

**ANNUAL REPORT ON THE STATUS OF
TRANSFORMATION IN THE FOREST SECTOR
2017/18**



EXECUTIVE SUMMARY

Forestry is a crucial sector that has huge potential to contribute meaningfully to rural economic stimulation through provision of jobs where formal employment is limited. According to the Industrial Policy Action Plan (IPAP), Forestry has been identified as a key stimulant to the South African economy. The latest statistics show that Forestry contributes about 1% of South Africa's (SA) total Gross Domestic Product (GDP) and 10% of the Agricultural GDP.

The 2017 gazetting of the Amended Forest Sector Codes (FSC) has introduced more stringent requirements aimed at accelerating transformation in the sector. The joining of scorecards for industry and government is notable as this will ensure that both these entities increase their efforts geared at ensuring a transformed sector.

The purpose of the revised scorecard for MLEs and QSEs is to track progress of the measured entities' black empowerment activities. For the first time, reporting entities are required to comply with a 40% subminimum for priority elements namely; Ownership, Skills Development and Enterprise & Supplier Development. Failure to do so will result in the discounting of one level on the measured entity's scorecard. In the current reporting year, a few entities were discounted for failing to achieve the minimum on one or two if not all of the priority elements.

The sector regressed from a level four, two levels down to level 6 scoring 74,48 points. This was possibly due to the more rigorous requirements contained in the Amended Codes. Previously, the sector would've achieved a level 4 status with their score of 74,48 points. The changes in qualification criteria require a higher number of points for the measured entity to attain the same level that they would have attained previously.

Another noteworthy discovery from the current status report is the declining number of reporting entities. Measured entities also lack consistency in reporting. A number of companies who did not report expressed their difficulties in receiving their certificates from verification agencies. The changes in the Codes may have also affected companies' confidence in their performance, thus leading to lower rates of verification.

The above substantiates the need for Council to prioritise the development of Enforcement Guidelines. These guidelines which will act as lever to encourage forestry enterprises to improve their transformation activities.

The current report presents, for the first time, reporting of QSEs using all five elements. Most QSEs were enhanced due to a black ownership profile above 50%. This qualified these QSEs for exemption with only a few submissions received from the unenhanced QSEs.

EMEs are automatically allocated a level 4 in the Amended FSC, but can achieve a level one or two through the enhancement principle if they are majority black owned (BO). Most EMEs were enhanced indicating a positive shift in the ownership profile.

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ACRONYMS

B-BBEE	Broad-Based Black Economic Empowerment
BEE	Black Economic Empowerment
BO	Black Owned
BWO	Black Women Owned
CoGP	Codes of Good Practice
CSIR	Council for Scientific and Industrial Research
DAFF	Department of Agriculture, Forestry and Fisheries
DTI	Department of Trade and Industry
ED	Enterprise Development
EME	Exempted Micro-Enterprise
FP&M SETA	Fibre, Processing and Manufacturing Sector Education and Training Authority
FSA	Forestry South Africa
FSC	Forest Sector Code (Sector Codes)
FSCC	Forest Sector Charter Council
GDP	Gross Domestic Product
HA/ha	Hectare
HDSAs	Historically Disadvantaged South Africans
IDP	Integrated Development Plan
LED	Local Economic Development
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
PAMSA	Paper Manufacturers Association of South Africa

1. INTRODUCTION

In 2017, the Department of Trade & Industry gazetted the Amended Forest Sector Code (FSC). The Amended Forest Sector Code was introduced with some interesting new changes. Two sector specific principles, have been added.

The first principle relates to Rural Development considering that most forest operations are located within rural areas and forestry has great potential to uplift and promote rural based enterprises, black women owned enterprises and black designated groups. The second principle encourages Accountability amongst all stakeholders in the sector. Government and Industry have set agreed targets in an effort to realise successful and effective economic empowerment. These stakeholders are expected to use their respective positions of power, influence and access to resources to accelerate the transformation process.

The Amended Codes place greater emphasis on majority black ownership, mostly in relation to the sub-elements of Procurement as well as Enterprise and Supplier Development. This signifies a shift back in the direction of ownership, which now comprises 57% of the scorecard points.ⁱ

The codes were initially reviewed and changed to “broad-based” so as to encourage measured entities to do more than just transfer ownership to a black face or group. The broad-based codes encourage skills development, community upliftment and grooming and promotion of black managers and executives.

Under the Ownership element, empowerment of designated groups such as broad-based ownership schemes, employee ownership schemes and cooperatives have been prioritised chiefly through the elevation of target points. The target for such groupings has increased from 3% to 7.5%.

Youth and women participation are vital for sustainability and continuity of the industry. It is for this reason that the sector scorecard has placed emphasis on this demographic. It is evident that black youth and women are severely under-represented in the industry, particularly in the more technical and field-work components of the business. However, it has been argued that there is a lack of interest and safety fears expressed by youth and women respectively.

Major changes have also been made with regards to the Enterprise Development and Preferential Procurement elements which have now been collapsed into one element to give Enterprise and Supplier Development (ESD). This element prioritises support and promotion of black business (especially Exempt Micro Enterprises and Qualifying Small Enterprises) to the point where they can be included in the measured entity’s supply chain. This way, Enterprise and or Supplier Development contributions and activities conducted by forestry entities should have meaningful and sustainable impact on rural communities and business.

A study by SERR Synergy found that for many large enterprises (MLEs), a large BO share is favoured above a low level (good score) on the scorecard. This also applies to medium sized enterprises who now have the option of becoming enhanced if they are majority BO. This may be an accelerated way to an acceptable BEE level and carries no additional costs associated with donations or skills development etc. This has unintended consequences

ⁱ SERR Synergy. N.d. *Black ownership more important than B-BBEE scorecard level.*

<https://www.serr.co.za/black-ownership-more-important-than-b-bbee-scorecard-level/>

resulting in the complete undermining of the broad-based nature of B-BBEE and has robbed beneficiaries, especially the rural poor, of opportunities presented under the other four elements.

2. REPORT OBJECTIVES

The report seeks to examine the state of transformation in the Forest Sector. It aims to shed light on the implications of the newly amended Forest Sector Code and measure the performance of forestry companies during the first year of implementation of these Codes.

This report also attempts to translate the scores achieved by measured entities into qualitative data that provides real insight into how companies are responding to the changes in the Code as well as 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 five elements of the scorecard for each of the six sub sectors;
- iii. The B-BBEE status of Qualifying Small Enterprises (QSEs) based on the five scorecard elements of the Codes for each of the six subsectors for unenhanced QSEs;
- iv. The number of enhanced QSEs based on their black profile;
- v. The B-BBEE status of Exempted Micro Enterprises (EMEs) based on their black ownership profile and overall B-BBEE performance as a collective;
- vi. The overall transformation status of the industry benchmarked against mining, property, and financial service sectors
- vii. The effect of the principles introduced in the Amended FSC. These include the Discounting Principle, Enhancement Principle, Accountability element etc.
- viii. The general constraints faced by Government and Industry in implementing B-BBEE
- ix. The manner in which beneficiaries' perception and understanding of B-BBEE at times deprives them of the opportunity to benefit meaningfully from B-BBEE.
- x. The challenges met by the FSCC in monitoring and facilitating B-BBEE in the sector and possibly propose some recommendations with regards to implementation of the Amended Forest Sector Codes.



3. SECTOR OVERVIEW

Forests play a crucial role in the diversity of South Africa's flora and fauna. They are important for soil protection and conservation, the water cycle, carbon sequestration as well as eco-tourism. The South African Forestry Industry plants 360 000 trees every working day - more than 90 million trees every year. Our forests are a national asset and a renewable resource providing numerous essential products which form an important part of our everyday lives.

In South Africa, forests are defined as areas dominated by tree species with overlapping canopies covering at least 75% of the area. South Africa is not a forest rich country but it does have indigenous forests as well as a timber plantations.

South Africa's combined forestry and forestry products sector contributes 0.5% to annual GDP valued at approximately R33bn, with an estimated R22.1bn of this amount attributable to export earnings. Despite considerable economic returns from the industry, whose main operations are found in rural areas, rural South Africans remain one of the poorest and most marginalised groups in the country. It is for this reason that forestry and its contribution to the economy and job creation has been prioritised in a number of policy documents including the Industrial Policy Action Plan (IPAP).

Figure 1 below looks at the economic performance of the Agriculture, Forestry and Fisheries Sectors as a whole while comparing those to the Manufacturing, Forestry and Forest Products GDPs. Manufacturing alone contributed over 13% to SA's GDP in 2016 making it a key sector that should be supported and promoted.

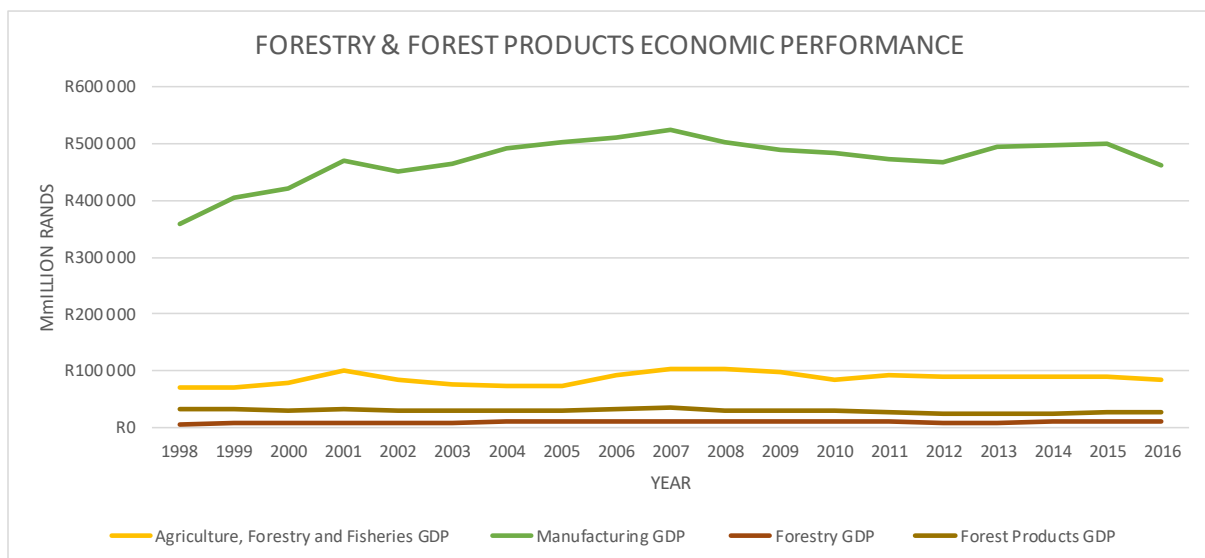


Figure 1: Forestry and Forest Products Contribution to South African Economy

Figure 1 further shows that Forest Products contribute more to the SA economy than Forest plantations. This is expected as downstream beneficiation activities increase the value of products. This is why the South African government has prioritised strengthening local beneficiation and procurement to help build the country's industrial base in critical sectors of production and value adding manufacturing. This is emphasised in the black industrialist programme and under the general principles described in the Enterprise and Supplier Development Scorecard.

Forestry plantations are essential for growth and diversification of the industry as they provide the raw material from which forest products are made. A matter of concern in the South African Forest Sector is the vertically integrated nature of the sector which is characterised by a handful of major players owning the means of production and also owning the downstream processing facilities. The dwindling amount of timber in the country has caused a situation where demand exceeds supply and the smaller players have limited access to timber to sustain their business and contribute significantly to the forest economy.

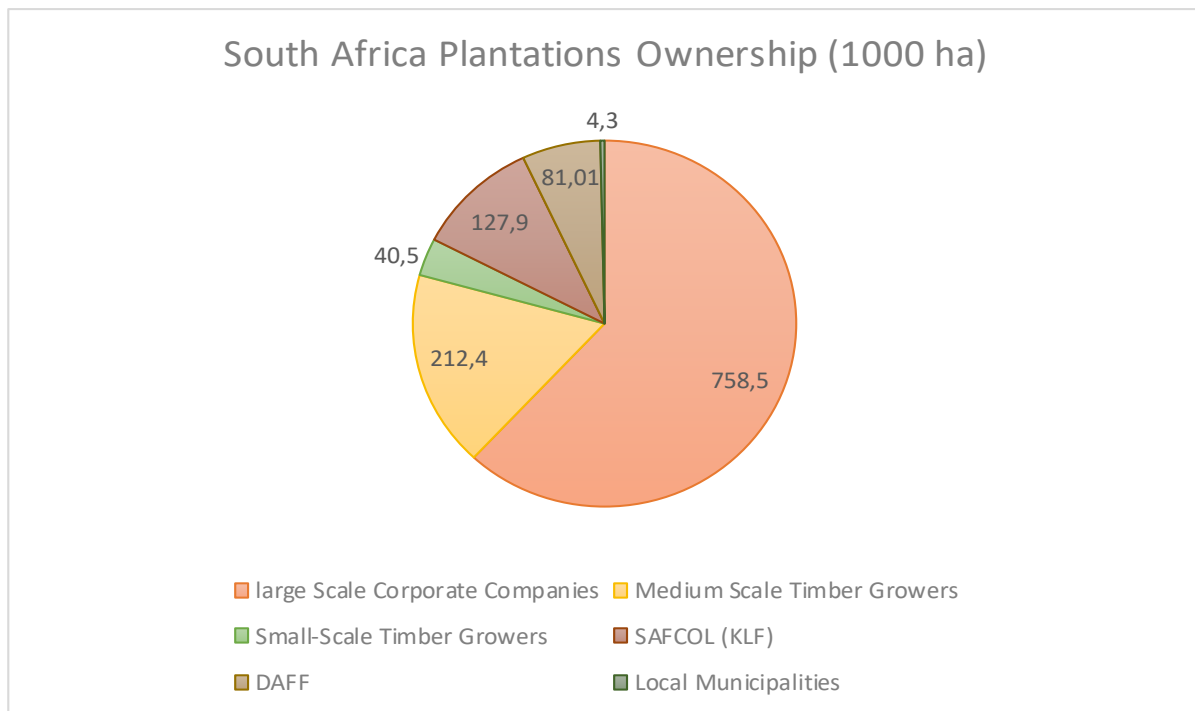


Figure 2: Private and Public Plantation Ownership in South Africa

Currently, plantation ownership is split between private owners (83%) and publicly owned plantations (17%). Figure 2 above shows the ownership profile of South African plantations. Over 750 000 ha (62%) is owned by large forestry companies. Some of these companies are JSE listed and are characterised by private shareholding. These companies mainly fall under the Medium to Large Enterprise (MLE) category.

Figure 2 further reveals that over 200 000 ha of plantations are publicly owned through SAFCOL, DAFF and some local municipalities. These publicly owned plantations are a key and strategic resource that is more often than not vastly underutilised yet, have the potential to significantly increase economic output and black participation in the primary and secondary activities of the forestry value chain.

Section 3.1 and 3.2 below provide further insight into activities and events that occurred in the 2017/18 reporting year that may have had an influence on the sector’s ability to implement B-BBEE.

3.1. ECONOMIC ENVIRONMENT

- **Increased Roundwood Production**

The Forest Sector has been struggling with timber shortages as the area under plantation has been on the decline. As shown in Figure 3 below the amount of land under timber plantations reached a peak in 1998 and has been on a steady decline since then.

However, 2017 saw an increase in roundwood production despite the 20% decline in area under plantations since 1998. In 2015, roundwood production exceeded 18 million cubic meters (m³) (15.3 million tons) from 1.2 million ha as opposed to 2008's yield of 15.6 million m³ from 1.38 million ha. This may speak more to the improved efficiencies that have been implemented in the industry.ⁱⁱ

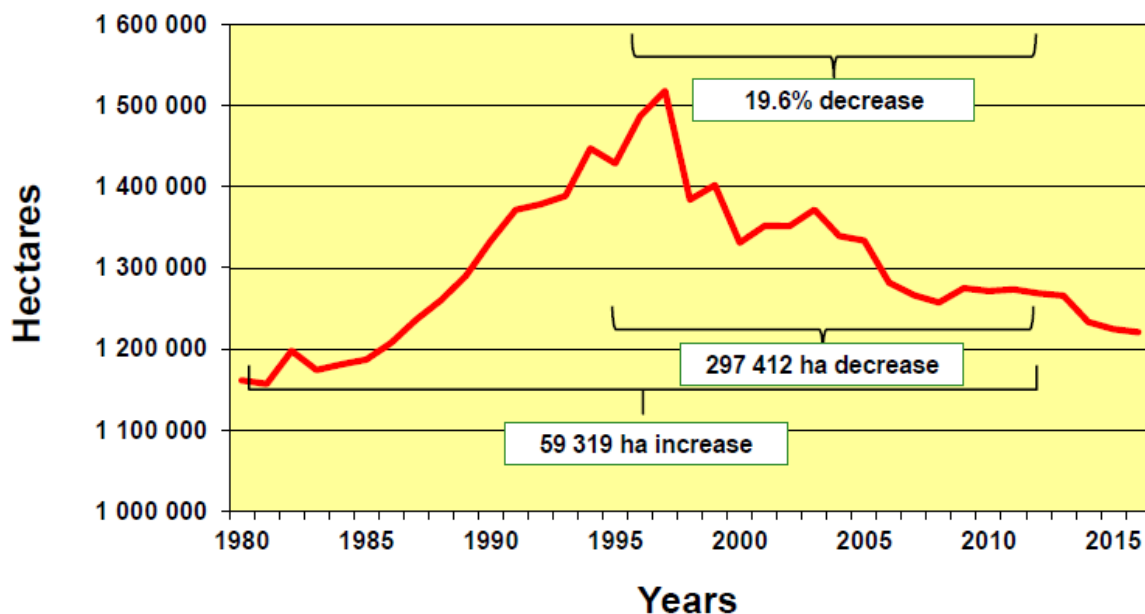


Figure 3: Total Plantation Area from 1980 – 2016, South Africa.

The decrease in plantation area has been attributed to the following activities:

- Removal of 80 000 ha from sensitive riparian zones
- The closing down of some government forestry operations
- Lack of replanting of felled areas
- Production interruptions on land under land claims
- Incorrect data collection
- Insufficient information from small growersⁱⁱ

ⁱⁱ Forestry South Africa. 2017. Good Times for SA Forestry. <http://www.forestry.co.za/good-times-for-sa-forestry/>

3.2. SOCIAL AND POLITICAL ENVIRONMENT

- **Gazetting of the Amended Forest Sector Codes**

In April 2017 the Minister of the Department of Trade & Industry (dti) approved the Amended Forest Sector Codes (FSC). The Codes provide transformation guidelines aligned to the Amended Codes of Good Practice (CoGP) for the Forest Sector. The Amended FSC will be reviewed within three years of gazetting to set new targets for the sector's black economic empowerment.ⁱⁱⁱ

- **Timber Shortages**

As evidenced in the Section 3.1, South Africa has been facing increased cases of timber shortages. As the area under plantations continues to shrink, players in the industry have a shallower resource base to draw from and expand the industry. A 2017 article in the Business Day publication cites governments stringent regulations in issuing forestry and planting permits as the main cause of this decreasing resource base. These restrictions were introduced over 20 years ago in light of the country's dwindling water resources. It is estimated that South Africa will have to import almost 50% of its pine structural wood requirements within the next two years.^{iv}

Importing of timber may have a definite impact on rural job creation and consumer prices too. An additional downside to timber shortages is the exclusion of smaller players in the industry from participating in the value chain. The dti aims to develop a comprehensive wood processing strategy to revive the sector. However, the dti's strategy will have to provide details on how the wood processing strategy will stimulate growth of the primary sector so as to provide more material for smaller players to work with. Some possible avenues to explore in this regard include:

- Reviewing planting permits and licensing systems
- Efficiency improvement in the sawmilling industry
- Establishment of faster growing species
- Allocation more land for forestry.^v

- **National Minimum Wage**

On the 7th of February 2017, the national minimum wage was signed. This followed a series of negotiations between a number of parties discussed in the 2016/17 Annual Status Report. The minimum wage was set at R20 per hour and would take effect on the 1st of May 2018. However, COSATU who were part of the negotiations, chose not to sign the agreement.

ⁱⁱⁱ Forestry South Africa. 2017. *Amended Forest Sector Code gazetted*. <http://www.forestry.co.za/amended-forest-sector-code-gazetted/>

^{iv}Oliviera, D. 2017. South African timber industry could become net importer amid supply pressures. Creamer Media's Engineering News. Accessed from: <http://www.engineeringnews.co.za/article/south-african-timber-industry-could-become-net-importer-in-mid-term-2017-06-16>

^v Forestry South Africa. 2017. Planting restrictions cause timber shortage. <http://www.forestry.co.za/planting-restrictions-cause-timber-shortage/>

The current Forest Sectoral Determination wage is based on a 45-hour working week as opposed to a standard 40-hr working week. Considering these working hours, Agriculture & Forestry managed to negotiate a sector wage of 90% of the prescribed minimum wage which gives R18 per hour. However, this amount is slightly more than the amount agreed in the Forest Sectoral Determination wage which set an increase of 8% from a monthly wage of R2 778,82 to R3001,13 pm (R16,67 per hour). The industry has raised concerns regarding conflicting times and wage amounts suggested by the national minimum wage (1 March 2018) and the Forest Sectoral Determination (1 May 2018). These conflicting instructions pose a challenge for the industry especially contractors.^{vi}

- **Regulations in terms of Property Valuation**

The Property valuation Act (Act 17 of 2014) sets out the methodology that should be followed by valuers when assessing property for the purposes of land reform. The value of land is determined by adding the current use value (net present value of cash flows generated on the property) and the market value and then dividing by two.

In an article published in May 2017, one of the industry associations expressed their concern with this methodology as they believed it had the potential to severely reduce valuation of forest properties. This methodology has definite implications on the land reform process which is currently an important factor within the forestry B-BBEE community.

3.3. NATURAL ENVIRONMENT

- **Impact of baboons on timber plantations**

An article published by Forestry South Africa in 2017 raises the challenges surrounding the presence of baboon populations in plantations. Baboons climb pine trees in plantations and chew on the bark. The chewing severely damages the stem of the trees and the quality of the timber, and in the worst cases eventually kill the tree. This timber becomes unusable for sawing into lumber or for pulp. As a last resort it may be useful to use the bark as biomass for energy, but the value is low and the current marketable opportunities almost non-existent.

The problem is increasing and is severe in areas such as Mpumalanga and Southern Cape. In some pine compartments in Mpumalanga's timber belt, up to 40% of trees have been damaged.

As a last option, some companies have resorted to culling baboons to reduce numbers. This has placed some spotlight on the industry and resulted in clashes with NGO's and environmentalists. The matter has also received media coverage with a special segment assessing the practice produced on Carte Blanche.

Industry has come out to defend themselves stating that culling is not illegal; Chacma baboons are not an endangered species. The Forest Stewardship Council (FSC) has accepted the practice as long it is done in a sustainable and transparent manner.

