

16 JULY 2008, TIPS PRETORIA



# Second Economy Strategy Project

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Forestry and the Second Economy

Workshop



**The Second Economy Strategy Project is an initiative of the Presidency,  
based at TIPS.**

# 1. Opening Presentations

## 1.1. CONNIE SEPTEMBER, CHAIR OF THE PARLIAMENTARY PORTFOLIO COMMITTEE ON WATER AND FORESTRY

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Connie September, Chair of the Parliamentary Portfolio Committee on Water and Forestry

## 1.2. BACKGROUND AND INTRODUCTION: TOWARDS A STRATEGY FOR THE SECOND ECONOMY

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Dr Kate Philip, Second Economy Strategy Project

## 1.3. OVERVIEW OF THE SECTOR

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Rory Mack

(Presentations available at [www.commark.org](http://www.commark.org))

## 2. Inputs from Participants

The inputs summarised below were in the form of briefings given from participants in the workshop.

### 2.1. DEPARTMENT OF WATER AFFAIRS AND FORESTRY (DWAF)

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**Tunzi Pumeza** provided an overview:

#### **Water licenses**

- The key challenge lies in the implementation of water licenses. The National Water Act governs the allocation of water licenses.
- There are challenges in obtaining a water license for afforestation, with the process currently taking up to two years.

#### **Privatisation**

- In the Eastern Cape category B and C plantations are being rehabilitated so that they are in a more healthy position when they are transferred to private or community entities. Mvula Trust is responsible for the rehabilitation of these plantations. There are currently over 8 000 temporary unplanted hectares in this sector.

#### **Afforestation**

- In the Eastern Cape 100 000 hectares will be made available for afforestation over the next ten years (actually 1.9m hectares but 85% of this land is already in use).
- Most of this land is rural and requires considerable consultation. Forestry development protocols have been established to provide a framework for investors to engage communities at the local level in order to secure land. Private companies – like Sappi and Singizi – are using that approach to aid their expansion.
- There is ongoing competition between agricultural and conservation around the use of the land. A DEAT conservation and biodiversity programme has identified many of the same areas. Thus industry needs to be involved in decisions where biodiversity may be in tension with economic opportunity.
- Infrastructure is an ongoing challenge in terms of access roads, electricity, water
- DWAF plans to plant 10 000 hectares each year however the forestry industry do not plant the type of trees that promote an enabling environment, which is why it is important that industry players apply for licenses.

- A solution to the lack of saw logs has been put on the table; however, questions were raised around the efficient use of time since it is estimated that currently 20% of time is lost through waste.

## Horizontally integrated rural development

### Role of municipalities

- In terms of afforestation investor protocols identify the municipality as first port of call. The municipality also assisted in the drafting of these protocols.
- Municipalities have a critical role to play in the development of a forestry profile, spatial info, biodiversity action plans, training and objects like SEA.

## DISCUSSION:

The following questions emerged:

A key contentious issue related to the future of SAFCOL. While it was reported that meetings around the privatisation of SAFCOL are still taking place, the view of representatives of the Parliamentary Portfolio Committee was that this was no longer in line with policy, and a need for greater policy coherence on this issue. The following questions were raised:

- What is happening with SAFCOL? Is it being privatised and if so, why? What is the role of a developmental state in this context and when there is a need for afforestation?
- Does DWAF need a state entity – like SAFCOL – to promote small growers and implement what the private sector cannot?
- SAFCOL does contain expertise – can it not be fixed rather than shut down?
- Can the second economy strategy rely on the private sector alone? What would the interface be?
- How does the sector address the issue of competition?
- There are relatively few SMMEs in the sector and they are struggling
- Cooperative governance is a critical issue particularly in provinces, such as Limpopo.

The meeting recognised the need for the Charter to provide a 'baseline' for the discussion, although some felt it did not address the issues of the most marginalised groups in the sector. Concern was raised over whether the timeframes in the Charter were likely to be met, and the lack of an action plan or mechanisms to hold stakeholders accountable for commitments and/or measure outcomes.

