# Annual Report on Status of Transformation in the Forestry Sector: 2014/15



**A Transformation status report on B-BBEE implementation within the Forest Sector of South Africa**
**Forest Sector Charter Council**
**November 2015**

# Executive Summary

This project was undertaken to establish the implementation and development of B-BBEE within the forest sector. The Forest Sector Charter Council (FSCC) was established to oversee and facilitate the implementation of the Forest Sector Code and it is the responsibility of the FSCC to report on the implementation annually.

The research study was based on both qualitative and quantitative research methodologies and for the first time the FSCC incorporated the use of an online survey. The survey forms a fundamental part of the report and is discussed in detail in the report. For ease of reference most of the information and data has been put into tables and figures.

The forestry sector has been influenced by various factors including the decline of exports and the increase in imports, the decline in local demand, impact of green agenda on market, and the informal (SMME) market. As many as possible of these factors have been taken into account when drafting this report.
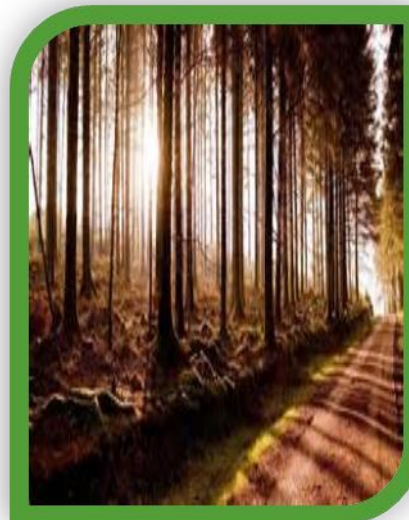
**A BALANCE BETWEEN QUALITATIVE AND QUANTITATIVE RESEARCH METHODOLOGIES HAS BEEN INCORPORATED – A FIRST**

There have been challenges in the implementation of this research study in terms of the hesitation of the enterprises to participate in the study. Although there was also positive feedback there was unfortunately negative connotations to the implementation of B-BBEE. Many enterprises are of the opinion that they do not receive benefits from implementing B-BBEE. This again demonstrates the important role that the FSCC needs to play within this market. The FSCC has the critical responsibility to craft a way forward to encourage entities to implement B-BBEE correctly, efficiently and to the benefit of all.

The divide between informal (and SMMEs) and the larger enterprises has also been discussed in the report, which highlights the need for more involvement by the FSCC at this level. For B-BBEE to be a major success within the sector, it would have to be all-encompassing at all the levels/phases within the forestry value chain.

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Table 1: Acronyms and Glossary

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|---|---|
| **ATR** | Annual Training Report |
| **BEE** | Black Economic Empowerment |
| **B-BBEE** | Broad Based Black Economic Empowerment |
| **BO** | Black Owned |
| **BWO** | Black Women Owned |
| **CIPC** | Companies and Intellectual Property Commission |
| **CSI** | Corporate Social Investment |
| **DAFF** | Department of Agriculture, Forestry and Fisheries |
| **DTI** | Department of Trade and Industry |
| **EAP** | Economically Active Population |
| **ED Beneficiary** | Enterprise Development Beneficiary: The Enterprise Development scorecard allocates points for the average annual value of all Enterprise Development Contributions and Sector Specific Programmes made by the Measured Entity (Code Series 600) |
| **EME** | Exempt Micro Enterprise: enterprises with a turnover of less than R5 Million |
| **FSCC** | Forest Sector Charter Council |
| **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.<br><br>KPMG is a global network of professional firms providing Audit, Tax and Advisory services |
| **MLE** | Medium and Large Enterprises: those enterprises that have a turnover of greater than R35 Million, also referred to as Generic Companies in this report |
| **QSE** | Qualifying Small Enterprise: enterprises that have a turnover between R5 Million and R35 Million |
| **SETA** | Sector Education and Training Authority |
| **SMME** | Small, Micro and Medium Enterprise |
| **WSP** | Workplace Skills Plan |

# Forestry Sector Overview

This section presents a brief overview about the Forest Sector within the South African context.

It is estimated that South Africa has an average of 1.3 million hectares of plantations with an investment value of $2.6bn[1]. The sector has an annual sustainable production of 20 million tons. Exports of forest products in 2013 amounted to $1.7bn which resulted in a positive trade balance of $380m. The sector employs an average of 170 000 people with 66 000 people being directly employed in forestry operations.

Figure 1 below provides an overview of the sector with regards to the distribution of land in terms of hectares and ownership.

*Figure 1: SA Forestry Ownership Distribution[2]*



Small Scale Growers 4%

Commercial Enterprises 22%

Corporate Companies 74%

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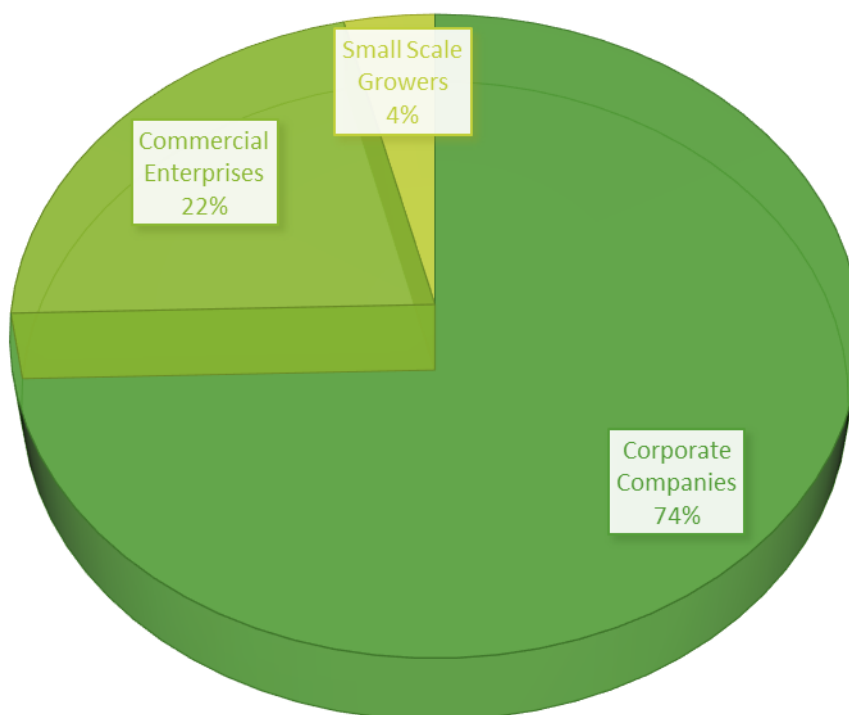
[1] Statistics based on presentation from Forestry South Africa, who holds 91.6% of Forestry organisations as members, thus providing sufficient representative sample of industry.

[2] Hectare distribution has been converted from hectares per organisation to percentage ownership of total hectares

Figure 2 below shows a map depicting the distribution of plantations across South Africa.

*Figure 2: Locations of Plantations in South Africa*[3]
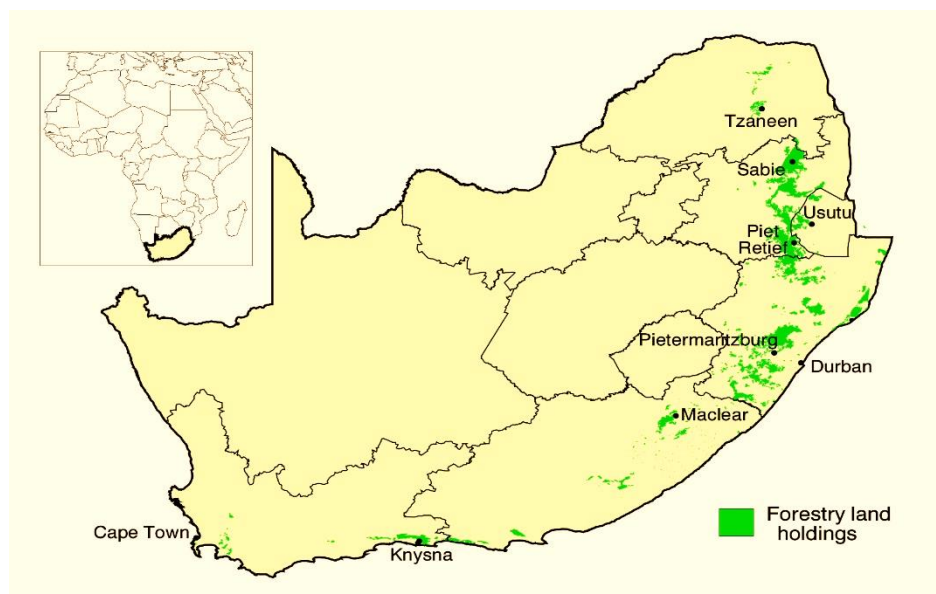


The majority of commercial plantations occur on the eastern boarder of South Africa, coinciding with the sub-tropical climatic belt that exists largely as a result of the presence of the warm Indian Ocean flanking the eastern boarder of the country. Mpumalanga and Kwazulu-Natal have the highest concentration of plantations amongst the 5 provinces. These plantations foster a myriad of forestry subsectors

The current Forest Sector Code identifies enterprises falling within these subsectors as enterprises required to report on B-BBEE implementation:

- Growers sub-sector (plantations, nurseries and indigenous forests)

- 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)

- Fibre sub-sector (pulp, paper, paperboard, timber board product, woodchip and wattle bark manufactures)

- Sawmilling sub-sector (industrial, structural and mining timber sawmills and match producers)

- Pole sub-sector (pole treatment plants)

- Charcoal sub-sector (charcoal producers)

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[3] Roger Godsmark, Operations Director, Forestry South Africa, Presentation to FAO Workshop on Forest Products Statistics, 27th November 2014

# Introduction

The FSCC is currently within its sixth year of reporting on the B-BBEE performance of the Forest Sector.  This report is critical as it begins to assess the scorecard performance in terms of the 6-10 year targets as outlined in some of the scorecard elements. It will also be critical in serving as a benchmark to the new provisions introduced in the proposed Amended Draft of the Forest Sector Codes (still to be gazetted) and quantifying their impact when it comes to B-BBEE implementation.  For example, the draft amended Forest Codes introduces priority elements and consequences of discounting by a level in case the threshold within these priority elements have not been achieved.

This report has direct reference to the Forest Sector Codes, and thus submissions of BEE certificates from companies outside of the scope of the specific Forest sector codes, were not considered.

Cognisance should also be taken of the new trajectory with elevated scorecard compliance requirements that is due to be implemented within the coming period especially for 100% and 51% black owned qualifying small enterprises (QSE) as well as exempted micro enterprises (EME).

The financial period 2014/15 has undesirably seen a decline in the number of submitted BEE certificates.  In 2013/2014 out of the total 88 BEE certificates received only 71 certificates were valid for the report analysis. In the 2014/15 period, the total BEE certificates received were 72 and only 59 of these could be used to give the annual performance of the sector.

Furthermore, this indicates that 82% of certificates received for this specific period were valid and applicable to this report.  This shows an 18.2% decline in the certificates received when comparing the previous year to the current year.  Figure 3 below serves as reference.

*Figure 3: Sector Specific (Valid) vs All BEE Certificates Received*
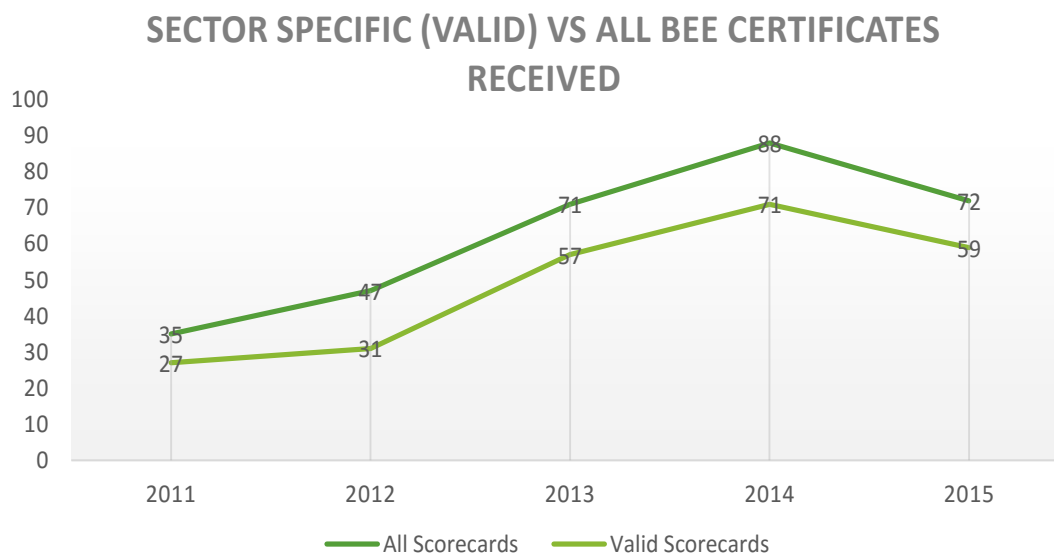
The adverse economic conditions affecting the sector may have significantly impacted on the number of companies undertaking B-BBEE initiatives, thus indirectly influencing the amount of BEE certificates received.  Following from previous reporting years it would seem that there has been a decline in the number of companies that are still operating within the industry, or who are willing to participate in the study.  This has been attributed to some of the following aspects:

- Acquisitions by other organisations

- Close downs – commonly economic reasons within a specific area or sub-sector

- Large informal (SMME) aspect – not willing to participate at the B-BBEE level and research studies.  Far removed from initiatives such as reporting.

- Falls outside scope of forestry sector – too far removed from core service in forestry and falls under other providing service (sector) within the value chain.

Although there has been a decline in the responses it was observed that the information and data received is statistically representative of the sector.  The aforementioned statement is based on using the statistical method of means and averages.  This does however mean that only certain statistical methods can be used for this report (further discussed under the section title: B-BBEE Status within the Sector: Methodology).

*Figure 4: B-BBEE Status Level Comparison*
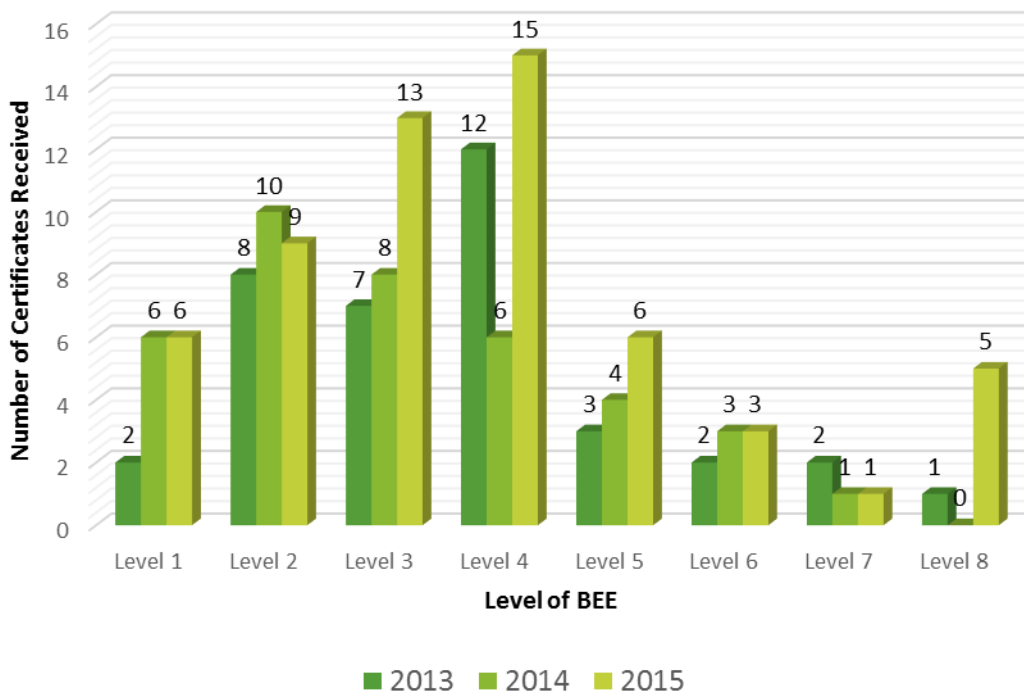


Figure 4 shows the number of certificates received indicating the B-BBEE level status achieved. The data received for BEE certificates showed a range from between level 1 and 8, with the

majority distribution being arranged around level 3 and 4. There has been a statistically significant growth in level 3 and 4, which could be attributed to the growth in the registration of EMEs, Generic companies, as well as an increase of the Black Owned (BO) and Black Women Owned (BWO) percentage aspects[4]. There has also been a significant increase in the level 8 contributors, with 83% of the level 8 contributors falling into the Generic bracket.

