

**ANNUAL REPORT ON THE STATUS OF
TRANSFORMATION IN THE FOREST
SECTOR 2019/20**

EXECUTIVE SUMMARY

South Africa continues to be ravaged by socio-economic challenges brought mainly by inequalities, poverty, escalating unemployment and the sluggish economy. The year 2019-20 experienced significant decline in market performance, resulting in economic downgrade which could hamper economic growth even further.

The concept of B-BBEE was introduced more than a decade ago to address economic imbalances and inequities. Forestry as one of the many sectors with a potential to contribute meaningfully to inclusive economic empowerment has made commitments to the B-BBEE programme through the promulgation of the Forest Sector Codes, amended in 2017.

The 2019/20 reporting marks the third year of reporting under the Amended FSC (“The Codes”). The Codes introduced more stringent principles, not as punitive measures but to accelerate the pace of black economic emancipation and realise more efficiently the B-BBEE imperatives.

The 2019/20 reporting year, has shown considerable improvements in industry performance, expectedly so as most entities should have transitioned into the requirements of the Amended Codes. The number of reporting entities declined slightly within the MLEs and EMEs, though the recorded decline in the MLEs are mainly from the inconsistent reporters. The QSEs, however, has shown significant increase in the number of enhanced entities qualifying for an automatic level 1 or 2 depending on the black profile. This may be a good indication that these entities are now controlled by majority black people. Hopefully this profile will not be affected by the new proposed changes only recognising the black control profile through the Flow through Principle.

The overall MLEs analysis produced a score of 85,9 points translating to a level 4 B-BBEE rating an improvement from a level 6 achieved in the last two years. Similarly, this scenario could be compared to the first three years of the reporting under the repealed FSC where the industry’s perceived adjustment resulted in a better overall B-BBEE score as the years progress. There is no doubt therefore that consistent reporting has a positive impact on the B-BBEE paradigm.

The average B-BBEE rating for QSEs was level 2, while EMEs achieved a level 3 for this reporting year. More efforts might need to be channelled for these groupings as they are the main beneficiaries of the B-BBEE programme

Significantly for the first in the history of the Forest Sector Codes (both repealed and amended), improvements on performance was observed in all five scorecard elements from both MLEs and QSEs. Even though MLEs still failed to achieve at least a 50% target towards the Management Control, the improvement of about 7,7% is worth noting. This may validate the significance of industry's successive plans channelled towards changing the management profile.

The exceptional performance may be associated with an understanding that B-BBEE is a journey with many detours and requires patience and passion. The conversation for the industry should therefore be, "how do we maintain or improve" or how do we encourage our counterparts" to follow suit.

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ACRONYMS

B-BBEE	Broad-Based Black Economic Empowerment
BBOS	Broad-Based Ownership Scheme
BDG	Black Designated Groups
BO	Black-owned
BWO	Black Women Owned
CEE	Commission of Employment Equity
CSI	Corporate Social Investment
EAP	Economically Active Population
ECRA	Eastern Cape Rural Development Agency
ED	Enterprise Development
ESD	Enterprise & Supplier Development

ESOP	Employee Share Ownership Programmes
EME	Exempted Micro-Enterprise
FSA	Forestry South Africa
FSC	Forest Sector Code (Sector Codes)
FSCC	Forest Sector Charter Council
GDP	Gross Domestic Product
MLE	Medium and Large Enterprise
NDP	National Development Plan
NPAT	Net Profit after Tax
OECD	Organisation for Economic Co-operation and Development
PPGI	Public-Private Growth Initiative
QSE	Qualifying Small Enterprise
SA	South Africa
SBI	Small Business Institute
SDA	Skills Development Act
SD	Supplier Development
SED	Socio-Economic Development
SMME	Small Medium and Micro Enterprises

1. INTRODUCTION

Broad-Based Black Economic Empowerment (B-BBEE) is a South African programme aimed at correcting imbalances of the past to expand black participation in the economy while growing the economic circumference. The B-BBEE programme requires the implementation of comprehensive plans and strategies to drive sustainable empowerment.

The B-BBEE Amendment Act clearly stipulates that all Sector Councils must profile the Sector B-BBEE performance in terms of the Sector Codes, in the case of the Forest Sector, the Amended Forest Sector Code (FSC) applies.

The year 2020 is a transition period for the Council as we work towards analysing the influence of the new amendments (still to be pronounced) to the Amended FSC. The new changes are intended to strengthen the B-BBEE programme in forestry whilst anticipating a more efficient contribution of the Sector towards employment and investment.

The Forest Sector Charter Council, also known as the “Council”, continued to execute its mandate in assessing the level of empowerment in the Sector. The analysis is critical as it provides a practical understanding of the levels achieved towards the targets aimed at achieving inclusive and equitable economic transformation in the Sector.

The FY2019-20 Annual Status of Transformation Report marks the 11th report and the 3rd under the Amended FSC. The report demonstrates whether the approaches implemented by industry lead to the inclusion of black people, women, youth and disabled persons in particular, and has boosted the employment equity quarters. In addition, the report is important in refining the Council’s mechanism and approaches towards supporting economic empowerment.

Unlike the previous year, the number of reporting entities in the 2019/20 financial year dropped for MLEs and EMEs particularly for the unreliable reporting entities. There were more enhanced QSEs comparatively. Even though, the reduction is not so justifiable, it may be disturbing considering that B-BBEE reporting is an imperative for all entities regardless of size as prescribed in the B-BBEE Act as Amended. This may substantiate that the Council should continue to educate the forestry stakeholders about the Amended FSC and the importance of consistent reporting.

The details of the Sector's performance for the year 2019/20 are explained in the sections below.

2. SECTOR OVERVIEW

2.1. RECESSION AND DOWNGRADES

The downfall of the global economy has had a negative impact on the Forestry Sector, more especially because the South African Forestry industry makes billions in revenue from the exports of timber products. China is one of South Africa's (SA), biggest markets for timber and experienced an economic decline during the F2019/20.

There are 1 million tons of SA timber sitting in China stock, which suggests that, for the next 18 months, China is unlikely to purchase timber from SA before the current stockpiles are diminishedⁱ. This reality will severely impact industry over the following months before it can recover.

According to Stats SA's recent data release, SA's economy in the fourth quarter of 2019 contracted 1.4%, a far worse showing than economists had expected. A Reuters consensus forecast predicted a shrinkage of just 0.1%. As a result of the dismal Q4 performance, South Africa's economy only grew 0.2% in 2019, its worst showing since the throes of global financial crisis in 2009, when it shrank 1.5%ⁱⁱ

In the 2020/21 Budget review in February 2020, the Treasury had estimated growth of 0.3%, so its number crunchers have to go back to the drawing board. Its growth forecast of a sluggish 0.9% for 2020 is already looking optimistic, especially with concerns around the coronavirus already hitting the global economy (Stoddard, 2019).

ⁱ Dlamini, N. (2019). Forestry trends, where is the Industry headed? Pietermaritzburg. [PowerPoint Presentation, Forestry Professionals Workshop. Prepared at Forestry South Africa, Pietermaritzburg.

ⁱⁱ Stoddard, E. (2020). Daily Maverick. [Online]. Available at: <https://www.dailymaverick.co.za/article/2020-03-03-sa-economy-in-recession-after-shock-q4-data-2019-growth-lowest-in-a-decade/> [Accessed on 10 April 2020].

Stats SA stated that seven out of the 10 broad industries that make up the gross domestic product (GDP) figure contracted in the fourth quarter. Construction posted its sixth straight quarter of decline, and the Sector has only had growth in one quarter since the start of 2017. This is deeply concerning against the backdrop of an unemployment rate of almost 30% as construction remains a labour-intensive industry that has huge potential to create badly-needed jobs.

Agriculture posted a 7.6% fall in output, while manufacturing declined 1.8%. Drought and load shedding were the two-punch combo here. Forest Sector is measured under agriculture in the data from Stats SA. Therefore, with all these economic challenges, it has been difficult for the Sector to successfully pursue the transformation agenda as lot of emerging businesses have had to close down.

2.2. LAND REFORM

Following the 2017 resolution of the governing on the expropriation of land without compensation, it has become a priority of the current government to re-evaluate the policy relating to the land reform. Any revision or reform of a country's land laws can be an intense political process, as reforming land policies serves to change relationships within and between communities, as well as between communities and the state. Thus, even small-scale land reforms and legal modifications may be subject to intense debate or conflict. The President has commissioned a study in a form of the Advisory Panel of experts, to advise the State on appropriate measures that need to be undertaken in order to address the land reform in a fair and expedite manner.ⁱⁱⁱ (Advisory Panel on Land Reform and Agriculture, 2019).

The research conducted revealed a number of obstacles that have attributed to slowing progress on the land reform process which may indirectly influence the rate of transformation. These challenges have a bearing on the transformation of the Sector as

ⁱⁱⁱ Advisory Panel on Land Reform and Agriculture, 2019. Final Report of the Presidential Advisory Panel on Land Reform and Agriculture for His Excellency the President of South Africa. [Online]. Available at: https://www.gov.za/sites/default/files/gcis_document/201907/panelreportlandreform_1.pdf. [Accessed on 14 April 2020].

the industry relies on the land to conduct its operations. In this period of uncertainty, there is a lot of speculation about the future, however, there has been a confirmation that government will ensure the policy adopted around this matter does not jeopardise the country's economy.

Some of the following factors have been identified as challenges affecting the land reform progress:

- Landlessness
- Slow pace
- Gender inequality
- Illegal Occupations on Land
- Access to water
- Production and post-settlement support
- Changing policy agendas

2.3. TIMBER THEFT

Timber theft and illegal treatment are currently major challenges within the Sector. This involves theft of machinery and equipment used for harvesting purposes in forest operations. Most forestry companies have set aside huge budgets on security, and this is the money that could be channelled for transformation strategies. There are a number of initiatives undertaken by the industry to address this matter. Theft is clearly a massive problem and yet the judicial system, whether the police or magistrates, don't treat it as a serious crime.

The escalation in timber theft is attributed to a sudden rise in the number of small timber contractors, who have contracts to harvest 1 hectare but 'help themselves' to other timber. Theft is becoming so severe that almost all the large growers have hired former police detectives as risk control managers to protect their assets.^{iv} This challenge has been flagged at a national level and the relevant decision-makers are currently reviewing ways to tackle this crisis.

^{iv} Nyakudanga, J. (2020). Richmond timber gone. SA Forestry magazine. [Online]. Available at: <http://saforestryonline.co.za/articles/richmond-timber-gone-missing/>. [Accessed on 14 April 2020].

2.4. YOUTH UNEMPLOYMENT RATE

South Africa has held numerous job summits in previous years focusing on job creation, job retention and economic development and growth. The latest figures presented by Stats SA shows that the youth unemployment has been on the rise. The Youth Employment Service served as a response measure to the unfortunate and dire situation of youth unemployment in the country has not yielded much fruitful results. In July 2019, only 14 000 out of the projected 35 000 jobs were created. The continuous downward spiral behaviour of the economy might be a contributing factor and immediate interventions for investments and stimulants for growth and job creation are a “must”.

In the Forestry Sector, the issuing of water use licenses has been a contentious matter with more focus on the impractical conditions and its influence to new or additional investments to boost the economy. We have seen enormous efforts by the Forestry South Africa (FSA) in consulting with other key departments on this matter. The pronouncement by the President in his recent State of nation Address (February 2020) has been a great relief to the Forestry Industry. A more responsive and positive reaction to the objectives of B-BBEE in creating jobs and bringing about an active participation of the designated groupings is anticipated. As such, this should be good news to the sector, particularly growers and or community-based growers.^v

2.5. AMENDED EMPLOYMENT EQUITY ACT

The subsequent observations projected in Commission of Employment Equity (CEE) report continues to show the imbalances in terms of black representation in the workforce. The report released in August 2019 shows that despite the 79% economically active black population, only 15% account for top management.^{vi} Forestry just like other sectors in general show a similar trend particularly in the most senior management ranks. The targets and modifications in the Amended Employment Equity Act as well seeks to

^v Ramaphosa, C. M. (2020). State of the Nation Address. [Online]. Available at: <https://www.gov.za/speeches/president-cyril-ramaphosa-2020-state-nation-address-13-feb-2020-0000>. [Accessed on 16 April 2020].

^{vi} Department of Labour (2019). Commission for Employment Equity Report. Pretoria.

address these inconsistencies and bring about a recognised balance to attract and promote black skilled managers.

2.6. AFFORESTATION POTENTIAL

The sustained economic growth in Forestry relies heavily on the achievement of the hundred thousand (100 000) hectares afforestation target set in the Amended Forest Sector Code. While tensions between key role players still exist, there is no doubt that public and private partnerships are a necessity. The success stories pioneered in the forest sector has created a convincing argument for how public and private partnerships can help bring about sustainable jobs and economic development.

The prioritization of Forestry in the Public-Private Growth Initiative (PPGI) speaks volume for itself. The other being, the partnership between the Eastern Cape Rural Development Agency (ECRDA) and the corporate sector which has led to the establishment of new community afforestation projects in one of the rural areas in the Eastern Cape. More so the collaboration between the Industrial Development Corporation (IDC) together with the private sector has initiated a number of forestry-based empowerment projects accounting for about forty thousand (40) hectares.^{vii}

^{vii} Dlamini, M. (2020). Industrial Development Corporation report. [Feedback to the Forest Sector Charter Council] (Personal Communication, February, 2020).

3. RESEARCH OVERVIEW AND METHODOLOGY

3.1. RESEARCH OBJECTIVES

One of Council's key objectives is to generate an annual report on the Sector's performance towards achieving the scorecard targets as outlined in the Amended FSC. These targets are aimed at ensuring that the Sector responds proactively to equity sharing, job creation and inclusive and meaningful economic participation of the previously disadvantaged groupings.

Measured Entities from the different categories of operations within the Forestry value-chain, i.e. Medium and Large enterprises (MLE), Qualifying Small Enterprises (QSE) as well as Exempted Micro Enterprises (EME) submit their B-BBEE credentials through B-BBEE certificates with the underlying reports and affidavits where applicable.

The information from these certificates, underlying reports and affidavits is analysed and interpreted to depict the Sector's compliance to the targets. Since this marks the third anniversary of the Amended FSC, a comparison to the past performances will be undertaken. This is intended to verify progress achieved and assess whether the previous interventions or recommendations assisted in driving the industry to achieving the set objectives of black empowerment.

3.2. METHODOLOGY

Measured Entities were requested to submit their B-BBEE certificates, underlying reports and affidavits. The B-BBEE information was collected through a number of activities including, telephone calls, emails, Mpowered portal as well as company specific websites.

All the collected information was validated based on the date of issue, and scorecard utilised. The certificates or affidavits had to be issued within the 2019-20 financial year.

Each of the scores reflected in the Measured Entity's certificate or affidavit was coded into excel spreadsheets for further analysis. The analysed data was used to compile a comprehensive transformation report inclusive of the sections reflected below:

- i. An overview of the social, political and natural environment in the Forest Sector and how these factors create the context within which forestry enterprises operate;
- ii. An in-depth B-BBEE status of MLEs in the Forest Sector based on the five scorecard elements and a comparison performance within the six sub sectors;
- iii. An in-depth B-BBEE status of the unenhanced QSEs based on the five scorecard elements and a comparison performance within the six sub sectors;
- iv. The influence of the enhancement principle on QSEs;
- v. The B-BBEE status of EMEs based on their black ownership profile, levels achieved and overall beneficiaries of enterprise development;
- vi. The broad transformation status of the industry and how it compares to the previous achievements in terms of best and poorly achieved targets, consistent reporters versus new reporters;
- vii. An overview of the best and worst performing entities over the last three years;
- viii. The influence of the principles in the Amended FSC. These include the Discounting Principle, Enhancement Principle, Accountability element, Flow through Principle, etc;
- ix. Other matters of importance such as challenges, impediments experienced by the FSCC in monitoring and facilitating B-BBEE in the sector;
- x. A set of recommendations intended to drive meaningful transformation in the Sector

3.3. RISKS

One of the greatest challenges faced by Council in compiling the status report is the low and highly inconsistent levels of reporting, primarily amongst the smaller sized Measured Entities and from entities rated as non-compliant.

Low reporting numbers and inconsistent reports seems be a challenge for any reporting period. Additionally, companies continue to with-hold their underlying reports when prompted to share.

4. SECTOR ANALYSIS

The 3 B-BBEE measurement categories for forestry companies; MLEs, QSEs and EMEs are analyzed separately as they each have different criteria for B-BBEE reporting, depending on turnover. However, their collective efforts all contribute to the transformation of the sector and their rate of submission is closely monitored and used to make decisions related to the sectors transformation strategy.

Figure 1 illustrates the number of certificates received for 3 years per company size – MLEs, QSEs and EMEs. The graph illustrates an increasing number of submissions for QSEs while MLE and EME submissions peaked in 2018/19.

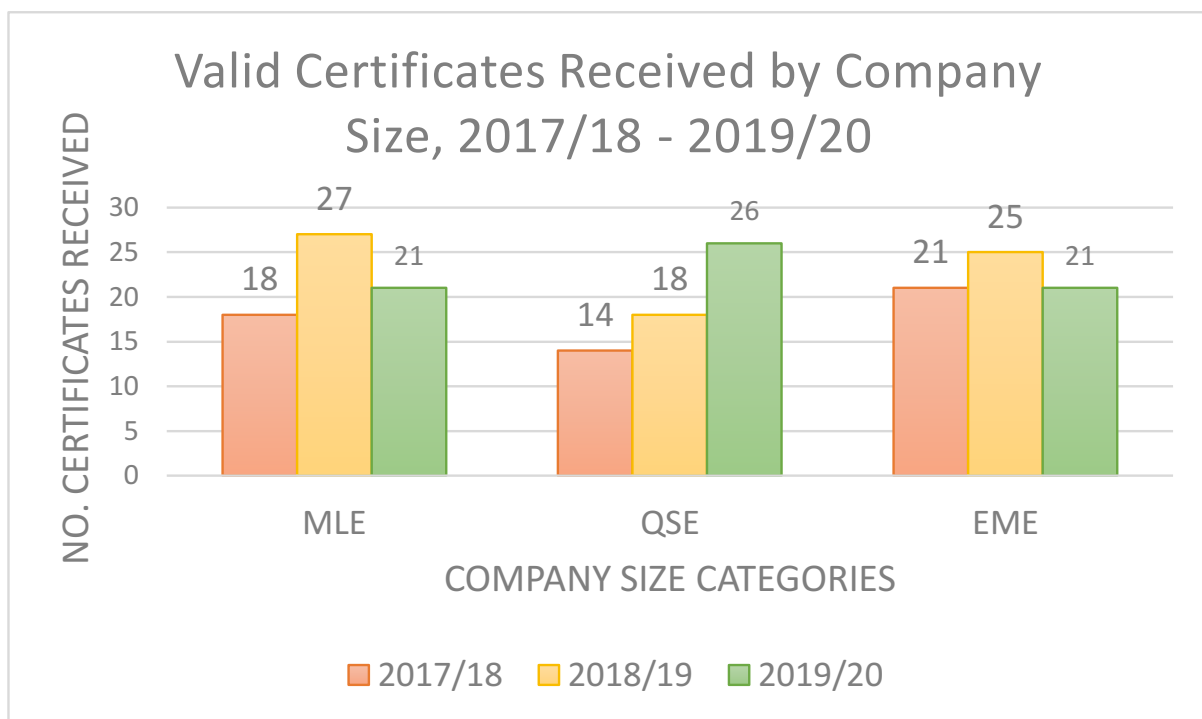


Figure 1: Certificates Received by Company Size

The forest sector is diverse and consists of a myriad of role players operating across multiple sub-sectors. This includes Growers, Fibre, Sawmilling and other related timber processing industries. It has been observed over the years that some sub-sectors are more dominant in certain company size categories than others. For instance, the majority of contractors are operating within QSEs and EMEs.

A noticeable number of EMEs are involved in manufacturing of timber products while MLEs are dominated by large multi-national Fibre producers who operate across multiple sections of the value chain.

The total number of certificate submissions are indicated in Figure 2 below. A total of 28 certificates were received from the contractors' sub-sector, asserting the dominance of these players in terms of numbers. Fibre had the 2nd highest representation while Pole Producers and Sawmilling were equally represented with 9 submissions each. There were 8 entities reporting as growers. A large number of entities with plantations are classified in other sub-sectors as the activity with the highest turnover is prioritized for reporting purposes.

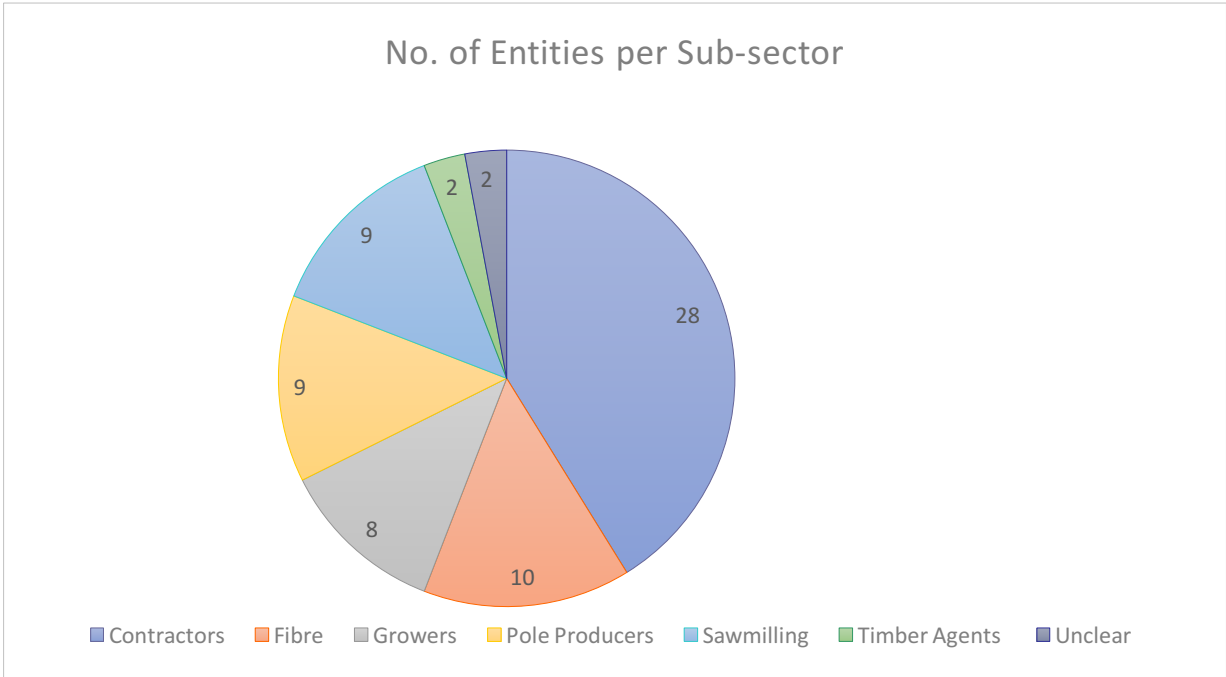


Figure 2: Certificate Submission by Subsector, 2018/19

Timber agents were added as a group this year as we are consistently receiving reports from entities identifying as such. Some affidavits only indicate that an entity is involved in forestry but do not provide sufficient information to place this entity into a specific category.

4.1. MEDIUM AND LARGE ENTERPRISE ANALYSIS

Medium and Large Enterprises are significant role players in the sector with the highest turnover in the B-BBEE programme. These entities have a turnover above R50 million per annum. In most cases, such enterprises have a large employee turnover ranging between 100 and more. In as far as B-BBEE is concerned, MLEs are required to be

measured against all five scorecard elements. Fundamentally, these elements measure a company's contribution to black shareholding, black promotability and employment to different categories of management and to the competency development and enhancement of black people. Moreover, the B-BBEE programme allows for the establishment of new enterprises and suppliers as well as the development of communities through socio-economic contributions.

MLEs are required to undertake a B-BBEE verification assessment and submit their certificate and B-BBEE report to their Sector Councils, in this case the Forest Sector Charter Council (FSCC). Twenty-one (21) MLEs including SAFCOL reported in the year under review. This shows a significant reduction of certificates received from the MLEs under the current year when compared to the previous reporting year. The number of the reporting entities declined by 22% from 27 to 21 in total as seen in Figure 3 below. The decline was unexpected as when comparisons between the last two previous years, shows a gradual annual increase and consistent reporting is strongly encouraged as per the prescript of the B-BBEE Amendment Act. The 2018/19 years' data, recorded the highest number of MLE submissions since the introduction of the Amended FSC.

Only 14 (66,67%) of the 21 that reported, submitted their underlying reports which further detail the scores attained under the sub-sections of each element. The 14 Measured Entities that submitted underlying information include SAFCOL, which is analysed separately and therefore excluded from the in-depth analysis of other MLEs. However, this does not necessarily differ much from the previous year.

The 21 submissions from the MLEs shows that 20 of the 21 have reported before. Only 1 submission received is from a new entity that has never reported before. Two (2) additional MLEs who had reported in the previous year were disqualified due to invalid certificates.

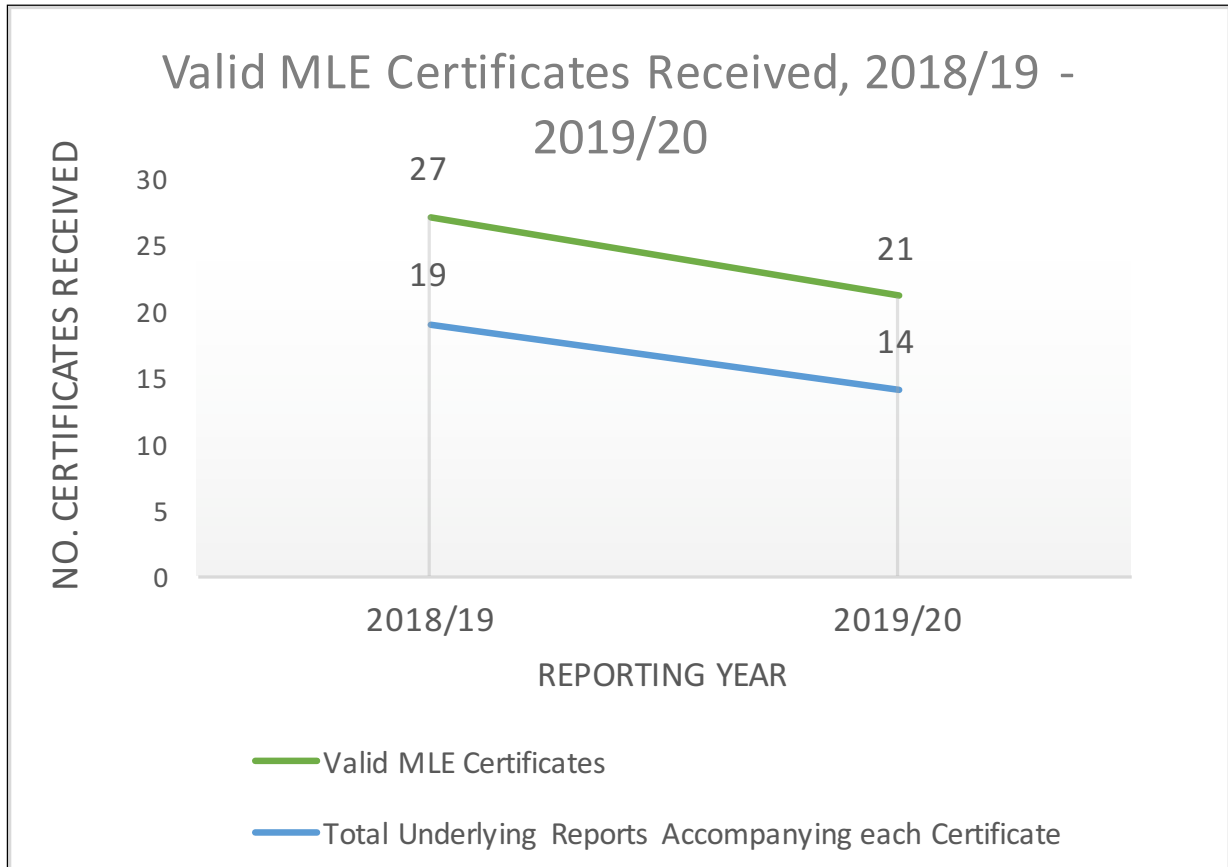


Figure 3: Valid MLE Certificate Submissions, 2018/19

The Council’s database has a record of thirty-three (33) MLEs. Table 1 compares the number of reporting Measured Entities each year to the Measured Entities who are consistently reporting under the Amended FSC. The recorded data below indicates that there are at least 20 consistent reporting MLEs which is about 61% of the 33 MLEs available in the Council’s database. This may be an indication that these entities fully understand the impact of reporting and the implications it has on the Sector as a whole.

