



DEPARTMENT OF WATER AFFAIRS AND FORESTRY

**KEY ISSUES PAPER ON FORESTRY
ENTERPRISE DEVELOPMENT**

**DEPARTMENT OF WATER AFFAIRS AND
FORESTRY**

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ACRONYMS

ARC	Agricultural Research Council
BEE	Black Economic Empowerment
CBO	Community Based Organisation
DBSA	Development Bank of Southern Africa
DFID	Department for International Development
DLA	Department of Land Affairs
DTI	Department of Trade and Industry
DWAF	Department of Water Affairs and Forestry
EC	Eastern Cape
ECDC	Eastern Cape Development Corporation
EIA	Environmental Impact Assessment
EPWP	Expanded Public Works Programme
FED	Forestry Enterprise Development
FIETA	Forestry Industry Education and Training Authority
FCPI	Contractors Productivity Initiative (FCPI)
FSA	Forestry South Africa
IDC	Industrial Development Corporation
IDP	Integrated Development Plan
INR	Institute of Natural Resources
KZN	KwaZulu-Natal
LED	Local Enterprise Development
LOSA	London/ South Africa Initiative
LRAD	Land Redistribution for Agricultural Development Programme
NCT	National Co-operative Timbers
NFA	National Forest Act
NGO	Non-government organisation
NTFP	Non-timber forest product
NWFP	Non-wood forest product
PFM	Participative Forestry Management
PGDP	Provincial Growth and Development Plan
SAFCA	South African Forestry Contractors' Association
SALMA	South African Lumber Millers' Association
SAWGU	South African Growers' Union
SAWPA	South African Preservers' Association
SEA	Strategic Environmental Assessment
SMME	Small, medium, micro enterprises
WFSP	Water and Forestry Support Programme

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EXECUTIVE SUMMARY

Forestry Enterprise Development (FED) relates to the concept of using forests (natural and plantation) and forest-based resources as a vehicle for economic growth, employment and socio-economic upliftment that takes people from a subsistence livelihood system into the market economy and from the “second economy” into the “first economy”.

This concept is not new and is a central theme of Forestry policy and DWAF’s new Forestry Vision. The concept is also central to Government’s pro-poor agenda and a key component Broad Based Black Economic Empowerment (BEE) in the forestry sector.

A number of initiatives have already been taken by DWAF in support of FED. This includes the transfer of state forests, the development of an afforestation strategy for the Eastern Cape the inclusion of forestry as a key sector in the Provincial Growth and Development Strategy for Limpopo and the Eastern Cape and supporting appropriate certification systems for small growers. A wealth of information has been gained from these initiatives and the lessons learned provide a useful basis for feeding into a strategy on FED. This, in turn, helps to inform the institutional requirements for DWAF’s people-centred support functions.

The Paper provides the following working definition of FED:

Market-driven, profitable business ventures, involving previously disadvantaged communities and individuals, and based on the sustainable use of forests and forest-based resources.

In terms of this definition FED covers growth in business development across the whole spectrum of enterprise sizes, from micro (often part time) enterprises to large-scale business ventures. The Paper identifies the scope of FED to include the following five categories of enterprises:

- *Timber production enterprises*
- *Contracting enterprises*
- *Timber processing, value adding, and marketing enterprises*
- *Non-timber forest product (NTFP) enterprises*

The Paper identifies a range of FED opportunities under each of these categories. FED opportunities arise in many ways and forms, namely through the growth in markets for existing products, technical innovation in creating new markets, increased efficiencies and waste management, better working markets, improved business arrangements between market players, being some examples.

A substantial increase in the national demand for pulp, paper, saw timber, timber board and charcoal products is anticipated over the next 25 years and the industrial

infrastructure is well placed to meet this demand. However, because of limited opportunities for new forestation, growth in the timber processing, value-adding and marketing sector is limited by the long-term availability of roundwood supply. With improved yields from plantation resources and an estimate 200 000 ha of afforestation possible, a 23% increase in supply of roundwood is projected for 2030. Nevertheless, a higher growth rate than this can be expected in the timber processing, value adding and marketing sector if the following opportunities are fully exploited:

- o The import of saw logs, chips and other semi processed timber from other low cost producing countries*
- o Redirecting current wood chip export to local pulp mills and further growth in the waste paper recycling industry*
- o Improve timber utilisation rates (reduced wastage) in the saw milling sub-sector*
- o The development of high value niche products and better utilisation of sawmill waste products in the timber manufacturing sub-sector*
- o Greater product innovation and improved utilisation of waste raw material in the timber board sub-sector*
- o Growth opportunities in small and medium scale pole production and charcoal production enterprises*

In addition to opportunities for growth, more attention should also be given to greater stability; profitability and equity for small and medium scale growers, contractors and saw millers. These groups require better organisation to collectively bargain and lobby for their interest and have access to resources and training support to improve their productivity and participate in value adding production opportunities. Moreover, substantial opportunities exist to ensure a greater equity in ownership of existing plantation assets. Large tracts of plantations had been established on land that historically belonged to black communities. In terms of Government's restitution and tenure reform policies, as well the policy on the restructuring of state forest assets, the ownership of this land needs to revert back to these communities. This process needs to be speeded up.

The fact that opportunities for afforestation still fall short of the anticipated demand for timber in the long term and the impact this has on limiting downstream enterprise development and employment opportunities, underscores the need to optimise available forestation areas and to continue to improve productivity and yields. This means that special attention needs to be given to the rehabilitation of Category B and C plantations, as well as the better utilisation and regularisation of the more than 100 000 ha of "unofficial" plantations.

The paper also analyses opportunities in the Non-timber Forest Product (NTFP) sector. The greatest opportunities for growth and development are found in forestry based tourism, trade in medicinal plants, firewood collection and distribution, honey production and trade in indigenous fruits. Once again, the availability of and access

to resources restricts growth in these sub-sectors and special attention needs to be given to the better management of available resources, improved access to non-traditional sources and, in the case of medicinal plants, to the development of commercially cultivated stocks. In the case of honey production and trade in medicinal plants & indigenous fruits, more attention should also be given to participation in processing and marketing of products.

The analysis of opportunities points to the fact that FED covers a diverse set of activities, involving a great number of role-players, ranging from land holding communities and small scale entrepreneurs to private sector companies and different government agencies. The successful implementation of FED is dependant on the active involvement and support of all these role-players. For this to happen, an FED strategy needs to be underpinned by a vision of the prospects and future for the forestry sector that can be shared by all. Such a vision, and the growth and development objectives for each sub-sector that follows there from, should be developed in an FED strategy. Moreover, this should not be not be viewed as a DWAF strategy, but as a sector strategy in which DWAF plays a leading role.

The Paper identifies FED links with other policy initiatives within DWAF, and more generally across government. This points to the fact that:

- o A policy framework for FED is already contained in the White Paper on Sustainable Forest Development in South Africa (1996) and the legal mandate to act thereon is contained in the National Forests Act (No 84 of 1998).*
- o DWAF policy and strategy initiatives in support of the new Forestry Vision, such as on Forestry Restructuring, PFM, Working for Water and State Forest Transfers together contribute and give partial shape to an FED strategy.*
- o There is a range of other Government policy instruments that can be, and are, used in support of FED, notably the SMME support programmes, Broad-based BEE initiatives, Land Reform Programme, Expanded Public Works Programme, Sector Skills Development Programme, Municipal Integrated Development Plans and Provincial Growth and Development Plans.*

The paper outlines the enabling conditions needed to support FED. This entails a set of policies, institutions and support programmes that will

- Promote FED organisation for bargaining power*
- Promote FED awareness and access to information;*
- Provide for a simplified and streamlined regulatory environment;*
- Support public infrastructure provision required for FED;*
- Provide training and extension support to FED;*
- Provide finance and business services for FED.*

The Paper concludes that an FED strategy framework is needed that sets out broad guidelines for FED and identifies priority strategy themes to be developed further as a separate strategy initiatives.

1. RATIONALE

Forestry Enterprise Development (FED) relates to the concept of using forests (indigenous forests, woodlands and plantation) and forest-based resources as a vehicle for economic growth, income generation and job creation that takes people from a subsistence livelihood system into the market economy and from the “second economy” into the “first economy”. This concept is not new and is a central theme of the White Paper on Sustainable Forest Development in South Africa and the 1997 National Forestry Action Programme. This concept is also contained as a key principle in the National Forests Act of 1998, which states in section 3 (3) (c) that forests, including forest produce, must be developed and managed so as to promote *inter-alia* the fair distribution of their economic and social benefits and advance persons disadvantaged by unfair discrimination. The concept is also central to DWAF’s new Forestry Vision, namely:

“Forests are managed for people and we need to create an enabling environment for social development through sustainable forestry, especially at the local levels.”

This concept is also central to Government’s pro-poor agenda and also a key component Broad Based Black Economic Empowerment (BEE) in the forestry sector. These linkages are explained later in this Paper. Suffice to say at this stage that FED is a necessary initiative to ensure that forestry development relates directly with the larger agenda of Government on poverty alleviation and Broad Based BEE.

2. BACKGROUND

The concept of a government-led Forestry Enterprise Development Initiative developed since 1994. The idea of a government agency to facilitate forestry ventures on communal land was discussed at Ministerial level in November 1997 and was followed by a consultative meeting involving government, community representatives and the private sector in the Eastern Cape in April 1998. This led to the establishment of a Forestry Enterprise Development Office (FEDO) in DWAF in the same Province. The FEDO continued work on two broad objectives: commercial afforestation of 60,000 hectares of communal land involving the communities within 20 years; and the development of the forestry processing sector and related industries using and involving local rural communities.

DWAF has taken a wide range of initiatives over the last few years to promote and clarify DWAF’s role in support of FED. Initiatives taken over the past few years include the following:

- The establishment of inter-governmental forestry liaison forums in the Eastern Cape (Eastern Cape Forestry Development Initiative) and in Limpopo (FED Co-ordinating Committee);

- Inclusion of forestry as a key sector in the Provincial Growth and Development Strategy for Limpopo and the Eastern Cape;
- Inclusion of forestry development planning in selected District municipalities' Integrated Development Plans (IDPs);
- The implementation of a strategy for the transfer of indigenous forests;
- The development of a strategy for the transfer of Category B and C plantations;
- The development of the Eastern Cape afforestation Strategy;
- Support to streamlining the Stream Flow Reduction Application (SFRA) licensing process in the Eastern Cape;
- Support to FSA in facilitating Small Grower structures in Kwazulu-Natal.
- The Afforestation Map Initiative to streamline afforestation licensing in Kwazulu-Natal;
- Mapping of forestry development opportunities in Limpopo Province;
- Sub-sector studies on FED and studies on forestry-poverty links;
- Collaborating with the Agricultural Research Council in supporting beekeeping development projects.

A wealth of information has been gained from these initiatives. The lessons learned so far provide a useful basis for feeding into a strategy on FED. This, in turn, helps to inform the institutional requirements for DWAF's people-centred support functions.

3. OBJECTIVES OF THIS PAPER

Drawing on the FED lessons learned to date, it is opportune for DWAF to clarify its position on FED. This paper is a first step towards a coherent strategy for FED support. The objective of this paper is to:

- (a) Define the nature and content of FED (section 4.1);
- (b) Identify the range of FED activities (section 4.2);
- (c) Identify potential FED opportunities (section 4.3);
- (d) Describe how FED links with policy initiatives within DWAF and across government (section 4.4);
- (e) Identify the enabling conditions required for FED (section 4.5);
- (f) Consider the potential role of DWAF and other stakeholders in promoting FED (section 4.6);
- (g) Explore options for the development of an FED strategy (section 4.7).

4. TOWARDS A STRATEGY FOR FED

4.1. DEFINITION

There is probably no single definition of FED that would completely satisfy all the stakeholders involved. What follows is an attempt to define FED, primarily from the DWAF point of view, as a basis for discussion amongst all the stakeholders interested and involved in promoting and implementing FED.

4.1.1. Context

While important lessons can and should be learnt from international experience, FED needs to be defined within the special circumstances that prevail in South Africa.

