



**FOREST SECTOR
CHARTER COUNCIL**

**2012/2013
B-BBEE STATUS REPORT**







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EXECUTIVE SUMMARY

Significant developments have taken place in the industry between the 2012 and 2013 B-BBEE status reporting period; the most noteworthy is indicated in the Forestry Worker Determination 2012 Government Gazette. These include the following major adjustments:

- minimum wage increased by 56% in nominal terms and 70% in real terms (the biggest year-on-year increase recorded);
- industry players consistently took drastic cost saving measures to salvage their bottom lines and margins;
- leading players in the industry closed some mills and mechanised certain activities.

It can be expected that these developments would have adverse effect on the performance of the industry as a whole, with specific scorecard elements impacted more materially than others.

In addition to the developments, a number of factors such as the industry commitments and the extent to which they have been realised should provide a comprehensive transformation progress for the industry.

The report however, provides a view of the current B-BEE performance of the forest sector as measured against the applicable scorecard targets for MLEs, QSEs and EMEs without expressing a view on the extent to which the industry has achieved the set Forest Sector Charter objectives.

The analysis produced an overall scorecard of 64.3 points which translates to a **Level Five B-BBEE recognition** (2012: 69.2 points) for the industry in the MLE category. This score indicates a below average performance when benchmarked with other industries as the desired level is viewed as Level Four which allows for measured entities to claim 100% of the procurement spend.

The overall score of MLEs has declined from the previous two reporting periods which illustrates that at some point the industry had a positive trend despite the challenges stated in section 1 above. The observed

performance represents a view that there is no singular cause for the 4.7 points decline, from 69.2 points to 64.3 points.

The current performance will be further impacted by the changes in the revised Generic Codes as Level Five will be comparative to Level Seven. This is as a result of the adjustments made to the qualification points for the B-BBEE status levels. This causes a score of 64.93 points to move from a Level 5 contributor (≥ 55 but < 65 points) to a Level 7 contributor (≥ 55 but < 70 points).

The industry's overall performance and changing B-BBEE landscape therefore warrants the active consideration of a renewed approach towards improving performance by identifying high impact scorecard levers to close the gaps and achieve improved scorecard performance.

The average QSE performance observed is materially higher than the average MLE performance. This is largely due to the benefit of being able to select the best four performing elements as basis for reporting. The overall B-BBEE performance for the QSEs is Level Three contributor (84.03 points) measured against the selected elements.

The EMEs that reported are largely white owned and managed, achieving a deemed Level Four. Only 35% (9 out of 26) of the EMEs are black owned, of which only two have black women as minority shareholders. 65% of the EME certificates received were from white-owned small business. A similar trend in terms of the absence of transformation is observed with MLEs as well as QSEs. Majority of the EMEs that reported are contractors.

Due to the lack of detailed input into the questionnaire, the report is unable to determine and/or achieve the following:

- provide detailed analysis of the scorecard elements based on underlying information provided in an enterprise's scorecard report;
- measure the extent to which transformation has impacted on job creations and growth in the sector;
- determine the number of SMMEs created and

- sustained thus far; and
- demonstrate the role that the Charter has played, more especially within the investment sector and on relationships between employers, employees as well as communities; and
- To identify the general constraints faced by the sub-sectors and the entire sector in implementing the Sector Code.

ACRONYMS

The Acronyms used in the annual report have the following meaning:

BEE	Black Economic Empowerment
B-BBEE	Broad based Black Economic Empowerment
CEE	Commission for Employment Equity
EAP	Economically Active Population
EME	Exempt Micro Enterprise
KPMG BEE report	An annual survey which aims to provide organisations with a tool to benchmark B-BBEE implementation progress against competitors by industry, organisation type and size. KPMG is a global network of professional firms providing Audit, Tax and Advisory services
MLE	Medium and Large Enterprise
NPAT	Net profit After Tax
QSE	Qualifying Small Enterprise
SMME	Small, Micro and Medium Enterprise

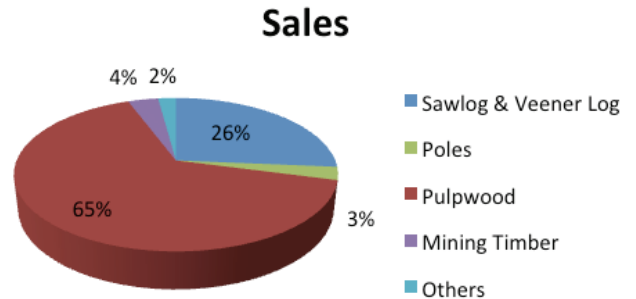
SECTION 1

The South African Forestry Sector

With an output of 18 million tons in 2011, as reported by Forestry SA, and the production mostly made of pulpwood and sawlog products, South Africa is a relatively small player in the global forestry landscape.

Pulpwood is mainly used for paper and paper products manufacturing, while sawlog (harvest from larger trees that can be cut in boards) is mostly used for infrastructure, construction industries, and for furniture manufacturing. The South African forestry sector contributes 2% of the global pulpwood production and less than 1% of Sawlog production. SA competes in the global forestry market with emerging markets with natural forests and low cost of production such Brazil and Russia amongst others. such Brazil and Russia amongst others.

South Africa Production of Forestry Products in 2011



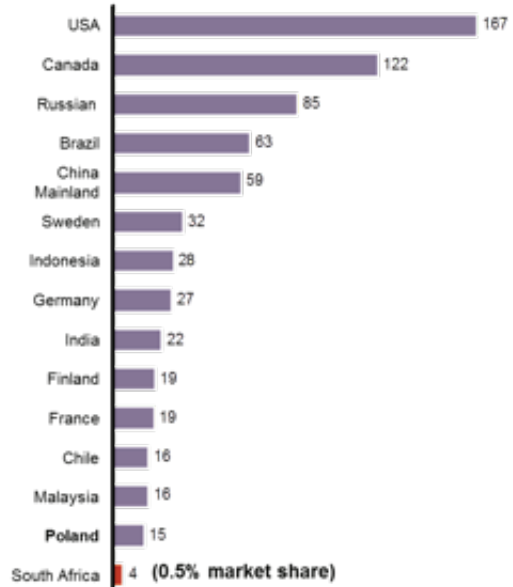
Source: Forestry SA

Top Pulpwood Producer by quantity Produced In Millions of m3



Source: FAO

Top Sawlog by quantity Produced In Millions of m3

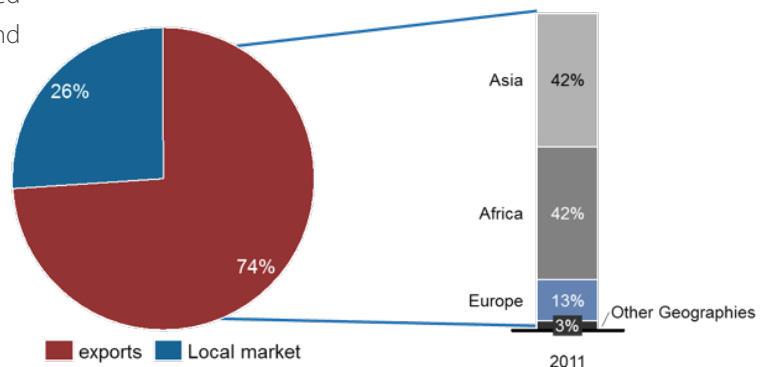


The R21 billion (in 2011) South African Forestry sector, as reported by Foestry SA, relies heavily on exports, from which it derives over 70% of its revenues. The sector is therefore very much exposed and sensitive to global

trends in the industry and the global economic climate affecting demand for forestry products in its, main exports markets such as Asia, Africa and Europe.

As such, the lingering global recession and the shifts in end users consumption habits have negatively impacted the South African forestry segment, as global demand for forestry products

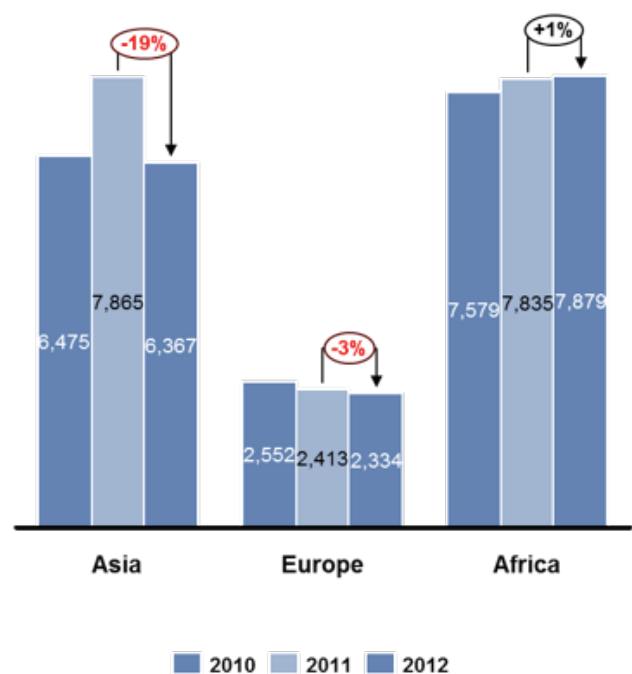
SA Forestry Products sales by destination markets in 2011*



Latest data available - Sources: Forestry SA, the dti trade database, Sars

Exports to Asia one of SA, main markets have dropped by 19% between 2011 and 2012, while exports to Europe declined by 3%, leading to a loss of closed to R2 billion in value (13%) between 2011 and 2012. Due to the European Sovereign debt crisis, the West European construction market saw a 5.4 % decline in the over the past 4 years, which has affected demand for wood and wood products and thus imports thereof.

Exports of SA Forestry Products in R Millions

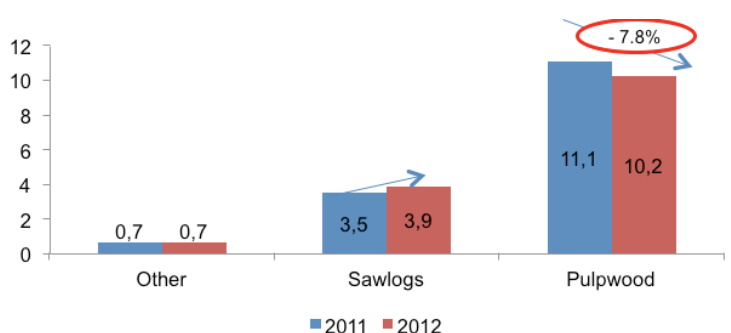


Sources: Forestry SA, the dti trade database, Sars

Furthermore, cash strapped European consumers have reduced purchases of furniture. This has in turn affected demand for wood products in Asia, as the continent is one of the biggest manufacturers of European imported furniture. Slowdown in the Chinese construction industry has also affected the country's imports of wood and wood products.

The buoyant African infrastructure and construction industry (demand for sawlogs) has somewhat offset the decline of demand for SA forestry products from further afield. The struggling exports of forestry products affected the overall SA Forestry market which saw a almost 8% decline in sales of pulpwood (60% of production of Forestry products)

Sale Comparisons per Product 2012 vs. 2011 in million tons



Although the weakening Rand has allowed for a recovery in Rand terms of the export market in 2013, some of the factors that negatively affected the SA forestry market between 2011 and 2012 are fundamental and lasting changes in the global markets that are here to stay.

The increased adoption of smartphones and tablets globally has led to a digitalization of press and print media and thus a drop in demand for print paper. As consumer globally increasingly favour receiving content on their tablets and smartphones over buying

newspapers, magazines and even books; global media and publishing houses have changed and adapted their business models to ensure survival.

Over the past few years, several leading media companies have either shifted from print format to digital format, such as the major American media Newsweek which cancelled its print edition to shift to digital only. Although the publication recently relaunched a printed version, it is a premium and limited quantity offering for a select readership.

With the combined effect of the recession, media and publishing houses globally have reduced the occurrence of their print edition publications to save on paper costs. Publications such as The Times and the Newyorker have started to adopt this model with both publications skipping some issues last year.

This trend has led to a significant decline in demand for printing paper, and with the forecasted further increase in smartphone and tablets adaption worldwide is anticipated to maintain the trend. Lastly, the cost saving and profitability appeal of the digital model is enticing media and publishing players to develop a digital offering.

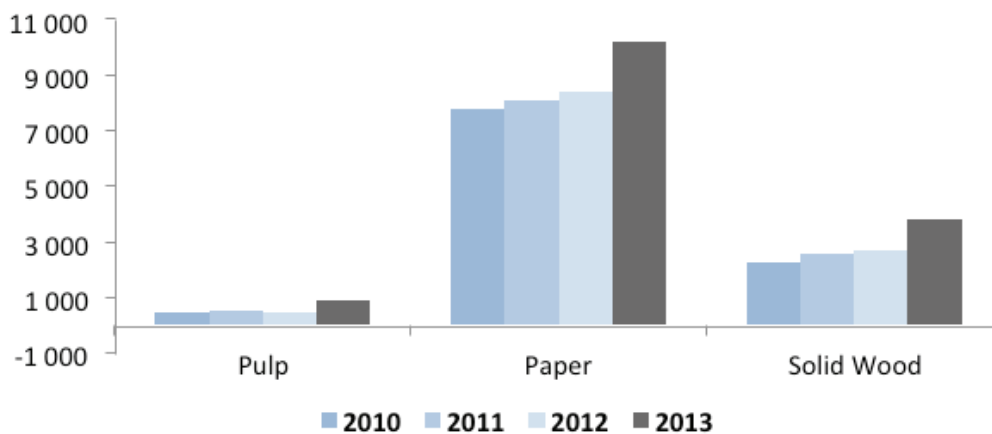
This is best illustrated by the fact that in 2008 already the online revenue at the Los Angeles Times surpassed the cost of its (reduced) newsroom, thus making the digital option a sustainable one on the long run.

Although this trend is more prevalent in the global markets at the moment, South Africa has seen a 1.5% decline in demand for printing and writing paper over the past 4 years, and it can be expected that the decline will increase as standard of living improves and access to the internet widens further.

Locally, SA has seen an increase in consumption of packaging and tissue paper, due to the country's improved living standards, which is likely to continue to spur tissue paper and packaging demand. Furthermore, the growth in ecommerce has also create an increased demand for paper packaging, seen as the more sustainable packaging option by the various stakeholders

The local forestry industry has however not been benefiting fully from the paper packaging growth opportunity, as it faces fierce competition from cheaper imported products.

