



***ANNUAL REPORT ON THE STATUS  
OF TRANSFORMATION IN THE  
FOREST SECTOR 2021/22***

## *EXECUTIVE SUMMARY*

The Forest Sector Charter Council's (FSCC) vision of "A transformed and sustainable Forest Sector fully compliant with the Forest Sector Code" is intended to deliver long-term goals of impactful and inclusive transformation. The economic environment continued to be volatile, with unprecedented challenges of timber theft and high unemployment, though the low interest rates should have impacted business activity positively if it was not for the COVID-19 pandemic.

The number of submitting entities improved from the previous reporting year from 37 to an outstanding 113 certificates and affidavits, showing the biggest improvement recorded since the gazetting of the Amended Forest Sector Code (FSC). The improvement was largely from QSEs and EMEs, with most submissions received from Enhanced entities (majority-black controlled). Most MLEs proved to be consistent with B-BBEE reporting, with some of the entities also recording improved scores.

MLEs submitted 24 certificates, showing an improvement by six certificates compared to the previous year, and encouragingly all submitted the underlying reports for the in-depth analysis. MLEs achieved a score of 80.4 points on average, showing a decline from the previous score of 88.4 and it should be noted that this score is excluding the bonus points. The Sector performed reasonably well in four of the five scorecard elements though the performance on the scorecard elements also regressed when compared to the previous year. In addition, a maintained score was achieved under Management Control. The results from this year's assessment may validate the structural challenges associated with B-BBEE implementation under National Disasters, hence validating the proposed changes as detailed in Schedule 4 to be gazetted.

Five MLEs were discounted, with only four discounted as a result of one and the other one due to a combination of the priority elements, showing a decline and the effectiveness of the Discounting Principle. Encouragingly, the Sector maintained a level 4 B-BBEE rating.

The number of Unenhanced QSEs reporting also increased from one previously to eight in the current reporting year. Similarly, to MLEs, all Unenhanced QSEs

submitted the in-depth reports as well, with most average scores rated above 80% towards the scorecard targets. QSEs maintained a level 2 in the current year. The QSEs Level 2 rating was largely a result of few submissions from Unenhanced (minority black-owned) though most of these achieved better scores and most of the submissions of affidavits were largely Level 2. Only one Unenhanced QSEs was discounted as a consequence of non-compliance with the ownership as a compulsory priority element.

EMEs received a Level 2 showing a downgrade by a level 1 from the previous year. Most EMEs were Enhanced and would be preferred by MLEs and QSEs as suppliers. Both QSEs and EMEs proved to be largely controlled by the Contractors validating the significance of the Codes of Good Conduct on Contracting. The economic growth of such entities is also of key importance for the creation of other jobs, hence the additional requirement in the Forestry Sector Masterplan gauges their growth in terms of jobs created and turnover.

The continuous implementation of B-BBEE by the Forest industry is pleasing and proves beyond doubt the reputable relationship and networks the Council has with the entire sector.

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## ACRONYMS

<b>B-BBEE</b>	Broad-Based Black Economic Empowerment
<b>BBOS</b>	Broad-Based Ownership Schemes
<b>BDG</b>	Black Designated Groups
<b>BO</b>	Black-owned
<b>BIS</b>	Black Industrialist Scheme
<b>BWO</b>	Black Women Owned
<b>CEE</b>	Commission of Employment Equity
<b>CEO</b>	Chief Executive Officer
<b>CFO</b>	Chief Financial Officer
<b>CIPC</b>	Companies and Intellectual Property Commission
<b>CSI</b>	Corporate Social Investment
<b>COO</b>	Chief Operating Officer
<b>COP</b>	Community Outreach Programme
<b>DALRRD</b>	Department of Agriculture, Land Reform and Rural Development
<b>DoEL</b>	Department of Employment and Labour
<b>DFFE</b>	Department of Forestry, Fisheries and the Environment
<b>DPE</b>	Department of Public Enterprises
<b>DTIC</b>	Department of Trade, Industry and Competition
<b>ED</b>	Enterprise Development
<b>EEA</b>	Employment Equity Act
<b>EP</b>	Exclusion Principle
<b>EI</b>	Economic Interest
<b>EER</b>	Employment Equity Report
<b>FTP</b>	Flow Through Principle
<b>EME</b>	Exempted Micro-Enterprise
<b>ESD</b>	Enterprise & Supplier Development
<b>ESOP</b>	Employee Share Ownership Programmes
<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>GDP</b>	Gross Domestic Product
<b>IDC</b>	Industrial Development Corporation
<b>JSE</b>	Johannesburg Stock Exchange
<b>MLE</b>	Medium and Large Enterprise
<b>MC</b>	Management Control
<b>MFTP</b>	Modified Flow Through Principle
<b>NEF</b>	National Empowerment Fund
<b>NPAT</b>	Net Profit after Tax
<b>NPC</b>	Not for Profit Companies
<b>PPGI</b>	Public Private Growth Initiative
<b>PP</b>	Preferential Procurement
<b>QSE</b>	Qualifying Small Enterprise
<b>SA</b>	South Africa
<b>SAFCOL</b>	South African Forestry Company Limited
<b>FSC</b>	Forest Stewardship Council
<b>SANAS</b>	South African National Accreditation System
<b>SD</b>	Supplier Development
<b>SDA</b>	Skills Development Act
<b>SED</b>	Socio-Economic Development
<b>SFRA</b>	Stream Flow Reduction Activity
<b>SMME</b>	Small Medium and Micro Enterprises
<b>SOE</b>	State Owned Enterprises
<b>Y.E.S</b>	Youth Employment Service
<b>UIF</b>	Unemployment Insurance Fund
<b>VR</b>	Voting Rights
<b>WUL</b>	Water Use License

## 1. INTRODUCTION

Forestry is perfectly positioned to make a significant contribution to poverty alleviation, rural development and the creation of new and other jobs in particular within the rural areas. This is because forestry occurs in rural areas with limited economic opportunities. The commitment by the entire industry to the Amended Forest Sector Code (FSC) is a pure demonstration of this principle which provides a framework envisaging a forest sector that creates opportunities for the beneficiaries of Broad-Based Black Economic Empowerment (B-BBEE).

The main challenge continues to be implementing the broad-based statements of intent in particular in accounting and reflecting on the numerous successes that could aid in driving empowerment more forward. Moreover, the continued COVID-19 pandemic coupled with regulatory uncertainties further exposed the depth of disrupted operations and economic instability.

The emphasis of the approved Forestry Sector Masterplan on the growth and development of the Small, Medium and Micro Enterprises (SMMEs) sector in response to bringing about a diversity of new role players provides a framework for meaningful inclusion and participation. The massive commitments of the industry to new investments as indicated in the Public-Private Growth Initiative (PPGI) could not come at a better time when the economy's growth has been heavily hit by the unfortunate COVID-19 pandemic.

The 2021/22 Annual Status of Transformation report is the fifth report under the Amended Forest Sector Code's targets. The report showed an improved number in terms of reporting entities which could be an expression of the desire of the forest companies to support transformation. While the 2020/21 report analysed direct responses from companies on the B-BBEE scorecard application, it also expanded on the realities of post influence of the COVID-19 pandemic on economic growth and reporting requirements.

The 2021/22 report also brings about a perspective of Johannesburg Stock Exchange (JSE) Forestry listed companies who are also mandated to report to the B-BBEE Commission as prescribed in Section 13(G) of the B-BBEE Act as Amended. This basis seeks to cement the industry's response in particular the JSE

listed entities on their reporting obligations and divergent interpretations in ensuring that effective and impactful empowerment is achieved in the forest sector.

## *2. SECTOR OVERVIEW*

### *2.1 BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE) IS PERCEIVED AS A CORRUPTION SCHEME AND HINDRANCE TO THE EXISTING BUSINESSES (ROAD TO AN OLIGARCHY)*

Broad-Based Black Economic Empowerment (B-BBEE) is an intentional policy with very clear objectives intended to correct the inequalities of the past and ensure meaningful participation of previously disadvantaged black people in the mainstream economy. B-BBEE has, however, not been spared from criticism in particular in the last few years with a worsening economy, and to a certain extent, it remains a controversial subject in South Africa. Some of the disregards are a result of the numerous misconceptions such as B-BBEE being ineffective and only benefiting a small proportion of society, fuelling misunderstandings and hence resistance to B-BBEE implementation<sup>1</sup>. Such reactions are discouraging, and maybe in response, more success stories of B-BBEE should be publicised. Proposals such as having a transformation week to showcase the good side of B-BBEE are one of the many subjects to turn the narrative. Implementors especially corporates and the private sector are also encouraged to be strategic, intentional and to have a fervent hunger for transformation.

### *2.2 dtic's GAZETTES PRACTICE NOTE ON RULES FOR DISCRETIONARY COLLECTIVE ENTERPRISES (BBOS, ESOPS, TRADE UNIONS, NOT FOR PROFIT COMPANIES (NPC), TRUSTS, CO-OPERATIVES)*

The Department of Trade, Industry and Competition (dtic) published a Practice Note on the rules for Discretionary Collective Enterprises (DCE). The Discretionary Collective Enterprises include Broad-Based Ownership Schemes (BBOS), Employee Share Ownership Schemes (ESOPS), Trade unions, Not for Profit Companies (NPC), Co-operatives and other collective enterprises. In the practice note, these entities are recognised as valid vehicles to further the B-BBEE imperative and in

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<sup>1</sup> [How Long Will BEE Remain Government Policy? - Cenfed BBBEE Agency](#)

most cases make massive and unrestricted contributions to community upliftment and socio-economic development projects such as education etc. The Practice note further provides clarity on how such entities should be interpreted and recognised for Black ownership for the purpose of the B-BBEE Act and also, to avoid confusion and misaligned interpretations. The Practice note was highly accepted by such enterprises and could not come at a better time when resources are continuously shrinking with increasing needs in particular for the disadvantaged communities.<sup>2</sup>

### *2.3 GOVERNMENT'S INVESTMENT IN THE BLACK INDUSTRIALIST PROGRAMME*

In 2021, the dtic released its first report detailing the achievements of the Black Industrialist programme intended to redress the economic inequalities. The report showed that about 793 black industrialist businesses have benefited from the R18 billion investment from the scheme and other crowd funding received from either the Industrial Development Corporation (IDC) and/or the National Empowerment Fund (NEF). The programme has advanced the objectives of the B-BBEE programme by creating new industrial businesses, local demand and reducing the export/import trade deficit. Only about 120 000 new other jobs have been created in the plight of the undesirable high unemployment rate in the country which has been exacerbated by the pandemic. The reported challenges experienced also in the scheme, with fronting referenced is a call for concern.<sup>3</sup>

### *2.4 FORESTRY BENEFITS FROM THE PPGI*

The Public-Private Growth Initiative (PPGI) is an oriented programme geared toward boosting the local economy, Gross Domestic Product (GDP) and job creation. The inclusion of Forestry in the PPGI in 2018, has resulted in an investment commitment by Mondi, SAPPI, York Timbers and PG Bison to a value of R11.7 billion and created 4644 jobs. The initiative has also resulted in better collaborations between the private and public sectors in particular the regulating sectors and hence levelling the playing field for a conducive environment to support growth and transformation. In the current year, and through the initiative, the Sector, (FSA) together with the Department of Water and Sanitation successfully concluded the negotiations on the

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<sup>2</sup> [https://www.gov.za/sites/default/files/gcis\\_document/202105/44591gon428.pdf](https://www.gov.za/sites/default/files/gcis_document/202105/44591gon428.pdf)

<sup>3</sup> <https://www.sanews.gov.za/south-africa/government-invests-r18-billion-black-industrialists>

inclusion of many General Conditions and Stream Flow Reduction Activities (SFRA) Conditions in Water Use Licences (WUL). This has magnificently led to a reduction in the number of SFRA, WUL conditions and the frequency of audits for new plantations. The SFRA Specific Conditions were also extensively revised and effected changes led to only six recognised conditions.<sup>4</sup>

## *2.5 THE CURRENT STATE OF THE SMMEs ECONOMY IN SOUTH AFRICA*

Small, Medium and Micro Enterprises (SMMEs) have been identified as key components to advancing inclusive growth and development in South Africa. The SMMEs account for between 50 and 60% of South Africa's workforce and contribute approximately 34% to the country's gross domestic product (GDP)<sup>5</sup>. The National Development Plan envisioned that by 2030 SMMEs will contribute about 60 to 80% towards GDP while accounting for about 90% of the 11 million new jobs in the country<sup>6</sup>. Although SMMEs are well-positioned to provide sustainable job opportunities and contribute significantly to the GDP, it cannot be denied that there are myriad impediments to SMMEs' growth in the country compared to their equals in developed countries. These challenges include; access to funding, education and skills, infrastructure, crime and corruption, competition and regulation and policy<sup>7</sup>. It appears that the government has noticed the significant impact these challenges have on the development of SMMEs, and in March 2021<sup>8</sup>, the government through dtic announced its commitment to support SMMEs<sup>8</sup>. The support was also evident through various relief schemes established to mitigate the impact of the COVID-19 pandemic on SMMEs, which resulted in about 42,7% of them closing down in 2020<sup>9</sup>. Additionally, South Africa has an under-skilled population, which is evident in a high unemployment rate (34.6%), large companies through B-BBEE elements are also

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<sup>4</sup><https://www.forestrysouthafrica.co.za/wp-content/uploads/2022/05/FSA-Annual-report-2021-colour-web-version2.pdf>

<sup>5</sup> Why SMMEs In Africa Can Lead The Way To Economic Growth | Caban Investments

<sup>6</sup> The missed opportunity: SMMEs in the South African economy - The Mail & Guardian (mg.co.za)

<sup>7</sup> Bhorat, H., Asmal, Z., Lilenstein, K. and van der Zee, K. (2018). "SMMEs in South Africa: Understanding the Constraints on Growth and Performance". Development Policy Research Unit Working Paper 201802. DPRU, University of Cape Town.

<sup>8</sup> Government committed to support SMMEs | SAnews

<sup>9</sup> <https://startwise.co.za/current-state-of-the-smme-economy-in-south-africa/>

investing in skills development, enterprise and supplier development each year, which gives a plethora of opportunities for SMMEs development, funding, commercialisation and market access<sup>9</sup>.



### 3. RESEARCH OBJECTIVES & METHODOLOGY

The Amended Forest Sector Code (FSC) applies to all entities operating in commercial forestry and first-level processing of wood products. These include all entities operating across the six main sub-sectors as defined in the Amended FSC. One of the proposed changes in the Amended FSC suggests the addition of recycling entities under the Fibre sub-sector. All entities are to report annually to the FSCC on their B-BBEE credentials as per the scorecard targets for the compilation of the Annual Status of Transformation report.

Medium and Large Enterprises (MLEs) having the largest turnover are obligated to contribute meaningfully to transformation and hence are required to submit a detailed B-BBEE scorecard report and certificate. This requirement is also applicable to Unenhanced Qualifying Small Enterprises (QSEs), though their targets are much lower when compared to MLEs. Enhanced QSEs and all Exempted Micro Enterprises (EMEs) only submit an affidavit or a Companies and Intellectual Property Commission (CIPC) certificate. The information on the affidavits or CIPC certificates should confirm the proportion of Black ownership, which has to be further fragmented according to the different black groupings, the overall turnover and the Enterprise Development Beneficiary (EDB) status. All entities are automatically considered empowering suppliers. An Empowering Supplier within the context of B-BBEE is an entity that complies with the regulatory requirement of the Employment Equity Act, Skills Development Act and the Skills Development Levies Act.

Data collection is key in the compilation of the status report. It is for this reason that the larger entities will now be required to submit also their suppliers' B-BBEE information for ease of data collection and reporting, though pending the gazetting of the proposed changes to the Amended FSC. In the year 2021/22, measured entities were directly contacted through different means of communication for their B-BBEE reports, certificates and or affidavits. Organised Industry Associations were also consulted in terms of encouraging their members to report and where possible collect the information from their members to submit to the FSCC. Some of the information was also collected through the empowered portal and directly from the entities' websites.

Data validation was undertaken to assess the validity of the information submitted. The factors considered for this process were the date of issue, the applicable sector code used for the verification, i.e., the Amended FSC as well as the applicable scorecard depending on the size of the entity, i.e., MLEs or QSEs and the qualifying Measurement Period. The Measurement Period definition captured in “C” under definitions of the Amended FSC was particularly referenced. All valid certificates and affidavits had to have issue dates falling within the 2021/22 financial year.

The initial data analysis included the coding of all the scores reflected in the received certificates, underlying reports and affidavits into excel spreadsheets. Depending on the three categories of measured entities, the data was then presented into different and appropriate graphs such as bar graphs, line graphs and pie charts, which were then used for further qualitative and quantitative interpretation, interrogation and conclusion on the sub-sectors and overall sector’s performances.

Other sections of the report detailed some literature review which gave an insight into the major influencers of B-BBEE implementation as well as a comparison in terms of the current to the past two-year performances amongst the different sized entities falling within the six sub-sectors. Additionally, some of the sector’s specific principles such as the Completeness Ratio, Joint Scorecard targets, Discounting and Enhancement Principles were also analysed.

A comparable review of the Johannesburg Stock Exchange (JSE) listed Forestry based measured entities was also analysed to benchmark against the findings of the B-BBEE Commission’s annual report.

SAFCOL’s performance was considered independently as it is the only Forestry-based State-Owned entity verified using Statement 004.

### 3.1 RISKS

The following list summarises some of the potential risks experienced when either collecting the information for the compilation of the Annual Status of Transformation or advocating for B-BBEE implementation through stakeholder engagements and consultations. The associated Risks are;

- Inconsistent reporting, mostly amongst the QSEs and EMEs,
- Insufficient knowledge of reporting requirements, e.g., Unenhanced QSEs reporting using affidavit, with some entities reporting on the incorrect verification standard or preferring Generic Codes over Amended Sector Code, though occurring in reduced numbers,
- Reluctance to report as a result of the low score achieved or business orientation or structure and or due to loss of tenders or contracts either from government or State-Owned Enterprise (SOE) and no direct benefits,
- Non-compliance to the reporting timelines and requirement in compliance with the requirement of annual reporting and the Measurement period,
- Unqualified information on the B-BBEE programme with relevance to the numerous negative media statements,
- Non-compliance with some of the indicators of the scorecard, e.g., in the case of the Enterprise and Supplier Development (ESD) where entities either in the Growers and Sawmilling sub-sectors are to be verified and the recognition of points from procuring from SAFCOL,
- Delays in the delivery of both Government and Industry Undertakings, in particular, the undertakings recognised for the joint scorecard,
- High costs associated with the verification process discourage reporting, and
- Lack of awareness about FSCC and the company's obligation to report annually to Sector Council, though also very marginally conveyed.

#### 4. SECTOR ANALYSIS

Section 10 (4) of the B-BBEE Act as amended compels all entities operating in a sector with a Sector Code to be verified and report annually to the Sector Council on B-BBEE using the applicable Sector-specific Code, in this case, the Amended Forest Sector Code (FSC) applies. The requirement applies to forestry-based enterprises falling within the Medium and Large Enterprises (MLEs), Qualifying Small Enterprises (QSEs) and Exempted Micro Enterprises (EMEs). Certificates and affidavits were requested from all reporting entities that operate in the Forest Sector as prescribed under the scope of application in the Amended FSC.

In the year under review, a total of one hundred and thirteen (113) valid submissions were collectively received from all reporting entities from MLEs, QSEs and EMEs as shown in Figure 1 below. This shows the highest number of submissions that have been received since the gazetting of the Amended FSC and confirms a significant increase of more than 100% when compared to the 2020/21 reporting period. Remarkably, substantial increases were recorded amongst the QSEs and EMEs which might be as a result of the bigger companies demanding B-BBEE credentials from their suppliers for the recognition of points on the Enterprise and Supplier Development element. This is a crucial element as QSEs and EMEs are the beneficiaries of B-BBEE and their growth is encouraged and hence the suggestion in the Amended FSC (still to be gazetted) for the MLEs or QSEs to submit their suppliers' B-BBEE information.

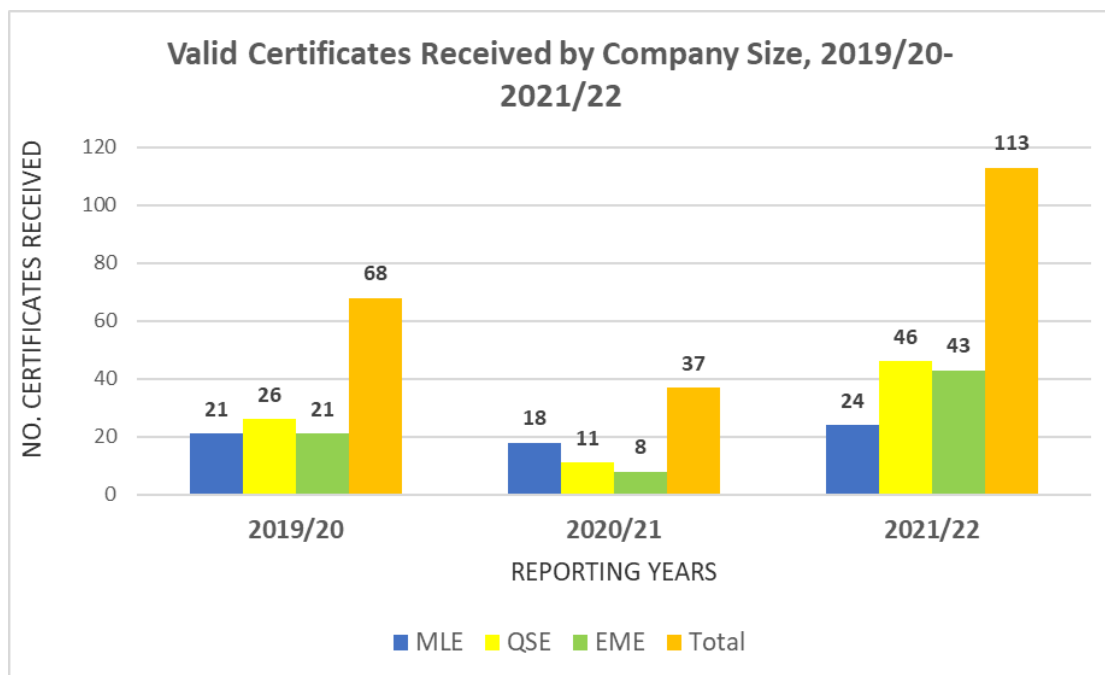


Figure 1: Certificates Received by Company Size over three reporting years

Twenty-four (21%), of the certificates, reports and affidavits, were received from MLEs, 46 (41%) from QSEs and 43 (38%) from EMEs as displayed in Figure 1 above in the reporting year 2021/22. Further analysis shows that only eight (17%) certificates were submitted by Unenhanced QSEs (minority black-owned) with 38 (83%) Enhanced QSEs submitting either affidavits or CIPC certificates. Twenty (47%) of the EMEs affidavits were received from the Unenhanced while the remaining 23 (53%) were from Enhanced EMEs.

The significant increases in the number of submissions may be attributable to the relationship the FSCC has with the Sector organized Associations that assisted greatly in the collection of the information and of course the overall sector's commitment to transformation. Moreover, it was anticipated that the ease of lockdown as a result of the COVID-19 pandemic and the end of the state of National Disaster could have had a positive outcome on business operations in particular for the small entities.

The Amended FSC defines the sub-sectors together with the trades and operations recognised and or qualified in each sub-sector. The sub-sectors include Growers, Fibre, Sawmilling, Contracting, Pole producers and Charcoal manufacturing. It is

anticipated, and subject to the gazetting of the changes to the Amended FSC, that there will be an inclusion of other processing activities within the Fibre sub-sector such as recycling, lignin, energy and fuels production.

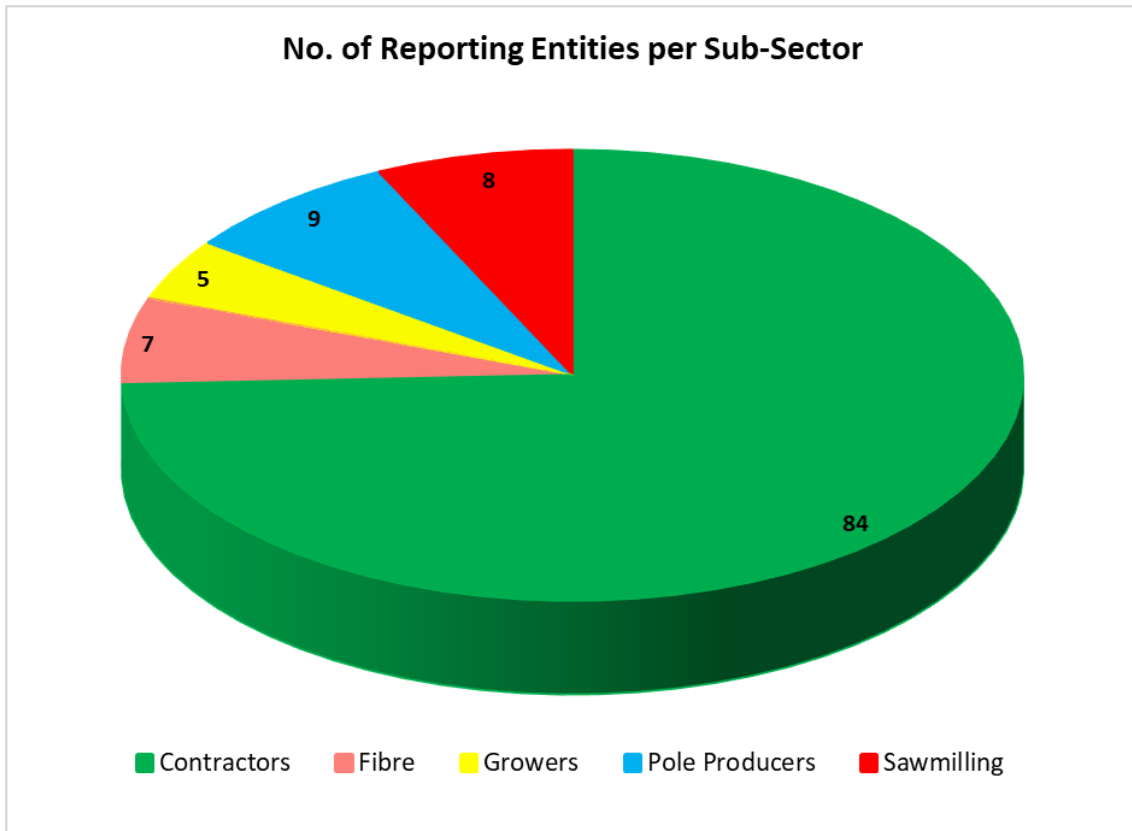


Figure 2: Certificates Submission by Sub-sector, 2022

Figure 2 above displays the total number of submissions (either in a form or a B-BBEE certificate or an affidavit) received for the 2021/22 reporting period. A noticeable number of submissions were received from the Contractors and this was mostly from QSEs and EMEs. As reported even in previous years, the entities are heavily involved in contracting operations, such as silviculture, harvesting and also provide other services including security and maintenance.

The Pole producers (9) sub-sector had the second highest representation with submissions from MLEs and EMEs only. Eight (8) submissions were received from the Sawmilling sub-sector, most of which were from the MLEs with very few from the QSEs and EMEs. Only seven (7) certificates were received from both MLEs and QSEs from the Fibre sub-sector. Growers had five (5) submissions in total. All the

submissions from the Growers' sub-sector were from MLEs only, a concerning observation as there are a number of small growers who are suppliers of the timber resource to some MLEs and QSEs. It is also, concerning that none of the received certificates or affidavits were from the Charcoal sub-sector, an observation recorded also in the 2021/22 reporting year. This calls for more consensus efforts from the entire sector to establish businesses within the Charcoal sub-sector to benefit the beneficiaries of B-BBEE and create new other jobs and possibly the opportunities from the Black Industrialist programme should be explored.

#### **4.1 MEDIUM AND LARGE ENTERPRISE ANALYSIS**

The reporting year 2021/22 is the 5<sup>th</sup> year since the gazetted Amended Forest Sector Code (FSC). Medium and Large Enterprises (MLEs) are the largest role players in the forest sector with a turnover above R50 million per annum, which significantly afford the entities the highest spending or resources to implement B-BBEE.

MLEs must be verified annually by a verification Professional (preferably accredited by the South African National Accreditation System (SANAS) on all five B-BBEE elements. Each Measured entity must submit a certificate and a scorecard report to the Forest Sector Charter Council, (FSCC), to write up the Annual Status of Transformation report. Companies that do not submit the scorecard report to the FSCC cannot be part of the in-depth analysis and further discussion on the performance of B-BBEE within the Forest Sector. The Johannesburg Stock Exchange (JSE) listed Forestry-based companies must also submit their B-BBEE certificates and underlying report to the B-BBEE Commission within 30 days of verification. This is in compliance with section 13G (2) of the B-BBEE Act as Amended. It is important to note that State-Owned entities such as SAFCOL in the case of Forest companies are measured on Statement 004, exempting such entities from being measured on the Ownership element.

FSCC database has 33 known MLEs, and it was observed during the collection of certificates and scorecard reports that two MLEs had closed down with one entity being sold and one entity did not belong under the Forestry sub-sector resulting from these entities being removed from the database. However, it is important to note that, four new entities also reported for the current reporting year, which means

regardless of the mentioned entities above, the FSCC database still has 33 entities known MLEs.

Notably, only 25 MLEs including SAFCOL reported for the 2021/22 reporting period with only one entity being disqualified for using the incorrect B-BBEE Code which is the reason figure 3 below only accounts for 24 entities. The 2021/22 reporting period has received 73% MLEs submission, which is a 33% increase when compared to the 2020/2021 (55%) reporting period. The rise in submission for the current reporting year highlights a continued dedication toward B-BBEE within forestry. Remarkably, for the first time since the reporting under the Amended FSC, all MLEs submitted both the certificates and underlying report, proving compliance with the B-BBEE Act as amended.

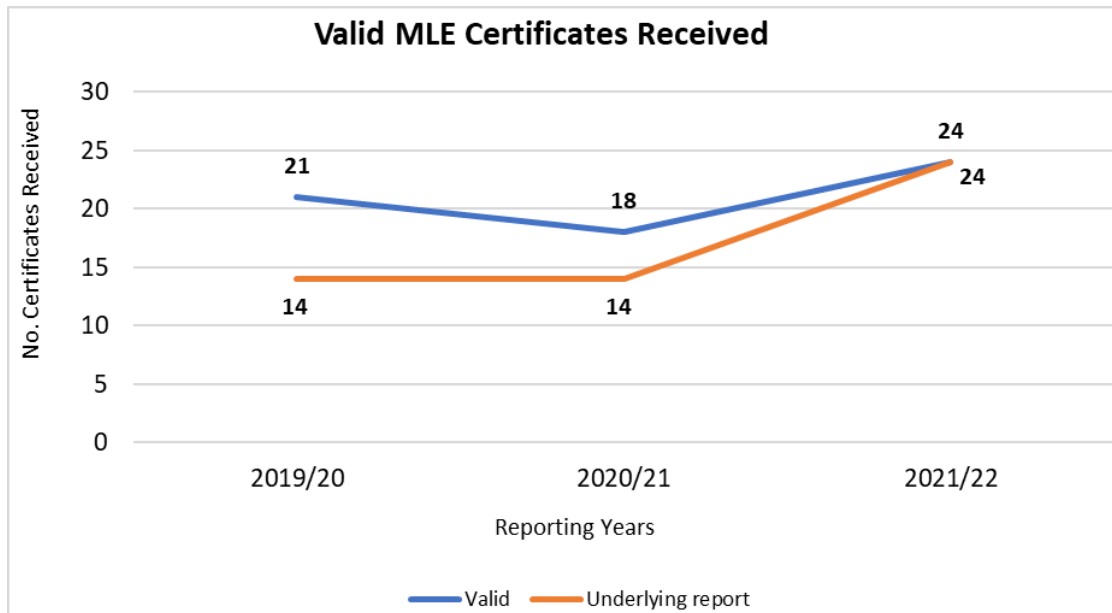


Figure 3: Valid MLE Certificate Submissions, 2021/22

Table 1 below shows a three-year comparison of consistent reporters and new reporting entities. Consistent reporting entities increased from 16 in 2020/21 to 20 in (2021/22), proving that the COVID-19 hard Lockdown may have impacted B-BBEE implementation. There were only four new entities that reported in the reporting year. Notably, these four have not been reporting to the FSCC in the last three years. These entities will be also prioritised in terms of the Community Outreach Programme (COP) to ensure they understand the importance of reporting and to



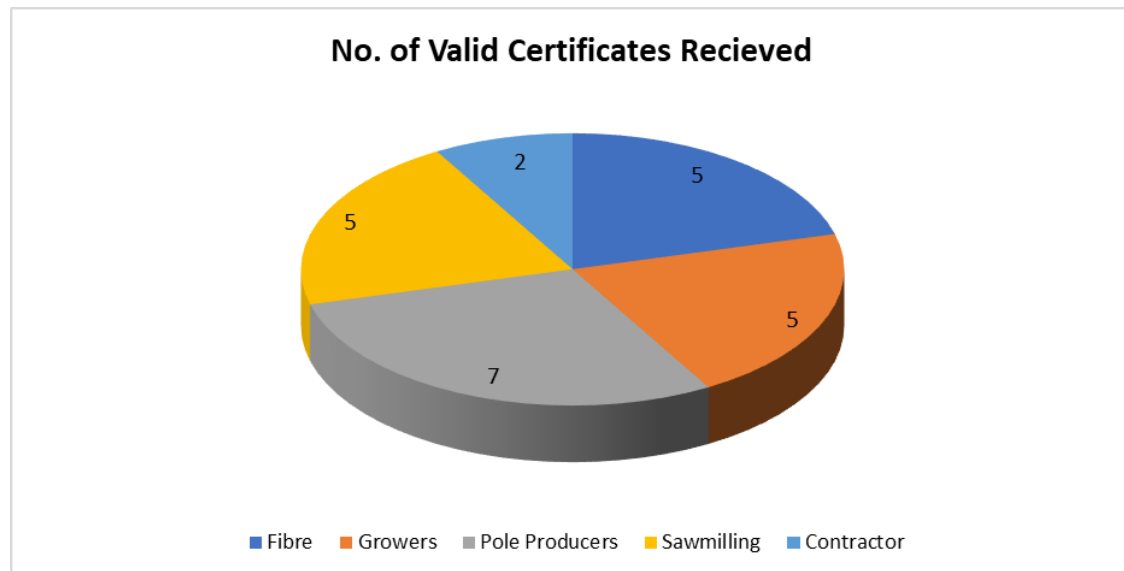
also validate any challenges that may hinder them from consistent and annual reporting.