Poverty alleviation is a key concern in South Africa. Seventy percent of people living in rural areas are poor with three out of four children living in households with incomes below the minimum subsistence level. Government's pro-poor agenda is being pursued under three programme goals:

- Encouraging the private sector to create more job opportunities;
- Supporting new market entrants to establish viable businesses; and
- Building a social security net for the very poorest in society.

FED represents forestry's contribution to the first two of these programme goals. Forestry as a social security net for the very poor is equally important but falls outside the scope of FED. This is further discussed in the companion *Key Issues Paper on Forestry and Poverty in South Africa*.

Regenerating stagnant rural economies is critical to providing the opportunities for poor people to escape poverty. Opportunities to stimulate growth in rural areas are often limited, but South Africa's highly successful forest products industry offers realistic prospects. In contrast to many other poor African countries, South Africa's large economic base can offer these opportunities, with the forest industry being especially well placed to do so.

The government has declared its intentions in respect of **Broad Based Black Economic Empowerment** (BEE) and has identified investment in enterprises that are owned or managed by black people as one of the instruments to support Broad Based BEE. This is provided for in section 1 (f) of the Broad Based BEE Act, 2003. FED must be defined, understood and implemented in this context. In other words, FED must be recognised an important instrument in any Broad Based BEE agenda for the forestry sector. FED must be directed in such a way that it supports this agenda.

FED initiatives must lead to enterprises that are **sustainable** and that utilise forestry resources on a sustainable basis. Planning for long-term sustainability must be one of the most important elements of successful FED, and only those projects that are sustainable (i.e. able to continue operating without external, artificial support) deserve to be referred to as FED.

4.1.2. Content

In reverse order:

Development: the word development implies a planned process with a starting point, clear objectives and a path of growth and expansion. As a process, FED is not something that simply happens by itself. It requires an institutional framework and a conducive enabling environment, complete with support from the many stakeholders involved in making it happen.

Enterprise: a business enterprise is established to produce an income, profit and ultimately wealth (a relative term) for its owners. The enterprise may be an existing and on-going affair, or something completely new. The enterprise may not be the sole source of income for those who participate in it. It could start off as a part time activity, but with a view to growth and increased profitability. With the emphasis on “broad based” BEE that contributes to poverty reduction and rural development, the focus is on small, medium and micro enterprises. The enterprise could entail single ownership, small group-owned or community-owned businesses. For example, a small contracting business owned by a rural-based black entrepreneur, and employing 50 people from the same rural community, is an FED initiative, as is a small group of women co-operating to produce crafts from reeds adjacent to a natural or plantation forest. At the same time FED also entails growth in the large-scale enterprise sector that can support job creation and greater black participation in the ownership and management of the forestry economy.

In short, it covers growth in business development across the whole spectrum of enterprise sizes, from micro (often part time) enterprises to large-scale business ventures. Enterprise development is seen as a vehicle for economic growth, employment and socio-economic upliftment that takes people from a subsistence livelihood system into the market economy, from the “second economy” into the “first economy” and from small business activities to large-scale business ventures.

Forestry: earlier we noted that FED is to do with promoting enterprises within the forestry context. Basically, any business enterprise that has an association to forestry, and meets the other requirements noted above, should fall within the definition of FED. Forestry refers to natural (or indigenous) forests, woodlands, and commercial, planted forests. FED can also extend beyond primary production to support goods and services, secondary and tertiary processing.

4.1.3. Definition

Before moving on to explore different types of FED, the following is submitted as a working definition. FED is:

Market-driven, profitable business ventures, involving previously disadvantaged communities and individuals, and based on the sustainable use of forests and forest-based resources.

It must be noted that the above definition focuses on the use of forest and forest-based resources within the framework of (and as a point of entry into) the market economy. The use of forests and forestry produce for domestic use (within a subsistence economy framework) is excluded from the above definition. This is not to say that the latter is not important, but merely implies that FED is not the only link between forestry and livelihoods. It is suggested that the role of forestry in subsistence livelihoods needs to be covered in a separate subset of activities within the framework of Participative Forestry as applied in DWAF.

4.2. SCOPE

Forestry enterprise development may be grouped into the following five categories:

- Timber production enterprises;
- Contracting enterprises;
- Timber processing, value adding, and marketing enterprises;
- Non-timber forest product (NTFP) enterprises.

There may be other categories, and other ways of categorising FED, but the above seems to capture most of the on-going and potential forestry-based community enterprises.

Within each category, a number of examples of FED can be cited:

4.2.1. Timber production enterprises

This involves primary production of fibre. Examples include:

- *Large and medium scale timber growing schemes*, which constitutes the bulk of plantation forests in South Africa.
- *Corporate outgrower schemes*, particularly prevalent in Kwazulu-Natal (KZN). NCT, SAPPI and Mondi all have outgrower schemes, and the South African

Wattle Growers' Union and wattle processing companies manage small-scale outsourced production schemes.

- *Privately-owned woodlots*, for example, the Vhembe gum tree woodlots, the community-owned woodlots in Soekmekaar, and the community-run wattle conversion project at Cata.
- *Community plantation ownership and management*. For example, Mbandla Trust in Umzimkulu, Sokapase Trust in Blyth, Bonagude Trust in Melmoth and Mondi's Lenjane Estate.

4.2.2. Contracting enterprises

The contracting sub-sector offers a number of good opportunities for FED, for example:

- Community based tree nurseries;
- Silvicultural activities on medium and large-scale plantations (e.g. planting, weeding, chemical application, thinning, stumping etc.);
- Harvesting on medium and large scale plantations (including stripping, cross cutting, stacking, loading), and for the mining companies on the sands near Richard's Bay;
- Installation and maintenance of fire breaks and fire fighting;
- Short- and longer- haul transportation;
- Management of natural forests (on behalf of DWAF);
- Working for Water through the removal of alien invasives;
- Ownership and management of contracting companies as BEE partners, e.g. Kenmar Boskultuur Kontrakteurs.

4.2.3. Timber processing, value adding, and marketing enterprises

Examples under this heading could include:

- Large and small scale sawmilling;
- Large and small scale pole treatment;
- Charcoal production, for wholesale, retail and on contract;

- Timber yards for the purpose of marketing timber and timber products;
- Harvesting and marketing of high value timber from natural forests (e.g. in Knysna);
- Manufactured timber enterprises, e.g. furniture, packaging, fencing, building materials, DIY products;
- Working for Water secondary industries;

4.2.4. Non-timber forest products

NTFPs offer a wide variety of actual and potential enterprise opportunities for rural communities. NTFP's include non-wood forest products (NWFP) as well as wood products that are not harvested/grown for timber such as firewood. Some examples are:

- Private and community based nurseries for indigenous trees and medicinal plants (Phindulwandle Community Nursery)
- Seed cultivation (gene banks)
- Community bark harvesting (Umzimkulu)
- Collection and marketing of medicinal plants and products from natural forests (e.g. the CP Wild initiative)
- Processing of essential oils, exudates and dyes from natural forests
- Tapping of resin and mulch collection from pine trees
- Collection, processing and marketing of fruits and foods from forests and woodlands (e.g. mushrooms, Marula, Mopani worms etc.)
- Agro-forestry enterprises, including bee-keeping/honey production
- Collection, grading, packaging and marketing of ferns, foliage, ornamental plants and flowers
- Natural fibre products from wetlands adjacent to forests
- Firewood collection and sales
- Carving and curios, e.g. the LOSA project in the Western Cape

- Ecotourism and conservation projects
- Carbon offset investments/carbon emission trading

4.3. FED OPPORTUNITIES

Opportunities in forests and forest-based resources arise in many ways and forms, namely through the growth in markets for existing products, technical innovation in creating new market opportunities, increased efficiencies and better working markets, improved business arrangements between market players, being some examples. Entrepreneurial activity and entry into niche markets is no different in forestry markets as in any other markets, and the scope for FED is endless.

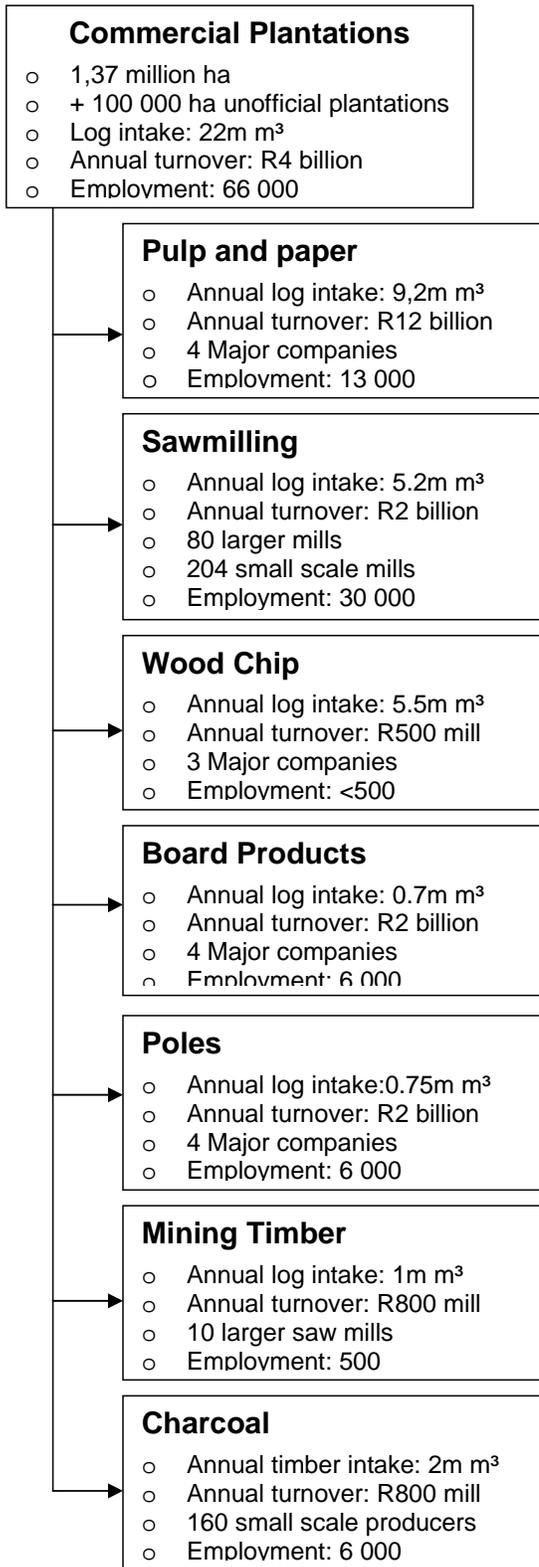
The point of departure in this section is not on an exhaustive and all-encompassing list of FED opportunities, but rather on national markets that offer broad-based and large-scale opportunities and where, more importantly, both government and existing market participants can and should play an effective role in making the markets work.

4.3.1. Timber Production, Contracting & Processing Sector

The commercial timber products sector makes a major contribution to South Africa's economy. It is well developed, highly integrated and diversified in terms of both products and markets served. The forest products industry ranks amongst the top exporting industries in the country, contributing some nine percent to the overall export of manufactured goods. In 2003 commercial forest products GDP was R14,5 billion or 1,3 percent of total GDP¹ and the industry makes an annual capital investment of approximately R19 billion. In 2003 South Africa's wood products exports topped R10 billion, while imports were about R5 billion. The forestry sector directly employs about 130 000 people, but for every one forest job, another four are created in related activities, meaning that more than 500 000, mostly rural, South Africans earn a living and can support their families on the basis of this industry². The commercial plantation resource of some 1.37 million hectares³ provides a basis for a number of value-added timber enterprises, as depicted in the diagram on the following page.