The observed status levels are critical as there will be discounting by a level in the Amended Forest Sector Codes for not achieving the minimum threshold on the priority elements. The discounting principle will definitely have an impact on the overall status level to be achieved by the entire sector.

Feedback was also sourced from the reporting entities that submitted their BEE certificates. The informal feedback received from these organisations, during call centre contact sessions, was that B-BBEE was not a priority and is in most cases deemed a costly aspect to implement. The information of these companies cannot be shared in this report due to the respondents requesting anonymity.

Many of the BEE certificates received validity timeframe fell within both the reporting periods of 2014/15 and 2015/16. This is due to the turnaround times of the verification as well as the late submission of the details for verification. Although the expiration date falls outside of the date for this specific report, their certificates were taken into account due to the aforementioned reasons.

As an example, an organisation might apply for their BEE certificate in June 2014, but only receive the verification report and actual certificate in August 2014, consequently making the certificate applicable from August 2014 to September 2015. This is influenced by financial year end as well as verification time span. In such cases the date of issue was considered for the reporting period.

## Database and Sector Inclusion

The research that was undertaken to deliver this report was largely based on the interaction between the researcher, the relevant stakeholders and the feedback obtained thereof. This was dependent on the database of companies received mostly from sub-sectors that are involved within the forestry sector.

The major challenge in establishing and compiling this report was the comprehensiveness of the databases received. Further explanation is provided in the following paragraphs. Initially one database had been received with the details of companies to be contacted to gather information and documentation related to B-BBEE.

An additional five databases were received thereafter in order to ensure that as many companies as possible within forestry be contacted and to ensure that the study would be as

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[4] Deduction made from table of Company B-BBEE Profile Analysis which has also been provided to the FSCC

inclusive as possible. Three sets of new databases were added directly to the original database and this was then filtered to find duplicate entries.

The final two databases were checked for duplicate entries first and as such only unique values were added to the original database from the final two databases received. The number of companies contained on the database were finalised as 1014. The duplicate entries from the original database and the other three databases are still contained in this number. Duplicate entries were found by checking company names and contact details.

There were a total of 263 duplicate entries within the combined databases. The research team had various challenges in gathering the necessary data and information during this period. This included duplicate entries (as mentioned above), incorrect contact details, not being able to get hold of the relevant contact person, etc.

In response to this the FSCC established a call centre and attempted to sift through the database to confirm as many contact details as possible. This also provided the FSCC an opportunity to make direct contact with the industry stakeholders.

After the confirmation of contact details, an online survey was developed and distributed to the organisations within the database.

The online survey also a qualitative and quantitative research tool was incorporated within this research study and it is the first time that this method is being included in the annual B-BBEE status report. The online survey was meant to get in -depth information relating to B-BBEE implementation in the Forest Sector. Different sets of questions were combined into a questionnaire for entities to give feedback.

The graph below shown as (Figure 5, provides a graphical representation of the entities contacted as well as the feedback received from companies that were contacted:

*Figure 5: Database Statistics*
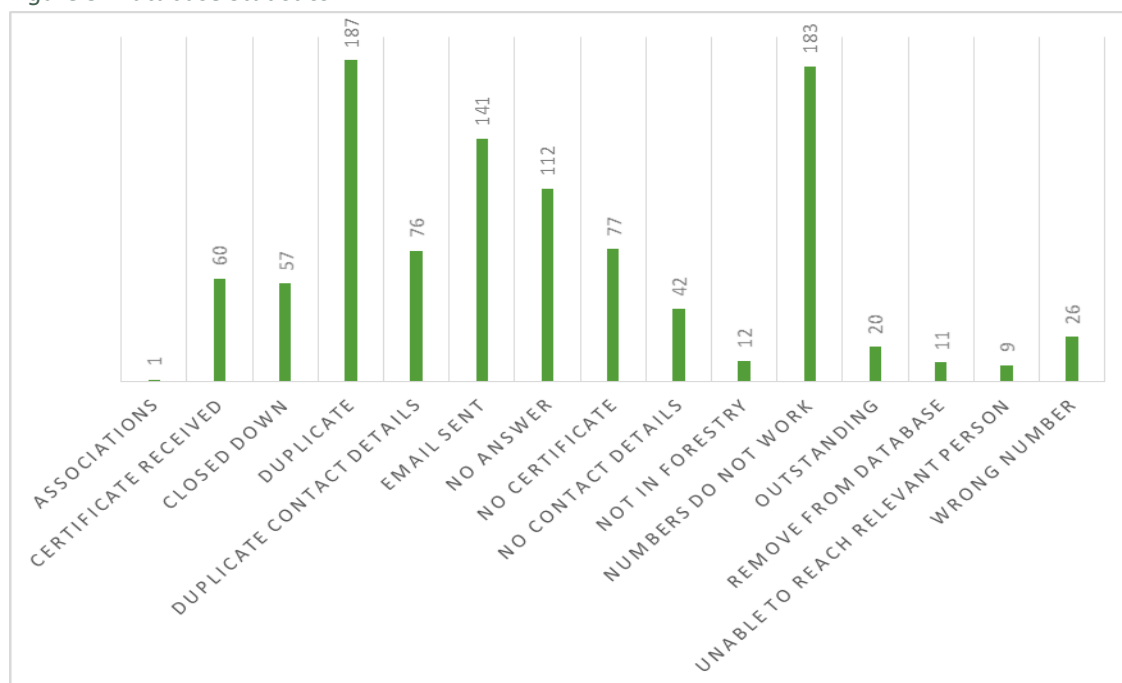
Table 2: Feedback Clarification

| Feedback | Explanation |
|---|---|
| Associations | The company turned out to be an association who indicated that it is not necessary for them to take part in the study. |
| Certificate received | These were the certificates received from organisations that fell within the period under study. |
| Closed down | These organisations have closed operations and no longer exist. |
| Duplicate | Organisations that appear on the database more than once. |
| Duplicate contact details | Organisations that have the contact details of a different organisation already on the database. |
| Email sent | The organisations were contacted and had asked the emails be sent. Emails, detailing the project and requesting the organisations B-BBEE certificate and the link to the online survey were sent but no response was received from the organisations thereafter. |
| No answer | Unable to make contact with these organisations. At least two attempts were made to contact each of these organisations. In some cases, there were email addresses, in such cases emails detailing the project and requesting the organisations B-BBEE certificate and the link to the online survey were sent but no response was received from the organisations. |
| No certificate | These organisations were unable to supply a B-BBEE certificate as they either did not have one or did not have on during the April 2014 - March 2015 period. |
| No contact details | No contact details were available for these organisations. In some cases, there were email addresses, in such cases emails detailing the project and requesting the organisations B-BBEE certificate and the link to the online survey were sent but no response was received from the organisations. |
| Not in Forestry | These organisations indicated that they do not operate within the Forestry industry. |
| Numbers do not work | The contact details for these organisations were incorrect and generally out of service. |
| Outstanding | These organisations had agreed to send their certificates and take part in the survey, however at the time of writing this report the certificates had still not been received. |
| Remove from database | These organisations indicated that they are not interested in being part of such studies and that they should be removed from the database as they do not wish to be contacted again. |
| Unable to reach relevant person | These organisations were reachable however it was never possible to speak to the relevant person as that person was never available. In some cases, there were email addresses, in such cases emails detailing the project and requesting the organisations B-BBEE certificate and the link to the online survey were sent but no response was received from the organisations. |
| Wrong number | The contact details on the database for these organisations were incorrect and were the numbers of other businesses or residences. In some cases, there were email addresses, in such cases emails detailing the project and requesting the organisations B-BBEE certificate and the link to the online survey were sent but no response was received from the organisations. |

In order to arrive at a more accurate number for the total usable database size those companies that fell within the following feedback areas were not be considered:

- Associations

- Closed down

- Duplicate

- Duplicate contact details

- No contact details

- Not in Forestry

- Numbers do not work

- Wrong number

This lead to a total usable database number of 430 companies.

## Objectives of the Report

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

1. the B-BBEE status 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 status of Qualifying Small Enterprises (QSE) based on any four elements of the forest sector scorecard for each of the six subsectors;

3. the B-BBEE status 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 actual performance of the scorecard elements against the set 6-10 years' compliance targets and determine the overall transformation status and the impact it 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 SMMEs created and sustained thus far;

7. the role that the Charter has played more especially within the investment sector, and in relationships between employers, employees and communities;

8. the general constraints faced by the sub-sectors and the entire sector in the implementation of the Sector Code.

## Methodology

B-BBEE certificates with underlying information were solicited from reporting companies falling under the scope of application as prescribed by the Forest Sector Code. A total of 79 certificates were received and only 59 of these were valid for the reporting period.

The reporting on the objectives above was addressed by analysing the B-BBEE certificates of the 59 respondents as well as the feedback received from the online survey. The survey results are discussed in detail later in the report. Table 3 below illustrates the distribution of the number of certificates received within the three categories of enterprises. This table 3 further confirms that most of the reporting entities belonged to the MLE and QSE respectively. There were only eleven EMEs that reported under this reporting period.

Table 3: Profile of B-BBEE Certificates

| Description | Number of Certificates |
|---|---|
| EME | 11 |
| QSE | 22 |
| MLE | 26 |
| Total | 59 |

Table 4: B-BBEE Certificates per Sub-Sector

| Sub-Sector | EME | QSE | MLE |
|---|---|---|---|
| Growers | 2 | 2 | 5 |
| Contracting | 5 | 11 | 8 |
| Fibre | 1 | 2 | 4 |
| Sawmilling | 2 | 1 | 4 |
| Pole | 1 | 5 | 4 |
| Charcoal | 0 | 1 | 1 |

Table 4 above further categorise the reporting entities as per the different subsectors. It is encouraging to observe that the MLEs and QSEs were represented across all the sub-sectors. Contracting is seen to be the major activity amongst the three spheres of businesses. There was however no representation of charcoal within the EME category chances are because this is one of the sub-sectors that is highly informal and currently has no representative institution.

## Focus Group Sessions and Online survey

Various methods were used in the gathering the information, attempting to keep a balance between qualitative and quantitative data. A focus group session was arranged, but the interest from industry was minimal and unfortunately this session could not be conducted.

This detracted from the qualitative aspects of the research study. In an attempt to rectify this a call centre was established and all of the companies on the database were contacted telephonically.

In addition to this, emails were also sent to all the companies as well as contact SMS's. Further to this an online survey was distributed to the database and various questions relating to B-BBEE implementation were added. This constituted the qualitative aspects of the study.

Due to the inadequate information supplied, deliverables 5 to 8 could not be fully addressed. The inconsistency of the database as well as a lack of understanding of the requirements from some of the entities, also played a role in the failure to address deliverables 5 to 8.

Descriptive research was then the most applicable statistical analysis technique that could be used in the analysis of this type of data. Descriptive research is used when the purpose is to describe characteristics of certain groups. It encompasses an array of research objectives. The cross sectional study is the best known and most frequently used type of descriptive design. The cross-sectional study has two distinguishing features. First, it provides a snapshot of the variables of interest at a single point in time (i.e. the analysis of the companies B-BBEE performance as at 31 March 2015).

Secondly, the sample is typically selected to be representative of some known universe (i.e. the Forest Sector), in this case the participation of the biggest players that represent a sizeable portion of the industry's market share participated in the survey, making the sample representative of the industry. Cross-sectional studies often relate to the aspect of representative samples, and is especially useful when the access to all required respondents (data inputs), is limited. This limitation refers to the access that the research team could get to the various entities and the required documentation.

Time series analysis was also considered for this study but unfortunately the data received from previous years was (2012/13 and 2013/14) outdated and thus no model (i.e. Box-Jenkins ARIMA models, Box-Jenkins Multivariate Models, Holt-Winters Exponential Smoothing (single, double, triple), etc.) could be implemented for this report. There was however a focus drawn on the trend analysis for the period 2013, 2014 and 2015, where it was observed that there is sufficient and uncontaminated data.

With respect to establishing the average the following three averages methods were considered:

- o Mean
- o Median
- o Mode

For the purpose of this report the mean method was preferred, where the sum of all values is divided by the total number of values. Further to this the weighted average is given to a specific element by using the summed total score for submissions divided by the total number of submissions. Formula as example:

$$Mean = \frac{Sum\ of\ all\ scores\ per\ element}{Total\ of\ submissions\ received}$$

$$Weighted\ Average = Mean \times Weight\ of\ element$$

In the analysis of the data the weighted average is often used to indicate the center of a data set.

Cross-sectional data was extracted from the data submitted by the reporting companies and the data submitted was found to be sufficient to provide enough analysis input for extrapolation of tendencies, trends and possible projections. Cross-sectional data assists in the understanding of the current state of transformation in the forestry sector.

There have not been any other studies that could be compared with this study during this specific reporting period. The last study was conducted in 2013/14 (KPMG BEE Report) and the averages in that study cannot be populated onto this report due to the time lapse. The report dealt with statistics that fell outside of the reporting period of this report.

## Online Survey

In order to gather more in-depth feedback from organisations regarding B-BBEE and focusing on a balance between qualitative and quantitative information and data, a survey was designed using Survey Monkey. This allowed entities to complete a set on questions on line. A section to request for further comments based on the response was also inserted. In order to encourage respondents to complete as much of the survey as possible they were not forced to provide supporting comments to the questions posed. This was meant to eliminate any possibilities of discomfort when responding to, particular questions.

The advantages of an online survey are outlined as follows:

- Quick turnaround on results

- User friendly and accessible

- The benefit of balancing qualitative and quantitative research methodology

- Quicker process for responders (average response time: 10 - 15 minutes)

- Anonymity of responses

Qualitative aspects were included in the form of open ended questions and comments. The motivation behind using the online survey was to further support the findings on the BEE certificates as well as to try and further engage with industry stakeholders. The inclusion of qualitative questions could also show the actual predisposition of entities in the industry and verify the notions that the FSCC has and some of the sentiments that companies have within the industry.

