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OUTSOURCING AND CONTRACTING IN THE SOUTH AFRICAN FORESTRY SECTOR

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"With our outsourcing strategy, we are now a truly better profitable company" (Grower in KwaZulu-Natal, April 2000).

"There can be no successful contractors without the support of forestry companies and management and there can be no successful companies without successful contractors" (Mike Edwards, Executive Director of Forest Owners' Association, Business Day, 28 January 2000)

"We (forest contractors) meet targets in crisis situations in the mills" (Contractor in Mpumalanga, April 2000)

"Outsourcing is a recipe for worker displacement, retrenchment and misery". (Poster during protest march, 10 May 2000)

1 INTRODUCTION

The outsourcing of forestry activities over the past decade has created an industry with an annual turnover of R600 million and 35000 employees (Edwards, 2000). During the past decade forestry companies have switched from employing some of their workers directly to a contractor system. For example, forest contractors are now hired to carry out planting, tending and silvicultural operations. Sappi Forests, Mondi Forests and Safcol are all contracting certain work out and are currently assisting contractors to improve their service, reliability and professionalism through offering training opportunities. The Forest Owners Associated has recently annouced the launching of a section 21 company called Forestry Contractors' Productivity Initiative in order to improve the country's competitiveness. The initiative will be implemented through a network being established for forestry contractors with the support of the Sector Partnership Fund.

A key instrument of change for management is the outsourcing of operations to rid themselves of responsibilities and reduce costs (Evans, 1992). Sappi was, for example, reported to have out-sourced more than 50 % of their forestry operations in 1992. Between April 1991 and May 1992, Sappi was also said to have retrenched nearly 3000 workers (Evans, 1992). This period also coincided with increasing levels of outsourcing within Sappi.

In one study Goedecke and Ortmann (1993) found that one forestry company was contracting out up to 75% of its work in KwaZulu-Natal. In Mpumulanga, another company was found to have contracted out 60% of its work. The increase in the use of contractors is associated with the move towards downsizing of employees. For example, one large forestry company in KwaZulu-Natal reduced its employment force from 6600 to 1200 and now is said to be using 35 contractors.

A South African Forestry Contractors Association (SAFCA) was established in October 1989, with offices in Nelspruit and Pietermaritzburg and with a current membership of about 186 contractor firms. The SAFCA provides business and financial advice to its members as well as insurance cover and bulk buying facilities.

The trend towards the use of contractors rather than a permanent workforce is increasing (see Anderson, Thomson and Psaltopoulus, 1993 - for an overview of forestry contracting in northern Scotland). For example, in 1989 in South Africa, forest contractors comprised 19% of the main forestry company's labour force for harvesting. By 1997 this figure had apparently reached 64 %. Other operations - such as transport, silviculture, social and auxiliary services are being contracted own.

The object of this report is to present the trends, issues and impacts of contracted-out operations in the forest sector and to develop options for improving the social, environmental and economic sustainability of forestry operations carried out by contractors. Outsourcing is not only confined to the forestry sector, but to virtually all other sectors. Increasingly workers are retrenched, or find that they no longer work for major companies, but for small forest contractor firms.

1.1 Methodology

Three sources of information were used in writing this report. First, in depth interviews with major growers (four) and a wide range of contractors (ten) took place between February and April 2000. Second, secondary literature review of published and unpublished studies was done. This allowed for the understanding of the forestry sector in general, and for forestry contracting in South Africa in particular. Third, a postal questionnaire was sent to forest contractors who are members of the South African Forestry Contractors Association. A total of 200 surveys were posted to all members of the SAFCA, and a response rate of 15% was recorded. In addition to 30 returned questionnaires, ten interviews were done with contractors and their questionnaires are included in the analysis.

1.2 Key questions for investigation

After interpreting the terms of reference, the following four broad questions were established. These are explored within the contest of the profile, character and dynamics of forestry contracting in South Africa. The questions, which guided this study, are as follows:

- What is the changing political, economic, social and environmental contexts under which forestry contracting is taking place?
- How do actors in the forestry sector relate to each other?
- What is the extent of the tasks and responsibilities carried out by contractors?
- What are the impacts of outsourcing and how does this create winners and losers?
- What are possible and best options of outsourcing?

1.3 Structure of the Report

The report is structured through five main sections. Section one presents the aim and objective of the study. Section two provides a profile of the forestry sector in so far as it relates to out-sourcing. The third section outlines findings of the survey, interspersed with insights, views and opinions drawn from in-depth interviews. Section four contributes a critical assessment of the key evaluation questions outlined in section 1.2. Section five draws out the key findings of the study by also teasing out insights and policy implications.

2 THE FORESTRY SECTOR IN SOUTH AFRICA

The forestry industry has been one of the fastest growing industries in South Africa. The forestry sector is a net earner of foreign exchange. Studies suggest that plantation areas increased by 7.8% per annum between 1980 and 1988, while output increased by 5% per annum. KwaZulu-Natal had the highest rate of new afforestation in the country in the 1980s. In the same period, employment in the sector increased by 10.6% (Goedecke and Ortmann, 1993).

South Africa's forestry and forest products contributed 1.7% of the total GDP in 1994. The estimated capital investment in forestry is estimated at R12 billion. The forestry sector exports more than 35% of its output in value-added form and forestry contractors, who account for a considerable portion of forestry's total costs, are the single biggest component of the value chain (Edwards, 2000).

According to Evans (1992) large South African companies controlling land and numerous saw mills and pulp and paper mills replaced foreign multinational companies in the forestry industry almost entirely. At present, the public sector owns about 27% of all plantations in South Africa and the private sector, comprising of large companies and private growers, 73% of which the companies control about 75%. In the past two decades, the forestry industry has moved towards employing contractors with regard to operations such as transport, felling, harvesting and silviculture. There is increasing evidence, which support the view that contracting in the forestry sector is increasing rapidly. Contracting is often said to have emerged in response to increasing labour costs (Evans, 1992; Goedecke and Ortmann, 1993; and Zikalala, 1992).