The industry supports small business development in a number of ways: from the afforestation development schemes to contracting of harvesting and transportation, waste paper collection, riverine clearing and a host of other job creation activities such as mushroom picking, sewing, chicken farming, car washing, pottery and rural art. Many plants outsource activities such as transportation, cleaning and catering. The companies are actively involved in providing support by developing business

Sector & Key Data



Key Features

- Located mainly in EC, KZN and Mpumalanga
- 20-40 000 small growers
- Established contracting industry employing 35 000
- Limited afforestation possible
- Highly capital intensive and integrated global industry
- Limited scope for SMME/contracting participation
- Outsourced waste paper recovery system (40% of input)
- Large softwood base
- Uncompetitive in world terms
- Improved yields and waste utilisation possible
- Downstream value adding potential
- Export driven growth possible
- Total output exported
- Based on hardwoods
- Expanding small-scale supply industry
- Growth dependant on availability of raw materials
- Capital intensive & not small scale contracting
- Little contracting
- Improved waste utilisation possible
- Opportunities for small and medium scale enterprises
- Growth dependant on reliable supply of raw materials
- Available resources, markets & technology for rural development
- Declining industry
- Based on hardwoods
- BEE through acquisition of mining groups
- Opportunities for small scale activities
- Raw material obtained from wattle jungle & clearing infested areas
- Available resources, markets & technology for rural development

plans, securing finance, purchasing required equipment and providing guidelines for managing the operations through a mentoring process.

The results of a study commissioned by DTI on the establishment of the Timber, Paper and Pulp (TIPP) sector is being awaited and should shed further light on the opportunities for growth and development in this sector.

4.3.1.1. Plantation forestry

Profile:

Plantation forestry provides direct employment for approximately 66 000 people, with over 300 000 dependents⁴. These forests produced more than 22 million m³ of commercial roundwood in 2003⁵, worth more than R4 billion. The bulk of the industry involves a small number of large forestry companies such as Sappi, Mondi, Global Forest Products, Hans Merensky, National Timber Cooperative and Transvaal Wattle Cooperatives. The last two mentioned do not own plantations and only buy timber from a large number of smaller privately owned forests. South Africa's plantations are generally well managed, with 80% of all plantations being internationally certified. This gives the country the highest percentage of certified plantation forests worldwide⁶.

Plantation forestry has seen recent growth as a livelihood option for small-growers, with most of the large commercial companies having schemes to promote tree planting by homestead and community landholders. FSA puts the number of emerging growers at 20 000, involving a total area of 27 700ha concentrated in KwaZulu-Natal and the Eastern Cape⁷. Due to the large number of unofficial and informal forest growers in South Africa, some industry respondents estimate this figure to be much higher: up to 40 000 small-growers, with a total estimated area of 70 000 hectares⁸. A very small amount of the plantation resource is managed as woodlots for local consumption, under the nominal control or responsibility of Tribal Authorities and government. The sizes of these woodlots range from one to several hundred hectares.

The Department of Water Affairs and Forestry has embarked on a process to move ownership of state forest assets and management control over state owned forestry land to the private sector, subject to certain black economic empowerment requirements. This entails the transfer of some 438 000ha of commercial state forests (called Category A plantations), grouped into commercially viable packages, to 5 private sector companies selected through a bidding process.

106 285 ha of Category A plantations have been transferred over the past three years, with a further estimated 212 369 ha to be transferred early in 2005 with the implementation of the Komatiland and Amathole lease agreements.

The state continues to retain ownership of the underlying property, which is leased to the forestry companies through long-term (75 year) lease agreements. Some of the state owned land is land held in trust for communities and in terms of the government's land reform programme ownership of the land will be transferred to the communities concerned. These communities will then receive the rental income from the leases. In addition to this, local communities also have access right to state forest land, which includes the right to harvest non-timber resources for household consumption.

Transfer of the remaining state forest assets has also commenced. This entails the so-called Category B and C plantations (estimated 67 902ha plantable area), which are made up of 49 Category B plantations and 79 Category C plantations or woodlots. These plantations are all on land held by the state in trust for communities and the intention is to transfer land ownership to the relevant communities and involve them in the ownership and management of these plantations. The transfer of these assets is a slow process and will take several years to complete. The reason for this is that transfers need to be accompanied by the rehabilitation of many of these forests, land rights enquiries to confirm the rightful owners, the establishment of legal entities for communities to take ownership of the businesses as well as capacity building and training support.

It is important to note that although the commercial plantation resource is estimated at 1.37 million hectares, this does not include "unofficial" plantations. Industry respondents estimate the size of unauthorised afforestation to be well in excess of 100 000 ha⁹. Much of the hardwood sales for wood chip exports and charcoal production are sourced from unofficial plantations. Some of these plantations are also used for firewood sale, domestic use and local informal timber supply.

Growth & development prospects:

Plantation forestry offers modest prospects for growth. A research study on the demand and supply for roundwood in South Africa¹⁰ undertaken for DWAF has found that the South African commercial plantation resource (1 370 000 hectares) has the capacity to supply 22,0 million m³ of roundwood per annum. This is in balance with current demand, which is estimated at 22,3 million m³ per annum. In addition, a further 2 million m³ of wood fibre is sourced from wattle jungle and small woodlots on farms, for charcoal production. At the end of a 25-year forecast period, the current resource will be capable of supplying 23,6 million m³ roundwood per annum. This figure was determined after taking into account the removal of plantation areas from riparian zones and conversion to other land uses (estimated at 128 000 hectares and effecting mostly pine sawlog production) and increased plantation yields. This is only 7,2% higher than the current supply capacity.

The same study did a forecast for roundwood demand based on an analysis of the key drivers of growth for each end-use sector. Applying this model the study forecasts that with a moderate growth in Gross Domestic Product (GDP) of 3% p.a.,

assuming that exports will not increase above current levels and that the current wood chip export volume (5,5 million m³ p.a.) is redirected to local pulp mills, the demand by 2030 will be 37,9 million m³ p.a. Comparing the projected demand and the supply of roundwood, a shortfall of just over 14 million m³ p.a. is forecast for 2030. Even if no forest products are exported (by 2030), the demand will outstrip supply by more than 10 million m³ p.a. Should this demand be met locally an additional 775 000 hectares of plantation forests would be required.

Another recent study on the supply and demand of roundwood, other than saw logs, undertaken for DWAF comes to a similar conclusion, namely that “existing plantation resource is insufficient to supply current markets and the shortage becomes more serious with time.”¹¹ Even if allowance is made for differences in approach to the modelling of the timber demand and supply equation, all available evidence points to the fact that South Africa is facing a looming shortage of both softwood saw timber and hardwood pulpwood. It is imperative that attention is given to expanding the timber resource if expensive imports of timber products are to be minimised and the enterprise development opportunity in the timber production and processing sector is to be optimised.

It has been estimated that there is **scope for afforestation** over an area of up to 200 000 hectares¹², mostly in the provinces of the Eastern Cape and KwaZulu-Natal. This is well below the total area needed for timber self-sufficiency but a target that represents an environmentally responsible approach to sustainable forestation in South Africa. This figure, together with anticipated increases in plantation yields, will increase the supply of roundwood to an estimated 27,4 million m³ p.a. on 1,442,100 ha. This represents a 23% increase in supply of roundwood from the 2003 level of 22,3 million m³ p.a. However, the latter figure excludes the 2 million m³ p.a. required for charcoal productions, which is currently sourced from wattle jungle and unofficial plantations/woodlots. If these sources were to become unavailable in future, the overall increase in available supply will only be 12,8%.

Almost all the potential area of new afforestation is confined to areas under tribal or communal land tenure, most of which is located in rural areas. These rural areas are characterised by high levels of poverty and few economic prospects to alleviate their plight. In almost all instances, the expansion is likely to be made up of small woodlots or plantations owned and managed by individuals, groups of individuals and communities. Therefore, new afforestation offers a real opportunity for poverty alleviation and broad-based black economic empowerment.

The South African forestry industry already displays a strong competitive advantage in plantation management and has considerable experience of partnerships between large commercial companies and small-scale tree growers. Such partnerships would clearly have to be part of the overall strategy to achieve the large-scale plantings required.

There are a number of key challenges that have to be met to ensure growth in the plantation forestry sector. These are outlined in section 4.7 of this paper and include greater access to information on afforestation opportunities, a simplified and streamlined regulatory environment, securing land ownership rights, improved road infrastructure and access to finance and training.

The fact that opportunities for afforestation still fall short of the anticipated demand for timber in the long term and the impact this has on limiting downstream enterprise development and employment opportunities, underscores the need to optimise available forestation areas and to continue to **improve productivity and yields**. The implications of this are twofold:

- Due to financial constraints and management problems many of the Category B and C plantation are in a bad condition, with large temporary unplanted areas (estimated at 16 000ha), large areas with severe weed infestation, poor infrastructure (especially roads) and a large backlog of silvicultural work. It is necessary to give urgent attention to their rehabilitation to ensure that this scarce resource contributes to growth and development in the timber production and processing sector.
- Attention needs to be given to the better utilisation and regularisation of the more than 100 000 ha of “unofficial” plantations. This resource is not properly utilised and the possibility of adding this to the official plantation stock (roundwood supply-line) needs investigation.

Finally, opportunities exist to ensure a **greater equity in ownership of existing plantation assets**. Large tracts of plantations were established on land that historically belonged to black communities. This involves mostly state owned land, much of which is still held in trust for communities. However, some land being claimed is held in private ownership. In terms of Government’s restitution and tenure reform policies, as well the policy on the restructuring of state forest assets, the ownership of this land needs to revert back to the communities with historical rights to the land. This process is underway and agreements have been reached in settling a number of land claims, such as the claim to a plantation owned by Hall and Sons in Mpumalanga, the settlement agreement that has been concluded for Manzangwenya/Mbazwana plantations (Category B) and the settlement of Mamathola and Ravele claims to land in the Komati package (Category A). However this process is far from complete and most state owned forestland still needs to be transferred to the original rights holders. This includes some 69% of the Singisi package comprises state land held in trust for communities, totalling 55 000 ha. This land is subject to tenure reform and these communities have expectations of ownership to this land, and of receiving reasonable lease rentals as a result of this. Nearly three years have elapsed since the signing the Singisi agreement and the transfer of land and, consequently, the payment of rentals to these communities is still outstanding. In March 2004 it was estimated that DWAF held more than R12.6 million owing to communities from accumulated rental income (excluding interest) from the Singisi lease.

At the same time the restructuring of Category A plantation contained a commitment from Government for communities surrounding these to benefit from a community share offer of 10% in each forestry package. The modalities for implementing this arrangement are still being worked out by the Department of Public Enterprise. Once implemented, this will hopefully provide tangible benefits to communities from plantation forestry. The successful completion of the tenure reform, land restitution and state forest-restructuring process will result in transfer of a substantial portion of existing forest plantation resources to black ownership.

4.3.1.2. Indigenous forestry

Profile:

Indigenous forests cover an area of 533 000 hectares¹³. It is estimated that there are around 15,000 forest patches in the country¹⁴ and these range from forests that cover less than a hectare to the largest single forest of 25 706 ha (Knysna-Tsitsikama forest. Most forest patches cover less than 1 km².¹⁵ Almost three-quarter of this forest type is conserved either as declared State forests or within formal protected areas. Access and harvesting of products was typically restricted for decades, until significant policy shifts in the mid-1990s when more participatory policies and programmes came into being. Relatively few people live within these forests, but communities living nearby extract multiple resources for subsistence and income generation¹⁶.

The remaining forests, mostly small and scattered, are on privately owned land or on state land held in trust for communities. The latter includes extensive areas of community-owned and managed forests, which provide significant livelihood benefits to communities. This includes building material (poles & laths), firewood and a wide range of non-timber and non-wood forest products.

Growth & development prospects:¹⁷

The capacity for local forests to provide sufficient saw timber for commercial operations is limited and this is why saw timber is only really produced from the very large Knysna forests¹⁸. Only about 150 m³ stinkwood and 750 m³ yellowwood is sold annually, compared to the harvesting of 167 m³ at the height of indigenous forest exploitation in 1911. It is planned to increase the yield again from the present levels, once a sound balance has been restored by the present scientific management practice.

Attempts have been made in the past to plant indigenous trees in plantation form and valuable species like stinkwood, yellowwood and kiasat have been tested. While species like kiasat is not easily established, other like stinkwood and yellowwood were found to be growing too slowly. However, opportunities need to be further investigated and recent trials of yellowwood (*podocarpus falcatus*) have shown that

much can be done to improve the growth performance through the selection of genetic material for specific sites. This may also be true for other species.