Delegates were informed that Komatiland Forestry (KLF) is the only remaining subsidiary of SAFCOL. It was reported that KLF uses an aggressive policy forcing people out of the economy. KLF has cut down on training and is no different from a private company in its practices. It was also reported that SAFCOL is using a form of import parity pricing for sawlogs.



A considerable sum of money is locked up in DWAF in terms of rentals paid by private companies for communities in Singizi in the E. Cape, but where the Land Claims Commission has not yet finalised how to define the 'beneficiary communities' – causing considerable tension.

Licenses are an extremely an expensive process, requiring some R100 000 on the table, to pay for environmentalal impact studies and so on. Sappi is funding this process but licenses never get granted. Furthermore environmental affairs appear to believe that that every license not granted is a victory for the environment. Legislation in this regard is not enabling.

## 2.2. DWAF EASTERN CAPE

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Sappi and Mondi are the dominant players in the Eastern Cape. DWAF is extending the dominion of the two companies, in a context in which the the Charter agrees that the **dti** should be approached to support greater forms of community ownership.

Unemployment and poverty are the biggest challenges. Other sectors have also been shedding jobs. Forestry has potential to create jobs in the SMME industry. The Charter addresses issue for growers and contractors. Jobs and money come from a number of other activities. There is a need to focus strategically making the establishment of SMMEs a strategic goal. However, important SMMEs are dying. Government has privatised all charcoal industries and saw millers are creating many jobs. The question is how to obtain leadership.

## 2.3. THE DEPARTMENT OF TRADE AND INDUSTRY (DTI)

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**Matome Kgwedi from dti** explained that dti's strategy for timber, pulp and paper is about opening up opportunities and adding value. **dti** focuses on four main areas, namely:

- increasing the supply of raw material in the country by investing in the planting of new trees
- increasing downstream beneficiation activities (e.g. developing a furniture strategy for the country, promoting the charcoal industry in Mpumalanga)
- easing supply constraints of raw material to small enterprises (e.g. negotiating with neighbouring states, organizing field trips)
- transferring skills and upgrading technology to ensure that SMMEs are more competitive and productive. (i.e. ensuring the integration of small players in the value chain).

## 2.4. DEPARTMENT OF LAND AFFAIRS (DLA) PRESENTATION

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**Peter Ntshoe** from the CLCC briefed the meeting:

The DLA is a commission with a timeframe, with the mandate to redress inequality in land ownership. The DLA reported that they also seek to ensure that all departments implement what they say that they will in terms of land ownership issues.

Several challenges were identified:

- unregistered properties
- land prices charged by farmers
- land owners resisting restitution
- claims records
- DWAF rentals fund

The DLA recognises forestry companies as important players, and made a plea for assistance to the commission to move forward in terms of settlements and contracts. Companies could also assist with monitoring and evaluation, best practices and so on.

### **DISCUSSION:**

In terms of obtaining assistance from forestry companies there was some concern in the workshop that the trend would be for DLA to approach Sappi and Mondi, never giving smaller companies a chance, nor taking into account the interests of smallholders or workers.

In terms of land transfers, DLA was asked whether the company sold the land but retained ownership of the trees since there were situations where companies had agreed to pay tax to government if they sold their trees. The premise of the DLA is that they are giving land to people; but instances were cited where the land and the trees were part of the claim, and a lack of continuity of approach causing uncertainty also.

While this discussion was curtailed because of time, there was a consensus in the workshop that the land claims are having a significant effect on the sector as a whole; that there is a need for a national strategy around the land restitution process, which has been handled problematically; and that such an approach needs to look at impacts on the whole value chain, partly because of jobs and growth, but also because most of the value is not on the land – but further up value chain. With about 50% of land under claim, this is both a huge opportunity to transform the sector – but if handled badly, threatens the future of the sector as a whole. Already, uncertainty is leading to declining investment, less planting is taking place, certain high-value forests are being cut down before optimal age, and lack of security of supply is impacting on saw millers and other downstream processors.