South African Imports of Forest Products (in millions of Rand)



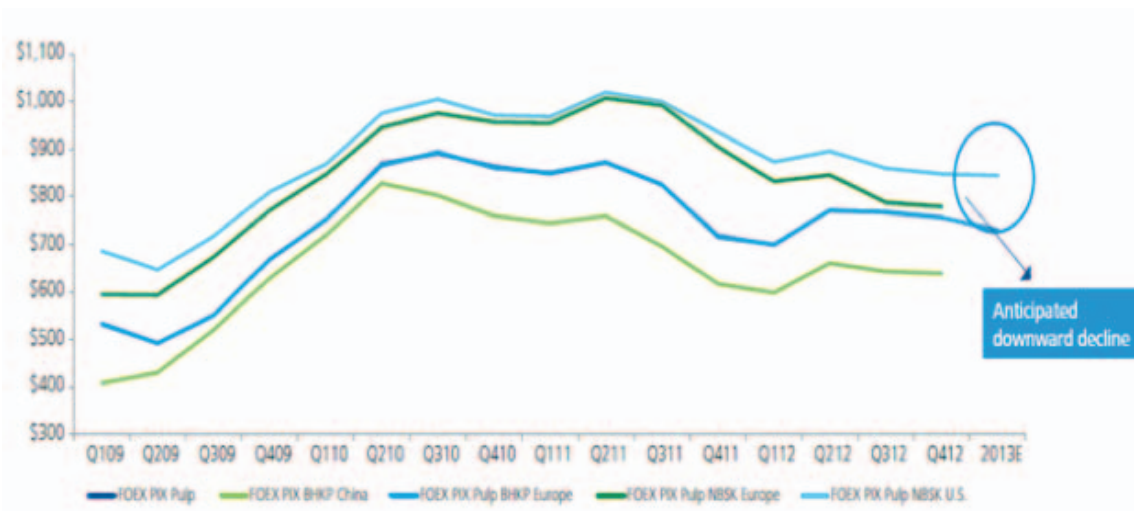
Imports of paper products grew by 31% between 2010 and 2013, while imports of solid wood grew by 32% in the same period. In 2013, imports of paper products grew by 22% to reach R10 billion while imports of solid wood product grew by 39% to reach R3.7 billion, thus a total of R14 billion for the 2 sub-segments.

Considering the weak Rand over the period and the fact that the entire SA forestry market was valued at R21

billion in 2011, R14 billion worth of imports of forestry products represent a significant loss for the SA forestry market and hint at the lack of competitiveness thereof.

The SA Forestry industry competes in an oversupplied market in which the decline in demand has led to a drop in Forestry products prices in general and in pulpwood particular

International pulp prices in \$/Ton

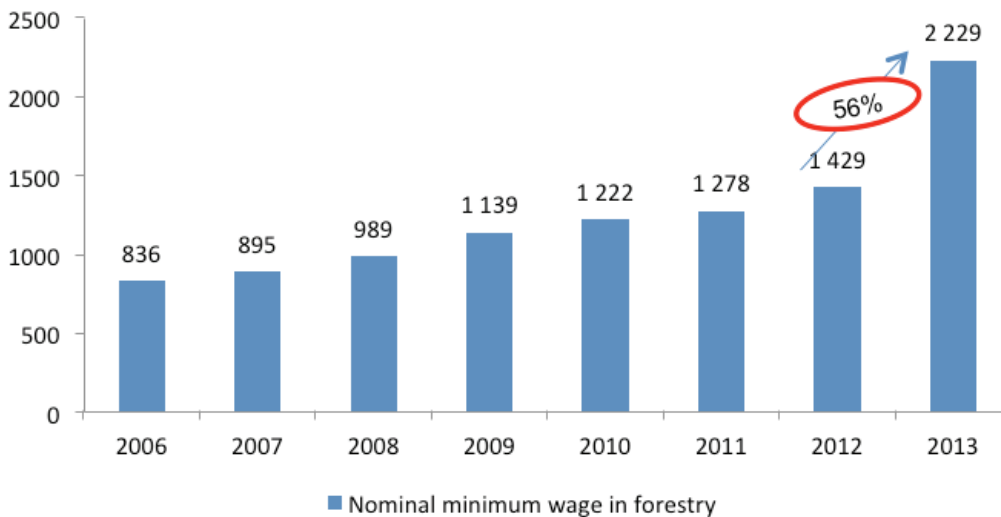


Source: Sappi annual report

On top of the lowering prices, SA forestry players are facing spiralling high input costs due to increased labour costs, increasing energy prices (fuel and electricity), and administrative difficulties related to water usage licences.

Indeed, between 2012 and 2013, minimum wages have increased by 56% in nominal terms and by 70% in real terms.

Minimum Wage History 1st April 2006 – 1st April 2013



Source: Forestry SA

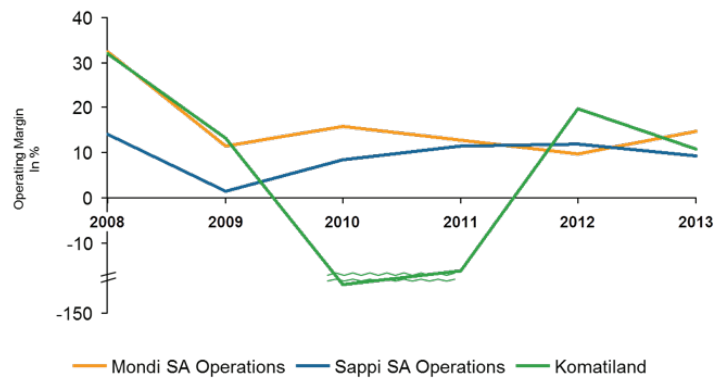
The significant increase in minimum wages in the industry in 2013 is the result of recommendations from the farm sectoral determination study conducted following the violent protests in the agricultural community of De Doorns in the Western Cape, which provided recommendations on fairer wages in the agricultural sector.

The industry players are in a situation where their margins are being eaten by higher costs that they cannot pass onto the customers considering the competitive and oversupplied industry.

As a result, players in the SA Forestry sector have seen their profitability decline substantially over the past few years

The industry players have taken drastic cost saving measures to salvage their bottom lines and margins, often at the expenses of employment, in an industry where job creation have been stagnant for the past few years.

Operating Margin of SA Main Forestry players



SECTION 2

Government's Objectives for the Forestry Industry

Following two decades of shrinkage of the country's plantation resources and increasing pressure on natural forests and woodlands, the Department of Forestry & Fisheries' (DAFF) goal is to ensure renewed growth, transformation and sustainability throughout the value chain, in economic, social and environmental terms, in ways which continue to improve the lives of the poor.

Ownership in the Industry

Forestry is regarded as a vehicle for social upliftment and is intended to provide an opportunity for thousands of small entrepreneurs to enter the formal forestry markets. However, ownership in the forestry sector is skewed, with the majority of forestry plantations owned by a handful of grower processor multinational corporations.

Ownership in forestry is similar to other parts of the world, where given the long-term nature of the investments required in growing timber and the highly capital intensive nature of large-scale processing and manufacturing, there is a fairly high concentration in ownership among the larger companies. The majority of forestry plantations are therefore owned by 11 large companies, some of which are multinationals.

Job Creation in the Industry

The Department of Agriculture, Forestry and Fisheries (DAFF) recognises that the Agriculture, Forestry and Fisheries sectors have the potential to contribute significantly to job creation. However, it acknowledges that the sectors are facing huge challenges.

It further notes that many political and economic factors compromise this potential; most of which are centred around the country's big crisis with regard to unemployment.

Transformation Potential in the Industry

Forests and woodlands, as well as the commercial tree plantation industry, support the livelihoods of millions of South Africans, particularly in rural areas. Challenges such as stressed environments and looming climate change threats, have forced government to rise to the occasion to adhere to new stringent regimes for sustainable forest management, as well as legal protection for all natural forests.

South Africa is approaching the limits of increasing productivity from a declining resource. As a result, government has prioritised the expansion of the plantation area in areas where it is economically, environmentally and socially appropriate to do so. This is not only important for the country's growth, but also for transformation as it is difficult to achieve meaningful change in any of the key transformation areas in a stagnant or declining sector.

Employment in the Industry

The forest sector alone employs around 201,025 workers. Forestry provides livelihood support to 2.3 million people of the country's rural population. Some 20,000 workers are employed in sawmilling, 13,200 direct employment opportunities are created in pulp and paper, 6,000 in the timber board and 2,200 in the mining timber industries,

while 11,000 workers are employed in miscellaneous jobs in forestry.

In view of the important role of the forestry sector in the economy of the country, and in line with the provisions of the Forestry Charter, steps have been taken by role players to ensure that there is continued and sustainable use of forestry land for timber production.

SECTION 3

BACKGROUND

As indicated, one of the core responsibilities of the Council is to monitor and report on the B-BBEE Status of the sector on an annual basis. The Forest Sector Code applies to all enterprises involved with commercial forestry and first level processing of wood products. The report covers the following sub-sectors:

- a) **Growers sub-sector** (plantations, nurseries and indigenous forests);
- b) **Contracting sub-sector** (forestry contractors in silviculture, harvesting, fire-fighting services and other forestry contracting services that are not covered by their own Sector Charters);
- c) **Fibre sub-sector** (pulp, paper, paperboard, timber board product, woodchip and wattle bark manufactures);
- d) **Sawmilling sub-sector** (industrial, structural and mining timber sawmills and match producers);
- e) **Pole sub-sector** (pole treatment plants); and
- f) **Charcoal sub-sector** (charcoal producers)

The report presents the Forest Sector Charter Council's (Council) 2012/2013 annual Broad Based Black-economic Empowerment (B-BBEE) status report. The B-BBEE status report outlines the sector's performance in terms of the compliance targets as prescribed in the scorecard for both Medium and Large Enterprises (MLEs) and Qualifying Small Forest Enterprises (QSEs). In addition, it provides a high level analysis of the profile of Exempt Micro Enterprises (EMEs) in the industry. It also proposes recommendations on elemental areas of concern to the Council.

The report considers the high level data extracted from the historical reports for completeness and comparison in the assessment of the status report for 2012/2013. The methodology is inclusive of statistical analysis of the data and desk research.

The findings of the Forest Sector's annual B-BBEE report therefore make for an important contribution to the shared challenges of ensuring that socio-economic development priorities such as job creation and rural and economic development are achieved.

Therefore, the findings of the annual B-BBEE report cannot be viewed in isolation from the industry challenges.

FOREST SECTOR CHARTER

In the Forest Sector Code (Code) the parties to the Code express their full commitment to working collectively to ensure that the opportunities and benefits of the Forest Sector are extended to black South Africans previously excluded from meaningful participation in the Sector. In doing so, the parties to the Code recognise that:

- The forest sector is still largely white and male dominated and characterised by large disparities in access to opportunities and benefits for black people, especially black women and those living with disabilities;
- Growth and prosperity in the South African economy and the forest sector cannot be realised without meaningful participation of black South Africans, including black women, youth and the rural poor in economic life.
- They have the moral and constitutional obligation to:
 - reverse the legacy of inequality in the sector;
 - to support sustainable growth through transformation in the sector.
- The Forest Sector has specific challenges that need to be addressed in an integrated manner to ensure sustainable equity and growth in the sector.

The Forest Sector

- believes that a positive and proactive response through the implementation of a Transformation Code will address inequalities in the sector, unlock the sector's potential and enhance its growth.
- The Forest Sector also confirms its role as a high growth potential sector of the economy.

FOREST SECTOR CHARTER OBJECTIVES

The main objective of the Forest Sector Code is to promote B-BBEE in the forest sector by undertaking the following:

- Promoting investment programmes that lead to sustainable B-BBEE-driven growth and development of the forest sector and meaningful participation of black people in the entire forestry value chain;
- Achieving sustainable change in the racial and gender composition of ownership, management and control structures and in the skilled positions of existing and new forest enterprises;
- Increasing the extent to which black women and men, workers, cooperatives and other collective enterprises own and manage existing and new forest enterprises and increasing their access to economic activities, infrastructure and skills training;
- Nurturing new black-owned and/or black-managed enterprises to undertake new forms of economic and value-adding activities in the forest sector;
- Using the forestry industry as a catalyst for empowering rural and local black communities to access economic activities, land, infrastructure, ownership and skills;
- Promoting sustainable employment and contracting practices in the forest sector;
- Promoting access to finance for B-BBEE in the forest sector;
- Promoting equitable representation in industry structures and equitable access to forestry support systems;
- Providing an enabling environment for transparency, fairness and consistency when measuring and adjudicating on matters related to B-BBEE in the forest sector

FOREST SECTOR CHARTER COUNCIL FUNCTIONS

The Forest Sector Charter Council ("the Council"), launched in 2005, was established to oversee and facilitate and report on the implementation of the Charter. The functions for the Council are outlined hereunder:

- Monitor the implementation of the Charter and review as and when the need arises;
- Provide interpretation and guidance with respect to the Charter;
- Facilitate the communication and popularisation of the Charter;
- Facilitate cross-industry and government negotiations to promote the application and implementation of the Charter;
- Provide guidance on sector-specific matters affecting B-BBEE in enterprises within the sector;
- Share information with the national monitoring mechanism and approved accreditation agencies that are relevant to the sector;
- Issue guidelines for sector-specific enterprise development and socio-economic development contributions under the scorecard.

The Council reports on compliance with the Forest Sector Code to the Presidents' BEE Advisory Council, Minister of Trade and Industry as well as the Minister of Agriculture, Forestry and Fisheries. Further to that, it is also expected to inform stakeholders about the Charter opportunities and its obligations.

OBJECTIVES OF REPORT

The main purpose of the report is to provide the FSCC with an independent assessment of the following objectives:

To determine

1. the B-BBEE profile and performance of Exempted Micro Enterprises (EME) based on their black ownership profile and compliance with the Codes of Good Practice on contracting practices for each of the six sub-sectors;
2. the B-BBEE profile and performance of Qualifying Small Enterprises (QSE) based on any four elements of the forest sector scorecard for each of the six sub-sectors;
3. the B-BBEE profile and performance of Medium and Large enterprises (MLE) in the Forest Sector based on the seven elements of the forest sector scorecard for each of the six sub-sectors;
4. the overall scorecard performance of the Sector against the set compliance targets and determine the overall transformation status and the impact the scorecard implementation and performance has had in the Forest Sector;
5. the extent to which transformation has impacted on job creation and growth in the sector;
6. the number of SMME created and sustained thus far;

7. the role that the Charter has played more especially within the investment sector and on relationships between employers, employees as well as communities; and
8. the general constraints faced by the sub-sectors and the entire sector in implementing the Sector Code

The analysis performed to measure the achievement of the above objectives was based on the seventy one (71) 2012/2013 B-BBEE certificates received from reporting enterprises in the various sub-sectors. An outline of the size and non-forestry scorecard representation is provided The table below provides a breakdown of the sub-sectors The table below provides a breakdown of the sub-sectors that the reporting enterprises operate in. It is important to bear in mind that some enterprises, mostly MLEs, operate in more than one industry.

The analysis performed to measure the achievement of the above objectives was based on the 71 2012/2013 B-BBEE certificates received from reporting enterprises in the various sub-sectors. An outline of the size and non-forestry scorecard representation is provided below:

DESCRIPTION	NUMBER OF CERTIFICATES
Forestry: NPO	1
Forestry: Large	16
Forestry: QSE	14
Forestry / Generic: EME	26
Non-forestry scorecard	14
Total	71

The table below provides a breakdown of the sub-sectors that the reporting enterprises operate in. It is important to bear in mind that some enterprises, mostly MLEs, operate in more than one industry.