A Baboon Damage Interest Group has been set up by the industry to consult with stakeholders and co-ordinate research in baboon behaviour, population dynamics and to

^{vi} Forestry South Africa. 2017. *National Minimum Wage Agreement has now been signed*. <http://www.forestry.co.za/national-minimum-wage-agreement-has-now-been-signed/>

quantify damage and predict the risks in plantations. The group includes affected timber growers, provincial nature conservation, the Wildlife and Environment Society of South Africa and the Endangered Wildlife Trust.^{vii}

- **Knysna Fires**

On the 7th of June 2017 a series of events led to the infamous and disastrous wildfires that raged in the small town of Knysna in the Western Cape for days. The deadly fire claimed seven victims while destroying vast tracts of commercial plantations and triggering billions of Rands lost in property and infrastructure damage. Experts suggested that the fire was fuelled by pine cones which are abundant in the area and are calling it the biggest fire disaster in modern South African history. Forestry fires also raged in the Tsitsikamma and other areas destroying plantations and infrastructure (sawmills) belonging to one of the sectors main employers in the area.

The Kynsna fires were apparently anticipated by local foresters following a period of extremely dry weather conditions and months of below average rainfall. The fire is believed to have been carried by the gusty winds which reached speeds of up to 90 km/h.

Fires were fuelled by forestry plantations and fynbos vegetation in places invaded heavily with exotic aliens like black wattle, blackwood, gum and pine. The fires were fanned by extremely strong winds, which caused them to spread at amazing speeds.^{viii}

Environmentalists have long warned of the potential harm that unkept jungles of invasive species may have on the area. These exotic species are not only encroaching on sensitive riparian zones in the area but also act as fuel for fire as evidenced by the Knysna fires of 2017.



^{vii} Forestry South Africa. 2017. Impact of baboons on timber on timber plantations.

<http://www.forestry.co.za/forestry-news-2017-february/>

^{viii} Forestry South Africa. 2017. *Knysna's Great Fire of 2017*. <http://saforestryonline.co.za/articles/knysnas-great-fire-of-2017/>

4. RESEARCH OVERVIEW AND METHODOLOGY

The 2017-18 Status of Transformation Report was completed using a combination of primary and secondary research tools. The initial phase of research involved obtaining B-BBEE certificates using various sources mainly the Mpowered portal as well as contacting forestry entities in the FSCC's database. Reporting entities were contacted telephonically to introduce the FSCC (when necessary) and then a follow up e-mail was sent requesting the entities' B-BBEE certificate and underlying report. A large majority of the certificates were sourced from the Mpowered portal. However, this year's telephonic soliciting resulted in a much more positive response from reporting entities when compared to the previous year.

Phase two of the research process involved a desktop literature review focusing on major incidences in the country's Forest Sector and overall economy that may have had an impact on the sectors operational activities as well as the sector's ability to implement B-BBEE. Literature in this regard was sourced from publications from forestry associations such as Forestry SA (FSA), Paper Manufacturing Association of South Africa (PAMSA), Sawmilling SA (SSA) and Fibre, Paper & Manufacturing (FP&M) Seta amongst others. Google alerts were also set up using key words such as "plantations", "B-BBEE", "SA Economy" and others. These daily alerts from Google allowed the office to keep up to date with activities in the country which may have affected B-BBEE performance in the sector.

The desktop literature review evaluated economic, social and environmental changes in the sector. A brief study was also conducted unpacking the performance of other sectors and comparing to the Forest Sector in terms of B-BBEE.

The final phase of the study involved data cleaning, analysis and interpretation. Information sourced in phase one was entered into excel spreadsheets and converted into graphs. A process of data cleaning followed where duplicates and invalid certificates were removed. The graphs were used to assess performance under each B-BBEE element. The most useful graphs for this purpose were bar graphs, line graphs and pie charts.

The report's main findings are presented under three distinct sections which are governed by B-BBEE's company size allocations. The report measures performance of MLEs, QSEs and then EMEs. The last part of the sector analysis presents an overall performance of the industry as a whole.

The report as a whole is intended to provide a clearer picture not only of B-BBEE activities in the sector but also a general understanding of what the business of forestry entails and its strategic importance in alleviating poverty, especially amongst rural poor and empowering black people.

4.1. RISKS

As mentioned in a number of previous reports, the Council struggles not only with a low number of submissions from entities operating in the sector but also inconsistency in terms of reporting. Each year, a number of entities that previously reported either opt to not submit or do not get verified at all. Identification of trends becomes difficult as the reporting entities are erratic. This may possibly hamper the review and realignment process.

On a positive note, the number of reliably reporting entities is much larger than those that do not consistently report. This is especially so amongst the larger reporting entities (MLEs).

The previous report briefly discussed Pareto's Principle, otherwise known as the 80-20 rule. This principle is often applied to avoid the challenge of low reporting especially amongst QSEs and EMEs. Fortunately, a large share of literature supports the Council's findings that the majority of the sector's income is generated by a handful of entities which are mostly MLEs.

Another major risk identified in this reporting year lies in the validity of affidavits. Under the Amended FSC, QSEs are now allowed to use an affidavit to report provided that they are majority BO. One or two previously reporting entities whose BO jumped from 0% to 51% or more in just one year were identified. The majority of submissions from QSEs has largely changed from certificates to affidavits.



5. SECTOR ANALYSIS

The B-BBEE Act as amended compels all entities operating in a sector with a Sector Code to base their report on the Sector Specific Codes. Certificates were collected from all reporting entities who operate in the Forest Sector as prescribed under the scope of application in the Amended FSC. These are all enterprises that conduct a business, trade or profession in the Forest Sector. The following sub-sectors are subject to the Amended FSC and are thus required to report using the Amended FSC Scorecard:

- Commercial Timber Growers
- Contractors
- Fibre
- Sawmilling
- Pole Producers
- Charcoal Producers

Seventy-two certificates (inclusive of affidavits) were received during this reporting year as shown in Figure 4 below. Of these certificates, 53 (73.6%) were valid. Invalid certificates are identified by use of the repealed FSC; generic codes; incorrect reporting period or use of an auditor's note as opposed to the prescribed affidavit.

The number of total certificates has decreased by 4 (5%) from the previous year. The number of valid certificates decreased by one while invalid certificates decreased by 3.

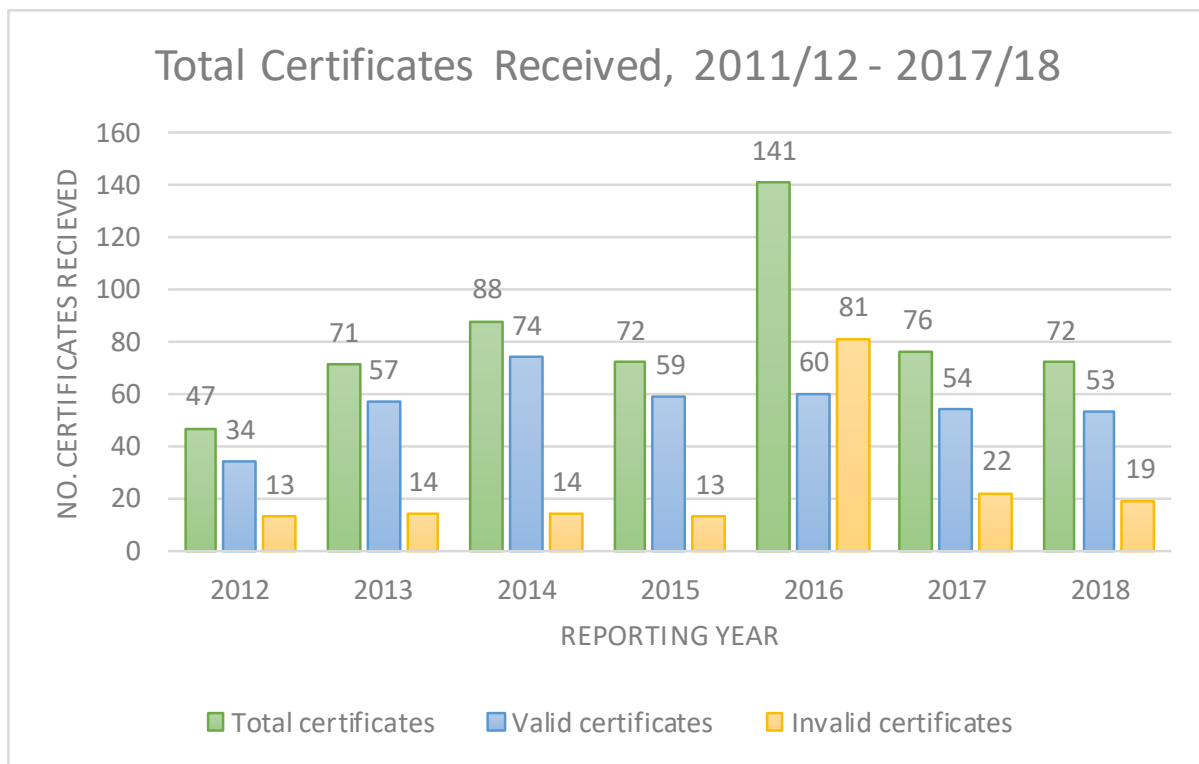


Figure 4: Total Certificates Received, 2011/12 to 2017/18

Figure 5 below compares the number of certificates, affidavits and B-BBEE reports received from the different categories of measured entities. The number of certificates declined slightly from the previous reporting year. Some of the large companies the FSCC interacted with while soliciting 2017/18 certificates communicated that they did not have 2017/18 certificates at all. This was due to lengthy waiting times for verification or inconsistency with

issue dates. The introduction of the Amended FSC may have also played a role in the contracted number of certificates received.

Of 72 certificates received, 29 (Almost 41%) were new. This is of slight concern as the expectation is to see more consistent reporting as measured entities become more comfortable and acquaint themselves with the Codes and with reporting.

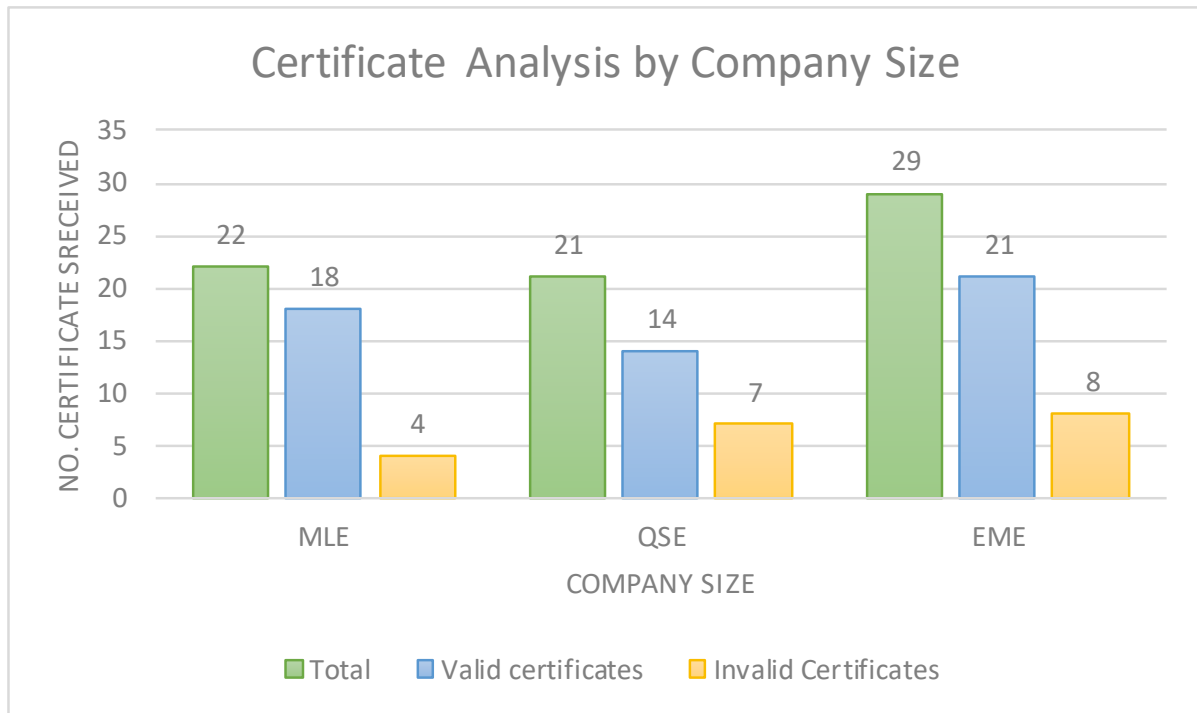


Figure 5: Certificates Received by Company Size

A total of 22 certificates were received from MLEs while QSEs and EMEs submitted 21 and 29 certificates respectively. The least number of invalid certificates (4) were received from MLEs while QSEs and EMEs produced 7 and 8 invalid certificates respectively. Amongst MLEs and QSEs the leading cause of invalid certificates was the preference of the Generic Codes (6) followed by use of the repealed FSC for assessment (5). Invalid EME certificates arose from usage of an auditor's note (5) or the generic codes (3)



5.1. MEDIUM AND LARGE ENTERPRISE (MLE) ANALYSIS



Under the Amended FSC, MLEs are companies with an annual turnover larger than R50 million. These entities are scored using the MLE scorecard. The MLE scorecard has a higher number of indicators and weighting points when compared to the QSE scorecard. This is so because MLEs have a greater amount of resources to enact transformation.

The amended FSC contains 5 elements (collapsed from 7) used to measure MLEs. This Scorecard assesses the measured entity's activities involving:

- Equity Ownership (O)
- Management Control (MC)
- Skills Development (SD)
- Enterprise and Supplier Development (ESD)
- Socio-Economic Development (SED)

Figure 6 below compares the number of valid certificates received from MLEs over 7 reporting periods. The number of reporting MLEs has reduced slightly. This may be due to some of the stricter measures introduced in the Amended FSC.

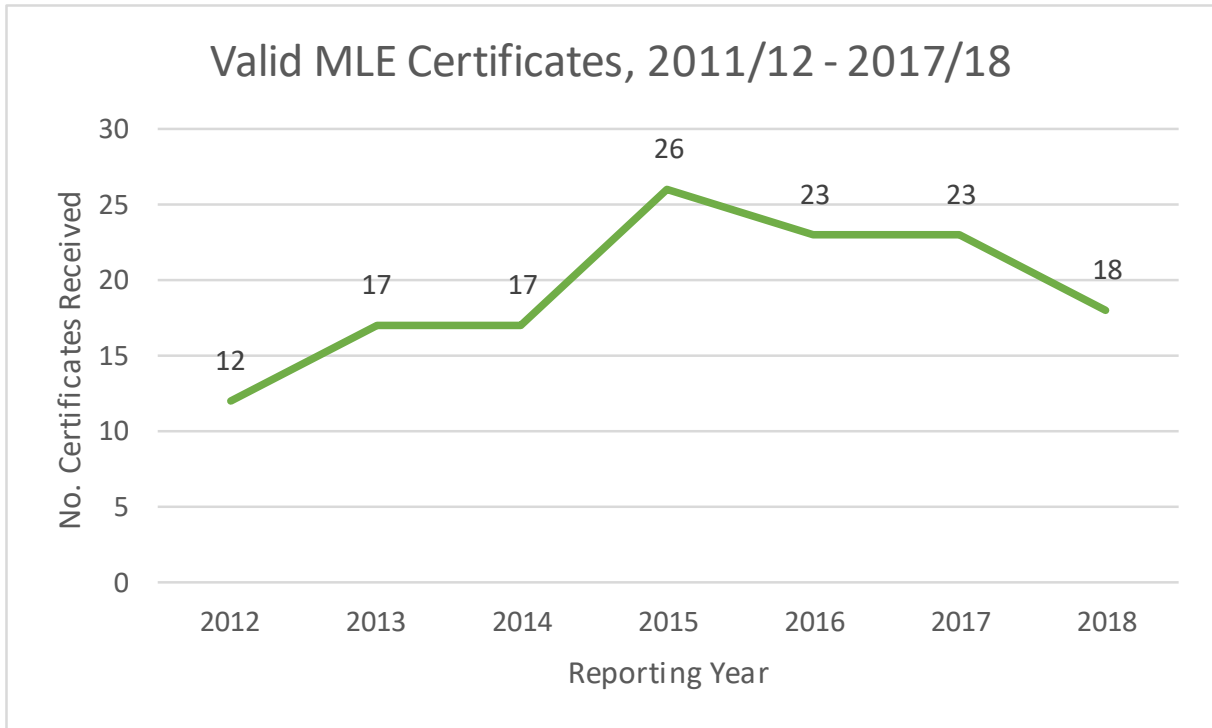


Figure 6: Valid MLE Certificate Submissions, 2011/12 – 2017/18

The number of valid certificates were categorised into the different sub-sectors as indicated below in Figure 7. The least number of certificates were received from the contractor’s and fibre sub-sectors followed by the sawmilling subsector. One can expect more contractor submissions under the QSE and EME analysis as contracting in the Forest Sector is intensely practiced for harvesting and silviculture. Secondly contractors are often market takers and not dictators.

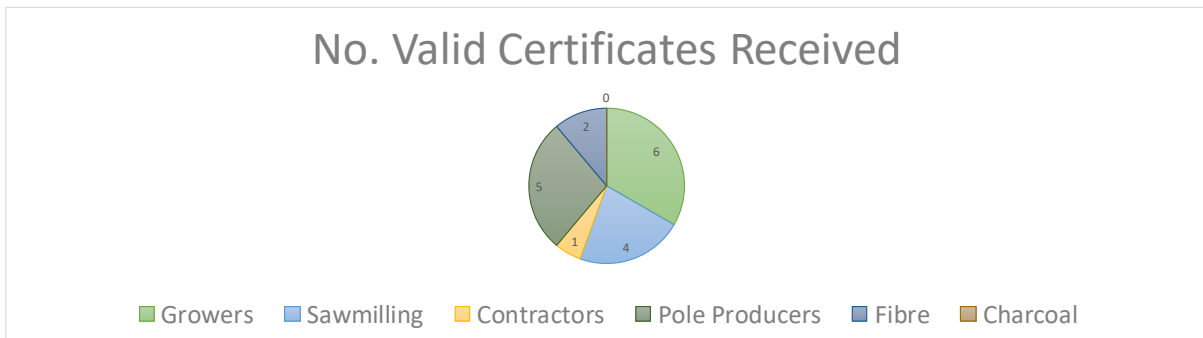


Figure 7: MLE Certificate Submission by Sub-Sector

Forest enterprises are required to report based on their activities that generate the greatest turnover. In most sectors, the greatest return on investment occurs during the processing component of the value chain. This is evident in the analysis of the 10 out of 18 entities that submitted underlying reports as 9 chose not to report as growers or sawmillers. This is despite these entities having substantive plantations and sawmilling operations.

Figure 8 below shows the scores achieved by 18 reporting entities from the different sub-sectors. It is evident that the highest concentration of scores is fixed around level 4, a score that is widely accepted. Seven (39%) MLEs attained a level 4 score. This larger group is mostly represented by the growers and sawmilling subsectors. Three (16,7%) MLEs achieved a level 8 score while there were no entities achieving a level 6 or level 7.

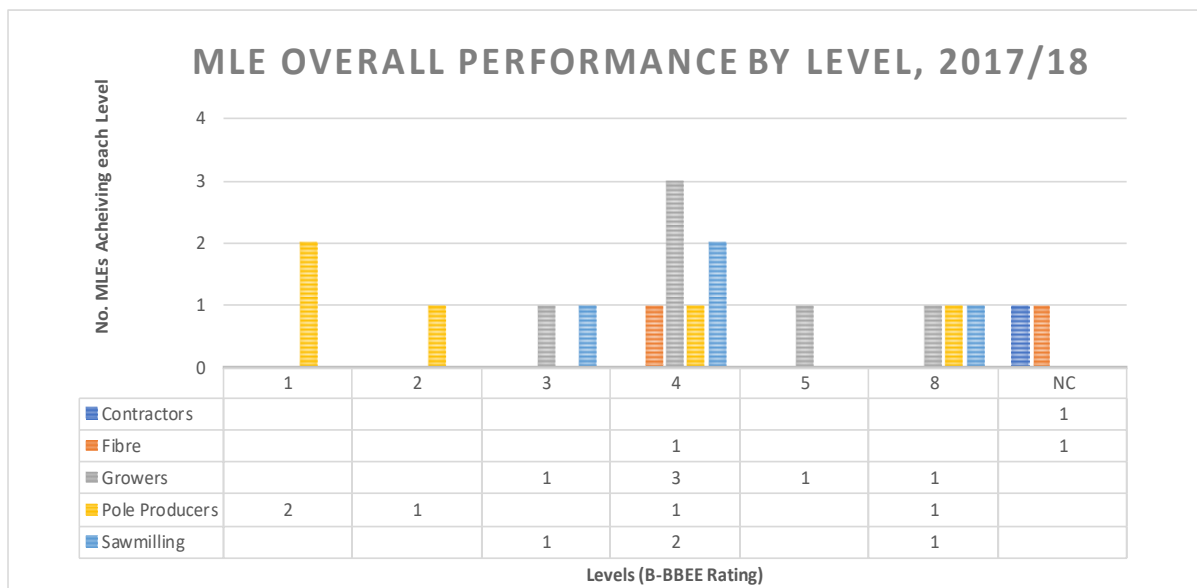


Figure 8: MLE Overall Performance by Subsector & B-BBEE Level

Two Pole producers attained a level 1 score and one achieved a level 3. This make the pole subsector one of the best performing subsectors. This is also evident when evaluating the subsector performance by each element.

The fibre and contractors' subsectors recorded the poorest performance. This lacklustre performance may be tied to the low rate of or no submissions amongst these entities. One fibre entity achieved a level 5 score but was weighed down by the non-compliant fibre entity.

The average level achieved for MLEs was level 4. However, when one looks at the total points achieved by MLEs (74,48), MLEs attain a level 6 score. Considering that 6 (33%) of MLEs were discounted, this level 6 could have been lower. However, the high number of entities that scored level 4 could be a contributing factor to the average.

5.1.1. OWNERSHIP

The Ownership element continues to serve as one of the most important B-BBEE elements within the Forest Sector. The Amended FSC have placed greater emphasis on this element by increasing the overall target points to 25 (+12 bonus points) from 20 in the repealed FSC.

Ownership is measured by assessing economic interest and voting rights of black people, women, designated groups and broad-based schemes in a measured entity. The 18 valid MLE certificates received were categorised into different sectors in accordance to the scope of application of the Amended FSC. Six (33%) of these MLEs belonged to growers while five (27,7%) were from the pole sub-sector. Four (22,2%) of the reporting MLEs were from the sawmilling sub-sector while only two (11%) entities belonged to the Fibre sub-sector. There was only one (5,6%) MLE from the contracting sub-sector.