### 3. Focus on issues of access for small growers and SMME's

**Aubrey Nsuntsha from Amahlati** said that SMME development alone should not be a goal on their own. They have a strategic place in the economy, not to be turned on and off at whim. SMMEs are new to the forestry industry. Amahlati Emerging Entrepreneurs Forum (AEEF) has a number of initiatives, mainly to organise people in the forestry sector. Nsuntsha said that going forward it is necessary to determine how to liaise with MPs and how to increase awareness to mobilise and change attitudes. It was noted that there are less than five black contractors / SMMEs in the sector.

Reasons for the collapse of small growers include:

- loss of a company's support
- lacked viability due to size – plantations were only two hectares
- unable to obtain DWAF license
- team bought up by another contractor or company
- inhospitable road infrastructure
- lack of insurance
- lack of awareness
- lack of resources
- concentration of ownership means that big players can manipulate the environment
- lack of a common vision.

**Dave Cooper, TEBA Development**, reported that the international forestry market is bullish yet South African markets are shrinking. This suggests that the South Africa forestry sector is performing badly in global terms which points to serious systemic problems. These need to be addressed before focusing on SMME growth. The private sector needs to assist with the diversification of the sector. DWAF needs to focus on its regulatory functions. DLA needs to look at how their land reform policy has impacted upon the agricultural sector and the knock on effects that this has had.

Cooper suggested that the development of a rural economy and an anti-poverty programme necessitate the involvement of the people living in these areas. Cooper maintained that government processes are still too removed from the people. Rural growers would never be in a position to tackle the forestry red tape like permit applications. Cooper stated that the form of institution is not important – both co-operatives and SMMEs will work.

He added that theoretically the notion of a developmental state is commendable but in reality local government effectively suppresses development in rural areas because it provides subsidies. The issues are complex and there is a need for stakeholders to commit to finding joint solutions.

Kate Philip noted that the issue of intermediation had emerged quite strongly and acknowledged that it would be impossible for small growers to operate without intermediation. However she also noted there had been some concern that intermediaries would be seen as a top down solution. Kate Philip asked Cooper to identify whether there are any forms of community level intermediation support.

Cooper state that there are successful examples but they are small and it is a struggle. In Keiskamma Hoek the Umzimkulu community applied for a forestry license – there was good intermediation and the process worked well but would not have happened without the intermediation. Intermediaries need to have a strong community focus and be capable of approaching government.

Cooper said that the private sector should support small enterprise adequately. In the past companies have imposed a lock in clause on small growers, which initially sounds fair, however often growers can obtain a better price for their timber elsewhere and lock in clause is creating an unfair advantage for companies. Small growers would probably revert to a fifty percent yield, suggesting that there may be a case for the SAFCOL model. The other argument is that models need to have a stream of benefits so that they do not burn it down. The money must be in the system. Sugar cane factories died out because Sappi and Illovo stopped supporting the smallholder farmers. There is a perception that SMMEs must survive and compete with the corporate sector. This is erroneous on a short-term investment scale.

Land reform and land transfers represent the greatest opportunity for intervention. It is necessary for stakeholders to explore opportunities at all stages in the value chain.

Forestry SA highlighted the following priorities:

- conducting land restitution
- integrating business support
- mainstreaming national goals and the Charter
- aligning to the five year plan with key players e.g. establishing MOUs with numerous government departments
- supporting skills development
- ensuring that there are plans to address risks such as fires, pests,
- promoting image through a marketing strategy
- improving the regulatory environment to reduce the cost of doing business, which is currently quite high.