The survey consisted of the following 29 questions: feeling

1.  Would you like to remain anonymous?

2.  Name of company/business

3.  Name of person completing this questionnaire

4.  Position of person completing this questionnaire

5.  Telephone number (including dialling code)

6.  Email address

7.  Category of Employer

    a.  Options:

        i.  Growers sub-sector

        ii.  Contracting sub-sector

        iii.  Fibre sub-sector

        iv.  Saw milling sub-sector

        v.  Pole sub-sector

        vi.  Charcoal sub-sector

8.  Please indicate your organisation's main focus of activities

    a.  Options:

        i.  Plantation

        ii.  Nursery

        iii.  Indigenous Forest

        iv.  Silviculture Contractor

        v.  Fire-fighting services

        vi.  Forestry Contracting Services

        vii.  Pulp Manufacturers

        viii.  Paper Manufacturers

        ix.  Paperboard Manufacturers

        x.  Timber Board Product Manufacturers

        xi.  Woodchip Manufacturers

        xii.  Wattle Bark Manufacturers

        xiii.  Industrial Timber Sawmills

        xiv.  Structural Timber Sawmills

        xv.  Mining Timber Sawmills

        xvi.  Match Producers

      xvii.    Pole Treatment Plants

     xviii.    Charcoal Producers

9. Please indicate the type of enterprise

    a. Options:

        i.    Private Company

       ii.    Public Company

      iii.    Sole Proprietary

      iv.    Close Corporation

       v.    Partnership

      vi.    Trust

10. In which category does your enterprise fall?

    a. Options:

        i.    Micro Enterprise with Turnover of less than R5m per year and with more than 50% owned by black people or by black women

       ii.    Micro Enterprise with Turnover of less than R5m per year and with 50% or less owned by black people or black women

      iii.    Qualifying Small Enterprise with Turnover between R5m - R35m per year

      iv.    Company with Turnover Exceeding R35m per year

11. Where does your Enterprise focus most of their efforts with regards to B-BBEE?

    a. Options:

        i.    Ownership

       ii.    Management Control

      iii.    Employment Equity

      iv.    Skills Development

       v.    Preferential Procurement

      vi.    Enterprise Development

     vii.    Socio-Economic Development

12. Are you familiar with the Forest Sector Charter Council (FSCC)?

13. Do you think the FSCC is doing enough to foster transformation within the Forestry Sector?

14. Does the Sector conduct/implement any initiatives that benefit your Enterprise?

15. Do you think that the people at the low end of the value chain benefit from transformation initiatives?

16. Do you think corporates within the Sector are implementing initiatives that benefit transformation?

17. Do you think your organisation's B-BBEE level is linked to its actual transformation activities?

18. Do you think there is any benefit to your sector having its own Sector Codes as opposed to Generic Codes?

19. Are there any initiatives that you can recommend that will assist transformation within the Sector?

20. Do you feel that the informal sector has enough input into industry developments?

21. Your organisation mainly undertakes:

    a. Options:

        i. Accredited training

        ii. Non-accredited training

22. Training is mainly conducted:

    a. Options:

        i. In-house

        ii. Through a training provider

23. Please indicate the type of training interventions undertaken by your organisation.

    a. Options:

        i. Learnerships

        ii. Skills Programmes

        iii. Soft Skills

        iv. Technical Skills

        v. ABET

        vi. Post-matric qualifications

24. The beneficiaries that benefit from training initiatives undertaken by your organisation are mainly:

    a. Options:

        i. Employees

        ii. Unemployed beneficiaries

        iii. Both employees and unemployed beneficiaries

25. Provide your view of the specific transformation and skills development initiatives that are required for the Forestry Sector.

26. Do you think there is enough monitoring and enforcement by the FSCC of the Forest Sector Code?

27. Do you think the Forest Sector Code is relevant and achieving its intended purpose?

28. Please share the successes your organisation has had regarding the implementation of B-BBEE.

29. Please share any constraints that your organisation may have faced regarding the implementation of B-BBEE.

## Online analysis

**Anonymity**

The first question in the online survey required an enterprise to indicate whether he would prefer to be known or not.

In the case where respondents elected to remain anonymous, they were exempted from answering question 2 – 6. The questions on 2 – 6 basically required the name of the person filling up the questionnaire as well as the contacts. The survey was sent to all companies which had email addresses, but excluded those companies that were duplicates, had duplicate contact details, companies that had closed down and those that had asked to be removed from the database. Out of 430 contacted, only 30 responded representing 7% of the database.

Such a percentage was observed which was observed to be representative enough for the qualitative analysis of the study.

The number of considered respondent were further reduced to 29 since one of the respondents indicated that their company was not rated for B-BBEE.

The results of the survey are discussed below:

*Figure 6: Anonymity*
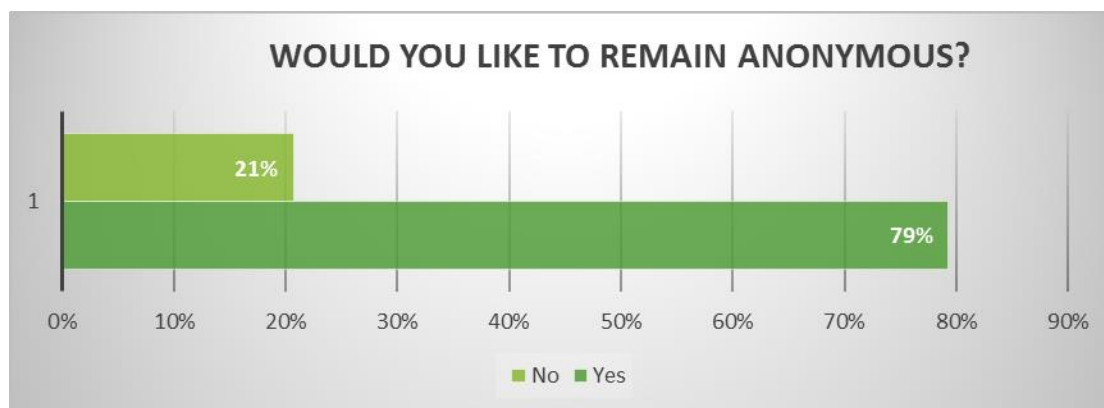


Figure 6 shows the response received from the entities in terms of remaining anonymous. The starting question relates to anonymity. 23 of the total 29, being the majority of respondents elected to remain anonymous accounting for 79%. Those that chose to remain anonymous were

not asked to answer questions 2 – 6 which gathered data related to the name and contact details of the organisation as earlier explained.

The remaining 21%, 6 in total of the respondents chose not to remain anonymous, with only 14% actually completing the biographical data questions.  The inference could be as a result that some respondents changed their minds when it came to anonymity.

Providing the option to remain anonymous encourages more responses as well as more honest responses.  In most cases it also improves the validity of the survey and yields data that is more relevant, almost accurate and gives a better reflection of the respondent's true opinion.

*Figure 7: Category of Employer*
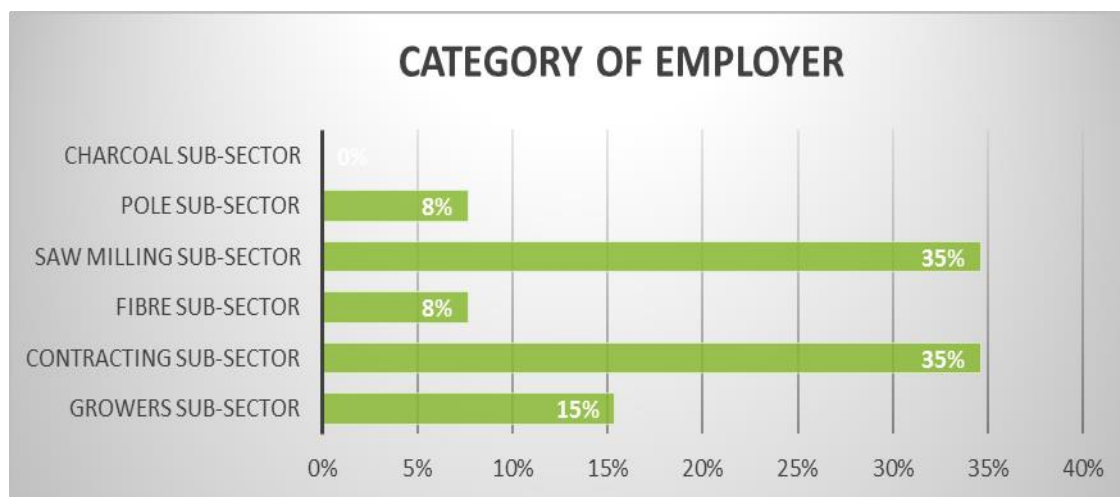


The question on the category of the employer sought to gather the distribution of reporting entities based on the scope of application as enclosed in the Forest Sector Code of May 2009. The scope of application categorises reporting entities within the subsectors of the Forest industry and further acknowledges the activities within the different sub-sectors.

There were 77% of participants (23 in total) that responded to this question and as can be seen from the graph above (see figure 7), the majority of respondents were within the Contracting and Saw milling sub-sectors.  There were no respondents from the Charcoal sub-sector worth indicating that the charcoal sub-sector was the least participative in this study as it was the case in the previous reports.

This could be due to the sub-sector not being fully representative in the database of respondents and sector companies and possibly because it is one of the subsectors that has no representative institution or association currently.

*Figure 8: Main Focus of Activities*
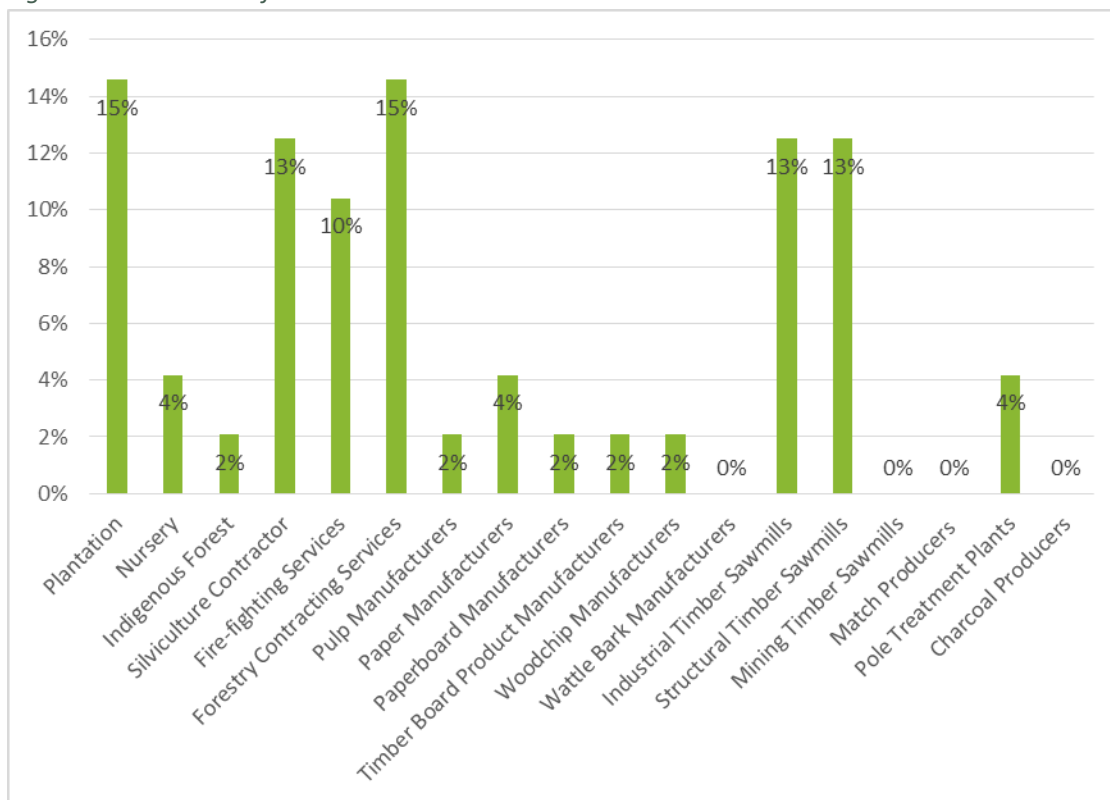


The organisation's main focus of activities is also derived from the scope of application as defined by Forest Sector Code of May 2009 but further details the specific type of operations per sub-sector.

A 77% (23 in total) of the respondents answered this question as illustrated in figure 8. The majority of the responses came from the Forestry Contracting Services with Plantations in at a close second. Structural Timber Sawmills, Industrial Timber Sawmills, Fire-Fighting Services and Silviculture Contractors had the next highest responses.

The overall responses from respondents on both the survey and the certificate submissions was mainly from the contracting sub-sector. This is in line with the demographic distribution of number of companies within the supply cycle.

The forestry sector has moved into contracting practices and there are usually numerous contracting parties to a single major Company. This trend is supported by the higher number of submissions from the contracting sub-sector in almost all the reports.

*Figure 9: Type of Enterprise*
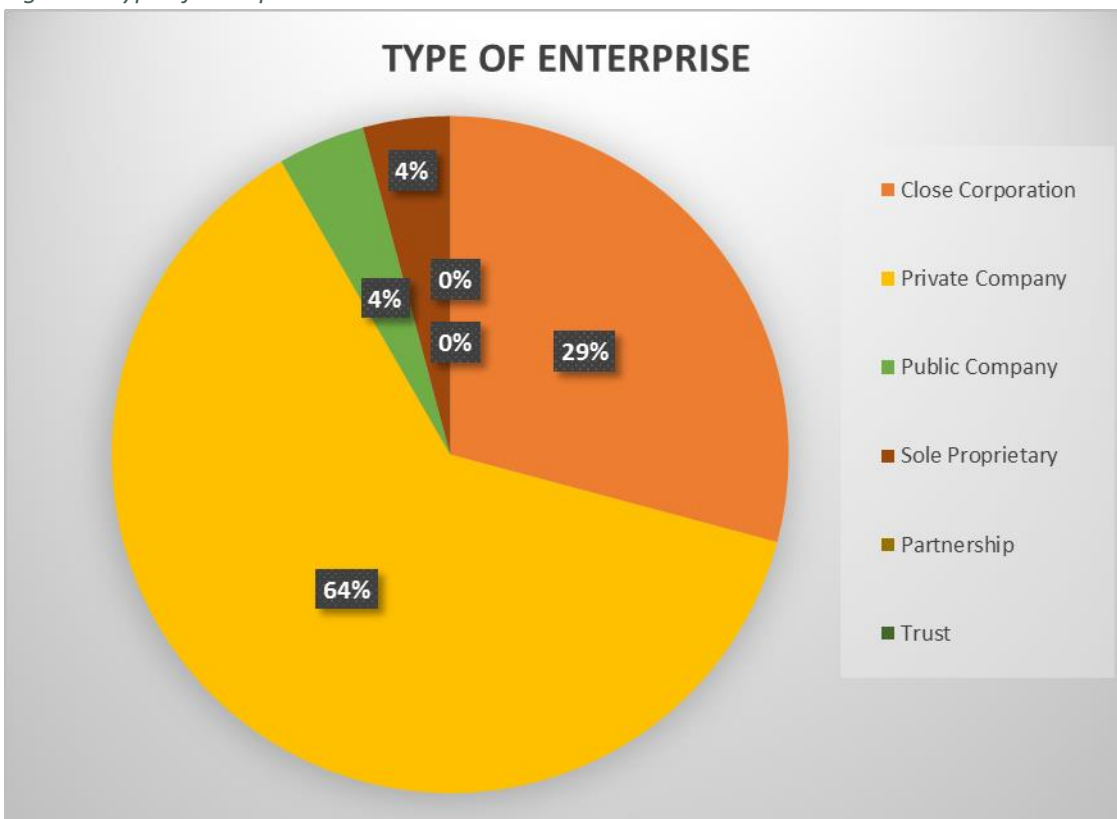


Figure 9 outlines the types of enterprises common within the Forest Sector. A total of 24 out of 30 respondents accounting for 80% answered this question.

The majority of the participants were from private companies with close corporations being the next highest. None of the respondents were from partnerships or trusts. In comparison between the submissions and online survey, the majority of participants were either private companies or close corporations. This further confirms the divide between the SMMEs or informal market and the larger organisations within the forestry sector.