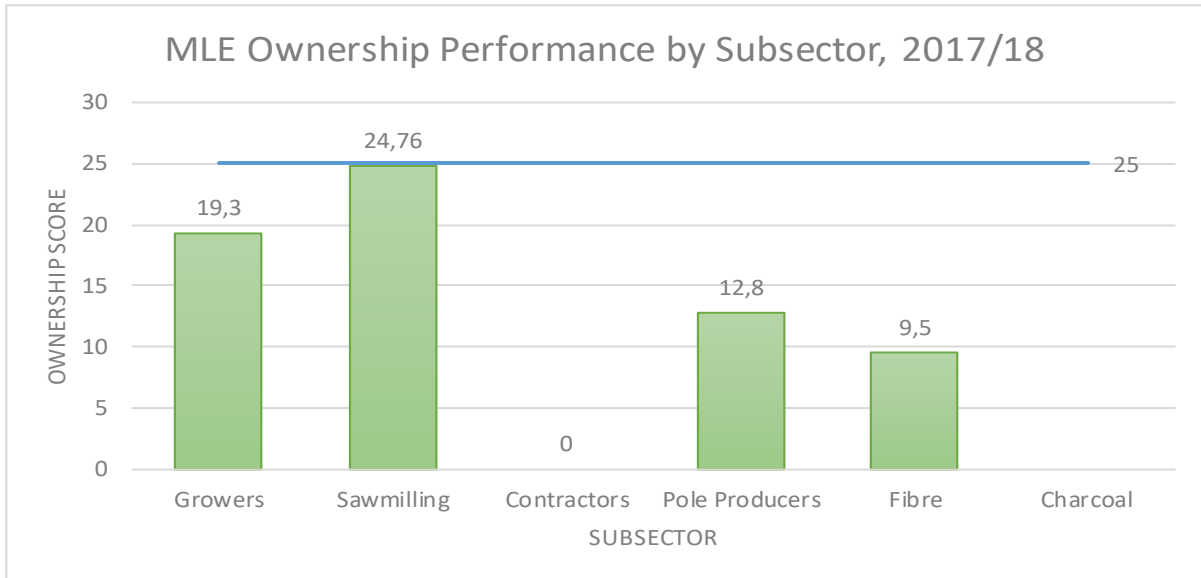


Figure 9: MLE Ownership Performance by Subsector, 2012 to 2017

Figure 9 above displays the performance of the measured entities in each sub-sector. The sawmilling sub-sector achieved the best performance (24,76 points out of 25) in comparison to the other sub-sectors. Sawmilling also recorded the third highest rate of submissions following pole producers and growers. Growers and pole producers both managed to achieve at least 50% of the total target points scoring 77% and 51% of the total weighting points respectively. The fibre sub-sector submitted 2 certificates. One of these fibre enterprises was non-compliant. This severely affected the sub-sector average as the other fibre entity had achieved over 76% of the target weighting points. The non-compliant fibre entity is a first-time submitter. It is anticipated that their performance will improve over time.

As a whole, MLEs achieved an average 60,1% of the target (15,21 points out of 25). Although this is a slight reduction from the previous reporting year where MLEs achieved 67% of the target, it may improve as MLEs adjust to the Amended Codes.

In this reporting year, 10 MLEs out of 18 submitted their underlying reports. Underlying reports are the most significant part of B-BBEE reporting as they detail how each score was achieved. Such information is also helpful when conducting in-depth analysis of transformation in the sector. It must be noted that many entities still do not submit these reports and it is not possible to conclude whether this is due to ignorance or an attempt to hide the entities' true performance. This suggests that enterprises are contravening the B-BBEE Act as Amended as reporting requirements are stated clearly in the Act.

Voting rights for black people and women are described under indicators 1.1.1 and 1.1.2. in the Ownership element. They are both worth 6 points (24% of the total weighting points). MLEs are set a compliance target of 25% voting rights for black people and 10% voting rights for black women. Figure 10 below demonstrates the actual performance under indicators 1.1.1 and 1.1.2 in the Ownership element.

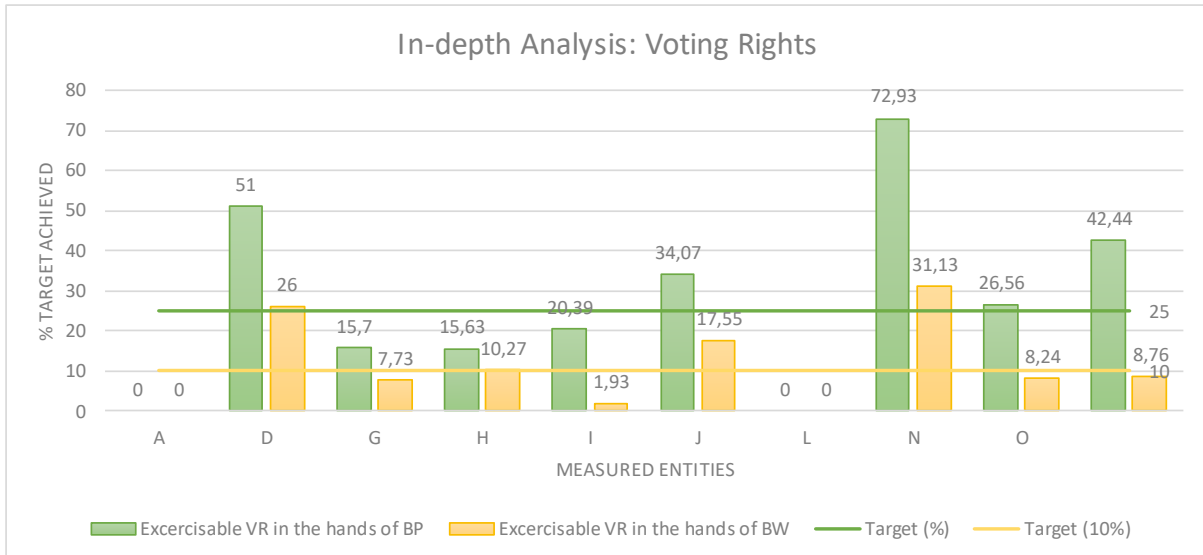


Figure 10: MLE Analysis: Voting Rights in the Hands of Black People

Of 10 entities that submitted underlying information, 5 (50%) managed to surpass the 25% black voting rights target. Four of the five (80%) companies also surpassed the 25% target in the previous reporting year. This is a good indication of the consistency and dedication by some MLEs to transformation of their enterprises. Three (3) companies managed to achieve more than 50% of the target while two (2) companies did not score any points for this indicator.

Four entities achieved or surpassed the target for voting rights in the hands of black women. This largely coincided with the entities that performed well under indicator 1.1.1. Three others managed to achieve at least 70-80% towards the target. Two of the entities that did not score any points for voting rights under black people also scored 0 for voting rights of women.

The compliance targets for economic interest in the hands of black people and black women under indicators 1.2.1 and 1.2.2 are 25% and 10% respectively. These give direct ownership to black people and black women in the enterprise. Economic interest directly measures black ownership in the business. This makes it an important indicator and should be closely monitored. The performance of the reporting entities under these indicators is reflected in Figure 11.

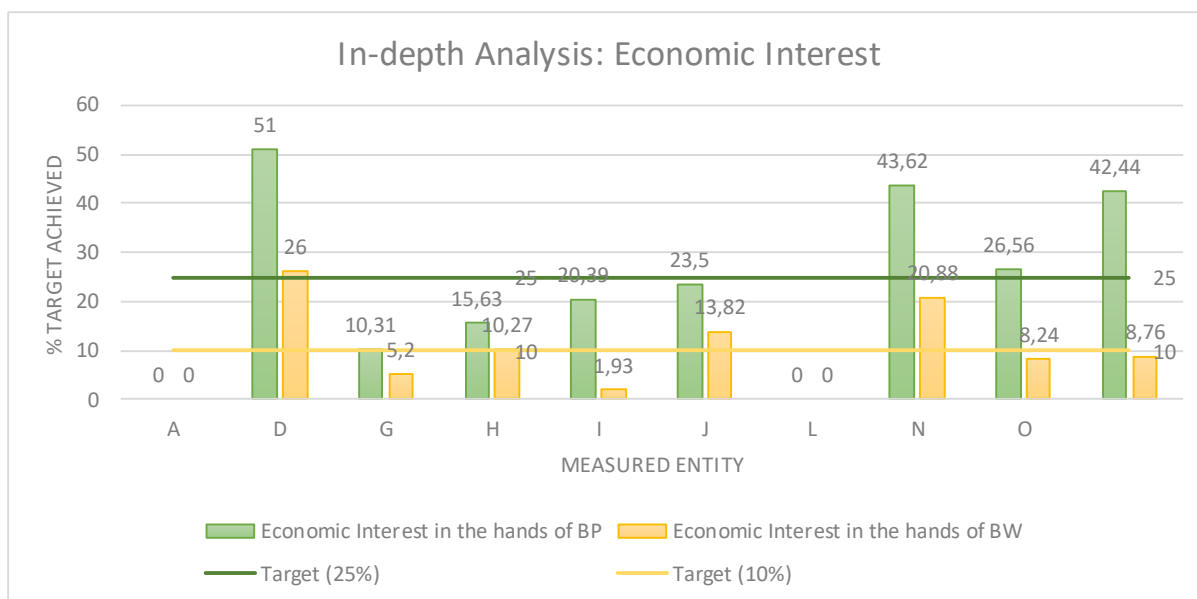


Figure 11: MLE Analysis: Economic Interest in the Hands of Black People

Four of the ten measured entities achieved or exceeded the target score for economic interest in the hands of black people. This is one more than the previous reporting year. Performance under indicator 1.2.2 - economic interest in the hands of black women improved for the current financial year. Four MLEs managed to achieve or exceed the 10% ownership target. This is up 100% from only two entities in the 2016-17 financial year.

Table 1 gives a statistical breakdown of the direct ownership profile of 18 MLEs that submitted their certificates. The average direct ownership of reporting MLEs stands at 33,09%. This is encouraging as the average for the same number of reporting MLEs in the previous year was at 20,84%. This is a 58,8% increase in black ownership for MLEs. Consider the target set in the FSC of a 30% black Ownership profile of the industry by 2030. This may serve as an indication of the sincerity and dedication the sector has shown at changing ownership patterns in the sector. The average ownership for black women stands at 10,8% which is also encouraging as it has increased from last year's 8,04%.

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

	Direct Black Ownership	Direct Black Women Ownership
Minimum	0	0
Q1	11,64	0,41
Median	29,895	8,765
Mean	33,09	10,8
Mode	0	0
Q3	43,325	19,015
Maximum	100	44,94
Standard Deviation	29,63	12,37
No. of entities scoring 0% Ownership	4	5
No. of entities scoring above 0% but below 51% Ownership	10	13

No. of 51% BO entities	1	0
No. of entities scoring above 51% but below 100% Ownership	2	0
No. of 100% BO entities	1	0
Total No. of Measured Entities	18	18

The majority of reporting MLEs have an ownership profile that lies between 0% and 51%. 10 (55%) and 13 (72%) of reporting MLEs are between 0 and 51% BO and BWO respectively. The number of MLEs reporting 0% BO and BWO has also decreased from 6 to 4 and 6 to 5 respectively for BO and BWO. This reporting period recorded the sector's first 100% BO MLE.

The third quartile (Q3) is an interesting statistical tool as it shows the number under which 75% of the data lies. 75% of MLEs have direct BO under 43.33% while 75% of MLEs have direct BWO under 19%.

Mean >> Median for both BO and BWO. This indicates that the data is skewed to the left as can be seen in Figure 12 below. This means most companies are scoring below the mean for BO and BWO which stands at 33.1% and 10.8% respectively.

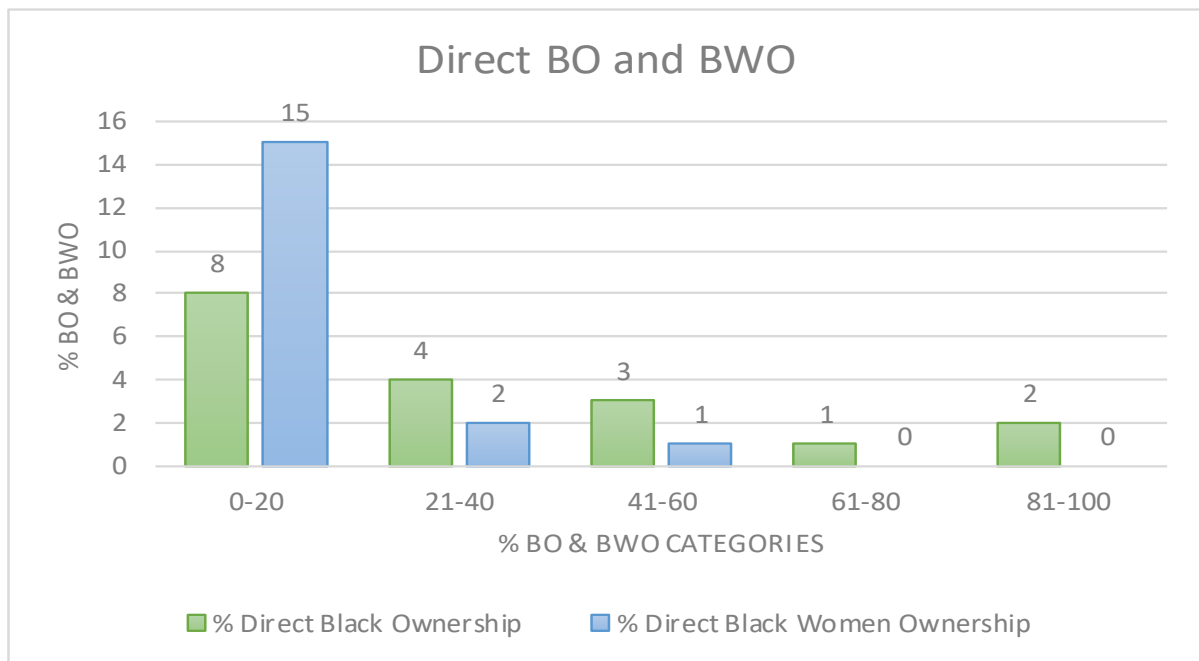


Figure 12: Distribution of BO and BWO amongst MLEs

Under the Amended FSC, three elements have been chosen as priority elements. The first of these is Ownership. Measured entities are required to attain at least 40% of the 8 net value points as allocated in indicator 1.3.1. This indicator evaluates the ability of black shareholders, who have purchased shares from the Measured Entity on credit, to service their loans. Often than not, black shareholders have suffered under ownership deals and transactions when they were not able to service their debt.

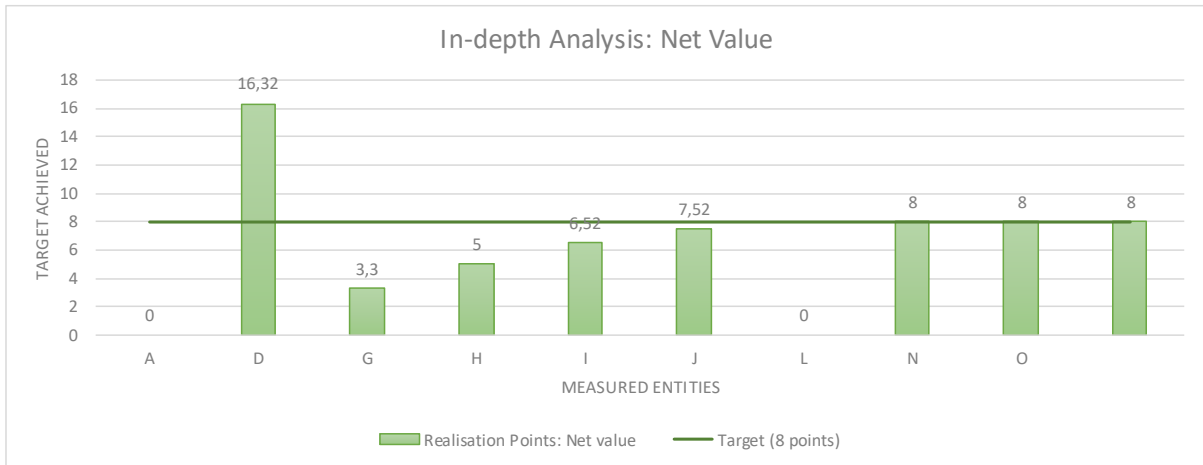


Figure 13: MLE Analysis: Net Value – Priority Indicator

Two (20%) of the ten measured entities did not meet the subminimum for this target. These entities were thus discounted under the Ownership element. It is encouraging that eight (80%) of the measured entities met the target by scoring the minimum 3,2 points (40% of 8 points) or more. Further to this, three (30%) of the entities scored 100% of the target points while one entity scored 200% of the target points. This means that black shareholders in this entity are servicing their debt twice as fast as the required rate.

5.1.2. MANAGEMENT CONTROL

Management Control and Employment Equity have been collapsed into one element in the Amended FSC. Management Control evaluates participation of black people in board and executive positions. This element also looks at participation of black people and women in the different categories of management as well as representation of people living with disabilities.

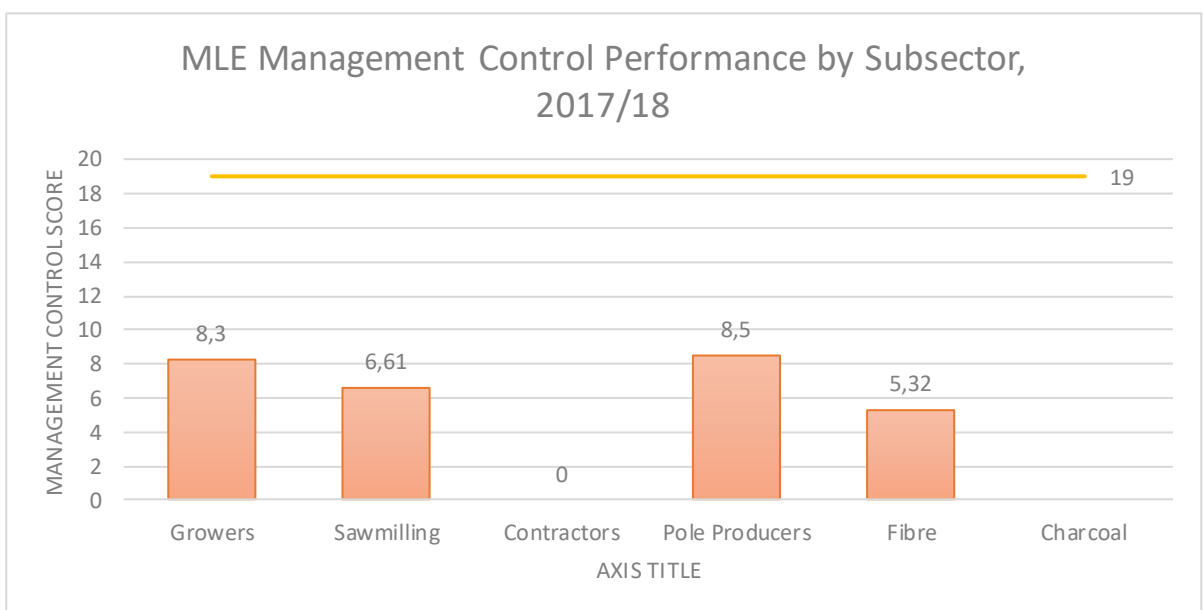


Figure 14: MLE Management Control Performance by Subsector, 2012 to 2017

Figure 14 displays the performance of MLEs in the Management Control scorecard amongst the different subsectors. Historically, Management Control performance has been poor while Employment Equity performance has been fair to good. Despite the inclusion of the Employment Equity indicators into Management Control, performance for this element remains poor in relation to the other elements.

Figure 14 exposes that Pole producers recorded the best performance scoring 8,5 points (44,7%) out of 19 target weighting points. The grower’s sub-sector followed closely behind scoring 8,3 (43,7%) of the target. None of the sub-sectors managed to achieve even 50% of the target points. This highlights the difficulties the industry faces in either placing black people in management positions or finding suitable black people to promote into management positions. Due to this trend, industry is encouraged to develop a pool of potential candidates who can be groomed into these positions

Measured entities are required to achieve a 50% and 25% compliance target for black people and black women respectively within their board structures. Board participation of black people in measured entities is vital as this is where key operational decisions are taken.

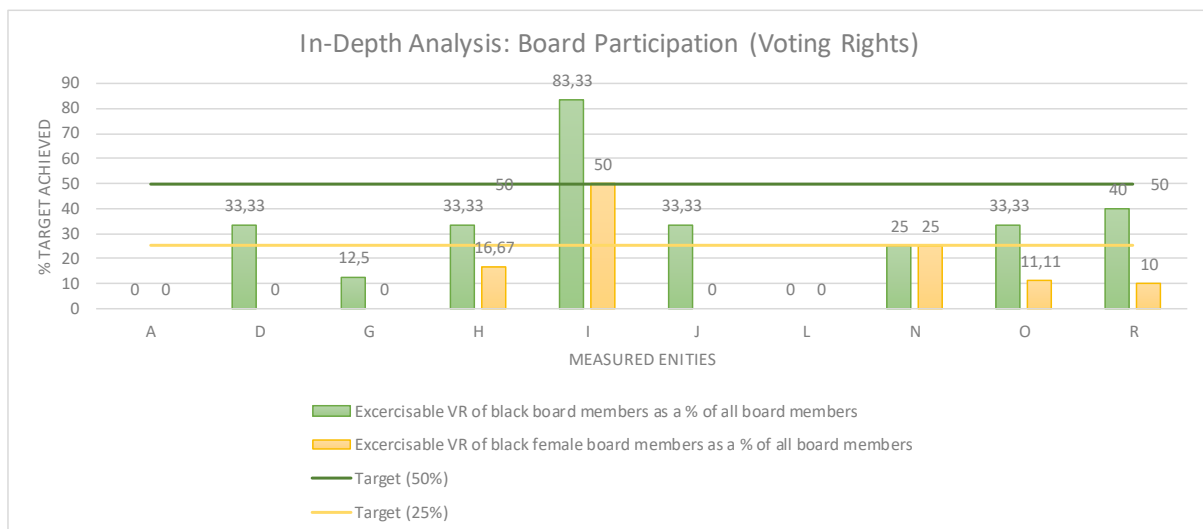


Figure 15: MLE Analysis: Board Participation by Black People through Voting Rights

Only one (10%) measured entities achieved or exceeded the 50% target, while six entities achieved at least 50% of the target. One entity that reached the board participation target for black people also reached the 25% target for black women in board participation. Women participation in Boards is still a challenge for the industry and likely so for most other sectors. It is for this reason that the B-BBEE Commission has released a statement encouraging entities to increase women participation in boards.

The extent to which black people and black women are represented in executive positions as a percentage of all executive managers is shown in Figure 16 below.