Winston Smit, Sappi, said that in terms of SMME growth and the second economy there is also a need to look at the market. A number of ventures – chipboard plants, saw mills etc – have recently closed down. Many of these would have represented extremely successful BBEEE opportunities. He also reported that a number of pension funds are investing in forestry companies. This shows the need for

stakeholders to work together to grow the sector and discuss industry issues in a frank and open manner.

There was some doubt about promoting SMME development in light of the closure of forestry businesses. It would seem that these enterprises have false expectations and would be set up to fail.

- Government co-ordination is key to ensure that the necessary components are in place.
- According to the **dti** the future of the forestry industry lies in the SMME sector. Seventy percent of the land to be processed will be going to small growers. This links in to a strategy, which the **dti** are putting together, which outlines a framework for the sharing and centralisation of services for small growers and the establishment of links with markets and raw materials. This collective strategy depends upon sufficient capacity to harness the economies of scale. It was noted that this would need to incorporate a strategy on the development of marketing intermediaries such as cooperatives.
- In terms of market coordination and the role of intermediaries there are a number of forms of association that currently exist between the private sector and small growers, however, it was noted that most SMMEs are operating in an isolated environment and do not have access to the economies of scale and other necessary instruments. It was suggested that co-ordination would help to facilitate access and overcome the challenges related to informality.
- It was noted that Amahlati Emerging Entrepreneurs Forum (AEEF) is providing some assistance in terms of co-operation. This co-operative formed to provide a platform for emerging growers, contractors, and small saw-millers.
- There was a recognition that the needs of SMMEs can be served through a range of institutional arrangements, but the need for forms of co-operation and co-ordination was recognised.
- Some participants questioned whether SMMEs should be the focus area since their tight margins may be indicative of a saturated market.
- It was argued that we need to take a regional perspective when it comes to shortages of saw logs: South Africa needs to go beyond its borders to find economic opportunities; dti has been facilitating this. NEPAD has also had experience, which could be tapped into.
- It is necessary to analyse current ownership patterns to gain a deeper understanding of the composition of the industry. This would enable a more informed analysis of how the economic patterns should be restructured. For instance if the majority of participants are deeply rural a co-operative mechanism may prove most appropriate.
- It is also necessary to identify what is already in the industry's pipeline – Is it going to take another 70 years before plantations mature or are some forests already 70 years old. Does this information exist? The meeting was not clear.
- An example of a KZN strategic process between DWAF, **dti**, Forestry South Africa (FSA) and the Department of Economic Development was noted.

- There is a need for a co-operative strategy and a streamlined process to avoid wasting time and duplicating efforts.
- A strategy needs to focus on the issue of implementation, particularly in terms of addressing the needs of SMMEs and communities.
- This strategic process and the **dti's** processes should be integrated or develop alongside one another.

## 4. Way forward

### 4.1. HEADLINE ISSUES

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The workshop agreed on the 'headline issues' that a second economy strategy for Forestry would need to address. These are attached.

### 4.2. ACTION POINTS

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Participants agreed the process was valuable, that there was a need to identify practical ways to take it forward, to address the 'headline issues' and proposed that a follow-up should be arranged. Additional stakeholders were proposed, including communities.

The following action points were agreed:

1. Build the information base: there is a need to centralise documentation on what different partners are doing. It was suggested that either the Second Economy Strategy Project or ComMark should create an 'envelope' on their websites for this purpose, to act as a repository of information and research about the sector. (ComMark has agreed to do this).
2. Document existing models that facilitate access to value chains and market access for sme's in the sector:
3. Lobby for a conducive regulatory and legislative framework
4. Bring together an inter-departmental forum to address the long list of issues identified under 'Government's role in the enabling environment, policy and regulation', with a view to creating an inter-departmental committee. It was agreed that Kate Philip will communicate the outcome of the workshop into the AsgiSA AHLTT, and will liaise with DWAF who will then

coordinate with the other government department and provinces. It was suggested that the committee could start by selecting one or two key issues to tackle to assess whether there was merit in this approach, and to make progress. A co-ordinated and coherent approach to the development of SMMEs and smallholders in the forestry sector and the need for a strategy for the sector to guide the land reform process were raised as potential issues for the committee to prioritise.