Sub-sector	MLE	QSE
Charcoal	0	0
Contracting	2	11
Fibre	9	2
Growers	7	0
Pole	4	0
Sawmilling	10	1

METHODOLOGY

Measured enterprises were requested to submit their B-BBEE certificates and underlying information that was valid during the period 1st April 2012 to 31st March 2013 using the Forest Sector Code. Certificates measured under any other Code were disqualified as articulated under the terms of reference.

To achieve this, reporting forest enterprises were requested to submit their scorecard certificates and underlying information as prescribed in statement 005 of the generic Codes of Good Practice.

The approach adopted included the following steps:

- Obtain a list of the member companies in the sub-sectors of the forest industry from the FSCC office and relevant sub-sector board representatives which yielded 736 enterprises including duplicates;
- Update the database of forest enterprises that fall within the six industry sub-sectors;
- Contact the member companies to submit the required information through fax, which was followed up by an email and confirmation of receipt and clarity with a telephone call;
- Collate all submitted reporting information; including spread sheets, B-BBEE certificates and verification reports;
- Analyse the collected data and prepare the scorecard and B-BBEE status report for each of the three sizes of enterprises and for the six industry sub-sectors; and
- Prepare comprehensive scorecard and B-BBEE status report of the entire sector.

The methodology yielded the following results in terms of participation as the basis of analysis;

- A total of 146 scorecards that fall within the following measurement periods were received from the reporting enterprises:

YEAR	NUMBER OF SCORECARDS RECEIVED
FY 2011/12	25
FY 2012/2013	59
FY2013/14	62

The total data received and analysed consists of 71 scorecards (including 12 EME certificated from 2013/2014) out of the 146 scorecards received. The report is therefore based on 49% of the reports, which excludes BEE certificates for non-forestry scorecards.

CHALLENGES

The methodology achieved meaningful analysis for Report Objectives 1- 4 due to the representative input from the industry, which was limited to BEE certificates. An absence of BEE verification reports from the reporting enterprises compromised the ability to perform properly analysis of objectives 5 – 8.

For the period under review, the FSCC made use of an excel spread sheet which includes four sections. The spread sheet was designed to enable the FSCC to report on a vast array of information. For example, specific questions were posed regarding employment numbers and SMME supplier numbers.

Time and capacity constraints were expressed by a lot of reporting enterprises. For this reason most reporting enterprises only submitted their B-BBEE certificate without the additional qualitative and quantitative information required for in-depth analysis. Due to this limitation it was difficult to draw a clear picture of job creation and growth as well as SMMEs created. The report is also unable to provide comprehensive scorecard (sub-element) analysis of the overall industry and the sub-sectors.

The analysis was limited to the BEE certificates that were not excluded through disqualification process. The

reasons for disqualification included the following

- Certificates and reports falling outside of the Forest Sector Charter; and
- Certificates issued pre or post measurement period.

FRAMEWORK FOR MEASURING B-BBEE: GENERAL PRINCIPLES

Any enterprise with annual total revenue of R5 million or less qualifies as an Exempt Micro Enterprise. EMEs are deemed to have B-BBEE status of “level four contributor”. However, an EME with more than 50% ownership by black people or black women qualifies for a promotion to a B-BBEE status of “level three contributor”.

Any enterprise with annual total revenue of between R5 million and R35 million qualifies as a Qualifying Small Enterprise (QSE). A QSE must select any four of the seven elements of the applicable B-BBEE scorecard for the purposes of measurement under the QSE scorecard. Where a QSE does not make a selection, its four best element scores will be used for the purposes of measurement. A QSE is therefore scored in proportion to the extent that it meets the compliance targets for those four elements. Each element is therefore measured out of 25 points.

Enterprises with annual total revenue of R35 million and above qualify as Medium and Large Enterprises (MLE) and are measured on all seven scorecard elements. The MLE scorecard weighting of each of the elements is as follows:

Table 1: Forest Sector Charter Scorecard

ELEMENT	MLE Weighting	QSE Weighting
Ownership	20	25
Management Control	10	25
Employment Equity	15	25
Skills Development	15	25
Preferential Procurement	20	25
Enterprise Development	15	25
Socio-economic Development	5	25

Table 2: Forest Sector Charter Recognition Levels (same as the Generic Scorecard Recognition Levels)

B-BBEE STATUS	QUALIFICATION	B-BBEE
Level One Contributor	>100 points on the Generic Scorecard	135%
Level Two Contributor	>85 but <100 points on Generic Scorecard	125%
Level Three Contributor	>75 but <85 on the Generic Scorecard	110%
Level Four Contributor	>65 but <75 on the Generic Scorecard	100%
Level Five Contributor	>55 but <65 on the Generic Scorecard	80%
Level Six Contributor	>45 but <55 on the Generic Scorecard	60%
Level Seven Contributor	>40 but <45 on the Generic Scorecard	50%
Level Eight Contributor	>30 but <40 on the Generic Scorecard	10%
Non-Compliant Contributor	<30 on the Generic Scorecard	0%

OUT OF SCOPE

The report excludes the performance of the Forestry Sector Charter Council against its objectives and the extent to which the FSCC provides thought leadership and guidance for the industry to achieve its set transformation objectives. However, the status report

should not be viewed in isolation from the FSCC's objectives, as it can provide objective insights when reviewing the extent to which the Charter is making progress on its set objectives, progress on its set objectives.

SECTION 4

INTRODUCTION

SCORECARD PROFILE

A total of 146 B-BBEE certificates were received from reporting enterprises. However, 71 (48.6%) of these certificates were applicable for the period between 1 April 2012 and 31 March 2013. 14 (9.6%) of the reporting enterprises were verified under the Generic Codes and other Sector Codes and were therefore excluded from the analysis. The analysis therefore included 16 MLEs, 14 QSEs and 26 EMEs.

While a number of the enterprises that reported operate in more than one sub-sector, sub-sector data for MLEs and QSEs was insufficient for meaningful analysis to be performed. Due to this limitation, it would be difficult to make important observations and draw conclusions on transformation at a sub-sector level. The table below provides an indication of the number of submissions received at a sub-sector level.

Scorecard Profile of Reporting Enterprises

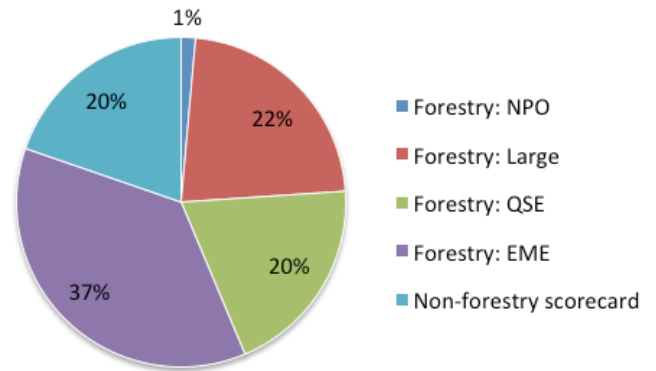


Table 3: Scorecard Profile of Enterprises that Participated in Survey

MLE ANALYSIS

The MLE's showed a drop across all the scorecard elements with the exception of Enterprise Development. The overall performance indicates a decline of 4.7 points compared to the previous years. The Human Resource Development elements (namely Management Control,

Employment Equity and Skills Development) indicate a significant decline; this was exacerbated by Management Control achieving only 43% of target on average and Employment Equity's recorded 32% of target compared to previous performance.

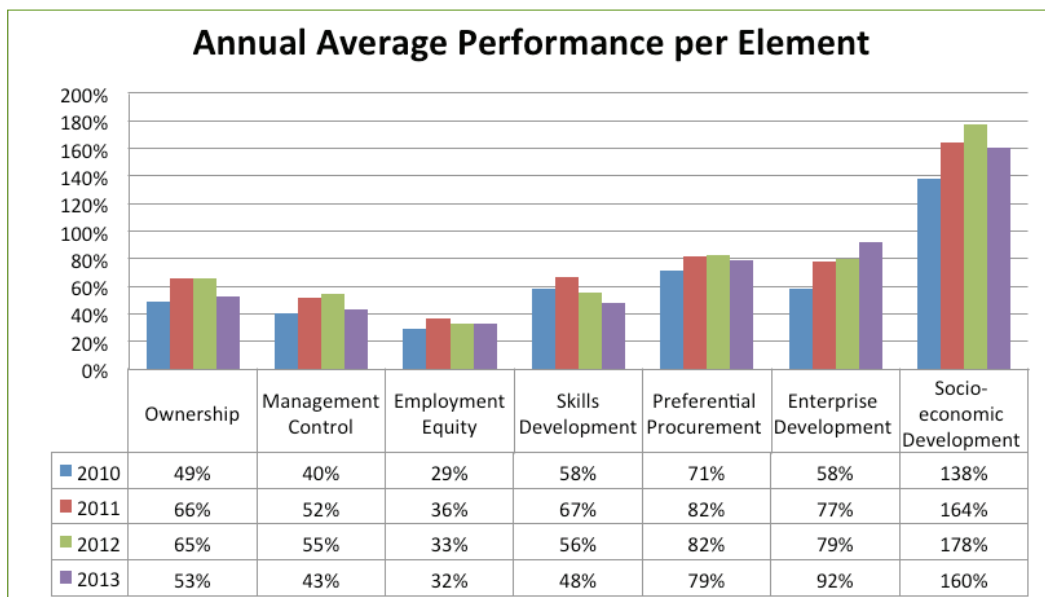


Table 4: 2010 – 2013 Average MLE Scorecard Points and Recognition Level

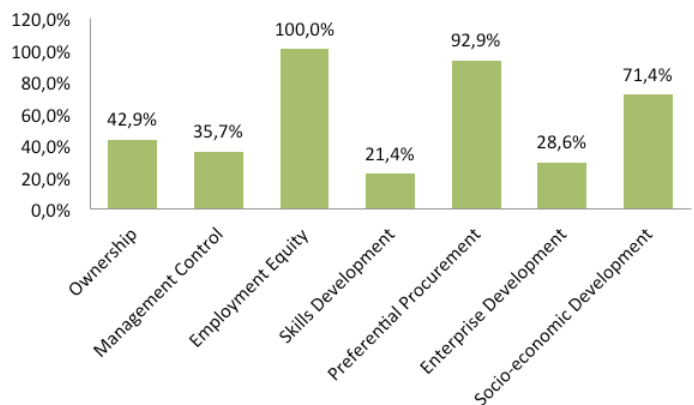
PERIOD	MLE Average Score and Recognition
2013	64.3 % (Level 5)
2012	69.2% (Level 4)
2011	69.9 % (Level 4)
2010	56.7% (Level 5)

QSE ANALYSIS

Unlike MLEs, QSEs have benefitted from the ability to select their 4 best performing elements. This is evidenced by the consistently high performance in the selected elements. However, the table below demonstrates that Skilled Development and Enterprise Development were avoided by QSEs while Preferential Procurement and Socio-economic Development were clear low hanging fruit for enterprises making between R5 and R35 million turnover per year.

The most prominent element was Employment Equity, which selected by all the QSEs that were measured. This is likely to be as a result of the measurement criterion for this element being significantly less stringent for QSEs than for MLEs. Compliance is generally a financial burden to small businesses. The least selected elements being Skills Development (target: 2% of payroll) and Enterprise Development (target: 2% of NPAT) require QSEs to make a financial contribution. In line with the compliance burden, these elements have the ability to put added financial strain on QSEs.

Table 5: Representation of QSE’s per selected element



DETAILED OBSERVATIONS: MEDIUM AND LARGE ENTERPRISES

OWNERSHIP

The sector aims to attain a weighted black Ownership profile of 30% for the industry as a whole within 10-years. The industry and government are committed to working together in pursuing this target, inter alia, as follows:

- (a) The transfer of equity Ownership and sale of business assets to achieve 25% Ownership by black people in existing forest enterprises. A bonus point incentive to further increase this target to 30% has been set for medium and large forest enterprises.
- (b) The restructuring of state forest assets to support black Ownership in the forestry sub-sector and, through log supply, in the forest product sectors.
- (c) The entrance of significant numbers of new black owned enterprises into the sector through Enterprise Development support initiatives by industry and government. This includes opportunities for new afforestation on land already owned by black people as well as growth in black owned forestry value adding enterprises.

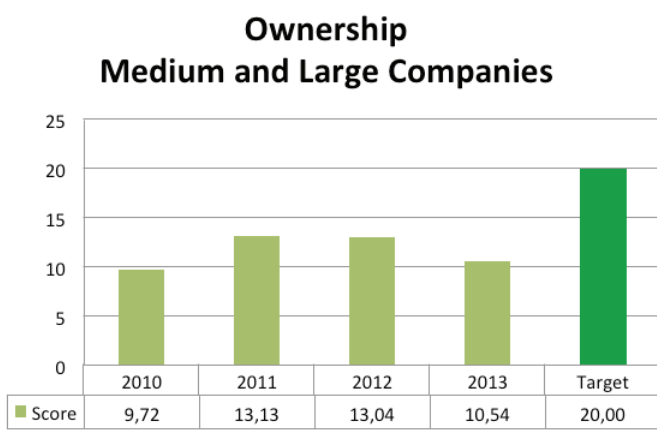
MEDIUM AND LARGE FOREST ENTERPRISES

Table 6: Ownership scorecard for Medium and Large Enterprises

INDICATORS	WEIGHTINGS (W) & TARGETS (T)	
	Forest Sector	
	W	T
1. Ownership	20	
1.1 Exercisable voting rights in the Enterprise in the hands of black people	3	25%+1
1.2 Exercisable voting rights in the Enterprise in the hands of black women	2	10%
1.3 Economic interest of black people in the Enterprise	3	25%
1.4 Economic interest of black women in the Enterprise	2	10%
1.5 Economic interest of the following natural people in the Enterprise: Black designated groups; Black Participants in Employee Ownership Schemes; Black beneficiaries of Broad-based Ownership Schemes; or Black Participants in Cooperatives	2	7.50%
1.6 Realisation points for Ownership fulfilment (refer to par. 10.1 of Code 100 Statement 100)	1	Yes
1.7 Realisation points for net equity interest (refer to Annexe C par. 4 of Code 100 Statement 100)	7	Yes
1.8 Bonus points for involvement in the Ownership of the enterprise by black participants: In Employee Ownership Schemes; Of Broad-based Ownership Schemes; or Of Cooperatives	1	10%
1.9 Bonus points for involvement in the Ownership of the enterprise by black new entrants	2	10%
1.10 Bonus point for achieving a higher target for indicator 1.3	1	30%
1.11 Bonus point for achieving a higher target for indicator 1.4	1	15%

16 MLEs submitted valid B-BBEE certificates. This includes 14 privately owned and two state owned enterprises incapable of evaluation of black Ownership. Ownership performance was therefore assessed for 14 MLEs. 71% of the enterprises that reported had concluded an Ownership deal. An average Ownership score of 10.54 points (2012: 13.04 points) was achieved by these enterprises. This achievement places the MLEs' performance at 50.7% of target points, down from 65.2% in 2012. This decline is likely due to some dilutions in black Ownership experienced by a few of the leading players. For example, a big industry player took a decision to unbundle one of its operations, with majority black shareholding, from its parent company.