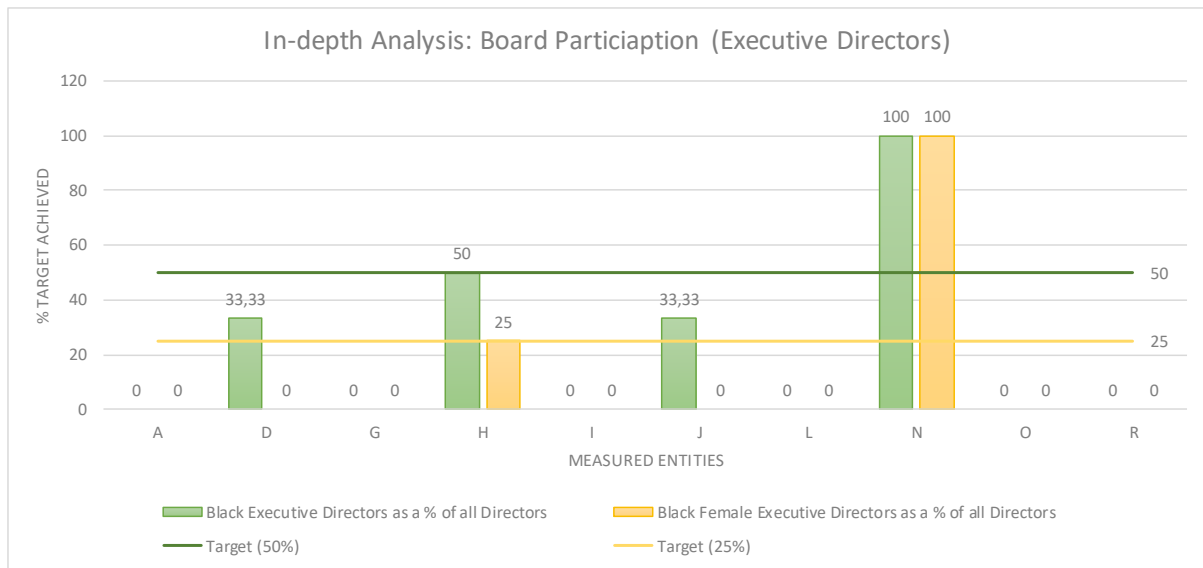


Figure 16: MLE Analysis: Board Participation by Black People through Executive Management

Only 2 (20%) measured entities achieved or exceeded the target set for black people in executive positions while 6 (60%) measured entities scored 0% for participation of black people at executive and operational levels. It is evident that the sector is facing serious challenges in implementing these indicators.

The black female participation at executive management level figures mirror those of black people, however performance in this regard is slightly poorer than it is for black males. This performance supports findings contained within the latest Employment Equity Report published by the Department of Labour.

Table 2 below is an excerpt from the Commission for Employment Equity Annual Report (2017 -2018)^{ix}.

The table illustrates the changes in the racial and gender composition of top and senior management as well as professional and technically skilled South Africans. The report evaluated over 27 000 employment equity reports representing over 7.2 million employees.

Table 2: Changes in Racial Composition in top Management Positions - South Africa (Employment Equity Report, 2017)

OCCUPATIONAL LEVEL	PERIOD	WHITE	AFRICAN	COLOURED	INDIAN	MALE	FEMALE
Top Management	2001	87%	6%	3%	4%	87%	13%
	2017	67%	14.3%	5.1%	9.4%	77.1%	22.9%
Senior Management	2001	81%	9%	5%	5%	80%	20%
	2017	56.1%	22.1%	7.7%	10.9%	66.2%	38.8%
Professionally Qualified	2001	56%	33%	6%	5%	62%	38%
	2017	36.5%	42.2%	9.6%	8.8%	53.4%	46.6%
Technical Skilled	2001	18%	58%	18%	6%	60%	40%
	2017	19.6%	61.7%	11.3%	5.6%	52.9%	47.1%

The table shows a shift in racial representation from the white population to the black population. This shift is pronounced in the top and senior management positions. The report

^{ix} DoL. 2018. COMMISSION FOR EMPLOYMENT EQUITY ANNUAL REPORT. Department of Labour Chief Directorate of Communication Private Bag X117, Pretoria, 0001

also highlights the presence of the Indian population at senior management and top management positions. This is noteworthy as the Indian population makes up just 2.5% of SA's population versus the almost 80% black population. The report thus highlighted that growth in black representation in top and senior management is not proportional to the country's racial demographics.

White representation at top management levels has declined by 20% from 2001 to 2017. However, the white population still makes up the majority in these positions. This trend can be seen in the Forest Sector through their B-BBEE scorecards and in other sectors.

Professional qualification amongst the black group have risen from 33% to 42.2% from 2001 to 2017. The same trend can be observed in the number of technically skilled black people which has risen from 58% to 61,7% since 2001. This may be due to increased access to higher forms of formal education and training by black people or it may be a result of the Skills Development Act and the B-BBEE Amendment Act.

Female representation in all management positions has risen considerably from 2001 but numbers are still skewed in favour of males. This shows that transformation initiatives heavily favour black males over black females despite the emphasis on women empowerment in the Employment Equity Act as well as the B-BBEE programme.

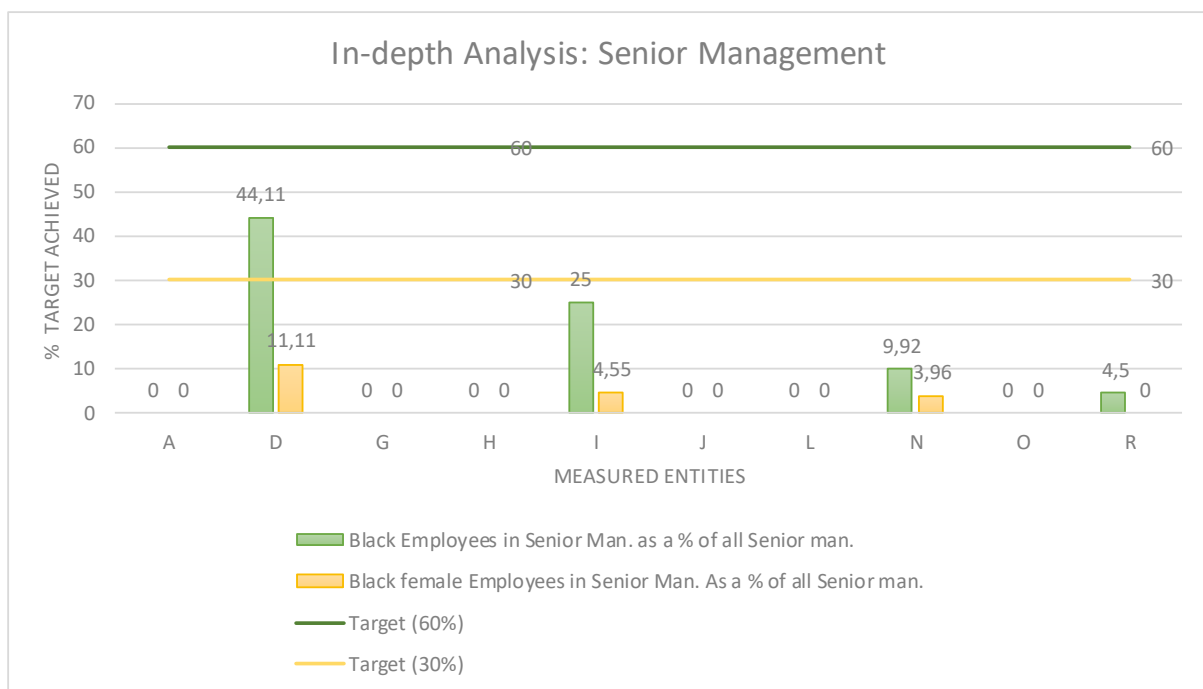


Figure 17: MLE Analysis: Senior Management

Figure 17 reveals that none of the measured entities reached the target for 60% black representation at senior management. This performance is mirrored by black women representation at senior management level too. One (10%) measured entity managed to reach at least 50% of the black people in senior management target while none of the entities reached the 50% mark for black women in senior management. These results not only mirror the employment equity report but are slightly poorer for MLEs operating in the Forest Sector.

MLEs are required to achieve 75% black and 38% black women representation at middle management respectively. This is where entities are expected to effectively implement their

succession plans in preparation for promotion of black people into senior management and other top executive positions.

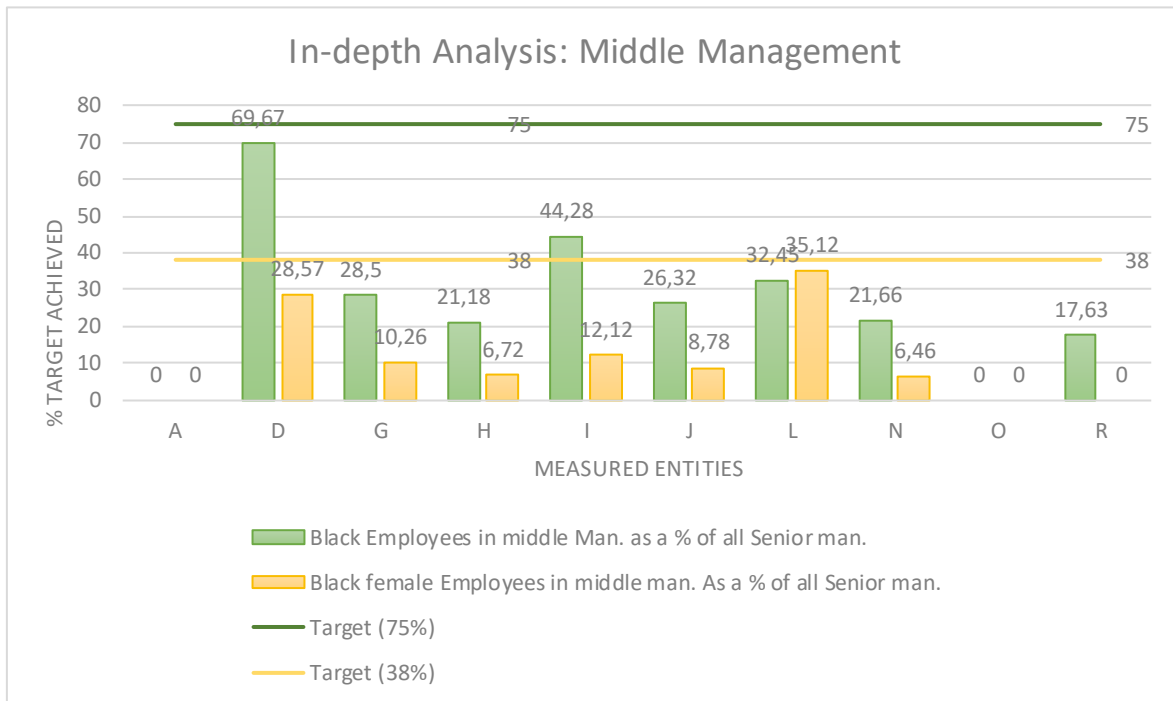


Figure 18: MLE Analysis: Middle Management

One (10%) measured entity achieved above 88% of the target while the next best performing entity scored 59% of the target. The remaining entities all recorded scores far below 50% of the target. Two (18%) entities did not score any points for this indicator as opposed to 6 under senior management.

The performance for black females in middle management positions was slightly poorer than that for black people. Two (20%) entities achieved more than 50% of the target. A further 3 (30%) of the measured entities had no black females in middle management while the remaining 5 entities performed poorly.

The compliance target for black people in junior management has increased to 88% for black people and 44% for black females. This is to ensure that the measured entities include this group in managerial structures in order to feed into the enterprises long term management plan.

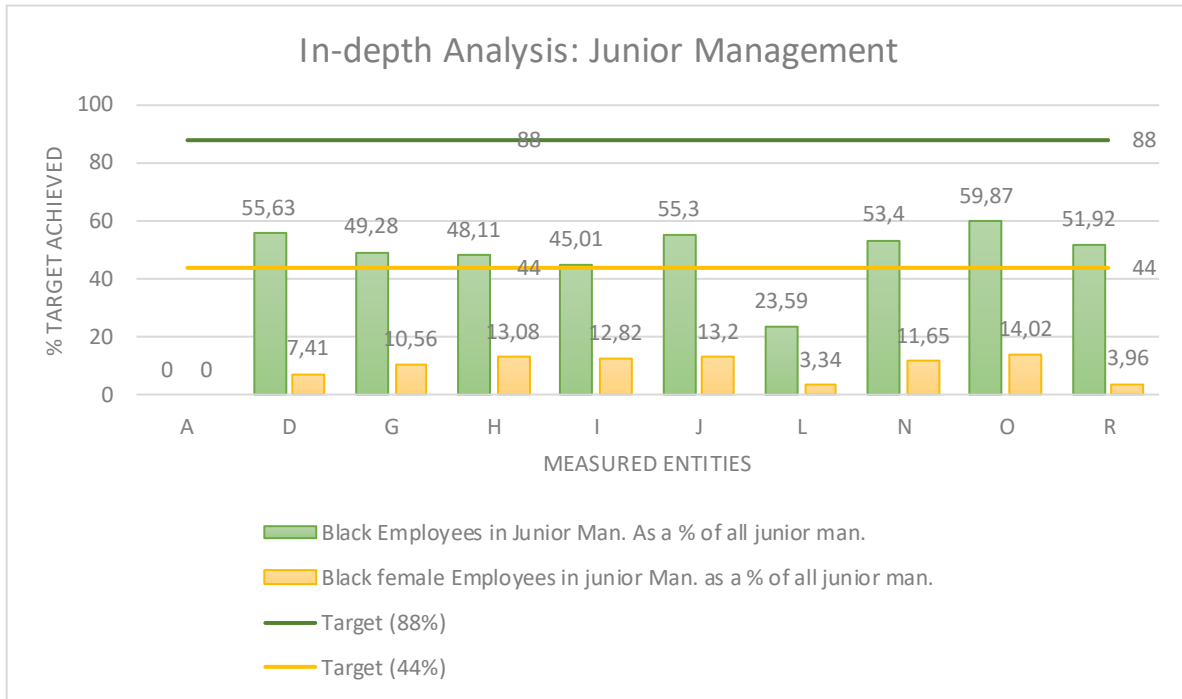


Figure 19: MLE Analysis: Junior Management

Only one entity did not score any points for black people in junior management as reflected in Figure 19. Eight (80%) of the measured entities scored at least 50% of the target. However, no measured entity achieved the full target score for this indicator. Performance for black females in junior management was inferior with only one entity reaching 50% of the target.

Performance under this indicator is superior to the other Management Control elements. A trend seems to materialise where black representation in management decreases with seniority. This may be interpreted in a number of ways but a more thorough analysis including a survey of recruiters and HR in the sector would be better suited to answer these questions.

Figure 20 displays forestry organisations employing persons living with disabilities. The target for disabled employees has been set to 2% in the Amended FSC. The nature of forestry work is physically intensive, therefore the Amended FSC specify that disabled employees must be office based.

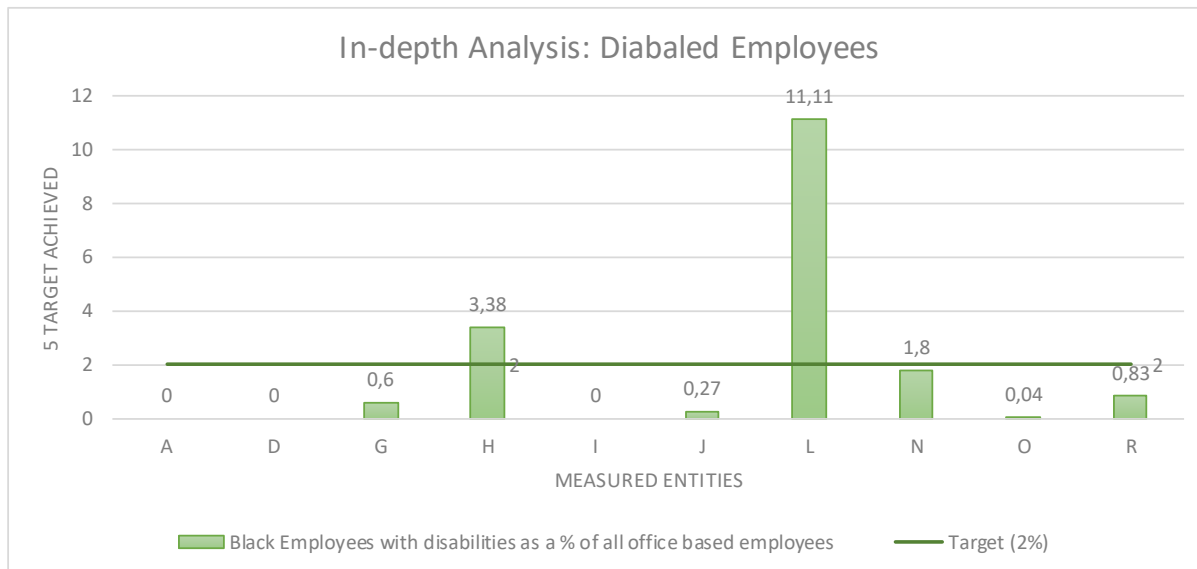


Figure 20: MLE Analysis: Disabled Employees

Previously, MLEs averaged 0.54% representation of disabled employees as a percentage of all employees. This number has risen positively in the current reporting year to 1.7% representation of disabled. Figure 20 reveals that two entities (20%) surpassed the target for this indicator while a further 5 (50%) entities indicated that they had disabled employees represented in their organisations however minimal. This increase is justified as 9 out of 11 (81,8%) companies had no disabled employees in their businesses in the previous reporting year. This increase may also be attributed to the fact that the Codes now focus on employees who are office based.

5.1.3. SKILLS DEVELOPMENT

There has been debate in media of South Africa's skills deficit for a number of years. A study by ADVTECH through a 2016 LinkedIn survey was used to identify the top skills that employers are targeting. Amongst a number of IT and data mining related skills; management, engineering and sales featured in the top six.

The FP&M Seta which covers sectors such as forestry, furniture, packaging, printing and pulp and paper has compiled a Sector Skills Update Report^x. Through submission of Workplace Skills Plans from entities operating in their sectors, the following observations were made by the FP&M Seta:

- Forestry sub-sector employs more people in elementary occupations (64%) than other sectors;
- The paper and pulp sub-sector have high representativity of plant and machine operators and assemblers (34%) followed by elementary occupations with a representativity of 20%;
- Occupations that are hard to fill: mid-to-high level, technical occupations such as plant and machine operators, machine assemblers, machine mechanics, coded welders, technologists and technicians.

^x FP&M Seta. 2015. Sector Skills: Update 2015 – 2020.

- In forestry, about 90% of the workforce is low skilled and in some cases illiterate in occupations such as planters and basic fire-fighting.

The report has listed the following reasons for high turnover and hard to fill occupations:

- Low wages in the sector rendering some occupations less attractive to young people;
- Technological improvement in the sector requiring a new skill set;
- Industry trends creating new pressures for employers in the sector to operate differently;
- Lack of immediate skills to replace an ageing and experienced workforce;
- Need for multi-skilled people to perform functions that were previously filled by people without multiple skills;
- Graduates lacking the requisite basic skills to function.

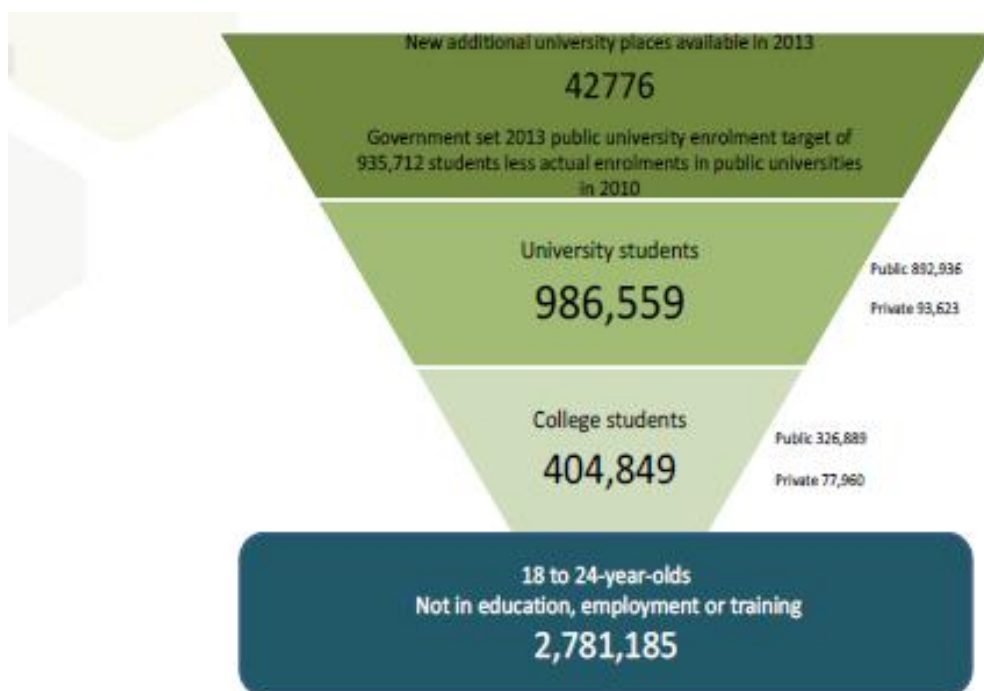


Figure 21: An inverted training and education pyramid

Figure 21 reveals the inverted nature of the skills development system in South Africa. This means that more learners enrol in universities and universities of technology than TVET colleges. This becomes problematic as skills development is limited in the mid-to-higher level bands of the NQF. These are some of the more highly sought-after scarce & critical skills identified by the FP&M Seta.^x

The need for mid-to-higher level NQF skills in the forest sector is addressed by the B-BBEE sector codes mainly through the skills development element. A substantial amount of credited and unaccredited training takes place in-house, on the factory floors of manufacturers of wood products, printing, pulp & paper and other industries.^x Measured entities can claim points under the Skills Development element for these training initiatives through internships, apprenticeships and learnerships as detailed in the training matrix. Bonus points are awarded to entities who absorb learners at the end of learnership programmes.

Skills Development has been made a priority element. This should work well for the industry as previously the sector was struggling to perform well under this element. The Amended FSC have increased the target points for this element from 15 to 20 (+ 5 bonus points). This increase is a result of the inclusion of an indicator aimed at placing unemployed black learners in learnerships, apprenticeships and internships.