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

Years	Number of entities	Consistent entities	New entities
Year 2019/20	21	20	1
Year 2020/21	18	16	2
Year 2021/22	24	20	4

Figure 4 below illustrates the number of MLEs certificates received per sub-sector as per the scope of application of the Amended Forest Sector Code. The referenced certificates and underlying reports were received from five (5) of the six (6) reporting sub-sectors, namely Pole producers, Fibre, Sawmilling, Growers and Contractors. Unfortunately, none of the reporting entities belonged to the Charcoal sub-sector in the current reporting period a trend that has been observed in the prior years.

Although it is encouraging to have received two submissions from the Contractor sub-sector, we are encouraging more entities from the Contracting sub-sector to submit in the 2022/23 reporting year due to many emerging MLEs belonging to this sub-sector and many companies have outsourced a majority of operations within forestry, mainly in silviculture and harvesting.



*Figure 4: Certificate Submission by MLE per Sub-sector 2021/22*

The lack of B-BBEE compliance or inconsistent submission from Charcoal could indicate the need for continued Outreach Programmes to educate, orient and promote B-BBEE compliance. The Charcoal sub-sector may need to be organised due to the few known Charcoal producers in South Africa and to be introduced to the Black Industrialist Scheme (BIS) for financial assistance to promote their growth and sustainability.

MLEs can obtain a level 1 to 8 and a non-compliant status, most government departments prefer a level 4 entity in terms of awarding tenders, licence, grants etc. Eight entities of the MLEs achieved the best level being a level 1 rating and these are mostly recognised as the most reliable reporting entities. Only one MLE achieved a level 2, with three MLEs scoring a level 3. Additionally, four of each received a level 4 and level 5 rating, with two others each achieving a level 6 and level 8 respectively. None of the reporting entities was a level 7 B-BBEE contributor. Further analysis shows that the new entities could only receive a level 4 and higher B-BBEE level, validating the prerequisite of annual reporting for self-assessment and adapting to the scorecard requirements and qualifying contributors.

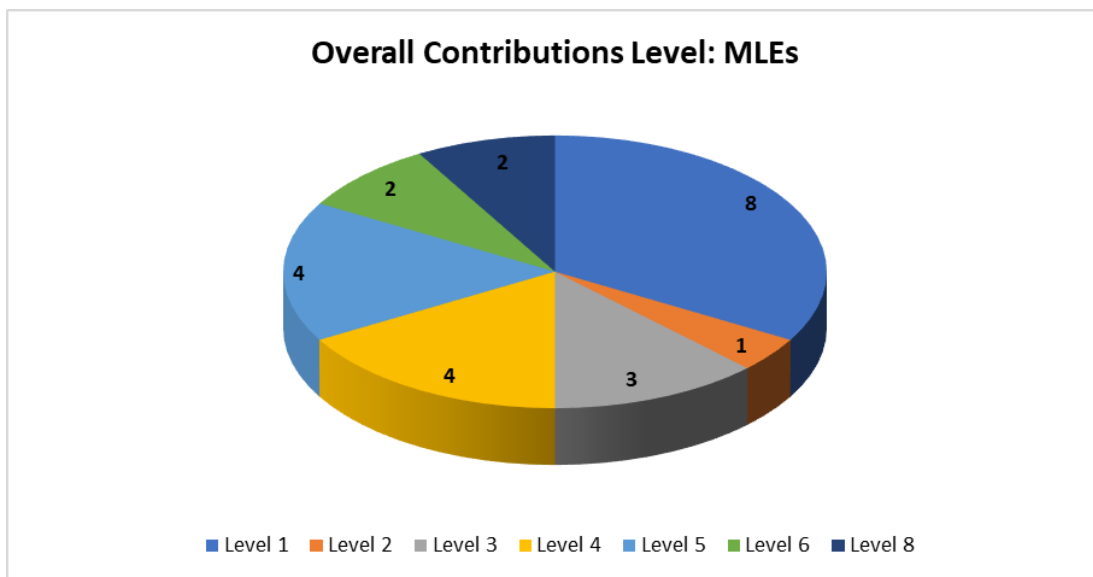


Figure 5: MLE Overall Performance by B-BBEE Level for 2021/22

#### 4.1.1 OWNERSHIP

Ownership is one of the three priority elements, meaning an entity is downgraded by one level down should it not achieve the 40% sub-minimum. An MLE will be downgraded if it fails to achieve 40% of the 8 Net Value points in ownership as referred to in the Amended Forest Sector Code (FSC). The ownership element has indicators that require existing and newly established entities to have black ownership within the company. These indicators are voting rights and economic interest for black people and black women and also the economic interest of different groups, such as Broad-Based Ownership Schemes (BBOS), Cooperatives, Trusts, and Employee Share Ownership Programmes (ESOPs). Ownership transactions are recognised through the sale of equity in a new or existing company or assets.

The Amended Forest Sector Code (FSC) recognises three types of principles under the ownership element which could assist a company to amplify its ownership score or achieve a higher ownership percentage. These principles are Flow-Through Principle (FTP), Modified Flow-Through Principle (MFTP) and Exclusion Principle (EP). However, in the proposed changes in the Amended FSC, ownership will be recognised only through the FTP.

Figure 6 below portrays the overall ownership compliance target score achieved over three reporting periods 2019/20 to 2021/22. MLEs achieved 75% towards the target in 2021/22, showing a 14% decrease when compared to 87% (2020/21) and a 4% decrease when compared to 78 (2019/20). The possible reason for the decrease could be as a result of the three inconsistent reporting MLEs that achieved zero (0) points on this element and hence were being discounted.

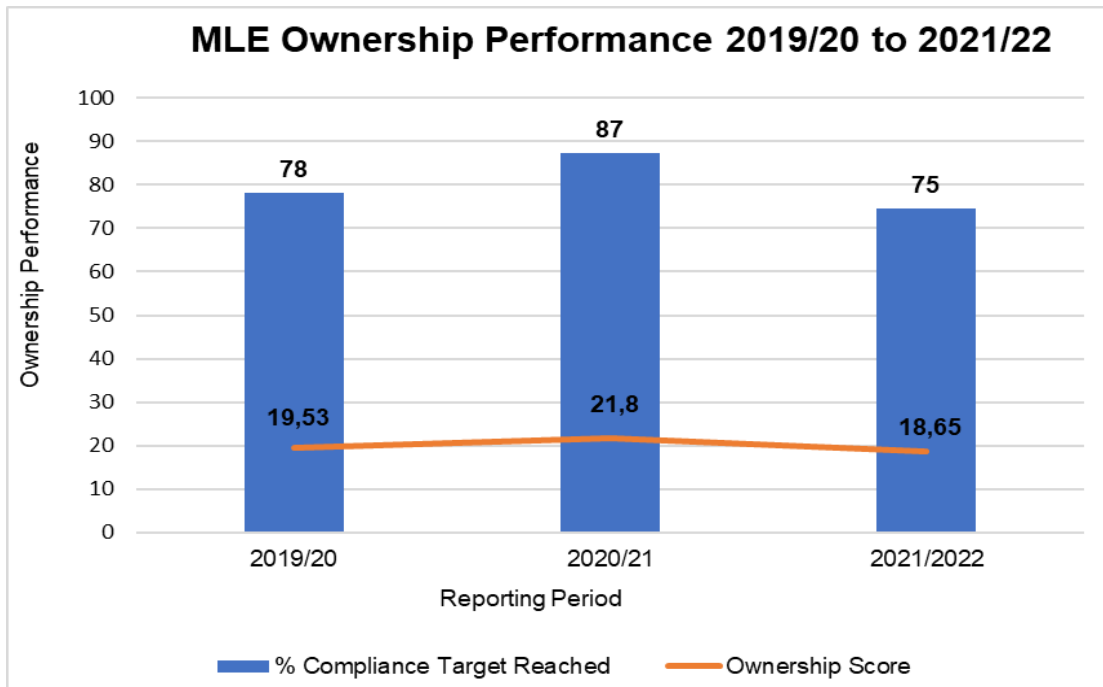


Figure 6: MLE Ownership Performance, 2019/20 – 2021/22

The sector had set a target of 30% black ownership in either existing or new companies. Table 2 below shows a statistical breakdown of direct black people and women ownership for the reporting MLEs. The recorded average for black ownership (BO) was 33% showing a decline from the previous year as displayed in the mean value in Table 2 below. Nevertheless, this is still a good score as it is above the allocated 25%. The black women ownership (BWO) average was even lower at 13% confirming that MLEs are finding it a challenge in having at least a 30% black women ownership profile. This observation is said to place additional pressure on preferential procurement scorecards of MLEs as they are required to spend at least 10% of procurement spend on 30% BWO business.

The MLEs seem to be majority black people controlled and minority black women ownership as indicated by the larger median and mean for black people (BP) compared to black women (BW). None of the MLEs is 100% black or women-controlled.

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

	<i>Black People</i>	<i>Black Women</i>
<i>Minimum</i>	<i>0</i>	<i>0</i>
<i>Q1</i>	<i>16</i>	<i>0</i>
<i>Median</i>	<i>28</i>	<i>11</i>
<i>Mean</i>	<i>33</i>	<i>13</i>
<i>Mode</i>	<i>0</i>	<i>0</i>
<i>Q3</i>	<i>51</i>	<i>22</i>
<i>Maximum</i>	<i>92</i>	<i>42</i>
<i>Standard Deviation</i>	<i>26</i>	<i>13</i>
<i>No. of entities scoring 0% ownership</i>	<i>3</i>	<i>8</i>
<i>No. of entities scoring above 0% but below 51% ownership</i>	<i>13</i>	<i>16</i>
<i>No. of 51% BO entities</i>	<i>1</i>	<i>0</i>
<i>No. of entities scoring above 51% but below 100% ownership</i>	<i>5</i>	<i>0</i>
<i>No. of 100% BO entities</i>	<i>0</i>	<i>0</i>
<i>Total No. of Measured Entities</i>	<i>23</i>	<i>23</i>

The ownership element is allocated 25 weighting points. The ownership analysis per sub-sector is indicated in figure 7 below. All sub-sectors were represented except for the Charcoal sub-sector. All the five reporting sub-sectors achieved a good score of more than 50% of the target. The Contractor sub-sector achieved 24 points (96%) towards the target, expectedly so, as only two MLEs were reporting under this sub-sector. The Sawmilling sub-sector was the second best performing achieving an average of 19 points, while Fibre and the Pole producers sub-sectors achieved a similar score to the industry. The Growers sub-sector was the least performing and achieved a score even below the industry's average score.

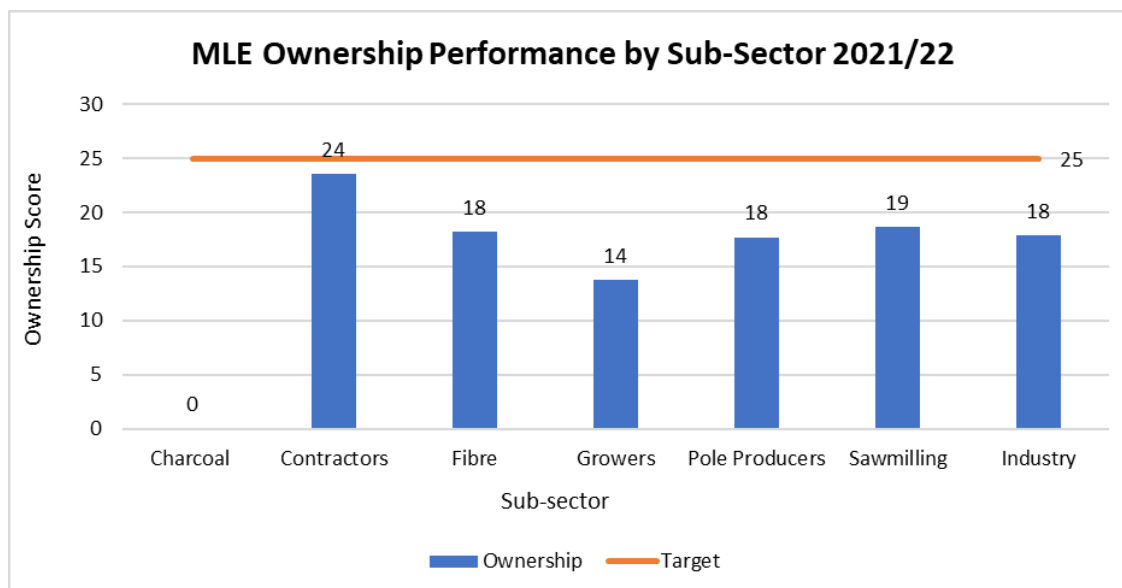


Figure 7: MLE Ownership Performance by sub-sector

## OWNERSHIP IN-DEPTH ANALYSIS

The Ownership element measures Voting Rights (VR) and Economic Interests (EI) in a measured entity held by Black people, Black women and broad-based groupings. MLEs are encouraged to submit both the B-BBEE certificate and scorecard report annually to fully comply with the B-BBEE Act as Amended. The 2021/22 comprehensive analysis is based on 23 entities that submitted the scorecard report. This is for the first time that a 100% submission on the underlying reports is recorded.

Figure 8 below demonstrates the average scores of 23 MLEs on the Ownership indicators. The reporting MLEs attained good scores in all the indicators with the lowest score recorded under the broad-based groupings. The industry seems to find this indicator challenging and hence receives a lower score in most instances. The average score achieved by MLEs on the Net Value points was 6.25 (78%). The attained score confirms that a majority of the reporting MLEs achieved the sub-minimum requirement of 40% of the 8 points (Net value), which is 3.2 points. This would also be expected considering that 60% of the debt should have been paid under the reporting period.

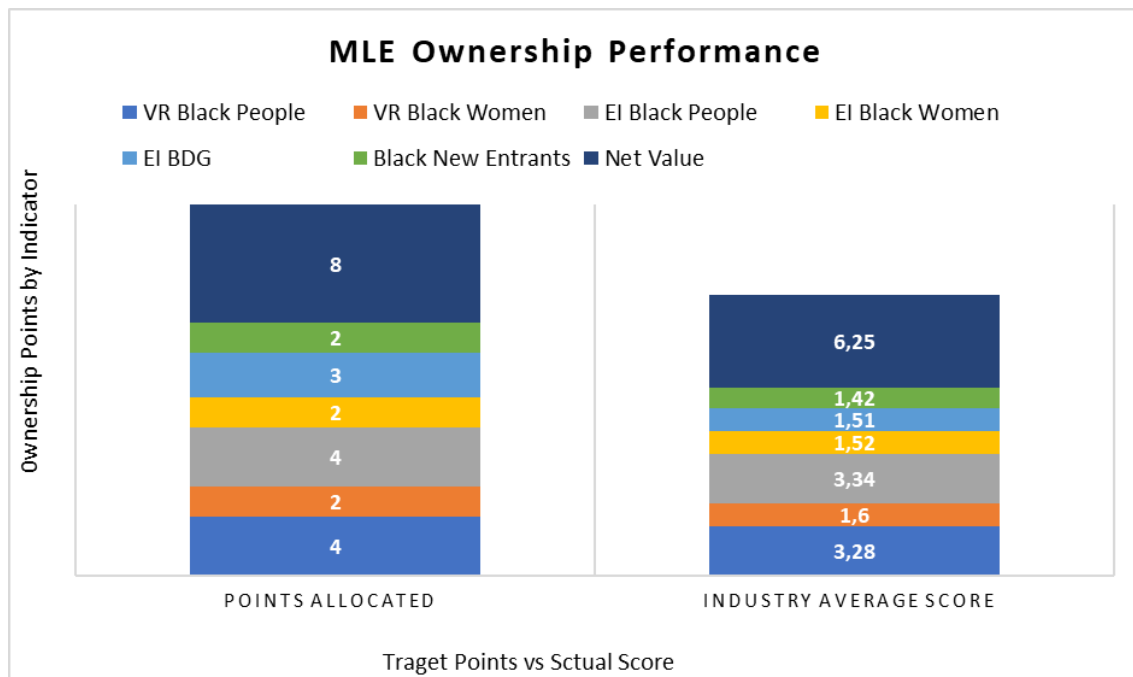


Figure 8: MLE Ownership Performance

Table 3 gives a further comparison of the performance of Ownership's seven indicators for the three reporting periods 2019/20 to 2021/22. There is a significant increase of 7% on Economic Interest (EI) BDG for the year 2021/22 when compared to the two previous reporting periods, a significant increase was recorded in 2021/22 for Black New Entrants, 28.5% increase when compared 2019/20 and 28% increase when compared to 2020/21.

A slight decrease is observed for this current reporting period when compared to the 2019/20 and 2020/21 reporting periods except for the Economic Interest of Black Designed Groups. MLEs in particular those that have attained a lower score on the Ownership element are encouraged to improve on this element in order to have broader participation of beneficiaries, in support of the broad-based principle of B-BBEE.

Table 3: A comparison of Industry Ownership indicator scores between 2019/20 to 2021/22

Indicator	Points Allocated	Average Score FY 2019/20	Average Score FY 2020/21	Average Score FY 2021/22	Compliance Target (%)	Indicator Achieved (%) FY 2019/20	Indicator Achieved (%) FY 2020/21	Indicator Achieved (%) FY 2021/22
VR Black People	4	3.37	3.37	3.28	25+1 Vote	84	84	82
VR Black Women	2	1.56	1.56	1.6	10	78	78	80
EI Black People	4	3.23	3.23	3.34	25	81	81	84
EI Black Women	2	1.55	1.55	1.52	10	78	78	76
EI BDG	3	1.26	1.26	1.51	7	42	42	50
Black New Entrants	2	0.95	0.95	1.42	2	48	48	71
Net Value	8	6.33	6.33	6.25	-	79	79	78



MLEs are also required to have black shareholders who can vote for certain matters of operational significance. The compliance target for voting rights (VR) for black people is 25% and 10% for black women.

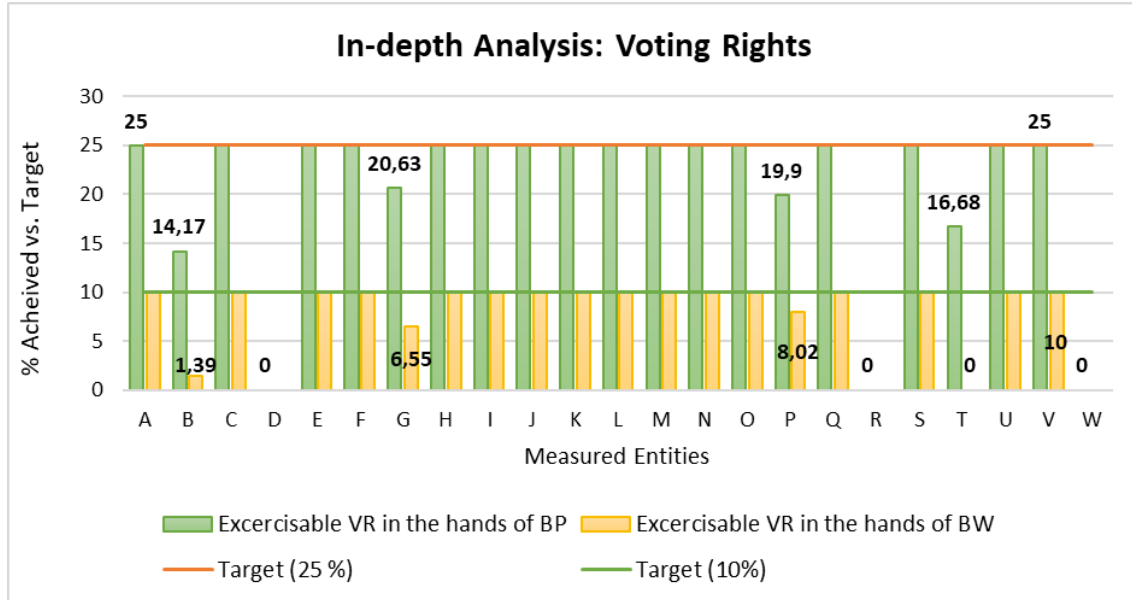


Figure 9: MLE Analysis: Voting Right in the Hands of Black People

Figure 9 above displays the performance of all the MLEs on the voting rights in the hands of black people and black women. Sixteen (70%) of MLEs achieved full points on both these two indicators. Three (13%) other MLEs at least achieved a good score of above 65% on voting rights for black people, with only two of the three entities also performing fairly well on the voting rights for black women. Only one (4%) MLE performed averagely scoring about 57%, with the remaining three (13%) performing poorly on the voting rights for black people indicator. Notably, the number of MLEs performing poorly on voting rights for black women target was more (5 in total) compared to the poor performers on the voting rights for black people.

Economic interest gives rights to participate financially and receive a declared dividend. Shareholders often vote for a declared dividend to be either paid or reinvested in the company. MLEs are allocated 25 and 10 compliance targets for economic interest in the hands of black people and black women respectively.

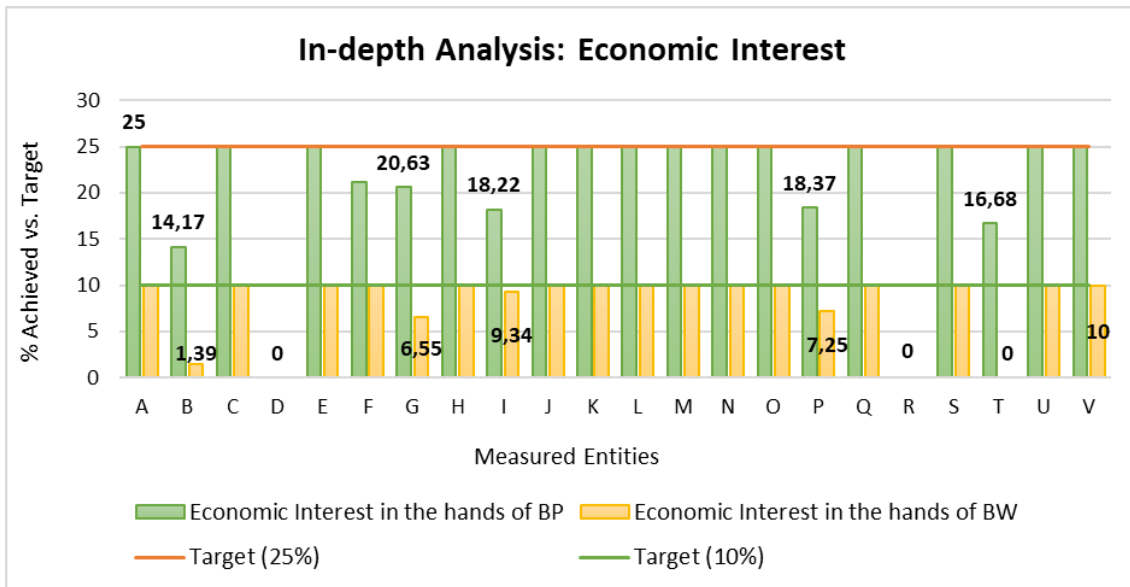


Figure 10: MLE Analysis: Economic Interest in the Hands of Black People & Women

Figure 10 above, demonstrates the scores achieved by MLEs on the economic interest in the hands of black people and women respectively. A total of fourteen (61%) MLEs attained the target with an additional six (26%) performing fairly on the economic interest in the hands of black people indicator. The remaining three (13%) achieved a zero score. Notably, the performance differed slightly on the economic interest held by black women indicator. Only fifteen (65%) achieved the target with an additional three (13%) performing fairly on the black women indicator. The remaining five (22%) achieved either zero or very low scores. The number of MLEs achieving the target on the black women indicator shows an improvement when compared to the last reporting period. They were three (13%) MLEs that were discounted as a result of the Ownership element for both indicators.

One of the B-BBEE principles is broad-based. This principle is intended at ensuring that B-BBEE benefits a broader and more inclusive group of beneficiaries. Some of the groups that are recognised under this principle include Black Designated Groupings (BDGs), Employee Share Ownership Programmes (ESOPS), Broad-Based Ownership Schemes (BBOS), Co-operatives, Trust etc. New black entrants are also recognised on the MLE Ownership element and usually these either have no ownership in a business or if they do, their shares are worth less than R20 million

in value. The Amended FSC details clearly the qualifying requirements for MLEs for having such groupings.

Figure 11 below shows the performance of MLEs on the economic interest in the hands of other broad-based groups and new entrants. The performance by MLEs on these two indicators shows a different trend when compared to the economic interest of black people and women above. Eleven (48%) MLEs achieved full points for the economic interests of other broad-based groupings, while fifteen (65%) attained the target for the new entrant’s indicator. The remaining MLEs performed relatively poor on both indicators, a call for concern as it may mean that some MLEs are struggling to have such groupings in their ownership structure. The practice note issued by the dtic, therefore, validates the importance of such groupings as beneficiaries of B-BBEE. However, it is worth noting that the number of MLEs attaining the target on both indicators improved from six to nine when compared to the previous reporting period.

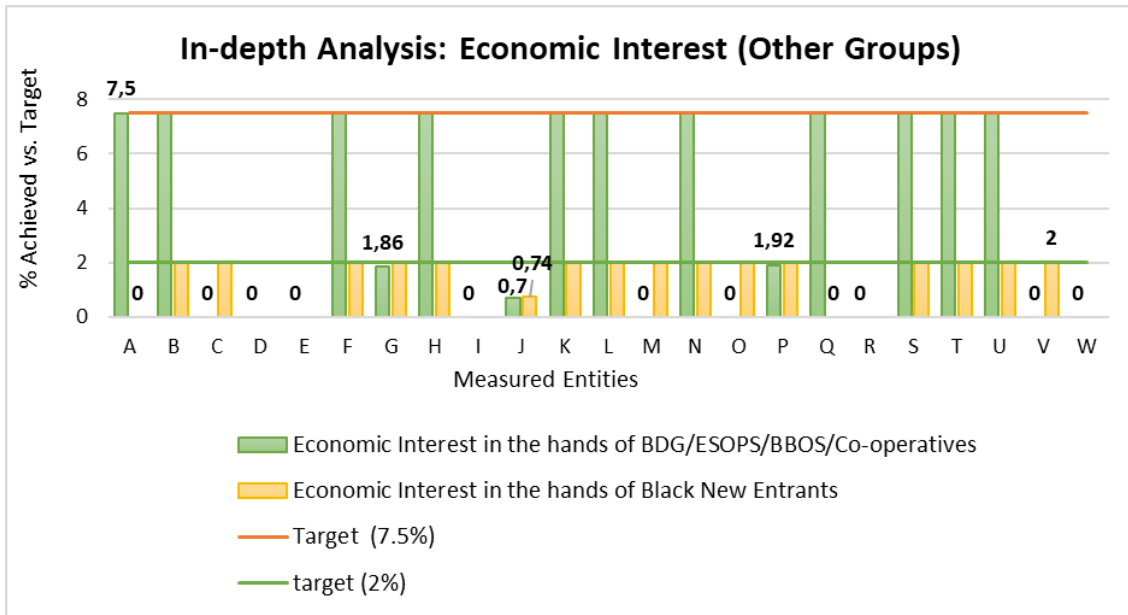


Figure 11: MLE Analysis: Economic Interest in the Hands of Other Groups & New Entrants

The Net Value is a prioritised indicator for the Ownership element. MLEs are discounted as a consequence of not achieving the minimum target on the net value points as indicated earlier. Shareholders must ensure that full payment of the debt

incurred for the purchase of the shares is settled within ten years as detailed in the Amended FSC.

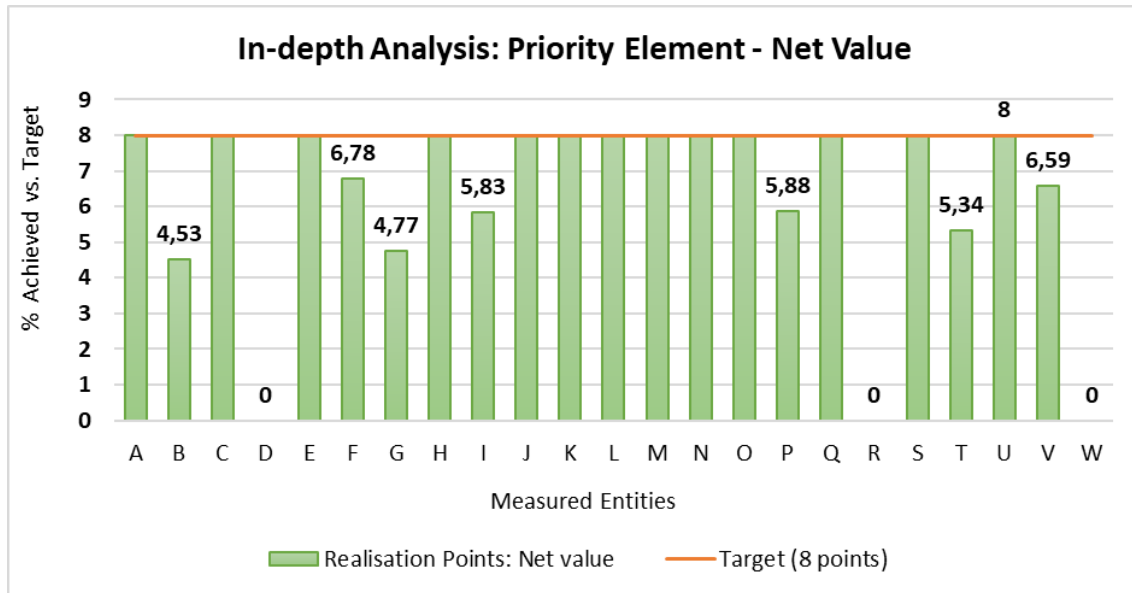


Figure 12: MLE Analysis: Net Value-Priority Indicator

The scores achieved by the reporting MLEs on the net value score are displayed in figure 12 below. Remarkably, 13 (56%) entities achieved the target points, while a further 7 (30%) avoided being discounted by achieving more than 50% of the target points. As reported earlier, only three (13%) entities were discounted as a result, which was not the case when equating to the last reporting period, where none of the MLEs was downgraded as a result of the Ownership element.

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

Applicable Principles	Black Ownership through (FTP)	Black Ownership through Modified Flow-Through Principle (MFTP)	Exclusion Principle (EP)
Number of Companies	19	3	2

The black ownership profile can either be calculated through Flow-Through Principle (FTP), Modified Flow-Through Principle (MFTP), and Exclusion Principle (EP). Table 4 above displays the number of entities that either used one or more of the three-

ownership principles. Similarly, to the previous reporting years, the majority of MLEs used FTP, with only 2 entities using EP and three entities using MFTP. It is encouraging that majority of entities are using the FTP which will be the only principle recognised for ownership transactions as per the additional change to the Amended Forest Sector Code (still to be gazetted). None of the MLEs applied the generic Youth Employment Service (Y.E.S).

#### 4.1.2 MANAGEMENT CONTROL

The Management Control element seeks to address the human resource aspect of transformation through the equitable employment and promotion of qualifying black people. It measures the meaningful representation and voting rights of black people and women on executive boards and other strategic decision-making positions in the executive and junior, middle and senior management. The emphasis of this element is to have black people involved in the core operations of the company and in driving the strategy for growth. In the case of Forestry, MLEs are also encouraged to employ disabled persons in office-based operations. The Department of Employment and Labour (DoEL) is also in the process of consulting economic sectors with regard to the Employment Equity Act, (EEA) targets, in particular, the referenced management positions.

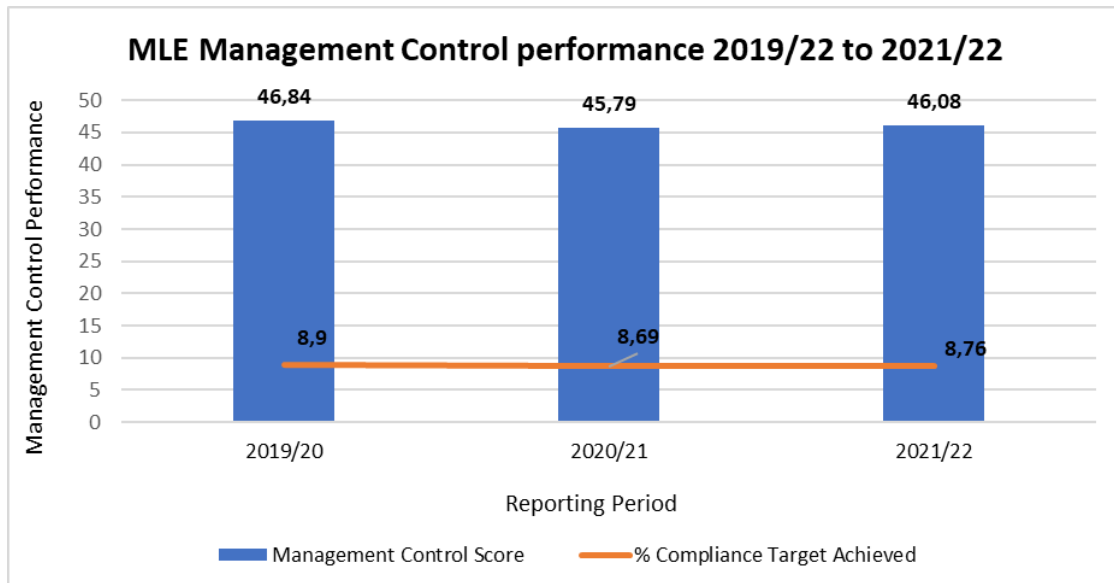


Figure 13: MLE Management Control Performance, 2019/20 – 2021/22

The overall MLEs Management Control performance is shown in Figure 13 above and compares the scores achieved in the last three years. The performance indicates an insignificant increase from 8.69 to 9.04 points for the current reporting year 2021/22. While the improvement is minimal, it is promising in particular when you consider the structural challenges with regard to the implementation of this element. It is also encouraging to see other MLEs getting even improved scores under this element which may be a confirmation, not only of the compliance with the Employment Equity Act (EEA) but also the successful implementation of the succession plan as well. Regardless of the slight increase, Management Control continues to be one of the challenging elements within Forestry, a trend that is not only sector specific but also observed in most sectors as displayed in the Commission of Employment Equity report.

The average performance of the reporting sub-sectors is illustrated in Figure 14 below. Only the Contractors and Fibre sub-sectors attained better scores than the industry's average. The remaining sub-sectors, i.e., the Growers, Pole producers and Sawmilling performed similarly to the industry's overall score. It is also worth noting that the Sawmilling and Growers sub-sectors showed the greatest improvement on this element when compared to the previous report, possibly proving the effectiveness of applied succession plans.

