



**ANNUAL REPORT ON THE STATUS OF  
TRANSFORMATION IN THE FOREST  
SECTOR 2020/21**

## EXECUTIVE SUMMARY

The implementation of the Amended Codes considers Government's key economic development programmes, such as the New Growth Path (NGP) and the National Development Plan (NDP). The newly approved Forestry Master Plan as well as the economic instability brought about by the COVID-19 pandemic mainly in the year 2021 will surely influence transformation in the forest sector.

The occurrence of the Corona virus is perhaps the biggest and most significant event of the year having far-reaching implications across economic, social and environmental aspects of society. The timing of the virus is also likely to have long term effect on B-BBEE implementation and reporting periods. This has no doubt influenced on a number of reports received by Council, and perhaps even the number of verifications finalised and prioritised and thus consequently the overall performance of the sector.

Forestry is one of the many sectors that is a signatory to B-BBEE, intended to promote inclusive participation and grow the forest economy. The targets set out in the scorecard are intended to address the imbalances brought about the past undesirable events.

The 2020/21 report profiles the response to the sector's scorecard targets under a different scenario brought about by the pandemic. The report would probably have profiled better, or improved results had it not been for the unexpected COVID-19 pandemic. By this time the sector should have also transitioned well to reporting requirements and be in a pole position to implement B-BBEE for better impactful result.

In the year 2020/21, the number of reporting entities declined in all the business categories, i.e., MLEs, QSEs and EMEs. The declines are more prominent amongst the QSEs and EMEs.

On average, the MLEs attained a score of 88,4 points translating to a level 4 B-BBEE rating a similar rating to the last year. This could be attributed to the fact that most of the reporting MLEs are reporting intently on a year-to-year basis and dominate and influence industry performance. The Fibre sub-sector also shows improvements on a yearly basis which might have created an element on intra-

competition amongst the role players. This confirms the importance of reporting consistently as it serves as a self-correction tool for attaining better scores.

The QSEs analysis produced a score of Level 2 and the EMEs achieved a Level 1 for the year 2020/21. The levels achieved shows that most of the reporting QSEs and EMEs were enhanced, and majority black owned and even achieving the automatic Level 1. While this may prove the effectiveness of the enhancement principle, it is crucial to also measure the growth of such businesses in terms of rand value, jobs created or maintained, youth, people living with disabilities and living in rural areas involvement.

The assessment further shows that MLEs scorecard performance improved in all the performances of the scorecard elements with the exception of Management Control. While this element improved in the previous reporting, it shows that improvements were not consistent and reliable.

The conversation on the importance of B-BBEE reporting for effective and sustainable transformation should therefore continue.

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## ACRONYMS

<b>B-BBEE</b>	Broad-Based Black Economic Empowerment
<b>BBOS</b>	Broad-Based Ownership Scheme
<b>BDG</b>	Black Designated Groups
<b>BO</b>	Black-owned
<b>BWO</b>	Black Women Owned
<b>CIPC</b>	Companies Intellectual Property Commission
<b>CEE</b>	Commission of Employment Equity
<b>CEO</b>	Chief Executive Officer
<b>CFO</b>	Chief Financial Officer
<b>COO</b>	Chief Operating Officer
<b>DALRRD</b>	Department of Agriculture, Land Reform and Rural Development
<b>DoP</b>	Department of Police
<b>DoT</b>	Department of Transport
<b>DFFE</b>	Department of Forestry, Fisheries and the Environment
<b>DTIC</b>	Department of Trade, Industry and Competition
<b>EAP</b>	Economically Active Population
<b>ED</b>	Enterprise Development
<b>EEA</b>	Employment Equity Act
<b>ESD</b>	Enterprise & Supplier Development
<b>ESOP</b>	Employee Share Ownership Programmes
<b>EME</b>	Exempted Micro-Enterprise
<b>FP&amp;M Seta</b>	Fibre Processing and Manufacturing Seta
<b>FSA</b>	Forestry South Africa
<b>FSC</b>	Forest Sector Code (Sector Codes)
<b>FSCC</b>	Forest Sector Charter Council
<b>JSE</b>	Johannesburg Stock Exchange
<b>MLE</b>	Medium and Large Enterprise
<b>NDP</b>	National Development Plan
<b>NGP</b>	New Growth Path

<b>NPAT</b>	Net Profit after Tax
<b>QSE</b>	Qualifying Small Enterprise
<b>SA</b>	South Africa
<b>SANAS</b>	South African National Accreditation System
<b>SDA</b>	Skills Development Act
<b>SD</b>	Supplier Development
<b>SED</b>	Socio-Economic Development
<b>SMME</b>	Small Medium and Micro Enterprises
<b>SOE</b>	State- Owned Enterprises
<b>YES</b>	Youth Employment Service
<b>UIF</b>	Unemployment Insurance Fund



## 1. INTRODUCTION

Transformation remains imperative in South Africa. The Broad-Based Black Economic Empowerment (B-BBEE) Amendment Act mandates all Sector Councils to prepare the Sector B-BBEE compliance report in terms of the specific Sector Codes. The Forest Sector's commitment to the principles of broadened black economic inclusion, equality, economic growth and rural development is espoused in the Amended Forest Sector Code (FSC). The Amended FSC is applicable to all enterprises involved in forestry and applies currently to six (6) sub sectors, operating at different levels within the sector's value chain, hopefully to expand and include other critical subsectors as proposed in the latest amendments (still to be gazetted).

The continuous sluggish economy exacerbated by the COVID-19 pandemic together with the high levels of poverty and unemployment is a great concern in particular for transformation in the Forest Sector. In the year 2021, the Forest Sector Charter Council's "Council", annual status of transformation report did not only evaluate the performance of the scorecard elements but assessed the impact of the COVID-19 pandemic. Such analysis was a necessity as it would be used to justify the performance on each of the indicators and qualify the proposed changes in Schedule 4 intended at providing an alternative measuring criterion for B-BBEE under declared National Disasters.

Sustainable transformation can be achievable through compliance of the Amended FSC by all enterprises operating in the industry. The FY2020/21 Annual Status of Transformation Report marks the 4th under the Amended FSC. It is also the 12th report since the promulgation of the Forest Sector Code in 2009. The report does not only summarise the empowerment level of beneficiaries through equitable and inclusive procurement and employment opportunities and increased black ownership level by forestry enterprises but also the extent to which transformation has occurred in the industry's sub-sectors. The beneficiaries include, black people, women, youth and differently abled persons, unemployable and military veterans that could also participate through different broad-based schemes.

A more detailed Sector's performance for the year 2020/21 is described in the report.

## 2. SECTOR OVERVIEW

### 2.1. FORESTRY MASTERPLAN

In November 2020, cabinet approved the Forestry Masterplan as championed by the Department of Forestry, Fisheries and the Environment. The Forestry Masterplan provides a comprehensive plan articulated in six (6) Focus Areas intended not only to revive the sector and ensure its sustainable growth through investment, but to also ensure the transfer of skills, create decent job and transform the entire sector. The Focus areas includes:

- Expansion of the primary resources, maintenance and protection
- Transformation of the sector
- Processing and value addition
- Illegal timber and related criminal activities
- Research development and innovation, human resources and skills development
- Key inhibitors

The plan is constituted of negotiated commitments by industry, government and labour. Given the strategic importance of the plan, it is imperative that its implementation plan is effectively collaborated by all stakeholders in the forest sector. The Department is in the process of implementing the Masterplan. <sup>i</sup>

### 2.2. BBEE COMMISSION REPORT

The B-BBEE Commission released the 2020 annual report on the national status and trends on B-BBEE for the Johannesburg Stock Exchange (JSE) listed Companies and state-owned organs (SOEs). Interestingly, more JSE listed companies submitted their reports when compared to SOEs and even outshined in skills developments and SED targets. Noticeably most of the JSE listed entities were achieving a level four or better.

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<sup>i</sup> <https://www.sanews.gov.za/south-africa/government-prepares-implement-forestry-master-plan>

Forestry was regarded as one of the least performing sectors though showing to have achieved a relative score on the ownership element. The report further reflects that while companies are achieving their targets as per the scorecard, there is even a loud outcry that achieving the targets is not meaningful in particular to the poorest and to the rightful beneficiaries of B-BBEE. For example, the scores achieved on ownership are not in correlation to the performance on Management Control which may mean that black people are still not in strategic positions to control and manage the core operations of most businesses. The B-BBEE Commission also reiterated on the low levels of reporting which reflects non-compliance in terms of section 13G of the B-BBEE Amendment Act. <sup>ii</sup>

## 2.3. THE REALITY OF EMPLOYMENT EQUITY

The Employment Equity Act is intended to achieve equity in the workplace through the provision of equal employment opportunities. However, statistics from the Commission of Employment Equity (CEE) Report still show a worrying trend, with most black people, women in particular remaining least considered for top executive and senior positions. The proposed bill of the Employment Equity Act introduces certain regulatory measures to address the misrepresentation in particular to management of the economically active population (EAP) and accelerate transformation across all economic sectors.

The Employment Equity Amendment Bill mandates the Minister of labour in consultation with the relevant stakeholders, to set numerical sectoral targets for different occupational levels, i.e., Top management, Senior, middle and junior management and for differently abled persons.

Remarkably the bill also suggests the issuing of an employment equity certificate of compliance which will be a prerequisite or a qualification for access to state contracts. Another governing change requires site visits for non-compliance entities so as to further interrogate the scores achieved against their targets.<sup>iii</sup>

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<sup>ii</sup> <https://www.bbbee.commission.co.za/b-bbee-commission-releases-annual-report-on-national-status-and-trends-b-bbee/>

<sup>iii</sup> <https://businesstech.co.za/news/business/418065/south-africas-major-new-transformation-law-is-coming-what-you-need-to-know/>

## 2.4. COVID-19, LOCKDOWN & ESSENTIAL SERVICES

The sudden occurrence of the COVID-19 in March 2020 was the principal and most significant challenge of the year having extensive implications across all economic sectors including forestry. The major risk was creating a balance between the health status of citizens, i.e., minimising the spread of the corona virus against achieving economic growth and saving jobs in an already depressed global economy. A number of gazettes had to be continuously published and regularly updated by Government in particular, the Department of Health (DoH), the Department of Trade, Industry and Competition (dtic), Department of Employment and Labour (DoEL), Department of Co-operative Governance and Traditional Affairs (COGTA), Department of Transport (DoT) and Department of Police (DoP) either to recognise essential services, extend the national disaster period or lock down and provide relevant information in support of business operating requirements.

The full state of emergency only recognising essential services was a concern to the forest sector as it had an extremely damaging effect to the stressed economy. It is for that reason that a progressive phased in approach was mostly preferred. The industry at large had to motivate for its recognition as an essential service and certain businesses mostly involved in the production and the continuous dispensation of medical, foodstuff and hygiene products such as toilet papers, sanitisers, etc required to support the health sector had to have a certificate of operation as issued through the CIPC portal. Employees had to be certified with the correct documentation so as to avoid being challenged by enforcement officials for being non-compliant. Moreover, each of the Companies operating had to consistently comply with all health and safety protocols in the workplace and while some of the operating companies had to reprioritise their programmes in response to the pandemic.

## 2.5. SANAS'S ADJUSTMENT TO THE R47-02 PROCEDURES

In the forest industry and mostly so, for all the other sectors, the timing of the COVID-19 pandemic, effected on the reporting periods, in particular for entities whose, financial year end was occurring at the time and even for companies prioritising B-BBEE implementation and reporting for the 2020/21 financial year. The significant

impact was observed mostly on the number of verification reports received by Council and perhaps the number of assessments or verifications concluded in time. This is despite SANAS' efforts who progressively adjusted the R47-02 verification procedures to accommodate verification agencies and measured entities. As an interim plan, online verification together with video conferencing were some of the allowable conditions to undertake a complete assessment.

The Council also through the advice of the dtic had to develop amendments (Schedule 4 still to be gazetted) to the Amended FSC proposing a standard for measuring B-BBEE under declared National Disasters. As such, it is anticipated that the Schedule will help in minimising uncertainties and the disregard of B-BBEE implementation in such cases while enforcing compliance of the B-BBEE Act as Amended for annual reporting.

## 3. RESEARCH OVERVIEW AND METHODOLOGY

### 3.1. RESEARCH OBJECTIVES

In terms of the B-BBEE Amendment Act, all measured entities operating across the value chain in the forest sector are required to comply and report to the FSCC on B-BBEE performance. These measured entities are categorised based on turnover and reporting requirements and includes, Medium and Large Enterprises (MLE), Qualifying Small Enterprises (QSE) and Exempted Micro Enterprises (EME).

A B-BBEE certificate together with an in-depth report is to be attached for both MLEs and unenhanced QSEs. Enhanced QSEs and all EMEs are required to submit an affidavit or a Companies Intellectual Property Commission (CIPC) certificate confirming the level of Black Ownership in terms of percentage, the total turnover and the Enterprise Development beneficiary status. Additionally, enhanced QSEs must indicate their empowering supplier status.

The information from either the certificates and underlying reports and or affidavits is converted to both qualitative and quantitative data that is used to compare previous performances and level of compliance amongst sub-sectors. The information is also used to provide the overall status of transformation of the sector.

### 3.2. METHODOLOGY

The 2020/21 Annual Status of Transformation report was compiled using a combination of primary and secondary research tools, a more similar approach to the previous reporting years.

Measured entities were requested to submit relevant B-BBEE information through telephone calls, emails, empowered portal as well as specific company's website.

The collected B-BBEE information was validated based on the date of issue, and applicable sector code, i.e., the Amended FSC utilised. The validated certificates or affidavits had to be issued within the financial year 2020/21.

Each of the scores reflected in the Measured Entity' certificate or affidavit was coded into excel spreadsheets and presented in bar graphs, line graphs and pie charts for

assessment of each scorecard performance. The analysed data was used to compile a comprehensive transformation report inclusive of the sections below.

- i. An overview of the socio-economic, political and natural environment occurring in the reporting year that could possibly have an impact on the forest economy and the forest sector ability to implement B-BBEE.
- ii. A comparison of the reporting entities based on the sub-sectors and three categories of the measured entities.
- iii. A detailed B-BBEE status of Medium and Large Enterprises (MLEs) in the Forest Sector based on the five scorecard elements and a comparison to the previous performances as well as within the six sub sectors.
- iv. A detailed B-BBEE status of the unenhanced Qualifying Small Enterprises (QSEs) based on the five scorecard elements and a comparison to the previous performances as well as within the six sub sectors.
- v. The performance of enhanced QSEs in terms of black ownership profile, levels achieved, empowering supplier status and overall beneficiaries of enterprise development.
- vi. The B-BBEE status of Exempted Micro Enterprises (EMEs) based on the black ownership profile, levels achieved and overall beneficiaries of enterprise development.
- vii. The B-BBEE performance of SAFCOL as the only state-owned entity operating in the forest sector.
- viii. The impact of Discounting, Enhancement, Accountability, Flow through Principles, Youth Employment Service (Y.E.S) etc.
- ix. Other matters such as challenges, e.g., the impact of the COVID-19 pandemic to B-BBEE implementation and compliance.
- x. The overall transformation status of the industry and how it compares to the previous achievements in terms of best and poorly achieved targets, consistent reporters versus new reporters; and

- xi. Recommendations projected to drive expressive transformation in the sector.

### 3.3. RISKS

The biggest risk for the FY2020/21 reporting period was mainly the arguments and indifferences in relation to the relevancy of B-BBEE implementation and enforcement during the COVID-19 pandemic. The many articles shared mostly in the media such as the validity, applicability with COVID-19 in mind was a concern.

Considering the strategies implemented and lessons learnt from other sectors such as the Tourism sector, it is evident that the focus should be on interventions or solutions which would directly validate B-BBEE compliance. As to a certain extent, such would justify for the downgrades on levels achieved resulting from a non-conducive and depressed economic environment to support the implementation of the B-BBEE initiatives.

The overlapping of the recent COVID-19 and effected lockdowns for some of the Measured Entities also indirectly resulted in lower report submissions and in even delayed finalization of verification processes for the financial year, though the verification principles allow for a verification process to be undertaken within six (6) months after the end of the financial year. Some companies might have closed due to the lockdown in particular those operating in small scale and mostly within the contracting business. This has no doubt compromised Council's ability to source certificates and even maintain or improve on the number of reporting entities comparative to previous years.

Low reporting numbers and inconsistent reporters has been a challenge for this reporting period in particular to the QSEs and EMEs. Additionally, it is suspected that some companies continue to with-hold their certificates due to poor performance, others still do not undertake B-BBEE verification at all, citing the costs implications and the economic instability while others still fail to submit their underlying reports.



## 4. SECTOR ANALYSIS

The B-BBEE Act as amended obligates all forest entities to report annually and reporting is to be based on the Amended Forest Sector Code (FCS). These measured entities are categorized by the annual total income received, with Medium and Large Enterprises (MLEs) having the largest turnover of above R50 million. These types of enterprises are expected to make significant contribution to B-BBEE application and thus create descent opportunities for the small players categorized as either QSEs (turnover between R10 and up to R50 million and EMEs (with a turnover of less than R10 million). However, the joint efforts of all the reporting entities irrespective of size is crucial to the overall transformation of the sector.

Figure 1 below compares the number of certificates received for the last 3 reporting years per company size, i.e., MLEs, QSEs and EMEs. Only 37 reports and or affidavits were received for the year showing a 53% reduction when compared to 2019/20. The graph demonstrates significant declines in the number of submissions from MLEs, QSEs and EMEs in 2020/21. This trend was anticipated and mostly substantiated by the occurrence of the COVID-19 and unfavorable lock down which mostly affected non-essential service operations.

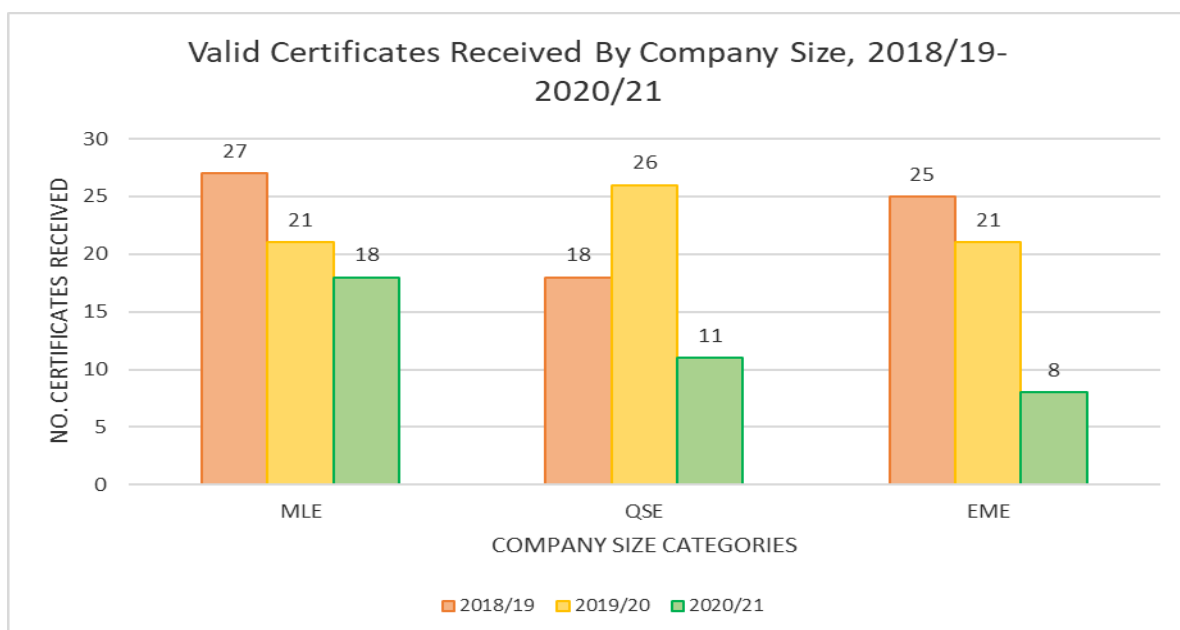


Figure 1: Certificates Received by Company Size

The forest sector is diverse in terms of operations which cuts across several sub-sectors. This includes Growers, Fibre, Sawmilling, Contracting, Pole and Charcoal manufacturing.

A noticeable number of QSEs and EMEs in the year under reporting indicated that they are heavily involved in contracting operations, such as silviculture, harvesting and supply of security and weeding.

Figure 2 below reveals the total number of submissions received for 2020/21 either in a form or a B-BBEE certificate or an affidavit. Out of the thirty-seven (37) submissions 16 were received from the contractor's sub-sector, and these were from both the QSEs and EMEs. Similarly, to the last report, Fibre, (7) had the 2<sup>nd</sup> highest representation, followed by the Sawmilling which had six submissions asserting the dominance of these players amongst the industry's MLEs. Growers and the pole producers had each four submissions. None of the received certificates or affidavits were from the charcoal sub-sector as previously mentioned. The value chain analysis report profiled charcoal production as one of the other avenues that could be used to create black owned businesses in the sector.

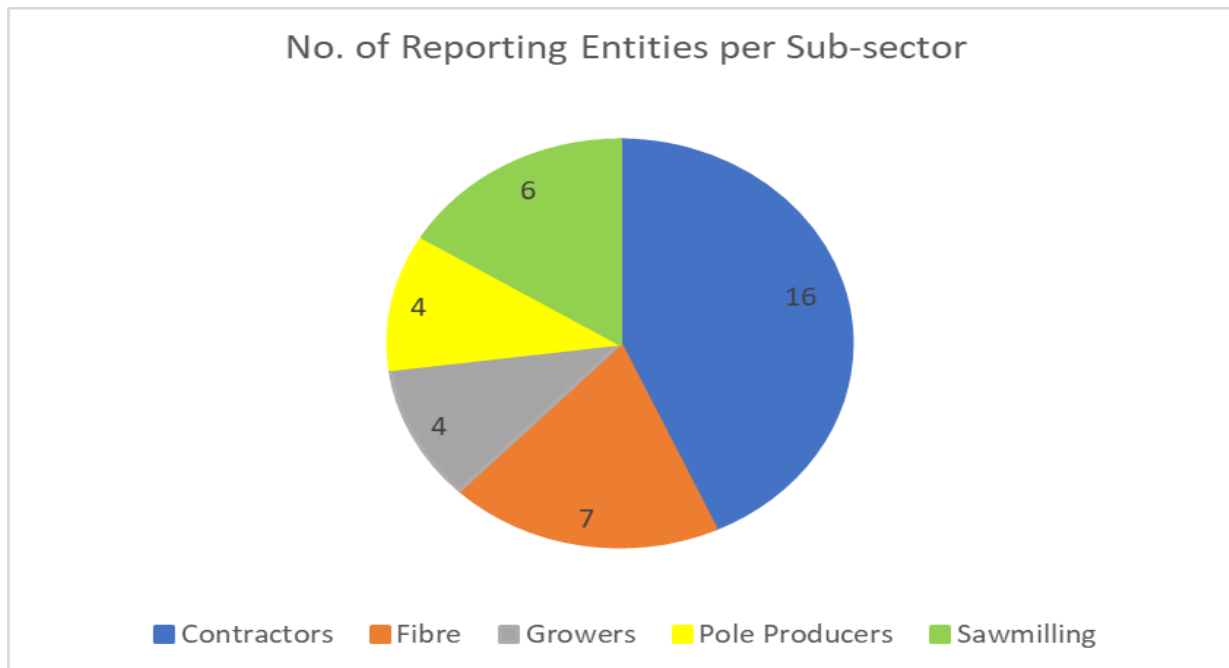


Figure 2: Certificate Submission by Subsector, 2020/21

## 4.1. MEDIUM AND LARGE ENTERPRISE ANALYSIS

Medium and Large Enterprises are businesses with an annual revenue of above R50 million. Entities falling in this category are required to be verified annually in accordance with all the five pillars of B-BBEE namely Ownership, Management Control (MC), Skills Development (SD), Enterprise and Supplier Development (ESD) as well as Socio- Economic Development (SED) as prescribed in the forest scorecard. All these five pillars have allocated weighting points with ESD having the highest allocation and contributing to the overall points used for giving the B-BBEE level rating.

Only eighteen (18) MLEs including SAFCOL reported in the year 2020/21, as shown in Figure 3 below. This confirms that only 55% of the MLEs reported for the year. The decline in submission may confirm the refusal of some of the entities to comply with B-BBEE requirements.

Fundamentally, only fourteen, (14 & 77%) including SAFCOL of the eighteen (18) reporting entities included their B-BBEE reports as required by the B-BBEE Act as Amended. The underlying reports are central for the in-depth analysis which gives a deeper insight of the shortcomings in terms of the performance of each element.

Comparatively, sixteen (16) of the MLEs have been reporting consistently for the last three years showing a slight decline from the twenty (20) in 2019/20. Only two (2) new entities have reported in the year, and these could be labelled as inconsistent reporters as they have reported in some previous years. An additional measured entity could not be considered as its assessment was falling outside the reporting period of 2020/21.

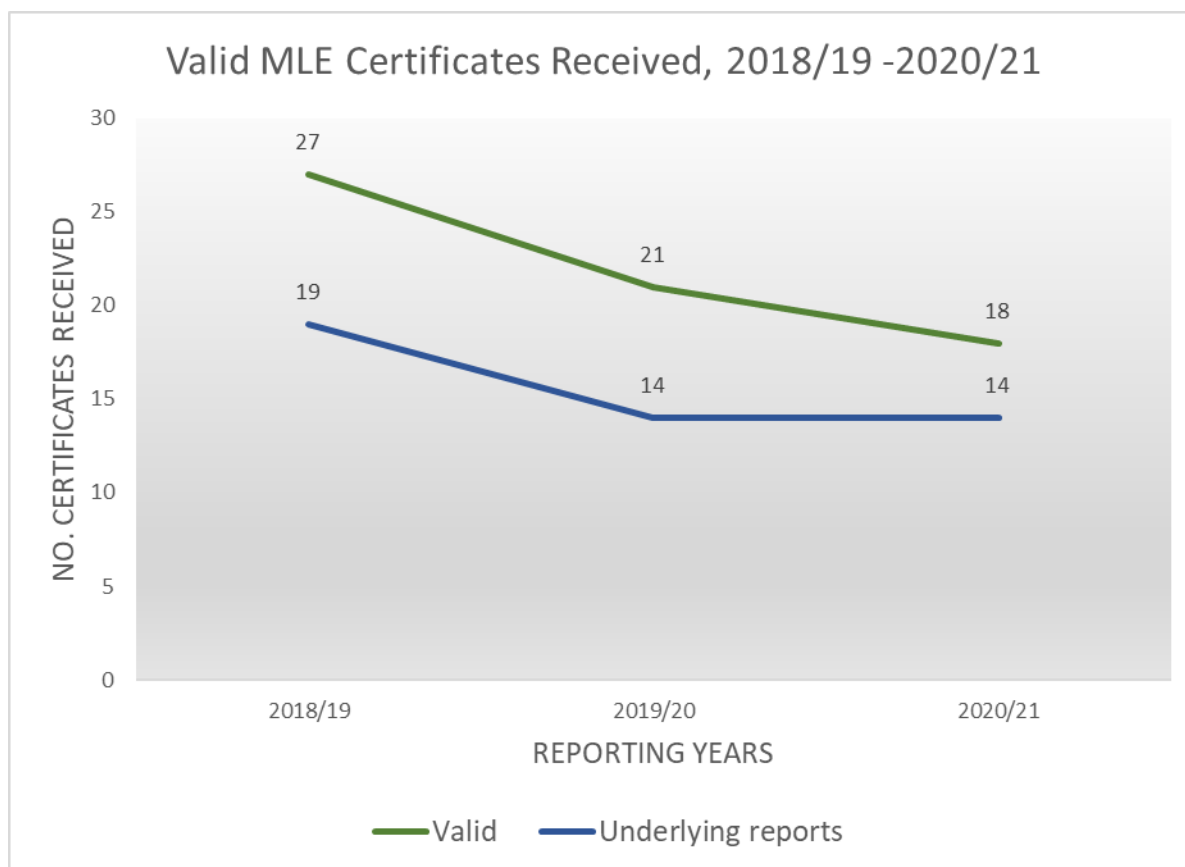


Figure 3: Valid MLE Certificate Submissions, 2020/21

Annual B-BBEE application and reporting is a prerequisite for all entities operating in the forest sector. As such all-government departments will require a B-BBEE certificate valid for each year from entities interested in doing business with government. The Table 1 below compares the number of reporting Measured Entities for the last three years who are either reporting annually or who are selecting the year to report from the total thirty-three (33) MLEs known. In the year 2020/21 the number of entities who reported consistently declined from twenty (20) to sixteen (16). However, the number on unreliable Measured Entities increased by 1. As already mentioned, some of the cited reasons for non-reporting was the cost of doing business and the impact of the COVID-19 pandemic.

