

ANNUAL REPORT ON THE STATUS OF TRANSFORMATION IN THE FOREST SECTOR 2018/19



EXECUTIVE SUMMARY

Forestry is a key economic sector that has prioritised B-BBEE through the development of the Amended Forest Sector Codes. The sector is committed to principles of inclusivity, shared vision, economic growth and rural development.

There has been a number of concepts that have been introduced recently such as Radical Economic Transformation (RET) and Land Expropriation without compensation (EWC). These concepts may either serve as catalysts or inhibitors to the success of the B-BBEE programme.

In the reporting year 2018-19, there has been a significant increase in the number of reporting entities when compared to the previous year. Most large entities also submitted their underlying reports to accompany their B-BBEE certificates. This allows for greater in-depth analysis of the sectors' performance amongst large companies.

It is worth noting that under the MLE section, there were a number of new entities reporting that did not necessarily report last year. However, most of the prominent industry players have become consistent reporters and some are showing improvements in terms of scores achieved with 6 MLEs improving their overall rating by 1 level. There are 4 MLEs with a level 1 rating in the current reporting year.

The sector's performance shows that the sector maintained a level 6 rating for this reporting period achieving 72,19 qualification points. This performance is expected as the new principles in the Amended Forest Sector Codes are more rigorous and require an aggressive response from industry in implementing B-BBEE to maintain a respectable rating. The sector's performance has also declined in some key elements likely due to submissions from 10 new (or inconsistent) reporters. The highest decline was observed on the Skills Development and Enterprise & Supplier Development elements respectively.

The sector continues to struggle to attract black executives. The reasons for this continuous poor performance may not be obvious. However, when assessing the current socio-economic and political environment in South Africa, it may be linked to the trend of recycling executives thus depriving entities from the opportunity to groom skilled future executives.

There has been an almost equal number of enhanced and unenhanced reporting QSEs. The majority of reporting unenhanced QSEs (6/8) were certified as non-compliant, rendering this group of QSEs as non-compliant as a whole - a rating that this category has never achieved previously. This may have been caused by the fact that QSEs can no longer choose certain elements for verification over others. Additionally, the number of unenhanced reporting QSEs has doubled.

This poor performance from unenhanced QSEs raises concerns of the commitment of QSEs to transformation or the suitability of measuring criteria for this group.

There has been a slight increase in the number of reporting EMEs. Most of the EMEs achieved a level 1 or 2 indicating that a majority of these were enhanced.

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ACRONYMS

B-BBEE	Broad-Based Black Economic Empowerment
BEE	Black Economic Empowerment
BO	Black Owned
BWO	Black Women Owned
CSI	Corporate Social Investment
DAFF	Department of Agriculture, Forestry and Fisheries
DoL	Department of Labour
ECC	Employment Conditions Commission
ED	Enterprise Development
ESD	Enterprise & Supplier Development
EFF	Economic Freedom Fighters
EME	Exempted Micro-Enterprise
FAO	Food and Agriculture Organisation of the United Nations
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
MC	Management Control
MLE	Medium and Large Enterprise
MPs	Members of Parliament
NMW	National Minimum Wage
NDP	National Development Plan
NPAT	Net Profit after Tax
PPGI	Public-Private Initiative Partnership
QSE	Qualifying Small Enterprise
SA	South Africa

SBI	Small Business Institute
SD	Skills Development
SED	Socio-Economic Development
SMME	Small Medium and Micro Enterprises
VAT	value added tax

1. INTRODUCTION

The FSCC is currently within its tenth year of reporting on the B-BBEE performance of the Forest Sector since the gazetting of the FSC (now revised into the Amended FSC). However, this is the second report under the new criteria espoused in the Amended FSC.

Cognisance should be taken of the new stringent and aggressive requirements aimed at achieving radical empowerment. As a result, there are consequences for not achieving certain targets under specified elements (Priority Elements).

The report is critical as it marks the 10-year life span of the B-BBEE programme. It begins to assess whether there has been a shift in distribution and allocation of economic benefits and opportunities in the Forest Sector for previously disadvantaged individuals. It also seeks to validate the impact of the new principles introduced in the Amended FSC.

The financial period 2018/19 has seen a desirable increase in the number of reporting entities across the 3 types of Measured Entities. It is also pleasing to note that there has been a significant increase in the number of the generic entities not only submitting their valid B-BBEE certificates but also attaching the underlying information for a more comprehensive performance review.

These changes show a positive response to the call to report annually and consistently to the relevant Sector Council as per the B-BBEE Act as Amended. This response allows the Council to realise its mandate of preparing the annual report on the sector's status of transformation easily.

There could be a number of reasons for the increase in number of reporting entities. These reasons include the current CEO Visits that have been undertaken by the Chairperson of Council; interactions with Beneficiaries through the Community Outreach Programme and the Knowledge and Sharing Exercise to name a few. Direct feedback given to reporting companies and profiling them in the annual report may have also contributed to the positive response from reporting entities.

The 2018-19 performance of the sector in terms of B-BBEE is outlined in the other sections of the report.

2. REPORT OBJECTIVES

As part of its mandate, the Forest Sector Charter Council (FSCC) is required to provide sound analysis and reporting on the state of transformation in the forest sector. The FSCC is thus committed to providing details on progress industry has made in implementing B-BBEE and transforming the lives of black people living and working within forestry operations.

This report seeks to examine progress towards transformation made by all organisations operating within the scope of the Amended Forest Sector Codes (FSC). Small, medium and large companies operating within the following subsectors are analysed:

- Timber growers;
- Contractors;
- Fibre: pulp and paper, woodchips, board products, wattle bark;
- Sawmilling: sawn timber, mining timber, matches;
- Pole producers; and
- Charcoal producers.

The report shall provide an understanding on the manner in which Measured Entities are responding and or adapting to changes introduced within the Amended FSC. The findings in the current performance will be compared with the previous year's performance.

The scores achieved by Measured Entities reflected in submitted B-BBEE certificates, underlying reports as well as affidavits will be translated into quantitative and qualitative data that details how the industry is faring in empowering black people through the criteria provided in the FSC.

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 as well as the B-BBEE rating achieved by enhanced QSEs;
- iv. The B-BBEE status of Exempted Micro Enterprises (EMEs) based on their black ownership profile and overall B-BBEE performance as a collective;
- v. The overall transformation status of the industry and how it compares to the previous achievements;
- vi. The effect of the principles introduced in the Amended FSC. These include the Discounting Principle, Enhancement Principle, Accountability element etc.;

3. SECTOR OVERVIEW

“No man is an island: is a famous quotation from the English metaphysical poet John Donne (1572-1631). It reminds humans that all things in nature are connected. The Forestry Industry is not exempt from this universal law and its operations are often heavily influenced by external factors.

It is difficult to directly state which factors most directly influence the sector’s commitment to transformation. One can only speculate that economic climate, eligibility to government projects & services and corporate social investment (CSI) are motivating factors.

The items captured below provide insight into major events occurring within or having direct influence on the industry in the duration of the current reporting year. These events are typically a result of the socio-economic and political environment in the country.

- **The Land Debate**

The Land Expropriation hashtag (#LandExpropriation) has been arguably one of the biggest and most controversial topics in South Africa (SA) in the past twelve months. On Thursday, 15 November 2018, Members of Parliament (MPs) voted in favour of amending the Constitution to allow for the expropriation of land without compensation.ⁱ This decision followed increased pressure from opposition parties and the public at large calling for accelerated land redistribution.

The decision to expropriate land without compensation sparked wide-spread debate and uncertainty from all sectors of society including the forestry sector which is currently utilising 1% of the total land in the country. Existing forest ownership and management categories strongly reflect and reinforce patterns of power, wealth and access established in previous timesⁱⁱ and as such, the industry is not immune to the potential changes and challenges arising from this decision.

A study by J. Clarke assessing ownership patterns in the forestry industry conducted during the expropriation *WITH* compensation era specified that the government at the time had pledged to transfer 30% of white-owned land to black owners by 2015. An article in the Rand Daily Mail suggests that over 17 million hectares (Ha) of agricultural land have been transferred into black hands since 1994, equating to 21% of all agricultural land.ⁱⁱⁱ The article does not specify whether this agricultural land includes forestry plantations areas. In the study, J. Clarke further details that currently an estimated 40% of privately-owned (large grower) plantations and 70% of State-owned plantations are subject to land claims.

Industry reactions have varied with some prominent industry role players indicating that their business model prioritises access to timber resource over land ownership. According to the Institute for Poverty, Land and Agrarian Studies (PLAAS), one paper giant has sold almost

ⁱ Miya, N. 2018. MPs vote on land expropriation without compensation & Twitter was lit. Times Live. Accessed from: <https://www.timeslive.co.za/politics/2018-11-16-mps-vote-on-land-expropriation-without-compensation--twitter-was-lit/>

ⁱⁱ Clarke, J. n.d. Trends in forest ownership, forest resources tenure and institutional arrangements: are they contributing to better forest management and poverty reduction? A case study from South Africa

ⁱⁱⁱ Tinashe, K. 2018. SPECIAL REPORT: The truth about land ownership in South Africa. Rand Daily mail. Accessed from: <https://www.businesslive.co.za/rdm/politics/2018-07-23-special-report-the-truth-about-land-ownership-in-south-africa/>

50% of its plantation assets in SA since 2005. Another large fibre MLE shared that they currently have over 65 claims to their land with 6 settled and 20 still under discussion due to uncertainty of size of land to be transferred. Historically, this MLE has settled 37 claims including nine where claimants took over 8 000 ha of land while 6 claimants chose to be compensated from the government for their 11 000 ha.

A report released by Forestry South Africa (FSA) highlighting their views on expropriation calls for the entire procedure to be based on sound governance and using research on international experience and best practice when developing legislation for expropriation. The fact that most countries with similar history to SA conducting expropriation of land provide compensation is emphasised. The guidelines produced by the Food and Agriculture Organisation of the United Nations (FAO) is also referenced. These guidelines call for putting measures in place that also protect the former land owner. The exceptionally higher value of standing timber in present terms (R90 billion) over land is emphasised which, if it were jeopardised, could further disrupt the downstream timber value chain which currently contributes over R69 billion per annum to the country's gross domestic product (GDP).

In a breakfast held with Judge Gildenhuys and the Agri-SA Corporate Chamber, the following steps are suggested as solutions to the land debate^{iv}:

- i. The entire land reform process should be managed by an independent body;
- ii. The private sector will have to contribute. A fund for land reform could be a good idea and could even be in the form of a once-off wealth tax.
- iii. A land reform levy on the transfer of property is also a possibility. All such contributions should be paid into an independent fund and managed.
- iv. The right of first refusal is also a possible solution. Interest subsidies and a credit guarantees have merit.
- v. Black farmers should be properly trained

• **National Minimum Wage**

The Forestry Industry, similar to other non-unionised industries, was subject to the minimum wage and conditions of employment set out in Sectoral Determination 12 for the Forestry Sector. Sectoral determination allows non-unionised sectors to determine their own minimum wage. With the proposal of the national minimum wage (NMW), the Department of Labour (DoL) had suggested that it would phase out all Sectoral Determination.

The Forestry Industry accompanied by other sectors, voiced its concern with this course of action as Sectoral Determinations are set by the minister of labour on the recommendations of the Employment Conditions Commission (ECC). These Sectoral Determinations are an important tool to protect the most vulnerable of workers and to reduce poverty and wage inequality in each sector. Challengers of the NMW believe that the abolition of Sectoral Determinations will remove a tool which protects workers earning more than the national minimum wage and that many of the working conditions [of vulnerable, non-unionised workers] will change with the introduction of the national minimum wage, or be eradicated within the three-year phase-out period.

^{iv} FSA. 2018. Notes on breakfast presentation - Judge Gildenhuys. Forestry South Africa. Accessed from: <http://www.forestry.co.za/notes-on-breakfast-presentation-judge-gildenhuys/>

The passing of the NMW Bills by Parliament on 29 May 2018 together with the draft NMW Exemption Regulations revealed that the various recommendations made by FSA, Agri SA and other like-minded bodies to the Parliamentary Labour Portfolio Committee, to reduce the potential negative impacts that the NMW could have on employment levels and the economy in general had not been taken into consideration. However, the following concessions had been made^v:

- i. Sectoral Determinations have been retained and will now be administered by the NMW Commission (previously the Minister of Labour). This is important because the NMW Commission will determine future wage rates for, amongst others, forestry and agricultural workers. This could well lead to an extended phasing in period in respect of wages for these workers (as recommended by FSA). The initial Bill only allowed for a one-year phasing in period - 90% in year one, 100% in year two).
- ii. The "allowable deductions" from wages for food and accommodation (in terms of the Sectoral Determinations) will continue. This is a major concession as these were not allowed in terms of the original NMW Bill. Allowable deductions for food and accommodation will thus be up to 10% each from a worker's wage as currently the case.

- **Changes in Forestry Education at tertiary institutions**

The University of Venda has continuously been urged to review their forestry curriculum as there were indications from industry that their students were not trained in line with industry expectations. The Tshwane University of Technology (TUT) met with FSA in July 2018 to discuss a potential introduction of an NQF level 5 forestry qualification to their institution.

- **Southern Cape Fires**

Over 17 600 ha of plantations were destroyed in recent fires in the Southern Cape region of which 12 700 hectares were totally destroyed. The fires raged in the Outeniqua Mountains area between 25 and 26 October affecting plantations between ages one and twenty-five years.^{vi} The projected annual loss in the region's sawlog industry is estimated at R121 million. Replanting the area will cost a further R90 million.^{vii}

Other subsectors have also been affected by the fires. Part of the destroyed area comprised of pine plantations belonging to private timber growers. Unfortunately, over 65% of the destroyed timber was over 16 years old – seriously affecting the sustainability of the timber industry and rural livelihoods in the area. This event served a major blow to the local economy in the area after the fires of July 2017.^{vi}

- **Sappi & Mondi commit over R18 billion into the South African economy**

^v FSA. 2018. Final NMW Bill & Amended BCEA and LRA Bills + Draft NMW Exemption Regulations. Accessed from: <https://www.forestry.co.za/final-nmw-bill-and-amended-bcea-and-lra-bills-draft-nmw-exemption-regulations/>

^{vi}FSA. 2018. Southern Cape forest fires pose serious risk to sustainability of regional timber industry. Forestry South Africa. Accessed from: <https://www.forestry.co.za/southern-cape-forest-fires-pose-serious-risk-to-sustainability-regional-timber-industry/>

^{vii} George Herald. 2018. Annual loss of R285-M in sawn timber. Forestry South Africa. Accessed from: <https://www.forestry.co.za/annual-loss-of-r285-m-in-sawn-timber/>

Following President Cyril Ramaphosa's call to private sector in SA to invest in the economy, forestry's Sappi and Mondi have pledged over R18 billion into the SA economy over the next five years. The Public-Private Initiative Partnership (PPGI) was established in April 2018 with an aim to align strategic planning between government and the private sector in the interest of improving economic growth and the way government and business work together.^{viii}

During a meeting between the President and representatives from forestry including FSA, Mondi and Sappi, it was revealed that not only were the forestry investment projects under offer included in the projects for the President's consideration but that forestry was the very first project listed out of 18 projects from 13 Sectors of the economy. In total, if the planned investments from all the sectors materialise, it would increase GDP growth from the current 1.2% to between 5% and 7% in the next five years.

The industry has offered a figure of R18.9 billion in investment over the next five years out of a total of about R500 billion for all the Sectors' projects. It may be that forestry was prioritised because of the rural nature of its investments and that they are in the form of fixed capital.

Members from industry pointed out to the President that while the entire forestry value chain was willing to invest, it could only be done if there was feedstock to underpin those investments as one cannot benefit that which doesn't exist. The challenges of lack of funding for small-scale black timber growers were also addressed including the need to improve the current support from the Department of Agriculture, Forestry & Fisheries (DAFF) in terms of unlocking new sources of timber resource.

4. RESEARCH OVERVIEW AND METHODOLOGY

The Annual Status of Transformation report for the Forestry Sector is conducted through a process of data collection, data organisation and analysis. This process can be described as a combination of primary and secondary research accompanied by a mixture of data collection tools.

The initial phase of data collection occurred through direct contact with Measured Entities in the Forest Sector mainly through telephonic contact and emails. It also involved visiting the measured entities website which at times provides information related to B-BBEE activities of the company. The platform through which the majority of required data is sourced is the Mpowered database. This is an online database where all organisations in SA who are verified for their B-BBEE activities can upload their B-BBEE certificates and affidavits. Companies can be searched for using their name or value added tax (VAT) number.

Once the information is collected it is coded into an excel spreadsheet where it is organised into categories reflecting the company size and subsector under which the measured entity operates. The larger Measured Entities require additional organisation as some submit underlying reports with their B-BBEE certificates. This additional information provides deeper insight into the Measured Entities' transformation activities. The information captured into

^{viii} South African Government. 2019. President Cyril Ramaphosa attends PPGI meeting and addresses Business Unity South Africa's inaugural Business Economic Indaba, 29 Jan. Accessed from: <https://www.gov.za/speeches/president-cyril-ramaphosa-attends-ppgi-meeting-and-addresses-business-unity-south-africa%E2%80%99s>

excel spreadsheets is converted into graphs which are meant to package the large volumes of data into comprehensive, graphic summaries of the industry's performance

The aforementioned graphs form the main body of the report and each graph is accompanied by an introductory statement explaining its origins, followed by an explanation of the graph and its relevance to transformation in the sector.

The analysis section of the report is often accompanied by a desktop literature review focusing on major incidences in the country's or 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 is mainly sourced online using Forestry South Africa's (FSA) "news" tab on their website. Google alerts have also been set up using key words such as "B-BBEE", "SA Economy" and others. The desktop literature review evaluates economic, social and environmental changes in the sector.

The report measures performance of MLEs, QSEs and EMEs across all subsectors. The last part of the sector analysis presents an overall performance of the industry as a whole.



4.1. RISKS

The following list outlines the potential risks faced when conducting research for the status report:

- i. Inconclusive and limited database containing all entities operating in the sector;
- ii. Highly inconsistent reporting amongst all measured entities, especially QSEs and EMEs;
- iii. Limited ability to report as some MLEs and unenhanced QSEs do not submit underlying reports;
- iv. High number of affidavits submitted from QSEs;
- v. Inability to verify information contained within affidavits;
- vi. Inconsistency in reporting formats used by various verification agencies resulting in some scorecards being more detailed than others;

5. SECTOR ANALYSIS

A total of 68 valid certificates were received for the current reporting year. This number has increased by 15 certificates in total from the 2017/18 reporting year. A significant increase was observed in MLE category as shown in Figure 1 below.

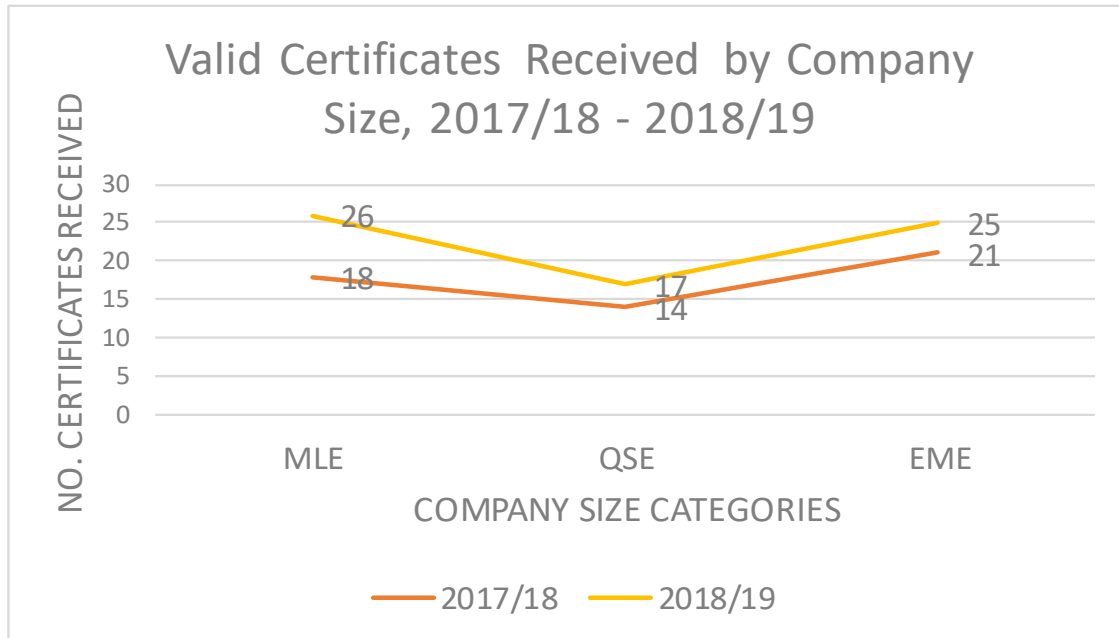


Figure 1: Certificates Received by Company Size

Certificates received from Measured Entities were categorised into the applicable subsectors as per the scope of application reflected in the Amended FSC. This is shown in Figure 2. Contractors dominated each category of company size except MLEs. MLEs also represent the most diverse collection of subsectors. As previously reported, none of the reporting entities represented the Charcoal subsector.

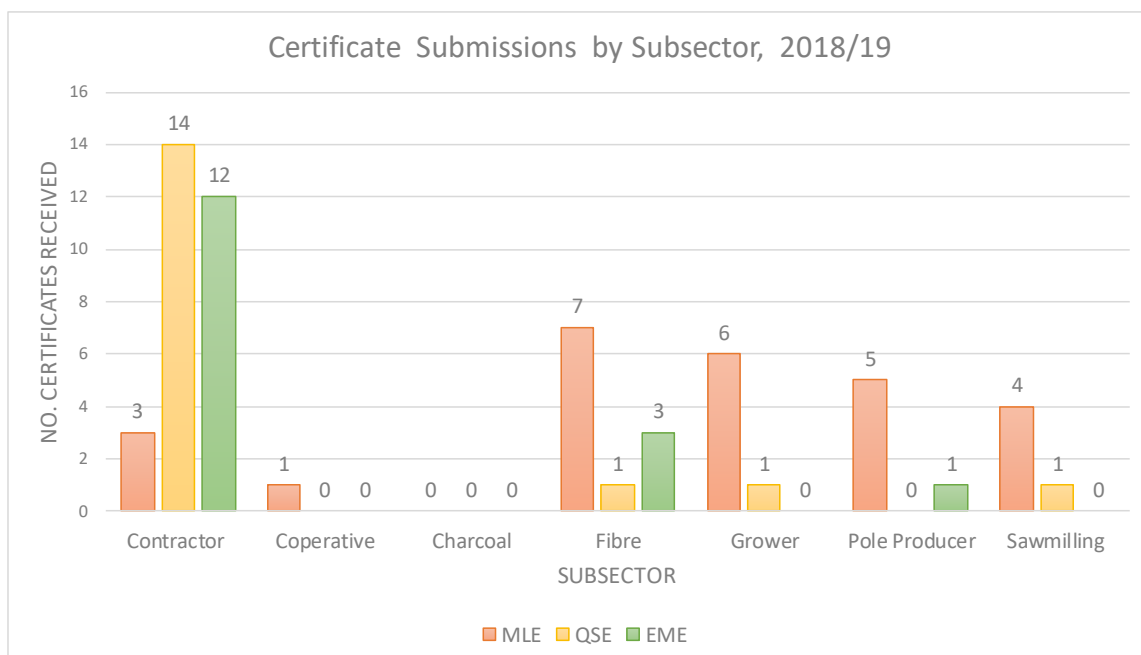


Figure 2: Certificate Submission by Subsector, 2018/19

5.1. MEDIUM AND LARGE ENTERPRISE (MLE) ANALYSIS

This reporting year serves as the second since the introduction of the Amended FSC in 2017. The Council had previously anticipated a reduction in MLE certificate submissions as some MLEs may have required additional time to adjust to the new principles and scoring criteria introduced with the Amended FSC. Some may also have preferred to improve their performance.