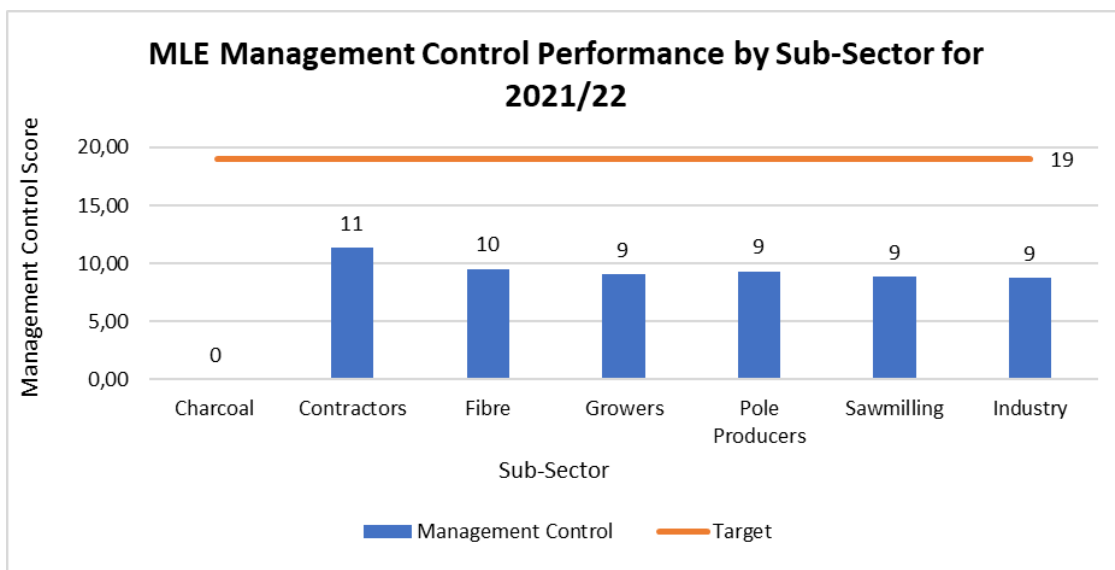


Figure 14: MLE Management Control Performance by Sub-sector, 2021/22

The Employment Equity Act (EEA) sets applicable targets to address the imbalances in terms of presentation across the executive and management positions. Currently, there are consultations with economic sectors on the suggested changes to the EEA Act in an effort to compel companies to drive practical employment equity plans which will ensure more black people are employed and promoted to management and executive positions. In forestry, compliance also with the EEA will be one of the requirements to qualify an entity as an Empowering Supplier, (which is still automatically applicable to all entities, until the dtic proclaims otherwise). The industry’s overall performance on each indicator of the Management Control element is presented in figure 15 below.

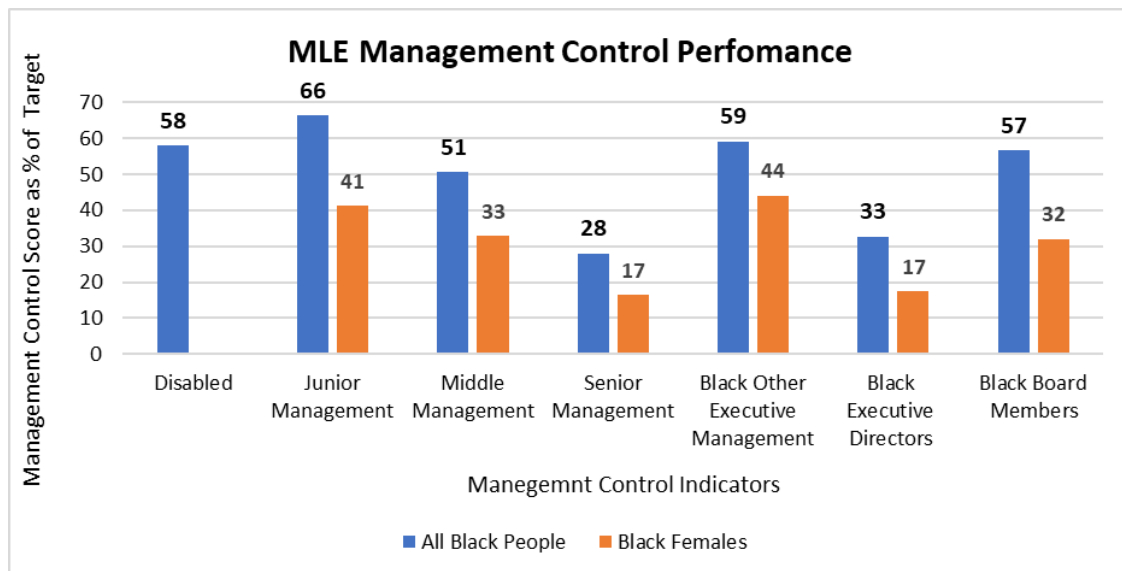


Figure 15: MLE Management Control Performance per indicator, 2021/22

Figure 15 shows the average performance of all indicators under Management Control. Notably, improvements have been recorded in the junior, middle, senior and black women as well as the employment of people living with disabilities. This is encouraging as it would mean the implementation of succession plans in particular intended for the lower management categories and women are being effective. The presentation of black people and women in boards and executive management showed some regressions when compared to the previous year.

In a company, board members are mandated to make resolutions to drive the company’s strategy. In most cases, board members are appointed as per expertise

and reputation. The scores achieved by the reporting MLEs are displayed in figure 16 below.

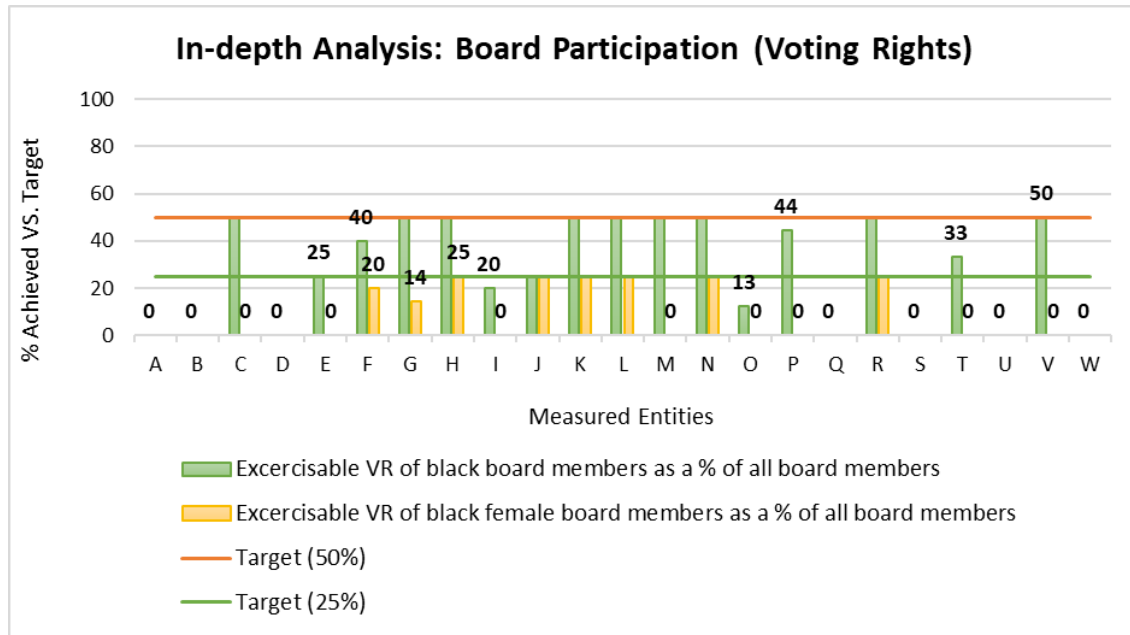


Figure 16: MLE Analysis: Board Participation by black people through Voting Rights

The representation of black people in boards seems to be better when compared to women's involvement. Nine (39%) MLEs had a full representation of the black people in boards while only 6 (26%) could achieve the target on women's participation in boards. This, however, shows some slight improvements when considering the number of MLEs that met the target in the previous year for two indicators. In addition, three more MLEs performed averagely on the black people indicator with the remaining achieving very low or zero scores.

Further analysis shows that there were more MLEs who achieved the target for both indicators and also more who had either low or no representation of women at all. The MLEs that are achieving the targets are mostly the reliable ones, the struggling MLEs are encouraged to improve on these targets as it may be interpreted as if they would have no interest in transformation if the board itself is untransformed.



Executive Directors in an entity may be allowed to serve on the board without necessarily having any voting rights. Figure 17 below presents the participation of black Executives in boards. The observed trend shows that the participation of black Executives in boards is minimal, and only six (27%) have the required representation of black executives in boards, with an additional three (13%) achieving some points on the indicator.

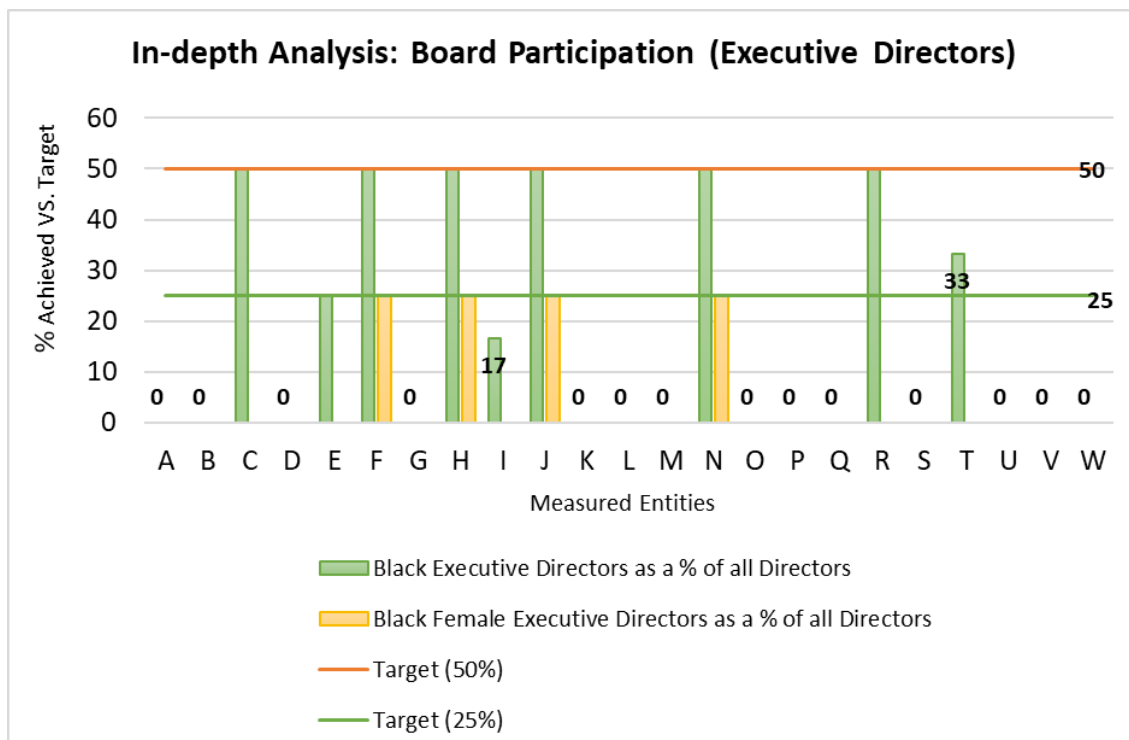


Figure 17: MLE Analysis: Board Participation by black People through Executive management

Only four (17%) MLEs had women executives in boards, a very discouraging observation which indicates that the sector is mostly dominated by male executives. The performance also on this indicator is the worst when compared to some of the Management Control indicators.

The Amended FSC recognises the representation of Other Executive Managers who could be occupying positions like the Chief Financial Officer (CFO), Chief Operating Officer (COO) etc.

The performance of reporting MLEs is shown in Figure 18 below. The observation displayed in figure 18 presents a much better trend when compared to the executives participating in boards in particular the women other executive indicator. Seventeen, (74%) out of the twenty-three MLEs had black other executives with fourteen of the MLEs either achieving the target of 60% or good or an average score towards the target.

There were only thirteen (57%) MLEs that had women other executive managers, with only six achieving the target of 30% and the remaining attaining low or average scores. Only six (26%) of MLEs had no representation of both black and women in the other executive management portfolio, though there were other three additional MLEs that did not have women executive managers also. Remarkable, are the improved number of MLEs achieving the target for both black and women other executives when compared to the previous year.

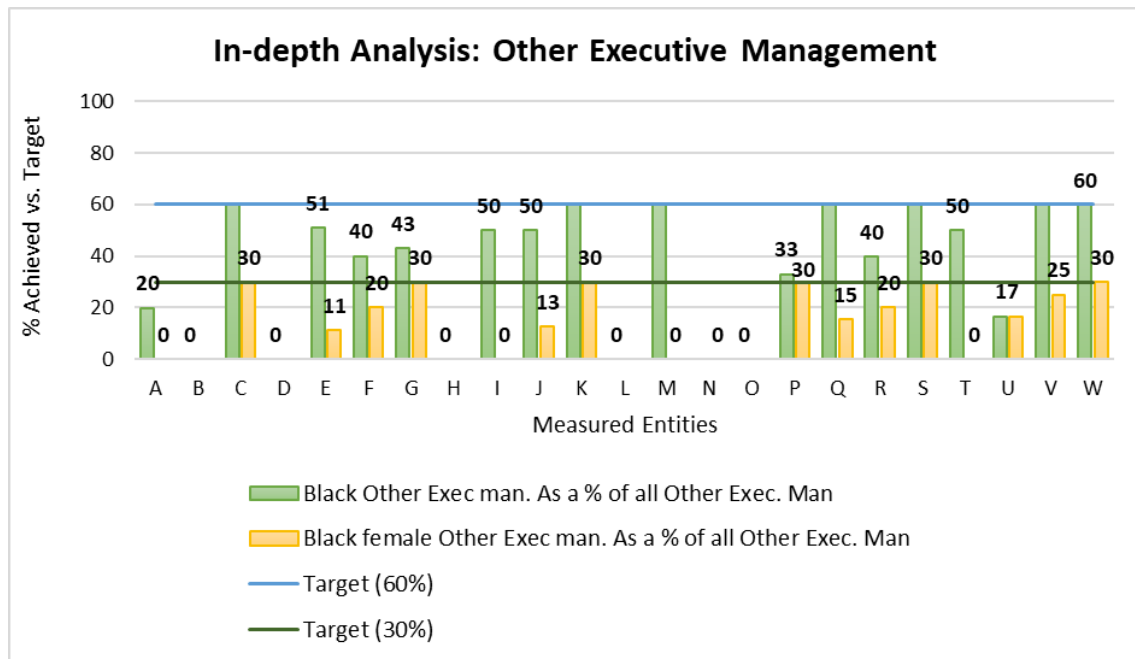


Figure 18: MLE Analysis: Board Participation by Black People through “Other” Executive Management

Senior managers are usually mandated to manage the other managers ranked below and would be delegated to manage most of the key operations. In the succession plans, such managers would be highly mentored and recommended for future executive positions. According to the Amended FSC, MLEs can combine the

targets for the other executive management with senior management in cases where the two positions are not differentiated.

As a sequel, the analysis of the senior management indicator was based on eighteen MLEs shown in figure 19 below. None of the reporting MLEs attained the target on the senior management indicators, i.e., 60% for black and 30% for women senior managers. Notably, while there were only thirteen (72%) MLEs who had black senior managers, a majority of them could not even achieve at least a 50% towards the target. The reflection on women's representation amongst reporting MLEs even depicts an unpleasant outlook with only eight (44%) MLEs having women senior managers in the management work structure

This requires a concerted effort from most MLEs considering the sectoral targets being set by the Department of Employment and Labour (DoEL) in relation to the Employment Equity Act. Moreover, the celebratory initiatives undertaken by the industry in partnership with the FSCC such as the, “She is Forestry SA” and women's month, as well as the recognition of women in science, should serve as enablers for the industry to identify potential women qualifying for promotions into these positions.

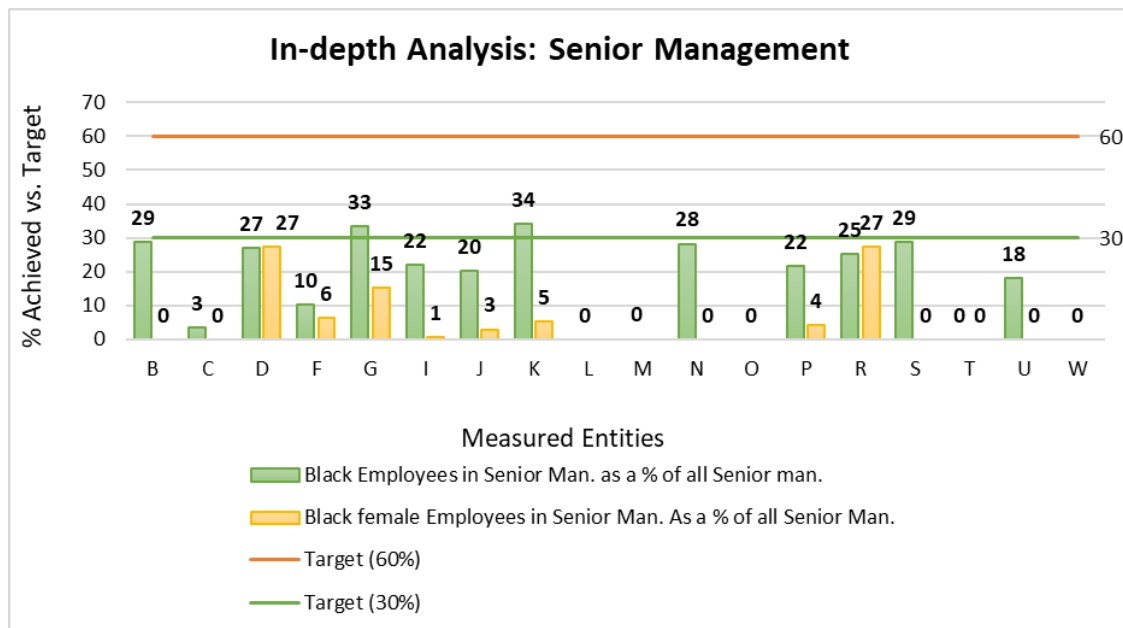


Figure 19: MLE Analysis: Black Participation at Senior Management level

Middle managers would in most cases be second in charge in the direct line of reporting. In Forestry operations managers in this category would be holding positions such as Senior harvesting or silviculture forester and management forester. The extent to which the representation of black people and black women in middle management is revealed in figure 20 below. About 21 (91%) of MLEs had black middle managers compared to 9 (39%) MLEs who had black women middle managers. None of the MLEs achieved a target for both indicators with a majority of the MLEs performing much better on the black managers compared to the women middle managers' indicator. Only one MLE had no representation of both black and women middle managers.

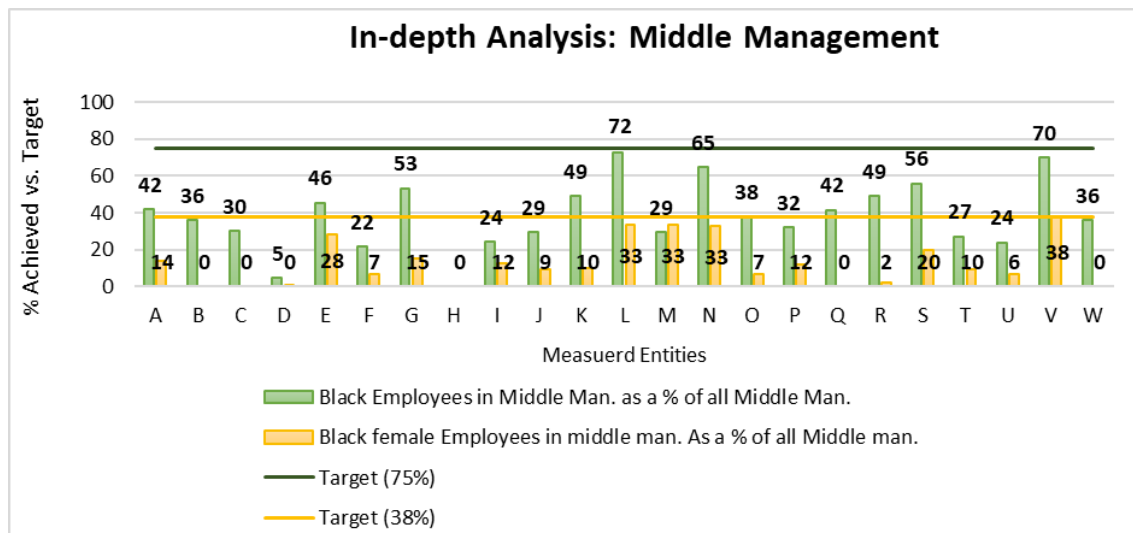


Figure 20: MLE Analysis: Black Participation at Middle Management level

MLEs are encouraged to promote more women in particular to these positions or else they will continue to be disadvantaged in terms of achieving these targets, hence may be labelled as anti-women empowerment agents.

Junior managers are the lowest ranked within the management category and possibly due to their low-key responsibilities. The compliant target for junior management is 88% for black employees and 44% for black female employees. MLEs can also combine the targets for the three categories in cases where they are not easily distinguishable, an arrangement allowable also in the Amended FSC. The performance of MLEs in this indicator will therefore be based on 22 entities instead. Figure 21 below reveals the scores attained by the reporting MLEs. A majority of the

MLEs seem to have no challenge in employing junior managers, an observation also recorded in previous years.

Nineteen (86%) performed either well or averagely, with only one (5%) of these achieving the target on both the black and women junior management indicators. An additional two (9%) had a low black junior representation of women representation in this indicator and even showed a better outlook when compared to the previous year though some achieved low scores, proving the industry’s commitment to women empowerment. It is believed that this performance is a step towards the right direction and hopefully in the upcoming reporting years, this trend will be emulated even in the other management and executive indicators.

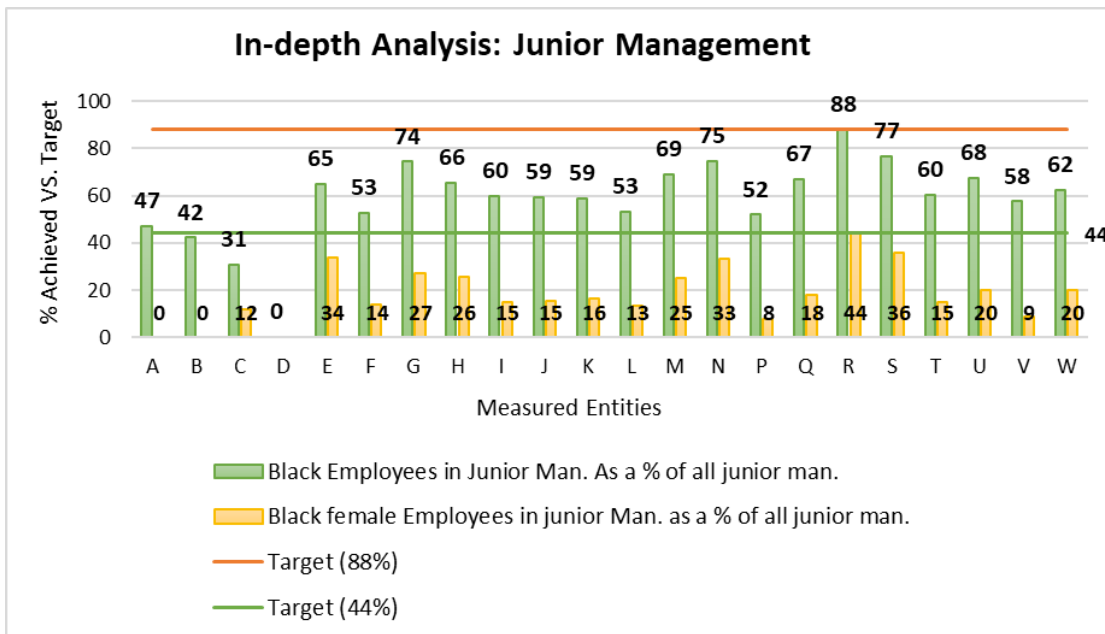


Figure 21: MLE Analysis: Black Participation at Junior Management level

The forest sector has prioritised the employment of people living with disabilities for office-based operations. This is intended at making sure they are not necessarily excluded from the sector despite the high intense field work nature of forestry.

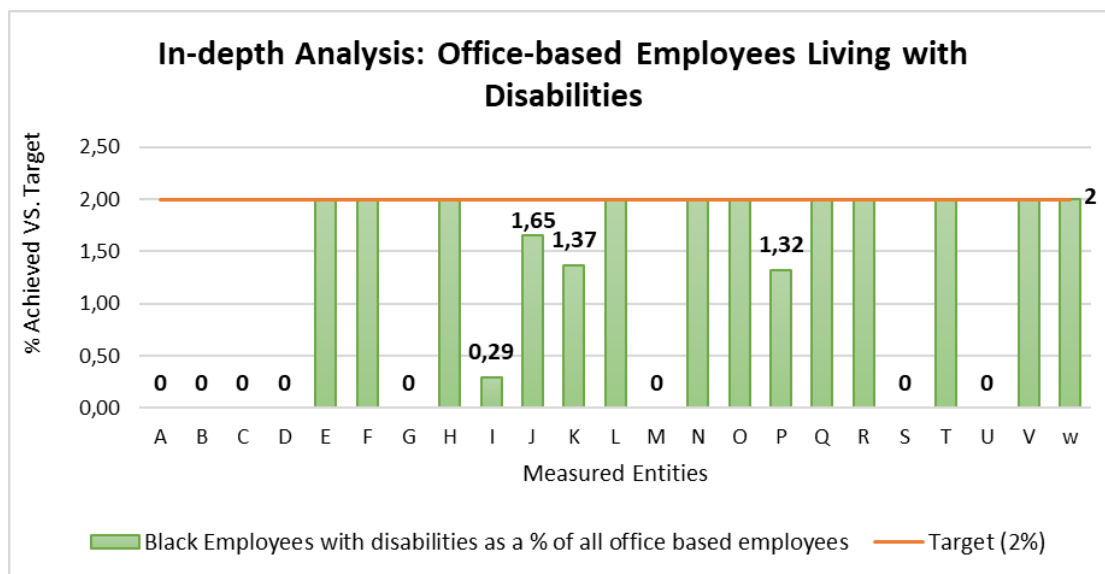


Figure 22: MLE Analysis: Disabled Employees

In the current year under review, only fifteen (65%) of MLEs had employed black disabled people in their companies as displayed in figure 22 above, with eleven (48%) of these achieving the allocated target of 2%. This observation shows an improvement when compared to the previous year. The remaining eight (35%) either did not have black disabled employees or had a very low representation of this grouping further disadvantaging them in the skills development indicator requiring MLEs to skill their black employees living with disabilities.

#### 4.1.3 SKILLS DEVELOPMENT

Skills Development (SD) is one of the priority elements intended for individual empowerment and measures investments in training and capacity development. The SD element enables entities to invest in both external and internal training, and in tailored initiatives for the development of core, scarce and critical skills, considering the skills gap and shortage in the country.

Recognisable Skills Development Expenditure includes any legitimate training expenses incurred for any Learning Programme offered by a measured entity to back people, black people living with disabilities or black unemployed learners. Learnerships, Apprenticeships and Internships are also considered key aspects of improving skills and narrowing the existing skills gap.

For an entity to receive points for this element, the entity must submit evidence of the spending in a form of an invoice or an appropriate internal accounting record. Other required documentation includes a Workplace Skills Plan (WSP), a training tool, an annual training report and a SETA approved Pivotal report.

The recognition of legitimate training as annexed in the learning matrix differs in significance and its contribution to the overall skills development expenditure. Some such as accommodation, catering etc only accounts for 15% while the sectoral mandatory training, e.g., health and safety only contribute 60% maximum of the total skills spend. Considering the evolution of Forestry and the advancement of machinery use, training in machinery operations is also recognisable as long as such training is aligned to the learning matrix programmes. The skills summit organised by the FP&M Seta to advocate for technology changes for skills development implementation could not come at a better time.

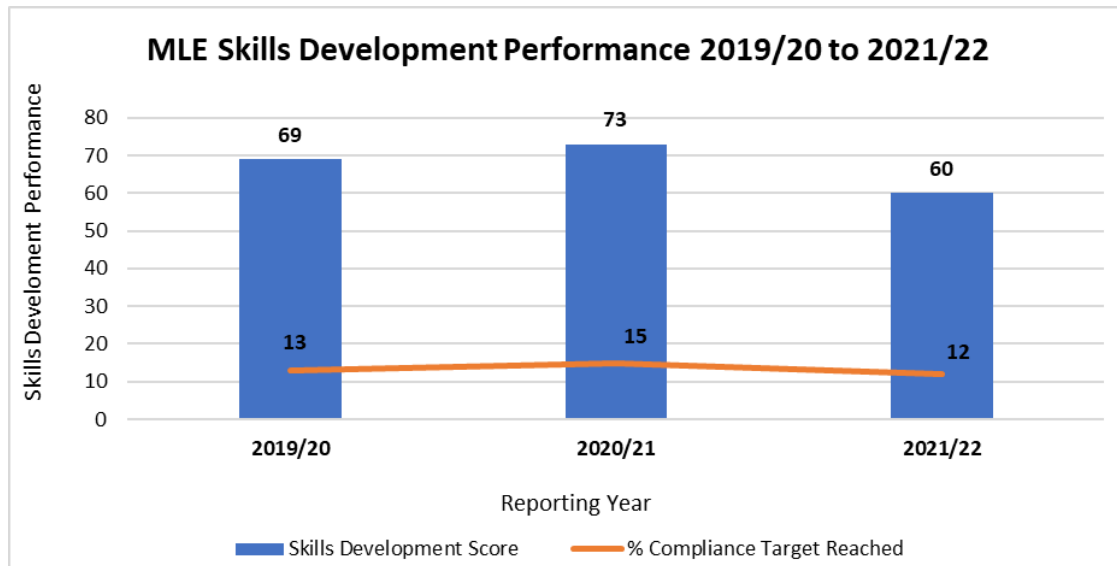


Figure 23: MLE Skills Development Performance, 2019/20 – 2021/22

Figure 23 above compares Industry’s performance on the Skills Development element for the last three-reporting period, i.e., from 2019/20 to 2021/22. The industry achieved 12 points of the total 20 points. This achievement shows to be the least when compared to the two previous years and declined by about 19% from the 2021/22 score. While it may not be certain as to the reason for the decline, the

repercussion of the COVID-19 pandemic on economic growth and stability could be one of the many reasons.

Each sub-sector may modify its qualifying skills development initiatives based on the needs and demands. The sawmilling sector has recently reported about the challenges experienced in the registration of qualifying occupations and trade qualifications through all the relevant levels of administration and registration in order to implement skills development more efficiently.

Figure 24 below equivalences SD performance amongst the reporting sub-sectors to the industry's overall score. The Growers sub-sector outperformed all the sub-sectors and the industry's average, achieving 75% towards the 20 points target. Three other sub-sectors achieved 60% towards the target, illustrating a similar performance to the industry. The Contractor's sub-sector was the least performing, achieving only 11 points (55%) towards the target. The performance displayed also showed huge declines in particular for the Fibre and Pole producers sub-sectors when compared to the 2021 report.

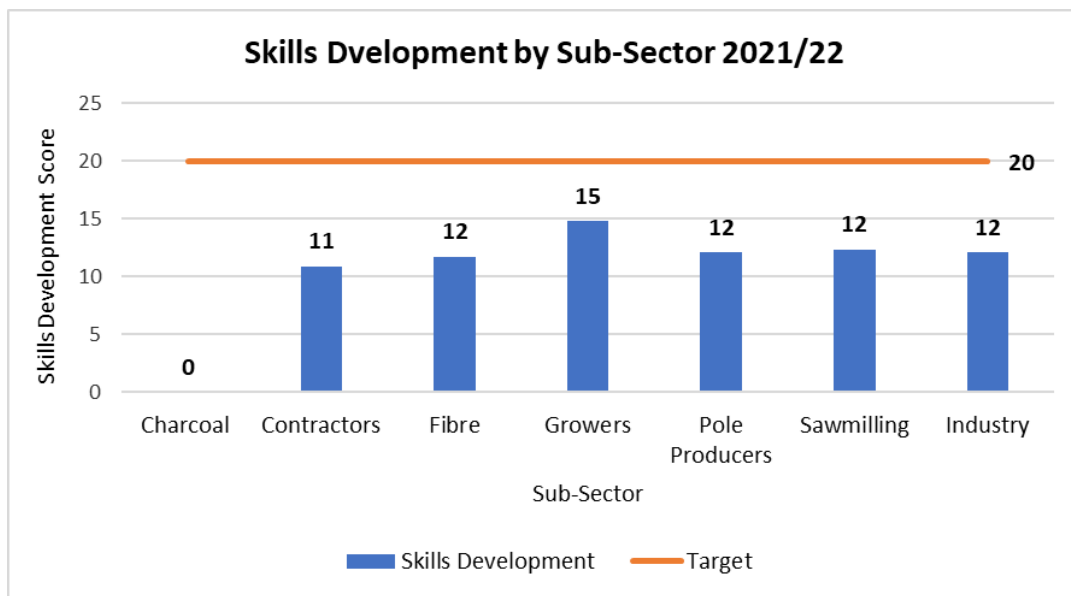


Figure 24: Skills Development Performance per Sub-sector

Skills development supports professional, vocational, technical, and academic learning programmes. These learning programmes are achieved through



professional placements, work-integrated learning, apprenticeships, learnerships and internships that meet the criteria for economic growth and development<sup>x</sup>.

Figure 25 below shows the performance of MLEs' on the four primary skills development indicators. MLEs performed fairly in all four indicators, with the least performance observed under the skills spend on black learners living with disabilities. This would be expected with time as a consequence of the low scores achieved on employed differently-abled persons. In addition, the performance observed also showed declines in all four indicators when compared to the previous reporting period, possibly due to the economic distress exacerbated by the aftermath of the Covid-19 pandemic as this element has large financial implications on each business.

