors are expected to reserve a portion of their sawlog and timber sales for enterprises with good BEE procurement recognition levels and or BO or BWO enterprises. This ensures that smaller downstream users of timber can participate fairly in the market. 3 entities reported on these indicators and managed to achieve the full compliance target for sale of logs to BEE recognised Enterprises while only 2 achieved the same for sale of logs to BO and BWO Enterprises.

5.1.7. SOCIO-ECONOMIC DEVELOPMENT

MLEs are expected to contribute to the economic and social development of the communities within which they operate. Socio-Economic Development (SED) contributions are monetary or non-monetary contributions aimed at assisting beneficiaries. This can be in the form of direct investments, grants, seed capital or mentorship. Entities can also choose to create initiatives that improve the livelihoods or living conditions of the beneficiaries through avenues such as healthcare, education or infrastructure or any other systems deemed worthy of improvement.

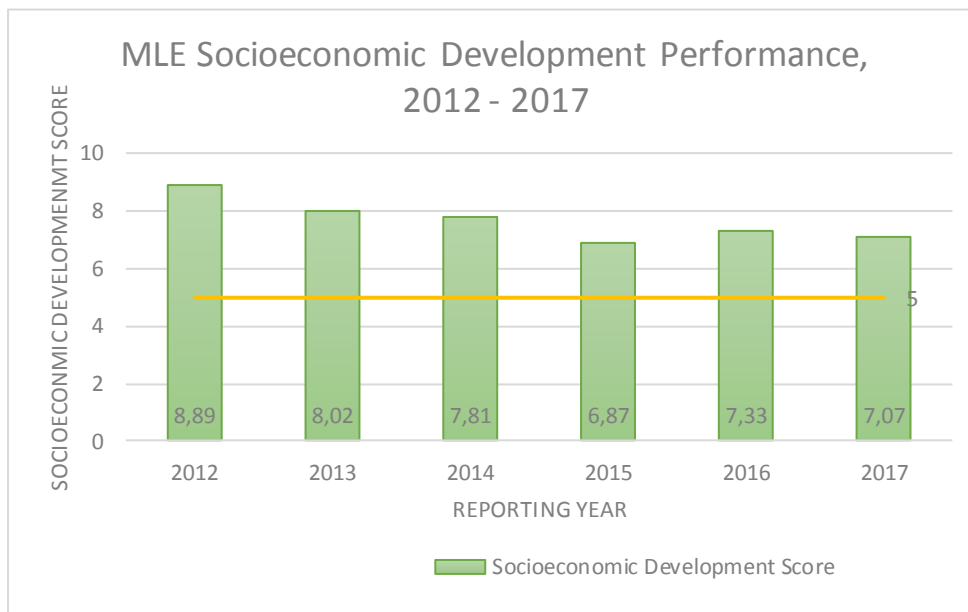


Figure 25: MLE Socio-Economic Development Performance, 2012 to 2017

Figure 25 shows that the industry's performance over the last reporting years. Industry has consistently performed above the expected target of 5 points in this element. The points above 5 come from the bonus points allocated to entities that exceed their 1% NPAT spend by an additional 0,75% NPAT spend. The performance observed confirms industry's willingness to contribute meaningfully to the social expectations of the rural poor.

5.2. QUALIFYING SMALL ENTERPRISES (QSE) ANALYSIS

In the FSC, Qualifying Small Enterprises (QSEs) are entities with a turnover between R5 and R35 million per annum. These small sized companies are eligible to choose to be scored on 4 of the 7 B-BBEE elements in the scorecard. Each element is allocated 25 points thus giving a total score of 100.

This concept will change in the next reporting years as the draft Amended FSC proposes for the enhancement of 100% and 51% black owned entities. In the amendments, QSEs will no longer choose the elements they would prefer to be verified with. Instead, the unenhanced QSEs will be assessed on 5 scorecard elements. Figure 26 below is a graphic representation of the number of valid QSE certificates received over the past 6 years.

Under this reporting year, 15 valid QSE certificates were received. This shows a slight decline from the previous year. The number of reporting entities is expected to increase under this category in the next reporting year as a result of the increased thresholds in the draft Amended FSC for QSEs which is now R50 million.