3 DATA PRESENTATION

This section provides the findings of forest contractor survey within the context of broad literature reviewed and interviews conducted with growers and contractors. The objective of the survey was to investigate the economic and social characteristics of the forestry contracting enterprises. Although the bulk of this section relies heavily on the survey, use is also made of information provided by key informants ranging from growers, government officials and contractors. Aspects of the overall study presented here focused upon the structure and activities of the contractor sector of the South African forestry industry, in particular its sources of business, employment characteristics, capitalisation and future prospects.

3.1 Location and profile of contractors

Although lists of currently operative forest contractors are maintained by the South African Forestry Contractors Association, which are protected by confidentiality, access to some of forest contractors was facilitated by the General Manager of SAFCA. The nature of sources of information is critical in determining the credibility of that data. Sources of information in this report were largely drawn from high level informants, owners, directors and company managers. The survey was also fairly able to cover a wide range of parts of the country where the majority of contractors are located.

3.1.1 Position held in the company

Table 1 What position do you hold in your company?

Position	Frequency	Percentage
Director	7	18
Manager	3	8
Owner	25	64
Other (e.g. public relations officers and personal assistants)	4	10
Total	39	100

Table 1 suggests that the majority of forest contractors interviewed owned their own contractor companies (64%), or are company directors (18%), some with substantial shareholding. Evidence from the survey suggests that the majority of contractors are run and operated by the owners of the forest contractor firms. However, these owners employ significant number of employees who are frontline workers in the contracting assignments.

3.1.2 Position held by firm classification

Table 2 Position held by firm classification

Forest Contractor Classification	Director	Manager	Owner	Others
	%	%	%	%
Big commercial concern (over R10 million capitalization)	0	100	0	0
Medium commercial concern (R5-R10 million capitalization)	9	0	82	9
Emerging commercial enterprise (R2-5 million capitalization)	42	18	42	0
Small commercial enterprise R100 000 to R2 million capitalization)	8	0	69	23
One person enterprise or less than (R10 000 capitalization)	0	0	100	0
TOTAL	18	8	63	11

Company managers answered surveys sent to the majority of big commercial forest contractors, whereas owners answered the majority of the surveys from one-person enterprise and medium forest contractors.

3.1.3 Firm's location in forestry area

Table 3 In which forestry is your firm located?

	Sample size	Percentage
Western Cape	0	0
Southern Cape	0	0
KwaZulu-Natal	11	27
Zululand area	8	20
Mpumulanga North	12	30
Mpumalanga South	8	20
Northern Province	0	0
Eastern Cape	2	5
Total sample	40	100

There is an uneven distribution of contractors in South Africa. However, it should also be noted that growers are largely located in Mpumalanga and KwaZulu-Natal.

Although 200 questionnaires were sent, no returns were received from the Western Cape, Southern Cape and Northern Province. As such, it is important to note that the findings in this report may not necessarily reflect the whole of South Africa. Moreover, this study suggests that the majority of forest contractors are located in KwaZulu-Natal, Zululand area, Mpumulanga North and Mpumulanga South, with a few also located in the Eastern Cape.

3.1.4 Duration of contractor firm in the market

Table 4 How long has your company been in existence for?

Period	Sample size	Percentage
Less than two years	5	13
Two to five years	7	18
Over five years	26	68
Total	**38**	**100**

The majority of contractor enterprises interviewed had been in business for over 5 years (68%); with only 13% of them having started less than 2 years ago.

3.2 Status and classification of the enterprise

There are several ways to classify forest contractors: either through the legal status, capitalisation value, or annual turnover.

3.2.1 Legal status

Table 5 How would you classify your company in terms of the legal status?

	Sample	Percent
Pty. Ltd	6	16
Close Corporation	27	71
Partnership	1	3
Business Trust	1	3
Proprietor	2	5
Other	1	3
Total	38	100

The number of contractors who have registered their enterprises as legal entities appears to be high. The majority of forest contractors are registered as close corporation (71%), with 16% registered as private limited companies. Only a few forest contractors are registered as partnerships, business trusts or self-proprietors. The high levels of registration of contractor firms as close corporations is associated their ease of administration and less cumbersome regulations unlike private companies. The high registration may also be associated with the requirements by growers to want to work with forest contractors who have legal documentation. As close corporations are immediately registered for tax when members apply, the implications are that increasing forestry contracting is likely to lead to further generation of revenue for the South African Revenue Service. Some black owned contractors suggest that growers and companies tend to overlook them and offer less lucrative contractors to white contractors. Apparently, a significant number of black forest contractors are not registered and often work in partnership with white forest contractors.

3.2.2 Contractor firm classification

Table 6 How would you classify your enterprise?

Classification	Sample size	Percentage
Big commercial concern (over R10 million capitalization)	1	3
Medium commercial concern (R5-R10 million capitalization)	12	31
Emerging commercial enterprise (R2-5 million capitalization)	12	31
Small commercial enterprise R100 000 to R2 million capitalization)	13	33
One person enterprise or less than (R10 000 capitalization)	1	3
TOTAL	40	100

Another way to classify contractors is by considering current capitalization value of their firms. The size of forest contractors range from big commercial concerns to one-person enterprise. Capitalization of the enterprises also range from R10 000 to over R10 million. Indication suggests that 65 % of forest contractors have a capitalization of between R2 million and R10 million, with only a minority (3%)

exceeding the R10 million mark. These findings suggest that although contractors are varied in terms of size, they often appear to be viable businesses with high liquidity and capitalization value. Contractors appear to have invested reasonably well in their enterprises with the hope of making some significant returns. These findings also suggest a degree of stability among forest contractors. However, there are also a significant number of black contractor enterprises which have cash flow problems and their capitalization value is very low. Some informants revealed difficulties in raising capital for equipment, and for bias against black contractor firms.

3.2.3 Forest contractor turnover

Table 7 What is your turnover per annum?