Table 1: Number of consistent and new entities comparison for the last three reporting years

Years	Number of entities	Consistent entities	New entities
Year 2018/19	27	20	7
Year 2019/20	21	20	1
Year 2020/21	18	16	2

A B-BBEE level is qualified by the number of points scored from the entire scorecard. The levels range from a non-compliant contributor to a most desired level 1, which suggest a reliably and best compliant entity within the six (6) sub-sectors. An additional proposal to the amendments to the Amended FSC will see the inclusion of the recycling under the Fibre- sub-sector.

Figure 4 below shows the scores achieved by the eighteen MLEs. Evidently so the mode is fixed at level 1. Seven (39%) MLEs achieved level 1, three (17%) achieved level 2, and level 4 each with two MLEs (11%) achieving level three. Level 5, level 7, and level 8 had each an entity (0.06%). None of the entities achieved a level 6 or a non-compliant status.

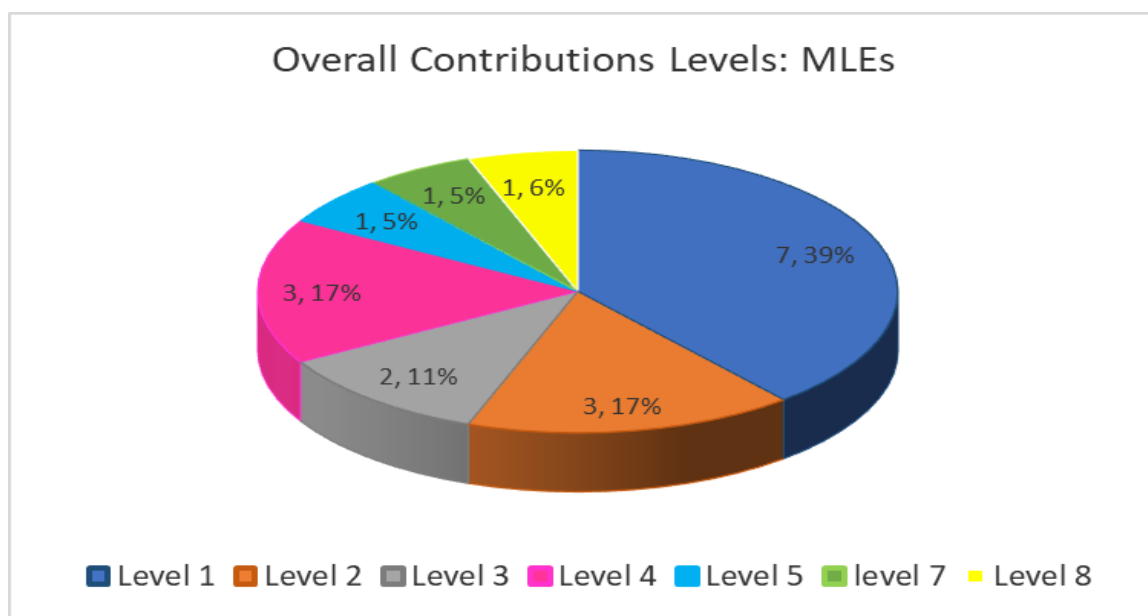


Figure 4: MLE Overall Performance by B-BBEE Level

Figure 5 below compares the number of certificates submitted by each of the entities from the different sub-sectors. The Amended FSC clarifies that each entity must be verified based on the area of business where most of its revenue is generated. This is intended to accommodate entities involved in the various forestry businesses cutting across the value chain. Furthermore, entities cannot disintegrate their operation into smaller units in order to become QSEs or EMEs. The sawmilling sub-sector submitted the most certificates. The observation reveals that the sector has no MLEs from both

the charcoal and contracting sub-sectors as previously reported. This presents an opportunity for the sector to create black owned entities within these two sub-sectors.

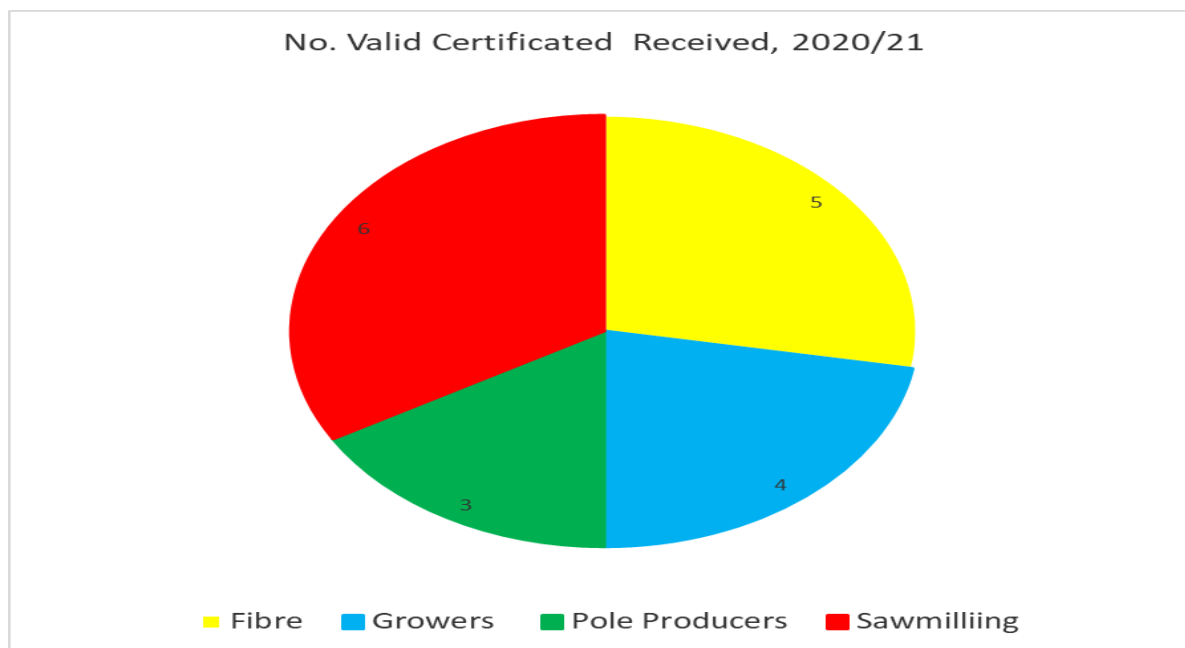


Figure 5: MLE Certificate Submission by Subsector

According to the verification process, an entity can achieve a B-BBEE rating between level 1 and 8 and is dependent on the overall points achieved. Each score is attached to the total points and corresponding recognition level achieved from the 5 scorecard elements, level 1 being the best and level 8 being the worst. In the case where the aggregated score is forty and below, a non-compliant contributor status is assumed. The average level achieved per sub-sector for the reporting MLEs is shown in Figure 6 below.

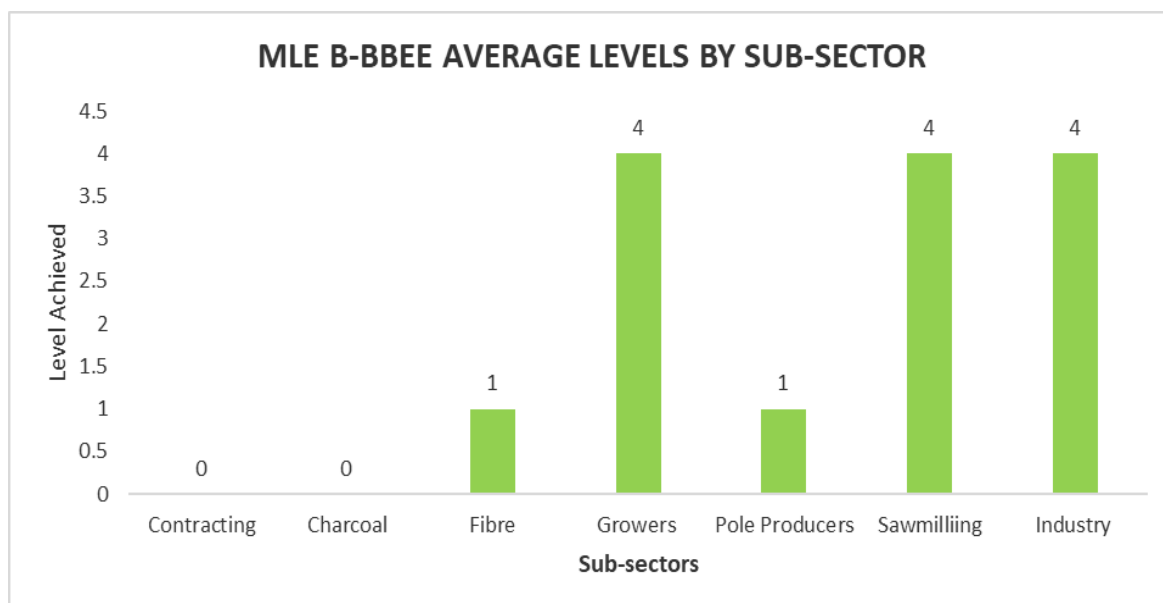


Figure 6: MLE Overall Performance by Subsector & B-BBEE Level

Figure 6 above shows that the Fibre and Pole sub-sectors have both outperformed all the other sub-sectors achieving an average level of 1 a trend also observed for the last previous reporting year for the Fibre sub-sector. Most of the MLEs from this category report on an annual basis and in most cases even improves on their performance. Both Growers and Sawmiller’s performance was at par with the industry’s average score of 4. Expectedly so, all the entities that achieved a level score above four were either from Growers or Sawmilling.

The overall industry level maintained a Level 4 and this may be validated by the few numbers of submissions from the MLEs with most of them having been reporting reliably on an annual basis. This confirms that annual reporting is an enabler for all enterprises, and it provides an opportunity to adjust plans and initiatives to possibly obtain better scores.

### 4.1.1. OWNERSHIP

Ownership is one of the three priority elements. The ownership element is intended to ensure shareholding in existing or even new companies is extended to black people. Shareholders should be in possession of a shareholder’s certificate, and there should be a share’s register and dividends flowed through to beneficiaries must be traceable. This is applicable to even the different broad-based groupings which includes Broad-Based Ownership Schemes (BBOS), Cooperatives, Trusts, Employee Share Ownership Programmes (ESOPs) etc.

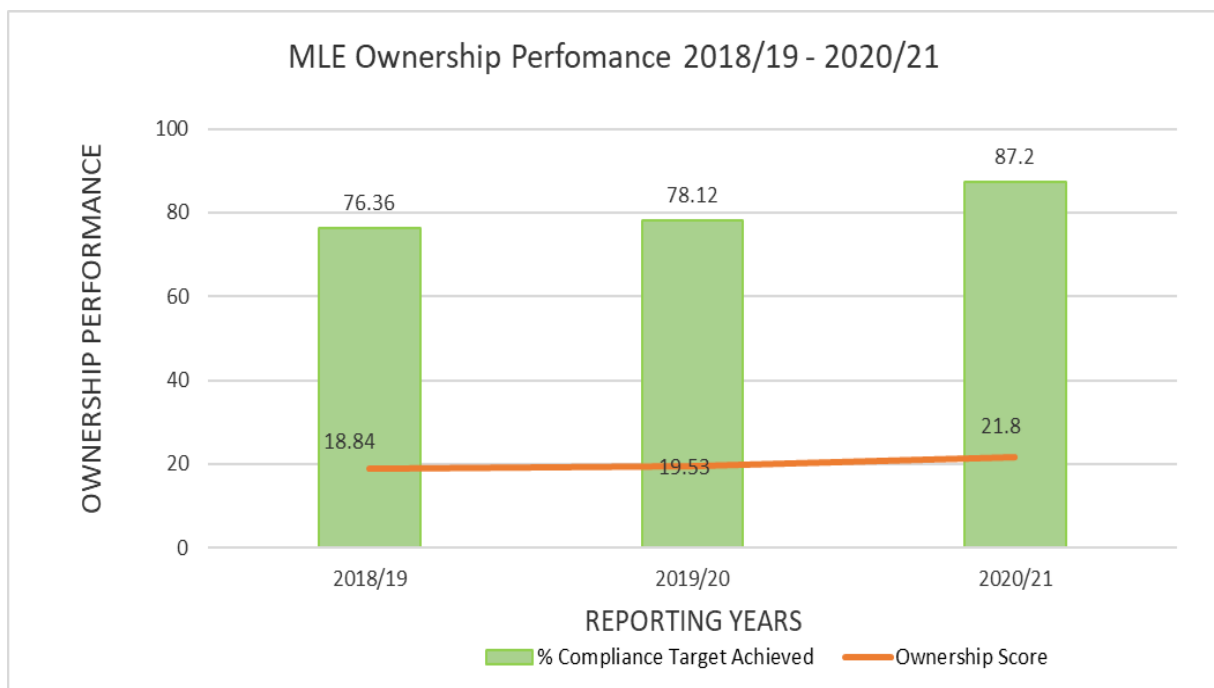


Figure 7: MLE Ownership Performance, 2018/19 – 2020/21

MLEs achieved an overall score of 87.2% showing a significant improvement from the previous reporting years as indicated in Figure 7. The score achieved is exclusive of SAFCOL as it is not rated under Ownership as per Statement 004. Most of the reporting MLEs achieved an average score of above 70% towards the target. This indicates an approximate 9% increase in their performance compared to the past year of reporting. None of the MLEs reporting in the year had no black shareholding.

It was also observed that most of the consistent reporting entities have either maintained or improved their good ratings on this element. Expectedly so this could be



one of the least affected elements by the COVID-19 pandemic, also indicated in the COVID-19 questionnaire.

MLEs in the forest sector are required to have at least 25 % black ownership in either existing or new companies. The scores attained for this target can be either flowed or modified flow through for now, though the modified flow through principle will not be acceptable after the proclamation of the new amendments to the Codes. The table below gives a statistical synopsis of ownership for both black people and women. On average, MLEs black ownership was at 49 showing an increase from 45.1 previously achieved. The mean for black women ownership is 19.4 also showing an increase from last year score of 16.1

The data further indicates that the average black ownership is evenly distributed while the black women ownership is slightly tilted to the left. This indicates that majority of MLEs have very low black women controlling though some improvements are observed with the 1st quartile (25% of the data at about 5% black women ownership) and 75% of the data at 27,64 % black women ownership (Q3).

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

	Black People	Black Women
<i>Minimum</i>	9.92	0
<i>Q1</i>	30	5
<i>Median</i>	51	16,46
<i>Mean</i>	49	19.4
<i>Mode</i>	-	-
<i>Q3</i>	67,5	27,64
<i>Maximum</i>	100	50
<i>Entities scoring 0% Ownership</i>	0	1
<i>Entities scoring above 0% but below 51% Ownership</i>	8	17

Entities scoring 51% Ownership	1	0
Entities scoring above 51% but below 100%	6	0
Entities scoring 100% Ownership	1	0
No. entities who did not indicate Ownership	0	0
Total number of entities	18	18

Figure 8 below assesses the average scores attained by each sub-sector. These scores are benchmarked against the industry average.

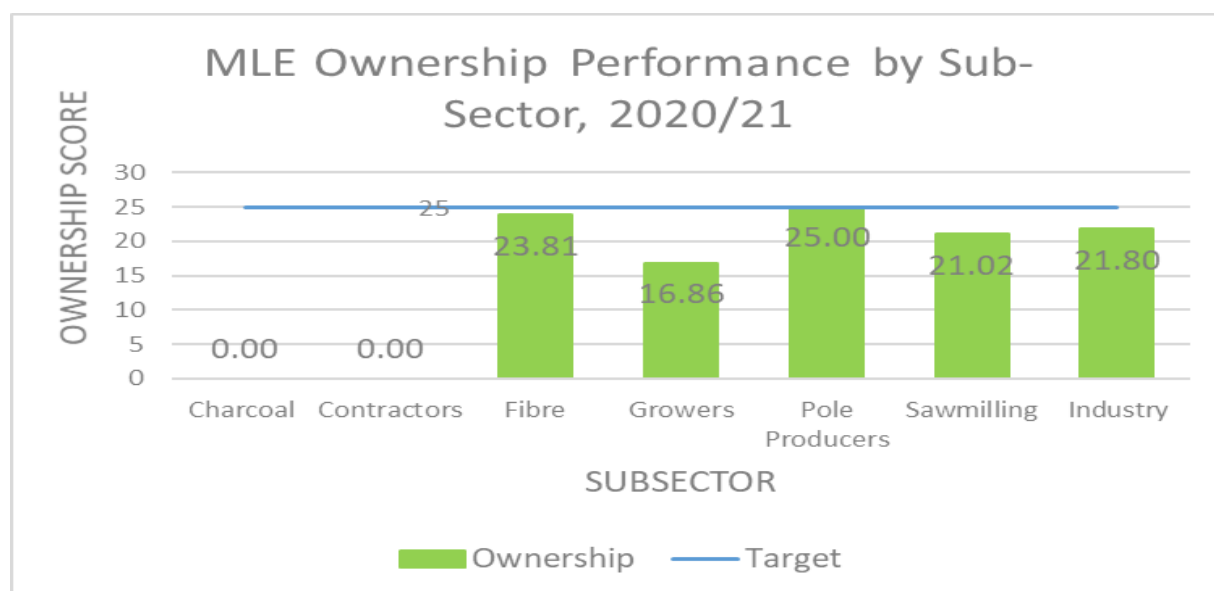


Figure 8: MLE Ownership Performance by Subsector, 2020/21

It is evident that even this year, there are still no large reporting entities from the charcoal and contracting sub-sectors which is proven by the zero (0) average score achieved. Industry has shown an improvement from a previous 19.53 score to 21.80 most probably because of the few non consistent reporting entities.

All the four reporting sub-sectors managed to achieve good scores of at least more than fifty percent towards the total points of 25. The Pole, followed by Fibre and then Sawmilling were the best performing sub-sectors achieving 100% about 95% and 84% towards the target respectively. While the trend is more similar compared to the

previous in particular to Fibre and sawmilling, a more significant performance improvement has been observed within the Pole sub-sector.

### OWNERSHIP IN-DEPTH ANALYSIS

The comprehensive analysis is based on 13 measured entities as only these entities submitted their underlying reports as was the case in the previous year. MLEs need to comply fully with the B-BBEE Act as Amended as all submissions of certificates must be accompanied by the underlying reports

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

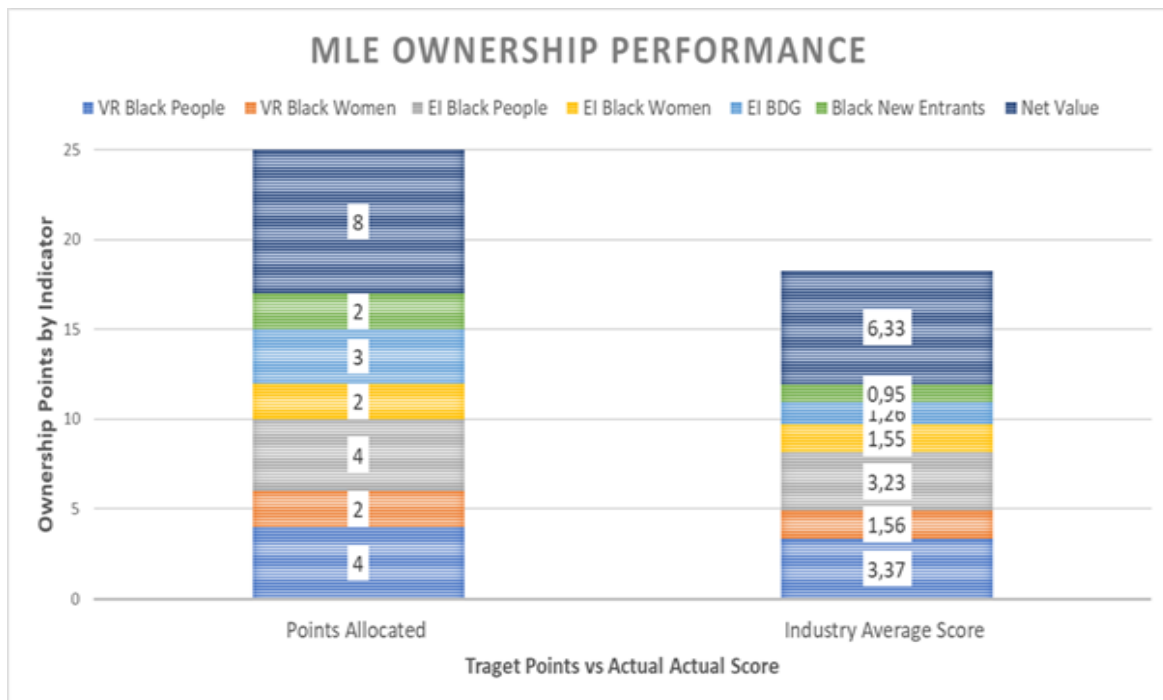


Figure 9: MLE Ownership Performance

On an average, the 13 MLEs scored 18.25 points. The graph shows that industry achieved more or less similar scores compared to the previous year. The MLEs performed outstandingly under the economic interest, voting rights for both black people and women as well as on the net value points respectively. As such, none of the MLEs were downgraded due to the failure to achieve the minimum score of 3.2 under the net value indicator.

Table 3: A comparison of Ownership indicators' scores between FY2018/19 - FY2020/21

Indicator	Points Allocated	Industry Average Score FY2019-20	Industry Average Score FY2020-21	Compliance Target	% of Indicator Target Achieved FY2018-19	% of Indicator Target Achieved FY2019-20	% of Indicator Target Achieved FY2020-21
VR Black People	4	3.37	3.95	25%	75,5%	84,3%	84,3%
VR Black Women	2	1,56	1.94	10%	61,5%	78%	78%
EI Black People	4	3.23	3.95	25%	72,25%	80,8%	80,8%
EI Black Women	2	1.55	1.94	10%	59,5%	77,5%	77,5%
EI BDG	3	1.26	1.71	7,5%	55%	42%	42%
Black New Entrants	2	0.95	1.44	2%	68,5%	47,5%	48%
Net Value	8	6.33	7.38		80,38%	79,1%	79.1

Table 3 further compares the performance of Measured Entities within the seven main indicators under the ownership element between the current and previous year. The MLEs achieved a similar performance when compared to the previous year. The reporting MLEs still find it a challenge to appeal to new entrants and even to the broad-based groupings as mentioned previously. An improvement in these two indicators is encouraged as it can extend the economic interest to new players who can have the expertise to remodel the business strategy.

The realization of exercisable voting rights for black people and black women in a Measured Entity is embraced in Amended FSC. Shareholding in a company enables one to voting rights on certain corporate and management matters. The compliance target for voting rights in the hands of black people is 25% + 1 vote and 10% for black women. MLEs achieved a score of 3,37 which is 84,25% of the target in the voting rights in the hands of black people and 1,56 which is 78% of the target in the hands of black women respectively.

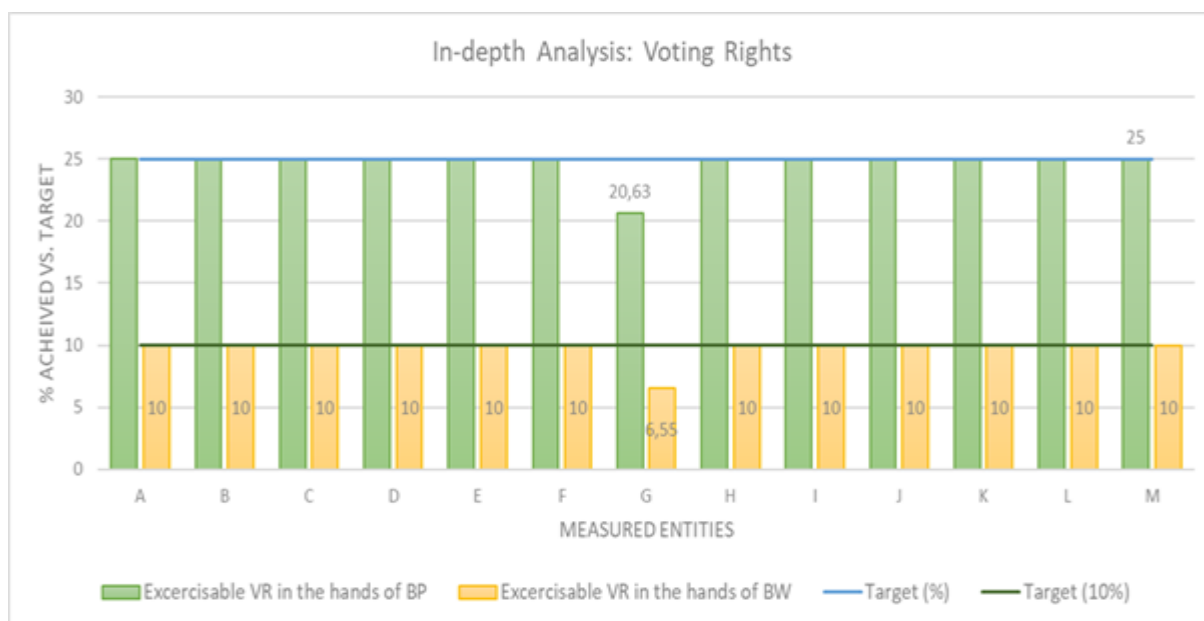


Figure 10: MLE Analysis: Voting Rights in the Hands of Black People

Figure 10 above shows the performance of the 13 MLEs that submitted their underlying report. Comparably, all these entities received a good score a more similar trend to the previous report for both indicators. This trend is expected as most of the reporting entities are the consistent reporters. Only one entity which accounts for about 8% did not achieve full scores for both indicators.

Economic Interest refers to the sharing of an income through a declared dividend. It is not guaranteed that a company would declare a dividend as it is dependent on the profits or gains and or losses received for the financial year. Figure 11 below illustrates the performance of the reporting entities under the Economic interest indicator.