*Figure 10: Enterprise Category*
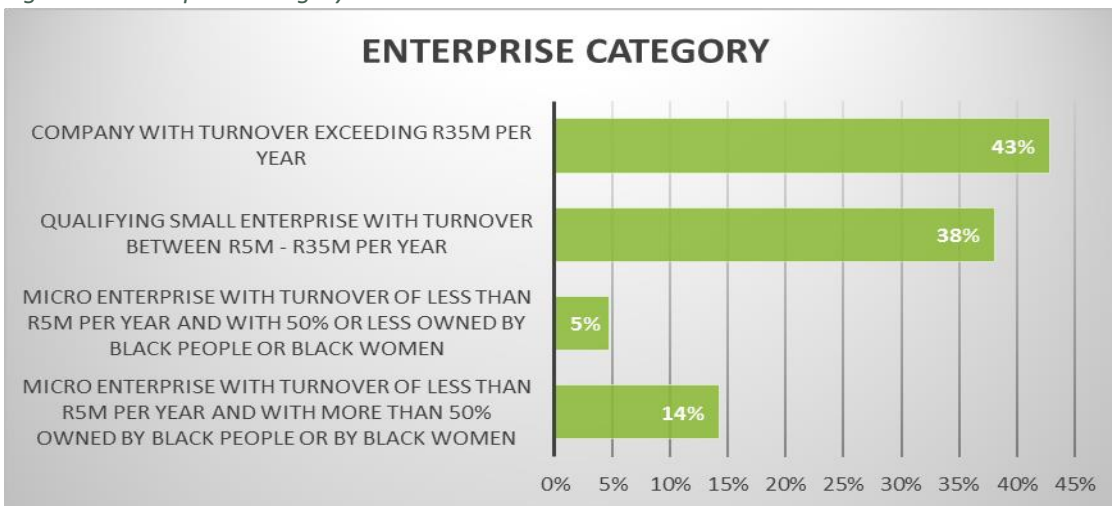
Out of the 30 respondents, 21 accounting for70% of the respondents chose to answer this question.  The vast majority of respondents came from organisations that would be classified as Generic and Qualifying Small Enterprises (QSE).

Very few of the responses were from Exempt-Micro Enterprises (EME). However, it is encouraging to note that there were respondents from every category listed.

Although there were responses from all categories, it is still important to note that the larger organisations were more responsive to the questionnaire, which confirms the feedback received from the call centre operators.

In general, the interaction from the QSEs were of a more positive nature and more approachable to retrieving data from them, in both the online survey and the call centre interactions.

*Figure 11: Enterprise Focus Regarding B-BBEE*
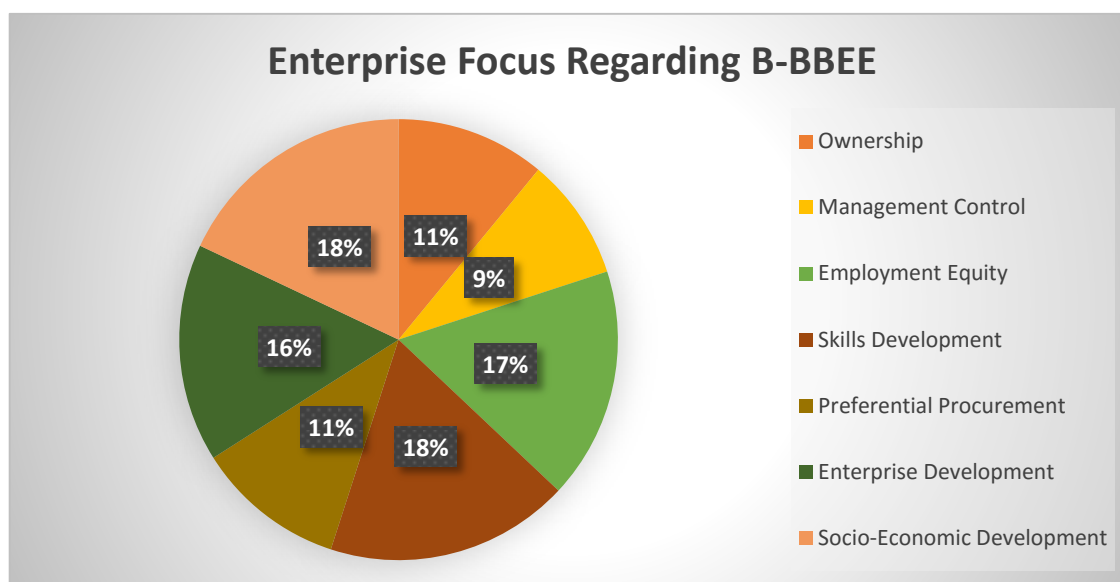


The question under this section enquired companies to declare which scorecard elements they were most comfortable with. Twenty-four of thirty, totalling to 80% of the respondents answered this question.  The most preferred elements are Skills Development; Socio-Economic Development; Employment Equity and Enterprise Development elements.

Management Control, Ownership and Preferential Procurement were the least preferred.

This fairly equal distribution is to be expected, as the majority of the respondents were Generic (MLEs), which are rated against all 7 elements and QSE, which are rated against 4 of the scorecard elements.

*Figure 12: Percentage of Organisations Familiar with the FSCC*
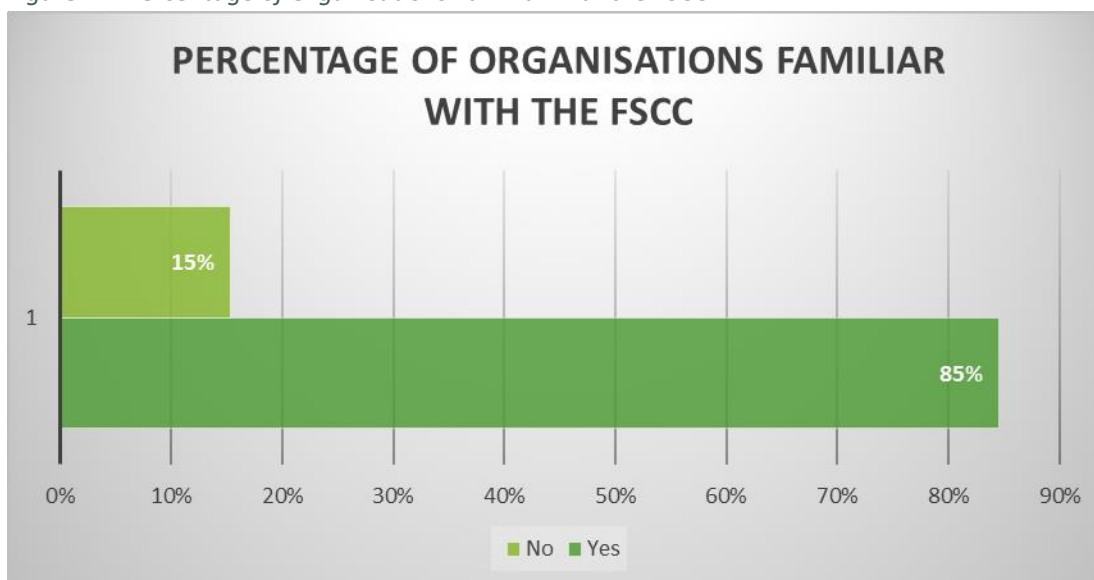


This section was aimed at getting in depth knowledge from entities about whether they were aware of the FSCC. More than half of the respondents did not answer this question with only 13 choosing to respond. These respondents confirmed that they are familiar with the FSCC. From the number of respondents on this aspect it can be deduced that the FSCC should focus efforts on branding and brand awareness within the sector.

This was also evident in the feedback received from the call centre operators that dealt directly with the companies, where a number of respondents claimed that they were not aware of the FSCC and the scope of the FSCC.

**Question 13-23**

For questions 13-23 only thirteen (13) of the total thirty respondents preferred to answer these questions and no reasons were given. This could be as a result that the respondents may have been uncomfortable with the questions posed, or did not know how to respond to the questions or they may have decided not to complete the full survey.

The respondents that completed the rest of the questions are seen as key stakeholders within the forestry sector and thus the feedback was included in the report.

*Figure 13: The FSCC and Fostering Transformation within the Forestry Sector*
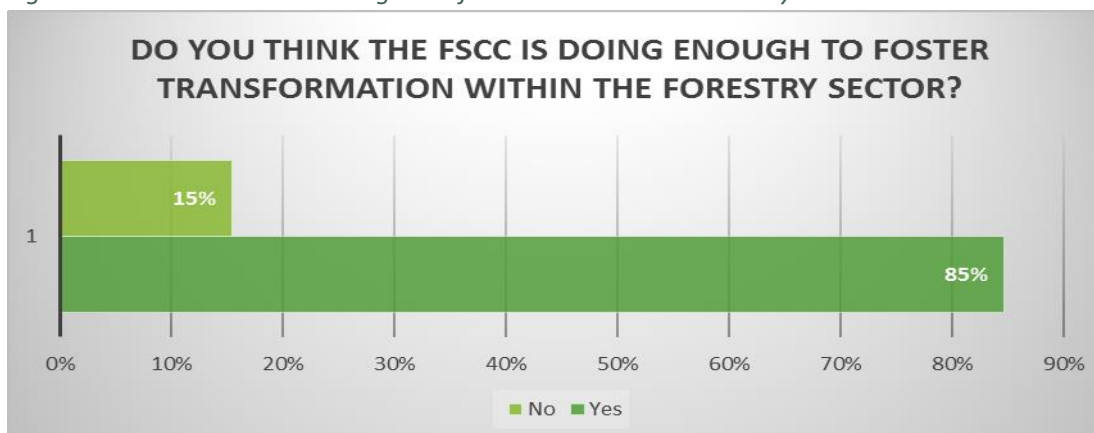
Figure 13 shows how enterprises responded with regards to FSCC activities to foster for a transformed sector. The 13 responses received showed a positive result with the majority (85%) of the respondents indicating that they do believe that the FSCC is making sufficient effort to foster transformation.

In addition, the comments received for this question indicated that there is uncertainty within some organisations as to what activities are undertaken by the FSCC to foster transformation within the industry as well as to what are the objectives of the FSCC. The correlation with the question on familiarity with FSCC (Figure 12: Percentage of Organisations Familiar with the FSCC) and the comments to this question (Figure 13: The FSCC and Fostering Transformation within the Forestry Sector) is inverted, indicating that there are organisations that are familiar with the FSCC but that they are unsure of what initiatives the FSCC are undertaking.

*Figure 14: Initiatives Implemented Vs Benefit to Enterprises*
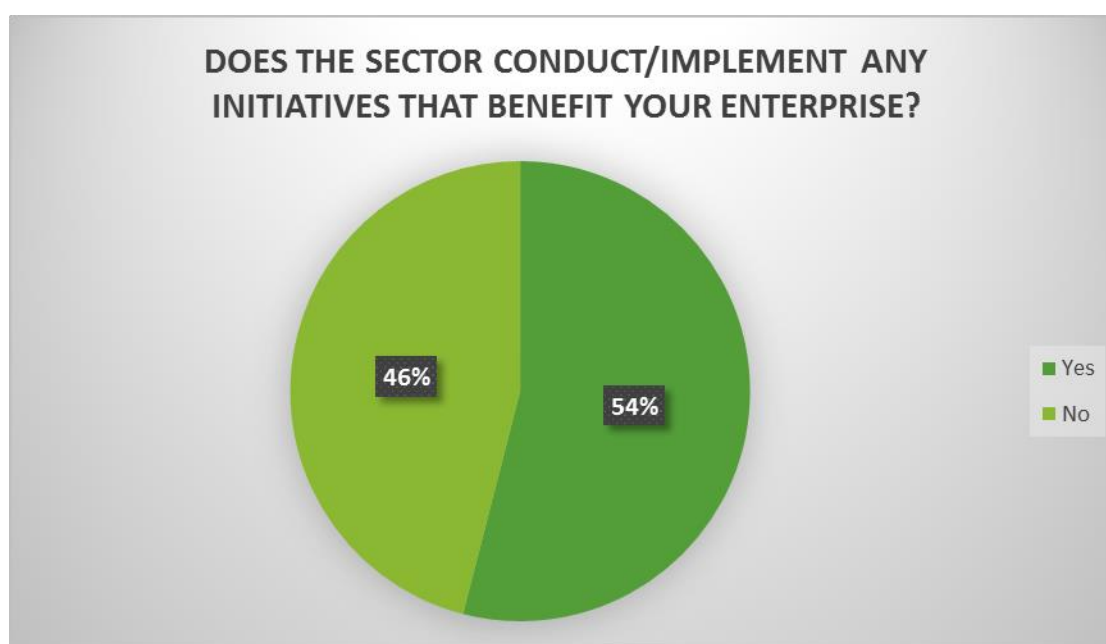


Figure 14 aimed at gathering information regarding to the initiatives undertaken for the benefit of enterprises. Fifty-four percent (54%) indicated that the Sector does indeed implement initiatives that are beneficial to their organisation while the remainder responded negatively. However, the comments received did not specify the current initiatives being undertaken instead focused on the preferred assistance required such as acquiring and managing timber plantations as well as financial support.

There was also an indication that it is not clear how the Sector benefits organisations and that some parties in the sector are unaware of the initiatives undertaken. It illustrates that the role-players within the industry is aware of the mandate of the FSCC and the charter, but that this does not always convert to efforts specific to their organisation. A major focus in the feedback received was on financial assistance, which was influenced by the impact of the economic conditions and instabilities within the sector.

*Figure 15: Benefits to Low End of Value Chain*
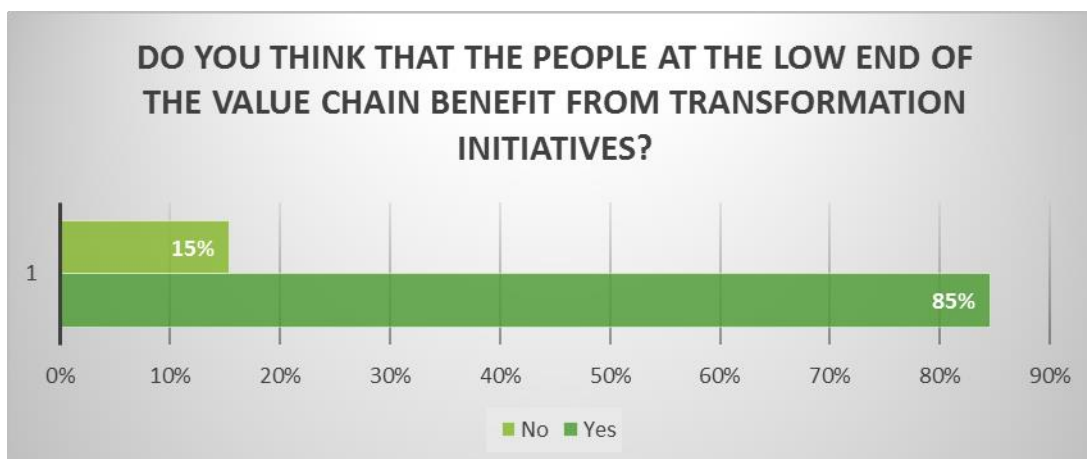


One of the aims of the Forest Sector Code is to address equity within the entire value chain of forestry. The majority believe that these initiatives do benefit the entire value chain as indicated in the figure 15 above.

There were two comments received for this question, though both points out that they are not aware of what those activities entails. This is not statistically significant, but does correlate with the comments in the previous survey questions asked.

*Figure 16: Initiatives Implemented by Corporates Vs Benefit to Transformation*
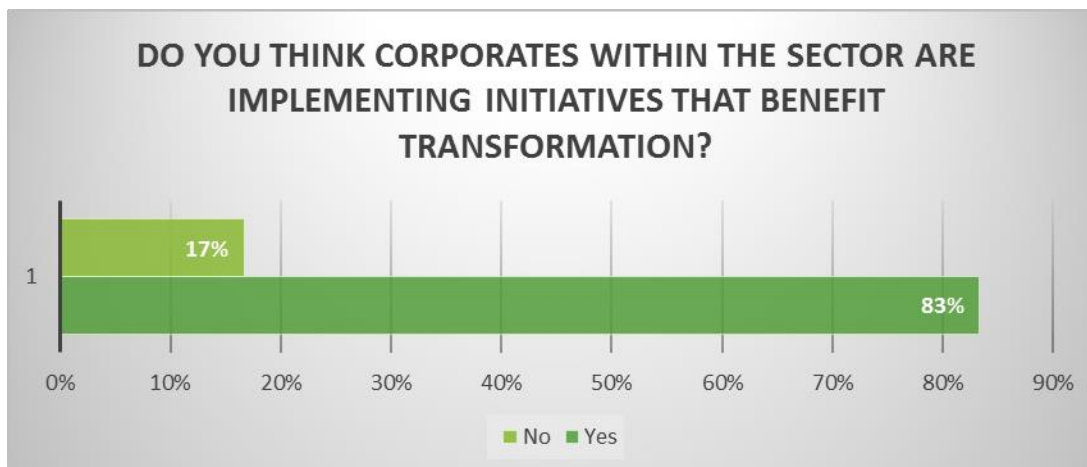


Figure 16 shows how 83% of the respondents, that completed the survey, do agree that corporates are implementing initiatives that benefit transformation. Only one comment was received for this question and the respondent indicated that they were unsure if corporates implemented initiatives that benefit transformation.