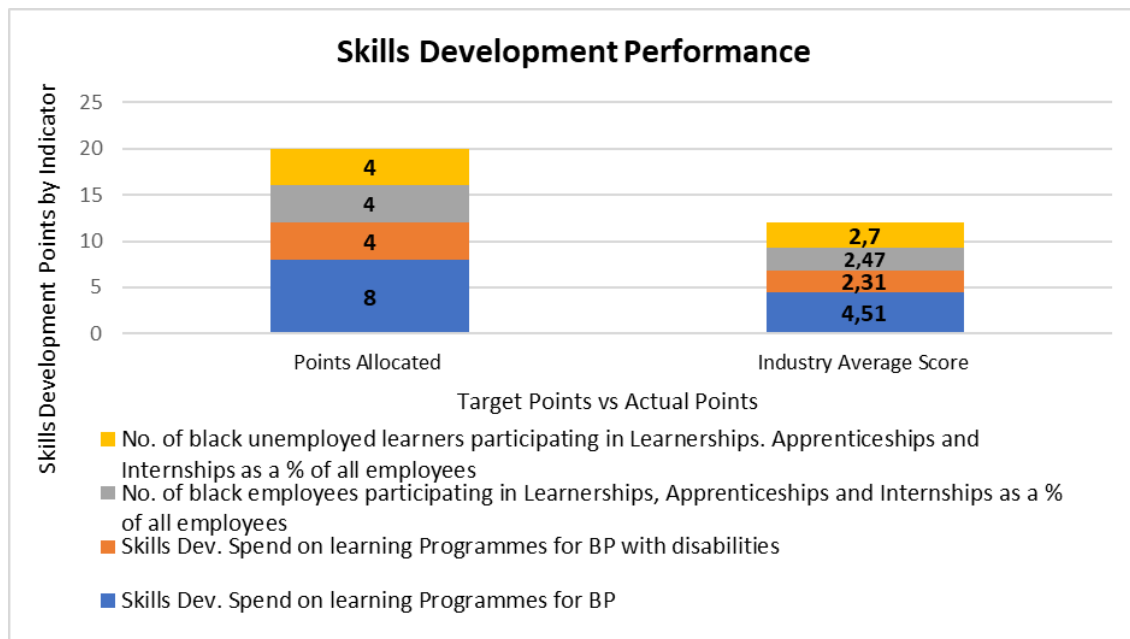


Figure 25: MLE Skills Development Performance per Indicator

MLEs must spend 5% and 0.03% of their payroll (leviable amount) on learning programmes within the applicable learning programme matrix for black people and employees. Figure 26 below illustrates the performance of MLEs on the Skills development expenditure on learning programmes for both black people and employees living with disabilities. Only one entity (4%) achieved the 5% target on the

<sup>x</sup> Amended Code Series FSC300: Measurement of the Skills Development element of Broad-Based Black Economic Empowerment

skills development spend for black people indicator, as these two also achieved the target in the previous year. A further thirteen (57%) MLEs obtained 50% or more towards the target, showing an improvement of entities achieving more than 50% when compared to the 2020/21 report. Only eight (35%) couldn't achieve at least 50% towards the target with only one achieving a zero score.

In addition, nine (39%) of the MLEs achieved the target on the skills spend for black employees, while another eight (35%) achieved between 13% to 50% of the target. The remaining five (22%) did not skill black people living with disabilities at all. Overall, more MLEs achieved better scores in this indicator compared to the previous period.

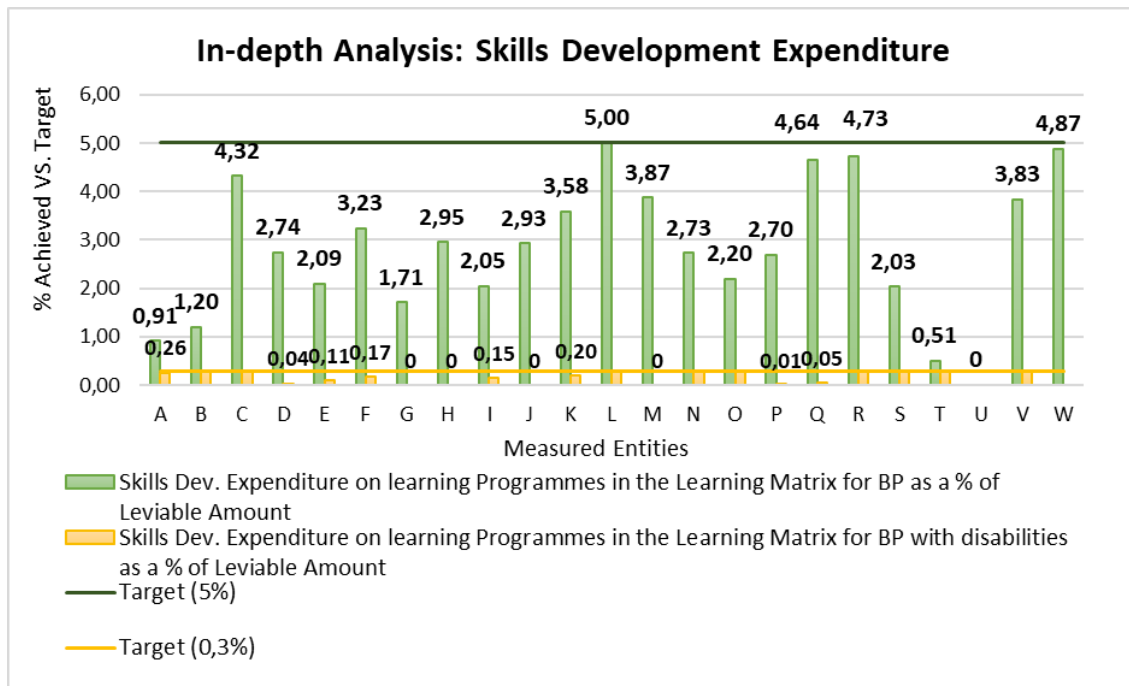


Figure 26: MLE Analysis: Skills Development Spend

MLEs are also required to spend at least 2.5% each on black employees and unemployed learners for learnership, apprenticeship and internship programmes. Such programmes are of key importance in building a competent staff component to enhance productivity in the workplace. Figure 27 below displays the performance achieved on the black employees and black unemployed learners participating in learnerships, apprenticeships and internships by the reporting MLEs. The performances on these two indicators differ significantly showing an improved performance on the unemployed learners' indicator.

One (9%) of the MLEs achieved the target of 2.5% on black employees with only three (13%) attaining full points on the unemployed learner’s indicator. An additional ten (43%) achieved a reasonable score for the black employee’s indicator while a large number of MLEs (thirteen, 56%) achieved more than 50% of the unemployed learner’s target. Three (13%) entities achieved zero (0%) for black unemployed learners. The remaining, each performed poorly on one or both of the indicators with only three (13%) getting zero scores on both indicators.

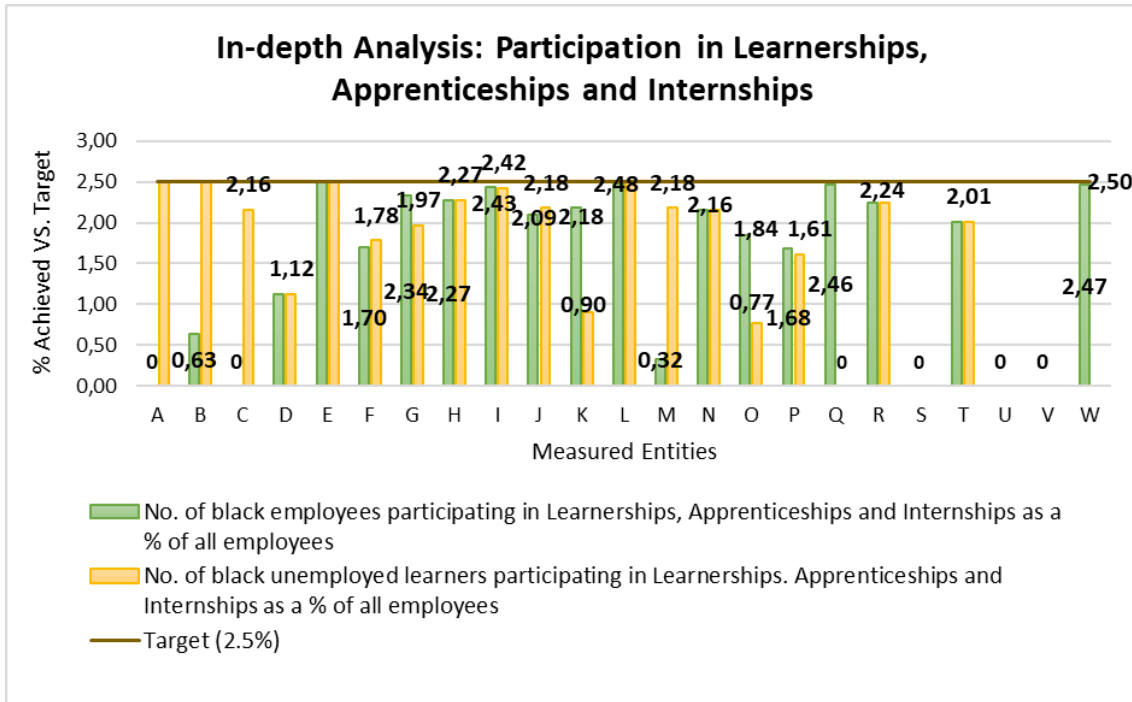


Figure 27: MLE Analysis: Participation in Learnerships, Apprenticeships and Internships

Entities are required to absorb or employ the learners they have trained in order to achieve the allocated bonus points. The absorption of black people is worth the effort at this particular time, considering the high unemployment rate caused by either economic growth challenges, accelerated retrenchments and or closing down of companies as a result of the COVID-19 pandemic. The absorption rate by reporting MLEs is shown in figure 28 below.

Only nine MLEs (39%) absorbed 100% of the Learners compared to three (23%) entities from the previous reporting period. A further five (22%) MLEs absorbed between 37% to 69% of the learners. The remaining nine MLEs (39%) performed

poorly with a majority of the entities not creating any employment opportunities through this absorption principle.

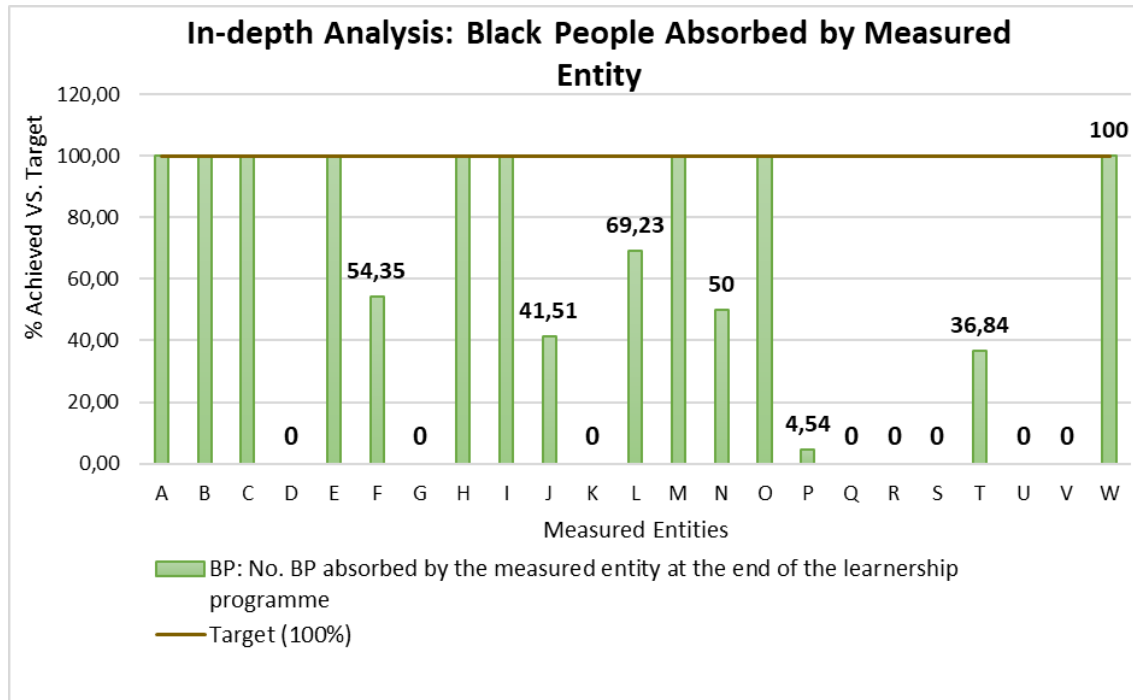


Figure 28: MLE Analysis: Absorption of Learners into Measured Entity

#### 4.1.4 Enterprise and Supplier Development

Enterprise and Supplier Development (ESD) is also a priority element with the most allocated points (43) and is a combination of Preferential Procurement (PP); Supplier Development (SD) and Enterprise Development (ED). ESD can positively impact the South African economy and assist in creating sustainable businesses and contribute to the creation of much needed new jobs. A direct benefit to the measured entity when implementing the ESD element is that they can strategically develop their supply chain by choosing ED beneficiaries as their suppliers. This process will allow the entity to benefit from the PP element and earn points by procuring from QSEs, EMEs, 51% black-owned suppliers and 30% black women-owned suppliers.

Measured entities need to comply with a 40% sub-minimum for ESD excluding bonus points to avoid being discounted. The compliance with the 40% is based on the total points of each ESD sub-elements.

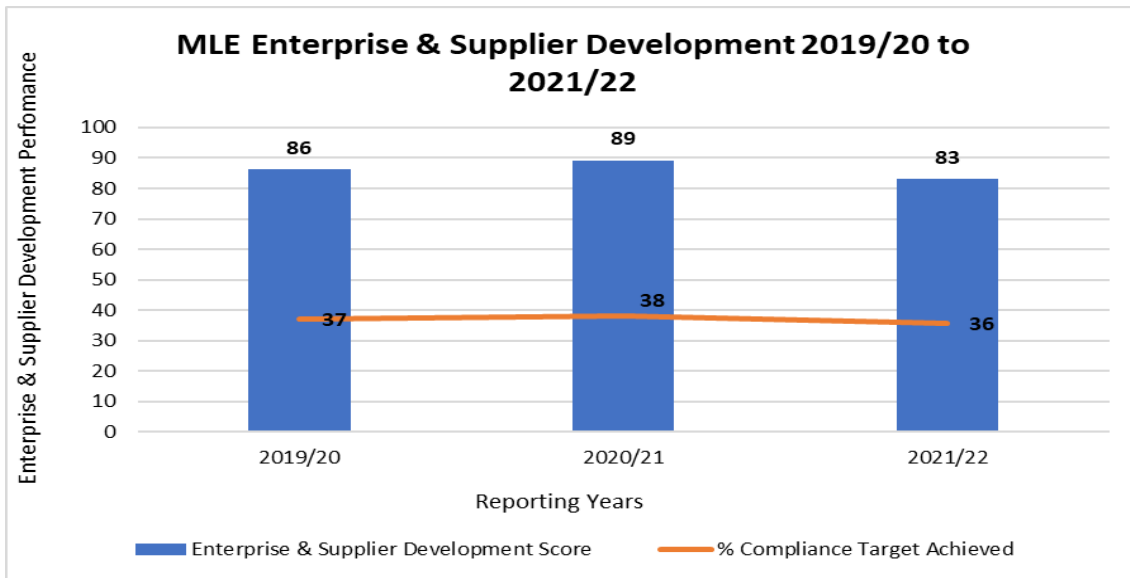


Figure 29: Enterprise & Supplier Development Performance, 2019/20 – 2021/22

Figure 29 above gives a comparison of MLEs' performance for the three reporting periods. A 3% decrease was observed when comparing with the 2019/20 and 7% when compared to 2020/21 achieved scores. Despite the decline MLEs still performed exceptionally well on this element.

A comparison of the ESD performance of the reporting sub-sectors against the industry's average is illustrated in figure 30 below.

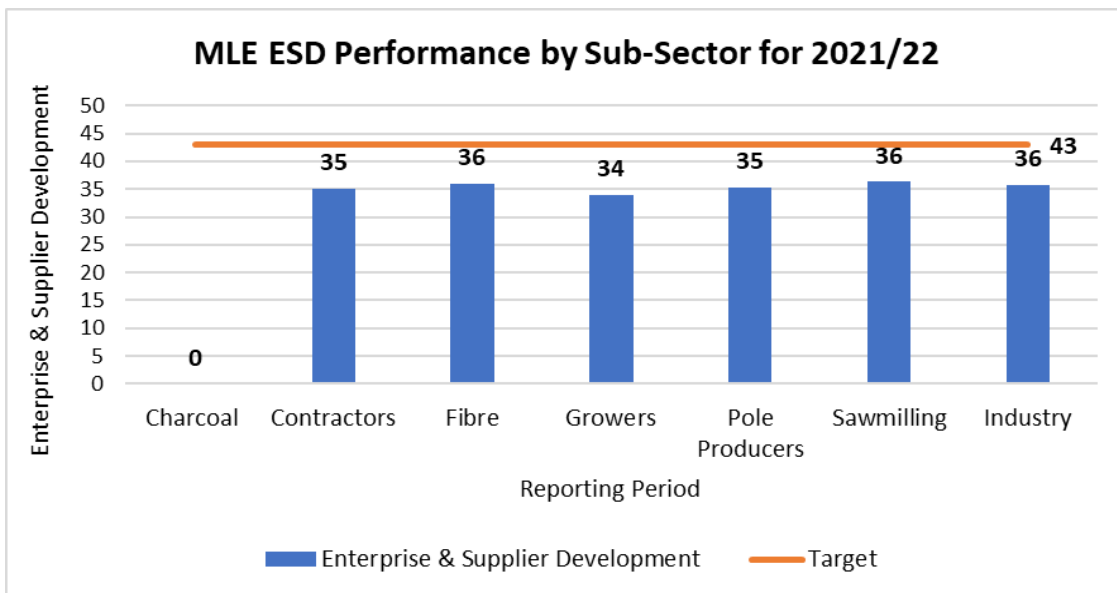
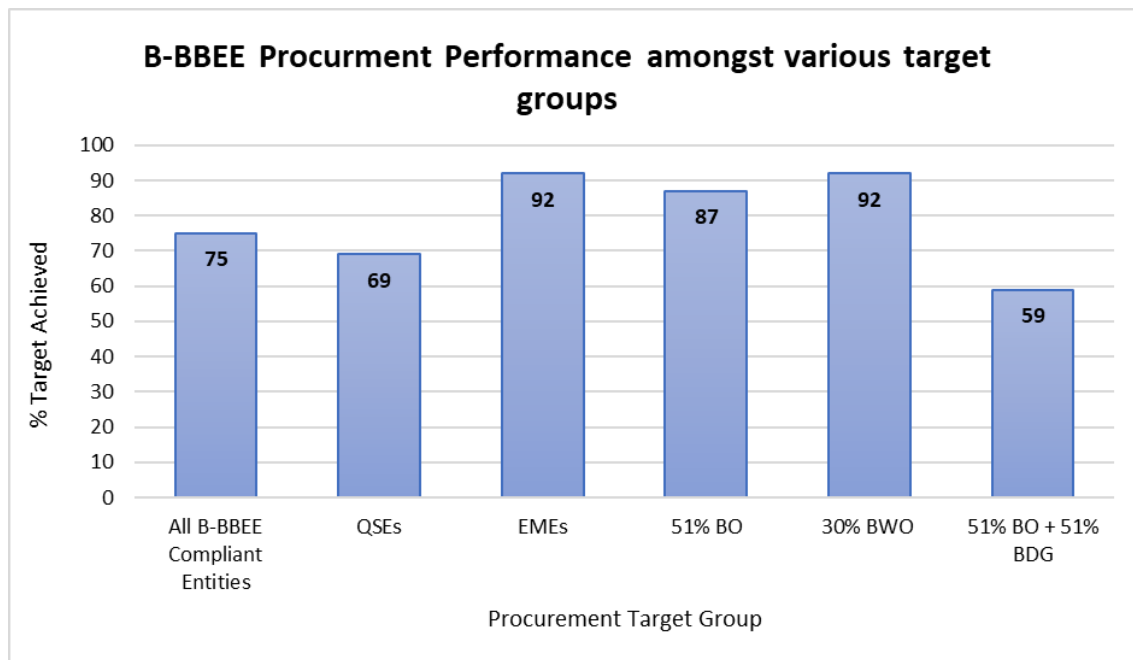


Figure 30: ESD performance per sub-sector

All reporting sub-sectors achieved relatively good scores achieving more than 79% of the target. Fibre and Sawmilling were the best performing sub-sectors achieving 84%, followed by Contractors and Pole producers with 82%. The least performing sub-sector was Growers though it also achieved a relatively good score as illustrated in Figure 30 above.

Preferential Procurement is intended to encourage government and private entities to buy goods and services from previously disadvantaged suppliers or businesses of different sizes. In the forest scorecard, these businesses include, Qualifying Small Enterprises (QSEs), Exempted Micro Enterprises (EMEs), 51% Black-owned (BO), 30% Black Women Owned BWO and 51% Black Designated Groups (BDGs) enterprises etc.



*Figure 31: B-BBEE Procurement Performance amongst Various Target Groups*

Figure 31 above demonstrates achieved average scores from all the reporting MLEs towards the target for each indicator under preferential procurement. The performance on each indicator is good showing that most MLEs achieved good scores even in 2021/22. Figure 31 above also shows that more than 70% in all indicators except in two, i.e., 69% from procuring from QSEs and 59% from 51% BO & 51% BDGs was achieved. However, there was a significant decrease in procurement spend from QSEs, 51% BO & 51% BDG with a minimal decline also

observed on the indicator relating to the B-BBEE compliant entities when compared to the 2020/21 reporting period.

The declines may be attributed to the reduced spending on the preferential procurement indicators considering the aftermath impact of the COVID-19 pandemic. As reported in the previous year, this was where most entities indicated that the procurement spend on some of the suppliers will be affected by the pandemic. Notwithstanding, the decrease in procurement spending on indicators, the industry still performed well, confirming the industry’s commitment to supporting black-owned entities and extending the economic benefits to these entities.

MLEs can also buy from any supplier, based on their B-BBEE procurement recognition level. MLEs would prefer a supplier with a better score as this has a cascading effect on the overall points and compliance target achieved as well as the procurement recognition level. MLEs are allocated a compliance target of 80% in exchange for the full 5 points.

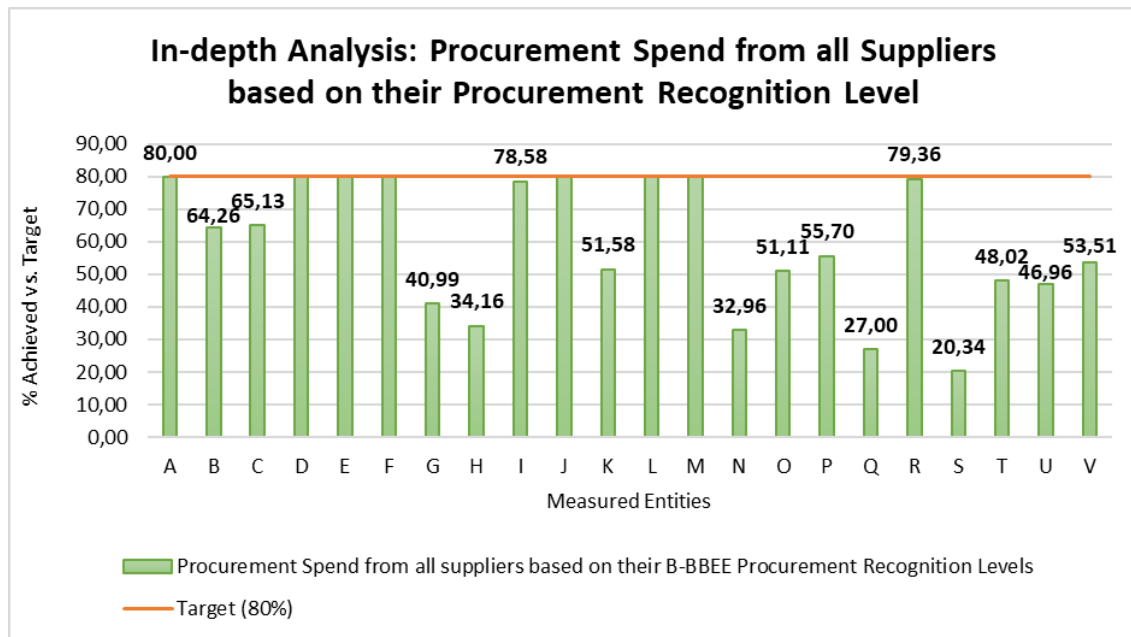


Figure 32: MLE Analysis Procurement Spend on all Suppliers based on their Recognition Levels

The achieved compliance target for the reporting MLEs on all the suppliers’ indicator is illustrated in figure 32 above. Seven (30%) entities achieved the 80% target compared to 4 (54%) out of 13 entities from the previous reporting period on this

indicator, with only one (4%) achieving the target. An additional 9 (39%) entities achieved more than 50% of the target compared to 8 (62%) in the last reporting year, with the remaining 4 (17%) attaining a low score towards the target

MLEs are heavily involved in the contracting business and QSEs and EMEs are in most cases, the main beneficiaries of the contracting business opportunities and hence the preferential procurement. For example, MLEs usually contract small companies to provide services such as but not limited to silviculture and harvesting operations. This arrangement is supported as it offers business opportunities to some B-BBEE beneficiaries who are recognised as QSEs or EMEs.

The set preferential procurement has a target of 15% for procuring from both QSEs and EMEs with an allocated two (2) and three (3) weighting points respectively. However, MLEs have an option to half the targets to 7.5%, an arrangement prescribed in the Amended FSC for the joint scorecard and would qualify the percentage achieved on the Completeness Ratio. MLEs are encouraged to use the 15% target so that they can be better prepared for the time when the government fully implements the three attached scorecard undertakings.

Cognisant of the recommendation above, only two of the twenty-three (23) qualifying reporting MLEs used full points for the current reporting year for procuring from all the five indicators in the preferential procurement segment.

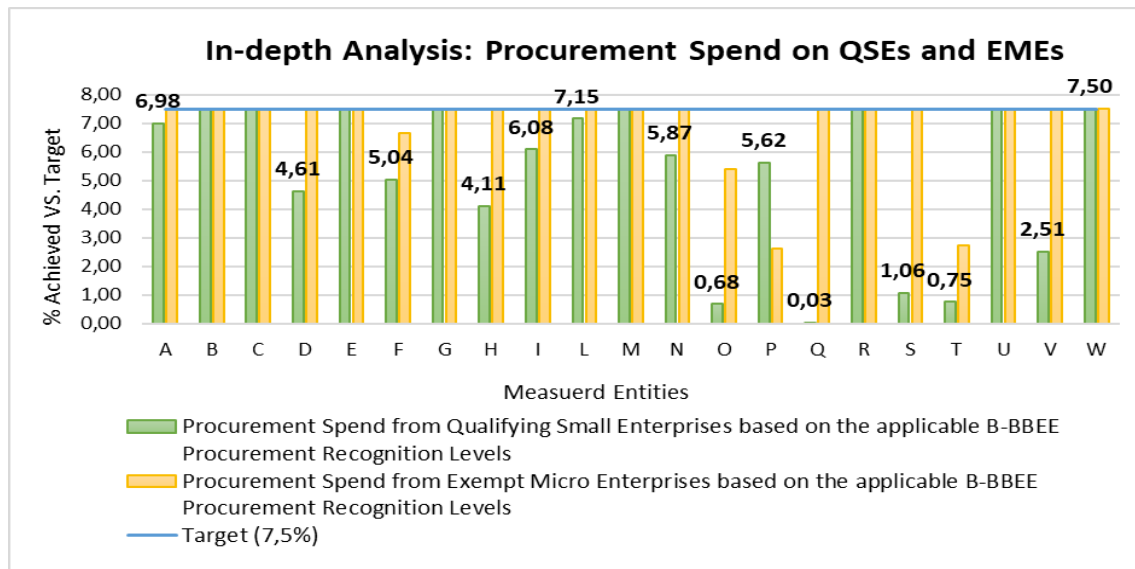


Figure 33: MLE Analysis: Procurement Spend on QSEs and EMEs



Figure 33 above demonstrates the target achieved by MLEs on the procurement spend from the twenty-one QSEs and EMEs. Figure 33 excludes the two MLEs that were scored based on the full points. Eight (38%) MLEs reached the target on procurement spend for QSE compared to seventeen (81%) attaining the target on procurement from EMEs for the current reporting period. A further eight (38%) MLEs performed better, achieving between 55% and 93% towards the target, with the remaining 5 (24%) MLEs performing poorly on the procurement spend for QSEs. Two (10%) MLEs supporting EMEs performed averagely with the last two (10%) receiving unpromising scores.

MLEs seem to be supporting EMEs better than QSEs a trend that has been observed also in the previous reporting period. This may prove that the sector's commitment to rejuvenate the EMEs sector following the aftermath effect of the hard lockdowns as a result of the COVID-19 pandemic is beginning to bear fruits. The observation is also encouraging as it may mean the sector is compliant with its principle of inclusion, diversity and possibly contributing to the creation of other jobs.

Figure 34 below displays the performance of the two MLEs whose verification was based on the full compliance target.

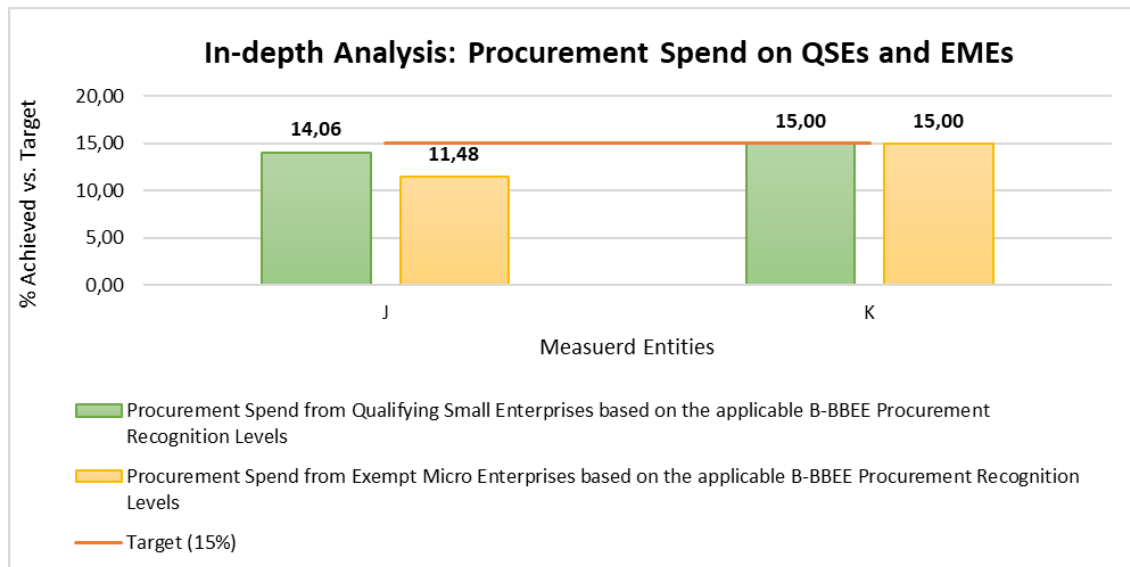


Figure 34: MLE Analysis: Procurement Spend on QSEs and EMEs

The two (100%) MLEs performed exceptionally well on these two indicators, with one entity scoring full points for both indicators. The other MLE achieved 14.06 (94%) toward the target of procuring from QSEs and 11.14 (74%) from EMEs. The two referenced MLEs reported previously but were verified using the half targets. The expectation would be these entities will probably have no anticipated challenges in the future on being verified using the full scores, i.e., when the Completeness Ratio is at 0% and the government would have fully implemented the three undertakings.

Procurement from 51% Black-Owned (BO) and 30% Black Women-Owned (BWO) suppliers is also a priority for MLEs. The target on BO suppliers is the highest in the preferential element indicators as it encompasses the broadness of B-BBEE. MLEs would prefer majority BO & BWO suppliers as these would have a better score and a B-BBEE procurement recognition level as it has a cascading effect on the overall preferential procurement points to be awarded.

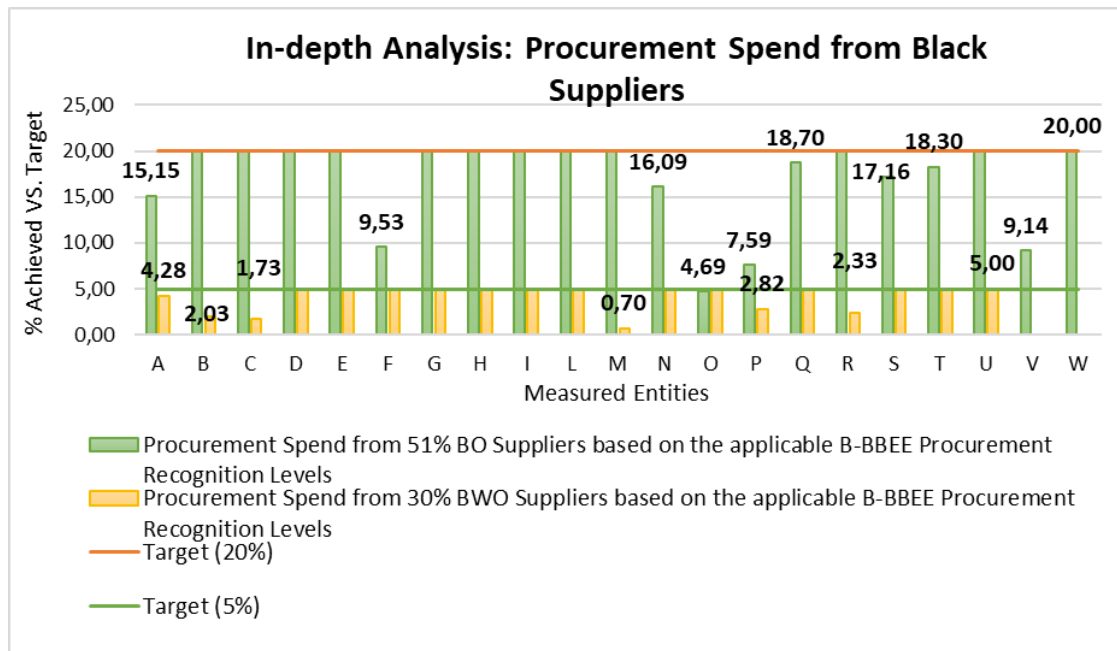


Figure 35: MLE Analysis: Procurement Spend on BO and BWO Enterprises (Half Points)

Figure 35 above shows procurement spending from 51% BO and 30% BWO suppliers based on the applicable B-BBEE procurement recognition level. Twelve (57%) MLEs achieved the target for procuring from 51% BO suppliers in the current reporting period. Five more (24%) entities achieved more than 75% towards the

target and the remaining four (19%) achieved less than 50% of the target for procuring from 51% BO.

