LEARNER GUIDE

Institutional Orientation

Level 3

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Title:		**Outline the Legal Environment of a Selected Industry**					
Applied Title:		**Outline the Legal Environment of an Agricultural Business in the Citrus Industry**					
Field:		Field 03 - Business, Commerce and Management Studies					
Sub-Field:		Office Administration					
SETA (SGB):		Administration					
Skills Area:		Institutional Orientation					
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citrus research international

Supported by:

Citrus Growers Association

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Directions

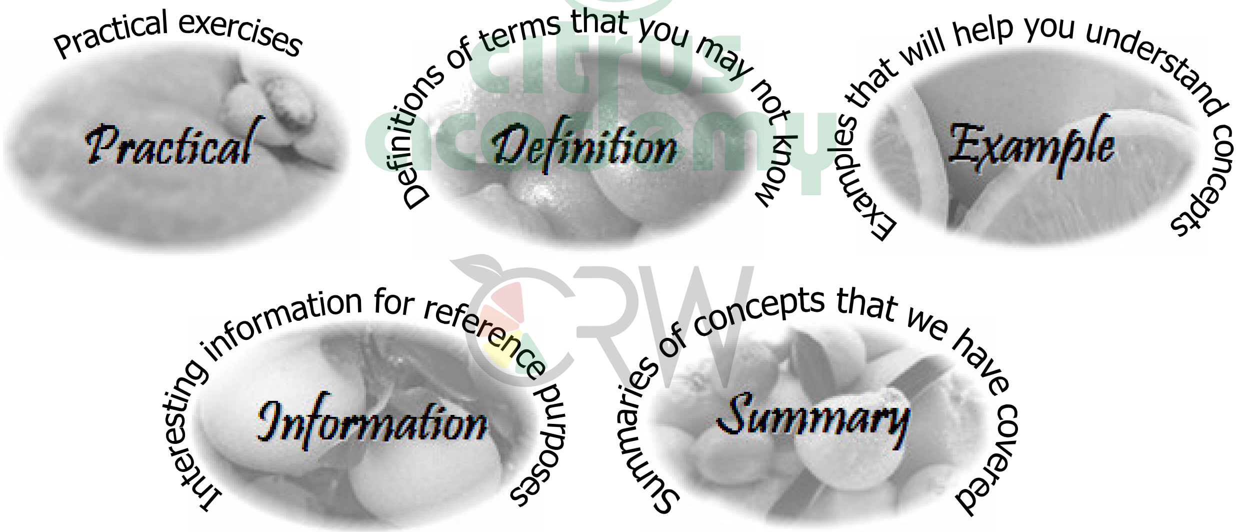
This learning material has been developed to assist the learner wishing to complete this unit standard. The guide contains all necessary learning to ensure that the learner will attain the competencies required by the unit standard.

The learner guide is accompanied by a Learner Assessment Guide. Please ensure that you have access to this guide as well.

The learner guide was designed to be used by a learner during the presentation of a skills program based on the unit standard, and to be kept afterwards by the learner for reference purposes. The learner assessment guide was designed to be completed during and after the presentation of the skills program, and forms part of the assessment process.

Although this learner guide contains all the information required for attaining competency in this unit standard, references to additional resources, both printed and electronic, are provided for further study by the learner.

Information in boxes is indicated by tags that show:



Introduction

1. Purpose

This unit standard provides a broad introduction to the legal environment of a selected business sector.

The qualifying learner is capable of:

- Identifying the statutory elements in the structure of an organisation in a selected business sector and describe the structure of such a company.
- Explaining how their business sector is regulated and know the main points of the legislation that apply to the industry.

2. Learning Assumed to Be in Place

It is assumed that the learner has successfully completed the unit standards listed below:

NQF Level	***Unit Standard Number***	***Unit Standard Description***
NQF2	Literacy and Numeracy	

Chapter 1

The Business Environment in South African

This chapter addresses the following specific outcomes:

Identify the statutory elements in the structure of an organisation in a selected business sector
Describe the structure of an organisation within their own business sector

1. Introduction

To understand what is expected from you in the business world, it is very important to understand where and how the citrus industry fits into the bigger picture of business in South Africa. In this chapter, we look at the business sectors in South Africa and the role that each plays, and at the challenges that face South African businesses in general, and citrus growers in particular.

2. Business Sectors in South Africa

Businesses in South Africa can be grouped into three different major sectors, each of which can in turn be grouped into smaller commodity or commerce-related sectors. The three major sectors are:

- The primary sector
- The secondary sector
- The tertiary sector

The diagram below sets out the three major sectors of the economy.

The South African Economy

Primary Sector

- Mining
- Fishing
- Forestry
- *Agriculture*

Secondary Sector

- Construction
- Manufacturing
- Electricity, Gas and Water Supply

Tertiary Sector

- Finance
- Wholesale and Retail
- Transport and Storage
- Communication

Figure 1.1: The Major Sectors of the South African Economy

2.1. The Primary Sector

The main aim of the primary sector is to extract of raw material from the natural environment. Examples of such material are trees and minerals. Some resources that are taken from nature, such as trees, can be returned, while others, such as minerals, cannot be returned.

The primary sector is made up of the following sub-sectors:

- Agriculture
- Mining
- Forestry
- Fishing

The primary sector is the first stage of production, and its success impacts on the growth of industries that process raw material. The primary sector is traditionally the major job creator in a modern economy, because its activities generally are very labour intensive.

The products of the agricultural sub-sector can, in some cases, be used fresh or it can be processed into secondary products. Oranges can be eaten fresh or processed into orange juice or marmalade. This process is called secondary conversion. Tobacco is an example of a primary product that is almost never used in its fresh form. It has to go a secondary conversion – be processed – to be marketable.

Citrus production falls in the primary business sector, although certain activities which citrus growers may become involved in, such as owning shares in a fruit juice company, form part of the secondary sector.

2.2. The Secondary Sector

Most raw materials have to be processed before they can be marketed to and used by consumers. The secondary sector involves all the activities during which natural resources are processed and made into products that are suitable for consumers to use.

In many cases the factories that process the raw material are close to where the resources are extracted. The secondary sector buys raw material from the primary sector and provides the tertiary sector with the goods that it sells. It is therefore a very important link between the primary and tertiary sectors.

The secondary sector is made up of the following sub-sectors:

- Construction
- Manufacturing
- Electricity, gas and water supply

The secondary sector adds value to raw materials. If a country is able to produce its own consumable products, the economy of that country is much more viable than that of a country that has to export raw material and import finished goods and much higher prices.

The secondary sector provides jobs to workers with higher skills levels and is therefore a major driver in the quest for increasing skills levels in South Africa.

2.3. Tertiary Sector

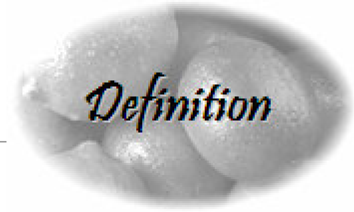
The tertiary sector distributes goods to the consumer and is often the only sector that the consumer deals with directly, because it facilitates the flow of goods and services from the other sectors to the consumer. This sector also provides services, such as commercial and professional services, and funding and financial services.

The tertiary sector is made up of the following sub-sectors:

- Finance
- Wholesale and retail
- Transport and storage
- Communication

While transport belongs in the tertiary sector, it is important to note that this is what links all the sectors together in terms of the movement of raw materials and finished goods.

The tertiary sector is the highest contributor to the gross domestic product (GDP) in South Africa, as it is in most first world economies. A lot of jobs are also available in the tertiary sector.



Gross Domestic Product (GDP)

The gross domestic product, or GDP, of a country is the total value of all goods and services produced within the country in a year.

(When reference is made to "economic growth" is almost always refers to the growth in GDP, because this is the best indicator of what a country as a whole produces. When the South African government therefore says that it is aiming for a growth rate of 6%, this means that they want the GDP of South Africa to grow by 6% per year.)

Complete activity 1 in the **Learner Workbook**.

3. Challenges Facing Business in South Africa

Operating a commercial business successfully is never easy and many businesses in the primary sector fail. The challenges faced by agriculture in South Africa are often a favourite topic of conversation and complaint whenever two or more growers get together.

This attitude sometimes creates for a climate of pessimism and defeatism. This can be especially discouraging for emerging growers who are enthusiastic and eager to succeed. It is much more productive approach to make a realistic and thorough study of the challenges that face agriculture, and to devise strategies to meet the challenges and use them to your advantage.

3.1. Challenges in the Macro Environment

The macro environment means the world as a whole and the challenges in this environment is often not unique to a specific sector, or even to a specific country. These challenges can often not be addressed by individuals, but must be addressed on a national or even international level.

The individual grower will however do well to be aware of these challenges and to plan accordingly – you may not be able to move the mountain, but you may be able to find the easiest way over or around it, instead of standing at the foot of the mountain and wishing it away.

The major challenges for South African citrus growers in the macro environment are:

- The scarcity of natural resources
- Political challenges
- Social challenges
- Technological changes
- International trading environment

3.1.1. Scarcity of Natural Resources

Worldwide there is currently a shortage of natural resources, especially in developed countries. In South Africa there are shortages in natural resources such as water and arable land, both of which are essential for agricultural production.

Agricultural land in areas with climatic conditions suitable for agricultural production and with the necessary water rights is for this reason expensive, and it must be used with a constant regard for good practices that promotes sustainability.

3.1.2. Political Changes

The Government impacts on the manner in which businesses are run by way of legislation, regulations and government programs. At the moment for instance there is a strong political drive to address the imbalances of the past, which impacts on agricultural business in a number of ways. This may be seen by some growers as an obstacle or a threat, while others may view it as an opportunity.

When the political climate changes there are bound to be changes in the legislation and regulations that business have to abide by. For instance, if the Soccer Party were to come into power, they may want to force every medium-sized business to sponsor a soccer team!

3.1.3. Technological Developments

There have been many technological advances throughout the world over the past decades. Information and communication infrastructure has changed and is now technologically based. Businesses that do not use information technology are at a serious disadvantage.

3.1.4. International Policies

Policies of other governments specifically with regard to import duties (how much you must pay to take your product into a country) and agricultural subsidies (the money paid by the government to farmers in foreign countries to farm) significantly impact on the South African growers.

These policies can make the South African grower less competitive, because he / she needs to sell their product at a higher price to cover import duties and to cover all of their input costs, which are not subsided by the South African government.

3.2. Challenges in the Micro Environment

The micro environment means the individual business place or, in the case of citrus production, the individual farm. The challenges that growers face in their micro environment vary greatly, with many of them being related to the specific circumstances of the farm.