**Table 7: 2010
2013 MLE Ownership Scorecard Performance**



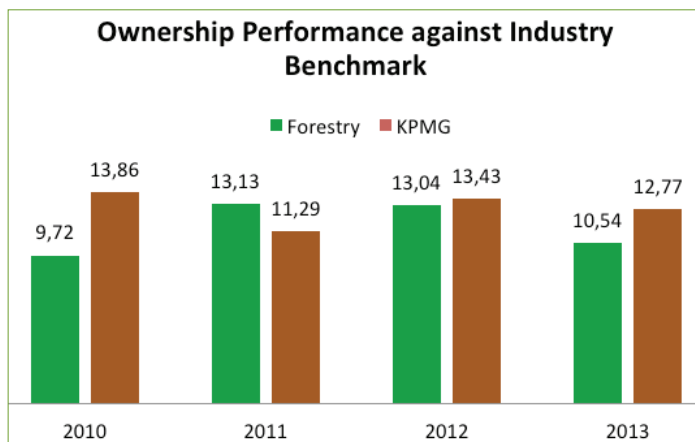
Based on the analysed data, the large industry players are making good progress on black ownership, MLE's achieved an average of 18.7% (target: 25 points) for black ownership, but lagged behind on black female ownership, with an average score of 4% (target: 10%).

The weighting of 1.5, 1.6 and 1.7 of the Ownership scorecard above (table 6) account for 10 of the 20 points Ownership points. 1.5 measures broad based ownership performance while 1.6 and 1.7 measure the extent to which black participants are released from third-party rights arising from financing their ownership transaction. Most MLEs tend to fall short on these scorecard sub-elements. This is likely to be the biggest obstacle that hinders forest companies' ability to progress beyond the 10 points average achievement.

Conclusion

Although the forest sector's average Ownership performance declined significantly between 2010 and 2013, the industry's performance has maintained a positive trend between 2010 and 2013. However,

Table 8: 2010 - 2013 MLE Ownership Performance vs KPMG BEE Report Industry Average



the past three years have seen the industry record a consistent decline in performance, which is a worrying trend. This decline is however consistent with the trend observed in the KPMG BEE report.

MANAGEMENT CONTROL

Industry aligns itself with the national Codes of Good Practice on Management Control by committing to substantially increasing the number of black people, including black women, exercising Management Control over the forest industry. The industry as a whole is working from a low base and a concerted effort is to be

made by all sector role players in promoting the image of the Forest Sector, succession planning, implementing Skills Development programmes and recruiting suitable management staff, which are necessary to achieve these targets.

Medium and Large Forest Enterprises

Table 9: MLE Management Control scorecard

INDICATORS	WEIGHTINGS (W) & TARGETS (T)	
	Forest Sector	
	W	T
2. Management Control	10	
2.1 Exercisable Voting Rights held by black Board members using the Adjusted Recognition for Gender	3	50%
2.2 Black Executive Directors using the Adjusted Recognition for Gender	2	50%
2.3 Black Senior Top Management using the Adjusted Recognition for Gender	3	40%
2.4 Black Other Top Management using the Adjusted Recognition for Gender	2	40%
2.5 Bonus point for black Independent Non-Executive Board Members	-	-

A decrease from 5.46 points in 2011 to 4.33 points in 2012 was observed for Management Control. This assessment includes the achievement of the state owned entities which are measured out of 15 points according to the adjusted generic scorecard for specialised enterprises. The average performance of the 14 privately owned MLEs, excluding the state owned enterprises is 2.83 points which highlights significant underperformance on this scorecard element.

Conclusion

Every year the Commission for Employment Equity (“CEE”) issues an Annual Report that monitors private and public sector progress in achieving a broadly representative and diverse workforce. According to the 2012/2013 CEE report, the percentage of African people in top management has declined between 2010 and 2012. Notwithstanding the fact that there is a steady, but slow decline in the representation of white employees at this level over the years, their domination still remains as they maintain more than a two thirds majority in terms of representation at this level. The report also observes that, at the top management level, black (African, Coloured and Indian) males still continue to be disadvantaged by their disfavour over other race groups in terms of representation, recruitment, promotion and skills at this level.

The report also observes that, at the top management level, white males still continue to enjoy preference over other race groups in terms of representation, recruitment, promotion and Skills Development at this level.

The Management Control year on year trend analysis demonstrates that the element’s performance is consistent with that of Ownership. This supports the view that black Ownership enhances a company’s ability to achieve meaningful participation at Management Control level. Similar to Ownership, despite the significant decline in performance between 2012 and 2013, Management Control has progressed from 4.01 points in 2010 to 4.33 points in 2013. However, because the industry’s performance is magnified by the state owned entities positive achievement a concerted effort needs to be made to improve the industry’s performance substantially.

Table 10: 2010 – 2013 MLE Management Control Scorecard Performance

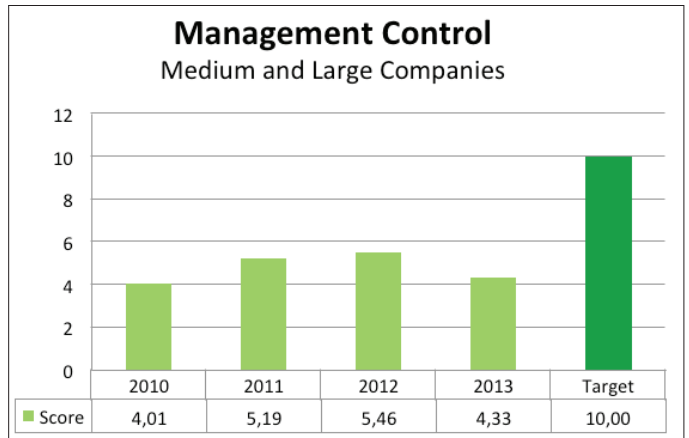


Table 11: CEE 2012 Top Management – Race Workforce Profile

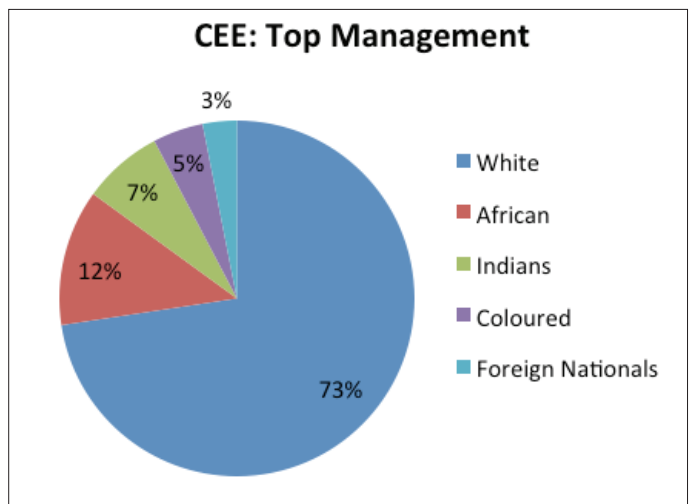
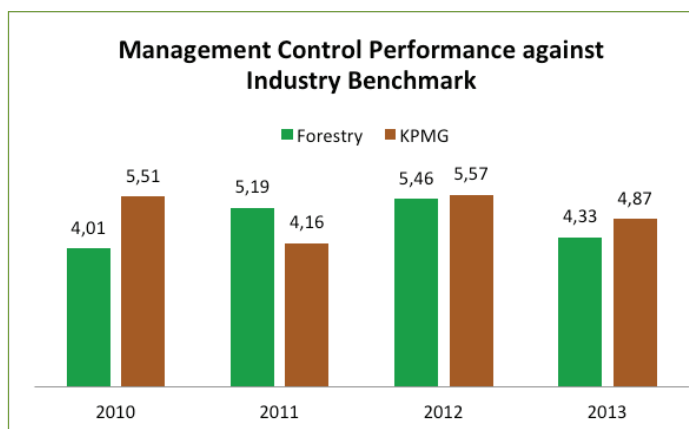


Table 12: 2010 - 2013 Management Control Performance vs KPMG Benchmark



EMPLOYMENT EQUITY

The Industry aligns itself with the national Codes of Good Practice on Employment Equity by committing to substantially increasing the number of black people, including black women, in management as well as professional and technically skilled positions in forest enterprises. The industry as a whole is working from a low base in all employment categories other than in the

skilled technical, junior management and supervisory levels.

A concerted effort will be made by all sector role players in promoting the image of the Forest Sector, succession planning, implementing skills development programmes and recruiting suitable management staff, which are crucial to necessary to achieve these targets.

Medium and Large Forest Enterprises

Table 9: MLE Management Control scorecard

INDICATORS	WEIGHTINGS (W) & TARGETS (T)	
	Forest Sector	
	W	T
3. Employment Equity	15	Years 0- 5
3.1 Black employees with disabilities as a percentage of all employees using the Adjusted Recognition for Gender	2	2%
3.2 Black employees in Senior Management as a percentage of all employees using the Adjusted Recognition for Gender	5	43%
3.3 Black employees in Middle Management as a percentage of all employees using the Adjusted Recognition for Gender	4	63%
3.4 Black employees in Junior Management as a percentage of all employees using the Adjusted Recognition for Gender	4	68%
3.5 Bonus points for meeting or exceeding the EAP targets in each category under 3.1 to 3.4	3	Yes

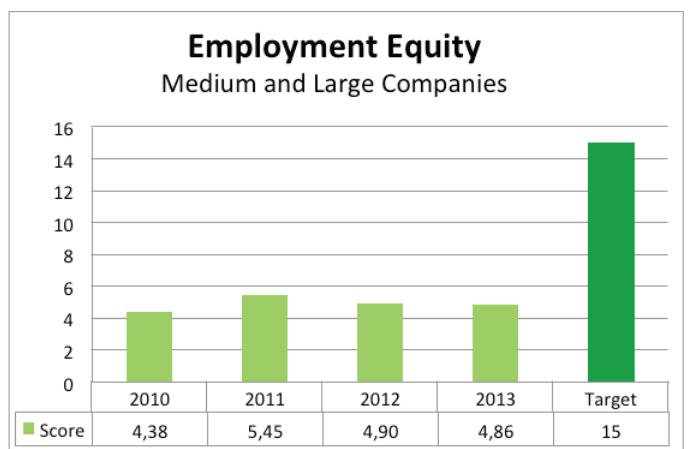
The Employment Equity element has a weighting of 15 points and is one of the elements with the second highest weighting. This is an important element because it is aimed at ensuring that suitably qualified black people are given equal employment opportunities and are equitably represented at all occupational categories and levels. It is therefore concerning to see that an average score of 4.86 points was achieved by MLEs in 2013, with majority of the enterprises scoring below 10 points. This is a slight decline from the previous period's average score of 4.90 points, and a continuation of a three year downward trend.

Conclusion

The forest industry's average Employment Equity performance is consistently behind the average performance reported in the KPMG BEE report as shown below. This indicates that forestry players find Employment Equity to be a much more challenging element for the forest sector than other industries.

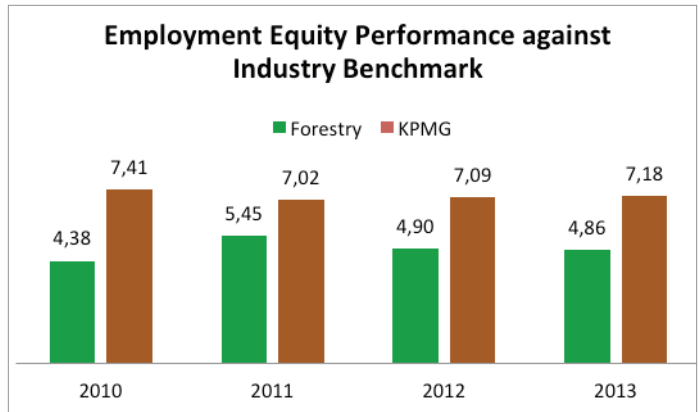
Table 14: 2010 – 2013

MLE Employment Equity Scorecard Performance



To this end, the 2012/2013 Commission for Employment Equity report confirms that there is still a great need for Employment Equity in South Africa. The report further notes that great progress at the lower levels is observed, usually from middle management downwards. However, whilst this is commendable, the progress registered is not “spilling over” into the senior and top management levels.

Table 15: 2010 - 2013 Employment Equity Performance vs KPMG Benchmark



SKILLS DEVELOPMENT

Skills Development is critical in underpinning the Management Control and Employment Equity targets. Therefore, industry aligns itself with the national Codes of Good Practice on Skills Development by committing to spend 3% of its payroll on learning programmes for black employees. This is over and above the 1% spent on the skills levy. At least half of this will be spent on Skills Development for black women and a portion will also be set aside to skill disabled employees. The industry

commits to ensuring that 5% of employees are black participants in in-service training programmes.

Industry is committed to ensuring that the aforementioned Skills Development targets are achieved within 3 years of the signing of the Charter, so as to ensure that an early foundation is laid for reaching the Management Control and Employment Equity targets.

Medium and Large Forest Enterprises

Table 16: MLE Skills Development scorecard

INDICATORS	WEIGHTINGS (W) & TARGETS (T)	
	Forest Sector	
	W	T
4. Skills Development	15	
4.1 Skills Development Expenditure on Learning Programmes specified in the Learning Programmes Matrix for black employees as a percentage of Leivable Amount using the Adjusted Recognition for Gender	6	3%
4.2 Skills Development expenditure on Learning Programmes specified in the Learning Programmes Matrix for black employees with disabilities as a percentage of Leivable Amount using the Adjusted Recognition for Gender	3	0.30%
4.3 Number of black employees participating in Learnerships or Category B, C and D Programmes as a percentage of total employees using the Adjusted Recognition for Gender	6	5%

The average performance of MLEs declined from 8.35 points to 7.17 points. Furthermore, it is concerning that the industry’s average performance has regressed by 1.6 points between 2010 and 2013. This is evidenced the industry achieving a 2013 score that is lower than the baseline score in 2010. Skills Development is one of the three Human Resource Development (HRD) elements of the scorecard; namely Management Control, Employment Equity and Skills Development. While Skills Development has achieved the highest performance-to-target achievement this investment does not seem to be having a material impact on the other two HRD elements. Furthermore, all three elements are consistent in the downward trend recorded. The performance of these elements clearly points to a cause and effect relationship.

Conclusion

According to the 2012/2013 CEE report, more than 60% of black employees had limited exposure to Skills Development as opposed to other racial groups. This situation puts thier white colleagues better position for available opportunities in the workplace. It is therefore important for the Skills Development patterns to change and become pro-equity and pro-transformation as this will positively impact the Employment Equity and Management Control scores.

The KPMG BEE report’s average performance demonstrates that Skills Development is generally a challenging element for corporate South Africa. However, the forest sector is experiencing sharper year-on-year declines on Skills Development investment in black employees than the other industries.