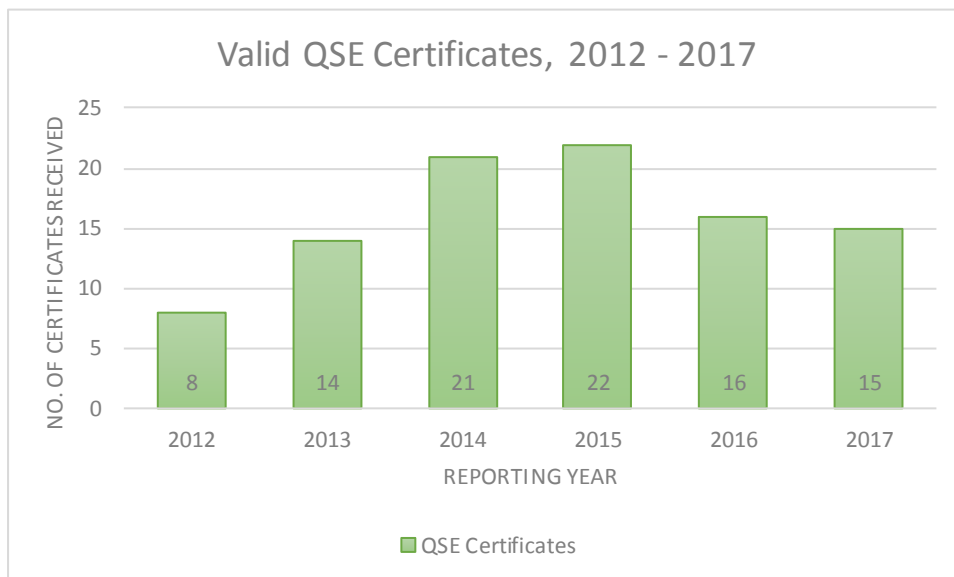


Figure 26: Valid QSE Certificate Submissions, 2012 – 2017

Figure 27 below confirms the elements preferred by the 15 QSEs. Management Control followed by Ownership were the least favoured elements. This may be due to that some entities are family run from many generations backwards.

Most entities chose to be assessed on Preferential Procurement, Employment Equity and Socio-Economic Development. Enterprise Development and Skills Development were also not as popular as the afore-mentioned. This may be due to that these elements require an entity to spend some of their profit on activities they may deem unnecessary or too costly for their enterprises.

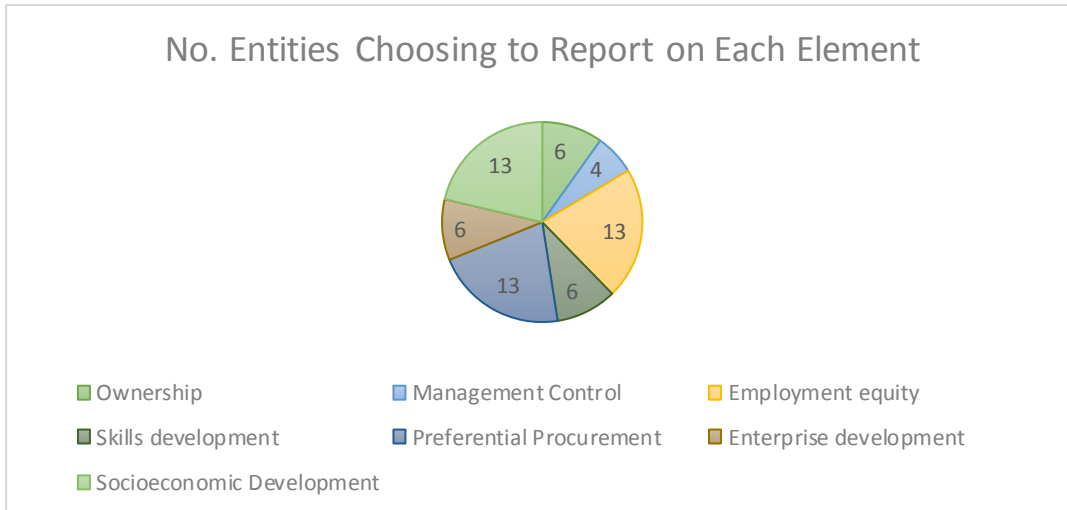


Figure 27: Number of Entities Choosing to Report on Each Element

5.2.1. OWNERSHIP PERFORMANCE

An entity is awarded points in this element for giving black people exercisable voting rights and economic interest as well as for realising the net equity in the measured enterprise. An enterprise is also incentivised for involving black women in the ownership deal.

