

Title: The Impact of HIV / AIDS on the Forestry Contracting Sub-Sector and the Implications for Broad Based Black Economic Empowerment in South Africa

Author: J.C. Steenkamp

Extended Abstract:

1. Introduction

The first specific reference to HIV and AIDS as a possible constraint in the forest industry were raised by the former Forest Owners Association (currently Forestry South Africa) in a circular dated 5 September 2001. (FOA, 2001).

Forestry work is labour intensive by nature, but there is substantial scope for more mechanization in the industry. The forestry contracting sub sector employs in excess of 32600 employees in rural areas significantly affected by HIV and AIDS.

HIV and AIDS, the Sectoral Wage Determination and the Forest Sector Broad Based Black Economic Empowerment (BBBEE) Charter are major social and economic factors in the South African Forest Industry.

The total HIV infection rate sampled from forestry contracting workers over a three year research period from 2002/2003 to 2004/2005 increased from 32.34% to 34.15%. The highest infection rates were recorded amongst skilled and semi-skilled worker groups. This will have an adverse influence on the economic viability of contracting entities and BBBEE.

There are three main challenges facing the contracting sub-sector.

2. A lack of suitable Human Resources.

Contributions to BBBEE are focused on ownership, management control and human capital development (skills development). Ownership, management and (general) human capital development requires formal education and time to gain experience (commonly referred to as mentorship). The forest industry is not perceived to be a very attractive industry to individuals from a status point of view. The current employees in the industry show low business / entrepreneurial potential to develop into sustainable forestry contractors. (Glen Michael and Associates: 2005)

2. A lack of financial resources in the contracting sub-sector.

The sub-sector is exposed to both high business risk due to the structures and culture in the industry as well as high financial risk due to the high levels of debt financing. The sub-sector is subject to high risk and low returns, thus inhibiting BBBEE development. Debt and equity investors are reluctant to invest in the sub-sector as there is an imbalance between risk and return that is well documented in the popular forestry magazines. The cost of antiretroviral drugs is prohibitive as it varies between 20% and 85% of wage payable while net margins are between 3% and 5% for contracting. (Crickmay: 2004)

3. The effect of HIV and AIDS.

The most severe effect of HIV and AIDS is registered for skilled workers, semi-skilled workers and females. These are the categories that are generally responsible to sustain productivity and these categories should be the primary human resource to achieve BBBEE requirements set by the S.A. Government. The effect of HIV and

AIDS on productivity is extremely adverse due to absenteeism and a sub optimum physical and mental state.

The cost of mitigating HIV and AIDS was reported to be approximately \$25 per person per month. Due to HIV and AIDS being declared a non notifiable disease in South Africa, it is not possible to focus interventions on infected people only and hence the costs of interventions are “loaded” by people not infected by HIV. The cost to mitigate HIV and AIDS successfully in the contracting sub-sector is estimated at \$600 000 per month or \$7.25 million per year (approximately 7% of their total annual earnings) based on the assumption that 75% of a labour force of 32600 receives the comprehensive mitigation package (nutritional supplements and awareness / wellness programs). This excludes antiretroviral therapy.

HIV and AIDS are causing a shortage of skills in the industry while BBBEE requires skills beyond the normal level for empowerment purposes. Training and education interventions should receive due attention. Figure 3.1. indicates skills erosion and illustrates the effect of HIV and AIDS on empowerment and skills development.