Although certificate submissions prior to 2017 MLE are not showcased in Figure 3 below, it is worth noting that MLE submissions have started to increase again. This reporting year ties the highest number of MLE submissions received in 2014/15 where 26 MLE certificates were submitted.

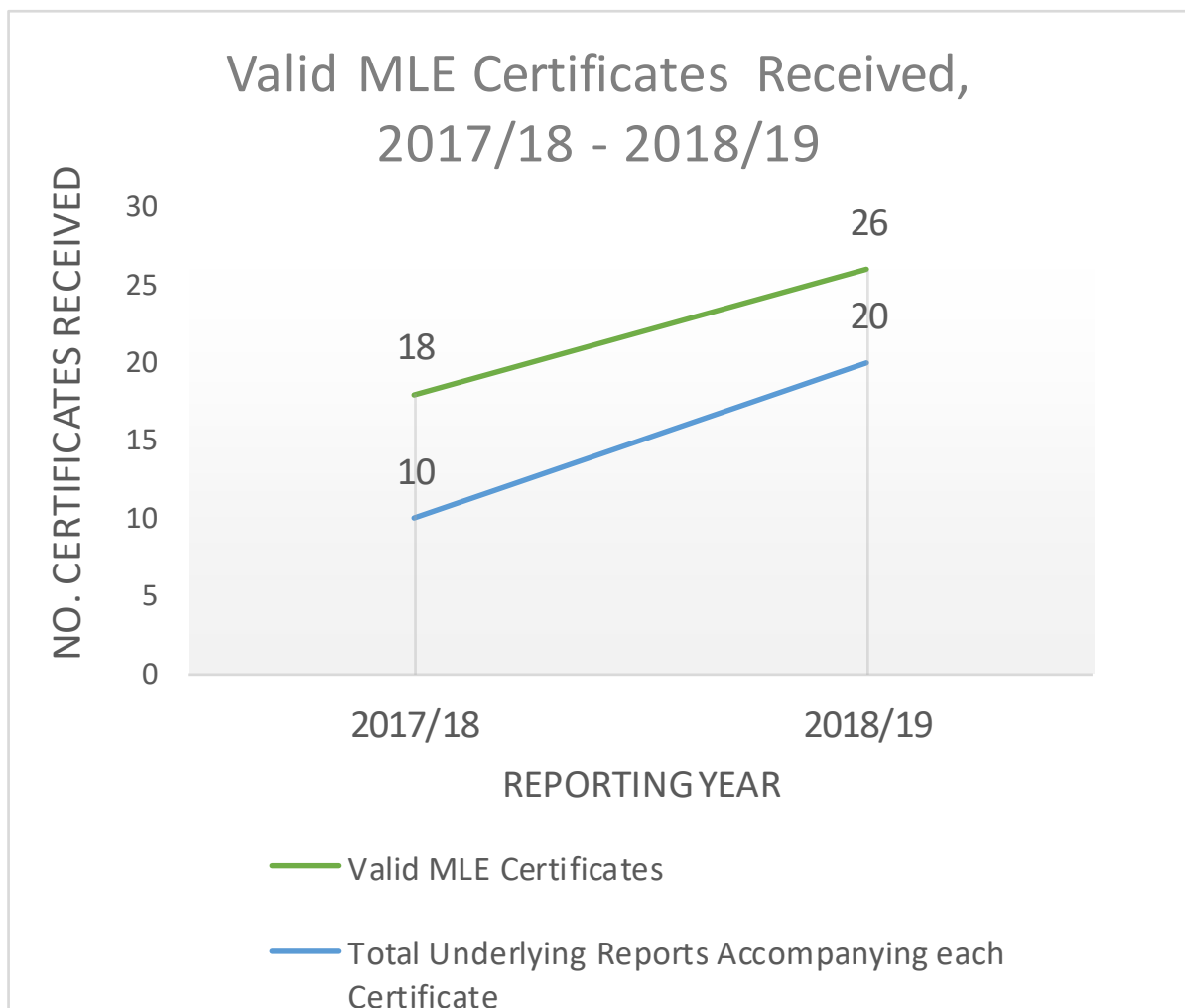


Figure 3: Valid MLE Certificate Submissions, 2018/19

The FSCC database shows that there could be an additional 7 MLE certificates although it has been established, through direct contact with some of these organisations, that some MLEs simply did not get verified this year; were verified using generic codes or the entity is a subsidiary of a large organisation that has submitted.

Figure 4 below compares the number of certificates submitted by each of the entities from the different subsectors. At times, establishing under which subsector each MLE falls becomes challenging as a number of MLEs operate across large portions of the value chain. However, it is clear that most MLEs (30,76%) fall under the fibre subsector. In 2014, South

Africa was ranked as the 15th largest producer of pulp in the world and 24th in terms of paper production. In the same year, the referenced subsector contributed R18,2 billion to the South African economy – equal to 0,6% of the country’s GDP.^{ix} There are also a number of pole producers reporting although two did not submit this reporting year.

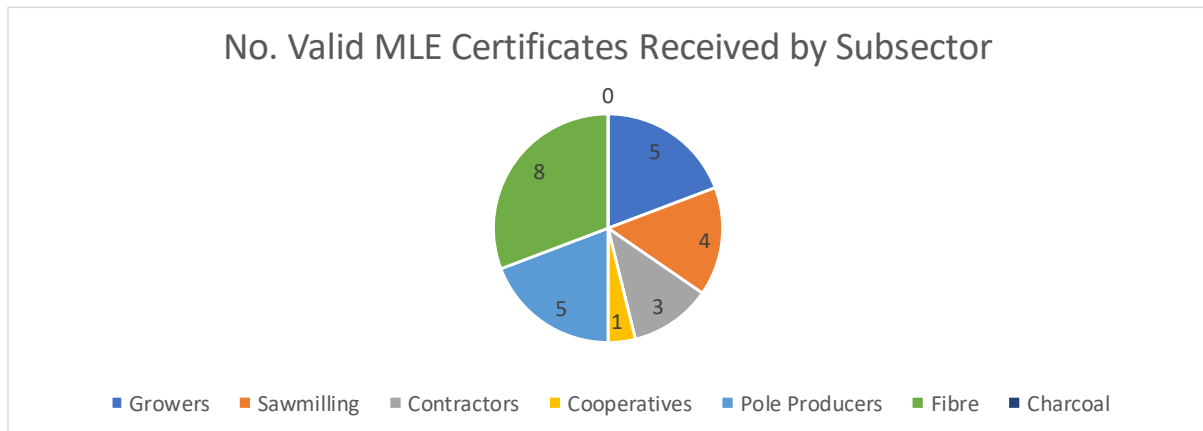


Figure 4: MLE Certificate Submission by Subsector

The verification process of Measured Entities entitles them to a score between 1 and 8 depending on the points achieved under each of the 5 scorecard elements. Figure 5 shows the distribution of levels achieved of 26 reporting MLEs for 2018/19. The figure shows that most MLEs achieved a rating of level 8, with 6 MLEs achieving this rating from the contractors, cooperatives, fibre, growers and sawmilling subsectors. Additionally, 4 MLEs were non-compliant (NC) this reporting year, an increase from 1 previously. Four MLEs also achieved a level 1, 3 of which are consistent reporters. None of the reporting entities received or was discounted to a level six (6).

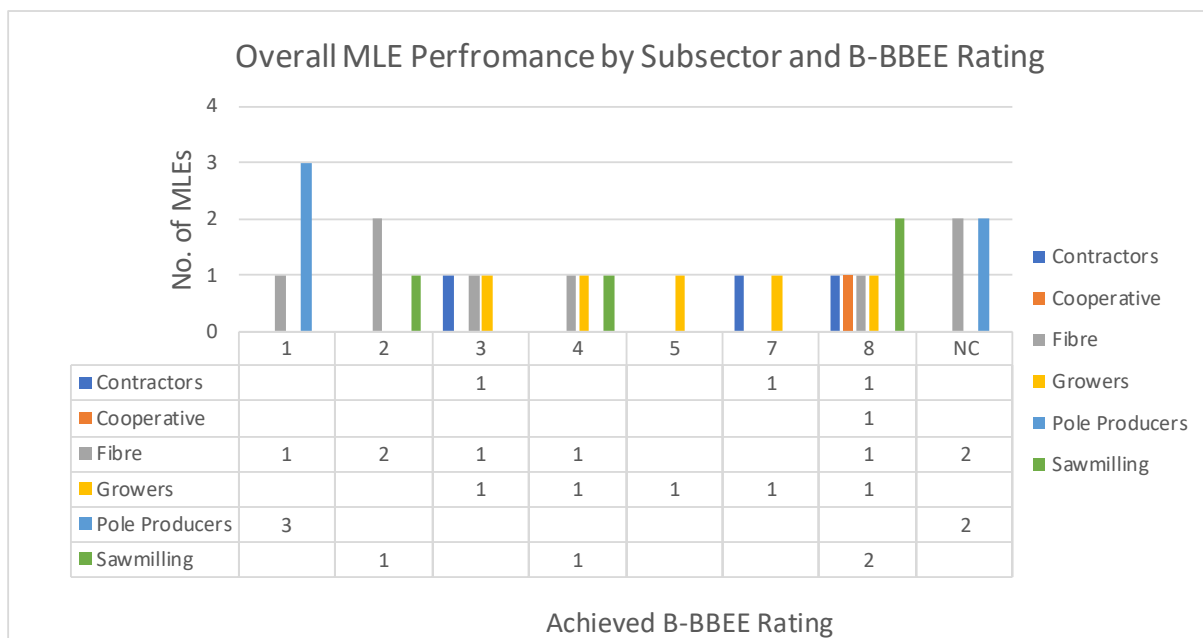


Figure 5: MLE Overall Performance by Subsector & B-BBEE Level

^{ix} IQ Business. 2014. A profile of the paper & pulp subsector. PAMSA; FP&M Seta.

The average score achieved by 24 MLEs (Excluding SAFCOL) was 72,19 points which gives MLEs a final B-BBEE rating of Level 6 according to the qualification criteria in the Amended FSC. Previously, MLEs achieved a score of 73,7 points which placed them at level 6.

5.1.1. OWNERSHIP

South Africa, through the B-BBEE framework and the Amended FSC has placed considerable emphasis on moving beyond the biophysical elements of forest sustainability by integrating the needs of beneficiaries in the pursuit of sustainable forest management. The aim is to promote the interests of poor and indigenous communities, in particular those who are directly dependent on forests. However, over the past decades, the livelihoods of poor, forest dependent communities have improved minimally if at all.

An area of particular interest is the role of forestry in economic development. Historically, emphasis on pro-poor forestry work has been on how communities use forests to support their subsistence needs.^x Through the B-BBEE ownership element, and currently through the proposed land expropriation without compensation mechanism, the SA government aims to put increased ownership back in the hands of rural forestry communities.

Rural forestry communities are also given access to the forestry economy through direct ownership of forestry enterprises. Previously, the FSC had set a target for industry to attain 30% black ownership (BO) and to increasing substantially the number of black people, including women, exercising control by 2015.^x In 2017/18 the average BO profile from 53 reporting forestry entities including small and medium sized companies was 47,46%. The figure reduced to 33,16% when only considering the large enterprises.

Through the B-BBEE framework, Measured Entities are assessed on their activities aimed at transferring ownership to previously disadvantaged people through transfer of assets and shares; granting of voting rights as well as timeous servicing of loans granted to purchase shares.

Figure 6 indicates the overall Ownership performance of MLEs for the first and second years of the Amended FSC. MLEs increased their overall performance by reaching over 74% of the Ownership target, up from 65,56% of the target in the first year of the Amended Codes. This indicates a 9% increase in Ownership performance. MLEs managed to attain a good Ownership score despite the large increase in submissions from entities who had previously not reported or achieving a NC status.

^x Bethlehem, L and Dlomo, M. n.d. Forests, Economics, And the Development Agenda. Department of Water Affairs. Accessed from:
<http://www.dwa.gov.za/Communications/Departmental%20Speeches/forestry%20paper%202.doc>

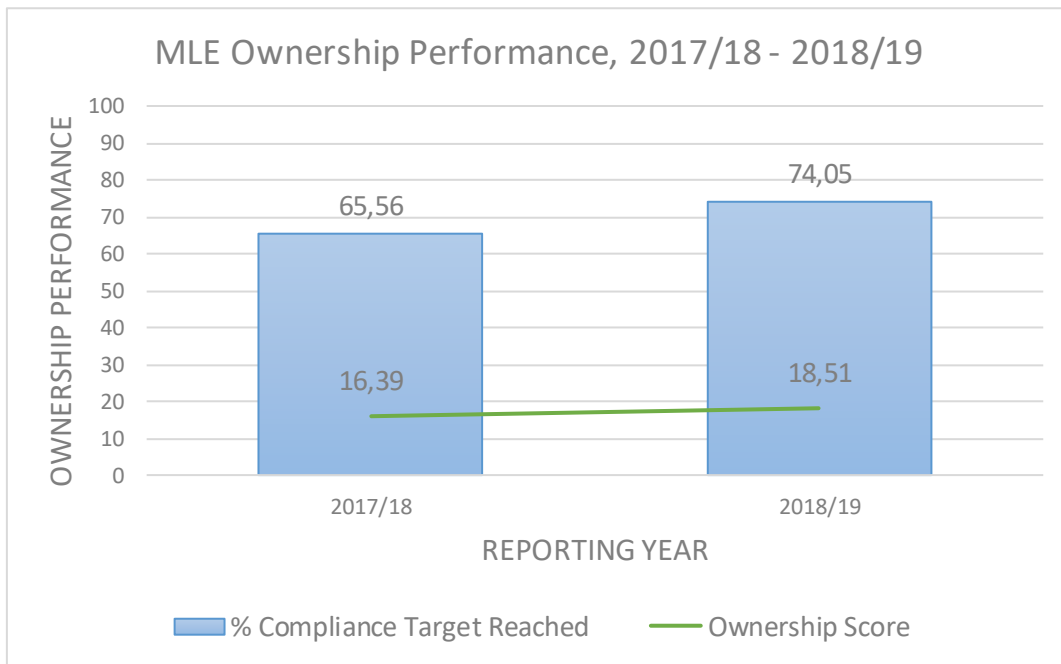


Figure 6: MLE Ownership Performance, 2017/18 – 2018/19

The Ownership performance of reporting MLEs was categorised into different subsectors as shown in Figure 7 below. This information may be useful when decision makers attempt to craft policy and strategy by targeting receptive subsectors or targeting under-performers.

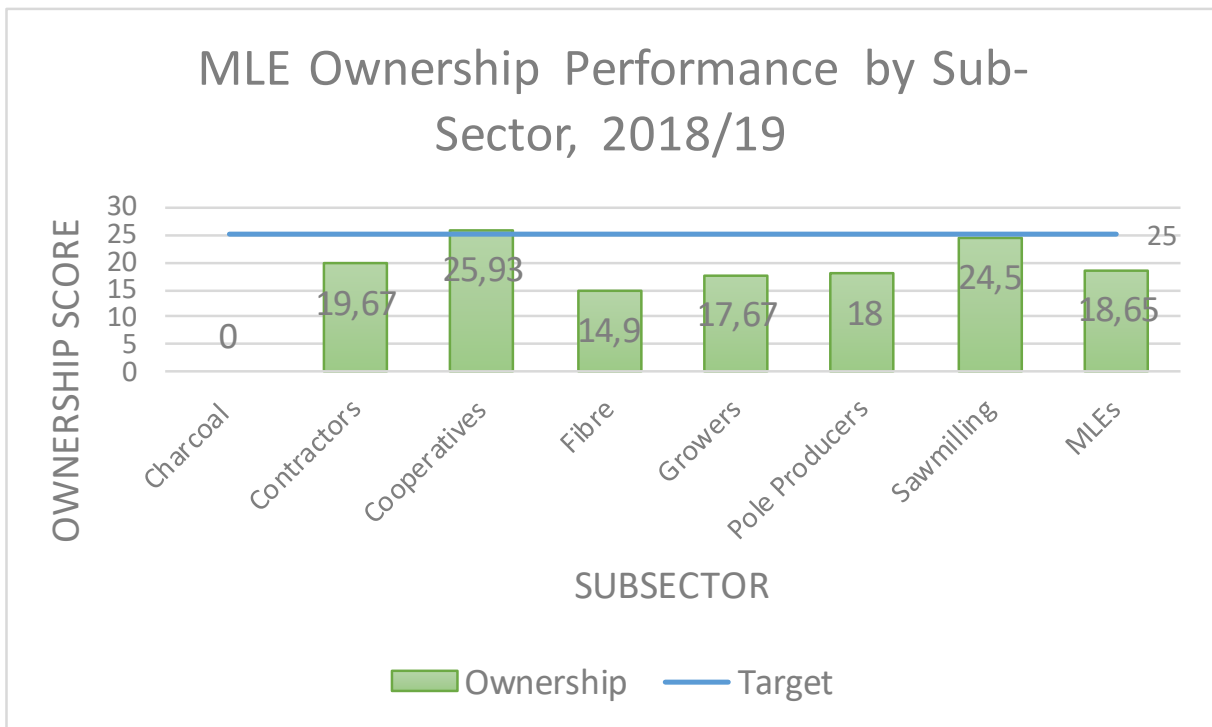


Figure 7: MLE Ownership Performance by Subsector, 2018/19

Only one cooperative submitted a certificate this year. Although this is not an official subsector of the industry, it is useful to assess this major company's activities as it plays a major role in providing market access to private and independent timber growers with access to over 300 000 ha of timber plantations. Their performance for ownership exceeded the target set out in the Ownership Scorecard.

The sawmilling subsector performed well under the Ownership scorecard achieving 98% of the target. This has slightly reduced from the previous year where 4 sawmilling MLEs reached over 99% of the Ownership target. The slight reduction may be due to submission from a previously non-submitting sawmiller, who scored a level 8 B-BBEE rating or non-submission from a previous submitter with a good score for Ownership.

The remaining subsectors, excluding charcoal and fibre each managed to score over 60% of the target. These subsectors all managed to increase their performance from the previous year substantially except for the grower’s subsector whose score declined by 1,63 points.

Figure 8 below provides a breakdown of the performance of 19 MLEs that submitted underlying reports with their B-BBEE certificates. MLEs are required to allocate 25% of their voting rights to black people and a further 10% of voting rights to black women. Twelve (78,9%) of measured MLEs achieved or exceeded the target of 25% voting rights in the hands of black people.

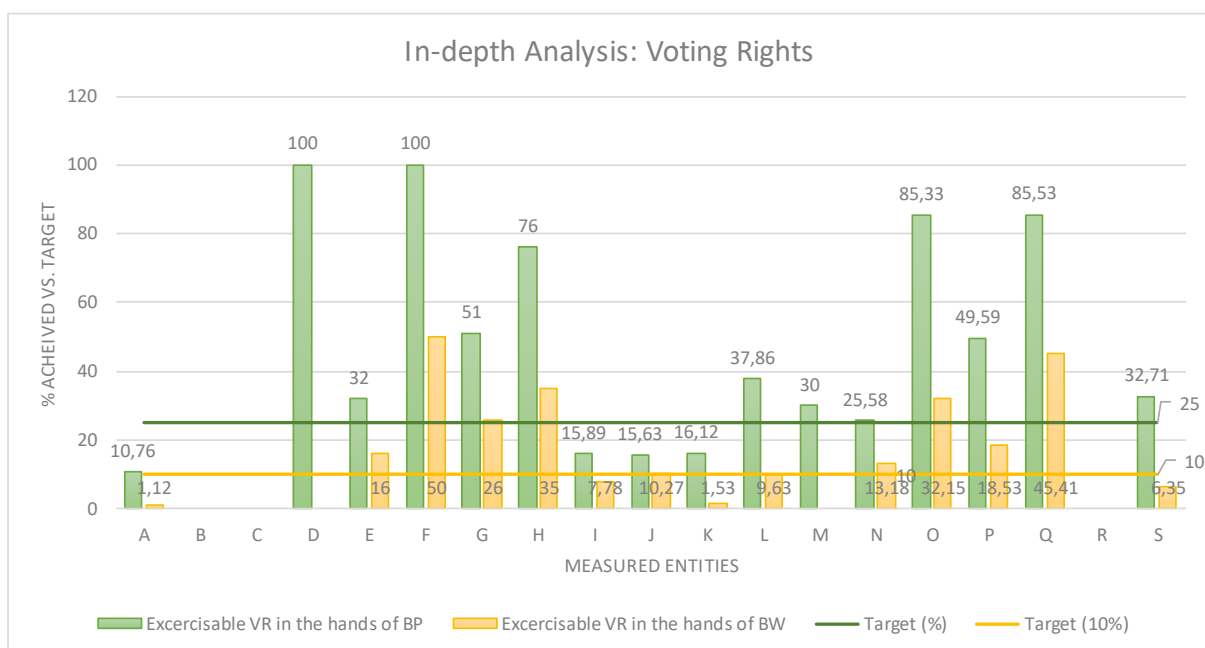


Figure 8: MLE Analysis: Voting Rights in the Hands of Black People

The average score for voting rights achieved previously was 27,8%. This means that on average, MLEs were exceeding the target set at 25% voting rights in the hands of black people. Currently, MLEs have increased their voting rights score to 40,21%. (This is based on 19 underlying certificates opposed to 10 in 2017/18).