*Figure 17: B-BBEE Level Link to Transformation Activities*



This question was aimed at understanding how activities undertaken correlates to the B-BBEE level achieved. The majority of the respondents accounting for about 85% acknowledges that their B-BBEE level is linked to their transformation initiatives. This is a positive indicator in that transformation activities are considered important by organisations for achieving better B-BBEE ratings. Due to the majority of the respondents choosing to stay anonymous it was not possible to link the individual responses to specific subsectors. Unfortunately, there were no comments received under this question and no activities were identified.

*Figure 18: Sector Codes Vs Generic Codes*
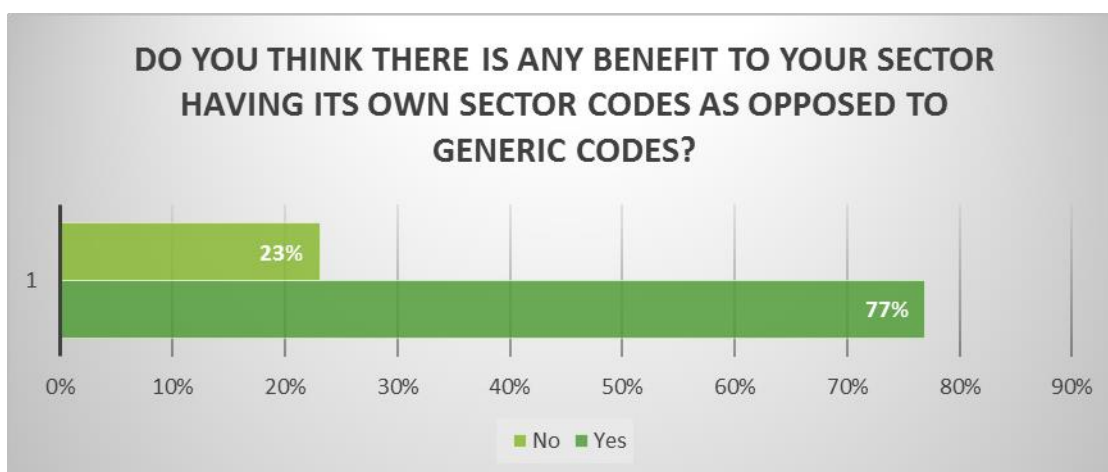


According to the B-BBEE Act as amended a sector is allowed to draw up its own sector specific Code as long as there are common commercial benefits for all entities operating in the sector. The general consensus from most of the respondents (77%) was that it is beneficial to have Forestry Sector Codes compared to the generic Codes.

The one comment received for this question indicated that the respondent found the different codes per sector to be confusing and believes that one generic scorecard should be sufficient. Although not being statistically significant it does point towards the importance of training on

the aspects of the Sector Specific Codes. This aspect of clarity on Sector Codes was also highlighted in the informal feedback given by the call centre operators – specifically received from the SMMEs.

**Recommended Initiatives to Assist Transformation Within the Sector**

This was a fully open-ended question, to allow for respondents to express their views. 9 respondents answered this question, of these, 4 indicated that they have no initiatives to recommend and one indicated that they viewed this question as not applicable to their organisation.

Recommendations that were provided by the remaining respondents spanned the following points:

- Assistance in acquiring and managing timber plantations. This point was also mentioned as a comment in question 14 (Does the Sector conduct/implement any initiatives that benefit your Enterprise?).

- Assistance with developing skills through training and leadership development.

- Upliftment of the most disadvantaged black majority through:

    o Training

    o Financial assistance

    o Land availability

- Mentoring programmes

- Recognising employment of previously disadvantaged employees, not only at management and ownership level but also throughout the organisation. This point is made as it was indicated that organisations are forced into utilising mechanization, as labour is considered riskier and more expensive.

*Figure 19: Input from Informal Sector into Industry Developments*
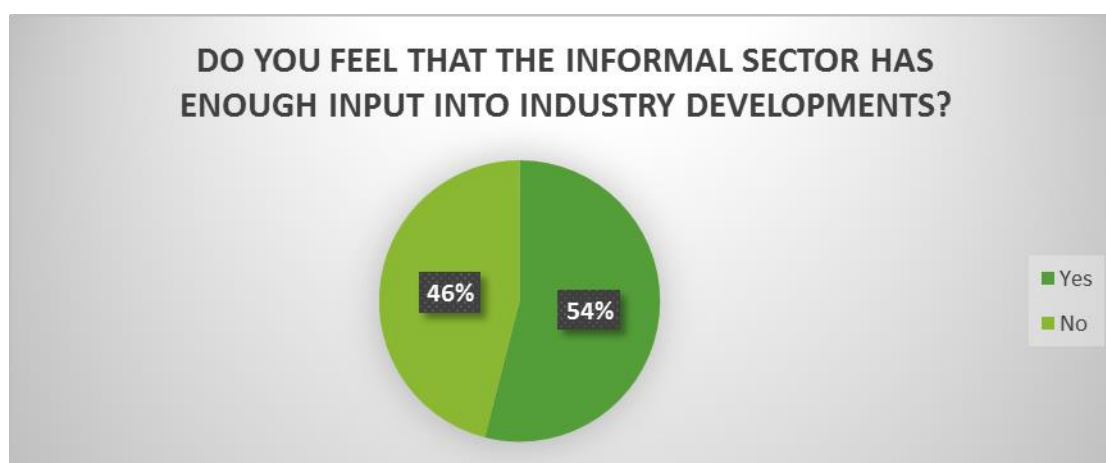
Reporting entities were asked about their views with regards to the contribution of the informal sector into the overall industry development and growth. More than half of the respondents as illustrated in figure 19 above believe that the informal sector has the ability to contribute meaningfully into industry developments. The informal sector can be further engaged so as to gather sufficient information as well as to gather a better understanding of the influence that the informal sector has had and could possibly have in this industry.

Engagement with the informal and SMME sector would be one of the challenges that the FSCC would face in the future research studies to be undertaken. It is recommended that a focus be given specifically to this sector in a separate research study as this sector is believed to have a meaningful contribution on job creation and economic expansion.

There were 4 comments received for this question. These comments highlighted that while there are community representatives on the council there are no informal sector representatives in the Council. The size and nature of the Forestry industry makes it difficult for the informal sector to play a major role and be efficient participants.

*Figure 20: Accredited / Non-accredited Training*
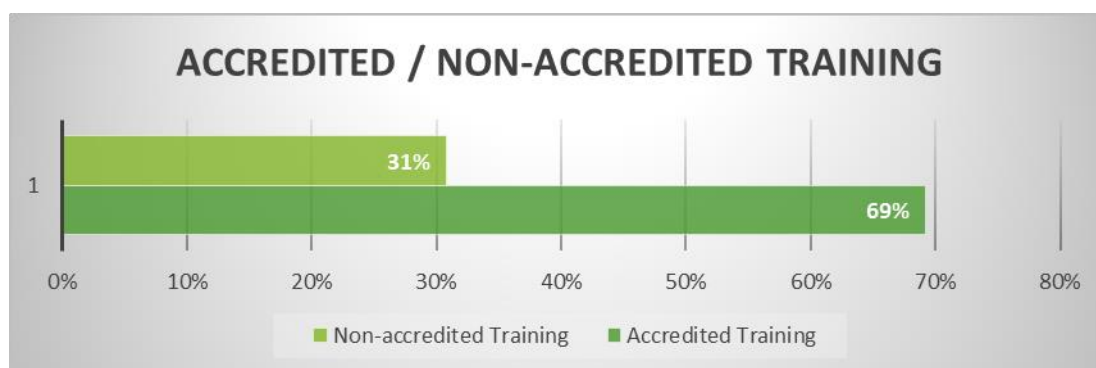


This question focused on whether or not organisations undertake accredited or non-accredited training to determine the formality of training undertaken. 69% of the respondents (9 out of 13 responses received, see Figure 20 above) indicated that they mainly undertake accredited training. The leading reason for utilising accredited training is the fact of grant claim backs through the Workplace Skills Plan (WSP) and Annual Training Report (ATR) submissions.

*Figure 21: Main Methods of Conducting Training*

The Figure 21 above demonstrates how preferred training was conducted. The responses to this question show that the majority of the respondents utilise a training provider to provide training. This is in line with the responses received related to accredited and non-accredited training.

It may be considered easier, more convenient and cheaper to utilise a training provider that has accreditation for training initiatives and has the relevant skill than for the organisation to attempt to handle this internally.

*Figure 22: Type of Training Interventions Undertaken*
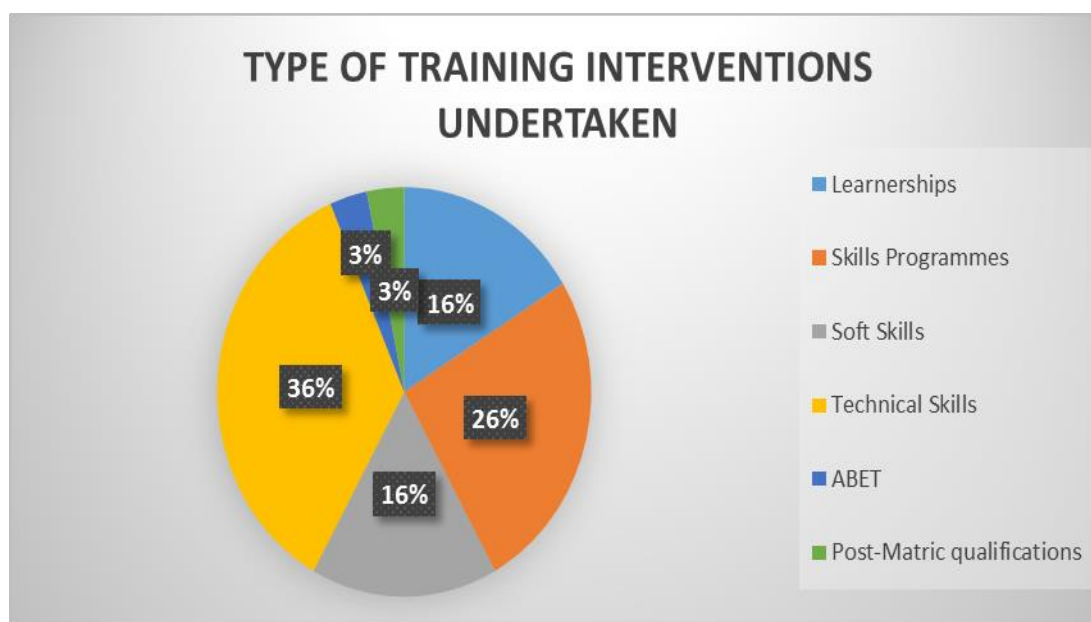


Entities have the authority to identify the type of skills required in order for its employees to remain competitive. The type of skills and most undertaken are shown in Figure 22. Technical Skills and Skills Programmes are the types of training interventions most commonly undertaken at 36% and 26% respectively.

This is in line with the Forestry industry being a largely technical industry as well as with the indication that accredited training is most commonly undertaken. Accredited training typically focuses on the technical aspects while soft-skills programmes are often not accredited and often conducted in-house.

Legislatively it is required from organisations to be compliant to the health and safety requirements of a position. E.g. a forklift operator would have to be found competent and certified to operate forklift machinery. For example, where it would beneficial for a receptionist to have a qualification it is not a prerequisite of competence in the position.

*Figure 23: Beneficiaries That Benefit from Training Initiatives Undertaken*
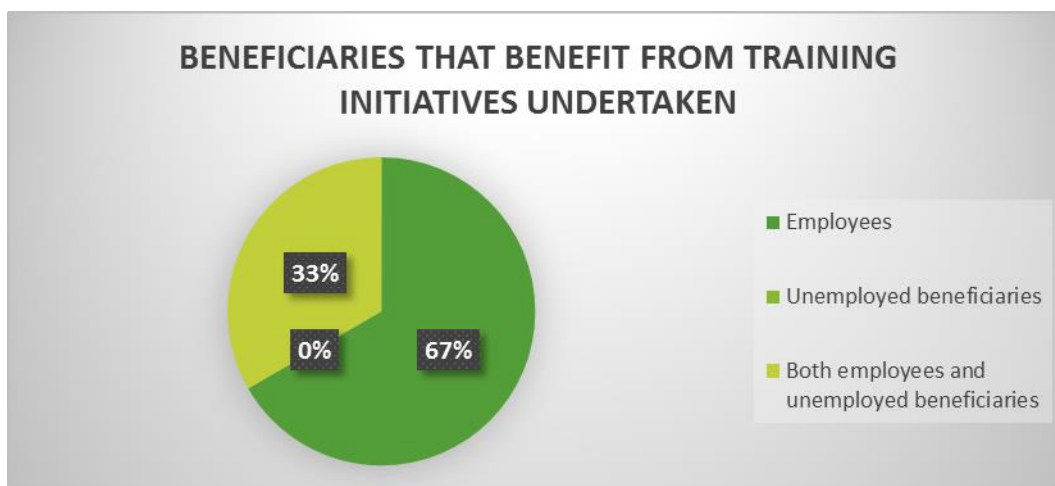


Employees are the main focus in terms of beneficiaries of training as is indicated in Figure 23, making out 67% of the respondents. No focus is given to unemployed beneficiaries alone (0%), although it is to be expected that organisations would not neglect to train their own employees if they are also training unemployed beneficiaries.

This indication is critical to understand as in the Draft Amended Forest Sector Code, under the Skills Development Element (identified as a priority element) entities will be required to train the unemployed. Bonus points are even awarded to entities who absorbs the skilled unemployed.

The 33% of respondents that indicated that they do indeed undertake training of both employed and unemployed beneficiaries is a positive indicator. This initiative proves that the sector understands its role to the national agenda of creating jobs and giving natural persons skills that will improve their employability within the industry. It would be necessary for the FSCC to investigate the ratio of learners' vs the number of employees. This can then be compared to the employed vs unemployed learners. It would be imperative that the FSCC link the recommended study with the studies undertaken by the relevant SETA in this case the Fibre, Manufacturing and Processing (FPM) SETA.

**View of the specific transformation and skills development initiatives that are required for the Forestry Sector**

Respondents were requested to provide their view on particular transformation and skills initiatives that are required within the Forestry Sector. There were 5 respondents that answered this question of which 2 indicated that they did not have any views.

The other 3 respondents indicated that accreditation processes should be simplified to allow for more in-house training, that skills development initiatives are hampered by the unavailability of Sawmilling programmes and that SETA processes are too lengthy yet there is more that is required regarding the skills development within timber plantations.