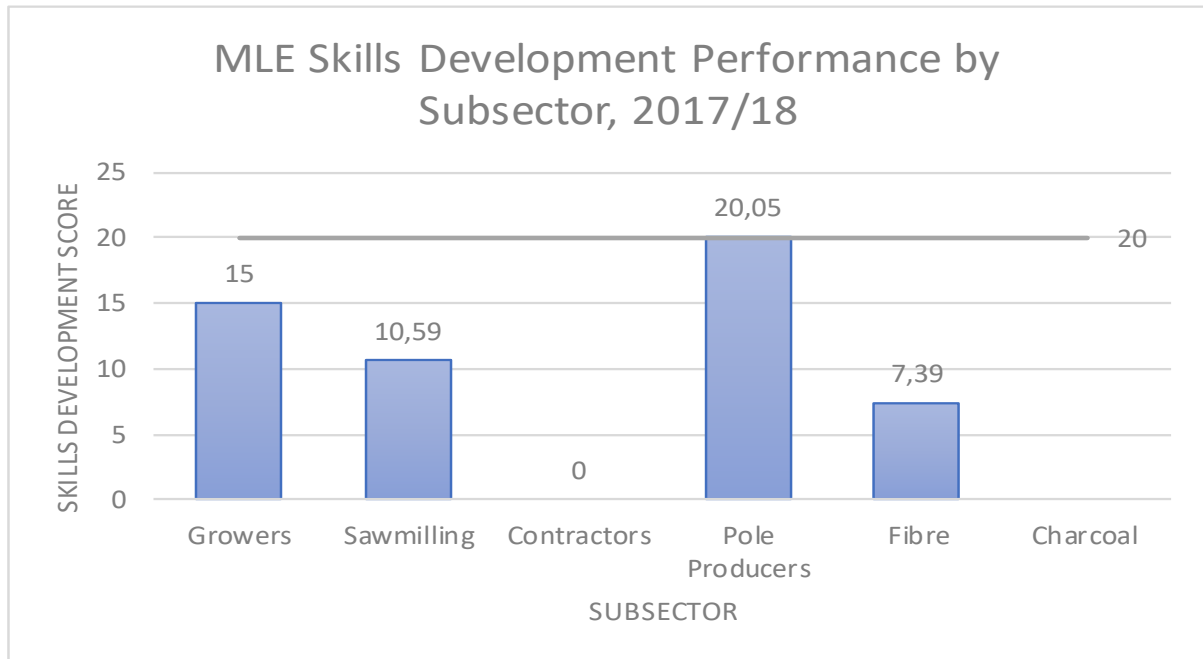


Figure 22: MLE Skills Development Performance by Subsector, 2012 to 2018

Figure 22 demonstrates the overall performance of MLEs by sub-sector on Skills Development. Pole producers once again recorded the highest score exceeding the target points. This means that some entities in this sub-sector received bonus points for absorbing black people after training them. The growers and sawmilling sub-sectors each managed to surpass 50% of the target while the fibre sub-sector achieved 37% towards the target. Only 1 non-compliant contractor submitted a report.

MLEs are required to spend a portion of their wage or salaries on skills development programmes specified in the Learning Programme Matrix on black people (indicator 3.1.1.1) and black people living with disabilities (indicator 3.1.1.2). The targets for these indicators are set at 5% and 0.3% respectively.

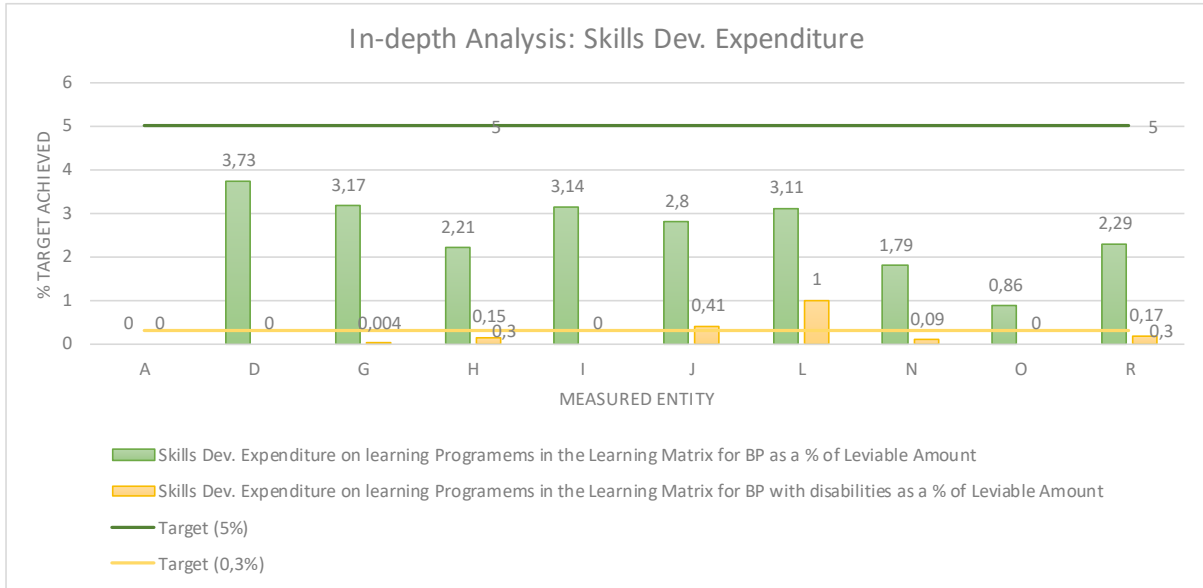


Figure 23: MLE Analysis: Skills Development Spend

Figure 23 shows that only one entity did not score any points for indicator 3.1.1.1. Five (50%) entities achieved or exceeded 50% of the target. The performance for indicator 3.1.1.2 is much poorer with four (40%) entities scoring no points. However, two entities achieved the full target.

Measured entities are required to skill employees by placing them in learnerships, apprenticeships and internships. At least 2,5% of these employees must be black. Additionally, 2,5% of unemployed learners participating in the above programmes should also be black.

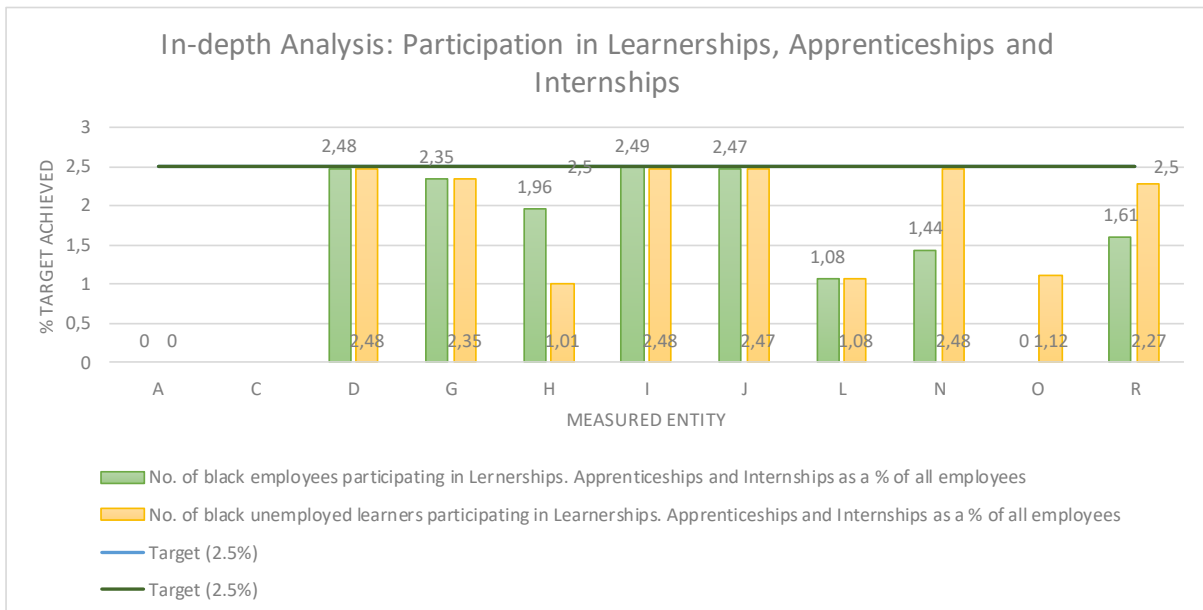


Figure 24: MLE Analysis: Participation in Learnerships, Apprenticeships and Internships

It appears MLEs performed relatively well in this element with 7 (70%) of MLEs achieving above 50% or more of the target. A further 6 (60%) of MLEs achieved 50% or more of the target for placing unemployed black people in these programmes. This good performance is evidenced in Figure 24 where only 2 entities did not score any points.

A new and innovative addition to the Skills Development element is the inclusion of the absorption indicator. MLEs may gain 5 bonus points if they absorb 100% of the unemployed learners they trained.

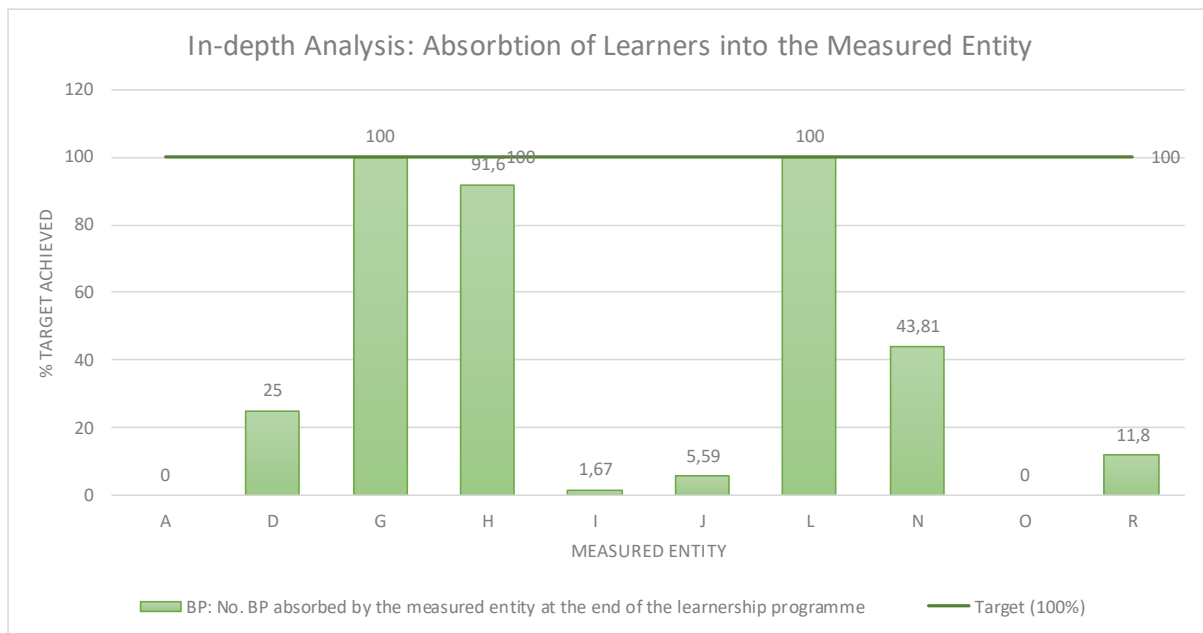


Figure 25: MLE Analysis: Absorption of Learners into Measured Entity

Two (20%) entities managed to absorb 100% of their unemployed learners while a further three (30%) entities achieved over 25% of this target with one entity scoring almost reaching the 100% target. Only two entities out of 10 (20%) did not score any points on this indicator. This shows that the absorption criteria are a step in the right direction and will possibly have a positive impact on the unemployment crisis.

Skills development is the third of the three prioritised elements. Measured entities are thus expected to score at least 8 points out of 20 to avoid discounting.

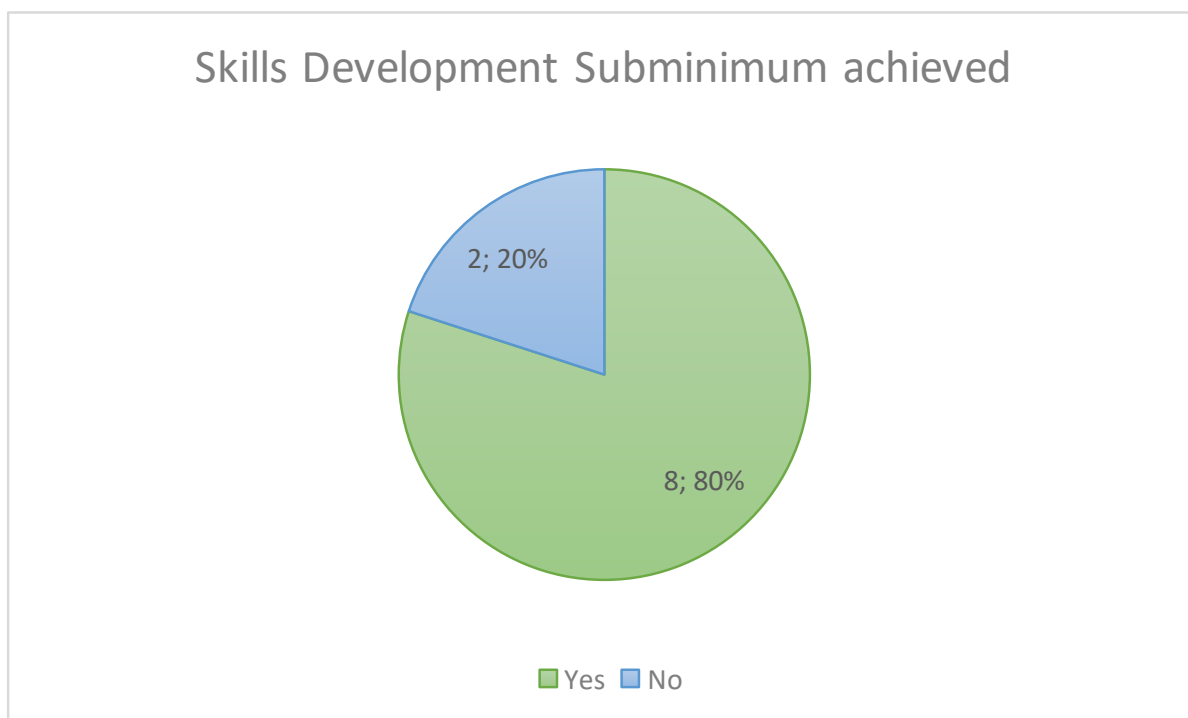


Figure 26: Skills Development Subminimum Performance

Two (20%) measured entities did not achieve the subminimum under the Skills Development priority element as indicated in Figure 26 above. One of these entities was already discounted under the Ownership element. This brings the total number of discounted entities to 3 out of the 10 MLEs that submitted their underlying reports.

5.1.4. ENTERPRISE & SUPPLIER DEVELOPMENT (ESD)

Preferential Procurement and Enterprise Development have been collapsed into one element under the Amended FSC to give Enterprise & Supplier Development. An additional principle of Supplier Development has been introduced to ensure sustainable and economic growth of black businesses and their entry into the forestry value chain. Companies are further encouraged to align their ED and SD activities with their existing supply chains.

In the preferential procurement section of the ESD scorecard, measured entities are required to allocate a portion of their procurement spend to the following groups:

- Empowering Suppliers based on their B-BBEE recognition level
- Empowering Suppliers that QSEs
- EME suppliers
- Empowering Suppliers that are 51% BO and 30% BWO
- Suppliers that are 51% BO and fall under any of the designated group categories.

A great deal of emphasis is placed on procuring from suppliers with a good B-BBEE rating with a target set at 80% of all procurement. The importance of buying from 51% BO entities is also stressed with the target set at 40% of all procurement. Bonus points are awarded for entities who comply with the Industry Codes of Good Conduct on Contracting. The preferential procurement sub-element of the ESD Scorecard is weighted at 23 (+2 bonus points). This makes it worth more than 50% of the total weighting points of the ESD element. This highlights the importance of procurement as a tool to promote B-BBEE.

Figure 27 below indicates the performance by sub-sector for Enterprise & Supplier Development.

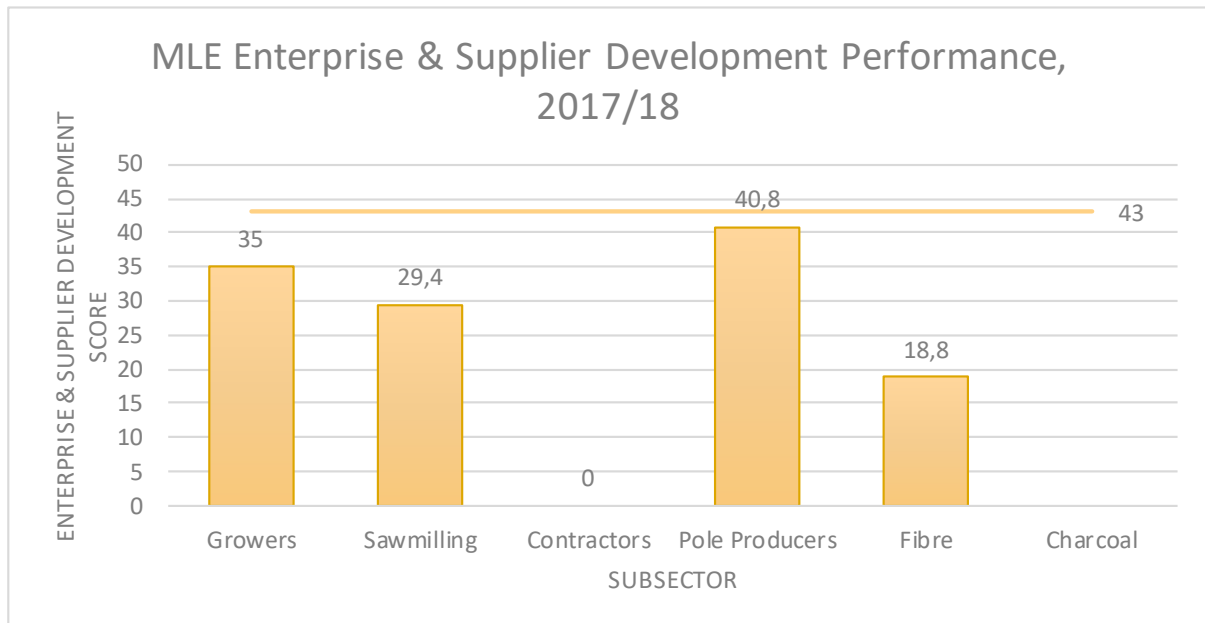


Figure 27: MLE Enterprise & Supplier Development Performance by Subsector, 2012 - 2017

Pole producers achieved almost 100% of the target weighting point scoring an average 40,8 points out of 43. The growers and sawmilling sub-sectors performed well achieving 80% and 68% of the target respectively.

Figure 28 below is a graphic representation of the Preferential Procurement scores for 10 entities. The target points for this indicator have increased from 70% to 80% in the Amended FSC.

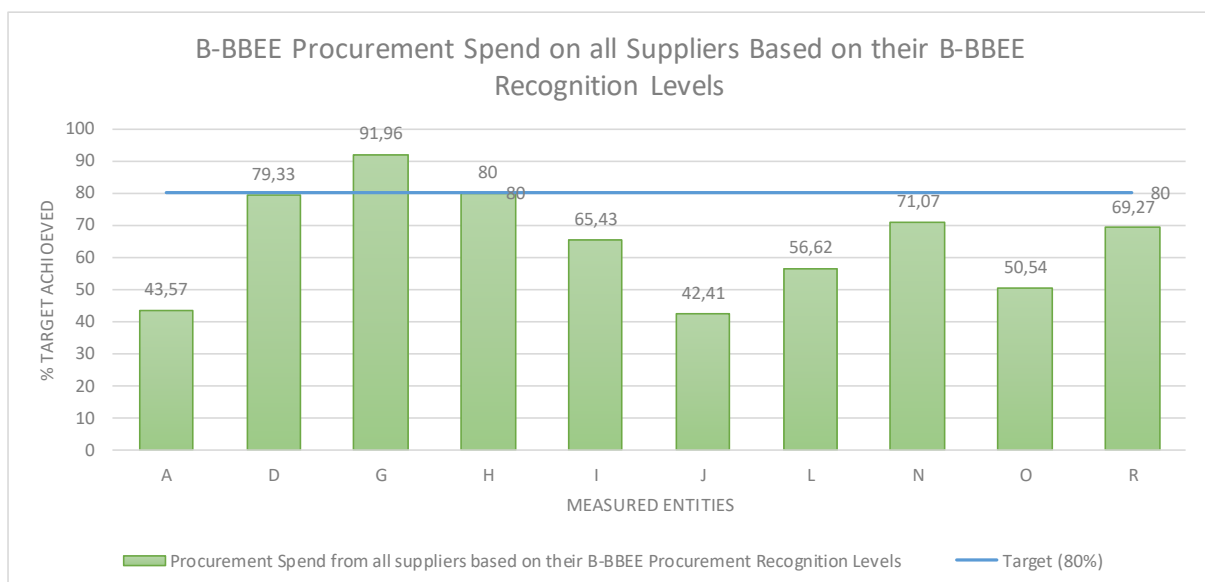


Figure 28: MLE Analysis: Procurement Spend on all Suppliers based on their Recognition Levels

Observing Figure 28, all measured entities managed to score at least 50% of the target. Two (20%) entities exceeded the target while 5 (50%) achieved more than 80% of the target. The

number of entities achieving the target has dropped from 9/11 to 2/10 in this reporting year. This may be due to the increase in the overall target weighting points.

MLEs are awarded points for procurement from QSEs and EMEs. Both these indicators are set a 15% compliance target. The importance of these indicators lies in that SMMEs are the life source of South Africa’s economy and often the first entry point into the economy for marginalised groups. Procurement from QSEs and EMEs gives these entities entry into the forestry economy as well as much needed consistent income to sustain their operations.

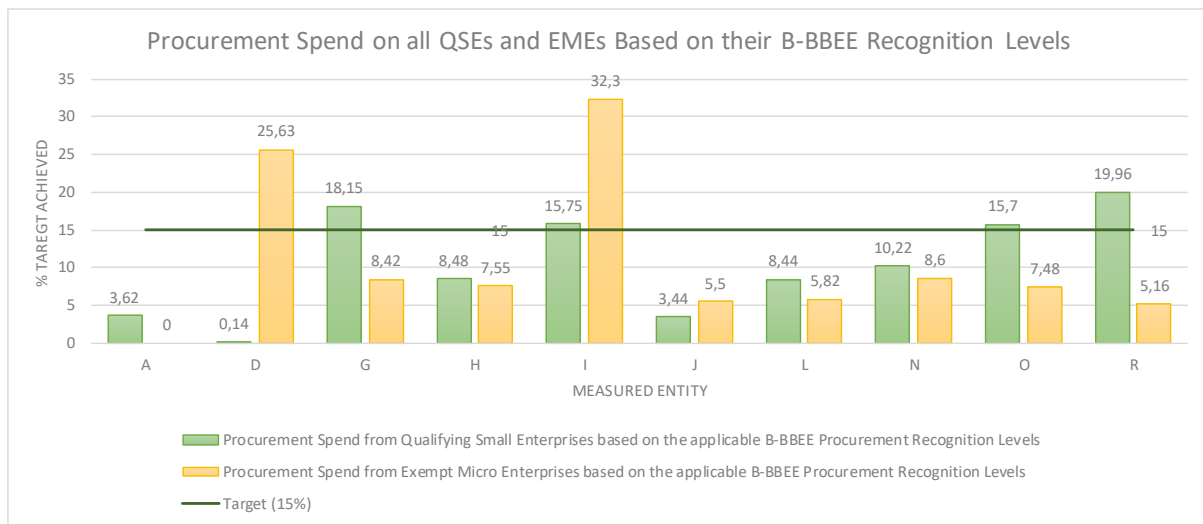


Figure 29: MLE Analysis: Procurement Spend on QSEs and EMEs

Four (40%) entities reached or exceeded the target for procurement from QSEs. A further three (30%) entities surpassed 50% of the target mark. Two companies performed poorly scoring less than 22% and 1% of the target respectively.