Annual turnover	Sample size	Percentage
Below R100 000	0	0
R100 000 - R1000 000	8	21
R1000 000 – R5000 000	16	41
R5000 000 – R10 million	13	33
R10 million +	2	5
	39	100

Another way to categorise enterprises is by using annual turnover. There are also questions about whether contractors are profitable, and the extent of labour exploitation in the forestry sector. The turnover of contractors range from R100 000 to over R10 million per annum. A significant number of forest contractors (41%) have an annual turnover of between R1 million and R5 million. As indicated earlier, contractors appear to have invested in their enterprises, and do have reasonable annual turnover. Only 21% of contractors revealed their annual turnover to be less than R1 million and about 5% of contractors indicated that their annual turnover was over R10 million. Caution should be exercised when discussing these figures however as the majority of small and black-owned forest contractors are not members of SAFCA and their turnover is substantially lower.

Table 8 Contractor classification by turnover

Forest Contractor Classification	R100 000 to R1million	R1million to R5 million	R5million to R10 million	R10 million plus
	%	%	%	%
Big commercial concern (over R10 million capitalization)	0	0	100	0
Medium commercial concern (R5-R10 million capitalization)	8	0	75	17
Emerging commercial enterprise (R2-5 million capitalization)	25	50	25	0
Small commercial enterprise R100 000 to R2 million capitalization)	31	69	0	0
One person enterprise or less than (R10 000 capitalization)	0	100	0	0
TOTAL	21%	41%	33%	5%

100 % of big forest contractor enterprises have a turnover of between R5 million and R10 million per annum, compared with 75 % of medium enterprises, and only 25 % of emerging contractor firms. None of one-person enterprise or small commercial enterprises generates over R5 million annual turnover. There is a positive correlation between annual turn-over and company size or classification. Highly capitalized forest contractor companies (large/big) appear to also have higher annual turnover compared to less capitalized forest contractor firms (small, medium and micro forest contractors.

3.3 Workers and contracting in the forestry industry

Interviews with several stakeholders also indicate that the levels outsourcing have increased in the past decade. The growth of forestry contracting is often associated with increasing job losses in the formal industrial forestry sector. However outsourcing is a world-wide trend, which has affected several other sectors and not just the forestry industry sector. Unions are generally suspicious of the growth of contracting, pointing out, in the words of one trade union poster: *"outsourcing is a recipe for worker displacement, retrenchment and misery".*

3.3.1 Number of people employed, 1995-1999

Table 9 How many employees do you have in your company?

Number employed	1995 %	1996 %	1997	1998	1999
0	0	0	3	0	0
1-100	53	44	44	56	46
101-200	27	44	25	14	16
200+	21	12	28	31	38
Total	100	100	100	100	100

Evidence suggests that the increasing levels of outsourcing are associated with increasing worker retrenchments and job losses. In this study there was an overwhelming majority of contractors who employ workers in their enterprises. Growers previously employed some of the workers. Data confirms that the number of forest contractors employing more than 200 workers has increased from 21% in 1995 to 38% in 1999. The emerging trend is towards employment of huge numbers of people in the forestry contracting sector, though some of the workers in contractor firms are seasonal and not necessarily on full-time employment.

One possible explanation for increasing trend towards the employment of larger numbers of workers within contractor firms is that some of the contractors who started their own businesses were encouraged to start contracting as part of their retrenchment package. A certain number of "victims of retrenchment" ultimately find employment with forest contractor firms.

3.3.2 Employment category

Table 10 What proportion of your employee's fill the following categories?

Category	Less than 10 %	10% to 20 %	21 % to 50 %	More than 50%
Owners	100	0	0	0
Managers	76	3	3	0
Supervisors	76	18	0	6
Skilled (drivers and operators)	35	33	13	20
Unskilled	13	10	77	0

Although owners constitute 64% of the sample size of contractors, evidence suggest that owners only make less than 10% of the entire workforce. The majority of supervisors and managers also constitute less than 10% of the workforce. The majority of skilled and unskilled workers range from 20% to 50% of the total workforce. What emerges from the data is that skilled and unskilled workers constitute the highest number of people in the forestry-contracting sub-sector. The majority of unskilled people is largely black, poor, and is women.

3.4 Transaction costs and the contract

Normally written contracts are entered into between contractors and growers. The contract negotiation period may vary depending on the nature of the contract. Whereas some growers normally have formal standardized contracts, others prefer to negotiate all aspects of the contracts. Some growers believe that a minority of contractors do not meet their contractual obligations, while contractors blame growers for "unfriendly contracts", which are biased. Several instances of contractors battling with contract requirements have been observed in the past decade, and confirmed during interviews.

3.4.1 Services provided by forest contractors

Table 11 What specific services do you get contracts on?

	Sample	Percentage
Harvesting	27	68
Short haul	15	38
Long haul	8	20
Management contract	10	25
Silvi-culture	21	53
Auditing	2	5
Other (e.g. fire fighting and road maintenance)	2	5

In the South African forestry industry, contractors do such work as harvesting, short and long haul, management contract, silvi-culture, auditing and others (e.g. fire fighting and road maintenance). The two most popular services which contractors appear to provide are harvesting (68%) and silvi-culture (53%). Other equally important services include short haul (38%), long haul (20%), management contract (25%) and auditing (5%). Although the services, which forest contractors, provide are wide-ranging, only two are most popular and these are harvesting and silvi-culture

3.4.2 Duration of the contract

Table 12 What is a normal duration for contractual obligation?

Duration	Sample	Percentage
Seasonal	10	27
Less than three years	14	38
More than three years	11	30
Other	2	5
Total	37	100

The duration of a contract can range from seasonal to time specific. The most popular duration of the contract appears to be less than 3 years (38%) followed by contracts of more than 5 years (30%) and finally seasonal (27%). At phase value, the slightly longer contract periods may appear to support a conducive development of small and emerging enterprises as these contractors often battle to find lucrative contracts to get them going. This trend may also be unfairly supporting forest contractors who are already established with a capture market. Small contractor firms appear to land contracts which of less than three years, whereas well-established contractors often land more lucrative contracts which also have a longer duration.