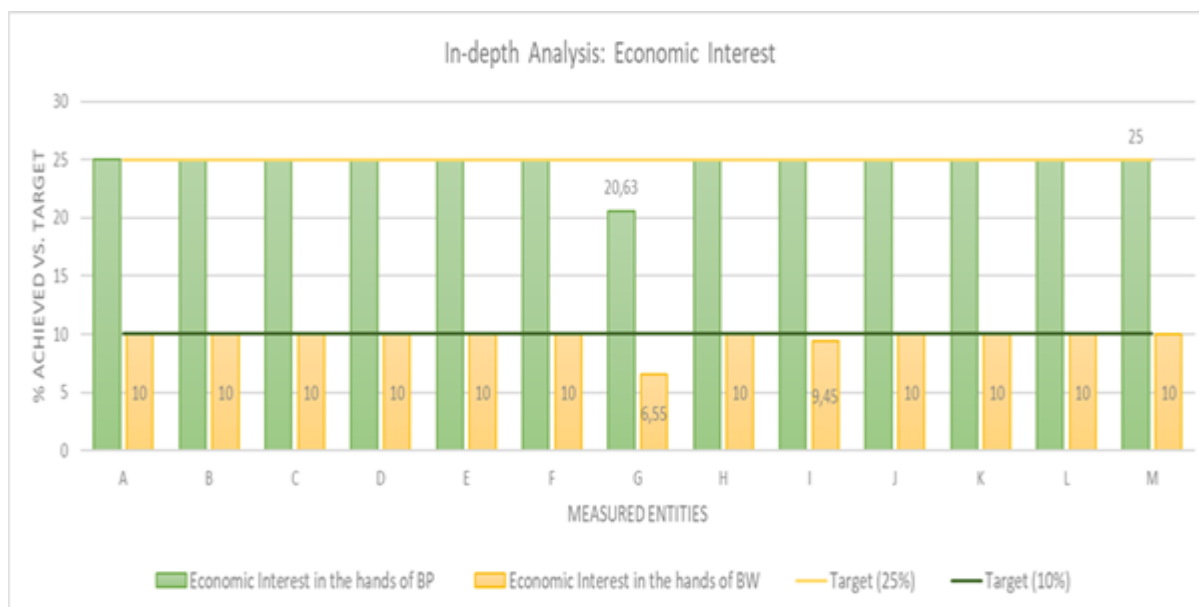


Figure 11: MLE Analysis: Economic Interest in the Hands of Black People

As indicated in Figure 11 above, MLEs achieved an exceptional performance for both Economic Interests in the hands of black people and black women. The 13 reporting entities achieved an average score of 3,23 (81%) of the target for black economic rights and 1,55 (78% of the target) for black women’ economic rights respectively.

Twelve MLEs (92%) entities achieved the target with the remaining one only achieving a score above 80% to the target on the economic interest for black people indicator. Performance for economic interest for black women was also exceptional with 11 (85%) entities achieving full scores. Only two MLEs (15%) did not achieve the full score though their performance was also good in the economic interest for black women indicator. The observed performance concludes that most entities are declaring dividends and qualifying black shareholders are receiving returns from the ownership deals.

Ownership recognition can also be either through direct participants including new entrants or other participants organized in schemes, cooperatives trust, or designated groupings, etc. where benefits are extended to a wider group of beneficiaries. These groupings include the Black Designated Groups (BDG), Employee Share Ownership Programmes (ESOPS), Broad-Based Ownership Schemes (BBOS) and Co-operatives. MLEs having such arrangements are required to comply with the applicable conditions for such groupings. One, being that the beneficiaries must be identifiable, and must

participate in the voting and all proper records must be traceable for verification purposes.

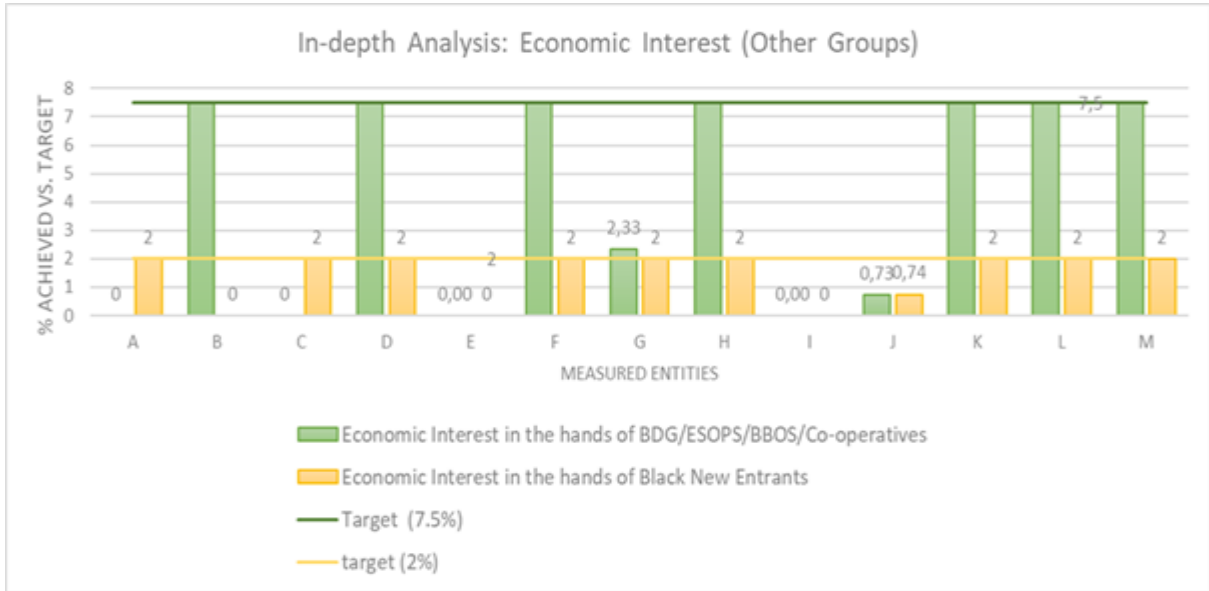


Figure 12: MLE Analysis: Economic Interest in the Hands of Other Groups

The indicator for economic interest in the hands of the different groups is allocated two weighting points with a compliance target of 7.5%. The sector has performed averagely on the Economic Interests of the different groupings and on the black new entrants Indicators as displayed on Figure 12. Only seven (54%) and eight (8) accounting for 62% achieved full scores on the different groupings and new black entrants respectively and showing a slight improvement from the previous reporting period. Only two, (15%) entities achieved zero scores for both indicators and a further two each for each of the indicators. It would be particularly interesting to further interrogate the MLE’s interests and preference on these different groupings in particular to the time of COVID-19.

Net Value measures the difference between the value of shares and the value of any liability, such as a loan, incurred to purchase the shares in a company. The beneficiary is expected to have unincumbered shareholding within a period of 10 years. Two formulas as indicated in the Amended Forest Sector Code are used to measure the net value points, (see Annexe FSC100, (E) 4.). Entities that achieve a score of 3.2 and above will avoid a downgrade by a level as per the Discounting Principle. All entities measured on this indicator were not discounted as revealed in Figure 13 below.

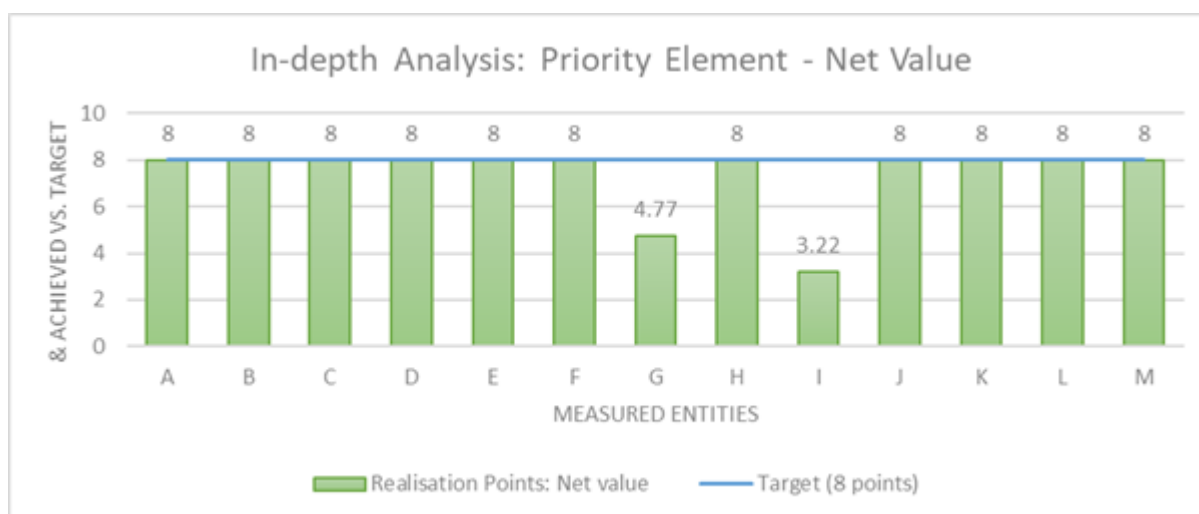


Figure 13: MLE Analysis: Net Value – Priority Indicator

Figure 13 above reveals that eleven, (85%) achieved full scores on this indicator with the remaining two (15%) only scoring above the 40% to avoid discounting. This shows an improvement from the previous report where an MLE was discounted under this element.

Table 4: Black Ownership through Modified Flow through, Flow through & Exclusion Principle

Applicable Principles	Black Ownership through Modified Flow Through Principle	Black Ownership through Flow Through Principle	Exclusion Principle
Number of Companies	3	14	3

The black profile in an entity can be calculated either through the Flow Through, Modified Flow Through or Exclusion Principle. Table 4 above differentiates between the number of MLEs recording black ownership either through the Flow Through or Modified Flow through Principle and even the Exclusion Principle. Similarly, to the previous year, most entities have applied the Flow through Principle which is preferred as it measures the actual blackness in an entity. This is encouraging as the new amendments to the Generic Codes (and still to be gazetted for the Amended FSC) only recognises the black profile through the Flow through Principle. None of the MLEs implemented the Youth Employment Service (Y.E.S) as the forest sector has not yet crafted a sector’s specific Y.E.S scorecard.



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

None of the entities indicated whether they achieved the automatic 5% on black women rights on economic and voting rights for black people and black women. This indicates that the entities involved in the growers as well as sawmilling have not applied for any water use license on behalf of beneficiaries and also that the undertakings attached to this condition have not been fully implemented by the relevant government departments.

#### 4.1.2. MANAGEMENT CONTROL

The MLEs Management Control element requires the black representation in boards, executive and the three tiers of lower management, namely senior, middle and junior management. The latest report on the Commission of Employment Equity still portrays the misrepresentation of black people in particular women across all management structures and board level. In the year 2020, the FSCC held a webinar to celebrate women in forestry who are potential candidates to fill up management positions. Industry continues to struggle to achieve a favorable performance in this element. Fundamentally, this may even be a challenge in the future where the Department of Employment and Labour (DoEL) is finalizing a five-year specific sectoral target for this element.

The industry's overall performance is shown in figure 14 below showing a decline from 8,9 points to 8.69 out of a total of 19 points. The trend is worrying considering the slight improvement observed previously. Evidently so, this may justify that the current strategies may not be suitable to yield a desirable outcome, and this may further confirm that the sector's board and executive structure is still untransformed.

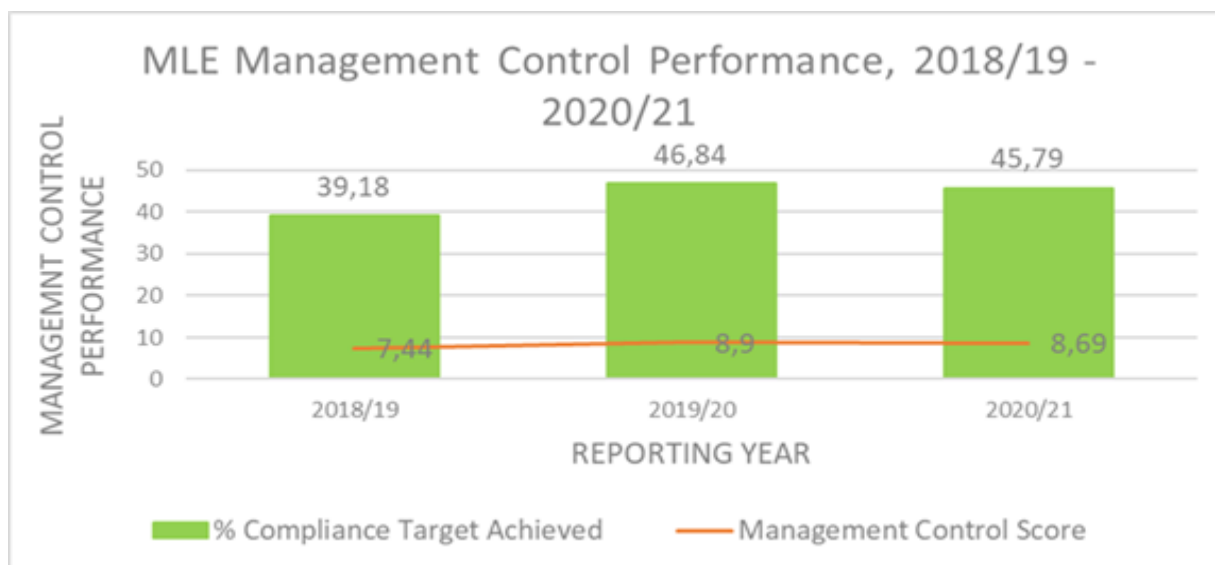


Figure 14: MLE Management Control Performance, 2018/19 – 2020/21

Figure 15 below displays the performance of the sub-sectors under the Management Control element with an industry average of 8.69 which is about 46% towards the allocated target.

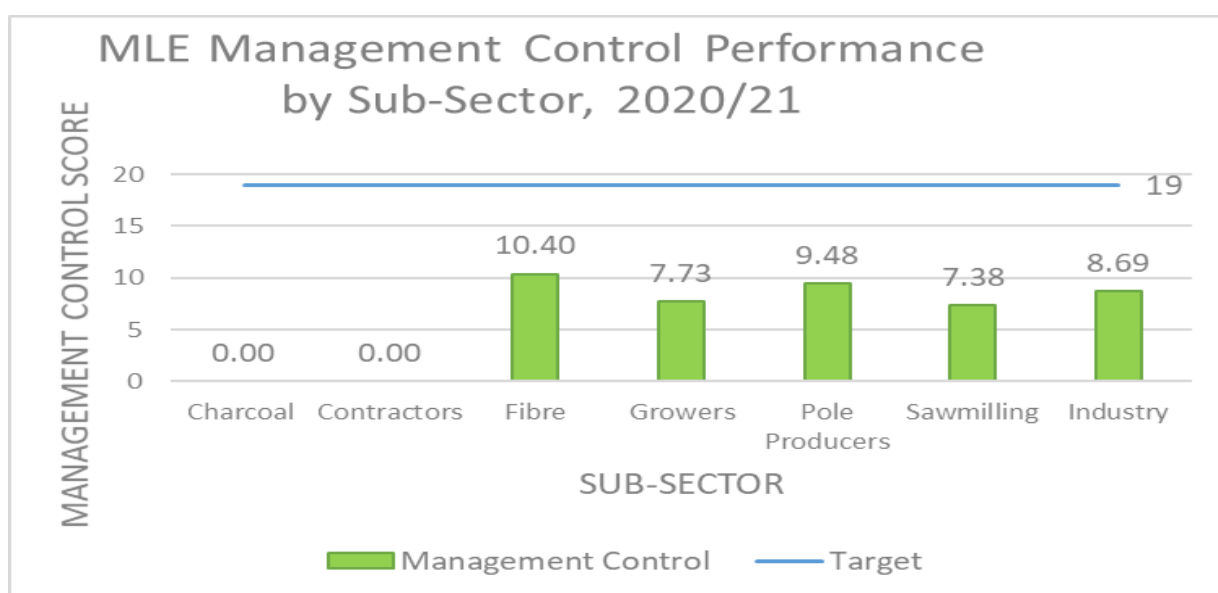


Figure 15: MLE Management Control Performance by Subsector, 2020/21

The performance continues to show a similar trend to the previous report with not so many improvements and proving the need for a holistic approach on this element. The Fibre sub-sector similar to the last analysis not only exceeded the 50% mark but also attained a better score, one above the industry's overall average. The Pole sub-sector also performed better when compared to the other sub-sectors and to the industry

respectively. Notably is the slight increase observed under the Sawmilling and the decline in the Growers sub-sectors when compared to the previous performance. Even though the increases and declines are not necessarily substantiated, it is important to note the changes proposed in the Employment Equity Act, (EEA) in relation to sector targets for this element in particular, as they are more aligned to the scorecard targets. Furthermore, the proposed change in the EEA recommends that failure to achieve the targets within the agreed period will be interrogated and supporting evidence will be required to justify the poor performance.

### MANAGEMENT CONTROL IN-DEPTH ANALYSIS

The Employment Equity Act requires measured entities to have a succession plan that will respond positively to the recruitment and employment of black people and black women across the different occupation management levels. The Skills Development Act, (SDA) is projected to address the skill gap that may exist in each of the economic sectors.

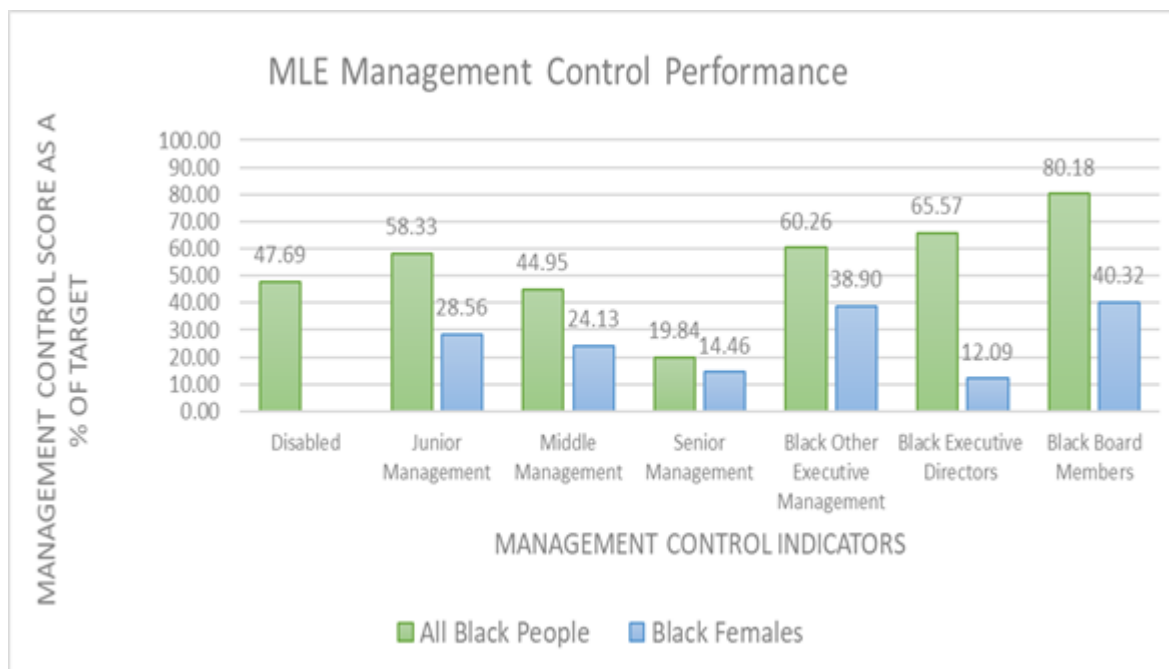


Figure 16: MLE Management Control Performance per indicator, 2020/21

Figure 16 summarises the performance achieved for all the indicators under the management control element. The trend is worrying as black representation seems to diminish with seniority and has been the case with the last two reports. Some

improvements were only observed on black board members, black people and black women executives and black other women executives as well as the black women senior management and employment of persons with disabilities indicators. There is a lot of uncertainty regarding the performance of management control. Considerations are mainly on the depressed economy and the growing tendency to either freeze positions or reallocate other responsibilities within existing structures for either retiring or retrenched officials. Additionally, this may also mean there could be a need to recruit beneficiaries who are committed, patient and have an interest to learn and be developed for long-term management positions. The number of initiatives undertaken mainly by the FSCC, FSA and FP&M Seta in year 2020 not only to showcase the women in the sector but also to market the sector for the younger generations in particular women is valued and hopefully will be beneficial for the promotion of women into such positions.

Board members are mandated to oversee the company’s operations and ensure its sustainability and profitability by adopting sound financial, ethical and legal governance policies. Each Measured Entity will also receive a certificate on compliance from the DoEL and failure to achieve set targets will result in a further onsite verification to ascertain the findings as already alluded.

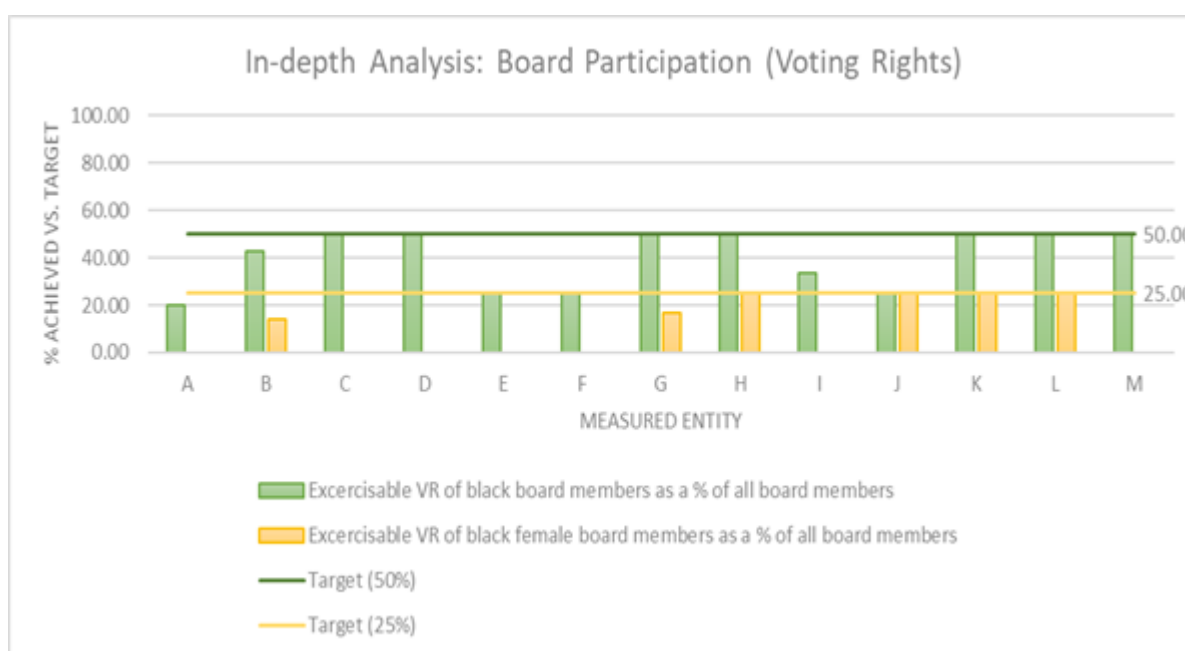


Figure 17: MLE Analysis: Board Participation by Black People through Voting Rights

The representation of black and black female board members is shown in Figure 17. Seven MLEs (53%) achieved the target for black board members while only four obtaining the full weighting points for black female board members. Five (38%) of the submitting measured entities achieved or exceeded a score of 50% and above towards the target for black people in boards with only two (15%) achieving less than 50% target for black female board members. The sector continues to struggle to attract black female board members and clearly displayed in Figure 17 above with more than half of the MLEs having no women representation in their board structure. This is a grave concern, and it may also indicate industry’s reluctance to include women in their board and realistically mean that women will continue to be disadvantaged as long as this reality is not addressed.

Executive Directors in an entity may be allowed to serve on the board without necessarily having any voting rights. Figure 18 below illustrates that 9/13 (69%) MLEs had black executive directors on boards compared to the 7 (53%) previously. Black women executive directors deteriorated from four of the total thirteen companies having women executive directors participating on the boards to only two in the current year.

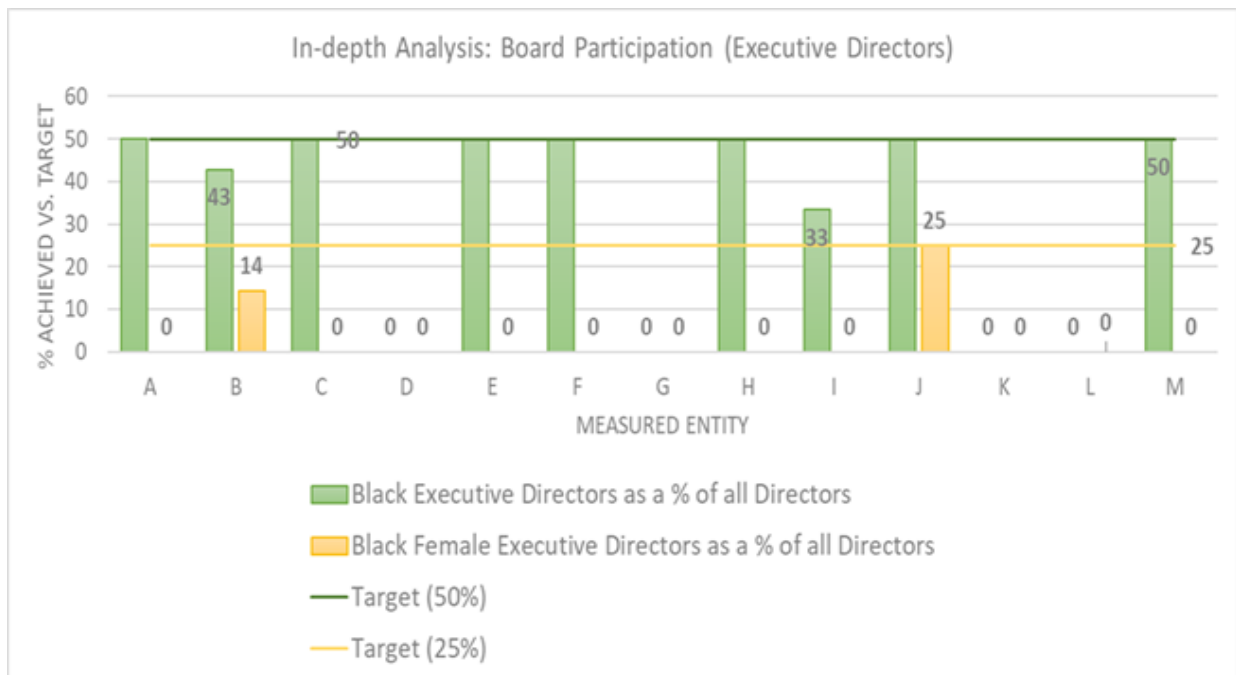


Figure 18: MLE Analysis: Board Participation by Black People through Executive Management

Additionally, 4/13 (31%) had neither black people nor black women executive directors. This trend continues to mirror the findings in the CEE report as published by the Department of Employment and Labour (DoEL). This performance does not only confirm the slow pace to include women but also industry’s reluctance to embrace women in decision making positions and structures. Chances are companies may not feel compelled to include women into these structures as they can still achieve a good B-BBEE level without achieving the points set for this target. The rotation of experienced executives from one company to another is also a disadvantage as it seems to recognise and benefit the few known in the boardroom structures thus delaying the inclusion of other women who could have been successfully mentored to climb the corporate ladder. As a sequel to that, there may be a need to compel companies to include black women in such executive positions.

Most executive directors in a company occupy the positions of Chief Executive Director, (CEO), Chief Operating Officer, (COO), Chief Financial Officer (CFO) etc. These executives are responsible for driving the company’s strategies and ensuring the implementation of the board resolutions.

