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What role in reducing poverty?

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Discussion paper

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Contacts:
Mike Howard • Fractal Forest Africa, P.O Box 759, Umhlali 4390, SOUTH AFRICA •Tel: +27 (0) 32 525 6931 • Fax: +27 (0) 866 723 888 • mdhoward@iafrica.com

Forestry and Land Use, Natural Resources Group, International Institute for Environment and Development, 3 Endsleigh Street, London WC1H 0DD, UK •Tel: +44 (20) 7388 2117 • Fax: +44 (20) 7388 2826 • sonja.vermeulen@iied.org

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Small and medium forest enterprise series

This series presents IIED-coordinated studies on the ways in which small and medium-scale forestry enterprises can better contribute to reducing poverty and improving the prospects for sustainability. All reports in the series, including country case studies from China, India, South Africa, Uganda, Brazil and Guyana, can be downloaded from www.iied.org/forestry/pubs/sm_entrprise.html#casestud.

This study on small-scale timber production has been conducted within two broader IIED-coordinated initiatives, the *Forest Governance Learning Group*, active in South Africa and a range of other countries in southern and western Africa, and *Sharpening Policy Tools for Marginalised Managers of Natural Resources*, or *Power Tools*, an international initiative to develop and test policy tools. For more information on the Forest Governance Learning Group see www.iied.org/forestry/research/projects/forest and for more information on Power Tools see www.policy-powertools.org.

The current study was developed as a contribution to a joint initiative - by the International Institute for Environment and Development (IIED), based in the UK, and South Africa's Department of Water Affairs and Forestry (DWAF) - aiming to answer the question: What role does forestry play in reducing poverty in South Africa and how can that role be improved? The opinions expressed in this paper are those of the authors alone, and not necessarily those of IIED, DWAF, or the supporting agencies DGIS (Dutch Ministry of Foreign Affairs), BMZ (German Federal Ministry for Economic Cooperation) and DFID (UK Department for International Development).

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EXECUTIVE SUMMARY

This report provides an overview of the context and scale of a number of cases of forestry partnerships that have been established, an analysis of the impact that they have had, and are likely to have on poverty, and makes recommendations as to how the role of forestry in the reduction of poverty may be improved upon, within the context of governance and policy making.

Poverty reduction is currently the major policy focus in South Africa and forestry has an important role to play due to its appropriate characteristics and applicability in many of the poorest rural areas. Previously disadvantaged individuals (PDIs) own approximately only 3% of the national forest estate and there is an urgent need to correct this inequitable stake in the forest industry. There is tremendous scope for participation in the forest industry by poor communities, households and enterprises, but progress is still needed on how best to shape governance frameworks to maximise benefits to poor people.

The study has three linked objectives:

- To review the evidence of partnerships' actual and potential contribution to poverty reduction.
- To identify the key governance constraints and opportunities to increase that contribution.
- To develop workable approaches and tactics for overcoming the constraints and seizing the opportunities that have been identified.

Information was gathered from the literature, interviews with growers and project facilitators and the prior knowledge of the subject of the research team themselves.

The following forestry projects or groups of people practicing forestry were researched as case studies:

- Project Grow – Sappi in the Zululand area
- Khulanathi – Mondi Business Paper in the Zululand area
- Phezukomkhono – Wattle industry in the Greytown area

- NCT procurement scheme – NCT Forestry Co-operative in the Zululand area
- TWK procurement scheme – TWK Agriculture Ltd in the Zululand area
- Bonagude – Manzini BBBEE Partnership near Melmoth
- Mabandla, Ngevu and Zintwala projects facilitated by Rural Forest Managers (RFM) in the Umzimkhulu area
- Sokapase community who lease a part of the DWAF managed Blyth plantation near Butterworth in the Eastern Cape
- Cata Community Forestry Project facilitated by Border Rural Committee (BRC) and Fractal Forest Africa (FFA) in the Amathola area of the Eastern Cape
- Non-aligned growers in KwaZulu-Natal

The case studies were grouped and described according to the following business models:

- Outgrower schemes
- Procurement schemes
- BEE partnerships
- Government financed projects with technical facilitation
- Non-aligned entrepreneurs

In assessing the contribution that small-scale forestry makes to poverty reduction, five key areas were considered and discussed, namely:

1. the impact of small-scale forestry on grower household incomes;
2. the degree to which market access issues affect the livelihoods of small-scale growers;
3. the wider economic impact on the community;
4. the impacts of small-scale forestry on subsistence patterns and
5. the impacts that small-scale forestry has on the rights, capabilities, representation and decision-making abilities.

Governance issues were considered within the context of the constraints and opportunities that forestry offers and a number of achievements and governance constraints to the potential positive impact that forestry can have on poverty are discussed. The authors make six recommendations to improve the impact of forestry on reducing poverty, namely:

1. Improve the return on forestry investments through the increased scale of small-scale forestry and participation in downstream processing
2. Increase and accelerate access to State land,
3. Improve access to funding through the establishment of facilitation agencies, offering collateral certificates and subsidies and/incentives
4. Improve access to financial services,
5. Improve extension and support services,
6. Actively publicise the success stories and facilitate the up-scaling of these

It is clear that forestry plays a diverse and significant role in reducing poverty in the rural areas – ranging from direct cash payments, such as the R115 million paid to small-scale growers in the 2003/4 financial year to the intangible improvements to rights, capabilities and representation. There are however strong indications that forestry could play a far greater role through the coordinated efforts of government and the private sector.

Open and transparent partnerships need to be established among the stakeholders: government departments; the private sector; NGOs and other facilitators; the communities and their management institutions and the actual individuals who wish to participate in the forestry sector. It is the role of government to provide the enabling environment for further forestry development and the obligation of the forest industry to respond positively.

ACKNOWLEDGEMENTS

The responsiveness and enthusiasm of the members of the SSGF, particularly the assistance of the chairperson, Mr. Steven Ngubane and the comments and contributions of Cathy Oelofse, Jeanette Clarke, Moenieba Isaacs, Erik Buiten and Rob Cairns are all gratefully acknowledged. Sonja Vermeulen at IIED coordinated the study.

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ACRONYMS

ADM	Amathole District Municipality
BBBEE	Broad-based black economic empowerment
BEE	Black economic empowerment
BRC	Border Rural Committee
cc	Close corporation
CPA	Community property association
CSIR	Council for Scientific and Industrial Research
CTC	Central Timber Co-operative
DFID	Department for International Development (British aid)
DLA	Department of Land Affairs
DTI	Department of Trade and Industries
DWAF	Department of Water Affairs and Forestry
ECDC	Eastern Cape Development Corporation
FC	Forestry Committee
FFA	Fractal Forest Africa cc
FOA	Forest Owners Association
FSA	Forestry South Africa
FSC	Forest Stewardship Council
IIED	International Institute for Environment and Development
INR	Institute of Natural Resources
KZN	KwaZulu-Natal
LAAC	Licence Assessment Advisory Committee
LRAD	Land redistribution for agricultural development
N/A	Not applicable
NCT	Natal Co-operative Timber renamed NCT Forestry Co-operative
NDA	National Department of Agriculture
NTE	Natal Tanning Extract
NTFP	Non-timber forest products
PDI	Previously disadvantaged individual
RFM	Rural Forest Management cc
SASA	South African Sugar Association
SATGA	South African Timber Growers Association
SAWGU	South African Wattle Growers Union
SEA	Strategic Environmental Assessment
SFRA	Stream Flow Reduction Activity
SKA	Stephen Keet and Associates
SLAG	Settlement land acquisition grant
SRL	Sustainable Rural Livelihoods
SSGF	Small-scale Grower Forum
TA	Tribal Authority
TWK	Transvaal Wattel Kwekers
UCL	Union Co-operative Limited
USA	United States of America
WFSP	Water and Forestry Support Programme (DFID & DWAF)
WGA	Wattle Growers Association

1 INTRODUCTION

After 10 years of democratic government, South Africa is still heavily burdened by poverty, especially in the rural areas. Poverty reduction is the major policy focus in South Africa and forestry has an important role to play, due to its specific qualities. Commercial forestry, which involves the cultivation of trees in industrial plantations or tree farms, is a land-based enterprise that requires a basic knowledge of crop-cultivation; can be practiced on land not suitable for agriculture and produces a particularly robust and versatile product, namely wood. It is possible for timber to be produced by individuals and communities in isolated rural areas and to transport the timber great distances to the market, without any deterioration of the product. In contrast to many agricultural crops, harvesting of timber is not dependant on a particular condition of maturity and rotations can vary from as little as 4 or 5 years for the production of agricultural poles to 30 to 35 years for the production of high quality sawlogs. Products derived from a single tree can include sawtimber, poles and pulpwood and particular qualities of fibre can be obtained through the selection of the correct planting stock.

The extent of the commercial forest industry in South Africa is approximately 1.37 million hectares (DWAF,2004) and makes a contribution of some R20 billion per annum to the national economy off a capital base of a further R25 billion (FSA, undated). However, it is estimated that previously disadvantaged individuals (PDIs), many of whom practice forestry on a small scale make up only 40 000 ha. It is estimated that there are approximately 25 000 individuals that have their own woodlots and that the average area of an individual plantation woodlot is 1.6 ha. There are approximately a further 6 000 beneficiaries of community-based forestry projects who collectively have 2 000 to 3 000 ha of forest plantations among them. Altogether PDI ownership of the national forest estate amounts to only approximately 5% to 6%. This includes the shareholdings of PDIs in the companies that lease Category A plantations from the State, and various private BEE deals which are estimated to account for 2% to 3% of the forestry estate.

Although there are a number of PDIs that participate in the forest industry through their share in the ownership of one or more of the forestry companies, from the above statistics it is evident that there is some urgency to achieve a more equitable distribution of the forest estate and in so doing allow forestry to

make a significant contribution to poverty in the rural areas of the country that are suited to commercial forestry. Recent initiatives have identified a potential area of some 70 000 ha in KwaZulu-Natal (Howison, 2004) and estimates of between 60 000 and 120 000 ha in the Eastern Cape. A Strategic Environmental Assessment (SEA) is currently being undertaken in the Eastern Cape that will identify those areas where forestry is most desirable. There is tremendous scope for participation by poorer communities, households and enterprises, but progress is still needed on how best to shape governance frameworks to maximise benefits to poor people.

The role of government in forestry has shifted from direct participation – as an owner of land and producer of timber – towards regulation and facilitation, with an emphasis on how best to contribute to rural development and to assist poverty reduction. This study examines one of the most active and promising areas in which South African forestry can contribute to poverty reduction namely; partnerships between smallholders and other agencies (private companies, government bodies or NGOs) for timber production and builds, among other, on the work of Cairns (2000), Zingel (2000), Andrew et al (2000) and Mayers et al (2001). It is expected that the findings of the study will contribute to ongoing policy processes within DWAF and other government departments and make a particular contribution to the development of the national forest programme (NFP) under the two themes, namely, *Forestry and Poverty* and *Forestry Governance*.

This report provides an overview of the context and scale of a number of cases of forestry partnerships that have been established, an analysis of the impact that they have had, and are likely to have, on poverty and makes recommendations as to how the role of forestry in the reduction of poverty may be improved upon, within the context of governance and policy making.

2 OBJECTIVES

The purpose of this study is to provide a clear and convincing analysis of the strengths and limitations of partnership schemes for timber production in reducing poverty in South Africa by reviewing the experience of a range of partnerships that have been set up. The study has three linked objectives:

- To review the evidence of partnerships' actual and potential contribution to poverty reduction.
- To identify the key governance constraints and opportunities to increase that contribution.
- To develop workable approaches and tactics for overcoming the constraints and seizing the opportunities which have been identified.

3 PROJECT METHODOLOGY

Numerous published studies, among other, those by Cairns (2000), Zingel (2000), Andrew et al (2000) and Mayers et al (2001) and number of unpublished studies such as the PhD thesis of Cellier (1994) and the work carried out by the Institute of Natural Resources (INR) (Addo, *et al*, 2000) as well as the information periodically put out by the timber companies and Forestry South Africa (FSA) in the form of leaflets and short reports (FSA, undated; Mondi Forests, 1990; Sappi, undated) make up the extensive body of information pertaining to the small-scale forestry sector in South Africa where partnership arrangements are common elements of practice. This "body of information" guided the starting point of this project, particularly in the selection of the case studies that had not been researched and reported on before. An attempt has been made, in reviewing the well-researched cases and researching the new cases, to update the "body of information" and to freshen-up the thinking of policy makers and other stakeholders.

The team of service providers that have been drawn together to research this project all have extensive experience of the forestry industry and particularly the small-scale forestry sector, having carried out projects that directly or indirectly involved the people active in the small-grower forestry sector. The selection of

the team members was guided by their current familiarity with the different case studies, a number of whom are physically undertaking facilitation and mentoring work on the projects and thus much of the information reported upon has been gathered first-hand over a longer period of time than it took to carry out this study.

Prior to embarking on the field research, a workshop was held with the members of the *Small-scale Grower Forum* (SSGF). The SSGF is made up of service providers from both government and the private companies that provide support to small-scale growers either on an *ad hoc* basis or through the outgrower schemes. In addition, a number of specialist researchers, such as Cathy Oelofse, a poverty specialist from the University of KwaZulu-Natal, Jeanette Clarke and Moenieba Isaacs, two researchers studying the forestry contracting sector and Rob Cairns, who has undertaken a number of earlier studies, attended the workshop and presented their views to the participants. The objective of the workshop was to discuss the perspectives of the service providers and to facilitate their cooperation and guidance with regard to the data collection and general research process of this project. The workshop was well-attended and participants generously offered their guidance and ideas with regard to how the study could be carried out and how it could be used to improve the impact of forestry on the reduction of poverty.

Information gathering was divided in “hard” and “soft” issues; “hard” issues relating to the physical extent of the projects, the monies and the number of people involved while the “soft” issues questionnaire was compiled following the Sustainable Rural Livelihoods (SRL) approach detailed in Cairns’ (2000).. Questions were devised around the broad headings of *natural*, *social, human, physical* and *financial capital*. A draft questionnaire was sent to the broader research group for comment and was subsequently refined. The questionnaire was prepared in an open-ended, semi-structured, interview format that was conducted on a one-on-one basis with the growers. Interviews were conducted with various stakeholders from the different forestry cases. (Copies of the questionnaires are included in Appendix 1.)

Hard-issues data was obtained from the facilitators and managers of the different projects and from the literature. Data and information were collated and analysed

by the research group in a series of small workshops and initial findings presented to the SSGF at one of their meetings.

The characteristics of the key groups discussed in this report, namely the *small-scale growers* and the *communities* are defined for purposes of clarity. These terms are in common usage in the forestry sector and their meanings, as they are used in this report and generally in the forestry sector are explained.

Although not specifically researched, the interaction and presence of HIV/AIDS within the small-scale grower sector is significant and some of the aspects that the researchers encountered are discussed.

3.1 SMALL-SCALE TIMBER GROWERS

A *small-scale timber grower* is an individual that has some or all of the following characteristics:

- Has less than 100 ha of plantation
- Is a "previously disadvantaged individual" (PDI), that is, someone who was disadvantaged by the policies of the previous apartheid government in terms of access to land, education, business opportunities, etc. Most black people in South Africa are considered to be previously disadvantaged. Women, irrespective of their race, are also considered to be PDIs in some contexts.
- Does not have formal title to the land on which the trees are grown but has a lesser tenure status such as a "permission to occupy" or simply permission from the *Inkhosi*[1] (or chief) or tribal authority to use the land

There is some overlap in what is generally considered a *small-scale grower* and a *medium-scale grower* in terms of the actual physical size of their plantations, the *medium scale grower* however, being primarily from the white population group in South Africa and having had access to land and other opportunities for many years. Medium-scale growers typically own from 50 ha to 1000 ha of plantation. *Large-scale growers* are differentiated by the scale of their operations - typically

[1] In KwaZulu-Natal the word *Inkhosi* (pl. *Amakhosi*) is preferred to the word *Chief*. In the Eastern Cape the word *Chief* is still widely used.

many thousands of hectares and the formality of their company structures. Most of the large-scale growers also own processing plants and some are vertically integrated to the extent that they have a stake in the manufacturing of the finished forest products and even the international distribution thereof.