4.3.1.3. Forestry contracting

Profile:

This industry consists of about 300 independent contractors employing some 35 000 people with an annual turnover exceeding R600 million¹⁹. The forestry contractors are mainly involved in harvesting (80 – 90%), transport (60%), silviculture (33%) and fire services (33%)²⁰. Other lesser activities include weeding, spraying, road maintenance, nurseries, etc.

The majority of forestry contracting activities are undertaken under the auspices of SAFCA (South African Forestry Contractors Association). The Association was established as a non-profit organisation in 1989, with an initial membership of less than 10 contractors. Since then it has grown considerably, and to date has 239 members, of which 40% are black empowered businesses²¹. Contractors who are not members of the Association are mostly small-scale contractors, the majority of whom are black.

SAFCA mentions the following key features of the contracting industry:²²

- Whilst most members comply with the minimum legal labour regulations, some contractors pay low wages, provide minimal benefits and generally poor working conditions. Many of these businesses operate at thin margins with an average profit ratio of below 5%. Under these circumstances, it is doubtful if they could continue operating if they were compelled to improve wages and benefits to a significant degree.
- At present, there is only one women contractor in the Association. It is estimated that between 30 – 35% of workers in the contracting firms are woman. Most work in the sector is based on piecework.
- The large growers place a constraint on the growth in the size of contracting firms. This is because the large growers tend to award a series of small contracts of limited length to a number of contractors, rather than large contracts to one or two firms. They do this as a means of spreading risks and perhaps as a means of exerting control.
- HIV/Aids is becoming a serious problem in the contracting sector and is affecting the functioning of some operations. The problem is particularly prevalent amongst the more skilled workers.
- There is an informal agreement that the grower will employ contractors who are members of SAFCA.

Two forestry sector initiatives called the Forestry Contractors Productivity Initiative (FCPI) and the Contractors Upliftment Programme (CUP) are currently underway. The main purpose of these initiatives is to promote productivity and black economic empowerment in the contracting sector.

Growth & development prospects:

Growth in the forestry-contracting sector is linked to the opportunities for expansion in timber production, which is limited. However, general agreement exists that there is a need for greater stability, efficiency and better sharing of benefits in the contracting sector at large. At the same time there is an increasing realisation that contracting activities needs light forms of market control and self-regulation.

The FCPI identified a number of root causes for poor performance in the contracting sector that need to be addressed to ensure greater stability, efficiency and better benefit sharing in this sector. The four most important causes are (quote²³):

- The “old mind-set” of (grower?) management is still very prevalent – us and them, lack of trust, master-servant.
- No strategy for managing the transformation process (training R&D etc.)
- Payment rates are not adjusted when production volumes change.
- The grower-contractor operation is not flexible enough to open and close the fibre supply tap.

4.3.1.4. Pulp and paper industry**Profile:**

The pulp and paper industry directly employs 13 000 people in its various pulp and paper mills. The industry has a strong export focus and operates in an open and globalised market. Sappi, Mondi, Nampak and Kimberly-Clark are the major operators in the South African market. South Africa ranks 14th in the world in pulp production and is amongst the top 25 producers of paper and board products. Current pulp production is estimated to be 2,5 million tons p.a. of which 800 000 tons (more than 30%) is exported²⁴. Paper and board production amounts to 2,4 million tons of which 700 000 tons or about 30% is exported. South Africa ranks amongst the top industrialised countries in terms of its waste paper recovery rate, which is currently in excess of 40% of annual domestic paper and board consumption.

During the last three decades the industry has experienced remarkable growth, continuously outstripping the performance of the manufacturing sector domestically and the pulp and paper industry worldwide. While world production and consumption of paper and board grew by an average 3,0% per annum since 1970, the South African industry achieved an average growth rate of 5% per annum up to the end of the century.

The pulp and paper industry has embraced extensive programmes targeting the recycling of paper waste. Programmes aimed at collecting raw material for recycling have proven extremely successful by involving schools, universities, businesses, city councils and government departments on a national basis. The industry has created 10 000 income opportunities for waste paper vendors and more than 2 000 direct

jobs at over 180 depots and recycling centres countrywide²⁵, which employs a large number of paper vendors.

Growth & development prospects:

The industry is unlikely to realise the same growth as that which has been achieved over the past three decades. This is because of limited availability of additional fibre raw materials at competitive prices and increasing internationalisation with the industry looking to source its products from the lowest cost locations.

A substantial growth in demand for pulp and paper products is anticipated. It is forecast that the demand for roundwood in the pulp and paper industry in South Africa will grow from the current 9,2 million m³ p.a. to 19,49 million m³ p.a. in 2030²⁶. This is based on a moderate growth in Gross Domestic Product (GDP) of 3% p.a. and assumes that exports will not increase above current levels. An opportunity exists to increase the value chain by redirecting the current wood chip export volume (5,5 million m³ p.a.) to local pulp mills. Opportunities also exist for importing wood chip from other low cost producing countries. Some opportunities exist for improved efficiency in the waste paper recycling industry. However, it can be anticipated that a substantial portion of the growth in demand for these products will be met by import of finished products.

It must be noted that the pulp and paper industry requires large-scale investment that does not lend itself to small-scale enterprise development. The notable exception is the waste paper recycling industry.

4.3.1.5. Sawmilling

Profile:²⁷

The sawmilling sector is labour intensive employing an estimated 30 000 people. The sector is dominated by five groups (Global Forest Products, Hans Merensky, Safcol, Yorkcor and Steinhoff) who together account for more than 70% of sawn timber production. There are an estimated 320 sawmills of which 240 (75%) are small mills each producing less than 10 000 m³ of sawn timber per annum. These mills together produce about 25% of sawn timber in the country. The balance of medium and larger mills, i.e. those taking in more than 20 000 m³ of roundwood p.a. account for 25% of all mills and produce 75% of output.

The bulk of small-scale operations are to be found in the Eastern Cape, with lesser activities in Mpumalanga, Limpopo and Kwazulu-Natal. The bulk of the timber produced by small-scale saw millers is wet-off-saw, mostly ungraded. The products are mainly marketed to the informal building sector in the surrounding areas where these mills operate. Some small-scale saw millers add value to the output and produce products such as pallets, picket fencing, wendy houses, etc.

The current log intake by South African saw millers amounts to about 5,2 million m³ per annum and the output in terms of lumber produced, is estimated at 2,4 million m³ during 2003 (excluding exotic hard wood imports). This gives an average yield of 46%, which is low in world terms. The building (especially residential building) and construction market dominates the demand for lumber and lumber products consuming 50% of lumber supply. On average an estimated 150 000 m³ or about 6% of total lumber supply is exported in unprocessed form. In addition, final value added products, produced from local lumber are exported.

Growth development prospects:

It is forecast that the demand for lumber will grow by 137% over the next 25 years. This is based on a moderate growth in Gross Domestic Product (GDP) of 3% p.a. and assumes that exports will not increase above current levels²⁸. With the limited opportunities for afforestation this increase in demand cannot be met from local supplies. One option would be to import sawlogs for local processing and value adding. However, the viability of such large-scale raw material imports is questionable. For instance, it is unlikely that sawlogs could be imported to inland sawmills on a profitable basis due to high transport costs involved.

Despite the poor prospects for overall growth in this sector, there is considerable scope for greater efficiency and profitability in the small-scale sawmilling industry in South Africa. This can be achieved through improving utilisation rates and greater participation in the value chain. The manufacture of wet-off-saw timber is a marginal business and small-scale saw millers should be encouraged to add value to their sawmill output and to reduce wastage in the production of lumber products.

A key constraint for small saw millers that needs to be addressed for these opportunities to be realised, is the insufficient and irregular supply of logs. Historically small-scale sawmilling developed largely around state-owned plantations where they had access to burnt areas, small wood and fall out areas from larger contracts. A combination of management problems, financial constraints and the restructuring of these plantations has led to dwindling log supplies. Nevertheless, the on-going restructuring process for DWAF Category B and C plantations represents an opportunity to securing log supplies.

Other constraints that are not directly related to the log supply situation include²⁹:

- Poor infrastructure, which makes access to plantation resources difficult and generally increases the cost of operations.
- Lack of co-operation amongst small millers; because of this the industry is poorly organised and cannot present a uniform lobby to promote its cause.
- Low skills base; because of unfavourable business conditions the sector offers limited scope for long-term employment, training and development. There is a lack of funding to properly train employees. Upgraded skills will be required if more value adding is to be considered for this sector.

4.3.1.6. Manufactured timber products

Profile:

Local softwood sawmills produce a range of sawn timber products with the annual output estimated to be 2,25 million m³ in 2003³⁰. The major end-use applications are building and structural timber products (construction materials, roof timbers, joinery and mouldings) and manufactured products (furniture, pallets, crates/boxes, doors, shelving flooring etc.), which accounts 96% of softwood saw timber produced³¹.

Hardwood saw timber products are produced at a much smaller scale. Local production of hardwood saw timber is estimated at 180 000m³ of which about half is used in mining applications. An important feature of this industry is the import of about 200 000 m³ of exotic hardwood timber (Meranti, Oak, etc) annually. This is mainly used in mouldings, furniture and flooring³².

Growth & development prospects:

The building, construction and furniture market dominates the demand for manufactured timber products and prospects for growth in this sector should be good, particularly in filling niche markets. Those product categories that are less volume sensitive offer the most potential. There are opportunities for the supply of components (e.g. turnings), laminated boards and pre-specified board sizes to existing furniture manufacturers. A similar opportunity exists for the supply of DIY products to wholesale and retail outlets. All of these products can be manufactured from industrial timber that is available from large sawmills as waste. Opportunities also exist in all forestry regions to supply agricultural boxes, crates and pallets to tomato, citrus and vegetable producers. Buyers include individual farmers, packaging companies and agricultural co-operatives.

4.3.1.7. Wood chip exports

Profile:³³

This market has seen significant growth since the early 1990s when total chip exports amounted to just over 1 million tons p.a. Chip exports currently amount to an estimated 5,5 million tons p.a. The bulk of the raw material is sourced from the KwaZulu Midlands, the northern regions and southern parts of Mpumalanga. Silvacell, CTC and ShinCel are the dominant players in this market. A new plant with the capacity of 400 000 tons came on stream at Durban's Port during 2004. This sector has grown into one of the most important users of commercial roundwood over the past 10 years.

The raw material input consists of approximately 30:70 wattle and eucalypts and the industry was initially established to find outlets for large wattle plantations in the inland regions mentioned above. The devaluation in the Rand has stimulated strong growth in the sector with the bulk of the chips being exported to Japan. It is believed that a proportion of the raw material intake of the chipping plants is obtained from

non-commercial resources including small farmers, clearing of wattle jungle and infested areas.

Growth & development prospects:

Growth in chip export industry is dependant upon an increase in the local supply of hardwood and Rand weakness. With limited opportunities for new afforestation, the growth potential of this industry is limited.

When local demand starts outstripping supply (due to limited opportunities for afforestation), internal prices will rise and current chip exports will probably be diverted to the local pulp and paper mills. NCT in partnership with Sodra Cell of Sweden are already considering this option³⁴.

4.3.1.8. Timber Board Products

Profile:³⁵

The sector includes the manufacture of chipboard, medium density fibreboard, hard board and insulation board. There are only 7 producers of timber board products, with Masonite, Bisonbord, Sonae Novoboard and Magna Board as the major players. This sector uses predominantly hardwood in its production processes. Chips and waste timber products, e.g. from furniture factories are blended with virgin roundwood into the production processes. The bulk of the output is used in furniture manufacturing followed by the building and construction industry. An estimated 20% of the production of this sector is exported.

Currently roundwood requirement for the production of timber board products is an estimated 700 000m³ p.a. Roundwood³⁶ is blended with chips and other waste timber products to produce an estimated 900 000m³ of final products per year. An estimated 20% of the production of this sector is exported.

Growth development prospects:

It is forecast that the current demand for roundwood will grow to 1, 71 million m³ p.a. in 2030³⁷. This is based on a moderate growth in Gross Domestic Product (GDP) of 3% p.a. and assumes that exports will not increase above current levels.