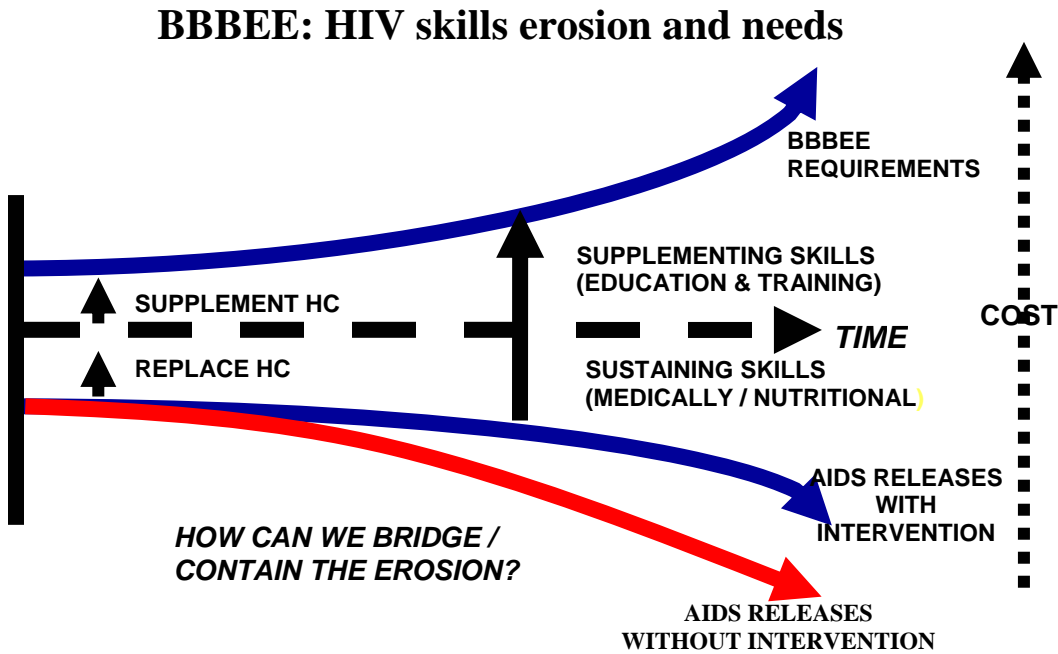


Figure 3.1.

AIDS deaths have just entered the exponential growth phase and major impacts should be expected within the next 10 years if mitigation measures are not implemented timeously and successfully.

HIV and AIDS: the next few years

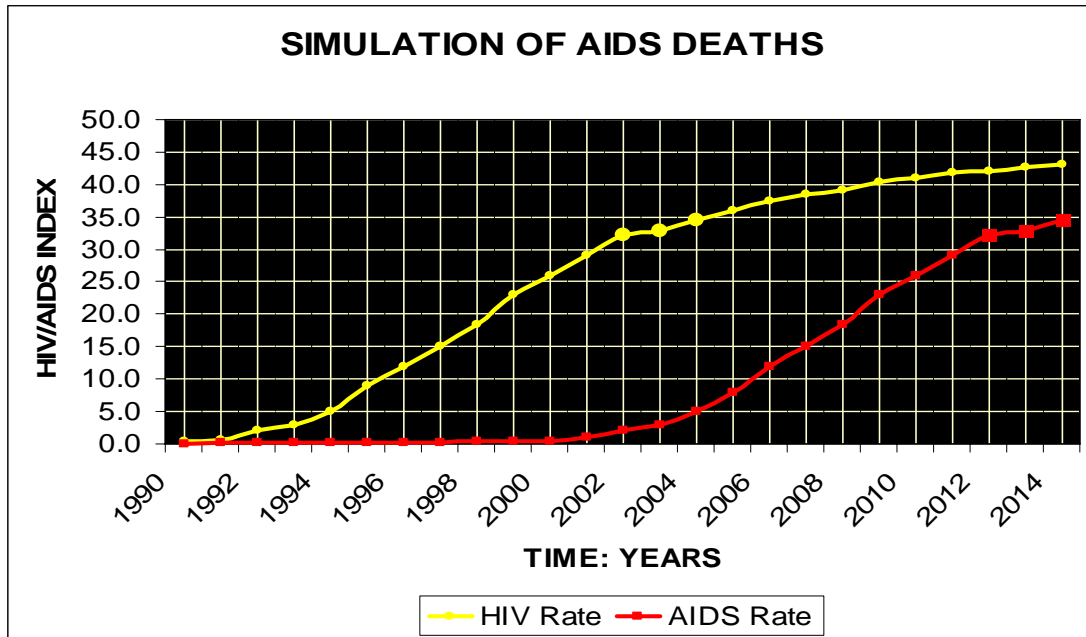


Figure 3.2.

Further constraints in the contracting sub-sector include:

4. The excessive escalation in labour costs as opposed to capital costs.

Contractors are subject to a Forestry Sectoral Determination on wages. The combined effect of higher wages and lower productivity caused labour costs to escalate far more rapidly than the cost of capital equipment, thus making mechanization more attractive. HIV and AIDS is aggravating the situation as it is perceived that smaller numbers employed translates to less exposure to the effects of HIV and AIDS while mechanization is expected to improve productivity.

BBBEE and sustainable viability in the forest sector and especially the contracting sub-sector will face serious challenges due to HIV and AIDS in combination with the other constraints cited. Sustainable BBBEE will call for a comprehensive intervention that will be dependant on sufficient monetary resources and time allowed to address skills development in the industry and contracting sub-sector.

5. Conclusion

The scarcity of suitable human resources in the forest industry is a constraint to BBBEE, aggravated by HIV and AIDS. The mitigation of HIV and AIDS is costly and all costs cannot be borne by the industry without jeopardizing economic viability. Government interventions can play a significant role in sustaining jobs and economic viability in the industry.

It can be expected that the pace of mechanization, a re-adjustment of the labour to capital ratio, will accelerate in the near future with subsequent job losses and the adverse effect of HIV and AIDS will escalate in the medium term.

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1. Glen Michael & Associates (2004). Strategy for Broad Based Black Economic Empowerment in the Forest Contracting Environment. Unpublished report. Johannesburg
2. FOA (2001). *FOA Circular HR2/2001*, 5 September 2001. Johannesburg
3. Crickmay & Associates (2004). Contractor Upliftment Program 4th Quarter 2004 (CUP Report). Pietermaritzburg: Crickmay & Associates (Pty) Ltd.