Table 17: 2013 MLE Skills Development Scorecard Performance

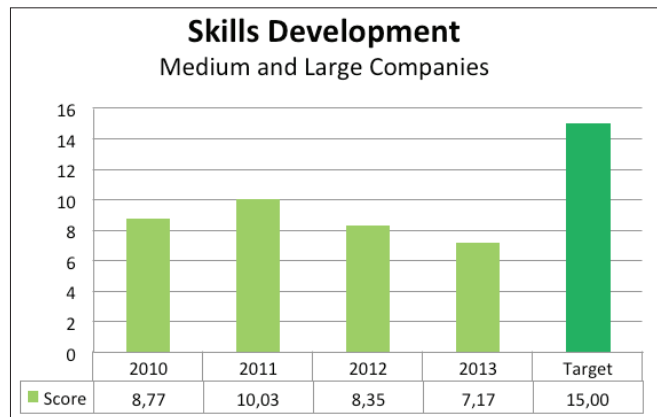
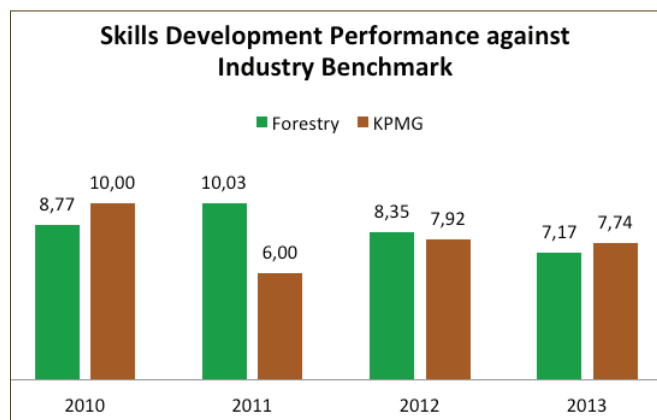


Table 18: 2010 – 2012 Skills Development Performance vs KPMG BEE Report Industry Average



PREFERENTIAL PROCUREMENT

The industry is committed to Preferential Procurement spend that will widen market access for black enterprises and improve the working conditions and sustainability of suppliers. Industry aligns itself with national Codes of Good Practice on Preferential Procurement, and enterprises will also report to the Charter Council on

interventions undertaken to improve contracting conditions for suppliers as it relates to the:

- (a) Forestry contractors industry;
- (b) Charcoal industry; and
- (c) Small growers contracting schemes.

Medium and Large Forest Enterprises

Table 19: MLE Preferential Procurement scorecard

INDICATORS	WEIGHTINGS (W) & TARGETS (T)	
	Forest Sector	
	W	T
5. Preferential Procurement	20	Years 0- 5
5.1 B-BBEE Procurement Spend from all Supplies based on their B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	12	50%
5.2 B-BBEE Procurement Spend from Qualifying Small Enterprises or Exempted Micro-Enterprises based on the applicable B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	3	10%
5.3 B-BBEE procurement spend from any of the following Suppliers as a percentage of Total Measured Procurement Spend: 5.3.1 Suppliers that are 50% black owned (3 out of 5 points); and 5.3.2 Suppliers that are 30% black women owned (2 out of 5 points).	5	15%
5.4 Compliance with Industry Codes of Conduct on contracting in the Forest Sector		

Enterprises generally perform well on Preferential Procurement, as corporate South Africa generally only deals with suppliers with an independently verified BEE Certificate from a BEE verification agency. An average Preferential Procurement score of 15.84 points was achieved by MLEs. This is 79.2% of the target of 20 points. Although the industry’s average performance has dropped from 16.46 to 15.84 points between 2012 and 2013, the industry’s achievement has improved by 1.6 points (14.24 to 15.84 points) over the past four years.

Conclusion

Supplier B-BBEE contribution levels are critical in measuring the B-BBEE rating of enterprises. The forest sector’s has consistently achieved an above average Preferential Procurement performance when comparing to the KPMG BEE report results in the table below. This indicates that the industry’s has more stringent procurement policies on the BEE empowerment status of its suppliers.

Table 20: 2013 MLE Preferential Procurement Scorecard Performance

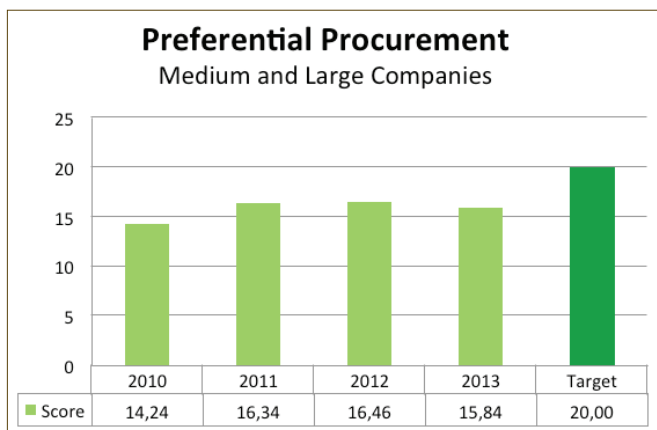
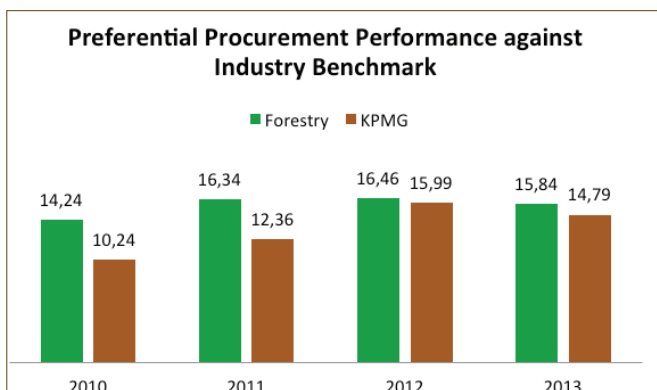


Table 21: 2010 - 2013 Preferential Procurement Performance vs KPMG BEE Report Industry Average



ENTERPRISE DEVELOPMENT

The development of sustainable black-owned and black women owned enterprises is critical in promoting equity with growth in the sector. The important role of SMME development in underpinning economic growth and ensuring that black economic empowerment is broad-based, will be emphasised in this regard.

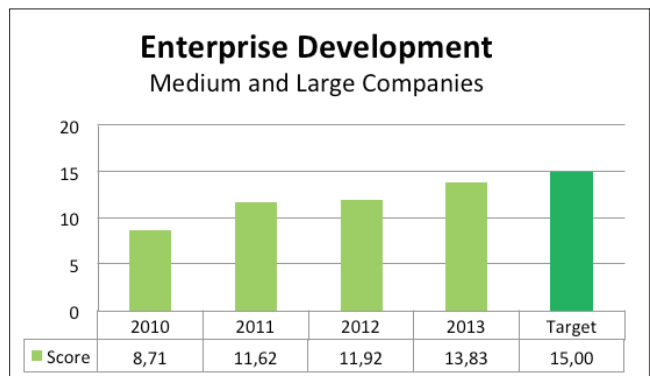
The industry aligns itself with National Codes of Good Practice on Enterprise Development. The scorecard also provides three bonus points for additional Enterprise Development spend to support sector specific initiatives in Enterprise Development. This is further outlined in paragraph 15.1 of the Charter. Special attention will be given to targeting women and rural communities in Enterprise Development support.

Table 19: MLE Preferential Procurement scorecard

INDICATORS	WEIGHTINGS (W) & TARGETS (T)	
	Forest Sector	
	W	T
6. Enterprise Development	20	Years 0- 5
6.1 Average annual value of all Enterprise Development Contributions and Sector Specific Programmes made by the Measured Entity as a percentage of the target	15	30% of NPAT

MLEs achieved an average score of 13.83 points, 92.2% of target points. This is the only element for which the industry has consistently recorded improved year-on-year performance. The main objective of the Enterprise Development element is to accelerate the development, sustainability and ultimate financial and operational independence; with a specific focus on black owned QSEs and EMEs. The benefits of an investment made in Enterprise Development is often realised in Preferential Procurement. It is therefore interesting to note that there is an inverse relationship between Preferential Procurement and Enterprise Development in 2013.

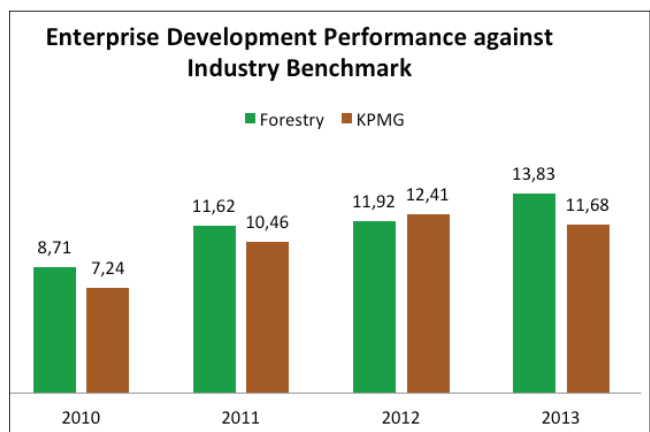
Table 23: 2013 MLE Enterprise Development Scorecard Performance



Conclusion

The forest sector's above average investment in Enterprise Development suggests a heightened appreciation for the benefits of developing a pool of financially and operationally independent black owned QSEs and EMEs. When compared to the industry benchmark outlined in the table below the forest industry achieves an above average investment in Enterprise Development. It is therefore surprising that the return on investment is not being realised at Preferential Procurement level.

Table 24: 2010 - 2013 Enterprise Development Performance vs KPMG BEE Report Industry Average



SOCIO-ECONOMIC DEVELOPMENT

Most forest enterprises are located in rural areas where the majority of the country's poor live. The Forest Sector is well placed to advance B-BBEE by undertaking Socio-economic Development initiatives that benefit local communities. This entails the provision of services and amenities to the rural poor, such as housing provision for workers and their families, support to health and HIV/AIDS programmes, provision of community education facilities, environmental conservation programmes, community training in fire prevention and conservation, and support with rural road maintenance. The industry

is also aware of the important role of forests in providing livelihood opportunities for poor rural households and commits to ensuring regulated access to non-commercial forest products such as firewood, building poles, medicinal plants and edible fruits by local communities.

Industry is committed to continued support in these areas and to spending at least 1% of Net Profit after Tax on Socio-economic Development. The scorecard also provides for three bonus points for additional Socio-economic Development spend to support sector specific initiatives on Enterprise Development.

Table 25: MLE Socio-economic Development scorecard

INDICATORS	WEIGHTINGS (W) & TARGETS (T)	
	Forest Sector	
	W	T
7. Socio-economic Development	5	Years 0- 5
7.1 Average annual value of all Socio-economic Development Contributions made by the Measured Entity as a percentage of the target	5	1% of NPAT
7.2 Bonus point for additional Contributions made by the Measured Entity to Sector Specific Initiatives on Enterprise Development (indicator 6.1) or Socio-economic Development (indicator 7.1) (1 bonus for every 0.25% of NPAT)	3	0.75% of NPAT

Medium and Large Enterprises consistently performed above target. This is because half of the enterprises that reported were awarded all three bonus points. This is an encouraging achievement as it demonstrates the industry players commitment to invest in the local communities in the area that they operate.

The forest sector's performance on Enterprise Development and Socio-economic Development demonstrates the industry's above average commitment to the development of small businesses and communities. This is confirmed by the industry's outperformance even when benchmarked against the KPMG BEE report.

Table 26: 2013 MLE Socio-economic Development Scorecard Performance

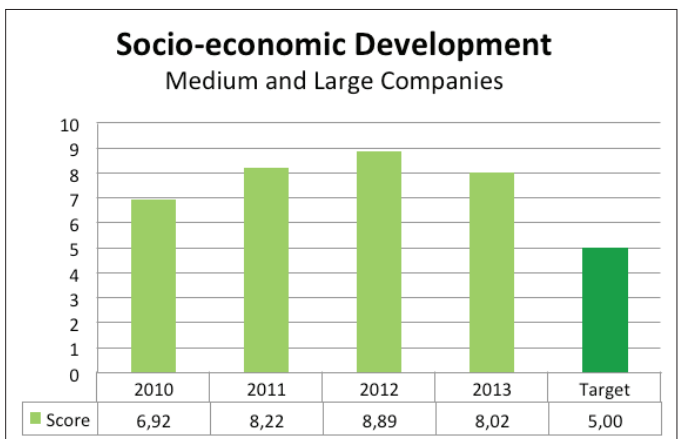
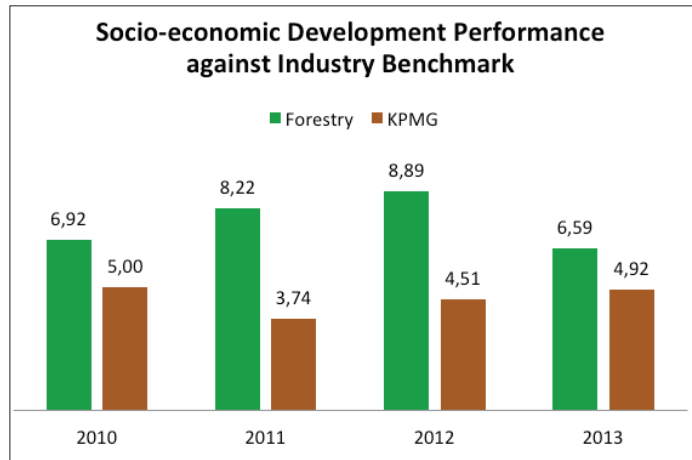


Table 27: 2010 - 2013 Socio-economic Development Performance vs KPMG BEE Report Industry Average



DETAILED OBSERVATION: QUALIFYING SMALL ENTERPRISES

OWNERSHIP

Table 28: Ownership scorecard for Qualifying Small Enterprises

INDICATORS	WEIGHTINGS (W) & TARGETS (T)	
	Forest Sector	
	W	T
7. Socio-economic Development	5	Years 0- 5
1.1 Exercisable Voting Rights in the Enterprise in the hands of black people	6	25%+1
1.2 Economic Interest of black people in the Enterprise	9	25%
1.3 Realisation points for Ownership fulfilment (par. 2.3 of Code 800 Statement 801)	1	Yes
1.4 Realisation points for net equity interest (par. 2.3 of Code 800 Statement 801)	9	Yes
1.5 Bonus points for involvement in the Ownership of the enterprise by black women	2	10%
1.6 Bonus points for involvement in the Ownership of the enterprise by black participants in: mployee Ownership Schemes; Broad-based Ownership Schemes; or Cooperatives	1	10%

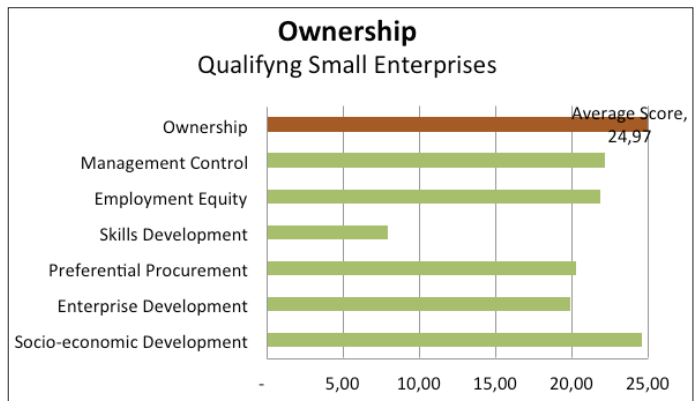
43% (6 out of 14) of the QSEs that reported selected Ownership as one of the four elements on which they were evaluated. This suggests that Ownership is not a preferred element. The points achieved by the enterprises range from 24.77 to 25 points, with an average score of 24.97 points. The QSE scorecard awards bonus points for involvement in the Ownership of the enterprise by black women and/or employee

Ownership schemes, broad-based Ownership schemes or cooperatives. Similar to the MLEs, the performance of QSEs indicates that there's an absence of participation by black women and designated groups.