Despite the anticipated national timber supply shortage the prospects for growth in this industry is good. The reasons for this are that (1) the industry is only a small consumer of domestic roundwood supplies and is therefore less volume sensitive, (2) opportunities exists for improved efficiency in the use of waste raw materials as a source for timber board production and (3) the high value-adding nature of the industry increases prospects for investment.

4.3.1.9. Pole production

Profile:³⁸

The pole market consumes an estimated 750 000 m³ p.a. Large companies such as Woodline, Thesens and Boland Wood Industries, which together supply more than 85% of the total demand, dominate the market. The market is highly competitive with cost pressures both from large customers and alternative pole types such as concrete and steel. The market is split into two segments, i.e. treated poles (520 000 m³), which are mainly used in transmission poles, telephone poles and as building poles. The balance (230 000 m³) is sold in untreated form and is mainly used as building and fencing poles. The market has remained fairly static over the past decade as major pole applications, e.g. telephone and transmission poles, have been penetrated by other technologies, e.g. fibre optics, cell phones, etc.

Growth development prospects:

Pole production is a small market and the overall growth potential is modest. It is forecast that the demand for roundwood will grow from 0,75 million m³ to 1, 28 million m³ p.a. in 2030³⁹. This is based on a moderate growth in Gross Domestic Product (GDP) of 3% p.a. and assumes that exports will not increase above current levels.

The above growth rate could be met by local supply of timber and the industry offers good growth prospects for the establishment of small and medium scale enterprises. The transfer of DWAF Category B and C plantations in Limpopo and Kwazulu-Natal offer immediate opportunities for small and medium scale enterprises and rural communities to establish small enterprises producing treated timber poles. Almost all these plantations are linked to existing DWAF pole treatment plants, overcoming the hurdle of access to downstream processing facilities.

4.3.1.10. Mining timber

The use of timber in underground support applications has declined dramatically over the last 20 years. Demand peaked at a level of approximately 3,4 million m³ in the mid-1980s. This has now reduced to an estimated consumption level of 800 000 m³ p.a.⁴⁰. Hydraulic and mechanical props and greater use of backfilling techniques have largely replaced timber props and packs.

It is believed that the bulk of timber that was previously destined for the mining applications has now been redirected to the chip export market.

4.3.1.11. Charcoal production

Profile:⁴¹

An estimated 205 000 tons of charcoal is produced per annum. The conversion ratio in charcoal manufacturing is roughly 10 m³ of hardwood required to produce 1 ton of

charcoal. On this basis the total estimated demand for hardwood raw materials is 2 million m³ p.a. The bulk of this is obtained from non-commercial plantation resources. The raw material is mainly wattle but some hard gums (*Paniculata* and *Cleoziana*) are also used as raw material. The bulk of the material is obtained from wattle jungle, clearing infested areas, etc - very little raw material is obtained from commercial plantations as the production viability depends on low fibre input cost.

Small-scale producers, of which there are an estimated 160 active in South Africa, produce the bulk of primary charcoal. These small-scale producers provide unrefined charcoal to large industrial users and to the manufacturers of branded products for the barbeque market. A typical small-scale contractor produces 120 tons of charcoal per month and employs between 30 and 40 people.

The household charcoal market is about 120 000 tons p.a., where the product is mainly used for barbeques. Depending on the exchange rate, up to 40% of household charcoal is exported. The major producers of branded household charcoal are Suiderland Charka Ltd (Piet Retief), E&C Charcoal (Pietermaritzburg), Braai & Barbeque International (Pretoria) and Mondi Black Gold (Richards Bay/KZN). There are a range of small independent suppliers that produce for this market. The balance (85 000 tons) is used as a reduction agent in non-ferrous metal processing. Silicon Smelters situated in Polokwane consumes more than 90% of the industrial charcoal produced.

Growth development prospects:

A substantial growth in local demand for charcoal, particularly household charcoal, is anticipated. It is forecast that the current demand for roundwood in charcoal production will grow from the current 2 million m³ p.a. to 4,16 million m³ p.a. in 2030⁴². This is based on a moderate growth in Gross Domestic Product (GDP) of 3% p.a. and assumes that exports will not increase above current levels.

Charcoal production is seen as an ideal SME activity. Small-scale production is economical, little capital is required, most activities are decentralised, being in rural areas in close proximity to major timber resources. Some large forestry companies, such as Mondi, have already shown interest in supporting small-scale producers, using waste raw materials from plantations. Some large charcoal producers have also shown an interest in forming joint ventures with small-scale producers to secure lump charcoal supplies on a regular basis. They are often prepared to provide funding, training and the initial investment required for small-scale production plants, as well as providing medium to longer-term supply contracts. Although long-term sources of supply are very uncertain, the DWAF Category B and C plantations in the Eastern Cape and Limpopo contain extensive areas of hardwood suitable for charcoal manufacture.

4.3.1.12. Catalyst for broad-based LED

Most forestry production and processing enterprises are located in rural areas. They are key employers and consumer of goods and services in the local rural economy. They are the first link in a value adding chain that could serve as a catalyst for further broad-based downstream local economic development. In fact, in many instances it is the only substantial catalyst (and hope!) for broad-based local economic development. Non-forestry downstream development opportunities that could be created through the economic muscle of the forestry sector includes local grocery and spaza shops, local suppliers of building and maintenance material, suppliers of fuel, banks, suppliers of mechanical and automobile parts and food outlets including restaurants, hotels and bed and breakfast establishments.

Exploiting these opportunities requires an understanding of the “money-chain” that can be linked to forestry as an anchor of the local rural economy. I.e. the amount of money that forestry companies spend on key expenditure items such transport, wages, services etc, and the linkages between these expenditure patters and local downstream business opportunities. The money-chain represents the potential multiplier of money that is expended by forestry and could be harnessed to stimulate the economy of an area through value-adding enterprises. The aim should be to ensure that as much as possible of this money is spent locally.

It will be beneficial for both forestry companies and local communities if forestry downstream development potential can be harnessed to support growth and stability in the local economy. Doing so would require the following:

- Identifying and quantifying the “money-chain” that can be linked to forestry enterprises.
- Identifying stakeholders that are best placed to support the process of local economic development.
- Supporting the marketing of forestry related downstream development opportunities in the communities.
- Supporting provincial and local governments in establishing a Local Economic Development (LED) programme for key forestry areas

4.3.2. Non-Timber Forest Products Sector

The forest resource offers additional, and in some cases untapped, commercial opportunities in terms of exploitation of non-timber and non-wood forest products. The best-known potential lies in the harvesting of medicinal plants, firewood collection and distribution, trade in indigenous fruits, honey production and forestry based conservation and tourism enterprises. Other non-timber and non-wood forest enterprise activities are limited in scale and opportunities for growth, such as the collection of forest mushrooms (employing an estimated 1000 seasonal workers) and ferns & foliage (130 employees). Yet, there is much room for innovation in the

development of alternative forest product markets. Key opportunities are outlined below.

4.3.2.1. Medicinal plants trade

Profile:

Primary health care for the poor is heavily dependent on forest resources. The 28 million people who use traditional plant medicine in South Africa⁴³ depend on their continuing supply. An estimated 20 000 tons of plant material are traded annually in South Africa⁴⁴. An estimated 75% of the total volume of plants traded is forest or savanna species and the most favoured species come from forests⁴⁵. Approximately one-third of medicinal plant material is tree bark.

There is also a growing international demand for South African medicinal products and many local species are traded as medicine in Namibia, Zimbabwe, Malawi and Botswana⁴⁶.

Traditional medicines are generally harvested from wild stocks. A combination of high demand and a lack of any significant resource management (in terms of plant stock or harvesting activities) or plant cultivation has resulted in an ongoing decline in the supply of many woodlands and forest species⁴⁷.

Growth & development prospects:

Medicinal plants will continue to underpin the health care system in South Africa and the trade in medicinal plants is expected to increase. However, the prospects for the harvesters of wild plants appear bleak. Non-traditional sources of supply (e.g. protected areas and private lands) need to be accessed and off-take from traditional resources needs be better managed. A reduced reliance on the dwindling stocks of wild plants through the development of reliable, commercially cultivated stocks offers considerable prospects for small and medium scale enterprise development. However, to make the growing of commercial stocks viable it is necessary for producers to become involved in the value-adding process of processing, packaging and marketing the medicinal plant products. A couple of initiatives are underway in Kwazulu-Natal to pilot this concept.

4.3.2.2. Firewood collection and distribution

Profile:⁴⁸

Firewood collection and distribution is a widespread, but small scale and opportunistic enterprise. Most firewood collection is for subsistence use only, although there are large numbers of small operators who collect and transport firewood from plantations and woodlands for sale in nearby towns and villages where there is a shortage of local wood sources. Profit margins for operators in this sector are very low.

The national demand for fuelwood was pegged at 13 million m³ in the mid-1980s and has never been updated since then. The primary source of fuelwood is from the woodland biome that covers 34 % of South Africa, and is home to over nine million people. Other sources of fuelwood include indigenous forests, community woodlots, off-cuts from commercial plantation forestry, and trees growing in people's fields and residential plots.

Fuelwood use is widespread with over 90 % of rural households using it to some degree. In 2001, 20,5 % of households in South Africa used fuelwood as their main energy source for cooking, compared with 51,4 % that used electricity, 21,4 % paraffin, 2,5 % gas, 2,8 % coal and 1,4 % other sources⁴⁹. According to the same census 24,6 % of households used fuelwood as their main energy source for heating, compared to 49 % that used electricity, 14,6 % paraffin, 1,1 % gas, 6,6 % coal and 4 % other sources. These data report main energy sources and hence represent the minimum numbers, as most households use a mix of energy forms.

At a national scale sustainable annual production of fuelwood is sufficient to meet annual demand. However, much of the national annual production is on state or private lands where it is unavailable, or too far away, from fuelwood-reliant communities. At local scales the situation is extremely variable, with some communities and households enjoying adequate supplies within easy collection distance, whilst others have to walk several kilometers to access very meagre supplies and of poor quality species. Others still, have no local access to fuelwood supplies and either buy fuelwood and/or substitute it with other fuels such as dung or paraffin.

In 2003 approximately 30 % of households in South Africa still did not have access to grid electricity supplies (DME, Draft Free Basic Electricity Policy for SA, June 2004). This represents some 3,4 million households (13,5 million people). The actual application of the FBA varies between municipalities, but is generally still not enough for all household cooking needs. Consequently, even electrified households make use of alternative fuels, including fuelwood, for part of the month or for certain meals. It is expected that a significant number of households will continue to use fuelwood to some extent for decades to come.

Growth & development prospects:

National demand is unlikely to grow from the current levels in light of (i) the HIV/AIDS pandemic which has stagnated population growth for the next 10 – 20 years, (ii) increasing urbanization and hence distance from wood stocks, and (iii) large-scale electrification programmes. At the same time, because of the widening gap between rich and poor, the number of households that rely on fuelwood for cooking and heating is unlikely to decrease significantly in absolute terms below the current figures of approximately 2,3 – 2,8 million households (9 – 11 million people) over the

next decade or more⁵⁰. Firewood will therefore continue to remain an important energy source for a large and poorest section of the South African population.

Growth prospects for small-scale enterprise development in this sector remains good despite the fact that national demand for firewood has probably stabilised. This is due to increased local scarcity of accessible firewood sources, which increases the opportunities for trade in firewood. This could also lead to an improvement in the profit margins of operators.

A major challenge is to secure a sustainable supply of fuelwood sources through improved management of fuelwood stocks, improved access to under-utilised stock and improved marketing of fuelwood products. Dealing with these challenges is the subject of a separate strategy on fuelwood being prepared by DWAF in consultation with other stakeholders.

4.3.2.3. Honey production⁵¹

Profile:

During the period 2000 to 2002 local honey production totalled an average of 1 533 tons per annum. The total value of honey produced at a bulk wholesale price of R22-00 per kg is R33, 73 million per annum. At a conservative retail price of R40-00 per kg the estimated value is R61,32 million per annum. There is also an easily accessible market for by products such as wax and propolis.

The honey industry is characterised by under production and during the same period just under 500 tons per annum had to be imported to meet local demand, with an expected shortage for 2004 of 650 - 800 tonnes.