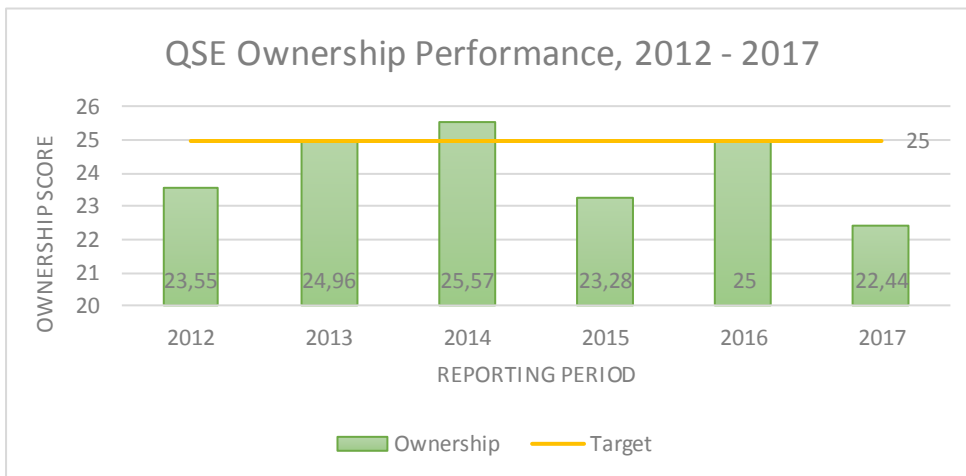


Figure 28: QSE Ownership Performance, 2012 – 2017

QSEs scored 22.44 points for the Ownership element. While this score is lower from the previous year, it still remains within acceptable standards. Only 6 entities chose to report using Ownership. Of these 6 entities, only 2 reported in the previous financial year (2015/16). Both maintained their score of 25 for the element. Of the 4 new reporting entities, 1 scored 9,56; 2 scored 25 and 1 exceeded the target of 25 points scoring 25.03.

Table 2: Statistical Breakdown of Direct Black and Black Women Ownership in QSEs

	Direct Black Ownership	Direct Black Women Ownership
<i>Minimum</i>	0	0
<i>Q1</i>	0	0
<i>Mean</i>	25.96	0.53
<i>Median</i>	0	0
<i>Mode</i>	0	0
<i>Q3</i>	27.13	0
<i>Maximum</i>	100	0
<i>Standard Deviation</i>	41.23	1.98
<i>Entities scoring 0% Ownership</i>	8	13
<i>Entities scoring above 0% but below 51% Ownership</i>	3	1
<i>Entities scoring 51% Ownership</i>	0	0
<i>Entities scoring above 51% but below 100%</i>	0	0
<i>Entities scoring 100% Ownership</i>	3	0
<i>Total number of entities</i>	14	14

Table 2 provides a statistical breakdown of the direct black ownership of QSEs which is calculated using indicator 1.2 under the Ownership element. This indicator looks at economic interest of black people in the measured enterprise. This value is then directly used to reflect direct black ownership in the measured enterprise. For instance, the maximum value in Table 1 tells us that of the 15 valid QSE submissions received, the entity with the highest direct black ownership was 100% BO, as opposed to the 69% black ownership under MLEs.

The column under direct black women ownership paints an alarming picture. Only 1 reporting entity had ANY form of black woman ownership. This paints a vivid picture as to the involvement of black women in growing forestry businesses. It must also be noted however, that the mode for direct ownership for both black people and black women was zero. This means that most measured entities scored zero for direct black people and black women ownership.

The average score for direct BO was 25.96%. The level of black ownership under this element is an important measure and illustrator of where South Africa stands in terms of the success of black business, particularly “new entrants”. This middle category may in essence, demonstrate the inability of start-up black ventures to leap in to the next level of growth to become QSEs and from QSE level, to MLE level.

Table two shows that there are 14 entities in total, this is because one of the submitting entities was a cooperative which does not get assessed on direct black ownership.

5.2.2. MANAGEMENT CONTROL PERFORMANCE

This element measures the involvement of black people in top management. The aim is to encourage business owners to hire black managers to promote deserving black people in their organisations into management positions if these positions exist. Most small businesses have few management positions and the turnover in these positions is low, especially in a family owned business. Such companies can have a long-term strategy to groom lower and middle management employees for these higher positions. This can be done partly through skills development initiatives.