Figure 29 reveals that more entities are reaching the target for procurement from QSEs than for procurement from EMEs. Two (20%) entities exceeded the target for procuring from EMEs. Additionally, three entities reached the 50% of the target mark. Procurement from EMEs may be lower because EMEs may not have the resources to supply MLEs with the quantities and quality the MLE may require. However, this can only be speculated.

It is encouraging to see that few entities were non-compliant with regards to procurement from smaller entities but more work needs to be done especially for EMEs.

It is apparent that the Amended FSC have placed great importance on procurement from 51% BO businesses with the target set at 40%. However, measured entities are failing to reach this target with the highest scoring entity only reaching 79% of the target for procurement from 51% BO entities. Figure 30 further indicates that only one entity was non-compliant under this element with the average score for the MLE group reaching 18% (45% of the target).

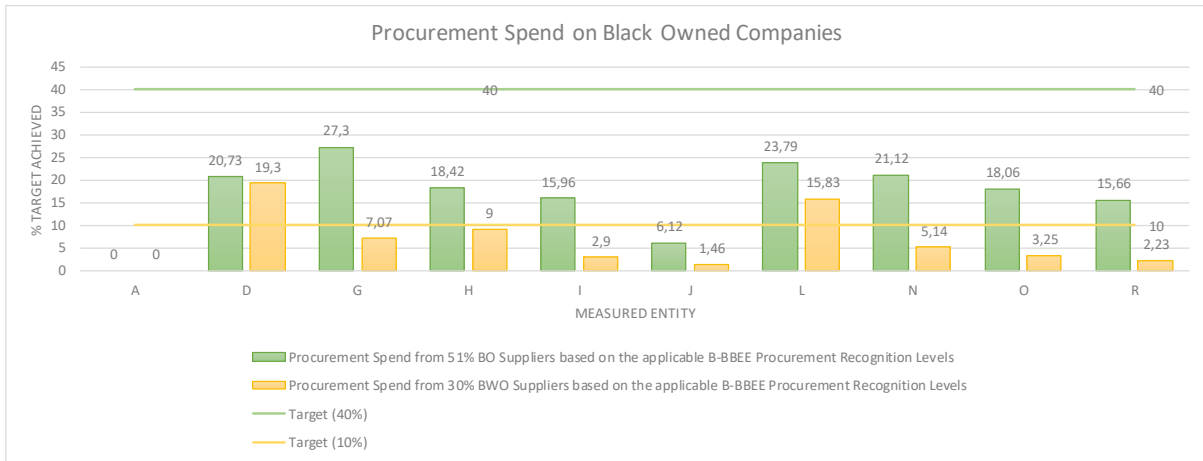


Figure 30: MLE Analysis: Procurement Spend on BO and BWO Enterprises.

Figure 30 shows that the target for 30% BWO appears to be more attainable with two (20%) measured entities achieving the full target points for this indicator. This is in comparison to the target for procurement from 51% BO businesses where no enterprises reached the target. However, the target for procurement from BWO enterprises is considerably lower, making the target more attainable.

Supplier Development is a new concept and addition to the ESD element. It aims to promote the support of entities operating within the value chains of measured entities by encouraging contributions to their development. MLEs are required to spend at least 2% of their net profit after tax (NPAT) on Supplier Development contributions. The Amended FSC gives a list of non-exhaustive qualifying contributions towards ESD. This is to ensure that the contributions are impactful to the sustainability of the created enterprises.

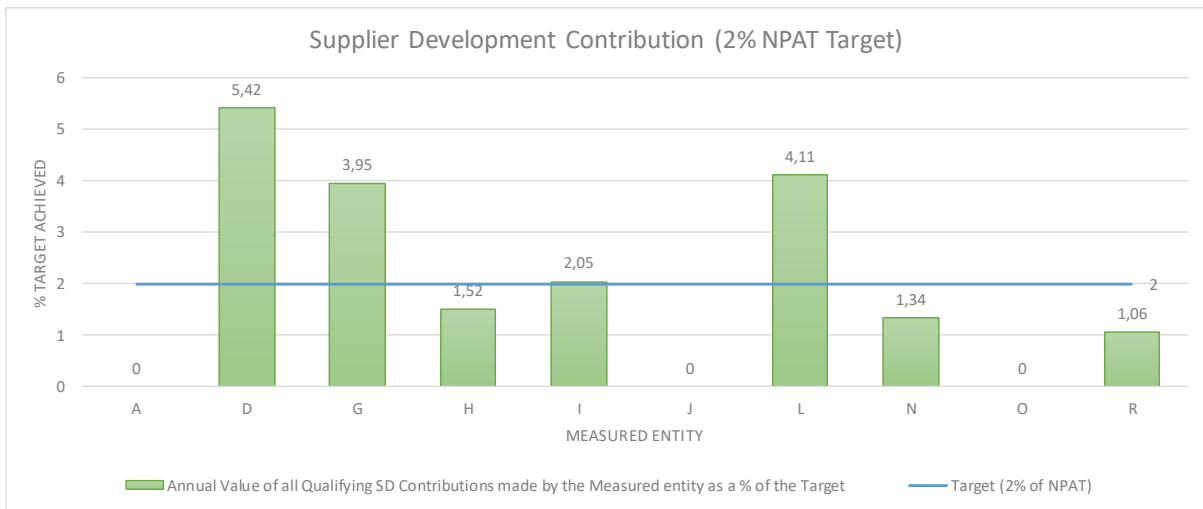


Figure 31: MLE Analysis: Supplier Development

Only three (30%) entities were non-compliant under this indicator as indicated in figure 31 above. Four (40%) measured entities reached or exceeded the target. The remaining three entities managed to achieve at least 50% of the target. As this indicator is a new addition under the Amended FSC, it is encouraging to see that MLEs are taking its implementation seriously.

Enterprise Development is an integral part of the FSC scorecard as it aims to address the country’s SMME challenges. This element was previously worth 12 points and is now worth 10 points. It is interesting to note that measured entities may choose to be assessed on their activities generating the highest turnover and thus compliance to some indicators under this element would not be required. For instance, growers and sawmillers are required to set aside a portion of their timber and sawlog sales to B-BBEE compliant and 51% BO and 30% BWO entities. Of the ten reporting entities, only two (18%) chose to be assessed on their timber and sawlog sales. Considering the difficulties smaller entities in the sector face in gaining access to timber, it is unfortunate that entities do not report on these additional indicators.

The ED performance of MLEs is shown in figure 32 below. MLEs are required to spend at least 1% of their NPAT on Enterprise Development activities.

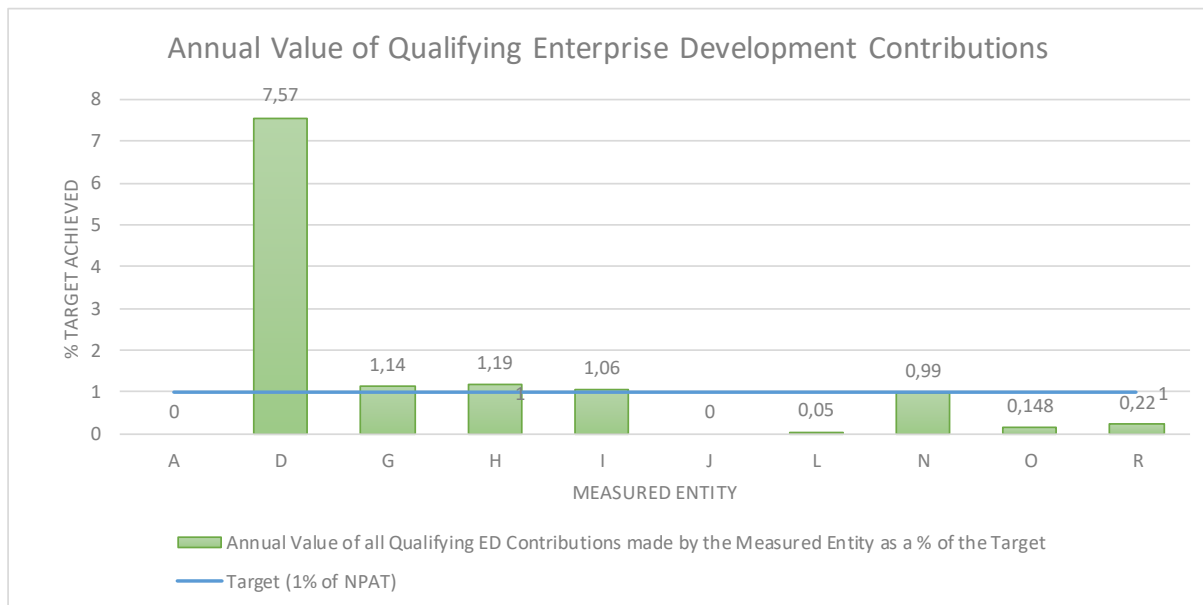


Figure 32: MLE Analysis: Enterprise Development

Four (40%) of the measured entities succeeded in reaching or surpassing the target points in this element. Only two (20%) entities were non-compliant while the remaining entities (4) scored between 5% and 99% of the target.

Figure 33 shows an interesting new addition to the ESD scorecard. MLEs are now required to not only support SMMEs but to ensure that their operations are sustainable enough to graduate them into suppliers for the measured entity. This guarantees the SMME steady income as well as longevity considering the high failure rate of SMMEs in the country.

BP: Graduation of one or more Qualifying ED Beneficiaries to SD level

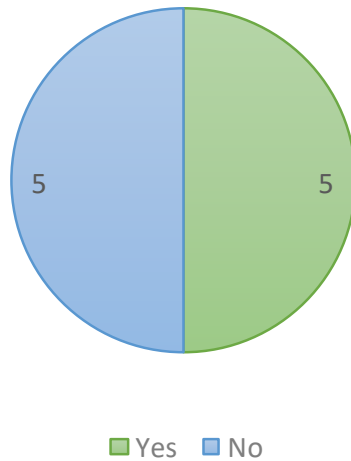


Figure 33: MLE Analysis: Bonus Points – Graduation of 1 or more Enterprise Development Beneficiaries to Supplier Level

Figure 33 reveals that five (50%) entities received a bonus point for graduating one or more of their ED beneficiaries to SD level. Of these entities, three (30%) had achieved or exceeded the 1% NPAT spend on ED activities.

MLEs are required to comply with at least 40% of each of the categories under the ESD element. In Preferential Procurement, an entity will have to score 9.2 minimum points of the total 23 points. Figure 34 below shows how entities have performed in this regard.

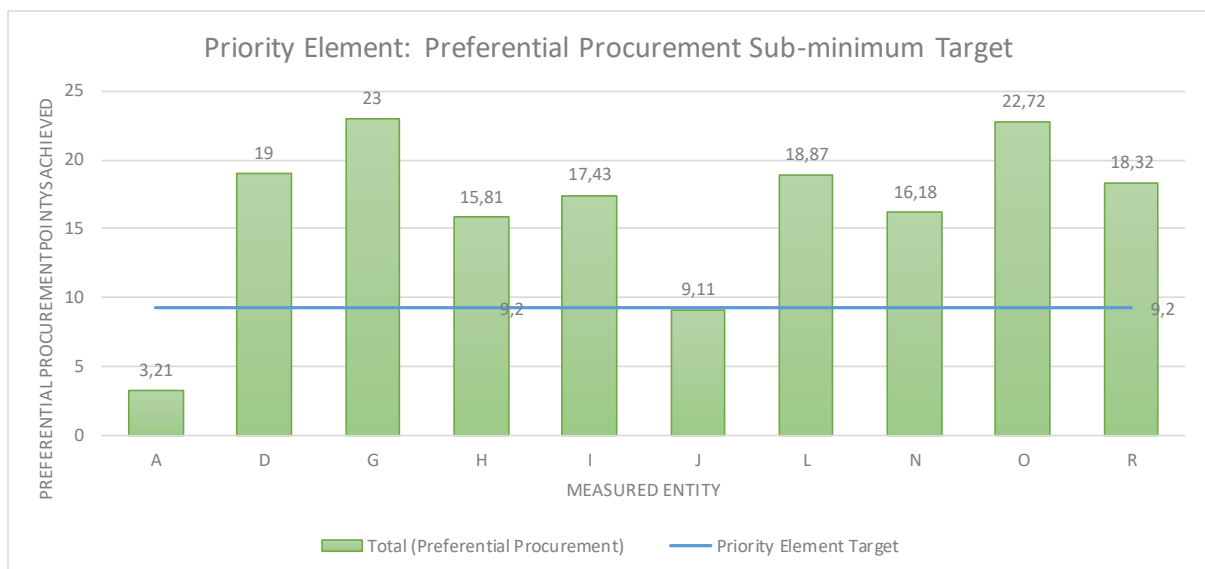


Figure 34: MLE Analysis: Priority Element (Preferential Procurement) Subminimum Performance

Only two (20%) entities were discounted under the Preferential Procurement scorecard. One of these entities was already discounted under Ownership and Skills Development. The other discounted entity missed compliance narrowly but had already been discounted under

the Ownership element. The remaining 8 (80%) entities scored at least 9,2 points or more for preferential procurement. This allowed them to avoid discounting under Preferential Procurement. However, these entities are still subject to discounting if they do not meet the subminimum under SD and ED.

5.1.5. SOCIO-ECONOMIC DEVELOPMENT

Socio-Economic Development (SED) forms one of five scorecard elements. Socio-Economic Development allows companies to give back to the communities and societies within which they operate. SED contributions can be monetary or non-monetary and must provide sustainable access to the economy for the beneficiary in short or long-term.

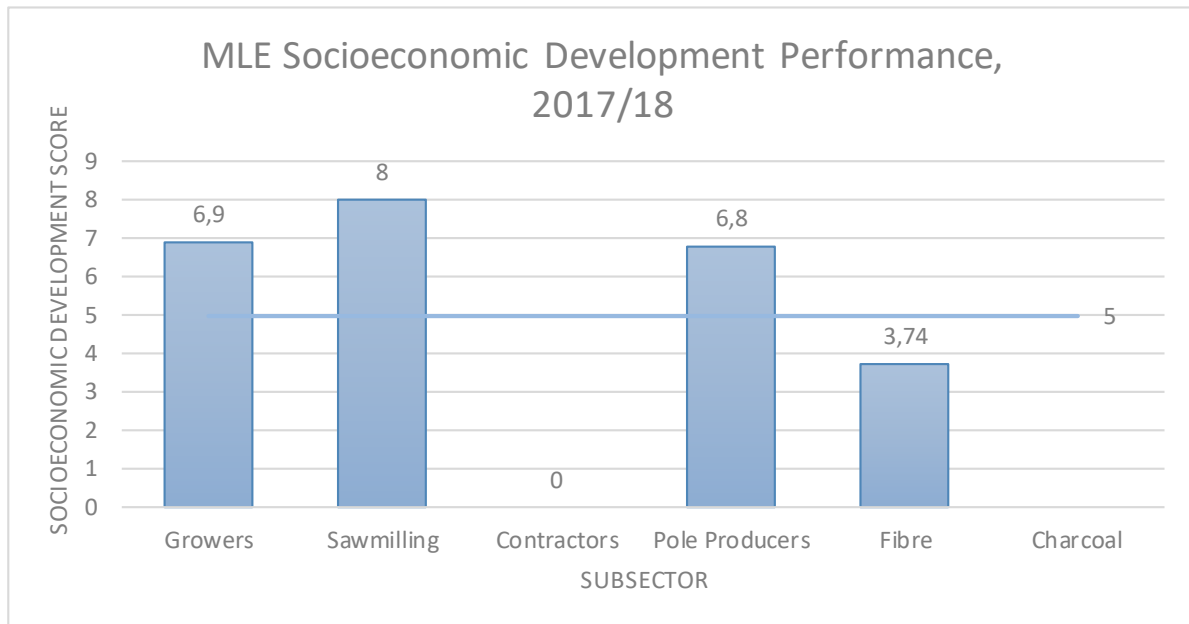


Figure 35: MLE Socio-Economic Development Performance by Subsector, 2012 to 2018

MLEs continue to perform well under this element by exceeding the set target as shown in Figure 35 above. The fibre sub-sector performance was weighed down by the new submission from a non-compliant entity. The sawmilling sub-sector recorded the highest performance scoring the full 8 points which include 3 bonus points for spending more than the prescribed 1% NPAT on SED activities. Growers and pole producers performed well exceeding the target while contactors were non-complaint.

Figure 36 below shows the performance of 10 MLEs under the SED indicator.

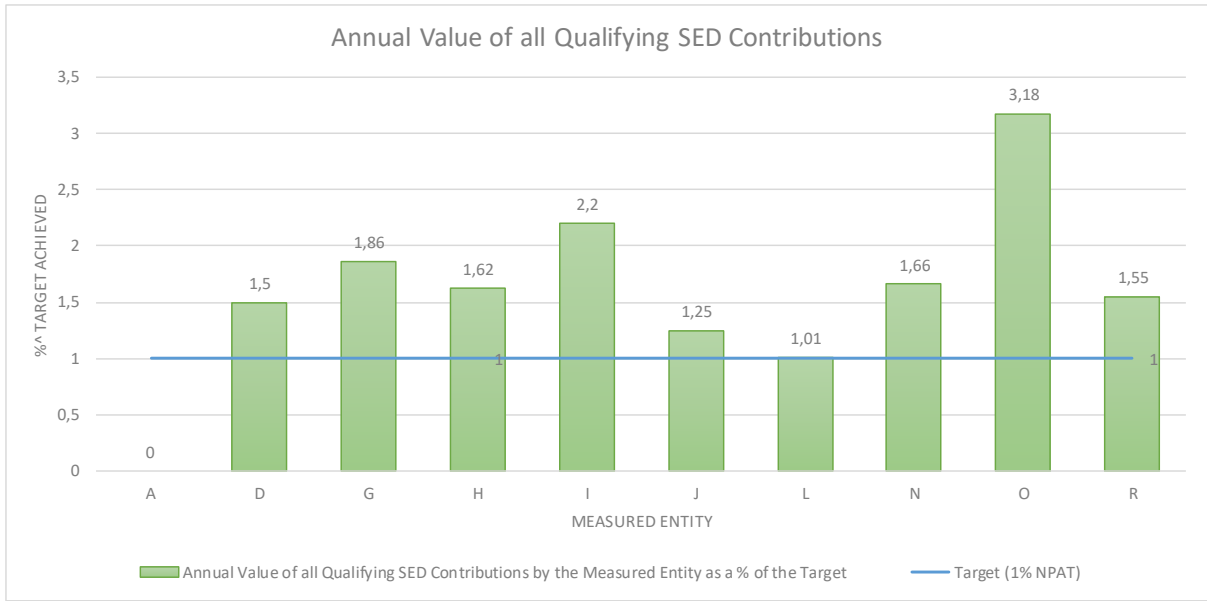


Figure 36: MLE Analysis: Socio-Economic Development Contributions as a % of NPAT

Ninety percent of measured entities achieved or exceeded the target for SED. Only 1 (10%) out of 10 entities did not make any SED contributions. This is also a new reporting MLE. It is anticipated that as this entity continues reporting, its score will improve.

Figure 37 below shows how many MLEs are achieving bonus points for spending over and above their 1% NPAT requirement on SED Contributions.

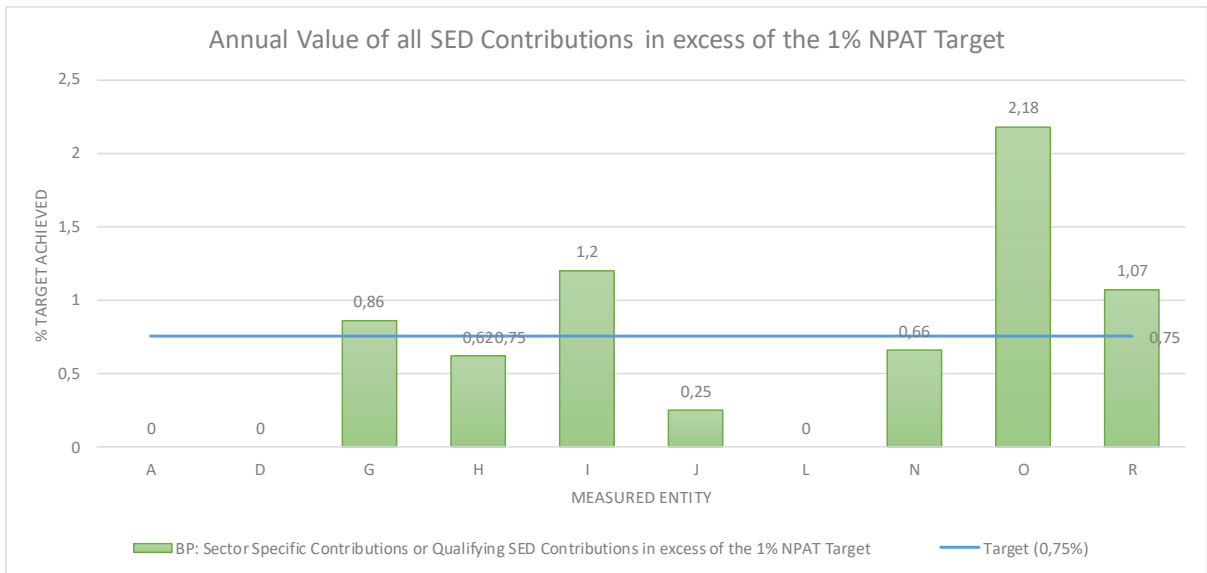


Figure 37: MLE Analysis: Annual value of all SED Contribution's in excess of the 1% NPAT

Seven (70%) out of 10 reporting entities spent more than their required 1% NPAT contribution for this element. Through the FSCC's Community Outreach Programme and CEO visits, it is apparent that the contributions that measured entities are making are changing and uplifting communities' lives for the better. Such initiatives must be highly acknowledged.

5.2. QUALIFYING SMALL ENTERPRISES (QSE) ANALYSIS



A measured entity with a total revenue between R10 million and R50 million will now be considered a Qualifying Small Enterprise under the Amended FSC. Formerly, QSEs were those entities with an annual turnover between R5 million and R35 million.