There are approximately 400 commercial bee farmers (persons with 200 or more beehives); 2000 small-scale bee keepers (200 hives or fewer) and an estimated 4000 informal traditional beekeepers that mostly operate in the Miombo woodlands area of the Limpopo Province.

Growth & development prospects:

Honey production provides good prospects for growth given that South Africa is a net importer of honey.

Assuming a conservative average retail price of R40-00 per kg for honey the potential value of honey production from current eucalypt plantations in South Africa can be estimated at R63,2 million per annum. At 20 hives per person this amounts to 5 300 small-scale enterprises that can each generate an annual income of R6 600 per annum (calculated at a wholesale price of R22-00/kg for honey). The primary reason why gum plantations are not used more for honey production is the threat of theft and vandalism of hives left in plantations.

Honey produced from indigenous woodlands has novelty/speciality value that could be exploited far more than at present. Craftwork incorporating bees wax offer further FED opportunities.

The foremost bee-keeping development initiative is the Bee-keeping for Poverty Relief Programme established by the Agricultural Research Council (ARC) of South Africa. The programme supports participants who want to develop bee-keeping enterprises. This is done through the establishment of local beekeeping associations, coupled with training, technical and financial support to start operations⁵². The rapid expansion of the programme, in which participants themselves solve local problems such as theft, has demonstrated the efficacy of its approach.

4.3.2.4. Tourism

Profile:

The counties forests and woodlands areas are an important resource for a range of eco-tourism ventures and initiatives such as sightseeing, picnicking, hiking, biking, bird watching and game viewing. For example, between 200 000 and 250 000 people annually visit the state-owned indigenous forests of the southern Cape and Tsitsikamma⁵³. These forests are a key resource for tourism in the region and for the country as a whole. Similarly, the counties woodlands provide the mainstay for all wildlife and wildlife based activities in the eastern and northern parts of the country. An estimated 200 000 people are already employed in the game park and eco-tourism industry⁵⁴.

Growth & development prospects:

Tourism (game parks and ecotourism) is a key growth sector in the economy and offers the greatest potential for community based enterprise development in the NTFP sector.

The sustainability of South Africa's tourism industry is largely dependant on the preservation and proper utilisation of the countries forest resources. This is dependant on the implementation of effective forest management policies. DWAF and other government agencies control access to the most important indigenous forests in the country. Much can be done to promote small and medium scale enterprise development through the implementation of a licensing regime that allows local emerging entrepreneurs to take advantage of recreation and tourism based FED opportunities that are linked to these forests. Although the necessary policies are in place for the licensing of such enterprises, concerns have been voice by the National Forestry Advisory Council that the effective implementation of these policies and monitoring of the licensing regime is still wanting, both in terms of community awareness of opportunities and ensuring that previously disadvantaged people materially benefiting from these enterprise initiatives⁵⁵.

4.3.2.5. Trade in indigenous fruits

Profile:⁵⁶

Most rural communities practice harvesting and processing of indigenous fruits. Fruits are harvested wild and used for home consumption or local trading.

Indigenous fruits do not remain fresh for long periods and are therefore not suited to commercial fresh fruit trading for consumption. Trading is basically restricted to the supply of raw material to fruit processing plants, the most important being the sale of Marula fruit in Mpumalanga and Limpopo Provinces. Mirma Products and Marula Natural Products (MNP) are the only examples of large-scale indigenous fruit processing ventures in South Africa. In 2003, MNP bought approximately 235 tonnes of Marula from 42 communities at a price of R 0.35/ kg and Mirma bought approximately 2000 tonnes of Marula at R0.25/ kg. This equates to a total trade value of R 582 250.

The sale of Marula beer is most likely one of the best examples of informal market trading in the indigenous fruit sub-sector. Households produce between 100 and 400 litres of beer per season. In the Bushbuckridge community beer trading provides a source of income to approximately 200 households and the number of beer traders increased by 3.9 % in 1998 and by 33.3% in 2002.

Growth development prospects:

Despite the season nature of the commodity, the commercial supply of indigenous fruits (e.g. Marula) to processing plants provides an important source of income for rural households and opportunities for further growth. However, this requires further analysis of the sustainability of the specific resource. It also requires joint venture arrangements between those involved in the supply, processing and marketing of indigenous fruit products.

4.3.2.6. Alternative forest product markets

The alternative forest product market such as the extraction of chemicals from pine trees, the sale of pine needles for mulch, pine bark for composting and carbon emission trading is not well developed in South Africa. There has been little incentive for the established industry role-players to develop such products and markets and it is easily viewed as a distraction for the core business of timber supply. Yet, income generating and enterprise development opportunities exist in the alternative forest product market. For example the use of pine needles in landscaping, land rehabilitation, in livestock barns and to reduce water loss in irrigation has become a multi-million dollar business in North America⁵⁷. opportunities exist for the forestry

Opportunities for developing and marketing alternative forest products in support of FED warrants further investigation.

4.4. POLICY IMPLEMENTATION FRAMEWORK

FED links with other policy initiatives within DWAF, and more generally across government. These policy initiatives, and their legislative mandates and support programmes, are outlined in this section.

4.4.1. Department of Water Affairs and Forestry

A policy framework for FED is already contained in the **White Paper on Sustainable Forest Development in South Africa** (1996). The Paper states that “the overall goal of Government is to promote a thriving forest sector, to be utilised for the lasting benefit of the nation, and developed and managed to protect the environment.”

The notion of promoting FED is contained in the policy sections for industrial forestry and community forestry. Under the industrial forestry policy, Government *inter-alia* undertakes to:

- “foster the continued competitiveness of the forestry sector locally and internationally within bounds of acceptable environmental and social costs
- promote equitable access to the opportunities and benefits arising from industrial forestry such as through equity sharing arrangements, or facilitating land reform
- ensure that afforestation permit allocations and integrated catchment management will be directed at equitable, efficient and sustainable allocation of resources, linked with local economic development and resource use plans
- promote an industrial policy that will continually improve value addition to forest products within South Africa
- assess trends in the structure of the forest and forest products industry, and promote a suitably competitive structure
- encourage further investment in the forest industry, including overseas interest
- facilitate the entry of small farmers and entrepreneurs by introducing incentives and by minimising barriers
- investigate the outlook for supply and demand for wood to establish the need for and desirability of further afforestation in the country
- establish the districts within which new afforestation would be most beneficial, as well as the land use and farming systems best suited to the needs of the local people, and ways of assuring the supply of wood to capital intensive processing plants
- involve the private sector in the improvement of a strategy to satisfy the growing demand for wood and wood products
- address all options to increase timber yields and improve efficiency through research, technological and managerial innovation, recycling and waste minimisation, and development of alternative fibre sources”

Under community forestry Government recognises that it “can contribute to improving the environment, enriching the resources, and creating income opportunities in previously disadvantaged communities in rural, peri-urban and urban environments. Here the White Paper commits Government to:

- “support community forestry with relevant information and technologies
- stimulate development through pilot programmes and projects
- identify barriers to progress in community forestry, such as institutional capacity, financial services, or availability of seed and trees for planting, and devise ways of overcoming these
- make budget provision for financial support”

The **National Forests Act** (No 84 of 1998) provides the legal framework for FED support. As mentioned before, section 3 (3) (c) of the Act states that forests, including forest produce, must be developed and managed so as to promote *inter-alia* the fair distribution of their economic and social benefits and advance persons disadvantaged by unfair discrimination.

Section 4 of the Act requires the Minister to develop **criteria, indicators and standards** to measure and monitor progress towards the achievement of the above principles set out in section 3 (3) of the same Act. These have subsequently been developed. FED activity is to be measured through the following criteria and indicators:

- Criterion 7: Forests make a positive contribution to the economy
 - Indicator 7.1: Value of forest goods and services
 - Indicator 7.2: Value adding to forest products
 - Indicator 7.3: Forestry’s contribution to the local economy
 - Indicator 7.4: Forestry Contribution to local development
- Criterion 8: The forest economy is resilient
 - Indicator 8.1: Diversification in the forest industry
- Criterion 9: People have rights to access and use of forests
 - Indicator 9.1: Opportunities for forest based activities
- Criterion 13: The distribution of employment benefits from forests are fair
 - Indicator 13.1: Employment opportunities associated with forestry

FED has a close association with a number of policy initiatives within DWAF in support of the new Forestry Vision, notably the following:

(a) **Policy and Strategy Framework for Participative Forestry Management** (January 2004)

In terms of this framework the PFM approach “seeks to create enabling management frameworks for forests through which local communities adjacent to or within forests gain rights and responsibilities to a) be part of the management decisions of the state forest; and b) retain a share of benefits from forest goods and services in a sustainable manner”. The framework further states “the PFM approach is applicable on all forest types, whether they are natural forests,

plantations, woodlands, urban trees or trees in agro-forestry systems". It is clear from this description and the FED definition presented earlier in this paper, that there is difference in focus, but also a supplementary relationship between PFM and FED. The differences can be characterised as follows:

- Whereas PFM focuses on local participation in primary forestry activities, FED also includes local participation in downstream forestry processing activities.
- Whereas PFM focuses on local participation in both income generating and subsistence forestry activities, FED focuses on income generating enterprise activities only. In this regard FED could be viewed as offering people a point of entry from subsistence into the market economy.
- Whereas PFM focuses on community based participation in forestry, FED focuses on SMME activities, which are not necessarily community projects.

Overall, there will be many similarities in the strategies and programmes required to pursue both FED and PFM policy objectives.

(b) Indigenous Forestry Transfer Policy (November 2003)

This policy provides for indigenous forests to be managed by communities in instances where they are not to be managed by Provincial Conservation agencies and where they offer local economic development opportunities (or subsistence benefits). It also provides for the settlement of valid land claims to indigenous forests by way of transfer of ownership without physical occupation, but with arrangements to derive economic and other benefits from the forests. Both of these situations represent FED opportunities.

(c) Policy and Strategic Framework for the Transfer of Category B and C plantations (January 2004)

This Framework, which still has to be finalised, provides for the transfer of all Category B and C plantations "to be managed sustainably by community based enterprises, either exclusively or in partnership with established private sector forestry companies". This transfer approach presents DWAF with a direct FED opportunity, which will involve some 67,000 hectares of plantations. However, it must be noted that not all plantations have the potential to become economically viable. From an enterprise development perspective some of these may well be better suited to other land uses.

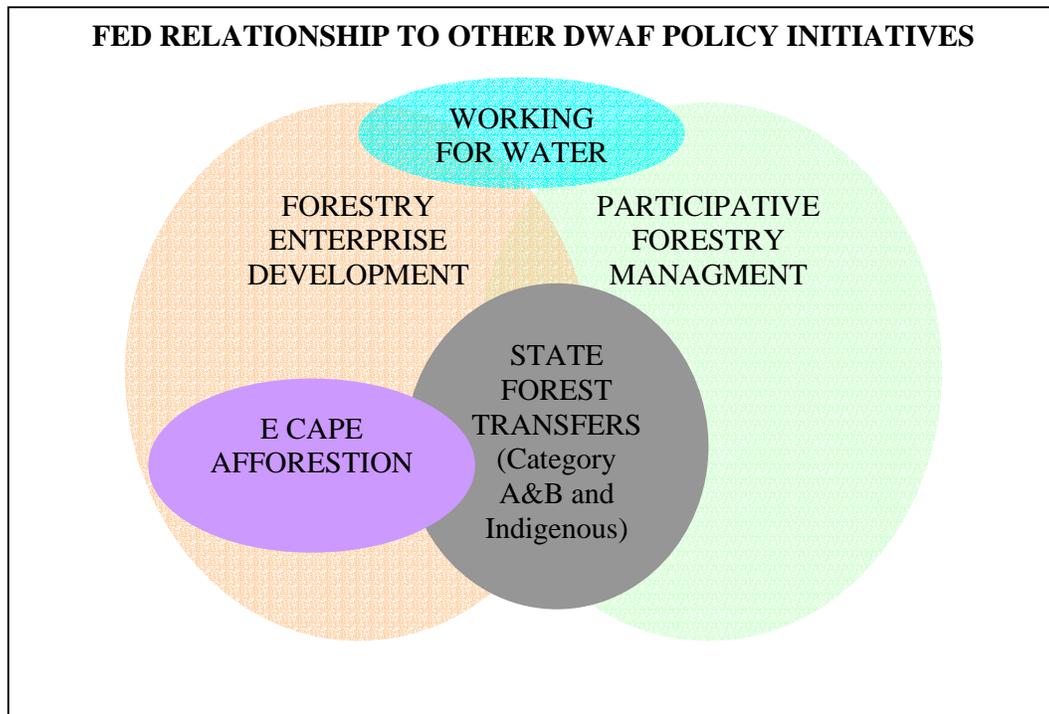
(d) Eastern Cape Afforestation Strategy (ongoing)

This strategy has set a target of 60,000 hectares for new afforestation in the Eastern Cape. The strategy is not only limited to timber but is also linked to an initiative to raise the forestry sector profile by incorporating the Timber Industries Development Programme as a distinct programme into the Provincial Growth and Development Strategy. This strategy is an excellent example of a current FED initiative.