Table 1: Number of consistent and new entities since the introduction of the Amended FSC

Years	Number of entities	Consistent entities	New entities
Year 1	20	20	
Year 2	27	20	7
Year 3	21	20	1

According to the commissioned Impact Assessment report, a number of reasons were cited for the non-reporting by some entities. The FSCC may need to explore other strategies to encourage consistent reporting from the other non-consistent reporting

entities. Furthermore, the rationale for these inconsistencies will have to be researched in order for the Council to respond appropriately.

The Amended FSC categorizes the applicable reporting entities into six (6) sub-sectors and further classifies the qualifying different activities under each sub-sector. Presently, Furniture is still excluded and so are other activities that could be possibly recognized and added under some of the sub-sectors. The proposed changes to the Amended FSC has suggested the inclusion of lignin and biomass activities under the Fibre sub-sector. This will result in the expansion of Measured Entities reporting under the Amended FSC and will profile how these companies have adjusted their programmes to accommodate B-BBEE in their operations.

The figure below illustrates the distribution of B-BBEE levels. Six (28,6%) MLEs achieved level 1, four (19%) achieved level 4, followed by level 3 which was achieved by three (14,3%) MLEs. Level 2, level 5, and level 8 had two (9,5%) MLEs each. Only one (4,8%) of MLEs achieved level 7 with none achieving a level 6.

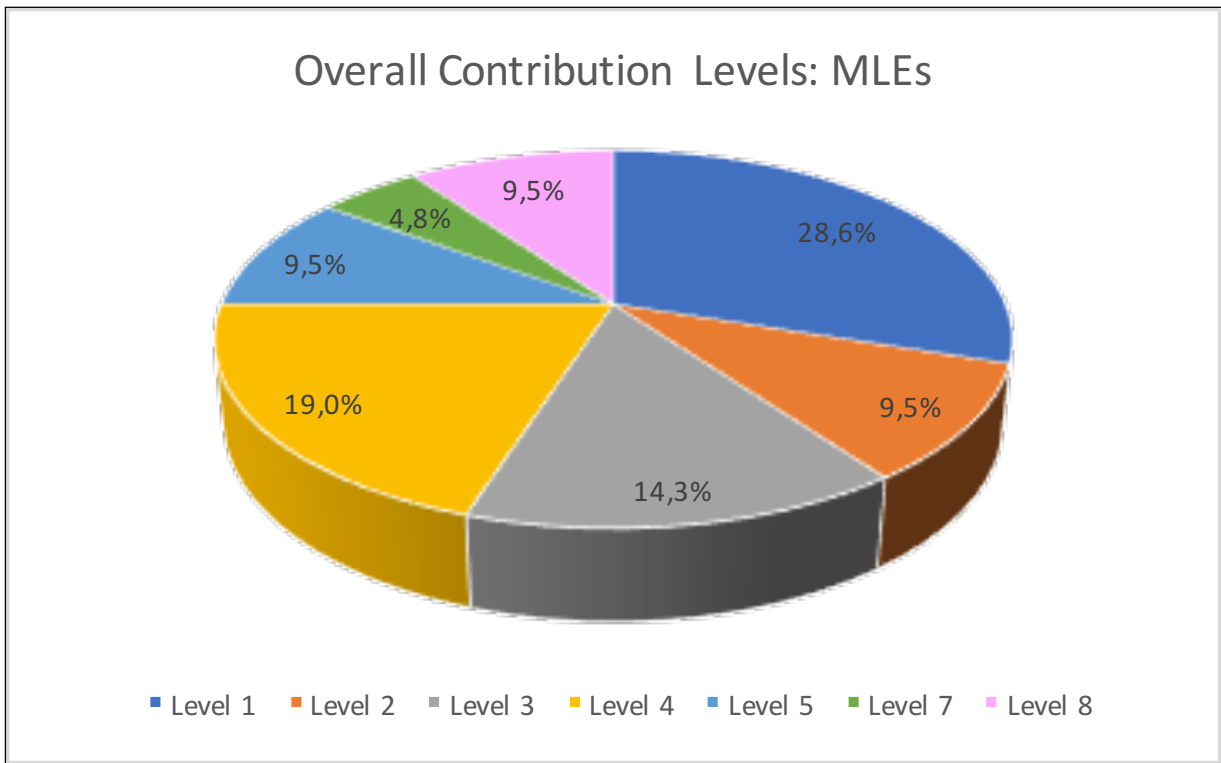


Figure 4: MLE Overall Performance by B-BBEE Level

Figure 5 below compares the number of certificates submitted by each of the entities from the different subsectors. The Amended FSC indicates that each entity must be verified based on the area of business where most revenue is generated as some entities are involved in the various sub-sections of the forestry value chain. It is evident from the submissions that the charcoal (similar to previous years) and contractors' subsectors did not make any submission under MLE. This has always been the case particularly for the Charcoal sub-sector when compared to the previous years. Unfortunately, one of the MLEs from the contracting sub-sector submitted an invalid certificate. This may further validate that most contractors and charcoal producers are not necessarily MLEs.

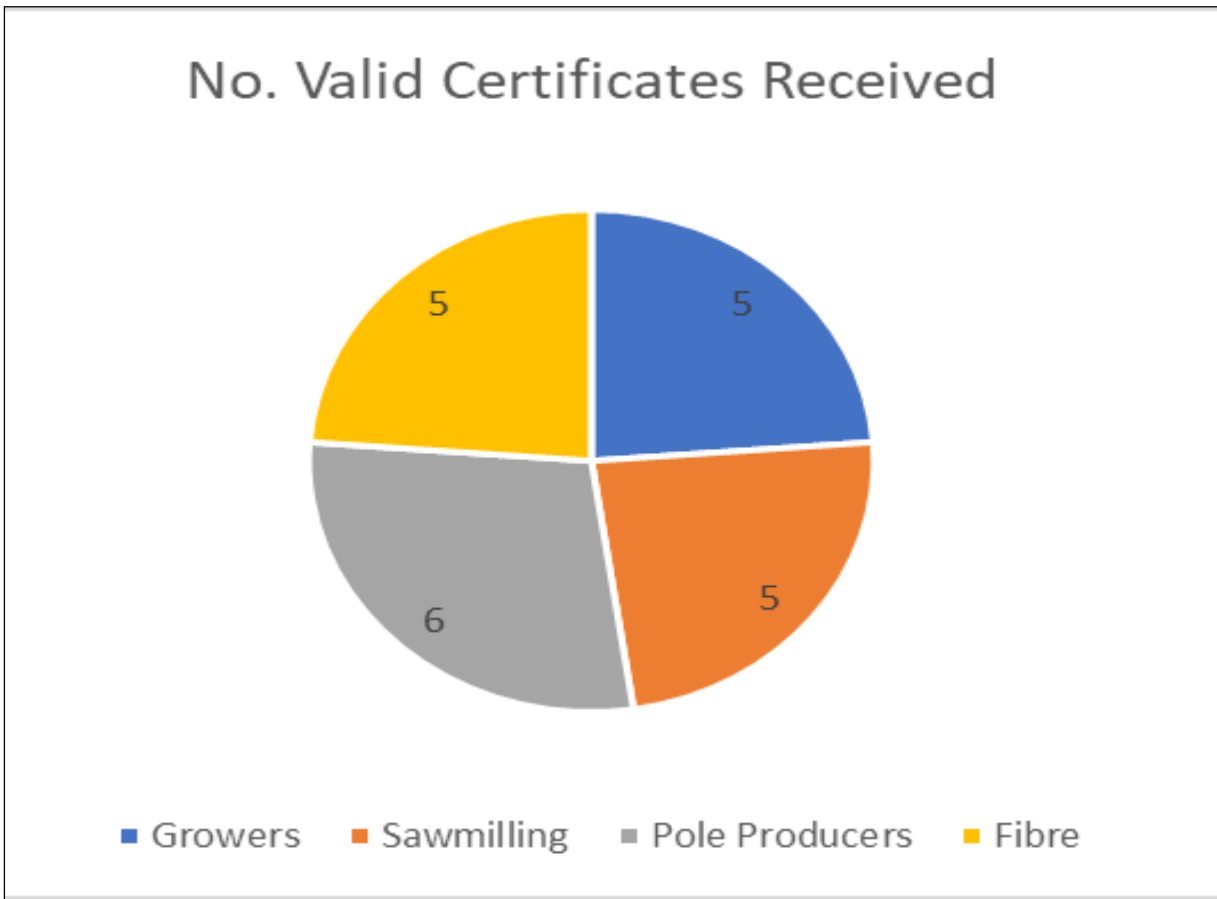


Figure 5: MLE Certificate Submission by Subsector

According to the verification process, an entity can achieve a B-BBEE rating between level 1 and 8. Each score is attached to the total points and corresponding recognition level achieved from the 5 scorecard elements, level 1 being the best and level 8 being the worst. In the case where the aggregated scores are forty and below, a non-compliant contributor status is assumed.

Figure 6 illustrates the distribution of levels achieved for the 21 reporting MLEs. In total, six (totaling to about 29%) MLEs achieved level 1 B-BBEE rating. Three of each (50%) of these is falling under the Fibre and pole producers' subsectors respectively. A similar trend that has been observed under the pole producers in the previous year. Two MLEs, about 10%, achieved level 2 and both of them are from the Fibre sub-sector.

Three MLEs amounting to 14% achieved level 3. Two of these were from growers while the other MLE was from the sawmilling subsector. Approximately 4, accounting for about 19% scored level 4, with two from the growers while the remaining each categorized under the sawmilling and pole sub-sectors. A further, two (10%) MLEs achieved a level 5 with two (10%) others attaining a level 8 rating, whilst one, (5%) received a level seven. Only one, (5%) MLE achieved a non-compliant status. This shows a reduction in the number of MLEs achieving a non-compliant status compared to the previous year. There were no MLEs getting a score of 6. The MLEs that have received a rating below 4 may find it difficult to access concessions, licenses or even grants from government in future. Most government departments have set an acceptable level of 4 as one of the requirements for assessing these as obligated by section 10 of the B-BBEE Amendment Act.

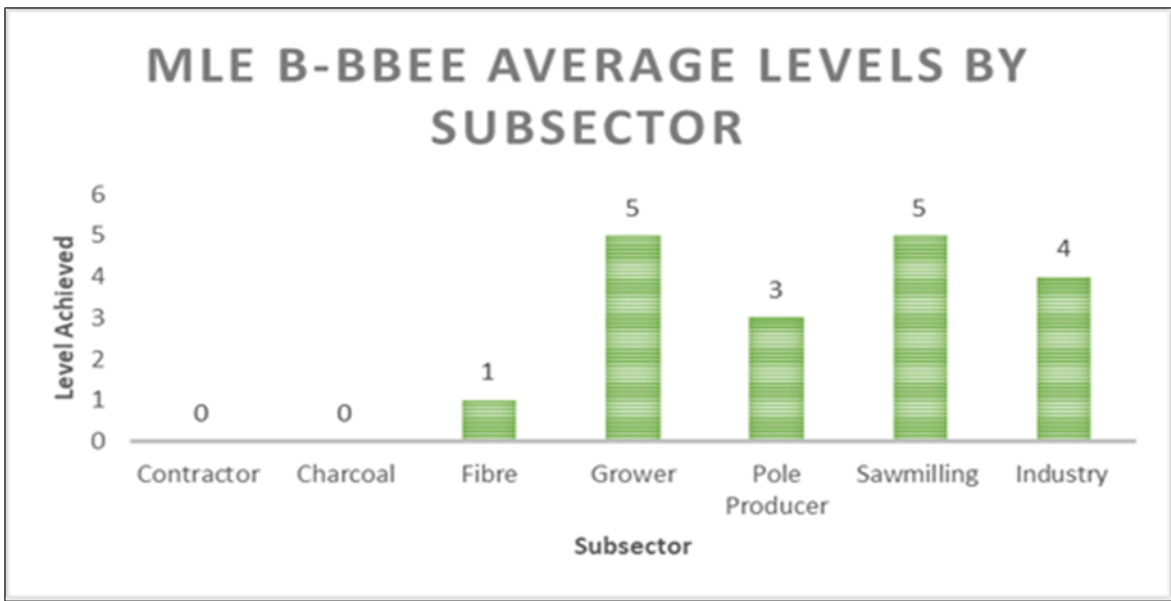


Figure 6: MLE Overall Performance by Subsector & B-BBEE Level

Figure 6 above shows that the Fibre sub-sector has outperformed all the other reporting sub-sectors achieving an average level of 1. Possibly, this could be attributable to the fact that most of the consistent reporting entities fall within this sub-sector and have

probably adapted well to their B-BBEE commitments. On average, the pole producers' sub-sector achieved level 3. This observation is as a result of the majority (3) of the Measured Entities under pole producers' subsector achieving level 1. Other Measured Entities under this subsector, each received level 4, level 7 with one being non-compliant.

The growers and sawmilling sub-sectors both attained a level 5 status on average. The two growers that achieved level 3 are both constant reporting entities. Another two growers achieved level 4, the other one receiving a level 8. The sawmilling sub-sector had two entities achieving level 5 with the other three entities each receiving a level 3, level 4 and level 8 respectively. This resulted in the industry achieving level 4 on average under MLE section, an improvement from the previous two reporting years where a level 6 was achieved. Expectedly so, the new stricter rules that was brought about by the Amended FSC required entities to adjust and re-strategize in order to perfect and improve their scores.

4.1.1. OWNERSHIP

The Ownership element provides a number of tools to acquire black ownership in existing and newly established enterprises. These tools ranges from direct individual or group ownership that can be recognized through Broad-Based Ownership Schemes (BBOS), Cooperatives, Trusts, Employee Share Ownership Programmes (ESOPs) etc. However, the BEE Commission has raised numerous concerns over Trusts in particular. The BEE Commission is on record in stating that most Trusts are not compliant with the BEE objectives as indicated in the B-BBEE Amendment Act.

Figure 7 below compares the overall Ownership performance of MLEs for the last three years of reporting under the Amended FSC. This analysis excludes SAFCOL as it is not rated under Ownership due to the fact that it is a State-Owned Entity, therefore measured using Statement 004. Medium to Large Enterprises performed well achieving over 78% of the Ownership target. This indicates an approximate 3% increase in the performance, up from 75,36% of the target compared to the preceding year of reporting. Fourteen

entities, which is about 70% received a score above 70% towards the target. Only two (10%) entities had no black shareholding at all.

An in-depth analysis shows that most of the consistent reporting entities have either maintained or improved their good ratings on this element. This could be imputable to Ownership being a priority element and the highly publicized controversies associated with it. Secondary to that, it is possible that most entities have accustomed their activities to avoid discounting.

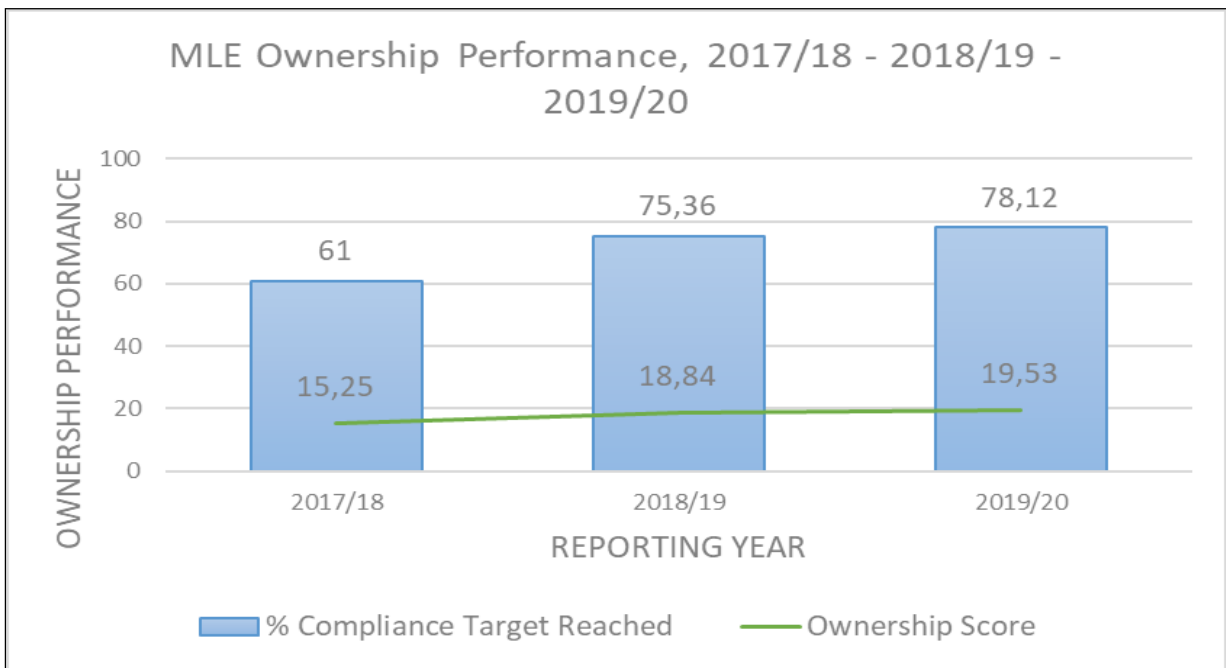


Figure 7: MLE Ownership Performance, 2017/18 – 2019/20

Ownership is one of the priority elements as prescribed by the Amended FSC. All MLEs operating in all the forestry sub-sectors are required to have a 25% black ownership control in the established mother company.

Analysis of submitted certificates provides exact figures for the average black and black women ownership for MLEs in the sector. Table 2 below provides a summary of the descriptive statistics for the black ownership. The average black ownership amongst MLEs is 45,1% while black women ownership is also above the Amended FSC requirements of 10% with an average of 16,1%.

The data also indicates that the average black ownership is normally distributed while the black women ownership is heavily skewed to the left, indicating a high number of MLEs with low black women ownership. This is further evidenced with the 1st quartile (25% of the data is below 1% black women ownership) and 75% of the data is below 25% black women ownership (Q3).

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

	Black People	Black Women
<i>Minimum</i>	0	0
<i>Q1</i>	23,9	0,7
<i>Median</i>	42,8	12,8
<i>Mean</i>	45,1	16,1
<i>Mode</i>	100	0
<i>Q3</i>	57,4	24,9
<i>Maximum</i>	100	45,9
<i>Entities scoring 0% Ownership</i>	2	5
<i>Entities scoring above 0% but below 51% Ownership</i>	9	15
<i>Entities scoring 51% Ownership</i>	2	0
<i>Entities scoring above 51% but below 100%</i>	5	0
<i>Entities scoring 100% Ownership</i>	2	0
<i>No. entities who did not indicate Ownership</i>	1	1

Total number of entities	21	21
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The Ownership performance of reporting MLEs was categorized further into different sub-sectors as shown in Figure 8 below. Fibre sub-sector performed well by achieving 98,92% of the 25 points target. Sawmilling showed a slight decline from the previous year achieving 92,68%, whilst pole producers achieved 68,68%, with growers achieving the least score of 52,12%. This shows that despite achieving good B-BBEE ratings, some of the pole producers are finding it challenging to implement the Ownership element.

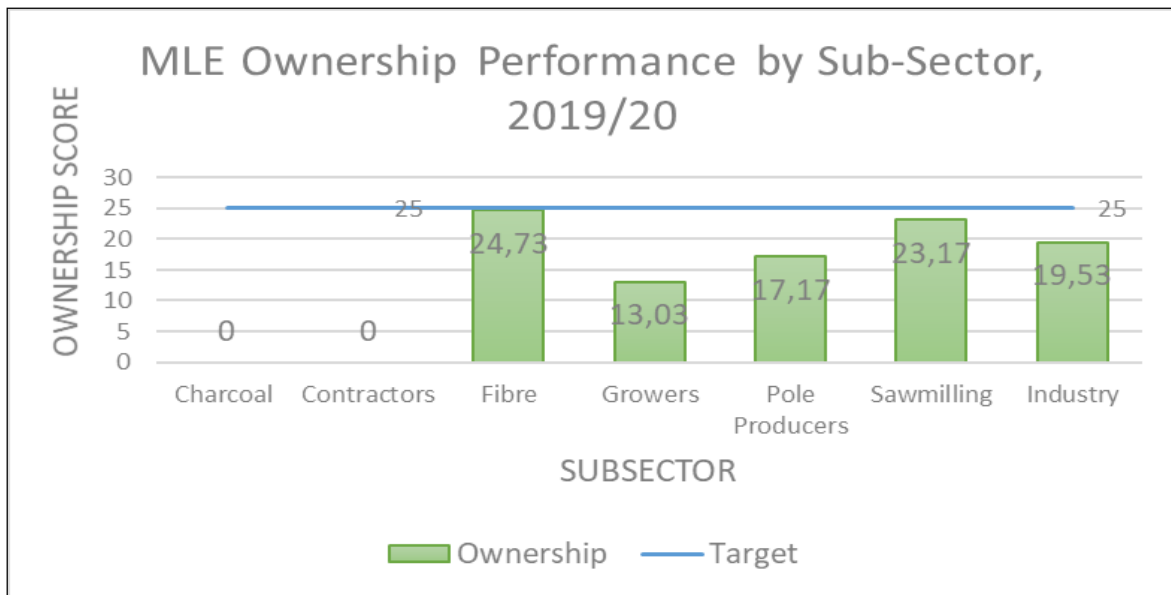


Figure 8: MLE Ownership Performance by Subsector, 2018/19

OWNERSHIP IN-DEPTH ANALYSIS

The Ownership in-depth analysis is based on 13 measured entities as only these entities submitted their underlying reports. This is however in contravention of the B-BBEE Act as Amended as it dictates that all Measured Entities must submit their B-BBEE certificates together with the supporting report.

Figure 9 is a graphical display of the indicators of the ownership elements together with the allocated weightings and industry’s performance on each indicator. The graph excludes the bonus points achieved by these entities.

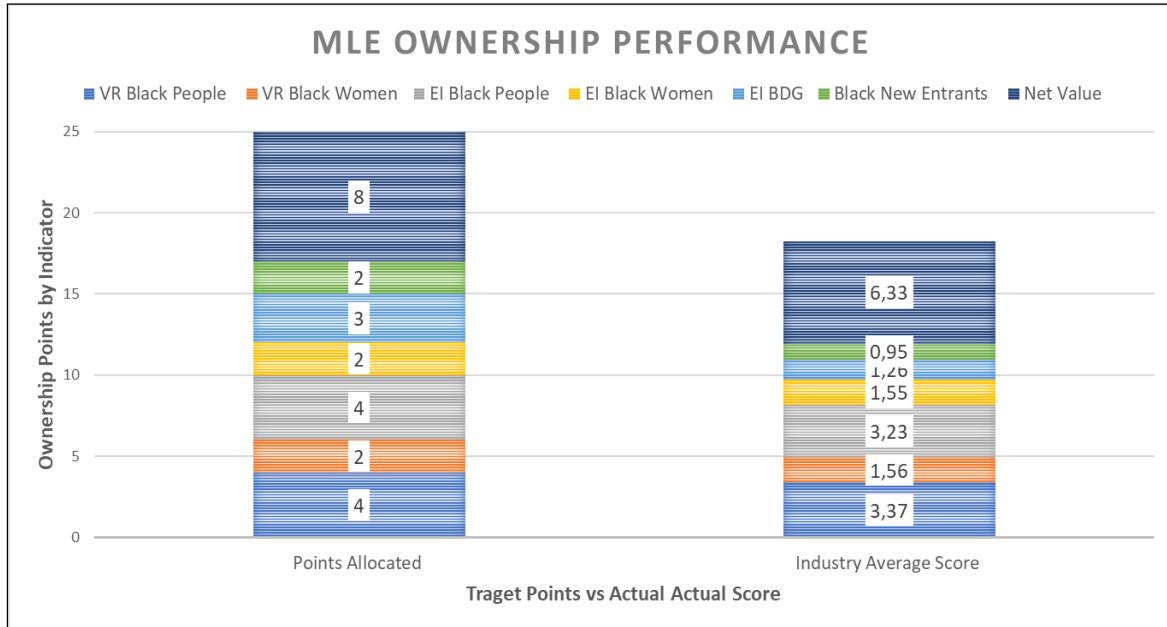


Figure 9: MLE Ownership Performance

Averagely, these 13 MLEs scored 18.25 points. The graph shows that industry continued to do well under some indicators of this element with exceptional performance achieved under the economic interest, voting rights for both black people and women as well as on the net value points respectively. The results further indicate industry’s challenge in attracting new entrants and achieving targets towards the different broad-based groupings.

Table 3: A comparison of Ownership indicators’ scores between FY2018-19 and FY2019-20

Indicator	Points Allocated	Industry Average Score FY2018-19	Industry Average Score FY2019-20	Compliance Target	Percentage of Indicator Target Achieved FY2018-19	Percentage of Indicator Target Achieved FY2019-20
VR Black People	4	3,02	3.37	25%	75,5%	84,3%

VR Black Women	2	1,23	1,56	10%	61,5%	78%
EI Black People	4	2,89	3.23	25%	72,25%	80,8%
EI Black Women	2	1,19	1.55	10%	59,5%	77,5%
EI BDG	3	1,65	1.26	7,5%	55%	42%
Black New Entrants	2	1,37	0.95	2%	68,5%	47,5%
Net Value	8	6,43	6.33		80,38%	79,1%

Table 3 further compares the performance of Measured Entities within the seven main indicators under the Ownership element between the current year and the previous year. There has been a significant increase under voting rights and economic interest of both Black People and Black Women. A declining performance was observed for economic interests for new entrants and the other broad-based groupings. This is a call for concern as this may prove that the control of resources amongst these groupings is narrowly benefitting a few and not achieving the objective of broadness as required.

The realization of exercisable voting rights for black people and black women in a Measured Entity is embraced in Amended FSC. Voting rights entitles a shareholder to vote in a shareholders' meeting thus be in control. Averagely, the MLEs achieved a score of 3,37 which is 84,25% of the target in the voting rights in the hands of black people and 1,56 which is 78% of the target in the hands of black women respectively. This however shows an increase when compared to the previous performance.