While the compliance target is lower for buying from 30% BWO suppliers, most MLEs seems to be compliant with this indicator. Thirteen (61%) of the reporting entities achieved the full score for procuring from 30% BWO. An additional two (10%) MLEs achieved a good score of above 50% and more towards the target. The remaining six (29%) MLEs performed poorly, with two of these failing to procure at all from 30% BWO traders. A study commissioned by Development Economics suggests that women-owned businesses established between 2018 and 2022 have the potential to generate about R175 billion a year and also create close to 1 million new jobs. Further to that, the study reveals three challenges to women's entrepreneurship, these being, lack of funding, resources and required skills. It is for the same reason that one of the government undertakings prescribed for the joint scorecard on access to funding for black entrepreneurs, has been ringfenced in the approved Forestry Sector Masterplan.<sup>xi</sup>

The scores achieved by the two MLEs based on full points is displayed on figure 36 below. Both MLEs attained exceptional scores on the procurement spend from on 51% BO suppliers. The performance of these two differed slightly. One of the MLE achieved the target while the other could only attain half of the target score.

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<sup>xi</sup> <https://www.news24.com/citypress/voices/the-she-cession-women-entrepreneurs-are-key-to-south-africas-socioeconomic-recovery-20210812>

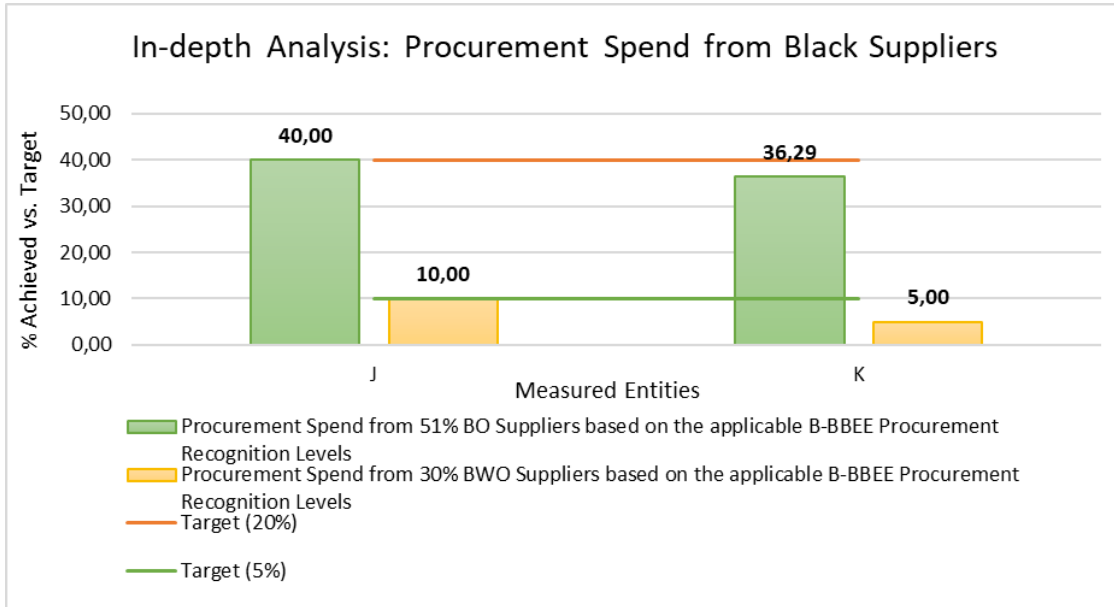


Figure 36: MLE Analysis: Procurement Spend on BO and BWO Enterprises (Full Points)

MLEs are also encouraged to procure from suppliers that are at least 51% BO and 51% BDG, which encompasses the nature of other disadvantaged groupings, such as the unemployable, the youth, people living with disabilities or residing in rural areas etc.

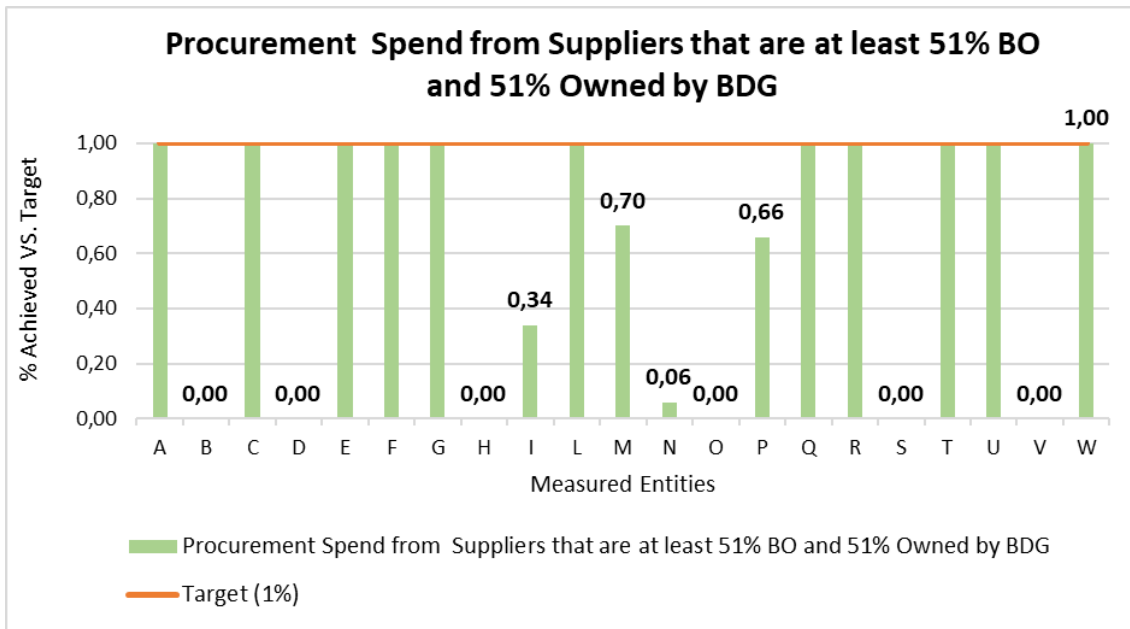


Figure 37: Procurement Spend from Suppliers that are at least 51% BO and 51% Owned by BDG

Figure 37 above reveals the preferential procurement spend from suppliers that are 51% BO and 51% BDG. Eleven (52%) of the entities that used half the target achieved the target of 1%, with another two (10%) achieving at least more than 65% towards the target, and an additional two (10%) obtaining less than 35% toward the target. Only six (28%) of the remaining MLEs did not procure from such suppliers at all.

Figure 38 below illustrates the scores achieved on preferential procurement spend from suppliers that are 51% BO and 51% BDG based on the target. Both MLEs achieved the allocated 2% target confirming that they are finding it easy to comply with this indicator.

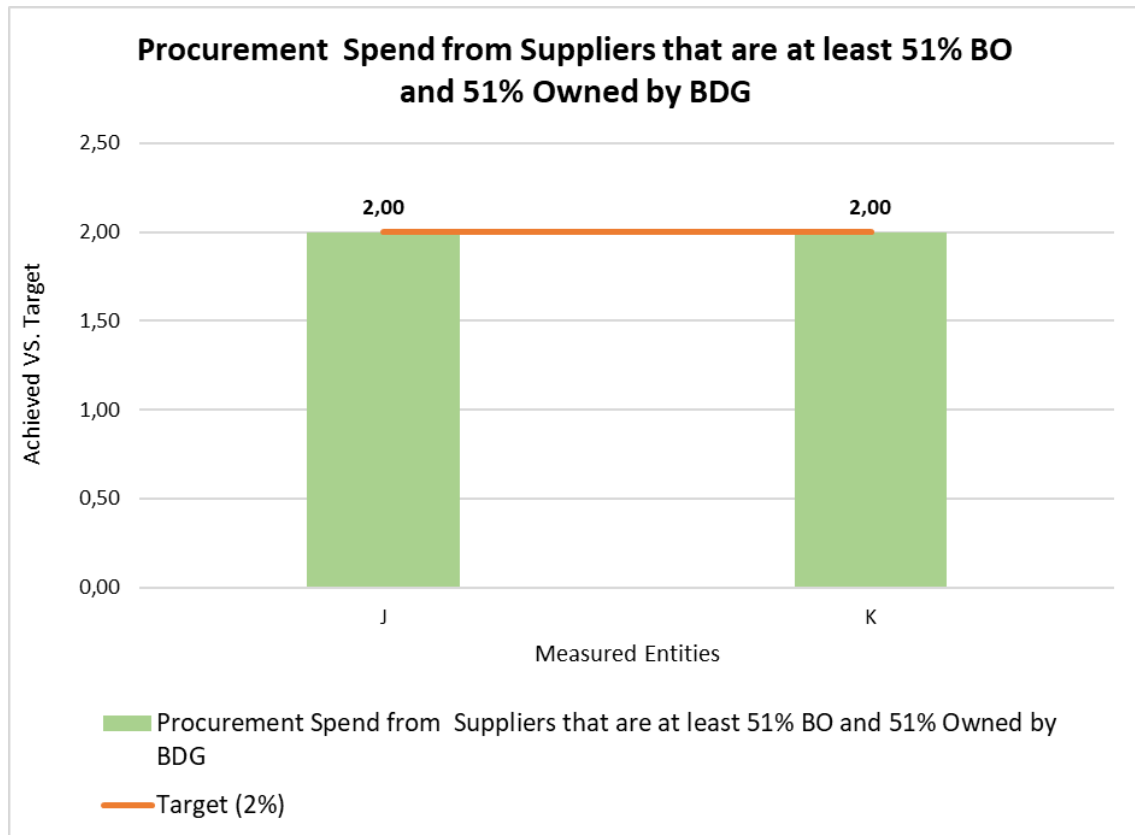


Figure 38: Procurement Spend from Suppliers that are at least 51% BO and 51% Owned by BDG (Full Points)

The preferential procurement is allocated two bonus points for compliance with industry Codes of Good Contracting. An MLE is eligible for these two points on the

condition if it has not been discounted, i.e., it has scored a minimum of 9.2 points. Only Fifteen MLEs (65%) complied with industry codes on contracting.

Supplier Development (SD) is one of the three sub-elements of ESD, with a compliance target of 2% of the Net Profit After Tax (NPAT). Figure 39 below demonstrates the annual value of all qualifying SD contributions made by 23 measured entities.

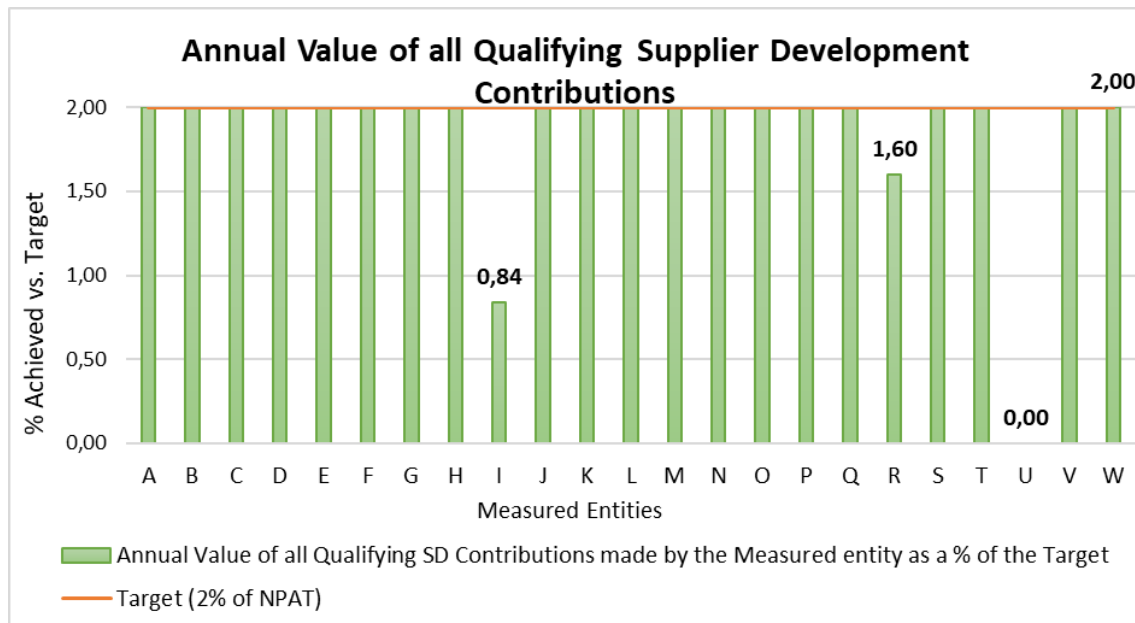


Figure 39: MLE Analysis: Supplier Development

Figure 39 shows that twenty (87%) out of the 23 MLEs achieved the target as compared to 85% in the last reporting year. The remaining two achieved low scores though only one was discounted as a consequence.

Enterprise Development (ED) is the process of spending money and time to build, grow, or enhance businesses. New jobs could be created in exchange, especially in rural areas where most forestry operations are located and where employment prospects are typically marginalized or few. Additionally, the B-BBEE program also promotes the idea that new businesses can make a significant contribution to rural economic growth and the eradication of poverty.

MLEs must spend 1% NPAT for developing new enterprises. Some forest companies are also supporting enterprise development through agroforestry. They supply agricultural seeds, provide land for cattle grazing on matured stands and allow for the planting of vegetables on the edgers of the forestry compartment. Some even provide technical and development skills on how to sustainably manage such businesses and would arrange a market for the produce as well.

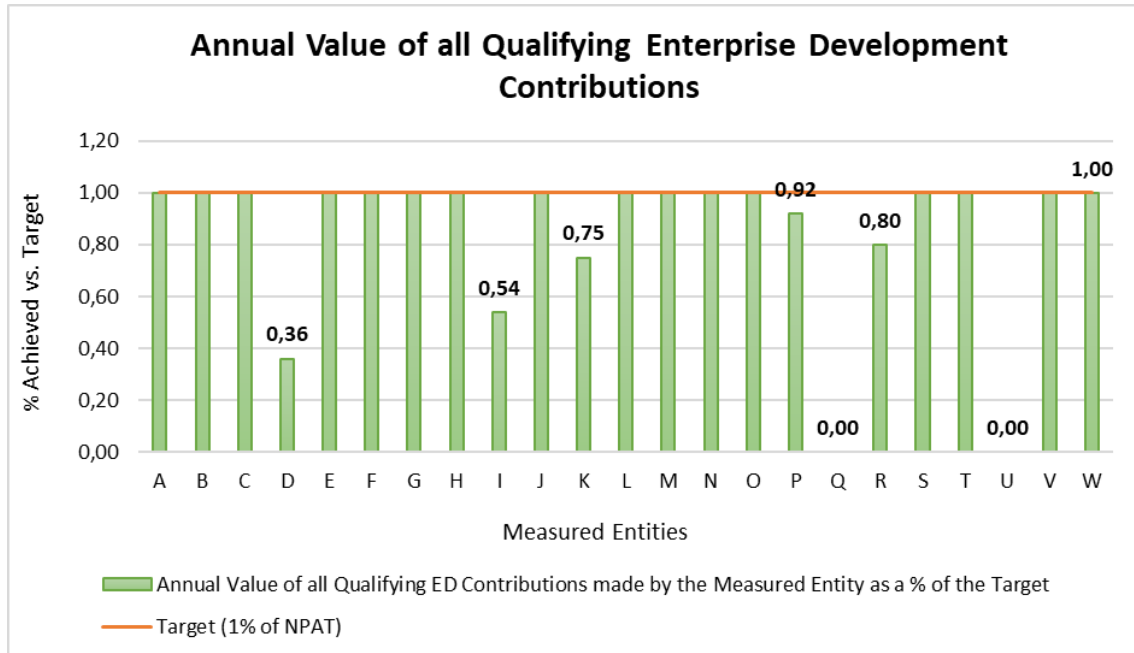


Figure 40: MLE Analysis: Enterprise Development

Figure 40 above displays the annual value of all qualifying enterprise development contributions. Most MLEs performed well for the year under review, similarly to the previous reporting period on Enterprise Development. Sixteen (70%) entities achieved 100% of the target, four (17%) entities reached more than 50%, and only three (13%) performed poorly on creating business opportunities and ensuring diversity within the supply chain market.

MLEs in the Growers or Sawmilling sub-sectors are required to supply logs or sawtimber to either QSEs and EMEs, and 51% BO and/ 30% BWO entities. Four entities reported as Growers, with five as Sawmillers. Only one (11%) Grower out of the nine entities supported QSEs and EMEs based on their B-BBEE recognition

levels and also achieved the target on the 51% Bo and /30%BWO indicator. This is concerning and may need Council to intervene and orient these entities about this target. Moreover, this may mean the Growers and Sawmillers either have no surplus considering the shrinking land availability and or delay in the commissioning of some of the exited areas or are not fully comprehending the requirement. The performance on these indicators will be subjected to further interrogation as alluded to in the Forestry Sector Masterplan in support of black empowerment.

Enterprise Development has four subcategories for bonus points. One bonus point is awarded for graduating one or more entities from ED beneficiary to SD. Ten (44%) MLEs achieved this mentioned bonus point. Another bonus point is awarded for creating one or more direct jobs through qualifying SD and ED. Four (17%) entities created one or more direct jobs. An additional bonus point is granted for partnering with Government on annual value from SD and ED.

This additional point is critical in ensuring good partnerships between the private and public sectors which should be governed by good governance principles as prescribed in the Amended FSC. Only one (4%) entity partnered with Government. MLEs can also be awarded another bonus point for the annual value of SD or ED contribution made towards 30% BWO QSEs and EMEs. Fifteen (65%) MLEs were awarded this point. Entities are encouraged to create new jobs for the recovery and growth of the economy. The partnership with the Government is also crucial, especially with the Forestry Masterplan, PPGI and operation Vulindlela.

#### 4.1.5 Socio-Economic Development

The Socio-Economic Development (SED) element is intended at enabling entities to commit to financial and non-financial contributions to the social and economic upliftment of black people. The implementation of the SED should ensure a long-term economic benefit of which at least 75% of the contributions must benefit black beneficiaries. MLEs are awarded points based on their SED 1% net profit after tax (NPAT) spend towards qualifying or sector specific contributions. Some of the qualifying contributions include; grant contributions offering discounts; covering



overheads or direct costs; professional services either at no cost or at a discounted rate.

The MLEs' performance over the last three years on the SED element is shown in Figure 41 below. The performance on the SED element is still outstanding despite the slight decline observed when compared to the 2020/21 reporting period. The observation also confirms that the SED is still one of the best performing B-BBEE elements in the forest sector and expectedly so, because of the reflective projects undertaken in rural areas where most of the forestry operations are conducted and opportunities are limited and or very few.

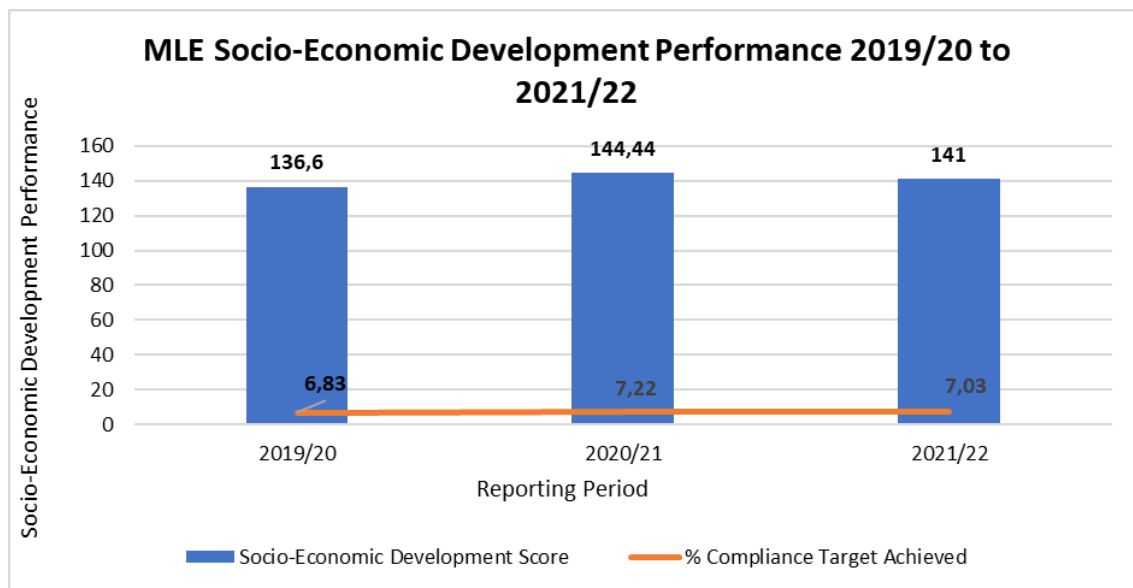


Figure 41: Socio-Economic Development Performance, 2019/20 – 2021/22

Forestry South Africa (FSA) has published a Corporate Social Investment (CSI) report detailing the projects prioritised by Growers for their surrounding communities. The projects indicated in the report could be aligned with some of the SED initiatives implemented under B-BBEE.

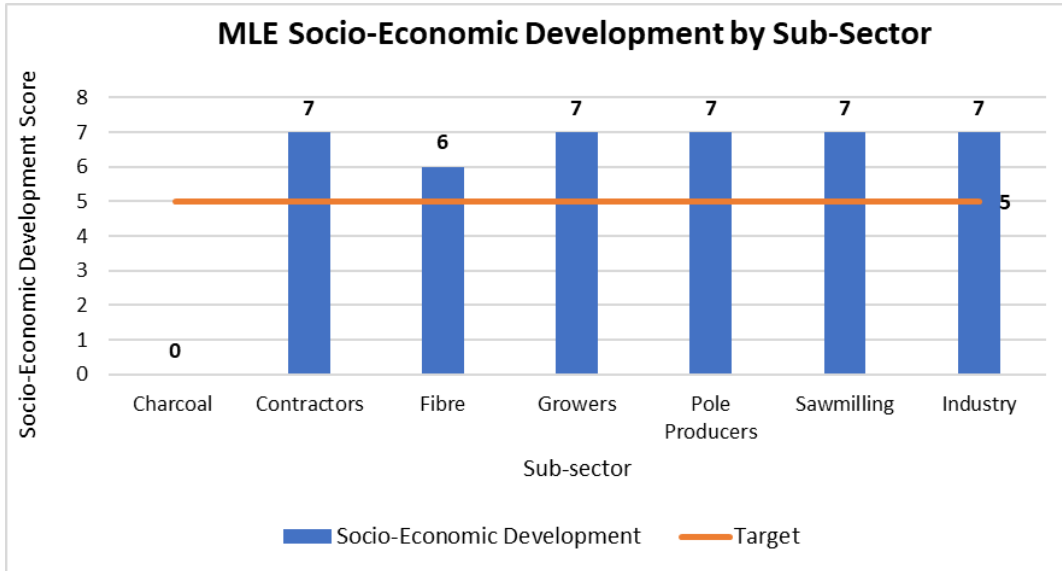


Figure 42: Socio-Economic Development Performance per sub-sector

Figure 42 above compares the SED performance per reporting Sub-sector. All the reporting sub-sectors achieved full points and even exceeded the target score of 5 points, proving to be having no challenge at all in implementing this element. This trend has been observed even during the previous years and such performance seems not to be affected much by the economic status, even though there is a financial commitment.

### SOCIO-ECONOMIC DEVELOPMENT IN-DEPTH ANALYSIS

Forestry operations are mostly undertaken in rural areas where socio-economic contributions are expected to have an economic impact on the livelihoods of the surrounding communities and beneficiaries. Figure 43 below displays the performance of reporting MLEs based on the 1% spend on SED.

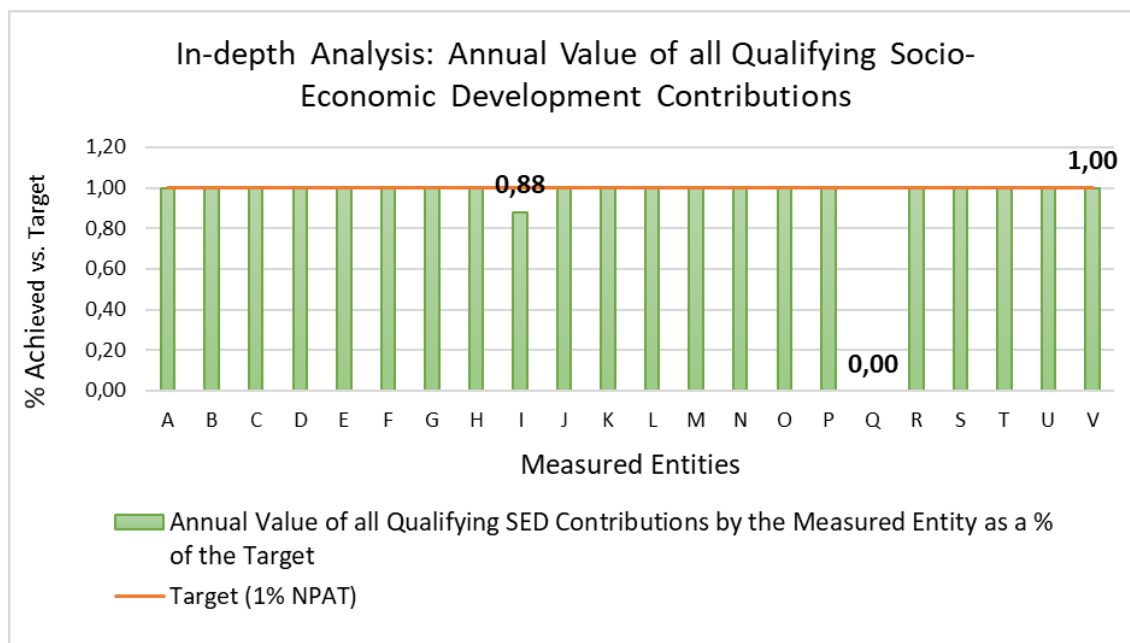


Figure 43: MLE Analysis: Socio-Economic Development Contributions as a % of NPAT

A majority of the MLEs (82%) spent accordingly to the allocated 1% NPAT with some spending even more, which resulted in these entities achieving bonus points. Thirteen MLEs (56%) even achieved the full bonus points. Only one (4%) spent less than the required amount with another (4%) MLE making no contributions at all towards SED. The continuous outstanding performance of MLEs on this element may suggest that some beneficiaries have by now gained sustainable access to the economy.

#### 4.1.6 JOHANNESBURG STOCK EXCHANGED LISTED FORESTRY COMPANIES

The forest sector, similarly to other sectors has entities listed on the Johannesburg Stock Exchange (JSE). In the case of the Forest Sector, only four MLEs were recognised in the current reporting period. In terms of section 13G (2) of the B-BBEE Act as Amended, JSE-listed companies and state entities, such as SAFCOL must submit their annual B-BBEE compliance reports to the B-BBEE Commission within 30 days of the approval of their audited financial statements and their annual report or 90 days after the end of the financial year.

The section below gives an analysis of the forest sector JSE-listed MLEs. This analysis is meant to highlight the performance of the listed MLEs for future benchmarking to the B-BBEE Commission’s report. This illustration is also meant to encourage JSE-listed entities to report simultaneously to both the FSCC and B-BBEE Commission in compliance with the B-BBEE Act as Amended. It must be noted though, that the B-BBEE Commission report presents a more holistic overview of SA’s state of transformation.

The JSE-listed forest companies are also labelled as consistent reporters in the FSCC, and this would be an expectation too, to the B-BBEE Commission report. It is also assumed that these four are the ones that are recorded in the B-BBEE Commission Report of 2019.

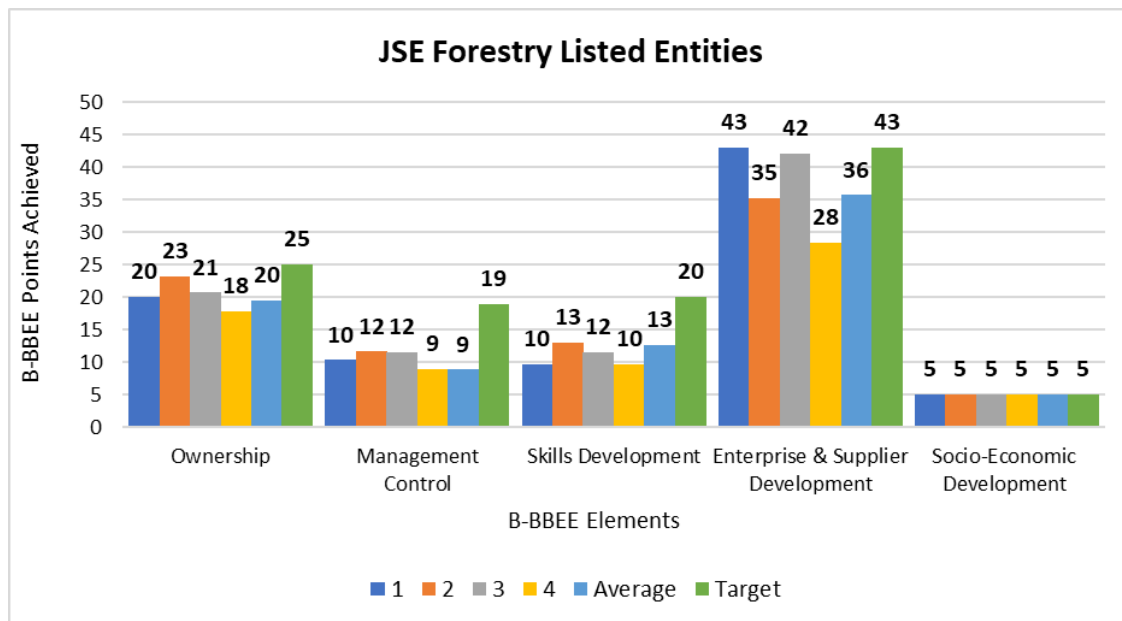


Figure 44: Forestry JSE Listed entities for 2021/22 reporting period

Figure 44 above demonstrates the scores of forestry JSE-listed companies against the scorecard targets and the averages. The average scores achieved by the MLEs on the scorecard elements are encouraging with better scores attained in the Socio-Economic Development (SED), Ownership, Enterprise and Supplier Development (ESD) as well as Skills Development (SD). None of the four achieved the target on all four, with only one attaining a full score in ESD. Only one achieved below the average on Management Control (MC), three in SD proving to be the most

challenging element and two on ESD. Only one of the MLEs was verified using the full scores on the ESD with the other three electing to use the halved targets. None of the MLEs was discounted. The attained good scores under the ESD and SED elements (excluding bonus points) confirm that the sector, in general, is finding it easy to implement these elements and remarkably this is the trend that is also displayed in the B-BBEE Commission's report in particular on the ESD element.

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

The South African Forestry Company SOC Limited, known as SAFCOL is ranked the third-largest State-Owned forestry company in South Africa and is managed under the Department of Public Enterprises (DPE). The entity produces logs from three genera: Pine, Eucalyptus, and Wattle with rotation ages ranging from 8 to 30 years depending on site species matching, Management Control and climate.<sup>1</sup>

SAFCOL generates most of their revenue from the 19 plantations primarily located in Limpopo, Mpumalanga, KwaZulu-Natal and Mozambique. Fifteen (15) of these plantations with approximately 189 747 ha are in South Africa, with the remaining 4 plantations (101 114 ha) located in Mozambique within the Manica and Sofala provinces. SAFCOL's nursery supplies about 10 million seedlings per annum to the plantations.

These plantations are managed under the voluntary Forest Stewardship Council® (FSC®) certification which is an international standard for Sustainable Forest Management, limiting SAFCOL's annual sustainable volume to ± 1 400 000 m<sup>3</sup>.<sup>1</sup>In terms of transformation, SAFCOL undertakes various initiatives and social upliftment programmes in communities adjacent to its plantation or operations. These include building clinics and early childhood development centres, making donations to schools, providing jobs and mentorship programmes for small businesses. In accordance with the SAFCOL's report, approximately 20 000 people have benefited from such initiatives.<sup>xii</sup>

SAFCOL is verified through Statement 004, a B-BBEE specialised scorecard for State-Owned enterprises exempting these entities from being verified on the

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<sup>xii</sup> SAFCOL Integrated Report 2019/20: <https://www.safcol.co.za/integrated-reports/>

Ownership element. SAFCOL is mandated to report its B-BBEE performance, both to the FSCC and the B-BBEE Commission in compliance with section 13G (2) of the B-BBEE Act as amended.

SAFCOL’s commitment to transformation is reinforced in the three strategic pillars, being business, community and the environment. SAFCOL maintained a B-BBEE level 4 when compared to the previous reporting year 2020/21. Figure 45 below illustrates SAFCOL’s performance on the four B-BBEE elements over the three reporting periods.

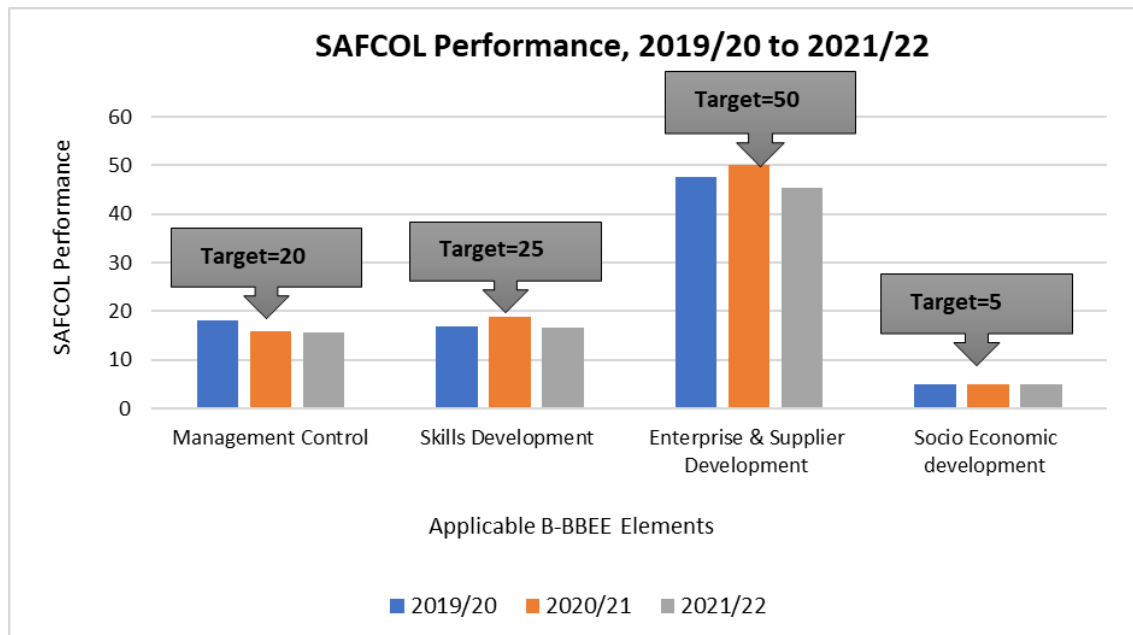


Figure 45: SAFCOL Performance, 2019/20 – 2021/22

SAFCOL’s target on Management Control (MC) is 20 points, a point more than the Amended FSC’s target on this element. SAFCOL has been on a drive to create employment in the environmental, plantation management, communication and artisan portfolios which is one of the intended objectives of the MC element. However, the performance on MC has shown a slight decline from 15.99 to 15.66 when compared to the previous year. Remarkably are the low scores achieved by SAFCOL in most of the indicators for black women with the worst one on the Black women executives participating in boards.