3.2 COMMUNITIES AND THEIR DEMOCRATIC PROCESSES

A *community* can be defined as a group of people having one or more of the following characteristics:

- A group of people living in a particular locality. The extent of the locality can vary from a single village, a tribal authority area or a whole district
- A group of people who have a common purpose that can loosely be related to a geographic area, the latter often being poorly defined
- People currently living outside a particular geographic area may be considered to be part of a community due to their historical or family connections to the area

The relative power and influence of the chiefs or tribal authorities in the rural communities of South Africa increases from the former Ciskei in the south - where the chiefs hold very little power, to KwaZulu-Natal in the north - where the tribal authorities are still very strong. The power of the chiefs and tribal authorities in the former Transkei varies from area to area, although in most cases the chiefs still have a strong influence on community affairs. The relative prominence of democratic processes seems to be associated with strong civic activity as opposed to tribal authority activity.

In Cata, for example, there are three villages that make up the *Cata community*. The election of office bearers for the various committees at Cata has been strongly democratic with the entire community taking part in the election processes. A number of well-attended community meetings were held to discuss issues of general interest to the community in order to ensure that the process and issues were, in all cases, well understood by the entire community.

In Mabandla things were done a little differently as the chief, together with his tribal council, still holds a prominent position in the community. Here, the election of trustees to the Mbandla Community Trust was partly democratic with

representatives that were acceptable to the tribal council being democratically elected from the different villages in the tribal authority.

In Zululand in KwaZulu-Natal where the tribal authorities are particularly strong, careful attention is always paid to ensuring that any democratic election processes have the blessing of the local chief. There have been instances where chiefs have felt threatened by processes aimed at the election of a committee or other representative body and this has resulted in conflict within the community.

3.3 HIV/AIDS IN THE SMALL-SCALE FORESTRY SECTOR

When asked about how HIV/AIDS has impacted on tree farming in their area, the majority of small-scale growers responded that the impact was significant and was particularly problematic among the labour that they hire. Some of the phrases used to describe the scope of this disease in their areas are that HIV/AIDS is 'scary', 'terrible', and 'alarming'. Only a small proportion of growers reported that they were not aware of any impacts that HIV and AIDS had on small-scale forestry.

One grower responded that HIV/AIDS does not have a direct impact on small-growers because they are mostly senior members of the community, and AIDS affects predominantly young people. However, because most of the workers are young people, the disease indirectly affects growers who hire young people as casual labour. It was mentioned that it is becoming increasingly difficult to replace workers who have passed away as the number of young people available to work on the plantations is becoming smaller.

The youngsters are believed to be the population group that is mostly infected with HIV. Some of the labour that growers hire is reported to be too weak to work, and to have no energy. Growers are generally unwilling to have them continue working for them, as they fear that they will die whilst working and that they will be held responsible for their death.

Many growers commented that they could no longer rely on the same group of casual labour to complete a task because some members had died. The impact was reported to be most problematic during harvesting when one needed to have a trained group of people working efficiently. The increased death rate among workers meant that new people had to be trained. This disruption to the

harvesting operations impacted negatively on the growers because occasionally wood could not be delivered to the mill on time.

Although not raised by the growers themselves, it became apparent from the interviews that HIV/AIDS is having a significant impact on the households of small-scale growers. When asked about the size of their household, and specifically how many people were living on their homestead, it was observed that numerous growers were supporting grand children and/or children from other family members. In one case a grower commented that he was looking after two orphans. Although not stated explicitly by growers, it is suggested that HIV/AIDS has resulted in an increased dependence of young children on small-scale growers. Especially in the case of the women growers, the revenues generated by their forestry activities are very important as these provide a source of income while allowing the women to stay at home and carry out their child-minding activities.

4 CONTEXT AND SCALE OF PROJECTS

The following forestry projects or groups of people practicing forestry were researched as case studies and their geographical locations are indicated in the map shown in Figure 1.

- Project Grow – Sappi
- Khulanathi – Mondi Business Paper
- Phezukomkhono – Wattle industry
- NCT – NCT Forestry Co-operative
- TWK – TWK Agriculture Ltd
- Bonagude – Manzini Partnership
- Mabandla, Ngevu and Zintwala projects – RFM
- Sokapase – Sokapase community
- Cata – Cata community
- Non-aligned growers

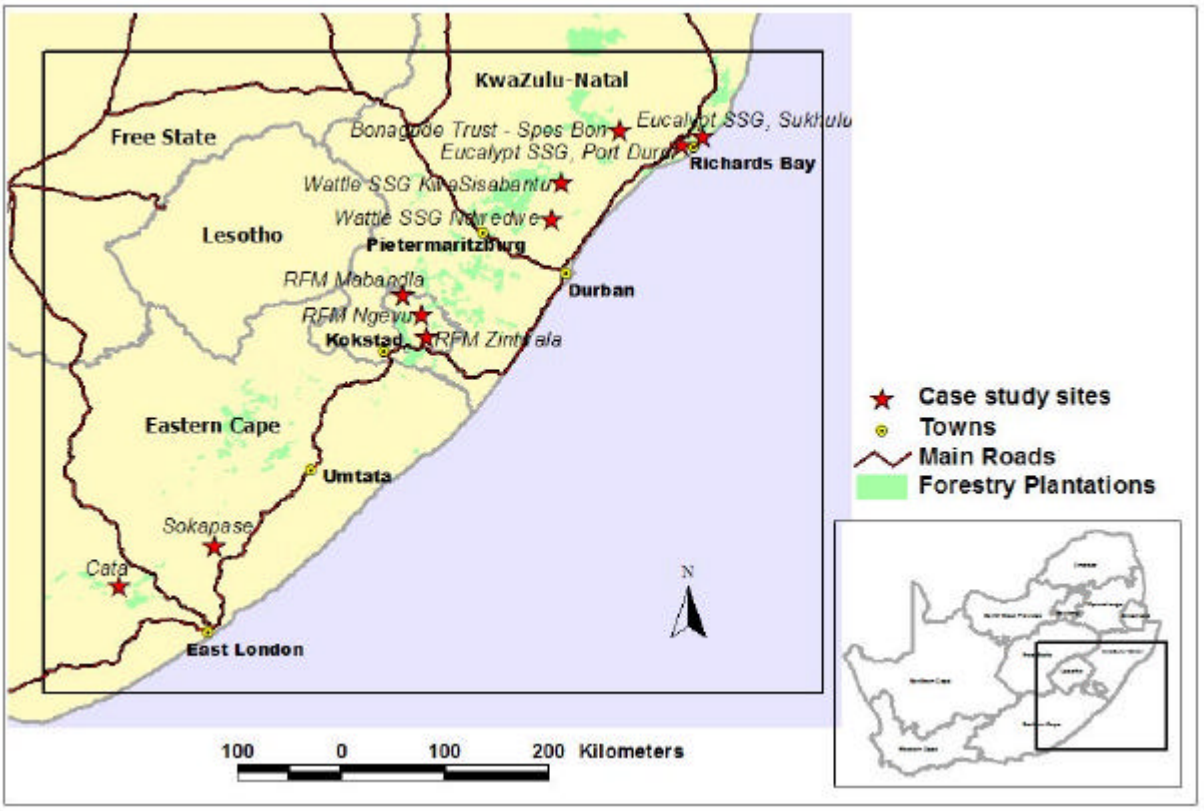


Figure 1. Map showing the location of the case study sites

The projects that have been researched in this study can be grouped according to the business model that they follow. Five models may be differentiated and these are the following:

- Outgrower schemes
- Procurement schemes
- BEE partnerships
- Government financed projects with technical facilitation
- Non-aligned entrepreneurs

4.1 OUTGROWER SCHEMES

The objective of the outgrower schemes is to increase the supply of timber to the processing company by entering into partnership arrangements with growers who have access to land where timber can be grown. The processing company provides technology, in the form of improved genetic seedlings or clones and technical forestry advice, a cash loan, in the form of an advance against completed silvicultural operations and local timber collection points where the growers can deliver their timber and complete the sales transaction. In return, the grower provides land and labour as the means of growing the trees and undertakes to sell the timber to the processing company at a market related price. Loans arising from the advances made to the growers by the processing company are repaid from the proceeds of the sale of the timber. The grower may enter into a partnership contract with the processing company for more than one tree crop rotation although, in almost all instances, the loans arising from the advances are easily settled from the proceeds of the sale of the timber from the first rotation and the balance used at the discretion of the grower. Some of this money may be used to re-establish the next tree rotation.

There are three outgrower schemes operational in South Africa, these being Sappi's Project Grow, Mondi's Khulanathi and the Wattle Growers Association's (WGA) Phezukomkhona. A summary of the characteristics of the outgrower schemes is shown in Table 1.

The relatively small size of the small-scale grower segment and the volume of timber that they produce compared to the corporate grower-processors has resulted in a very skewed power balance in favour of the big companies. Grower-committees in the past have been company specific and this has to some extent limited their potential bargaining power. The efforts of Forestry South Africa (FSA) to establish structures that will allow small-growers greater representation in the forest industry are described in Text Box 1 *Small-scale grower representation by Forestry South Africa.*

Table 1. Summary characteristics of the outgrower schemes

Model	Outgrower Scheme		
Company	Sappi	Mondi	Wattle Growers Association
Name of Scheme	Project Grow	Khulanathi	Phezukomkhono Planting Loan Scheme
Year established	1983	1989	1994
Number of Growers/Stakeholders	9 810	3 000	532
Planted Area (ha)	15 000	7 000	490
Area per Grower / Stakeholder	1.5	2.3	0.9
Volume of timber processed - Last financial year	80 000 tons	38 357 tons	N/A
Volume of bark processed - Last financial year	N/A	N/A	429 tons
Amount paid to growers for timber and bark - Last financial year	R19.0 million	R10.4 million	R150 000
Average net financial yield per rotation per ha	R18 410	Not available	R 18 000
Provide loans or advances for operations & land	Yes	Yes	Yes
Provide technical support	Yes	Yes	Yes
Provide local depot	No	Yes	No
Provide equity stake	No	No	Yes
Provide loyalty bonus	Yes	No	No
Make SFRA application for growers	Yes	Yes	Yes
Primary financial support	Sappi	Mondi	WGA

4.1.1 Project Grow – Sappi

Project Grow is the oldest and largest of the outgrower schemes having been established in 1983 in response to a perceived need for migrant mine workers to have some form of income to supplement their pensions. At the time Sappi was part of the Gencor group whose primary activity was gold mining. It later became evident that the timber being produced by Project Grow could provide a small but valuable source of raw material to Sappi's expanding pulp mills. Project grow has 9 810 members who collectively have some 15 000 ha in the tribal areas of KwaZulu-Natal and the northern part of the Eastern Cape. Various species of eucalyptus are grown on rotations of 7 to 8 years. Gross revenue paid to Project Grow members from the sale of their timber amounted to R19 million and advances for silvicultural operations completed, a further R730 000 in the 2003/4 financial year, an average of R2 011 per grower. Similar to the other outgrower schemes, Project Grow provides free seedlings and clones, technical support, advances on completed operations and assistance with water licence applications. The advances to the growers are in the form of an interest-free loan that is paid back to Sappi when the timber is harvested and sold. In recent years, Project Grow has discontinued the use of some of their timber collection depots. Project Grow staff now facilitate the harvesting and delivery of timber through a network of local contractors.

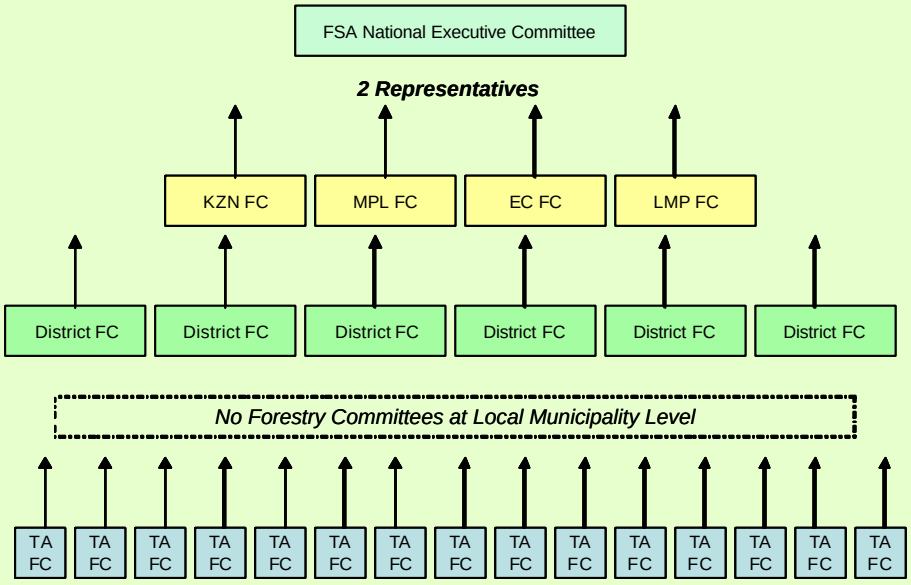
A number of grower committees have been set up but these appear to have very little bargaining power.

TEXT BOX 1. SMALL-SCALE GROWER REPRESENTATION BY *FORESTRY SOUTH AFRICA*.

With effect from the 1st of January 2002, the *Forest Owners Association* (FOA), which represented the large grower/processors, the *South African Timber Growers Association* (SATGA) which represented the private timber growing farmers and the *South African Wattle Growers Union* (SAWGU), which represented the wattle farmers and processors, came together and formed a single association to represent the private forestry industry in South Africa known as *Forestry South Africa* (FSA).

Members are grouped according to the scale of their operations and the association structured accordingly. In addition to the *Large Growers Group* and the *Medium Growers Group* - with categorization still along the lines of the previous associations, viz. FOA and SATGA – a *Small Growers Group* has been established. Although representation on the executive committee is still skewed towards the larger growers, with the *Large Growers Group* having 5 representatives, the *Medium Growers Group* having 3 representatives and the *Small Growers Group* having only 2 members, there has been a considerable effort to improve representation by small-scale growers who, at this stage, only represent about 3% of the national forest estate of 1.37 million ha and have almost no formal stake in the downstream processing of forest products.

FSA appointed Mr. Steven Ngubani as their small-business development manager and with the help of 3 assistants, whose appointments have been supported by the DFID-funded *Water and Forestry Support Programme* (WFSP) have proceeded to assist small-scale growers to organize themselves into local *Forestry Committees*. A *Forestry Committee* is to be established in each of the traditional *Tribal Areas* (TAs) where small-scale timber growing is undertaken. *District Forestry Committees* are to be established in each of the forestry-growing District Municipalities, with representatives from these forming *Provincial Forestry Committee*s, initially in the provinces of KZN and Mpumalanga, but later extended to Limpopo and the Eastern Cape. Two representatives from the provincial forestry committees will represent the interests of small-scale growers on the executive committee of FSA. The diagram below provides a schematic of the proposed structure of representation.



Forestry committees at tribal area level and at district municipality level have already been established in the northern part of KZN where the highest concentration of small-scale growers occurs and interventions in a number of other areas are well advanced.

4.1.2 Khulanathi – Mondi

Khulanathi means “Grow with us” in Zulu and the Mondi outgrower scheme, was started in 1989 with about 800 growers. The objective of the scheme was to provide additional timber for the Richards Bay pulp mill from the tribal areas in the vicinity. At the time (late 1989) Shell Forestry, Sappi and Mondi were competing for new land to purchase for afforestation in the freehold areas with land prices escalating in accordance with the increasing scarcity of land as the local sugar industry launched counter offers to secure their own land base.

Khulanathi’s 3 000 growers are concentrated in the northern, coastal areas of KwaZulu-Natal and collectively delivered 38 000 tons of timber with a value of R10.3 million during the 2003/4 financial year. Mondi operate a number of timber collection depots strategically located in the tribal areas making it easy for growers to deliver timber. The timber is purchased from the grower at the depot, measured across a weighbridge and the growers paid by cheque or direct electronic transfer within 30 days.

Khulanathi provides, the latest genetic material to their growers in the form of hybrid eucalyptus clones, technical support and assistance with water licence applications.