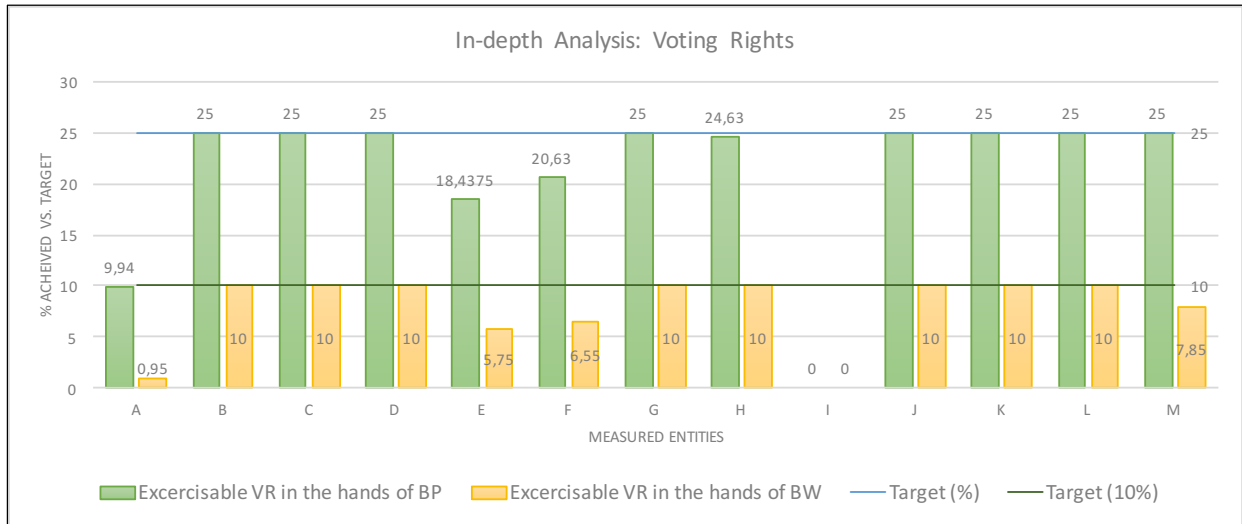


Figure 10: MLE Analysis: Voting Rights in the Hands of Black People

Figure 10 above describes the performance of the thirteen entities under voting rights. There were about 11 (85%) measured entities which achieved full score or good score on the voting rights for Black People. A similar trend is also observed with the voting rights in the hands of Black Women with the majority of the entities achieving an exceptional score towards the 10% target. This shows that the majority of entities are realizing that it is not possible to be compliant with this element without black shareholding.

Economic interest measures the entitlement of shareholders to share declared profits or capital growth in a form of dividends or returns. In relation to MLEs the set target for black economic rights is 25% while a 10% target is applied for black women economic rights. The 13 reporting entities achieved an average of 3,23 (80,75% of the target) for black economic rights and 1,55 (77,5% of the target) for black women economic rights.

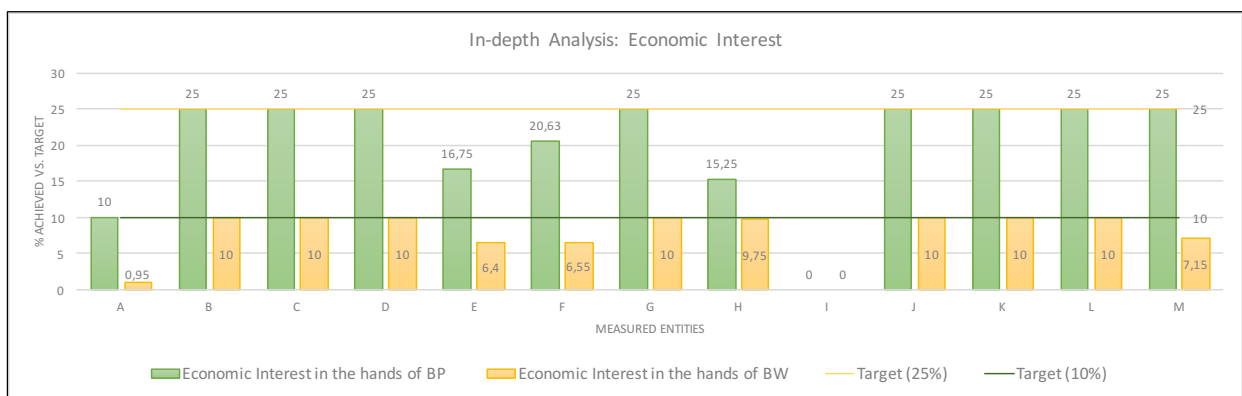


Figure 11: MLE Analysis: Economic Interest in the Hands of Black People

Figure 11 above describes the performance of the entities under economic interests of both Black People and Black Women. Ten (77%) entities achieved the target or a reasonable score of at least above 60% for economic interests under the hands of Black People. Performance for economic interest for Black Women demonstrated the same pattern observed under economic interest for black people with 11 (85%) entities showing exceptional performance. Only two (15%) performed poorly under this sub element. Similarly, to the voting rights, the performance shows that a majority of the Measured Entities are achieving their targets towards this sub-element. The observed performance concludes that most entities are declaring dividends and qualifying black shareholders are receiving returns from the ownership deals.

Ownership recognition can be either through direct participants including new entrants or other participants in the form of schemes, cooperatives trust, or designated groupings, etc. This set up is encouraged as it enables a number of beneficiaries to benefit from the measured companies and attains the objectiveness of broadness in as far as economic empowerment is concerned. However, there have been many questions raised regarding the correct application of BEE particularly with trusts. Often than not, the recorded discomfort on these set up has been based on either invested shares for the rightful beneficiaries or the passive nature of beneficiaries in the operations of the said company as well as the returns received.

One article has quoted that *“In the context of the huge debate over the BEE codes in recent weeks, the claim that broad-based schemes have received no benefits is false,” says Theobald. “In FirstRand’s R23,2bn empowerment deal, which was also the biggest deal done on the JSE, the single-biggest pay-off of R14,6bn went to a broad-based trust.”* Unfortunately, B-BBEE reporting does not necessary indicate such and may be in the interest of the custodian of B-BBEE to validate such statements.

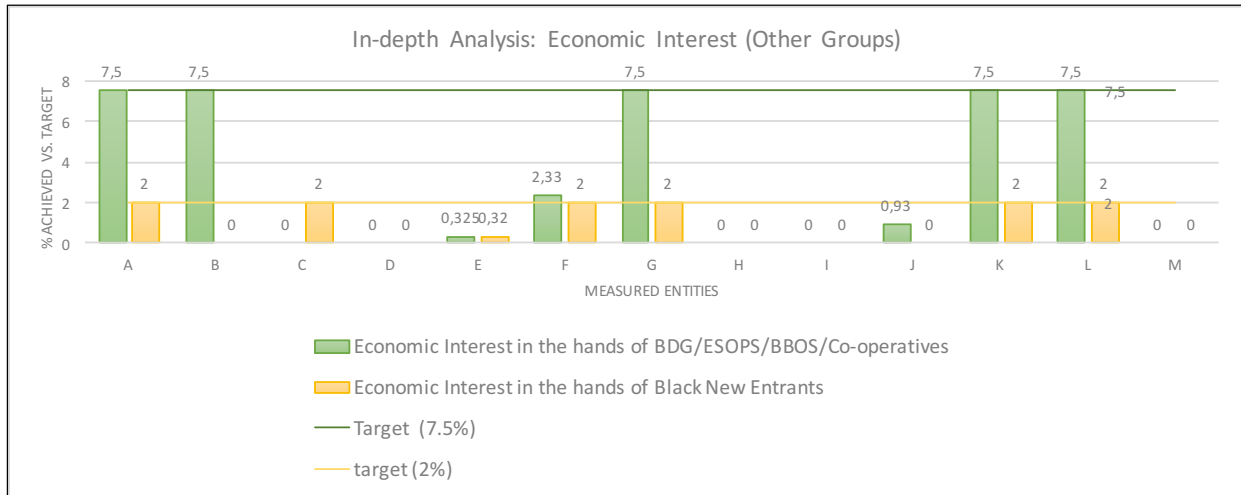


Figure 12: MLE Analysis: Economic Interest in the Hands of Other Groups

It is evident in Figure 12 above that Measured Entities are finding it challenging to have black shareholders from the different broad groupings. Only five (38%) entities achieved the target which confirms that they have representation of either Black Designated Groups, Employee Share Ownership Programmes (ESOPs), Broad- Based Ownership Schemes (BBOS) or Black Participants in Co-operatives. The remaining 8, (62%) entities showed to have very minimal or no representation at all as displayed on Figure 12.

Furthermore, it is also difficult to even assess which one of these groupings is most preferred by MLEs as the target achieved can be either for one or a combination of two or more if not all. There is a therefore a need for a proper assessment on this observation so that there is no preference of one over the other which may be subjected to exploitation.

The Net value points measures the equity percentage held by black participants that is debt-free and provides targets for repayment of the BBBEE shareholder's acquisition debt over 10 years. The new amendments to the Generic Codes which came into effect in November 2019 has even clarified the Net value calculations through the definition of "Current Equity Interest Date".

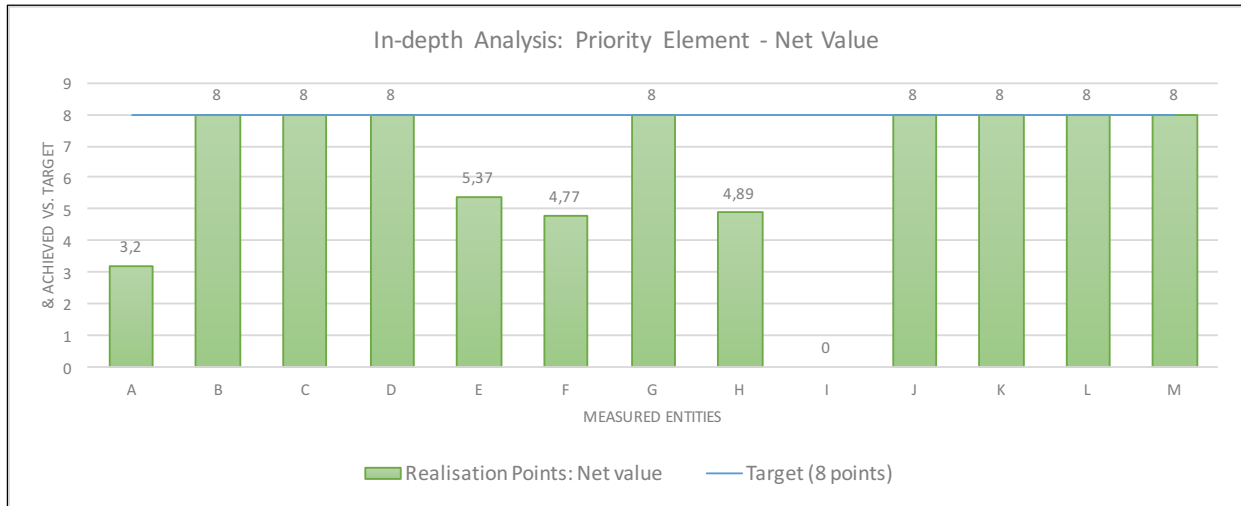


Figure 13: MLE Analysis: Net Value – Priority Indicator

Figure 13 above reveals the performance of participating MLEs towards the Net Value Points where discounting is applied. MLEs who have not achieved 40% towards the total 8 points are downgraded by a level from their final B-BBEE level. Eight (62%) MLEs achieved the overall target points under the net value indicator. Additionally, 4 (30%) MLEs avoided discounting by achieving at least the 40% or slightly above the minimum target as shown in Figure 13. Only one (8%) entity was discounted under this element as it scored no points. The observation reveals that the industry is adjusting to the requirements of the net value points irrespective of the economic instability. The number of entities discounted under this element declined drastically from 5 in 2019.

Table 4: Black Ownership through Modified Flow through Principle vs Black Ownership through Modified Flow through Principle

	Black Ownership through Flow Through Principle	Black Ownership through Modified Flow Through Principle
Number of Companies	17	4

The Black profile in an entity can be either flowed or modified through. Most entities as shown in Table 4 distinguishes between the number of MLEs recording blackness either through the Flow Through or Modified Flow through Principle. Fundamentally, most entities have applied the Flow through Principle which is preferred as it measures the actual blackness in an entity. This is encouraging as the new amendments to the Generic

Codes (and proposed for the Amended FSC) only recognises the black profile through the Flow through Principle.

In addition, all reporting MLEs achieved an automatic empowering supplier status. This will definitely change once the applicable criteria as inscribed in the Amended FSC becomes implementable.

4.1.2. MANAGEMENT CONTROL

The Management Control element incentivizes entities for having black representation in boards, executive and across the three spheres of management. The latest Employment Equity Commission report still shows that black representation across management structures and board level is still unjustified and misrepresentative. In the latest Job summit, the President called all entities to prioritize the promotion and employment of black people into the different management and board positions.

The industry's overall performance is shown in figure 14 below. The industry achieved 8,9 points over the 19 points. This record shows an improvement of about 7,7% when compared to the last report. Even though there has been a slight improvement when compared to the previous two reporting years, the sector still performs poorly in this element. This trend has also been observed in the appealed FSC. Evidently, the economic outlook might have had an influence on this element though still that cannot be the only determinant. It is obvious that concerted efforts with adjusted strategies to address this continuous performance is a "must".

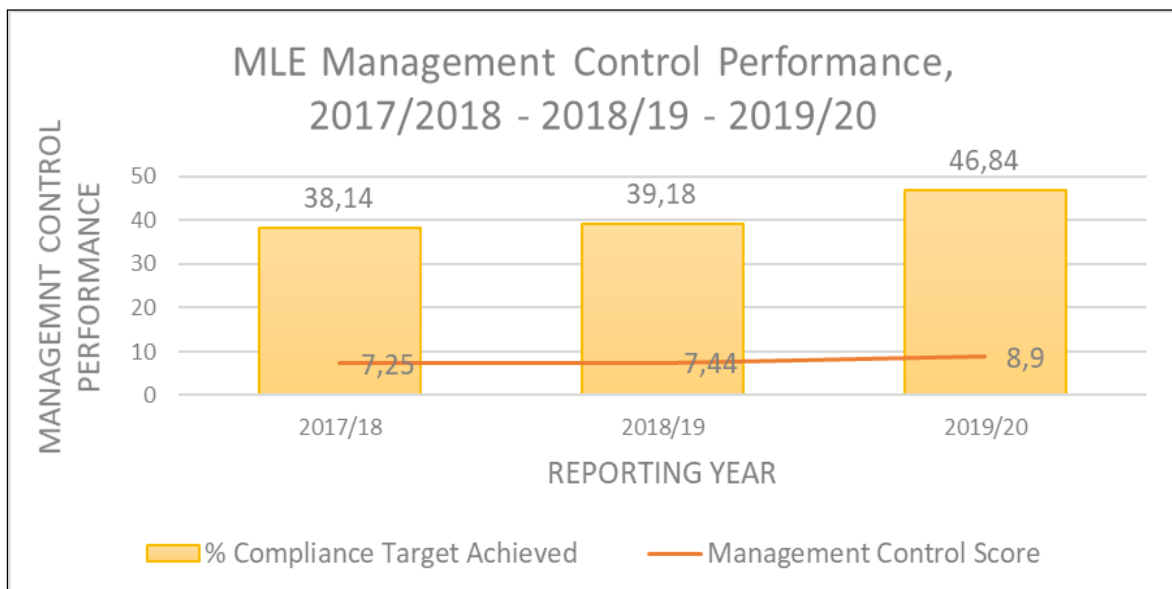


Figure 14: MLE Management Control Performance, 2017/18 – 2019/20

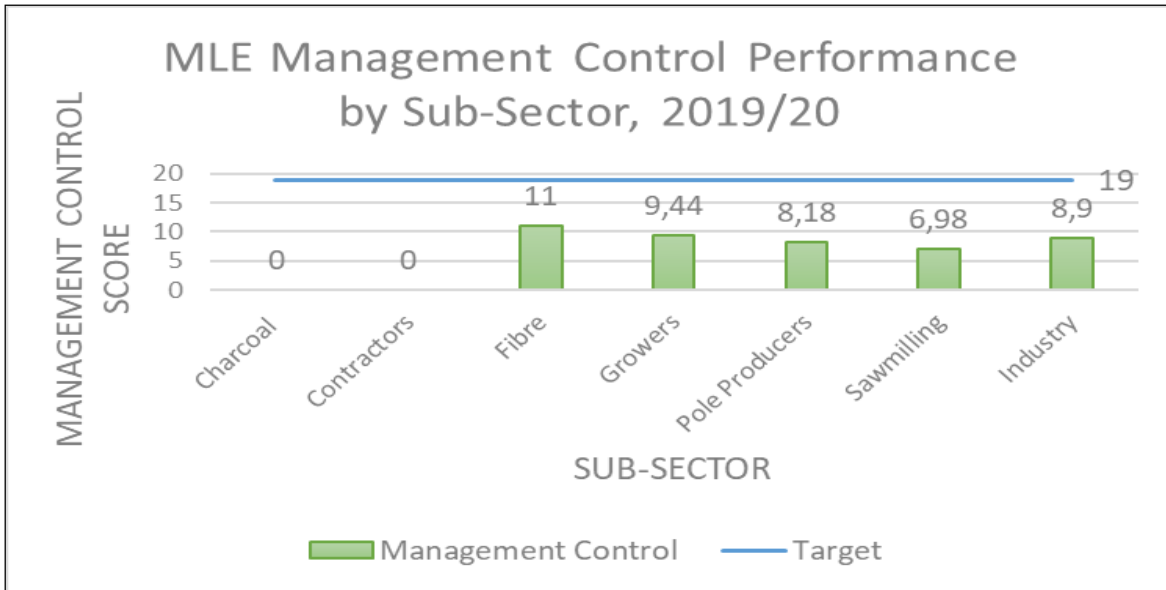


Figure 15: MLE Management Control Performance by Subsector, 2019/20

The management control achievements of reporting MLEs was categorized further into different sub-sectors and compared to the industry’s overall performance as shown in Figure 15 above. The Fibre sub-sector was the only best performing sub-sector achieving 11 which is 57,8% towards the target. It performed well also in ownership. Even though the growers achieved less than 50% towards the target, just like the other four remaining sub-sectors, it surpassed the industry overall performance by very small margins.

MANAGEMENT CONTROL IN-DEPTH ANALYSIS

Management Control is one of the two elements that has not been prioritized and has no minimum targets. The Management Control recognizes the Executives mostly as the big “C”, i.e. Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Operations Officer (COO) etc.

The industry’s overall performance on each indicator of the management control element is shown in figure 16 below.

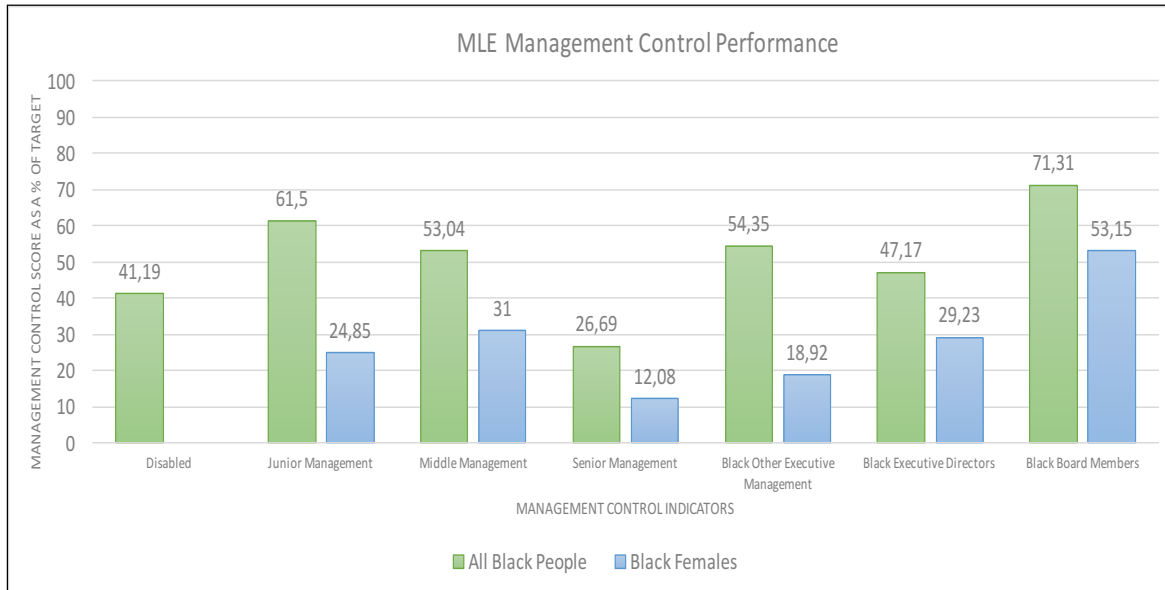


Figure 16: MLE Management Control Performance per indicator, 2019/20

The Sector presented a similar trend even in the year under review with good representation in junior management as well as board involvement. Noticeable, is the drastic decline in Black Female Executive representation from 61.08 to 29.23 when compared to the previous report. Evidently so, the trend demonstrate that industry continues to struggle to employ or promote black people particularly women into senior and top management positions. This observation is confirmed also in the 2019 Employment Equity report findings which has concluded that top management is dominated by mostly males in both private and public sectors. Furthermore, the private sector’s top management is majority non-blacks.

The Industry’s performance showed a slight improvement on middle (12.8% Black People) and senior management for both Black People and Black Women though more is still required. Even though the improvements are not so significant, this could partially mean that the industry’s strategies on promoting black managers are beginning to yield successful outcomes. The industry will have to considerably revise their strategies in order to achieve the targets in this element.

In a company the Board, has advisory and decision-making powers in the running of the organization. A recent article has quoted the call by the BEE Commission to have a nominated representative from the BEE Schemes in the parent’ company board. This

will be critical for all the Johannesburg Stock Exchange (JSE) listed companies as they are obligated by law to report to the BEE Commission who has the powers to even verify their board representation.

The representation or structure of the Industry’s board is shown in Figure 17 below. According to the graphical expression in Figure 17, 5/13, (38.5%) reached the target for black representation in Boards, while only 6/13 (46.2%) achieved a reasonable score of above 60% and above. A further two (15.4%) had very minimal representation with one of the two having no black participants at all.

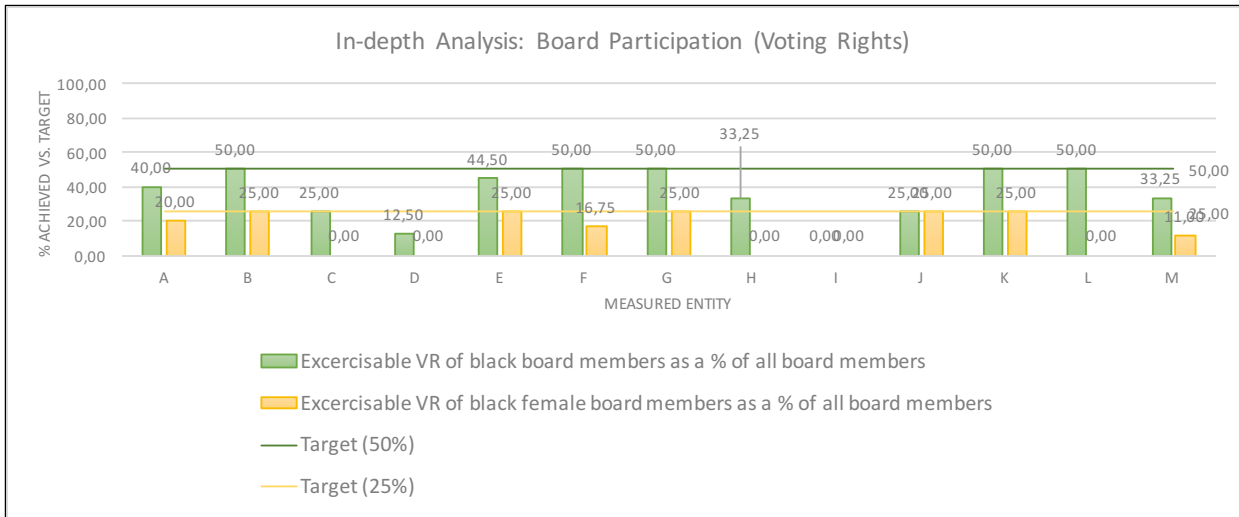


Figure 17: MLE Analysis: Board Participation by Black People through Voting Rights

Eight of the thirteen, (61,5) of the submitting MLEs had women representation in their boards with one of this achieving a target of less than fifty percent. The remaining five (38.5%) MLEs did not have any black women in their boards. This is a call for concern as it continues to disadvantage women from gaining exposure and expertise in the operations of boards thus be suitable to be favored in future.

Executive Directors in an entity may be allowed to serve in the board without having any voting rights. Figure 18 below indicates that 7/13 (53,8%) MLEs had black Executive Directors in boards. Black women executive directors showed an even worse performance with only four of the total thirteen companies having women executive directors participating in the boards.

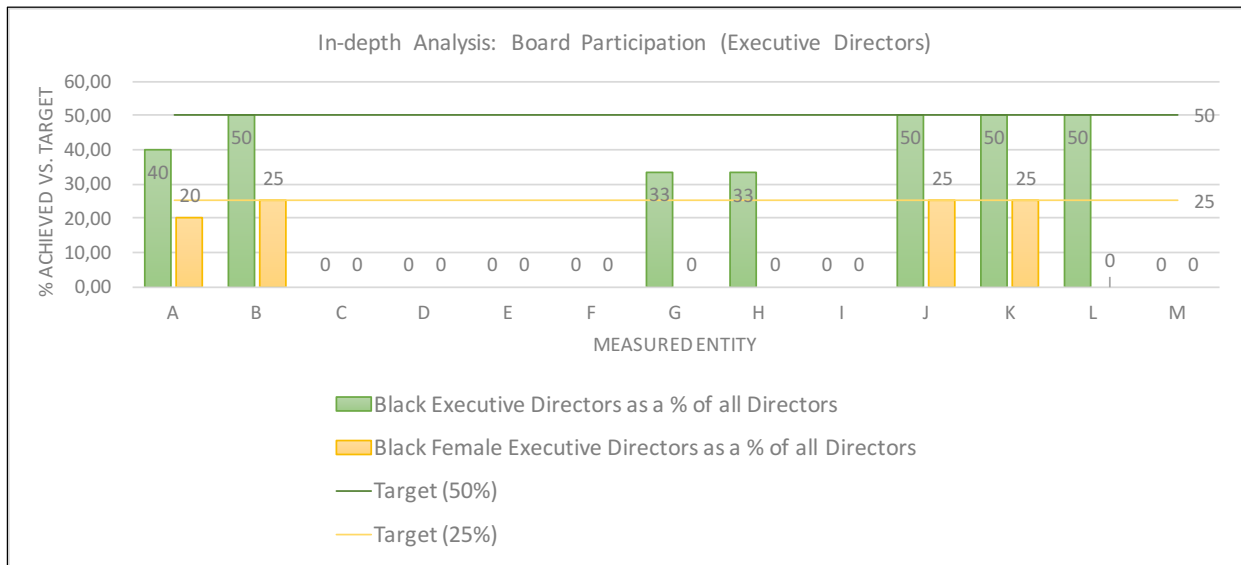


Figure 18: MLE Analysis: Board Participation by Black People through Executive Management

A further 6/13 (46.2%) had neither black people nor black women executive directors. Even though, there has been a slight improvement in terms of women executive directors, this improvement is insignificant as it shows that this trend continues to prove that the pace to include women in decision making positions and structures is slower. Chances are companies may not feel compelled to include women into these structures as they can still achieve a good B-BBEE level without achieving the points set for this target. As a sequel to that, there may be a need to incentivise companies for achieving a higher target for black women executive directors.