3.4.3 Duration of contract by classification

Table 13 Duration of contract by classification of an enterprise

Forest Contractor Classification	Seasonal	Less than 3 years	More than three years	Other
	%	%	%	%
Big commercial concern (over R10 million capitalization)	100	0	0	0
Medium commercial concern (R5-R10 million capitalization)	30	30	30	10
Emerging commercial enterprise (R2-5 million capitalization)	17	17	50	33
Small commercial enterprise R100 000 to R2 million capitalization)	33	42	25	0
One person enterprise or less than (R10 000 capitalization)	0	0	100	0
TOTAL	28	39	31	3

Popular opinion suggests that big contractors get contracts for a longer period of time. However, it is the majority of emerging contractors with capitalisation value of between R2 million and R5 million, which appears to have longer contracts. Big contractors often get seasonal contracts.

3.4.4 Performance monitoring

Table 14 How is performance in the contract monitored?

Variable	Sample size	Percentage
Penalty or incentive clause	1	3
Output and performance	21	53
Duration	4	10
Regular review sessions	16	40
National Contractors Audit	11	28

The monitoring of contracts is one of the most controversial aspects of outsourcing. There are several ways in which to monitor the performance of contractors. These include a penalty or an incentive clause, output and performance criteria, duration, regular review sessions, and national contractor audits. The two most popular ways in which performance is monitored are output and performance (53%) and regular review sessions (40%).

Table 15 **Performance monitoring by forest contractor classification**

Forest Contractor Classification	Penalty or incentive clause	Output and performance	Duration	Regular review sessions	National contractors audit
	%	%	%	%	%
Big commercial concern (over R10 million capitalization)	0	100	0	0	0
Medium commercial concern (R5-R10 million capitalization)	0	40	20	40	0
Emerging commercial enterprise (R2-5 million capitalization)	0	33	0	67	0
Small commercial enterprise R100 000 to R2 million capitalization)	0	75	0	0	25
One person enterprise or less than (R10 000 capitalization)	0	0	0	100	0
TOTAL	0	50	7	36	7

There are different methods in which performance is monitored for different types of forest contractors. For big (100%) and small (75%) forest contractors, performance is through output and performance. As for medium contractors, they are monitored through output and performance (40%) and regular review sessions (40%). As for one-person-operations, they are normally monitored through regular review sessions.

3.5 Remuneration and other benefits

The majority of workers in the forestry sector are still not unionised due to the particular problems associated with unionisation within this sector. Some of the

3.5.2 Method of remuneration by forest contractor enterprise classification

Table 17 Method of remuneration by forest contractor enterprise classification

Forest Contractor Classification	Salary, pension and health insurance	Contract linked performance
	%	%
Big commercial concern (over R10 million capitalization)	100	0
Medium commercial concern (R5-R10 million capitalization)	36	64
Emerging commercial enterprise (R2-5 million capitalization)	50	50
Small commercial enterprise R100 000 to R2 million capitalization)	36	64
One person enterprise or less than (R10 000 capitalization)	0	0
TOTAL	43	57

Big forest contractor firms tend to employ their workers on a salary, pension and health insurance. On the other hand the majority of small and medium forest contractor commercial enterprises employ their workers on contract linked performance. These differences may be associated with the liquidity of the forest contractors. The more liquid the contractor, the larger the size, and the more annual turnover they get. The smaller the forest contractor-company, the lower the turnover, and the more likely is a contractor to employ workers on a performance-linked contract.

3.5.3 Educational support and other benefits

Table 18 What on-going educational programmes or support do you provide to your employees?

Type of support	Sample size	Percentage
Executive management courses	5	13
Personal management	4	10
Functional management	10	25
Adult Basic Education	10	25
Bursaries and loans to employees	6	15
Secretarial	4	10
Technical	9	23

The majority of forest contractors do not provide additional benefits. A third of forest contractors provides executive management courses, personal management, functional management, adult basic education, bursaries and loans to employees, secretarial and technical courses. The three most popular forms of support are functional management, adult basic education and technical courses. With the implementation of the Skills Development Act, several forest contractors will now be obliged to provide skills through structured training courses for their employees.

3.5.4 Wages per occupational category

Table 19 What is the average wage of the following occupational classes per month in your enterprise?

Category	R1-R250	R251-R500	R501-R1000	R1001-R2000	R2001 - R3000	R3001+
Manager	0 %	0 %	0 %	6 %	12 %	82 %
Supervisor	0 %	0 %	15 %	60 %	15 %	15 %
Skilled	5%	0 %	32%	47%	13%	3 %
Semi-skilled	0 %	18%	68%	5%	8%	0 %
Other	0%	42%	37%	16%	5%	0%

There are vast differences between what managers earn compared to unskilled workers. Managers and supervisors earn significantly more money than any other occupational categories in the forestry-contracting sub-sector, apart from owners. More than 82% of managers earn R3001 per annum, with 60% of the supervisors earning between R1001 and R2000 per month. Some 47% of skilled workers earn between R1001 and R2000, with only 3% of them earning over R3000 per month. The majority of semi-skilled workers (68%) earn between R501 and R1000 per month, with 8% of semi-skilled earning more than R2000 per month. The survey suggests that supervisors and managers tend to earn higher salaries than the skilled and unskilled labour force. Significant numbers of unskilled workers earn below poverty datum line wages and the majority of them are even not unionized. The low wages given to workers has become a mobilization strategy on the part of trade unions. In several cases contractors are said to even pay less wages than forestry companies.