The QSEs that selected ownership achieved an average black ownership score of 56%. However, only 2.19% of QSEs shareholding represents black female participation.

Despite the fact Ownership element is one of the least popular elements with QSEs, it has the highest average score. However, the absence of bonus points achievement suggests that there is a lack of participation of black women owned and designated groupings at Ownership level.

Table 29: 2013 QSE Ownership Scorecard Performance



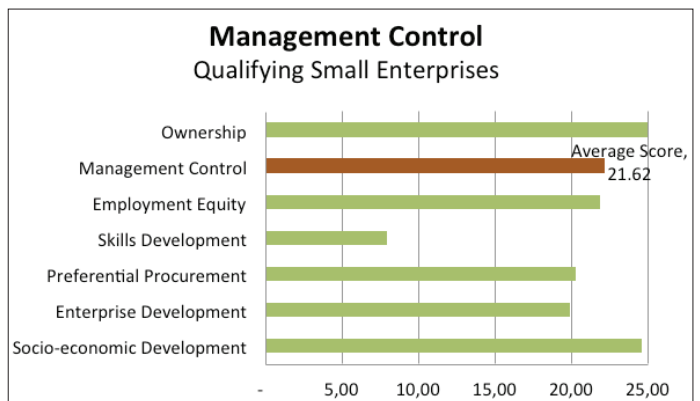
MANAGEMENT CONTROL

Table 30: QSE Management Control scorecard t

INDICATORS	WEIGHTINGS (W) & TARGETS (T)	
	Forest Sector	
	W	T
2. Management Control	25	Years 0- 5
2.1 Black representation at Top Management level	25	50.10%
2.2 Bonus points for black women representation at Top Management level	2	25%

Similar to Ownership, only 36% of QSEs selected Management Control as one of the elements on which they were evaluated. This suggests that QSEs are generally not black owned and are family businesses that struggle to include additional people at Ownership and executive management levels. It seems to be easier for a white owned QSE to employ and train black staff, buy from suppliers who are good BEE contributors and support small black businesses and communities.

Table 31: 2013 QSE Management Control Scorecard Performance



The management scorecard for QSEs awards two bonus points to enterprises that have black women representation at executive management. None of the QSEs were awarded bonus points, further suggesting that there is a lack of black women representation at leadership level across all industry players, regardless of size. An average score of 21.64 points was achieved by the enterprises that selected Management Control as one of its four elements.

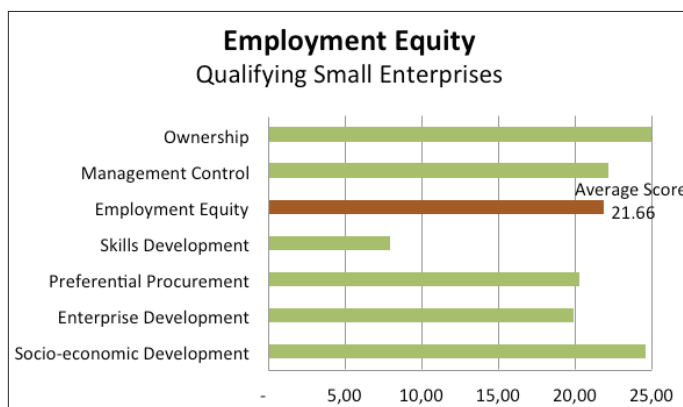
EMPLOYMENT EQUITY

Table 32: QSE Employment Equity scorecard

INDICATORS	WEIGHTINGS (W) & TARGETS (T)	
	Forest Sector	
	W	T
2. Management Control	25	Years 0- 5
3.1 Black employees of the Measured Entity who are Management as a percentage of all Management using the Adjusted Recognition for Gender	13	40%
3.2 Black employees of the Measured Entity as percentage of all employees using the Adjusted Recognition for Gender	7	60%
3.3 Compliance with Industry Codes of Conduct on employment in the Forest Sector	5	Yes
3.4 Bonus points for meeting or exceeding the EAP targets in each category under 3.1 and 3.2	2	Yes

All the QSEs selected Employment Equity as one of its four elements. This confirms that this element is perceived as an easier one for small businesses to comply with than all the other elements. An average score of 21.66 points was achieved. Furthermore, three of the enterprises were awarded some of the bonus points, which rewards enterprises whose representation is above the EAP, which is a representation of people from 15 to 64 years of age who are either employed or unemployed and seeking employment.

Table 33: 2013 QSE Employment Equity Scorecard Performance



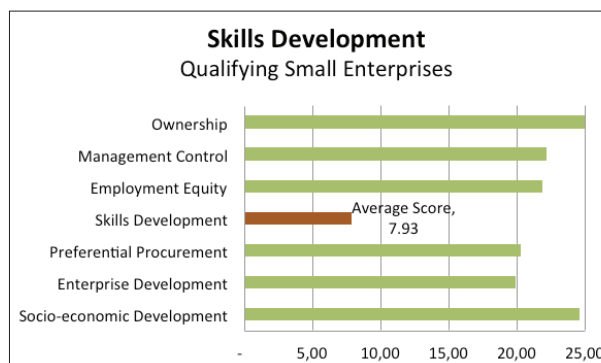
SKILLS DEVELOPMENT

Table 34: QSE Skills Development scorecard

INDICATORS	WEIGHTINGS (W) & TARGETS (T)	
	Forest Sector	
	W	T
2. Management Control	25	Years 0- 5
4.1 Skills Development spend on Learning Programmes for black employees as percentage of Leivable Amount using the Adjusted Recognition for Gender	25	2%

Small businesses tend to employ significant less staff than bigger organisations. In addition, often times each employee plays more than one role in the small business. This limitation of resources results in majority of the positions in a small business being co-dependent and critical to the business. This proves to be a challenge when making a decision that would result in a staff member being away from the office for a period of time. It is therefore not surprising that this element recorded the lowest average score of 7.93 points compared to the other elements. This is despite the fact that only 21.4% of the enterprises selected this element.

Table 35: 2013 QSE Skills Development Performance



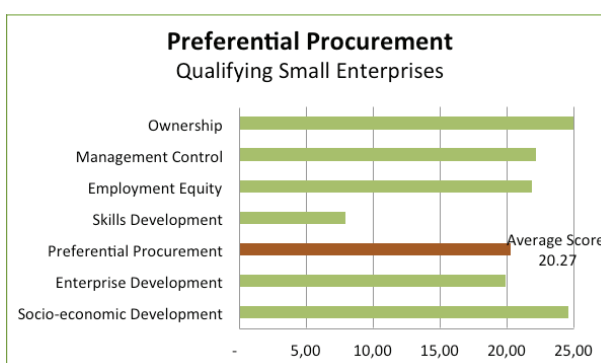
PREFERENTIAL PROCUREMENT

Table 36: QSE Preferential Procurement scorecard

INDICATORS	WEIGHTINGS (W) & TARGETS (T)	
	Forest Sector	
	W	T
5. Preferential Procurement	25	Years 0- 5
5.1 B-BBEE Procurement Spend from all Supplies based on their B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	25	40%
5.2 Compliance with Industry Codes of Conduct on contracting in the Forest Sector		

Similar to Employment Equity, Preferential Procurement is a popular element with QSEs, with 92.9% of QSEs selecting this as one of its best four elements. This is the same trend observed with MLEs. An average score of 20.27 points (81.08% of target points) was achieved. QSEs high performance in this element is likely due to the simplicity of the compliance requirements. It also implies that QSEs are conducting business with BEE compliant suppliers.

Table 35: 2013 QSE Preferential Procurement Performance



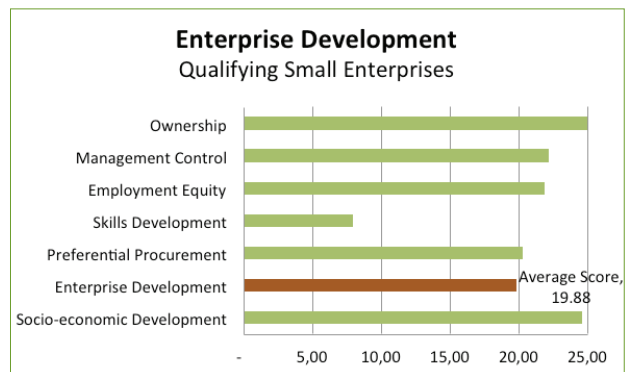
ENTERPRISE DEVELOPMENT

Table 36: QSE Enterprise Development scorecard

INDICATORS	WEIGHTINGS (W) & TARGETS (T)	
	Forest Sector	
	W	T
6. Enterprise Development	25	Years 0- 5
6.1 Average annual value of all Enterprise Development Contributions made by the Measured Entity as a percentage of the target	25	2% of NPAT
6.2 Annual sales of logs and sawtimber (as a percentage of total sales in terms of tonnage) to enterprises based on their B-BBEE Procurement Recognition Levels	-	-
6.3 Annual sale of logs and sawtimber (as a percentage of total sales in terms of tonnage) to enterprises (regardless of their B-BBEE Procurement Recognition Level) that are: 50% black owned; or 30% black women owned	-	-

QSEs Enterprise Development performance was not in line with that of MLEs. This is likely due to small pool of service providers that form part of a QSE supplier database. This element would also be challenging for a QSE as the cash outlay of financial Enterprise Development initiatives is likely to have a big impact on the QSEs bottom line, while the reach and impact of non-financial Enterprise is limited by the number of beneficiaries and the array of programmes and initiatives executed by QSEs. Often times small business do not have the resources to actively monitor the implementation of this element. An average score of 19.88 points (79.52% of target points) was achieved by QSEs.

Table 35: 2013 QSE Enterprise Development Performance x



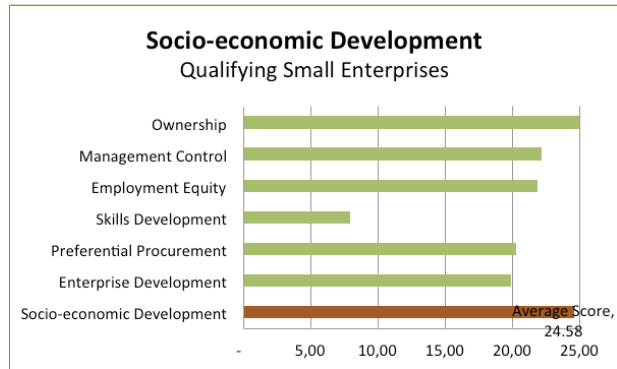
SOCIO-ECONOMIC DEVELOPMENT

Table 36: QSE Enterprise Development scorecard

INDICATORS	WEIGHTINGS (W) & TARGETS (T)	
	Forest Sector	
	W	T
7. Socio-economic Development	25	Years 0- 5
7.1 Average annual value of all Socio-economic Development Contributions made by the Measured Entity as a percentage of the target	25	1% of NPAT 0.75% of NPAT
7.2 Bonus point for additional Qualifying Contributions made by the Measured Entity to Sector Specific Initiatives on Enterprise Development (indicator 6.1) or Socio-economic Development (indicator 7.1) (1 bonus for every 0.25% of NPAT)	3	

The Socio-economic Development element has the second highest average score after the Ownership element. The key difference between the two is that the Socio-economic Development element was selected by 81% of the reporting enterprises while only 38% of the enterprises include Ownership as one of its four elements for measurement purposes. This indicates that the industry player’s commitment to Socio-economic Development is consistent regardless of the size of the enterprise.

Table 36: 2013 QSE Socio-enterprise Development Performance



SYNOPSIS: EXEMPT MICRO ENTERPRISES

A total of 26 EME certificates were received. 65% of the EME reporting enterprises were level 4, indicating no black ownership in these small businesses. A similar trend in terms of the absence of transformation is observed with MLEs as well as QSEs. The black owned

EMEs (9 out of 26) reported very limited black women ownership participation, below 10% on average. This indicates that the gender equality is also a challenge in the industry. Majority of the EMEs that reported operated in the consulting sub-sector.

CLOSING REMARKS

FINDINGS

1. The industry achieved a Level Five performance (64.3%) for 2013 for the assessed MLEs. This is 4.7 points lower than previous year performance
2. Less than 20% of ownership of MLEs in the industry is in the hands of black people
3. The Human Resource Development elements (namely: Management Control, Employment Equity and Skills Development) are the most difficult to implement as evidenced by the consistent decline from the previous reporting periods.
4. A slight decline is also observed under Preferential Procurement element, which tends to be one of the easier elements to implement
5. Noticeable efforts are made on the Enterprise Development element. It is important to note that further analysis would have to be performed to properly understand the nature of these initiatives and identify the main driver for the exceptional performance on this element. This is particularly important as the programmes and initiatives are not impacting positively on Preferential Procurement. It is also worth noting that it is common for Enterprise Development performance to be driven by Early Payment terms which will now be capped under

the new Codes of Good Practice.

6. Both MLE’s and QSE’s are over-performing on the Socio-Economic Development element, which confirms the heightened focus in developing communities
7. The QSE’s achieved more than 80% of the target, points supported by the ability to choose the best Four performing indicators. The most commonly selected elements are Employment Equity, Enterprise Development and Preferential Procurement
8. Majority of the EMEs that submitted are contractors, 68% of which were white owned and managed EME’s
9. Meaningful sub-sector analysis was not performed due to the limited number of submissions at a sub-sector level.

RECOMMENDATIONS

One of the challenges experienced is the limited participation of industry participants. In order to increase the number of member companies that participate we recommend that the FSCC engage the BEE verification agencies and industry bodies to assist with sourcing BEE certificates and verification reports.

This can be supported by alternative mechanisms to ensure a valid B-BBEE certificate and B-BBEE verification reported are provided to the FSCC on an annual basis. Such an approach requires the active participation of industry bodies to raise awareness about B-BBEE in the sector.

The industry is doing exceptionally well on Enterprise Development but is making limited progress on Skills Development. These complimentary development elements present the FSCC with an opportunity to provide thought leadership and detailed guidance on programmes and initiatives to maximise on Skills Development and Enterprise Development spend and impact.

Furthermore, the above approach has the potential to provide partnership and co-funding arrangements with the relevant Economic cluster government departments and the Department of Agriculture, Forestry and Fisheries to facilitate the achievement of high impact, wide reach initiatives.