Other executive directors are often referred as the big “C” in a company that do not necessarily serve in the board. Figure 18 above reveals the performance of the submitting MLEs. The observation shows that majority of “other” executives are black people and minority black women amongst most MLEs a similar set up observed on the black women directors in boards indicator.

Figure 19 further indicates that 11/13 (84,6%) MLEs have black representation at “other” executive level while only 2 (15,4%) of MLEs reached the target for this indicator with an additional 5 (38.5%) achieving more than 50% towards the target. Women representation in “other” executives showed an even poorer performance. Only one

(7.7%) achieved the target of 30% with an additional four (30.8%) attaining minimal representation.

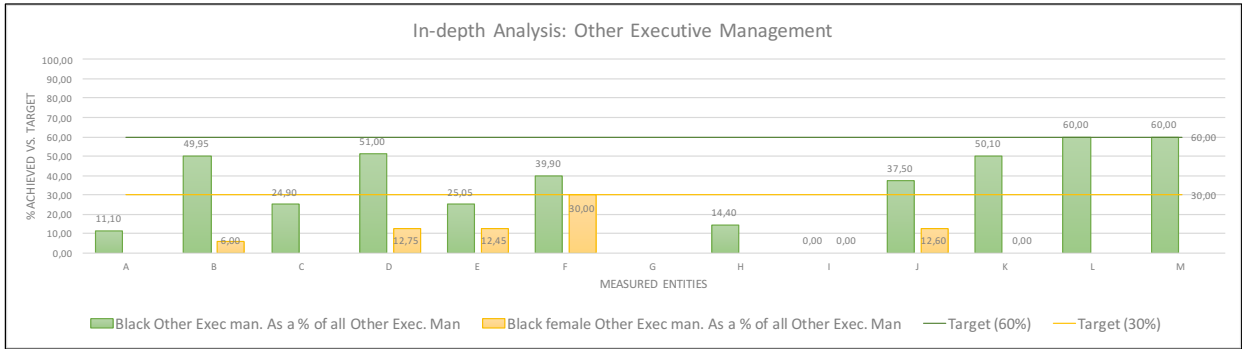


Figure 19: MLE Analysis: Board Participation by Black People through “Other” Executive Management

The majority of the MLEs, being 8, (61.5%) had no women in the “other” executive positions. Two MLEs had neither black people nor back women in other executives. This performance can be regarded to be undermining the objectives of B-BBEE as well as the National Development Plan (NDP) which advocates for an active participatory role of women in all economic sectors.

In Forestry, senior managers could be mostly General Managers, Regional Managers, Heads of Departments, etc. depending on each company’s organogram. Senior managers are responsible for the overall operations and profitability of a company from the different provinces where the said company’s footprint exist. Their goal is to maximize this organization's efficiency, productivity, and performance, by making sure all operations are running smoothly. In most cases they report directly to the executive management of the organisation residing in the headquarters office.

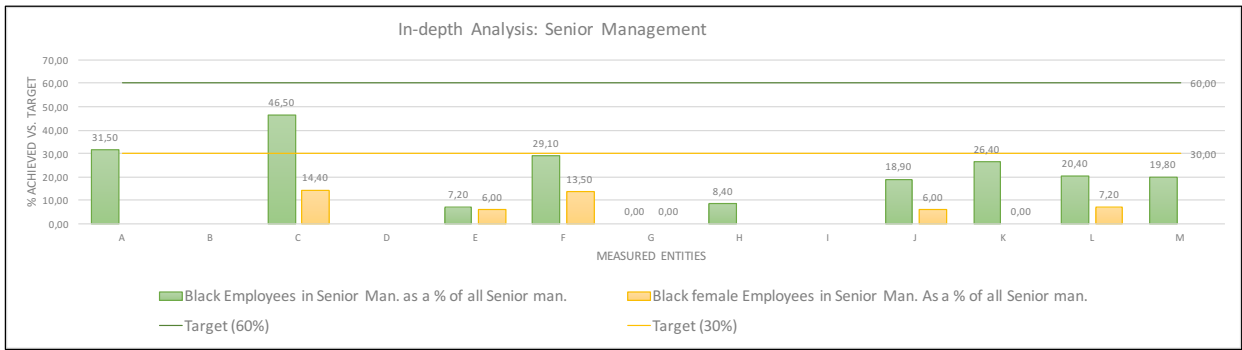


Figure 20: MLE Analysis: Black Representation at Senior Management level

The Amended FSC, allows for the combination of the “other executive managers” and “senior managers” in cases where an entity cannot make a distinction between these two indicators. The representation of black people and black women at senior management is shown in Figure 20 above. Evidently so, both black people and women participation at this level is shoddier.

Only 9/13 (69.2%) of the MLEs had black representation with none of them achieving the target just like in previous years. Out of the 9, only 3 (33%) achieved at least 50% or above towards the target of 60%. MLEs showed to even struggle with women participation in senior management, a trend that was also observed from the last year’s report. Women representation was only in 5 (38.5%) MLEs.

None of the MLEs attained good scores or half the target of 30% for black women. The rationale for this disposition is not properly researched and may be linked to the perceptions detailed in the Impact Assessment report commissioned by the Council. One being that forestry is still viewed as a male dominated industry and that women are not brave enough to operate the new technology-built machines. The 2019 women celebration by FSA where a profile of active women in the sector was showcased is encouraged.

Figure 21 demonstrates MLE performance for employing and or promoting black people and black women into middle management positions. Middle-level managers are responsible for executing organizational plans which comply with the company's policies. These managers act at an intermediary between top-level management and low-level management.

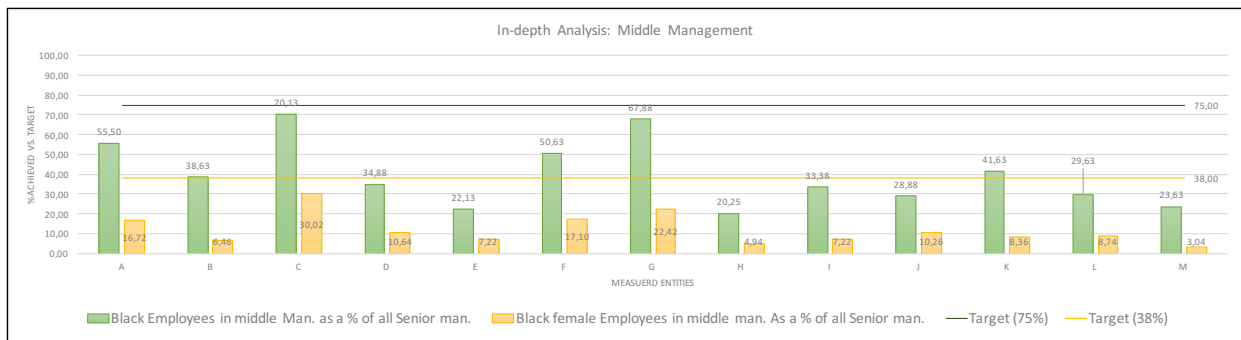


Figure 21: MLE Analysis: Black Participation at Middle Management

Clearly, all submitting MLEs had representation of black people and women in middle management. This was not the case when compared to senior management. Even though none of the MLEs achieved the set targets of 75% and 38% respectively, none also received zero points for these indicators. Similarly, this was the case even in the previous report. Such performance is encouraging and expectantly it will translate to future promotions of either or both black people and women into the senior management category.

Junior managers are often referred to those that have minimal responsibilities in terms of the company’s operations. Usually two or less people would directly report to a junior manager. In forestry, they are concentrated more on the silviculture and harvesting operations as Forestry Managers, Plantation Managers, Silviculture or Harvesting Managers, Senior Foresters, Management Foresters, etc. They manage mostly these operations possibly because of the evolving technical skills acquired directly from tertiary. In essence it would take about three to five years in practice to be promoted to these positions, one of the considered factors being the expertise gained.

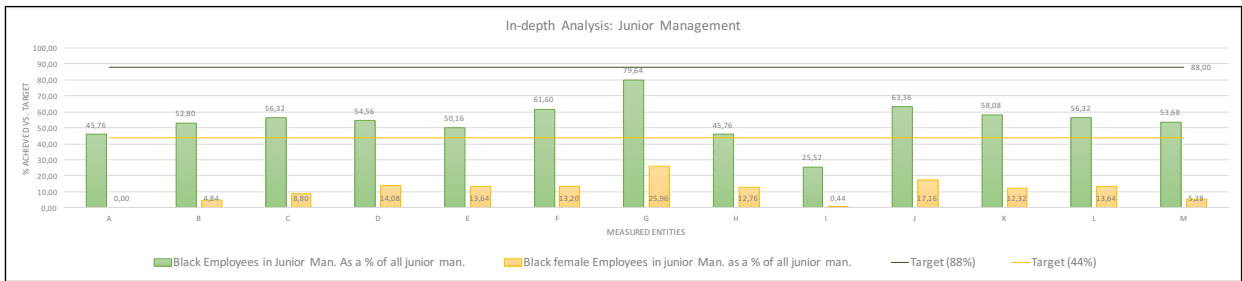


Figure 22: MLE Analysis: Junior Management

The performance of MLEs under this indicator depicts an even better outlook as shown in Figure 22. All 13 MLEs had good representation of black people in the junior management indicator with an average score of 61,5%. However, none of the MLEs achieved the target of 78% with 12/13 (92.3%) reaching way above fifty percent towards the target.

Even though women representation at this level is still low, a similar trend that was observed in the 18/19 report, 12/13 (92.3%) of the MLEs had women representation in the junior management category. This observation further confirms that women

participation in the industry is still marginalised and requires better models and plans to accommodate and recognise the role women can play in the sector. The results observed further confirms that the lower positions which could be equated with minimal responsibilities have an even larger representation of black people.

Forestry is considered a high intensity job. The Forest sector recognises the need to empower disabled persons as they also fall within the scope of previously disadvantaged and designated groupings. The Amended FSC has thus allocated two weighting points with a 2% compliance target for differently-abled employees working within office-based operations.

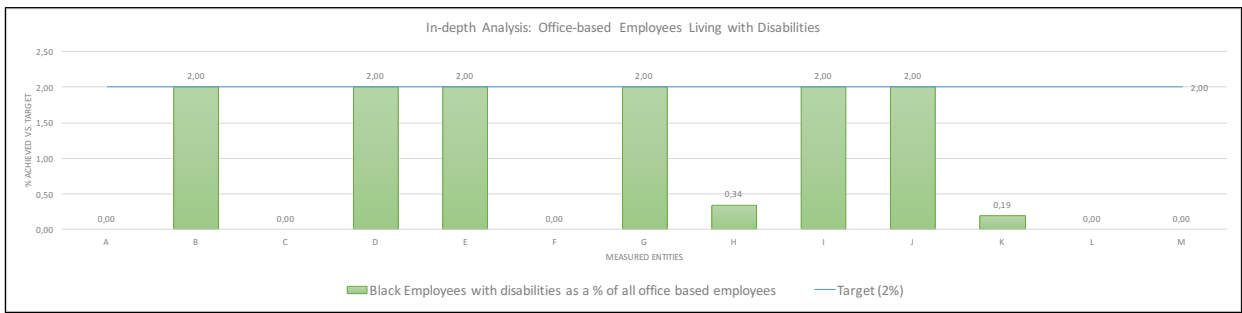


Figure 23: MLE Analysis: Disabled Employees

Only 8/13, (61.5%) MLEs had representatives of disabled persons in their work force with 6/8 (75%) achieving the target as shown in Figure 23 above. The remaining Five (38.5) MLEs struggled to have a representation of disabled employees, as they scored zero for this indicator. More efforts are required from MLEs on this indicator particularly now that the inclusion of disabled persons is only reserved for office-based operations. Entities may also prioritise the orientation of employees on the elements of the Disability Act and the qualifying disabilities.

4.1.3. SKILLS DEVELOPMENT

The South Africa's unemployment rate coupled with the unstable economy is increasing at an alarming rate. The basis of unemployment is not only a result of lack of jobs or poor-quality education but primarily inadequately trained workforce. The latter is associated with the increased skills gap. The Skills Development Act (SDA) together with the B-BBEE Codes of Good Practice are aimed at curbing the skills gap predominantly amongst the majority of the previously disadvantaged individuals. The latest gazette on the Codes of Good Practice is calling all qualifying companies to respond to the increasing skills gap by offering bursaries to deserving students at tertiary institutions to alleviate the skills deficit.

New occupations are emerging as a result of the work dynamics and effective technological advancement. Companies that effectively invest in skills development are also most likely to have a self-motivated workforce with an increased job satisfaction. Additionally, this may in turn lead to improved competencies possibly leading to financial gains for the company. This therefore supports the need to initiate a skills supply through effective skills development strategies that would address the needs of enterprises and the labour markets.

Training opportunities therefore, in supporting and equipping the work force is essential to address the evolving competencies, inequalities, unemployment while contributing to the economic growth and development. It is imperative that the academic forestry institutions of higher learning align their curriculum with the needs of the industry. This can be achieved through collaborative approach, where key industry role players are co-opted to the advisory committees that revise the curriculum in order for the forestry schools to keep up with the expectations of the ever-changing technological advancements of the industry.

The Skills spending on an MLE is supported by the SDA. Skills Development spending is measured through a consecutive period of twelve (12) months. This element is important for the training and recruiting of the BEE beneficiaries in proportion to the Economically Active Population (E.A.P) demographics.

Skills Development is also a priority element. Figure 24 below compares the scores achieved between the three reporting years. There has been an improvement on the SD performance when comparing with the two previous years. A recorded 17,88% increase was observed between 2018/19 and the current year under review.

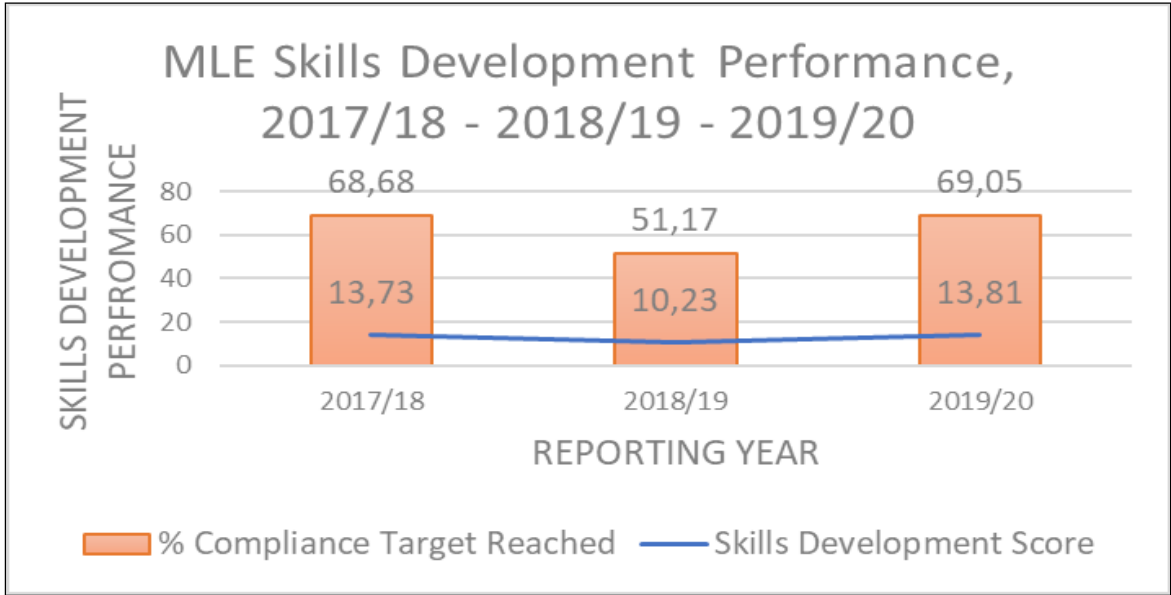


Figure 24: MLE Skills Development Performance, 2017/18 – 2019/20

According to the Amended FSC, MLEs in the forest industry are required to invest in skills development programme for both black people (employed and unemployed) as well for black people living with disabilities. MLEs are also expected to offer either learnerships, apprenticeships or internships to black employees and unemployed learners.

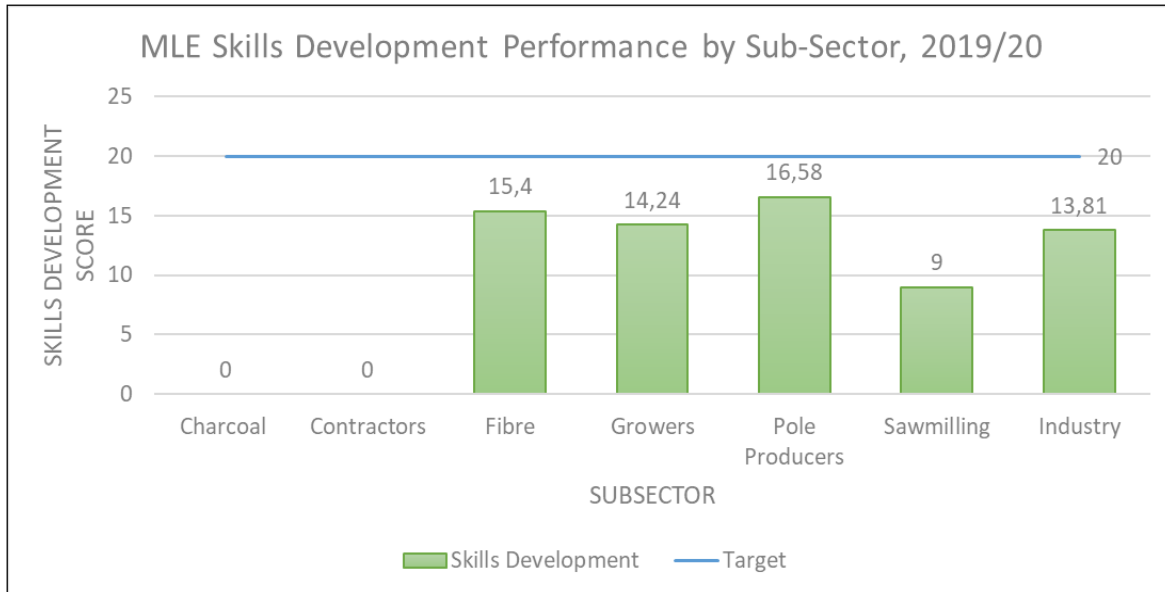


Figure 25: MLE Skills Development Performance by Subsector, 2019/20

As mentioned earlier, the set target for the Skills Development element is 20 points. The performance of the qualifying subsectors is benchmarked to the overall industry's performance as displayed in the Figure 25 above. Three sub-sectors namely pole producers, (being the best performer), Fibre and growers performed exceptional in this element exceeding the industry's average. Only the sawmilling of the remaining three subsector managed to achieve a 45% target.

SKILLS DEVELOPMENT IN-DEPTH ANALYSIS

The Skills Development in-depth analysis was undertaken on the 13 MLEs that submitted the underlying information as discussed below. Figure 26 indicates the performance of MLEs in the four main skills development element indicators. The results show that MLEs, achieved, 4,48/8 (56%) towards skilling black people and 1,22/4 (30,5%) for skills development on black people living with disabilities. A rational achievement was attained under the learnership programmes with 3,22 /4 (80,5%) achieved observed on the targets for black employees and 2,89/4 (72,3%) for the black unemployed learners respectively

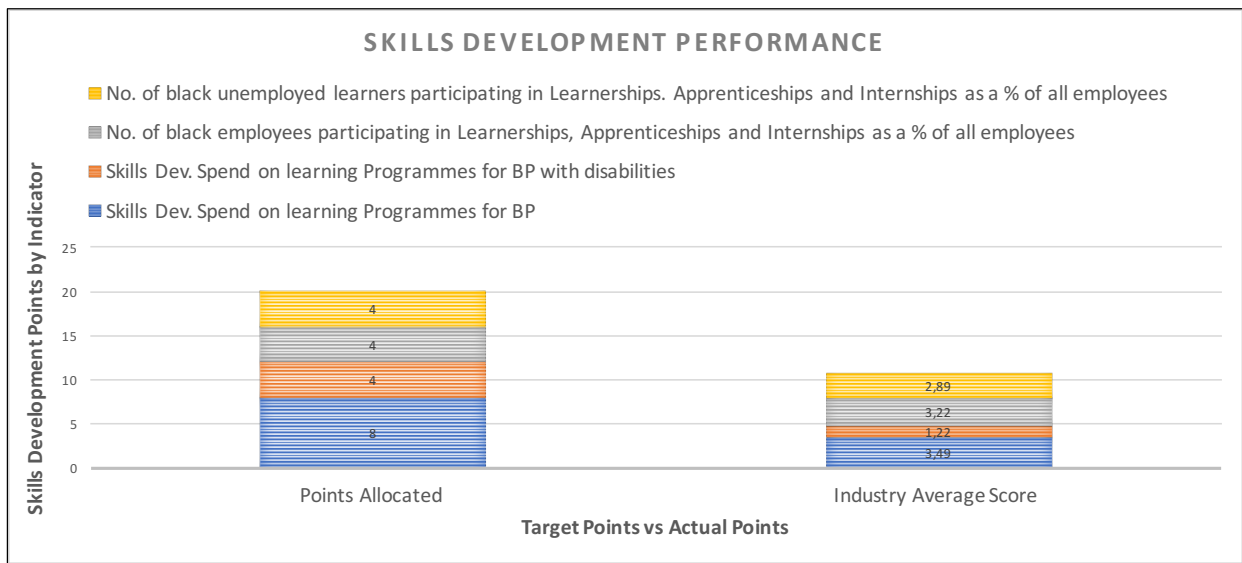


Figure 26: MLE Skills Development Performance

This goes to prove that most MLEs are of the understanding that skilling is “fundamental” and will not only create a pool of future employees. It will most likely increase the chances of the employability of the unemployed and at the same time build a competent workforce in readiness for promotions. It is anticipated that the latest gazette increasing the recognition of “informal training” under the learning matrix will encourage MLEs to spend more towards skills development.

An additional 5% skills spend to the 1% skills levy levied according to the Skills Development Levies Act (SDLA) is compulsory from all reporting entities. Figure 25 below describes the performance of all the thirteen MLEs. Apparently all the MLEs spent a portion of the 5% payroll Skills Development target on black people even though none achieved the 5% target expenditure.

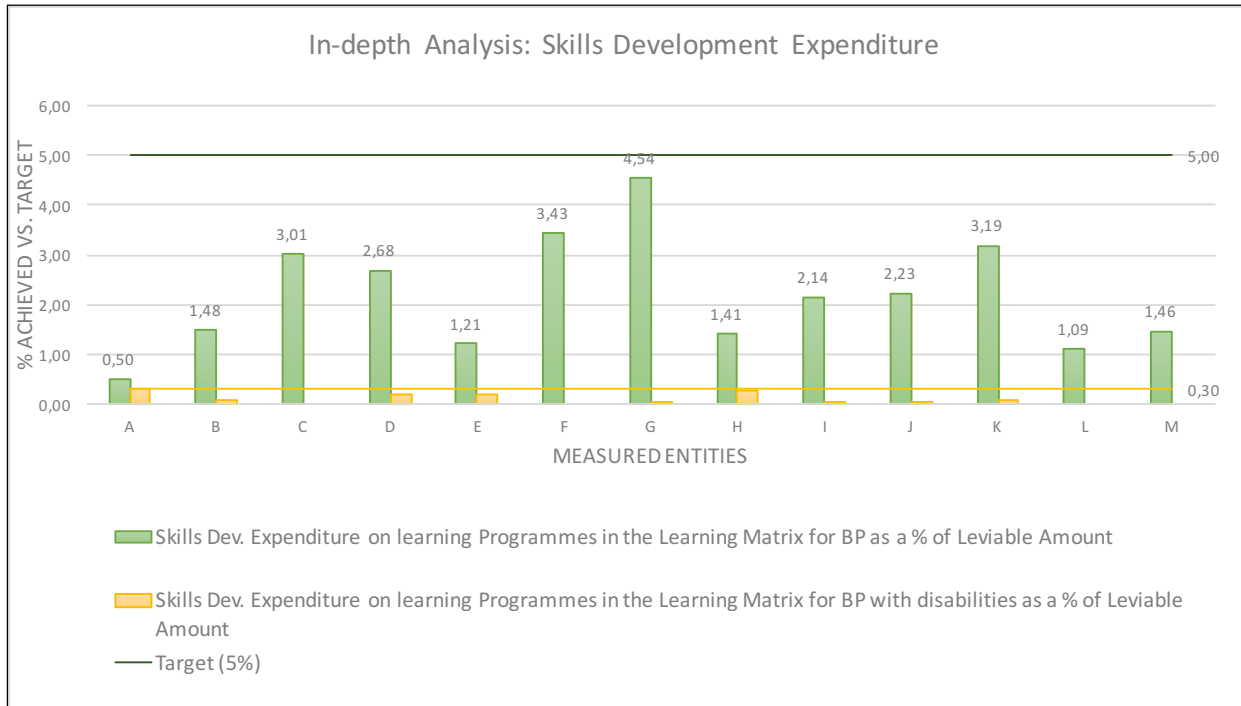


Figure 27: MLE Analysis: Skills Development Spend

Only 4 (30,8%) MLEs managed to achieve a target of 60% or more. Performance on Skills Development expenditure on black people living with disabilities was much poorer with only two 2, (15,4%) entities reaching the target just like in the previous year. These two entities fall within the most consistent reporting entities. Seven (53,8%) of the entities spent minimally towards this target with an additional 4 (30,8%) scoring no points under this indicator. This result shows an improvement from last year's performance as there was a bigger percentage of MLEs scoring nothing for this indicator.

A Measured Entity is required to pay for learnerships, apprenticeships and internships for both black employees and unemployed learners with a set target of 2.5% of each indicator. The performance of the submitting MLEs in this regard is shown in Figure 26. All 13 entities proved to be actively implementing this indicator in their businesses with good scores achieved by 11 (84,6%) under the set target for black employees and 7(53,8%) for the black unemployed learners of the reporting MLEs.