*Figure 24: Monitoring and Enforcement by the FSCC of the Forest Sector Code*
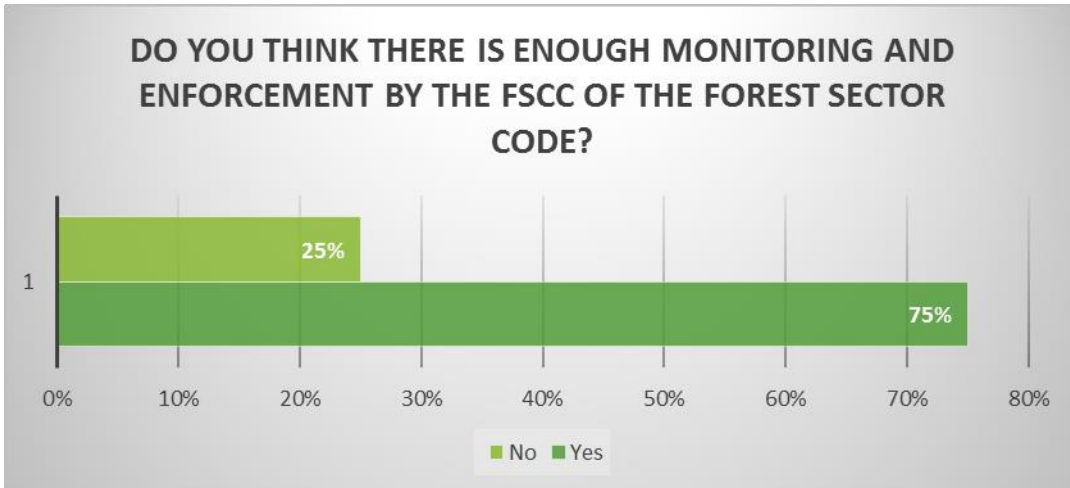


For this particular question there were a total of 12 respondents. The FSCC is mandated to monitor and report on the B-BBEE implementation in the Forest Sector. Most of the respondents agree to that there is adequate monitoring and enforcement of the Forest Sector Code by the FSCC.

75% of the respondents do agree that there is enough monitoring and enforcement of the Forest Sector Code by the FSCC.

Two comments were received for this question indicating that there is no awareness of any monitoring and enforcement activities undertaken by the FSCC. The comments also made reference to the implication that there is no awareness of the Forest Sector Code and that the FSCC could play a major role in facilitating awareness and implementation programmes.

*Figure 25: Relevance and Purpose of the Forest Sector Code*
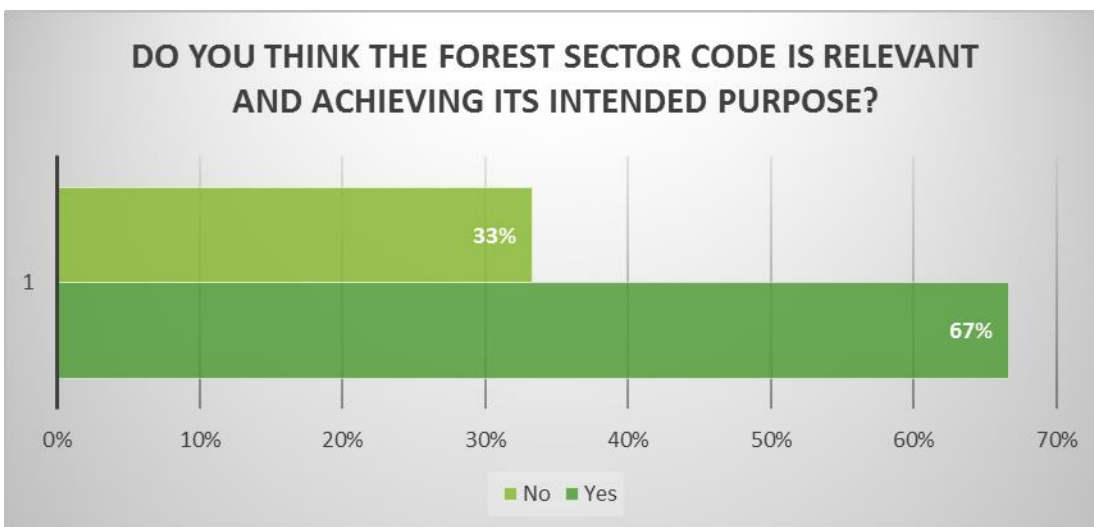
The majority of the respondents to this question did indicate that they are of the opinion that the Forest Sector Code is relevant and achieving its purpose as demonstrated by figure 25.

The comments received for this question indicate opinions that the Code is relevant but it is unclear if it is achieving its intended purpose, there is uncertainty as to the Code's intended purpose and a view that the Draft Amended Codes are difficult to adhere to with the effect of current benefits already realised being minimised and the demotivation of the industry.

**Organisational Successes Regarding the Implementation of B-BBEE**

Organisational successes related to the implementation of B-BBEE provide indicators of the benefits that organisations have seen for themselves.  The highlighted successes are as follows:

- o Employing with no reservations.
- o Improvement of company visibility, image and profile in the country through the creation of a BEE Trust, implementation of learnerships and various CSI projects.
- o Successful landing of contracts, improved empowerment of employees and better skills transfer.
- o The successful integration of disabled persons into the community as well as the provision of a crèche.
- o Improvement of rating from Level 5 to Level 1 within a four-year time period.
- o Increased internal training and more attempts to assist other enterprises within the industry.
- o Increased skills development and promotions.

The minority of respondents answered negatively indicating that they do not have success stories to share and the indication that it is considered only to be an administrative burden.

**Organisational Constraints Faced Regarding the Implementation of B-BBEE**

Receiving feedback on the constraints faced by organisations when implementing B-BBEE provides further information on what organisations consider to be the biggest challenge of implementing B-BBEE.

The minority of respondents indicated that there were no difficulties experienced. The feedback from the majority of the respondents yielded the following feedback:

- o High demand for qualified and experienced B-BBEE candidates is still a challenge.
- o B-BBEE candidates have misconceptions related to the elements of ownership and equity.
- o Enforcing the management element is a challenge within small organisations and viewed as not feasible in the short-term.
- o Companies owned by international corporates face challenges related to the implementation of B-BBEE if ownership and minority shareholding is not part of the group strategy.

- o The lack of empowered suppliers places a strain on achieving the preferential procurement element.

- o Financial constraints create a challenge in funding Enterprise and Supplier Development.

- o The higher requirements of the new Codes are viewed as having the opposite effect of what was intended.

**Summary of Online Survey**

In general, the overall views shared in the survey have been positive, however it should be borne in mind that only a small group responded to the survey, of which the majority came from Generic (MLE) organisations and QSEs.

Based upon the limited response as well as the challenges faced when contacting organisations to request their participation it is recommended that the FSCC undertake initiatives to increase their visibility within the industry and create better awareness of their role, the sector codes and the benefits to be gained from implementing B-BBEE. This recommendation is also upheld through the number of responses that indicated that there is not a clear understanding of the Forest Sector Code and FSCC.

Within the Contracting sub-sector there does also appear to be confusion as to where organisations fit in within the Sector. Some of the respondents to the survey indicated that they are unsure as to which sector they fall in. They might provide transport services to the forestry sector and thus fall outside the scope of forestry, yet they do make out part of the forestry value chain. A clear distinction should be drawn between value chain and sector specific aspects.

Assistance in dealing with constraints faced and the provision of guidance to organisations on these constraints may also assist to improve the level of transformation within the Forestry industry.

# B-BBEE Status within the Sector

## Database Profile

The database aspect has been discussed earlier in the report and will only be shown in the following table to establish the number of companies actually included in the study.

Table 5: Profiles of Responses

| Feedback | Number(s) |
|---|---|
| Number of enterprises on database | 1014 |
| Associations on the database | 1 |
| Companies that have closed down | 57 |
| Duplicates on the database | 187 |
| Duplicate contact details | 76 |

| | |
|---|---|
| No answer – multiple attempts | 112 |
| No certificate – reason not provided | 77 |
| No contact details | 42 |
| Does not fall within the forestry sector code | 12 |
| Contact numbers do not work | 183 |
| Outstanding – certificates were not received by the cut-off date | 20 |
| Remove from database – respondents requested removal | 11 |
| Unable to reach relevant person | 9 |
| Wrong number – contact details do not | 26 |
| Actual number of enterprises | 430 |

There were actually 430 enterprises that were requested to submit their B-BBEE certificates with the underlying information. However, from the 430, it was not possible to categorise these entities in terms of turnover and labelled them as either MLE, QSE or even EME.

Only 59 certificates were received from the respective enterprises. Specific aspect extraction was done on the collated data. The data was then categorised into MLE (Generic), QSE and EME respectively.

The following section below details the analysis of the MLE, QSE and EME type of business categories.

## Medium and Large Enterprises (MLE) Analysis

Enterprises that receive a turnover above R35 million are classified as Medium and Large enterprises. These are usually the large companies or enterprises in the sector that are believed to have a potential to contribute significantly to effective B-BBEE implementation and initiatives. These enterprises are verified using all the seven scorecard elements. The analysis of the performance of these enterprises give the general performance of the sector.

It is necessary for these MLEs to utilise the network that they work within to drive B-BBEE ingenuities. This is to both the benefit of the MLEs as well as the smaller entities within the sector.

One challenge observed when analysing the information received from the MLEs was the incomplete set of supporting or underlying information and thus there were statistical breaks. This also influenced the breakdown for each sub-sector and thus in-depth analysis could not be conducted for this aspect. In order for the report to be coherent between all the enterprises status' the common factors of B-BBEE reporting were also considered.

The first notable aspect for this reporting period was the increase in B-BBEE certificates received from the MLEs as shown in Figure 26 below. The following figure 26 even compares the certificates received over the last 5-year period.

*Figure 26: MLE B-BBEE Certificates Received Per Year*



Figure 26 shows a significant increase of reporting entities in comparison to the last 5 year reporting periods. This could be attributed to a number of reasons, one possibly being that MLE companies are beginning to understand the benefits of implementing B-BBEE within their entities.

MLE Average scores for the Scorecard Elements

*Figure 27: Annual Average Score per Element for the Period 2014/15*
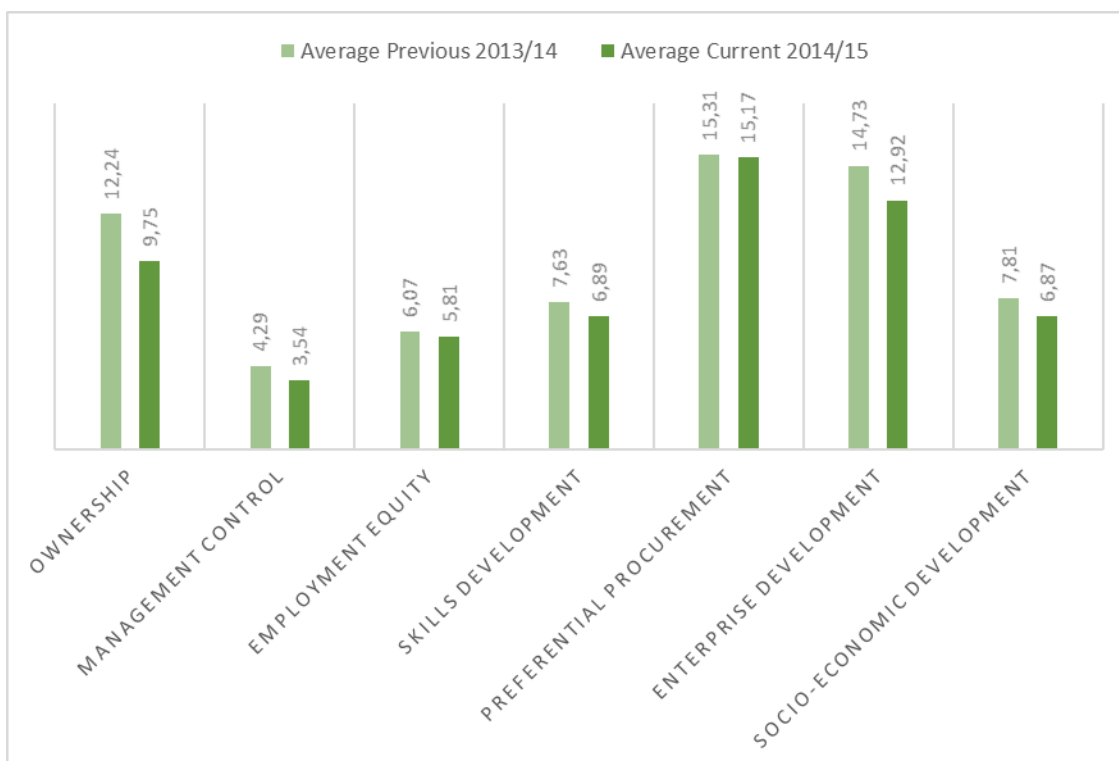
Figure 27 indicates the average scores achieved for each of the seven elements is in comparison to the previous reporting year. Most of the elements are showing a decline in terms of the average score achieved. Four of the seven elements namely Ownership, Management control, Employment equity and skills development have failed to achieve at least a 50 percent target towards the allocated weighting points. Even though there were slight declines in terms of the remaining three elements, but they still prove that the sector is more comfortable with implementing the requirements of these elements.

Part of the reasoning behind using the weighted average of each verified score is also due to the percentage aspect having a broad a difference between the high and low values.  It is assumed that the mean method was used in the previous reporting years and thus percentages would be too easily influenced by extreme high and low values.

By converting some of the percentages from the previous report the following trends could be extrapolated:

Table 6: Changes in Elements from Previous Years

| Element | Change Description |
|---|---|
| Ownership | Significant decrease (20.3% decrease) |
| Management Control | Significant decrease (17.5% decrease) |
| Employment Equity | Slight decrease (4.3% decrease) |
| Skills Development | Slight decrease (9.7% decrease) |
| Preferential Procurement | Slight decrease (0.9% decrease) |
| Enterprise Development | Significant decrease (12.3% decrease) |
| Socio-Economic Development | Significant decrease (12% decrease) |

The summary in table 6 above emphasises the percentage declines in all the seven elements. The specifics to the decrease in the scores cannot be clearly identified. However, the declines could be correlated, to the qualitative feedback received during call centre operations, where a majority of the respondents indicated that there is a decreasing interest in the B-BBEE aspects. Some companies also indicated that B-BBEE has not directly benefitted their businesses. Economic conditions could also be another factor that has contributed to the current B-BBEE performance.

Ownership, Management Control, Enterprise Development and Socio-Economic Development have seen the most significant decreases.  The aspect of ownership could be attributed possibly to the acquisition of enterprises as well as the closing down of many companies within the sector.  Even though, Enterprise Development, Preferential procurement as well as Socio-Economic development have seen the slightest declines, they are still the best performing elements. This trend has been observed in the forest sector for the past four reporting periods.

MLE BEE Contributor Status

Table 7: Average B-BBEE Recognition Level

| Period | MLE Average Recognition |
|--------|------------------------|
| 2010/11 | Level 4 |
| 2011/12 | Level 4 |
| 2012/13 | Level 5 |
| 2013/14 | Level 4 |
| 2014/15 | Level 4 |

Table 7 above compares the level contributor status achieved in the last 5 year reporting periods. The MLEs have restored the level contributor status of level 4.

It can be speculated that the proposed Amended Draft of the Forest Sector Codes could have an effect on the level of recognition for many of the organisations considering the discounting principles and that some of the elements have been prioritised.

There were however no any other studies such as the KPMG B-BBEE report that could be compared with this study during this specific period.

## 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.

The weighting target under the Ownership element is 20 with an allocation of 5 points for the involvement of employee ownership schemes, broad-based ownership schemes or cooperatives and for having new entrants and for achieving higher targets on economic interest of black owned enterprise and black women owned enterprises. The following figure shows the year on year average achieved relating to the target.

40

*Figure 28: 2011 – 2015 MLE Ownership Scorecard Performance*



The figure 28 above clearly depicts that there has been a significant decrease of about 20.3% in the average score, achieved for ownership. Furthermore, the score achieved showed to be the least in the last reporting years. One could not be specific about what led to this score since underlying information could be obtained and analysed.