In recent times growers have complained that the Mondi depots are only opened on an *ad hoc* basis making it very difficult for the growers to plan their deliveries. This is having a negative impact on their cash flows and making it difficult for them to meet their contractual agreements.

A number of grower committees have been set up but these appear have very little bargaining power.

4.1.3 Phezukomkhono Planting Loan Scheme – WGA

The wattle bark industry, the original reason for wattle production, has been rationalized in recent years with a grouping of growers according to the bark processing plant that they supply, namely, *Union Co-operative Limited* (UCL) or *Natal Tanning Extract Co-operative* (NTE). The operational aspects of the *South African Wattle Growers Union* (SAWGU) have been taken up by the two bark processing co-operative groups and the *Wattle Growers Association* (WGA) has

been established to represent growers. The Phezukomkhona Planting Loan Scheme which was started by SAWGU is now operated under the auspices of the WGA with technical support from the two co-operatives. The outgrower scheme grew out of the bark procurement scheme that was started in 1993 to facilitate bark deliveries from small-scale black farmers. Phezukomkhono was started in 1994 and now has 532 members

with a collective area of 490 ha. The scheme is operational in the Greytown and Ndewdwe areas of KwaZulu-Natal where wattle grows well. Most of the wattle timber is sold through *NCT Forestry Co-operative*.

Phezukomkhono provides its members with support in the form of improved seed and seedlings, technical advice from extension officers and assistance with water licence applications.

The scheme makes use of the small-scale wattle growers associations set up for each of the tribal authority areas where the scheme is operational and these associations interact with both co-operatives. Growers are also represented on the executive management committees of both co-operatives and *NTE Forestry Co-operative* has a small-scale grower on its board of directors.

4.2 PROCUREMENT SCHEMES

Procurement of timber from small-scale black growers has only been initiated in the last 8 to 10 years with *NCT Forestry Co-operative* initiating a focus on this grower group form 1998 with the appointment of a black, business development staff member. The procurement type schemes differ fundamentally from the outgrower schemes in the sense that they focus on the purchasing of timber and its re-sale to processing plants, and have very little focus on silvicultural production. Essentially they are co-operatives of growers who pool their resources of timber in order to reach a level of scale that allows them to appoint professional staff to manage the procurement and marketing of their timber. They offer various incentives to growers in an effort to secure timber, such as a "loyalty" bonus in the form of an increased price per ton to growers who commit to the delivery of a particular volume of timber each year and /or a share of profits, where the procurement scheme has been able to sell the timber for more than it cost to procure (including the price of the timber and the operating costs

of the scheme). Payments to members are based on patronage and the procurement schemes do not offer growers loans or advances to establish plantations.

There are three formal procurement timber schemes operational in South Africa, namely those operated by *NCT Forestry Co-operative*, *TWK Agriculture Ltd*, a private company, that evolved from the Transvaal Wattel Kwekers co-operative and the procurement scheme operated by the wattle bark industry (WBI) through the two wattle bark co-operatives. Table 2 provides a summary of the characteristics of the 3 procurement schemes.

Table 2. Summary characteristics of the procurement schemes

Model	Procurement Scheme		
Company	NCT	TWK	Wattle Bark Industry
Year established	1952	2004	1993
Number of growers/stakeholders	700	140	6400
Volume of timber processed - last financial year	289000	40000	N/A
Volume of bark processed - last financial year	N/A	N/A	2800
Amount paid to growers - last financial year	R75.1 million	R10 million	R1.0 million
Provide loans or advances for operations & land	No	No	No
Provide technical support	Limited	No	No
Provide local depot	Yes	No	No
Provide equity stake	Yes	No	Yes
Provide loyalty bonus	Yes	Yes	No
Make SFRA applications for growers	No	No	No
Primary financial support	None	None	None

4.2.1 NCT Forestry Co-operative

NCT Forestry Co-operative, which was established in 1952 as Natal Co-operative Timber to assist timber farmers in KwaZulu-Natal with the marketing of their timber remains a true co-operative owned and operated by its members. The co-operative also undertakes contract management of timber farms on behalf of other parties (for example the management of the Pietermaritzburg municipal plantations) and has purchased some of its own farms. It is a member of the Central Timber Co-operative (CTC) which together with other members, such as TWK operate a chip mill in Richards Bay. NCT has also entered into partnerships with other companies and owns shares in the ShinCel and Durban Woodchips Company chipping plants. The co-operative has a strong focus on marketing and the export of forest products.

Profits made by the co-operative are shared among its members in proportion to the volume of timber sold through NCT, being paid out as an "agterskot" or operating/patronage bonus at the end of the financial year. The co-operative also makes extensive use of loyalty bonuses, and pays a premium for certain species and for FSC certified timber. Although technical support to growers is seldom on an individual basis, the co-operative is actively developing improved planting stock through a tree breeding programme and presents regular field days for its members where both technical and administrative issues are addressed.

During the 2003/4 financial year NCT purchased 289 000 tons of timber from growers classed as PDIs. Almost all black, small-scale timber growers fall into this category. The value of the timber was some R75 million, this amount being paid to members of communities in the tribal areas. NCT Forestry Co-operative's procurement scheme is by far the largest in the country.

There is some concern that the structure and representation in the co-operative entrenches the disparity of the forest industry (wealthy, historically-advantaged white farmers compared to poor historically-disadvantaged black farmers) particularly where membership is dominated by white farmers who own the bulk of the shares in the co-operative by virtue of their land and timber holdings. Currently there are diametrically opposed views being expressed in the national parliament where the *Agricultural Business Chamber* and *NCT Forestry Co-*

operative advocated voting rights in the co-operative in proportion to the financial contribution members make while *Cosatu* and the *National Association of Co-operatives* favoured the democratic principle of one member one vote. (Loxton, 2005) It appears that the DTI will attempt to facilitate a resolution of the views by offering some sort of hybrid system where voting power is limited and representation of all members is ensured.

4.2.2 TWK Agriculture Ltd

TWK commenced procurement activities aimed at securing timber from small-scale black growers in 2004 and since inception has purchased 40 000 tons (up to February 2005) with a value of R10 million. Timber procured is sold to any one of the many processors (Mondi, Sappi, SilvaCel, ShinCel or CTC) with the aim of achieving the highest selling price. The company which is operational throughout the country thus acts largely as a "middleman" with a strong focus on commercial profit. Although the company does offer growers some technical support this is largely secondary to its procurement and marketing focus. Being a commercial company TWK does not offer suppliers a share of profits or any other form of patronage bonus.

4.2.3 Wattle Bark Industry

Wattle has been grown by small-scale black farmers for many years and in order to facilitate and promote this segment of the industry, the procurement scheme, initiated in 1993 by the WBI, evolved out of the bark quota system operated by the former KwaZulu Department of Agriculture. The scheme has 6 400 members who collectively have 5 150 ha under wattle.

As the local market for wattle bark is restricted to the two processing co-operatives, who in turn sell the extract on the world market for tanning leather and the manufacture of adhesives there are limited opportunities to influence the price being paid to the growers. However, the processors are co-operatives owned by the members with dividends being paid to members according to the tonnage of bark processed and this offers the growers a stake in the value-adding processing stage. The tonnage delivered by the small-scale growers (approximately 2 800 tons) is relatively small in comparison to the total annual

intake of bark (approximately 160 000 tons per annum, amounting to only 1.8% of the WBI intake.

Much of the timber from the wattle plantations is sold through NCT with many of the growers being members of both co-operatives. About 40% of the timber is sold for building and fencing poles with the waste wood being used for charcoal manufacture and firewood.

Both WGA and WBI have representatives of the small-scale growers on their executive management committees and NTE Co-operative has a small-scale grower on its board of directors.

4.3 BEE PARTNERSHIPS

Government has for some time prioritised a focus on the promotion of participation by PDIs in the formal economy of the country, a strategy commonly known as Black Economic Empowerment (BEE). More recently, in the last 18 months or so, there has been a focus on *broad-based* BEE (BBBEE), an acknowledgement by government that the earlier programme has resulted in a relative few, elite black individuals becoming "empowered" (and very wealthy) through their participation in the economy while the masses have remained largely outside of the formal business economy and have benefited very little from the BEE strategy. This has typically been the experience in the forestry industry up until a year or so ago.

A major initiative by government has been the leasing of a number of its large forestry estates to companies that were formed for the purpose. These companies are largely owned by large forestry companies (such a Mondi, Hans Merensky Holdings, etc) who have entered into some form of partnership arrangement with a black company or trust. Very few benefits have filtered through to the many people that have some form of a stake in these plantations.

In other cases a corporate company has entered into a deal with one or more of the elite black businessmen with only limited participation by large numbers of PDIs. An example of this would be the Shanduka deal with Mondi Business Paper. Sappi, have initiated a number of BEE actions, an example being the sale of a farm to a female timber grower in the Bulwer area of Kwazulu-Natal.

(Grafton, 2004) All the major timber companies have initiated a strong focus on BEE and have set up strategies, departments and various other measures to support government in its endeavours. Their endeavours have yet to demonstrate wide-scale BEE.

Probably one of the most significant actions with regard to BEE, taken by the private forest industry, has been the creation of Forestry South Africa (FSA) in 2002 and the provision for small-scale growers to be represented. The formation of FSA required the bringing together, under one umbrella organization, the Forest Owners Association (FOA), previously the association of large timber growers, the South African Timber Growers Association (SATGA) and the South African Wattle Growers Union (SAWGU) both of which largely represented the medium-scale white timber growing farmers. In addition FSA established a third group, namely the small-scale grower group and appointed a business manager to facilitate representation of small-scale growers in FSA. (Text Box 1 - *Small-scale grower representation by Forestry South Africa*)

Of particular interest to this study is the case of the Bonagude Trust which is one of the first examples of a "bottom-up" BBBEE initiative where participation in the formal forestry sector has been facilitated by an individual farmer in conjunction with the workers on his farm.

4.3.1 Bonagude – Manzini Partnership

The farm *Spes Bona* was purchased from Mondi Business Paper in 2004 by a partnership comprising the company *Manzini Estates* and the *Bonagude Trust*, following negotiations between Brian Aitken, one of the owners of the family-owned company-farm *Manzini Estate*, and senior Mondi management. The *Bonagude Trust* was established by the workers of *Manizini Estate* as the business vehicle necessary to contract with Manzini Estate to form the partnership. Figure 2 provides a schematic outline of the company structure and shareholdings and Text Box 2. *The Bonagude Story*, further details taken from interviews with some of the members of the *Trust*.

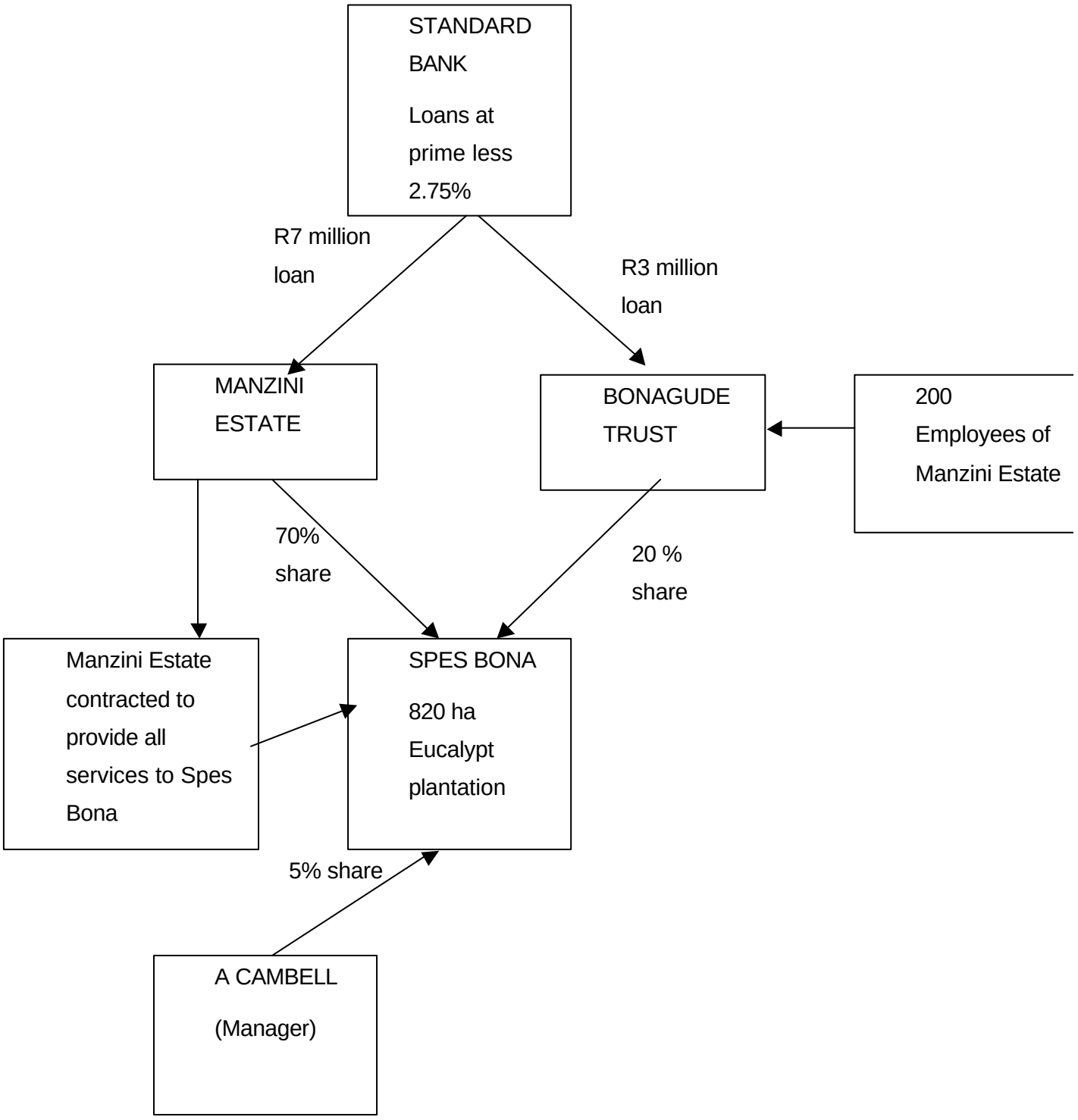


Figure 2. Structure of the Bonagude-Manzini Estates BEE partnership

Spes Bona is an immediate neighbour of *Manzini Estate* and it is possible to manage the two farms as a single operating unit, using the same labour and equipment as that required for *Manzini Estate*. All the timber on *Spes Bona* has been contracted for sale to *Mondi Business Paper* for the next 30 years, as a condition of the sale of the farm.

The capital required for the purchase of *Spes Bona*, some R10 million, was raised from *The Standard Bank of South Africa*, using the value of the timber on *Spes Bona* as surety. R3 million was secured as a loan by the Bonagude Trust to purchase 20% of the shares, and R7 million was secured by Manzini Estate to purchase 70% of the shares. There are currently 250 000 unallocated shares which will be made available to investors in future and this will allow for further black economic empowerment.

Mr. Aitken originally approach LRAD (DLA) for financing but found that the process was too slow, time consuming and required a daunting amount of "paper work" – *Mondi* required a firm offer to purchase and a guarantee of payment within 14 days for the sale to be secured. The LRAD process could not accommodate this while *Standard Bank* indicated an enthusiasm for the proposed deal and provided the necessary loan facilities to the partnership within the 14 day time period required by *Mondi*.

Members have yet to experience direct tangible benefits from the scheme as the first dividends are only scheduled to be paid out in 2005. Dividend payouts are expected to be of the order of R500 000 per year with each member of the trust receiving approximately R500. In some cases more than one member of a household is employed on *Manzini Estate* and, in these cases, each member is a beneficiary of the *Bonagude Trust* i.e. shareholding is not limited to one member per family. Every Trust member has to nominate beneficiaries in the case of their death so that their share of the dividends can be paid out to the nominated beneficiary should they die.