3.5.5 Average wage of skilled by size of enterprise

Table 20 Average wage of occupational class by size of enterprise

Average wage of skilled workers by enterprise classification	R0-R500	R501-R1000	R1001-R2000	R2001-R3000	R3001+
	%	%	%	%	%
Big commercial concern (over R10 million capitalization)	0	0	0	0	100
Medium commercial concern (R5-R10 million capitalization)	0	9	82	9	0
Emerging commercial enterprise (R2-5 million capitalization)	9	18	36	36	0
Small commercial enterprise R100 000 to R2 million capitalization)	8	44	44	11	0
One person enterprise or less than (R10 000 capitalization)	0	100	0	0	0
TOTAL	5	32	46	14	3

Wages paid by forest contractors are generally low. Even among skilled workers only 17% of them earn more than R2000 per month, and the overwhelming majority earn less than R2000. In fact 37 % of skilled workers earn less than R1000 per month. Disaggregating data by size of forest contractors reveals further important insights. Only 11% of skilled workers employed by small forest contractors earn more than R2000 per month, compared to 72% of skilled workers employed by emerging forest contractors. The majority of skilled workers employed by big forest contractors earn higher salaries, in some instances over R3000 per month. However, only 3 % of total skilled work force earn in excess of R3000 per month and big forest contractors almost exclusively employ these.

3.5.6 Proportion of disabled, women and historically disadvantaged

Table 21 What proportion of your labour force is the following?

	Disabled %				Women %				Historically disadvantaged %			
	>10	10-50	<50	none	>10	10-50	<50	none	>10	10-50	<50	None
1999	43	3	3	50	9	47	32	12	0	3	76	21
2000	51	3	3	43	8	45	32	16	5	3	71	21

The survey suggests some vital insights in terms of the employment of the disabled, women and historically disadvantaged. The proportion of employment for the disabled is less than 6%, and this has not improved in the past decade. The employment of women in the forestry-outsourcing sector appears to be fairly reasonable. For example, forty seven percent (47%) of the companies indicated that between 10% and 50% of their workforce is female. Some contractors revealed that women are exceptionally reliable as workers as opposed to men and the disabled.

It seems that historically disadvantaged persons, are the beneficiaries of employment within forest contractor firms. Over 70% of contractors indicated that they draw their labour force from the historically disenfranchised, especially Africans. As the majority of workers is largely unskilled and earns low income, it is not surprising that workers are drawn from the majority of Black people.

3.6 *Awareness of the Changing Legal Framework*

South Africa has undergone significant political transformation which have major ins and outs associated with the unfolding economic social and environmental context. Familiarity with key aspects of the new environment can shed light on our understanding of contracting within the forestry sector.

3.6.1 Comparing levels of awareness of legislation

Table 22 Are you aware of the following legislation?

Category	Sufficient and adequate	Very much aware	A bit acquainted	Not much	Never
	%	%	%	%	%
Labour Relations Act	32	38	19	5	5
Employment Equity	28	25	22	14	11
Skills Development Act	31	25	22	14	8
Constitution of South Africa	31	11	26	23	9
Competition Act	26	14	9	23	29

Asked whether forest contractors were aware of various legislative measures in South Africa, interesting insights emerged. Awareness of the Labour Relations Act, Employment Equity Act and Skills Development Act were fairly high among forest contractors, in all cases awareness ratings were over 56% of respondents. It is only the Competition Act, which does not appear to be well known among contractors. A higher degree of familiarity with the changing legal framework bodes well for the new political and economic context. However, there are a number of contractors who believe that the current legislation is too cumbersome and has negative impacts against them. During an interview with one contractor, one key informant said:

> *Contractors do not have knowledge of the new laws, Acts etc. We have technical knowledge. We do not employ lawyers, researchers, doctors or nurses. We are one-man operators.*

The newly established SETA for forestry is likely to play a much more important role in through educational support, and research. In addition, the launching of the Forestry Contractors' Productivity Initiative is likely to be welcome by contractors. Part of the Initiative's core business will be training and skills development focusing on business principles, negotiating skills, financial skills and equipment management.

3.6.2 Awareness of Labour Relations Act

Table 23 Awareness of Labour Relations Act

Awareness of Labour Relations Act	Sufficient and adequate	Very much aware	a bit acquainted	not much	never
	%	%	%	%	%
Big commercial concern (over R10 million capitalization)	100	0	0	0	0
Medium commercial concern (R5-R10 million capitalization)	50	20	20	0	10
Emerging commercial enterprise (R2-5 million capitalization)	25	58	8	8	0
Small commercial enterprise R100 000 to R2 million capitalization)	25	33	33	8	0
One person enterprise or less than (R10 000 capitalization)	0	100	0	0	0
TOTAL	33	39	19	6	2.8

The levels of awareness of the Labour Relations Act appear to be high. However, it is big forest contractors who appear to have sufficient and adequate understanding of the Labour Relations Act. Over 41 % of small forest contractors "are a bit acquainted, or not much" understanding of Labour Relations Act.

3.7 Extent and levels of outsourcing within contractor firms

Some forestry companies promote sub-contracting as a way of exposing black and small forestry firms in to business. Whereas growers enter into contract with forest contractors, some of the latter also sub-contract some of the work to third parties. However, the majority of forest contractor firms are not engaged in sub-contracting are huge. One contractor who was opposed to subcontracting said: *"I believe a contractor should not outsource, if he cannot do the job, let some one else do it."*

3.7.1 Subcontracting

Table 24 In your enterprise what is the proportion of sub-contracting?

	Frequency	Percentage
0 %	29	73
1-25%	11	27
Total	40	100

Outsourcing and subcontracting have recently become controversial phenomena and are often subject to acrimonious debates between growers, contractors, and trade union organizations. Evidence in this study suggests that there is no significant sub-contracting among forest contractors. The majority of contractors (73%) revealed that they do not sub-contract their services: only 27% suggested that they occasionally outsource some of their work to sub-contractors. This finding should however be interpreted with caution, as forest contractors do not often see occasional or seasonal labour as one way of sub-contracting.

3.7.2 Proportion of subcontracting

Table 25 What proportion of your services do you sub-contract?