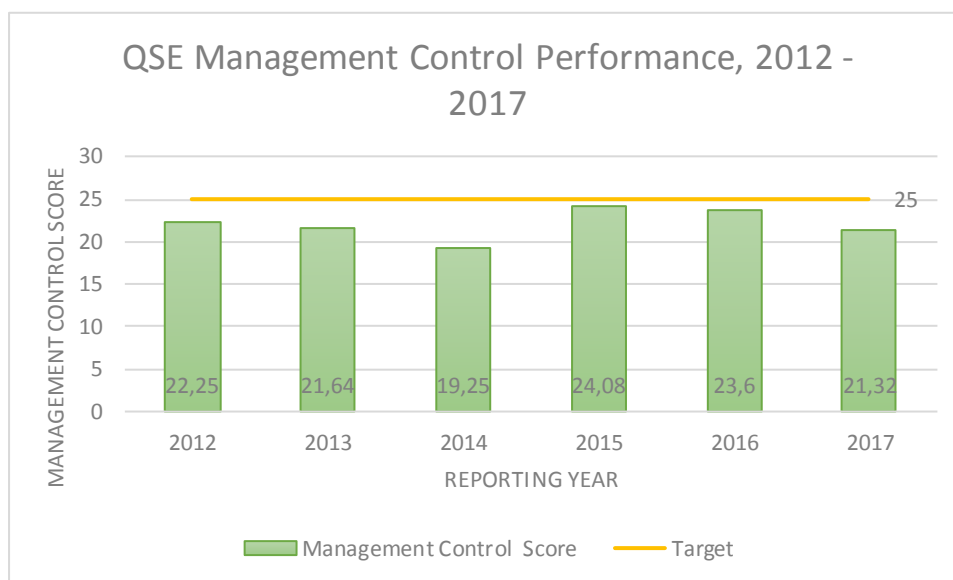


Figure 29: QSE Management Control Performance, 2012 – 2017

The average score achieved by QSEs was 21.32 as shown in figure 29 above. Surprisingly, QSEs do not struggle with this element as much as the MLEs. The performance for this year dropped slightly from the past 2 years but it is still above 80% towards target. It should be noted that this element was the least popular element with only 4 submissions. The figures may change in the next reporting as unenhanced QSEs will not be given a choice to choose which elements they can be verified with but will be required to be measured against all five elements which is inclusive of Management Control.

5.2.3. EMPLOYMENT EQUITY PERFORMANCE

The Employment Equity element is about representativity of black employees in the management structure general employment space. Entities can also gain points for complying with Industry Codes of Good Conduct on Employment for the sector. Promoting employment equity is not only good for compliance but also to ensure competitiveness of the business as well as ensuring a supply of quality and experienced employees for future senior managers and shareholders positions. Many studies have shown that diverse and inclusive workforces can result in new and innovative ideas as well as boost team morale.

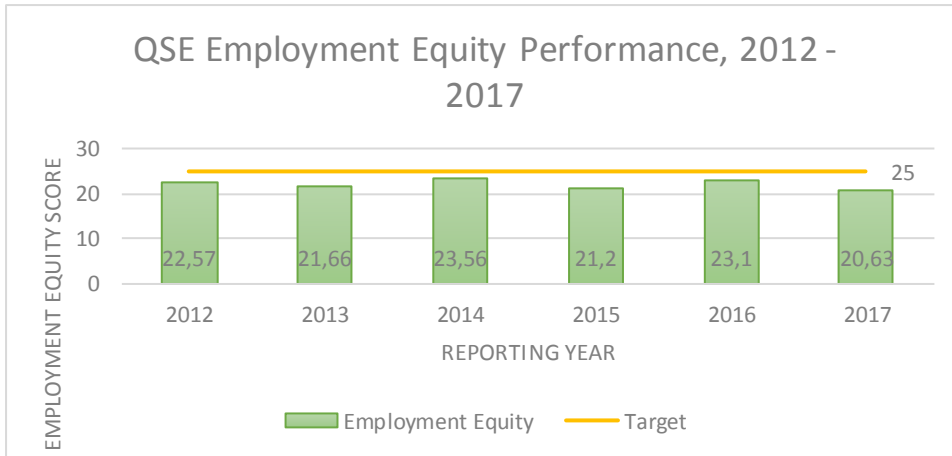


Figure 30: QSE Employment Equity Performance, 2012 – 2017

The element is quite popular amongst QSEs with 13 entities out of 15 (86.7%) choosing to report on it. The QSE Employment Equity performance dropped slightly this reporting period achieving a score of 20.76 points. At least an 80% achievement towards target has been maintained. 2 measured entities scored the bonus points allocated for exceeding the economically active population (EAP) targets.

5.2.4. SKILLS DEVELOPMENT PERFORMANCE

Skills Development is core for B-BBEE. It can directly affect the quality and quantity of black employees available for a company’s Employment Equity targets as it is fundamental for the growth and transformation of the SA economy. This skills deficit may be a contributing factor for the unemployment of black people.