Discussions with senior representatives (Trustees) have however revealed other benefits that have been realised; including pride and an increased sense of self worth. There is a definite air of excitement among these staff. The shareholders of the Bonagude Trust have formal land rights to the land and hold the title deeds to approximately 820 ha of land under timber, for which all permits and

licenses have been obtained. There is little opportunity to expand the area under plantation on the existing farm; however, there is an opportunity to improve timber yields through improved management and the planting of well-matched genetic material.

TEXT BOX 2. THE BONAGUDE STORY

> "We were approached by Mr. Aitken who told us about the idea of buying the adjacent farm from Mondi, and involving the workers of Manzini Farm as shareholders. At first this was just something we did not follow as we had never heard of it before."
>
> "Mr. Aitken spearheaded the process and concluded a deal that involves all the workers at Manzini Farm. All the workers have shares and we decided that we can share equally from profits."
>
> "We would like to be trained, so that we can do our work with more purpose. Since this venture, workers are putting in more effort."
>
> "If this proves to be successful we would like to buy more shares to increase our percentage, and even buy another farm and prove to other people that we mean business."
>
> "Yes, this is a rare opportunity and other people outside are waiting to see if this really can succeed. They still do not believe that we are shareholders in such a big farm. So if we succeed we could open more doors for other workers in the same situation."

The above is what the representatives of the *Bonagude Trust*, and employees of *Manzini Estate*, say about what has happened to them. The employees of *Manzini Estate* are now co-owners, with a 20% shareholding, of a highly productive and financially viable 820 ha estate of Eucalypt plantation. Their comments demonstrate commitment, excitement as well as a sense of responsibility. This has all come about as the result of an equity scheme between the owners (led by Mr. Brian Aitken) and employees of *Manzini Estate*. The scheme involved the purchase of the *Spes Bona forestry estate* from *Mondi* with financing from *Standard Bank*. A trust, the *Bonagude Trust*, was formed as the legal entity to hold the shares accruing to the employees. Dividends accrue to the *Trust* and are then distributed among the employees. To qualify, employees must have been in the employ of *Manzini Estate* for a minimum of three months. The first dividends will be paid out in 2005, significantly boosting the incomes earned by the employees from the forestry operations to which they provide labour.

The dividends represent only the financial benefits accruing to the employee shareholders - the comments above reveal a range of other non-financial benefits which are beginning to be experienced. These include the development of capacity, a sense of pride and worth, and increasing confidence to engage in additional business opportunities.

While the *Bonagude experience* appears unique, it has the potential to be widely applied and could enhance the opportunities offered by forestry for reducing poverty. What it requires is a willing commercial partner with technical and financial experience, a motivated community partner or workforce, a supportive financing institution, and a willing seller. There is evidence that all of these components are present in the *South African forestry sector* and the sharing of this story could be the catalyst needed for their mobilisation.

4.4 GOVERNMENT FINANCED PROJECTS WITH TECHNICAL FACILITATION

A number of forestry projects have been initiated in the Eastern Cape on communally controlled land with the objective of assisting communities to establish commercial enterprises and thereby facilitate an ongoing source of revenue and jobs for those living in the rural areas. The rural areas, and particularly in the Eastern Cape, have the highest incidence of poverty with very few opportunities to reverse the situation.

The model followed by these forestry projects that have been supported by government and their implementation facilitated by forestry specialists involved, among others, the following standard steps to set up:

1. The community or community group notify government of their interest in establishing a commercial forestry enterprise. This is usually carried out by an interim committee of community members interested in forestry. The primary government departments that are contacted are DLA and DWAF. In all cases the initiation of this step has been facilitated by an outside party who has insight into the potential opportunities that forestry may offer the community.
2. In order to access the grant funding that DLA make available to communities and individuals, a comprehensive list of the members of the community, together with the full details of their identity, relationships among themselves and their relationships to the community, is compiled according to DLA requirements. This step may be facilitated by DLA staff members or a consultant. DLA make a number of grants available to PDIs and communities as a means of compensation for the land-related injustices of the past apartheid government and to facilitate the establishment of land-based enterprises. The two primary grant funds are the Settlement and Land Acquisition Grant (SLAG) and the Land Redistribution for Agricultural Development (LRAD) grant. A prerequisite of DLA funding support is that the process is carried out strictly according to their requirements.
3. The community then establish a management and land-owning institution in the form of a Community Property Association (CPA), a trust or a company according to an interim constitution. Members of the community make the grants that they have received from government available to the management

institution in the form of a loan. In this way individual members of the community secure a share in the trust or company that is to operate the forest enterprise. Community members are democratically elected to serve on the management committee of these institutions and again the entire process must be carried out according to DLA requirements who in turn certify the process to that effect. One of the first tasks of the management committee is to finalise the constitution in consultation with the broader community. In some cases, the management institutions have established operating companies wholly owned by the CPA or trust, to carry out the day to day forest management operations.

4. The management committee commissions the preparation of afforestation and business plans which outline the spatial location of the project, the activities that are to be undertaken and the expected financial returns. Both DWAF and DLA facilitate this aspect, often appointing consultants directly to assist the committee in drawing up the plans.
5. The management committee, in conjunction with the funding agent, appoints a facilitator who has extensive operational forestry experience, to assist and mentor the project through the initial implementation stage.
6. Direct benefits, in the form of wages, accrue to the workers who are drawn from the communities. Representatives of various groups within the community are selected to work on the forestry project and in some instances there is a rotation of staff in order to allow as many community members as possible the opportunity to earn wages.
7. The assets, in the form of the plantations, that are created by the workers are owned by the community institution (CPA, trust or company) and administered by the management committee on behalf of the community. The distribution to the entire community of the benefits from these assets, usually arising from the sale of timber or other non-timber forest products (NTFPs), is undertaken by the management committee.

Table 3 provides a summary of their characteristics of the projects that were reviewed.

Table 3: Summary of the characteristics of the government supported forestry projects

Model	Government financed forestry projects with technical facilitation				
Company	Rural Forest Management			DWAF, SKA & ECDC	FFA, BRC and ADM
Name of Scheme	Mabandla Community Trust	Ngevu Community Trust	Zintwala Community Trust	Sokapase Trust	Cata Forestry Project
Year Established	1999	1999	1999	2002	2003
Number of Growers/Stakeholders	2500	1500	400	1460	334
Planted Area (ha)	1350	472	285	150	110
Area per Grower / Stakeholder (ha)	0.5	0.3	0.7	0.1	0.3
Amount Paid to Growers - Last Financial Year	R 295 000	R 110 000	R 56 000	R 50 000	R 228 000
Number of people employed per year	50	30	20	20	20
Revenue per year per person employed	R 5 900	R 3 667	R 2 800	R 2 500	R 11 400
Revenue per Stakeholder	R 118	R 73	R 140	R 34	R 683
Average Net Financial Yield per Rotation					
Asset value of trees at rotation age	R 30 000 000	R 14 000 000	R 8 000 000	R 4 000 000	R 3 000 000
Provide Loans or Advances for Operations & Land	Yes	Yes	Yes	Yes	Yes
Provide Technical Support	Yes	Yes	Yes	Yes	Yes
Provide Local Depot	N/A	N/A	N/A	N/A	N/A
Provide Equity Stake	Yes	Yes	Yes	Yes	Yes
Provide Loyalty Bonus	N/A	N/A	N/A	N/A	N/A
Make SFRA Application for Growers	Yes	Yes	Yes	N/A	Yes
Primary Financial Support	Mondi, DLA and the Land Bank	Mondi, DLA and the Land Bank	Mondi, DLA and the Land Bank	DLA and ECDC	DLA and WFSP

4.4.1 Umzimkhulu – RFM Projects

The forestry projects in the Umzimkhulu area, namely, Ngevu, Mabandla and Zintwala are all facilitated and mentored by Rural Forest Management cc (RFM) a team consisting of Peter Nixon, Themba Radebe and their support staff.

The projects were originally initiated by Mondi Forests in 1995, who at the time wished to extend their Khulanthi outgrower scheme to the Eastern Cape. However, because the Umzimkhulu area of the Eastern Cape had been subject to Betterment Planning, a process implemented by the apartheid government in the

1960s, whereby people living in kraals or homesteads spread out in the landscape were relocated into villages and the agricultural land consolidated under communal management, it was not possible to follow the model that Khulanathi had used in Zululand. Instead of contracting with individuals who each managed their own piece of land adjoining their homestead, in the Eastern Cape, Khulanathi/Mondi needed to contract with the community who communally managed the open land. This was considerably more complex and required the establishment of community management institutions in order to communicate with the communities while at the same time being a requirement for grant funding from DLA.

However, before the forestry projects commenced operations, Mondi decided to withdraw the Khulanathi initiatives in the Eastern Cape in accordance with a changed strategic focus and Peter Nixon and Themba Radebe, who in the employ of Mondi had been facilitating and planning the Umzimkhulu projects, resigned and formed RFM cc in 2000 in order to continue the work with the communities. Mondi had undertaken extensive work on the projects, including the application for afforestation licences, the development of detailed afforestation plans, including soil surveys and road and drainage layouts, all on GIS and with input from a number of specialists, which provided the projects with a very sound technical base. In addition, as part of Mondi's exit agreement the company has continued to offer technical support in the form of audits and marketing advice.

DLA were particularly supportive of the forestry projects and provided assistance in the form of specialist consultants and the training of community members. Community members successfully applied for SLAG funding and the Land Bank, government's agricultural lending institution, further agreed to loan the projects 20% of their capital requirements of their establishment phases scheduled over the first 10 years of the projects.

The communities established trusts with boards of trustees to administer, (i) the DLA grant funds that individual community members had loaned the trust and (ii), the benefits that would accrue from the projects. In addition, each trust established an operating company which is wholly owned by the trust, to carry out and manage the day to day forestry operations.

Having only commenced operations in 1999, no harvesting or sale of timber has yet taken place from any of the projects. The hardwood rotations will be 8 to 10 years while the pine rotation will be 17 years or possibly longer depending on the demand for sawtimber. Sawtimber requires a longer rotation than pulpwood in order to allow the trees to reach larger dimensions.

All the projects have started vegetable gardens to provide their community with a local supply of fresh vegetables. Poultry projects are also expected to be started. See Text Box 3. *Vegetable gardening at Mabandla.*

4.4.1.1 Mabandla

The Mabandla Community Trust represents 2 500 stakeholders and is the largest and most diverse of the projects with an area of 1 350 ha that will be established to pines, wattle and eucalypts. The plantation has been professionally laid out and already some 1 000 ha have been established. Last year the project paid out R295 000 in wages to the 50 people that were employed on the project during the course of the year. (R5900 per worker, R118 per beneficiary) The gross value of the plantations at maturity will be of the order of R30 million, some R12000 per stakeholder or beneficiary.

Besides the direct benefit of employment that plantation workers enjoy, the greater community has benefited from the upgrading of the access road to the plantation which also services large areas of the community. The road was upgraded by the National Department of Roads.

4.4.1.2 Ngevu

An area of 472 ha of eucalypts for pulpwood and poles will be planted at Ngevu. The Ngevu Community Trust represents some 1 500 stakeholders and last year paid out an amount of R110 000 to the 30 workers that were employed on the project. (R3 667 per worker, R73 per beneficiary) Harvesting is expected to commence in 2 years time and the gross asset value of the plantation will be approximately R14 million which equates to R9333 per community member or beneficiary.

4.4.1.3 Zintwala

The Zintwala Community Trust has only 400 stakeholders and although the smallest of the Umzimkhulu-RFM projects with a final planted area of 285 ha of wattle and eucalyptus for pulpwood and poles, the gross asset value of the plantation is expected to be R8 million at maturity, an amount of some R20 000 per community beneficiary. Last year the project paid out R56000 in wages to the 20 people that were employed to carry out silvicultural work. (R2800 per worker, R140 per beneficiary)

TEXT BOX 3. VEGETABLE GARDENING AT MABANDLA

At the time when funding was being sourced for the forestry project it was suggested by the *Land Bank* official that the community members should take some of their SLAG funds that they were to receive from DLA and invest these in an interest bearing bank account. This they did and the investment offers the Mabandla community about R200 000 per year which is used to initiate community based projects besides forestry. A study carried out by *Lima*, a rural development NGO, indicated that vegetable gardening for food was a priority for the community. Approximately 40 people volunteered or were selected to participate in the food gardening project, each being allocated a 20 x 20m plot of land within the community vegetable garden. With the assistance of a local service provider the vegetable garden was equipped with a water tank that is gravity-fed from a nearby stream, a rudimentary irrigation system, some shade netting to protect young seedlings and a fence to keep out livestock.

The scheme, using money from the monies invested, provides participants with seed and fertilizer on a loan-basis. The loans are repaid from the sale of surplus vegetables to other members of the community and any surplus cash goes towards the household who does the gardening. Not all the gardeners have been successful in their endeavours although, with the assistance of the forestry project managers and various service providers it appears that some of the participants are able to make a small profit out of their venture while all have been able to provide a supply of fresh vegetable to their own and other households in the community.

Mrs Catherine Khumalo, a vegetable gardener at Mabandla

4.4.2 Sokapase Forestry Project

In 1998, DWAF informed the community of Sokapase of its intention to transfer Blyth plantation to the community. Blyth plantation, situated near Butterworth in the Eastern Cape, was established in the 1950s on what would have been tribal land at the time. The Sokapase Community Trust as was formed with the direct assistance of DWAF, who had made it a requirement for the transfer of land to the community. Stephen Keet and Associates (SKA), a forestry consultancy, facilitated the process on behalf of DWAF. Representatives from the 12 villages of the Sokapase tribal area were democratically elected to serve on the board of trustees. SKA prepared a business plan for a conventional pole treating plant with funding from DFID through DWAF's *Woodlot Devolution Project*. The pole treating plant was shown to be not-viable due to the scattered nature of the DWAF plantations.

In 2002, the Eastern Cape Development Corporation (ECDC) were approached by an entrepreneur who wished to produce eucalyptus foliage for the overseas cut-flower market. The ECDC in turn approached DWAF for assistance in finding a suitable location to grow the trees and it was agreed that the Sokapase community would establish *Eucalyptus cinerea* trees on Blyth plantation and the *Penny Gold Project* was initiated. *E.cinerea*, is commonly known as penny gum or florist's gum after the round, penny-like silvery grey foliage of the juvenile leaves. Some 35 ha of *E.cinerea* were established between January and April 2003.

Unfortunately, critical assumptions in the entrepreneur's marketing plan were found to be incorrect when a more detailed analysis of the proposed market, requested by DLA, was carried out. The later analysis showed that the intended market in the USA could not be accessed due to a number of technical constraints. The local demand for the product is apparently very small although this is still to be researched further. The ECDC have undertaken to fund a pilot marketing study of the domestic market for *E.cinerea* foliage.

The original project was funded by means of a grant from the DLA SLAG Fund. Each of the approximately 400 participating households resident in the Sokapase tribal area granted a loan of half of the R16 000 per household that was paid out to them, to the *Sokapase Community Trust*. This amounted to some R3 million

for the forestry project. This is sufficient capital to establish and manage 300 ha of plantation to a full rotation of 8 years.

The project is located on Blyth plantation and the *Sokapase Community Trust* has a licence from DWAF to use 150 ha of land for the production of eucalypts for poles on an 8 year rotation. The licence, issued in terms of the National Forest Act, 84 of 1998, is for a 10 year period. The licence expires at the end of February 2014 but is likely to be renewed for a further 10 year period if required. DWAF has for some years expressed an interest in transferring their smaller plantations to the adjoining communities and this initiative is in line with that thinking. It is also in line with their objective to extricate themselves from the direct management of plantations and to focus on policy and regulatory aspects of the forest industry.

The *Sokapase Community Trust* have appointed a project manager, drawn from the local community, who is employed on a full time basis and is responsible for all the operational aspects of the project. The project manager has received training and mentorship from SKA, funded by ECDC. ECDC have indicated that they would consider supporting the project for an initial period of 4 years and provide funding of approximately R1.6 million over this period.