Year	0	1-25	26+
	%	%	%
1996	87	10	3
1997	80	17	3
1998	77	23	0
1999	67	30	3
2000	63	34	3

Although, levels of sub-contracting appear to be low, a trend is emerging to suggest that forest contractors are shifting gear towards sub-contracting. As evidence, one can point out those forest contractors, which are not involved in sub-contracting decreased from 87% in 1996 to 63% in 2000. In the same vein, contractor companies indicating that up to 25% of their work was outsourced increased from 10% in 1996 to 34% in 2000. Analysis points outs that levels of sub-contracting though still low, are gradually increasing.

3.7.3 Process of subcontracting

Table 26 What is the process which you use when you sub-contract?

	Sample size	Percentage
Go out on tender	6	15
Contact the South African Forestry Contractors Association	2	5
Head-hunt people and help them establish their enterprises	5	13
Use database of preferred contractors	3	8
Consult and involve communities in the process	8	20

For those forest contractors which sub-contract, tendering and head hunting appear to be popular. However, at times the South African Forestry Contractors Association is consulted, or use is made of databases of preferred contractors. There are also other times when there is consultation and involvement of communities in the process. This may be largely at the level of procuring labour rather than a typical sub-contracting process.

3.7.4 Ranking features when looking for subcontracting

Table 27 Rank the following characteristics in their order of importance; you are looking for when making a decision about selecting a sub-contractor?

Characteristics	Very important	Important	Essential	Not important	Not an issue at all
	%	%	%	%	%
Professionalism	73	18	9	0	0
Lowest cost provider	15	40	25	20	0
Empowerment and potential	16	47	21	5	11
Government regulations	25	35	25	10	5
To focus on core business	26	37	26	11	0
Local knowledge of the market	26	53	11	11	0

When asked to rank characteristics they are looking for when making a decision about selecting a sub-contractor, the overwhelming majority of forest contractors indicated 'professionalism' as either important (18%) or very important (73%), followed by local knowledge of the market as either important (53%) or very important (26%). Data suggests that there is a process underway which contractors observe in outsourcing some of their work. The majority of forest contractors generally follow agreed procedures in subcontracting their services, however, others rely on unwritten contracts or informal contracts which often result in unnecessary conflicts.

3.8 *Benefits of Outsourcing*

Various actors within the forestry industry see some of the benefits of outsourcing as:

- An opportunity on the part of companies to promote empowerment of emerging contractors
- The creation of jobs, especially for retrenched workers
- Way to cut costs on the part of big business, as contracting has a potential to make savings
- allow for companies to focus on core business
- improve efficiency and respond to product demand much quicker

3.8.1 Benefits

Table 28 What do you consider to be the benefits of out-sourcing services?

Variable	Very important	Important	Not important
	%	%	%
Empowerment of emerging contractors	25	64	11
Creation of jobs	39	47	14
Cut costs for big enterprises	35	52	14
Follow global trends	24	52	21
Allow for companies to focus on core business	59	38	3
Improve efficiency	79	14	7

The survey further confirms the benefits identified by key informants:

- 89% of contractors saw the benefits of outsourcing as empowerment of emerging contractors
- 86% saw the benefits of outsourcing as a means to create jobs.
- 87% believe that outsourcing is a way to cut costs for big business.
- 93% felt that contracting improves efficiency and
- 97% as a way to allow for companies to focus on core business.

Although from the point of view of forest contractors there are several benefits associated with outsourcing, trade unions are generally very reluctant to support this growing trend. For growers, outsourcing is one way to cut costs and improve efficiency. Those forest contractors who have captured the market are quite happy with their new found tasks and responsibilities. In the words of one contractor, *"we meet targets in crisis situations in the mills".*

3.9 Role clarification and the future of forestry contracting in the

The changing economic and political context in South Africa suggests that the role of different actors have been altered in more fundamental ways.

3.9.1 Roles

Table 29 What do you consider to be the role of the following?

	Regulation	Promotion and education	Marketing	Job creation
	%	%	%	%
SETA (Sector Education Training Authority)	23	63	0	13
Government	56	6	6	32
Private sector	0	24	30	45
Civil society	13	30	0	53

Clarification of the roles of different actors in the forestry industry is critical to avoid confusion, and duplication. Contractors suggested that:

- The role of the Section Education Training Authority (SETA) should be promotion of contracting and provision of educational support (63%),
- Government's role is seen as that of legal regulation of the forestry sector in general, and forestry contracting in particular (56%),
- Contractors believe that the role of the private sector is to create jobs (45%)

- Interestingly enough, contractors believe that the civil society – broadly defined – should also focus on creating jobs.

The views of contractors do not differ with the framework provided for in the White Paper on Sustainable Forestry, and also in the National Forestry Action Programme which government adopted in 1997. The challenge is to ensure that these are properly communicated to different actors within forestry contracting sub-sector.

3.9.2 Role of the forestry Sector Education Training Authority

Table 30 Role of the forestry Sector Education Training Authority

Role of forestry SETA	Regulation	Promotion and education	Job Description
	%	%	%
Big commercial concern (over R10 million capitalization)	0	100	0
Medium commercial concern (R5-R10 million capitalization)	25	63	13
Emerging commercial enterprise (R2-5 million capitalization)	25	63	13
Small commercial enterprise R100 000 to R2 million capitalization)	18	64	18
One person enterprise or less than (R10 000 capitalization)	0	100	0
TOTAL	21	66	14

The overwhelming majority of forest contractors believe that the role of SETA should to promote forestry contracting and educational support (66%). Only 14 % of forest contractors believe that the role of SETA should be job creation, and 21 % felt that the role of SETA should be regulation. Evidence suggests that there is high expectation that the recently established SETA for forestry will promote the forestry industry in general, but also forest contracting in particular.