Only 9 (47,36%) of measured MLEs achieved or exceeded the target for voting rights in the hands of black women. This shows that the industry struggles to place black women in positions where they can exercise their voting rights despite the perceived increased effort to increase black ownership as a whole. The average voting rights for black women has increased slightly from 11,16% to 14,37% in the current year.

Some B-BBEE practitioners have criticised the manner in which black ownership is measured as indicators such as voting rights do not include any involvement in the operation of the entity or involve any upskilling of shareholders. This indicator, along with economic interest, simply entitles a shareholder to vote on proposed shareholder resolutions, and receive dividends in the event that the company declares any.

The Ownership elements further assess economic interests in the hands of black people and women. Through the ownership element, black shareholders are required to receive dividends, if the measured entity declares a profit. Measured MLEs are required to allocate 25% of shareholding to black people and 10% of shares to black women. Figure 9 below provides insight into shareholding structures of the eighteen reporting MLEs.

Eleven (57,9%) of reporting MLEs reached or exceeded the target for economic interest in the hands of black people. In-fact, the exact same companies who exceeded the voting rights target in figure 8 exceeded the economic interest target. Performance for economic interest in the hands of black women was similar to the performance for voting rights of black women with 9 entities reaching or exceeding the target.

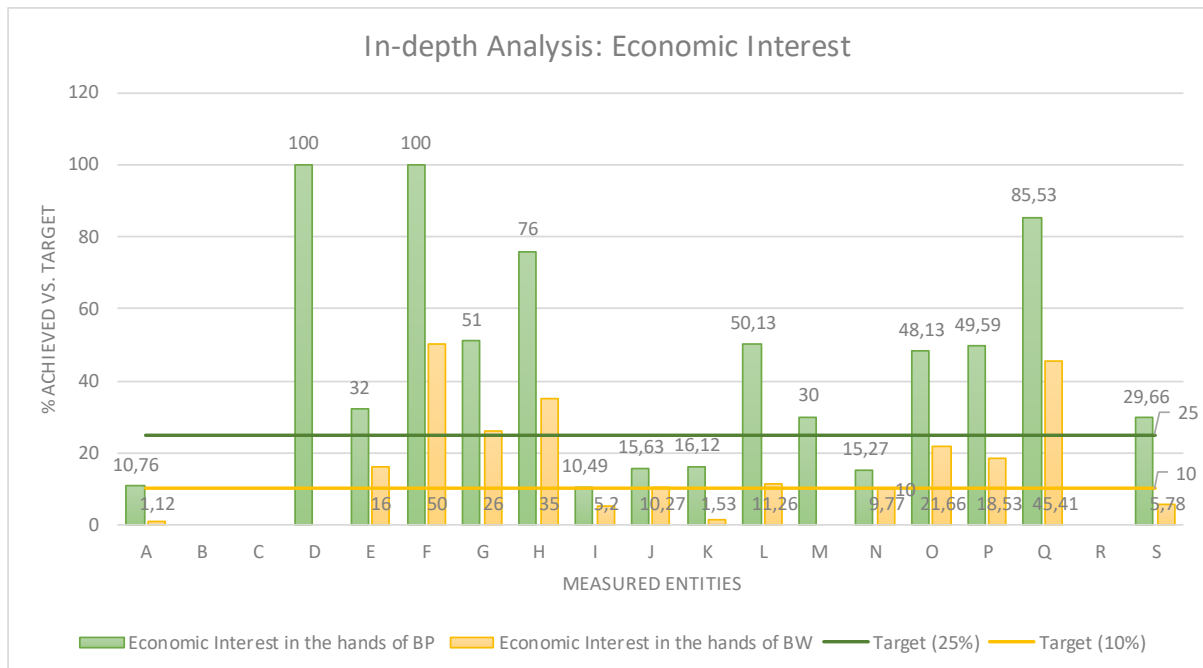


Figure 9: MLE Analysis: Economic Interest in the Hands of Black People

Table 1 below displays black people and black women ownership data of 25 submitting MLEs. (SAFCOL was not included as it is not measured on Ownership). The table shows that the average percentage BO and BWO has increased slightly from 33,09% to 41,52% and 10,8% to 14% respectively.

It is also interesting to note that the number of entities that have 0% BO have remained the same despite an increase in the number of submitting MLEs from 18 to 25. The number of entities with 0% BWO has increased from 5 to 8.

Just over half (50%) of MLEs have a BO profile that lies between 0 and 51%. This is further confirmed by the 1st quartile (11,98%) and the median (35,63%) which show the numbers under which 25% and 50% of the data lie.

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

	Direct Black Ownership	Direct Black Women Ownership
Minimum	0	0

Q1	15,63	0
Median	39,26	10,27
Mean	41,52	14,00
Mode	0	0
Q3	51	20,02
Maximum	100	44,94
No. of entities scoring 0% Ownership	4	8
No. of entities scoring above 0% but below 51% Ownership	13	17
No. of 51% BO entities	2	0
No. of entities scoring above 51% but below 100% Ownership	3	0
No. of 100% BO entities	3	0
Total No. of Measured Entities	25	25

The mean >> median for both BO and BWO. This indicates that the data for BO is skewed to the left as can be seen in Figure 10 below. This means the bulk of the data is distributed below the mean (most entities are scoring below the industry MLE average value).

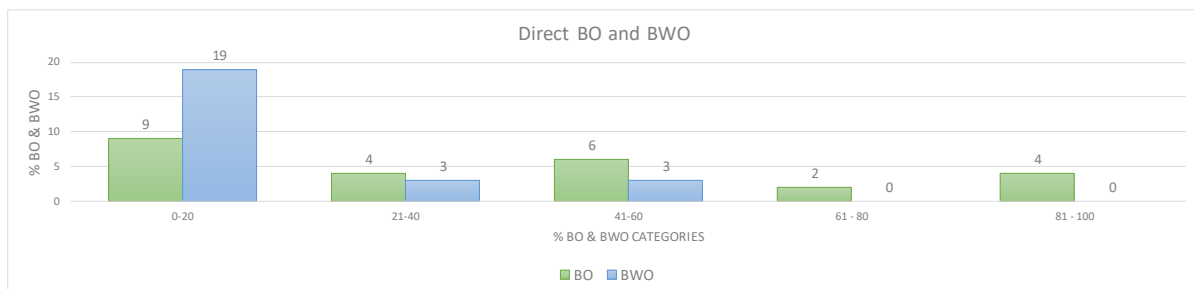


Figure 10: Distribution of BO and BWO amongst MLEs

B-BBEE share schemes are viewed as vehicles of wealth creation and diversification of corporate ownership. The company typically raises debt, issues shares at a discount and raises capital from previously disadvantaged individuals to purchase equity. This block of shares is then owned by B-BBEE shareholders and qualifies for points in terms of B-BBEE scorecard and other B-BBEE legislation.^{xi}

Historically, not all share schemes have created shareholder value for BEE investors. Sometimes, the value of the BEE share is equal to or lower than the debt portion of the share. Other times, the BEE share price upon maturation of the scheme is lower than the purchase price. The success of and effectiveness of a share scheme is thus often dependent on the parent company's performance and the investors ability to maintain their shareholding long-term.^{xi}

^{xi} Omar, N. 2018. BEE share schemes 101. Destiny Connect. Accessed from: <https://www.destinyconnect.com/2018/02/28/bee-share-schemes-101/>

In order to address these challenges, the net value indicator has been prioritised to ensure that black people are not exploited when participating in empowerment deals where they often fall into debt due to inability to service loans used to purchase shares.

The figure below reveals the extent to which measured MLEs are meeting their targets in terms of the priority element – net value.

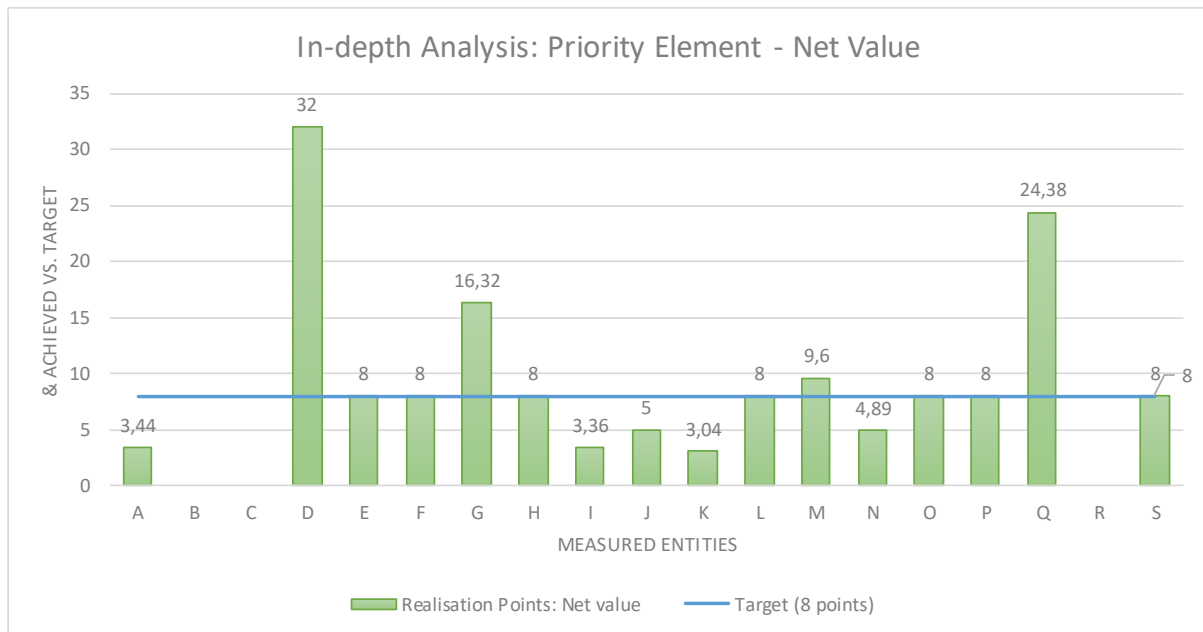


Figure 11: MLE Analysis: Net Value – Priority Indicator

Eleven (57,89%) MLEs achieved the full target points for the net value indicator. A further 4 (21%) MLEs reached at least 40% of the target (subminimum requirement) while 3 (15,79%) Measured Entities did not score any points under this indicator. These 3 entities were subject to discounting (due to not reaching the subminimum requirement of 3,2 points) and their final B-BBEE level was automatically reduced by 1 level.

5.1.2. MANAGEMENT CONTROL

South Africa is in dire need of an economy that can meet the needs of all its citizens in a sustainable manner. This is only possible if our economy, businesses and government build on the full potential of all persons and communities across the country.

B-BBEE is often criticised for its narrow-based nature in that a great deal of emphasis and resources are allocated towards the Ownership element. The newly introduced eligibility for enhancement for QSEs comes to mind. Relatively profitable entities (annual turnover between R10 million and R50 million) may now relinquish the remaining 4 elements and automatically gain a level 1 or 2 B-BBEE status based solely on having majority BO.

This has the effect of removing all possible benefits communities may have gained through the Skills Development, Enterprise and Supplier Development and Socio-Economic Development elements? It may also affect any potential benefits that may have arisen from the existence of management teams that are representative of the demographics of the country? These elements are important too and many of them may not become a priority in a company that is managed and control by the exempt majority.

Management Control (MC) is a crucial B-BBEE element. It accounts for almost 20% of the FSC Scorecard and is aimed at promoting and employing more black people in executive and management positions in forestry companies.

A 2018 report released by the B-BBEE Commission on the national status and trends of Broad-Based Black Economic empowerment for 2017 shows that JSE listed companies have only 38% representation of black people on their boards, with males accounting for 20% while females stand at 18%. The report shows a decline in black ownership by 5.75% and black female ownership by 1.96% compared to the 2016 report.

Results from the 2017/18 forestry Status of Transformation report show that the average representation of black people on boards is similar to that of the JSE with 36,6% black representation of black people on boards with voting rights. Female representation at this level stands at 8,42%.

Figure 12 indicates MLE performance with regards to the MC Scorecard from the inception of the Amended FSC to the current year. It shows that performance is similar despite the increased number of submissions received in the current reporting year.

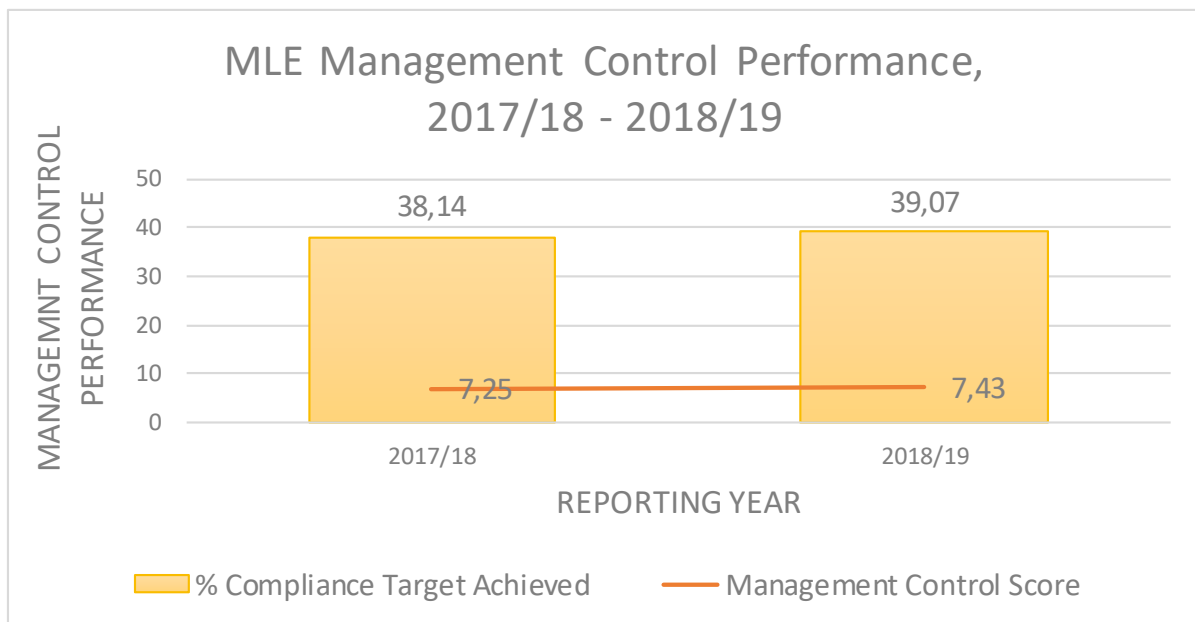


Figure 12: MLE Management Control Performance, 2017/18 – 2018/19

Figure 13 is a graphic representation of each forestry subsector’s performance under the MC element. None of the measured subsectors managed to achieve even 50% of the target except contractors.

In 2017, the National Treasury prepared a report discussing transformation of the South African economy. This report questioned the value of heavily placing emphasis on measuring whether South African companies had adequate black ownership. The report claimed that Black economic empowerment (BEE) codes failed to fix inequalities, partly because of the focus on shareholdings rather than on black management of companies.

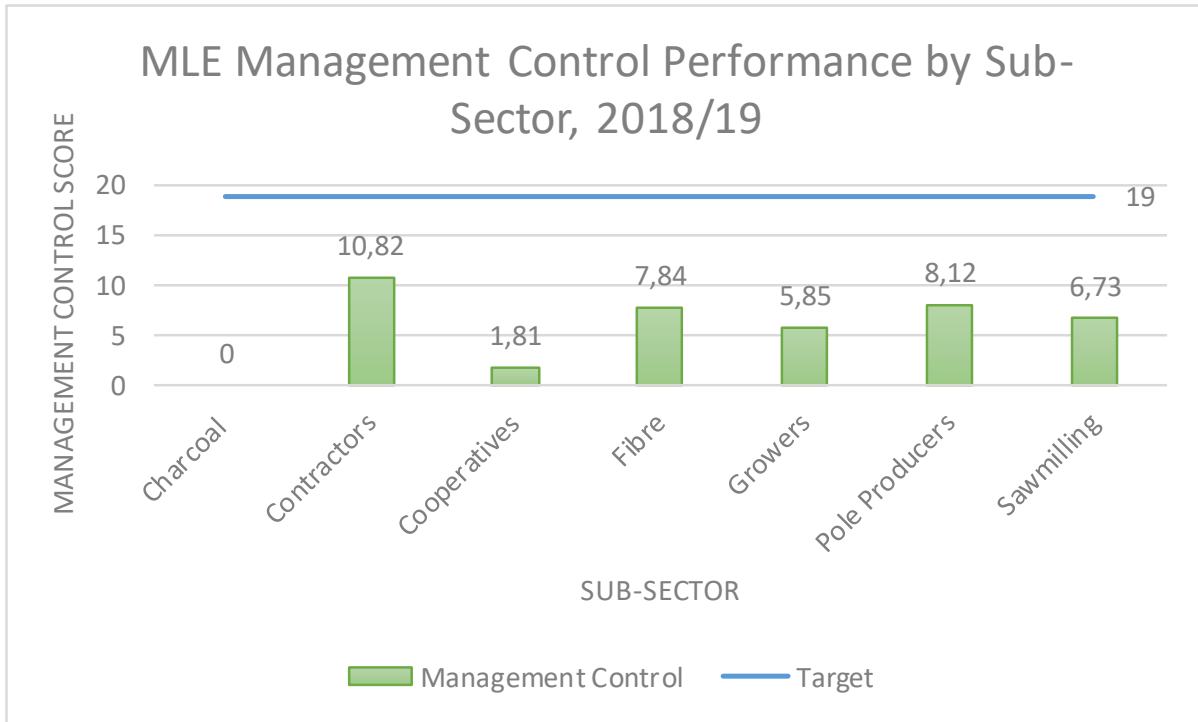


Figure 13: MLE Management Control Performance by Subsector, 2018/19

This statement is evidenced within submitted Forest Sector Scorecards. Throughout the MC Scorecard, which has now been merged with employment equity, a clear pattern appears where black representation in management positions decreases with increasing seniority. However, black representation increases again as we reach the executive and board positions. These positions are mostly derived from shareholders.

It is evident from Figure 14 below that MLEs find it increasingly difficult to meet the targets set out for black representation in management, especially with increasing seniority. The figure displays the % target achieved by MLEs for each MC sub-indicator.

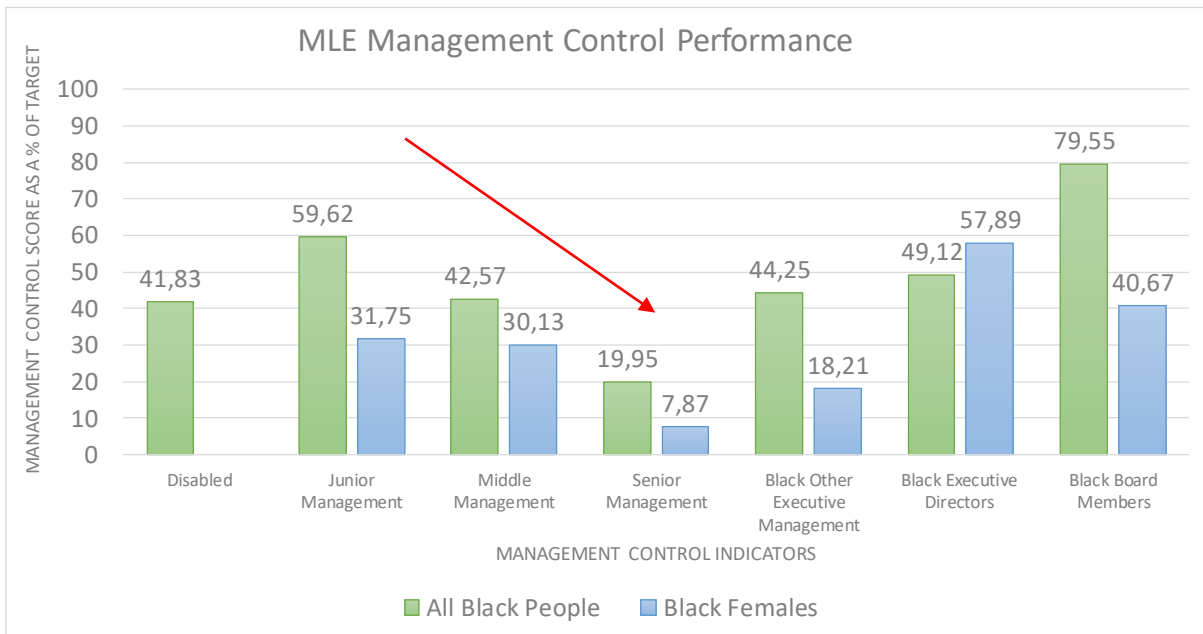


Figure 14: MLE Management Control Performance by Indicator

The afore-mentioned trend abruptly changes with the executive management and voting rights indicators. This may be due to the emphasis placed on ownership through voting rights and economic interest rather than management and control of companies. Figure 14 further shows that Measured Entities struggle to achieve targets set out for black female representation at management level especially at senior management and “other” executive director level.

MLEs are set a target of 60% for other black executive directors as a percentage of all executive directors while the target for black females is 30%. These executives do not necessarily serve on the Measured Entity’s Board. They include the Measured Entity’s chief executive, financial, transformation, technology and other officers. The performance of MLEs in these indicators is shown in Figure 15.

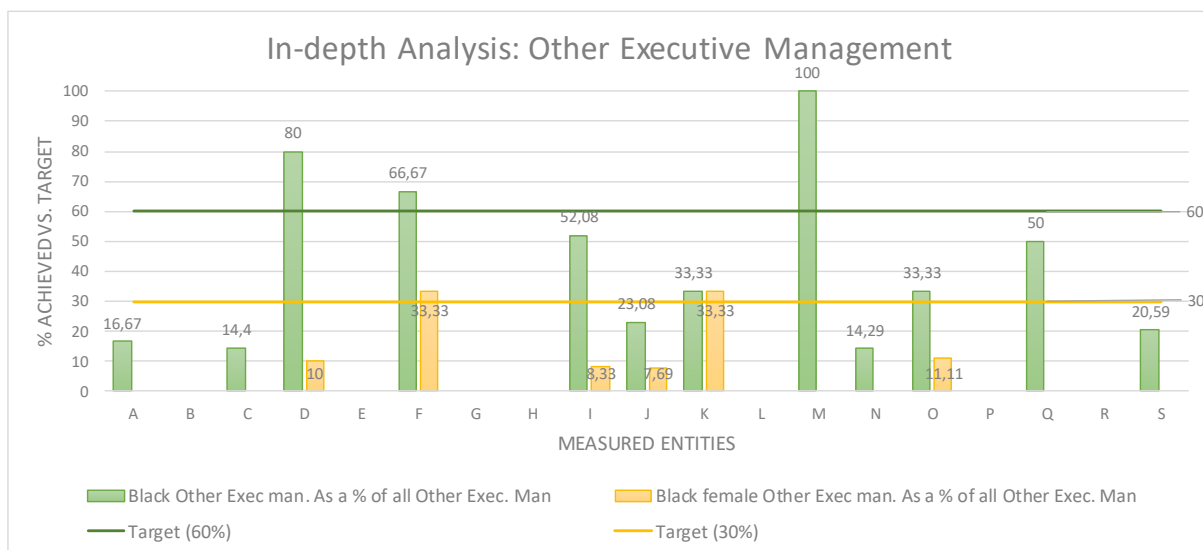


Figure 15: MLE Analysis: Board Participation by Black People through Executive Management

Figure 15 shows that 7/19 (36,8%) MLEs do not have black representation at “other” executive level while only 3 (15,8%) of MLEs reached the target for this indicator. A further 13/19 (68,4%) MLEs scored zero points for black women representation at “other” executive director level.