Workers are drawn from the community and so far, 20 people have been trained to undertake basic silvicultural operations. It is the intention to rotate workers to allow as many people as possible the opportunity to earn wages, although to date, this has not happened. Although the objectives of the system of rotating of workers, is sound, it does present some practical problems with regard to training new workers and maintaining productivity standards. New workers take some time to become fully productive. However, it is expected that once a large number of community members have developed the silvicultural skills required, many of the practical problems will be of less importance. The system of rotating workers does increase the operational costs but this may be justified in terms of the positive impact on livelihoods, itself a valid objective of the project.

Planting of *E.dunnii* for poles is currently underway and the quality of the silvicultural work is comparable to forest industry norms. The project has to date paid out approximately R50000 in the form of wages to the 20 people that have

been employed. (R2500 per person employed, R34 per registered beneficiary of the Sokapase Community Trust)

4.4.3 Cata Forestry Project

The Cata community is situated on the southern slopes of the Amathole Mountains 17 km from Keiskammahoek in the Eastern Cape. This community, with the assistance of Border Rural Committee (BRC), have been successful in their endeavours to obtain compensation for the losses they incurred as a result of forced removals and Betterment Planning under the apartheid government. Cata has been the first successful claim of this type in both the local area (another 9 have now been successful in the Keiskammahoek area) and in the country as a whole.

Part of the compensation paid to the Cata community was in the form of a cash payment made directly to the affected families with the balance of the settlement monies being used to set up a development fund. The payment of monies from the development fund was conditional to the preparation of a detailed development plan and the establishment of the necessary institutional structures to manage the fund. An integrated development plan was completed by BRC and a team of technical consultants and is now being implemented with the approval of the newly formed Community Property Association (CPA) and the Amathole District Municipality (ADM). The Cata development plan identified the establishment of 57.3 ha of wattle plantation and 50.4 ha of pine with the allocated budget from the development fund of R1.08 million. A further area of 302 ha of pine was identified as being suitable for afforestation and this area could be afforested should further funding be made available.

In 2003, WFSP, the DFID-funded forestry programme, engaged the services of Fractal Forest Africa (FFA) to assist the Cata community with the implementation of the forestry element of their development plan. This has required FFA to work closely with BRC, ADM and DWAF in order to initiate the first phase of the forestry project, being the establishment of the wattle plantation. See Text Box 4. *The Initiation of the Cata Wattle Project.*

In November 2003, a team of 19 workers and a supervisor, drawn from community members representing all the villages of Cata, commenced the

establishment of the wattle plantation. Special attention was paid to the issues of fairness, gender and needs in the selection of the workers for the forestry team. Although the plan called for the establishment of the wattle plantation from seed, it was discovered, on commencement of the project, that due the delay of some 2 years between the drafting of the plan and the commencement of the project, that the wattle trees on the proposed site were of sufficient quality and density to be converted into a commercial stand through a process of selection and spacing. This has made it possible to establish about 70 ha of wattle plantation through the rehabilitation of the jungle wattle on the site and to gain approximately 2 years of tree growth.

The Cata community have registered their CPA with DLA and are currently finalising the election of committee members. The community has made extensive use of a hierarchy of democratically elected interim sub-committees (such as the forestry sub-committee and the food gardening sub-committee) to facilitate developments thus far. These had operated under the guidance of the Cata Development Committee which evolved into the interim CPA committee and will be replaced by the formally elected CPA committee. BRC have provided extensive guidance and facilitation of both the establishment of the institutional structures and the ongoing facilitation of the development activities themselves. The elected committees have also been required to report back to the broader Cata community at a series of general community meetings and in this way the voice of the community as a whole has been heard and reflected in the actions taken by the committees.

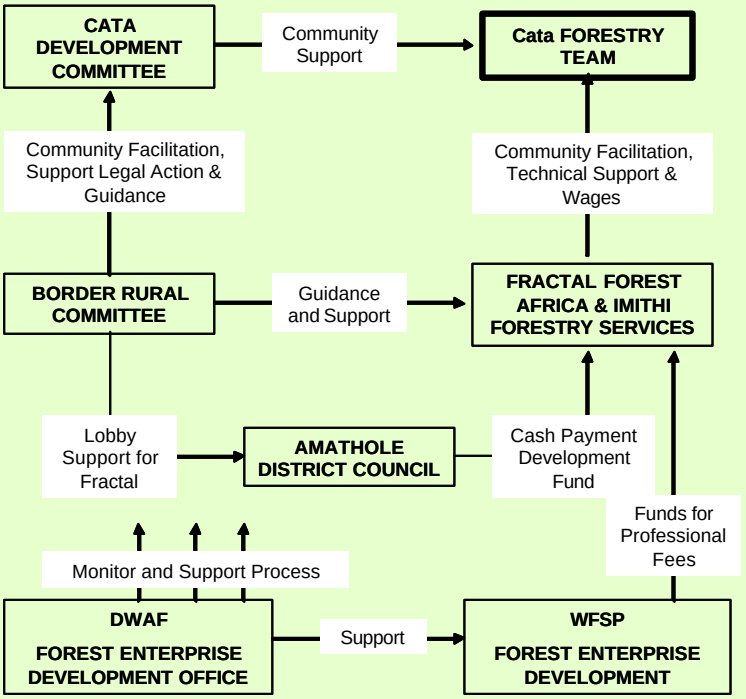
The project has paid out an amount of R228 000 in wages to the workers on the forestry project over the last 12 months of the project. (R11 400 to each worker, R683 per registered community beneficiary. There has been an increase in poverty according to a comparison of census data from 1996 compared with that of 2001 and this is attributed to a decline in economic activity since 1996. In 1996, 58 people (ie 3% of the population) were employed; by 2001 only 44 people (ie 2% of the population) had a job. (Westaway and Kirchmann, 2004) The employment of 20 people in the Forestry Project has resulted in a 45% increase in employment at Cata.

TEXT BOX 4. INITIATION OF THE CATA WATTLE PROJECT

The initiation of the *Cata Wattle Project* required the coordinated efforts of all the stakeholders which included the following:

- The *Cata Development Committee* (CDC) facilitated the selection of the workers
- The *Cata Forestry Team* who undertook the rehabilitation of the jungle wattle stands
- *Amathola District Municipality* (ADM), who are the custodians of the Cata Development Fund and who, by written agreement, transferred monies to Fractal Forest Africa (FFA) who in turn paid the workers
- *Border Rural Committee* (BRC), supported the CDC and lobbied ADM to enter into an agreement with FFA to facilitate the payment of workers
- *Department of Water Affairs and Forestry* (DWAF) monitored progress and assisted FFA
- FFA provided loan funding to the CDC for protective clothing, tools and the first month's wages; provided forestry training; monitored progress and paid wages
- *Imithi Forestry Services* (IFS) assisted FFA with training and supervision
- *Water and Forestry Support Programme* (WFSP) funded the services of FFA and IFS

The figure below provides a schematic of the many interactions and arrangements that were made in order to initiate the *Cata Wattle Project*.



Similar to the other community based, government supported forestry projects, the Cata project will provide direct benefits to the workers through wages and benefits from the sale of timber and other NTFPs will accrue to the community through the communal ownership of the assets that have been created. The forestry project is expected to create assets in the form of the pine and wattle plantations with a gross value of R3 million. The CPA committee will be responsible for ensuring that these assets are properly managed and that the benefits that arise from them are passed back to the broader Cata community.

4.5 NON-ALIGNED ENTREPRENEURS

There are many people who have established timber plantations without any assistance from the timber companies or government. These growers have not entered into any form of partnership arrangement and act as free agents, relying on their own resources to establish their plantations and selling their timber to the highest bidder. It is estimated that about 20% of the 25 000 small-scale timber growers in South Africa fall into this category and represent a significant part of the small-scale grower sector. However, this group is particularly difficult to research due to the absence of any formal structures that allow communication with them, the extent of the geographic areas in which they operate and their heterogeneity - as would be expected of a group of entrepreneurs. Interviews were held with a few members of this group and some insight into their circumstances was obtained though field visits to the areas in which they operate.

Many of the non-aligned growers have grown timber for the last 20 years or so, having developed their silvicultural skills in the employ of the timber companies and through observation of their neighbours. This is particularly the case in the tribal areas to the north of Richards Bay and some of the areas around Greytown in KwaZulu-Natal. As the market for timber has developed, the value of timber and the silvicultural requirements to grow it have become more widely known, so more people have established small plots of timber. There are also many growers who have a part of their plantation established though one of the outgrower schemes and other parts that they have established without any assistance.

It appears that the non-aligned growers value the independence that not belonging to a scheme offers them as most of the growers would be eligible to become members of any of the outgrower schemes that operate in the area. It is possibly a reluctance to be indebted, supported by having the skills and resources to do it on their own, that stops the non-aligned growers from participating in the outgrower schemes. Many of these non-aligned growers have however been very active in their support of the FSA initiative to form grower-committees and there appears to be a clear recognition among them of the benefits of collective action. There are a number of cases where non-aligned growers have formed small co-operatives in order to facilitate a more regular flow of income, but these cases are not well documented and only anecdotal at this stage. It also appears that membership of a particular scheme does not preclude such co-operative ventures and thus the motivation to pool resources is probably driven by financial objectives rather than alignment *per se*.

Timber from non-aligned growers has been the primary target of the procurement schemes (NCT & TWK) and the growers have tended to market their timber very astutely, seeking the best prices and evaluating the "packages" offered by the various processors. As the demand for hardwood pulpwood timber is expected to increase more rapidly than supply, the position of these growers will become more favourable and it is likely that more independent procurement agents will emerge who would purchase timber from small-scale growers and sell to the processor who makes the highest bid. Independent procurement agents leverage better prices by aggregating lots and offering larger volumes for sale.

There have been times of surplus in supply when alignment to a particular outgrower scheme was an advantage but this is unlikely to be the case in the next 5 to 10 years as many of the processing companies have increased their capacity without increasing their plantation resources. This condition will be tested in the coming years as the timber market opens up and becomes more competitive.

The prices paid for pulpwood timber by the different processing plants are not widely publicised and are to some extent "secret" although the degree to which these prices are really secret is limited, as there are so many sellers and buyers,

all of whom discuss prices at the time of a sale and with each other, that most buyers and sellers have some idea of the "going price" at the time. Prices can vary by as much as 10% among buyers with these differences often being hidden in the elements that affect the amount of money that the grower actually receives. This is particularly the case where timber may be purchased standing and the buyer inflates the proposed harvesting and transport cost in order to pay less for the timber. Many of the non-aligned growers are sufficiently knowledgeable to operate under these terms and exploit the negotiations to their own benefit while the growers who are members of an outgrower or procurement scheme are obliged to accept the price and terms of the sale being offered as they are indebted to the outgrower company and need to pay back their loans.

5 CONTRIBUTION TO POVERTY REDUCTION

A prerequisite of understanding the impact that forestry may have on poverty is an understanding of what constitutes poverty within the South African context. A review of poverty in South African undertaken by Lewis *et al* (2003) reported the following:

- Poverty is multifaceted and describes a social state of vulnerability and hardship experienced by people who have few livelihood resources.
- In South Africa poverty is most prevalent in the Black segment of the population.
- The official poverty datum line is set at households limited to a monthly expenditure of less than R1 100 although R1 500 per household per month may be a more realistic level.
- Unemployment is closely linked to poverty as poor households lack wage incomes
- Poverty is concentrated in the rural areas, and particularly in female- or child–headed households

- Poor communities show a number of qualitative characteristics such as: a lack of self-worth; relatively high rates of crime and substance abuse; alienation with kinship in the community; fragmentation of the family and overcrowded living conditions
- In considering those areas likely to be able to support commercial forestry from a perspective of their rainfall, temperatures and soils, poverty levels are highest in the rural areas of the Eastern Cape, KwaZulu-Natal and Limpopo provinces.

The impact that forestry has on poverty can be analysed from a number of different perspectives. In assessing the contribution that small-scale forestry makes to poverty reduction, there are five key areas that are considered, namely: the impact of small-scale forestry on grower household incomes; the degree to which market access issues affect the livelihoods of small-scale growers; the wider economic impact on the community; the impacts of small-scale forestry on subsistence patterns and finally the impacts that small-scale forestry has on the rights, capabilities, representation and decision-making abilities. Each of these issues are discussed below. Text Box 5 offers an alternate analysis of the impact of forestry on poverty following the *Sustainable Rural Livelihoods* (SRL) approach made popular by a number of aid and development agencies and the particular approach followed by Cairns (2000) in his study of the small-scale forestry sector.

5.1 IMPACTS ON HOUSEHOLD INCOMES

Gross annual revenue from the sale of timber by small-scale and other PDI growers is estimated to be of the order of R115 million per year. The estimate is derived from data obtained from the procurement statistics of Mondi, Sappi, NCT and TWK for the 2003/4 financial year. (Refer to Tables 1 and 2 for further detail). The estimate is conservative in that it does not take into account the out-of-hand sales of poles, firewood and other forest products that growers make to local buyers. It is further estimated that approximately 35% of this revenue is taken up by the production costs of growing and harvesting timber that is paid to others outside of the immediate community in which the timber is grown. These costs would include the cost of plants (excluded in the case of Project Grow where the plants are provided free of charge); herbicides; tools and equipment; outside

contractors; transport and interest paid on loans. The costs would exclude expenditure on wages and any other items that would have been paid to people within the immediate community. Considering that 65% of the revenue from timber sales – an amount of some R75 million per year – is returned to the communities that grew the timber, this offers an annual average revenue per grower of R3 000 per year (R75 million divided by 25 000 growers). Although coarse, the calculation provides some indication of the quantum made by forestry to poverty reduction. NCT has indicated that the revenues paid to growers for their 2004/5 is R39 million more than the 2003/4 financial year. In terms of the impact that small-scale forestry has on the household incomes of growers two observations have become apparent from the data collection process, namely that there is some additional value associated with a lump-sum amount and the dominance of revenues from forestry within the households' budgets.

5.1.1 The benefits of lump-sum cash payments

In the case of small-scale forestry the income earned from timber sales and bonuses is generally paid out as a lump-sum cash value arising from the clearfelling of the plantation at maturity. Such a form of payment is beneficial to growers in two respects: it provides a bundle of money that could be used to pay for school fees, a vehicle, house building, furniture, and provides the cash injection necessary to start a small business such as a tavern store or chicken farming operation. These kinds of expenses are best paid in either single payments or sizeable instalments and therefore, in an absence of structured savings schemes, small-scale forestry assists individuals by contributing to household incomes in this way.

A lump-sum payment is also beneficial because it enables growers to make more of their monthly household income available for meeting the day-to-day needs of the household such as providing food, transport fares and electricity/paraffin/wood expenses without having to make an additional allowance for savings. Monthly household income typically comprises wages to employees for forest activities non-forest related employment, child grants and old age pensions.

TEXT BOX 5. SUSTAINABLE RURAL LIVELIHOODS (SRL) APPROACH TO POVERTY ANALYSIS		
CAPITAL	Positive Contribution to Livelihoods	Impediments
NATURAL CAPITAL	• Water resources - Schemes have enabled education of rural people about the threats of forestry to water resources. • Access to additional resources - firewood, house building materials, and fences • Uses of arable land - Most still have vegetable patches to supply them with what they always used to grow • The productivity of arable land believed to be decreasing. Planting trees believed to be a more viable land use option. • Amount of arable land has increased because of afforestation which has dried up pans and marshes. • Uses of grazing land - Trees are less vulnerable to theft and to disease than livestock. • Land use changes from sugar cane to timber - Trees are lower maintenance and less labour intensive than sugar cane. • Trees act as windbreaks and reduce soil erosion.	• Shortage in the availability of land to increase afforestation. • Water resources – decrease in the availability of water over recent years. Some pans or marshes have dried up, and some springs and rivers are less reliable. • An increase in afforestation has meant that grazing land cannot be burnt like it used to because of the threat of wildfires. Ticks and parasites no longer controlled by burning and therefore incidence of disease increases. • Fire – a significant threat to rural livelihoods.
SOCIAL CAPITAL	• Grower associations – make a positive contribution to rural livelihoods in terms of providing training, advice and assistance with licencing; opportunity to interact with other growers, and a point of contact for scheme managers/operators; increase the range of coping strategies available to growers. • Land tenure – planting a woodlot increases security of tenure. *Amakhosi* known to reallocate unused land to others thus SSG secures this land and demarcates property boundaries. • Access to additional resources - firewood, house building and fencing materials: if given to others offers a means of securing support of neighbours in the event of a fire. Also reduces prospect of theft.	• Grower associations have not increased grower confidence in negotiations. • HIV and AIDS have a negative impact on SSG as it affects labour force, harvesting schedules and the number of individuals a household supports.
HUMAN CAPITAL	• Skills transfer – forestry has contributed to increased capacity amongst rural people. The majority of growers are able to offer their physical skills and advice to other growers. • Employment of family members as casual workers • Employment of community members - Timber growing provides secondary benefits to the community in the form of employment.	• Employment of family members - In general, a disinterest by the grower's children to grow trees. • Health and safety - Expense of safety equipment is a disincentive.
PHYSICAL CAPITAL	• Forestry is not blamed for the lack of service delivery, for the most part the ward councilors and local government are blamed for breaking promises that they have made to their communities. • There are cases where a timber company has built a school and assisted with the establishment of a community vegetable garden.	▪ The biggest complaint is the poor condition of the roads..
FINANCIAL CAPITAL	• The ability to invest time in additional employment opportunities. • Income from timber can provide income to pay for education, cars, furniture, which are best paid for in lump sums whilst cash from other economic activities could cover day-today expenses.	• Lack of knowledge about insurance. • Request for certificates from company stating assets in the form of trees to give growers access to finance. • Access to global markets – fluctuations in exchange a greater risk for the more vulnerable. • Need to harvest trees early.