There are however challenges that each grower has to deal with that are common to most growers. These are mostly related to human resources.

3.2.1. Employees

Employees are needed in a business to do a specific job, and in return they earn an income. If the employee feels that his/ her efforts are rewarded sufficiently and that the employer appreciates the contribution that he / she makes, and if, at the same time, the employer feels that he is paying a reasonably wage for the contribution that the employee makes to his business, it is a possible to have a positive and stable employer/employee relationship.

Employers and employees must work at developing such a relationship, because they need each other. Employees who do not do the work they are appointed to do cause problems because someone else has to carry their weight.

3.2.2. Labour Unions

Workers join labour unions to represent them in matters that affect them all and to help them resolve disputes with their employers. Unresolved issues could lead to labour action or strikes, which poses a threat to the employer.

3.3. Challenges in the Market Environment

For any business to be profitable it has to sell its products at the price higher than what it cost to produce the product. For a business to be sustainable, it has to establish a market that will consistently over many years buy its product at such a price.

The citrus industry in South Africa is very much an export-oriented industry. Over many years, the industry has established markets all over the world, more than 60 markets in fact, to which it exports almost 70% of its production annually. This is the major **output** market for citrus production, which means the market into which products are sold.

There is however also the **input** market to consider. Growers have to constantly find the best production inputs at the most reasonable prices to ensure that their production costs remain as low as possible, while still ensuring that they produce the best possible quality fruit in the greatest possible volumes.

Markets change however, and building strong relationships with input and output markets that are able to withstand the ups and downs is a major challenge that every producer has to deal with. Challenges in the market environment can be classified as follows:

- Consumer challenges
- Supply challenges
- Competition

3.3.1. Consumers

All businesses aim to satisfy the needs of the consumers in their specific target market. If the business is consistently successful at doing this is will earn enough income and generate a profit.

Consumer behaviour however changes with time, which means that consumer tastes and habits change. Businesses have to constantly keep abreast with these changing needs. Thorough market research has to be done every now and again to find out how consumer needs have changed and what the business can do to fulfil the new needs.

3.3.2. Suppliers

The role of suppliers is to get inputs to businesses. It is essential that businesses form strong relationships with their suppliers. Suppliers who are reliable and efficient are essential to the success of the business.

At the same time, businesses have to be aware of new products and new suppliers entering the market, and they have to compare the service and prices that they get from current suppliers to the possible benefits of making use of new suppliers.

3.3.3. Competition

Every business competes with every other business with the same products for a share of the market. If new businesses enter a market, they are a threat to established businesses, which may mean that businesses have to change their strategies so they can retain their market share.

3.4. Challenges in the Socioeconomic Environment

Changes in the socioeconomic environment of the country always bring new challenges for business. Socioeconomic challenges vary from country to country and even within different communities. The main socioeconomic challenges that face agri-businesses are:

- Urbanisation
- HIV/Aids
- Unemployment
- Poverty
- Inflation
- Skills Shortage

3.4.1. Urbanisation

Over the past decades, there has been increasing urbanisation is South Africa. People have increasingly been moving to cities to look for a better life, taking with them their skills and knowledge. This has left the rural parts of the country, where farms are located, with a shortage of skilled workers.

When people move to cities they also take with them their spending power, which put businesses in rural communities under pressure if they relied on the support of the local community.

3.4.2. HIV/Aids

One of the most difficult challenges that business has had to face recently is the threat of HIV/Aids. This pandemic affects the workforce and the social well-being of the nation, because it is most severe in the 15 to 49 age group, which are the workers and the parents of the nation.

HIV/Aids not only threatens the lives of workers, but also their general well-being which negatively impacts on the productivity in the workplace. It also poses a threat to the ongoing availability of employees in certain positions – an increase in mortality rate results in fewer available employees with the required skills and knowledge being available to fill key positions.

3.4.3. Unemployment

A person is deemed to be unemployed if he / she is willing and able to have a job, but is unable to find one. Unemployment is an ongoing problem in South Africa and poses a constant challenge for the government and for business. Unemployment leads to poverty, which is a major driver of crime.

3.4.4. Poverty

Poverty is the inability of people to maintain a basic standard of living that includes basic requirements such as sufficient food, clothing and shelter. Poverty places strain on the government in that they must put programs in place to provide poverty stricken people with the basic necessities. Poverty is a major driver of crime.

3.4.5. Inflation

Inflation is the continuous increase in the general level of prices of products, which more or less translates into the increase in the cost of living. Inflation in South Africa is at the moment around 6%, which means that this year it costs 6% more to live at the same standard and buy the same items than it cost last year.

One can accept that the cost of inputs for citrus farming will increase from year to year in line with inflation because most of these products are bought in South Africa. It is however not safe to assume that the income the grower receives for his product will increase at the same rate, because most of the products are exported to countries that do not have this rate of inflation.

3.4.6. Skills Shortage

South Africa is currently experiencing a general skills shortage across all industries, but there is a specific impact on agri-business. Agriculture has long been a source of employment for workers with very low skills levels and at the moment it is estimated that about 70% of farm workers in South Africa are functionally illiterate.

Growers have to invest funds into improving the skills levels of their workers. To make sure that there is a return on this investment, the grower must ensure that the skills development is targeted on real skills shortages and that the skills and knowledge that workers gain are implemented in their workplace.

Complete activity 2 in the **Learner Workbook**.

Chapter 1

- There are three main sectors in the South African economy, being the primary, secondary and tertiary sectors.
- The primary sector is made up of agriculture, mining, forestry, and fishing.
- The secondary sector is made up of construction, manufacturing, and electricity, gas and water supply.
- The tertiary sector is made up of finance, wholesale and retail, transport and storage, and communication.
- Operating a commercial business successfully is never easy, and many businesses in the primary sector fail.
- A realistic and thorough study must be made of the challenges that face agriculture, and strategies to meet the challenges and use them to your advantage must be devised.
- The major challenges related to the macro environment are the scarcity of natural resources, political challenges, social challenges, technological changes, and international trading environment.
- Challenges in the micro environment that are common to most growers are mostly related to human resources.
- Challenges in the market environment can be classified as consumer challenges, supply challenges, and competition.
- The main socioeconomic challenges that face agri-businesses are urbanisation, HIV/Aids, unemployment, poverty, inflation, and the skills shortage.

Chapter 2

The South African Citrus Industry

This chapter addresses the following specific outcomes:

Identify the statutory elements in the structure of an organisation in a selected business sector
Describe the structure of an organisation within their own business sector
Explain how their own business sector is regulated
Identify legislation that applies to their own business sector

1. Introduction

Citrus has been grown in various parts of South Africa for a very long time, with the first citrus being exported more than 100 years ago. To understand how the industry has developed to where it is today, it is important to understand where it came from.

2. Early Developments

The structure of the citrus industry today is the consequence of an evolutionary process which started in 1906 when the first ever consignment of 3,000 cases of export oranges arrived in London from the then Transvaal.

In 1914, the Fruit Export Act was passed and prescribed regulations to which all export citrus fruit had to conform. These regulations were however so elementary that in 1921, with export volumes having grown to over 60,000 cases, it was reported that:

> *"Large quantities of oranges arrived in England in a condition of complete waste while, as regards anything fit for sale, there being no system or order or control of distribution, prices were poor and heavy losses were suffered by the shippers, especially in the speculation section."*
> (Extracted from a letter written by Richard Rusk to the Citrus Exchange)

This led to a series of grower meetings culminating in the formation in July 1922 of the Fruit Growers' Exchange of South Africa, an organisation that covered both deciduous fruit and citrus fruit. In December of that year, the Exchange was registered under the new Cooperative Societies Act.

The Fruit Growers' Cooperative Exchange Limited, as it was known, was the first cooperative organisation in the country to embrace local cooperatives linked together into a number of district associations. However, the only real and lasting achievement of the organisation during the first three years of its existence was the establishment of the Perishable Products Export Control Board (PPECB).

3. The South African Cooperative Citrus Exchange

Following representations by citrus growers, the Citrus Exchange, which would have the local citrus cooperative companies as its members, was formally constituted as a separate entity on the 27th of April 1926.

It was recognised that the standardisation of the grading and packing of citrus fruit and the control of the distribution of the packed fruit, would be greatly facilitated if it were packed in as few packhouses as possible. The Citrus Exchange therefore promoted the establishment of cooperative citrus packhouses and by 1939, 74% of the total crop was being packed in eight packhouses, the remaining 26% being packed by 528 individual packhouses.

By 1950, the Citrus Exchange was:

- Regulating the packing and forwarding of fruit;
- Purchasing packing material on behalf of its members;
- Distributing and marketing fruit locally and overseas;
- Pooling the proceeds of the sales and paying out growers;
- Providing inputs for fruit quality, grading and packing regulations; and
- Providing a technical advisory service

It continued to widen and improve its range of services until major restructuring occurred in the mid-1990's, resulting in the conversion of the Citrus Exchange into a public company named Outspan International.

4. The Citrus Board

Some of the difficulties confronting the Citrus Exchange in the 1930's was finding the fruit to develop new markets and spreading the cost of transport from packhouses to markets. While these issues were being debated, the outbreak of World War II added to the need for greater unity in the industry.

The export market collapsed and it became evident that protection of individual grower interests lay in the creation of a Citrus Board under the Marketing Act. The Board could act for the whole industry and not just part of it as the Exchange had done until then. By 1939 approximately 80% of exports were marketed by the Exchange, but the 20% marketed outside of the Exchange hampered planned distribution, particularly in respect of keeping up a continuity of supply to each market.

Accordingly, at a special meeting of the members of the Exchange on the 6th of November 1939 it was unanimously decided to adopt a Citrus Scheme under the Marketing Act. The Citrus Board had its first meeting on the 1st of January 1940.

Having been forced by war conditions to institute the Citrus Board, it was nevertheless recognised that it was critical to retain the cooperative organisation of the Citrus Exchange. This was guaranteed through a decision of the Board in 1940 to appoint the Exchange as secretaries to the Board and to designate the Exchange's overseas organisation as the sole agency through which citrus could be sold.

In practice, therefore, the Exchange continued to provide all the services while the Board was vested with the statutory powers through which levy collection, grading regulations and other functions requiring government approval, were channelled.

5. Trademarks

When the Citrus Exchange was formed in 1926, the trademark "Goldland" was registered, but there were insufficient funds available to make effective use of it. Each packhouse or region therefore created and made use of its own brand name. Nevertheless, regular discussions continued about the merits of establishing a national trademark.

