



**Portfolio Committee on Water Affairs and Forestry  
Policy Discussion: Role of Forestry in Poverty Alleviation**

**Input from CEPPWAWU**

CEPPWAWU notes firstly the historical development of the forestry sector as an upstream input contributing to significant accumulation of wealth to current corporate entities in this sector. The monopoly position enjoyed by these companies and strengthened through processes of privatisation mould the forestry sector first and foremost for the purposes of maximizing downstream profit creation.

Whilst steps have been taken to address corporate social responsibility in the sector, through amongst other initiatives out growers schemes and the development of a BBBEE charter, the positive impact of these is as yet small in nature when compared to the negative impact of profit maximizing activities such as the utilisation of subcontracting established in the industry over past two decades.

In essence the almost complete transfer of tens of thousands of workers into an artificial rung in the supply chain and the deliberate power imbalances between contractor and monopoly users has meant a deterioration in income and working conditions for the bulk of workers employed in this sector. This represents a substantial negative accounting entry in terms of welfare benefits to the rural poor. These arrangements have also ensured a continued delay in adequate skills transfer and the development of opportunities for the rural working class.

Before we congratulate ourselves on what has been done and is to be done we should remember what has already been undone over the past years and the costs this represents to the poor.

Large scale or monopoly enterprises referred to in this document that are involved throughout the timber value chain would include but are not necessarily limited to;

- Masonite Africa (forestry)
- Mondi Forests
- Sappi Forests
- Global Forest Products
- Hans Merensky (Pty) Ltd.

- Singisi Forest Products
- Siyaqhubeka (Pty) Ltd
- SA Forestry Co Ltd
- Safcol Ltd
- Hinteregger SA (Pty) Ltd

**Turning to specific issues for policy consideration;**

**The roundwood supply shortage as an opportunity**

The current supply shortage of roundwood in the sector for downstream beneficiation provides a unique strategic opportunity for the inclusion of rural communities as landowners and producers supplying the market. Whilst many schemes have been started to do this they have been done so with the benefit of the large end user companies in mind. Shifting the ownership and control of upstream supply into the hands of communities will allow significant wealth to move down the value chain but companies must not be allowed to dictate terms if this is to occur. Small contractors in the value chain currently suffer a high failure rate because of this feature of the industry, not solely due to a lack of skills. In principle a number of mechanisms can be used to achieve this. Firstly new supply must be owned by organised economically marginalised groupings and supported by government not large companies alone. Secondly supply of raw materials should see share ownership transfer as part of supply agreements. Scarcity and entrance should be regulated through land use and licensing restrictions being lifted for small growers as part of BBBEE, whilst maintained for lands under large corporate and medium enterprise stewardship. Water regulation should further support this process. This process should be integral to producing new medium scale growers (currently mostly white marketing products through cooperative forms). Downstream activities in the form of FEDs require specific support for development and sustainability. Local communities should be able to make informed decisions about what to grow and how to grow it. Bridging monies will reduce corporate dependence created by out growers schemes.

**Supply Chain Impact on Poverty Alleviation**

There are many levels of contractors in the forestry sector and regulation here refers more to the larger mainly white owned sub contracting operations. Small and survivalist contracting is not the same level of operation and should rather be the locus of enterprise based support initiatives as described in government FED strategy. Regulation in the contractor system is critical for wealth transfer and if a greater proportion of supply is to shift to community and small growers skills transfer to workers employed in the contractor system (the vast majority in this sector) is an opportunity to develop both systems concurrently. Whilst regulation of conditions through sectoral determinations is important these tend to squeeze the margins of the contractor rather than that of the large receiving companies in the supply chain. Greater regulation preventing 'supply chain bullying' is thus of urgent importance in addressing these trends if benefits are to be appropriately passed onto the poor. At the same time these practices by large companies

effectively prevent Black entrants into the contractors market and threaten to undermine the aims of the BBEE forestry charter. This could be done through the BBEE charter or a specific code of conduct that addresses this issue.

#### **Land Use Regulation**

Labour intensity in the forestry and forest products sector will change significantly over-time. Currently the vast majority of afforested areas are intended for the use in pulp and pulp products. This timber requires lower labour inputs and creates fewer down stream jobs than for instance sawlogs. It does however seem to create more profit. Regulation in land usage can serve to assist in this regard and should be part of the consideration of what should be planted in advance of decisions to create new areas of afforestation. For example, if proportionately more land is used for pulpwood production, overall labour intensity will decline, both in the forests and in the processing plants. On the other hand, a move to higher value addition within South Africa, for example through high value sawlog production, and processing and marketing of quality solid wood products from this resource, could contribute to higher and more rewarding employment. The choice of appropriate policy would strongly influence this picture

#### **Privatisation**

Where privatisation of state assets has occurred in the forestry sector, whilst efforts have been made, insufficient attention has been given to the inclusion of rural communities as part of beneficiation processes and to ensure adequate skills development in these communities ahead of such transfers to ensure communities can take advantage of opportunities that may arise. These have been left to a contractual obligation of the new managing organisation. As such skills development and specific initiatives to facilitate proper transfers of wealth an opportunity must happen in advance of any consideration to increase the external private management of these national assets. Where privatisation of such assets has taken place SAFCOL and DWAF still retain significant shareholding and must use this influence to ensure more active approaches to welfare and skills transfers.