5.1.2 Dominance of forest-related incomes to household income

The second observation is that while the majority of grower households have additional sources of household income, they are very dependent on their forestry-related income. The critical issue is whether small-scale forestry lifts people above the poverty threshold. Thus far, with the exception of a few examples, small-scale forestry alone is insufficient to achieve this. It is essential that growers supplement their income with income from other forms of employment or enterprise.

In the KwaMbonambi area, gathering hard financial data was very difficult, with households not keeping accurate records. Financial data was primarily available from the company records. In the two Eastern Cape case studies there have been no timber sales, so household supplementary income is based on wages for silvicultural and other forest based activities.

In addition to assessing household income impacts specifically, the impact of small-scale forestry on poverty reduction in South Africa is also be evaluated within the context of the impact on the wider community, subsistence values and the rights, capabilities, representation and decision-making power.

5.2 IMPACT ON ACCESS TO MARKET OPPORTUNITIES

One of the most important features influencing small grower economic stability is access to markets for timber. The case study sites visited in the study had differing market access profiles and this directly affects the impact of small-scale forestry on their livelihoods.

5.2.1 General market issues

The most successful market access is enjoyed by the *Bonagude project*, which has a 30-year timber supply agreement with *Mondi Business Paper*. This has some disadvantages in that they are tied to a single species, and if the sales value of another species increases they will not be able to change their plantings. The small-scale eucalypt farmers in the Kwambonambi area and the Greytown wattle farmers also enjoy successful market access, but this is in some cases characterized by bottlenecks at the outgrower company weighbridges and resentment over opening and closure of the weighbridges depending on demand

from the mill. The projects located at Cata and Sokopasi in the Eastern Cape have not yet effectively accessed markets as the trees have only recently been established. They will need assistance to develop new markets. The *Umzimkulu-RFM* projects have also not accessed markets due to the age class distribution of the trees being between 0-5 years. They do however have an assured demand from three timber companies when their supply comes on line.

5.2.2 Transportation

Transportation from the plantations to the mills is costly and a risk to small-scale growers who do not trust the contractors to deliver all of what was harvested to the mill. Transportation does however provide economic opportunities to other community members who may wish to establish timber transport enterprises.

5.2.3 Bargaining power

There were interesting dynamics around bargaining power of growers related to the prices they are able to achieve for their timber. Non-aligned growers were noted to be able to bargain most effectively. Those in company-affiliated schemes were in a weak bargaining position. When the Rand is weak against the US dollar, growers derive significant benefits in the form of bonuses, shares from milling processes, and higher prices for their timber, but when the Rand strengthens these benefits are eliminated or reduced. There was little interaction between the companies and the growers on the aspect of price and growers were simply informed of the price that they would receive for their timber. This is an area of concern.

5.2.4 Globalisation

An interesting aspect of the access growers have to markets was the issue of globalisation and its direct impact on growers. Growers interviewed showed a clear awareness of this aspect and to some extent, appreciated the commodity nature of the product that they produce. They realized clearly that there was an internationally fixed price for pulpwood, and that the fluctuation in the Rand's international currency value had a direct bearing on their own price structure.

5.2.5 Demand issues

There is an acknowledged looming shortage of hardwood fibre in the pulp and paper industry, as well as a predicted shortage of pine timber for the furniture and construction industries. This is a favourable market condition for small-scale growers, and it has led to a minimization of small-scale grower exploitation by large companies. Business economics indicates that this will ultimately impact positively on the price of timber. This should be seen in the context of few new SFRA licences being issued by DWAF to plant trees in both KwaZulu-Natal and the Eastern Cape. The situation is likely to persist for many years as it takes at least 6 years to produce a crop of eucalyptus pulpwood and the licence application process itself takes a minimum of a year to 18 months.

5.3 WIDER ECONOMIC IMPACT ON THE COMMUNITY

Small-scale forestry, in addition to directly benefiting the growers and their immediate households, also has a wider economic impact on the rural communities in which these growers live. These benefits may take a number of forms.

5.3.1 Capital retention and circulation in the community

One of the more significant economic impacts of small-scale forestry on the broader community is that revenue is circulated within the community when growers employ the labour of both family and community members to work in their plantations or to mind their children whilst they themselves are working in the plantation. In addition, growers have expressed that although they are still engaged in subsistence agriculture, this is increasingly supplemented with purchases from stores. It is likely that local stores benefit from this increase in spending by growers and their families and thus income is circulated within the community.

5.3.2 Growth and diversification of business opportunities

Economic activities in the rural areas are growing and becoming increasingly diversified as a result of small-scale farming. Growers have reported that they are able to invest time and capital in additional employment opportunities such

as selling vegetables or clothes, running a little store, farming chickens, running a bottle store or tavern, offering contracting services to timber companies or other growers, and accepting casual work on other's plantations. This increases the range of economic opportunities available to the community to draw on and also presents business opportunities for them (e.g. starting a child care business).

Small-scale growing has created entrepreneurial opportunities for others, which has contributed to growth and diversification of economic opportunities of the broader community. In many cases growers do not have their own means of transporting timber from their land to the mill and cannot afford to use the large-scale commercial transport operators. This has created an opportunity for the development of local transport contracting businesses where community members who have vehicles sell their services to those who do not.

The taxi industry has also experienced growth as a result of small-scale forestry. There is a greater need for growers and their families to make use of tertiary economic activities that are offered by larger towns such as Richards Bay and Empangeni. This has, in turn, created a demand for taxi services to service these transport needs.

Through stimulating the growth and diversification of business opportunities, forestry functions as a catalyst in community-development. Such business ventures also contribute to capital retention and circulation in the community because in many cases local people are employed to provide the services.

5.3.3 Cost saving to the community

Stands of trees grown by small-scale growers provide a resource for the community in the form of affordable building material and firewood. These materials are often sold to others but they may also be given free of charge to neighbours, especially the waste wood from pruning and harvesting.

5.3.4 Benefits of land-use change

In the case of small-scale forestry on community trust land, the change in land-use of communal land from agriculture or subsistence cultivation to afforestation presents an economic opportunity for the community. By planting up land with

timber, the value of the land increases and therefore becomes more of an asset to the community, which can then be used to derive future revenue or used as collateral to secure a loan for further extension of the business enterprise.

5.4 IMPACTS ON SUBSISTENCE PATTERNS

The contribution that small-scale forestry makes to rural livelihoods of people should be understood within the context of a general decline in subsistence agriculture. It has been noted that there is a country-wide trend that rural people are placing less reliance on subsistence agriculture and have a greater focus on deriving a cash income with which food items can be purchased. This coincides with the increased access to improved education, health services and social grants offered by government. A brief review of the positive and negative impacts of forestry on subsistence patterns is provided below.

5.4.1 Positive impacts on subsistence patterns

Overall, the impacts of small-scale forestry on the subsistence patterns of rural people are positive. These are as follows:

5.4.1.1 Improved access to fuel wood and building materials

While the cultivation of small-scale woodlots has caused a change in land cover, (primarily from grassland or coastal lowland forest to plantation) this has in most cases been advantageous from a subsistence perspective. Aside from the increased availability of building materials and firewood mentioned above, the introduction of the fibre resource has led to an inhibition of harvesting of indigenous species for firewood and poles.

5.4.1.2 Increased income from trees used to buy food

Many growers still have vegetable patches to supply them with what they always used to grow. It is however, conceivable that vegetable gardens have decreased in size and are also not as diverse in terms of the diversity of crops being produced. It is acknowledged that increased afforestation is partially to blame for the reduced size of land for subsistence agriculture, however, it was reported that subsistence agriculture in South Africa is generally on the decline because of the increase in the wage economy, and a decrease in the productivity of some of

the land available for subsistence farming. Tree farmers have maintained their food gardens and fruit trees which continue to supply the household with these foods. In addition, revenues from forestry provide growers with cash to spend on food items they would have struggled to grow/rear in the past or that they are not able to grow/rear owing to space constraints.

5.4.1.3 Income from trees is used to buy agricultural inputs e.g. Seeds, fences, fertilizer

Small-scale forestry provides growers with lump-sum cash values as opposed to weekly wages or monthly salaries. This may be of benefit because it enables growers to apportion money to particular projects that they can pay off either completely in one payment or in periodic instalments. Some of these projects benefit their subsistence livelihood and improve their safety nets because money is spent on items such as fencing (to protect cultivated land from livestock and/or theft); seeds (new and improved/better strains) and fertilizers, which result in improved yields from their cropland.

5.4.1.4 More land for cultivation

Pans and marshes are reported to be drying out as a result of small-scale tree farming, particularly in the Kwambonambi, Port-Durnford and Greytown areas. Although clearly a negative environmental impact, it has a positive impact for some people because it has increased the amount of arable land that they now have available for cultivation. This will become an increasingly minor aspect as growers amend their practices in line with sustainability criteria which seek to minimise the negative impact of commercial forestry on ecosystem services such as water.

5.4.1.5 Infrastructure improvements

There are a number of examples where the presence of the forestry activities has led to an improvement of the infrastructure. In the Bonagude case study the development of infrastructure on the forestry estate is beneficial to the surrounding communities. Taps have been installed for the community and have been used to irrigate community gardens on the forestry estate and also on neighbouring community land. In the case of the *Mabandla Forestry Project*, the

main access road that services the community (and the forestry area) has been upgraded by government in response to lobbying from members of the forestry project. Similarly, there is some evidence in the Sokhulu area north of Richards Bay that the economic activity associated with forestry has prompted local government to upgrade some of the roads.

5.4.1.6 A 'better' land-use

A number of factors have contributed to making it difficult to use land for grazing and cultivation. These include: reduced land available for grazing large numbers as a result of relocation; increased incidences of theft; decreasing productivity of agricultural land; prevalence of disease in livestock; damage by cattle to neighbouring fields and woodlots and poor quality grazing land. In addition, afforestation is regarded as a better land-use because it secures ones land tenure and reduces the potential for land disputes because the *Inkhosi* can see that land is being used. Thirdly, planting up what land growers have available to them with trees is regarded as a better land-use option as it is believed to be the most profitable activity because it generates profits that can be used to purchase food and other items that it is not possible to grow or rear.

5.4.1.7 Reduction in stock theft

For those community members who still keep livestock, small-scale forestry is reported to have reduced the amount of stock theft that takes place in rural areas. The reason for this phenomenon is attributed to the fact that cattle are less visible as they often graze on the grass under the cover of trees. It was also noted by some growers that in some cases growing trees might increase the risk of theft as the afforested areas provide places for thieves to hide.

5.4.1.8 Forests improve stocking of wildlife

An encouraging aspect of small-scale forestry is the reported growth in the number of animals, such as bush pig and buck species that are to be found in those areas where afforestation is prevalent. It is reasoned that the afforested areas provide cover and a sheltered place for wildlife to breed. This has a positive impact on subsistence livelihoods as it provides a source of food that could be used when times are hard and constitutes part of the safety net so

important to the rural poor. In some cases the increases could be sufficiently substantial to enable sport hunting and thus a create a source of economic benefit through the sale of hunting rights.

5.4.1.9 Prevents unauthorized use of land by neighbours

In the past it was difficult to prevent one's neighbour from accessing one's land to graze cattle, especially since it was difficult to determine where one's boundaries lay if there was no form of fencing. Small-scale forestry provides a way of demarcating one's land and thus distinguishing it from one's neighbours. This has implications for subsistence livelihoods as it enables growers to more effectively control their land resources.

5.4.2 Negative impacts on subsistence patterns

There are fewer negative impacts and this may indicate the decreasing importance of subsistence resources on the rural livelihoods of some growers. It should also be noted that despite there appearing to be less negative impacts, it may be that the affect on those members of the community who do not grow tress remains significant. In the areas sampled however, little evidence was found to support this view. Some of the negative impacts on subsistence patterns are the following:

5.4.2.1 Reduced availability of water

Reduced availability of water is a particular concern in the Kwambonambi, Port Durnford and Greytown areas where growers reported that there has been a decrease in the amount of water in streams and pans in recent years. In some cases pans or marshes have dried up and in others water from springs and rivers is less reliable than it used to be. This reduction in the availability of water is attributed to the water being used by the commercial plantations.

This is likely to have a significant and negative impact on the subsistence lives of some of the rural community members, particularly those who do not have access to a municipal water scheme. It is conceivable that some growers who have the means, as a result of their forestry activities, to afford the installation of piped water to their homesteads, are having a negative impact on their neighbours who are less fortunate and who rely on water from rivers, springs

and boreholes that are being negatively affected by the tree plantations. This aspect threatens the subsistence livelihoods of some rural people.

5.4.2.2 Reduced land for subsistence activities (replacement of cropland with timber)

In spite of there being some preconceptions about decreasing land for subsistence agriculture, this was not identified as a major negative effect of small-scale forestry. While it has been noted that there is a general decline in subsistence agriculture, home garden plots have not been significantly reduced. Home garden plots were noted to still be in place, but possibly slightly reduced in size. There was no clear evidence of a direct causal link between diminishing garden plots and forestry.

5.4.2.3 Decreased grazing land

Land that was once used for grazing livestock is increasingly being afforested through the small-scale forestry initiatives. Although many growers reported that this land-use change was favourable, it does have an impact on people who do not grow trees and are still reliant on livestock to support their subsistence lifestyle. They are affected because as others around them plant up their vacant land with timber, they are reduce amount of land that is available to the livestock owner to graze cattle on. This may lead to overgrazing of the available land and this has implications for the future productivity of the land and thus may pose a threat to the livelihood of the livestock owner.

The impact of small-scale forestry on grazing land is partially mitigated by growers allowing grazing to take place between their more mature trees. In one case, a grower reported that the grass growing between the trees was of a better quality than that growing on the vacant land prior to afforestation and thus he regarded small-scale forestry as improving the grazing land available for his cattle.

This impact has also been mitigated in some areas, such as Greytown, where the Inkhosi has set aside communal grazing land. Provided the carrying capacity of that land is not exceeded this land management strategy offers a means of securing the subsistence livelihoods of the people who require assistance especially in areas where small-scale forestry is being expanded.

5.5 IMPACTS ON RIGHTS, CAPABILITIES, REPRESENTATION AND DECISION-MAKING POWER

Although of a "softer" nature, the less tangible aspects associated with the development of forestry in the rural areas by small-scale growers are socially and politically very significant in the context of the impact of forestry on poverty reduction.

5.5.1 Securing of land rights

There are at least two instances where small-scale forestry has a positive impact on the land rights of individuals. In the first instance, land rights are secured through a lease, for example, in the *Bonagude* and *Sokapase* cases where Trusts have secured the lease of *Spes Bona* farm for 30 years and a section of Blyth plantation for 10 years, respectively.