4 A CRITICAL APPRAISAL OF CONTRACTING IN SOUTH AFRICA

4.1 *Five key messages*

There are five critical messages, which are important in understanding forestry contracting in South Africa. The first message is that that the quality of services provided by contractors varies. Both forestry companies and workers, have experienced the following problems:

- The poor quality of work provided by some forestry contractors due to lack of equipment or experience, or due to them employing workers without necessary skills.
- Failure to adhere to accepted operating standards and occupational health and safety standards. One grower suggested that "some subcontractors are not competent, reliable and trustworthy". Another grower claimed that "contractors are not competent of doing the work. Most of them do not oblige to normal rules and regulations".

  payment of low wages to workers employed by contractors
- lack of job security among workers employed by contractors
- social problems in some of the forest villages
- lack of worker benefits such as pension provisions, maternity leave and health care

The second key message is that there are some initiatives (albeit still in adequate), which have been set in place to deal with some of the emerging problems:

- Establishment of the South African Forestry Contractors Association (SAFCA), whose members include the main contractors. SAFCA operates a grading system, reflecting the quality of work of each individual member; it negotiates group rates on insurance; and it facilitates access to training services. SAFCA has come to play a critical and much needed role, which has come to be appreciated by forest contractors.
- Some companies are working at improving the standard of contractor work by selecting contractors according to quality of work, requiring compliance with company occupational health and safety standards, and pressing for improved skills and equipment. Some of the selection procedures have come to be rejected by small and black forest contractors who believe that growers tend to be biased

against them. Some black forest contractors claimed that "racist attitudes among growers are undermining us". There are allegations of a lack of commitment on the part of growers to ensure that black companies do not succeed. Apparently, black contractors are treated unfairly and given the most difficult but financially unrewarding tasks. One black contractor said *"We would like to be recognized as contractors like white people are. We must be treated with dignity and respect"*

The third message is that major forestry companies have developed comprehensive policies for managing their relationships with contractors. These policies vary from company to company and they are somewhat implemented intrinsically in a differential manner. It is this differential application of the policies, which is seen by some small and black forest contractors as unfair and dis-empowering.

Fourth, contractors tend to employ labour-intensive methods. The trend for contracting has probably helped to maintain employment levels in the industry. This message is evident in this study which suggests rising number of workers employed. Although the employment of women has increased in the past decade among forest contractor firms, that of the disabled has not. In fact some contractors boasted that *"this work requires able bodied persons, it is not charity but business"*.

The fifth message is that forestry contracting offers an important avenue for creation of new black enterprises in rural areas, of which some have become established. The promotion of small business is an important part of South Africa's national economic strategy. However, satisfactory working conditions and human resources management must be achieved if these businesses are to be sustainable. Fostering new enterprises is a government priority, but there is a concern that this may affect the position of trade unions in collective bargaining.

Black contractors face certain constraints such as lack of skills, experience required and of access to capital in order to penetrate the contracting market. Approaches being persued by the South African Forestry Contractors Association and some of the big companies to address these constraints include introducing black entrepreneurs initially as subcontractors. Black entrepreneurs have emerged in larger numbers among the smaller contractors working with private tree growers.

Small black contractors are also an increasing presence as suppliers of wood to the timber marketing cooperatives and in the fuelwood trade. Small independent contractors have also taken on much of the planting and harvesting on farm woodlots on small farms in KwaZulu-Natal. These contractors are locally based and operate on a very small scale- a chain saw, a truck and a small number of employees. Access to funding and other resources provided by Ntsika and Khula has not improved among small and black forest contractors. Difficulties which small and black forest contractors encounter are not only limited to the forestry sector, but to other sectors in South Africa.

4.2 Main findings and implications

4.2.1 What is the changing political, economic, social and environmental contexts under which forestry contracting is taking place?

The extent, nature and direction of contracting are nebulously linked to the worldwide process of globalization. Outsourcing is increasing in almost all sectors throughout the world. Although in general the process may appear to be transnational, unique political and economic forces to some extent shape this process. Within the context of South Africa, outsourcing has now been singled-out by government as an important strategy used to transform the state and the public service. The new government in South Africa has set in place legal instruments to deal with outsourcing. What still lacks is convincing evidence that the benefits are shared evenly. In sum, the increasing levels of forestry outsourcing in South Africa happens within the context of changing global and political relations, backed by an array of legislative measures established to deal with various aspects of South Africa's transition. South Africa's transition from apartheid to democracy coincided with the move towards outsourcing in both public and private sectors (Hassen, 2000).

4.2.2 How do actors in the forestry sector relate to each other?

Four broad categories of actors can be distinguished. First, growers are an important actor in forestry contracting. The second category is forest contractors. The third type of actors is workers and trade unions. The fourth category of actors is communities who live in forestry plantations. In the last category we can include researchers and activists who fight for a better deal from growers, contractors and the state to ensure that the restructuring process taking place within the forestry sector does not negatively impact communities.

The relationships between various actors vary from adversarial to co-operation. Some growers applaud the new relationship between them and contractors. In the words of one grower, *"there is now more efficient forestry operations via contractors"*. But growers and contractors do not have an "eternal honeymoon"; in fact this relationship *is "likened to a marriage of convenience"*. In the words of one grower, "*when we conclude a contract with forest contractors, professionalism is very high on our agenda"*. In the same vein, "*contractual obligations are now linked to our grading system as an incentive*", declared another grower. Some growers, on the one hand, appear to be unhappy with the quality of some of the contract work performed by some contractors. On the other hand, some contractors indicated that the period of payment is not conducive to the development of the emerging contractor sector. One black forest contractor, for example, complained bitterly of having "to wait for several moths before payment for work done was made". In fact, there is contestation about the very nature and content of contracts.

Workers in forest contractor firms do not adequately enjoy the protection enshrined in the Labour Relations Act. Unionization appears not to have successfully made inroads within forest contractor firms. Unions appear to be negative about the increasing levels of contracting (Zikalala, 1992). On the other hand growers appear to see the development of a vibrant contracting sector as one way of *"reducing costs, and to allow us (contractors) to focus on core business"*.