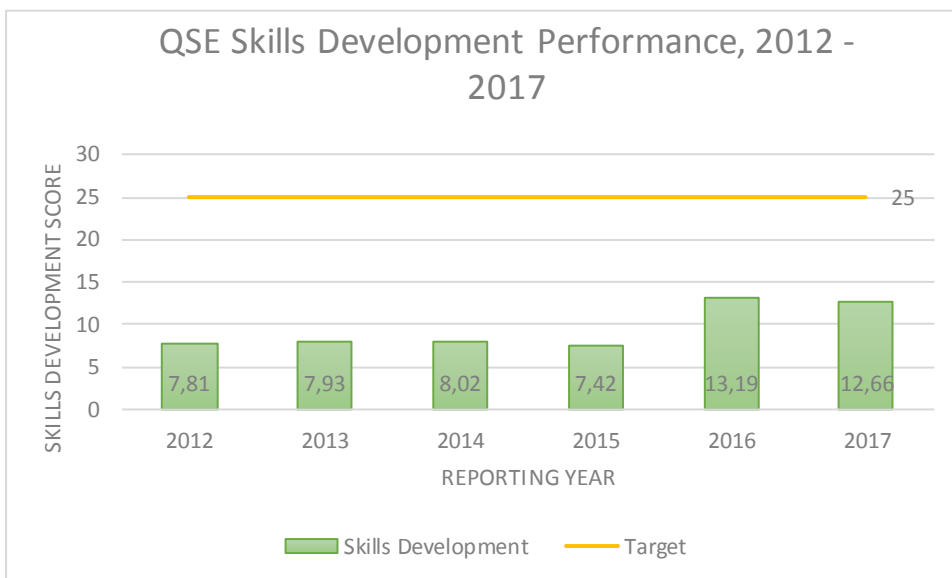


Figure 31: QSE Skills Development Performance, 2012 – 2017

Only 6 out of 15 entities chose to be assessed on this element making it the third least popular element. The QSEs struggle particularly with the Skills Development element achieving 12.66 points for the year under review. This performance is similar to the MLEs which implies that this is more of a sectoral challenge. The performance in this element has increased

considerably in the past 2 reporting years from as low as 7.42 in the 2014/15 year to a peak of 13.19 in the 2015/16 FY, though it then declined in the current reporting year. The performance differed with the MLEs where an increase was observed possibly as a result of the prioritisation of Skills Development in the draft Amended FSC.

5.2.5. PREFERENTIAL PROCUREMENT PERFORMANCE

QSEs are expected to dedicate a portion of their procurement spend on empowered suppliers. The Codes specify that at least 50% of the procurement spend must be spent on companies that are BEE compliant. The higher the BEE rating, the higher the points the measured entity can score on this element.

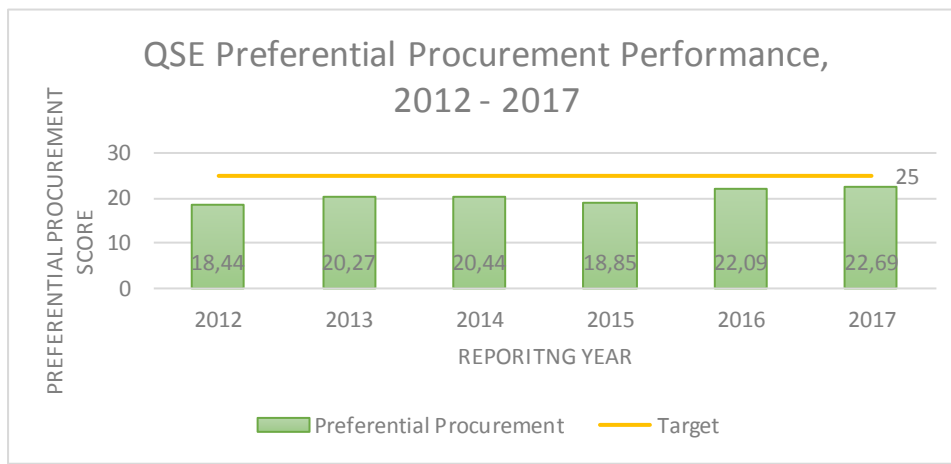


Figure 32: QSE Preferential Procurement Performance, 2012 – 2017

Preferential Procurement is one of the most popular elements amongst QSEs alongside Socio-Economic Development and Employment Equity. 13 out of 15 of the reporting entities chose to be assessed on their preferential procurement initiatives. In the current reporting year, QSEs performed slightly better than the previous year with a score of 22.69 points. This is the highest score QSEs have achieved within the 6-year reporting period under this element. The performance is similar to the MLEs which implies that this element is not a challenge for the entire sector to implement.