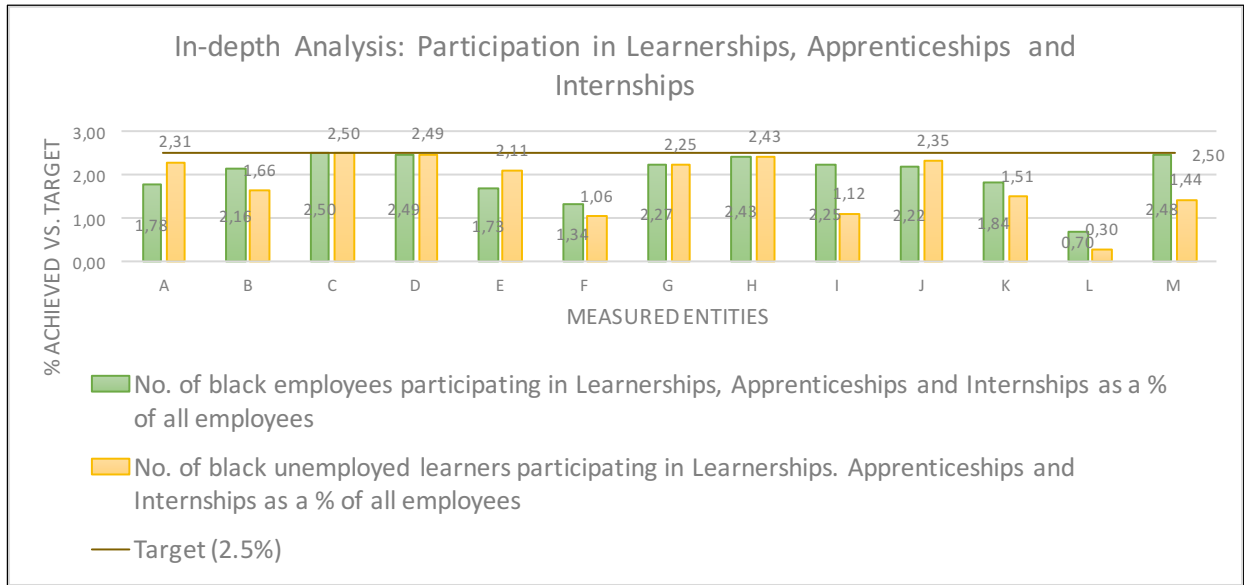


Figure 28: MLE Analysis: Participation in Learnerships, Apprenticeships and Internships

Unlike in the previous year, no MLEs scored zero for both indicators nor had no spend on black unemployed learners, which is an indication that this indicator is receiving much recognition from industry possibly due to its probable influence on employment.

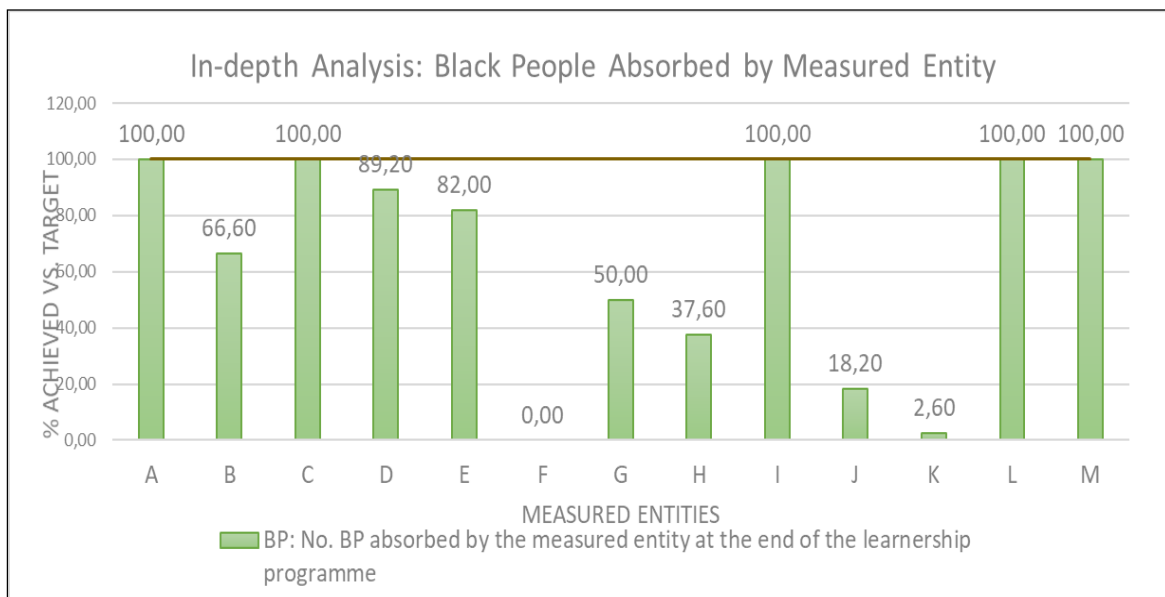


Figure 29: MLE Analysis: Absorption of Learners into Measured Entity

Figure 29 shows the current years' absorption rate for reporting MLEs. The absorption of black people is critical as it responds to the current unemployment crisis the country is experiencing. A majority, 12/13 (92,3%) of the reporting MLEs absorbed some if not

all of the black people into their companies. This confirms an improvement from the previous year, even though less companies submitted their certificates with underlying reports as previously mentioned in this reporting period. Five, (38,4%) absorbed all the black people that participated in their learnership programme, while 4, (30,7%) absorbed fifty percent or more. A further 4, (30,7%) could not absorb more than 50% with one of the four MLEs not absorbing at all.

4.1.4. ENTERPRISE & SUPPLIER DEVELOPMENT

Enterprise and Supplier Development (ESD) is a combined element constituted of Preferential Procurement (PP), Supplier Development (SD) and Enterprise Development (ED). It is allocated 43 weighing points. The ESD is one of the most significant elements of the scorecard and critical vehicle for economic transformation. Its contribution is not only aimed at economic stimulation, but also diversification of supply chain, job creation and inclusivity of black-owned entities, particularly the small, medium and micro enterprises (SMMEs). According to the amendments to the Generic Codes, (also proposed for the Amended FSC), MLEs transformed from being either a QSE or EME will now be recognized as beneficiaries to Enterprise and Supplier Development spending, for a period of five years.

Contributions for ESD can be momentary or non-monetary, recoverable or non-recoverable. Projects qualifying under EDS must be quantifiable, with a reliable record of the transactions. Such contributions must be initiated in favour of the beneficiaries with a specific long-term objective of sustainability, financial independence and economic redress.

Community activism has been on the rise demanding to be preferred and be given procurement opportunities from both the private and public sectors. This is important for both sectors to comprehend as they have the responsibility to contribute to the change of economic patterns for the previously disadvantaged communities. Companies are encouraged to have a proper plan in support of the ESD objectives.

The ESD element continues to be one of the best performing for MLEs in the sector. The average performance for the MLEs was 37,09 as illustrated in Figure 30 below. The MLEs improved by a significant 14% in terms of ESD performance when compared to the previous year results. This is the best recorded score since the three-year period of the Amended FSC.

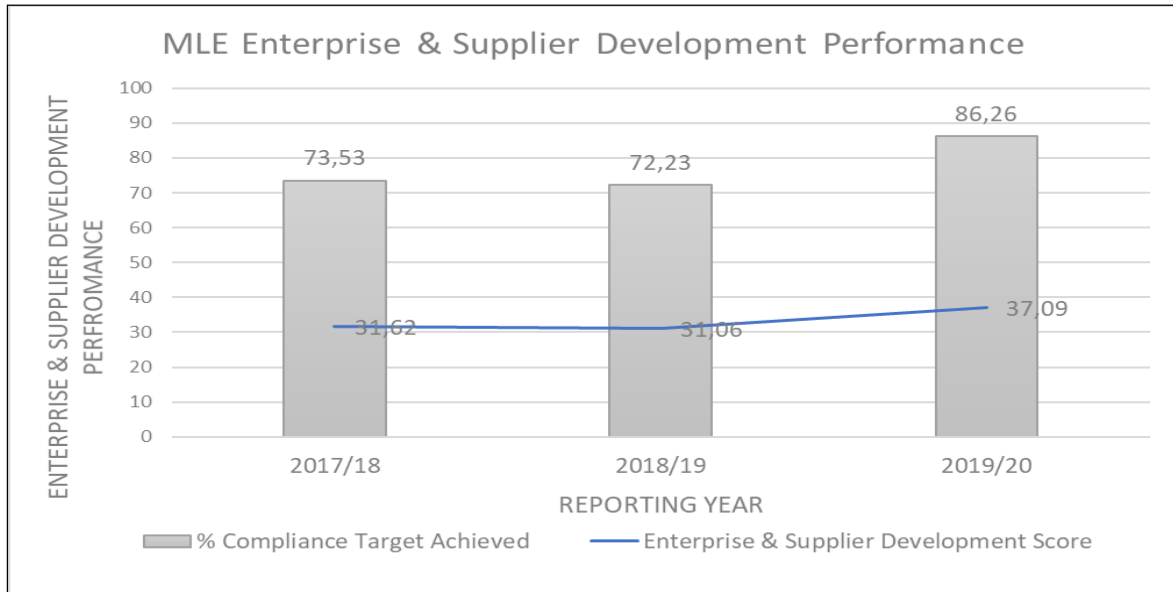


Figure 30: MLE Enterprise & Supplier Development Performance, 2017/18 – 2018/19

ESD is another priority element. This element targets to stimulate economic participation of a wide range of beneficiaries.

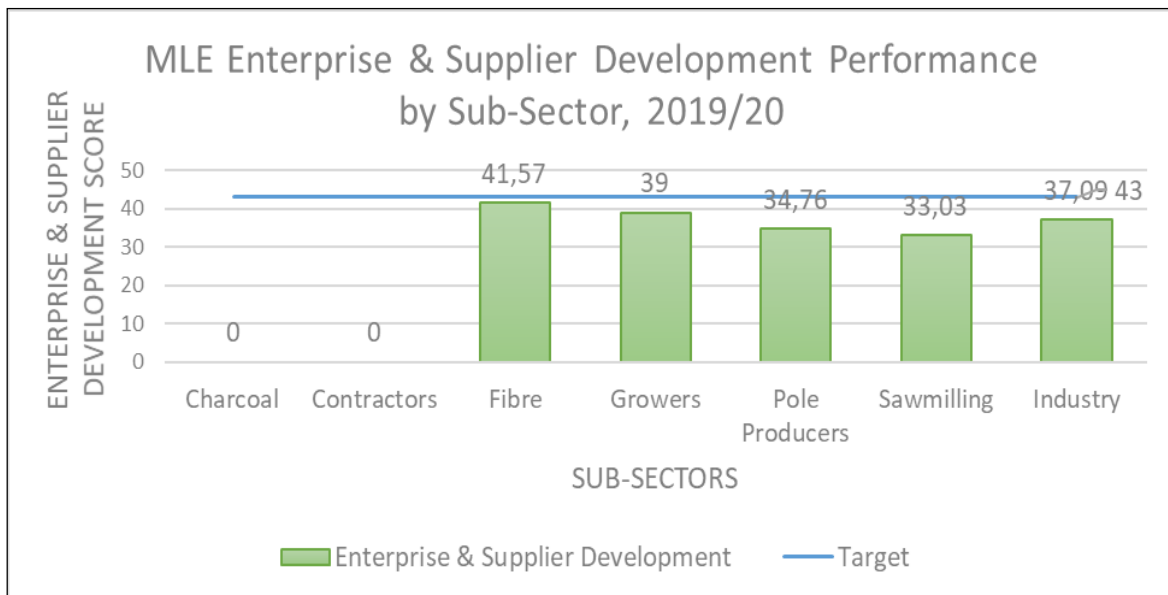


Figure 31: MLE Enterprise and Supplier Development Performance by Subsector, 2019/20

Figure 31 above compares the sub-sectors' weighted performance to the entire industry. All the reporting sub-sectors performed exceptionally well in this element, with the Fibre sub-sector (similarly to the ownership and management control outperforming the other subsectors.

ENTERPRISE & SUPPLIER DEVELOPMENT IN-DEPTH ANALYSIS

Table 5 below also compares the scores achieved in the previous report to the current year. Noticeably, improvements were recorded across all the indicators of this element. Significant achievements were observed on procurement spend from 30% BWO entities, recording a 45.4% increase from the previous score as well as procurement from BDG showing an improvement of 83.6%. This is opposing to the scores achieved previously on these two indicators as performance was fairly poorer. This could be an indication that Industry is responding to the recommendations of the 2018 B-BBEE Commission Report, suggesting to all sectors to increase and improve their procurement spend from qualifying women owned entities.

Table 5: Enterprise and Supplier Development FY2018-19 vs FY2019-20

Indicator	Target Points	Actual Points 18-19	Industry Average Score 18-19	Actual Points 19-20	Industry Average Score 19-20
Procurement Spend from all empowering suppliers based on their B-BBEE Procurement Recognition Levels	5	3,73	74,6	3,94	78,8
Procurement Spend from Qualifying Small Enterprises based on the applicable B-BBEE Procurement Recognition Levels	2	1,37	68,5	1,59	79,9
Procurement Spend from Exempt Micro Enterprises based on the applicable B-BBEE Procurement Recognition Levels	3	2,38	79,33	2,48	82,7
Procurement Spend from 51% BO Suppliers based on the applicable B-BBEE Procurement Recognition Levels	9	5,82	64,66	7,05	78,3
Procurement Spend from 30% BWO Suppliers based on the applicable B-BBEE Procurement Recognition Levels	2	1,1	55	1,6	80
Procurement Spend from Suppliers that are at least 51% BO and 51% Owned by BDG	2	0,55	27,5	1,01	50,5
Annual Value of all Qualifying SD Contributions made by the Measured entity as a % of the Target	10	7	70	7,83	78,3
Annual Value of all Qualifying ED Contributions made by the Measured Entity as a % of the Target	10	7,79	77,9	8,26	82,6

According to the Amended FSC, MLEs are obligated to support various suppliers. Figure 32 illustrates the achievement towards the scores for each of the indicators under preferential procurement. MLEs prove to be implementing this element very well, achieving at least scores above 70% with the exception of the 51% BO and 51% BDG indicator.

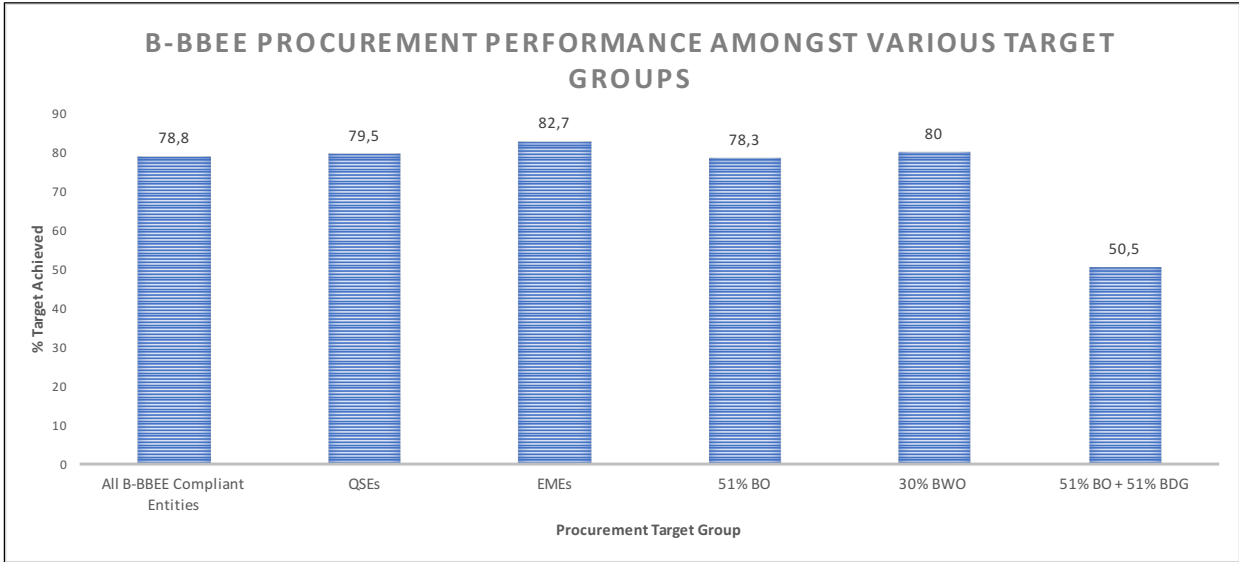


Figure 32: B-BEE Procurement Performance amongst Various Target Groups

An eighty percent (80%) target is set for procurement from all empowering suppliers based on the B-BBEE recognition level. Such suppliers may not necessarily have a good or a low rating. A supplier with a higher B-BBEE recognition level is most preferred as this has a cascading effect on the B-BBEE procurement level for the buying company.

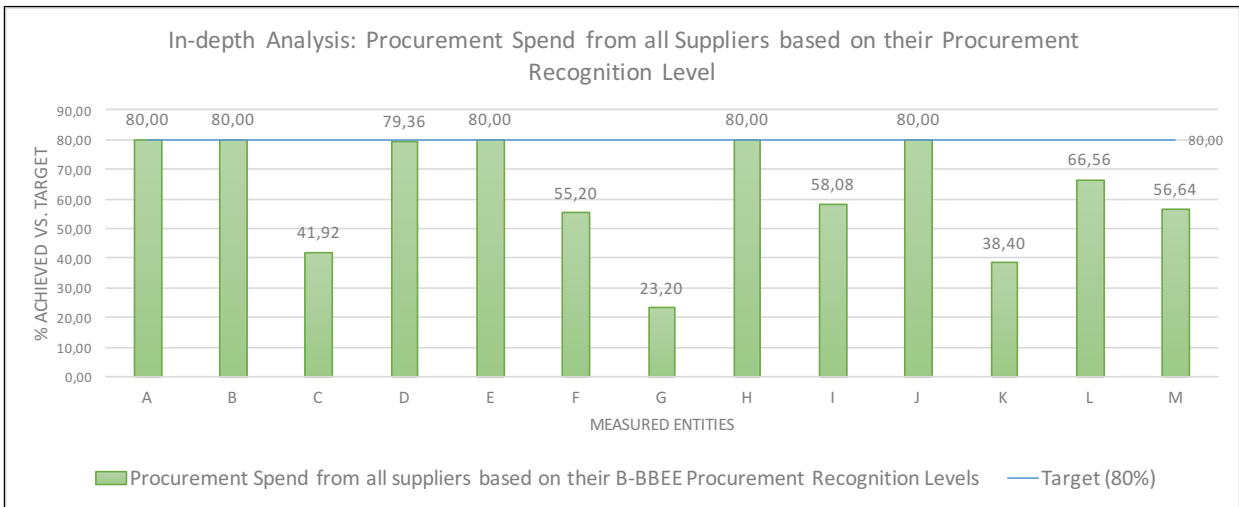


Figure 33: MLE Analysis: Procurement Spend on all Suppliers based on their Recognition Levels

All submitting MLEs proved to have procured from different suppliers as shown in Figure 33 above. Only two (15,4%) MLEs underperformed scoring less than fifty percent in this indicator. This can suggest that these two entities were mostly buying from either non-compliant suppliers or suppliers with a low B-BBEE recognition level. The remaining 11 MLEs (84,6%) performed fairly well with five (38,5%) achieving full scores in this pointer.

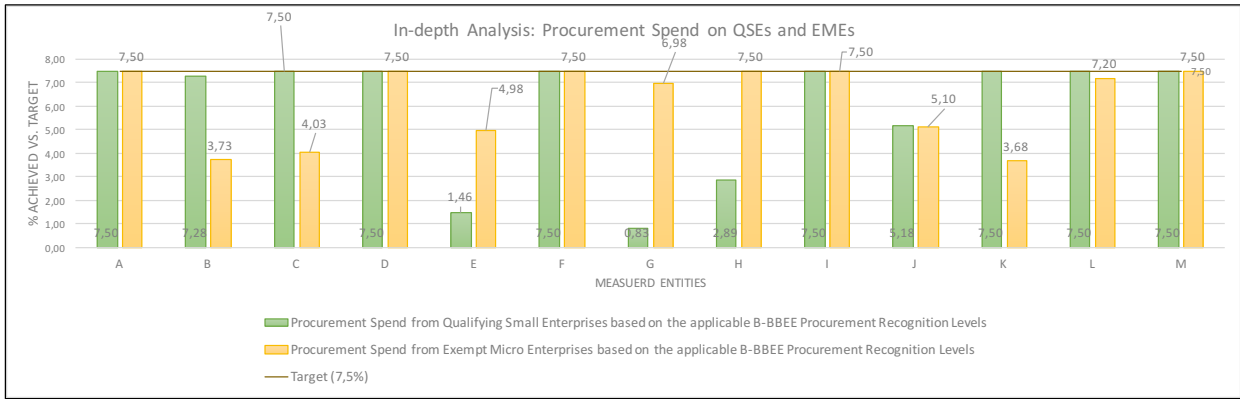


Figure 34: MLE Analysis: Procurement Spend on QSEs and EMEs

QSEs and EMEs are realistically the main beneficiaries of the ESD element. The preferential procurement segment of ESD has set targets of 15% each for procurement spent from QSEs and EMEs. However, the targets are currently halved by the MLEs due to the non-completion of the three government undertakings attached to preferential procurement. Figure 34 above displays the exceptional performance of MLEs for the set indicators. There were eight (61,5%) MLEs that attained full scores on QSEs procurement spend and six (46,2%) on procurement spent on EMEs.

An additional MLE (7,7%) achieved a 90% while another one (7,7%) scored about 70% with the remaining three (23,1%) underperforming towards this target. The reflection was different on procurement from EMEs. Only two (15,4) performed poorly, with an additional two (15,4%) almost achieving the set targets and three others (23,1%) receiving average scores on the indicator. procurement from EMEs.

None of the MLEs recorded a zero score, which is a similar observation from the previous year. This further accentuates the importance of this element is ensuring effective and sustainable black empowerment in the forest sector.

An entity with a black ownership profile above 50% is enhanced to a level 2 status with a B-BBEE recognition level of 125%. All procuring MLEs are likely to prefer such suppliers. Figure 35 below provides an insight of procurement spend by MLEs from 51% BO and 30% BWO suppliers.

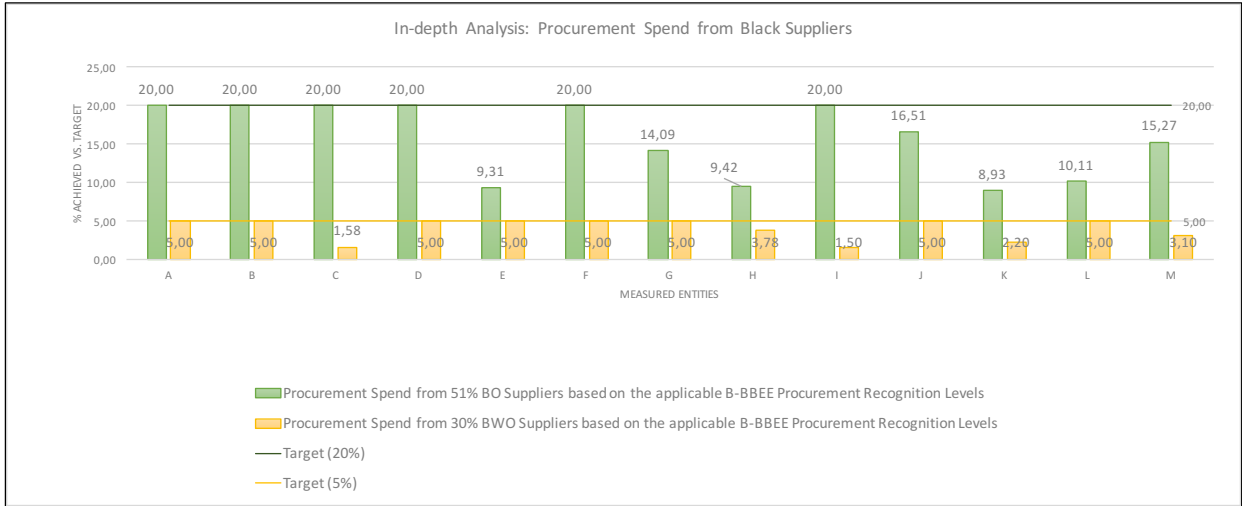


Figure 35: MLE Analysis: Procurement Spend on BO and BWO Enterprises.

Almost all the MLEs prioritized buying from these types of entities. Four (30,7%) MLEs achieved the targets for buying from 51% BO and 30% BWO suppliers. In total only 6 (46,2) MLEs procuring from 51% BO suppliers and 8 (61,5) MLEs procuring from 30% BWO supplier achieved the total points. Even though some MLEs (3 each, for buying from 51% BO & 30% BWO), under performed, none achieved a zero score. This further underlines that procurement is a critical element that has a bigger role to play in achieving a diversified economic participation and hence it being prioritized.

The Preferential Procurement element further requires MLEs to prioritize procurement from 51% BO and 51% BDG suppliers. Figure 36 below provides an understanding into MLEs spending patterns with regards to procurement from black-owned and black designated group businesses.

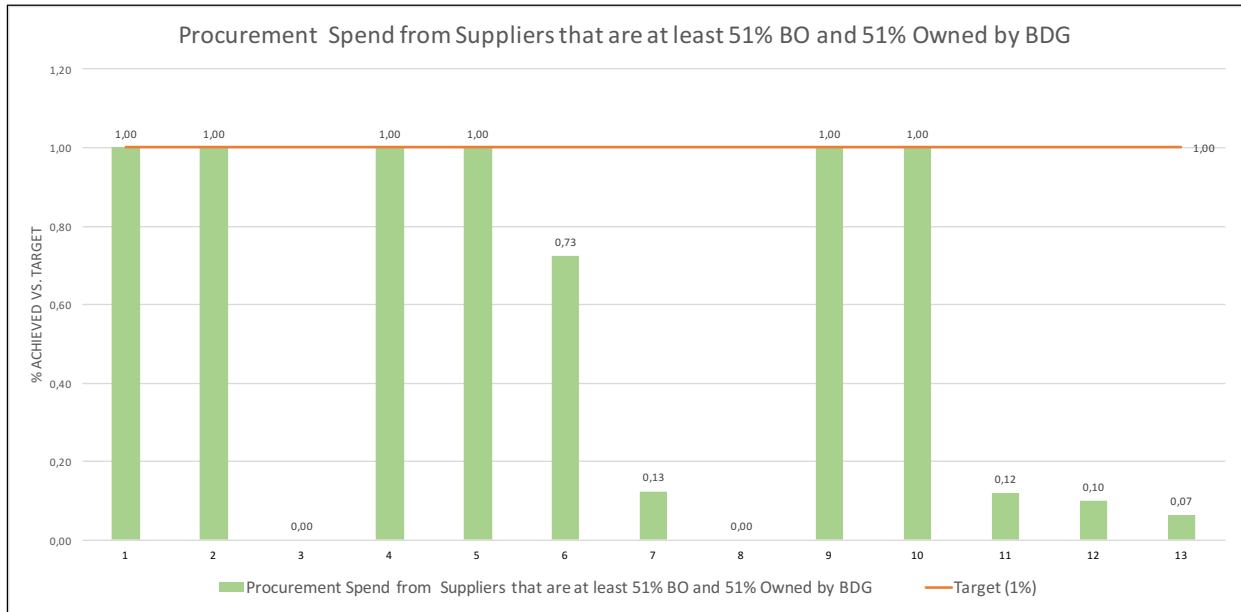


Figure 36: Procurement Spend from Suppliers that are at least 51% BO and 51 Owned by BDG.

Six MLEs (46,15%) exceeded the target for procurement from 51% BO and 51% BDG businesses with a further 1 (7,69%) MLE achieving at least 50% of the target. Eleven (84,62%) MLEs seem to at least spend some portion of their spend on BDG businesses. In relation to the previous performance, it shows that there has been progress on this indicator. Previously, most MLEs were finding it challenging to score points in this indicator.