SAFCOL is committed to the upliftment of most of the communities within their plantations. On a yearly basis, SAFCOL offers bursaries, internships and

apprenticeships just like most of the bigger corporates. SAFCOL's performance also showed a decline by 2.27 points in the Skills Development element. The observed decline confirms that SAFCOL is finding it challenging to spend the 6% leviable amount on learning programmes for black people as well as the 0.30% on black employees. SAFCOL also couldn't create employment for their learners in the reporting period.

The B-BBEE Facilitator is intended for public entities or State-Owned enterprises which need to be designated as B-BBEE Facilitators by the Minister of Trade and Industry by notice in the Government Gazette. SAFCOL's application to become a B-BBEE facilitator status was still not concluded at the compilation of the report. The delay will result in entities procuring from SAFCOL losing points under the ESD element and further disadvantaging such entities by being discounted should they not meet the 40% minimum requirement on the preferential procurement element.

SAFCOL is required to procure from different qualifying suppliers. SAFCOL continued to achieve an outstanding score of 45.33 under ESD. Even though the performance shows a decline of about 4.65 points, it was evident through SAFCOL's presentation to the Portfolio Committee in December 2021, that SAFCOL is committed to developing black and women-owned suppliers.

SAFCOL maintained an exceptional performance on the SED element for the three reporting periods and expectedly so, as SAFCOL is best known for its outstanding commitment towards SED programmes. Most of SAFCOL's SED projects are facilitated under SAFCOL's Corporate Social Investment (CSI) programmes and are aligned with government's 2030 development plan. Some of the completed projects include building footbridges, donations of computers and provision of sanitary wear and toiletry.

SAFCOL is regarded as one of the consistent reporting MLEs to both the Council and the B-BBEE Commission and continues to show exceptional performance on the scorecard targets with slight regressions observed in three of the four elements in 2021/22. SAFCOL's achieved score on Management Control is being disadvantaged by the low scores achieved on women representation in boards, other executive and senior management, an obligation that SAFCOL has pledged to advance. SAFCOL is encouraged to focus more on skilling disabled employees in particular because

they have attained full points on the employment of black people living with disabilities. SAFCOL's performance on the ESD is highly commendable as most of the achieved scores on the indicators are reassuring. However, there is a need to develop QSE suppliers and hopefully, the proposed interim change on SAFCOL's scorecard, pending the B-BBEE Facilitator's application will have a lasting benefit. SAFCOL is also credited also for the various value add initiatives reinforced for the rural communities where resources are very limited as supported by the rural development principle detailed in the Amended Forest Sector Code.

### **5.1 QUALIFYING SMALL ENTERPRISES (QSEs)**

Qualifying Small Enterprises (QSEs) are entities with an annual turnover of between R10 million to R50 million. Unenhanced QSEs equally to MLEs are verified annually by the verification agencies on all five B-BBEE scorecard elements, and this requirement does not apply to Enhanced QSEs who are majority BO. Enhanced QSEs are entities that are at least 51% BO and above. 100% BO QSEs qualify for a level 1 and 51% BO and above qualify for a level 2 B-BBEE recognition respectively. In such a case, Enhanced QSEs have to confirm their B-BBEE credentials using an affidavit or Companies and Intellectual Property Commission (CIPC) certificate. The affidavit or CIPC certificate should detail the total annual revenue, level of black ownership and empowering supplier status. In the proposed amendments to the Amended FSC (still to be gazetted), BO will only be recognised through the Flow-Through Principle (FTP) and not the Modified Flow-Through Principle (MFTP). This gives an actual recognition of black ownership in terms of shareholding in any ownership deals and this change will also apply to the QSEs.

In the current reporting year, a total of 50 certificates and affidavits were received from both Enhanced and Unenhanced QSEs. At least four submissions were disqualified, bringing a total number to 46 valid submissions. Three Unenhanced entities submitted affidavits instead of verified scorecards, while the remaining entity reported using a certificate instead of an affidavit hence being disqualified. In the valid submissions, thirty eight (83%) QSEs were enhanced, with 16 and 22 achieving level 1 and 2 B-BBEE recognition respectively. Only 12 were unenhanced, with only eight (17%) valid B-BBEE certificates and underlying reports.



It is imperative that unenhanced measured entities submit both certificates and underlying reports to allow for an in-depth analysis of QSE B-BBEE activities. Comparatively, the analysis gives a clear indication of how entities are performing in terms of each scorecard element, indicators and adjusting to the revised scorecard of 2017 and BBEE implementation in general.

Figure 46 below displays the number of reporting QSEs. The current reporting year shows a significant increase in the number of reporting Enhanced and Unenhanced QSEs compared to the preceding reporting years as illustrated in figure 46 below. However, annual reporting as per the prescript of the B-BBEE Act as amended is encouraged because consistent reporting gives a real trajectory of empowerment in the sector. The FSCC’s QSE database shows that there are more than 60 known QSEs in the Sector. This is expected as most of the big companies have outsourced most if not all of the forestry operations, and therefore it is expected that more companies would report in particular under this category. Considering the impact of the COVID-19 pandemic on the economy and business operations, it appears like the ease of the lockdown positively influenced the business recovery and viability of some of the QSEs in the current reporting year.

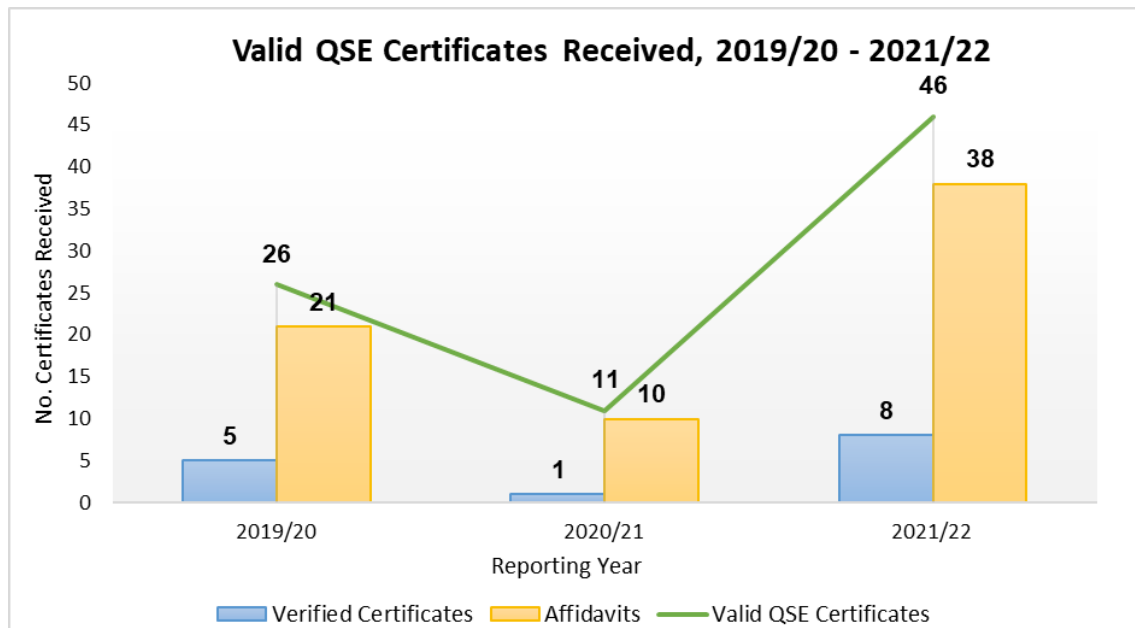


Figure 46: Valid QSE Certificate Submissions, 2019/20 – 2021/22

A greater number of submissions was largely derived from affidavits compared to certificates and this has been a trend in most of the reporting years. The observation projects an increased number of Enhanced QSEs compared to Unenhanced QSEs suggesting the effectiveness of the Enhancement Principle. The high price of the verification process or unwillingness to implement B-BBEE and or a non-compliance status may be qualifying factors for few submissions from Unenhanced QSEs, thus discouraging reporting as a result. In the previous reporting year, 2020/21, only one QSE certificate was received, and therefore, an in-depth analysis could not be undertaken as it would not be comparatively useful. Due to this reason, the comparison between the reporting years was based on 2019/20 and 2021/22.

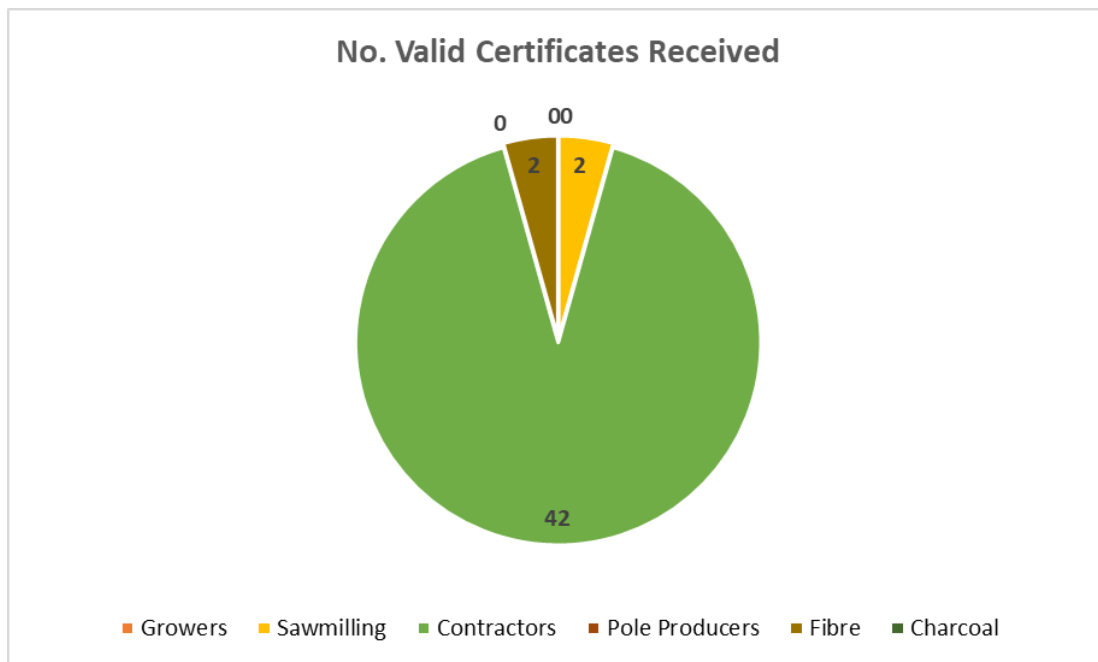


Figure 47: QSE Certificate Submission by Sub-Sector

Figure 47 above shows the distribution of QSEs amongst the reporting sub-sectors. Figure 47 confirms that a majority of QSEs (91%) operate within the Contracting sub-sector, with less representation in the Fibre and Sawmilling sub-sectors. None of the submitted QSEs represented the Charcoal, Growers and Pole producers' sub-sectors. Generally, most reporting entities in the Contracting sub-sector are involved in silviculture, harvesting and transportation, while those in Fibre would be more involved in the manufacturing of wooden products such as pellets. Additionally, entities in the Sawmilling are involved in the processing of timber.

Unenhanced QSEs, just like MLEs can obtain a B-BBEE score between 1 and 8 or a non-compliance status. Figure 48 shows the overall QSE B-BBEE level achieved in the current reporting period.

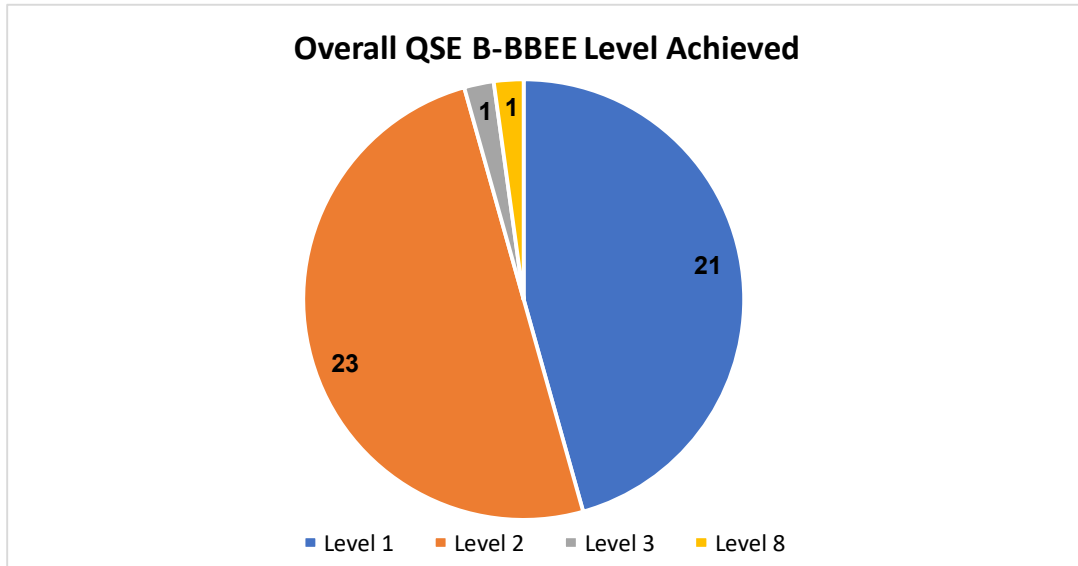


Figure 48: QSE B-BBEE Level Achieved

A total of 48 valid submissions were received, with twenty-one (46%) achieving a B-level 1, twenty-three, (50%) achieving a level 2 and two (4%) QSEs achieving a level 3 and 8 B-BBEE recognition respectively as displayed on Figure 48 above. In total 96% of the QSEs achieved a level 1 and 2 B-BBEE status through the enhancement principle, whilst the remaining 4% are Unenhanced QSEs and have undergone the verification process to substantiate their B-BBEE status. This highlights the effectiveness of the enhancement principle and encourages the emergence and development of black-owned businesses. On average, QSEs maintained a level 2 B-BBEE rating equally to the previous reporting year, with the current QSEs submission being significantly higher than the previous one.

### 5.1 OWNERSHIP IN-DEPTH ANALYSIS

The Ownership element aims to extend the shareholding of a new or existing company into the hands of black people. Ownership is one of the priority elements, as such QSEs are required to comply with the 40% sub-minimum requirements of any of the three priority elements. The compliance to priority elements for QSEs differs slightly from MLEs. The QSEs are required to comply with Ownership as a

compulsory element and choose either Skills Development (SD) or Enterprise and Supplier Development (ESD) to avoid the effect of the discounting principle. In terms of the ownership structure, QSEs are assessed on the proportion of Black People, New Entrants, or Black Designated Groups (BDGs) holding voting rights and economic interest within the business as well as on the net value indicator.

The QSE ownership scorecard element is allocated a total of 25 weighting points with no bonus points. Figure 49 below shows the comparison of QSE ownership performance within the two reporting years, 2019/20 and 2021/22 against the allocated weighting points.

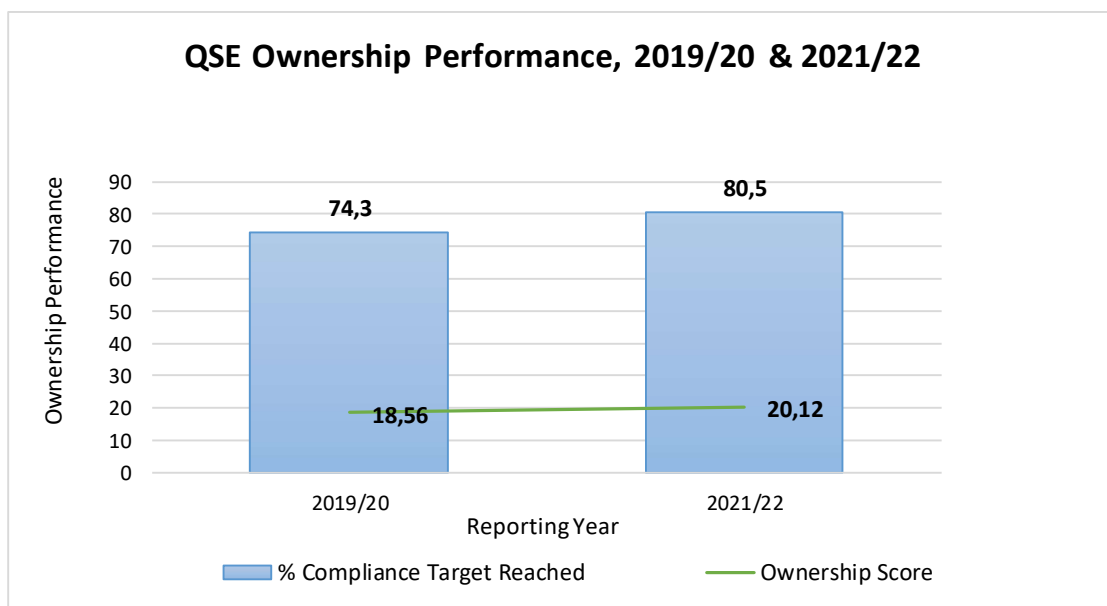


Figure 49: QSE Ownership Performance, 2019/20 & 2021/22

In the reporting year 2021/22, QSEs performed relatively well, achieving an average of 20.12 which account for about 82% towards the target when compared to the 2019/20 performance as shown in figure 49. The significant improvement is attributed to the increased number of submissions and better performance by each entity on the Ownership element. Notably, all the QSEs are inconsistent reporters, though only two (25%) out of eight entities have reported at least once in the last three years. This highlights the inconsistencies in terms of QSEs reporting and may confirm some reluctance to a certain extent and as such, may need further interrogation.

Table 5: 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>	0	0	0
<i>Q1</i>	51	0	0
<i>Median</i>	100	0	0
<i>Mean</i>	63.56	12.25	16.45
<i>Mode</i>	51	0	0
<i>Q3</i>	100	14	12
<i>Maximum</i>	100	100	100
<i>Standard Deviation</i>	28.10	23.89	31.25
<i>Entities scoring 0% ownership</i>	1	29	32
<i>Entities scoring above 0% but below 51% ownership</i>	7	14	5
<i>Entities scoring 51% ownership</i>	16	0	2
<i>Entities scoring above 51% but below 100%</i>	7	1	3
<i>Entities scoring 100% ownership</i>	15	2	4
<i>Total number of entities</i>	46	46	46

Table 5 summarises the composition of QSE ownership structures across beneficiary groupings including Black People, Black Women and Black Designated Groupings (BDGs). The QSE black ownership is the highest with an average of 63.56 though showing a decline from 72.43 in the preceding year. While ownership by Black Women and BDGs account for an average of 12.25 and 16.45, both indicators also decreased from 19.5 and 29.73 respectively in the previous year. A substantial decrease in average scores could be attributed to the following factors, an increased number of submissions compared to the preceding year and fewer

entities having ownership in the hands of Black Women and BDGs. Despite the declines observed in the current year, there has been a constant improvement in the ownership structure of QSEs, and many of the reporting entities are Enhanced QSEs. This shows the effectiveness of transformation in the sector and the sector's efforts in establishing and supporting the growth of black-owned businesses. Furthermore, it can be deduced that the average of black ownership was normally distributed while ownership averages by Black Women and BDGs were skewed to the left, indicating the gap in the ownership structure of QSEs. This observation confirms that the QSEs are controlled mostly by black males.

The QSE's ownership scorecard has six indicators. Figure 50 demonstrates QSE ownership indicators with the allocated weighting points and overall or average QSE performance on each ownership indicator.

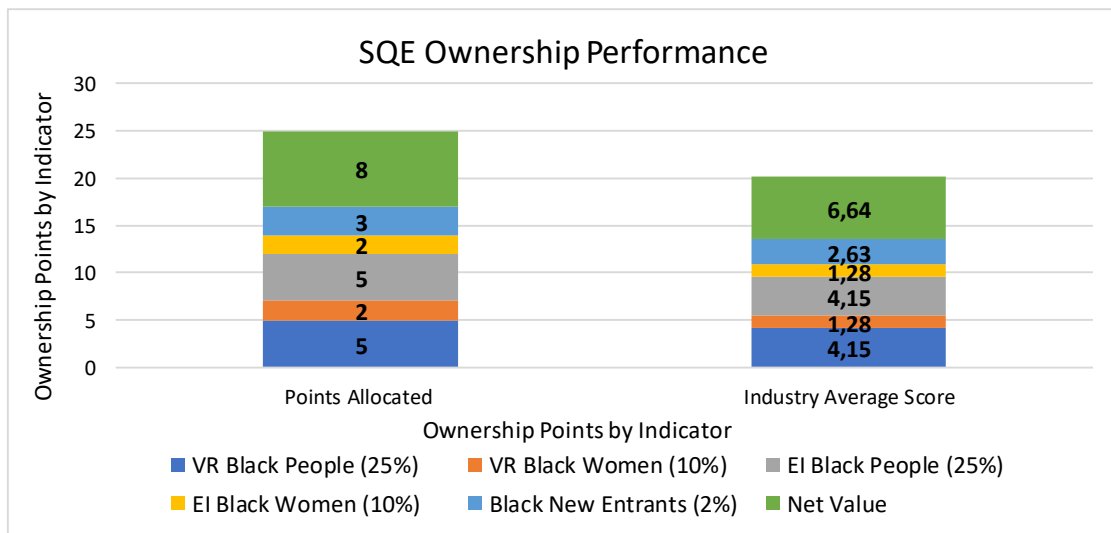


Figure 50: QSE Ownership Performance on each Indicator

The average scores achieved in each indicator shows that most of the Unenhanced QSEs (88%) performed exceptionally well under the ownership indicators. Further analysis shows that at least, an average of 60% and above was achieved in each indicator with best performances recorded under the voting rights (VR) of Black People and economic interest (EI) of Black People and Black Entrants or BDGs as well as on the net value points. One (13%) QSE out of eight entities performed poorly under the Ownership element across six indicators and was discounted as a

result, due to failure to achieve the 40% sub-minimum requirements of the eight (8) weighting points under the net value indicator.

Shareholders also amongst the QSEs are required to vote on an operational matter of significance within the entity. Figure 51 below illustrates the performance of the Unenhanced QSEs on the voting rights in the hands of black people and black women indicators.

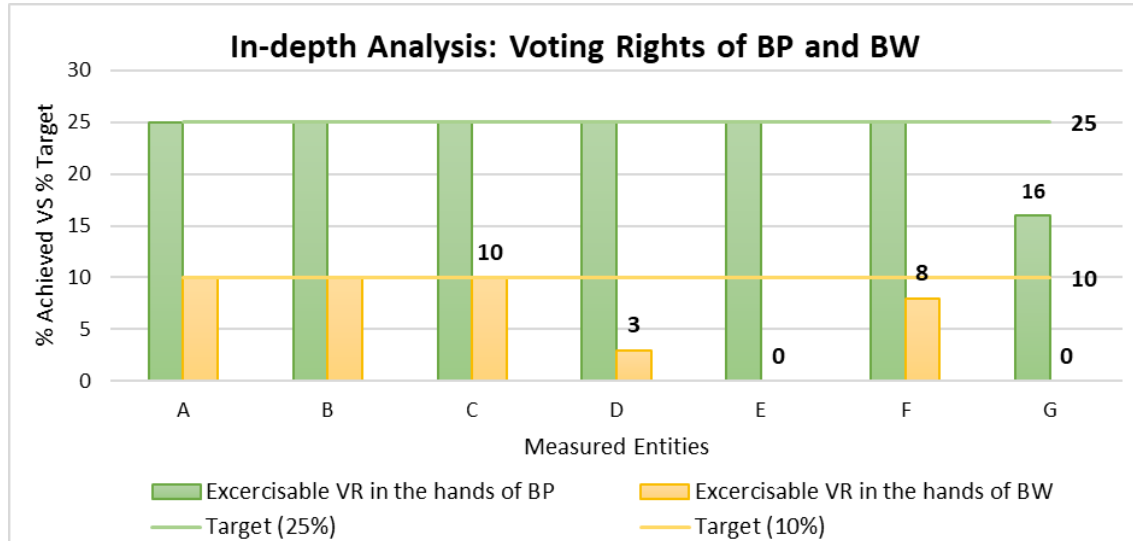


Figure 51: QES analysis: Voting rights in the hands of black people

Comparatively, three (38%) QSEs performed exceptionally on both indicators, achieving and even exceeding the compliance targets as shown in Figure 51 above. Furthermore, three (38%) other QSEs achieved the target on voting rights for black people, with one (13%) receiving a reasonable score and the other two (25%) a very low score on the voting rights for Black Women indicator. Only one (13%) entity achieved 0% for both indicators, with another entity achieving only 64% of the target on exercisable voting rights for black people. The observation illustrated in figure 51 shows that voting rights and economic interest in the hands of black people is not necessarily a sectoral challenge, but is more of an organisational challenge, as a majority of QSEs achieved good scores for both indicators.

Shareholders in a viable or profitable entity are entitled to a dividend should it be declared. Figure 52 shows the performance of the Unenhanced QSEs on the economic interest in the hands of black people and women indicators.

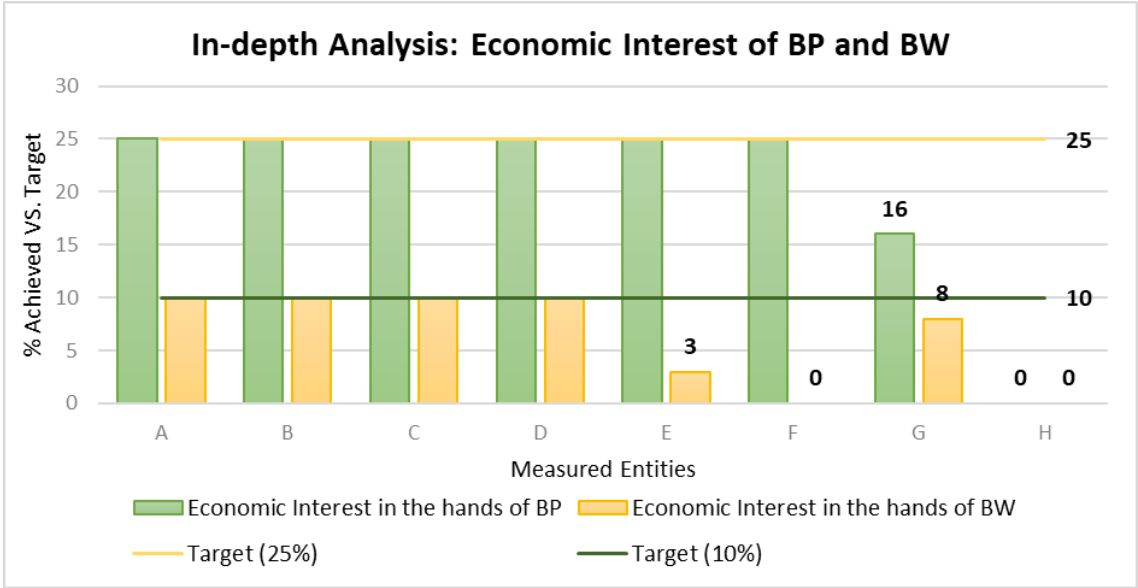


Figure 52: QES analysis: Economic interest in the hands of black people

As indicated in figure 52 above, the performance depicts a similar trend as observed on the voting rights indicators. This is expected as in most cases there is a correlation between the two indicators, i.e., voting rights and economic interest. The observation further confirms that most of the black shareholders in these entities have received a declared dividend except for two entities, wherein one instance it was only black women shareholders and in the other, it was both black people and women investors.

Another indicator for the QSEs refers to Economic Interest (EI) for either Black Entrants or Designated Groups (BDGs). This indicator gives QSEs a choice of either of the two different groups. Figure 53 below shows the reporting QSEs' in-depth analysis of the economic interest of black new entrants or BDGs indicator.



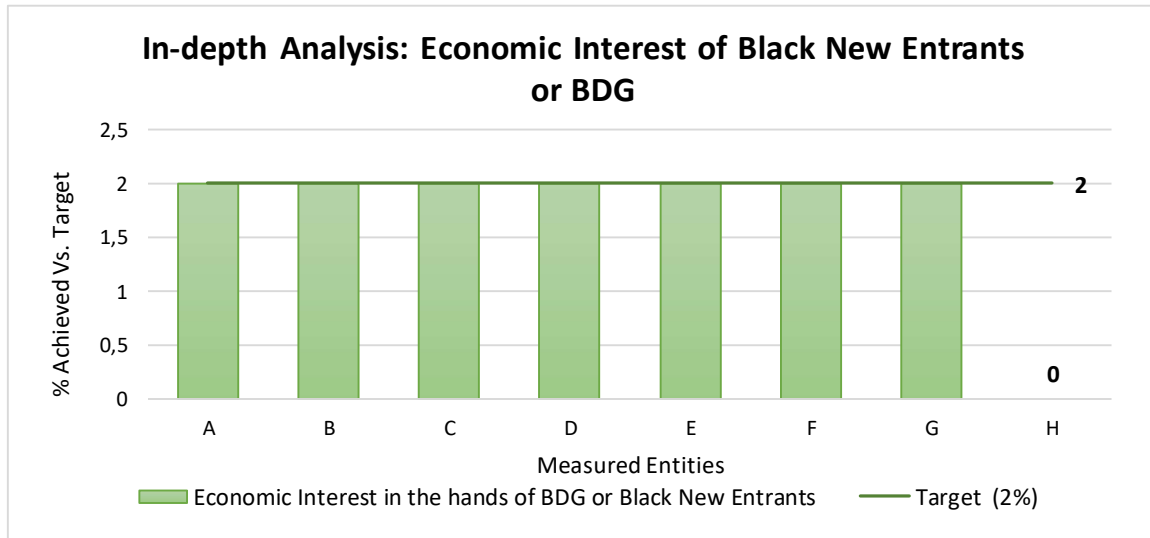


Figure 53: QES analysis: Economic interest in the hands of BDGs or black new entrants

Seven (88%) of the reported QSEs achieved the target, with the remaining one (12%) entity achieving zero score under this indicator. This performance is encouraging, and notably so as some of the QSEs achieved even beyond the 2% compliance, and may confirm the commitment of QSEs in bringing about diversity and new players in the sector. However, it might be interesting to know which of the groupings benefited from this indicator.

QSEs similarly to MLEs are discounted on the net value points. The discounting principle on QSEs is applied when an entity fails to meet the 40% sub-minimum requirement of the eight weighting points of the net value indicator under the Ownership as a compulsory element as already alluded. Figure 54 below shows QSEs' performance on this indicator, qualifying them for downgrade or not as a result of the overall score attained on this indicator.

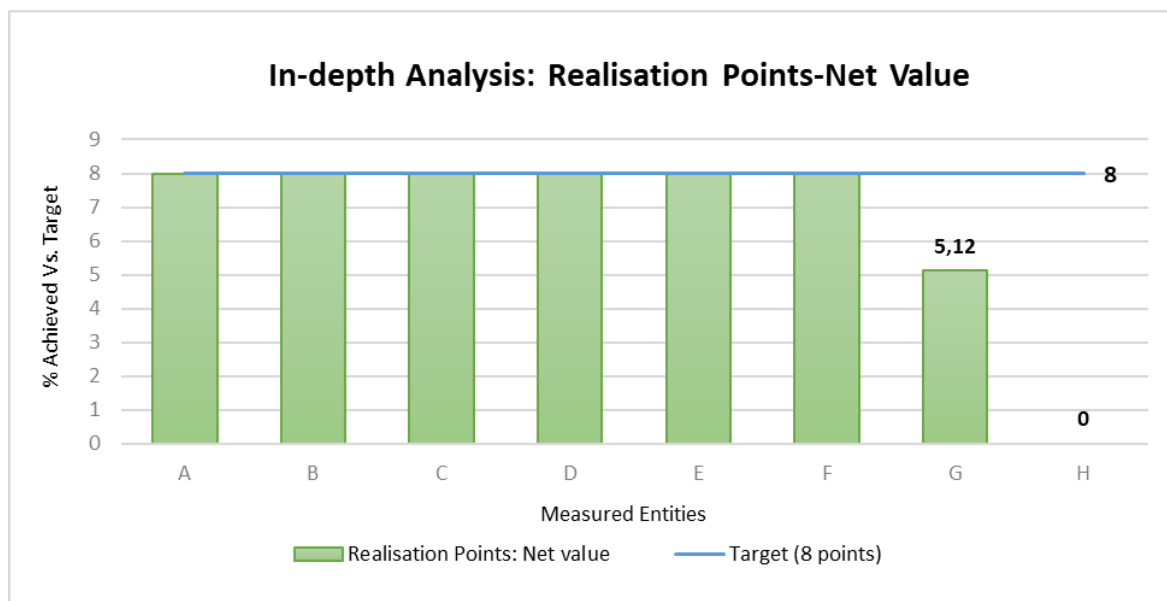


Figure 54: QES analysis: Net Value – Priority indicator

A majority, accounting for about 75% of the QSEs achieved the target on the realisation points for the net value indicator. Only one (13%) entity achieved above 40% to avoid discounting, while the other remaining entity achieved 0% under the net value indicator, leading to the effect of discounting principle and hence its downgrading.

## 5.2 MANAGEMENT CONTROL IN-DEPTH ANALYSIS

The Management Control element for Qualifying Small Enterprises (QSEs) looks at the representation of black people in executive management, and the other three levels of management i.e., senior, middle and junior management within the organisational hierarchy. The QSEs are relatively medium-sized businesses, and their business nature does not necessarily warrant the existence of a board and or board members just like in the case of MLEs, hence validating the exclusion of this indicator for such business type.

The total allocated weighting points for Management Control under this category is 15 points. Figure 55 below displays the comparison of Management Control performance for the two reporting years, 2019/20 and 2021/22.