In 1933 the Exchange decided to establish two brands, namely "Springbok" and "Gemsbok". For various reasons, however, neither was registered. In 1936, the Exchange acquired at no cost the rights to the name "Outspan", which at that time was registered in the name of the Amanzi Estate Limited. The first consignment of 220,000 cases was exported under the Outspan trademark in 1936.

With the implementation of the Citrus Scheme, all fruit were exported under the Outspan trademark if it met the required standards, or as Standard Grade. Through imaginative promotion of the trademark Outspan, it became almost as well known as the famous Sunkist brand of California, and played a significant role in the growth and success of the South African citrus industry.

6. Technical Services

In 1931 the Exchange appointed its first technical officer. By the late 1950's, the technical staff consisted of ten field advisors and a small entomology research unit.

In 1973, the Exchange opened the doors of its own research facility, the Outspan Citrus Centre, and by the mid-1990's the Exchange's technical division employed over 120 staff members, comprising production research, field advisory services, the Citrus Improvement Programme, operations research and a quality management department. It was during this time that the first edition of the four volume Citrus Production Guidelines series was published.

In 2001, Citrus Research International (CRI) was established as a wholly owned subsidiary of the Citrus Growers' Association of Southern Africa. The CRI took over the facilities and functions of the Exchange's technical division.

7. Market Orientation

The South African citrus industry has always been export oriented. While being only the twelfth largest producer of citrus in the world, South Africa has been the second largest exporter of citrus in the world after Spain since 2004.

South Africa's dependence on exports is apparent from the following:

- While the average USA citrus farmer exports only 7% of his crop, for South African growers the average export level in 2005 was 64%, with 19% of production being processed and the balance of 17% being sold on the local fresh markets.

- Local market returns in South Africa are substantially lower than export market returns. For example, during 2003, the typical packhouse door return for export citrus was between R1,900 and R2,300 per metric ton (Mt). The comparative return for local market fresh fruit was between R600 and R700 per Mt, and for processed citrus R270 to R320 per Mt.

As a result, the average citrus producer generates over 80% of his revenue from exports. In 2005, the industry statistics indicate that 86% of revenue was generated from exports, 12% from local fresh markets, and only 2% from processing.

A producer that employs above average management practices and has favourable growing conditions, packs out 70% of his crop for exports and derives over 90% of his revenue from exports.

Control over the local marketing of fruit was instituted with the creation of the Citrus Board in 1939. In 1957 this control was lifted, but in 1966 the Exchange successfully approached the government to have control re-instituted. Local market control was lifted again in the early 1990's.

8. Growth of the Citrus Industry

Collective efforts made by Southern African producers and exporters do not have a very significant influence on global market forces in most cases. The industry is faced with the following challenges that are not within its power to control:

- Worldwide oversupply
- Mismatches in supply and demand
- Fluctuations in the value of the local currency
- Performance of competitors' currencies
- Status of the economies of importing countries
- Competition with other food-kinds
- Foreign government subsidies and assistance
- The limited ability of the local market to absorb production
- Weather patterns and climatic conditions
- Unforeseen global crises
- Changes in consumer preferences
- World oil prices

Furthermore, the production and packing of citrus to meet export market expectations is a difficult and risky business, taking into account that South Africa is located long distances from its markets, that the crop is grown over a wide geographic area with varying climatic conditions and soil types, and that it is home to some of the most destructive pests and diseases found anywhere in the world.

In spite of these challenges, the South African citrus industry has grown steadily and at times dramatically, over the century of its existence. At the outbreak of war in 1939, exports totalled 3.7 million cases. By 1944, due to the collapse of export markets, exports had dropped to 1 million cases, but by 1949 had climbed back to 3.9 million. Thereafter, exports increased steadily, reaching 7.2 million cases by 1959 and, following the opening of markets in the Middle East and expansion of European markets, reached 25 million 15kg cartons by 1976. During the 1980's, production and exports continued to increase steadily.

Dramatic growth occurred in the 1990's during which time total citrus production in South Africa grew from 700,000Mt to 1.7 million Mt, a growth of some 8% per annum compared to the average global citrus growth rate of 1.4% per annum. South Africa now produces 1.8% of the world's citrus and is ranked 12th in total production.

Exports have similarly grown and reached 70 million 15kg equivalent cartons in 2004. South Africa has been the second largest exporter of fresh citrus fruit in the world after Spain since 2004.

The high growth rate in Southern African production over the past 10 years is the result of buoyant export prices realised during the 1980's and early 1990's which in turn are linked to the political changes in South Africa resulting in the opening of export markets previously denied to the country.

In 2005, the citrus industry comprised a total of approximately 1,600 farming units packing fruit in between 120 and 150 packhouses. The total area planted under citrus was 57,168ha, distributed around the citrus producing regions of the country as indicated in figure 1.2 below.

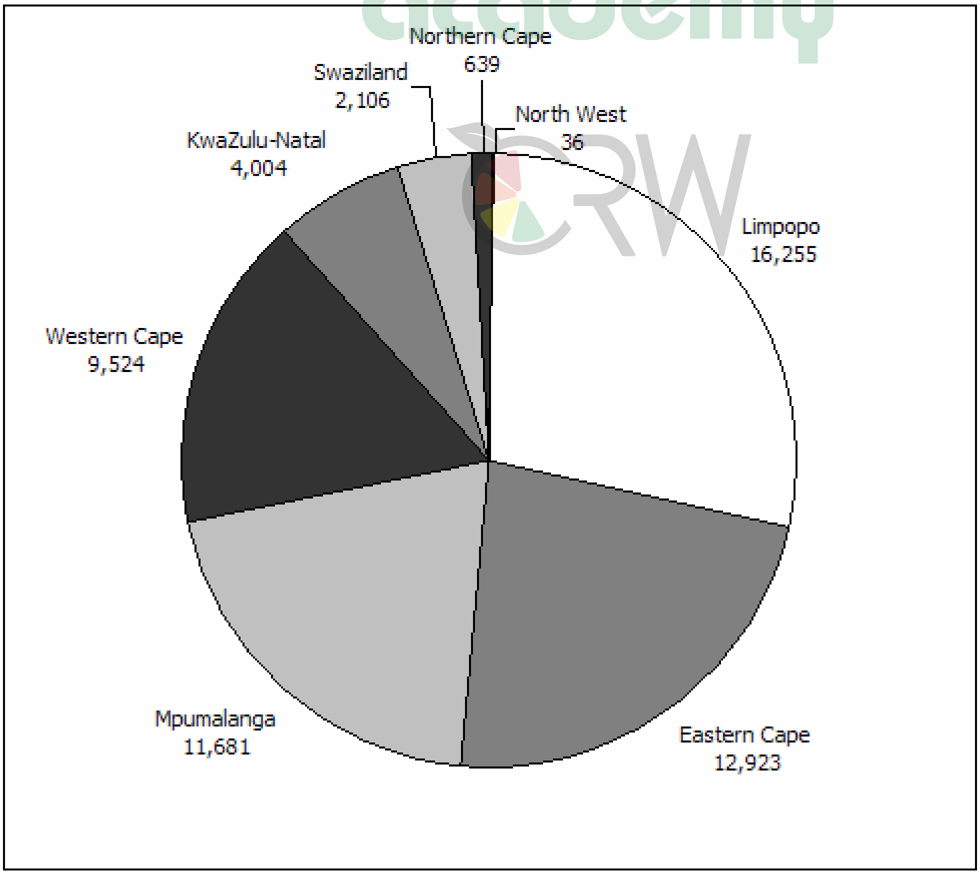


Figure 2.1: Citrus Plantings (ha) per Region (2005)
CGA Key Industry Statistics

Fresh citrus fruits from Southern Africa reach over 60 markets around the world through the services of 250 exporting companies, twelve of which account for 80% of all exports. Approximately 100,000 people are directly employed by the industry and a total of approximately 1,000,000 people are dependent on income derived from industry activities. The revenue earned by South Africa through citrus exports totalled R3 billion in 2004.

9. Deregulation – A New Era

Throughout its history, the citrus industry has had to adapt to constantly changing circumstances, for example the effects of World War II bringing about statutory control, and the collapse of the export market in 1960 heralding a new era in the structure of the Exchange, its approach to export marketing, and the innovative promotion of the Outspan brand.

In the late 1980's, increasing discontent amongst growers regarding the pooling of proceeds and the obstructive effects of this on direct rewards for individual performance, culminated in an in-depth investigation into the role and functions of the Citrus Exchange. Amongst the findings were that the industry was not sufficiently market oriented and that its future prosperity would require a major revamp of policy and approach.

Shortly thereafter, the government called for a full investigation into the Marketing Act and its implications for agriculture under the new political dispensation. The key consequences of these two independent developments on the citrus industry were:

- The restructuring of the Citrus Exchange, which was converted to a public company named Outspan International in 1996

- The deregulation of the citrus industry brought about by dissolution of the Citrus Board in October 1997 in terms of the new Marketing Act (No. 47 of 1996)

The immediate and most dramatic effects of deregulation on the industry were that:

- Grower levies were no longer compulsory
- Single-channel exports were replaced by multi-channel exports
- Industry structures and services had to be transformed and relocated

In 1998, the entities formerly responsible for providing the full range of services related to the production and export of both citrus and deciduous fruit, namely Outspan International and Unifruco, joined forces to form Capespan (Pty) Ltd. This created a vacuum for a national body to act as the mouthpiece for the citrus growers.

10. The South African Fruit Industry

The citrus industry does not and cannot function independently from the wider agricultural sector. Its primary stakeholders are its growers, who have created structures to ensure that their voices are heard by all other industry stakeholders and role players. The primary representative body is the Citrus Growers' Association.

10.1. Sector Structure

Fruit SA was established in 2001 as a joint initiative between the citrus, deciduous and subtropical fruit industries. It focuses on transformation, information and logistics, market access and market development. It is one of the sixteen Export Councils registered with the Department of Trade and Industry (DTI).