Supplier Development is a new concept in the Amended FSC. The MLEs are mandated to spend at least 2% of their Net Profit after Tax (NPAT) on developing suppliers. This indicator seeks to drive continued growth for fulfilling a diversified supply chain. Figure 37 below portrays that 8/13 (61,5%) of MLEs achieved the full target on this indicator a comparable achievement to the previous year. An additional two (15,4%) scored way above eighty percent towards the target, while three other entities performed poorly with one of the three scoring zero points. This shows that less MLEs scored zero points in this indicator compared to the previous record of three.

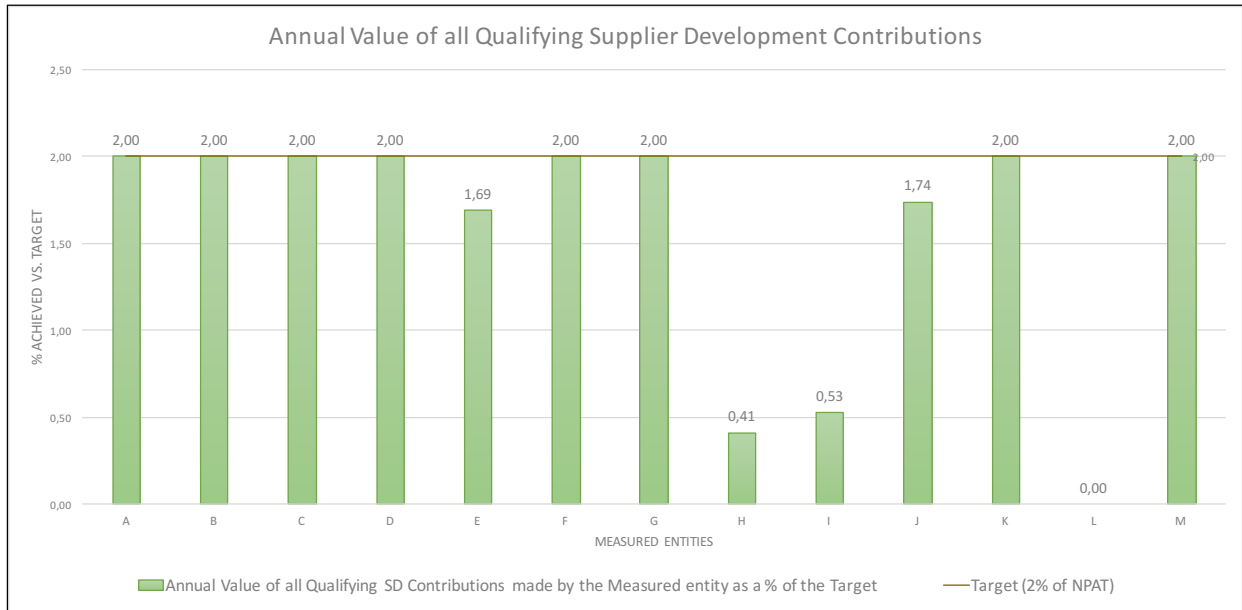


Figure 37: MLE Analysis: Supplier Development

MLEs are required to spend at least 1% of their NPAT towards ED contributions. This segment is critical in the development of independent entrepreneurs with a potential to create more jobs. The Amended FSC has a non-exhaustive list of qualifying contributions together with a Benefit Factor Matrix qualifying these contributions. The average spend on ED by MLEs was 1,86%.

The Figure 38 shows the targets achieved by the submitting MLEs. Eight (61,5%) MLEs assessed in this reporting year achieved the full target points for the ED indicator. Another three (23,1%) achieved a target way above 50%, with the remaining two (15,4%), one achieving 37% and the other achieving nothing towards this indicator.

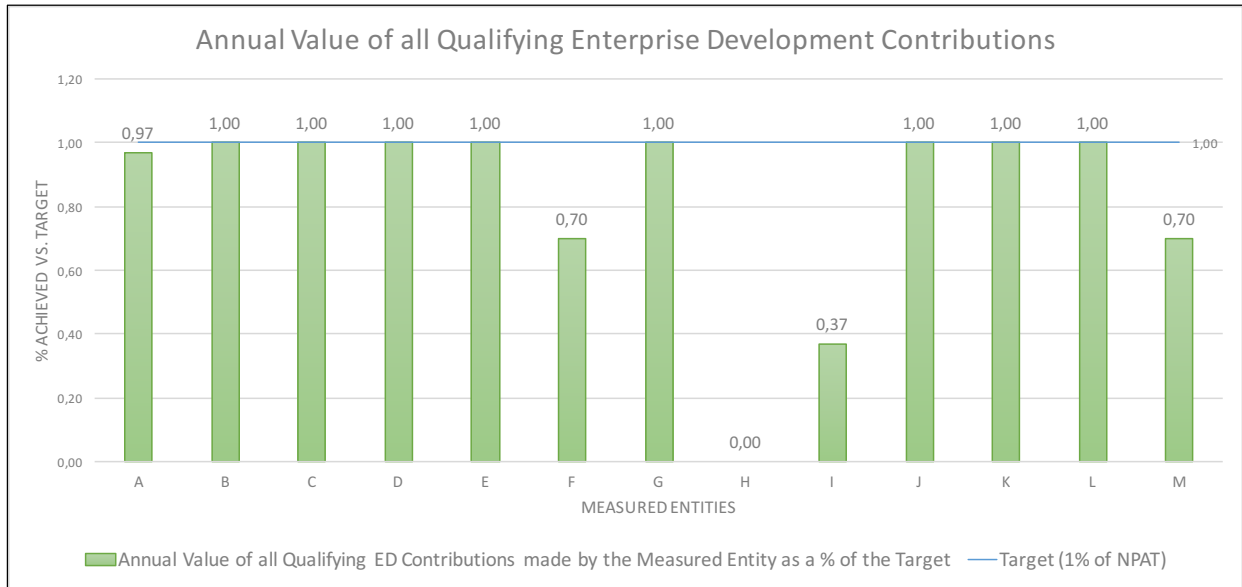


Figure 38: MLE Analysis: Enterprise Development

The industry has always outperformed when it comes to this element. Unfortunately, these types of contributions are not listed in the B-BBEE records so as to verify and assess the preference ratios amongst the contributions and the rationale behind.

In addition, MLEs operating in the growers and sawmilling subsectors are required to support either QSEs or EMEs as well as 51% or 30% Black-owned entities. The black profile in these entities will now be measured using the flow through principle once the new amendments to the Amended FSC have been promulgated.

Only two MLEs reported on the above despite ten MLEs reporting as growers or sawmillers. Of the two companies, one of them supported the annual sale of logs & sawtimber to QSEs and EMEs based on their B-BBEE recognition levels, as well the annual sale of logs & sawtimber to QSEs and EMEs (regardless of their B-BBEE recognition levels) that are 51% BO or 30% BWO. The other one did not support any of the two groupings from the two indicators. However, there is no distinction as to which type groupings were preferred between the QSEs or EMEs and 51% BO or 30% BWO.

MLEs are also incited to graduate an ED beneficiary to a Supplier Development (SD) beneficiary and even create jobs as a result. Partnering with government in support of ED and or SD or support reinforced for 30% BWO entities is also incentivized.

Only two (9,5%) MLEs of the total 21 received bonus points for graduation of one or more qualifying ED Beneficiaries to SD level. Five (23,8) MLEs received bonus points for the creation of one or more jobs directly as a result of qualifying SD and ED contributions of the Measured Entity. The fact that no MLEs received points for contributions made in partnership with government substantiate the need for better collaborative actions between both public and private sector towards B-BBEE.

4.1.5. 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 channeled into alleviating these challenges. South Africa (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 Edition; publisher; Triologue, 2015 assessed the state of corporate social investment (CSI) 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.

Figure 39 below illustrates the SED performance comparatively between 2018, 2019 and 2020. The performance for SED has shown a remarkable increase when compared to the previous years. Noticeably, MLEs continue to exceed the target points allocated to this indicator by spending more than the required 1% NPAT on SED contributions as always been the case over the past years.

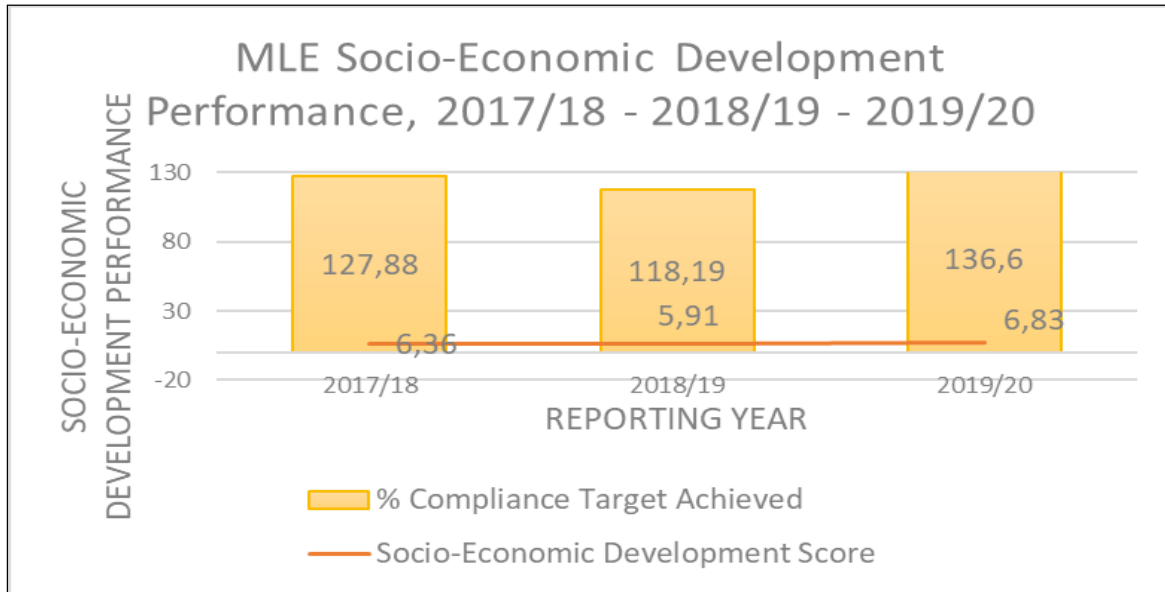


Figure 39: MLE Socio-Economic Development Performance, 2017/18 – 2019/20

The SED element is focused on the basic social and economic upliftment and access for the qualifying beneficiaries. Figure 40 compares the SED performance by each forestry sub-sector. All the reporting sub-sectors achieved best scores, with each one of them exceeding the target of 5 points and even gaining bonus points for spending over and above the stipulated 1% NPAT contribution.

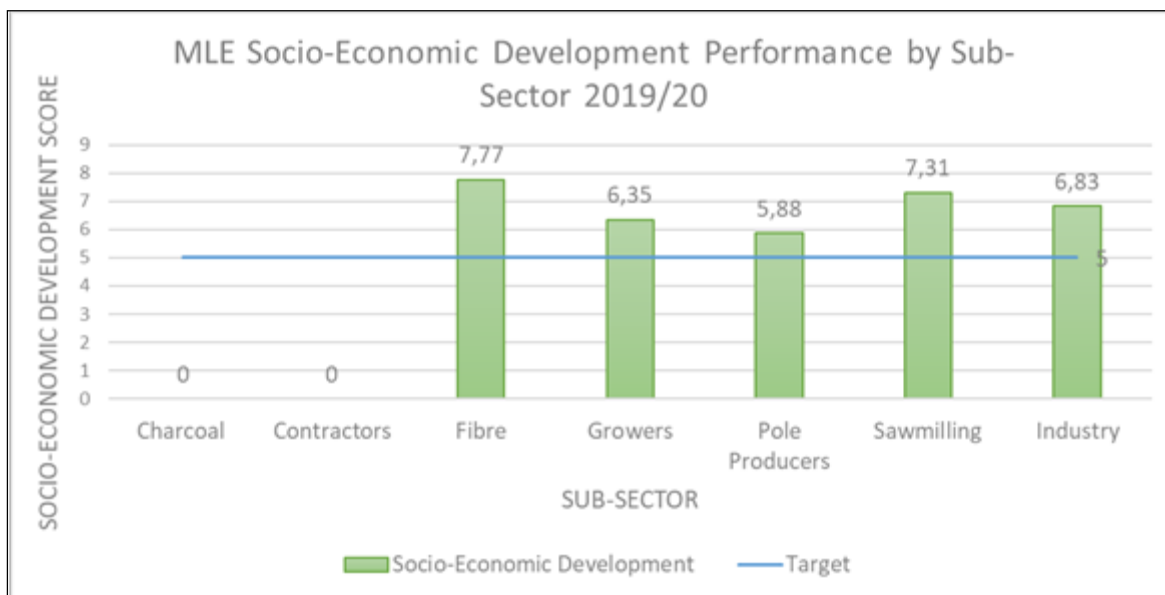


Figure 40: MLE Socio-Economic Development Performance by Subsector, 2018/19

SOCIO-ECONOMIC DEVELOPMENT IN-DEPTH ANALYSIS

A number of qualifying contributions for SED are listed in the Amended FSC. However, MLEs are not obligated to adhere to the list as long as the contributions preferred by the entity have both social and economic benefits. Forestry has both a social and an economic responsibility particularly to the rural communities.

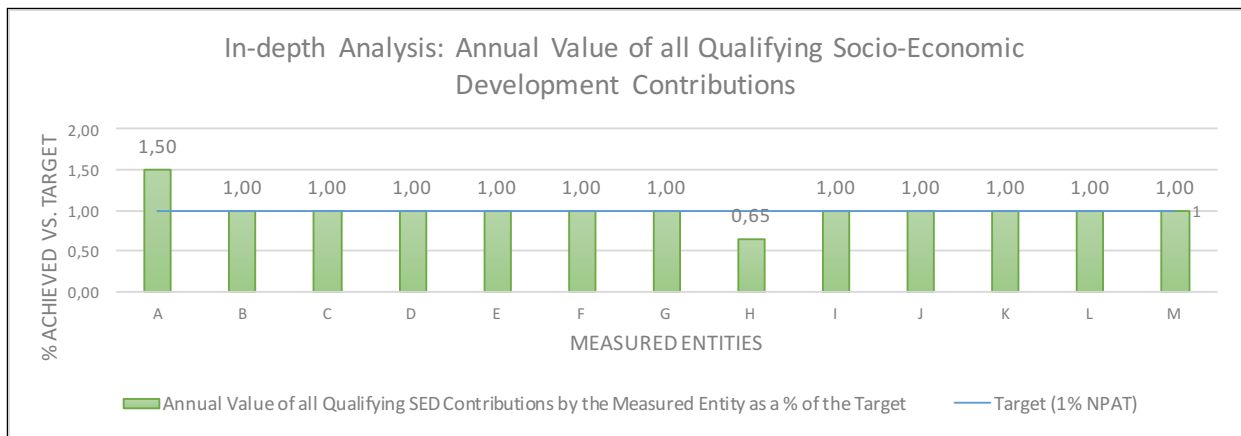


Figure 41: MLE Analysis: Socio-Economic Development Contributions as a % of NPAT

Twelve (12) (92,3%) MLEs achieved or exceeded the target indicating an overall spending of the 1% NPAT on SED activities as evidenced in Figure 41 above. Only one (7.7% entity did not reach the target on contributions towards SED for the current reporting year though it still managed to achieve a good scoring.

4.1.6. SOUTH AFRICAN FORESTRY COMPANY LIMITED (SAFCOL) ANALYSIS

SAFCOL (South African Forestry Company Limited) is one of the largest state-owned companies in South Africa. It is an entity under the department of Public Enterprises (DPE). SAFCOL manages 15 prime softwood saw-log plantations, spanning 189 760 ha in Mpumalanga, Limpopo and Kwa-Zulu Natal, where the entity is committed to growing and sustainably maintaining natural forests for the benefit of all the communities that depend on them.

The plantations are grouped into three districts, namely Highveld, Central and the North and represent approximately 10% of the commercial forestry plantation area in South Africa, which makes SAFCOL the third-biggest forestry operation on the African continent. SAFCOL's rotation period ranges between 8 to 30-year cycle, depending on the genus and the intended forest products. Annually, the entity harvests approximately 1.4 million m³ of logs. Simultaneously, approximately 4 000 ha or 5% of SAFCOL's plantations are replanted per year.

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.

SAFCOL is in the final stages of finalising the application 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. Based on the aforementioned and because of its strategic importance as a state-owned entity operating in the sector, the entity is analysed separately. Figure 39 below indicates SAFCOL's performance for the current year under review.

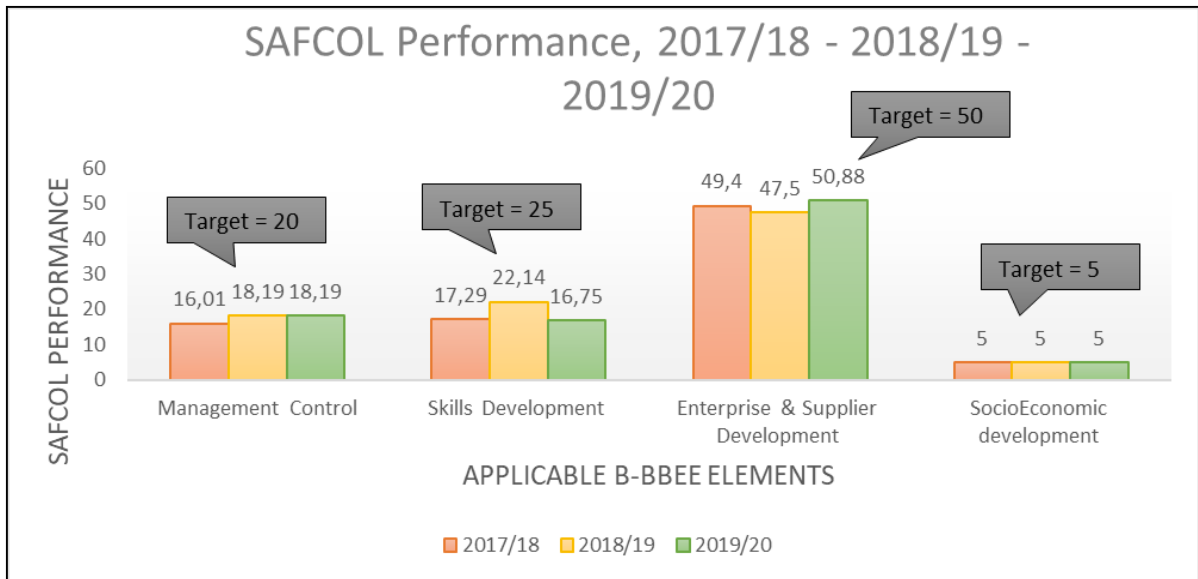


Figure 42: SAFCOL Performance, 2017/18 – 2018/19

In the current reporting year, SAFCOL achieved a level 3 status, improving from a level 4 in 2018/19. 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 42 above. Compared to the previous reporting year, SAFCOL maintained its performance under the MC and SED elements while recording a trivial improvement on ESD performance. SD has notably declined compared to the other two previous years since the introduction of the Amended FSC.

4.1.7. ANALYSIS OF DISCOUNTED MLEs

The Amended FSC has introduced a new concept to help strengthen the objectives of B-BBEE. One of the concepts is the prioritization of three elements namely, Ownership, Skills Development and ESD, the most heavily weighted elements in the scorecard. The introduction of “priority elements” as well as the “Discounting Principle” is aimed at discouraging the “tick box” compliance which often provokes strong reactions and divergent views. An MLE is downgraded by one level from its overall B-BBEE score for not achieving the minimum 40% score, in either one, combination of one or two or all three priority elements.

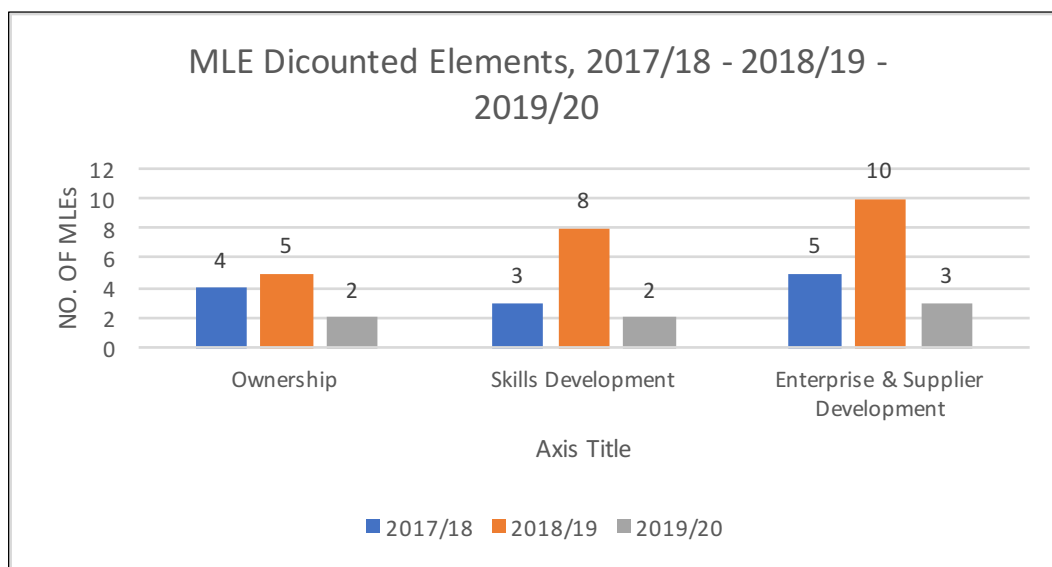


Figure 43: Number of Discounted MLES, 2017/18 – 2019/20

Figure 43 above compares the number of MLEs discounted since the introduction of the discounting principle. The number of MLEs dropping a level as a result of Ownership, Skills Development or ESD has decreased from 2017/18 to 2019/20. In total only four, (19%) MLEs were discounted in the 2019/20 reporting. In the current year, two entities each were discounted through Ownership and Skills Development. Only three entities were downgraded as a result of ESD

A further analysis showed that one (25%) of the MLEs were discounted in all three priority elements and expectedly so, as the same entity achieved a non-compliant status. Another (25%) MLE dropped a level due to ownership only. An additional (25%) MLE was discounted due to Skills Development and ED. This very same MLE failed to achieve the 40% of the supplier development sub-element of ESD. The last (25%) MLE was discounted as a result of achieving less than the minimum requirement in both the segments of supplier development and ED of the ESD element.

The observation seems to be showing the effectiveness of the discounting principle, even though it is only applicable to the MLEs that report. The fact that some consistent MLEs are still getting discounted necessitate the revision of other efforts to promote effective inclusivity, and economic redress.

5.2. QUALIFYING SMALL ENTERPRISES (QSE) ANALYSIS

Qualifying Small Enterprises (QSE) are an important group of Measured Entities within the Sector responsible for a wide range of activities, although seemingly mostly engaged in contracting activities. This category of forestry enterprises falls within the turnover threshold of R10 million to R50 million per annum.

In the current reporting year, 5 valid B-BBEE QSE certificates and 21 affidavits were received. Three (3) entities also submitted their underlying reports, allowing for the first time, an in-depth analysis of QSE B-BBEE activities. Receiving underlying reports has proven to be challenging and this challenge is more pronounced amongst QSEs when compared to MLEs. This analysis is critical as it will give a comprehensive response of QSEs to the adjusted and revised scorecard.

The current QSE database indicates that there are more than 60 known QSEs in the Sector. Council has made an attempt to consistently track the number of entities operating in the sector amongst all company category sizes. This can assist in evaluating the level of participation in B-BBEE and reporting amongst entities in the industry.

Figure 44 displays the number of reporting QSEs from the first year of the Amended FSC to the current year (3 years). The improvement in reporting numbers over the years is most likely due to insourcing of the report, continuity in terms of database management and retention of institutional knowledge.

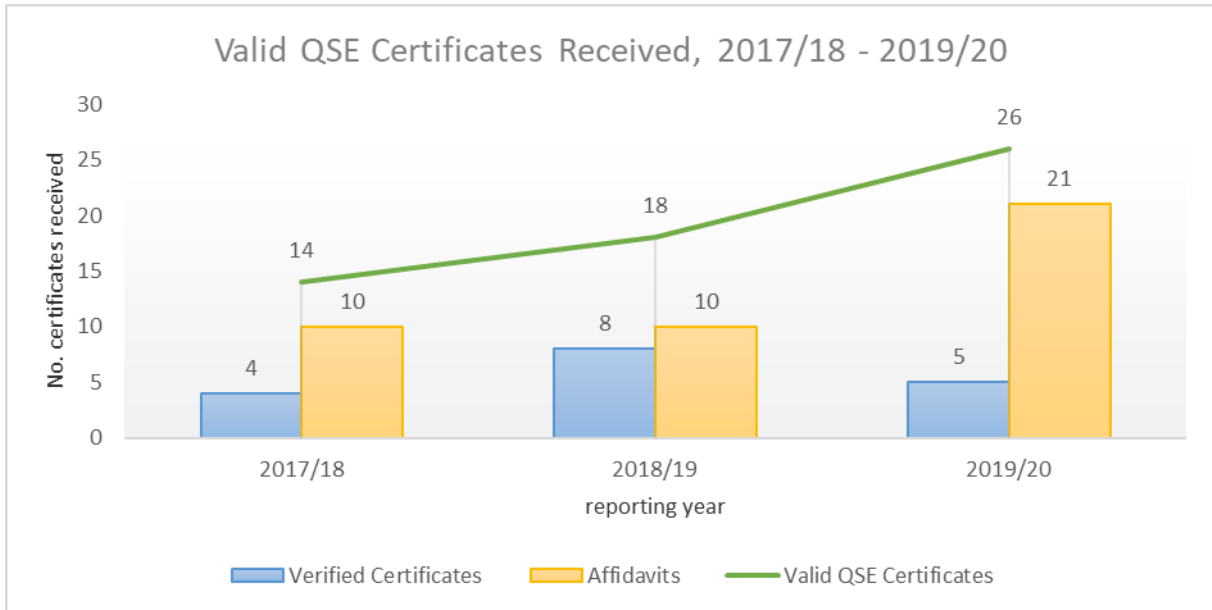


Figure 44: Valid QSE Certificate Submissions, 2017/18 – 2019/20

Although the number of reporting QSEs has improved, the improvement is largely due to submission of affidavits. Unenhanced QSEs, those who are less than 51% BO, are increasingly choosing to not become verified. They have the option to not become verified as the Codes allow them to do so.

Seven (7) entities that were contacted telephonically as a follow-up indicated that they are not verified with 4 indicating that they will never get verification. Three (3) QSEs further indicated that they were not willing to share their certificate with Council (1) or did not get verified specifically for the current reporting year (2).

The subsectors from which QSE certificates were received are illustrated in Figure 45 below. As indicated earlier, the majority (65,38%) of reporting QSEs are contractors. Three (3) growers and Fibre producing entities submitted respectively, while saw-millers submitted 2 certificates. A certificate was received from 1 pole producer.