5.2.6. ENTERPRISE DEVELOPMENT PERFORMANCE

Enterprise Development is an important element as it gives the measured entity a chance to make monetary or non-monetary contributions aimed at assisting the beneficiary to become more operationally and financially sustainable. South Africa has a high rate of failure for small medium and micro enterprises (SMME) and is in desperate need to create entrepreneurs so as to curb the high unemployment rate. QSEs are given points for spending 2% of their NPAT on ED initiatives. Growers and sawmillers QSEs are also assessed on selling logs to BEE complaint entities or to 50% BO and 30% BWO businesses.

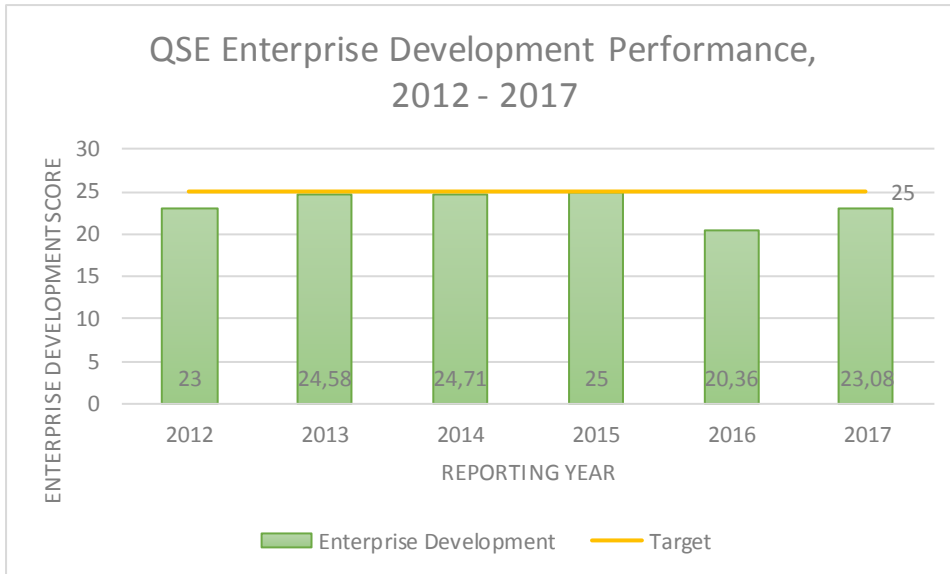


Figure 33: QSE Enterprise Development Performance, 2012 – 2017

The ED performance for QSEs has risen considerably from the previous year’s 20.36 to 23,08 points as indicated in figure 33 above. In this reporting period, 6 out of 15 (40%) of the measured entities chose to report on their ED initiatives. This is less than 50% of the target which is disheartening as ED is one of the most vital elements in the scorecard. However, the good performance is notable.

5.2.7. SOCIO-ECONOMIC DEVELOPMENT PERFORMANCE

Socio-Economic Development contributions are aimed at creating economic opportunities for the beneficiaries. 13 of the 15 reporting entities chose to report on the SED element. This is one of the most popular elements amongst QSEs. The SED performance for the current financial year was 21.27 and has decreased by 17.7%. This is the lowest score achieved when compared to the last 4 reporting years. Even though a decline has been observed, QSEs just like MLEs performs exceptionally well in this element.

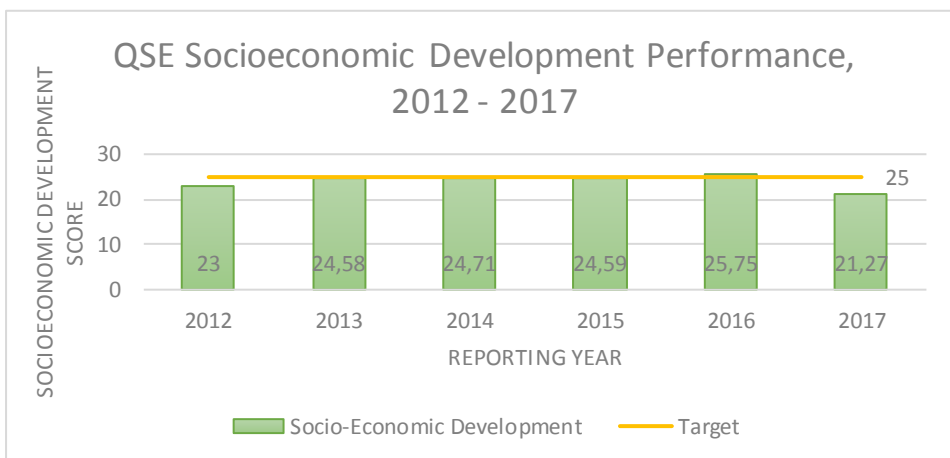


Figure 34: QSE Socio-Economic Development Performance, 2012 – 2017

5.3. EXEMPTED MICRO ENTERPRISES (EME) ANALYSIS

EMEs are entities with a turnover below R5 million. EMEs are exempted from reporting on the scorecard making them eligible for an automatic level 4 BEE recognition. However, their level can be enhanced to a level 3 if their black ownership profile is above 50% and are compliant with the Industry Codes of Good Conduct as set out in the FSC.