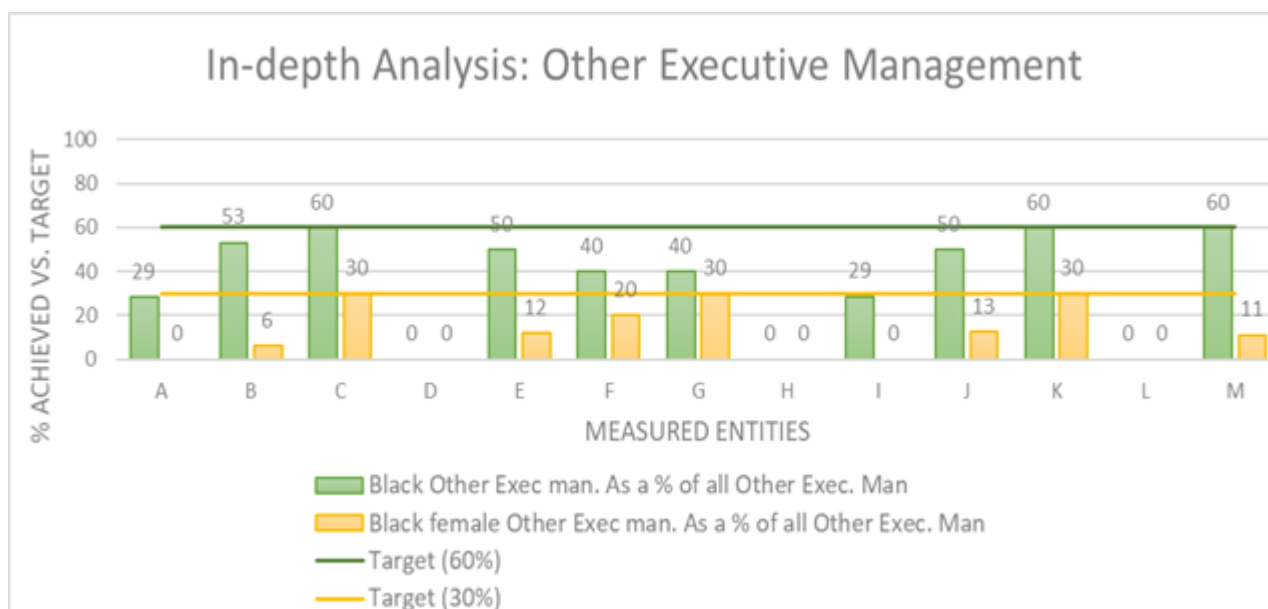


Figure 19: MLE Analysis: Board Participation by Black People through “Other” Executive Management

The extent to which the representation of black people and black women in executive positions in comparison to all the executive management is revealed in Figure 19. Only 3/13 (23%) measured entities achieved the target on black people and black women in

executive positions, while four (31%) and five (38%) scored zero points for the participation of black people and black women in these positions. The remaining measured entities either recorded slightly above or below a 50% score for both indicators showing some improved scores when compared to the previous report. The observation reflects exactly to the findings of the CEE report showing minimal participation of black women in particular to executive positions.

MLEs are required to achieve 60% black people and 30% black women representation at senior management respectively. Senior managers manage most of the operations and in most cases report directly to the executives and could in future be eligible to be promoted to executive positions depending on the succession plans of each Measured Entity. In Forestry, and depending on each company’s organogram senior managers are generally General Managers, Regional Managers, Heads of Departments, etc.

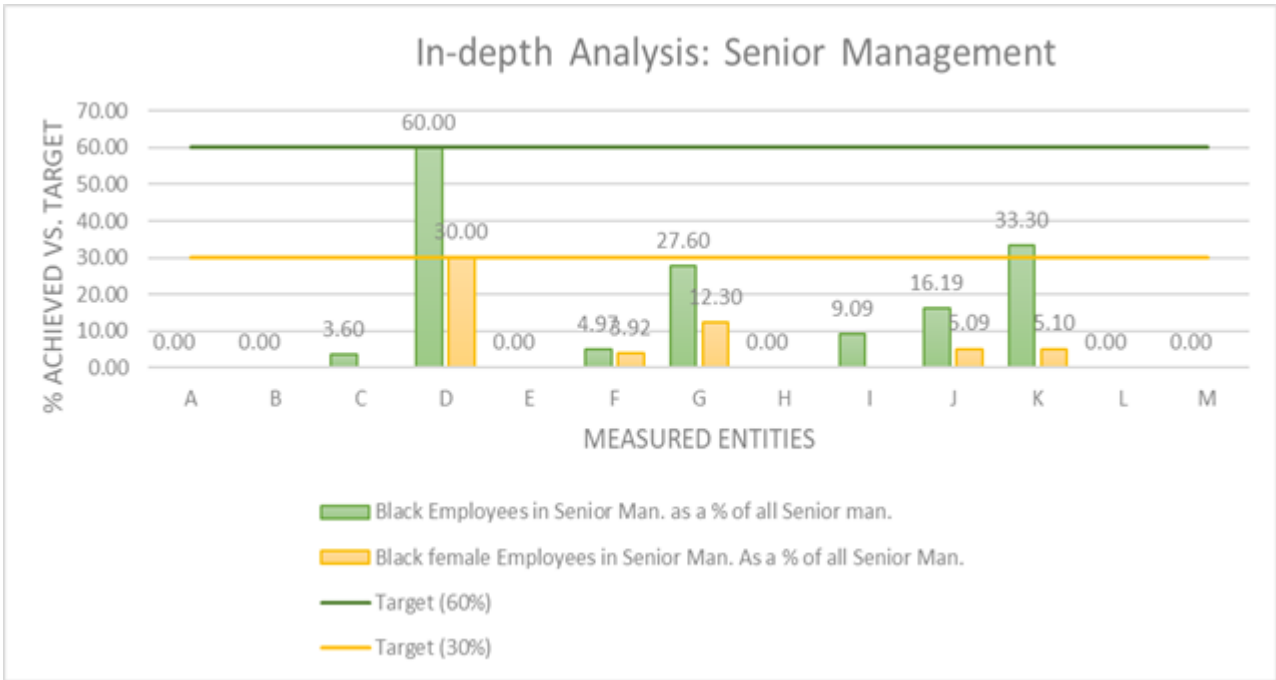


Figure 20: MLE Analysis: Black Representation at Senior Management level

The representation of black people and black women at senior management is shown in the Figure 20 above. The observation reveals that industry continues to struggle to either attract or promote black people and black women into the senior management category with only one (8%) measured entity achieving the full target for each of the two indicators under senior management. Six (46%) achieved zero score for black and black women senior managers. The remaining MLEs had either none or very minimal

representation of women in this category which definitely translate to a poor performance of the industry with regards to black women executives. While the reasons that may account for this discrepancy may not be validated, industry is still required to put an extra effort towards achieving the target for these indicators. If not, this will not be viewed but will be validated as industry reluctance to promote black people to senior positions. Fundamentally it will be indicative of industry's non-compliance to the Employment Equity Act, which seeks to have equitable representation across the different occupational levels and to be aligned to the Economically Active Populations (EAP). Industry needs to also consider the long-term effect of this poor performance in particular to the top management and board participation of both black people and women. It must also be noted that some MLEs do not necessarily differentiate between senior management and executive, but the Amended FSC makes reference to how the weighting points will be distributed.

Figure 21 below reveals MLEs performance for employing and or promoting black people and black women into middle management positions. Middle managers are in most cases the second in line of authority and report directly to senior management and are most likely to operate in the fields and rural outskirts.

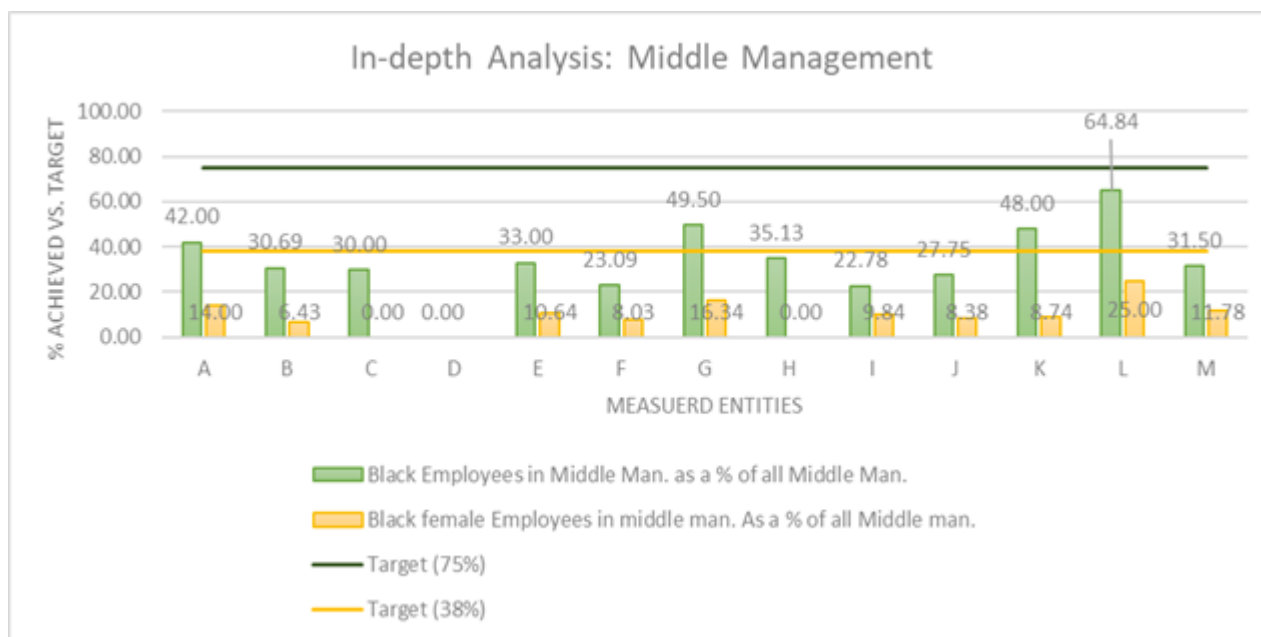


Figure 21: MLE Analysis: Black Participation at Middle Management



The performance shows a better outlook when compared to the senior management indicator proving that most black people are still ranked as middle managers. None of the MLEs achieved the target for both indicators with only four (31%) achieving average scores of above 50% towards the target for black employees and the highest score being 64.84. Only two (18%) MLEs had no representation of black women at all which differs from the previous report where representation while minimal was observed for this indicator by all reporting MLEs. This is despite that the compliance target for black female middle managers is lower. The cascading effect of this performance is that industry will continue to have marginalised representation in the upper executive positions and as such may even struggle in future to attract skilled professionals to occupy these positions most possibly also due to the nature of forestry.

Junior managers are often not in direct succession due to their responsibilities but may be immediately promoted to middle management positions. They may need to gain substantive experience to motivate for their promotion as in most cases they are recruited directly from tertiary with minimal practical experience. In forestry, as previously mentioned, junior managers are concentrated in the silviculture and harvesting operations as Forestry Managers, Plantation Managers, Silviculture or Harvesting Managers, Senior Foresters, Management Foresters, etc.

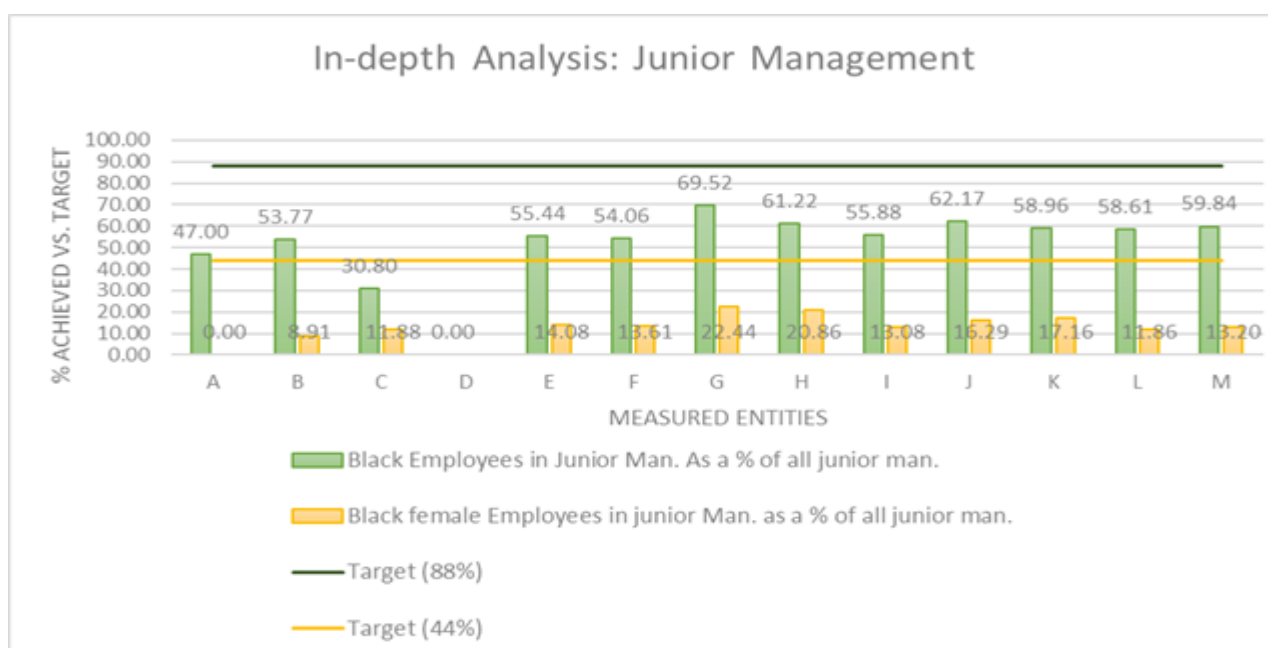


Figure 22: MLE Analysis: Black Participation at Junior Management

The compliant target for junior management is 88% for black employees and 44% for black female employees. Figure 22 above reveals that twelve of the thirteen (92%) achieved reasonable scores of at least above 50% towards the target of black people with none of the MLEs achieving the full score, similar to the previous report. Women representation in this indicator is still very low with none of the MLEs achieving even half towards the target and evidently so a trend noticed even on the two previous reports. Only one (7%) had no representation of both black people and black women in the junior management occupation. Industry is encouraged to commit more towards the promotion of women in particular to this category or else an employment compliance report reflecting this performance will further disadvantage an entity wanting to do business with government.

The employment of differently abled persons is enshrined in the Amended FSC. Industry commits to having at least 2% of the differently abled workforce only occupying office-based operations. This is not intended at discriminating against this grouping of persons as the work demands for forestry in particularly the field-based operations can be highly unsuitable.

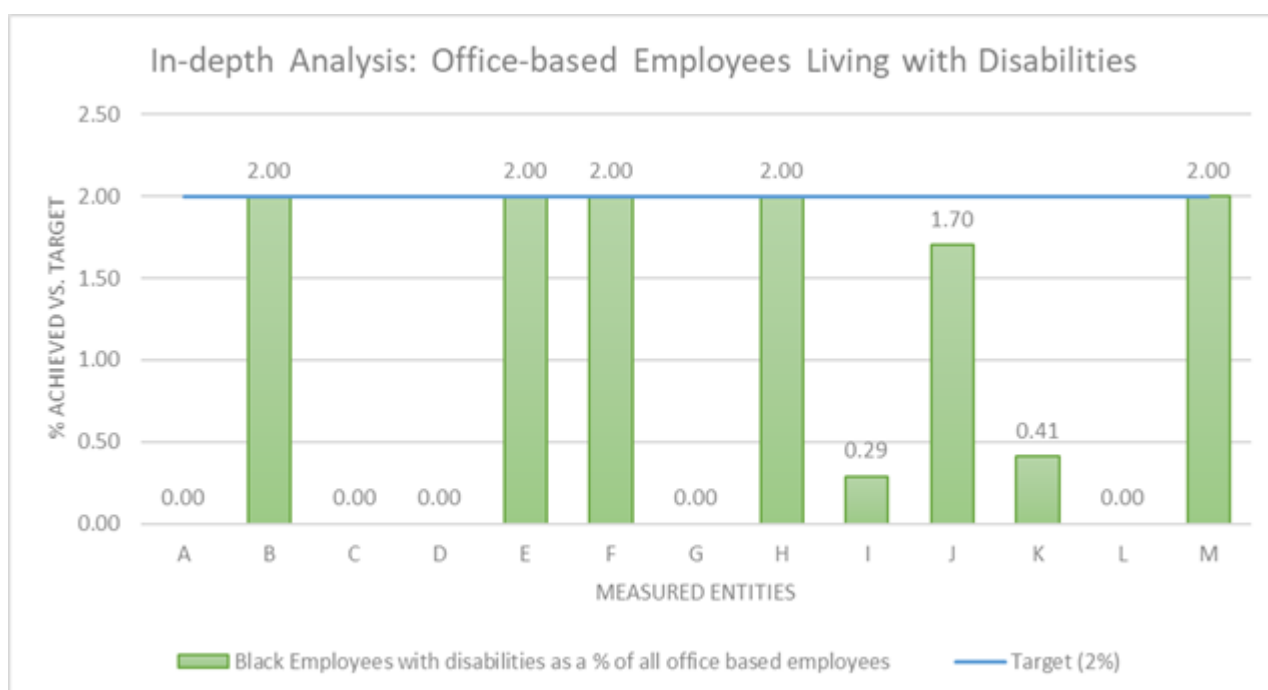


Figure 23: MLE Analysis: Disabled Employees

According to the graphical expression in Figure 23, 5/13 (38%) of the reporting MLEs achieved the target for this indicator, with an additional one (7%) achieving 85% towards the target. The remaining seven performed poorly in this indicator with the majority of them (71%) achieving zero scores. As reported previously, MLEs are encouraged to align their employment and recruitment plans with the Disability Act and Employment Equity Act in order to improve performance under this indicator. Orientation of current employees on the Disability Act is encouraged.

#### 4.1.3. SKILLS DEVELOPMENT

The skills development element is also a priority element which will result in an entity's downgrade in terms of the B-BBBE level status achieved for failure to obtain 40% of the total allocated weighing points. The skills development pillar is envisioned at not only facilitating but also at creating opportunities for black people through the recognized learning interventions. Skills development spending is measured through a consecutive period of twelve (12) months and companies are required to comply with the Skills Development Act (SDA) and pay certain levies towards skills development.

It is anticipated that this element would be mostly affected by the disruptions of the COVID-19 pandemic as a majority, if not all, of the interventions implemented under such conditions including e-learning are currently not recognizable under the learning matrix. This could be worsened due to the lockdown as a result of the pandemic whereby only categorized economic sectors for essential were operational.

Moreover, the element requires a financial commitment from Measured Entities and with a strained economy, the skilling of either black employees or non-employees may not necessarily be a priority. This will further exacerbate the employability of particularly black people, with the unemployment rate records at 46.3% amongst the youth and at 9.3% amongst university graduates in the first quarter of 2021.<sup>iv</sup>

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<sup>iv</sup> <http://www.statssa.gov.za/publications/P0211/Media%20release%20QLFS%20Q1%202021.pdf>

Figure 24 below equivalences the scores achieved between the three reporting years, showing a steady improvement on the SD performance over the last three years. The overall score achieved by MLEs for the SD element is 14,59.

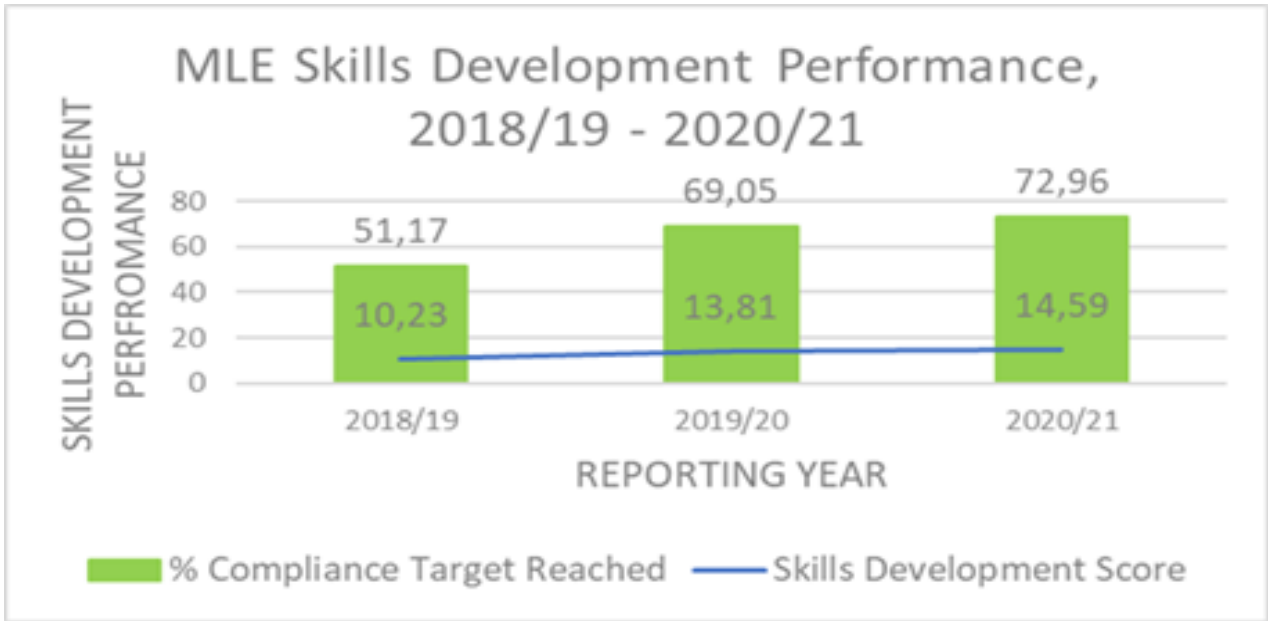


Figure 24: MLE Skills Development Performance, 2018/19 – 2020/21

The average performance of all entities in each reporting sub-sector is displayed in the Figure 25 below.

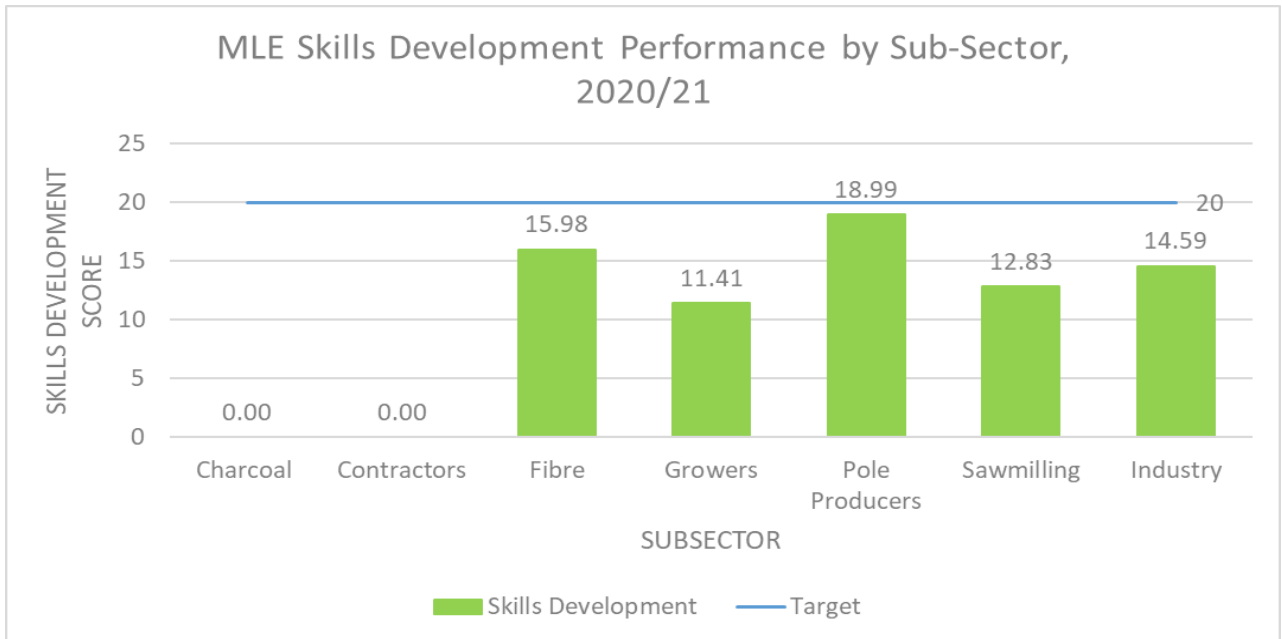


Figure 25: MLE Skills Development Performance by Subsector, 2020/21

Figure 25 above shows that all the sub-sectors have performed well under this element with the Pole sub-sector being the best performer, an observation also noticed in the previous report. Remarkably, is the improvement of the Sawmilling sub-sector who improved significantly from a 45% towards target to a 64%. The least performing sub-sector was the Growers and expectedly so as one of the MLEs was discounted through this element.

## SKILLS DEVELOPMENT IN-DEPTH ANALYSIS

MLEs are mandated to invest in skills development programmes for black people, both employed and unemployed as well for black people living with disabilities. The types of recognizable skills are clearly defined in the learning matrix and could be accounted through learnership, apprenticeships or internships.

Figure 26 below indicates the performance of MLEs in the four main skills development element indicators. MLEs have performed better on this element despite the challenges resulting from COVID-19. The results show that MLEs, achieved, 5.3/8 (66%) towards skilling black people and 2.66/4 (67%) for skills development on black people living with disabilities, illustrating an improvement from the scores achieved in the previous analysis. More than 75% was achieved for black employees and black unemployed learners participating in learnership, apprenticeship and internship indicators. Chances are this would be a result of the MLEs who were operating as an essential service during the lockdowns.

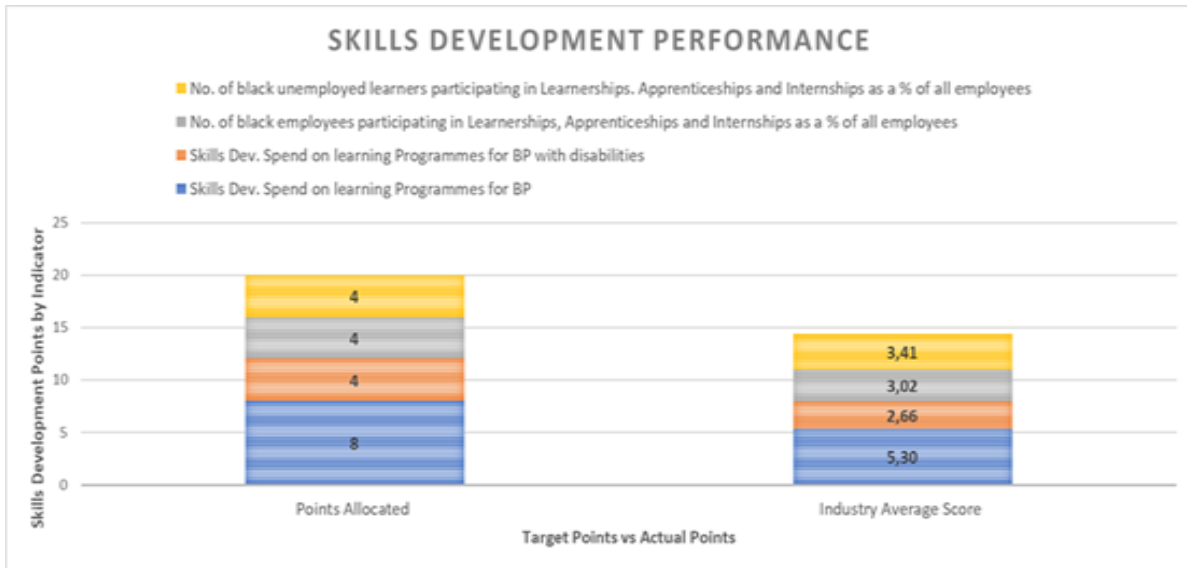


Figure 26: MLE Skills Development Performance

Figure 27 below represents the skills spend as a leviabile amount on black people and black people living with disabilities. The accounted skills spend should be aligned to the programmes to elevate knowledge for future promotions. All the 13 MLEs spent a portion of the 5% payroll skills development target on black people and some also on skills for black people living with disabilities.