The MC element also assesses participation of black people at senior management level. MLEs are set a target of 60% for black people in senior management. The average percentage of black people in senior management for 2018/19 is 11,97%. This highlights the poor performance by MLEs in this regard.

The MLEs performance for this indicator is shown in Figure 16. Eight (42,1%) submitting MLEs did not have any black people in senior management. At times, the senior management indicator is left out of certain Measured Entities’ certificates. This may indicate that the MLE does not have any senior management positions.

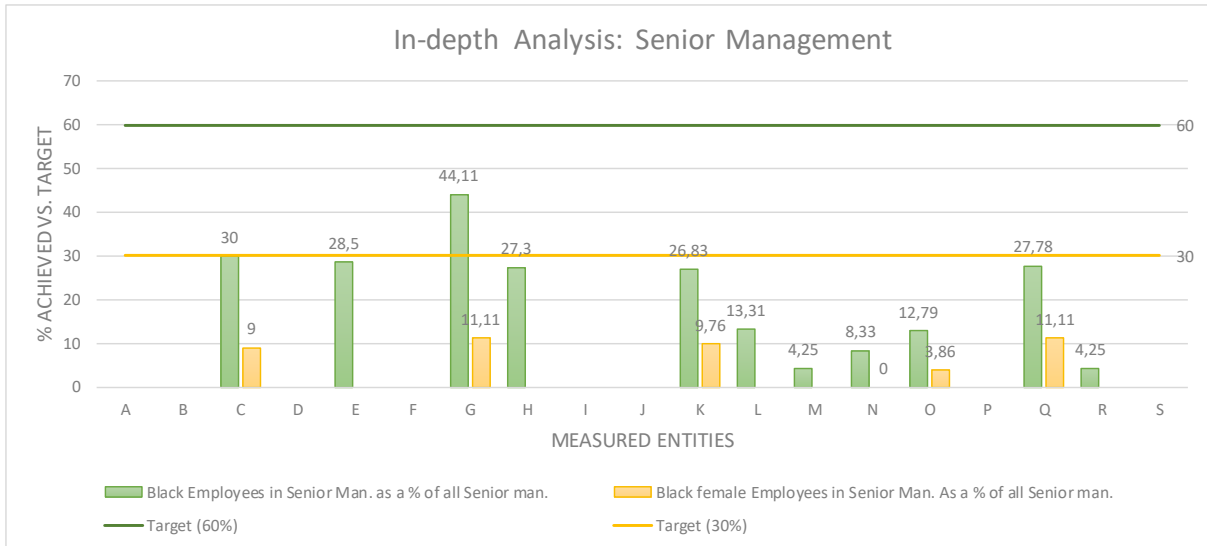


Figure 16: MLE Analysis: Black Representation at Senior Management level

Participation of black women in senior management is also measured under the MC element. The target is set at 30% of all senior managers. Only 5 (26,3%) MLEs have black women in senior management and all are significantly below the target.

Targets of 75% and 38% are set for black people and black women as a percentage of all middle managers. Figure 17 shows MLE performance for employing black people and black women in middle management. The figure shows that MLEs are performing better for middle management than senior management as less entities received 0 points for these indicators. However, none of the entities reached the target.

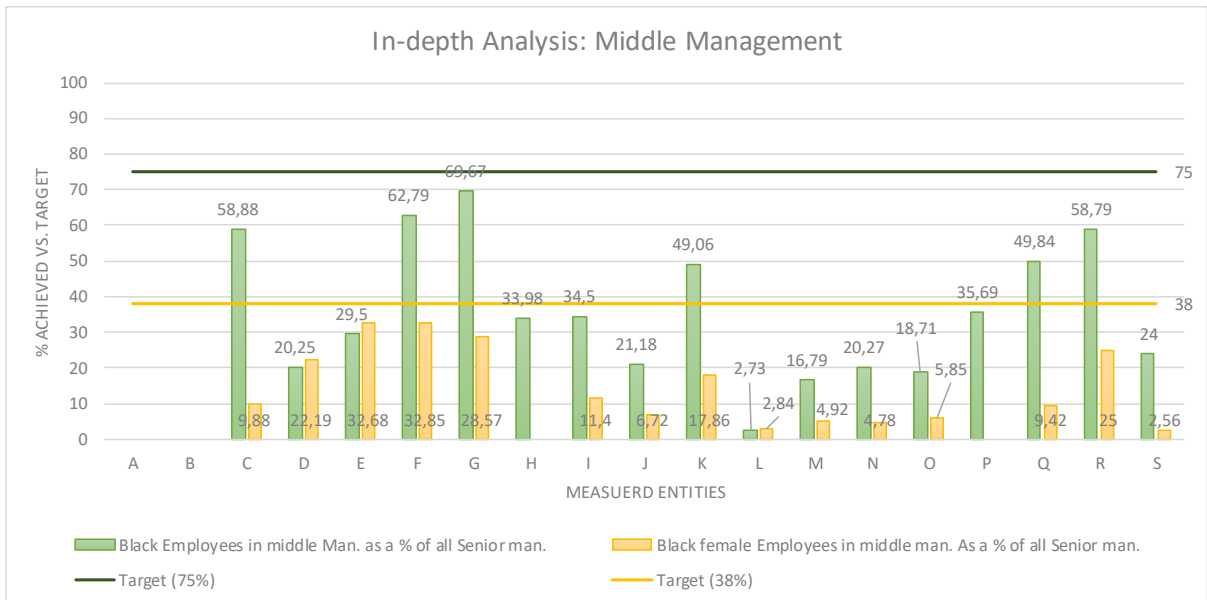


Figure 17: MLE Analysis: Black Participation at Middle Management

Only 2 (10,5%) MLEs scored 0 for black people in middle management while 6 (31,6%) managed to achieve at least 50% of the target. Four (4) entities scored 0 for black women in middle management while 5 (27,7%) achieved at least 50% of the target.

MLE performance at junior management level is relatively good considering the high targets set for black representation at junior management level (88%) and black female

representation at junior management level (44%). One (5,5%) Measured Entity exceeded the target while a further 15 (78,9%) companies achieved or exceeded 50% of the target. The average representation of black people at junior management level is 52,46%, although significantly lower than the target, it shows that at least half of all junior managers in the sector are black.

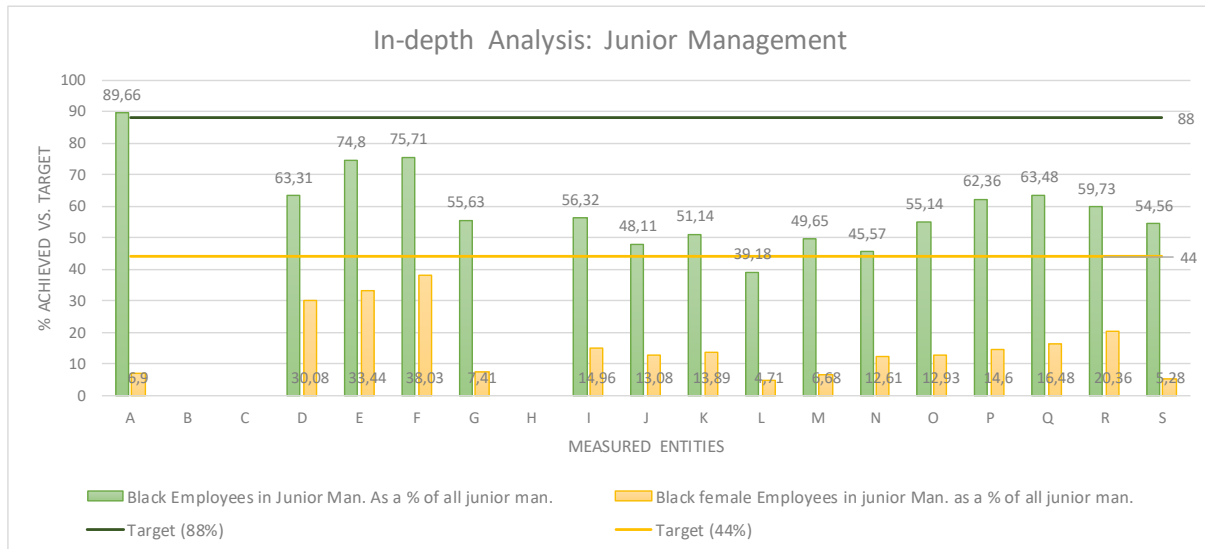


Figure 18: MLE Analysis: Junior Management

Female representation is once again poorer even at junior management despite the lower target. Three (3) (15,8%) Measured Entities scored 0 for this indicator while a further 3 (15,8%) entities achieved at least 50% of the target. The average percentage of black females at junior level is 13,97%.

Forestry MLEs are required to include people living with disabilities in their office-based positions.

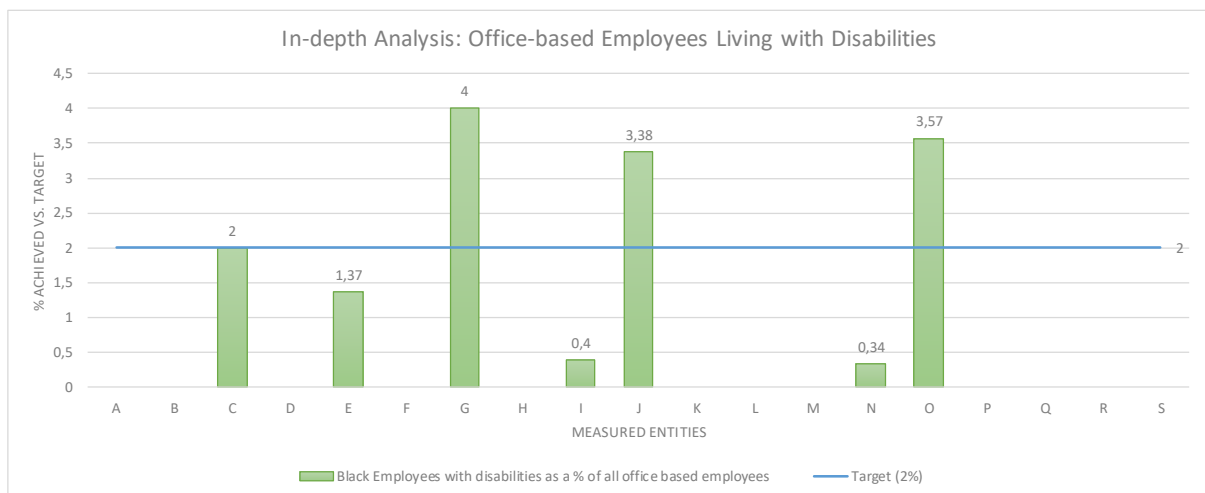


Figure 19: MLE Analysis: Disabled Employees

A target of 2% of all employees is set. MLEs averaged 0,84% for differently abled employees as a percentage of all employees, achieving almost 42% of the target. Twelve (12) entities (63,2%) do not have any differently abled employees as shown in the figure above.

5.1.3. SKILLS DEVELOPMENT

There is a huge skills shortage in SA which impacts negatively on the country's ability to compete globally. A legacy of the country's segregated past, SA's critical skills shortage is defined along racial and gender lines. In an effort to address the country's skills shortages, which in turn directly and indirectly influence employment rates; economic growth, productivity and global competitiveness; legislative frameworks such as the Skills Development Act have been introduced.

The Skills Development Act, No. 97 was developed in 1998 by the South African government. It aims to:

- *Provide an institutional framework to devise and implement national, sector and workplace strategies to develop and improve the skills of the South African workforce;*
- *Integrate those strategies within the National Qualifications Framework contemplated in the South African Qualifications Authority Act, 1995;*
- *Provide for learnerships that lead to recognised occupational qualifications;*
- *Provide for the financing of skills development by means of a levy-grant scheme and a National Skills Fund;*

All companies in South Africa whose gross annual salaries bill exceeds R500 000 per annum are required to register for skills levies through SARS and register with the relevant SETA. These companies are subsequently expected to pay 1% of their monthly salary bill to the Skills Development Levy. These funds are shared disproportionately between SARS (8%); the National Skills Fund (12%) and SETAs (80%).

Registered companies who engage in skills development and training initiatives qualify for reimbursement of up to 55% of their SD levies. The Skills Development Levy framework thus relies on a "carrot" and "stick" paradigm.



Figure 20: Sappi Ngodwana Skills Acquisitions Centre

SAPPI Skills Training Centre – Ngodwana

The primary focus of the Sappi Skills Centres is to provide local unemployed youth with vocational skills that will enable them to create local businesses. This is done through three categories of learning programmes:

- Basic Handyman
- Basic Engineering Training
- Contracted Apprentices

In 2018, the Sappi Training centre had 112 students including own employees and community members.

Of these students, some were training as artisans (electrical, fitting & turning and millwrights), production interns and engineers.

Previously, under the repealed FSC, the Forestry Industry's Skills Development (SD) performance could be described as fair at best. In the 2011/12 FY, the industry scored 8,35 overall points out of 15 (55,7% towards the target). Industry SD performance then fluctuated over the remaining term of the repealed codes reaching 7,71 points (51,4% towards the target) in the last year of the Old codes (2016/17).

In light of SA's critical skills shortages, the new forestry codes demand a far greater investment in SD with added emphasis on formal and accredited training; training of employed and unemployed learners; as well as absorption of unemployed learners.

The FSC specify that informal, internal (category F and G) training which is usually unaccredited is now limited to less than 15% of a measured entity's total value of SD. While this type of training may lead to the employee's better understanding of the job and work context, it does not provide the employee with an accredited qualification that can be leveraged outside the current work environment.

Figure 21 below is an excerpt from the FP&M Seta's list of scarce skills including a few forestry subsectors covered by the SETA. The Fibre, Processing and Manufacturing Sector Education and Training Authority (FP&M Seta) list ICT, engineering, technological skills, machine repair and maintenance skills and operators as the main skills in shortage amongst others.

Furniture	CNC machining (Computerised Numerical Computer); CNC technical management; CNC machine centre management; Furniture designing; Production management; Store keeping; Tape edging; Upholstery
Forestry	Chemical spraying; Environmentalists; fire fighting; Chainsaw operators; Production foreman; Foresters; ABET.
Packaging	Plant and Machine operators and assemblers, Sales and Plant workers, Technicians and Associate professionals, Factory Managers
Pulp and Paper	Artisans (Electrical, Mechanical); Maintainer Operators (Tissue Converting); Electrical Technicians; Process Controllers; Management Accountants; Project Managers; Papermakers; Pulp makers; Chartered Accountants; Civil Technicians;
Wood Products	Saw doctors; Slicers; Splicers; Dryers in veneer manufacturing; Veneer grading; Timber Drying Kln Operator.

Figure 21: Excerpt from FP&M Seta "Scarce Skills in The Sector" publication. Accessed from: http://careers-fpmseta.org.za/?page_id=816

The figure further reveals that forestry subsectors are experiencing a critical shortage of artisans, managers, engineers and machine operators. A visit by the FSCC to a major forestry company in 2018 shed some light on challenges faced by industry in implementing SD initiatives. One of these challenges is the "mis-alignment between FP&M Seta skills requirements and the needs of the industry" explained the head of the training centre.

Another entity shared that although their in-house courses were currently not accredited, they were working with the FP&M Seta as and PAMSA to design accredited courses for their training centre. This entity also voiced their concerns of misalignment between SETA courses and industry needs. Further to this, forestry companies have historically struggled to source qualified candidates from the previously disadvantaged demographic as the level of skills required were not available in this group.

Figure 22 shows the current years' SD performance for reporting MLEs benchmarked against the previous reporting year's performance. It is worth noting that 9 MLEs reported in 2018/19 that did not report in the previous year (one of which was reporting as a QSE previously). The average SD score for these entities is 5,48 points which is relatively low compared to the average for the consistent reporters which stands at 12,85 points. This may be the reason behind the drop of 3,54 points from the previous year as shown in figure 22.

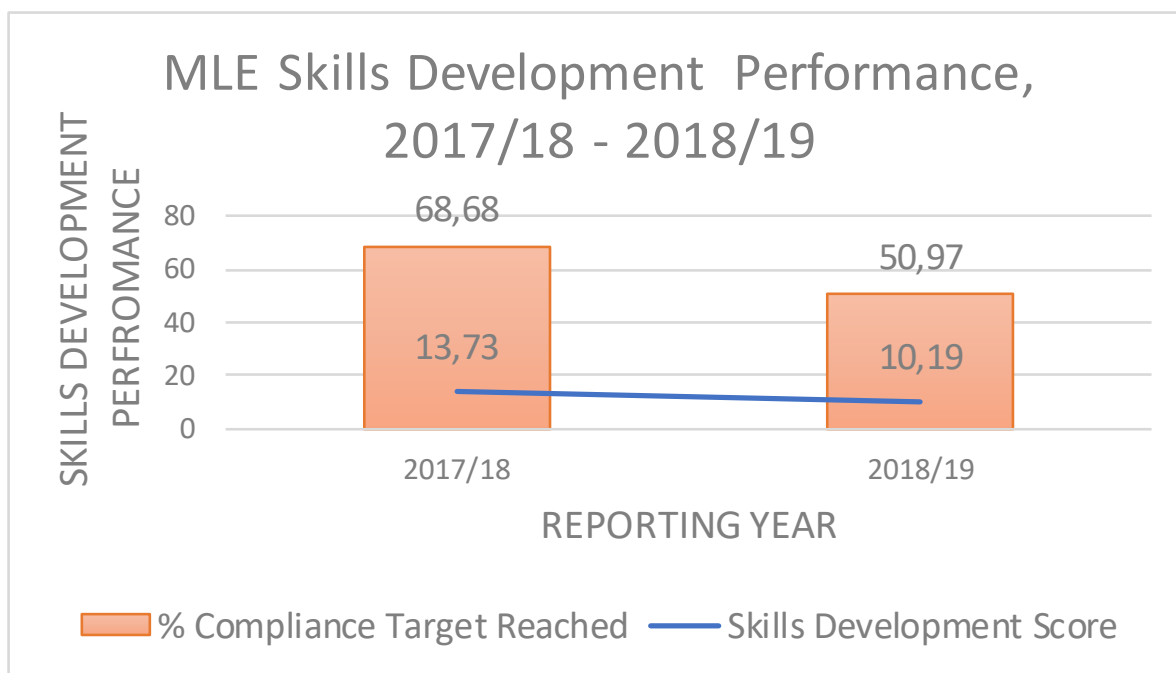


Figure 22: MLE Skills Development Performance, 2017/18 – 2018/19

The poorer SD performance in the second year of the Amended FSC is concerning, although it is reassuring that more enterprises reported this year.

The current economic climate of the country may be a contributing factor as some companies may be tightening their fiscus by dropping perceived “unnecessary costs” such as skilling and training.

Figure 23 shows the current SD performance by subsector. The charcoal subsector continues to be NC while other subsectors such as contractors have seen a change in representation as some contracting MLEs are now QSEs and vice-versa under the adjusted thresholds. The current reporting year has also seen the introduction of a number of forestry cooperatives reporting.

Three (3) contracting MLEs reported this year. Their combined average score of 11.75 is welcomed as the reporting contractors specialise in mechanised forestry including equipment sales and maintenance while the other two entities are major harvesting, silviculture and transportation contractors for some large MLEs. A high SD score implies that these contractors are training and skilling employed and unemployed black people in areas identified as scarce in the FP&M Seta skills matrix. This includes machine operators, engineers and artisans.

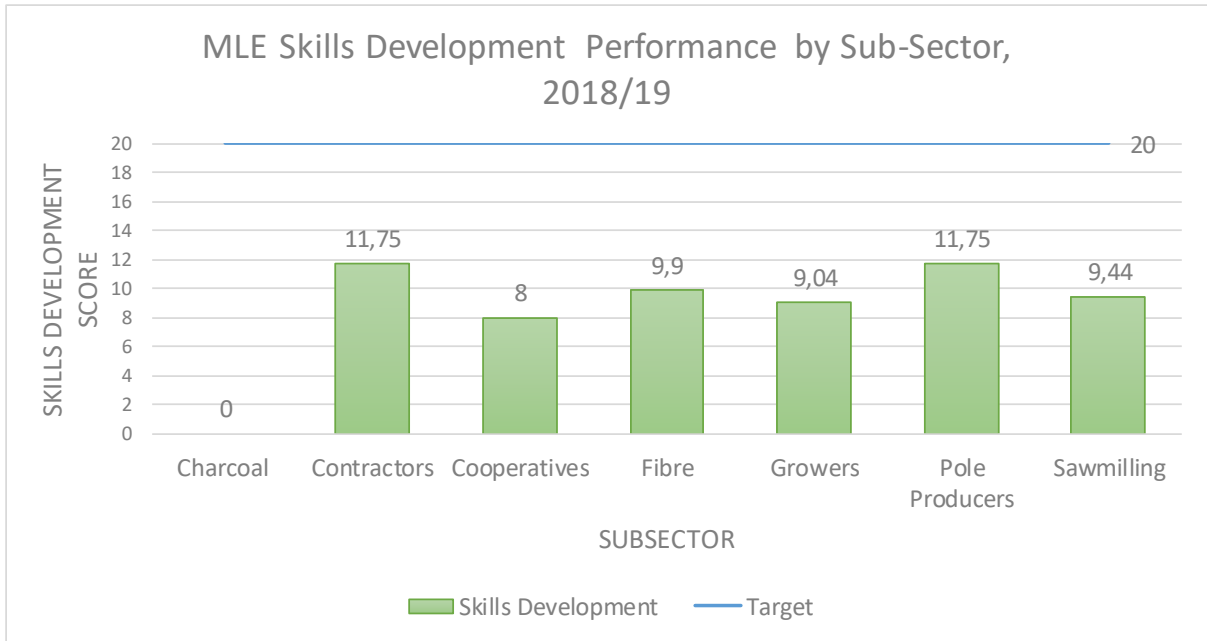


Figure 23: MLE Skills Development Performance by Subsector, 2018/19

Pole producers, together with contractors, managed to surpass 50% of the target while the remaining subsectors did not. Previously, pole producers were the best performing subsector exceeding the target of 20 points. It is worth noting however, that two 2 pole producers who reported last year did not report this year. Additionally, two 2 new pole producers reported. These entities scored 0 and 1,33 points for SD respectively. These entities may be the reason for the drastic drop in the pole subsectors diminished performance.