In the proposed amendments to the draft Amended FSC, EMEs are further enhanced to either achieve a level 1 or 2 on condition they are 51% or 100% black owned. This is meant to encourage the creation of sustainable black owned entities which have a potential to contribute meaningfully to job creation within the rural areas where forestry is mostly based.

A total of 16 valid EME certificates were received in 2016 out of a total of 54 certificates. In 2016, there was a decline the number of valid EME certificates 21 in the previous reporting period to 16 in the current reporting period, see Figure 35 below.

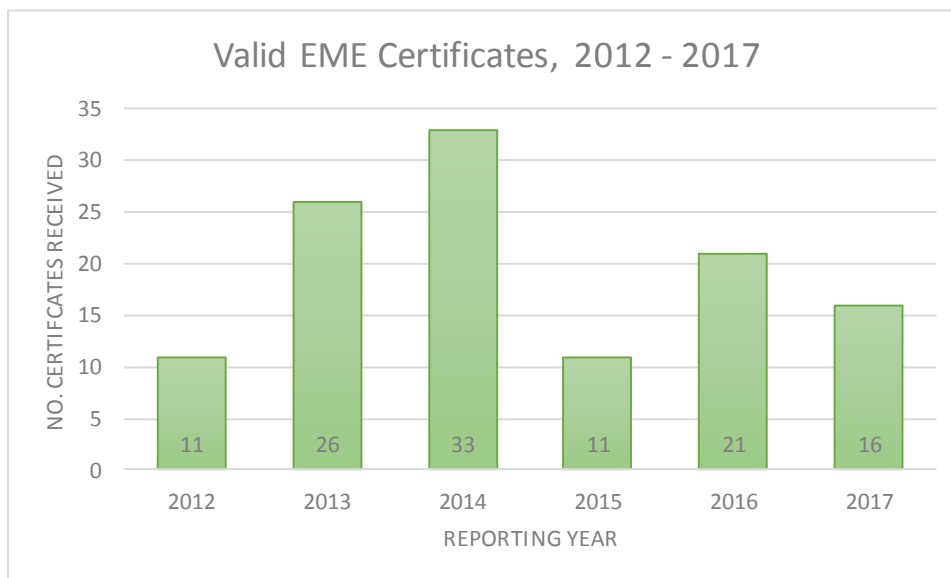


Figure 35: Valid EME Certificate Submissions, 2012 – 2017

Figure 36 below is a graphic description of the number of reporting entities that submitted valid EME certificates by sub-sector. The Contractors sub-sector submitted the largest number of certificates. These accounted for 93.8% accounting for 15 of the total submissions. The only other certificate received was from the fibre sub-sector.

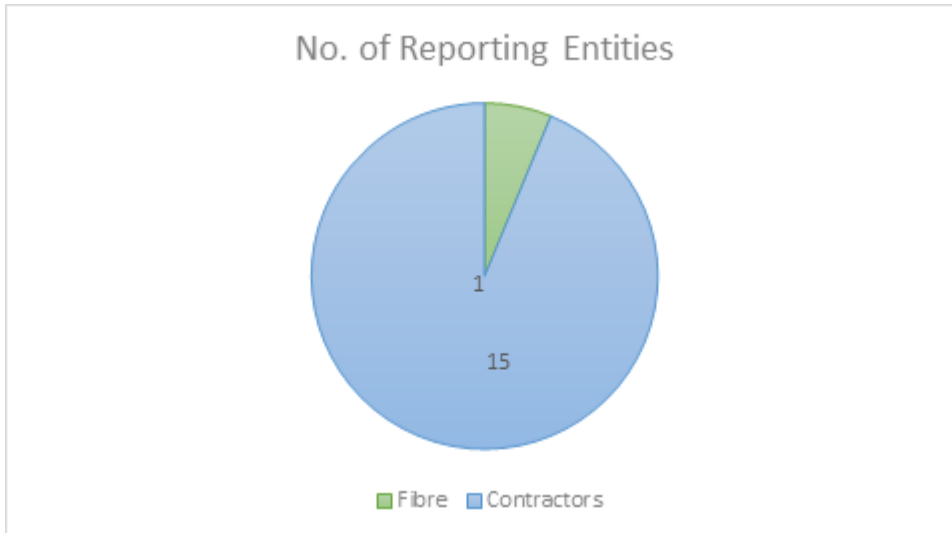


Figure 36: EME Certificate Submission by Sub-Sector

EMEs maintained a level 3 BEE contributor status. This is an indication the EMEs are also taking B-BBEE seriously and understand the consequences of being non-compliant. It is anticipated that this level could improve with the enhancement principle introduced in the draft Amended FSC.