(e) **Working for Water Programme** (ongoing)

This programme currently supports a range of FED initiatives such as harvesting contractor and charcoal productions projects. It also has the potential to support Wattle Conversion projects.

The different DWAF policy and strategy initiatives outlined above together contribute and give partial shape to an FED strategy. The relationship between these initiatives is presented in the diagram below:



4.4.2. Department of Trade and Industry

The Department of Trade and Industry (DTI) is the leading government agent responsible for ensuring a co-ordinated approach to national economic priorities, one of which is the development and growth of small enterprises. The DTI group comprises a number of agencies and institutions – including the Industrial Development Corporation, Khula Enterprise Finance and the newly formed Small Enterprise Development Agency (Seda) – that together operate in the fields of development finance, the regulatory environment and the provision of specialist business and other services. These services can be drawn on in order to support FED projects and initiatives.

The small business sector is a high priority for Government and with the recent launch of Seda, Government committed R120 million the roll out a national retail network designed to provide loans and other business support services to small, medium and micro enterprises.

There needs to be greater co-operation between the three layers of government and across government departments to ensure better and more focussed provision of support to small businesses. An integrated small business strategy is being prepared by DTI, which will address this need.

In a recent meeting with DTI officials the importance of unlocking of sector opportunities for SMME development was emphasised. DTI relies on line function departments to develop specific sector strategies.

The only known initiative in the forestry sector that the DTI is involved in, is a forum which has been established to facilitate and create an enabling environment for the timber, paper and pulp sector in South Africa. This has been done with a view to improving the sustainability and competitiveness of this strategic sector.

An inter-departmental Task Team, led by the DTI has determined that *prima facie* the timber, pulp and paper industries collectively constitute a sector of strategic significance to the national economy. This view has, in part, been informed by discussions with the Paper Manufacturers Association of South Africa (PAMSA). A study has been initiated to develop a national strategic framework for the establishment of the Timber, Paper and Pulp (TIPP) sector.

Additionally, DTI is the government's lead agent for implementing the **Broad-based Black Economic Empowerment Act (Act 53 of 2003)**. This Act empowers the Minister of Trade and Industry to issue codes of good practice and to publish transformation charters for different sectors and enterprises. Such a charter will outline the sector/enterprise's vision for achieving BEE targets and timetables, as well as special mechanisms to be used, including skills development and enterprise development, to achieve these targets. There have already been discussions between DWAF, DTI and FSA on the need for a BEE charter for the Forestry Sector. DTI relies on DWAF to take the initiative on behalf of Government in negotiating such a charter. Given the scope of broad based BEE as outlined in par. 4.1.1 above, an FED strategy would need to form part of such a charter. This offers the prospects for translating the strategy into an implementation agreement between government, private sector, labour and other sector stakeholders.

4.4.3. Department of Land Affairs

The DLA is responsible for the implementation of Government's land reform policy and programmes. The relevance of this for FED is threefold:

- (a) The **Tenure Reform** programme provides an instrument for previously disadvantaged people to secure tenure rights to land that they have historically occupied or used. This will enable them to secure their rights to land for FED.

The recently promulgated Communal Land Rights Act (Act 11 of 2004) gives secure land tenure rights to persons and communities who occupy and use the land that the previous government had reserved for occupation by the African people. Most of this land is registered in the name of the State or is held in trust by the Minister of Land Affairs or the Ingonyama Trust for communities. The Act will facilitate the transfer of land to persons or communities subject to the conduct of a land rights enquiry and the determination of community rules that will govern land use. The land will no longer be registered in the name of other persons, or traditional leaders or traditional councils or in the name of the State or held in trust by the Minister for Agriculture and Land Affairs or the Ingonyama Trust in the case of KwaZulu-Natal. Depending on the tenure form chosen by persons or communities, the land in question will be transferred to a clan or community in title.

- (b) The **Restitution** programme offers communities that have been dispossessed from land ownership due to apartheid laws the opportunity to regain ownership of their land. The programme also provides financial and technical support to communities to ensure the productive use of land, which could include FED activities.
- (c) The **Land Redistribution** programme offers financial and technical support to previously disadvantaged communities to gain access to land for productive purposes.

The Land Redistribution for Agricultural Development Programme (LRAD) is a sub-programme under the Land Redistribution programme and provides grants to black South African citizens to access land for agricultural purposes. The sub-programme is flexible enough to accommodate a number of types of projects, including FED projects. LRAD encourages participants to design what works best for them. To do this, beneficiaries can access a range of grants (R20,000 to R100,000) depending on the amount of their own contribution in kind, labour and/or cash. Beneficiaries must provide their own contribution of at least R5,000. The approval of the grants is based on the viability of the proposed project, which takes into account total project costs and projected profitability. People who live in communal areas and have access to land, but who may not have the means to make productive use of that land, can also apply for assistance under LRAD.

4.4.4. Department of Public Works

The Department of Public Works' Expanded Public Works Programme (EPWP) is aimed at alleviating unemployment of one million people in South Africa between 2004 and 2007. This will be done by creating temporary work opportunities through the provision of public goods and services, as well as follow-up training and SMME support.

The EPWP offers a variety of opportunities to support FED, which could include the following:

- Road infrastructure development in rural areas that will improve access to forestry markets.
- The clearing of alien plants and land rehabilitation, which could be linked to afforestation projects.
- The establishment of community tourism projects as NTFP activities.

4.4.5. Forestry Industry Education and Training Authority (FIETA)

The FIETA received funding through the Skills Development Levies from registered member companies in the Forestry Sector. By 31 March 2003 FIETA had a discretionary fund reserve of R28.5 million. These funds can be used in a number of ways in support of skills development and training in the forestry sector, including FED.

Skills development projects with an FED focus which are already being funded by FIETA include the following:

- Business development support to SMME's involved in furniture manufacturing.
- Training support for SMME's involved in the manufacture of charcoal from waste wood left in plantations.
- Training of employees of contractors in the forestry sector.

A project will soon be launched by FIETA to develop a toolkit and training manual for small timber growers in South Africa.

FIETA has committed itself to supporting SMME's in the forestry sector. Based on the discretionary funds available, it is suggested that the opportunities to do so are still largely untapped.

4.4.6. Provincial and Municipal Government

Provincial and Municipal Government has a key role to play in support of integrated spatial planning and local economic development. In many areas of the country FED could form a key component of local economic development. This can be facilitated through the inclusion of forestry development objectives in municipalities' Integrated Development Plans (IDPs) and the Provincial Growth and Development Plans (PGDP).

Substantial progress has already been made in this regard in Eastern Cape and Limpopo provinces. This will ensure that FED can tap into provincial and municipal funding in support of LED.

4.5. ENABLING CONDITIONS REQUIRED FOR FED

A set of enabling conditions needs to be put in place to realise the growth and development for FED in the various sub-sectors as outlined in section 4.3. The enabling conditions required for each sub-sector would need to be outlined in an FED strategy. For the purpose of this Key Issues Paper it is necessary to identify main categories of enabling conditions required.

The creation of an enabling environment for FED would entail the implementation of a number of key processes that could be categorised under the following headings:

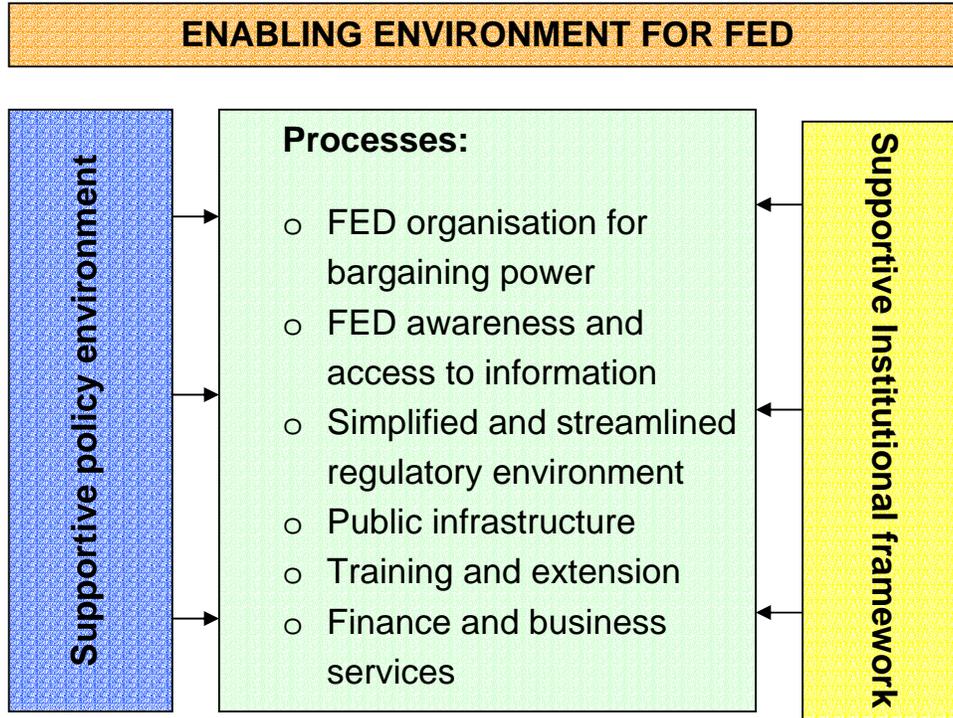
- FED organisation for bargaining power
- FED awareness and access to information;
- Simplified and streamlined regulatory environment;
- Public infrastructure (public transport, roads, telecommunication and electricity);
- Training and extension;
- Finance and business services.

The effective implementation of FED support is dependant on key role players (government and private sector) presenting clearly articulated and coordinated policies in support of each of these processes, as well an effective institutional framework that will enable them to act thereon. This relationship is depicted in the diagram on the following page.

4.5.1. FED organisation for bargaining power

As identified in section 4.3, one of the key constraints to FED is the lack organisation and co-operation in the small and medium forestry enterprise sectors. This restricts their ability to interacting with other sector role players and collectively bargain and lobby for their needs and interests. This is true small and medium scale growers, forestry contractors, millers, manufacturers of timber products, pole producers, charcoal producers, medicinal plant traders, honey producers, indigenous fruit traders and tourism operators. Both improved organisation and coordination within each of these sub-sectors and between sub-sectors on the forestry value chain is needed to optimise FED opportunities.

This points to the need for capacity building of various sub-sector organisations, and the need to create umbrella bodies that can represent their interests at municipal, provincial and national levels.



The development of the small grower sector, and the equitable representation of these growers in the timber forestry industry, has been set as a high priority by FSA. Work being undertaken in this regard includes the establishment and development of a small timber-grower structure for the relevant provinces, greater presentation of small growers in the FSA executive, the establishment of small timber-growers' database and the development of a communication and information strategy for small timber growers. Similar initiatives are underway with regard to forest contractors under the auspices of SAFCA, as well as in the honey production industry through support from the DWAF/ARC beekeeping development initiative. Similar initiatives are needed for the other sub-sectors.

4.5.2. FED awareness and access to information

Awareness of the potential of FED to contribute to poverty alleviation and information on market opportunities for FED initiatives is vitally important to potential business owners and project promoters.

Clearly, government, private sector, NGOs and donors all have their role(s) to play in promoting FED awareness. All have a responsibility to “spread the word”, to increase awareness on the value of forestry and FED as vehicles for poverty reduction and empowerment.