Figure 24 indicates MLE SD expenditure for 2018/19. MLEs are required to spend 5% of their payroll (leviable amount) on learning programmes within the applicable learning programme matrix provided by the relevant Seta.

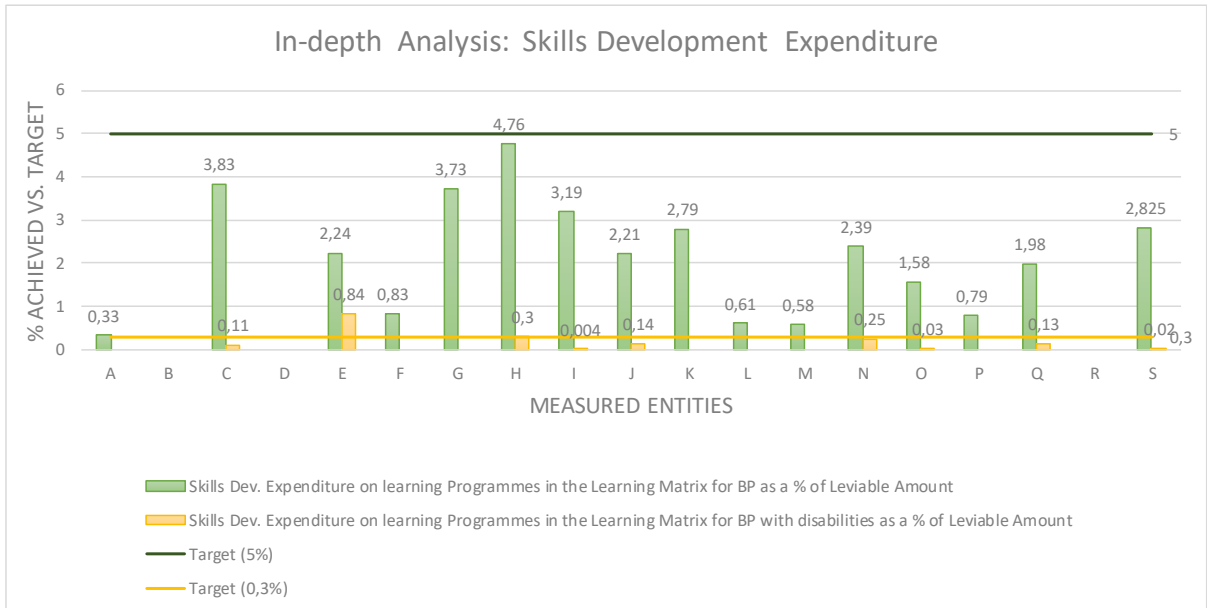


Figure 24: MLE Analysis: Skills Development Spend

This means that a company that spends R1 000 000 per annum on employee salaries is required to spend at least R50 000 on skilling its employees.

Figure 24 shows that all MLEs that submitted underlying reports did not reach the SD target for expenditure on black people. Only 6 MLEs (31,6%) managed to achieve 50% of the target or more. Performance on SD expenditure on black people living with disabilities was much poorer with only 2 entities reaching the target and a large percentage of Measured Entities scoring no points for this indicator. As these two indicators together make up 60% of the total SD scorecard, poor performance is likely to result in a low score for the entire sector' SD performance.

Figure 25 shows the number of black people (employed and unemployed) participating in learnerships, apprenticeships and internships paid for by the Measured Entity. These indicators require at least 2.5% of the Measured Entity's employees that are actively involved in learnerships, apprenticeships and internships to be black. The same is required for unemployed learners living within the vicinity of the Measured Entity.

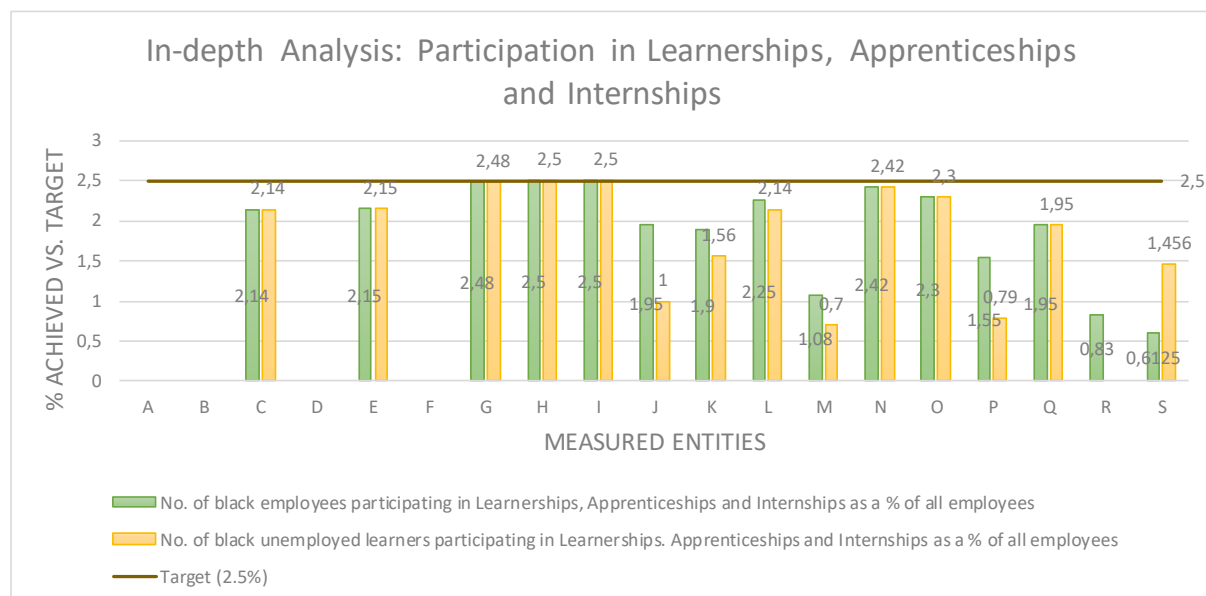


Figure 25: MLE Analysis: Participation in Learnerships, Apprenticeships and Internships

Only two 2 Measured Entities managed to achieve the 2.5% target for black employees while 5 (26,3%) Measured Entities reached over 80% of the target (2 out of 2,5). A further 3 (15,8%) reached over 50% of the target while 4 (21%) Measured Entities did not score any points for this indicator. It is worth noting that 3 of these entities did not report in the first year of the Amended FSC (2017/18), while the 4th reported as a QSE in that year.

Performance for skilling of black unemployed learners is relatively poorer for most Measured Entities although a number of companies were scoring the exact same points for employed and unemployed learners. This may be because companies are choosing the exact same number of unemployed learners to train as the number of employed learners.

Figure 26 indicates the number of learners absorbed into the Measured Entity after training.

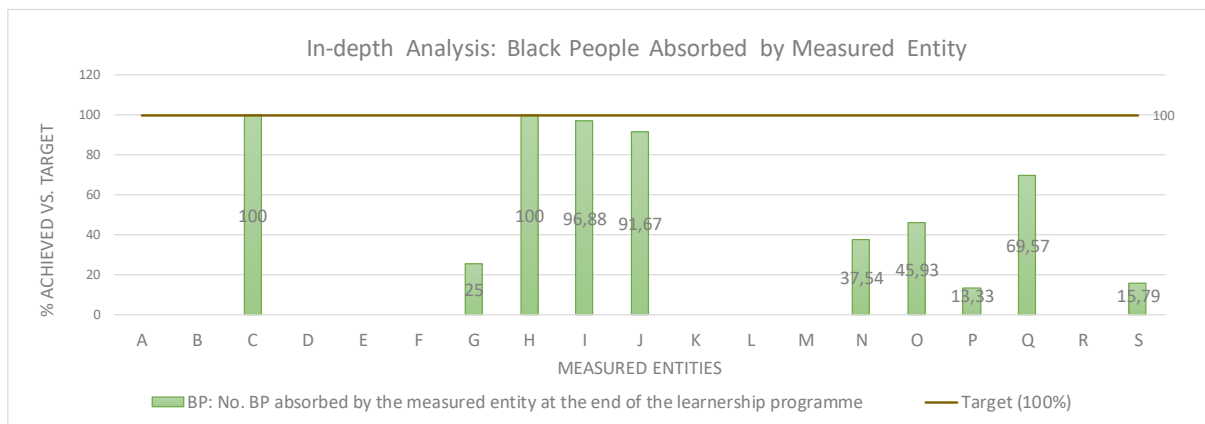


Figure 26: MLE Analysis: Absorption of Learners into Measured Entity

The average percentage of learners absorbed into the Measured Entity in the first year of the Amended Codes was 34,5%. Only one entity absorbed 100% of the learners as required by the Codes. This year, the average absorption rate was at 31,4%. Additionally, more entities participated by submitting underlying reports and more entities scored more than 50% of the target. Two (2) entities absorbed all learners while 2 other entities absorbed more than 90% of their learners.

In the first year of measurement, 8 out of 10 (80%) of measured MLEs (those submitting underlying reports) achieved the subminimum target for SD. Currently, 12 out of 19 (63,2%) Measured Entities (those submitting underlying reports) achieved the subminimum target. When assessing all reporting MLEs, a total of 9 out of 26 MLEs were discounted for SD.

5.1.4. ENTERPRISE & SUPPLIER DEVELOPMENT

Enterprise & Supplier Development (ESD) is a combination of Preferential Procurement, Supplier Diversity, Supplier Development (SD) and Enterprise Development (ED) programs to service business needs. It is part of the Broad-Based Black Economic Empowerment policy to advance economic transformation in South Africa.^{xii}

Table 2 provides a breakdown of each ESD indicator. Although “supplier diversity is not explicitly an indicator within the ESD Scorecard, its principles are promoted through the preferential procurement indicator which requires Measured Entities to spend varying portions of their procurement spend on different types of suppliers based on B-BBEE status, company size, level of black and black woman ownership as well as various black designated groups.

ESD Sub-element	Description
Preferential Procurement	A national policy that encourages government departments and agencies to buy goods and services from previously disadvantaged individuals or businesses.
Supplier Diversity	A proactive business process of sourcing products and services from previously under-used suppliers. This process helps to sustain and progressively transform a company’s supply chain thus quantitatively reflecting the demographics of the community in which it operates by recording transactions with diverse suppliers.
Supplier Development	The process of working with certain suppliers on a one-to-one basis to improve their performance for the benefit of the buying organisation, leading to improvements in the total added value from the supplier in question in terms of B-BBEE rating, product or service offering, business processes and performance, improvements in lead times and delivery.
Enterprise Development	A strategy for promoting economic growth and reducing poverty by building SMMEs, membership organisations to represent them and competitive markets that are stronger and more inclusive. It consists of monetary and non-monetary, recoverable and non-recoverable contributions actually initiated in favour of a beneficiary entity by a measured entity with the specific objective of assisting or accelerating the development, sustainability and ultimate financial independence of the beneficiary.

Table 2: Enterprise & Supplier Development Explained ^{xii}

The ESD Scorecard makes up over 38% of the entire FSC Scorecard, emphasising the important role of procurement as well as support for SMMEs. The forestry sector responded well to changes in the ESD Scorecard when the Amended FSC was introduced in 2017. The sector achieved an average 32,62 points out of a possible 43 points (excluding bonus points) for the ESD element. This translates to achieving 73% of the target.

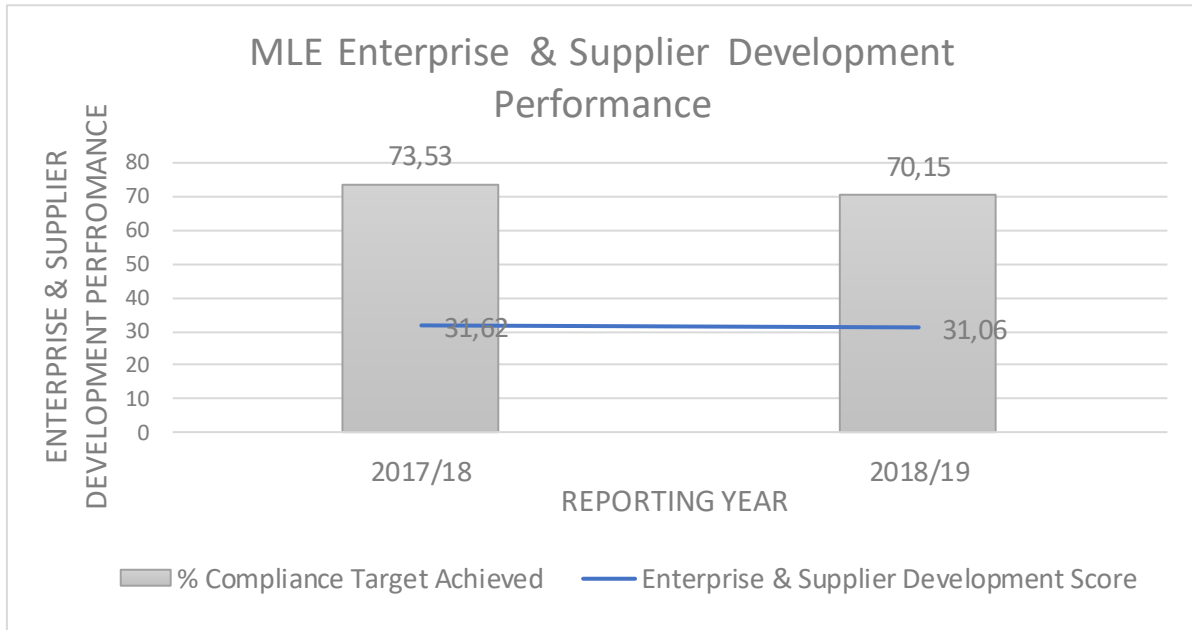


Figure 27: MLE Enterprise & Supplier Development Performance, 2017/18 – 2018/19

This year, average performance for ESD has reduced slightly from 31,62 points previously to 31,06 points in 2018/19. Despite this slight reduction in performance, the ESD element continues to be one of the best performing for MLEs in the sector as MLEs are achieving over 70% of the target.

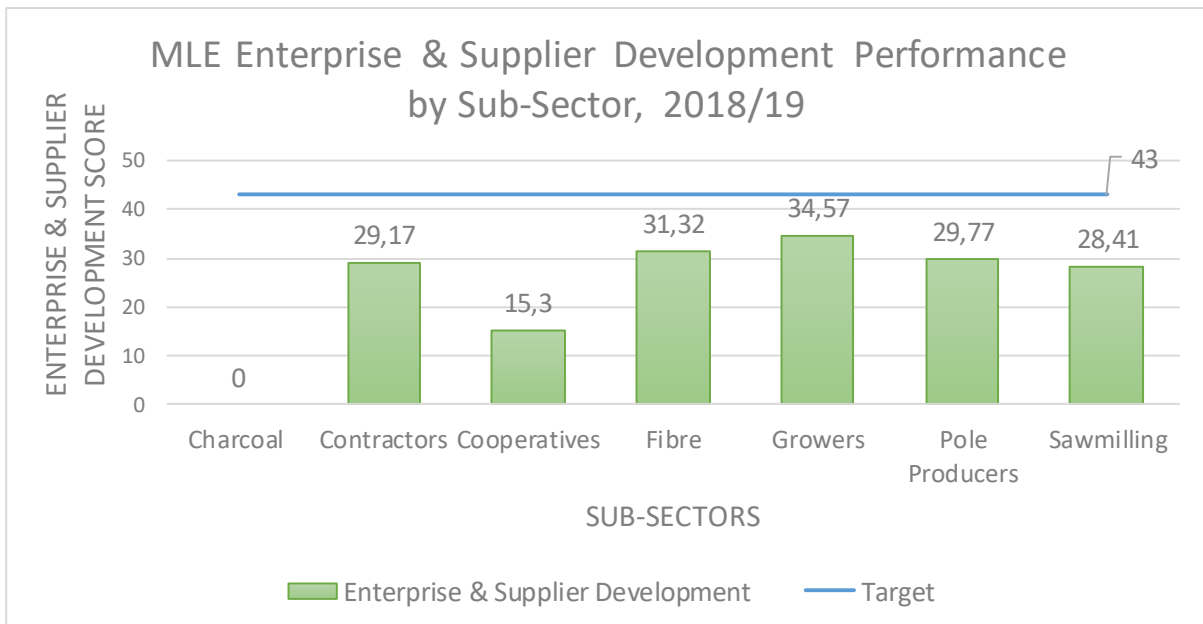


Figure 28: MLE Enterprise & Supplier Development Performance by Subsector, 2018/19

Figure 28 above compares the performance of the subsectors under the ESD element. For the current reporting year, the grower’s subsector achieved the best performance scoring 34,6 points out of a possible 43 points, equalling 80,4% of the target. The remaining subsectors’ performance was lower than the grower’s performance with contractors, fibre and pole producers each achieving just over 67% of the target.

The pole producer performance has dropped noticeably from the previous year where a score of 40,8 points out of 43 (95%) of the target was achieved. Both the growers and sawmilling performance declined this year from 35 and 29,4 points respectively.

Figure 29 indicates the average procurement spend by MLEs on all suppliers based on their B-BBEE recognition score. MLEs are set a target of 80% for this indicator implying that 80% of their procurement spend should be directed to B-BBEE compliant companies.

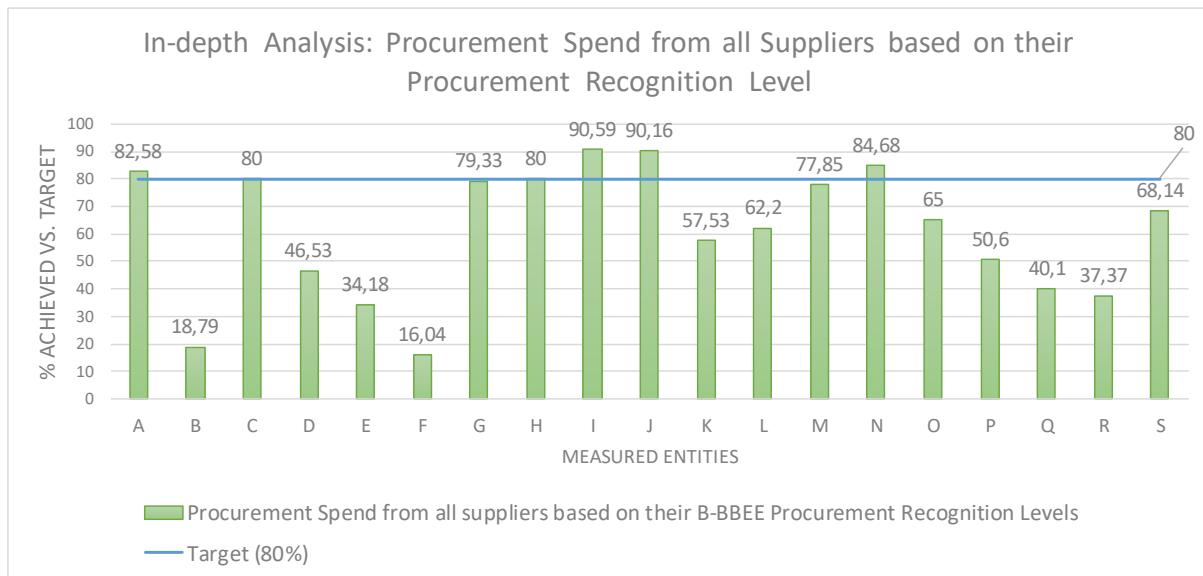


Figure 29: MLE Analysis: Procurement Spend on all Suppliers based on their Recognition Levels

Six (31,6%) Measured Entities achieved or exceeded the target for this indicator. A further 9 MLEs (50%) achieved at least 50% of the target. No measured entity scored 0 points for this entity proving that all MLEs procure from B-BBEE compliant companies.

The ESD Scorecard makes provision for procurement from QSEs and EMEs under the preferential procurement indicator. MLEs are required to allocate at least 7,5% of their total procurement spend on QSEs and EMEs.

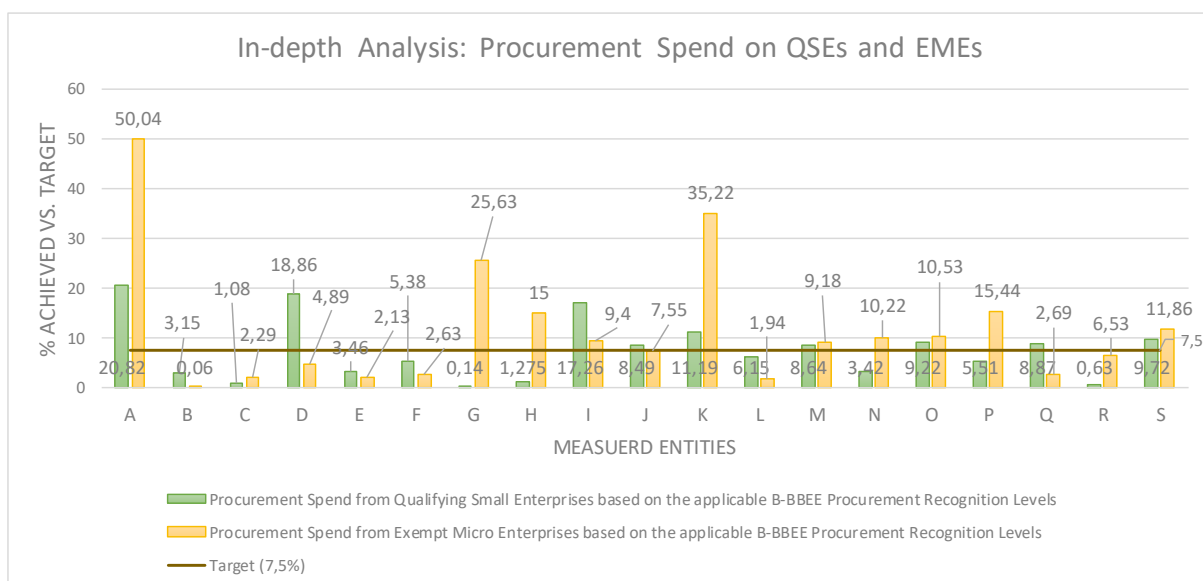


Figure 30: MLE Analysis: Procurement Spend on QSEs and EMEs

Figure 30 above shows that 9 MLEs (47,4%) achieved or exceeded the target for procurement from QSEs with the best performing MLE assigning over 20% of its procurement spend to QSEs. Figure 30 also shows that more MLEs achieved or exceeded the target set for procurement from EMEs than for QSEs, with 11 MLEs (57,9%) reaching the target for EMEs. This relationship is further reiterated by the fact that the average spend for 19 companies on QSEs is 7,54% while average spend on EMEs is 11,75%.