Fruit SA has played a central role in coordinating a positive international image for the South African fruit industry. The structure of Fruit SA is as follows:

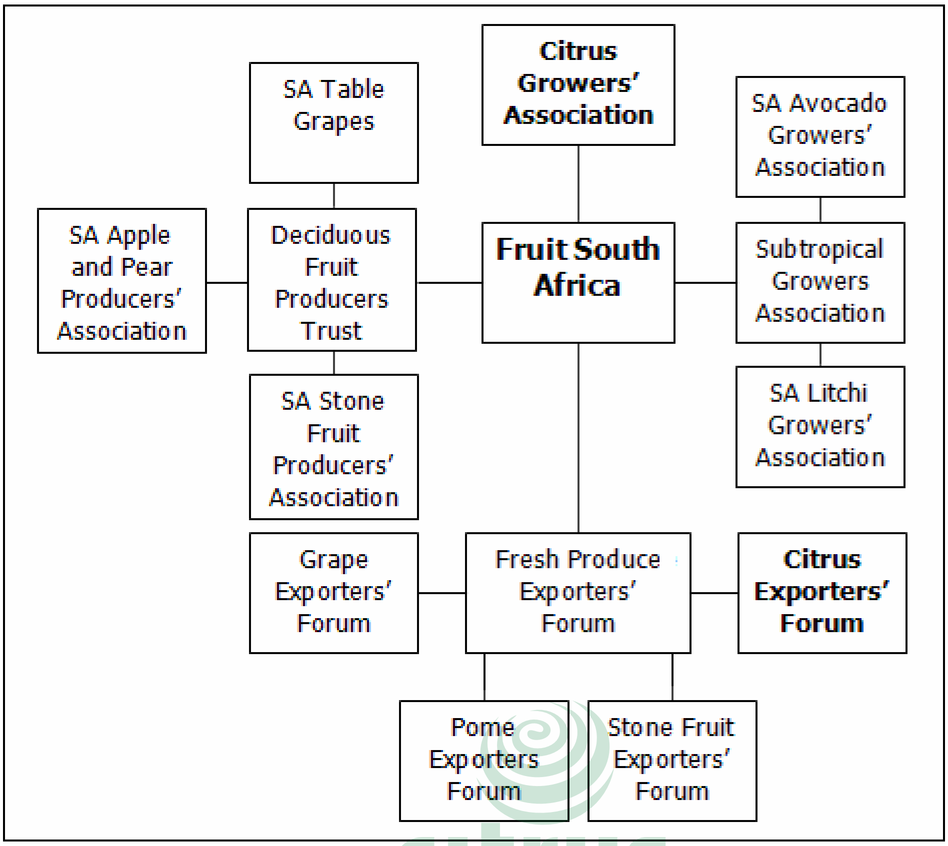


Figure 2.2: Fruit SA Structure

10.2. Industry Representation

The CGA maintains close links with a number of organisations as the representative of growers and their interests. Figure 2.2 sets out representation within the citrus industry.

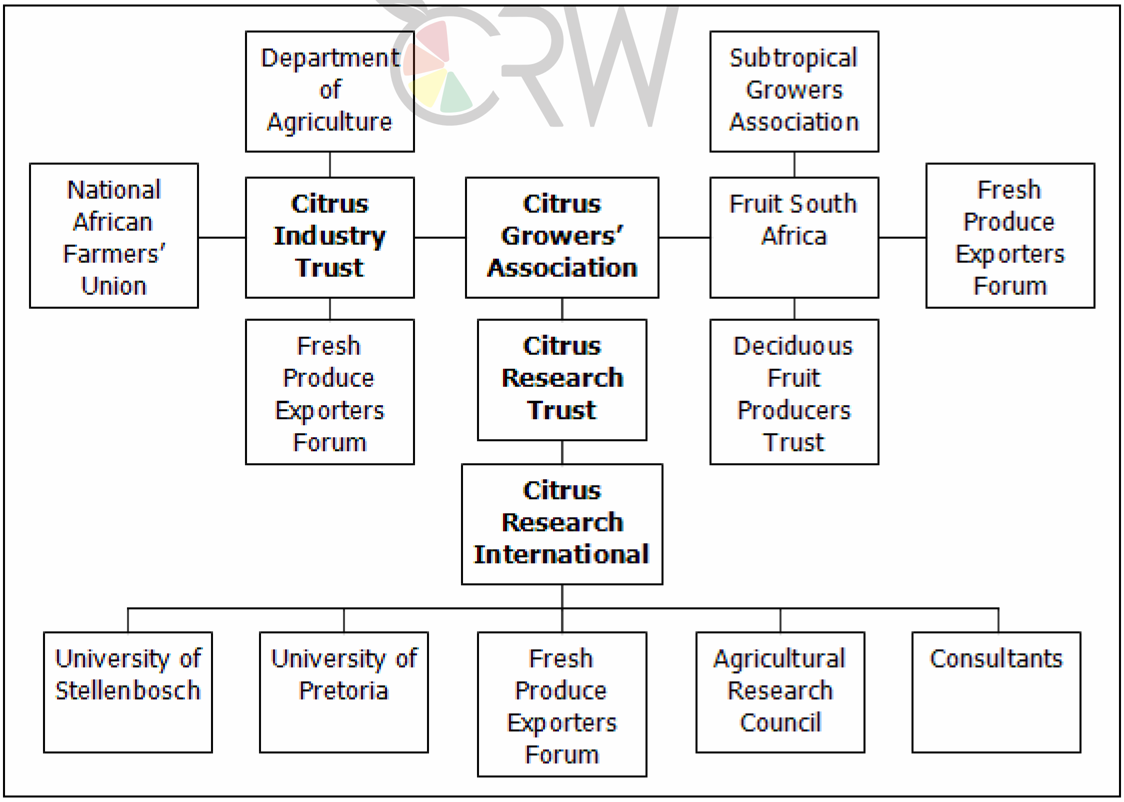


Figure 2.3: Citrus Industry Representation

The CGA also represent growers at various other entities, attending relevant meetings and making contributions as and when appropriate. These organisations and committees include:

- Agri SA
- Citrus Exporters' Forum
- Citrus Industry Trust
- Citrus Marketing Forum
- Citrus Southern Africa
- Department of Agriculture
- Agricultural Trade Forum
- Market Access Committee
- Sanitary and Phytosanitary Committee
- Fresh Produce Exporters Forum
- Fruit SA
- Japan Focus Group
- National Agricultural Farmers Union
- USA Alliance
- Southern Hemisphere Association of Fresh Fruit Exporters

The CGA from time to time mandate certain of its members to form sub-committees to discuss issues of concern to the industry, with relevant parties participating in discussions on quality standards and other such issues.

The CGA liaises closely with similar organisations, such as the Deciduous Fruit Producers' Trust (DFPT). Close contact is also maintained with commercial research and technical units and exporters who provide technical services of various kinds to their suppliers.

11. Government Structures

The citrus industry is reliant on strong links with various government departments to enable statutory and non-statutory functions to be fulfilled on its behalf. Government also acts as facilitator and convenor of a number of activities and processes.

11.1. The National Department of Agriculture

The participation of government is achieved largely through two of the five branches that report to the Director General of the Ministry for Agriculture and Land Affairs (National Department of Agriculture). These two are Agricultural Economics and Business Development, and Agricultural Production and Resources Management.

Various programmes fall under these branches, the most relevant to the export citrus industry being Agricultural Production and National Regulatory Services. The latter is responsible for Food Safety and Quality Assurance, Plant Health and Quarantine, and Inspection Services.

Small-scale production of citrus primarily for local consumption aimed at creating opportunities for income generation for marginalised individuals is assisted and facilitated primarily through the directorates of Food Security and Rural Development, and Finance and Cooperative Development.

On matters concerning transformation and land reform in the citrus industry, the industry liaises with provincial Departments of Agriculture, the National Department of Land Affairs and the Land Claims Commissioner.

11.2. Perishable Products Export Control Board (PPECB)

The PPECB acts as the assignee (agency) of the National Department of Agriculture in terms of the Agricultural Product Standards Act and is, amongst other things, responsible for the certification of quality standards.

11.3. National Agricultural Marketing Council (NAMC)

The Marketing of Agricultural Products Act of 1996 empowered the establishment of the National Agricultural Marketing Council (NAMC). The mission of the NAMC is to advise the Minister of Agriculture and directly affected groups on all agricultural marketing issues. Its core business is to provide timely and relevant information to its stakeholders. One of its key tasks over the past few years has been to investigate the effects of deregulation on food security and how deregulation has affected the wine, ostrich, red meat and dairy industries.

Summary

Chapter 2

- In 1906 the first South African export citrus arrived in London.
- In 1914, the Fruit Export Act was passed and prescribed regulations to which all export citrus fruit had to conform.
- In July 1922, the Fruit Growers' Exchange of South Africa was established, which was a cooperative organisation, and which established the PPECB.
- In April 1926, the Citrus Exchange was constituted.
- By 1950, the Citrus Exchange was regulating the packing and forwarding of fruit, purchasing packing material on behalf of its members, distributing and marketing fruit locally and overseas, pooling the proceeds of the sales and paying out growers, providing inputs for fruit quality, grading and packing regulations, and providing a technical advisory service.
- In 1939, the Citrus Board was established under the Marketing Act, which was a statutory body that all growers had to belong to, and who appointed the Citrus Exchange as secretaries.
- In 1936, the first citrus was exported under the trademark Outspan.
- The Citrus Exchange conducted citrus-related research, provided technical support services to citrus growers, and published the Citrus Production Guidelines.
- The South African citrus industry is export oriented, and is the third largest exporter of citrus in the world.
- Control over local marketing was finally deregulated in the 1990's.
- In spite of many challenges, the South African citrus industry has grown consistently over the past 100 years in terms of both exports and production.
- In 1996, the Citrus Exchange was converted into a public company called Outspan International.
- In 1997, the Citrus Board was dissolved in accordance with the new marketing act.
- The CGA is the chief representative organisation of growers in Southern Africa.
- Fruit SA was established in 2001 as a joint initiative between the citrus, deciduous and subtropical fruit initiatives.
- The CGA represent the interests of citrus growers in a number of organisations and forums, and liaises with other industry organisations.
- The citrus industry interacts with the National Department of Agriculture and Land Affairs mainly through the Agricultural Economics and Business Development, and Agricultural Production and Resources Management branches.
- The PPECB is an assignee of the Department of Agriculture and is responsible for food safety and quality inspections.
- The NAMC advises the Department of Agriculture on matter regarding the marketing of agricultural products.

Practical

Complete activities 3 and 4 in the **Learner Workbook**.

Chapter 3

The South African Citrus Grower

This chapter addresses the following specific outcomes:

Describe the structure of an organisation within their own business sector
Explain how their own business sector is regulated

1. Introduction

Given that you have the technical skills and knowledge required to grow quality citrus, the successful citrus grower in South Africa requires a thorough understanding of the business environment, which we discussed in detail in the first two chapters, and of what it takes to be a business owner and manager. If you are directly involved in the initiation of an agri-business with the purpose to grow citrus, you are classified as an entrepreneur.

2. The Citrus Entrepreneur

An entrepreneur is a person that notices an opportunity in the market and takes the initiative to start a new business enterprise. He / she carries the risk and manages the production in the business.