5. Organise a follow up meeting of this group
6. Collate case studies, best practices and lessons learnt.
7. Follow up on examples of abuse within the sector; ensure that government and the private sector buy in to the Charter's Code of Conduct. DWAF to lead as this is their responsibility from the Charter.
8. Conduct a mapping of SMMEs in the value chain, including downstream sub-sectors.

Kate Philip explained that the Second Economy Strategy Project has some resources available for research and pilot initiatives over the short term (to end September); that ComMark also funds similar work in this area, and has a longer time frame; and that there was a new fund in government, to be managed by the Economic Cluster which will combine DFID and EU funding, which has allocated about R1 billion over five years for work on issues affecting poverty and the second economy. Applications for the DFID fund open in October 2008; the EU Fund is targeting March 2009, the Secretariat is in dti.

## 5. Annexure 1: Headline Issues

At the Second Economy Strategy Project workshop on 'Forestry and the Second Economy' on 16 July 2008, the following were identified as the 'headline issues' that a strategy to address 'the second economy' would need to cover:

### 5.1. OVERVIEW OF THE SECTOR; SUB-SECTORS:

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- Growth potential, markets
- Structure of the sector: ownership, competition issues, political economy

### 5.2. POLICY, REGULATION, ENABLING ENVIRONMENT AND INTER-GOVERNMENTAL CO-ORDINATION

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- **Land reform**
  - About 50% of the sector is under claim, with critical impacts across the chain.
- **Water and forestry licenses**
  - Water licenses currently take about 2 years to process.
- **Intergovernmental co-ordination:** the following departments all have mandates related to forestry: DWAF, dti, DEAT, DLA, DoA, DPLG; and Provinces and Municipalities also.
- **Privatisation**
  - This affects (a) the status and future role of SAFCOL and (b) the future of Category B and C plantations.
- **Aforestation**
  - Competing land uses limit scope for expansion.
  - Challenge of infrastructure: access roads, electricity, water.
  - Aforestation is the proposed solution to limited supply of saw logs: but estimates: 20% of timber lost through waste.

- **Competition policy**
- **Seta's:** alignment of training with needs;
- **Policy coherence:** privatization, afforestation, bio-diversity, alien invasives.
- **Monitoring and evaluation**
- **SME policy, co-ops**
- **Overall sector strategy**
- **How government invests**
- **The need to look 'horizontally' at integrated rural development**
- **Role of municipalities**

### **5.3. OWNERSHIP AND THE SPREAD OF WEALTH AND BENEFITS IN THE SECTOR**

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- The Charter, BBBEE
- Issues in relation to communities, women; workers/ ESOPS; co-ops

### **5.4. STRATEGIES TO GROW THE INDUSTRY IN WAYS THAT EXPAND EMPLOYMENT IN THE SECTOR AS A WHOLE**

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- In the private sector
- In the public sector: role of SAFCOL?
- Public employment: the Working for ....programmes (Water, woodlands, fire etc)
- Through public private partnerships

### **5.5. STRATEGIES TO IMPROVE CONDITIONS OF EMPLOYMENT FOR 'THE WORKING POOR' IN THE SECTOR**

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### **5.6. ACCESS AND OPPORTUNITIES FOR ENTREPRENEURS**

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- Market access, input supply, the service environment
- Market institutions, co-ordination, economies of scale

- Access to finance, skills, BDS

Need to disaggregate in terms of sub-sectors

## **5.7. SUPPORT TO ISSUES OF ORGANISATION AND 'VOICE'**

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- Smallholders, growers
- Entrepreneurs, contractors
- Workers
- Communities

## **5.8. ENVIRONMENTAL SUSTAINABILITY, CLIMATE CHANGE**

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