The top 2 spenders on good and services from EMEs were both growers. This may be due to procuring services from contractors who are often small companies.

The fact that no entities scored 0 for both these indicators may further strengthen the notion that MLEs prioritise the ESD element which highlights their commitment towards empowering small entities.

The Preferential Procurement element further requires MLEs to prioritise procurement from 51% BO and 30% BWO suppliers. The figure below provides insight into MLEs spending patterns with regards to procurement from black owned and black women owned businesses.

Eight MLEs (42,1%) exceeded the target for procurement from 51% BO businesses with a further 5 (26,3%) MLEs achieving at least 50% of the target. All 19 MLEs seem to at least spend some portion of their spend on BO business. The average spend BO businesses stands at 14,57%.

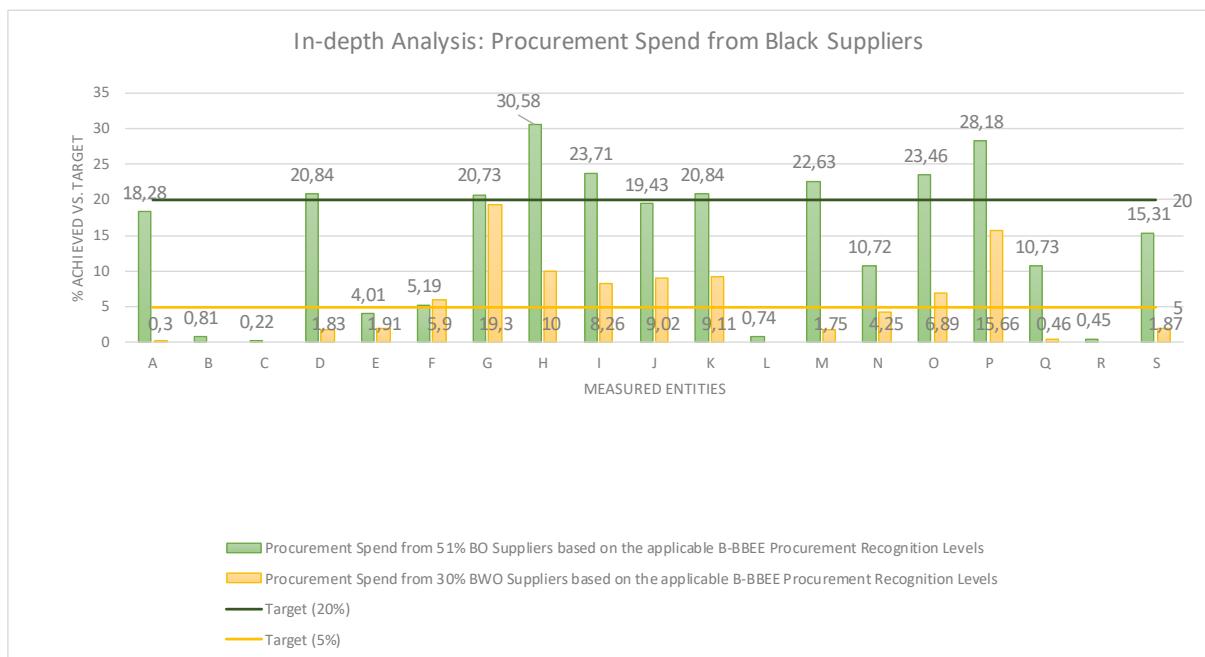


Figure 31: MLE Analysis: Procurement Spend on BO and BWO Enterprises.

MLE performance for procurement from 30% BWO business is similar to procurement from BO businesses. The same 8 entities who exceeded the target for the BO indicator also achieved the target for the BWO indicator. The average procurement spend from BWO business is 5,08% which means that MLEs are exceeding the target for this indicator.

As indicated previously, MLEs are required to provide support to businesses within their value chain in order to improve the supplier’s performance. The intention is to create

improvements in the total added value from the supplier in question in terms of B-BBEE rating; product or service offering; business processes and performance; and improvements in lead times and delivery.

An article by Dawson Consulting titled “Putting the Spotlight on SMME Supply Chain Challenges” highlights some challenges that may be faced by small to medium-sized enterprise (SMMEs). The following challenges were cited:

- Meeting increasingly high customer-service expectations
- Keeping control of costs, especially those related to transportation
- Risk identification and mitigation
- Achieving supply chain visibility
- Building and maintaining supplier and partner relationships
- Keeping up-to-date with technology developments

The article points to lack of capital and man-power as fundamental challenges. These often affect the SMMEs ability to achieve supply chain visibility; build and maintain supplier and partner relationships; as well as keep up-to-date with technology developments.

Smaller companies often find themselves at a disadvantage when it comes to supplier relationships, since unless suppliers or partners are also small businesses, the buyer does not have the scale to create leverage^{xiii}. It is also increasingly difficult for SMMEs to work solely with other smaller companies especially as global consolidation continues to cultivate markets with fewer and larger participants. This nature of monopoly is common across most economic sectors.

A recent report by The Small Business Institute (SBI) claims that South Africa has roughly 250 000 formal small, medium and micro-sized enterprises (SMMEs). The research also shows that while 98.5% of the country’s economy is made up of small and medium-sized enterprises (SMEs), they’re only delivering 28% of all jobs. According to the report, as many as 56% of jobs in South Africa are created by the 1,000 largest employers, including the government.

The performance of SMMEs in South Africa has fundamental implications on the country’s ability to achieve targets set out in the National Development Plan (NDP) which aims to reduce poverty and create jobs. THE SBI study reveals that large firms added more jobs and grown employment faster than SMMEs between 2011 and 2016 while also revealing that South Africa’s small business segment is an outlier internationally in respect of SMEs’ contribution to GDP, employment and the fiscus. It is thus imperative that large enterprises are leveraged in the bid to support and capacitate South Africa’s struggling SMMEs.

As part of their Forestry's contractor incubation programme, a prominent MLE has started to deliver its first alums. Lilian Ndhlovu, owner of Mirian and Lilian Transport PTY LTD, is a female entrepreneur who already employs 25 people. She is a forestry contractor who owns and operates a forestry contractor business in Mpumalanga's White River/Nelspruit area.

^{xiii} Dawson Consulting. 2018. Putting the Spotlight on SME Supply Chain Challenges. Accessed from: <https://www.dawsonconsulting.com.au/putting-the-spotlight-on-sme-supply-chain-challenges/>

Her journey began working alongside her husband as he offered silviculture, harvesting and transportation services in the region. This introduced Lilian to relevant skills and experience and also a love for forestry.

Lilian also noticed the lack of black women in the forestry industry and decided to register her own company and explore available opportunities. She approached a major grower in her region and was awarded a short-term contract of six months on a trial basis. "Based on excellent performance, relationships and my willingness to learn, the contract was then extended to a longer-term basis."

Her diligence and professionalism helped Ndhlovu qualify for the MLE's new incubation program to help develop its contractors. The program was created in 2016 after a leadership change in the previous year.

This is a great example of the impact of B-BBEE and the ESD element in creating and sustaining black SMMEs and graduating them into your supply chain.



Lilian Ndhlovu, owner of Mirian and Lilian Transport, PTY LTD, and her employees inside a forest

MLEs are required to spend at least 1% of their NPAT on developing their suppliers. Figure 32 indicates that 11 (57,9%) of MLEs achieved or exceeded the target. Previously, only 40% of Measured MLEs had achieved the target for this indicator.

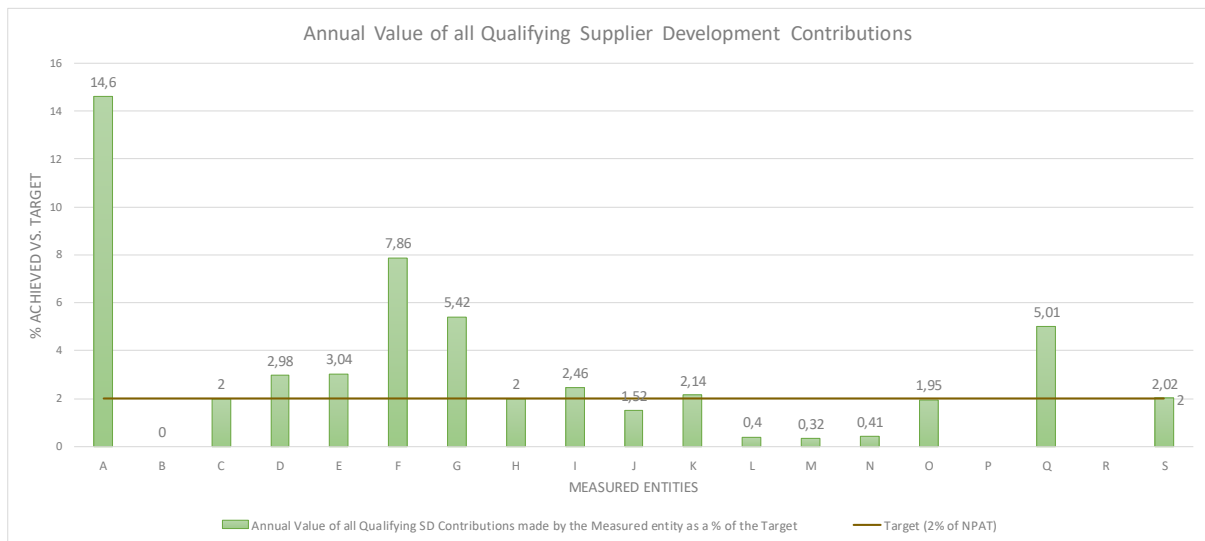


Figure 32: MLE Analysis: Supplier Development

Only 3 entities scored 0 for this indicator while some entities are spending 2-3 times the required amount.

MLEs are required to spend at least 1% of their NPAT on ED activities. Figure 33 portrays MLE performance related to spend on ED.

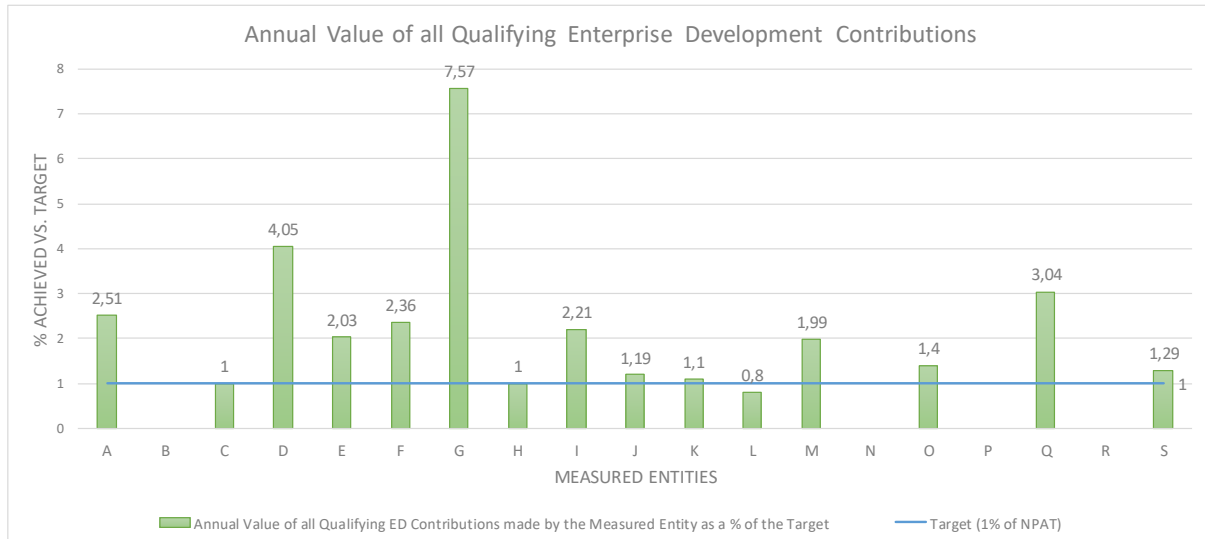


Figure 33: MLE Analysis: Enterprise Development

Almost all MLEs assessed in this reporting year achieved the target for the ED indicator with a total of 14 (73,7%) MLEs achieving or exceeding the target. The average spend on ED by MLEs is 1,77%.

The ED section of the ESD scorecard has additional sections aimed at the growers and sawmilling subsectors. Measured Entities in these subsectors are required to sell a share of their logs and sawtimber to QSEs and EMEs (20%); as well as BO and BWO business (5%).

Unfortunately, only 4 MLEs reported on the above despite 9 MLEs reporting as growers or sawmillers. On average, 5,8% of available logs or sawtimber are sold to QSEs and/or EMEs while 1,2% is sold to BO and BWO businesses.

An additional 4 MLEs received bonus points for promoting their ED beneficiaries to supplier level by absorbing them into their value chain while seven entities created one or more jobs through their ED and SD activities.

5.1.5. SOCIO-ECONOMIC DEVELOPMENT

There is no nation without social and economic challenges. These challenges may appear excessive especially in developing economies. However, through a concerted effort by public and private sector; financial, natural, human and other resources can be channelled into alleviating these issues.

SA aims to address socio-economic challenges faced by forestry communities through the Socio-Economic Development (SED) element. Measured Entities are required to spend at least 1% of the NPAT on SED contributions.

The CSI handbook, 18th ed. study published by Trialogue in 2015 assesses at the state of corporate social investment in South Africa. 81 large companies were interviewed on their CSI activities. Eight percent of the respondents belonged to the agriculture, forestry and fisheries sectors.

The study revealed that over R8 billion was spent in 2015 on CSI of which more than half was directed to education followed by social & community development and health. The mining, retail and financial sectors accounted for just over 70% of the total spend for that year with mining alone contributing 40% of total spend.

It was also observed that corporates are most likely to get involved in projects that are national, followed by Gauteng, Western Cape and KwaZulu-Natal.

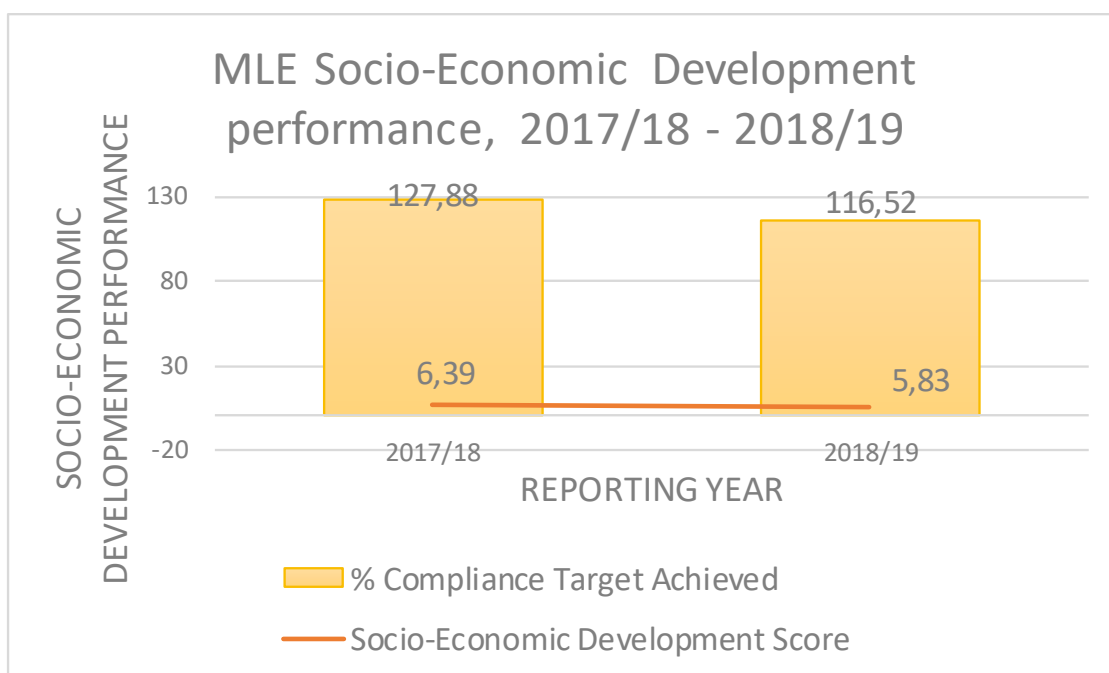


Figure 34: MLE Socio-Economic Development Performance, 2017/18 – 2018/19

Figure 34 depicts changes in SED performance between 2018 and 2019. It is evident that the performance for SED has reduced slightly even though exceptional performance has been achieved. MLEs continue to exceed the target points allocated to this indicator by spending more than the required 1% NPAT on SED contributions.

Figure 35 compares the SED performance by each forestry sub-sector. The sawmilling and growers' sub-sectors were the best performing each exceeding the target of 5 points and gaining bonus points for spending over and above the stipulated 1% NPAT contribution. The fibre and contractors sub-sectors' performance are also respectable.

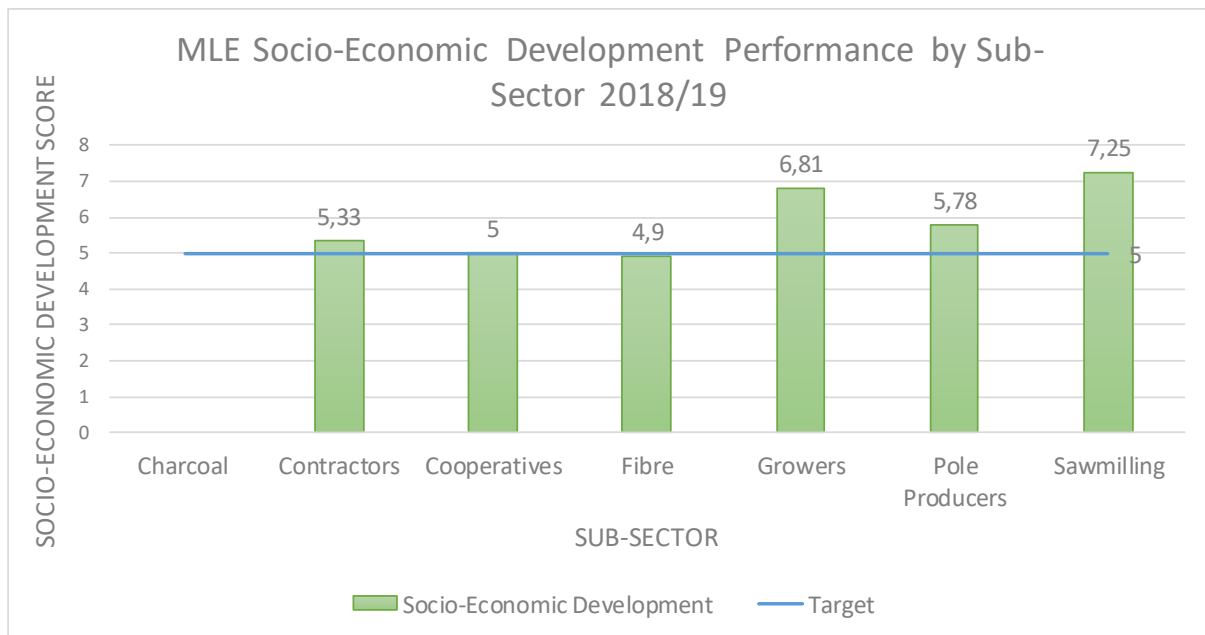


Figure 35: MLE Socio-Economic Development Performance by Subsector, 2018/19

Fifteen (15) (79%) MLEs achieved or exceeded the target of spending 1% NPAT on SED activities as evidenced in figure 36 below. Only 3 entities did not make and contributions towards SED for the current reporting year.

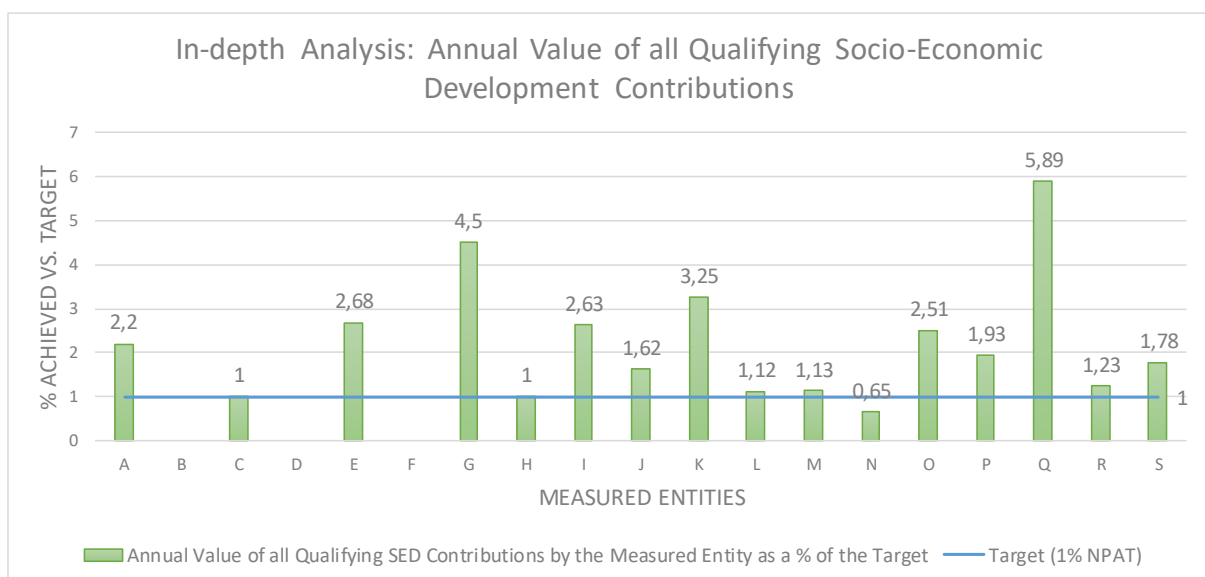


Figure 36: MLE Analysis: Socio-Economic Development Contributions as a % of NPAT

5.1.6. SOUTH AFRICAN FORESTRY COMPANY LIMITED (SAFCOL) ANALYSIS

SAFCOL (South African Forestry Company Limited) is the third largest state-owned company in South Africa. It is an entity under the department of Public Enterprises (DPE). SAFCOL is primarily involved in the forestry industry with operations in Limpopo, Mpumalanga, KwaZulu-Natal, as well as in the southern half (Manica and Sofala provinces) of Mozambique.