5.4. OVERALL INDUSTRY PERFORMANCE

MLEs achieved an average score of 66.95 points this reporting period maintaining a level 4 rating. Significant improvements were observed within the Ownership and Skills Development elements. MLEs performed worst in Management Control and Employment Equity, a trend that has been observed in all the reporting years. MLEs managed to score an average score of at least above 50% towards target in the Skills Development elements.

The sector continues to perform well in Preferential Procurement, Enterprise Development and Socio- Economic Developments

Considering that MLEs are the largest employers and generate the greatest revenue amongst all Forest Sector entities, a score of 4 is notable and may indicate that the industry is on the right path. Only one entity belonging to the growers’ sub-sector managed to achieve a level 2 B-BBEE score. 7 of these entities scored a B-BBEE score of level 3 while 10 entities scored a level 4 B-BBEE score. This was mainly amongst the contactors and grower’s sub-sectors. The high number of entities scoring level 4 may be attributed to the prevalence of EMEs in the sector who are automatically given a score of 4.

QSEs achieved an average score of 82,87 out of 100 giving QSEs an average level 2. This can be expected as QSEs are given the opportunity to select their best and preferred elements under the current FSC. All the elements declined in the QSE with the exception of Enterprise Development and Preferential Procurement. EME maintained a level 3 status.

6. CONCLUSION & RECOMMENDATIONS

The forest sector is key to South Africa's economic stability and growth. It accounts for 12% of the manufacturing GDP and provides over 165 000 jobs.

2017 was a volatile year defined by social and political upheaval. This may have had an influence on the ability of some enterprises to implement B-BBEE. The impact of the #feesmustfall movement cannot be denied as public and private sector have had to prepare themselves to cover the cost of educating South Africa's missing middle. Institutions such as the FP&M Seta responded to the significant skills development needs by providing increased funding for some forestry training activities.

Even though forestry is not a major water user, the drought experienced resulted in major losses when some timber plantations were decimated by the leptocyte pests in major timber producing areas such as KZN. These losses had a considerably negative effect on the sustainability of some small-scale growers as they were some of the hardest hit by the leptocyte pest.

The report highlighted some trends within the forest sector amongst the different sized companies. It would not have been successful if not for the Mpowered portal. Results for this report show that certificate submission is low but at least there is some consistency in the same entities reporting from the previous year and submitting their underlying information.

The research component for certificate collection revealed that some companies are either completely non-compliant as a matter of preference or due to lack of information. Other compliant companies either do not know they must submit while others have not prioritised submission. This is the reason that awareness of the FSCC and knowledge sharing exercises are prioritised in the Council's strategic objectives.

It is evident that MLEs are taking B-BBEE and transformation seriously. They maintained a level 4 B-BBEE status and expectedly so due to the large number of entities reporting consistently. They continue to perform well on all elements except the Management Control and Employment Equity elements. MLEs continue to perform well in Preferential Procurement, Enterprise development and Socio-Economic Development

QSEs achieved a higher overall B-BBEE level than MLEs but they submitted less certificates thus performance may be skewed by the low number of entities under assessment. Considering that QSEs can choose which elements to report on, one may be able to infer as to which elements are more easily implemented by QSEs than others. The least popular elements were Management Control, Ownership and Skills Development. Skills Development was the element under which QSEs performed the poorest with a score of 12.66 out of 25.

16 EME certificates were received this reporting period, down from last year's 21 certificates. EMEs achieved an overall level 3 BEE.

It is important to raise awareness on the importance of reporting. This can be achieved through the continuous use of CEO visits, Community Outreach Programmes and leveraging of industry and other BEE stakeholders. The Council also needs to find means of compiling a reliable database for the entities that are operating in the forest sector. The proposed value chain research may add value in this regard.

It would be useful to immediately design a strategy to address the poor submission and lack of information within forestry enterprises so as to increase the rate of certificate submission (accompanied by underlying information).

Interaction with verification professionals should be encouraged so as to have direct access to scorecard information of forest entities. The initiative would allow Councils such as the FSCC to obtain a significantly higher amount of reports to analyse and draw the sector's the annual status of transformation.