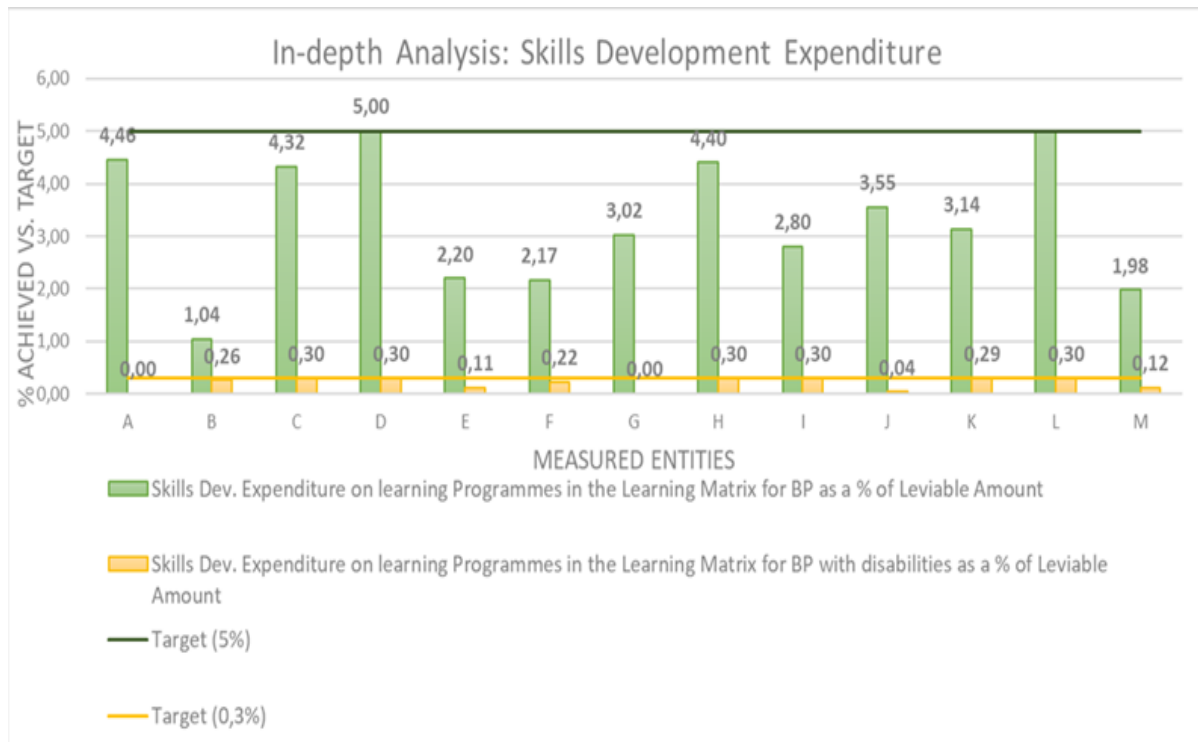


Figure 27: MLE Analysis: Skills Development Spend

All the thirteen reporting MLEs contributed mostly to the skilling of black people with only two (15%) achieving the target on the black people indicator. Seven (54%) achieved at least above 50% towards the target showing a decline when compared to the 2019/20 report. The performance on the skills spend indicator for black people living with disabilities shows that four (31%) achieved the total compliance target. Only two (15%) MLEs did not spend on skills for black people living with disabilities. While the sector employs less people from this category due to the nature of the industry, the performance observed cannot be compared accurately to people with both disabilities and with comorbidities as regarded as a high risk during the pandemic and as such workers qualified in this category were encouraged to work mostly from home. The result may confirm the economic impact of COVID-19 which forced most companies to either close down or to reprioritize certain operations for survival.

MLEs are required to develop black employees as well as black unemployed learners through learnership, apprenticeship and internship programmes. The performance of most MLEs in this indicator is improved when compared to the previous report that is displayed in Figure 28 below.

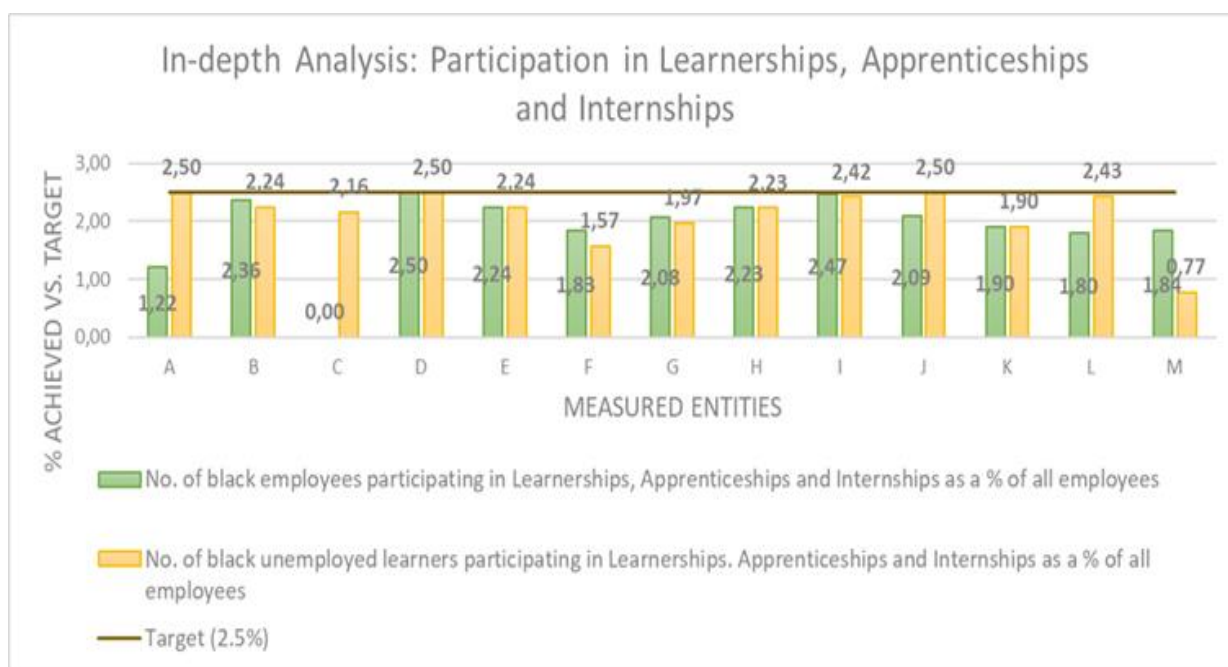


Figure 288: MLE Analysis: Participation in Learnerships, Apprenticeships and Internships

Eleven (84%) of the MLEs achieved good scores of about 70% and above with one (7%) achieving about 49% and the remaining one achieving zero towards the target on black employees. The performance on black unemployed learners was even better with twelve (92%) achieving reasonable and better scores. The remaining MLE only achieved about 31% towards the target. Similarly, to the last report none of the MLEs scored zero points on the unemployed learners indicator.

The creation of employment through the Absorption Principle is even more crucial with the worst economy and the unemployment rate in particular to the youth as degenerated by the pandemic as mentioned above.

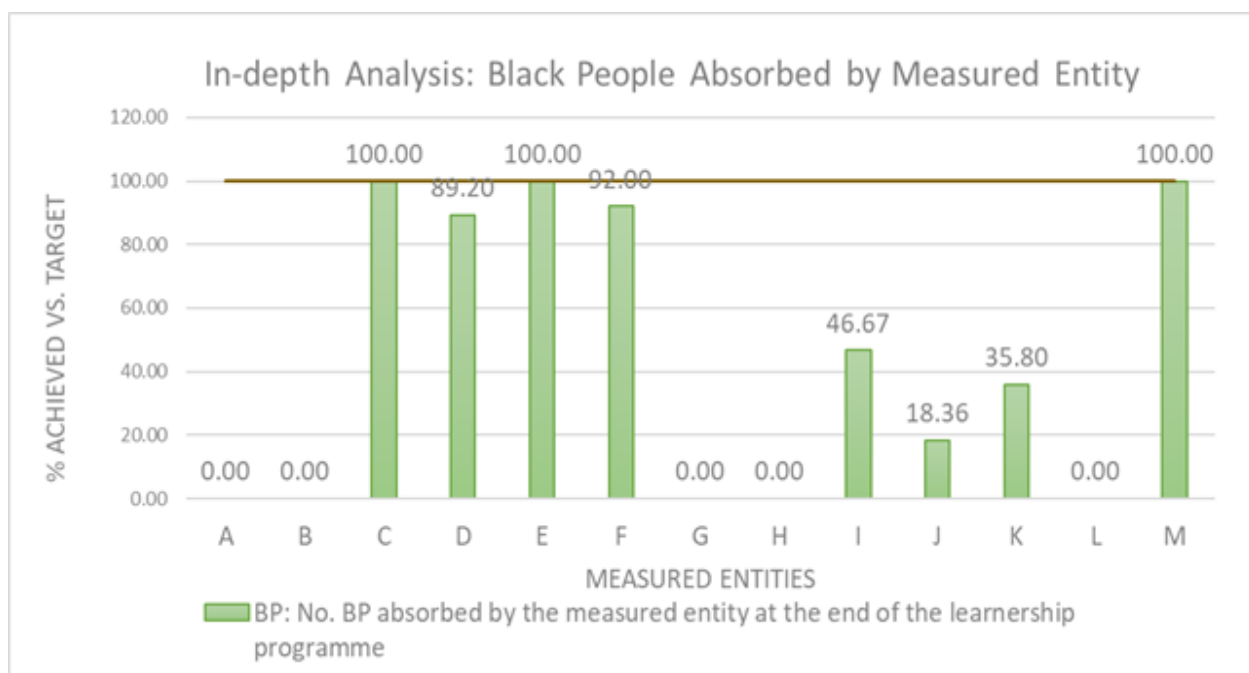


Figure 29: MLE Analysis: Absorption of Learners into Measured Entity

Figure 29 above demonstrates the absorption rate for reporting MLEs. The absorption of black people is critical as it intends to respond positively to the current unemployment crisis the country is experiencing. Three (23%) entities absorbed all their learners with a further two (15%) absorbing 89% of their learners. Five (38) did not absorb at all showing an increase from the 2019/20 reporting period. The remaining three (23%) only absorbed minimally. It is anticipated that the absorption may only



change positively when the economy grows and certainly contribute to the job creation landscape.

#### 4.1.4. ENTERPRISE & SUPPLIER DEVELOPMENT

Enterprise and Supplier Development (ESD) is a combined element constituted of preferential procurement (PP), supplier development (SD) and enterprise development (ED). It is one of the priority elements with the most points allocated to it when compared to the other four scorecard elements. It has 43 weighing points allocated to it. The ESD is a central element intended to develop and create not only black suppliers but also new enterprises in the industry that could play a pivotal role in the creation of new jobs.

The ESD element, through preferential procurement emphasizes the need for MLEs to procure from different groups based on size and turnover of each company. This includes QSEs, EMEs, 51% Black Owned (BO), 30% Black Women Owned (BWO) and 51% Black Designated Groupings (BDGs). The sector is also encouraged to abide by the President's call in 2020 to reserve 40% of the total procurement for women owned businesses.<sup>v</sup>

Contributions for ESD must be measurable, with a reliable record of transactions and must contribute meaningfully to financial independence and redress. ESD beneficiaries must also be traceable. The newly approved Forestry Masterplan even makes a greater emphasis on the growth of the Small, Micro and Medium Enterprises (SMME) sector (which most forest QSEs and EMEs falls in) both in rand value, and also to the creation of new jobs to continuously sustain and expand the economic outlook of the industry.

The COVID-19 exposed most of the imbalances and net saving settings of most sectors. The restrictions even hit some of the economic sectors harder with number of small businesses possibly closing down due to the magnitude of the pandemic on their operations.

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<sup>v</sup> <https://www.iol.co.za/news/40-of-public-procurement-to-be-reserved-for-women-owned-businesses-448d041a-0801-42a9-b285-533583b9ecc6>

The ESD element continues to be one of the best performing elements for MLEs in the sector even for the year under review. The average performance for the MLEs was 38.4 as illustrated in Figure 30 below showing a slight increase from the previous year.

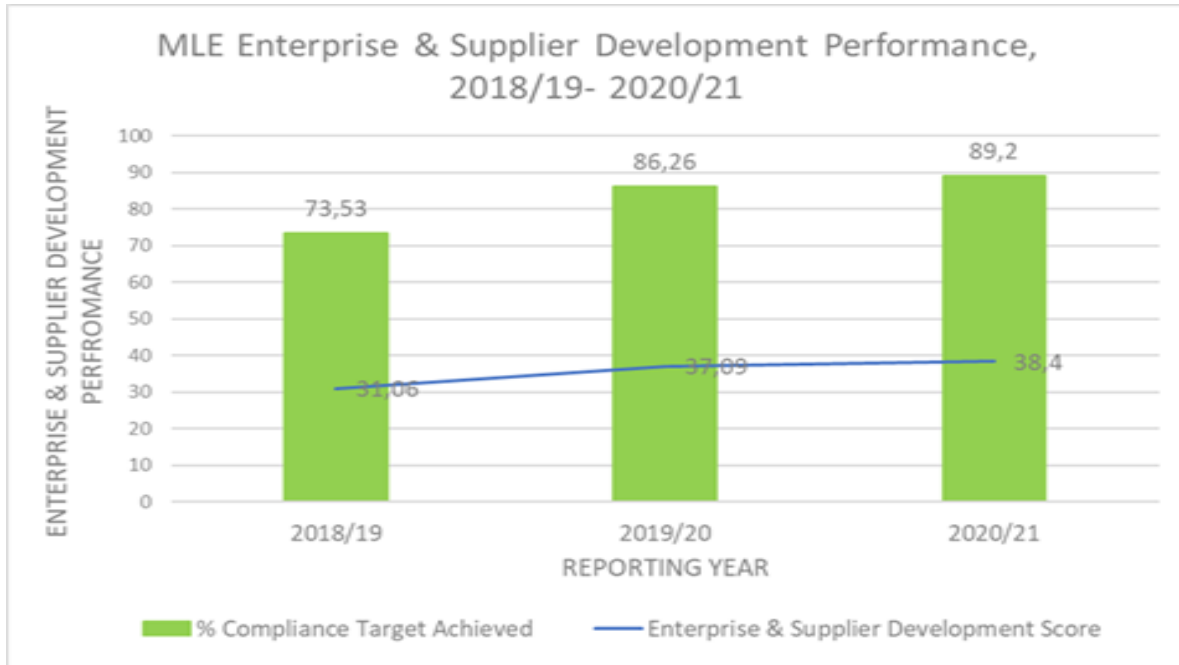


Figure 30: MLE Enterprise & Supplier Development Performance, 2018/19 – 2020/21

Most reporting MLEs performed well on this element proving this element as one of the least challenging to implement even in worst economic scenarios.

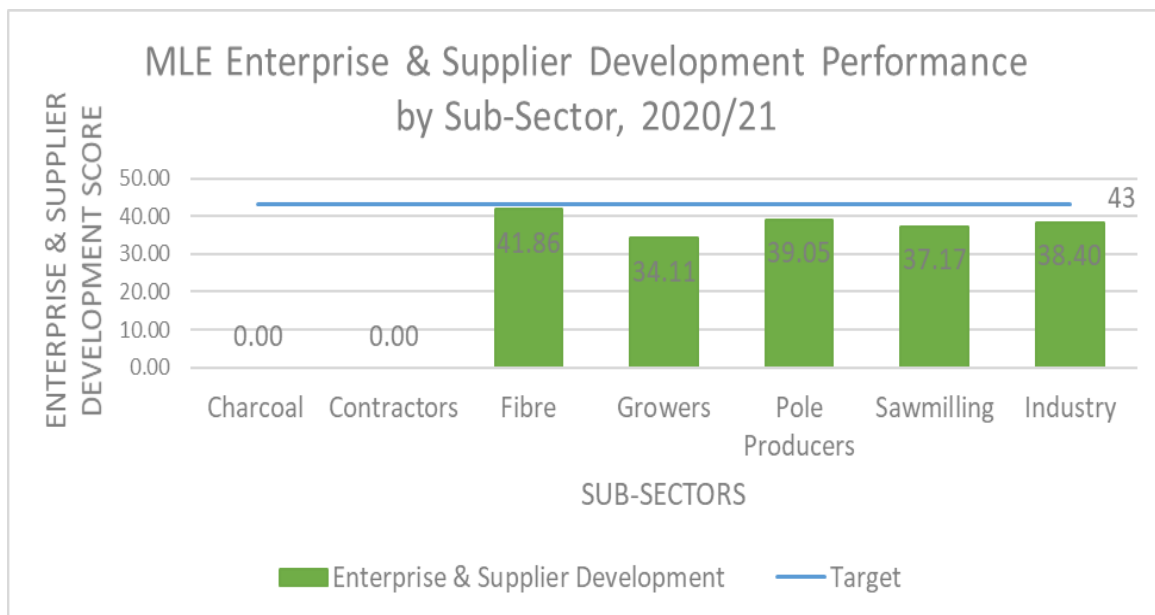


Figure 29: MLE Enterprise and Supplier Development Performance by Subsector, 2020/21

Figure 31 above displays the sub-sectors' weighted performance to the entire industry. According to the graphical expression, all the reporting sub-sectors, performed exceptionally well in this element, with the Fibre sub-sector (similarly to the ownership and management control outperforming all other subsectors. All the MLEs from the Fibre subsector achieved above 90% towards the target with three achieving the full points of 43.

## ENTERPRISE & SUPPLIER DEVELOPMENT IN-DEPTH ANALYSIS

Table 5 compares the scores achieved in the previous three years of the ESD indicators. Noticeably, improvements were recorded across all the indicators of this element with the exception of the first indicator allocating a spend for all empowering suppliers based on the B-BBEE recognition levels. This could confirm that a disaster may lead to a demand of certain goods hopefully these were preferred from the different qualifying suppliers in the preferential procurement indicator.

Table 5: Enterprise and Supplier Development FY2018/19 -FY2020/21

<b>Indicator</b>	<b>Target Points</b>	<b>Actual Points 19-20</b>	<b>Actual Points 20-21</b>	<b>Industry Average Score 18-19</b>	<b>Industry Average Score 19-20</b>	<b>Industry Average Score 20-21</b>
Procurement Spend from all empowering suppliers based on their B-BBEE Procurement Recognition Levels	5	3,94	3.90	18-19	78,8	78
Procurement Spend from Qualifying Small Enterprises based on the applicable B-BBEE Procurement Recognition Levels	2	1,59	1,65	74,6	79,9	83
Procurement Spend from Exempt Micro Enterprises based on the applicable B-BBEE Procurement Recognition Levels	3	2,48	1,84	68,5	82,7	92
Procurement Spend from 51% BO Suppliers based on the applicable B-BBEE Procurement Recognition Levels	9	7,05	7.88	79,33	78,3	88
Procurement Spend from 30% BWO Suppliers based on the applicable B-BBEE Procurement Recognition Levels	2	1,6	1.71	64,66	80	86
Procurement Spend from Suppliers that are at least 51% BO and 51% Owned by BDG	2	1,01	1.34	27,5	50,5	67
Annual Value of all Qualifying SD Contributions made by the Measured entity as a % of the Target	10	7,83	8.9	70	78,3	89
Annual Value of all Qualifying ED Contributions made by the Measured Entity as a % of the Target	10	8,26	8.7	77.9	82,6	87

Figure 32 below illustrates the achievement towards the scores for each of the different suppliers under the preferential procurement. MLEs seems to find it easy to implement this element as good scores were achieved for all the indicators.

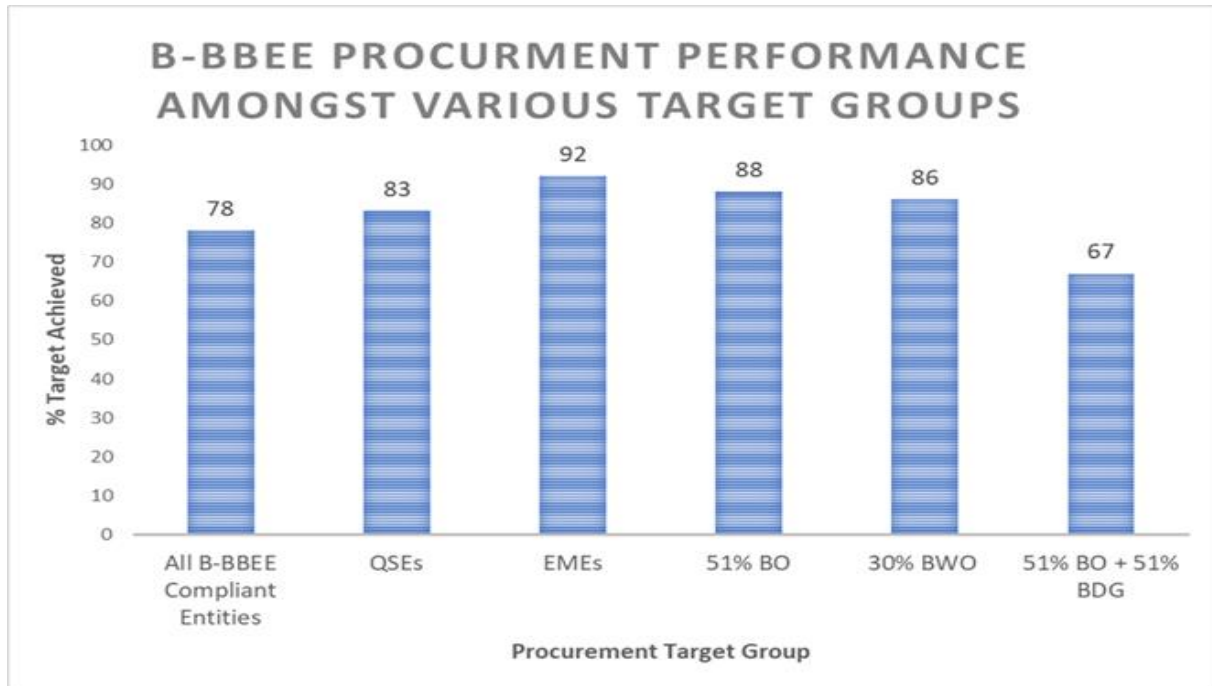


Figure 30: B-BEE Procurement Performance amongst Various Target Groups

The target score for procurement from all empowering suppliers based on the B-BBEE recognition level is 5 points with a compliance target of 80%. Suppliers from this indicator may not necessarily have a good or a low rating. A supplier with a higher B-BBEE recognition level is most preferred in all instances as this has a cascading effect on the B-BBEE procurement level for the buying company. Even, government prefers a level 4 and above.

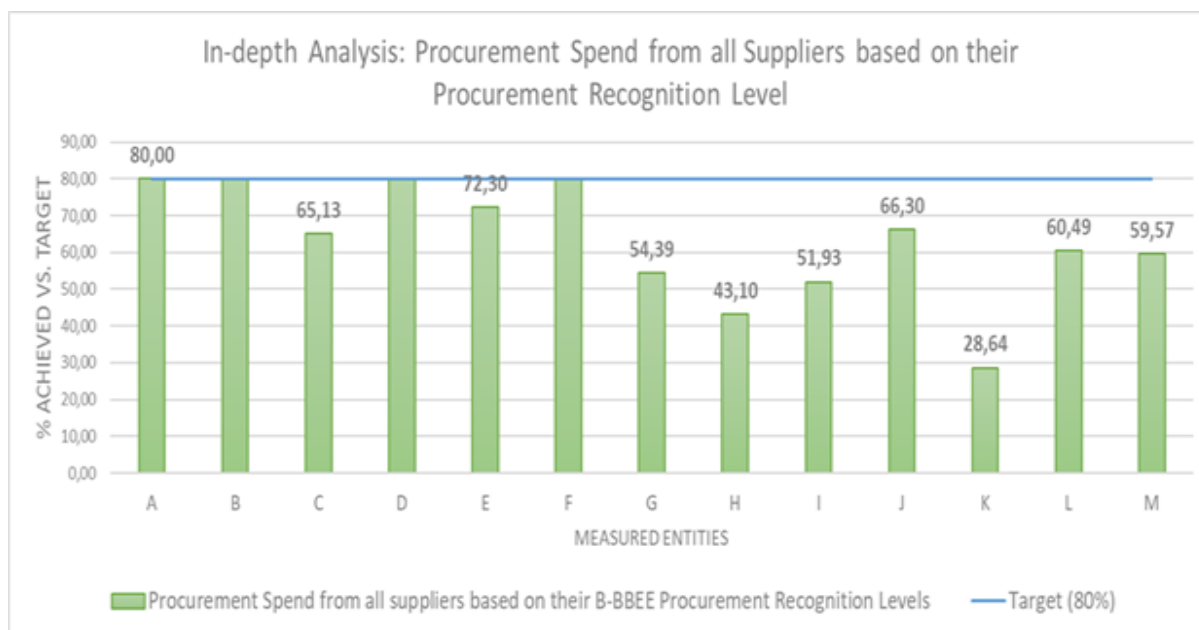


Figure 31: MLE Analysis: Procurement Spend on all Suppliers based on their Recognition Levels

All submitting MLEs proved to have procured from different suppliers as shown in Figure 33 above. Twelve (92%) achieved scores above 50% towards the target with about eleven performing exceptionally well. The number of MLEs who reached the target declined from five in the previous year to three. Only one (8%) MLE underperformed scoring less than fifty percent in this indicator which was not the case when comparing to the previous year. This suggests that the suppliers of this MLE were having a low B-BBEE recognition level mainly due to either a non-compliant status or a lower B-BBEE level contributor.

QSEs and EMEs are realistically the main beneficiaries of the ESD element. The preferential procurement segment of ESD further set targets of 15% each for procurement spent from QSEs and EMEs to emphasize the need to empower entities falling within these groupings. MLEs can choose to be scored against the half targets presently, due to the non-completion of the three government undertakings attached to preferential procurement. This is set to change pending either the outcome of the SAFCOL’s Facilitator’s Status application or the new proposed modification on the SAFCOL’s scorecard or even the implementation of the other commitments attached to this element.

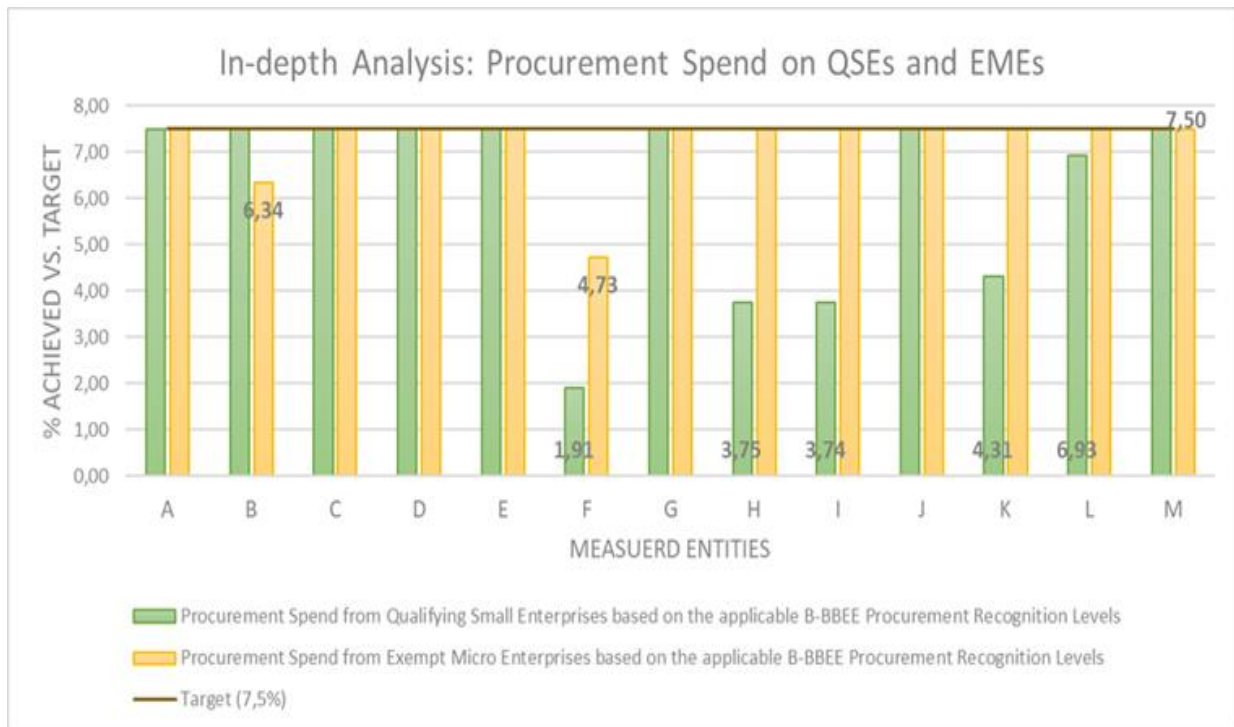


Figure 32: MLE Analysis: Procurement Spend on QSEs and EMEs

Figure 34 above reveals that most entities procured from QSEs and EMEs. The reflection seems to differ slightly from previous reports in that most entities procured more from EMEs compared to QSEs. Eleven (84%) MLEs reached the target of 7.5 on procurement from EMEs compared to eight (61%) procuring from QSEs. Only one MLE underperformed on procurement from QSEs.