QSEs are measured using the QSE scorecard which is similar to the MLE Scorecard. These enterprises no longer enjoy the option of choosing any four of seven elements to be assessed on as they did with the repealed FSC. However, QSEs may qualify for enhanced B-BBEE recognition if they are 51% or 100% BO. These enhanced QSEs are required to obtain a sworn affidavit on an annual basis confirming the measured entity's total annual revenue of R50 million or less; level of black ownership; and empowering supplier status (though for now this status is automatic for all entities irrespective of company size). Enhanced QSEs may also choose to become verified using the QSE scorecard if they wish to enhance their B-BBEE rating further.

Figure 38 below provides an overview of the number of certificates received from QSEs for the current and previous reporting years. The number of certificates received have steadily declined from a high of 22 in 2015.

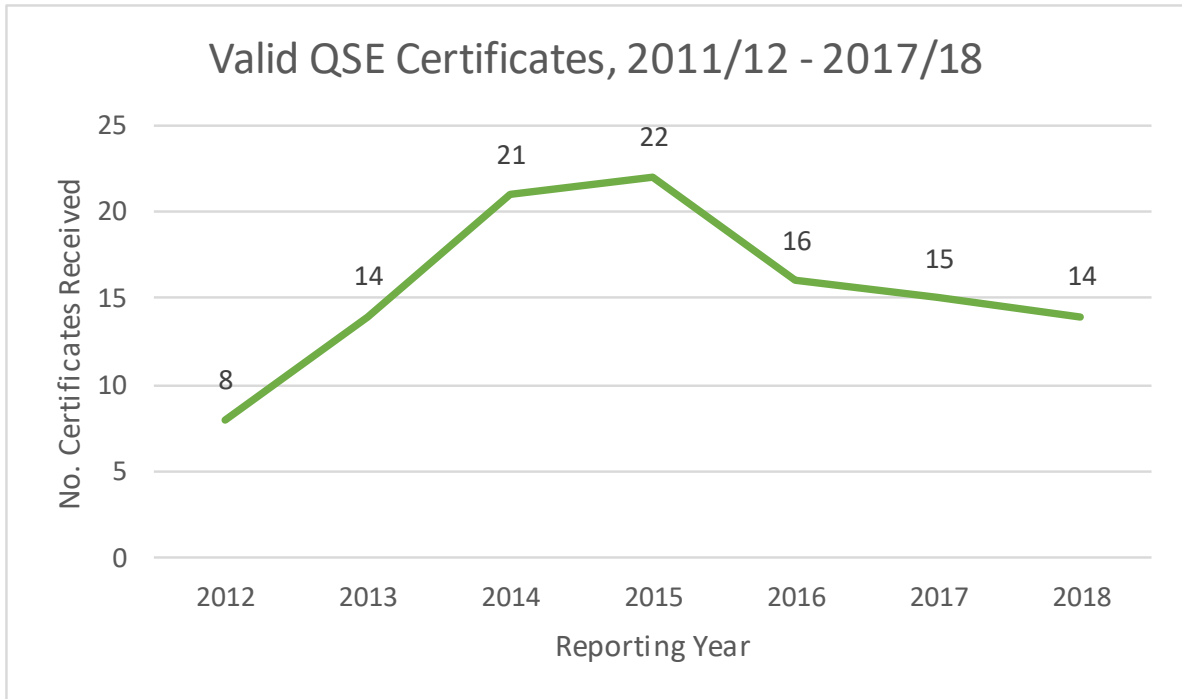


Figure 38: Valid QSE Certificate Submissions, 2012 – 2018

Figure 39 below compares the number of valid certificates received from each category of company size over the past 7 reporting years. QSEs have consistently submitted the least number of valid certificates for all years except 2014/15 and 2015/16.

A total of twenty-one QSE certificates were received. Fourteen (66.7%) of these certificates were valid. Four (57%) certificates were invalid due to preference of the CoGP while the remaining three (43%) were invalid due to use of the old FSC.

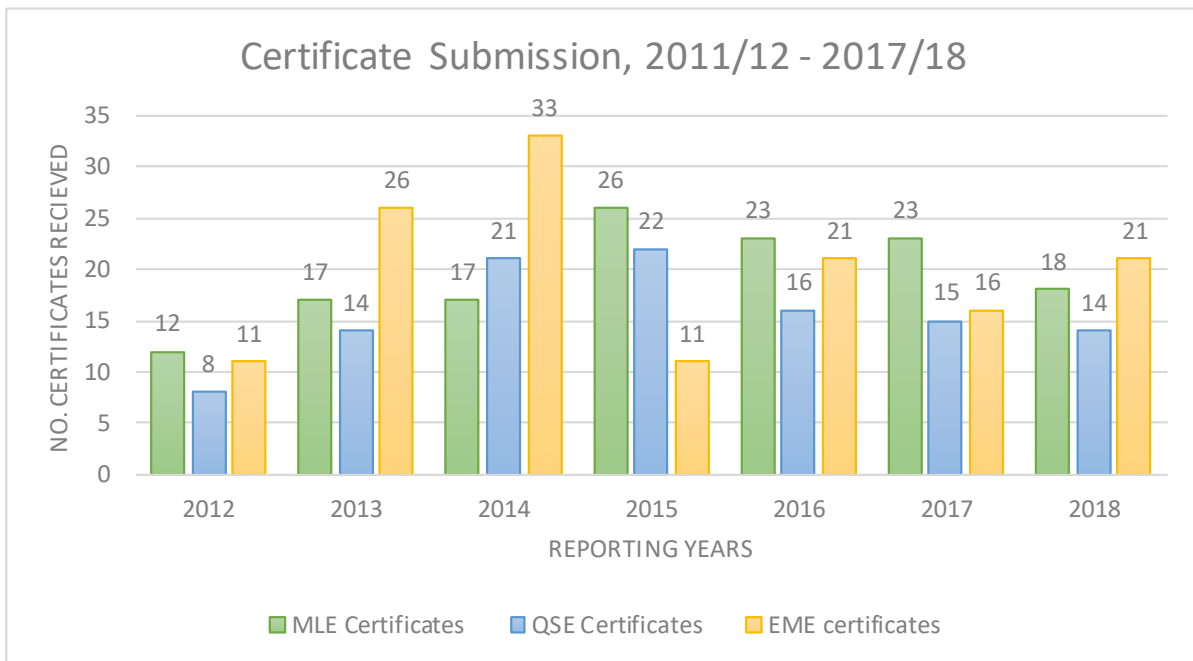


Figure 39: Certificate Submission by Company Size, 2011/12 – 2017/18

The details substantiating the low submission from QSEs can only be speculated. One possible reason could be the high failure rate of SMMEs in South Africa, resulting in less EMEs graduating to QSE level. According to figures cited by Minister Lindiwe Zulu when the Department of Small Business Development was created in 2014, only 37% of SMMEs survive to their fourth year. This may explain the low submission rate over the years from QSEs as there are just too few of them.

5.2.1. OWNERSHIP

The changes introduced in the Amended FSC place more responsibility on QSEs in implementing B-BBEE and enacting change in our society. However, the recent adjustment of the minimum thresholds for QSEs from R5 million to R10 million may have also provided some relief to QSEs who fall below this threshold.

In a 2016 interview with BizNews, the disadvantages accompanying the changes in the Amended CoGP are discussed. Studies show that almost 83% of QSEs in South Africa are less than 51% BO. Under the Amended CoGP and the Amended FSC these entities are now facing stricter reporting rules as they are obliged to evaluate themselves using the QSE scorecard. The article insinuates that this may discourage QSEs to continue reporting on B-BBEE and may even encourage fronting in an effort to score enhanced recognition and avoid the entire scorecard implementation process.

The recent changes in the Amended FSC have incentivised closer and better monitoring of changes in the ownership profile and company sizes in the sector. In the 2016/17 reporting year, 31 QSE certificates were received while only 15 were valid. This means over 50% of submissions were invalid. Of this current reporting year's valid certificates (14), 60% (9) were new reporting entities.



The Ownership Scorecard for QSEs under the Amended FSC prioritises voting rights and economic interest in the hands of black people and also has set the net value indicator as a

priority indicator. QSEs must obtain the subminimum under Ownership and the subminimum under either Skills Development or Enterprise and Supplier Development. In this way, QSEs, discounting differs slightly from MLEs.

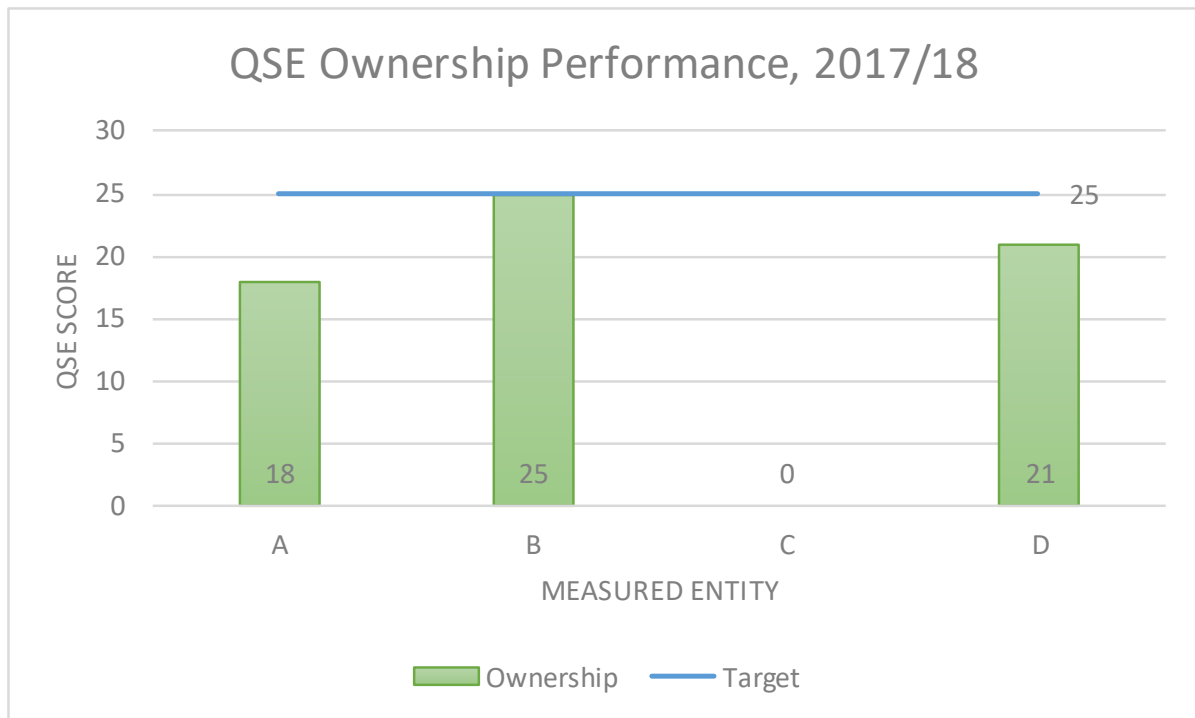


Figure 40: QSE Ownership Performance, 2012 – 2017

Figure 40 highlights the low submission rate of verified QSE scorecards. Only four (28,6%) of the fourteen QSEs submitted verified QSE Scorecards, the remainder submitted affidavits. This suggests that almost 72% of submissions were enhanced QSEs. Additionally, eight (8) entities that reported in 2016 did not report in 2017. Interestingly the average percentage BO for these entities was 22%, with six having 0% BO.

The QSE enhancement procedure exempts a potentially high turnover entity, e.g. R37 million per annum, from contributing to empowerment of black people and communities in their operating environment. This enhancement may also encourage further fronting practice as non-enhanced QSEs may feel overburdened or unfairly treated by the legislation. Consider the findings from the EconoBEE study that reveal that 83% of QSEs are majority white-owned. These findings are not reflected by the high number of affidavits submitted by reporting QSEs in the Forest Sector.

Figure 40's assessment of 4 verified scorecards reveals that reporting QSEs are performing relatively well under the Ownership scorecard. One measured entity scored the full target points for this element. This harvesting contractor is also 51% BO. This entity could have chosen to submit an affidavit as an enhanced QSE. Two other measured entities (both contractors) scored more than 50% of the target while the remaining entity scored 0 points for the target.

Table 3 below serves as a more in-depth analysis of Ownership trends amongst reporting QSEs. This information is available as QSE affidavits require the measured entity to report on BO and BWO amongst other things.

Table 3: 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>	50.32	0
<i>Mean</i>	51.7	0
<i>Median</i>	63.54	3.76
<i>Mode</i>	100	0
<i>Q3</i>	100	0
<i>Maximum</i>	100	24.8
<i>Standard Deviation</i>	26.7	7.79
<i>Entities scoring 0% Ownership</i>	0	10
<i>Entities scoring above 0% but below 51% Ownership</i>	4	3
<i>Entities scoring 51% Ownership</i>	2	0
<i>Entities scoring above 51% but below 100%</i>	3	0
<i>Entities scoring 100% Ownership</i>	4	0
<i>Total number of entities</i>	13	13

Table 3 shows that the average BWO for QSEs in the sector has risen from 25,96% in 2016/17 to over 63% in 2017/18. It becomes difficult to draw conclusions or identify trends as the number of reporting QSEs not only fluctuates but reporting entities differ every year. It is noteworthy that the 9 new reporting entities had an average BO of 64,48%. It would be safe to say that the large increase in QSE BO stems largely from the new submissions. Of the 6 entities that reported previously, one was a cooperative thus could not be assessed on Ownership. The remaining 5 had an average BO of over 56%. It appears that the large changes in BO are not mirrored when assessing BWO despite the visible change in BWO.

The high number of enhanced QSEs is encouraging for one reason, it may indicate that black people are no longer confined or relegated to the dungeon of struggling SMMEs who never make it past the 5-year mark. The only question is whether these BO QSEs are results of large meaningless ownership transfer schemes to South Africa's black elite or are they products built from the ground up by black people?

To illustrate, consider that two of the six entities that previously reported in 2016 have BO and BWO that rose from 0% to above 51% in this current reporting year. This drastic change in ownership may rouse suspicion as to the validity of the affidavit as there is currently no means to verify the information entities place on these affidavits. Once again, entities may be fronting to gain the enhancement offered under the amended FSC and to avoid the task of getting verified through a verification agency.

One positive change noticed from these six previously reporting QSE's is that one was an EME previously and is now a QSE and it is majority BO.

Note that the number of 100% BO entities rose by 25% (1) for BO while the number of entities scoring above 51% BO rose from 0 to 4. This reporting year also provided more entities scoring 51% BO and no entities that are 0% BO. Performance for direct BWO is slightly better although still poor especially in comparison to BO.

5.2.2. MANAGEMENT CONTROL

In previous reporting years, Management Control was one of the least favoured elements to report on by QSEs. This is largely consistent with the poor performance also found amongst MLEs under this element. Management control aims to ensure the employability and promotability of black people into management positions where they can take direct and indirect decisions towards the operations of the company.

The QSE scorecard for Management Control evaluates black representation at executive, senior, middle and junior management level. The scorecard requires 50% black and 25% black female representation at executive management level. The Scorecard also requires 60% black and 30% black female representation at senior, middle and junior management level. These management levels are bundled into one indicator partly due to the nature of most QSEs which are often-times family-owned and run and, in most cases, do not have the different categories of management. This means that a Measured entity could gain the full 6 weighting points from representation at one level instead of all three.

In previous reporting years, Management Control was one of the least favoured elements to report on by QSEs. This is largely consistent with the poor performance also observed amongst MLEs under this element.

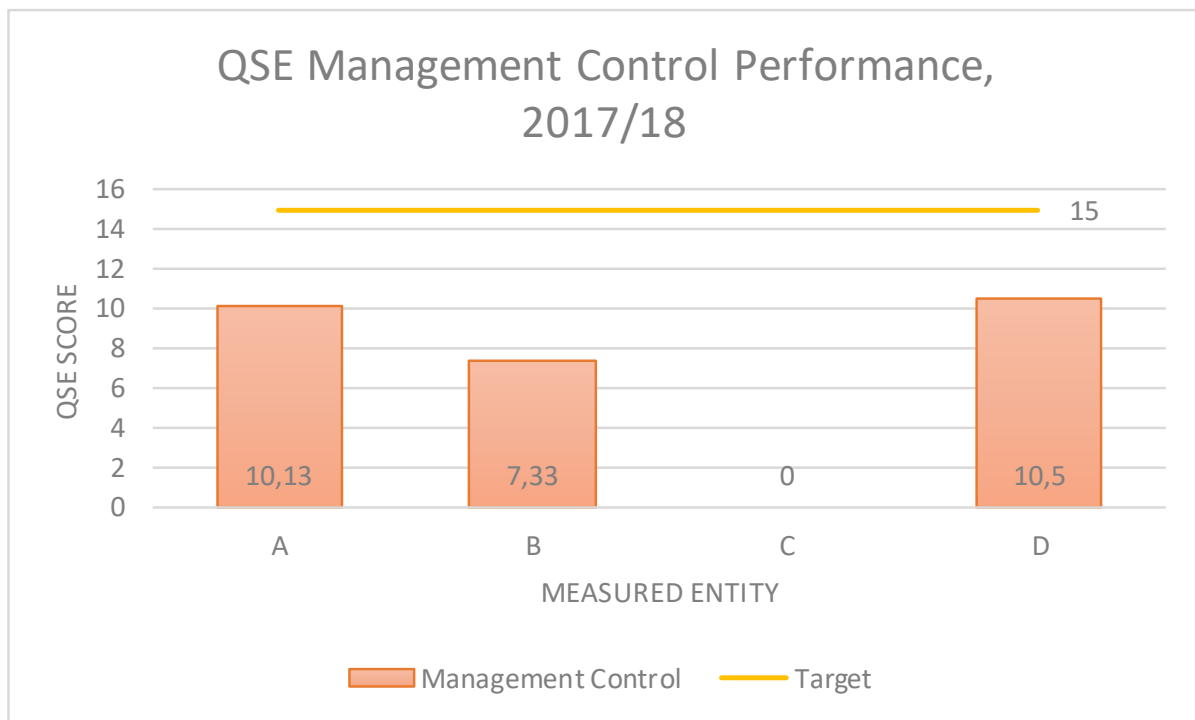


Figure 41: QSE Management Control Performance, 2012 – 2017

Performance of unenhanced QSEs is relatively better than that of MLEs. Two (50%) reporting entities exceeded 50% of the target weighting points while the third narrowly missed the 50% mark. 25% of the entities scored 0 under this element indicating that there are no black and female executives. This is encouraging as this behaviour is expected to carry over as these QSEs graduate into large enterprises.

5.2.3. SKILLS DEVELOPMENT

In the past, Skills Development was the second least preferred element to report on by QSEs. QSEs had consistently found it difficult to reach 50% of the target set out in the Skills Development element although performance improved significantly this reporting year.

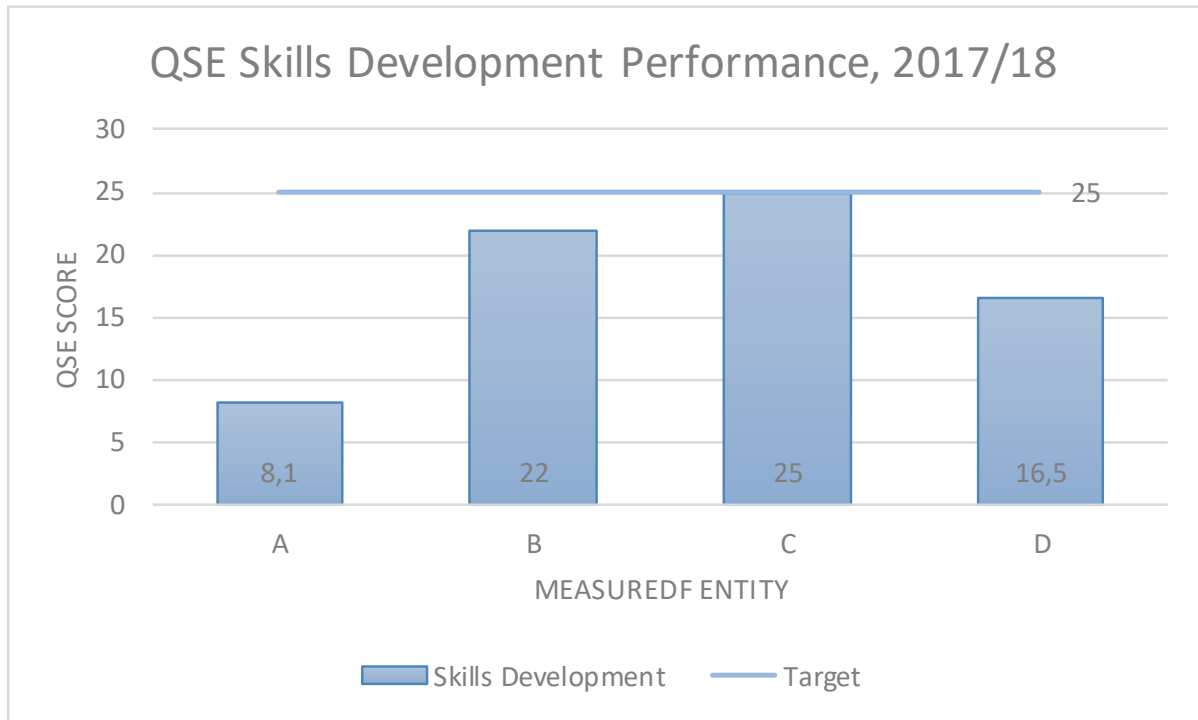


Figure 42: QSE Skills Development Performance, 2012 – 2017

QSE performance for Skills Development was satisfactory. Two entities achieved over 80% of the target with one scoring the full target points. This indicates that these QSEs are not only spending a portion of their payroll on skills development activities but are also skilling disabled people and absorbing black people into their enterprises.



5.2.4. ENTERPRISE & SUPPLIER DEVELOPMENT

The QSE ESD scorecard sets a target of 30 (+3 bonus) points. Twenty points can be obtained through preferential procurement from B-BBEE compliant suppliers as well as procurement from 51% BO companies. An additional 10 points are available under the Supplier Development (5) and Enterprise Development (5) elements of the scorecard. Measured entities are required to make contributions towards developing suppliers and businesses in their value chains and surrounding communities.

A non-exhaustive list of what qualifies as a contribution is available in the Amended FSC. The list includes loans, credit facilities and grants made to beneficiaries or assisting the beneficiary to cover overhead operational costs. A measured entity may even provide consulting services; assist with licensing and registration of the beneficiary's business or provide IT services.

Formerly, Preferential Procurement was one of the most favoured elements while Enterprise Development was not so popular. Figure 43 below indicates the performance of 4 QSEs under the ESD element. All 3 sub-elements contained within the ESD are covered in the analysis below.