There was unfortunately not enough information to establish the score for each specific sub-sector.  The significant decrease in average score could however not solely be attributed to decline in certificate submission only.  Other factors that could influence the decrease could be:

- A profile change due to acquisitions and mergers

- A change in focus for organisations during the reporting period – rather focusing on other elements

- Short supply on qualified and competent ownership candidates

- Decline in profitability, thus focusing capital on basic operations and not further succession development

- Scoring 0.00 on the specific element, thus influencing weighted average

Out of the 59 valid certificates received 44% of the entities were MLEs.  35% of the entities scored 0.00 which has a negative influence on the weighted average.  MLEs are rated on all elements of the scorecard and thus a practically even distribution should be expected between all the elements.  27% of the MLEs that submitted valid certificates scored above 20 points for this specific element.  Indicating that they utilised the bonus point system that is in place for this element.

Management Control

The sector seeks to achieve equitable and fair representation of black people in all professional categories and levels in the workforce. This could be within Boards, Executive directors or top managers.

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 forestry 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 to promote the image of the Forest Sector, succession planning, implementing Skills Development programmes and recruiting suitable management staff, necessary to achieve these targets.

*Figure 29: 2011 – 2015 MLE Management Control Scorecard Performance*



The score achieved under the management control element is 3.54 as shown in Figure 19. This has been the worst score when comparing to the previous scores and such performance confirms that this is an element the industry finds a challenge to implement.

This performance translates to a significant decrease of about 17.5% in the average score for the Management Control Element. Not receiving all the supporting documentation from the MLEs has limited the information on specific demographics of management control. About 35% accounting for 9 of the entities, that were rated on this element scored nothing.

This performance had a significant negative influence on the weighted average. In addition, the 0 score was not only achieved in the management control element. Twenty-Seven representing 7 MLEs scored 0.00 on both the Ownership and Management Control elements. Only 8% (2) of the MLEs scored 10 points on this element.

The inference can be made that there is a gap created between Black Ownership and Management. A deduction that can be made is that there is a focus on ownership, often through employee shares schemes, and not as big a focus on the succession planning of

individuals into management. The development of individuals into management levels normally is a lengthier process and needs to make out a firm part in the business objectives of the organisation.

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

Priority is given to the employment of black disabled people and employment of black people into senior, middle and junior management position. An entity is awarded for exceeding targets on disabled employees, senior, middle and junior and management.

*Figure 30: 2011 – 2015 MLE Employment Equity Scorecard Performance*



The target weighting points for employment equity is 15 points with an additional 3 bonus points allocated for achieving higher targets. Figure 30 shows that the sector achieved 5.81 points which is almost a third towards the total weighting points.

The score achieved further shows a decline of about 4.3% compared to the previous achievement and this has led to a considerably larger gap between target and actual performance.

The performance of this element shows an almost a similar trend as demonstrated on the management control in terms of struggling to at least achieve a 50% of the target. Moreover, it is also one of the worse performing element. It is of concern that such trends keep repeating themselves and maybe Council could recommend stricter actions to improve on this performance.

In the absence of the underlying information, it was impossible to confirm what is captured in the Employment Equity report in terms of black people representation in management positions.

Only 1 (4%) of the MLEs scored zero points on this element. Furthermore, only 1% (4) of the MLEs scored bonus points on this element. This entity could not raise the average, significantly enough to make a statistical difference towards a more positive scorecard performance.

A positive from this element is that 96% (25) of the entities has had a rating above 0.00 on this element, indicating that there are continuous initiatives in support of employment equity by entities. However, a significant gap between the target points required and the average points awarded is still seen.

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.

*Figure 31: 2011 – 2015 MLE Skills Development Scorecard Performance*



Skills development aims to provide accredited skills for black and disabled employees. The sector continues to observe poor performance and a decline of about 9.7% in the current year. The score achieved of 6.89 as illustrated in figure 31 proves to be the lowest when compared to the last 5 year reporting periods, this is worrying in the sense that there seems to be a constant and significant declines between reporting years. Such a performance also has an impact to the employment statistics.

Although the decline in this element was slight (9.7%), in comparison to the previous reporting period, it still points towards a lessening focus on this element.

The highest score achieved under this element was 12.76. About 12% (3) of the MLEs that submitted scored no points on this element.

## 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.

*Figure 32: 2011 – 2015 MLE Preferential Procurement Scorecard Performance*
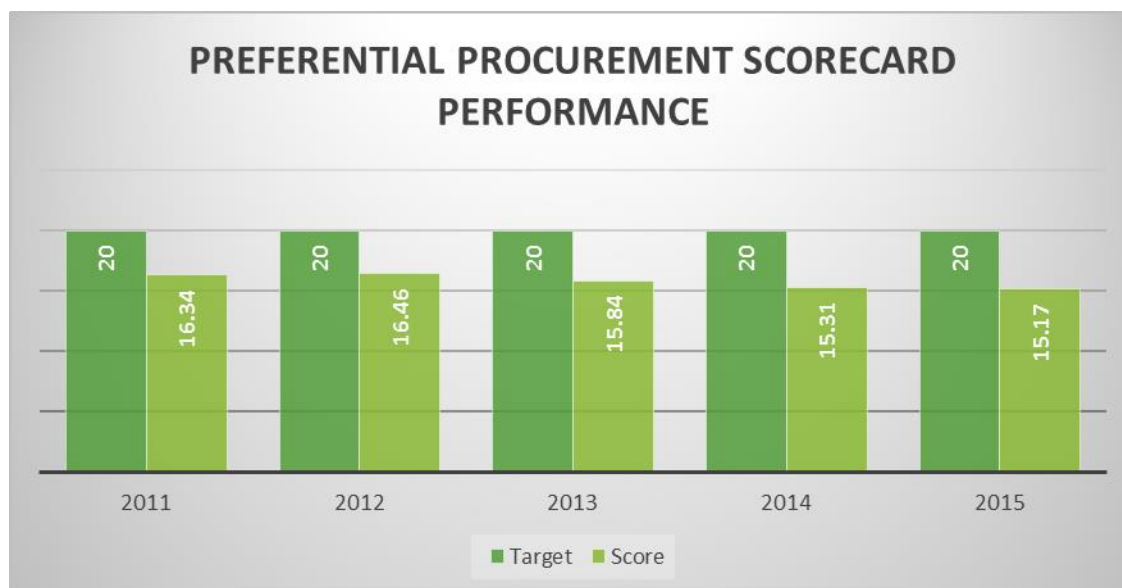


MLEs achieved 15.17 points under the preferential procurement element, (see figure 32).

The sector's Preferential Procurement performance has seen slight declines since 2012 (7.8%), though an acceptable score has achieved through out the reporting period. This could be as a result of a shrinkage in the support of BO and BWO companies. Due to the constant decrease in this element it can be suggested that more initiatives could be undertaken to support BO and BWO companies.

None of the MLEs that submitted valid certificates scored 0.00. This is a positive result that indicates that all the entities support Preferential Procurement in some form or another. The lowest score achieved under this element was 4.18 while it is worth noting that one of the MLEs achieved the total 20 weighting points.

## 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.

Shortages in log and sawtimber supplies enable forest enterprises to leverage B-BBEE through the sale of these products to BEE enterprises. For this reason, points have been re-allocated to support the sale of logs and sawtimber to BEE compliant and black owned enterprises.

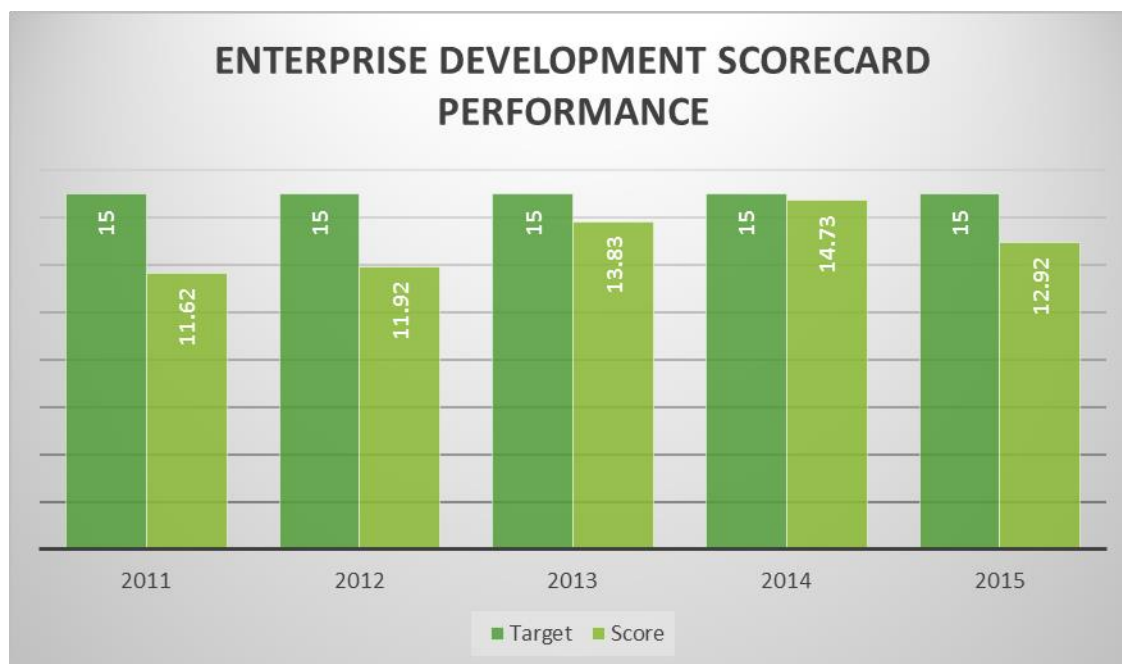*Figure 33: 2011 – 2015 MLE Enterprise Development Scorecard Performance*



Figure 33 indicates the sector performance with regards to the Enterprise development element. In terms of Enterprise Development, the sector has experienced a steady growth from 2011, but experienced a significant decline of about 1.81 points in this reporting period achieving 12.92 (12.3%) points. The performance stills serves as confirmation that even though there has been a slight decline, the sector still feels comfortable to implement this element as score achieved is above 80% towards the target.

This is verified from the submission and the scored achieved by the entities. Fourteen of the MLEs accounting for about 54% scored majority achieved the total weighting points allocated to this element. Only 4% (1) of the MLEs scored no points under this element. This achievement endorses industry support towards creating new businesses. In further support to this, 84% (22) of the MLEs had a score greater than 10 on this element.

## 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. This is further outlined in the following paragraph.

*Figure 34: 2011 – 2015 MLE Socio-Economic Development Scorecard Performance*



Industry has shown a noticeable drop in performance from previous years. However, the performance continues to exceed the target score of 5 points as shown in figure 34. Despite the industry's decline in spend year-on-year, the industry's still achieved above average performance on the development of communities as shown in figure 34. The weighting on this element is 5, with the additional 3 bonus points being awarded for additional Contributions made by the Measured Entity).

There were about 8 MLEs31%, accounting for 8 MLEs that scored 5 on this element. About, 12 totalling to 46%, of the MLEs got a score of 8 points including the bonus points. None of the MLEs that submitted valid certificates recorded 0.00 points.

## Qualifying Small Enterprises (QSE) Analysis

As visually represented in figure 35 below, the number of QSEs that participated in the B-BBEE status report has been on a steady increase over the past five years.

*Figure 35: QSE B-BBEE Certificates Received Per Year*



There has been 5% (1) increase in the certificates received for this reporting period compared to the previous reporting period as outlined in the above figure 35. QSEs have the opportunity to choose any preferred four of the seven elements. However, in the new proposed provisions, this will not be the case. QSEs will be verified using the five elements. However, 100 and 51 percent black owned QSEs stand to enjoy better benefits as they will automatically assume a level 1 or level 2 status respectively. These enhanced enterprises will only be required to supply an affidavit, or a Companies and Intellectual Property Commission (CIPC) certificate to prove their black ownership profile, turnover and even their empowering supplier status.

The figure 36 below show the average score achieved per element. Since a QSE is rated against four elements, each element has a weighting target of 25 points excluding those that have bonus points attached.

*Figure 36: Annual Average Score per Element for the Period 2014/15*
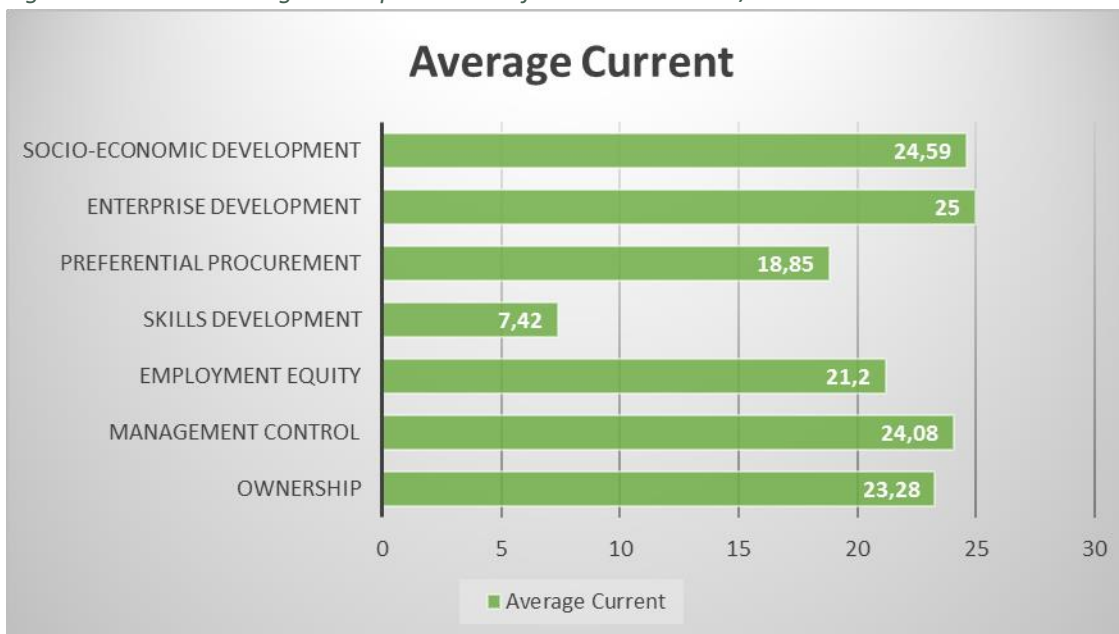
QSEs continue to achieve acceptable points in almost all the elements except for skills development as demonstrated in figure 36 above. This may lead to a conclusion that the aspect of skills development has however not been addressed fully as similar performance is observed within the MLEs. Often than not, it may be due to that QSEs are production focused and do not necessary have a large workforce. This further proves that even the skills development factor is not only a challenge to a certain category of enterprises but an entire sector' challenge.

QSEs have performed exceptionally well in enterprise development, and socio economic development, a trend that is similar to the one observed under the MLEs. They have also scored better points in management control and employment equity which is in contrary to the performance achieved within the MLEs

QSEs have maintained their Level 3 BEE contributor status even for the year being reviewed. The average score over all 7 elements amounted to 20.63, which translates into a weighted value of 82.52. This indicates a decline of about 5.17 points from the previous reporting period, where by a score of 87.69 was attained.

The figure 37 below outlines the percentage of the targets achieved in comparison between the previous reporting year and the current reporting year.