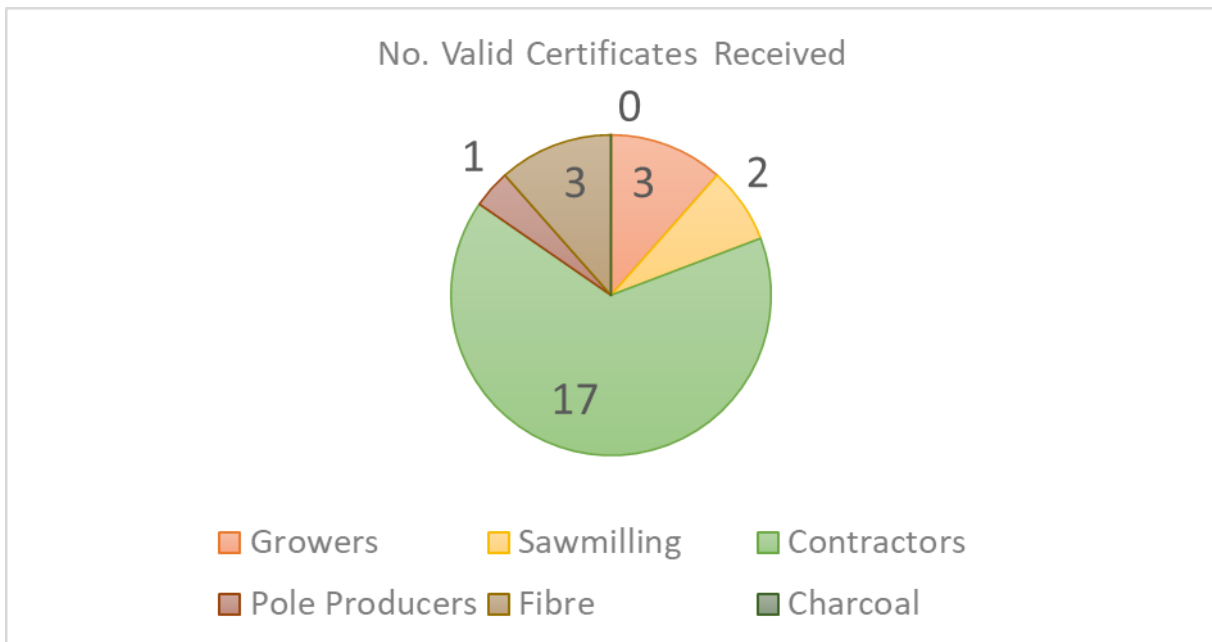


Figure 45: QSE Certificate Submission by Sub-Sector

The QSEs in the Fibre sub-sector indicated that they are involved in manufacturing while at least 8 contractors indicated involvement in harvesting. Some of these harvesting contractors are involved in additional contracting activities such as silviculture (2) and transport (1) and growing (1). Five (5) entities (including those prior mentioned) indicated that they are involved in silviculture while at least 3 QSEs are involved in growing. One grower is a 100% black-owned private successfully operating 1000's of ha of previously state-owned forestry plantations.

A number of affidavits were unclear on the Measured Entity's exact operations while the majority of the QSEs under observation do not have websites where their main activities can be researched.

5.2.1. OWNERSHIP

The Ownership element evaluates the proportion of black people, black women and black new entrants or black designated groups with voting rights and economic interest in forestry QSEs. QSEs are also measured on the net value indicator which evaluates servicing of loans taken by black people to purchase shares within forestry companies.

The introduction of the Amended FSC, brought about many changes to the QSE verification process, namely enhancement of majority black-owned QSEs and

designation of Ownership as a priority element. These changes had profound and noticeable effects on reporting. In the preceding years to the 2017 amendments, an average of 16 QSE certificates were received per reporting year, all of which were required to report on their transformation activities based on 4 preferred elements. In 2016/17, 15 QSEs reported and a total of 6 elected to be measured on their Ownership

structure as part of the 4 elements that could be chosen for reporting by QSEs. In that year, the average score for Ownership by QSEs was 22,44 out of 25 (89,76%).

Although reporting on Ownership at the time was not a requirement, all certificates did indicate the actual black and black women ownership per entity. In 2016/17, the average black-ownership amongst the 15 reporting QSEs was 25,96% while the average black-woman ownership was less than 1%. Furthermore, 8 of these Measured Entities had 0% black-ownership and a further 3 were minority black-owned.

In 2017/18, 4 reporting, unenhanced QSEs (reporting with a certificate) reached an average of 85% of the compliance target for Ownership as indicated in Figure 46 below. The number of reporting unenhanced QSEs increased in the following year to 8 and the Ownership score reduced significantly, down to 23% of the compliance target. There were five (5) unenhanced QSEs reporting in the current year. Only 1 of the 8 unenhanced QSEs who reported in 2017/18 reported again in 2018/19 and 7 new unenhanced QSEs reported, of these, 6 were non-compliant and 2 had 26% black ownership.

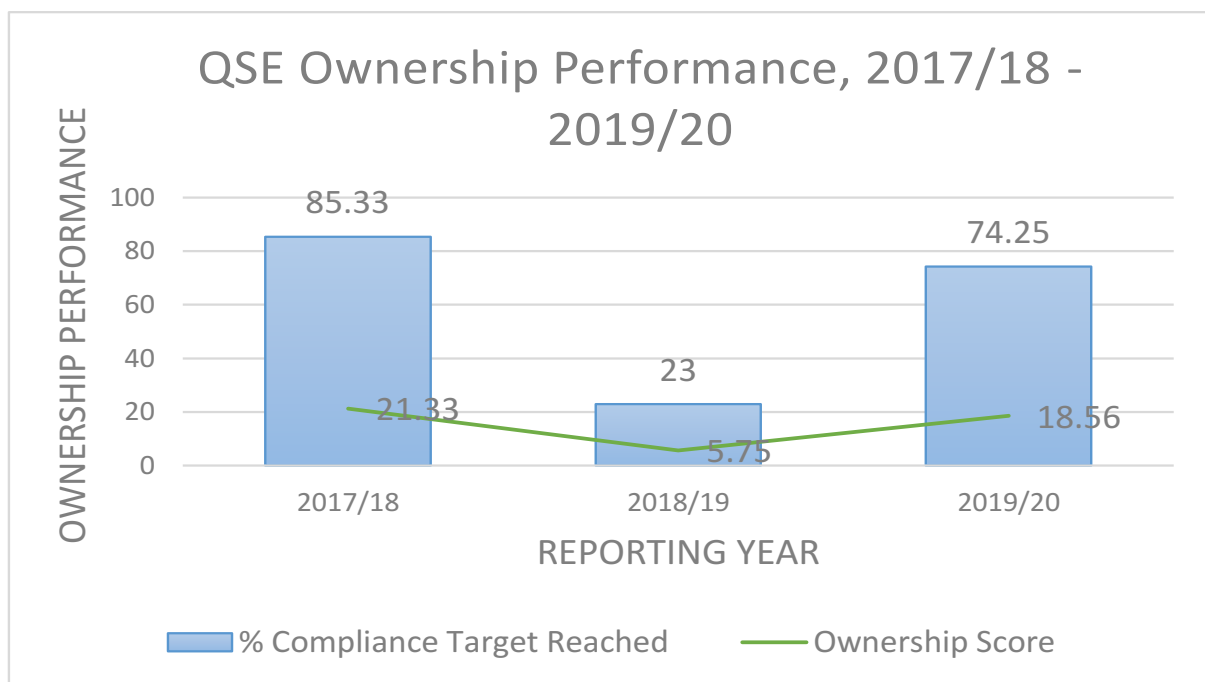


Figure 46: QSE Ownership Performance, 2017/18 – 2019/20

A total of 5 unenhanced QSEs reported for the current reporting year, a decrease from the 8 in 2018/19 but 1 more than the 4 in 2017/18. Only 1 of these 5 unenhanced QSEs had also reported in the previous year (2018/19). Two current reporting QSEs (2) reported previously either in 2016/17 or 2017/18. This highlights the inconsistency of reporting amongst unenhanced QSEs. Only 1 of which have reported every year since introduction of the amendments to the Codes.

In the reporting year 2018/19, QSEs achieved an average Ownership compliance target of 23%, a total of 6 of the 8 unenhanced QSEs were rated as non-compliant, thus playing a significant role in the poor performance. In the current year, there is only 1 non-compliant QSE, resulting in a seemingly improved Ownership performance amongst QSEs.

Analysis of submitted affidavits and certificates provides exact figures for the average black, black women and black designated groups ownership for QSEs in the sector. Table 6 below provides a summary of the descriptive statistics for the black ownership across the different Ownership beneficiary groups included in the Amended FSC. The average black ownership amongst QSEs is high at 63,36% while black women ownership is also above the Amended FSC requirements of 10% with an average of 12,34%. There has been a consistent improvement in black women ownership amongst QSEs from the first year of the Amended FSC (2017/18) to the current year (2019/20) with QSEs achieving 3,76%; 5,48% and 12,34% respectively. Black ownership has fluctuated from 51,7% in 2017/18, 48,23% in 2018/19 to over 63% in 2019/20.

The data also indicates that the average black ownership is normally distributed while the black women ownership is heavily skewed to the left, indicating a high number of QSEs with low black women ownership. This is further evidenced with the 1st quartile (25% of the data is below 0% black women ownership) and 75% of the data is below 25% black women ownership (Q3)

Table 6: Statistical Breakdown of Direct Black and Black Women Ownership in QSEs

	Black People	Black Women	Black Designated Groups
<i>Minimum</i>	0	0	0
<i>Q1</i>	51	0	0
<i>Median</i>	51	0	14
<i>Mean</i>	63,36	12,34	22,91
<i>Mode</i>	100	0	0
<i>Q3</i>	100	25	51
<i>Maximum</i>	100	51	100
<i>Entities scoring 0% Ownership</i>	1	15	10
<i>Entities scoring above 0% but below 51% Ownership</i>	4	10	4
<i>Entities scoring 51% Ownership</i>	8	1	3
<i>Entities scoring above 51% but below 100%</i>	4	0	2
<i>Entities scoring 100% Ownership</i>	9	0	1
<i>No. entities who did not indicate Ownership</i>	0	0	6
<i>Total number of entities</i>	26	26	26

Nineteen (19) QSEs indicated their black designated group (BDG) ownership on their affidavits. The data indicates that most QSEs have no BDG ownership (mode = 0) and the average ownership for this group is 22,91%. Seventeen QSEs indicated that their BDGs are comprised of black people living in rural areas while 2 indicated ownership through black youth.

Figure 47 below displays the individual indicators measured to provide an overall score for Ownership for QSEs. This data is extracted from underlying reports submitted with

B-BBEE certificates. The data below is thus based on 3 Measured Entities who submitted their underlying reports.

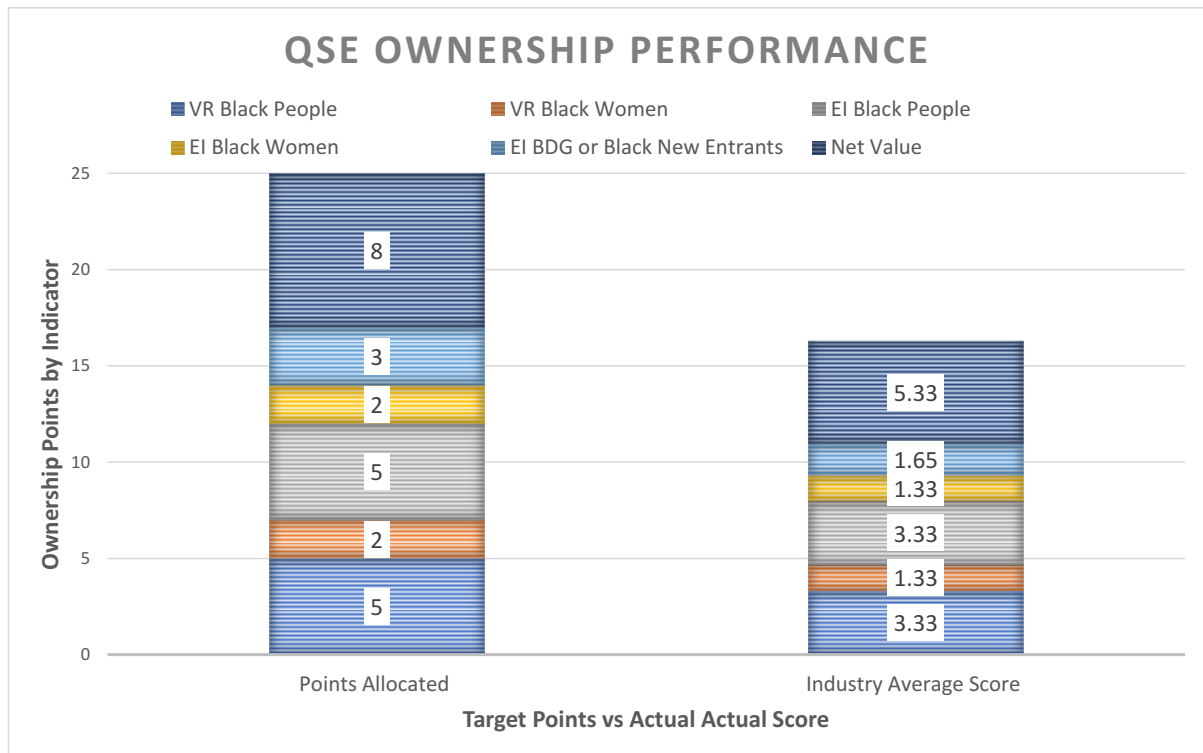


Figure 47: QSE Ownership Performance by Indicator, 2019/20

The indicator with the highest allocation of points (8 points) is the net value indicator, a measurement of how black shareholders are servicing their loans. Voting rights and economic interest of black people in the Measured Entity are also heavily weighted, with 5 points each.

The submitting QSEs achieved on average, 66% of the target for each element. Two (66,7%) QSEs exceeded the targets in all indicators while the third (33,3%) submitting QSE scored 0 points for all indicators, reducing the average performance from 100% of the target to two thirds of the target.

In summary of the available data, it may be supposed that QSEs are complying with the Ownership requirements of the AFSC. This is also backed by the high number of affidavit submissions indicating that a large number of QSEs are majority black-owned. However, there were some, roughly 7 QSEs contacted telephonically that indicated that they are not interested in B-BBEE, reporting or were not comfortable in sharing

their certificates as they are NC. It is probable that were these QSEs to report, the status of black-ownership amongst forestry QSEs may change significantly.

5.2.2. MANAGEMENT CONTROL

According to the Small Business Institute, approximately 98% of all registered businesses in the country are SMMEs. Despite this, SMMEs are known to contribute less than 28% of jobs, a far cry from the government's ambitions of 90% contribution to job creation by small businesses by 2030^{viii}. The recent Impact Assessment report conducted by Council discovered, through a survey of 20 QSEs, that QSEs employ up to 70 people per enterprise on average while the large enterprises (MLEs) employs 1 306 people. In fact, large firms with over 250 employees remain the lynchpin of job creation and account for just under 70% of firms that employ 10 or more people (according to the Organisation for Economic Co-operation and Development (OECD)).

Although it is vital to increase the number of people employed in the sector, the quality of jobs, specifically for black people is also important. Management Control is thus an important B-BBEE element measuring the number of black people, black women and disabled employed in management positions from junior to executive level unlike in MLEs where black participation in boards is also an indicator. The other difference for QSEs is that the targets for junior, middle and senior management are combined into 1 indicator in light of the relatively smaller set of managers within these smaller sizes companies.

In 2016/17 (when QSEs were permitted to choose 4 out of the elements to report on) Management Control was the least popular element for QSEs to be evaluated on. Only 4 out of a possible 15 (26,7%) QSEs elected to report on Management Control in that year. Currently QSEs do not have a choice but to report on all elements, including Management Control.

^{viii} Ansara, D., Endres, R and Mothibatsela, B. (2019). OPINION: Open for business? How SMMEs in South Africa can thrive. Financial 24. Accessed from: <https://www.fin24.com/Opinion/opinion-how-smmes-in-south-africa-can-thrive-20191118>

Data from the 2018/19 Status Report reveals that QSEs on average perform better for Management Control than MLEs. A total of 8 QSEs reported an average performance of 8,65 points (out of 16 total points), achieving almost 58% of the target as indicated in Figure 48 below. The large companies, in comparison, had achieved only 39% of the target.

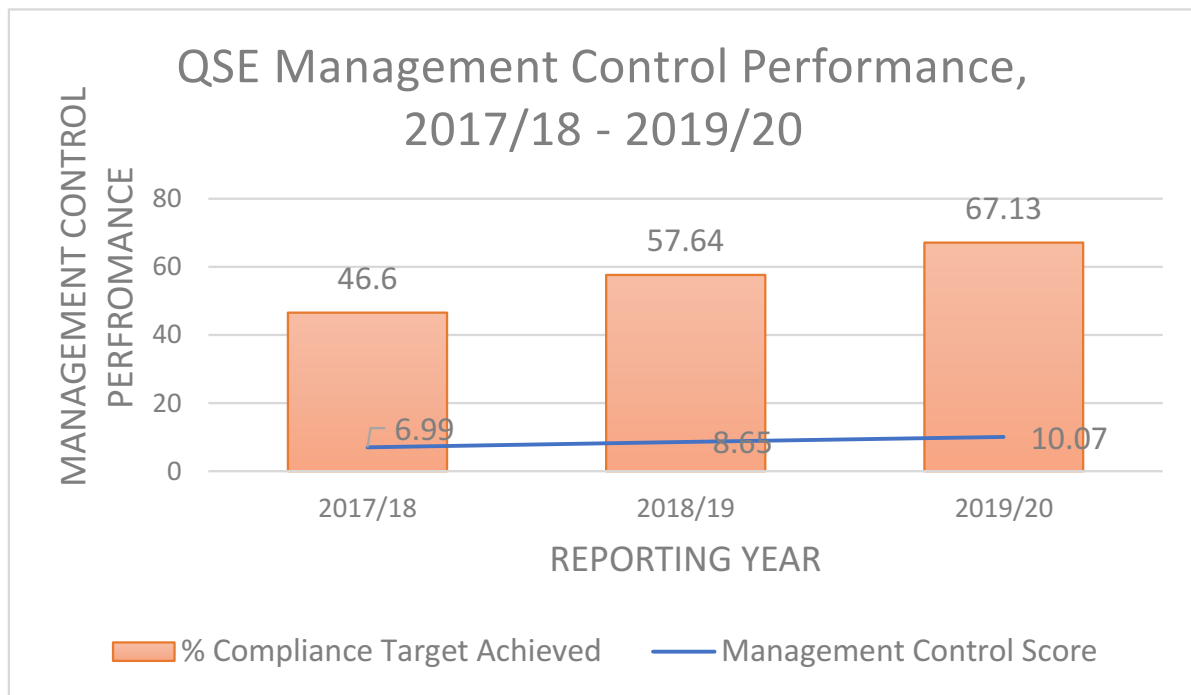


Figure 48: QSE Management Control Performance, 2017/18 – 2019/20

The superior Management Control performance may be a result of the less stringent requirements for QSEs (who are largely small in size and may not have management positions at every level, as explained above).

The current Management Control performance as displayed in Figure 48 above, has improved upon 2018/19’s performance although only 1 of the current certificates used also reported in the previous year. This entity improved its rating from level 2 to level 1 by improving on their Management Control, Skills Development and ESD scores. The remaining 4 QSEs who have been included in the average did not report in 2018/19.

Figure 49 below illustrates the individual indicators of which the QSE Management Control element is comprised. Six (6) points are allocated for black people in

“executive” and senior/middle/junior management posts respectively. The compliance targets are 50% and 60% respectively while the targets for black women in the same categories are 25% and 30% respectively.

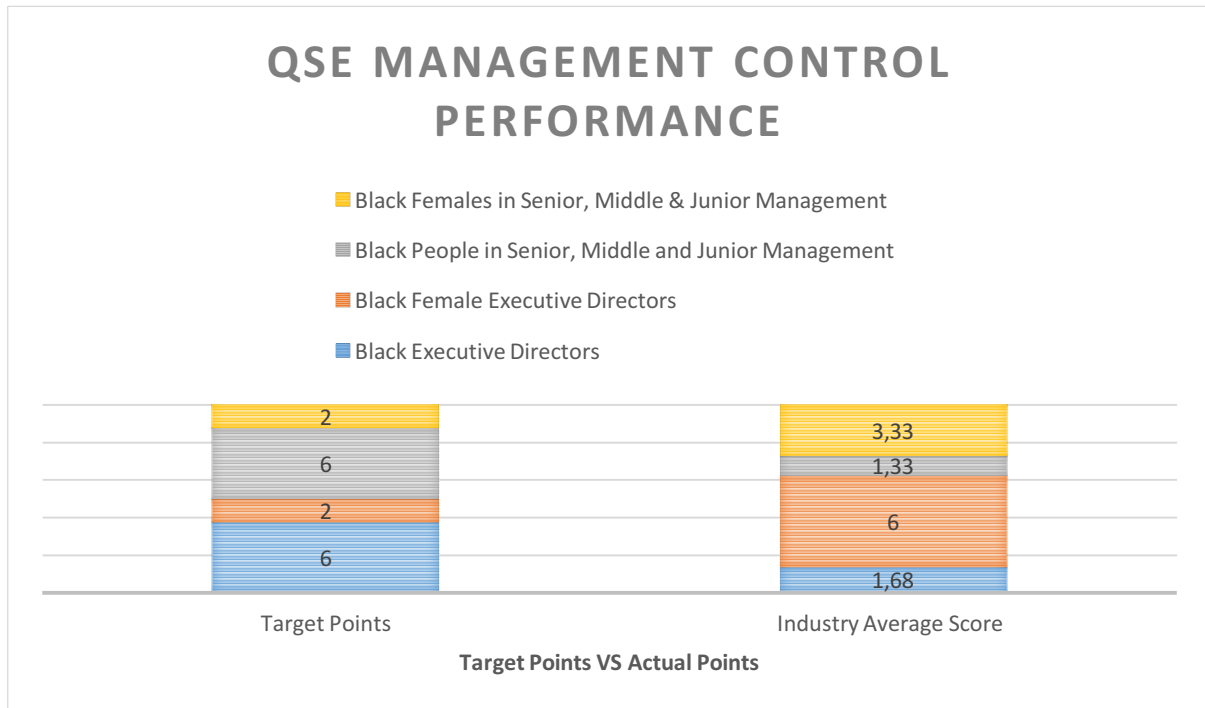


Figure 49: QSE Management Control Performance by Indicator, 2019/20

Qualifying small enterprises performed exceptionally for the “black people in senior, middle, junior management” indicator. All QSEs scored full points resulting in 100% of compliance target achieved. However, since there is no distinction on the allocated points for these three management categories, it is almost impossible to know which the most preferred management category is. These entities are also achieving over 50% or 60% of the target in the other remaining categories.

Analysis of the underlying reports indicated that the average number of employees in these QSEs is 29 employees. These QSEs have an average of 3 executive management positions, 1 middle management position and 3 to 4 junior management posts. The reports further indicated that executive management is filled by 1 African male, 1 African woman and 1 white person while the junior management is often filled mostly by African males, this may further highlight the dominance of males in the sector, especially at junior level where the majority of physical operations are

performed. These QSEs also indicated that almost 50% of their employees are black youth.

5.2.3. SKILLS DEVELOPMENT

Qualifying small enterprises, are required to conduct activities aimed at improving the skills base of their employees and black persons residing in their areas of operation. This element is worth 25 points of the QSE scorecard, 25% of the entire scorecard. These entities are required to spend a total of 4,15% of their total wage bill on skilling black people (3%), black women (1%) and black people living with disabilities (0,15%). Bonus points are also awarded to entities who absorb learners participating in skills development activities.

The Skills Development performance and comparisons over the past three years are shown in Figure 50 below. Similar to Management Control, QSEs have improved in the current year relative to previous years. The Skills Development performance for QSEs declined drastically from 2017/18 to 2018/19 and has risen to over 91% of the target in the current reporting year.

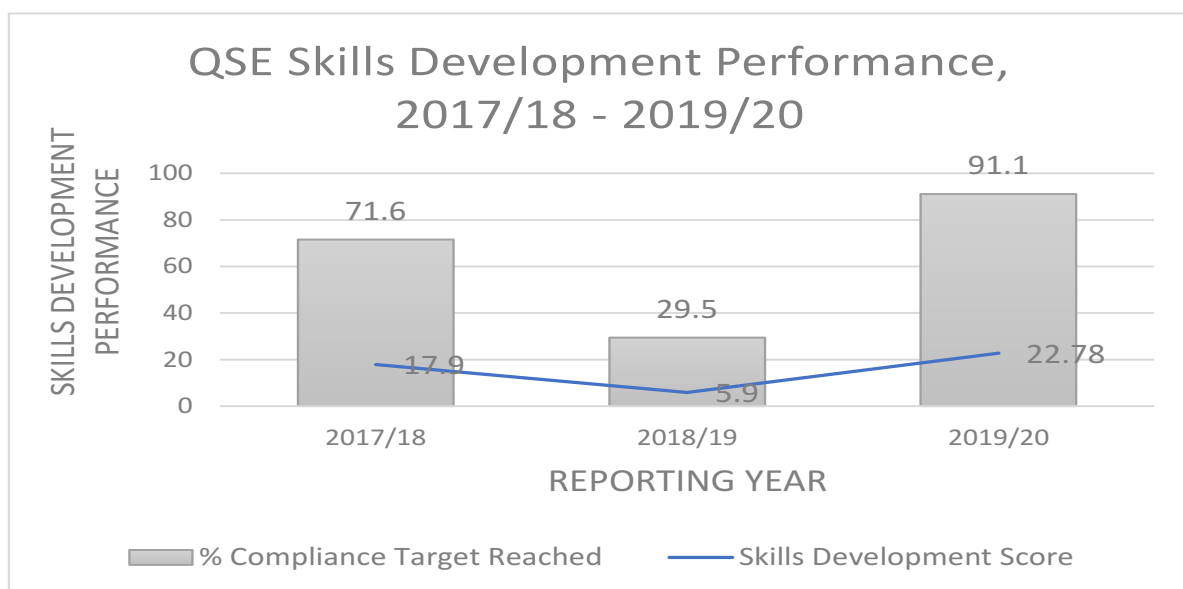


Figure 50: QSE Skills Development Performance, 2017/18 – 2019/20

As indicated in other sections, the decline in 2018/19 is largely due to an increase in certificate submissions from unenhanced QSEs, some of which were rated overall as non-compliant.

Figure 51 below reveals that QSEs are reaching over 80% of the target for every Skills Development indicator. The majority of points (15) are allocated to the indicator evaluating Skills Development spend on black people as a whole and QSEs achieved over 95% of the target for this indicator.