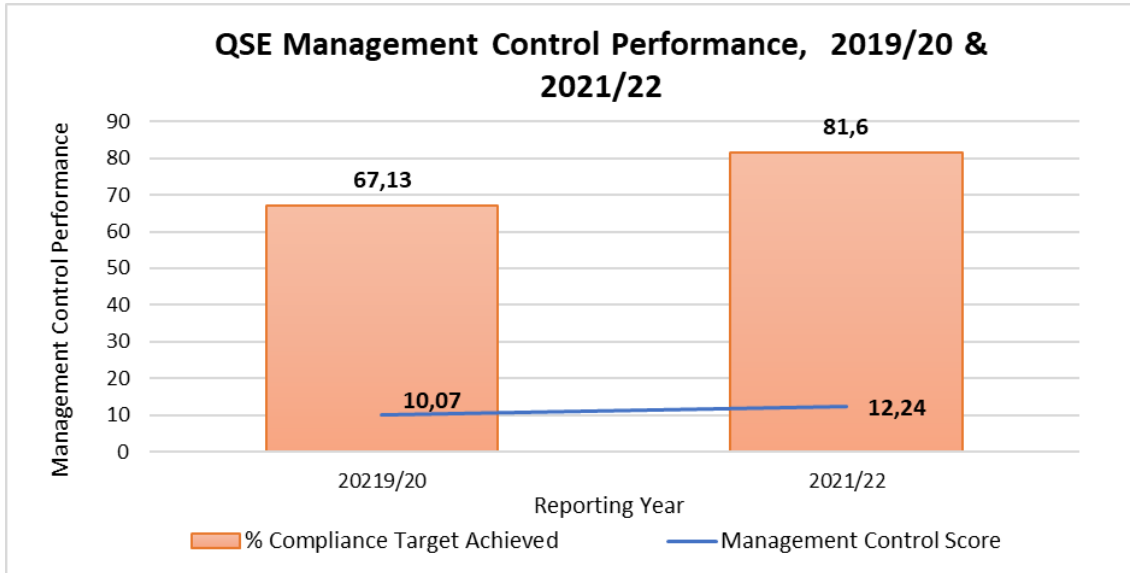


Figure 55: QSE Management Control performance, 2019/20 & 2021/22

Figure 55 above shows that QSEs performed exceptionally well under Management Control compared to the 2019/20 reporting year, with an average of 12.24 translating to about 82% towards the target. This shows a significant improvement of about 22%. Although transformation within the corporate culture in particular on this element as also indicated in the Commission for Employment Equity Annual Report of 2021 is not moving at the desired pace, there has been some favourable performance in this element.

The QSEs Management Control scorecard has four indicators including, black people in executive management and the other three management levels. Figure 56 below compares the average QSE performance on the Management Control indicators against the allocated weighting points.

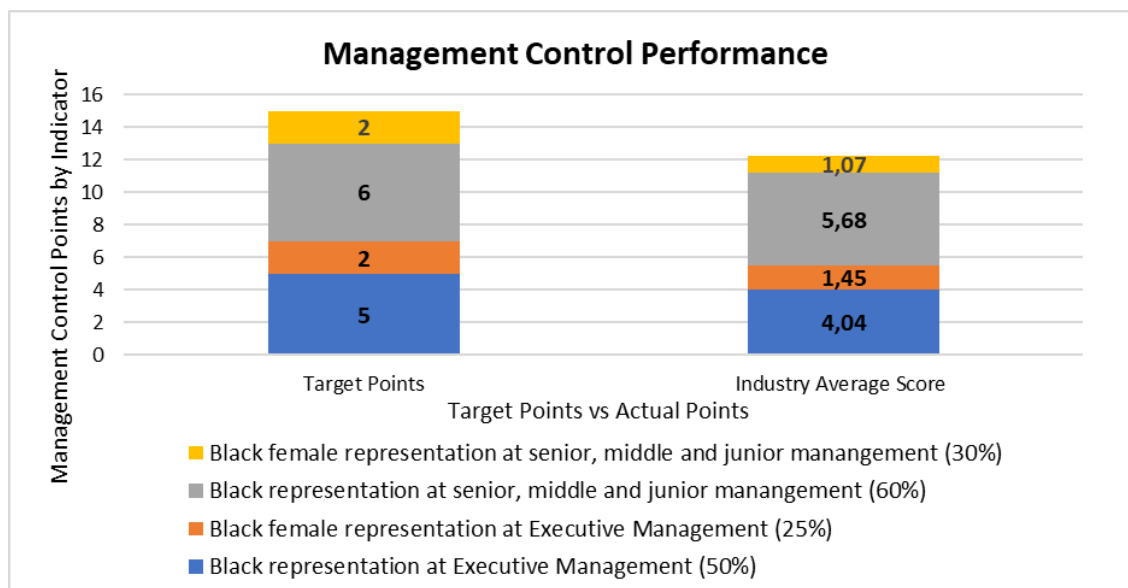


Figure 56: QSE Management Control Performance

The average scores achieved in each indicator shows that most of the Unenhanced QSEs performed exceptionally well under the Management Control indicators as illustrated in figure 56 above. Further analysis indicates that at least, an average of 50% and above was achieved in each indicator with the best performances observed under the black people in the three management levels, black people in the executive management and black female in the executive management. Average performance was observed under the black females in the three management levels indicator. The least performance on the black female indicator suggests that entities should prioritise promoting black women into these management categories and must integrate reasonable targets in their succession plan.

QSEs are also encouraged to employ qualifying and deserving black people and women in executive management positions. In the case of such entities, these positions could also include other executive managers as defined in the general principles of the Amended Forest Sector Code (FSC). Considering the size of such entities such positions could be dedicated to one person who could holistically be undertaking many portfolios such as operations, finance etc.

The performance comparison of the eight reporting QSEs on black people and black women in executive management is illustrated in figure 57 below.

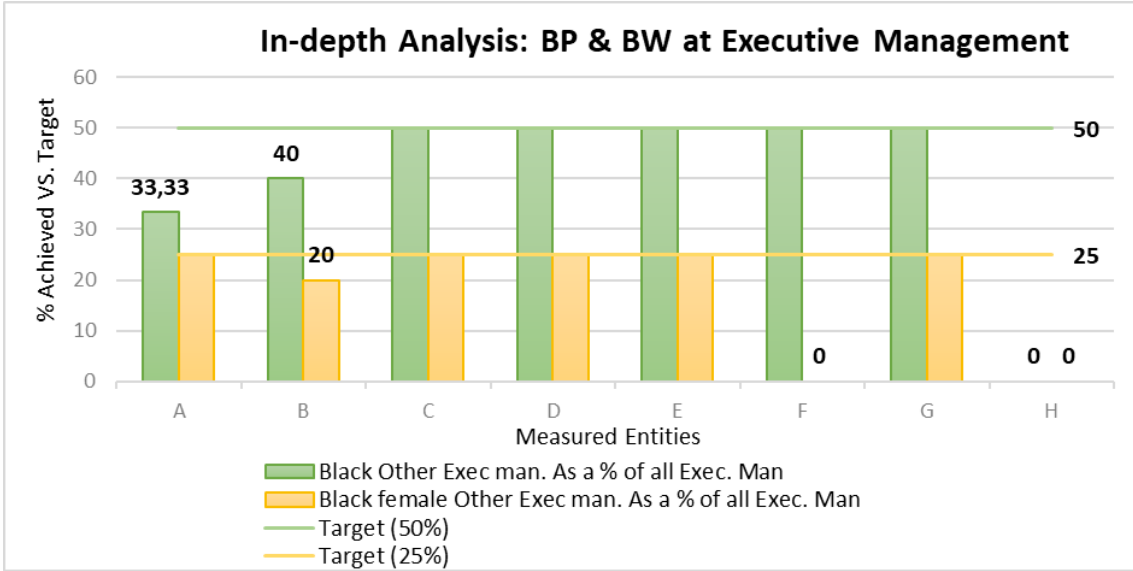


Figure 57: QSE Analysis: Participation of BP and BW in the Executive Management

Figure 57 indicates that only five (63%) entities achieved the target on the representation of black people and women in the executive management position indicators. An additional two (25%) QSEs achieved above 60% towards the target for black people in the executive management. Only two (25%) had no black women executive managers, with one of them also achieving a zero score on the black executive indicator.

In QSEs, the three lower categories of management are not differentiated. An entity could be represented by either one of them or a combination of the three. Figure 58 below displays the representation of black people and black women in junior, middle and or senior management positions amongst the reporting QSEs.

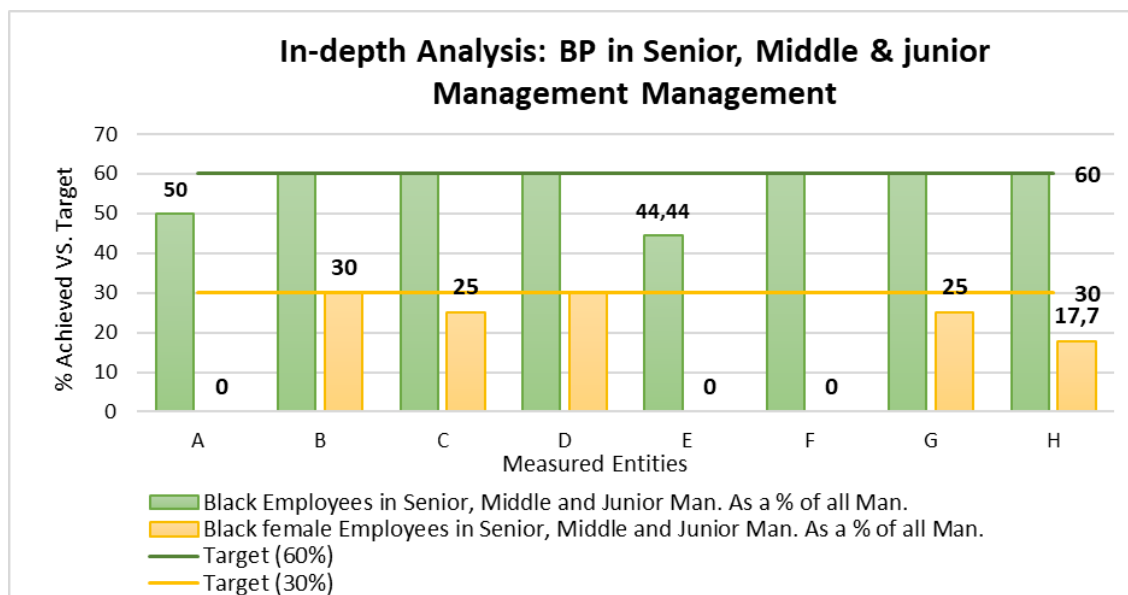


Figure 58: QSE Analysis: Representation of black BP and BW in junior, middle and senior management levels

There is a good representation of black employees at all levels of management, with six (75%) entities achieving the target and the remaining two (25%) entities achieving reasonable scores of above 70% towards the target of black managers as shown on figure 58 above. The trend differs when compared to the average scores achieved for black female employees occupying these positions. Only two (25%) QSEs achieved the target, with a further three (38%) achieving above 50% towards the target and the remaining three (38%) having no representation of black female employees at all levels of management. The overall performance under this indicator shows that the QSEs are still struggling to promote black women at various levels of management. This highlights a need for entities' succession plans to prioritise the enhancement of black female employees through skills development or mentorship programmes and also compliance with the Employment Equity Act (EEA).

### 5.3 SKILLS DEVELOPMENT IN-DEPTH ANALYSIS

Through Skills Development, entities are encouraged to improve the skills sets of the employees and black people residing in the entity's areas of operation. Skills Development is a priority element, with 20 points exclusive of the five bonus points for absorption on the total scorecard. A sub-minimum of 40% of the total points excluding the bonus points must be achieved to avoid a downgrade by a level in

cases where this element is preferred over Enterprise and Supplier Development. QSEs are required to spend at least 4.15% of their payroll (leviable amount) on Skills Development. At least 3% should be spent on skilling black people, 1% on skilling black females which emphasises the need to develop and capacitate women, and 0.15% on skilling black people with disabilities.

Figure 59 below compares the QSE Skills Development performance for the two reporting years, 2019/20 and 2021/22.

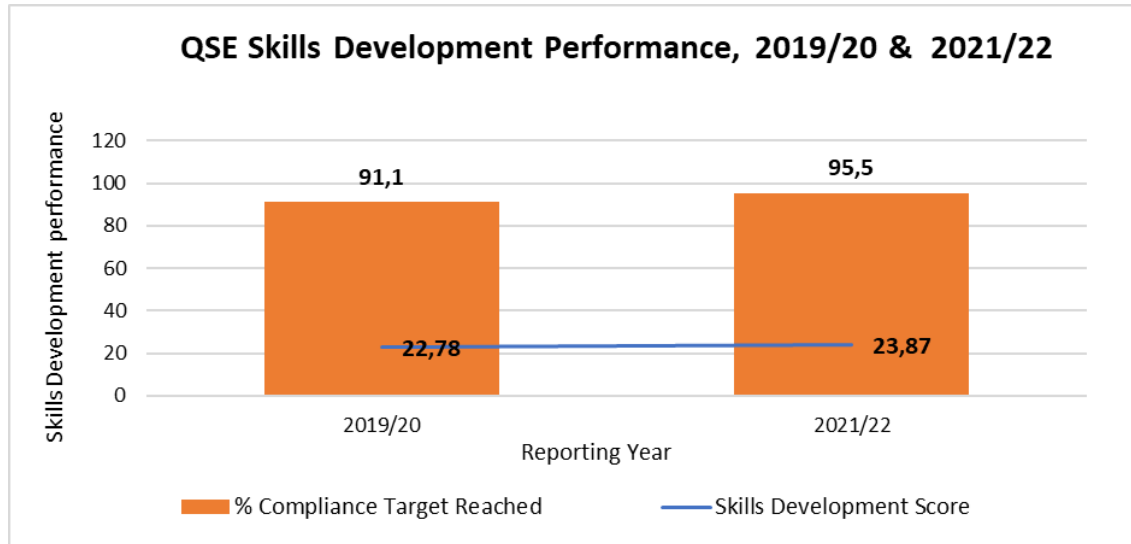


Figure 59: QSE Skills Development performance, 2019/20 & 2021/22

Figure 59 above shows that QSEs performed slightly higher and exceptionally well under the Skills Development element when compared to the 2019/20 reporting year. The performance accounts for an average of 23.87, which translates to about 96% towards the target. A majority of QSEs performed very well and achieved above the sub-minimum of 40% of the total weighting points.

Unenhanced QSEs are required to develop black people, women and disabled persons through learning programmes as a percentage of the entity’s leviable amount. The QSEs’ Skills Development scorecard has three indicators these being, skills spend or expenditure on black people, women and people living with disabilities as specified in the learning matrix. Figure 60 below indicates the performance of QSEs on the Skills Development indicators against the allocated weighting points.

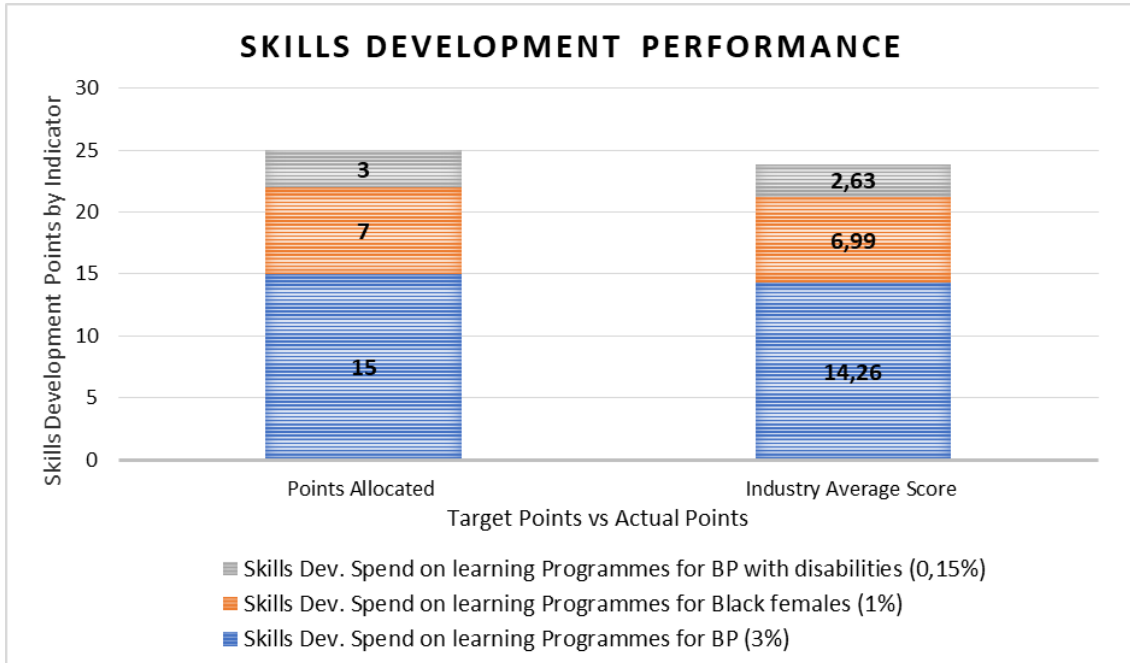


Figure 60: QSE Skills Development Performance

As shown in figure 60, Unenhanced QSEs performed exceptionally well under the skills development indicators. Further analysis reveals that more than 85% on average was achieved in each indicator with the best performance observed in the skills spend for black females, followed by black people respectively. Generally, most entities struggle with creating learning programmes aimed to skill black people living with disabilities, which was not the case for the Unenhanced QSEs who performed extremely well achieving an average of 88% of the target. The overall performance confirms the QSEs' commitment to investing in capacity building for B-BBEE beneficiaries. The exceptional performance in Skills Development reinforced for black women should have a positive and cascading influence on their promotion to management positions and hence leads to an improvement of the scores attained.



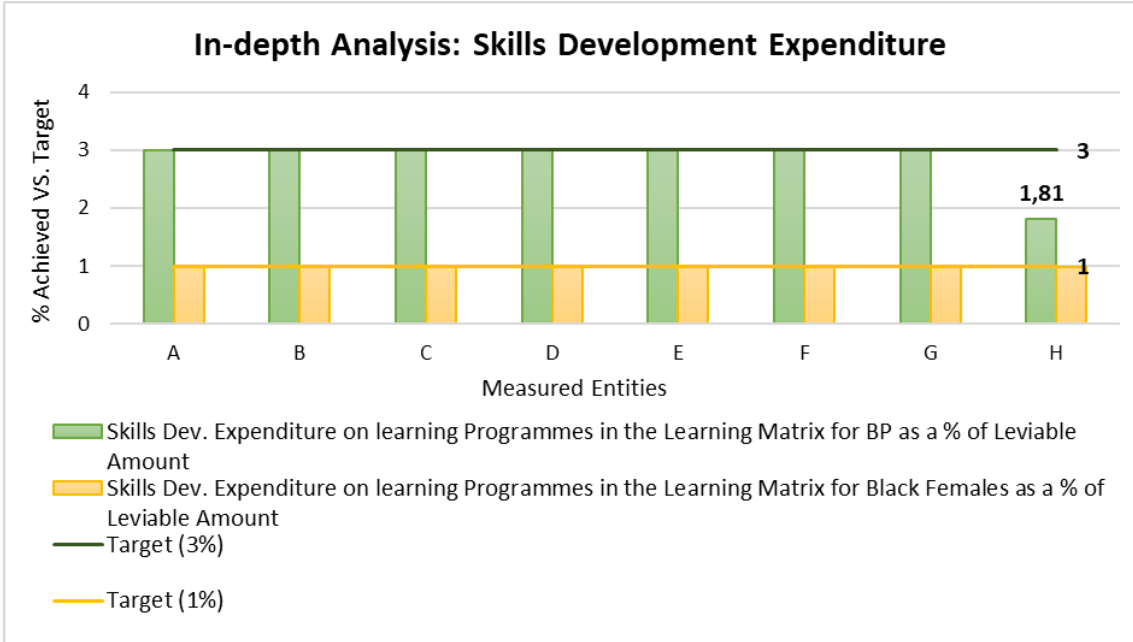


Figure 61: QSE Analysis: Skills Development spend on black people and black females

Seven (88%) QSEs achieved and even exceeded the target on Skills Development expenditure on learning programmes for both black people and black females’ indicators, as shown in figure 61 above. Only one (12%) entity achieved 61% towards the target on skills spend on the black people indicator and scored full points for the female indicator. The overall performance under these indicators is commendable and proves that QSEs understand their obligation and the significance of investing in skills development.

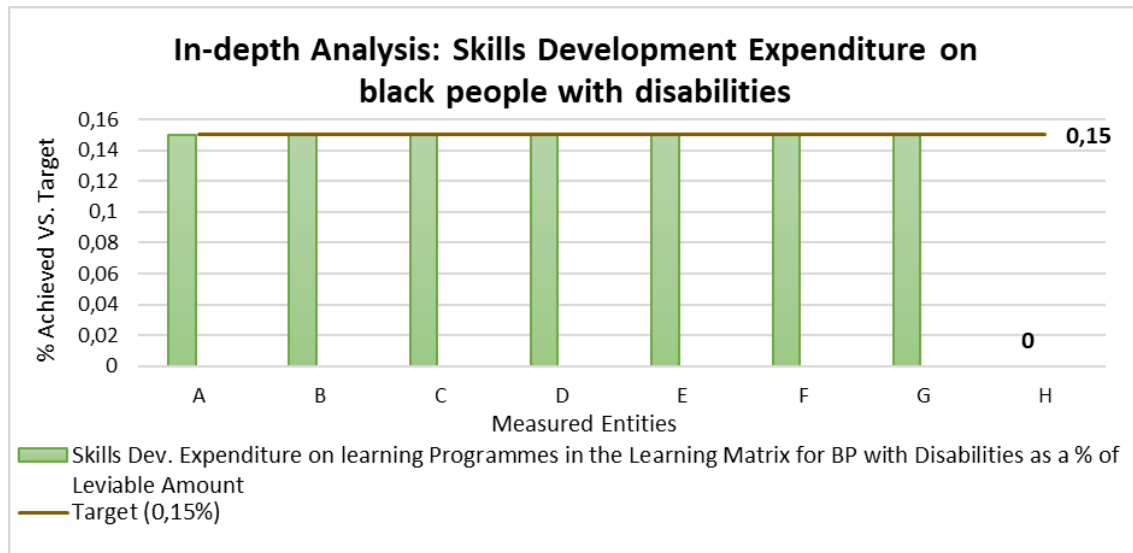


Figure 62: QSE Analysis: Skills Development spend on black people with disabilities

As shown in figure 62, all QSEs except one performed significantly well achieving the compliance target on skills spend for black people living with disabilities, a similar trend observed in the other skills development indicators above. Only one entity achieved 0% under this indicator. This could indicate that the QSE has insufficient knowledge of the Disability Act and the understanding that the indicator recognises the skills spend for both employed and unemployed black people with disabilities, thus disqualifying the QSE from prioritising this indicator.

In the current dire state of 34.4% unemployment rate in South Africa, companies have a bigger role to play in combating the plight of unemployment through skills development initiatives, which is believed to have a cascading effect on the employment probability. The Unenhanced QSEs are awarded five (5) bonus points for the creation of employment through the absorption principle on the condition that they employ the same learners at the end of a learning programme. However, QSEs can also claim the bonus points even if they have not created employment for the learner, for as long as other entities in the industry have provided the employment opportunity. The absorption profile of the reporting QSEs is displayed in figure 63 below.

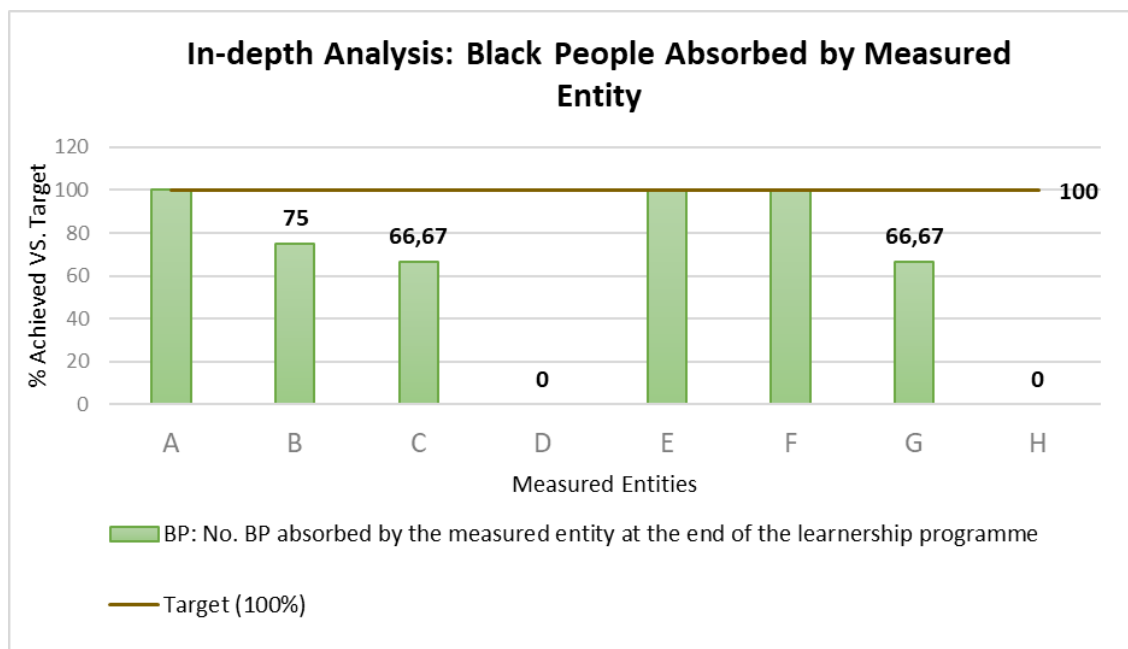


Figure 63: QSE Analysis: Absorption of black people

Only three (38%) QSEs out of eight, either absorbed all the learners recruited through their learning programme, with a further three (38%) absorbing above 67% of the learners as displayed in figure 63. Two (25) QSEs did not create any employment opportunities for their learners and these learners were even not absorbed by other entities in the industry. Further analysis shows that one of the two QSEs that could not employ its learners did not perform well across the three skills development indicators. Qualifying Small Enterprises (QSEs) are relatively small businesses in nature, and therefore creation of employment through the absorption principle will not always be feasible and hence the flexibility to allow other entities in the industry to also create employment opportunities. Generally, this would be more feasible for a succession plan or in a case where the business expands its operations.

#### 5.4 ENTERPRISE AND SUPPLIER DEVELOPMENT IN-DEPTH ANALYSIS

Enterprise and Supplier Development (ESD) is a unification of three elements; Preferential Procurement (PP), Supplier Development (SD) and Enterprise Development (ED). It is one of the priority elements with the highest weighting points (30) (excluding three bonus points) compared to the other four scorecard elements. Enterprise and Supplier Development is aimed at developing and creating black

suppliers and new enterprises in the industry. ESD plays a significant role in creating new other job opportunities in cognisant of the unstable economic growth and very high unemployment rate in particular amongst the younger generation.

Figure 63 demonstrates the average performance of QSEs on ESD indicators.

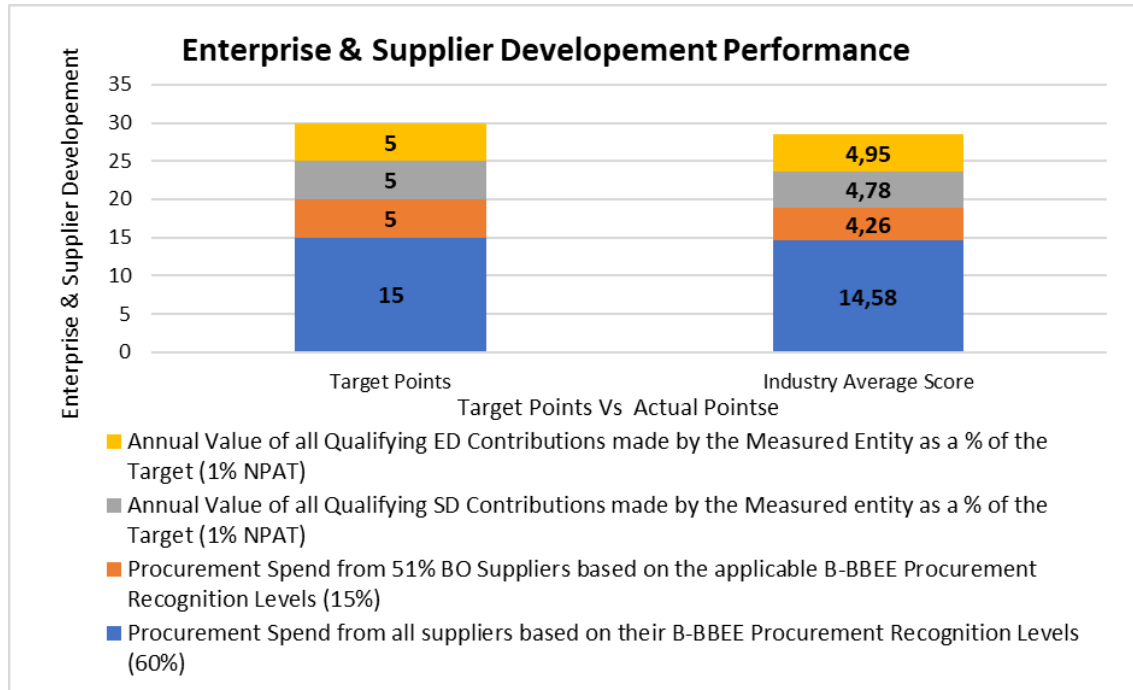


Figure 64: QSE Enterprise and Supplier Development Performance on each indicator

The average score achieved under each ESD indicator reveals that most QSEs performed incredibly well, as observed in figure 64 above. Further interrogation of the performance shows that at least, a majority of QSEs achieved above an average of 80% in each indicator with the best performances observed under enterprise development contributions, procurement from empowering suppliers and supplier development contributions. All QSEs achieved a 40% sub-minimum under the ESD element, hence none were downgraded as a result of this element.

The Unenhanced QSE, Enterprise and Supplier Development element emphasize the potential QSEs have in entrepreneurship and creating sustainable other suppliers and jobs. The comparison of QSE performance on the overall ESD element for two reporting years, 2019/20 and 2021/22 are revealed in Figure 65 below.

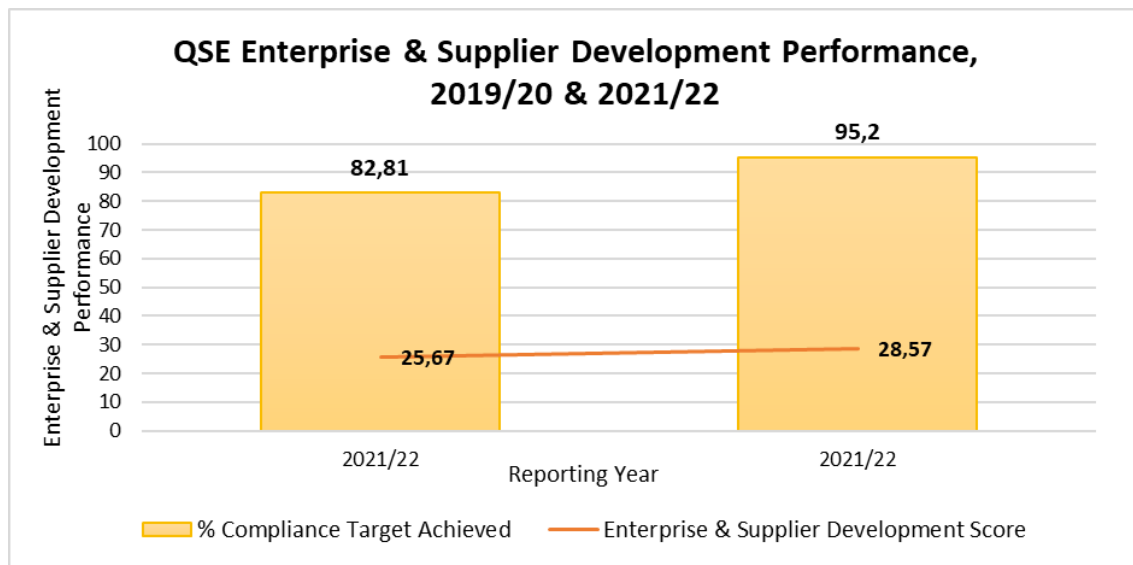


Figure 65: QSE Enterprise and Supplier Development, 2019/20 & 2021/22

The average score achieved by QSEs was 28.57 accounting for about 95% towards the target as shown in figure 65. This shows an exceptional performance and an encouraging increase when compared to the 2019/20 reporting year. A majority of the QSEs achieved above 70% on the element hence its improved overall performance.

The Preferential Procurement (PP) accentuates the importance for QSEs to procure from empowering suppliers based on their B-BBEE recognition levels and at least 51% black-owned suppliers. Moreover, a bonus point (1) is awarded to a QSE for procuring from suppliers that are at least 51% black-owned and fall within the Black Designated Groupings (BDGs).

Figure 66 below displays the performance of QSEs on the procurement spend from all empowering suppliers based on the B-BBEE procurement recognition levels indicator.

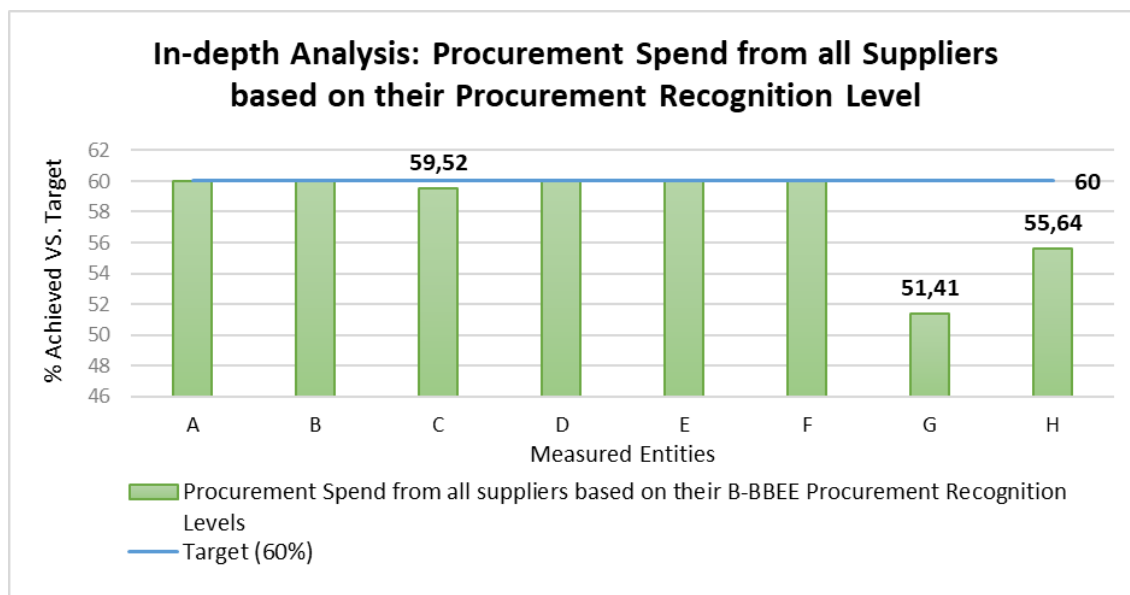


Figure 66: QSE Analysis: Procurement spend on all suppliers based on their recognition levels

The QSEs are allocated a compliance target of 60% for the total 15 points. Figure 66 indicates that five (63%) QSEs out of eight achieved and exceeded the target for procuring from all suppliers based on their B-BBEE recognition levels. One (13%) entity achieved 99%, whilst the remaining two (25%) achieved above 80% towards the target under this indicator. The two entities that achieved slightly below the target are encouraged to procure more from suppliers that are highly competitive in B-BBEE status to increase their compliance target to a similar achievement to their counterparts.