Notably and similar to the previous year, none of the MLEs recorded a zero score. This is encouraging as the COVID-19 pandemic exposed the imbalances, and sustainability of such entities is critical, both for employee retentions and for the inclusive participation of these type of businesses in the mainstream economy.

The Amended FSC has also placed great emphasis on procurement from 51% BO and 30% BWO businesses. This is important for MLEs to undertake and hence the allocation of more points (9) and a higher compliance target of 40% on BO entities. An entity with a black ownership profile above 50% is enhanced to an automatic level 2 status and a B-BBEE recognition level of 125%. All procuring MLEs should prefer such suppliers in support of the expanded objective of B-BBEE.

Figure 35 below is a graphical representation of procurement spend by MLEs from 51% BO and 30% BWO suppliers.

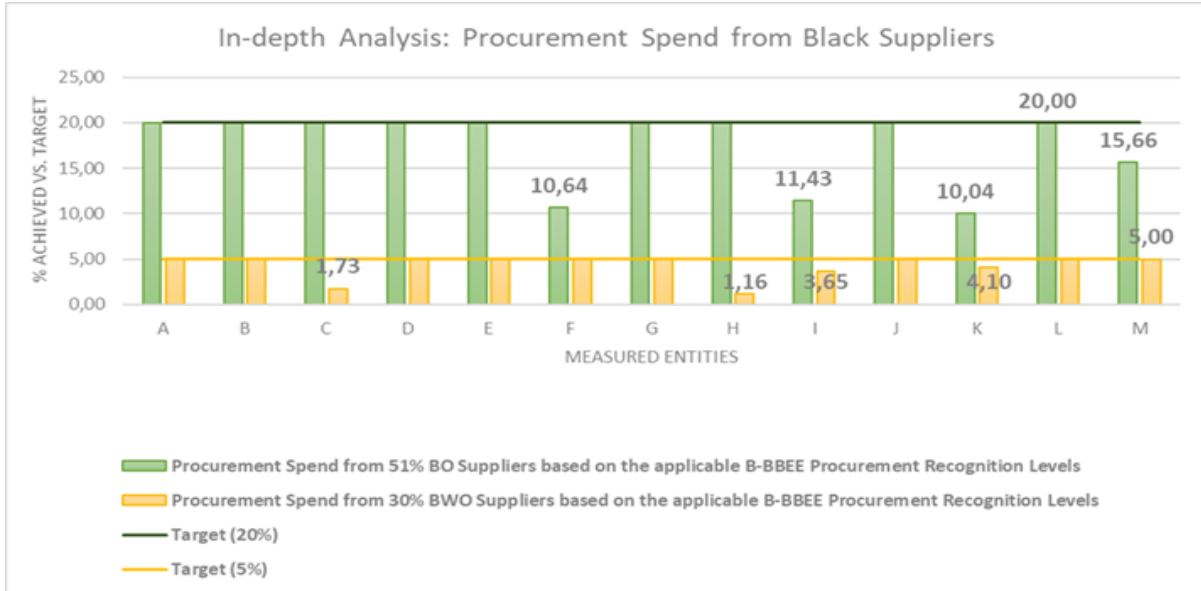


Figure 33: MLE Analysis: Procurement Spend on BO and BWO Enterprises.

All the reporting MLEs preferred these types of BO and BWO suppliers. Nine (69%) MLEs achieved the targets for buying from 51% BO and 30% BWO suppliers respectively, showing an improvement from the 2019/20 performance. The remaining MLEs performed better on procurement on 51%BO suppliers compared to 30% BWO suppliers. The call by the President in 2020 to allocate at least 40% procurement preference to at least 30% BWO and above businesses is therefore substantiated.

Procurement from 51% BO and 51% BDG suppliers is also a priority for MLEs. Figure 36 below gives an insight of MLEs spending patterns on preferential procurement from 51% BO and 51% BDG businesses.



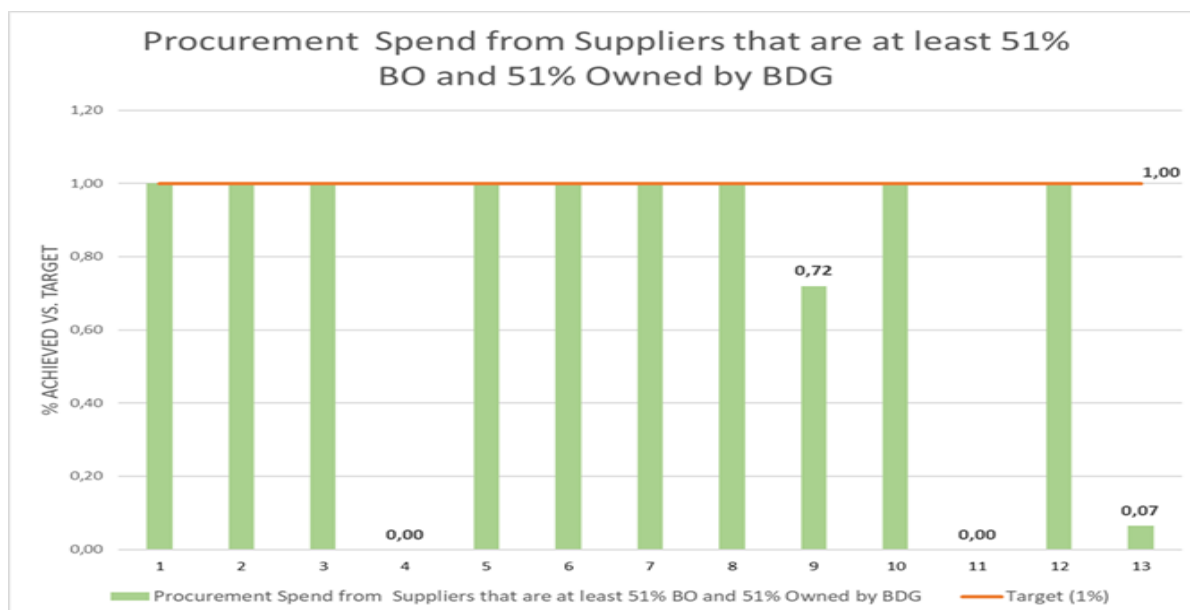


Figure 34: Procurement Spend from Suppliers that are at least 51% BO and 51 Owned by BDG.

Nine MLEs (69%) achieved the target for procurement from 51% BO and 51% BDG businesses with a further one (8%) MLE achieving above 50% towards the target. Only three (23%) MLEs struggled in this indicator, two of which did not procure at all from this grouping. The outlook on this indicator is better for the year when compared to previous years.

Supplier Development (SD) is intended at creating long term business deals for suppliers to promote an all-encompassing and diversified supply chain. MLEs are expected to spend 2% of their Net Profit after Tax (NPAT) on developing suppliers for a total weighting point of 10.

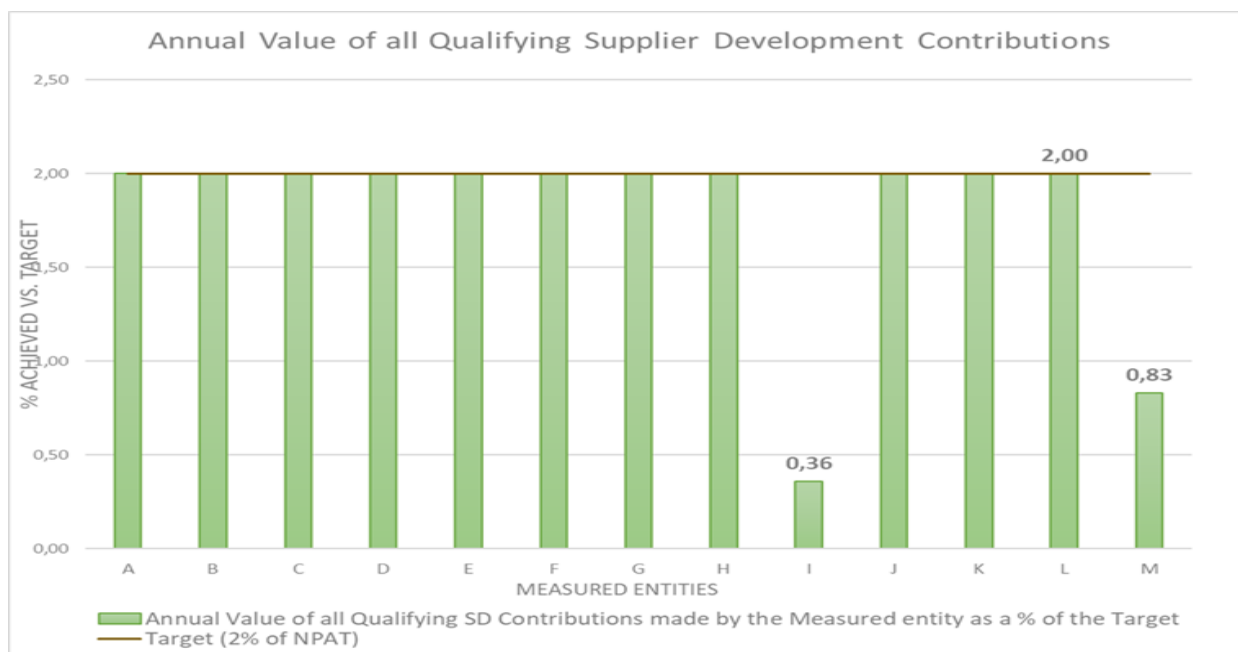


Figure 35: MLE Analysis: Supplier Development

The average spends on SD by MLEs was 1,78%. Eleven, (85%) MLEs spent the obligated 2% of NPAT as shown in Figure 37 above, an improvement from the previous report where only eight achieved the target. The remaining 2 MLEs (15%) performed poorly and struggled to even achieve 50% towards the target, though only one was subsequently discounted as a result.

MLEs are mandated to spend at least 1% of their NPAT towards ED contributions. This element is central in the establishment of sustainable entrepreneurs with a potential to create more jobs. COVID-19 might have brought a demand for new goods and commodities which the sector could capitalize to create new sustainable and inclusive businesses with improved collaborations between the private and public sector and unity of purpose.

Figure 38 below provides an understanding of the submitting MLEs' performance. Nine (69%) MLEs succeeded in reaching the target on the ED indicator. Another three (23%) scored more than 50%, with the remaining one (8%), achieving an undesirable score due to the low spend of about 0.02 of the NPAT. This MLE was automatically downgraded into a lower B-BBEE level contributor.

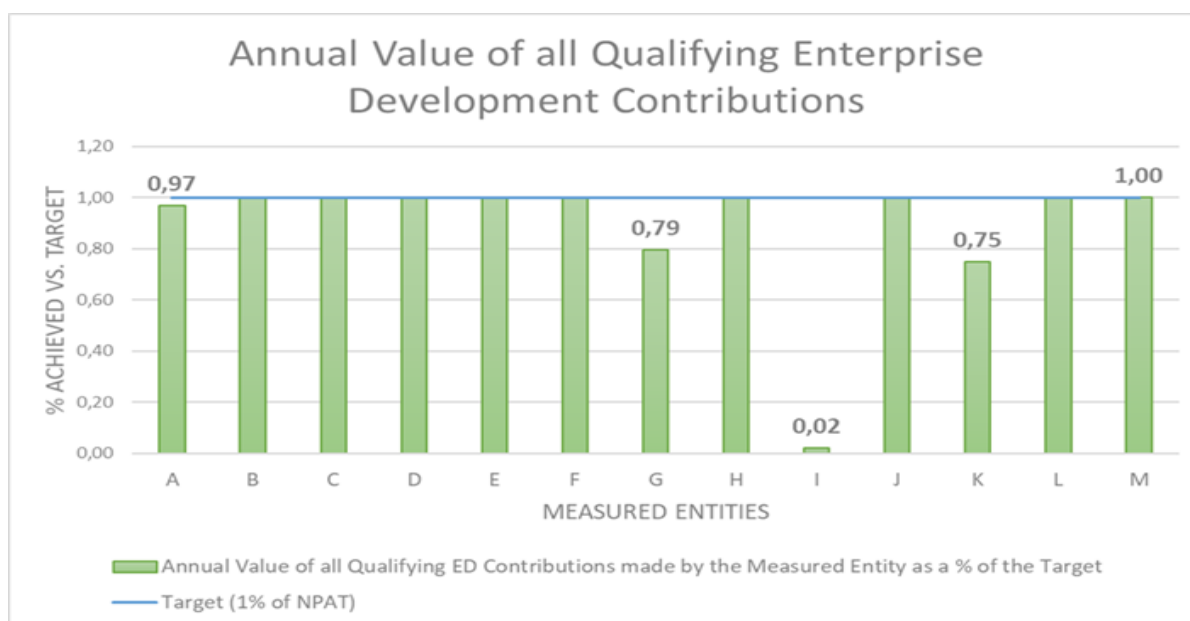


Figure 36: MLE Analysis: Enterprise Development

The industry has always outperformed on this element. Unfortunately, the types of contributions preferred are not listed in the B-BBEE records to verify and assess the preference ratios amongst the contributions and the rationale behind. Furthermore, this would provide a comprehensive understanding of the supplies on demand in the forestry industry.

MLEs operating in the growers and sawmilling subsectors are also required to supply saw logs to either QSEs, EMEs and 51% BO or 30% BWO entities. Only three of the 9 (two sawmillers and a grower and excluding SAFCOL) reporting MLEs supported these groupings with the sawmillers supplying more than the growers.

MLEs are also incentivized for graduating an ED to a SD beneficiary and to create jobs as a result. The number of MLEs receiving bonus points for the graduation of one or more qualifying ED Beneficiaries to SD level has increased from two to six (33%) in the current year. Another six (33) MLEs received bonus points for creating one or more jobs directly as a result of qualifying SD and ED contributions

Partnering with government in support of ED and or SD or supporting 30% BWO entities is also encouraged. Interestingly three (17%) attained points for contributions made in partnership with government compared to none in the last reporting year. This

may demonstrate that partnerships between the public and private sector towards B-BBEE are being initiated and are a must.

#### 4.1.5. SOCIO-ECONOMIC DEVELOPMENT

The Socio-Economic Development (SED) is meant to allow companies to make monetary and or non-monetary contributions to communities and societies within which they operate. While the SED element is allocated the least weighing points its contribution to the rural communities can be significant considering that forestry operations are rural based. Measured Entities in the MLE category are obligated to spend at least 1% of the NPAT on SED contributions to qualify for full points. Initiatives implemented under the SED element must flow through to at least 75% of black people and must have a long- term economic benefit.

Figure 39 below portrays the SED performance over the previous three reporting years. The performance for SED has continuously shown a remarkable increase when compared to the previous years (and just to note that the bonus points were included). MLEs achieved 7.22 and 4.85 without the bonus points. The performance confirms that at least MLEs either spend reasonably or more than the required 1% NPAT towards SED initiatives.

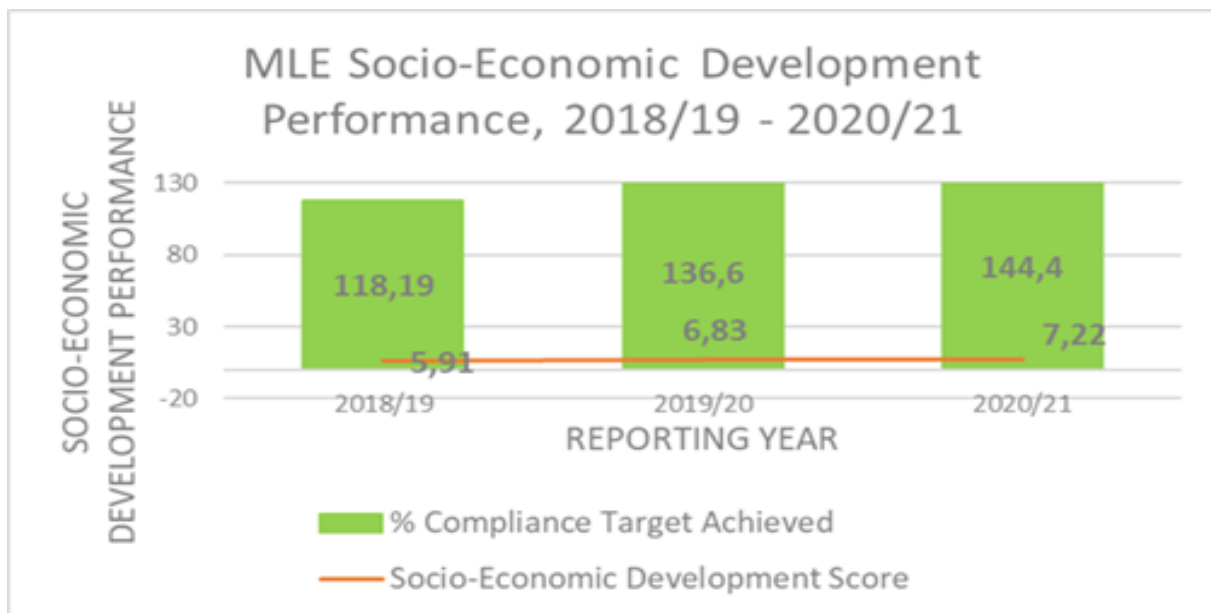


Figure 37: MLE Socio-Economic Development Performance, 2018/19 – 2020/21

The SED element is focused on the basic social and economic investments and benefits for qualifying beneficiaries. In Figure 40 below, the targets achieved by each forestry sub-sector is compared to the overall industry score of 4.85. It is evident from Figure 40 that all the reporting sub-sectors are achieving favorable scores on this element. Only three sub-sectors, namely Fibre, Pole and Sawmilling surpassed the industry average score of 4.85 points even though the Growers also achieved an exceptional score above 80% to the target. In this analysis, the bonus points were excluded.

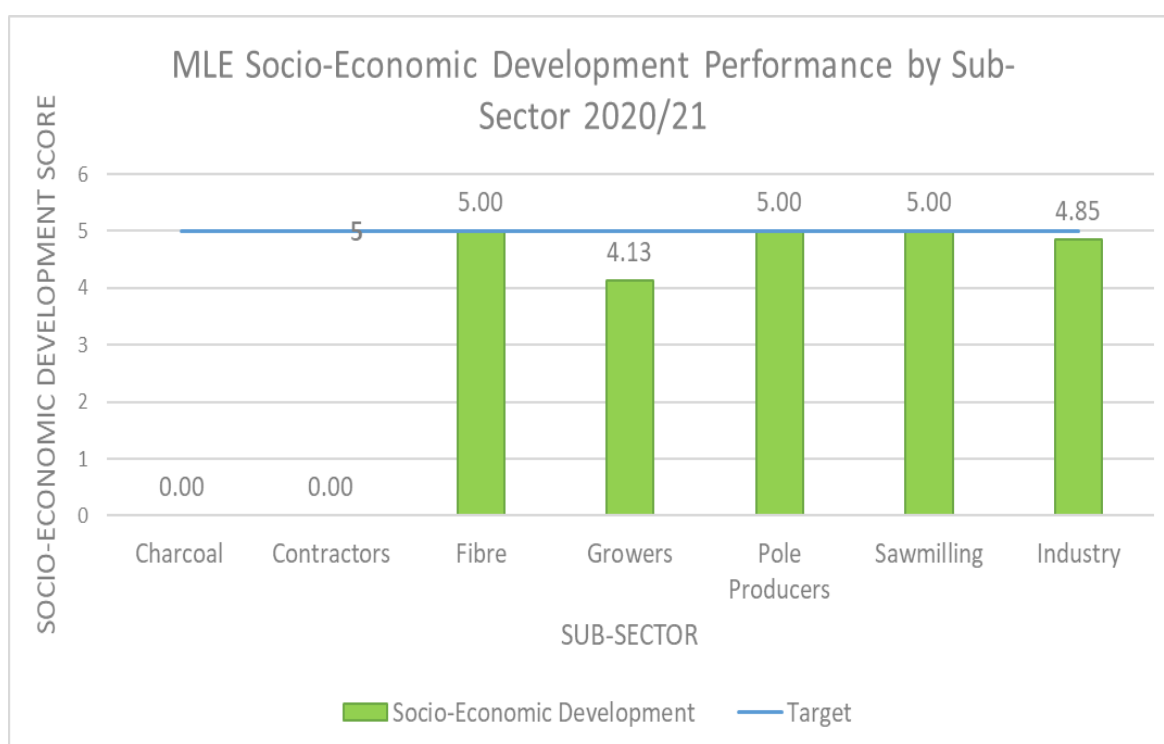


Figure 40: MLE Socio-Economic Development Performance by Subsector, 2020/21

### SOCIO-ECONOMIC DEVELOPMENT IN-DEPTH ANALYSIS

All SED must address the socio-economic challenges experienced mostly by rural communities in surrounding forestry operations. The COVID-19 pandemic exposed some of the societal imbalances and affected gravely on some of seasonal operations mainly managed by small community-based businesses and to a certain extent on some household net incomes. As a sequel, some of the MLEs diverted some of their priorities for the manufacturing of essential goods such as toilet paper, masks and sanitizers to assist mainly disadvantaged communities. During the time of COVID-19, a number of Forestry companies made donations to schools and communities in the form

of food parcels, learning tools and material, masks, sanitizers etc. SAFCOL even donated a clinic which came at a perfect time.

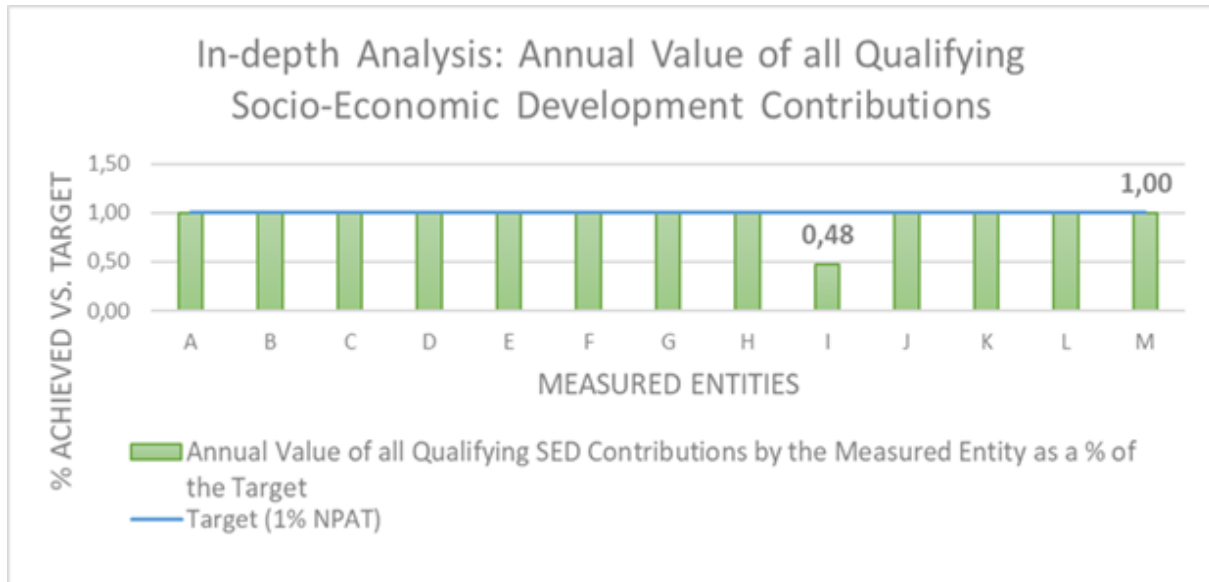


Figure 38: MLE Analysis: Socio-Economic Development Contributions as a % of NPAT

Twelve (92%) MLEs achieved the target indicating an overall spending of the 1% NPAT on SED activities as evidenced in Figure 41 above. Only one (7.7% entity) did not reach the target on contributions towards SED only achieving about 48% towards the target.

#### 4.1.6. SOUTH AFRICAN FORESTRY COMPANY LIMITED (SAFCOL) ANALYSIS

SAFCOL (South African Forestry Company Limited) is the only state-owned entity (SOE) operating in the forest industry and managed by the Department of Public Enterprises (DPE). It manages 15 prime softwood saw-log plantations, amounting to 189 760 ha in Mpumalanga, Limpopo and Kwa-Zulu Natal, qualifying SAFCOL as the third-biggest forestry operation in the African continent. Comparatively, this account for about 10% of the commercial forestry plantation area in South Africa. Most of SAFCOL's plantations are allocated in districts, namely Highveld, Central and the North districts respectively.

SAFCOL's rotation period ranges between 8 to 30-year cycle, depending on the genus and the intended forest products. Annually, the entity harvests approximately 1.4 million m<sup>3</sup> of logs. Simultaneously, approximately 4000 ha or 5% of SAFCOL's plantations are replanted per year.

SAFCOL, being a state-owned entity is accredited through the B-BBEE "specialised" generic scorecard, (Statement 004) exempting it from the ownership element. SAFCOL is not only obligated to report to the FSCC but also to the B-BBEE Commission in compliance with section 13G of the B-BBEE Act as Amended.

In the year under review, SAFCOL's application for the B-BBEE Facilitator's Status was still not concluded further disadvantaging SAFCOL from being preferred by entities wanting to prefer 100% BO or 40% BWO or 20% BDG entities. Entities procuring from SAFCOL are also losing points and as such increasing the probability of being discounted as failure to achieve the minimum score of 40% on the preferential procurement indicator. However, the proposed changes to SAFCOL's scorecard (still to be gazetted) might suffice as an interim measure.