In addition, in order for the industry to significantly improve performance on the priority element the industry must be guided by the integration of policies that have the means to unlock the potential. This includes developing the FSCC's position as an implementation partner of the strategic objectives of the Department of Agriculture, Forestry and Fisheries. This will result in a win-win situation in unlocking the potential for transformation, small business development and job creation in the industry

The added benefits of the above approach is that it will position the FSCC as a thought leader that enables industry players to access all necessary support levers in supporting government's development objectives. It will also provide the FSCC with visibility and credibility; necessary leverage to garner industry support and participation.

The revised Codes of Good Practice introduces priority elements (namely Ownership, Skills Development and Enterprise & Supplier Development). It is therefore important to proactively develop comprehensive strategies that will provide a holistic approach and have positive impact on the complimentary scorecard elements.

Industry to explore elements that have a potential for collective gain in driving the changes required in the industry. Elements such as Skills development, Enterprise Development and Preferential Procurement have a potential to mobilise, revive and innovate the entire industry

CONCLUSION

The performance of the Forestry Sector Charter is aligned to the general trends as outline in the KPMG BEE report which benchmarks peer transformation performance and the CEE Report which benchmarks employment trends against sectors

In the KPMG BEE report, 23% of respondents rated Employment Equity as the most challenging element to implement, followed by Ownership and Management Control. The overall performance level of respondents for the KPMG BEE report indicated an average performance of Level Five BBBEE contributor. The KPMG BEE report findings correlate to the Forestry annual report findings. The Forestry Sector Charter requires a renewed approach to drive the mandate with clear objective of closing the gaps highlighted in the report as the industry's scorecard underperforming will only widen when the Forestry Sector Charter Code is reviewed to align to the revised BBBEE Codes of Good Practice

Although the report provides an analysis of the industry's scorecard performance, it is important for these results to not be viewed in isolation. The step change that is required needs to be supported by robust structures and comprehensive functions in order to provide thought leadership, play an active facilitation and guidance role as well as access all levers available to drive the objective of the Forest Sector Charter.

The Forestry Sector Charter Review underway combined with the 2012/2013 B-BBEE status report findings have the ability to provide a framework for the development of a comprehensive approach to address the challenges and opportunities identified in the report

WAY FORWARD

1. Launch the release of the sector's annual B-BBEE Status Report as a means to re-energise the industry in driving transformation
2. Lobby the industry to achieve all stakeholders buy in, support and commitment
3. Complete the Forestry Sector Charter review with the view of ensuring its efficiency in driving the FSCC's revised mandate
4. Conduct annual strategic and performance review against new objectives
5. Leverage the process of aligning the Forestry Sector Charter to the revised Codes of Good Practice to incorporate DAFF's annual strategic plan objectives
6. Capacitate the Forestry Sector Charter to deliver on new mandate
7. Craft comprehensive industry development programmes focused on high impact initiatives that will address the sector's SMME development and job creation challenges

ANNEXURE 1*Table 37: List of B-BBEE Certificates received for 2012/2013 B-BBEE Status Report Period*

1	Conan Construction	25-Sep-12	Construction	QSE
2	Forestry Plant and Equipment	07-Dec-12	Forestry	Large
3	Hans Merensky	10-Dec-12	Forestry	Large
4	Komatiland Forests	02-May-12	Forestry	Large
5	Masonite	28-Nov-12	Forestry	Large
6	Mondi	18-Jul-12	Forestry	Large
7	Mpact	04-Jul-12	Forestry	Large
8	MTO Forestry	11-Sep-12	Forestry	Large
9	Natal Forest Products	13-Mar-13	Forestry	Large
10	PG Bison	01-Feb-13	Forestry	Large
11	R & B Timbers	22-Jan-13	Forestry	Large
12	Reatile Timbers	24-May-12	Forestry	Large
13	RF Gevers	02-Oct-12	Forestry	Large
14	Sappi	11-Dec-12	Forestry	Large
15	Singisi Forest Products	05-Nov-12	Forestry	Large
16	The South African Forest Company	02-May-12	Forestry	Large
17	York Timber	09-May-12	Forestry	Large
18	AC Higgs Harvesting	12-Dec-12	Forestry	QSE
19	BM Enterprises	20-Dec-12	Forestry	QSE
20	Hlanganani Forestry	21-Dec-12	Forestry	QSE
21	Holtzhausen Forestry	29-Nov-12	Forestry	QSE
22	Masakhane Forestry	14-Sep-12	Forestry	QSE
23	Mhlambanyathi Group	07-Feb-13	Forestry	QSE
24	Mint Road Sawmills	07-Aug-12	Forestry	QSE
25	Philasiphile Contractors	08-Oct-12	Forestry	QSE
26	Sun Pallets	17-Aug-12	Forestry	QSE
27	TFT Harvesting and Transport	18-Dec-12	Forestry	QSE
28	Themba Forestry	03-May-12	Forestry	QSE
29	Timbernet	14-Sep-12	Forestry	QSE
30	Welverdiend Forestry	14-Dec-12	Forestry	QSE
31	Zultech CC	24-Oct-12	Forestry	QSE
32	A & E Contractors	15-Apr-13	Generic	EME
33	Africa's Mapping	14-Sep-12	Generic	EME
34	APS Security Group	15-Mar-13	Generic	EME
35	Capstone	23-Feb-12	Generic	EME
36	Channing Investments	08-Jun-13	Generic	EME
37	Cuboard Value	04-Jun-12	Generic	EME
38	Elukwatini Security	03-May-13	Generic	EME
39	Kontrakteur Hugo	11-Sep-12	Generic	EME
40	Log X Forestry	19-Mar-13	Generic	EME
41	Mulching Technology	14-Aug-12	Generic	EME
42	Pole and Timber Suppliers	05-Jul-12	Generic	EME
43	Sheba Forestry	27-Jan-13	Generic	EME
44	Sibsba Weed Services	25-Jun-12	Generic	EME

45	Siyathuthuka Forestry Services CC	07-May-12	Generic	EME
46	Tusk Security	15-Apr-13	Generic	EME
47	Amathole Forestry	01-Sep-12	Generic	Large
48	Green Tissue	02-Oct-12	Generic	Large
49	Lounic's Timber World	04-Sep-12	Generic	Large
50	Nampak	28-Jun-12	Generic	Large
51	Prima Board and Pulp	28-Jun-12	Generic	Large
52	Bulk Timber Sales	09-May-12	Generic	QSE
53	Busby Oils Natal	13-Jun-12	Generic	QSE
54	Envirovision Solutions	12-Dec-13	Generic	QSE
55	Five Star Timber	20-Mar-13	Generic	QSE
56	Mooiplaas Forestry	14-Jan-13	Generic	QSE
57	Timber 24 Forestry Solutions	30-Jul-12	Transport	Large
58	Timber Logistics	31-Jan-13	Transport	Large
59	Jagelda Beleggings	16-Jul-12	Transport	QSE

ANNEXURE 2*Table 38: Job Creation and SMME Support Questions Posed in Questionnaire***SECTION 4:****JOB CREATION AND PROCUREMENT FROM SMMEs**

INDICATORS	WEIGHTINGS (W) & TARGETS (T)	
	Forest Sector	
	2012	2013
1. Permanent Employees		
1.1 Total number of permanent employees on 31 March 2012 and 2013		
1.2 Total number of permanent black employees on 31 March 2012 and 2013		
1.3 Total number of permanent black female on 31 March 2012 and 2013		
2. Senior Management		
2.1 Number of permanent senior management employees on 31 March 2012 and 2013		
2.2 Number of permanent black senior management employees on 31 March 2012 and 2013		
2.3 Number of permanent black female senior management employees on 31 March 2012 and 2013		
3. Middle Management		
3.1 Number of permanent middle management employees on 31 March 2012 and 2013		
3.2 Number of permanent black middle management employees on 31 March 2012 and 2013		
3.3 Number of permanent black female middle management employees on 31 March 2012 and 2013		
4. Junior Management		
4.1 Number of permanent junior management employees on 31 March 2012 and 2013		
4.2 Number of permanent black junior management employees on 31 March 2012 and 2013		
4.3 Number of permanent black female junior management employees on 31 March 2012 and 2013		
5. Disabled Employees		
5.1 Number of disabled permanent employees on 31 March 2012 and 2013		
5.2 Number of permanent black disabled permanent employees on 31 March 2012 and 2013		
5.3 Number of permanent black female disabled permanent employees		

JOB CREATION AND PROCUREMENT FROM SMMEs

INDICATORS	WEIGHTINGS (W) & TARGETS (T)	
	Forest Sector	
	2012	2013
on 31 March 2012 and 2013		
6. Employees that are Youth		
6.1 Number of permanent employees that you were youth on 31 March 2012 and 2013		
6.2 Number of permanent employees that were youth on 31 March 2012 and 2013		
6.3 Number of permanent black female employees that were youth on 31 March 2012 and 2013		
7. Temporary Employees		
7.1 Total number of temporary employees on 31 March 2012 and 2013		
7.2 Total number of black temporary employees on 31 March 2012 and 2013		
7.3 Total number of black female temporary employees on 31 March 2012 and 2013		
8. Procurement (Number of SMMEs Supported)		
8.1 Number of EMEs from whom goods and/or services were procured during reporting period ended 31 March 2012 and 2013		
8.2 Number of QSEs from whom goods and/or services were procured during reporting period ended 31 March 2012 and 2013		
8.3 Number of 50% black owned suppliers from whom goods and/or services were procured during reporting period ended 31 March 2012 and 2013		
8.4 Number of 30% black women-owned suppliers from whom goods and/or services were procured on 31 March 2012 and 2013		
9. Procurement (Spend with SMMEs)		
9.1 Procurement spent with EMEs during reporting period ended 31 March 2012 and 2013		
9.2 Procurement spent with QSEs during reporting period ended 31 March 2012 and 2013		
9.3 Procurement spent with 50% black owned suppliers during the reporting period ended 31 March 2012 and 2013		
9.4 Procurement spent with 30% black women-owned suppliers during the reporting period ended 31 March 2012 and 2013		

ANNEXURE 3

Sub-sector analysis was not performed due to the limited number of submissions received. The tables below provide an assessment of the average performance per sub-sector and a view of the sub-sector's performance

when benchmarked against the average industry achievement. None of the QSEs that reported formed part of the charcoal sub-sector.