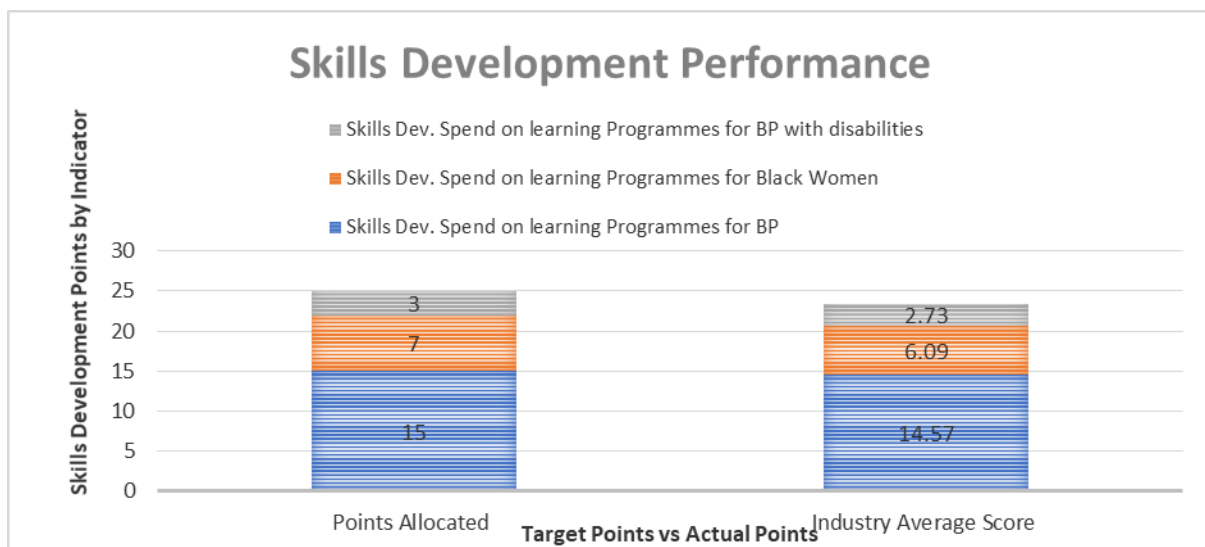


Figure 51: QSE Skills Development Performance by Indicator, 2019/20

The average total Skills Development spend indicated on the submitted underlying reports is over R188 000,00 with a total of R376 187,00 spent by 2 QSEs. Sixty percent (60%) (15 out of 25 points) of the Skills Development expenditure is allocated to external training followed by mandatory sectoral training. Less than 5% is allocated to learnerships, apprenticeships as well as Category B, C and D learning programmes. African males and African women are the largest beneficiaries of this expenditure. Black women are prioritised for learnerships and apprenticeships while African males are prioritised for mandatory sectoral training.

5.2.4. ENTERPRISE & SUPPLIER DEVELOPMENT

Enterprise & Supplier Development for QSEs involves procuring from different sets of black suppliers. These are B-BBEE compliant, 51% black-owned and 51% black designated group-owned suppliers. Qualifying small enterprises are further encouraged to spend at least 1% of their NPAT on supporting and developing enterprises and suppliers in their value chain. This element amounts to a total of 31 points (excluding bonus points) of the entire QSE scorecard. Enterprise & Supplier Development is thus the most heavily weighted element for QSEs.

Although current QSE performance for this element has improved from previous years, there is a noticeable difference between QSE performance for ESD and the previously discussed elements. Performance declined in 2017/18, as with the other indicators but not as sharply as the other elements as displayed in Figure 52 below. This represents an improvement in performance in the current year, although less entities reported as earlier mentioned.

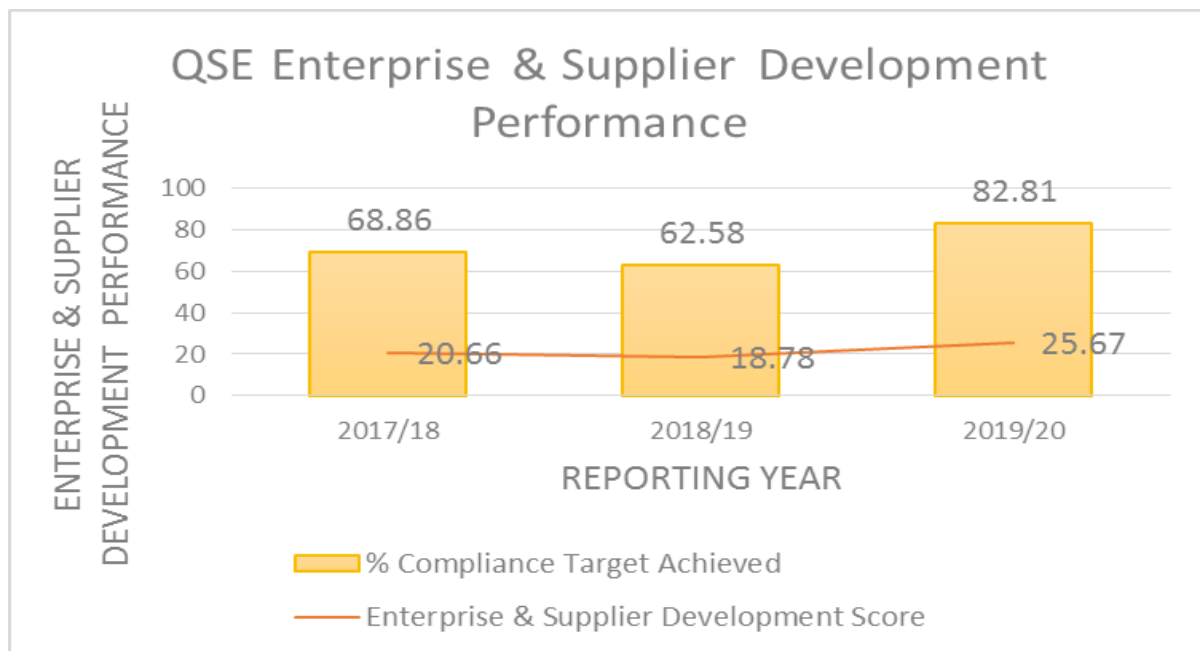


Figure 52: QSE Preferential Procurement Performance, 2017/18 – 2019/20

The current data indicates that QSEs are achieving over 80% of the target for Enterprise & Supplier Development as shown in Figure 52 above.

Figure 53 indicates the individual indicators of the ESD element together with their assigned weightings points. Noticeably good performances were observed across all indicators except the indicator measuring procurement from BDGs. None of the submitting QSEs scored any points for that indicator. This may suggest that it is difficult to locate suppliers of this nature.

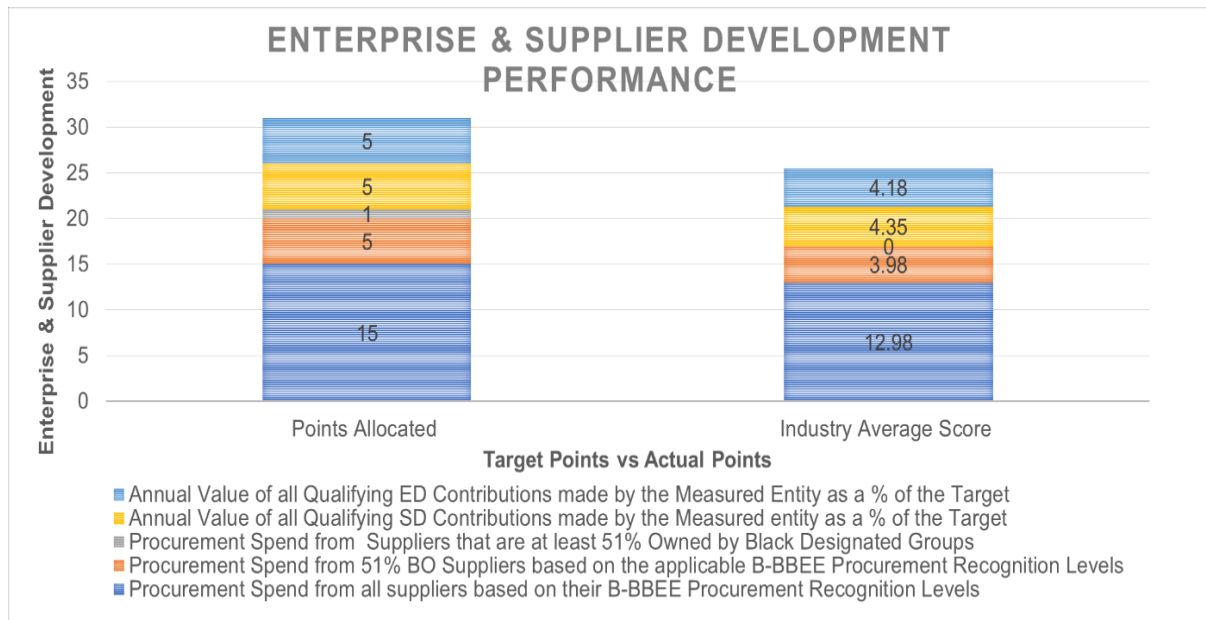


Figure 53: QSE Enterprise & Supplier Development by Indicator, 2019/20

Data retrieved from underlying reports indicates that QSEs are spending over R27 million per annum on average on procurement. The combined procurement spend from just 2 entities was over R55 million. These figures reveal why procurement from black suppliers is emphasised in the Codes as it allows black people to participate in and benefit from the forestry economy.

Typically, QSEs are providing support and development to their ESD beneficiaries through discounts, shorter payment periods and interest free loans. This data is indicated in their submitted underlying reports.

Bonus points are awarded for graduation of an ED beneficiary into a supplier and for creating jobs as a result of supplier development initiatives. One entity indicated that they had graduated an ED beneficiary to a supplier while 2 entities had created jobs from their supplier development activities.

5.2.5. SOCIO-ECONOMIC DEVELOPMENT

Socio-Economic Development for QSEs requires monetary or non-monetary contributions to forestry communities through various activities. A non-exhaustive list of these activities is provided in the Amended FSC.

In previous years, SED was one of the most popular options for QSEs to choose to be evaluated on and performance for this element has always been relatively good, despite the number of unenhanced entities reporting.

Figure 54 indicates that QSEs are performing exceptionally well on this indicator, achieving almost 100% of the target. This implies that the average QSE is spending 1% of their NPAT on SED initiatives aimed at uplifting rural communities where they operate.

The willingness of Industry to participate in this element is evident even when evaluating the QSE 2018/19 performance, the year with the highest number of certificates submissions from unenhanced QSEs was received. This group achieved over 70% of the target.

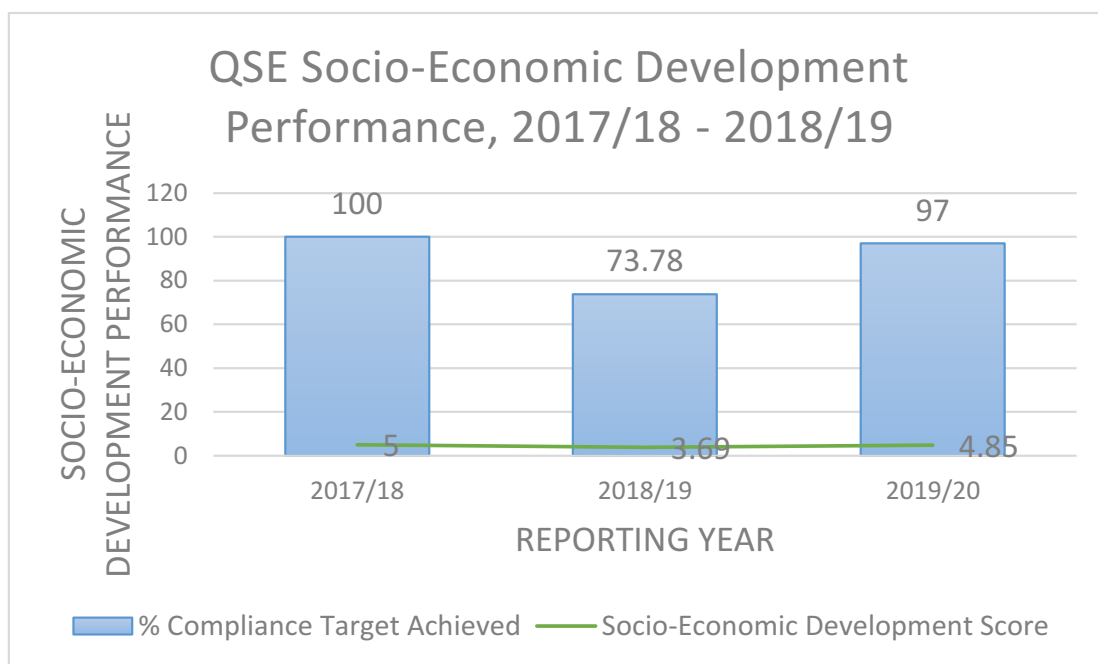


Figure 54: QSE Socio-Economic Development Performance, 2017/18 – 2019/20

Data gathered from the underlying reports reveals that QSEs are donating substantial amounts of money to schools in their areas. One entity donated over R87 000 to a school while another QSE donated over R20 000.

Only 1 of the 5 reporting QSEs was discounted for not reaching the target of the Ownership element. This entity was discounted from level 8 to a non-compliant status.

5.2.6. QUALIFYING SMALL ENTERPRISES SUMMARY

The changes to the Amended FSC introduced in 2017 had perhaps, the highest impact on QSEs. These Measured Entities find themselves in the precarious position of belonging in a sizing category falling within a wide range in terms of turnover. For instance, an entity with annual turnover of R12 million and an entity with turnover of R48 million are both considered QSEs, although one clearly has considerably more financial resources at their disposal.

The Amendments to the Amended FSC introduced not only eligibility for enhancement for QSEs but stricter reporting requirements for those QSEs who did not qualify for enhancement. This resulted in a noticeable increase in number of 51%+ black-owned QSEs and a noticeable decline in reporting from unenhanced QSEs. This is supported by feedback obtained from telephonic communication with 4 QSEs indicating that they are not verified as they know they are non-compliant or are just not interested in B-BBEE.

The number of affidavits received has steadily risen throughout the 3-year period since introduction of the Amended FSC and an increase in both black ownership and black women ownership has been observed. Data from affidavits is further indicating that there are some entities with ownership from BDGs. These BDGS are mostly people residing in rural areas, black youth, black unemployable, differently abled persons and military veterans.

Performance has improved across all elements although it is likely due to less unenhanced entities reporting compared to the previous reporting year (from 8 to 5 certificates). Analysis of underlying reports supports trends discovered in the Impact Assessment report that QSEs have few management positions as a whole and black people are mostly in junior management and perhaps some executive management positions. Qualifying small enterprise are also employing youth with reports indicating that over 50% of staff are black youth.

This group was found to be spending significantly on skills development of African males and women through external training, mandatory sectoral training and learnerships and apprenticeships for black women.

Procurement from black suppliers is prioritised although it may be difficult for QSEs to source BDG suppliers. Enterprise and supplier development contributions are mostly comprised of donations, interest free loans and shorter payment periods. Socio-economic development is mostly carried out through donations to schools.

5.3. EXEMPTED MICRO ENTERPRISES (EME) ANALYSIS

Exempted Micro Enterprises are those in the Forestry Sector with a turnover below R10 million per annum. Small Medium and Micro-Enterprises (SMME's) that qualify as EMEs and black controlled and owned QSEs are required to obtain a sworn affidavit annually, confirming their annual total revenue and level of black ownership. Due to their small nature and the South African government's desire to encourage and support growth of SMMEs, EMEs are exempted from B-BBEE activities and verification through a verification agent. However, should they choose to be verified, particularly in cases where there are tenders requiring a certificate, the QSE scorecard will be applicable.

Exempted micro enterprises are automatically awarded a level 4 B-BBEE rating and may be elevated to Level 2 or 1 depending on the black-ownership profile of the entity under question. Measured Entities that are 51% black-owned or more are awarded a level 2 rating while 100% black-owned entities are level 1.

In the current reporting year, the number of EME affidavits received declined as shown in Figure 51 below. Reporting and submission from QSEs and EMEs continue to be a challenge. A number of smaller entities expressed that they are busy with verification while they may be a number of EMEs who have B-BBEE certificates but are operating under the radar (no website or online presence).

Figure 55 below indicates the number of certificates received from EMEs from 2017/18 to the current reporting year. While the number of QSE certificates have risen, EME certificates have been in a constant flux. The 21 certificates received in the current year include 17 new submissions (i.e. did not submit in 2018/19) and only 4 submissions from last year reported again. This highlights the inconsistency in reporting amongst EMEs.

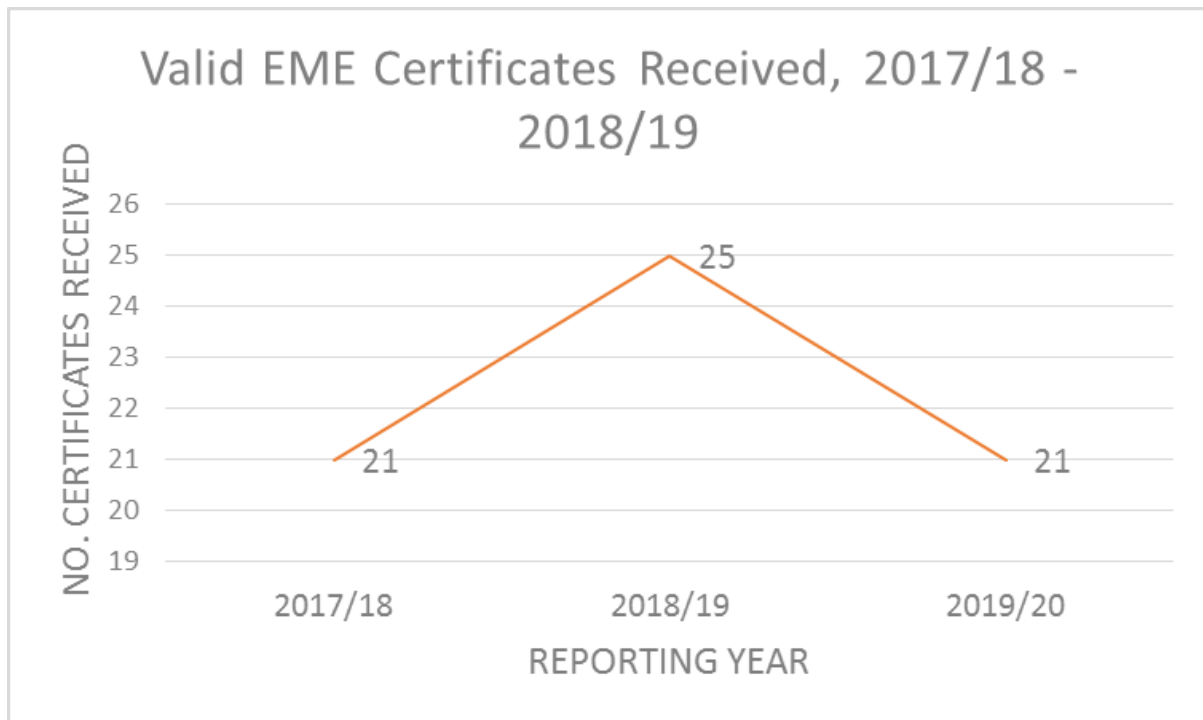


Figure 55: Valid EME Certificate Submissions, 2017/18 – 2019/20

An additional 3 EMEs who reported previously are now reporting as QSEs. This shows that EMEs do have room for growth despite the numerous challenges faced in the tough economic landscape of South Africa. Ansara *et al.*, (2019) dissect the state of SMMEs in their opinion piece on South African SMMEs reporting that: *“fewer and fewer firms survive each year, and many of those that do survive are unable to grow revenues or employment. According to the Enterprise Observatory of South Africa an average of 31 companies with taxable income of less than R10 million close down each week, and the number of employees hardly increases as SMMEs grow older.”*^{ix}

^{ix} Ansara, D., Endres, R and Mothibatsela, B. (2019). OPINION: Open for business? How SMMEs in South Africa can thrive. Financial 24. Accessed from: <https://www.fin24.com/Opinion/opinion-how-smmes-in-south-africa-can-thrive-20191118>

The Forestry Sector thus welcomes development of EMEs in to QSEs and QSEs into MLEs, signifying a sector with room for growth.

The Impact Assessment study conducted by Council did reveal that awareness of the Amended FSC amongst the smaller entities is lower than it is amongst larger entities and encouraged Council to place more emphasis on raising awareness of the Codes and Council itself. This may in turn, encourage improved reporting amongst this group of entities.

The graph below (Figure 56) illustrates the number of affidavits submitted by EMEs per sub-sector. The graph reveals that 11, (52,4%) of submitting EMEs are contractors. Affidavits revealed that these entities are involved in activities such as harvesting, mulching, plantation maintenance as well as short haul transportation.

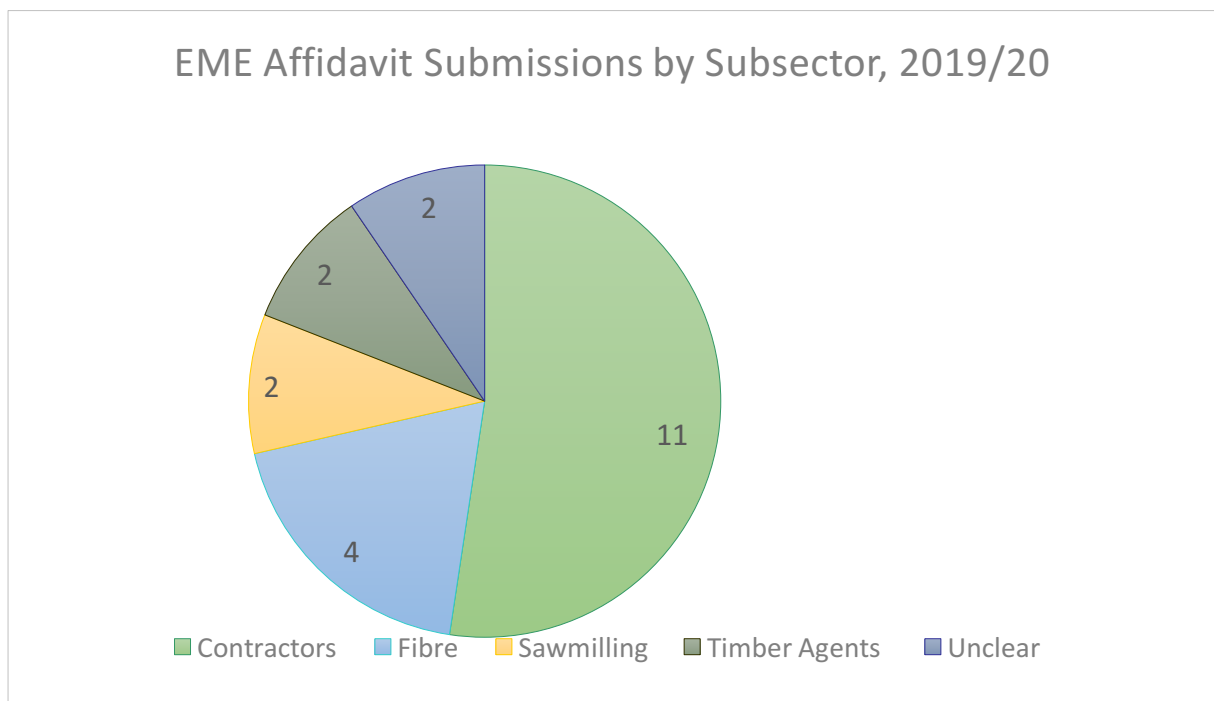


Figure 56: EME Certificate Submission by Sub-Sector

An additional 4 (19,1

%) EMEs are involved in the Fibre subsector. These entities are involved in manufacture of crates and pallets and other timber products. Two EMEs indicated that they are involved in timber marketing as timber agents while 2 EMEs are involved in sawmilling.

Table 7 below provides descriptive statistics of the average ownership amongst EMEs in the categories of black people, black women and black designated groups. The mode for all categories of black ownership is 0, indicating the high incidence or lack of black ownership amongst this group EMEs. This may indicate that the majority of new entrants to the business are not black and they may not prioritise black ownership as at EME level, a good rating level 4, is automatically granted.

The average black ownership is indicated by the mean which reveals that EMEs are 24% black-owned on average while black women ownership is over 14%, a relatively good level. Black ownership by BDG's was less than 5% as only 2 entities reported having BDG ownership. One was 51% owned black women residing in in rural areas while the other entity was 51% owned by black youth.

Table 7: Statistical Breakdown of Direct Black and Black Women Ownership in EMEs

	Direct Black	Direct Black Women	Black Designated Groups
<i>Minimum</i>	0	0	0
<i>Q1</i>	0	0	0
<i>Median</i>	0	0	0
<i>Mean</i>	24	14.38	4.86
<i>Mode</i>	0	0	0
<i>Q3</i>	51	0	0
<i>Maximum</i>	100	100	51
<i>No. of entities scoring 0% Ownership</i>	14	17	19
<i>No. of entities scoring above 0% but below 51% Ownership</i>	0	0	0
<i>No. of 51% BO entities</i>	4	2	2
<i>No. of entities scoring above 51% but below 100% Ownership</i>	0	0	0

<i>No. of 100% BO entities</i>	3	2	0
<i>Total No. of Measured Entities</i>	21	21	21

In comparison to the previous year's EME ownership statistics, black ownership has declined considerably from an average of 47% to 24% while black women ownership has risen from 9% to 14%. A large number of last year's EMEs did not submit this year as indicated earlier, making a fair comparison difficult. Despite the observed trends, EMEs and the industry as a whole continues to ensure that on average, their businesses have over 25% black ownership and 10% black ownership where possible, revealing that there is some form of transformation at ownership level in the sector.

The average B-BBEE rating for EMEs for this reporting year was level 3. As this level is not awarded in this category, it describes a Sector dominated by level 4 entities, EMEs with less than 51% black ownership but the presence of levels 2 and 1 EMEs is able to improve the level 4 rating to level 3.

6. CONCLUSION

The 2019/20 reporting year is the last of the era of the Amended FSC, Gazette no. 40803. This was a major period of adjustment for the sector due to the changes introduced with the Amended Codes, some of which were challenging for the sector.

General trends observed included a rise in the number of submissions from enhanced QSEs, indicating a shift towards black-ownership amongst this group and a decline in submissions from unenhanced QSEs.

On a global scale, factors such as the global recession, SA's exchange rate and supply & demand economic of natural resources has had and will continue to affect industry profitability and indirectly, transformation. As one of the leading importers of SA's timber, China's decision to stockpile this resource will have a significant impact on SA's production and supply in the short to medium term.

Locally, timber theft has ravaged the sector with large amounts of timber stolen during the transportation process and from the side of the road. Illegal treatment is also on the rise, jeopardising credibility of timber as a reliable construction material.

The industry has managed socio-political changes well such as the on-going land reform process and has pledged support to the President's investment drive through the PPGI.

The above events may impact performance of the sector in the medium-term but will require close monitoring and consistent reporting for Council to observe trends and derive meaningful insights.

Medium to large enterprises were once again the most consistent reporters, despite a slight decline in submissions. The smaller entities are notorious for inconsistency. Each year, up to 90% of certificates received amongst EMEs and QSEs are often new submissions.

The MLE grouped achieved an overall level 4 B-BBEE rating for the year with the fibre sub-sector outperforming all sectors and averaging an average B-BBEE rating of level 1. Furthermore, almost 30% of MLE submissions were level 1 and almost 75% of submissions were level 4 and below. This is an improvement from the average rating of MLEs previously which was level 6. Improvements were also noticeable in the

average performances per element with drastic improvements in elements such as Skills Development. This perceived improvement may be a result of less submissions or improved B-BBEE levels achieved

Certificate submission from QSEs improved in terms of quality of reports received as 3 underlying reports were received this year. This allowed some insight into the nature of their operations. It was discovered that QSEs employ a large number of black youth and that their ESD contributions are mostly interest free loans, payment discounts and shorter payments periods. Their SED contributions are mostly made as donations to schools.

Council prioritised visits to QSEs during this reporting year through the CEO Visits programme. This may have resulted in increased awareness of QSEs of the value for B-BBEE and their responsibility to report. This group improved in all elements and their average black and black women ownership profile has also improved with an average black ownership above 60% and black women ownership above 12%.

Exempted micro enterprises submitted less certificates this year. Their black ownership profile is still above the targets set by the Codes with an average black ownership of 24% and black women ownership of 14% (higher than QSEs). Their level of black ownership by black designated groups is less than 5% while that of QSEs is around 23%. Mostly in the hands of black people residing in rural areas and black youth.