#### **Consolidation of the Charcoal Sub-sector**

Currently the smallest end use of forests is for that of charcoal creation. The industry is completely fragmented and few benefits accrue to the poor in an area of economic endeavour well suited for job creation and small scale operations. Urgent attention needs to be paid in the development of policy and regulation to means for the consolidation of this sub-sector and the integration of the rural poor at levels of the supply chain that ensure significant wealth transfer. Again attention to skills development and training coupled with efforts to organise community and small scale producers along with access to finance can play an important role in creating opportunities for a sustained income and poverty alleviation. Initiatives to develop communities through charcoal production must extend beyond scavenging wood for kilns to ownership of these kilns. Financing and skills support mechanisms are necessary to create such FED opportunities



for local communities. These processes should be supported by market access agreements and ancillary mechanisms.

#### **Out Growers and Small Scale Farmers**

Forestry has large job creation potential in terms of out growers schemes and BBBEE based SME development. These forms of employment creation do need to be institutionalised however through cooperative development as small marginalised undertakings will simply be dictated to by multinationals that come to underwrite many of these efforts. Skilling will also be a critical aspect of such an intervention.

Problems of such schemes include;

- Smallholders can have little or no influence over the terms of contract. The formation of growers' associations can balance the power of companies in negotiating the terms of contracts. Present associations, supported by Mondi, need to develop their independence. Cooperatives are a means of creating better levels of engagement and organisation as well as creating organisational locus for state assistance. However Government interdepartmental cooperation will have to function effectively here, particularly between DWAF and DTI.

CEPPWAWU would specifically argue for a interdepartmental team including representation from labour to develop cooperative support and development mechanisms aimed at the forestry sector. If the allocation of land use rights is combined with such processes in the context of a supply shortage significant power and economic benefits could accrue to the rural working class well organised and cooperating in this way. This would further be in keeping with the outcomes of the Presidential job summit which specifically makes reference to growth and employment creation through this organisational form. Cooperatives should be specifically catered for in governments planned FED activities related to training, business support and finance access.

It is critical that monopoly companies are not allowed to simply dictate terms of out grower schemes as under such conditions these schemes will only serve to create another layer of exploitation that has no contractor and now simply relies on self exploitation or an emergent form of independent contractor in the industry. Instead and as an aspect of wealth transfer growers must be independently capacitated by government and skills authorities have access to skilled research and advice and be free to determine price at the point of harvest and the nature of timber to be cultivated that ensures maximum return. As an alternative if such supply mechanisms are to be used into the future as seems inevitable given shortages of land for timber cultivation then share ownership schemes should play a central role in a system of sustainable wealth transfer to economically marginalised communities. Where such scheme exist currently their equity should be assessed with an emphasis on additional compensation where appropriate in the form of share allocations. This should include out grower schemes, community, private land rentals and joint venture schemes.

The process of applying for a license is complex, expensive and time consuming. The licensing of small grower schemes has been due to the sponsoring companies providing the expertise and finance for groups of small growers. Arduous and expensive licensing requirements are an immediate barrier to access and where large companies facilitate this as a corporate social responsibility initiative merely serve to create dependence on these corporate entities. It is government responsibility to facilitate this process at local, provincial and national level. Efforts to streamline these processes are welcomed and it is acknowledged that the time to achieve same has been reduced significantly. However the reality is that it still takes up to a year and is still too complex and expensive for many local growers to access themselves. The reliance on large companies creates a distorted power relationship which government could curtail through changing the nature of licensing for small producers and providing human capital assistance through the application process, coupled to training and development and research support in subsequent development phases. For large companies a more rigorous system should apply which will allow a relatively accelerated supply by small-scale growers in mostly rural communities for a commodity which is in short supply already. This should in turn increase dependency of large companies on small growers and as such improve price. If market forces are to be used as a means of development then regulation must balance these forces through such mechanisms, that do distinguish between large and small operations. DWAF has a policy of granting licenses for only 70% of the area covered by a title deed, even if the remaining 30% is suitable for afforestation. This means that significant capital is tied up in land that cannot be used. This license issue has limited the development of sponsored small grower schemes and could be used to further expand the influence of the small growers schemes by retaining the limit for large scale operations whilst waiving it for small scale growers.