The public at large, rural communities in particular, financial organisations, government departments (central, provincial and local), poverty reduction agencies, enterprise development agencies, all need to hear the message and learn that forestry and FED can realise income and create jobs for previously disadvantaged individuals. The case for forestry needs to be continually re-enforced.

As the awareness campaign continues, follow-up and quite specific information must be ready and available to answer the questions and queries that inevitably will be raised by potential business owners and project promoters.

Potential entrepreneurs and investors may want information on, for example:

- Policies and strategies affecting FED;
- Potential for specific FED opportunities;
- Access to support services, training and funding;
- Access to FED markets and products;
- FED partnership opportunities;
- Legal requirements for the establishment FED enterprises.

All the information needed to satisfy an enquiring entrepreneur/investor, hoping to establish an enterprise in forestry, should be easily accessible. Ideally this should be located in one place. This is unlikely, however, and the best that can be hoped for is that the main role-players (government, private sector, implementation agencies and donors) share information, know who has what, and meet regularly to exchange information and assess the information gaps. DWAF could play an important role in establishing and servicing an information network (or hub) that supports FED opportunities.

4.5.3. Simplified and streamlined regulatory environment

The regulatory environment needs to be simplified and streamlined so as to lower the transaction costs associated with the establishment and operation of FED activities.

In many respects this is a concern common to all small enterprises that operate under the labour, tax and business-licensing regime in South Africa. Mention has been made in section 3.4.2 of the initiative by DTI to address this problem.

Some of the transaction costs associated with the establishment and operation of FED activities are particular to the forestry industry. This includes the licenses required and fees payable under the National Water Act 1998, licences and permits required under the National Forests Act 1998, as well as the requirements of other environmental legislation such as the national Environmental Management: Biodiversity Act, 2003.

The issuing of stream **flow reduction licenses and stringent SEA requirements** has proven to be a major stumbling block to afforestation in South Africa. In some instances the environmental concerns warrant the requirements, but in other instances these are viewed as technical constraints. All in all, the process of considering and issuing licences needs to be streamlined. It must also be noted that the National Water Act makes provision for various exemptions and relaxations of the licensing requirements. A particular relevant relaxation is the special consideration that is required to be given to individuals and communities who have been previously disadvantaged by the conditions in South Africa prior to 1994. The implementation framework for exercising these powers still needs further attention and could do much to facilitate afforestation, as well as formalise and regularise “unofficial” plantations in South Africa. Various initiatives are underway within DWAF to address the water licensing constraints and these initiatives need to be seen as being part of an FED strategy.

A second major area in need of attention is the establishment of **forest management certification** systems and procedures that are appropriate to and manageable for small growers. There is growing demand for certified timber, and there are speculations that within the next three to four years, there will no longer be a market for timber that is not certified. However certification requirements (e.g. through the Forest Stewardship Council) are currently not geared towards the certification of small-scale low intensity managed forestry operations. Furthermore, the management systems required for certification are largely inappropriate and beyond the capacity of most individual small growers. No small-scale growers in South Africa have qualified for FSC certification to date.

To enable small growers to fully and equitably participate in this market it is necessary for them to gain access to certification. The requirements and costs of achieving and maintaining certification for medium and small producers have generally remained prohibitive. In response to this FSC (Forest Stewardship Council) has devised a group certification scheme designed to share the costs between several producers. The most prominent of these is the one managed by NCT on behalf of its members. This initiative is being followed up by a pilot project supported by the INR to devise a management system that small growers can apply to assist in complying and demonstrating sustainable forest management. These are some of the initiatives required to promote the mainstreaming of small grower development and need to be seen as being part of an FED strategy.

4.5.4. Public infrastructure

The lack of suitable roads, railway connections, transportation services, telecommunication and electricity is common to rural areas and is often a major constraint to successful FED. This is exacerbated by the high transport cost component of linking timber supply to markets. It is in this context that the Extended Public Works Programme can play an important role in support of FED.

Central, provincial and district government authorities are aware of infrastructure deficiencies and, no doubt, have plans to overcome these constraints. However, the active involvement of communities, NGOs and DWAF would help to remove these obstacles to FED.

4.5.5. Training and extension

In recent years, there has been international recognition of the correlation between the long-term success and sustainability of entrepreneurial projects and the levels of ownership that project participants exercise over their enterprises. This requires different levels and forms of training and support to empower people to conceptualise, plan, implement and manage successful forestry enterprises, namely:

(a) Formative Training

This entails making people aware of entrepreneurial opportunities and instilling the right attitudes, feelings and behaviour towards entrepreneurial initiatives within their communities. This training needs to expand to give potential entrepreneurs the knowledge and understanding of the entrepreneurial environment in which SMME's have to operate, awareness of management responsibilities, as well as basic problem solving, conflict resolution and decision making skills.

(b) Skills Training

This relates to the technical know-how and skills required to manage and operate a business. Apart from basic financial administration and business management skills, the training required here would be specific to the type of enterprise involved.

(c) Mentorship Training

This relates to hands-on training and mentoring required to enable participants apply the competencies they have learned through skills training.

FIETA needs to play a leading role in offering training support to SMME's in the forestry sector.

4.5.6. Financial and business services

Access to finance to meet capital investment and operational requirements is an important prerequisite for SMME growth in South Africa. This is also true for FED. To be effective, access to finance needs to go hand-in-hand with access to a range of financial advice and business support services. This would include assistance in establishing business entities, compiling business plans and budgets, market analysis and advice on contracting, tax and licensing and labour requirements.

These services can best be provided through a network of private sector service providers and government supported business advice centres.

The public sector itself is usually not well equipped to provide these services because they are not adequately in-tune with the day-to-day challenges faced by business people. Yet, government has an important role to play in creating an enabling environment where the private sector and government support can offer these services.

There is no easy solution, but one way to ease the problem is for DWAF (e.g. FEDO) and other enterprise development agencies to have directories of financing organisations, details on the type of finance they provide, their preferred clients, their lending conditions etc., and to go the next step of interacting with these organisations, as agents or interlocutors on behalf of the first-time emerging entrepreneurs.

Research is also required to look at appropriate funding mechanisms for small-scale forestry enterprises, for example community afforestation projects in the Eastern Cape. Attaching forestry enterprises to other poverty alleviation funds/programmes may be one way of making finance more readily available to FED projects. Carbon sequestration and payment for ecosystem services may also offer some opportunities.

4.6. INSTITUTIONAL SUPPORT STRUCTURE

As mentioned earlier, an institutional support structure is required that can implement the enabling conditions for FED. Some institutions fall within government, some are private and others are non-governmental. Some are already created and functional. Others still need to be established.

Some examples of existing institutions that operate within the FED sector:

- Eastern Cape Forestry Development Initiative
- Limpopo FED Co-ordinating Committee
- KZN Small Growers' Forum
- Government departments such as DWAF, DTI, DLA etc.
- Provincial government and district municipalities
- Forestry South Africa, SAFCA, SALMA, ECSSA, SAWGU, SAWPA
- Eastern Cape Socio-Economic Consultative Council
- NCT, SAPPI, Mondi (promoters of outgrower schemes)
- DBSA, IDC, ECDC, Development Corporation of KZN
- LIMA, INR and other NGO's/service providers
- Donor agencies such as Danida, GTZ and DFID

What is required here is to clarify the roles and responsibilities of the different institutions in servicing each of the enabling conditions required for FED. The table below offers a framework that would require further detail and analysis for inclusion in an FED strategy.

Enabling conditions	Tasks	Responsibilities
FED organisation for bargaining power	Capacity building of various sub-sector organisations	<ul style="list-style-type: none"> • Forestry Sector representatives • NGO's & CBO's • FIETA
	Create umbrella bodies that can represent sub-sector interests (municipal, provincial & national levels)	<ul style="list-style-type: none"> • Forestry Sector representatives
FED awareness and access to information	Awareness of forestry poverty links and benefits of forestry	<ul style="list-style-type: none"> • DWAF (national and provincial offices) • Provincial Governments & development agencies • Municipal Governments • Forestry Sector representatives • NGO's & CBO's • Research institutions
	Information on FED business opportunities	<ul style="list-style-type: none"> • DWAF (national and provincial offices) • Department of Trade and Industry • Provincial Governments & development agencies • Municipal Governments • Forestry sector companies • NGO's & CBO's • Research institutions
	FED included in provincial growth and development strategies & IDP	<ul style="list-style-type: none"> • DWAF (provincial offices) • Department of Trade and Industry • Provincial Governments • Municipal Governments
	Information on ownership and business models	<ul style="list-style-type: none"> • DWAF (national and provincial offices) • Provincial development agencies

Enabling conditions	Tasks	Responsibilities
	Information networking and coordination	<ul style="list-style-type: none"> • DWAF (national office) • EC Forestry Development Initiative • Limpopo FED Co-ordinating Committee • FED representative Forums (e.g. Small Growers' Forum)
Simplified and streamlined regulatory environment	Streamline regulatory process and simplify regulatory environment for SMME's (general)	<ul style="list-style-type: none"> • Department of Trade and Industry
	Streamline regulatory process and simplify regulatory environment for FED (particular)	<ul style="list-style-type: none"> • DWAF (national office) • FSA
	Monitor transaction costs for FED	<ul style="list-style-type: none"> • DWAF (national office) • FSA
Public Infrastructure	Identify infrastructure needs to support FED	<ul style="list-style-type: none"> • DWAF (provincial offices) • Provincial Governments • Municipal Governments
	Address infrastructure needs to support FED	<ul style="list-style-type: none"> • Department of Public Works • Provincial Governments
Training and Extension	Toolkits and training materials for FED sub sectors	<ul style="list-style-type: none"> • FIETA • DWAF (national office) • Forestry Sector representatives
	Learnerships and training programmes	<ul style="list-style-type: none"> • FIETA • Forestry Sector Companies • NGO's / Service providers
	Mentorship programmes	<ul style="list-style-type: none"> • FIETA • Forestry Sector Companies • NGO's / Service providers
	Facilitation support	<ul style="list-style-type: none"> • Department of Land Affairs • NGO's / Service providers • Forestry Sector Companies

Enabling conditions	Tasks	Responsibilities
Finance and Business services	Capital and production loans	<ul style="list-style-type: none"> • Banks/financial institutions • Development Agencies • Contracting Forestry companies
	Capital grants and investment incentives	<ul style="list-style-type: none"> • Department of Land Affairs • Department of Trade and Industry
	Business Service	<ul style="list-style-type: none"> • Services companies • NGO's • Development Agencies

4.7. OPTIONS FOR DEVELOPING AN FED STRATEGY

The analysis of opportunities outlined in section 4.3 points to the fact that FED covers a diverse set of activities, involving a great number of role-players, ranging from land holding communities and small scale entrepreneurs to private sector companies and different government agencies. The successful implementation of FED is dependant on the active involvement and support of all these role-players. The implications of this are twofold:

- To succeed, an FED strategy should not be developed as a DWAF strategy, but as a sector strategy in which DWAF plays a leading role.
- To succeed an FED strategy needs to be underpinned by a vision of a future forestry sector that can be shared by all.

Such a shared vision for FED and the objectives of each sub-sector that follows there from should be developed in an FED strategy. The strategic approach and actions required to support these objectives needs to be identified and prioritised. Following this, the roles and responsibilities of the different institutions in the implementation of the strategy should be detailed. Obviously, such a strategy would need to be developed in consultation with the various role-players, some of which have already been identified in this paper.

In planning the way forward it must be recognised that the development of such a strategy does not start from a “clean sheet”. Some components of such a strategy are already underway and different components are at different stages of development.

There are two different approaches that can be followed in translating this Key Issues Paper into action. One would be to develop a **comprehensive FED strategy** paper that will address the range of strategies required to support FED. The other approach is to compile an **FED strategy framework** that sets out broad guidelines for FED and identifies priority strategy themes that need to be developed further as separate strategy initiatives.

It is suggested that the latter approach would be more appropriate. It allows the prioritization and implementation of certain initiatives without delaying the whole. It also makes it easier to consult with targeted stakeholders in developing the different strategies.

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