People differ in their abilities, skills and personalities. Some people have the right skills and knowledge, a good sense for business, and the ability to make decisions, take responsibility and manage people. Entrepreneurs are people who have the right combination of characteristics to apply and make a success of a business venture. To have a chance of making a success of their business, the entrepreneur has to be:

- **Always positive** – Entrepreneurs must always be positive in all their daily activities and especially to be able to find solutions for challenges that they face. They need to focus on what could go right instead of what could go wrong, and they must be able to turn threats into opportunities.

- **A hard worker** – Entrepreneurs need to make many sacrifices to be successful and they need to work hard at their business. This also sets a good example for their employees.

- **Able to identify opportunities** – Entrepreneurs are able identify market needs that are not being met. They identify the opportunity for a new business, for example replacing an already existing product with a new or better invention or providing a product of a superior quality.

- **Perseverance** – The road to success is not easy. Entrepreneurs have a survival instinct and must have the courage and determination to succeed in whatever they want to accomplish. There are many challenges they need to face and they need to develop creative strategies to overcome these challenges.

- **A risk taker** – Entrepreneurs must be willing to take risks in order to succeed and be successful.

- **Creative** – Creativity implies coming up with new and exciting ideas. Entrepreneurs need to apply creative ways to solve problems.

3. Representation of Citrus Growers

3.1. Citrus Growers' Association of Southern Africa

In 1997, in anticipation of the impact of pending deregulation on industry unity, citrus producers from South Africa, Swaziland and Zimbabwe formed the Citrus Growers' Association of Southern Africa (CGA). The CGA is wholly grower-owned and -controlled, and its directors represent all seventeen separately identified citrus growing regions on the sub-continent, as shown in figure 3.1.

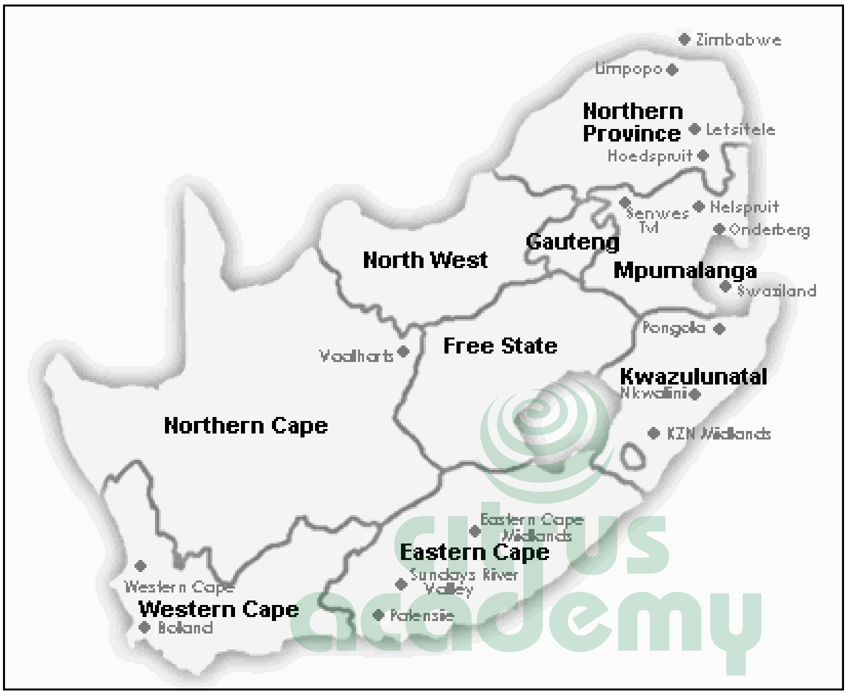


Figure 3.1: Citrus Growing Regions in Southern Africa

The mission of the CGA is to:

- Provide the industry with access to global markets
- Optimise the cost effective production of quality fruit
- Be committed to research, development and communication with all stakeholders
- Care for the environment and community in which it operates

In 2000 the CGA submitted an application to the Minister of Agriculture for a statutory grower levy, which was granted in March 2001. The levy amount was originally 21c per 15kg carton equivalent of fruit exported, and was increased to 32c per 15kg carton in 2004.

Approximately 75% of levy income is spent on research, with the balance used to fund various important industry functions, such as transformation, statistics and trade information.

Market access, especially to the more lucrative markets (USA, Japan and Far East) is considered the cornerstone of the citrus industry. This requires the production of fruit that meet the quality standards of the importing countries, and adhering to their food safety and phytosanitary requirements. This can only be maintained through well-directed research, which is considered the primary function of the CGA.

Definition

Sanitary Measures

Sanitary measures refer to measures applied to protect the health and safety of the human population of the country to which fruit is exported, and includes food safety measures such as chemical residues (MRL's), bacterial infections and unwanted substances.

Sanitary measures are normally regulated by health organisations, such as the World Health Organisation (WHO), and national health departments.

Phytosanitary Measures

Phytosanitary measures refer to measures applied to protect the life and health of animals and plants in the country to which fruit is exported from risks arising from the entry, establishment or spread of pests, diseases or disease-carrying organisms.

Protecting flora and fauna, pests and diseases that may be transported – plant health and animal health departments – International Plant Protection Convention

Phytosanitary measures are regulated by the International Plant Protection Convention, and national animal and plant health departments.

The CGA drives its research effort through Citrus Research International (Pty) Ltd (CRI), a subsidiary entity with the vision of creating a single collaborative environment for all citrus research, incorporating Universities, the Agricultural Research Council, and other organisations and individuals involved in citrus research. The primary task of the CRI is to:

- Ensure that research funding is adequate and sustainable;
- Determine growers' research priorities;
- Direct research efforts; and
- Control research expenditure

Transformation within the citrus industry is another important function of the CGA. For this purpose, the CGA appointed a transformation manager to focus on transformation imperatives, including land reform and access to resources. The CGA also recently established the Citrus Academy, which fulfils the function of creating an enabling environment for skills development within the citrus industry.

3.2. Other Industry Bodies

3.2.1. Citrus Industry Trust

The Citrus Industry Trust (CIT) was established in 1997 with the dissolution of the Citrus Board. The CIT was entrusted with the funds that the Citrus Board held at the time of its dissolutions, and has the responsibility of investing in skills development and transformation in the citrus industry.

3.2.2. Fresh Produce Exporters' Forum

The Fresh Produce Exporters' Forum (FPEF) is a voluntary Section 21 company established by exporters in 1998 to create order in export markets and to rebuild a database of strategic industry information that was in danger of being lost after deregulation.

Members represent over 80% of South African fruit export volumes. They work closely with growers associations in forums aimed at ensuring the best possible return for all parties.

3.2.3. Citrus Marketing Forum

The Citrus Marketing Forum (CMF) was established in 2003 by the FPEF and growers as an informal forum that brings together growers and exporters to:

- Serve as a marketing forum and mouthpiece with regard to the export and marketing of citrus;
- Serve, promote and protect the interests of growers and exporters;
- Work for and promote the development of the citrus export industry as a whole;
- Gather, verify and circulate to growers and exporters relevant information to encourage orderly and responsible export marketing of citrus;
- Keep growers and exporters informed of matters concerning the citrus export industry and to provide guidance on the best methods for the promotion of the industry and the exportation of citrus fruit; and
- To decide on guidelines, rules, regulations, standards, limitations and general trading terms and conditions to be applied by growers and exporters in the conduct of their business. These decisions are binding on its members.

4. Citrus Industry Support Structures

The citrus industry draws on a wide range of collaborators in almost every aspect of its operations. In this chapter we will look at a number of the organisations that interacts with the industry and with citrus growers.

4.1. Research

Production is reliant on the collective inputs made by research and advisory entities and individuals. Research is conducted by various institutions including Universities, industry research bodies and the Agricultural Research Council (ARC), under the auspices of the CRI.

Researchers themselves provide production advice, together with the extension department of the CRI, private consultants and representatives of various product and service providers.

4.2. Production Input Suppliers

One of the most important input items for citrus growers is good quality, disease-free plant material. Citrus nurseries are represented by an organisation called the South African Citrus Nurserymen's Association (SACNA). Citrus nurseries are accredited by the Citrus Improvement Programme (CIP), and are only allowed to use bud-wood from the Citrus Foundation Block (CFB).

Agrochemicals used for pest and disease control, crop manipulation, and post-harvest treatments in packhouses are supplied by a number of commercial providers.

It is important that agrochemical service providers are affiliated with Agricultural Chemical Distribution Association of South Africa (ACDASA). ACDASA is affiliated to the Association of Veterinary and Crop Associations of South Africa (AVCASA), a Section 21 that was established in 1958 to represent companies involved in the crop protection and animal health products industry in South Africa.

4.3. Post-Harvest Treatment and Packing

Citrus is mostly packed in packhouses that are either owned by individual growers or by grower-owned companies. Packhouse design and operations advice is provided by a range of commercial service providers. Packing material is supplied by a number of carton and container manufacturers.

Post-harvest disease control programmes are offered by CRI. Inspection of products to assess compliance with minimum standards is carried out by private consultants, but official sanction of compliance to the requirements of importing countries in terms of quality is the domain of PPECB, while the DoA is responsible for phytosanitary issues.

4.4. Transport and Logistics

Transport of fruit from packhouse to port is carried out either by road or rail.

The Road Freight Association addresses all regulatory, legal and operational matters relating to road transportation. Its membership consists mainly of public road transporters, carriers and fleet owners of commercial goods vehicles. Note that citrus is not transported inland in refrigerated containers.

Rail freight services are provided locally by Spoornet, a subsidiary of Transnet.

4.5. Forwarding

Forwarding and documentation for export fruit involve the SA Revenue Services (Customs), Transnet (in the form of the National Ports Authority and SA Port Operations), the PPECB, and the National Department of Agriculture.

All of these organisations require documentation before they will approve a product for export. Forwarding agents, commonly known as "logistics service providers", are used to assist with the process of forwarding. The process of forwarding also involves the disbursement of monies on behalf of their clients, which they recover later, and the provision of information to their clients.

4.6. Cold Stores, Terminals and Depots

Cold stores, terminals and depots provide services critical in the trade chain for accumulating, staging and managing the movement of product from road or rail transport to vessel. The company Fresh Produce Terminals is the dominant provider of these services at the four specialised reefer terminals at Cape Town, Port Elizabeth, Durban and Maputo.

Chapter 3

- An entrepreneur is a person that notices an opportunity in the market and takes the initiative to start a new business enterprise.
- To have a chance of making a success of their business, the entrepreneur has to be always positive, a hard worker, able to identify opportunities, perseverance, a risk taker and creative.
- In 1997, the Citrus Growers' Association of Southern Africa was established by the citrus growers of South Africa, Swaziland and Zimbabwe.
- In March 2001, statutory levies for the CGA were approved.
- About 70% of the levy income of the CGA is spent on research, for which Citrus Research International is responsible.
- The CGA employs a transformation manager and has established the Citrus Academy to create an enabling environment for skills development.