SAFCOL's forestry operations includes timber harvesting, timber processing and related activities, both domestically and internationally. Through their operations, roughly 5000 people are employed directly and indirectly. SAFCOL is further responsible for about 20 000 lives in communities adjacent their operations.

As SAFCOL is a state-owned entity, it is required to be verified through B-BBEE the "specialised generic scorecard". This scorecard does not measure ownership and assigns different or elevated targets to the remaining elements. For instance, an extra point is assigned to the MC indicator, black people in junior management which is worth two points under the specialised scorecards as opposed to one. The ESD Scorecard is allocated a total of 50 points as opposed to 43 points under the generic scorecard.

The Amended FSC further allows SAFCOL to apply for a B-BBEE facilitator status which will enable it to be recognised as a 100-black owned. This qualification is critical for in cases where SAFCOL plans to acquire equity from another entity or for the entities who procure most of their timber in particular from SAFCOL.

For the current reporting year, SAFCOL achieved a level 3 status, improving from a level 4 in 2017/18. SAFCOL is a highly consistent reporter and continuously strives to elevate its impact on its surrounding communities through concerted application of the B-BBEE principles.

SAFCOL's performance is shown in Figure 37 below. Compared to the previous reporting year, SAFCOL improved its performance under the MC and SD elements while its ESD performance has decreased slightly.

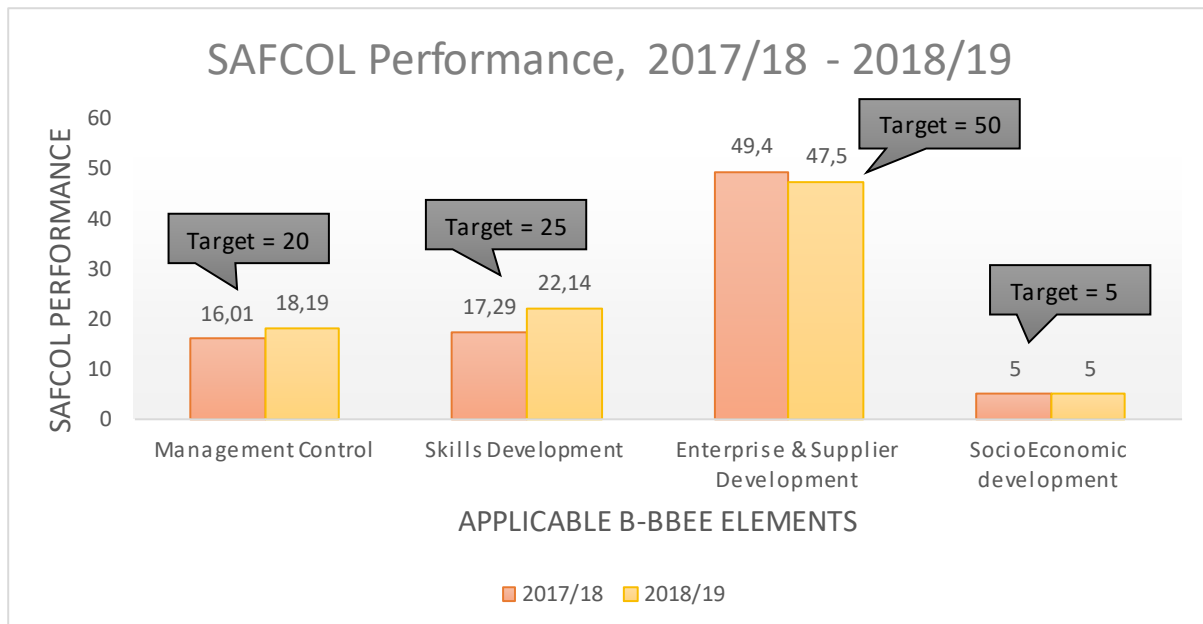


Figure 37: SAFCOL Performance, 2017/18 – 2018/19

Further scrutiny into SAFCOL’s underlying report reveals that SAFCOL gained the additional points under MC and SD in the following manner:

1. Management Control: 2,18 points under through the following activities:
 - Increasing their number of “other” executive managers from 3 to 4, of which the new addition is a black female. (1 point gained)
 - SAFCOL also increased its number of disabled employees from 15 in the previous year to 40 in the current reporting year (1,12 points gained)
2. Skills Development: 4,85 points earned through the following activities:
 - Significantly increasing SD expenditure on African females (1,07 points earned)
 - Significantly increasing SD expenditure on black people with disabilities (2,97 points earned)
 - Additional points earned through absorption of 15% of black people participating in learnerships (0,54 points earned)

SAFCOL lost 1,9 points through the ESD scorecard mostly through less procurement spend on B-BBEE compliant entities with a procurement recognition level, 51% BO businesses as well as decreased supplier development contributions, although marginally.

SAFCOL increased its overall score from 87,70 points to 92,83 points elevating them from a level 4 to a level 3 B-BBEE rating.

5.1.7. ANALYSIS OF DISCOUNTED MLEs AND USE OF THE JOINT SCORECARD

Through the Amended FSC, new principles were introduced including the Discounting Principle. The Discounting Principle is applied to Measured Entities that do not meet sub-minimum requirements set out in the Ownership, SD and Enterprise & Supplier Development element. Measured Entities that do not achieve these subminimum requirements are subsequently discounted by one level on their overall B-BBEE rating.

In the current reporting year, significantly more entities have reported and so the number of discounted entities has risen to 14 out of 26 (53,8%) when compared to the previous reporting year. In 2017/18, only 6 MLEs were discounted out 18 reporting MLEs (33,3%) as shown in Figure 38 below.

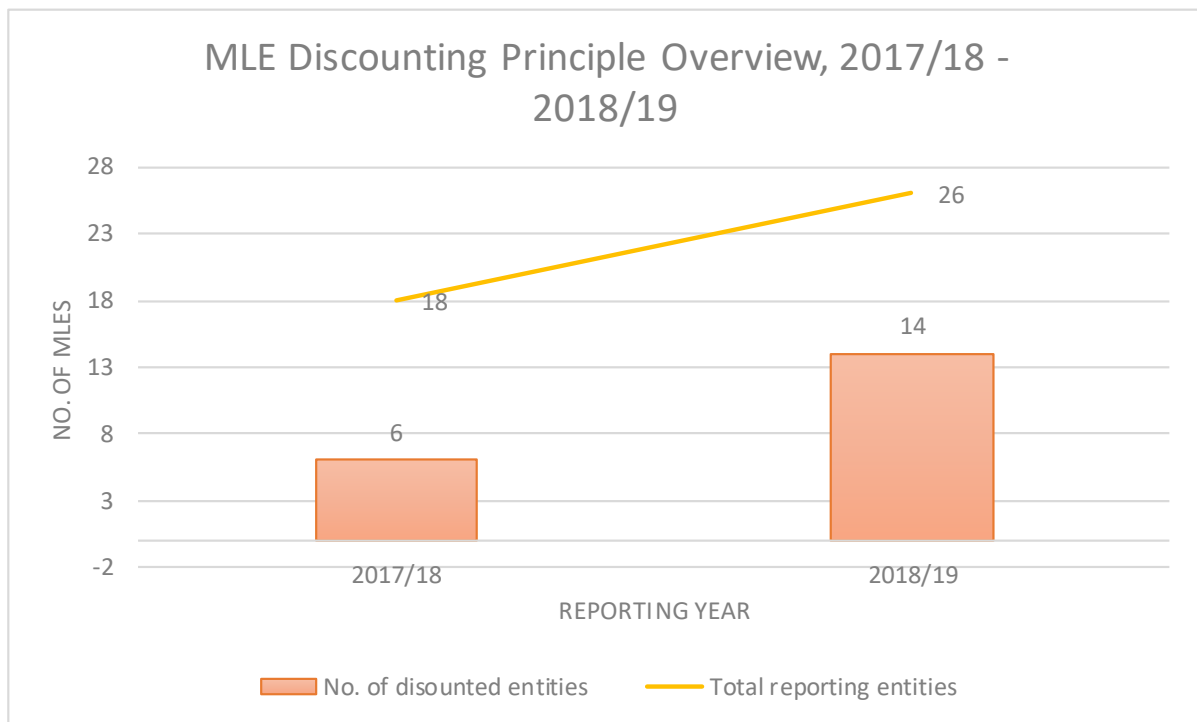


Figure 38: Overview of discounted MLEs, 2017/18 – 2018/19

Only 3 discounted MLEs from the previous reporting year also reported in this current year while 10 of this year’s discounted MLEs are either new reporters or did not report in the first year of the Amended FSC.

Measured entities can be discounted by failure to achieve the 40% target on either one or a combination of the priority elements. Figure 39 compares the number of entities that were downgraded by each of the priority elements. The highest number of MLEs were discounted under the ESD element followed by the SD Element. It is worth noting that the 2 previously discounted MLEs that reported were still discounted through the same elements in the current year.

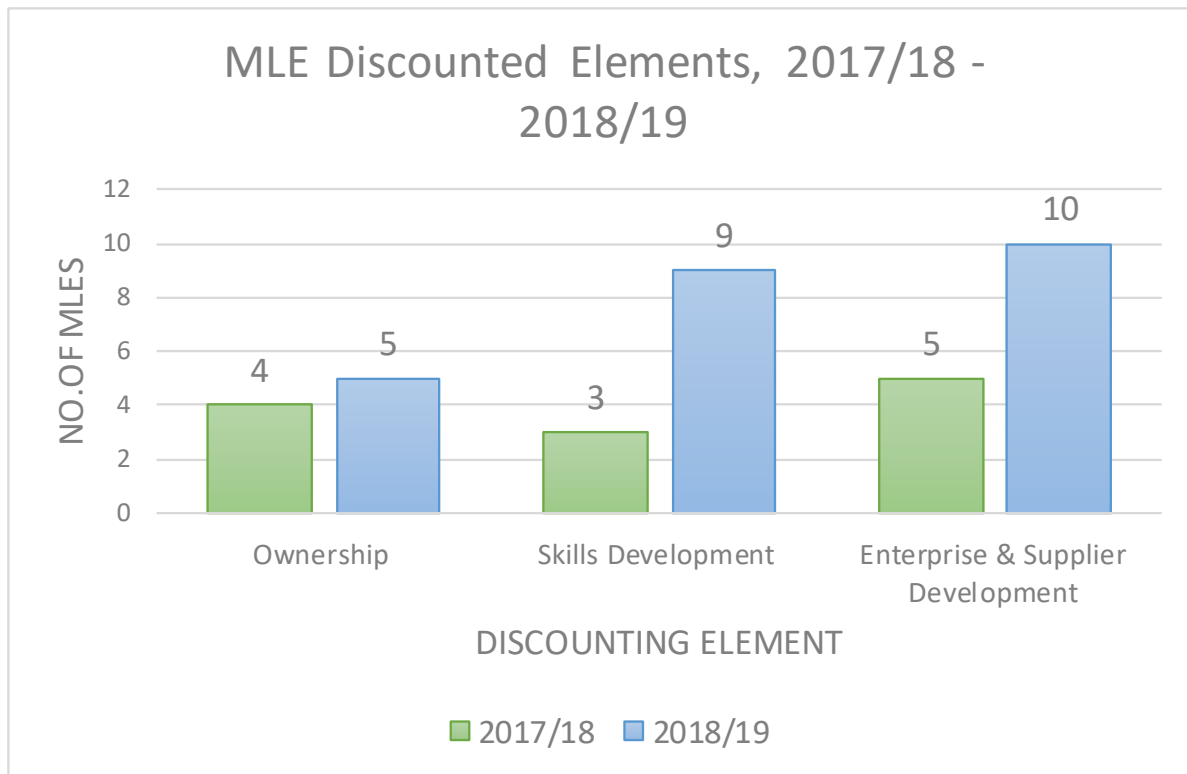


Figure 39: MLE Discounted Elements, 2017/18 – 2018/19

In line with the Sector Specific Principle of Accountability as per FSC000, it was agreed that government and industry would together share collective responsibility of improving the Forestry Industry. The sector therefore agreed that 50% of the targets in specific indicators would become the direct responsibility of industry while the remaining 50% would rely on governments ability to perform in terms of commitments related to:

- Access to funds and financial services for emerging black entrepreneurs
- Expediting the authorisation process for afforestation & paper and sawmilling facilities (Streamline and expedite afforestation licensing procedures)
- Leverage State forest assets

Progress in achieving some of the above targets has been slow from government although there has been significant progress in granting SAFCOL facilitator status.

Granting SAFCOL facilitator status will assist some forestry entities especially sawmills in the Mpumalanga region who buy all their timber from SAFCOL, to achieve higher scores under their ESD Scorecard. Currently, Measured Entities that procure from SAFCOL cannot claim points for this activity under the preferential procurement element as SAFCOL is not recognised under this indicator.

The ESD Scorecard through preferential procurement is the most affected by the joint scorecard criteria emanating from the Accountability Principle as Measured entities are only measured on 50% of the target.

Although most entities took advantage of this principle, a number of entities did not use it or used it incorrectly. For instance, a major fibre enterprise chose not use the joint scorecard under preferential procurement and lost out on 6,93 points on their scorecard. Attaining these points would have elevated this MLE from level 4 to level 3.

5.2. QUALIFYING SMALL ENTERPRISES (QSE) ANALYSIS

Qualifying Small Enterprises are Measured Entities with a turnover between R10 million and R50 million per annum. QSEs are measured using their own specific FSC Scorecard which assesses the same principles as the MLE scorecard. This refers to black ownership and control as well as contributions made towards increasing skills amongst black people, supporting black SMMEs and suppliers as well as qualifying beneficiaries.

Lower targets are set for most elements in the QSE scorecard compared to the MLE scorecard. Additionally, QSEs who are 51% or 100% BO or BWO can now become verified using an affidavit as do EMEs. These QSEs are termed “enhanced” QSEs.

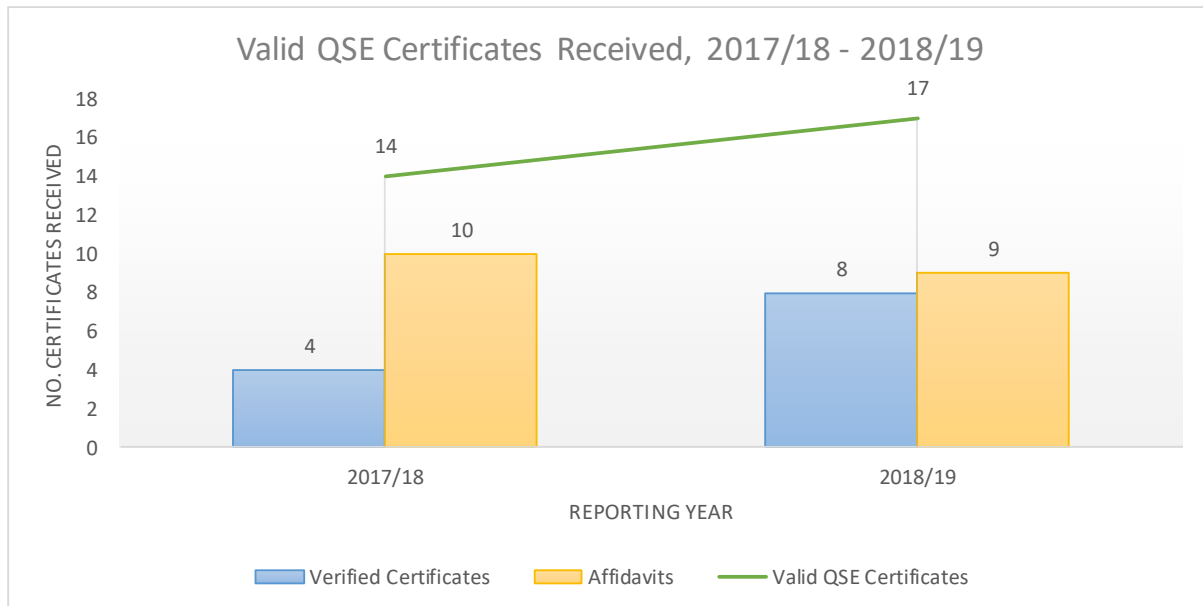


Figure 40: Valid QSE Certificate Submissions, 2017/18 – 2018/19

Figure 40 shows the number of valid QSE certificates received in 2017/18 and 2018/19 respectively. The number of certificates received has increased by more than 15% with a healthy increase in number of submissions from non-enhanced QSEs (those that are not majority BO and are verified on all scorecard elements). It is worth noting that this year’s QSE certificate submission has been the highest following the 2014/15 reporting year where 22 certificates were analysed.

The FSCC QSE database contains 35 QSEs. This database has been built and maintained over the years. However, as indicated above, some QSEs are still undergoing verification while some have chosen not to become verified or are just not reachable via telephone or email.

Interactions with QSEs in the sector, mostly through calling and emails, revealed that a great deal of QSEs were still waiting for their current reporting year certificates as the report was being finalised. This has proven beyond doubt that often than not QSEs usually conduct their verification at a later stage during the year compared to MLEs. The rationale might be they only consider B-BBEE on a need basis.

Figure 41 below presents certificate submissions from QSEs by subsector. Contractors submitted the most (82%) number of certificates while growers, fibre and sawmilling only submitted one certificate each. Previously, contractors submitted eleven certificates while cooperatives, fibre and growers each produced one certificate.

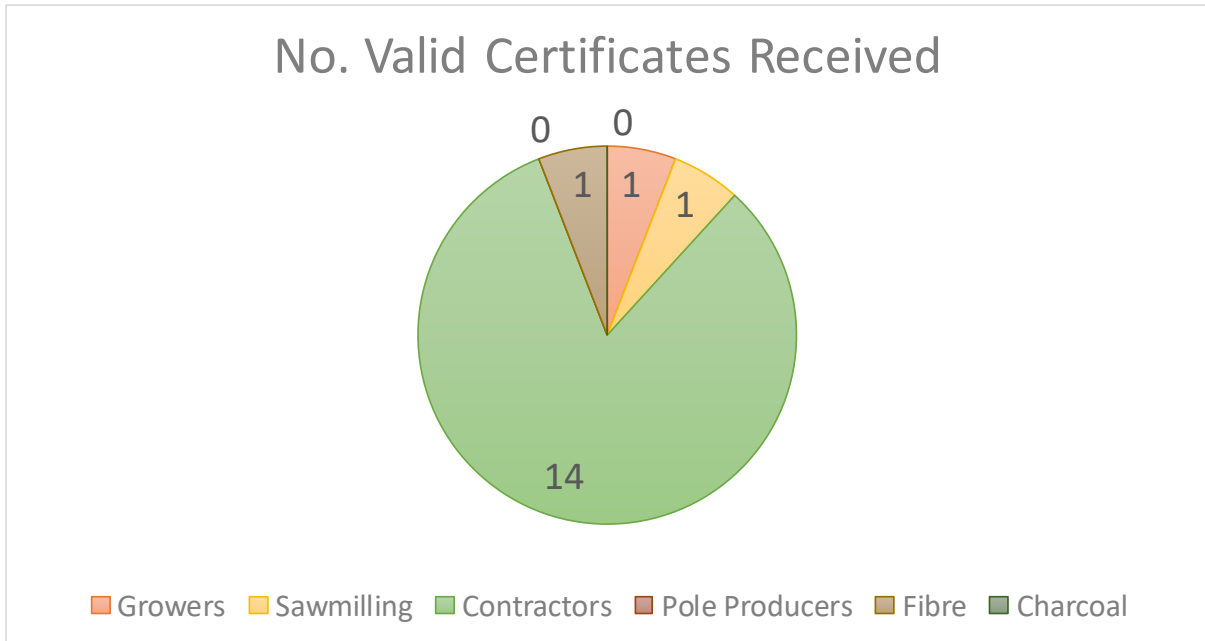


Figure 41: QSE Certificate Submission by Sub-Sector

The average B-BBEE rating amongst enhanced QSEs for the current year is at level 1 with 6 out of nine recording a level 1 and the remaining a level 2. The unenhanced QSEs achieved an average overall B-BBEE score of 42,76 points. This translates to a level 8 B-BBEE rating.

5.2.1. OWNERSHIP

QSEs are assessed on their ownership structures in a similar fashion to MLEs. Figure 42 indicates QSE performance under the Ownership element. Although it seems the performance has reduced significantly, it is helpful to consider the impact of the increased number of submissions from QSEs.

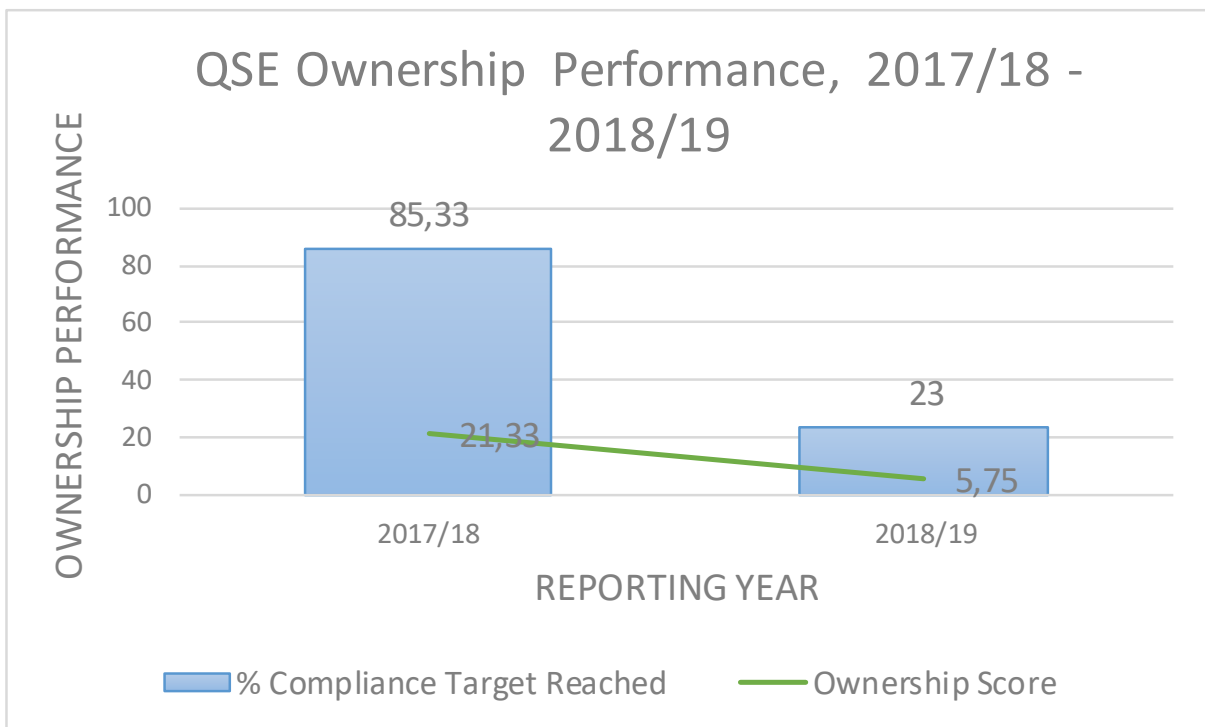


Figure 42: QSE Ownership Performance, 2017/18 – 2018/19

Previously, this assessment was based on 4 verified reports (as the remainders were affidavits) whereas it now reflects 8 verified reports for the current reporting year. Only one unenhanced QSE that submitted in the previous reporting period submitted again. Although this entity is only 26% BO and 14% BWO, they have consistently scored full points under the Ownership indicator. Furthermore, six reporting QSEs scored 0 points for the ownership indicator resulting in the poor performance indicated in Figure 42 above.