Government must also fast track processes for the development of new areas of afforestation such as in the Eastern Cape but ensure direct ownership and decision making of rural communities in such processes as a prerequisite along with organisational and technical capacity building for small growers.

Out grower schemes may cause inequities. In areas of rapid afforestation newcomers are less likely to procure unused land for their own households. Some households may have joined the schemes in order to tie up unused land. Such issues need to be considered through the process of policy development and identification and development of new afforestation areas.

Risks arise from depending on a single crop for a single market; diversification is useful here. Wattle, for example, provides a greater diversity of products that can be sold into various markets, providing greater opportunity to maximise income. In addition farmers may sometimes overlook more profitable alternatives such as sub-tropical fruit, and need balanced extension services to facilitate a proper

choice of land use. Small commercial woodlots are not well integrated into farming systems e.g. for building poles production and general benefits such as windbreaks, shade, fodder, prevention of soil erosion, and soil enrichment. Again skills and advice can contribute to this as a development as opposed to a dependency process. Free access to skilled advice in this regard will play an important role in reducing such threats. Long term skilling will present a more sustainable solution to such issues in the long term.

#### **Research and Alternative Fibre Sources**

The CSIR and tertiary institutions have programmes focused on research and education in the forestry sector but the focus tends to respond to the large corporate interests in the sector. This is often as a result of funding processes. Whilst some research in this area has been initiated this is largely from a perspective that seeks an alternative to supply constraints than to systems that facilitate rural development more effectively. There is a need for government to further support research in areas that promise greater returns for small growers and into fibre alternatives that are more responsive to the circumstances of small growers and not simply the input needs of monopoly corporates. Research into alternate fibre crops such as hemp and Kafka which consume less water, provide higher yields of good quality fibre and have higher crop rotation of between 5 and 12 months as opposed to 8 to 15 years should form an R&D priority. This is very important for smaller growers and new entrants. At the same time there is a need for research into pulping techniques to ensure maximum extraction that could lead to the development of a capital equipment industry offshoot. Most capital equipment is currently imported.

#### **Access to Land and Resources (non timber forest products)**

Forestry areas have in some instances been opened to adjacent communities for growing of food crops and collection of fuel wood and traditional medicines. This is an important aspect of poverty alleviation but should extend in its implementation and become part of policy and a requirement in both large and medium size growing operations.

#### **The BBBEE charter for the forestry Sector**

Black ownership needs to be encouraged through this process but must extend past large and medium enterprises taking on partners. Support and empowerment of communities through ownership, services, skills and expert support can improve the yield of land and ensure wealth transfer down the supply chain. It is the hope that the Charter can be an active instrument in facilitating this process and bringing some balance to the power disparities in the industry that undermine efforts to alleviate poverty through the best use of the countries forestry resources in the interests of all.



## 7. Recommendations

The Portfolio Committee's core responsibility in the oversight process is to review the performance of Departments, constitutional institutions and public entities as reported in their annual report. The Committee should look beyond the formats and technical aspects and ask "What does the annual report actually say about the entity's performance in the past financial year?" Thus having considered the 2005/06 Annual Reports and Financial Statements of the Water Boards, the Committee recommends the following:

- The Department needs to strengthen its oversight responsibilities of the Water Boards, in terms of submission of the 5 year strategic plans and strategic plans of the entities so that the Committee could engage more extensively and comprehensively interrogate the annual reports and financial statements of entities.
- The Committee should receive the strategic plans of the Water Boards timeously, as this will strengthen the Committee's ability to conduct oversight of the annual reports as per National Treasury oversight Guidelines.
- The budgets of the Water Boards should be availed with the strategic plans of the Water Boards.
- The Department should dedicate human and other resources to the oversight of entities reporting to it.
- The technical quality of the report should be of a standard that meets the specifications in the PFMA and the National Treasury guidelines, so as to inform, and provide for engagement by the Committee.
- It is important to review if the entities are structured appropriately to deliver on its mandate. The Department is to conduct an analysis in this regard to establish if the Entities are structured accordingly to deliver on their mandate.
- In terms of the PFMA, there are clearly lists between Section 49 – 55 the duties and responsibilities of the accounting authorities. Adherence to these sections are recommended for the Water Boards that received a qualified audit reports, namely: Botshelo-, Ikangala- and Bushbuckridge Water Boards
- The Portfolio Committee recommends that DWAF gives focus in its oversight to:
  - How well the entities objectives and performance is linked to that of Government's overall aims.
  - Monitor the continuity of the performance targets of the Entities each year. If effective information systems are in place to measure performance against targets and objectives set.
  - If the entities have adequate systems in place to ensure that it can identify and meet the clients' requirements.
  - If scope for innovative and efficient usage of finance and improvement of performance exist in the entities.
- The Department should report bi-annually to the Committee on the progress of the Water Boards.