- The Citrus Industry Trust manages the funds that were held by the Citrus Board at the time of its dissolution.
- Research is conducted under the auspices of the CRI by the ARC and a range of universities.
- Citrus plant material is provided by citrus nurseries that are represented by SACNA, and that is accredited by the CIP.
- Agrochemicals are provided by companies that are affiliated with ACDASA, who is a member of AVCASA.
- Post-harvest treatment chemicals and packhouse services are provided by a range of service providers.
- Transport of fruit from packhouse to port is carried out either by road, regulated by the Road Freight Association, or rail, provided by Spoornet.
- Forwarding agents (logistics service providers) assist growers with the forwarding of their fruit and the documentation required for this process.
- Cold stores, terminals and depots provide services critical in the trade chain for accumulating, staging and managing the movement of product from road or rail transport to vessel.

Complete activities 5 and 6 in the **Learner Workbook**.

Chapter 4

Agricultural Business Entities

This chapter addresses the following specific outcomes:

Identify the statutory elements in the structure of an organisation in a selected business sector
Explain how their own business sector is regulated
Identify legislation that applies to their own business sector

1. Introduction

To produce citrus successfully you need the technical production skills and knowledge that will allow you to do all the right things at the right time to produce a crop of high yield and quality. To sell this crop, you need marketing skills that will allow you to identify the best market for your fruit.

However, to make a profit out of producing citrus you need the skills and knowledge to run a business, with all the challenges that comes along with this.

In this chapter we will look at how to approach the establishment of a business, and then we will look at the different types of business entities that can be used in South Africa.

2. Business Planning

Now that you have decided to start a new citrus production unit or take over an existing one, it is essential that you properly plan for this new venture.

The first step in the planning process is to decide what you want to achieve with this business in the long term – and "to make money" is not good enough. This long-term objective is the vision statement of the business, and will determine the decisions that you will make to a large extent. If you for instance decide that the vision for the business is "To produce quality citrus for the export market" you will focus all your production and marketing decisions on the export market. If you on the other hand have a vision statement such as "To provide in the needs of the community in which we live" you will focus your decisions on what is best for the community and not for the business. A vision has to be achievable (which the last one is not) and concise, and everybody that is involved in the business must believe in it.

The mission statement of the business describes what you are doing at the moment. The objectives that you set for the business describe how you will get from where you are (mission) to where you want to be (vision). This allows you to break the road ahead down into manageable steps. Objectives are set for the long-, medium- and short term.

Once objectives have been set, planning is the next step. A plan sets out who will do what, how they will do it, at what time and at what cost. The most important plans that you will need for a citrus production business are:

- The production plan
- The purchasing plan
- The marketing plan
- The human resources plan
- The financial plan

2.1. The Production Plan

The production plan for a citrus farm describes all the action that will be taken to produce the crop, and also includes yield projections and expected pack-out percentages. The plan must always take into account the natural resources that are available.

If the farm is a new venture, the production plan will also include information about the planned development of the farm, including the layout of the orchards and infrastructure on the farm, the cultivars that will be planted in each orchard, the year in which they will be planted, and the area that will be planted. Based on this information the water supply and irrigation system can be designed and documented.

Once all this information has been gathered and compiled into a comprehensive production plan, the machinery, tools and equipment and the workforce that will be required for the farming operation can be calculated.

It is also at this point that the options for packing can be properly assessed. Many smaller farmers make use of local packing cooperatives to pack their fruit, because the volumes that they produce do not justify them having their own packhouse. For bigger farms it is often more economic to erect their own packhouse, taking into account the capital outlay that this requires and the management and overhead cost that will have to be carried. It is also essential to take into account the markets for which the fruit will be packed (see the marketing plan) and the requirements of these markets, as this may have a direct impact on the choice of packhouse.

2.2. The Purchasing Plan

The purchasing is based on the production plan and lists all the resources for the production inputs, tools and equipment that are required. The plan provides information on all possible suppliers, with information on product specifications, quality and price.

When selecting suppliers it is important to take into account the after-sale service that the supplier provides. It is in many cases advisable to use suppliers in the area where the farm is located, especially for machinery and equipment that will require maintenance after is has been purchased. Consulting other farmers in the area is often a good way of going about identifying the ideal supplier for a product.

2.3. The Marketing Plan

We have already seen that marketing is one of the most important aspects of your business and one of the critical factors that will determine its success.

Export citrus is mostly marketed through export agents and this is a good place to start when you are putting together the marketing plan. The cultivars, volumes and quality of citrus that you plan to produce on the farm, as indicated by the production plan, and factors such as the pest and disease pressure in the area where the farm is, will determine which export markets will be available to you. Export agents will also be able to advise you on special programs that may be available.

The marketing plan should also include an estimate of the prices that you will be able to get for your products. It is not advisable to merely look at the average prices for the current year and assume that this can be used to project prices into the future. It is much better to look at historical prices in the markets that you are targeting for the cultivars that you will be producing and to base future projections on this information.

The marketing plan should also include information on what will be done with the fruit that can not be exported. Normally, it will either be sold on the informal or formal local market or be sent to processing factories. The prices for fruit in these markets can also be gathered by studying historical and current records.

2.4. The Human Resources Plan

From the production plan the number of farm workers, supervisors, and managers that will be required can be calculated. The remuneration for each of these positions is now added to the plan. This is based on industry standards and on the minimum wage requirements that are set out in labour law. Factors such as employment equity must also be taken into account.

For each of these positions, a job description is required, coupled with a description of the skills, knowledge and experience that this person will need. Finding a person that has these skills, knowledge and experience for each position is not always possible. Once possible candidates for the positions have been identified, a skills development plan is developed to ensure that these skills can be developed over time.

2.5. The Financial Plan

The financial plan is now developed by using the information from all the other plans. It would normally consist of a balance sheet, income statement and cash flow budget projected for at least a ten-year period. Because citrus farming is a long-term investment it may even be necessary to project the financial plan for a longer period, such as fifteen years. The financial plan is the basis on which financing for the business will be sought. The financial plan is also referred to as the budget.

The income that the farm should generate is projected using the projected yields and export pack-outs from the production plan, and the projected prices from the marketing plan. The direct production costs are projected based on the production plan and the human resource expenditure is added based on information from the human resources plan – remember to include the cost of skills development.

Overhead expenditure can now be added to the plan, based on the current and estimated requirements of running the business. Overhead expenditure refers to items such as Interest Paid, Telephone and Internet Costs, Stationery and Printing, Bank Charges, Management Costs, and so on.

Capital expenditure is based on information contained in the production plan and includes items such as Orchard Establishment (including plant material, irrigation equipment, soil preparation, and so on), Machinery and Equipment, Office Furniture and Equipment, and so on.

The financial plan will show whether the business will be profitable on a long term basis. If indications from this plan is that the business will not be viable based on the current planning, it is necessary to revisit all the other plans to identify where the problem may lie.

Once this plan has been approved, annual budgets can be broken down into monthly projections, which must be compared on a regular basis with the actual income and expenditure of the business. This is a critical control factor of financial management – ensuring that income projections are achieved and that expenditure is kept within the limits set by the budget.

3. Compiling a Business Plan

The business plan is a summary of all the separate plans that have been formulated as described above. Business plans vary from business to business, and should be in a format that is suitable for the particular business and with which the owners feel comfortable.

Remember however that a business plan is there for two main reasons. Firstly it is there to be implemented on the farm, and must therefore be accessible and readable to the people who will be expected to implement it.

Secondly, it will be presented to financial institutions and other entities for their support and for financing. Ask yourself the following question: if this business plan was given to me, what should it look like so that I will see this business as professional and well-managed? How should it be put together so that I will be able to quickly understand what the business is about and what it aims to achieve, and so that I will be able to find the information that I want easily? What will influence my decision to support/finance this business, and what should the plan look like to accommodate this?

There are general guidelines in terms of the components of a business plan and the information that should be included. Below is a handy checklist that you can use to ensure that you have included all the components and information.

Components	***Yes***	***No***
A professional cover page		
Table of Contents		
Executive Summary (including a summary of the financial prospects of the business)		
Stated objectives		
Description of Business Venture		
Component Plans (Production, Marketing, etc.)		
Contingency Plans		
Positive and Motivational Conclusion		
Appendices (referenced inside the main plan, should include financial plan)		

4. Types of Business Entities

The type of business entity that you select for your business is very important in terms of how it will be managed and in who will benefit the most and carry the risk in the business. It is a universal truth that those that carry the most risk (the business owner) should also stand to benefit the most in the long run.

To set up your business, it is likely that you will need the services of lawyer or auditor and it is advisable to identify a firm in your area that have a good reputation. This person will be able to advise you and to assist you with the documentation and procedures that must be followed. It is however essential that you have an understanding of what the requirements are and what the impact of your choice of business entity will be.

In South Africa, the following types of business entities are most commonly used for farming operations:

- Sole ownership
- Partnership
- Company
- Closed corporation
- Business trust
- Cooperative

In this section, we look at the characteristics and requirements of these entities. For easy reference a comparative table is provided at the end of the learner guide.

PLEASE NOTE: The corporate law is currently under revision, and this will lead to major changes in the classification of companies and closed corporations. The information below is based on the situation as it stands in 2007. As soon as more information about the changes in the new Act is available, this section will be revised. Please ask you lawyer or auditor for more information.

4.1. Sole Ownerships

Sole ownership is a form of business entity where there is only one owner of the business who operates under his / her own name. A sole ownership is the simplest form of ownership and there are no complicated rules and regulations that govern its formation.

In a sole ownership, the owner provides the capital to start the business. If he / she does not have enough money from savings or other personal sources to start the business, the capital that they require will probably be borrowed from the bank, friends or family. This loan is taken out in the owner's name and therefore exposes him / her if the business should fail.

In a sole ownership, the owner and the business are one legal entity. This means that if the business is sued, the owner is sued, and if the business fails, the owner will be liquidated and may lose his / her personal possessions. The owner of a sole ownership has to pay income tax in his / her personal capacity on the profit that the business makes.

Because the business is not a separate entity from the owner, when it is sold as a running concern, it is in fact only the assets and liabilities of the business that is sold. Should the owner decide to leave the business or should the owner die, the business ceases to exist.

4.2. Partnerships

Partnerships are formed when more than one person own a business in their own names. It is similar to sole ownership in that the **partners** themselves carry the risk of doing business and reap the rewards for it. People would often enter into partnerships because, between them, they have the capital to start up the business and the skills to run the business.