In the second instance, land rights are secured through the act of establishing a plantation of trees on communal land, that has been allocated to the grower by the Inkhosi. Although this is not as secure as having a government deed of title for example, growing timber does increase the relative security of tenure. It also demonstrates to all concerned that the land is being productively used and is not available for allocation for any other purpose. Chiefs have been known to reallocate unused or vacant land to others or utilise it for alternate development projects. Forestry helps to secure land and reduces the potential for land disputes.

5.5.2 Increased scope for more representative decision-making

Forestry offers small-scale growers greater opportunity to participate in decision-making and contribute to discussions about issues that affect them. Growers associations and trustee meetings are two forums in particular where these opportunities for increased representative decision-making may be found

The associations offer participating growers a forum that provides opportunities for the increase in knowledge and skills through a sharing of experience, common concerns are discussed and conflicts and problems resolved. The associations also provide points of communication with outside organizations and

individuals and this facilitates the flow of information to growers about new development in forestry and other issues of importance. In the process of delivering such benefits to its members, grower associations also have the potential to assist growers in their price negotiations with potential buyers of their timber, through a pooling of resources and an increase in their bargaining power through their collective efforts.

FSA is in the process of establishing grower associations that will not be aligned to any particular outgrower scheme or forestry project and these are expected to substantially improve the position and representation of the small-scale grower sector in the forestry industry. See Text Box 1 *Small-scale grower representation by Forestry South Africa* for further details and progress of the FSA endeavours.

Community trusts provide another important way in which growers are given greater representation and participation in decision-making. For example, in the community trust case studies in the Eastern Cape, a trustee represents each ward in the community and this provides ward members the opportunity of communicating with the broader community through their representative on the board of trustees. The wards have monthly meetings at which community members have an opportunity to raise issues and concerns. These issues and concerns are then discussed at regular meetings of the trust and the outcomes fed back to the community via the trustees. This system of communication offers individual community members far greater representation than that afforded by the traditional tribal council system. An example of this is that when an initiative to get a number of community projects underway was embarked upon, each ward was asked what projects they would like to have, and in so doing people were able to participate meaningfully in the process of deciding what they would like.

It should be noted that these forums should not be regarded as being in conflict with the tribal council system/authorities or in any way compete with the traditional system but rather that the grower associations provide an efficient system of representation that will benefit the entire community with respect to their forestry interests. There have been instances where the local Inkhosi has felt threatened by the establishment of a grower association. One grower

reported that the Inkhosi in their tribal area was reluctant to allow the establishment of a grower association as he felt that it would become politically active and pose a threat to his authority. In the case of the Umzimkhulu-RFM forestry projects in the Eastern Cape, the local chiefs have been active in the establishment of the community trusts and see them as a positive development.

5.5.3 Participation by women

Small-scale growers were not asked specifically gender-related questions. From the interviews conducted with men and women growers, it is however apparent that there is generally a fair division of labour among men and women, with both being owners of trees, and both forming part of the labour force for growers to hire. Criticisms about labour were based on age rather than gender, and it is generally accepted that women are involved in silvicultural operations, pruning, stripping bark and clearing, and men with using heavy machinery such as chainsaws and tractors.

In terms of the participation of women in delegations or grower associations none of the women growers interviewed expressed that they felt unable to contribute because of their gender. In one case a grower reported that she had been elected by the community to form part of the delegation, and that she had only declined because she was involved in too many other projects.

Sappi (Sappi, undated) report that 80% of the growers who are members of Sappi's *Project Grow* are women. These women maintain that tree farming allows them to work from home and thereby still carry out their maternal duties while the revenue from the trees makes a meaningful supplementation to their household incomes. Similar responses were obtained from the women who work in the forestry team at Cata. The Cata forestry team has 11 women in a team of 19 people.

5.5.4 Transfer of new skills and awareness

The development of forestry in the tribal areas has introduced a whole range of new skills and knowledge to the members of the communities living there. Besides the silvicultural skills that the extension officers of the various outgrower schemes and the technical facilitators of the government funded schemes have

transferred to the growers, many of the growers have become skilled in basic business practice through a process of "learning by doing". Growers, in being confronted with the need to develop business skills in order to maximise the benefits from their forestry activities have risen to the challenge and made substantial personal growth. The development of small-scale contractors and other forestry related business enterprises is further evidence of the catalytic role that forestry plays in the rural environments where it is practiced. Lack of technical knowledge limits effective representation and strengthens the feelings of powerlessness that many rural people suffer and forestry has made a significant impact in countering this situation.

Although forestry has made a substantial contribution to the skills and knowledge base that growers enjoy, there are still a number of areas that require attention. In particular there is a need for greater harvesting and transport skills, post harvesting silviculture and more sophisticated business skills.

5.5.5 Greater equity in processing and down-stream processing

Some of the procurement schemes, for example NCT and the WBI bark procurement scheme do offer members some share in the profits arising from downstream processing of the products that growers supply. However, there is a need and considerable scope to offer growers a far larger stake in the downstream processing activities as much of the added value of timber is concentrated in these downstream processing activities with very little accruing to the actual growing of the trees. The large grower/processing companies report improvements in profits annually and it does appear that these may be at the expense of the poor people that grow the timber or work as contractors in the plantations. A careful study should be made of the value that accrues along the forest products value-chain and the transfer pricing employed by the corporates. Perhaps government should consider supporting small-growers and contractors to obtain a fairer share of the profits that the forest products industry generates. Greater participation by growers in the downstream processing activities could be one way of ensuring that a fairer share of the profits are channelled to the producers of the raw material on which the entire industry is based.

6 GOVERNANCE – CONSTRAINTS AND OPPORTUNITIES

Based on the performance of forestry to date, it is clear that small-scale and community based forestry has the potential to play a major role in the reduction of poverty in those rural areas suited to forestry. There is considerable scope for government to play a significant role in facilitating the appropriate development of forestry and thereby realise one of its primary objectives, namely, the reduction of poverty. Government's performance in regard to forestry development is reviewed and possible ways of improving the former are discussed. DWAF's own policy is to strengthen its governance and regulatory function of the industry and focus on providing the enabling environment for forestry enterprise development rather than direct intervention or management of plantations. The private sector and NGOs have also played a major role in assisting communities to establish the institutional structures required to manage their forestry developments. Comment on the role of the private sector and NGOs is made.

6.1 ACHIEVEMENTS

Although often criticised for not doing enough there are a number of instances where government's actions have promoted forestry development, often though, it has been the private sector that has carried out the leg-work despite the bureaucratic obstacles that government seems unable to remove.

6.1.1 Assistance with funding

The government's land reform policies have been successful in giving small-scale and community-based growers access to land and the support needed to develop the land. The *Umzimkhulu-RFM*, *Sokapase* and *Cata* forestry projects are evidence of the roles that DLA funding and DWAF support have played in facilitating forestry development in these rural areas. It is estimated that government has put approximately R10 million into these community-based projects and this is a substantial amount of money. However, this contribution is relatively small in relation to the R75 million per year that goes into rural communities from the sale of timber by growers who have established their

plantations with support from private companies or without any support at all. This provides strong motivation for government to do far more to fund PDIs and communities to establish plantations and to assist them in their endeavours to rise above their state of poverty.

6.1.2 Provision of social security

The provision of social security grants is a significant way in which government contributes towards small-scale forestry, albeit indirectly. Many growers reported that their household receives income in the form of an old age pension and a childcare grant. These are state subsidies, which provide a monthly income to households and in many cases these subsidies are the only income they receive other than that which they obtain through small-scale forestry and the secondary employment opportunities that are created as a result of small-scale forestry initiatives.

Social security subsidies from the government supply income that are used to pay for the day-to-day living expenses of the household and this provides a significant and regular source of income to supplement the periodic lump-sum revenues from forestry. Without the government social grants it would not be possible for growers to invest their time in the cultivation of trees and this would prevent them from benefiting from commercial forestry.

6.1.3 Education

Although much of the forestry knowledge and skills that growers have has come through the company extension officers of the outgrower schemes, the government supported forestry projects have made extensive use of DWAF forestry extension staff and assistance from technical specialists whose inputs have been funded by government directly or indirectly through aid agencies supporting the particular government department providing support.

Governments attention to the education schooling system has also played a role as many of the community members interested in establishing plantations have undergone 10 to 12 years of basic schooling and this provides them with a sound base on which to develop their forestry and business knowledge.

6.1.4 Institutional structures

Although government, and DLA in particular, provide very clear specifications and requirements regarding the establishment of management committees, trusts or CPAs it has been the private sector and NGOs that have been most effective in actually facilitating the establishment of the institutional structures and mentoring them through the early stages of operation, allowing them to grow into effective management bodies. Almost all the forestry companies have departments focussed on community liaison and assistance and the work of the INR, Lima and BRC, has been significant in the establishment of community based institutional structures. The ongoing work of FSA in this regard, is a further example of the support that the forestry industry is providing to communities to organise themselves and to build institutional capacity. (See Text Box 1. *Small-scale grower representation by Forestry South Africa*)

6.2 GOVERNANCE CONSTRAINTS

Forestry development has been constrained by a number of government initiatives, some unintentional and others particularly confusing to PDI timber growers, with some government policies at odds with others. In general government seems to have difficulty implementing its intentions, often having policies that are sound without having the resources to give effect to their implementation.

6.2.1 Onerous licensing process

One of the most significant constraints to small-scale forestry is the time and effort required to secure a stream flow reduction activity licence (SFRA) and the other government consents required before any new afforestation may take place. In brief, an applicant requires authorisation from a number of government departments both provincial and national, including the following;

- DWAF
- National Department of Agriculture (NDA)
- Provincial Department of Agriculture
- Provincial departments of environment affairs and conservation

- Provincial department of heritage conservation

TEXT BOX 6. THE COST OF OBTAINING AN SFRA LICENCE

Timber plantation forestry has been declared a Stream Flow Reduction Activity (SFRA) under the National Water Act (NWA, Act 36 of 1998) and, as such, all new afforestation requires an SFRA licence and permissions from all the other relevant government departments.

The SFRA application cost to the applicant is typically of the order of R20 000 to R25 000 for each application irrespective of the extent of the application. These are costs that are incurred to gather and present all the information required by the various government departments.

The table below provides further detail of the typical costs that are incurred by the applicant:

Cost Elements of the SFRA Licence Application Process	Unit	Time Required
Fees		
Planning (including recce soil survey)	Days	2.5
Notification of intention to afforest	Days	1
Completion of forms	Days	1
Site inspection	Days	1
Heritage survey (KZN only)	Days	1
Total Days	Days	**6.5**
Cost per day	Rand	R 3 000
Cost of SFRA Application Process - Fees	Rand	**R 19 500**
Disbursements		
Travel	Rand	1000
Placement of notices in newspapers	Rand	2000
Sundries - maps, stationery, application fees, etc	Rand	500
Cost of SFRA Application Process - Disbursements	Rand	**R 3 500**
Total Cost of SFRA Application Process - Basic Minimum	**Rand**	**R 23 000**

The cost of actually establishing the trees is of the order of R5 500/ha (including labour costs) and thus the application process costs the equivalent of some 4 to 5 ha – the average size of a small-scale grower's woodlot is about 1.5 ha. Without the support of government or a private company, the SFRA application process is way beyond the means of almost all prospective small-scale growers

The process requires that the applicant's intentions are advertised in a local and provincial newspaper and all direct neighbours informed of the proposed afforestation, the proposed site is inspected by officials from all the government departments and their recommendations presented to the provincial Licence Assessment Advisory Committee (LAAC). Following the principles of co-operative governance, the LAAC makes a recommendation as to whether the afforestation should be allowed to proceed or not. The process is hampered by the plethora of laws and policies of the various departments, the time that it takes to arrange and undertake field visits and the general incapacity of applicants to provide all

the information required by the government departments to make their assessment.

The licence application process is seldom completed in a year and applicants have been known to wait up to 3 years for a SFRA licence. Delays of this length of time and the costs incurred in actually making the application have had a significant impact on forestry development. See Text Box 6. *The cost of obtaining an SFRA licence.*

6.2.2 Access to available finance

Whilst it is creditable that the government does offer finance for small-scale and community-based initiatives in the form of SLAG and LRAD funding administered by DLA, the process of actually acquiring the funding is onerous and costly. There are no specific forestry-related subsidies for tree farming. Although LRAD and SLAG funding have been made available in the case of the Eastern Cape forestry cases reviewed, the absence of a specific funding scheme is an indicator of the government's lack of support for forestry initiatives. It is felt by many growers and potential growers that government should acknowledges the contribution that small-scale forestry makes towards poverty reduction in South Africa and offer direct funding to promote forestry.

Lending institutions, including those that receive government support, are reluctant to lend small-scale growers money. Application procedures and the surety or collateral required by the banks to underwrite the loans are outside the reach of most growers or prospective growers.

6.2.3 Uncoordinated support

In the Eastern Cape for example there is little coordinated support from the various tiers of government. At Cata for example one finds DWAF supporting one aspect of the development and ADM, the district municipality, focussing on an entirely different aspect while the local municipality, in this case *Amahlati*, appears to be completely oblivious to what is going on and largely disinterested. The lack of coordinated support is both confusing to the people involved in the project and particularly wasteful of scare resources. In other cases, such as the

Umzimkhulu-RFM projects national government strongly supported the projects while district and local government were largely indifferent.

6.2.4 Insufficient extension support

Government's extension support services fall far short of meeting the needs and expectations of the forestry industry and this has constrained the development of small-scale and community-based forestry. Almost all the extension service support that small-scale growers have received has been provided by the outgrower companies' own extension officers or by technical facilitators funded by aid agencies. Non-aligned growers have not been satisfactorily supported having only received limited technical advice from DWAF forestry staff.

6.2.5 Failure to provide infrastructure

There are very few instances where government has supported forestry development through the provision of infrastructure. The notable exception has been the upgrading of the road to the Mabandla Forestry Project but even in this case the action came from national government while the local government was entirely unresponsive to requests for assistance. Growers interviewed as part of this study expressed their disappointment in the poor service delivery of their local municipalities and particularly in the empty promises that some of the ward councillors had made to the communities just prior to the last elections.

There is an urgent need for roads to be upgraded in order to allow the economical transport of timber to the processing plants.

6.2.6 Failure to accelerate the land ownership

There is currently a process underway to grant title deeds to those who live on communal land and so offer them greater security of tenure and ownership of an asset that could be used as collateral to secure loan finance from a lending institution. There is an urgent need for the government to accelerate this process in order to allow people, who have access to land, easier access to financial recourses and to reduce the risk of them losing the investments that they have made in their plantations - which by their nature, are immovable improvements to bare land.

7 RECOMMENDATIONS

In making the following recommendations, it is pointed out that no single party can effect all the improvements that are proposed and that it will require a co-operative effort from all the government departments (including the various spheres –national, provincial, district and local); the private sector; NGOs and other facilitators; the communities and their management institutions and the actual individuals who wish to operate forestry enterprises. There is a particular need for government and the private sector to align their initiatives in order to minimise any duplication of effort and avoid conflicts of action.

7.1 IMPROVE THE FINANCIAL RETURNS FROM FORESTRY

Small-scale forestry is definitely making a substantial contribution to the reduction of poverty in the rural areas where forestry has been developed and forestry can offer an attractive return on investment, particularly where it is supported by government and/or the private sector. See Text Box 7. *Investment returns from forestry*

However, the absolute contribution in cash terms that forestry makes to the average small-grower household, is insufficient to actually lift the growers out of poverty. This is attributed to the relative magnitude of the financial return typically associated with growing timber. There are fundamentally five options to address this issue:

- Increase the area of plantation each grower has and thereby achieve greater economies of scale and the benefits of a reduced proportion of overhead costs per planted hectare
- Reduce the input costs through an improvement in productivity and efficiency of the operations and/or reduce the cost of capital by reducing the interest rates on loan financing, possibly even by way of a subsidy
- Increase the prices paid for the timber
- Provide growers with grant funding
- Give growers a share in the profits associated with the downstream processing of their timber. It is common cause that value addition (and the associated profits) along the forests product value-chain are heavily

skewed towards the downstream processes activities and that it is very difficult to earn a commercially acceptable return on the growing of the trees alone.