*Figure 37: 2014 vs 2015 Target Achievement*
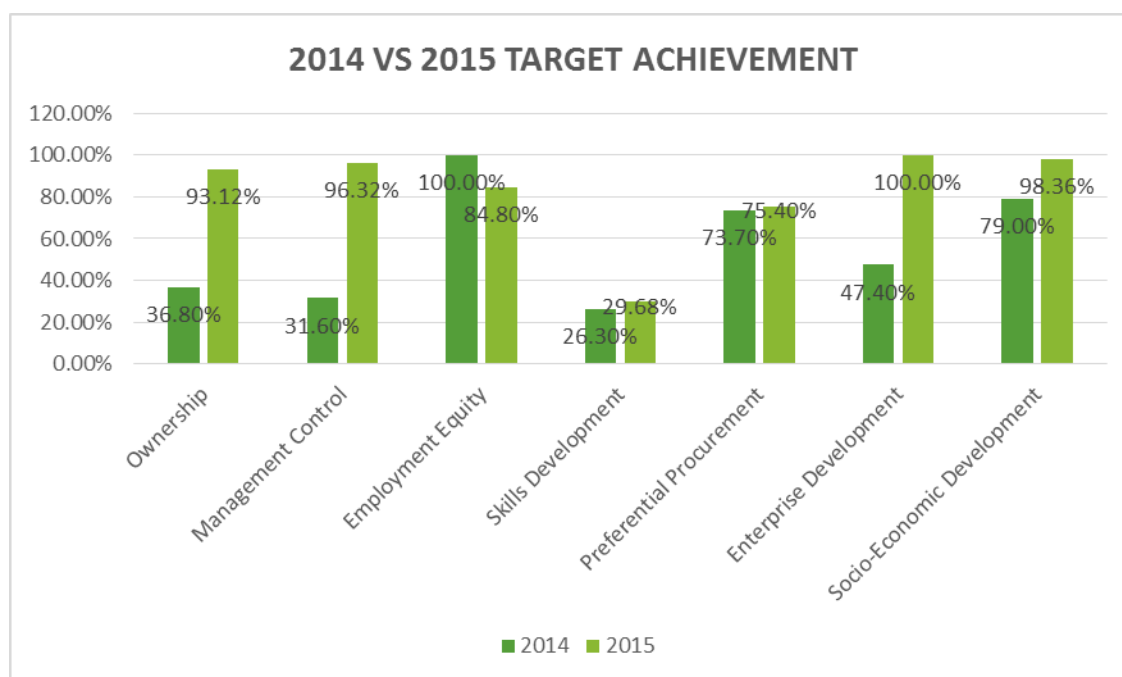


Three of the seven elements namely Ownership, Management Control and Enterprise Development achieved significant increases. Employment Equity was the only element that showed a declined when compared to the previous year performance.

Comparing MLEs and QSEs, it is evident that QSEs have in general outperformed the MLEs in achieving the set target weighting points. For Enterprise Development QSEs achieved 100% while MLEs achieved 86.13% of target.

## Ownership

*Figure 38: 2011 – 2015 QSE Ownership Scorecard Performance*



Figure 38 presents the scores achieved in comparison to the last five reporting years. The Ownership element has slightly declined by 2.29 points (8.96%) to the current 23.28 average. Only seven accounting for about 32% QSEs opted to be scored on this element. This is a 1% drop from the previous reporting period. 4 out of the 7 QSEs had a 100% BO profile, with only 1 of the 7 QSEs having a 30% BWO profile.

## Management Control

*Figure 39: 2011 – 2015 QSE Management Control Scorecard Performance*

The Management Control element has experienced a significant increase (25.09%) from the 2014 period to the current 2015 reporting period as shown in figure 39. There were only seven QSEs preferred to be verified against this element. The lowest score achieved amongst the seven was 16.63 with 27 (25 target plus 2 bonus point being the highest obtained. 57% of the QSEs that opted to be rated on this element scored 25 and above. In addition, the Management Control element has seen a steady decline between 2011 and 2014. The increase in the average score during the 2015 period suggests a positive change in the management structure of most QSEs and ascertains that QSEs find Management control less challenging to implement.

Employment Equity

*Figure 40: 2011 – 2015 QSE Employment Equity Scorecard Performance*



QSEs attained an average of 21.2 points under employment equity as illustrated in Figure 40.

The 2015 reporting period has experienced a decrease of 10.02% from the 2014 reporting period. All 22 of the QSEs that submitted valid certificates opted to be measured against this element. The lowest score achieved was 6.29 with 27 (25 target plus 2 bonus points) being the highest achieved.

There was a reasonable number of QSEs that achieved the total allocation of weighting points on this element. The Employment Equity element has seen an up and down movement over the past 5 reporting periods. The 2013 and 2015 reporting periods correlate closely to with each other, with a sharp increase in the 2014 period. This increase could be attributed to many QSEs having representation above the EAP in 2014 and that they subscribe to the requirements of the Employment Equity Act.

## Skills Development

*Figure 41: 2011 – 2015 QSE Skills Development Scorecard Performance*



QSEs have also shown to be struggling in implementing skills development.  Figure 41 illustrates the performance of QSEs under the skills development. The result shows a slight decrease of about 7.48%. Even though QSE have the liberty to choose any four they desire to implement, it is worrying that such a low score could be achieved. There could be a number of reasons for this, one being that most QSEs have small operations and limited number of employees and often than not training is not a priority.

However, the current year has seen an increase in terms of QSEs opting to be rated on skills development. One of the QSEs scored no point and only one QSEs managed to obtain the total weighing points.

## Preferential Procurement

*Figure 42: 2011 – 2015 QSE Preferential Procurement Scorecard Performance*
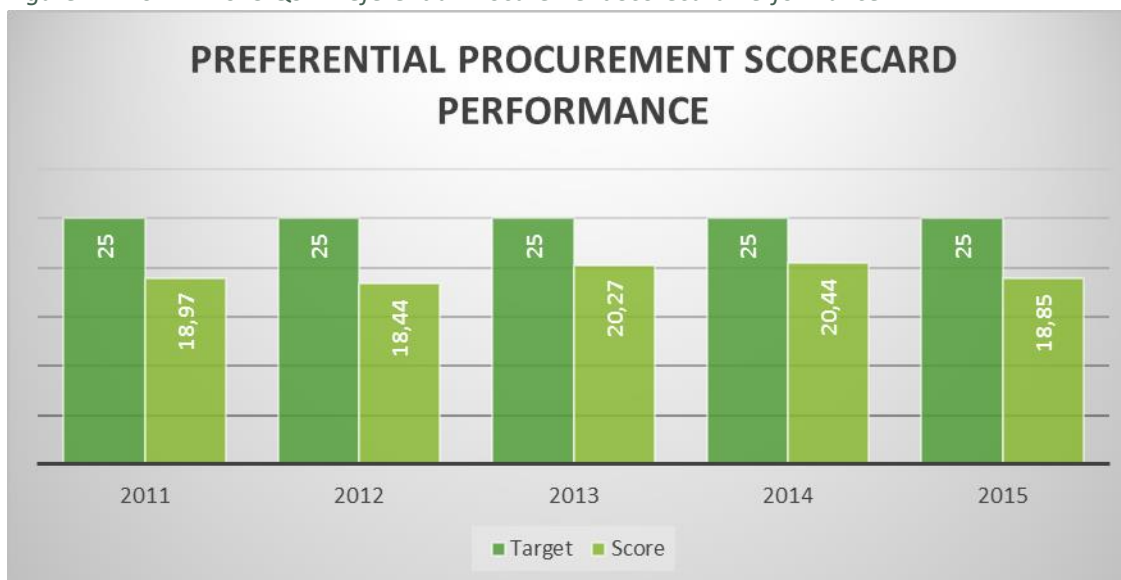
The 2015 reporting period has seen a 7.78% decrease from the previous reporting period as indicated in figure 42. An average score of 18.85 was achieved by the QSEs. This element has seen relative stability in the average scores over the past 5 reporting periods.

There was also an increase in the number of QSE preferring to be scored against this element. In addition, eight QSE scored the total weighting points under this element. The inference could be that these QSEs have maintained a stable relationship with their BEE compliant suppliers.

Enterprise Development

*Figure 43: 2011 – 2015 QSE Enterprise Development Scorecard Performance*



Figure 43 outlines the performance of QSEs in terms of the Enterprise development. A total weighting points of 25 was achieved. This is one element that has seen a steady increase throughout the reporting periods.

A majority of the QSEs preferred not to be rated against this element. This may be due to the cost of implementing Enterprise Development initiatives. Interestingly all those QSEs that were verified against this element scored all 25 points each and hence the average points achieved being 25.

## Socio-Economic Development

*Figure 44: 2011 – 2015 QSE Socio-Economic Development Scorecard Performance*



The average score on this element has remained fairly stable for the past 3 reporting periods, with only a 0.48% decline from the previous reporting period comparison to the current period as indicated in figure 44. Only 2 of the QSEs that submitted valid certificates opted not to be measured on this element. The lowest score achieved by QSEs was 18.23. 16 of the QSEs scored 25 or more points. The high average score on this element demonstrates industry's commitment toward community involvement and development as this trend is also seen within the MLEs.

## Exempt Micro Enterprises

Exempted micro enterprises are exempted from being verified using the scorecard elements. These are exempted because they currently have a turnover of less than R5 million.

EMEs automatically assume a level four status but may achieve a level 3 if they comply with the Codes of Good Conduct and are 50% or more black owned. EMEs may also choose to be verified using the QSE if they want to improve their rating.

However, in the draft Amended Codes, black ownership is emphasized. An EME that is 100% black owned will be automatically awarded a level one status and one that is 51% black owned will assume a level 2 status. Such types of EME will need to submit an affidavit or a CIPC certificate proving their ownership status as well as their turnover.

*Figure 45: EME B-BBEE Certificates Received Per Year*



Figure 45 above illustrates the number of EMEs that reported for the last past years. There has been a sharp decline in the submission of certificates for the EMEs.   EME s continue to achieve a level 4 status confirming that there are few non-black exempted enterprises.  This could be partly due to the lack of commitment or the cost of B-BBEE verification in case they want a better level and the possibly closures of enterprises due to the economic instability.

## BO and BWO Statistics

It is also necessary to demonstrate the BO and BWO statistics for the all enterprises as this provides with an overview of how B-BBEE has impacted on black and women owned enterprises. The following image holds reference.

*Figure 46: BO and BWO per Enterprise*
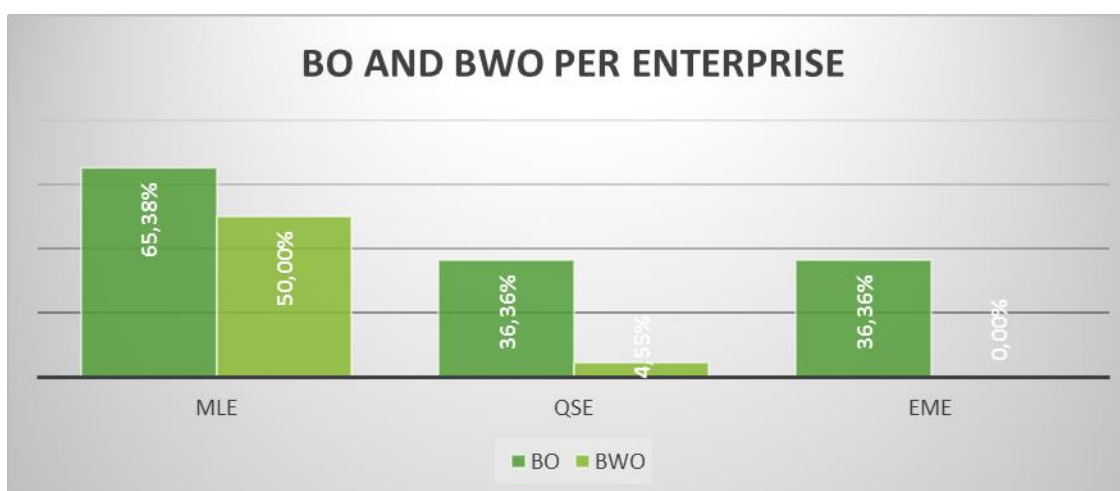
The percentage shown above is the number of enterprises with a percentage allocated to BO or BWO divided by the number of enterprises (for the specific classification, i.e. EME, QSE, MLE) times a 100.  E.g. if there were 22 certificates submitted for QSEs and 8 of those QSE have BO then it would be 8/22 x 100 = 36.36%

From the above figure we can clearly see that the MLEs lead with regards to BO and BWO. EMEs fall far behind when it comes to the ownership of enterprises by black women.

## Recommendations and Conclusion

### Recommendations

Throughout the report there have been various recommendations made to further studies and awareness.  A summary of other recommendations that the FSCC can implement for better performance on B-BBEE include the following:

- The FSCC should focus efforts on becoming more visible within the sector as well as to create awareness about the mandate of the FSCC.

- The sector codes should be clearly explained to the various stakeholders especially focused on the QSEs and EMEs to enhance their understanding and participation.

- Further studies should be done on B-BBEE implementation specifically focusing on the informal market and the SMME markets.

- A detailed value chain should be developed and the enterprises slotted into the value chain, this will provide an overview of which enterprises fit into which areas of the value chain.

- A special project should be initiated by the FSCC to gather the enterprises falling within the Forest Sector. An up to database is critical for monitoring and evaluating the impact of B-BBEE in the sector. This will also make interaction and awareness creation easier.

- Interaction between the Council and the verification agencies should be encouraged

- It is suggested that the online survey, that was used in this research study, be distributed to all the stakeholders during the year to gather information on a continuous basis.  Furthermore, it is suggested that the online questionnaire be realigned to the outcomes required during the year.

### Conclusion

The South African forest sector is one that makes a significant contribution to the economy through investment and employment provision. This reporting period is significant as it falls within the 6 to 10 year reporting window, the codes have been in existence for over half a decade. Undesirably, the amount of submissions has dropped this reporting season. There was a

significant amount of hesitation from the companies to provide the necessary documentation in terms of the scorecard certificates as well as the underlying information. This may be due to the adverse economic conditions the sector is currently facing, resulting in a tightening of belts and shelving of the seemingly outer-core activities.

It would have been more beneficial for the industry if the Associations and Verification Agencies were more involved in the project at a higher degree. According to the data analysed there has mostly been a drop in the implementation of B-BBEE in the forestry sector. When analysing the data, one must always keep in mind that there are external factors also influencing the data and information.

The sector achieved an overall level 4 status. The MLE group showed a decline in performance in most elements. The Ownership, Management Control, Employment Equity and Skills Development failed to reach the 50% target mark. However, it must be noted that the number of submissions from the MLE group increased.

The QSE group saw a 5% increase in submissions and maintained a level 3 contributor status. Ownership, Management Control and Enterprise Development all saw significant increases in performance and the Employment Equity element decreased in performance.

EMEs gain an automatic level 4. None achieved a level 3. A study of BO and BWO enterprises showed an indirectly proportional relationship between enterprise size and percentage ownership. The current report sees the introduction of a new attempt at qualitative information gathering by using an online questionnaire with a comments section. This approach will allow the report to more accurately gain access into the forestry sector's insight and view of B-BBEE. The questionnaire yielded some interesting points of view. The general consensus was that Socioeconomic Development, Skills Development and Enterprise Development were the most preferred elements. However, the performance of the MLEs especially on the skills development does not prove so. Ownership and Preferential Procurement were the least favoured.

The report also found that the industry feels the FSCC could benefit from increasing its visibility and engaging more with the industry, especially the informal sector as it is informal and marginalised. Technical skills training is deemed to be the most sought after B-BBEE compliance aspect seeing that forestry is such a technical industry. Enterprises prefer to receive accredited training through a provider. This allows enterprises to receive grant claim backs through the Workplace Skills Plan and the Annual Training Report submissions. The forestry sector is a production and delivery orientated industry and this often makes the "softer" implementation tasks more difficult.

Challenges faced in implementing B-BBEE include a lack of qualified B-BBEE candidates and empowered suppliers. ED and SED initiatives are hindered by financial constraints. There is a sense of trepidation regarding the looming introduction of the newly amended codes.

The pending amended sector codes are poised to create meaningful change in the sector. Increased visibility of the FSCC and awareness of the codes and their importance should be focused on. These are the foundations on which a potentially successful and inclusive forestry industry could be built on.