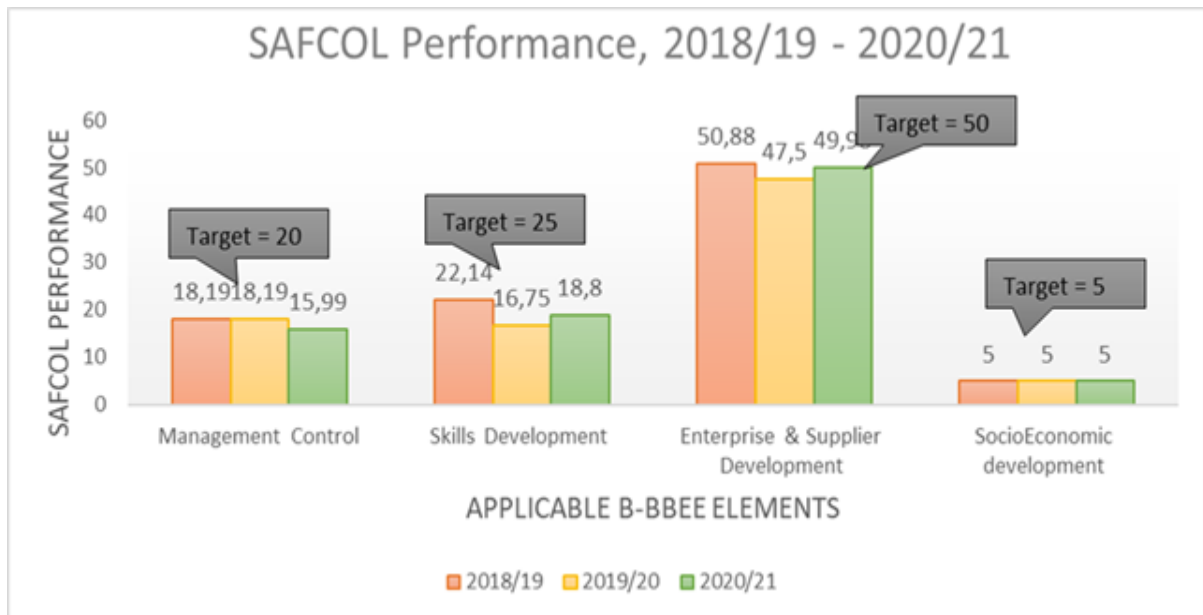


Figure 39: SAFCOL Performance, 2018/19 – 2020/21

SAFCOL is regarded as one of the most reliable MLEs in the forest sector. In the year under review, SAFCOL unfortunately dropped a level from 3 to 4 though this level is still good, considering the economic status as degraded by the unexpected COVID-19 pandemic.

The performance of SAFCOL on all the four elements is illustrated in Figure 42 above. SAFCOL showed improvements on SD and ESD elements and maintained its performance under the SED element. An insignificant decline was only observed in MC similarly to the entire's industry score on this element. SAFCOL's donation for a clinic under the SED initiative is remarkably acknowledged in particular to the year of COVID-19. It couldn't come at a more perfect time than this.

#### 4.1.7. ANALYSIS OF DISCOUNTED MLEs

The Discounting Principle act as a deterrent to entities who fail to achieve the minimum scores on the three priority elements being, ownership, skills development (SD) and enterprise and supplier development (ESD). An MLE is downgraded by one level from its overall B-BBEE score for not achieving the minimum 40% score, in either one or a combination of one or two or all the three priority elements.



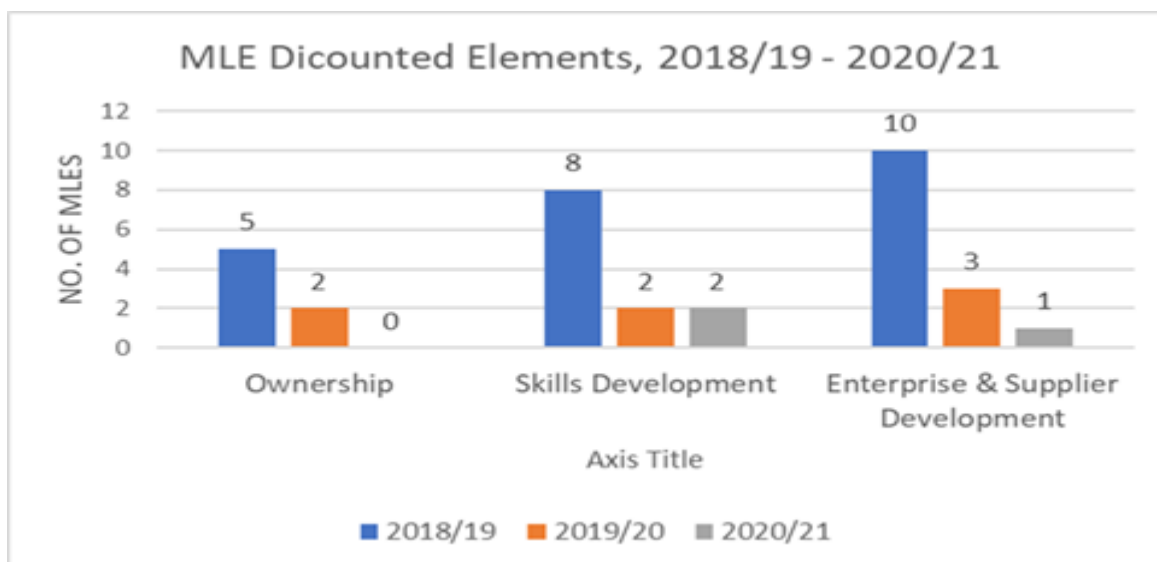


Figure 40: Number of Discounted MLES, 2018/19 – 2020/21

Figure 43 above compares the number of MLEs discounted for the previous three reporting periods. The number of MLEs being discounted is showing a decline which authorises the effectiveness of the Discounting Principle but only to reporting entities. Only three (22%) MLEs were discounted in the 2020/21. Two were discounted as a result of the SD element with the remainder being downgraded as a result of the ESD element, and both on the supplier development and enterprise development indicators. The performance of the skills development may suggest that most entities could undertake skilling and were not heavily affected by the lockdown in a similar mode considering that not all sub-sectors were fully functional during the first phase of the hard lockdown.

None of the MLEs were discounted as a result of the ownership element nor was any of the discounted MLEs downgraded as a result of a combination of one or two of the priority elements. It is against this background that the proposed Schedule 4 on the criteria for B-BBEE measurement and rating during a declared National Disaster has not suggested any changes to the ownership element. All three discounted MLEs are dependable reporters with only one that was discounted previously. While the Discounting Principle may be effective to some extent, it may also discourage MLEs from implementing B-BBEE fully in the cases where they would be discounted by one or two of the elements.

## 5.1 QUALIFYING SMALL ENTERPRISES (QSE) ANALYSIS

Qualifying Small Enterprises (QSE) are qualified entities with a turnover between R10 million to R50 million per annum. QSEs similarly to MLEs are obligated to report on the scorecard elements not unless they are enhanced and majority BO. In such a case, they will have to confirm the B-BBEE credentials using an affidavit or a Companies Intellectual Property Commission (CIPC) certificate. BO as proposed in the amendments, (still to be gazetted) for the Amended FSC suggest that BO will only be recognised through the Flow Through Principle.

In the current reporting year, one valid B-BBEE QSE certificate and 14 affidavits were received. Four of the affidavits were disqualified due to the period of verification. Considering that only one certificate was received, the in-depth analysis was not undertaken as it would not be comparatively useful. The FSCC's QSE database shows that there are more than 60 known QSEs in the Sector and expectedly so as most of the bigger companies have opted for contracting most of the forestry services. The trend in this category displays the real inconsistencies and inefficiencies in reporting, thus compromising the ability to measure the real empowerment. In the previous year, four unenhanced QSEs reported with three (3) providing underlying reports compared to the one report submitted this year. It is for this reason that one of the new amendments to the Amended FSC intends to compel MLEs in particular to supply affidavits or CIPC certificates of their suppliers.

Figure 44 displays the number of reporting QSEs within the previous 3 years. The significant declines in the reporting may be due to COVID-19 which might have led to the closure of some businesses, or it could be that some QSEs still see no need to prioritise B-BBEE reporting in particular in such a time where the economy is not growing.

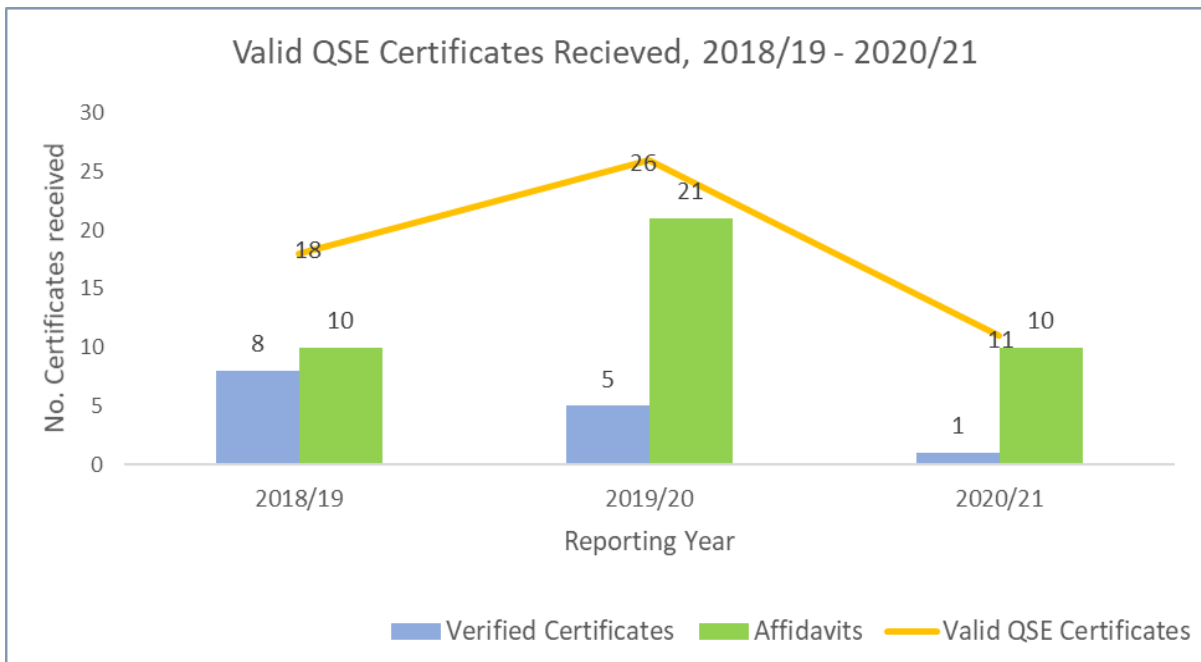


Figure 41: Valid QSE Certificate Submissions, 2018/19 – 2020/21

The number of reporting QSEs both enhanced and unenhanced has dropped drastically as illustrated in Figure 44. Numerous attempts were made even through the Associations to follow up on their members. This is a call for concern as it may indicate that a number of these businesses may have closed down or did not prioritise B-BBEE reporting for the year under review. Unenhanced QSEs, those who are less than 51% BO, are increasingly not being verified, a trend that has been observed even in the previous reporting period. Unenhanced QSEs have an obligation to comply with the scorecard just like the MLEs.

Figure 45 below presents the sub-sectors from which QSE certificates were received for the year under review. The Contracting sub-sector seemed to have an understanding for the requirement to be assessed as the majority, 8 (73%), (including the certificate) of the affidavits were from the sub-sector. Two (18%) affidavits were received from Fibre with the remainder (9%) from the Pole producers. Most of these entities even reported in the preceding year. The response might be a result of the requirement from contracting companies to have all affidavits and certificates from their suppliers for the verification process. This was also the case for the 2019/20 reporting year.

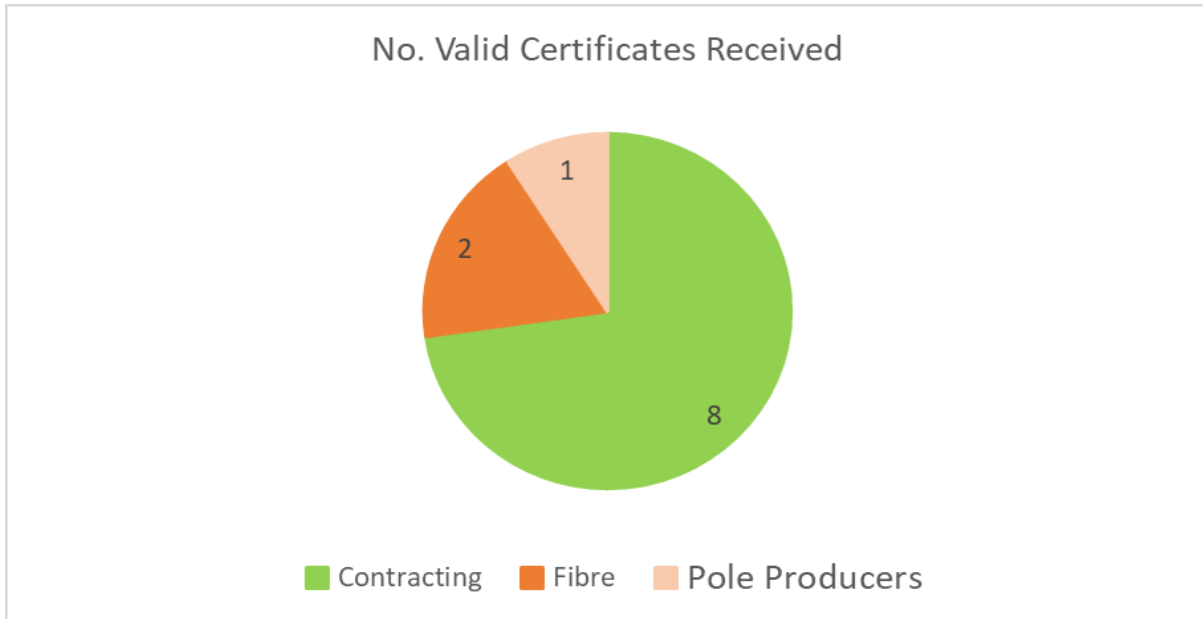


Figure 42: QSE Certificate Submission by Sub-Sector

Further analysis confirms that the reporting QSEs in the Contracting sub-sector indicated that they are heavily involved in activities such as, harvesting, silviculture and transport and the ones from the Fibre sub-sector are involved in manufacturing of wooden products such as pellets. One Pole producer is involved in the sale of treated timber. There were no submissions from the Growers, Sawmilling and Charcoal sub-sectors.

A majority of the QSEs 6 (55%) achieved a level 1 B-BBEE rating as shown on Figure 46 below. The remaining (45%) attained a level 2 with four them achieving the level through the enhancement principle.

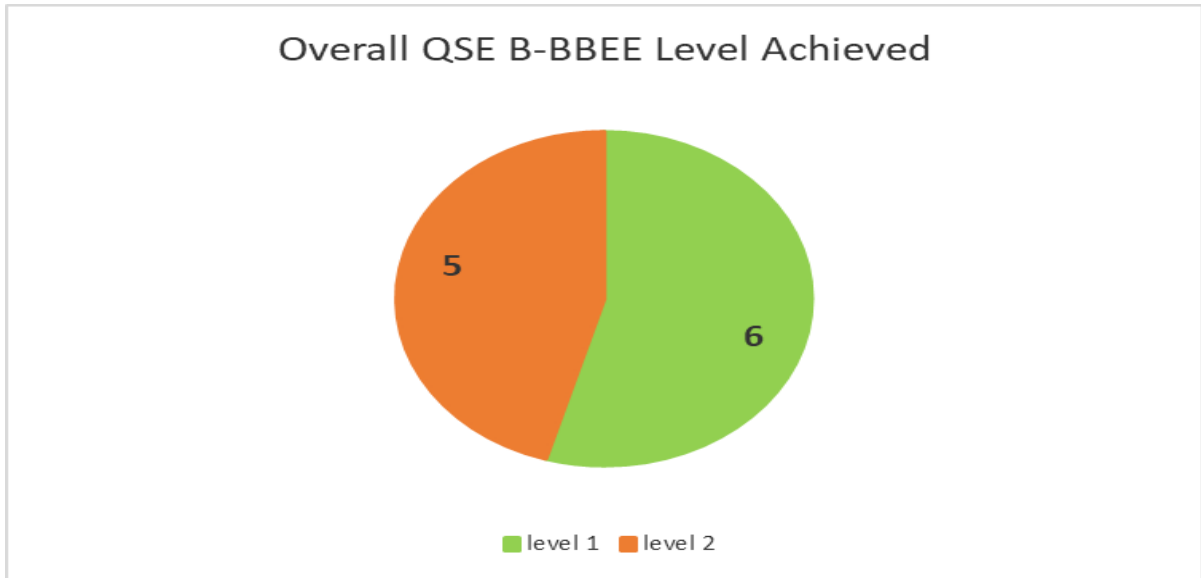


Figure 43: QSE B-BBEE Level Achieved

Only one QSE reported on the five elements. This QSE achieved a level 2 B-BBEE status. On ownership, the target of 25 points was achieved through the Flow Through Principle and is in the hands of a black woman residing in the rural areas. The QSE also attained full scores on SED (5 points) and skills development (30 points) elements, respectively. A remarkable score of 27.18 (91%) was attained in ESD. The lowest score of 11.33 was achieved on management control which was about 75% towards the target. The QSE achieved the minimum targets on all the priority elements avoiding being discounted. This was also a new entity which confirms the discrepancies in reporting amongst most QSEs.

### 5.1.1 BLACK OWNERSHIP IN QSES

All affidavits and certificates provide exact figures for the average black, black women and black designated groups ownership for QSEs in the sector. Table 6 below provides an in-depth analysis of ownership trends amongst reporting QSEs. The average black ownership amongst QSEs is high at 72,43 from 63,36 for BO, 19,5 for BWO and 29,73 for BDG. The observation shows a consistent improvement in both black people and black women ownership amongst QSEs in particular during the last three reporting years, though there were obvious fluctuation in between the years for the black ownership profile. The QSEs BWO has been improving from 12,34 to 19,5 respectively for 2020/21.

The data also indicates that the average black ownership is normally distributed while the black women ownership is still skewed to the left though showing slight changes of an even distribution. This indicates that the sector is beginning to have QSEs in the control of black women. This is further demonstrated with the 1st quartile (25% of the data is at 0 black women ownership) and 75% of the data is about 37 black women ownership (Q3).

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

	<b>Black People</b>	<b>Black Women</b>	<b>Black Designated Groups</b>
<i>Minimum</i>	51	0	0
<i>Q1</i>	51	0	0
<i>Median</i>	65.5	13.5	0
<i>Mean</i>	72.43	19.5	29.73
<i>Mode</i>	100	0	0
<i>Q3</i>	100	37.5	50.5
<i>Maximum</i>	100	51	100
<i>Entities scoring 0% Ownership</i>	0	5	6
<i>Entities scoring above 0% but below 51% Ownership</i>	1	4	2
<i>Entities scoring 51% Ownership</i>	3	1	1
<i>Entities scoring above 51% but below 100%</i>	2	0	0
<i>Entities scoring 100% Ownership</i>	5	0	2
<i>No. entities who did not indicate Ownership</i>	0	0	0
<i>Total number of entities</i>	11	11	11

## 5.2. EXEMPTED MICRO ENTERPRISES (EME) ANALYSIS

Exempted Micro Enterprises are entities with a revenue below R10 million per annum. Most EMEs would be qualified as Small Medium and Micro-Enterprises (SMMEs). All EMEs are exempt from reporting on the B-BBEE scorecard. They simply submit an affidavit or a CIPC confirming the turnover, black shareholding as well as whether they are category A or B ESD beneficiaries. However, should they choose to be verified, particularly in cases where there are tenders requiring a certificate and would want to improve their score, the QSE scorecard will be applicable.

EMEs are automatically awarded a level 4 B-BBEE rating and may be upgraded to Level 2 or 1 depending on their black-ownership profile through the enhancement principle. Measured Entities that are 51% black-owned or more are awarded a level 2 rating while 100% black-owned entities are level 1.

The number of EME affidavits is displayed in Figure 47 which shows the worst decline over the years highlighting the inconsistencies as previously reported. Only 10 affidavits were received with two being disqualified. This is one of the biggest challenges as EMEs are majority small scale and would rely mostly on the MLEs for business opportunities and for survival. Their growth is therefore critical for the sector and the economy at large. It is, however, impossible to measure their growth with the inconsistencies in reporting. This may suggest a combination of factors such as inability to be sustainable and whether they are being supported or that they are not preferred for numerous reasons. The OECD and the World Bank commissioned a survey in 2017 to gain an understanding of the challenges faced by SMMEs. The findings listed the following as key challenges; customer attraction, maintaining profitability, increasing revenue, securing finance for expansion and uncertainty over economic revenue with the latter, being more relevant to the current situation.<sup>vi</sup>

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<sup>vi</sup> <https://businesstech.co.za/news/technology/151449/top-5-challenges-for-small-businesses-in-south-africa>



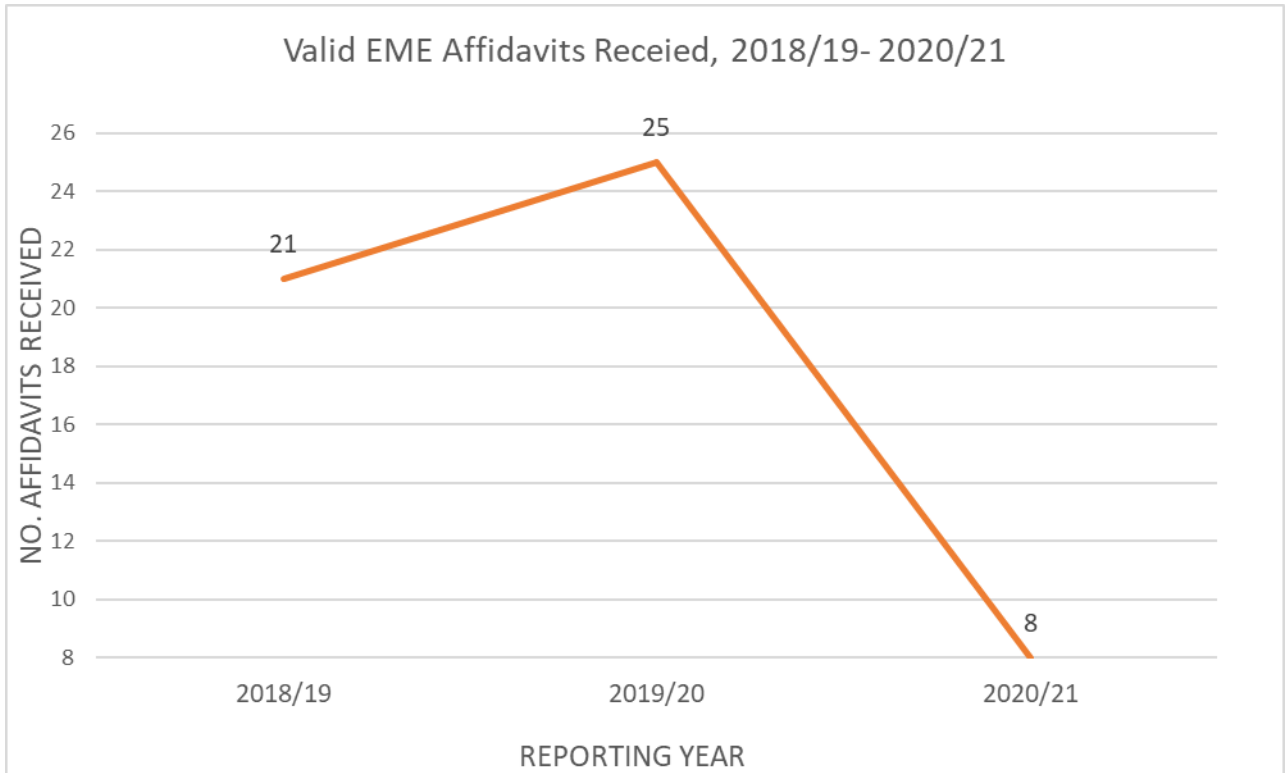


Figure 47: Valid EME Certificate Submissions, 2018/19 – 2020/21

Ansara *et al.*, (2019)'opinion on the state of SMMEs in South African SMMEs reports that: “fewer and fewer firms survive each year, and many of those that do survive are unable to grow revenues or employment. According to the Enterprise Observatory of South Africa an average of 31 companies with taxable income of less than R10 million close down each week, and the number of employees hardly increases as SMMEs grow older.”<sup>vii</sup> This opinion supports the observations with the economy being heavily affected by the COVID-19. In particular, most SMMEs were worst impacted leading to an increase in the unemployment statistics. All the submitting EMEs recorded that their operations were in contracting.

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

EMEs achieved a Level one rating from a Level of 2 previously due to that the majority of the reporting EMEs, 6 (75%) achieved a level one rating. Only two (25%) were rated level 2 as shown in Figure 48 below.

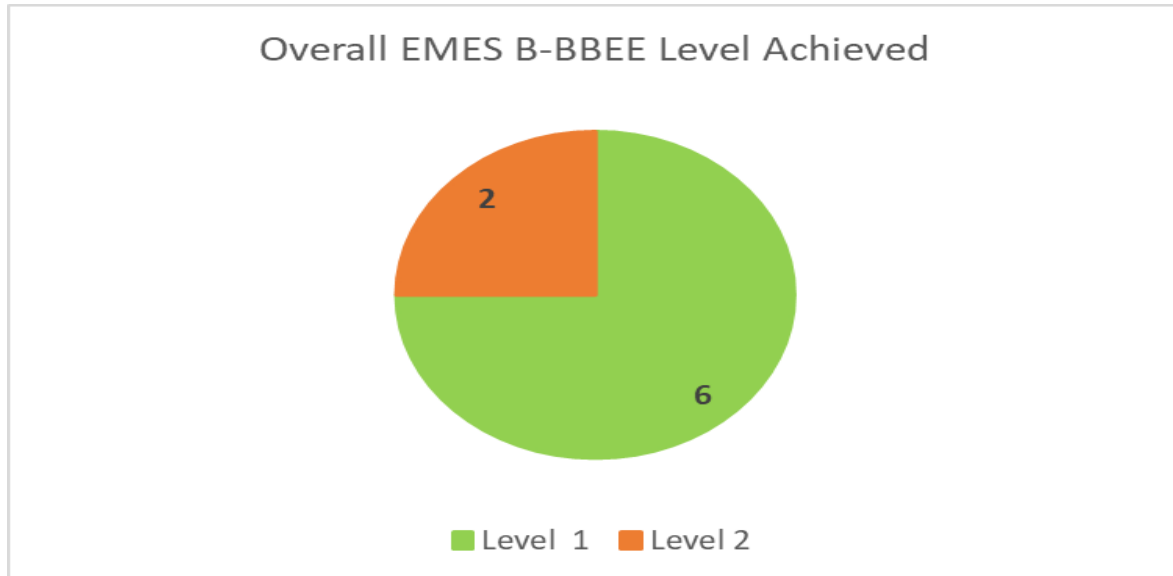


Figure 48: EME B-BBEE Level Achieved

### 5.2.2 BLACK OWNERSHIP IN EMES

Table 7 below gives a descriptive statistic of the average ownership level amongst EMEs in the categories of black people, black women and black designated groups. The mode for all categories of black ownership is 100, and 0 for both black women and black designated group respectively. This signifies that while most of the reporting EMEs were majority black owned, very few if there are, were in the control of black women or even black designated groupings. The absence of level 4 EMEs which have dominated in the previous reporting years may substantiate that in this year, B-BBEE was not a priority for numerous reasons, considering that a rating of level 4, is certain for all EMEs and is even supported for dealings with the public sector.

The average black ownership as shown by the mean indicates that the reporting EMEs are 87% black-owned on average while black women ownership showed a decline from 14% to 12.5%. Only one EME was controlled by a black woman. The mean for BDG was 0.

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

	<b>Direct Black</b>	<b>Direct Black Women</b>	<b>Black Designated Groups</b>
<i>Minimum</i>	51	0	0
<i>Q1</i>	87.75	0	0
<i>Median</i>	100	0	0
<i>Mean</i>	87.75	12.5	0
<i>Mode</i>	100	0	0
<i>Q3</i>	100	0	0
<i>Maximum</i>	100	100	0
<i>No. of entities scoring 0% Ownership</i>	0	7	8
<i>No. of entities scoring above 0% but below 51% Ownership</i>	0	0	0
<i>No. of 51% BO entities</i>	2	0	0
<i>No. of entities scoring above 51% but below 100% Ownership</i>	0	0	0
<i>No. of 100% BO entities</i>	6	1	0
<i>Total No. of Measured Entities</i>	8	8	8

Notably all the EMEs that reported this year did not report in the previous year thus making it difficult to draw up an irrefutable conclusion on the empowerment of EMEs. Despite the observed trends, the EMEs that reported would be mostly preferred by the larger entities for procurement opportunities and would thus support the objective of inclusivity.