A partnership can be made up of between two and twenty people. The portion of the business that belongs to each person is agreed upon, and each person contributes to the business in line with their percentage ownership. The profit made by the business is also split in line with the percentage ownership, and each partner pays income tax in his / her individual capacity on his / her share of the profit.

It is important to understand however that in a general partnership there is unlimited liability, meaning that each partner takes responsibility for all the debts of the business, no matter what their percentage ownership is. There are special partnerships where the liability of partners can be limited, but only if it can be shown that the partner was not involved in the management of the business.

A partnership is easy to form and there is not special registration process involved. It is however highly recommended that a partnership agreement is drawn up for the partnership. This agreement states the percentage ownership of each partner, and the roles and responsibilities of the partners. It would also describe what would happen if there was a dispute between the partners. A partnership agreement in essence protects the partners and ensures that all the partners understand what is expected of them.

A person's ownership in a partnership cannot be transferred to another person, such as an heir. If one of the partners should pass away, the partnership has to be dissolved and a new partnership must be formed.

4.3. Closed Corporations (CC)

The closed corporation (CC) is a form of ownership for small businesses that is less risky than a sole ownership or partnership. A CC is a legal entity that is separate from its owners. In this case, the CC owns its assets, carries its liabilities, earns profit or suffers a loss, and pays income tax. The liability of the owners of the CC, called members, is limited to the investments that they have in the business. In a sole ownership or partnership the owners or partners carry full liability.

CCs pay income tax at a fixed rate. The owners of the CC, called **members**, can earn a salary or members remuneration from the CC on which they pay income tax. This decreases the profit that the CC makes and that it will be taxed on, meaning that it will pay less tax.

The members of a CC choose in what ratio they own the business. When decisions about the business must be taken by voting, members vote according to their percentage ownership, meaning that the member who owns the largest part of the business will have the most say. Their membership in the CC is an asset that they can sell to another person. This means that if one of the members wishes to leave the business or if a member passes away, the interests of the member can be transferred to another person. A CC therefore has full business continuity.

The members of a CC must be natural persons or, with some restrictions, trusts. This means that a company or another CC cannot be a member of a CC. A CC may not sell membership to the public. A company can be converted to a CC.

A CC can have between one and ten members, and has to be registered with the Companies and Intellectual Property Registration Office (CIPRO). The registration number of the CC has to be displayed on all its documents, including its stationery.

It is easier to register a CC than a company, and there are also certain requirements that CCs are not subjected to, such as having to employ an auditors firm for annual audits.

4.4. Companies

A company is a form of ownership that can be used for a business of any size. A company is formed in accordance with the Corporate Laws Amendment Act of 2006 and is strongly regulated in terms of how it should be run and managed.

There are two types of companies, being those with and those without share capital. Companies without share capital do not operate commercial businesses, and we will therefore focus on companies with share capital, of which there are also two types, being **private** companies and **public** companies.

Owners of companies are called **shareholders**. A company issues shares which are valued at a certain price depending on the value of the company. This is referred to as share capital. By selling these shares the company obtains capital that is uses to operate its business. Authorised share capital is the shares that have been registered for the company, and that it is therefore allowed to sell. Issued share capital is what has actually been issued and sold.

Generally, any person can buy these shares if they are willing to pay the asking price, although a Shareholders Agreement can limit the ownership of a private company. A public company sells their shares to the general public, and most of them are therefore listed on a stock exchange.

When shareholders have to vote on decisions that must be taken about the business, they vote according to the number of shares that they own. The shareholder that owns the most shares in the business will therefore have the biggest say.

The liability of shareholders is limited to their investment in the business. A company pays income tax on the profit it makes at a fixed rate. The profit can be distributed to the shareholders through dividends. Not all shareholders have to work for the company, but those who do may also receive salaries on which they will be taxed.

Companies have **directors**. Shareholders do not have to be directors, and directors do not have to be shareholders. Directors are elected for the contribution that they can make to the company in terms of knowledge, skills and experience. Directors may receive directors' remuneration from the company. The role of directors is discussed in detail in the next chapter.

Private companies can have between one and fifty shareholders and must have a minimum of one director. To its name "(Pty) Ltd" is appended to show that it is a private company. Certain restrictions can be prescribes for a private company in its Articles of Association.

A public company has a minimum of seven shareholders and no maximum, with at least two directors. "Ltd" is appended to its name to indicate that it is a public company. There are no specific restrictions stipulated in the Articles of Association.

Companies are also registered with CIPRO. The formation procedures and the rules and regulations for the proper operation of a company are complex. On registration, there are a number of documents that have to be drawn up before the company can start operating, being:

- Memorandum of Association
- Articles of Association
- Certificate of Incorporation
- Shareholders Agreement

Public companies will also develop and submit a **prospectus** to invite the public to invest in the company and buy shares. This document includes the same information as in the Memorandum and Articles of Association. As soon as a public company has raised the necessary amount of capital, it receives a certificate to commence business, at which point they are allowed to start operating.

4.4.1. Memorandum of Association

This Memorandum of Association includes the following information:

- Name clause, which gives a detailed description of the company's name
- Objects clause, which states the main line of business and the business objectives
- Liability clause, which states that the liability of the shareholders is limited
- Share capital clause, which indicates the total registered share capital
- Association clause, with details of the financial institution involved in the share offer

4.4.2. Articles of Association

The Articles of Association prescribes how the business will operate and be managed and may place certain restrictions on the business. It includes the following information:

- Details of and requirements for shareholder and director meetings
- Prescriptions for the appointment and remuneration of directors
- Regulations about the types of shares, their values and transferability
- Prescriptions for the declaration and payment of dividends
- Prescriptions for accounting procedures, and the names and details of the auditors

4.4.3. Certificate of Incorporation

A Certificate of Incorporation is only required by a private company. When the Memorandum and Articles of Association have been submitted and approved, the Certificate of Incorporation will be issued and the company will be able to start operating as a business.

4.4.4. Shareholders Agreement

A Shareholders Agreement may be drawn up if necessary. The Shareholders Agreement describes the manner in which shareholders will cooperate in the business and their rights and obligations. This is especially useful if there is a number of shareholders involved in the business, or if the shareholders are not known to each other.

4.5. Business Trust

There are two types of trusts, namely **inter-vivos** trusts and **testamentary** trusts. Inter-vivos trusts are created between living persons, while testamentary trusts are derived from the valid will of a deceased person. The type of trust established for emerging citrus farmers, is an inter-vivos trust.

A trust cannot be established without the assistance of a lawyer, preferably one with knowledge and experience in trust law. The lawyer will be able to provide advice on the drafting and registration of the trust deed and on obtaining letters of authority from the Master of the Supreme Court.

Trusts are established and managed in terms of the Trust Property Control Act of 1988, to be to the benefit of its **beneficiaries**. Trusts appoint **trustees** to manage and control the business of the trust. No one may act as a trustee until authorised by the Master of the Supreme Court.

Trusts are registered with the office of the Master of the Supreme Court in whose area of jurisdiction the greatest portion of the trust assets are located. If more than one Master has jurisdiction over the trust assets, final jurisdiction will rest with the Master of the office where the trust was first registered.

The documents that have to be submitted for the registration of the trust include the Trust Deed and various others that are prescribed by the Act. The Trust Deed describes the business of the trust and regulates the manner in which the trust is managed.

On receipt of all the required documents, the Master issues the nominated trustees with letters of authority to administer the trust. The financial statements of the trust must be kept and available to be submitted to the Master if the Master receives queries about the administration of the trust.

Trustees can be given wide powers by the trust deed. The trustees are the custodians of the assets of the trust on behalf of the beneficiaries and take all financial management decisions. Very importantly, the trustees decide when and how to distribute the profit of the trust to the beneficiaries.

The beneficiaries of a trust are specified in the trust deed, and beneficiary-ship can be transferred. In some cases if the trust deed stipulates it as such, there may even be weighted beneficiaries (specified with a percentage), meaning that some beneficiaries can earn more from the trust than others.

The beneficiaries pay income tax on the income that they receive from the trust, while the trust pays income tax on the profit that remains in the trust.

It is generally not advisable to use a trust as a trading entity, because it is not regulated well by law. The Master has the right to intervene in the matters of a trust if impropriety is expected, but this can be a drawn out process. Trustees are appointed and not elected by beneficiaries, and it is therefore difficult and time-consuming to change the management of a trust.

4.6. Cooperative

A cooperative is established by a number of people who wants to cooperate towards a common goal, with the main aim of providing a service to its members. The owners of a cooperative are called **members**, which will also be the persons who will benefit from the service that the cooperative delivers.

Cooperatives are registered with the Registrar of Cooperatives at the Department of Trade and Industry, which is based in the Companies and Intellectual Property Registration (CIPRO) Office. The registrar answers queries from the public, provides information about cooperatives, and promotes the establishment of cooperatives. Apart from registering and deregistering cooperatives, the Registrar also assesses the financial statements of cooperatives.

A cooperative is democratically controlled by members, meaning that business decisions are reached by the majority rule of the members. The weight that each member's vote carries is determined by the statute of the cooperative and is normally in accordance with the member's shareholding.

Cooperatives also have directors who may or may not be members of the cooperative. The role and obligations of directors are discussed further in the next chapter. The day-to-day management of a cooperative is normally the responsibility of a management team.

The founding document for a cooperative is the constitution, which prescribes:

- The manner in which the cooperative will be managed
- The manner in which profits are distributed to members
- The requirements for membership
- The rights and obligations of members
- Procedures for when a member resigns, becomes ill or dies
- The procedures for the election of directors and the chairperson
- The obligations of directors
- The procedures for calling and holding members' and directors' meetings

Membership in a cooperative can be transferred to another person, meaning that a member can sell his membership. If a member should pass away, his membership will be transferred according to his will.

The profit that the cooperative makes is distributed to the members according to the stipulations of the constitution. In many cases this will be proportionate to the amount of business that the member did with the cooperative.

Members pay income tax on the income that they receive from the cooperative, and the cooperative pay income tax at company tax rates on the profit that it retains.

The Small Enterprise Development Agency (SEDA) is a valuable source of information on cooperatives. Their website address is www.seda.org.za.

5. Registering a Business Entity

As have been mentioned before, and as should be clear from the above, the registration of a business entity in most cases requires the services of a lawyer or audit firm. It is however helpful to have the contact details of the various government agencies that deal with registrations at hand. These agencies will be able to supply you with more information, and also with an estimated cost of registration.