Table 39: Contractors Sub-sector Achievement vs Gap to Target

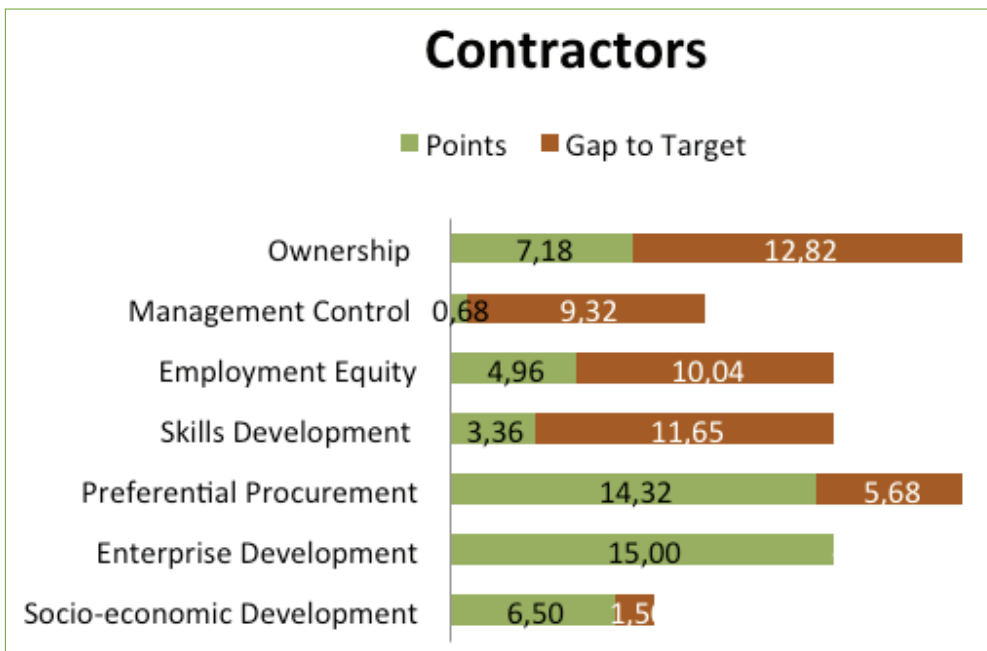


Table 40: Contractors Sub-sector Achievement vs Industry Average

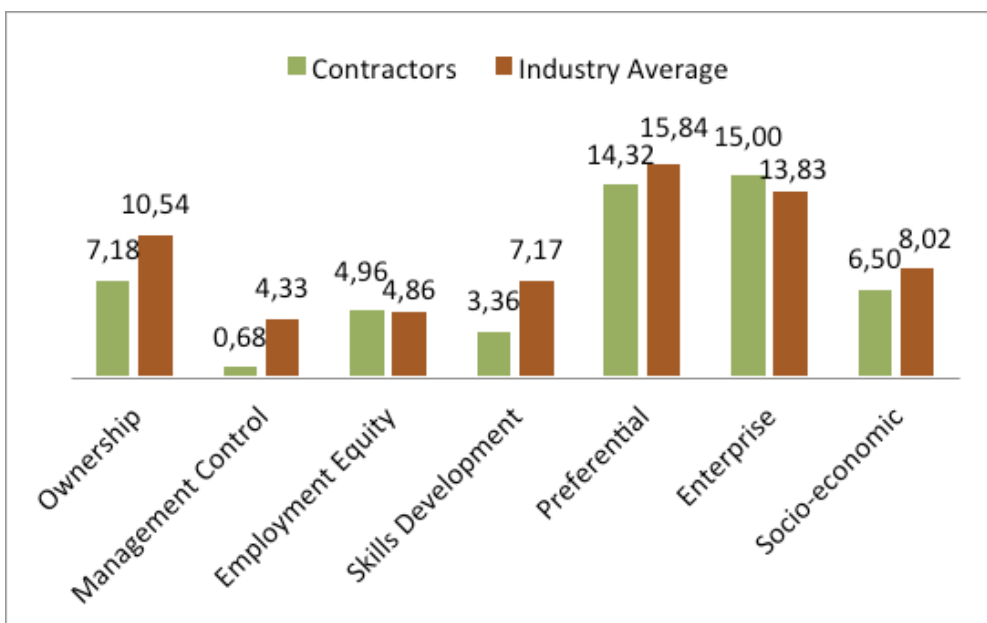


Table 41: Fibre Sub-sector Achievement vs Gap to Target

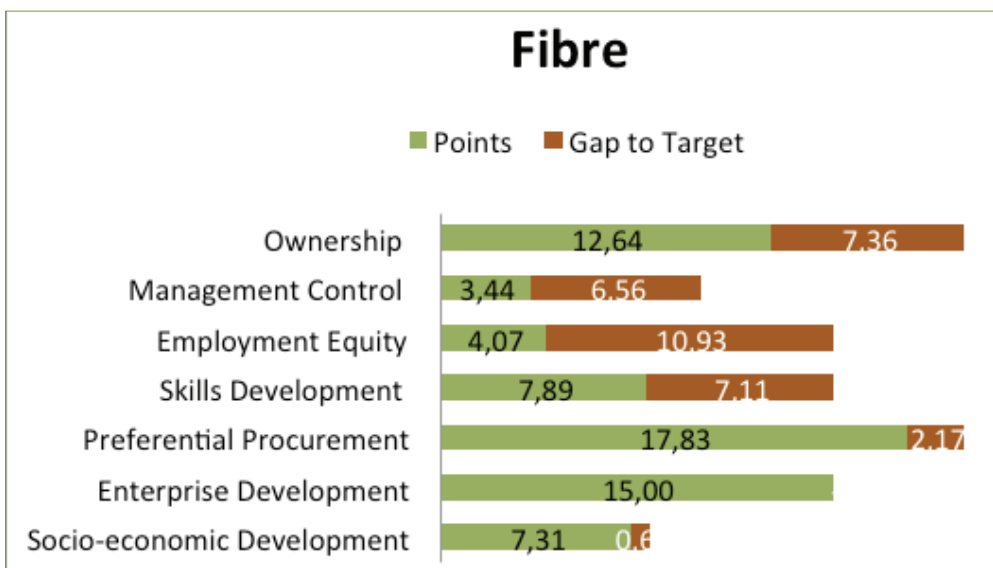


Table 42: Fibre Sub-sector Achievement vs Gap to Target

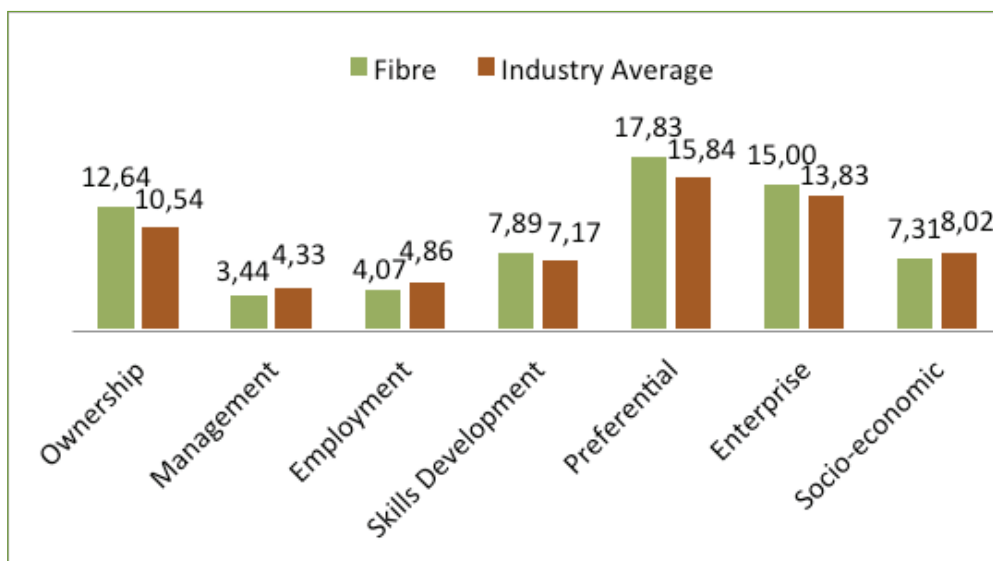


Table 43: Growers Sub-sector Achievement vs Gap to Target

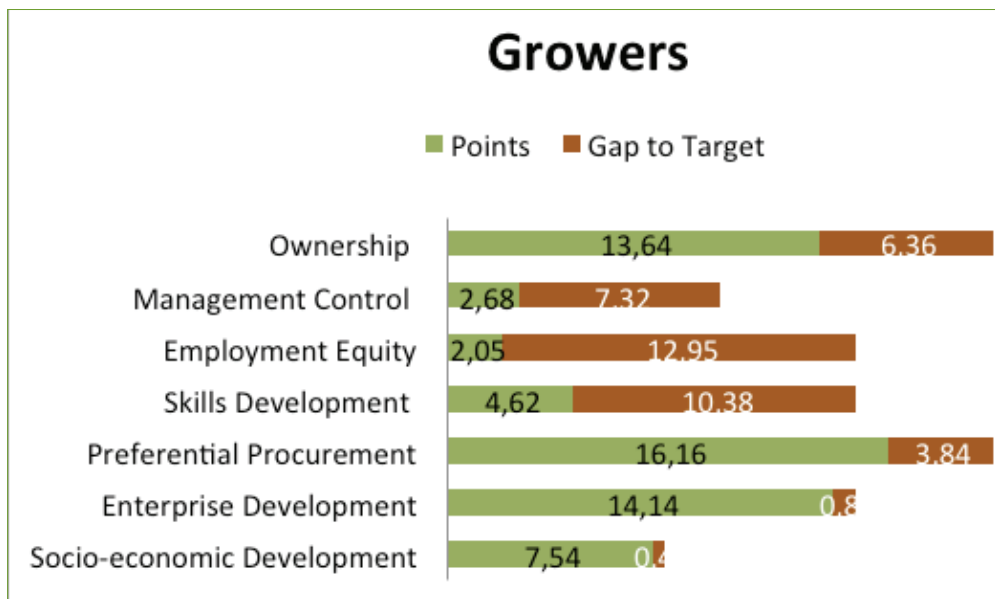


Table 44: Growers Sub-sector Achievement vs Gap to Target

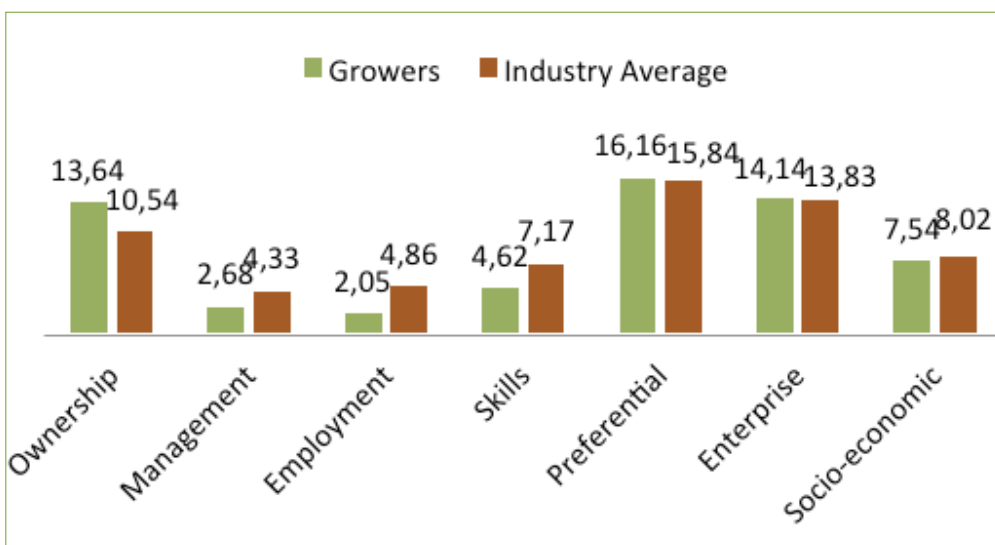


Table 45: Pole Sub-sector Achievement vs Gap to Target

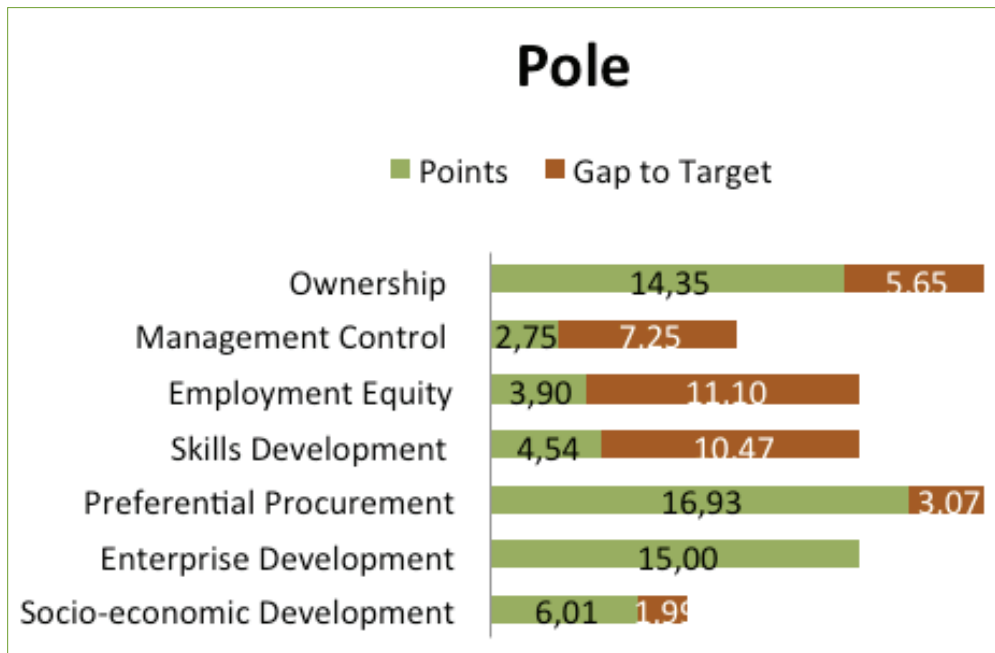


Table 46: Pole Sub-sector Achievement vs Gap to Target

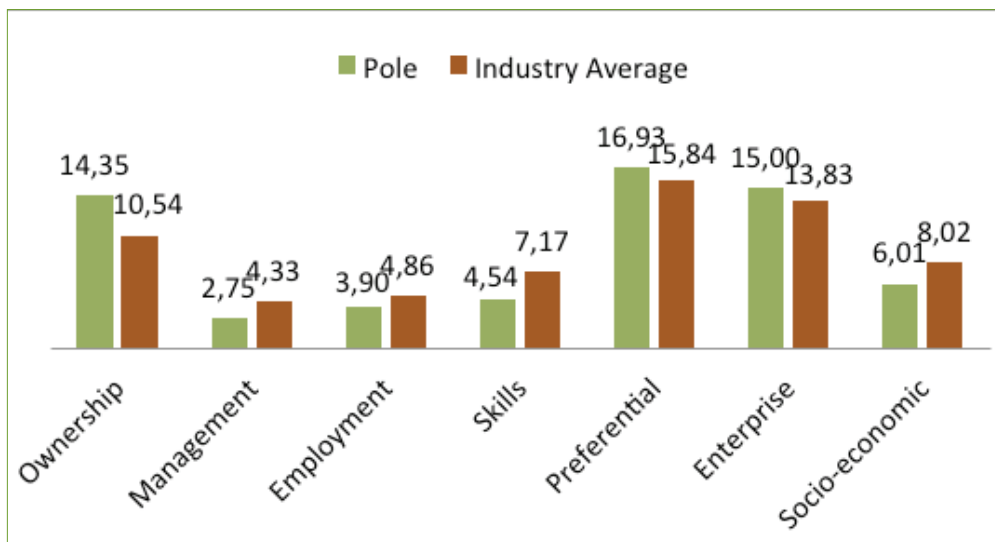


Table 47: Sawmilling Sub-sector Achievement vs Gap to Target

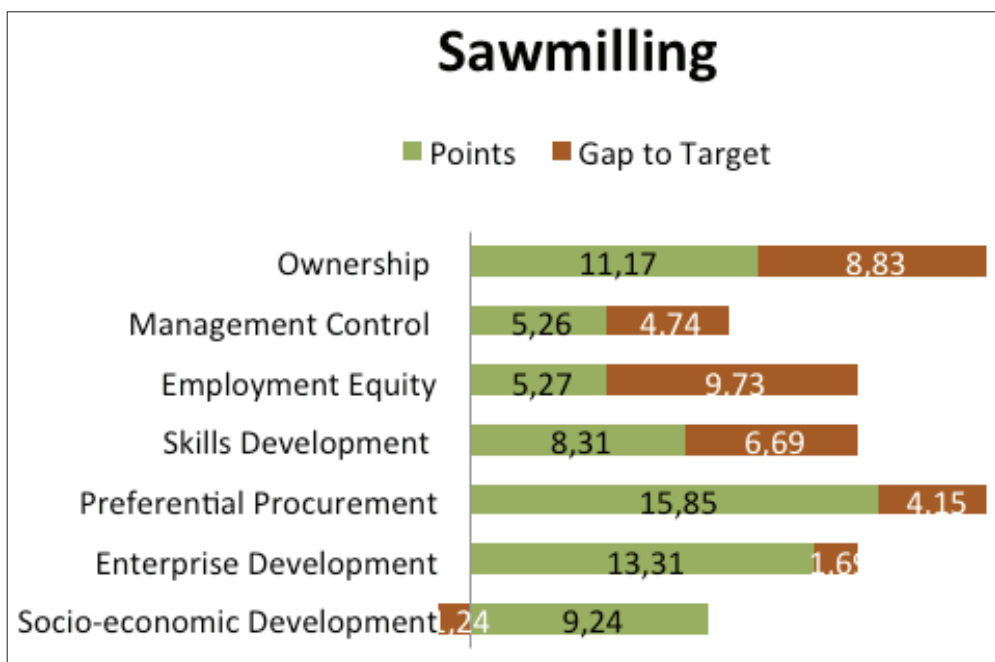
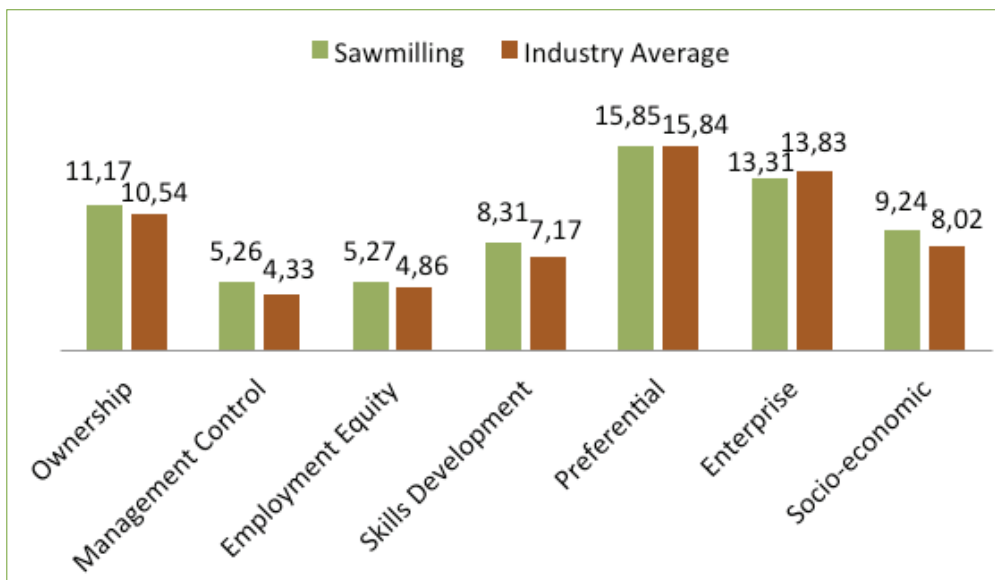


Table 48: Pole Sub-sector Achievement vs Gap to Target





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