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>	0	0
<i>Median</i>	51	0
<i>Mean</i>	48,23	5,48
<i>Mode</i>	0	0
<i>Q3</i>	100	0
<i>Maximum</i>	100	49
<i>Entities scoring 0% Ownership</i>	6	13
<i>Entities scoring above 0% but below 51% Ownership</i>	2	4
<i>Entities scoring 51% Ownership</i>	1	0
<i>Entities scoring above 51% but below 100%</i>	2	0
<i>Entities scoring 100% Ownership</i>	6	0
<i>Total number of entities</i>	17	17

Table 3 provides a breakdown of the ownership structures amongst 17 QSEs. This data is based on all 17 submitting QSEs as ownership information is also detailed on affidavits. The table indicates that the average BO amongst QSEs is relatively good at 48% while BWO is poor at 5,48. The average BO previously was 51% while BWO was 0%.

The quartiles and the mode highlight the prevalence of non-BO and BWO QSEs. There were 6 entities who were 100% BO this reporting year which may have contributed to the perceived high BO average of 48%.

5.2.2. MANAGEMENT CONTROL

MC in the QSE category unlike the MLE category only measures black people and black female representation at executive, senior, middle and/or junior management level. In previous reporting years, MC was one of the least favoured elements by QSEs. However, since the introduction of the Amended FSC, QSEs can no longer choose which element they will be verified on.

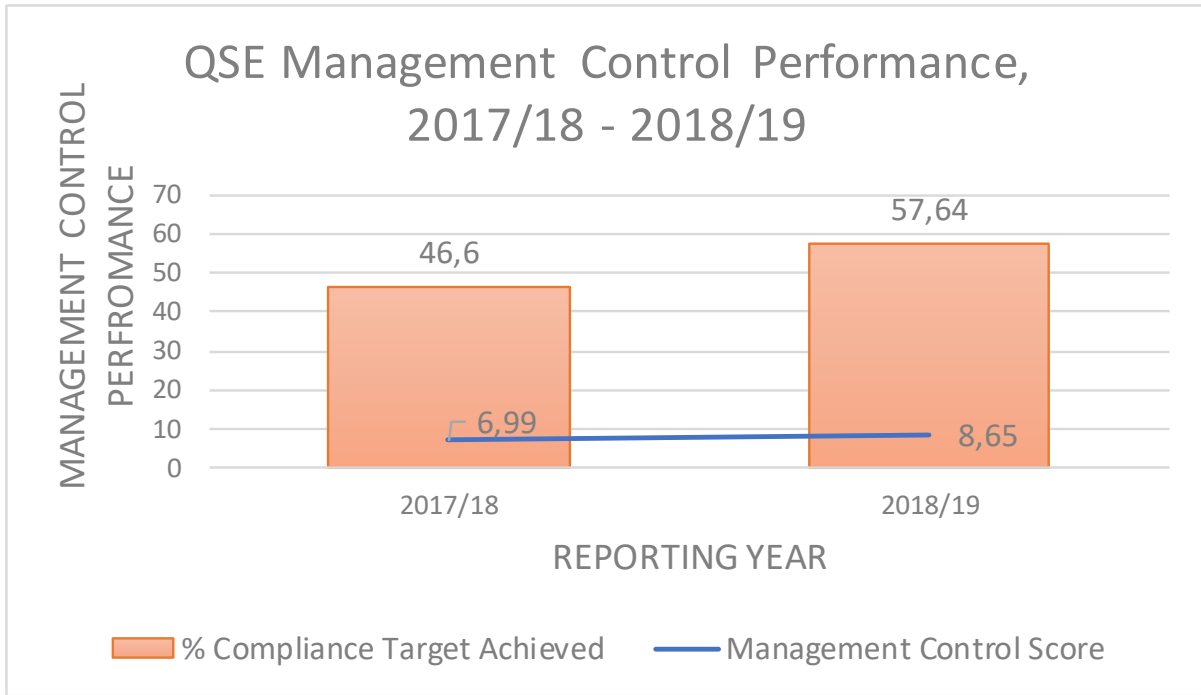


Figure 43: QSE Management Control Performance, 2017/18 – 2018/19

QSEs have improved their MC performance over the past two years, now scoring just over 57% of the target. Five QSEs achieved over 50% of the target scoring more than 7,5 points for MC. This performance is welcome as MC is traditionally one of the poorest performing elements in the sector and South Africa as a whole.

5.2.3. SKILLS DEVELOPMENT

QSEs are expected to contribute to reducing the critical skills shortage in the country. Figure 44 shows a significant decline in performance for SD for QSEs compared to the previous year. In 2017/18, 4 unenhanced QSEs submitted reports with an average score of 17,9 for SD.

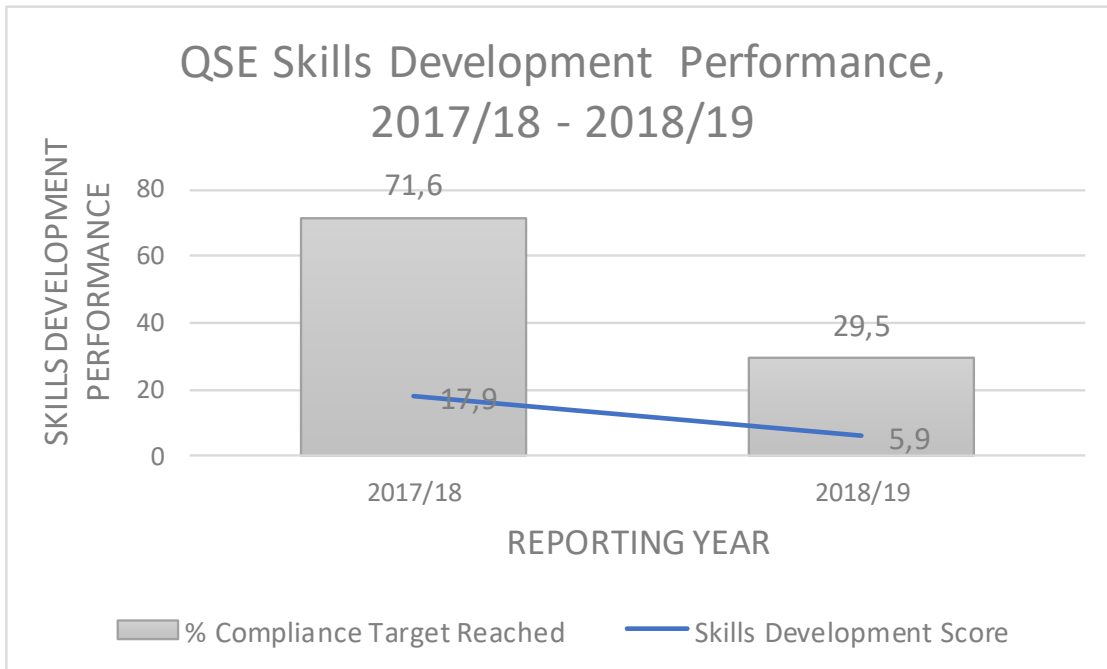


Figure 44: QSE Skills Development Performance, 2017/18 – 2018/19

Three (3) new QSEs who are NC (scoring less than level 8) scored 0 for SD while 3 other NC QSEs scored below 2,5 points. These low scores may have heavily influenced the average score for QSEs by reducing the average.

5.2.4. ENTERPRISE & SUPPLIER DEVELOPMENT

QSEs have managed to maintain their ESD performance despite the increase in submissions from non-enhanced QSEs. These entities are still achieving over 60% of the target.

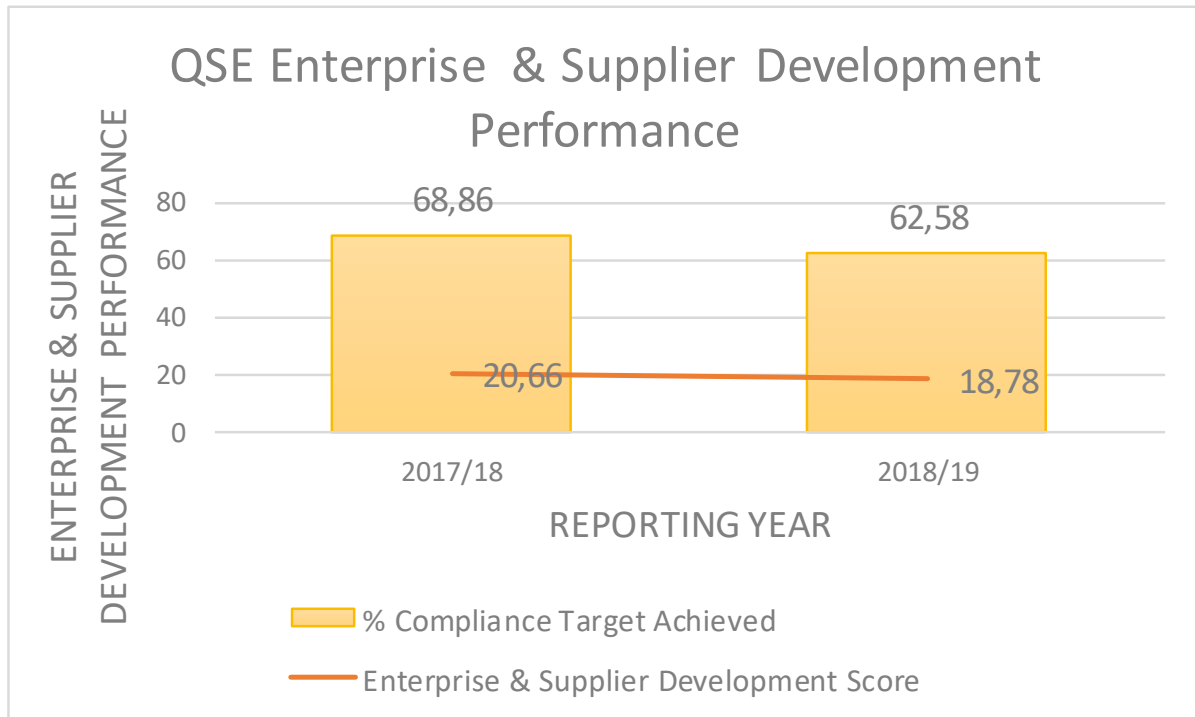


Figure 45: QSE Preferential Procurement Performance, 2017/18 – 2018/19

It is difficult to report on which elements of the ESD scorecard QSEs gain most of their points as very few entities submitted their underlying reports. Analysis from one underlying report reveals that the Measured QSE scored full points for Enterprise Development and some points for Preferential Procurement from B-BBEE compliant entities. The effort to develop SMMEs is acknowledged by this QSE although its overall score resulted in a non-compliant rating.

5.2.5. SOCIO-ECONOMIC DEVELOPMENT

Unenhanced QSEs are required to allocate at least 1% of their NPAT on SED contributions aimed at providing communities with “sustained access to the economy”. Figure 46 shows the performance in this regard for the 2 comparative years.

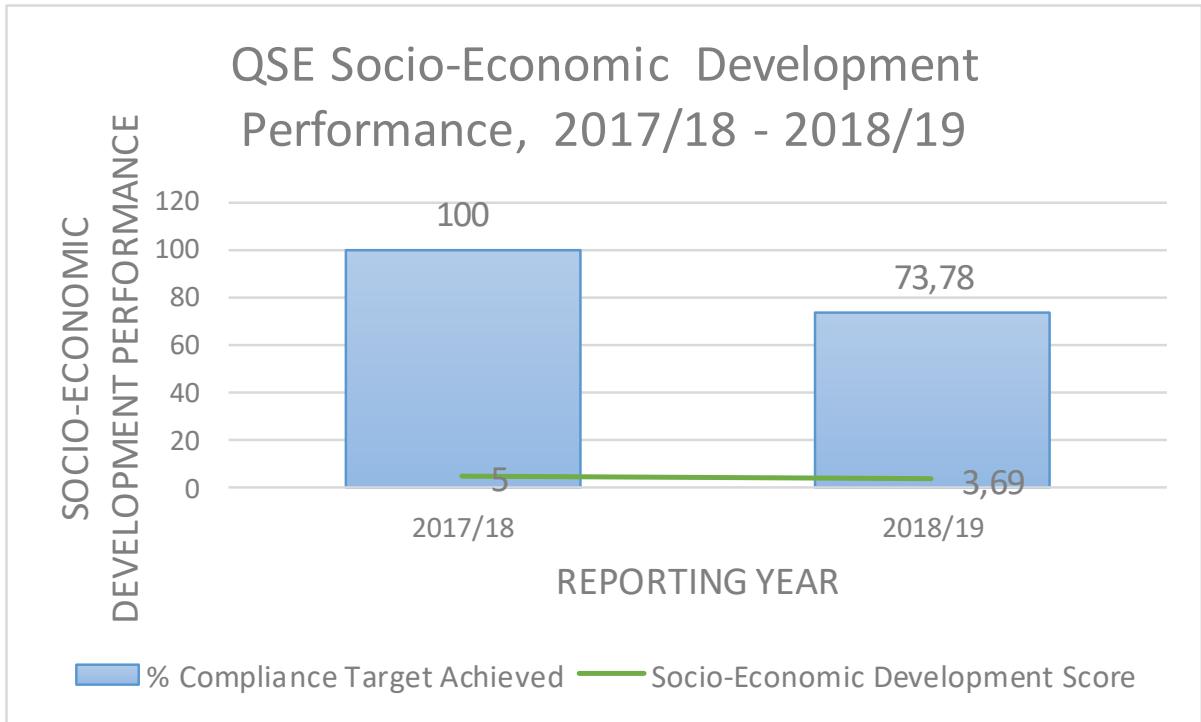


Figure 46: QSE Socio-Economic Development Performance, 2017/18 – 2018/19

QSE performance for SED has declined from 100% of all reporting unenhanced QSEs scoring full points for the indicator to only 5 out of 8 (62,5%) scoring the full 5 points. The remaining three entities achieved scores between 0 and 2,3 points. Indicating no contributions made towards SED or less than 0,5% of NPAT.

5.3. EXEMPTED MICRO ENTERPRISES (EME) ANALYSIS

Exempted Micro Enterprises (EMEs) are entities with a turnover less than R10 million per annum. EMEs are automatically awarded a level 4 B-BBEE rating but may be elevated to level 1 or 2 if they are 100% or 51% BO respectively.

The average B-BBEE rating received by reporting EMEs for 2018/19 is 2,5, although EMEs cannot be awarded a Level 3 unless they choose to become verified. A total of 9 EMEs achieved a level 1 rating while five EMEs achieved level 2. Only 11 EMEs achieved Level 4. This implies that the majority of reporting EMEs are enhanced due to their BO profile of above 51%.

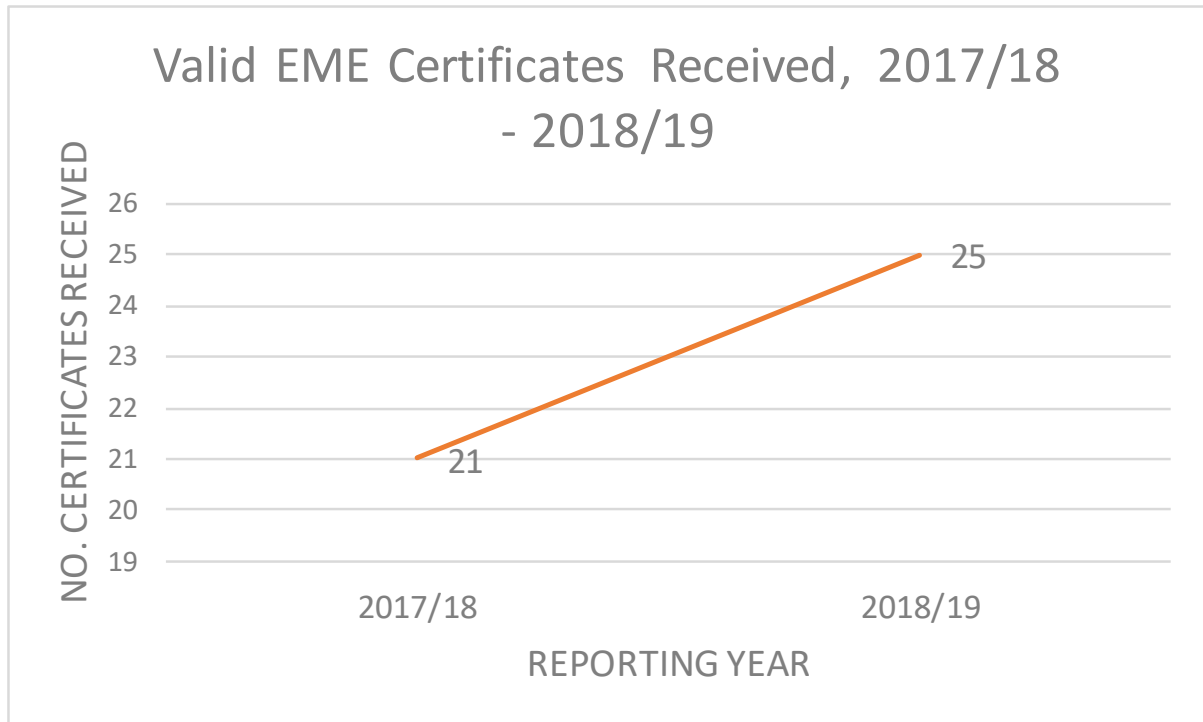
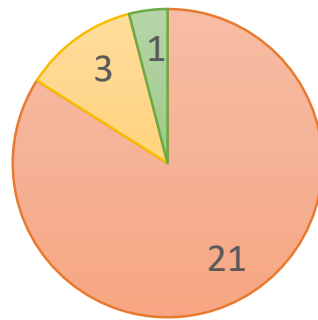


Figure 47: Valid EME Certificate Submissions, 2017/18 – 2018/19

The number of submitting EMEs has increased from 21 to 25 affidavits. Figure 51 demonstrates that the majority of submitting EMEs are contractors, similar to QSEs. Three reporting EMEs belong to the fibre subsector mostly involved in the manufacture and selling of crates and pallets.

EME Affidavit Submissions by Subsector



■ Contractors
 ■ Fibre
 ■ Pole producers

Figure 48: EME Certificate Submission by Sub-Sector

Table 4 establishes the ownership structure of 25 reporting EMEs. The table below confirms that most EMEs are 100% BO while the mode for BWO is 0 indicating that most EMEs have 0% BWO. The average BO for EMEs is 47,6% while the average for BWO is just under 10%.

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

	Direct Black Ownership	Direct Black Women Ownership
<i>Minimum</i>	0	0
<i>Q1</i>	0	0
<i>Median</i>	51	0
<i>Mean</i>	47,64	9,52
<i>Mode</i>	100	0
<i>Q3</i>	100	8
<i>Maximum</i>	100	60
<i>No. of entities scoring 0% Ownership</i>	9	18
<i>No. of entities scoring above 0% but below 51% Ownership</i>	2	6
<i>No. of 51% BO entities</i>	5	0
<i>No. of entities scoring above 51% but below 100% Ownership</i>	0	0
<i>No. of 100% BO entities</i>	9	1
<i>Total No. of Measured Entities</i>	25	25

Ownership statistics are poorer when assessing BWO which is significantly lower for EMEs. The number of 100% BWO affidavits received has halved this year from 2 previously to 1 certificate currently.

The values for the for the first, second and third quartiles show that limited participation of black women in the sector. This trend is observed across all company sizes and is particularly pronounced at QSE and EME level.

6. CONCLUSION

The forestry sector in South Africa is a key industry that contributes positively to the national GDP and also to rural employment with over 160 000 employees. The industry is also a key role player in transforming the rural SA economy.

A number of notable events occurred in the reporting period that may have affected the industry's overall economic performance as well as its ability to implement B-BBEE. Such events include the fires in the Southern Cape that destroyed over 7 000 ha of plantations. This event will definitely affect the industry's economic value, employment levels as well as a number of small businesses in the area while also diminishing the total timber resource available to the sector.

The industry positively responded to President Cyril Ramaphosa's call for increased investment in the economy from the private sector by pledging more than R18 billion. It is anticipated that this commitment from Industry may assist in reducing some bottlenecks associated with issuing of water-use licenses as well as increasing the available timber supply.

Education in forestry was presented a key theme at this year's International Day of Forests. The students revealed a number of challenges surrounding acceptance of students from some of the country's tertiary institutions offering forestry in to the sector. Words such as scarce are often used when describing skills in the sector but this reveals that the quality of education and training may also be a challenge. Furthermore, results from this year's assessment of SD verify the poor state of skills in the country.

The number of submitting entities has improved from the previous reporting year from 55 certificates to 68 certificates in total. The improvement is largely from MLEs. MLEs submitted 26 certificates, 8 more than the previous year, while also increasing the number of underlying reports submitted. The number of unenhanced QSEs reporting also increased from 4 previously to 8 while the number of submitting EMEs increased from 21 to 25.

Each category of company size maintained the previous performance with MLEs scoring a level 6. Enhanced QSEs achieved an average level 1 score while unenhanced QSEs achieved a level 8 score. The EMEs achieved a level 2 overall as all are subject to enhancement.