The QSEs are allocated a compliance target of 15% with a total point of 5 points for procuring from suppliers that are at least 51% black-owned. Figure 67 below presents the performance of QSEs on the procurement spend from at least 51% black-owned empowering suppliers.

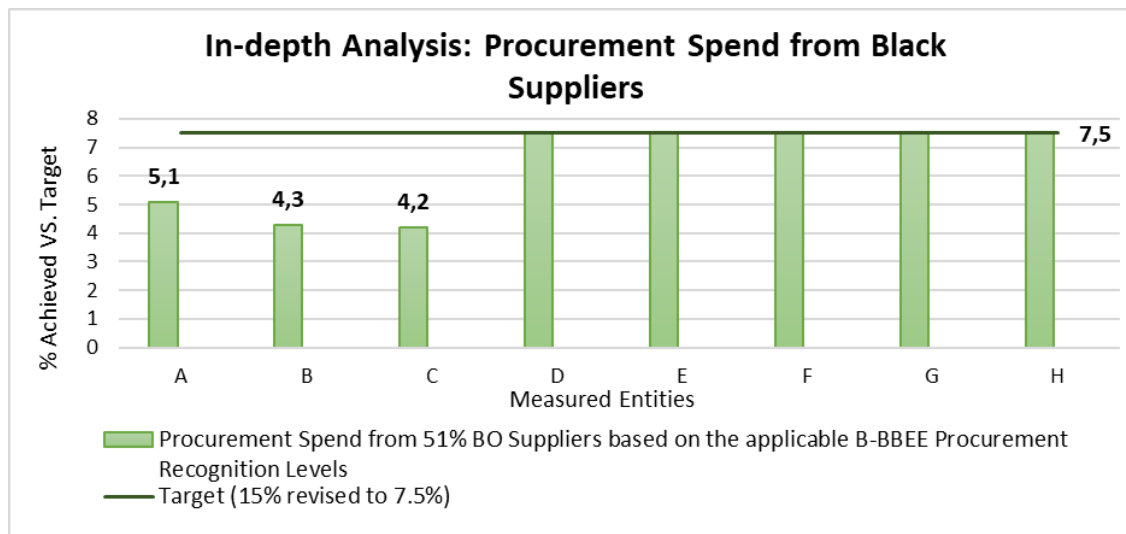


Figure 67: QSE Analysis: Procurement spend on all suppliers based on their recognition levels

Figure 67 illustrates that only five (63%) out of eight QSEs achieved and exceeded the target, with one (13%) entity achieving 70.7%, whilst the remaining two (25%) entities are fractionally behind each other and have achieved above 55%. The two entities are encouraged to buy more from suppliers that are at least 51% black-owned. Supporting such entities does not only contribute to supplier development and increase the entity’s score but also fulfils the broad objective of B-BBEE.

Moreover, under the Preferential Procurement sub-element, QSEs are awarded a bonus point (1) for procuring from designated group suppliers that are at least 51% black-owned and with a better B-BBEE status. Only seven (88%) QSEs achieved bonus points under this indicator, confirming their commitment to supporting such suppliers.

As per the requirements of the Amended Forest Sector Code (FSC), QSEs are encouraged to spend at least 1% of their net profit after tax (NPAT) on supporting and developing enterprises and suppliers in their value chain. Furthermore, QSEs are incentivised with two (2) bonus points for graduating a newly created enterprise into a supplier and creating jobs through SD and ED contributions. The contributions can either be in the form of monetary (e.g., soft loans/grants) or non-monetary (e.g., mentorship) support and would be a value add during such times where the economy is not growing at a rate to sustain small businesses.

Supplier Development contributions are made to entities that already form part of the current QSE's supplier chain. The performance of QSEs' contributions to qualifying Supplier Development as a percentage of the target (1%) is shown in figure 68 below.

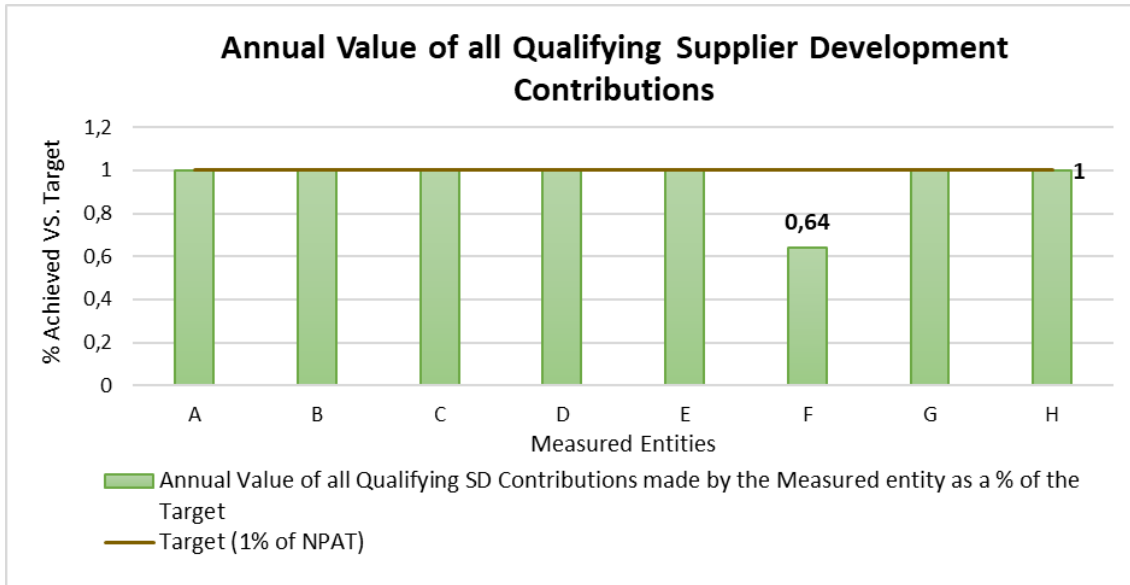


Figure 68: QSE Analysis: Supplier Development

As shown in figure 68, seven (88%) out of eight entities achieved the target, with most of the QSEs even spending more than the 1% target on the SD contributions on further analysis. Only one entity (12%) spends lower than the allocated 1% and achieved about 64% towards the target. This performance by QSEs is commendable and shows the commitment of the reporting entities to develop suppliers within their value chain.

Enterprise Development contributions are made to entities that are not part of the QSE's supplier chain. This means that QSEs have to develop entities that are B-BBEE compliant preferably and even better Enhanced entities. This has two-fold benefits for the QSE, one being, gaining a reliable future supplier and also gaining bonus points for graduating the beneficiary into a supplier. Figure 69 below illustrates the performance of QSEs' contributions to qualifying Enterprise Development as a percentage of the target (1% NPAT).



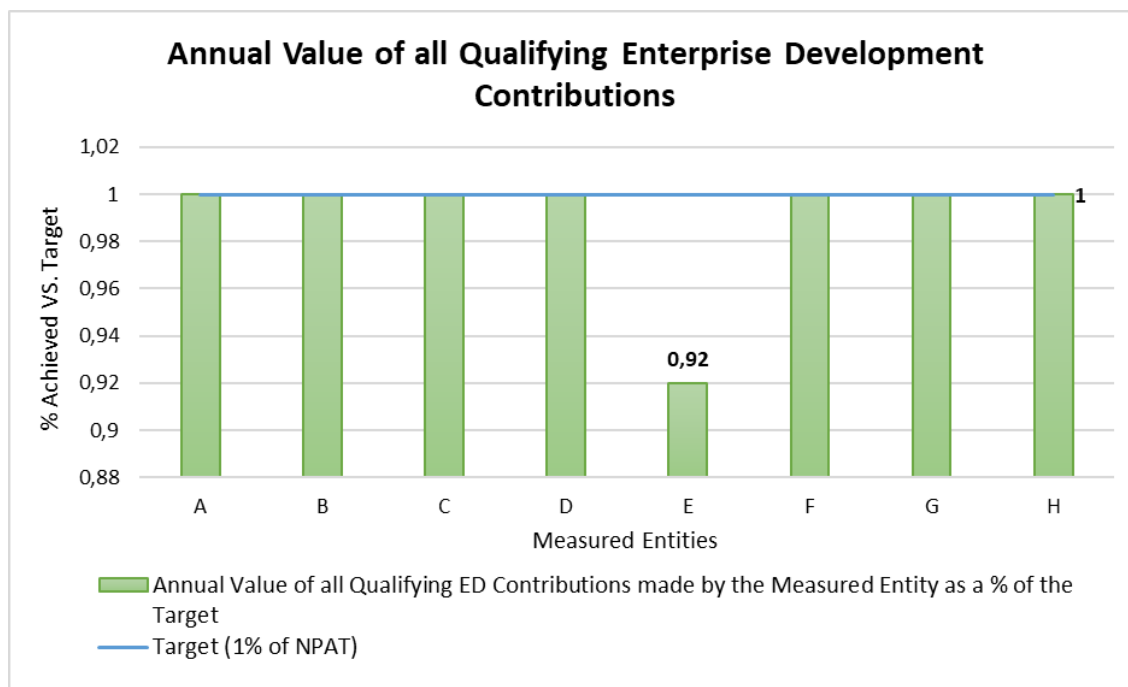


Figure 69: QSE Analysis: Enterprise Development

As shown in figure 69, seven (88%) out of eight entities achieved and exceeded the target for ED contributions. Only one (12%) entity achieved 92% towards the 1% target under this indicator. The overall performance by QSEs is outstanding and shows a significant role QSEs play in the creation of business opportunities and indirectly other jobs through the many recognised ED contributions. Notably and on average, the performance also shows to be much better when compared to the Supplier Development indicator.

Additionally, QSEs are incentivised with a point when an ED beneficiary graduates to an SD level, and with another point for the creation of direct job opportunities through the ED and SD initiatives for B-BBEE beneficiaries. Only two (25%) out of eight entities attained a bonus point for having qualifying ED beneficiaries to SD level and the other two entities achieved a bonus point for creating jobs as a result of SD and ED contributions. This performance reveals that entities still struggle to create direct job opportunities through the SD and ED initiatives, and also in assisting and developing small entities to become part of their supply chain. This could be exacerbated by the impact of the COVID-19 pandemic on the economic growth and recovery rate.

## 5.5 SOCIO-ECONOMIC DEVELOPMENT IN-DEPTH ANALYSIS

Socio-Economic Development (SED) accounts for the monetary and non-monetary contributions entities make to communities within the area of their operation. Entities in the QSE category, just like MLEs are encouraged to spend at least 1% of the net profit after tax (NPAT) on SED contributions with a sustained economic benefit, and at least 75% of such contributions should be intended for the B-BBEE beneficiaries. Socio-Economic Development contributions are intended to reduce reliance on donations but rather enable income generation for beneficiaries to create and maintain sustainable access to the economy. Forestry plantations are based in rural areas with limited economic activities and a slow pace of service delivery, and SED contribution plays a substantial role in empowering and uplifting the standard of living in the communities.

Figure 70 compares the SED indicator with the allocated weighting point and overall or average SED performance on the indicator by QSEs.



Figure 70: QSE Socio-Economic Development Performance

The performance of Unenhanced QSEs on this indicator continues to be incomparable, achieving the 5 points as depicted in figure 70 above. The outstanding QSEs' performance is a demonstration of QSEs' willingness to contribute meaningfully to rural communities close to their operations and cognisant of the fact that in such areas, opportunities are limited.

Figure 71 below portrays the QSE performance on the SED element for two reporting years, 2019/20 and 2021/22.

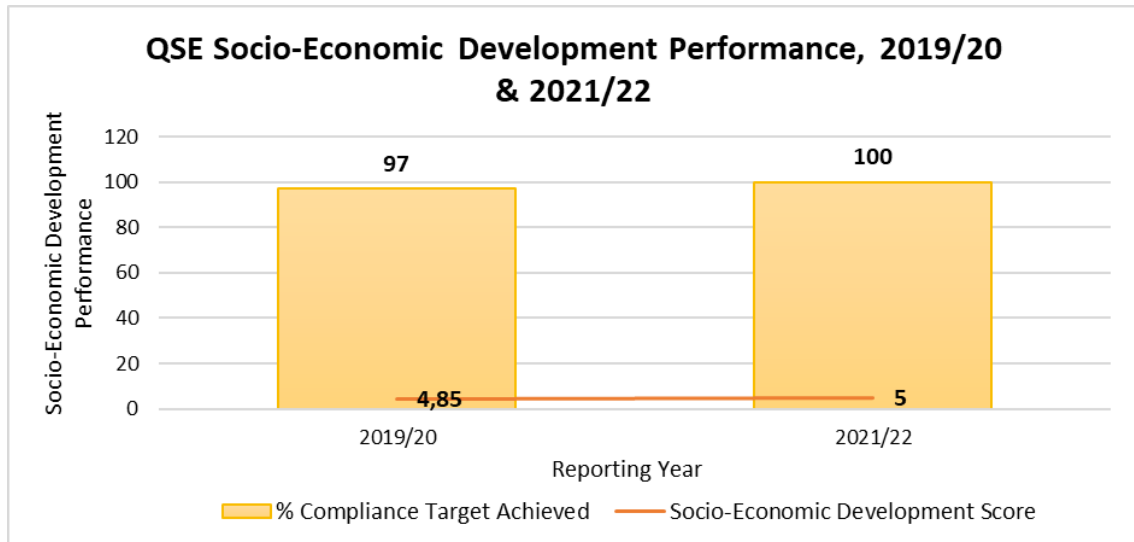


Figure 71: QSE Socio-Economic Development, 2019/20 & 2021/22

Figure 71 shows that QSEs continue to outperform on this element, achieving full points and showing a slight increase compared to the 2019/20 reporting year. The QSEs performance on the SED element is the highest when compared to the other four elements.

Figure 72 illustrates the SED performance for QSEs on qualifying SED contributions as a percentage of the target

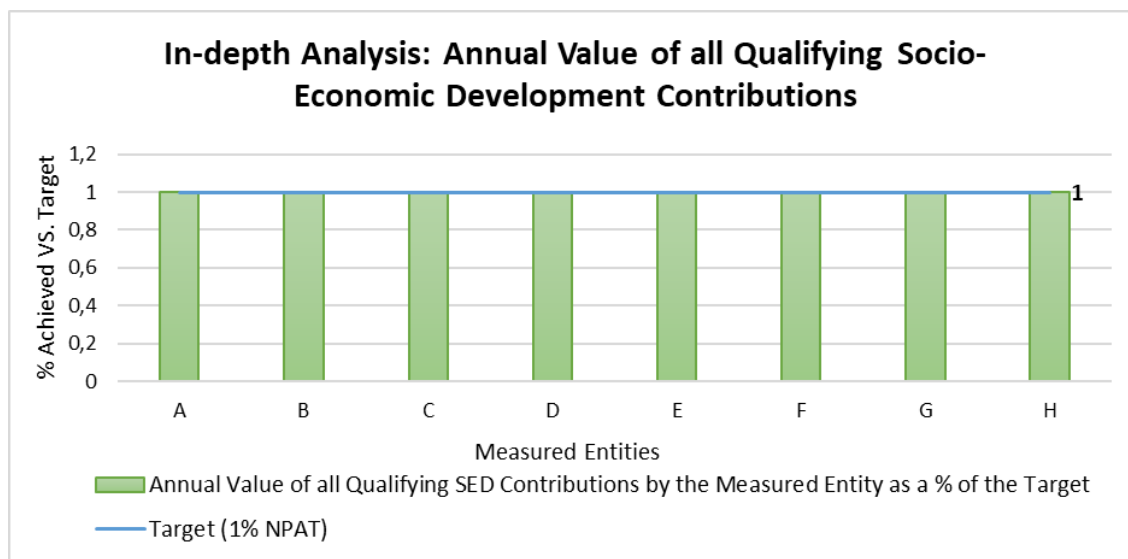


Figure 72: QSE Analysis: Socio-Economic Development

As shown in figure 72, all the eight entities achieved the compliance target, spending comfortably the required 1% NPAT on qualifying SED contributions. Generally, compliance with the SED element has shown to be less challenging for most reporting entities even when compared to previous years.

## 5.2 EXEMPTED MICRO ENTERPRISE (EMEs)

Exempted Micro Enterprises (EMEs) are entities with a turnover of less than R10 million per annum. The EMEs are exempted from reporting on the B-BBEE scorecard and automatically qualify for a level 4 B-BBEE recognition if unenhanced. Depending on the black ownership percentage, Enhanced EMEs, similarly to Enhanced QSEs qualify for an elevation of either level 1 or 2 through the enhancement principle. The EMEs are required to report on an annual basis using an affidavit or CIPC certificate confirming a total annual revenue and the level of black ownership. However, EMEs can also be verified on the QSE scorecard should they wish to maximise their B-BBEE recognition level. This would be applicable in cases where they wish to venture into other economic avenues or when tendering for a contract where a B-BBEE certificate is a requirement and a higher level is preferred mostly. Enhanced EMEs are also required to indicate whether they are Enterprise Development Beneficiary (EDB) or not. This information is used to check whether there was any sort of MLEs' intervention in support and promotion of growth

and sustainability of emerging and existing SMMEs. The EMEs have the potential to create new and other jobs hence their growth in terms of annual turnover is significant in the sector as also emphasized in the Forestry Masterplan.

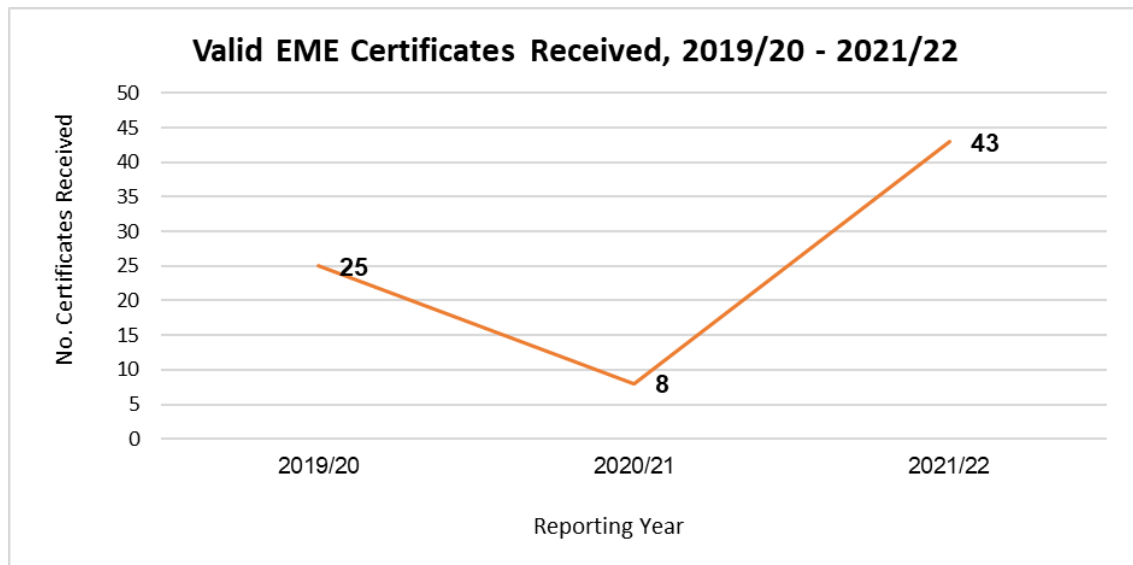


Figure 73: Valid EME Certificate Submissions, 2019/20 – 2021/22

In the current reporting year, there was a significant increase in the number of EMEs' submissions when compared to the two previous reporting years, as shown in figure 73. A total of 43 valid certificates were received, 39 entities reported using affidavits, whilst four entities reported using CIPC certificates. This could be attributable to possibly that some may have recovered from the COVID-19 pandemic or else an improved collecting process by the FSCC and the organised industry Associations. No EMEs' submission was disqualified in the current reporting year.

As earlier mentioned, EMEs can only achieve automatic levels 4, 2 and 1. Figure 74 below shows the distribution of the levels achieved by reporting EMEs for the 2021/22 measurement period.

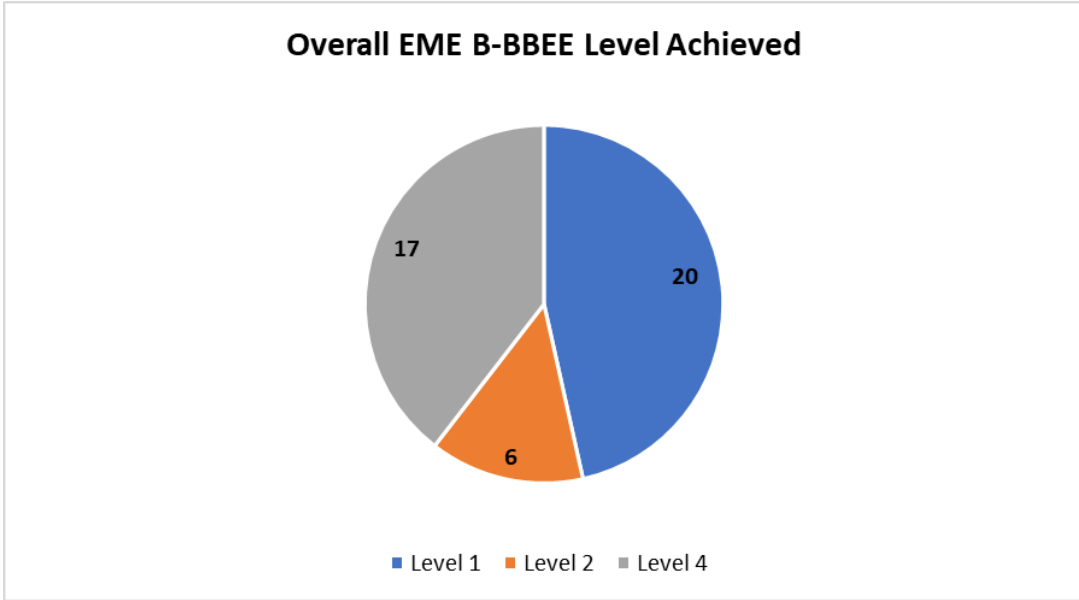


Figure 74: EME B-BBEE Level Achieved

Twenty (46%) of the reporting EMEs achieved a level 1, with 17, (40%) and the remaining 6 (14%) achieving a level 4 and 2 respectively as displayed in figure 74 above. On average, the EMEs attained a level 2 B-BBEE rating in the current year showing a decline from a level 1 in the preceding reporting year. This could be attributed to a number of reasons including; an increased number of submissions achieving a level 4 in the current year and a majority of the reporting EMEs achieving a level 1 and 2 rating in the previous year. There were also a reasonable number of Unenhanced level 4 EMEs, with the least submission observed in the Enhanced EMEs achieving a level 2, as shown in figure 74. This may indicate that there are fewer entities that are at least 51% and above (though less than 100%) BO.

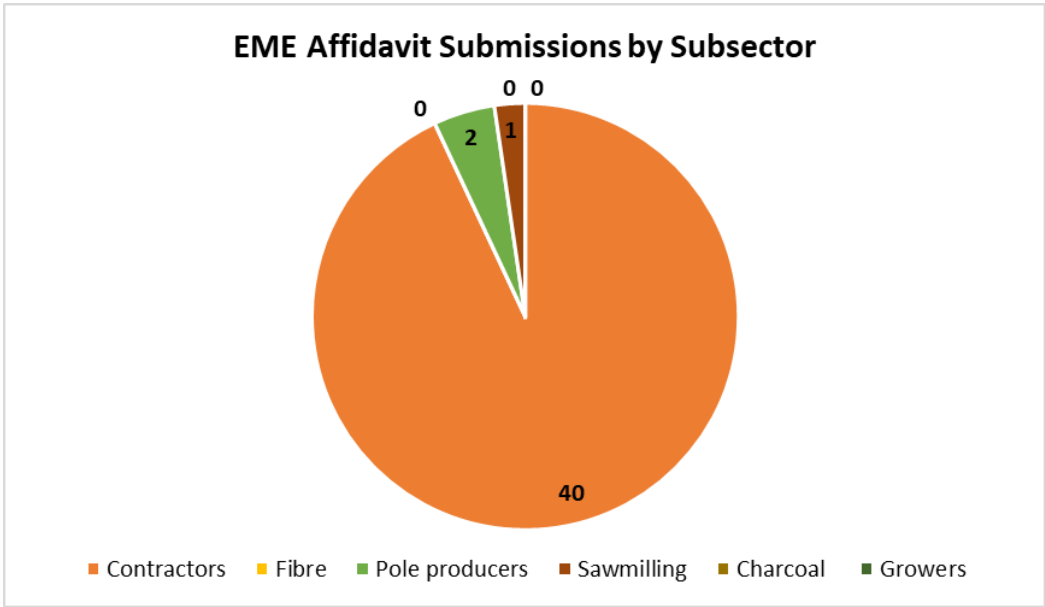


Figure 75: EME Certificate Submission by Sub-Sector

EMEs in forestry are usually Contractors or sub-contracts or are suppliers of raw material or timber to the bigger companies. Figure 75 above illustrates the business activities amongst the EMEs that reported for the year under review. A total of 40 (93%) of the reporting EMEs are involved in the Contracting sub-sector, with about two (5%) in the Pole producing sub-sector, whilst the remaining 2% are involved in the Sawmilling sub-sector. No representation of entities was observed under Charcoal, Fibre and Grower sub-sectors. This highlights a business gap under these sub-sectors, particularly Charcoal, which is also prominent in the QSEs and MLEs and should serve as a new business venture for new black-owned businesses. Small growers, in particular, are also encouraged to submit their affidavits as these would be the most suppliers of raw material to the larger companies.

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

	<b>Black People</b>	<b>Black Women</b>	<b>Black Designated Groups</b>
<i>Minimum</i>	0	0	0
<i>Q1</i>	0	0	0
<i>Median</i>	51	0	0
<i>Mean</i>	54.07	8.07	12.81
<i>Mode</i>	100	0	0
<i>Q3</i>	100	0	0
<i>Maximum</i>	100	100	100
<i>Standard Deviation</i>	46.27	23.05	32.93
<i>Entities scoring 0% ownership</i>	16	36	37
<i>Entities scoring above 0% but below 51% ownership</i>	3	3	0
<i>Entities scoring 51% ownership</i>	4	1	1
<i>Entities scoring above 51% but below 100%</i>	0	2	0
<i>Entities scoring 100% ownership</i>	20	1	5
<i>Total number of entities</i>	43	43	43

Table 6 summarises the composition of QSE ownership structures across beneficiary groupings including Black People, Black Women and Black Designated Groupings (BDGs).

The comparative analysis in two reporting years, 2020/21 and 2021/22 of EME ownership shows a considerable decline in the black ownership average from a recording of 87.75 previously to 54.07. A notable regression decline was also observed under black women from 12.5 to 8.07. However, the observation on the BDGs black profile shows an upward trend and improvement from zero in the previous reporting year to a 12.81 score. Further analysis proves that the average of



black ownership is normally distributed while ownership averages by Black Women and BDGs are skewed to the left, indicating the gap in the ownership structure of EMEs. The analysis also showed that there is limited participation of black women and BDGs in the sector, with QSEs also displaying a similar trend. The MLEs and Unenhanced QSEs can prioritise creating business opportunities for such entities through enterprise and supply development element to allow for greater participation of the beneficiaries in the sector.

## 6. CONCLUSION AND RECOMMENDATION

The Forest Sector's commitment to B-BBEE has been proven again in the 2021/22 status of transformation report as well as the investment commitment pledged in the PPGI by some of the reporting MLEs. Some reporting MLEs continued to implement the B-BBEE scorecard even after being heavily impacted by the unstable economy worsened by the undesirable COVID- 19 pandemic as well as the slow pace of the recapitalization of the category B & Cs to further drive inclusive transformation. This was confirmed by the highest number of consistent reporting MLEs who reported in the year under review.

In the year 2021/22, all reporting MLEs demonstrated their understanding of reporting requirements, as defined in Section 10, (3 & 4) of the B-BBEE Act as Amended, requiring that entities report in terms of the applicable sector code and more so, annually. All the twenty-four MLEs submitted both the certificate and the in-depth report, which is an encouraging recording that has been observed for the first time since the gazetting of the Amended Forest Sector Code. As a sequel, none of the reporting MLEs was disqualified for submitting an incorrect scorecard certificate and report, though it is highly recommended that all MLEs undertake annual verification as per the definition of the "Measurement Period". This will ensure that there are no gaps in reporting which promote inconsistent reporting, which seems to be occurring marginally amongst MLEs.

MLEs continued to perform well, though declines were observed in Ownership, Skills Development (SD), Enterprise & Supplier Development (ESD) and Socio-Economic Development (only when excluding the bonus points in particular) with the largest decline observed under the Skills Development element. The observed decline in the SD element, in particular, could be exacerbated by the required skills spend with the economy being in one of its worst state as it recovers from the COVID-19 pandemic. Possibly the priority of most entities just like in Forestry to save jobs could be another contributing factor. The proposal in the changes to the Amended FSC (still to be gazetted) to include the skills development levy as part of the leviable amount is therefore justified.

MLEs maintained the same score as previously on the Management Control element. This element continues to be a challenge for the sector though some improvements in particular on the women targets were observed. MLEs are also encouraged to participate in the consultation being undertaken by the Department of Employment & Labor specifically to negotiate realistic targets for this element. This will in turn deepen their understating of these targets in support of equitable employment and promotion opportunities and for the adjustment of their succession plans.

The levels achieved were distributed amongst the recognized B-BBEE levels of 1-8, with none achieving a non-compliant rating. The level 1 B-BBEE rating was the mode amongst the Fibre and Pole sub-sectors, with the other sub-sectors having uneven distributions of the levels, with this observation heavily dependent on the number of reporting entities in each sub-sector. Only five MLEs were downgraded on either one or a combination of the priority elements being Ownership, Skills Development and Enterprise & Supplier Development showing pleasing improvements from previous years of reporting.

In addition, none of the MLEs attained the 5% recognition of black women ownership as a result of a water use application made to the Department of Water and Sanitation (DWS) on the Ownership element. Though it is pleasing that the number of unresolved issues between the DWS and FSA in particular, pertaining to water use licenses have been resolved which should directly expedite the process of new afforestation, women participation and job creation.

A majority of MLEs also created jobs for unemployed learners through the Absorption Principle in the SD element, and as such investment and contribution are pleasing considering the current employment crisis in the country. The Completeness Ratio remained at 0%, confirming the slow pace of the implementation of the attached undertakings for government in particular. As a sequel, a majority MLEs preferred to be verified using the half targets in particular on the Preferential Procurement sub-element with only two being scored on the full targets. The implementation of the commitments set out in the approved Masterplan in particular to funding, land resource and timber availability should therefore be

accelerated to provide leverage to further advance transformation and reverse the other half targets to industry.

The QSEs achieved a level 2 which is one level improvement from the previous year and EMEs also downgraded by a level one achieving an overall level 2. In the current year, there has been a pleasing increase in the number of certificates and affidavits received from both QSEs and EMEs. This is reassuring as it may mean that the smaller entities are realising the benefits of B-BBEE reporting and understanding the associated value add to their growth. Performances in all the QSEs scorecard elements were outstanding, though the QSEs are still required to promote more women across the management positions.

There is still a challenge with submissions from some of the reporting QSEs and EMEs. This was an observation during the collection period as some of the QSEs and EMEs would not necessarily volunteer to submit once they have received either their certificates or affidavits. Most QSEs and EMEs do not have an online presence making the collection of certificates and affidavits even more difficult task. The FindFind report also reported on the state of the SMMEs' economy in South Africa and indicated that the Covid-19 pandemic and subsequent lockdown had a significant impact on the South African SMMEs, leading to about 42.7% of SMMEs closing down in 2020<sup>xiii</sup>. It is anticipated that the proposed change in the Amended FSC suggesting that MLEs and QSEs in particular submit their suppliers' B-BBEE credentials will be suitable in gauging the growth and sustainability and even contributions of these entities to the economy in response to the pandemic.

Inconsistent reporting is still prevalent amongst the QSEs and EMEs. In the current report, a majority did not report in the last two years. This is a call for concern considering that these are the main beneficiaries of the B-BBEE Policy and hence their participation in the forest economy is of chief importance. Additionally, the growth of SMMEs which also encompasses QSEs and EMEs is measured in terms of job creation and annual turnover. The occurrence of entities reporting using an

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<sup>xiii</sup> <https://startwise.co.za/current-state-of-the-smme-economy-in-south-africa/>

invalid scorecard due to a misunderstanding of the reporting requirement should also be addressed.

The larger companies are encouraged to at least require either a Forest QSEs certificate or affidavit from their forestry-based suppliers. The Forest Sector's affidavit requires Enhanced QSEs and EMEs to indicate whether they are Enterprise Development Beneficiary (EDB) or not. A number of entities (EMEs and Enhanced QSEs) who used FSCC affidavits did not indicate any of this category and some entities used generic affidavits or CIPC certificates, which do not have EDB information. This information is crucial and will also be used to monitor the growth trend and trajectory of SMMEs in the forest sector as per the objectives of both the Amended FSC and the Forestry Sector Masterplan. Moreover, it will also give the sector's perspective of how much support is given to QSEs and EMEs.

Furthermore, there are instances where some QSEs are family-owned businesses and are finding the practical approach of B-BBEE, primarily the Ownership element very challenging due to unwillingness to give shareholding to black people. As a result, such entities feel discouraged to undergo a verification process as they would be discounted due to failing to meet a 40% sub-minimum requirement of Net Value points under the Ownership element.

The newly revised operation plan of the Community Outreach Programme (COP), (being one of the undertakings of the FSCC) is intended to prioritise continuous interactions with the EMEs and QSEs to encourage B-BBEE comprehension, implementation and reporting. This approach includes engagements with entities that would have either poorly performed, or have been inconsistently or non-reporting at all, in the reporting years. Feedback reports on the general performance of reporting EMEs and QSEs will also be provided with the anticipation that this would encourage more reporting and present a holistic view of their contribution to B-BBEE.