The average B-BBEE rating for EMEs for this reporting year was Level 1 compared to Level 3. This result indicates that most of the reporting entities were mostly at Level 1, with the minority achieving a Level 2.

## 6. COVID 19

The COVID-19 pandemic is far more than a health crisis. It destabilised the worlds' economy affecting most societies, livelihoods of many people in particular the most vulnerable while also distorting policy implementation, such as B-BBEE in most economic sectors. While the effect will vary from one economic sector to the next, it is obvious that most economic sectors will have to find means to adjust to the new norm and establish sustainable strategies to save businesses and jobs.

Assessing the impacts of the COVID-19 crisis on business functionality, policy implementation and compliance, including B-BBEE, and economy is fundamental. A COVID-19 questionnaire was developed with the aim to get information to assess the impact of COVID-19 in the Forest Sector. The information collated will inform and scale the impact of the pandemic on B-BBEE performance, reporting and compliance. Furthermore, it will justify the sector's performance for the FY2020/21 Status report as well as suggest and substantiate other changes to the B-BBEE policy measurement criteria that might need to be considered in future.

The questionnaire was circulated to reporting entities. Only sixteen (16) responded as shown in the Table 8 below. The information captured from Measured Entities included areas of operation, i.e., the sub-sectors as well as the magnitude of the impact in terms of either positive, negative or a no effect at all.

Type of Enterprises	Responses	Growers	Contracting	Fibre	Sawmilling	Pole
MLES	10	2	0	4	3	1
QSEs	2	0	2	0	0	0
EMEs	4	0	4	0	0	0

*Table 8: Breakdown of Responses per sub-sector on the COVID-19 questionnaire*

## 6.1 IMPACT OF COVID-19

The set of questions under this subject intended to gain some insight on the impact of the COVID-19 on the verification process. B-BBEE verification must be undertaken within 6 months from the financial year end of a Measured Entity.

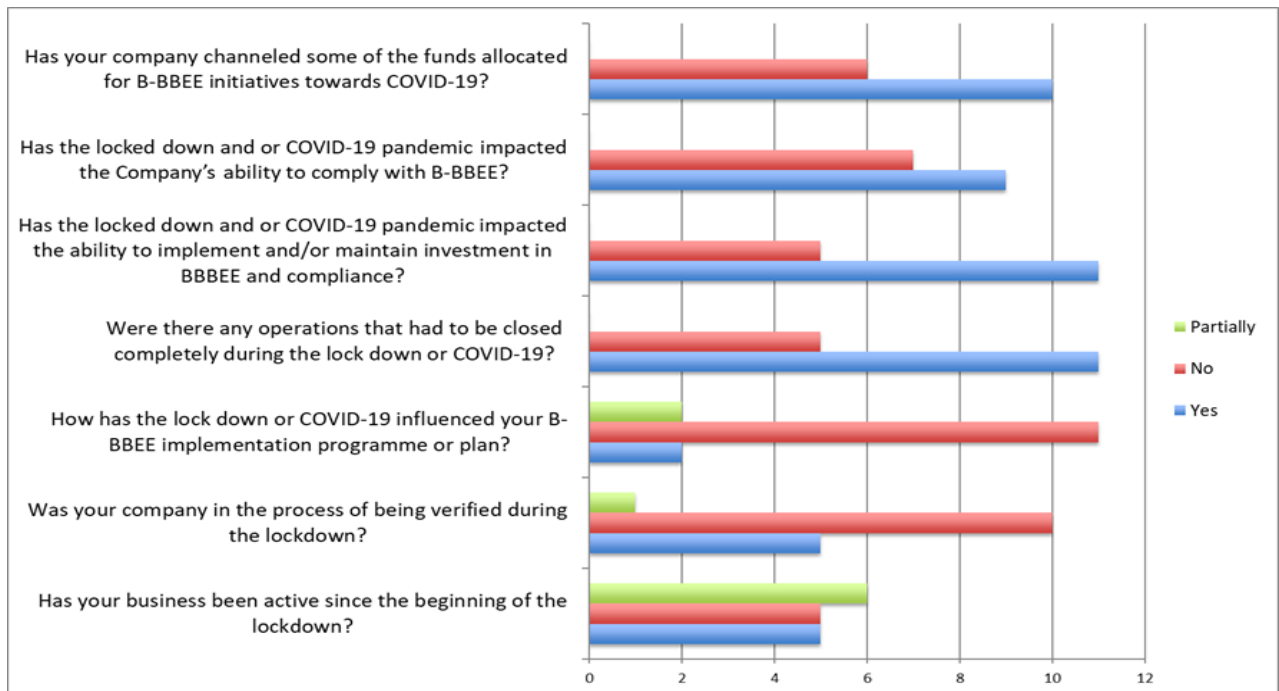


Figure 44: Impact on Covid 19

Figure 49 above provides a deeper understanding of the impact of the COVID-19 pandemic in the Forest Sector. As shown in the Figure 49 above, some entities were active during the lockdown. These were mainly from the Growers as they had been regarded under Essential Services.

In terms of verification, only a few were due for the process. This is also substantiated by that most of the reporting entities were verified from the second quarter of the year where lockdown was eased. It is for that reason that most of them had their B-BBEE plans not affected even though some operations were closed down.

Figure 49 also suggest that while some funds for B-BBEE initiatives were used for COVID-19, the lockdown not only affected a majority in complying with B-BBEE but also influenced some company's ability to implement and maintain investment for B-

BBEE and compliance. Further to that, most indicated that they believed a combination of either a recovered economy, relaxation of certain legislation, government support possibly in a form of a stimuli plan and or a legislative supportive environment would be preferred in order to continue to implement B-BBEE. The mode was more on the changes to the legislation. The observation confirms that public- private partnerships are crucial in such times.

An assessment on which element would be easier or challenging to implement, the ownership, management control and socio-economic development were commonly chosen as the least challenging. Very few entities selected skills development and enterprise and supplier development. This may substantiate the performance in terms of the discounting element as previously reported. Fundamentally the financial commitment on these two elements could also be a disadvantage.

During the pandemic, the Government packaged numerous stimuli packages to assist most businesses. These included the payment from the Unemployment Insurance Fund (UIF) and this was dependent mostly on companies' compliance to the Labour law. Most entities indicated that while B-BBEE implementation was crucial, a recovered or growing economy as well as an adjustment of the Amended FSC would encourage them to continue to prioritise B-BBEE. It was encouraging that some entities acknowledged the need to restrategize internally to ensure that B-BBEE implementation and reporting is undertaken efficiently.

Additionally, entities in the Forest Sector shared different views on the need to review B-BBEE legislation with a majority of the responses in support of the B-BBEE legislation reviewal resulting from COVID-19. Only two of the total 16 disagreed with the sentiments and these entities have an even deeper understanding of B-BBEE and the Amended FSC.

The COVID-19 pandemic resulted in many jobs losses. Most responding entities were not sure if any retrenchments will be due to a result of the COVID-19 pandemic only, considering the unstable economy. Chances are the pandemic degenerated the situation as there were indications that the pandemic may or may not contribute

to job losses. As such, the relaxation of employment laws together with favourable tax considerations would be highly recommended.

The statistics on youth employment is of grave concern. Entities noted that while they are fully supportive of youth employment, a positive economic outlook, availability of projects together with a recognisable qualification would serve as an enticement to consider the youth for employment opportunities. This may suggest that the economic sectors will continue to prefer graduates over people under qualified further validating the findings from the Stats SA report on the employment status of graduates as alluded above.

The FSCC is mandated to report on the status of transformation in the forest sector. Entities submit their B-BBEE credentials to the FSCC for the compilation of the annual status report. Most of the responding entities suggested that the availability of a B-BBEE system to assess various scenarios or a forest sector supplier database and training would be the types of support that would be required from the FSCC. Some opted that the development of internal policies and strategies would also suffice.

## IMPACT ON THE OWNERSHIP ELEMENT

As previously mentioned, the ownership element is one of the priority elements. This element proved to be less affected by the pandemic as most of the reporting entities maintained or improved their score on this element. Figure 50 below displays the responses from submitting entities on the influence of COVID-19 on the ownership element indicators.

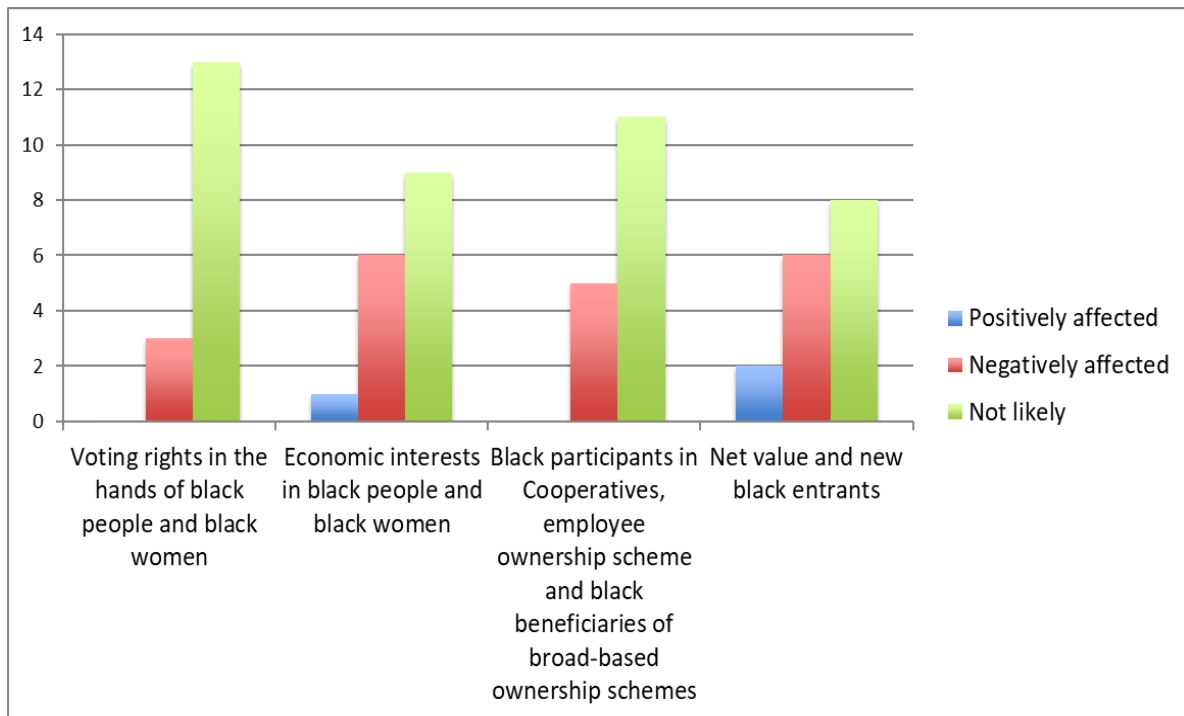


Figure 50: Impact of COVID-19 on Ownership

The prevailing responses shows that it is unlikely that the pandemic would have had an influence on the ownership indicators. However, there was a considerable number of entities who indicated that they will be negatively influenced with many responding otherwise. The observation may validate that there will be new businesses controlled by new partners and possibly by black women and that the pandemic's effect varied.

## IMPACT ON MANAGEMENT CONTROL

The latest Commission of Employment Equity (CEE) report reflects the disproportions in terms of the representation of black people in particular in senior, executive and board positions. The outlook is even worse for black women and the youth.



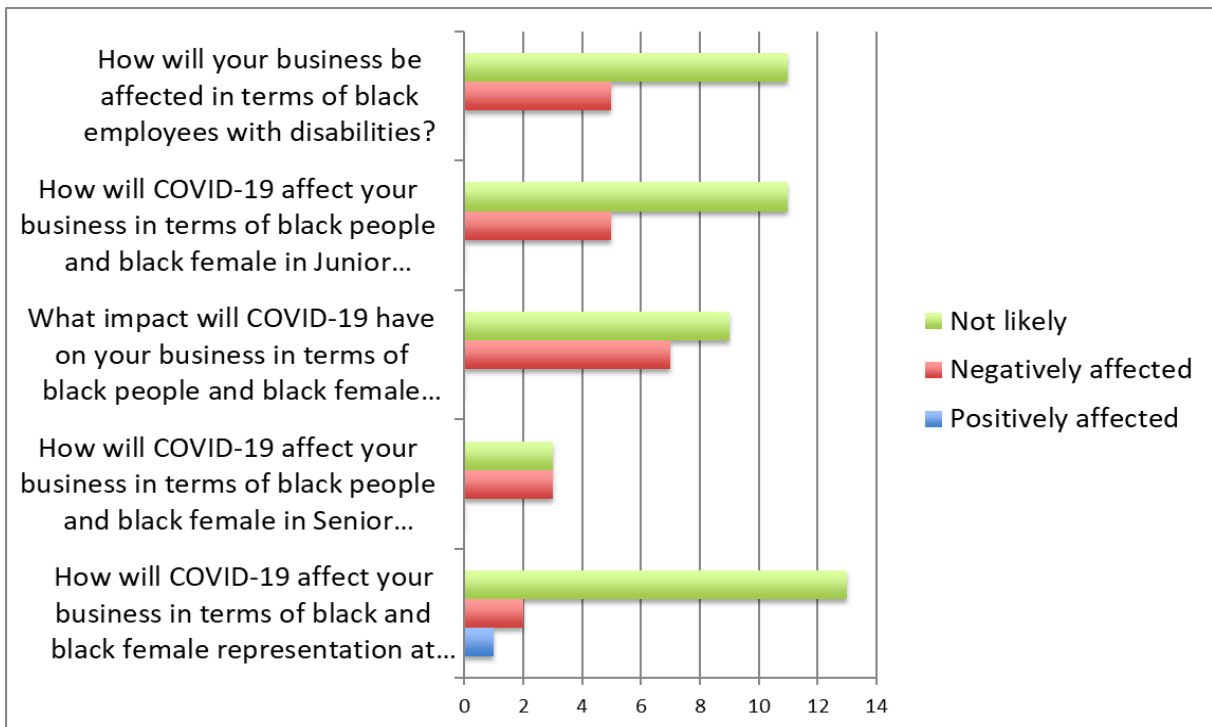


Figure 51: Impact of COVID-19 on Management Control

The analysis based on the impression of the pandemic on management control is displayed on Figure 51 above. It is evident that the pandemic will mostly likely have no effect on this element though some entities believe it will be negatively affected. The observation may confirm that some entities will either not promote or recruit new employees or that they will halt either or both processes. As such, it is mostly likely that some responsibilities for either retired or retrenched employees will be distributed amongst the remaining workers and management may be recycled or rotated within the different portfolios.

### IMPACT ON SKILLS DEVELOPMENT

The skills gap in society has a potential to worsen the probability of employability particularly amongst the youth. The number of initiatives that have been implemented and intended to minimise the gap includes the Youth Employment Service Y.E.S, learnership, internship and apprenticeship programmes. Figure 52 below judges the responses in relation to the effect of the pandemic on the skills development indicators.

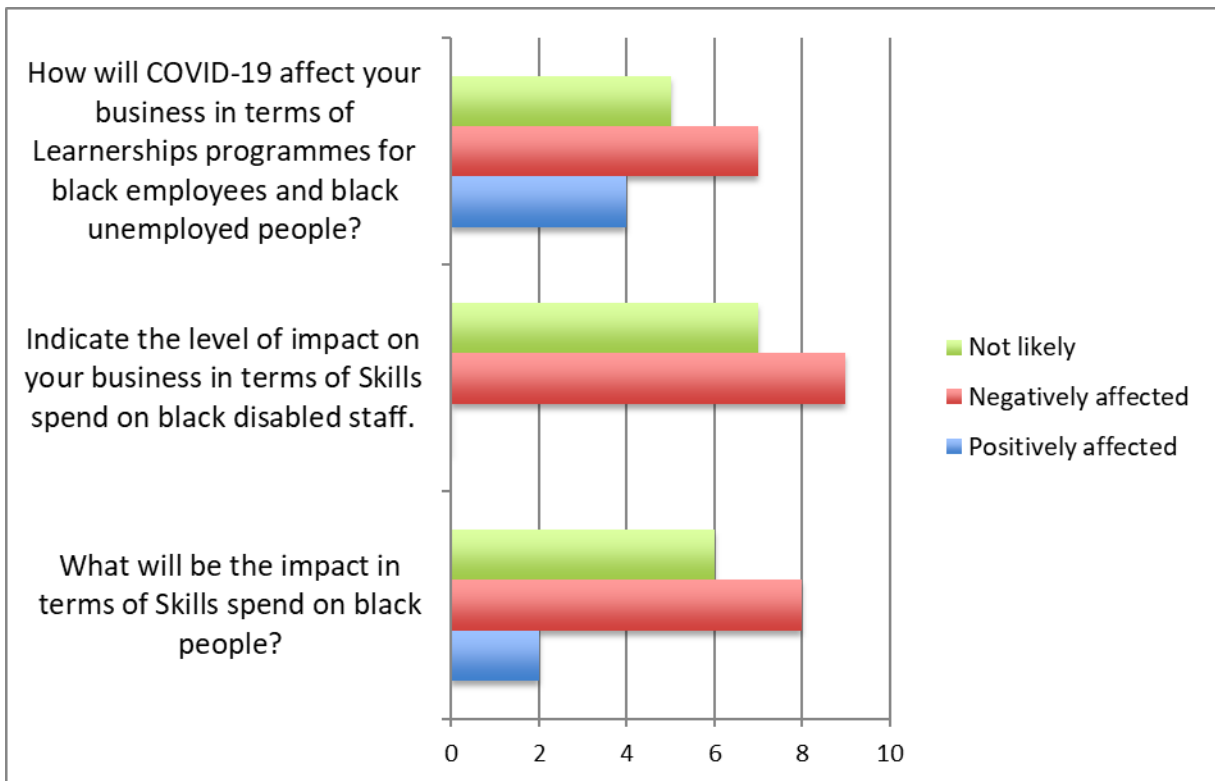


Figure 52: Impact of COVID-19 on Skills Development

The observation as shown on Figure 52 reveals that most responding entities have been affected negatively in most of the skills development indicators. Moreover, this is one of the elements that requires a financial commitment and as such could be aggravated by the dormancy of some of the entities during the lockdown. There were very few responses that showed a positive influence and chances are these would have concluded their financial year and had manage to undertake skilling or they were in full operation during the lockdown.

### IMPACT ON ENTERPRISE AND SUPPLIER DEVELOPMENT

Throughout the pandemic the most common debates were centred on the two obvious competing priorities, i.e. the creation of new and sustainability of existing businesses to grow the sluggish economy and saving lives. Creating a balance between these two imperatives became almost impossible with the escalating numbers of COVID-19 cases within South Africa (SA) and the world at large.

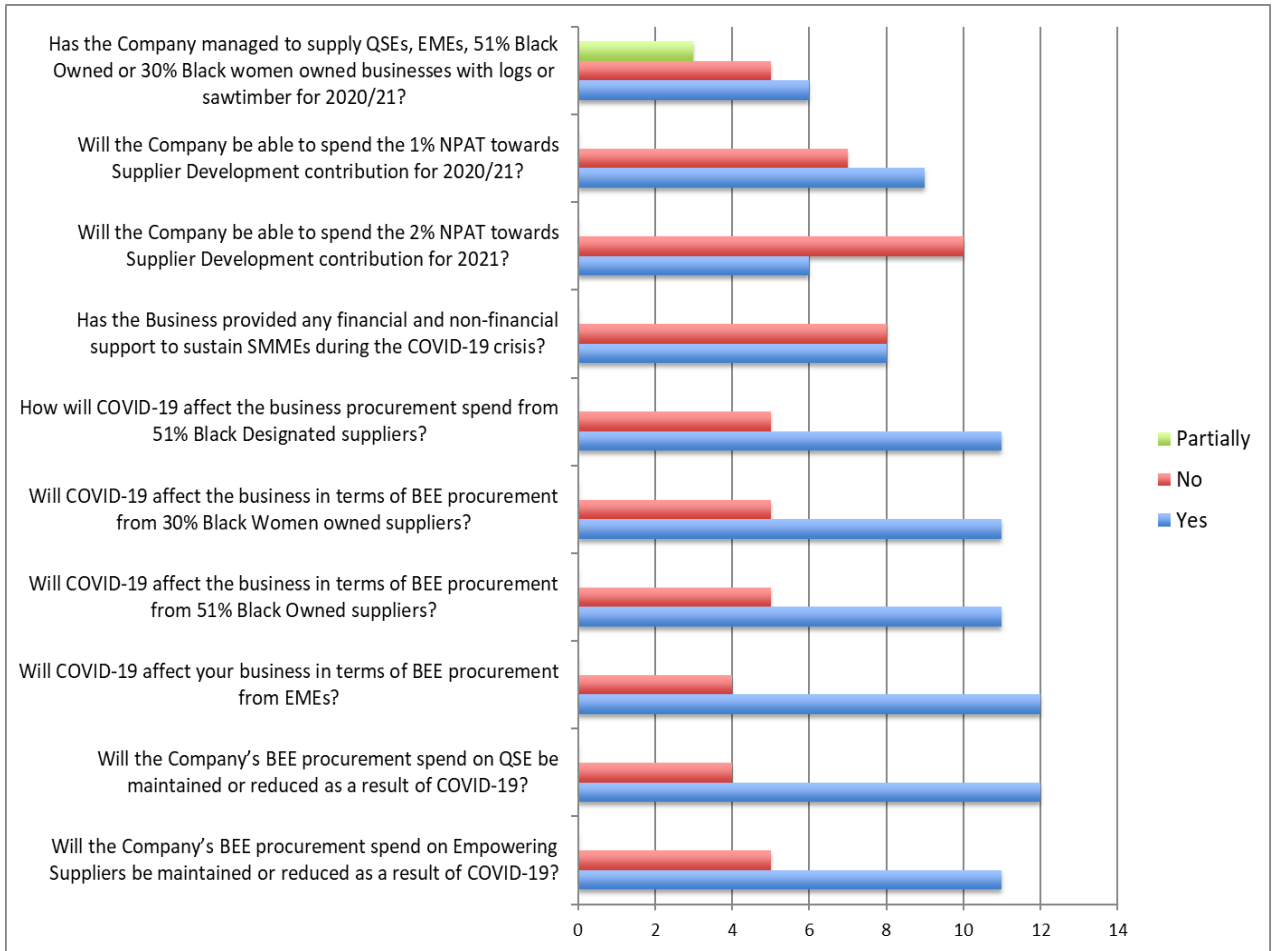


Figure 53: Impact of COVID-19 on Enterprise and Supplier Development

Figure 53 shows that the ESD element was one of the least affected elements. Most of the entities who responded positively were from the larger entities with majority of the negative responses received from the smaller entities. Basically, and expectedly so, the smaller entities are exempted from the scorecard reporting requirement and would not at all be affected by this element or any other element of the scorecard. The positive responses with reference to the reduction in procurement spend may be substantiated by the strained economy resulting in only few services being prioritised by each entity. It is tempting also to say that a crisis to a certain extent may result in a demand of other goods and services which may validate the maintained support for the various business categories.

## 7. CONCLUSION & RECOMMENDATIONS

The 2020/21 reporting year was probably the most challenging year in the history of B-BBEE reporting due to several factors such as the global recession, SA's exchange rate fuelled by the COVID-19 and hard lock downs. As such, this set up had a direct implication on the transformation agenda implemented through the B-BBEE scorecard.

Despite the devastating effect of the COVID-19 pandemic, the Forestry industry has continued to attempt to implement B-BBEE. A reflection on the responses received on the COVID-19 questionnaire, proved beyond doubt that the industry was heavily affected by the pandemic in different folds. The most affected were the non-essential entities, resulting in inactive operations during the lockdown declared under the National Disaster Act. Some could not even implement or comply with B-BBEE requirements due to a shift in focus for business survival.

Differing opinions were shared on the impact of each scorecard element. Management Control together with ownership were the least challenging elements under the pandemic with skills development and enterprise development highly ranked and expectedly so, as these two have a financial commitment. The lockdown meant that most unregistered business had to halt their operations. Other views suggested a change or alteration of the B-BBEE Amended FSC to accommodate such circumstances. It is for this reason that the Council has drafted a Schedule 4, proposing for a measurement criterion to assess B-BBEE during a declared National Disaster.

Although certificate submissions have varied over the years, reporting was significantly affected by the Corona virus which resulted in a national lockdown. Verification agencies finalising certificates were interrupted while contacting Measured Entities became difficult as all non-essential businesses were instructed to close or work from home.

Medium and Large enterprises were also the most consistent reporters, though showing a continuous decline in submissions. The MLEs maintained a Level 4 rating despite the economic outlook fuelled by COVID-19. Improvements were observed in all the scorecard elements, with the exception of management control. The Fibre and Pole sub-sectors performed exceptionally well in all the scorecard elements and achieved an average B-BBEE Level 1 each possibly due to that most of these entities are dependable reporters. Only the Fibre sub-sector achieved more than 50% towards the target on management control element.

Management recycling if practiced and poor performance on lower management positions in particular to women targets, as achieved by the forest sector will continue to disadvantage the entire industry. There is a call to the entire industry to focus and commit more on mentoring women and prepare them sincerely for management and board participation. The succession strategies need not only demonstrate this call but also the willingness which can be measured by the visible inclusive representations over time with a clear solid pipeline and connection within the management positions.

Industry's performance on the skills development, enterprise and supplier development as well as on the socio-economic development element is encouraging considering the various contributions made in response to the pandemic. Most entities made donations in the form of food parcels, school items, masks, sanitisers, etc.

QSEs achieved a Level 2 while EMEs achieved a Level 1, and this was due to most submitting affidavits. Fewer affidavits were received from both QSEs and EMEs showing the least numbers of submissions over the previous three reporting years. The inconsistencies amongst the QSEs and EMEs suggest that the Council need to continue to focus more on these groupings in terms of advocacy and orientation on the reporting requirement. The industry's organised Associations can otherwise help in addressing this challenge.

QSEs and EMEs are also encouraged to use the FSCC's affidavits and not the general affidavits for uniformity purposes and to enable the FSCC to report on the

other suggested segments in the FSCC affidavit, i.e., the ESD beneficiary status. This may in turn, encourage reporting amongst this group of entities resulting in improvements in terms of the number of reporting entities and enabling a comprehensive analysis.

The average black ownership profile across all sizes of business in the industry also improved and surpassed the 30% target for black people and 10% for black-women ownership.

In conclusion, Industry's effort is creditable and should place more emphasis on observable and traceable records of inclusive and broad-based economic participation. The minimum target placed on the scorecard must at least be realized unaffectedly so as to break the narrative that BEE is only benefitting only a few or is linked to fronting and incompetence. It is evident from the performance that the FSCC should continue to prioritise advocating for B-BBEE implementation and compliance for the support of the growth of black-owned businesses and the overall contribution to job creation, in particular amongst the youth. Ongoing dialogues amongst all industry stakeholders must continue to facilitate meaningful B-BBEE implementation. Fundamentally, there is a need to explore avenues to support small businesses across the other economic sub-sectors, even if it means creating new ones in particular to charcoal production, also in support of the targets stipulated in the approved Forestry Masterplan. The negative sentiments shared to discredit B-BBEE must be defended by both the FSCC as well as all Measured Entities through annual reporting.