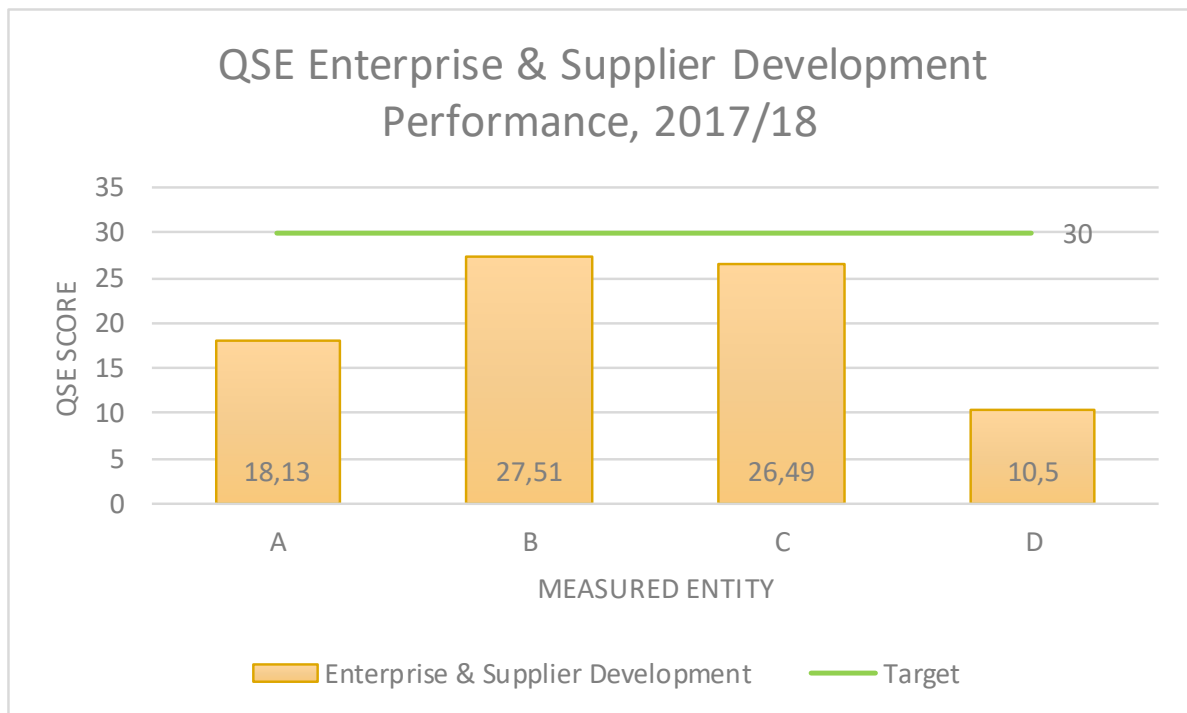


Figure 43: QSE Preferential Procurement Performance, 2012 – 2017

Two (50%) of measured QSEs performed exceptionally well under this element scoring over 90% of the target. Another entity reached above 50% while the remaining entity only attained a third of the target as shown in Figure 43.



5.2.5. SOCIO-ECONOMIC DEVELOPMENT

The overall target weighting points for SED have changed. The scorecard offers 5 points for spending 1% NPAT on qualifying SED contributions. Previously, an entity could score a maximum 25 points with an additional 3 bonus points for expenditure above the 1% NPAT target.

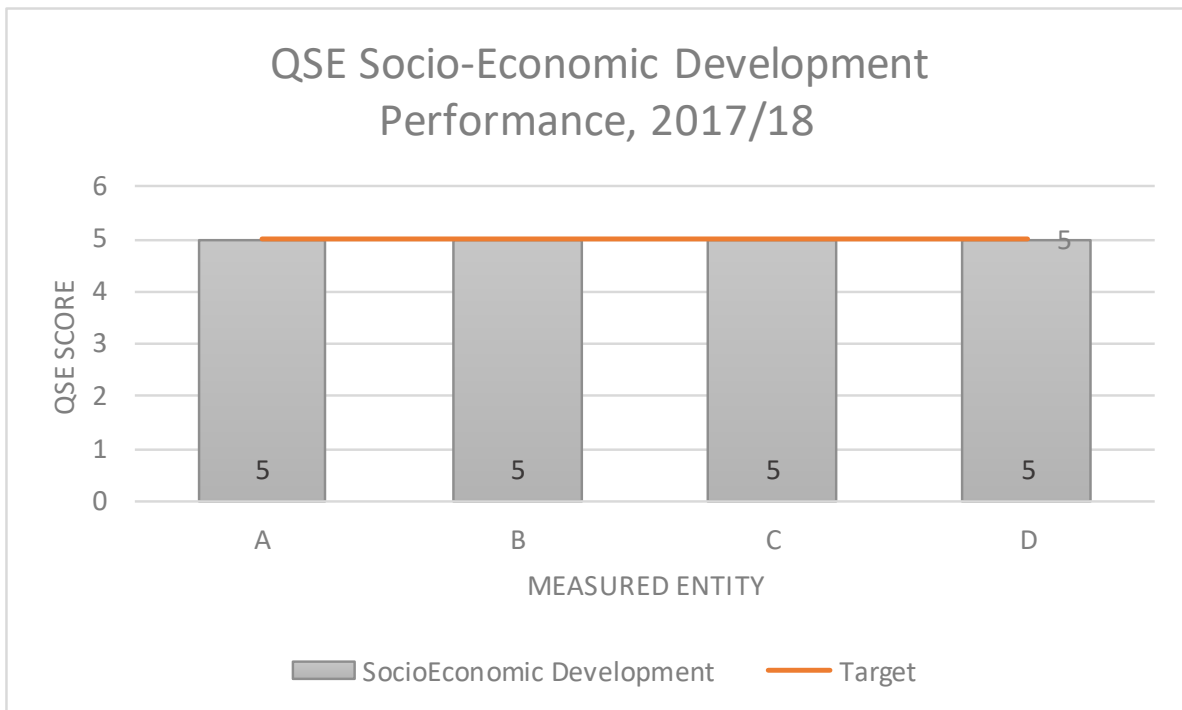


Figure 44: QSE Socio-Economic Development Performance, 2012 – 2017

All reporting QSEs managed to reach the target for the Socio-economic Development element. Decision makers should begin contemplating how they can further extract the full value from this element as it is a favourite amongst forestry companies.



5.3. EXEMPTED MICRO ENTERPRISES (EME) ANALYSIS

An EME is an entity operating in the Forest Sector with a turnover up to R10 million. These micro enterprises are verified using an affidavit. They are also subject to enhancement if they are 51% or 100% BO comparable to QSEs. EMEs with less than 51% BO are automatically given a level 4 rating. This is to give EMEs a fair chance at doing business as well as at complying with regulation which at times may be expensive and burdensome for small companies.

Figure 45 below reveals that the numbers of valid EME submissions increased in this reporting year.

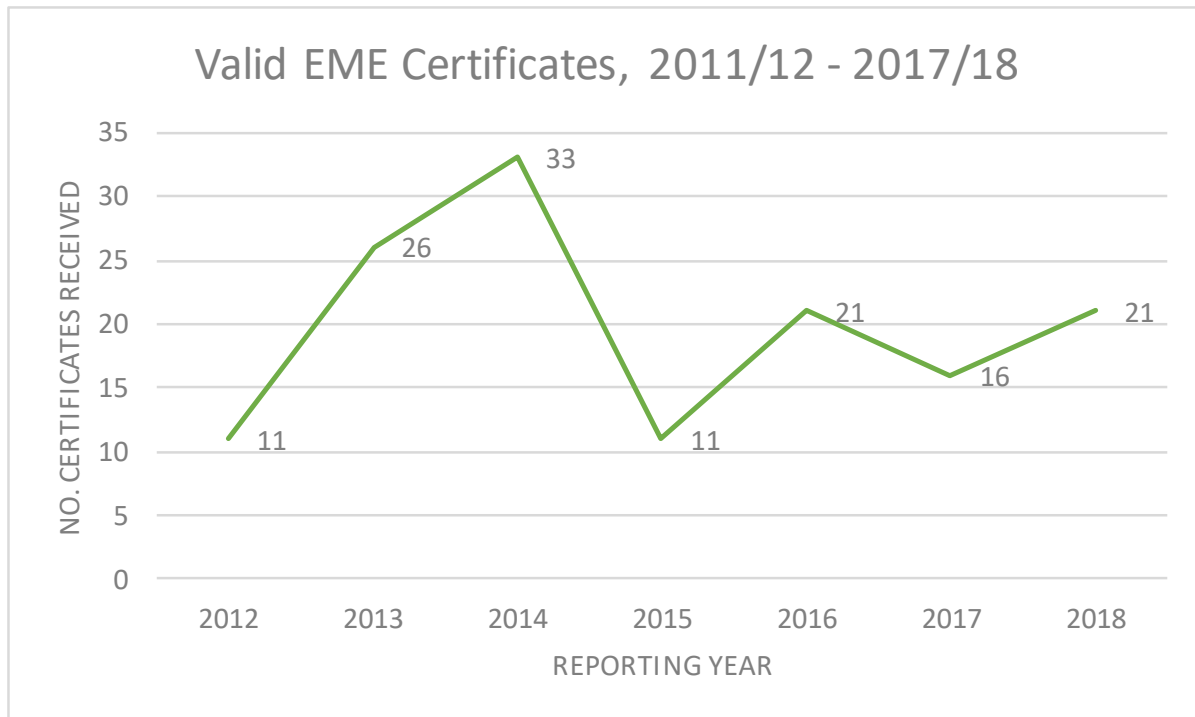


Figure 45: Valid EME Certificate Submissions, 2012 – 2018

This increase may partly be attributed to a number of QSEs now classified as EMEs due to changes in thresholds. The higher number of valid submissions amongst EMEs (21) in relation to QSEs (14) and MLEs (18) may also be as a result of the ease through which they can verify. They are not burdened with the costly and resource-intensive action of obtaining verification through a verification professional.

Figure 46 shows that the majority of EMEs are contractors. However, the number of submissions from other sub-sectors such as fibre and pole producers has risen. This is reassuring as beneficiation and downstream activities in the sector are encouraged both for job creation and for extracting greater value from our abundant raw materials.

The number of contractors who submitted (15) increased by 1 from the previous reporting period. The number of submissions from EMEs in the fibre sub-sector increased from 1 to 4 and pole producers increased from 1 to 3.

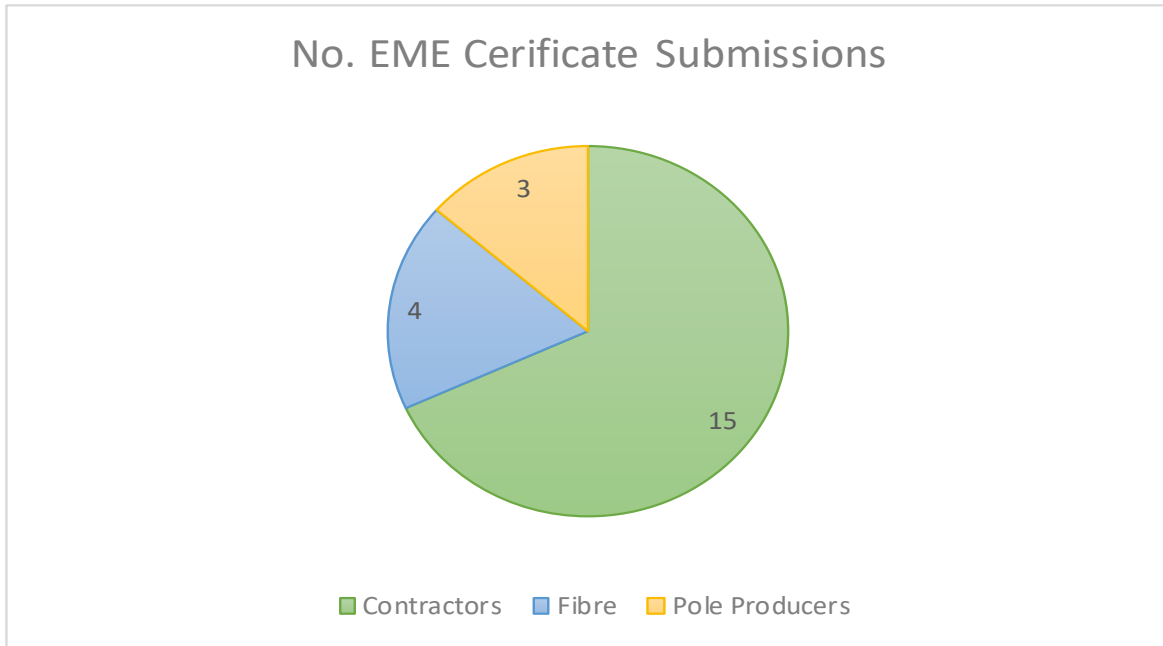


Figure 46: EME Certificate Submission by Sub-Sector

Of the 21 valid certificates received this reporting year, 8 (38%) belonged to entities who submitted in the previous year. The same fibre and pole producing entities from 2016/17 continued to submit this year. An analysis of the new submissions (13) shows that 8 (62%) new contractors submitted while 3 (23%) new fibre entities and 2 (15%) new pole producers submitted. A high percentage of these new submissions were level 1 (6), while a further 6 new submissions were level 4. The remaining new EME scored a level 2 rating. Forty-six percent (6) of the new submissions were 100% BO while 4 (30,7%) new EMEs were 0% BO.

The average B-BBEE rating received by EMEs in this reporting year was 2.5. EMEs have generally scored level 1 and level 4. This is evident when looking at Table 4 which reveals that 9 (43%) of reporting entities are 100% BO. The average BO for this group stands at 51%.

Table 4: Statistical Breakdown of Direct Black and Black Women Ownership in EMEs

	Direct Black Ownership	Direct Black Women Ownership
Minimum	0	0
Q1	0	0
Median	100	0
Mean	51,29	5,14
Mode	100	0
Q3	100	0
Maximum	100	50
Standard Deviation	46,11	15,01
No. of entities scoring 0% Ownership	7	18
No. of entities scoring above 0% but below 51% Ownership	3	3
No. of 51% BO entities	1	0

<i>No. of entities scoring above 51% but below 100% Ownership</i>	1	0
<i>No. of 100% BO entities</i>	9	0
<i>Total No. of Measured Entities</i>	21	21

Ownership statistics are poorer when assessing BWO which is significantly lower for EMEs. Two 100% BWO EME certificates were received previously but this year no 100% BWO EMEs submitted. Both entities that scored 100% BWO previously submitted this year but one has reduced BWO to 50% and the other submitted an invalid certificate.

The lack of inconsistent reporting from entities operating in the sector does pose some big challenges. For instance, 5 entities who reported previously did not report this current year. All 5 were contractors representing two 100% BO companies and one 51% BO company.

Further to that, 8 submissions received were invalid. The invalidity arose from use of an auditors note (5) and using the generic codes (3). This shows that entities are uneducated about changes in their sector regarding B-BBEE. We can only speculate as to whether this ignorance stems from lack of interest or lack of communication from B-BBEE proponents. Of the 8-invalid submissions, 5 entities were 100% BO and three were 0% BO. All of these entities are contractors.

5.4. OVERALL INDUSTRY PERFORMANCE

The 2017/18 reporting year introduced a number of major changes to B-BBEE reporting in the Forest Sector. Notable changes include the adjusting of thresholds which categorise companies based on annual turnover as well as the collapsing or removal of some elements.

A total of 22 certificates were received while 4 were invalid from MLEs. One entity was measured using the specialised scorecard. The majority of submissions came from the growers, poles and sawmilling sub-sectors. Eleven valid submissions were accompanied by underlying reports.

The new MLE scorecard places greater emphasis on Ownership with increased points being allocated to this scorecard. The importance of compliance is also stressed using the discounting principle which is applied to entities that do not acquire the subminimum under elements such as Ownership, Skills Development and Enterprise and Supplier Development.

MLEs achieved an average score of 74,48 points. This is an improvement by almost 10 points. However, this places MLEs at a level 6 from the previous reporting periods' level 4. This is due to the more stringent requirements under the Amended FSC.

Under the Ownership element, MLEs experienced a slight drop in performance but performance was satisfactory overall. 45% of submitting entities reached their targets for voting rights in the hands of black people and this performance was mirrored for economic interest in the hands of black people. Three entities were discounted under this element.

The average BO increased from 20.84% previously to 33,09% in the current year. This is good as it is above the 30% target set out in the FSC. BWO also increased from 8,04% to over 10%. Ownership for the sector is still negatively skewed with majority of entities scoring below the industry average.

In terms of Management Control, MLE performance improved slightly but remains poor. The slight improvement may be attributed to the merging of this element with Employment Equity. MLEs scored points mainly from reaching targets set out for black people in junior management positions. However, performance remains unsatisfactory under black people in executive, board, senior and middle management positions. The performance for this element largely reflects findings from the Employment Equity report released by the Department of Labour where white people and males still dominate the higher positions.

MLE performance under Skills Development was average. Some entities scored respectable points for spending on learnerships, apprenticeships and internships. Entities also showed a decent absorption rate of unemployed learners with 2 entities absorbing 100% of their unemployed learners and 70% of submitting MLEs absorbing at least some of their learners. Two entities could not achieve the 40% minimum required and thus were discounted under Skills Development.

Performance under the Enterprise and Supplier Development element was respectable. All submitting entities scored at least 50% of the target under Preferential Procurement but only 2 out of 10 scored the full points. This has decreased from 9 out of 10 in the previous year. Only 5 of 10 entities achieved the target for procurement from QSEs while only 10 achieved the target for procurement from EMEs.

MLEs performed well under the Supplier Development element with 4 (36%) achieving the target and 3 (27%) not scoring any points. Performance under Enterprise Development was

acceptable. Five (45%) of the measured entities succeeded in reaching or surpassing the target points in this element with 6 out of 11 entities scoring bonus points for graduating an ED beneficiary to SD level.

The enhancement of QSEs impacted on the quality of insight that could be generated from submitting entities as only 4 out of 21 submissions were certificates with scores for each element. Eight submissions (out of 21) were new submissions this year. Sixteen QSEs that previously reported did not submit. Seven (33,33%) of submissions were invalid largely due to use of the old FSC.

The fact that the majority of QSE submissions were affidavits proves that most reporting QSEs are enhanced and are thus majority BO. The average BO for QSEs was 63% which increased from 25,95% previously. Most QSEs scored level 1 or 2. This suggests that more companies are changing the ownership structures to increase black ownership of their entities.

EMEs are exempted from reporting on the scorecard unless they wish to improve their B-BBEE level. These entities are automatically enhanced to level 1 or level 2 when they are majority BO. 21 valid certificates were received of which 8 were old and 13 were new. The average BO amongst these entities was 51% while 9 submitting entities were 100% BO. Most EMEs scored a level 1 or level 4.

6. CONCLUSION

The 2017-18 Annual Status of Transformation Report serves as the first report under the Amended FSC as gazetted in April, 2017. This report will be used as a benchmark for future reporting years. Major changes were introduced to ensure the sustainability of B-BBEE in the sector.

Two additional sector principles referring to rural development and accountability were introduced. The 2017/18 analysis of transformation activities in the sector showed that a large number of entities adhered to the rural development principles. This is substantiated by the increasing presence of black marginalised groupings such as black women and people living with disabilities in measured entities; as well as a reasonable number of large enterprises graduating their enterprise development beneficiaries into suppliers.

It proved difficult to measure the impact of the accountability principle due to targets for the undertakings to the scorecard were not achieved. For instance, the funding for emerging black entrepreneurs.

Noteworthy incidents in the forestry industry for 2017 included the Kynsna Fires. These fires destroyed vast tracts of commercial plantations and resulted in billions of Rands in losses for the industry. This loss of valuable standing timber had a definite impact on the availability of timber, especially in the Southern Cape. A number of publications in 2017 further pointed to the increasing timber shortages in the country, some suggesting that SA will have to import over 50% of its pine structural wood requirements by 2019.

Seventy-two certificates were received for the reporting year under review. Over 73% (53) certificates were valid. The high occurrence of invalid certificates stemmed from usage of generic codes; incorrect reporting periods or usage of the repealed FSC.

A major risk identified within the report is the high rate of inconsistent reporting amongst measured entities. One may assume that this may be a result of the introduction of the discounting principle which may have prompted entities to not submit or others may have given themselves a transitional adjustment period. Additionally, eight QSEs who had previously reported did not submit affidavits or certificates this year. These entities were found to have a low BO profile and many were 0% BO. This may have discouraged these entities from reporting as they could not utilise the new enhancement principle and would now report using the more stringent requirements in the new QSE scorecard. EMEs in the sector submitted the highest number of valid affidavits.

The industry achieved a level 6 B-BBEE rating which is two levels below the previous reporting year. Previously, industry's score of 74,48 points would have earned the sector a level 3 B-BBEE rating. This highlights the changes in the points qualification system which require an entity to achieve more or higher points to achieve the same level they would have achieved before. This performance mirrors the results from the first benchmarking exercise in 2010 where the industry recorded a level 5 B-BBEE rating. The industry continued to improve their performance over the years and averaged a level 4 rating over the remaining years.

7. RECOMMENDATIONS

The B-BBEE Act as Amended specifies that entities must report annually to the sector into which they belong. Despite this, submission of reports remains a challenge. The Council is encouraged to develop a mechanism that will ensure that entities report on an annual basis.

The report has revealed that a number of entities are still producing invalid certificates and affidavits. This requires more interactions between the Council and the verification bodies so as to ensure that there is a clear understanding of the entities that should be verified using the Amended FSC.

The Sector continues to perform poorly on Management Control. Such performance is also evidenced in the Employment Equity report. Black males are still preferred for management positions while black representation as a whole, decreases with increasing seniority. The sector needs to create a pool of black people and women that they can mentor and graduate into board and management positions.

Entities are discounted for failure to achieve the required minimum under the three priority elements. Even though this principle has not severely impacted entities in the sector, it may have had an effect on the number of reporting entities. It may be perceived by industry as punitive in nature, especially to entities who make an effort to report rather than those who may deliberately choose not to undertake B-BBEE verification and reporting. The upcoming reports should be used to gather sentiment on the impact and reception of this principle through surveys and direct interaction with industry.

The enhancement principle has revealed a positive shift in the black ownership profile of QSEs that reported. This observation may be a sign that this principle is highly accepted by the sector or it may indicate increased incidences of fronting. It is recommended that the FSCC develop a programme where they check validity of QSE affidavits or the matter should be forwarded to the B-BBEE Commission.

The number of new reporting entities has increased under this reporting period. This may be due to the increased visibility resulting from Council's CEO visits as well as the intensified outreach programme. The role played by the organised forestry Associations in advocating for consistent reporting is also acknowledged. The FSCC should strengthen ties with all industry associations and utilise them as a vehicle for increased reporting.