Some forest contractors suggested they have limited scope to improve the use of resources and to be more productive, since they can only do as much work as is given to them by foresters. They are furthermore forced to underbid impossibly low quotas to get the work.

The impact of forestry contracting on communities living in forest areas also varies. At times when workers are retrenched they no longer enjoy the benefits which they may have had when they were in the employ of the growers. In other cases, growers have negotiated deals, which appear to benefit them, especially in areas where land is allocated to communities. The challenge is to ensure that some of the negative aspects of contracting are minimized, and benefits maximized. Some research organizations appear to play a crucial role in this regard.

4.2.3 What is the extent of the tasks and responsibilities carried out by contractors?

In the South African forestry industry, contractors do work such as felling, plantation and transportation, for example (Evans, 1992). There are instances where companies allocate jobs in difficult terrain to contractors because costs are lower. Contractors can attain economies of size in certain specialized areas and also do not have to meet high international labour standards. Another reason for employing contractors is that of industrial relations. All major companies in South Africa deal with unions, whose demands cause increases in production as well as transaction costs. In some instances the employment of contractors tend to circumvent this concern.

Forest contractors also work in the area such as management, supervision, finance, environmental issues, security, fire-fighting and industrial relations. Major growers often employ contractors and also their own labour because their own labour provides informal insurance against risk of not acquiring timely contractors in times of high product demand.

4.2.4 What are the impacts of outsourcing and how does this create winners and losers?

There are hundreds of thousands of people who live in forest communities in South Africa. They seldom have security of tenure, have little access to health education services, are far from services of towns, and are dependant for their survival on the land they do not own. These are the communities which often get marginalize through the contracting model.

Increasing levels of outsourcing are associated with rising job losses and retrenchment in almost all sectors. The winners appear to be the majority of growers and some workers who ultimately set up contracting enterprises. Growers are now able to reduce costs, but in some instances there is no guarantee that the quality of services from contractors will now necessarily be better. A minority of workers who are winners are those who are provided with adequate resources and conditions to start their own businesses. However, it is only a few workers who manage to start and run successful businesses on their own.

The real losers are the majority of workers who are unable to find alternative employment, or who secure employment. Large companies say they encourage outsourcing in order to focus on core business. Initially workers experience little changes. As there is no requirement for those terms to be maintained indefinitely, over time workers find that their wages are lowered in real terms, that accommodation standards and schools are not maintained. Other workers ensure lowered wages from the start. Wages in contractor firms can be 50% or more below the level paid in the major companies (Evans, 1992).

Situations often get worse if retrenched workers lived in the forest areas and are now expected to vacate the land and relocate elsewhere. Not only are their sources of livelihood curtailed, but are also thrown in the abyss of despair.

4.2.5 What are possible and best options of outsourcing?

With the forestry restructuring taking place, there are several opportunities, which can benefit and dis-benefit different actors. Consequently, winners and losers emerge in the scene, with various capacities to respond to the newly found situation.

Table 31 What should be done to improve productivity, competitiveness and efficiency of outsourcing in South Africa?

	Very important	Important	Essential	Not important	Not an issue at all
	%	%	%	%	%
Provide training to contractors	61	21	15	3	0
Increase number of contractors	3	6	6	38	47
Regulate contractors	18	30	33	9	9
Limit the number of contractors	13	23	23	26	16
Provide information to contractors	52	24	21	0	3

The survey also provided an opportunity for contractors to suggest ways to improve productivity, competitiveness and efficiency of outsourcing in South Africa. The areas include:

- training of contractors
- numbers of contractors
- regulation
- information dissemination

The training of contractors is seen as a critical area for improvement. An overwhelming majority (82%) of forest contractors indicated that training should be provided to contractors. A noticeable number of contractors felt that it was not important to increase or limit the number of contractors. Some 76% of contractors saw the provision of information as critical for their growth and competitiveness. Two important insights can be teased out here. First, there is a need to provide training to contractors. Second, there is a need to provide adequate and relevant information to contractors. Although the South African Forestry Contractors Association provides these services, contractors felt that there is a need for improvement.

Table 32 The importance of the provision of training to contractors

Importance of the provision of education to forest contractors	Very important	Important	Essential	not important
	%	%	%	%
Big commercial concern (over R10 million capitalization)	100	0	0	0
Medium commercial concern (R5-R10 million capitalization)	60	30	10	0
Emerging commercial enterprise (R2-5 million capitalization)	56	22	22	0
Small commercial enterprise R100 000 to R2 million capitalization)	58	17	17	8
One person enterprise or less than (R10 000 capitalization)	100	0	0	0
TOTAL	60	21	15	3

complex sub-sector of the forestry sector. The importance of provision of information about the sector has been emphasized, so has the need to relevant training for contractors. The merit and demerits of contracting should continuously be reviewed. Contracting is here to stay, and the importance of understanding the economic, political and environmental context under which it operates should be understood within the context of South Africa in transition.

There is a need to develop a human resource development strategy for forest contractors. This could be linked with the mandate enshrined in the Skills Development Act. This study has also demonstrated the need for a systematic provision of information on forestry contracting. The challenges facing forestry contracting requires a systematic documentation of the changing character and profile of contractors in the forestry sector. This would allow various actors to respond to the challenges from a position of knowledge. A regular survey of the changing dynamics of forest contractors in South Africa will be invaluable.

The findings of this study point to a need for short, medium and long term strategies. In the short-term, contractors should improve levels of wages. However, small and medium forest contractors are unlikely to do so in the absence of lucrative contracts, which offer better opportunities. As for growers, in the short-term they could continue to expand their services to small and emerging contractors and not only focus on well-established forest contractors. The medium-term objectives could be the provision of loans/capital, and relevant educational programmes to forest contractors. The long-term objectives should focus on creating sustainable partnerships.

However there is emerging a vocal chorus of voices who argue that the contracting model is not the panacea it is often made to be. The management of contract requires skilled regulators, adequate legal frameworks and effective monitoring systems. Current capacity in all these areas is extremely limited.

6 REFERENCES

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