It is clear that a coordinated effort that addresses all five points listed above is what is required by both government and the private sector. Cognisance is taken of the difficulty of increasing the price paid for timber, by virtue of it being a global commodity and subject to world price trends. Similarly, it is unlikely for small-scale growers to be able to increase the size of their plantations due to the competition for land by other land-users with the exception, possibly, of the potential transfer of State plantations to adjoining communities. As a matter of priority, emphasis therefore needs to be placed on BBBEE initiatives and share schemes to enable growers to benefit from the more lucrative downstream processing activities. In this regard a "Forestry Indaba" has been called by Minister Sonjica to take place on the 18th of April 2005, where the primary theme is to be the promotion of BBBEE in the forestry sector.

There is some likelihood that as small-scale growers become more organised and knowledgeable they will be able to negotiate for a stake in the downstream processing businesses. Sound business skills and a knowledge of the forestry industry are characteristics that make prospective BEE partners attractive to the industry. Through initiatives of both government and the private sector, efforts should be made to capacitate groups and individuals to take up roles in the downstream forest products industry.

7.2 INCREASE ACCESS TO LAND

7.2.1 Access to State land

There are many Category B and some Category C State plantations that could be transferred to adjoining communities and with the appropriate support, offer these communities an attractive stake in a forestry enterprise. Although this superficially appears to be an issue for government to deal with, its success will depend on the private sector's efforts to support the ventures and to guide the fledgling enterprises into the formal forestry sector. The transfer of State plantations offers one means of increasing the land available to growers and has

the added attractions that there is no need to secure SFRA licences and much of the infrastructure is in place, it only needs to be upgraded.

TEXT BOX 7. INVESTMENT RETURNS FROM FORESTRY

The *internal rate of return* (IRR), that is, the return expressed as a percentage of the capital invested while considering the time value of money (and discounted to a present value). is a common measure to evaluate the financial attractiveness of forestry investments. The IRR is compared against the returns that can be realised from alternative investments, such as from money invested in a commercial bank and a decision made as to the attractiveness of the target investment considering risk factors, cash flows and other characteristics.

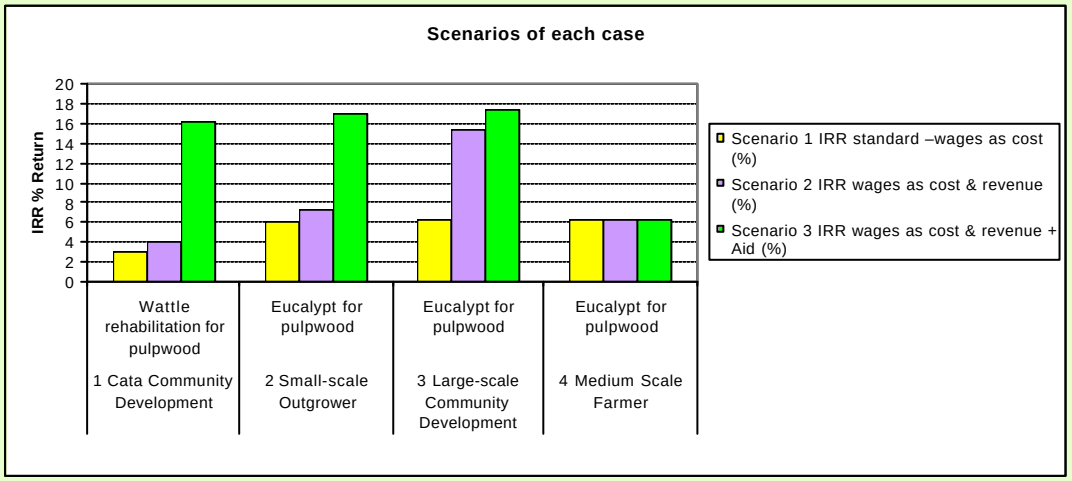
In order to quantify the return on investment associated with various forestry projects Howard, (2004*) compared 4 forestry cases –

- A community based wattle rehabilitation development at Cata
- A eucalypt pulpwood project by a small-scale grower participating in one of the outgrower schemes
- A large scale community forestry development comparable to the Mabandla project
- A medium-scale white farmer converting sugar cane to eucalyptus pulpwood plantation

An analysis of three approaches to the forestry investments were considered, specifically the way that the wages associated with the forestry projects are or could be viewed. The three scenarios were the following:

- Scenario 1. – Traditional Approach – all wages are considered a cash outflow
- Scenario 2. –Cash out flows associated with wages are also considered as a revenue stream
- Scenario 3. – Based on Scenario 2 (wages as revenue) but typical monetary support from government, donors and companies

IRRs achieved under the various scenarios and for the different cases are shown in the chart below. The IRR percentages are "real", meaning that inflation has been accounted for.



It was found that IRR's of 15 to 16% could be realised where growers were provided with financial assistance and depending on the scale of the operations - considering wages as cash to the grower or community - resulted in substantial increases in the IRR. These are very attractive IRRs

* Howard, M.D.,2004. Community based investment in commercial plantation forestry – A different paradigm. Economics & management of high productivity plantations, IUFRO/USC, Lugo, Spain.

7.2.2 Access to private land

The South African Sugar Association (SASA) has set up the *Inkezo Land Company* with the specific objective of fast-tracking the transfer of land to PDI growers. (www.Inkezo.co.za) Funding for the initiative has come from both the private sector and government. The Inkezo initiative potentially offers a sound model that could be followed in the forestry sector to improve the access to land by PDis. In particular, the identification of willing buyers and sellers of forestry land, the facilitation of the sales transactions and the post-sale support of the growers.

7.3 FUNDING

Funding models need to take into account the diversity of the participants in the forestry industry and it is proposed that a suite of models and approaches be developed rather than a single option. In this regard the following offer some of the elements that could make up such a suite of funding options.

7.3.1 Facilitation agencies

Government needs to urgently address the onerous bureaucratic processes that prevent growers from accessing State grants. This will require a focus on co-operative governance by DLA and DWAF. Taking cognisance of the rigidity of government processes and the long time that government transactions take, the need to counter fraudulent transactions and the number of parties involved in the process of awarding grants to communities, it is proposed that consideration be given to encouraging the development of private facilitation agencies.

These agencies could be operated by NGO's, private consultants or even forestry companies and would need to be subject to independent audits. The motivation for their establishment would be to reduce the number of transactions that government needs to make in granting funding to applicant communities and individuals who wished to establish forestry enterprises. Government would deal with the agencies and assess the application with a minimum of effort to ensure that government requirements were met. The agencies in turn would undertake the numerous transactions of coordinating and preparing the applications.

The agencies could also assist both government and growers with the application of SFRA licences by coordinating the collection of the information required by government and guiding the applications of the prospective growers in order to ensure that the proposed afforestation was in accordance with the plethora of laws and policies to which it is subject.

Funding of the proposed agencies should be the responsibility of government and it is likely that the latter could secure international donor funding for this purpose especially where the forestry developments will make a substantial contribution to the reduction of poverty.

7.3.2 Certification of plantation assets – Collateral certificate

Many growers experience difficulty in securing funding as they do not have any collateral to support a loan from a lending institution. It is proposed that consideration be given to developing a system whereby the trees of existing growers (and possibly the use-rights to the land pending ownership) can be used as collateral to secure loan funding for further development. This would require the independent certification of the grower's plantation assets by an institution acceptable to the lending institution. It is envisaged that the grower would be given a certificate of sorts that could be used as a form of collateral to secure loan funding. The system could be underwritten by government to increase the system's credibility and growers could leverage further development off their "track records". Attention would need to be given to the details of such a system of collateral certificates and the cooperation of the forestry industry and the lending institutions would be required.

7.3.3 Access to insurance

It is reportedly very difficult for a small-scale grower to insure his/her trees. There is only a single company in South Africa that offers plantation insurance, namely *Safire*, and it has been very reluctant to offer emerging growers or communities plantation fire insurance. There are two issues of concern:

1. Most commercial banks will not provide a loan based on collateral that is not insured

2. Although the issue of fire insurance has not been of practical importance to small-scale growers who individually manage a small woodlot of trees – outgrowers are paid an advance to prepare fire breaks and take other fire protection measures; fuel loads are very low under fast growing eucalypts especially where the sticks have been collected for fuel wood; people are vigilant and respond quickly to the threat of fire – this is not the case where communities have established large tracts of land as contiguous blocks of plantation, very similar to the commercial forestry companies. Communities have also planted pines, which when grown on a pulpwood regime has a very high fire hazard compared to wattle or lesser extent, eucalyptus and there is an urgent need to insure the investment that communities have made in their forest plantations.

There is a need for government and industry to lobby the insurance industry to support the emergent forestry sector. At this stage it appears almost as if insurance is only provided to large companies and white growers, something which it is hopefully not.

7.3.4 Subsidies and incentives

Historically governments provided - and still in many countries of the world governments continue to provide - grants, subsidies and other financial incentives to stimulate the development of their forestry sectors. Forestry, being of a long-term-nature requires greater vision and confidence in the future than most other types of business investments and governments are well suited to providing incentives to entrepreneurs to lessen the risk of forestry enterprise investments. The Chilean government, for example, feel that the subsidies that they paid to private companies and individuals to establish new plantations have been one of the best investments they could have made, considering the returns now being realised through the general taxation of the industry, especially the value-adding processing plants that have been developed on the basic plantation resource – this besides the positive social impact of reduced unemployment and the additional revenue form taxes on wages. (*Pers comm.*. Eduardo Morales, *Fundacion Chile*, 2003). Both Argentina and Uruguay still offer afforestation

subsidies of the order of R500 to R600/ha while Chile is now only offering small-scale growers an afforestation subsidy.

Although subsidies potentially can have some negative impacts through their effect of skewing investment decisions and the promotion of unsustainable projects, Government needs to consider the implementation of forestry subsidies in the light of the *Broad Based Black Economic Empowerment* (BBBEE) prerogatives. The funding must firstly encourage these initiatives and secondly facilitate the extension of these initiatives to areas where these schemes would be most appropriate. The subsidies could be for a limited period and the requirements to qualify for subsidization very specific and focussed on the objective of attracting more black people into the forestry industry, particularly those in the rural areas.

7.4 IMPROVE ACCESS TO FINANCIAL SERVICES

It is almost impossible to do business without easy access to the services offered by a commercial bank. Further, many of the emergent forestry-based enterprises have some difficulty interacting with the formal banking sector due mainly to the vast difference in perspectives between the average small-scale grower or forestry contractor and the bank managers or other customer liaison staff. The banks typically operate in a first-world-type and technologically-advanced mode while the growers have rural, agrarian-based backgrounds. However, the *Financial Sector Charter* (2002) has been developed as a binding contract on the financial services sector and as a structured plan to provide greater opportunities to black people to participate in the sector, but more importantly for forestry, to provide access to banking facilities by 2008, within a distance of 20 km from where people need them.

Godsmark (2004) indicates that the value of roundwood and primary forest products traded in 2003 amounted to some R18.7 billion. Considering that this excludes much of what government is spending in the forestry sector, the total turnover of the forestry sector must exceed R20 billion, all of which passes through the banking sector a number times, with the banks drawing off a commission on each transaction. It is proposed that government and the private forest companies should combine their efforts and lobby their banks to accelerate

the provision of services to emergent forestry entrepreneurs and to develop specially-tailored products for this group.

The sugar industry has developed a number of financial funds that offer small-scale growers access to finance.(Buiten, 2005) Essentially these funds have been created by both private industry and government and are administered by the Sugar Association of South Africa or its members. The operational or business models employed by the funds are largely applicable to the forest industry and further investigation of these aspects by both government and the private forestry sector merit attention.

7.5 INCREASE EXTENSION AND SUPPORT

Although the private companies and project coordinators are still rendering help and support to small-scale growers and community-based projects, there is a need to increase the support still further, in order to maximise the yield potential of the plantations, improve the productivity and efficiency of the forestry operations and to develop the business skills of the growers. It is proposed that DWAF should play a far stronger role in the provision of extension services, an activity that is entirely in line with their new focus on policy and regulation and the move away from the direct management of plantations. There are many growers who have chosen not to align themselves with any particular scheme in order to maintain their independence and flexibility, and it is this group that urgently needs government support. A particular aspect that growers require assistance with is the preparation of SFRA licence applications.

It appears that even the outgrower initiatives have decreased their extension efforts in the last few years and there is a need to address the following technical issues as a matter of urgency:

- Pre-harvest planning and road upgrading
- Development of small-scale harvesting and transport contractors
- Post harvest coppice management of eucalypts
- Compliance with environmental standards and certification
- Basic forestry business skills and particularly marketing

7.6 STRENGTHEN GROWER ASSOCIATIONS

While excellent progress has been made in the development of grower associations by FSA, (See Text Box 1. *Small-scale grower representation by Forestry South Africa)* this study has found that the bargaining power of growers could be substantially enhanced by more wide-spread collective action. Surety of supply, especially in times of shortage, has particular value to the capital intensive timber processors and thus they are prepared to pay more for an assured and regular supply than they are for *ad hoc* lots. By pooling resources, small-scale growers could offer larger lots; and, a regular and assured supply of timber with a concomitant increase in the price that could be paid for the timber.

There is a need for government support, from all levels of government, for the endeavours of FSA to organise small-scale and community growers in order to accelerate their representation in general. The grower-associations could play a more meaningful role in the representation of individual farmers and provide them with a means of communication that is not only restricted to forestry matters but could address many other development issues. The organisations do encourage growers to share their knowledge and experience with others and this should be extended to include research and development information from the forest industry.

7.7 UP SCALE THE SUCCESS STORIES

This study has identified a number of very successful forestry ventures, some, such as the outgrower and procurement schemes are well known and are growing, while others such as the *Cata, Sokapase* and *RFM projects* together with the *Bonagude BEE project* offer important models to others wishing to venture into forestry. It is proposed that government and the private sector should pool their resources, possibly coordinated by FSA, and actively publicise and promote these success stories. Clearly it is not the task of any one government department and an alliance among DWAF, DLA and DTI could very effectively participate in and support both the publicising of these successful ventures and the coupling of assistance to prospective individual growers and communities who wish to initiate their own forestry venture. The private sector holds a wealth of technical forestry knowledge based on years of research and

practice which could be used to reduce the risks of inappropriate forestry investments and operations provided it was shared with prospective growers. Together government and the private sector could facilitate access to funds for the emergent growers as discussed earlier.

The success of the *Cata Project* has already inspired a further 12 communities in the Amathole area to work towards rehabilitating their own wattle plantations. An interim committee has been established and the communities are seeking the assistance of DTI to consider the feasibility of establishing a wattle cluster and possibly some form of local value-adding plant based on their plantation resource.

8 CONCLUSIONS

In answering the question posed in the title: "What role does forestry play in reducing poverty in South Africa, and how can that role be improved?" it is clear that forestry plays a significant role in reducing poverty in the rural areas where it is practised, but more importantly, there are strong indications that forestry could play a far greater role. Even a few, relatively small interventions could facilitate greater participation in forestry and unlock further contributions to the reduction of poverty.

The forestry industry has developed a wealth of knowledge and a sound understanding of commercial timber production over the last 100 years or so. It is possible to transfer this knowledge to those people who have been excluded from participating in the forest industry for a variety of reasons and to allow them to share in the wealth that commercial forestry has created for some of the country's largest corporate companies. Open and transparent partnerships need to be established among the stakeholders: government departments; the private sector; NGOs and other facilitators; the communities and their management institutions and the actual individuals who wish to participate in the forestry sector. It is the role of government to provide the enabling environment for further forestry development and the obligation of the forest industry to respond positively.

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Forestry plays a diverse and significant role in reducing poverty in South African rural areas, ranging from direct cash payments to more intangible improvements in rights, capabilities and representation. This study looks at ten case studies representing a variety of business models – outgrower schemes, procurement schemes, broad-based black economic empowerment (BBBEE), government financed projects with technical facilitation, and non-aligned entrepreneurs – to make a critical and constructive assessment of the contribution of small-scale timber production in helping people out of poverty. It recommends increasing participation in downstream processing, accelerating access to state land, providing better funding and financial services, improving extension support, and actively publicising and spreading current successes.

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