Registration Offices

Details	*CIPRO*	*Registrar of Cooperatives*	*Master's Office*
Telephone	0861-843-384 (Department of Trade and Industry Call Centre)	(012) 319-7188 (or contact DTI Call Centre)	(012) 315-1711
Fax			(012) 315-1901
Physical Address	77 Meintjies Street	77 Meintjies Street	3rd Floor

	Block F Sunnyside Pretoria 0001	Block F Sunnyside Pretoria 0001	South Tower Momentum Centre 329 Pretorius Street Pretoria 0001
Postal Address	P.O. Box 429 Pretoria 0001	P.O. Box 429 Pretoria 0001	Private Bag X81 Pretoria 0001
Website	www.cipro.co.za	www.cipro.co.za	

Chapter 4

- The first step in the planning process is to decide what you want to achieve with this business in the long term and formulate the vision for the business.
- The mission statement of the business describes what you are doing at the moment.
- Long-, medium-, and short-term objectives describe how you will get from where you are (mission) to where you want to be (vision).
- The most important plans that required for a citrus production business are the production plan, purchasing plan, marketing plan, human resources plan, and financial plan.
- The production plan for a citrus farm describes all the action that will be taken to produce the crop, and also includes yield projections and expected pack-out percentages.
- The purchasing is based on the production plan and lists all the resources for the production inputs, tools and equipment that are required.
- The marketing plan describes the markets that will be targeted and the prices that can be expected for the product.
- The human resources plan shows the total number of workers required in various positions and incorporates a skills development plan.
- The financial plan uses information from all the other plans, and normally consists of a balance sheet, income statement and cash flow budget projected for at least a ten-year period.
- The business plan is a summary of all the separate plans that have been formulated as described above.
- In South Africa, the following types of business entities are most commonly used for farming operations sole ownerships, partnerships, companies, closed corporations, business trusts, and cooperatives.
- (Revise table at end of learner guide)

Complete activities 7 and 8 in the **Learner Workbook**.

Chapter 5

Legislation and Statutory Requirements

This chapter addresses the following specific outcomes:

Identify the statutory elements in the structure of an organisation in a selected business sector
Explain how their own business sector is regulated
Identify legislation that applies to their own business sector

1. Introduction

Agribusinesses in South Africa operate within a specific legislative and statutory framework.

In the previous chapter, we discussed the planning, selection and registration of a business entity that will meet the needs of the owners of the business. Once this is done, there are a number of other registrations and licences that you require before you can start doing business, on which we concentrate in this chapter.

In addition, it is important for any citrus grower in South Africa to have an understanding of the legislative framework in which he / she operates, and this chapter therefore also includes a summary of the applicable legislation.

2. Business Licensing

Depending on the other activities that might take place on your farm, you may need specific licences, such as a:

- Business Licence
- Informal Trading Permit
- Liquor License
- Public Transport Operator's Permit
- Tourist Guide Registration

You also need to register your farm as a production unit with the Department of Agriculture. They will issue you with a **Production Unit Code (PUC)** which must be displayed on all your labels when your produce is sold or exported. It is also now that you will apply for accreditation and / or registration with bodies such as EurepGAP, depending on your Marketing Plan.

3. Statutory Registrations

Statutory

Statutory means regulated or imposed by a statute or law of the country. Statutory requirements are not voluntary — if you want to do business you have to fulfil these requirements, otherwise you will be liable for the penalties prescribed by the statute that governs the requirement.

Statutory registrations that are required by law in South Africa are the following:

- Income Tax
- Pay As You Earn (PAYE)
- Value Added Tax (VAT)
- Skills Development Levies (SDL)
- Unemployment Insurance (UIF)
- Workmen's Compensation

Note that some of these registrations may not immediately be required, depending on the stipulations of the statute through which they are regulated. For instance, you only need to register for Skills Development Levies if your annual wage bill exceeds R500,000.

Your auditor or lawyer will be able to advise and assist you on what you need to register for, and the documentation that you need for these registrations. It is however important that you understand the purpose of each of these levies and taxes.

3.1. Income Tax

Income tax is paid to the government of South Africa through the South African Revenue Services (SARS). In simple terms, the government uses the money that they get from income tax to run the country and to provide services to the citizens of the country, such as education, health services, safety and security services, and so on. Income tax is also used to pay the salaries of all government employees.

Every single person and business entity that earns an income in South Africa is obligated to pay income tax. There are two main types of income tax, being:

- Company tax
- Personal income tax

3.1.1. Company Tax

Companies, including CC and cooperatives, pay income tax on the profit they make at a fixed rate. This rate is announced by the Minister of Finance every year during his budget speech. The rate for 2007 is 29%.

Companies calculate their profit and submit an income tax return to SARS every year, together with a set of financial statements. In the case of private and public companies, as opposed to CCs, financial statements must be audited and certified by a registered auditor, also called a chartered accountant. Well-known audit firms that you may be familiar with are KPMG and PriceWaterhouseCoopers.

Company tax can become complicated, and auditors and tax consultants study for a long time in order to be able to help business do their taxes. There are also a number of other types of taxes that companies are subjected to, such as capital gains tax and secondary tax on companies.

Companies pay tax over to SARS twice a year, estimated on the amount of profit that they are expected to make for the year. This is referred to as **provisional tax**. Once the tax return of the company is submitted, a final calculation is made of the amount that they should have paid, the provisional tax payments is deducted from this final amount, and the company pay over the balance. If the company has paid too much provisional tax, SARS pays the balance back to the company.

If companies do not pay their taxes on time, SARS may levy penalties and interest on the outstanding amounts. SARS may also audit the company's books at any time to verify that the information on the tax return is not accurate. Currently, the policy of SARS is to audit every company at least once in five years.

3.1.2. Personal Tax

Every individual that earns a salary or makes a profit is subject to personal income tax. Personal income tax is not levied on a fixed rate, but works on a sliding scale that depends on the amount of money you earn. People that earn a salary lower than a set minimum do not pay income tax, although they are still subject to it.

Individuals who earn more than a certain gross salary per year are obligated to register for income tax, along with any individual that does not earn a fixed salary, such as people that work on commission or people that own a sole ownership business, or have sources of income apart from their salary. These individuals complete an annual income tax return that must be submitted to SARS. All shareholders in companies and members of CC or cooperatives have to be registered for income tax in their private capacity.

An owner of a sole ownership business and partners in a partnership also pays provisional tax based on the amount of profit that he is expected to earn from his business. After he has submitted his annual tax return a final calculation is made and the shortfall or over-payment is paid to SARS or back to the individual.

3.2. Pay As You Earn (PAYE)

Individuals who earn salaries are taxed on a monthly basis through **Pay As You Earn (PAYE)** tax. This is merely a way to collect personal income tax on a monthly basis. PAYE is calculated according to tables that are based on the sliding scale for personal income tax, and that are published by SARS on an annual basis.

Any business entity that employs people has to be registered for PAYE. The business is obligated to deduct the prescribed amount of tax from any money that they pay to employees, including overtime, bonuses, commission, and so on.

On a monthly basis, the business entity completes a PAYE return (EMP201) that indicates the total amount of PAYE that it has deducted from its employees. This amount must be over to SARS every month. Even of the business entity only has employees that earn salaries below the minimum level and that therefore pay no tax, they must still be registered for PAYE, and they must still submit a monthly return to SARS.

It is a very serious offence not to deduct income tax from employees or not to pay the amount that has been deducted to SARS. SARS levies penalties and interest on any amount that is not paid over, and the owners of the business may be prosecuted.

At the end of every tax year — which in South Africa stretches from March to February the next year — the business entity issues a certificate, called an IRP5, to each of its employees, stating the gross income that the employee earned, and the amount of PAYE that was deducted. The employee attaches this certificate to their annual income tax return, if they are required to submit one.

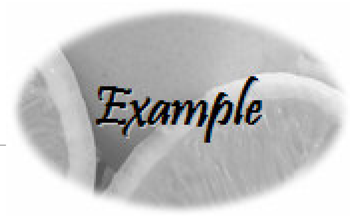
The company then complete an annual return that lists all the IRP5s that it has issued and all the amounts that it paid over during the year. These two amounts must match. This return is submitted to SARS together with copies of the IRP5s that was issued to employees.

3.3. Value Added Tax (VAT)

Value added tax (VAT) is paid by every single person that buys something from a registered vendor, whether it is a cool drink from the shop on the corner or a motorcar or a property on the beach. Any business entity that has an annual turnover of more than R500,000 is obligated to register for VAT and to charge VAT on everything they sell. Note that if you are not registered for VAT, it is a criminal offence to charge VAT.

The VAT rate is determined by the government and has been fixed at 14% for the last few years.

Value Added Tax means what it says. Let us look at the simple example below to explain what value adding means.



Value Adding

John is a registered VAT vendor and operates a shop in a residential area. John buys an item from the retailer for R10 and sells it in his shop for R15.

When John buys the product, he pays R10 plus R1.40 VAT. He will therefore pay the retailer the amount of R11.40.

When he sells the product, he will charge R15 plus R2.10 VAT. He will therefore receive R17.10 from his customer for the product.

When John transported the item from the retailer to his shop, put it on the shelf to be sold, and decided that he will charge R15 for it, he added value to the item of R5. When he bought it, it was valued at R10, when he sells it, it is valued at R15.

John must now pay the difference between the VAT amount that he received (R2.10) and the VAT amount that he paid (R1.40) to SARS. This R0.70 is 14% of the value that he added (R5.00).

The above example forms the basis for all VAT transactions. It becomes more complicated only because more and more transactions are added. John may also in the course of adding value to the item incur other costs on which he pays VAT, for instance by paying someone to transport the item. The VAT on these costs can also be deducted from the VAT amount that he received.

Business entities in effect receive VAT and pay VAT on behalf of SARS. (John paid R1.40 on behalf of SARS, and then received R2.10 on behalf of SARS.) The difference between the two amounts (R0.70 in John's case) belongs to SARS and must be paid over to them.

Although most items that are bought or sold are subject to VAT, some items are said to be **zero rated**, meaning that even though you "pay" VAT on them, you pay it at a zero rate. Examples of zero-rated items are staple foods, such as brown bread and maize meal, and fresh produce. This is very important for citrus growers, because this means that they charge VAT at a zero rate on all the items that they sell.

Generally, business entities submit VAT returns on a two-monthly basis, with the exception being large businesses with a turnover of above R30 million per month that has to submit returns on a monthly basis. On a VAT return the business entity indicates the total value of their sales that were subject to VAT at 14% and the VAT amount that they received and the total value of their sales that was subject to VAT at 0%. This is referred to as **output** VAT.

The amount of VAT that was paid to various suppliers and other service providers are also indicated. VAT that was paid on capital goods, for example machinery and equipment, are shown separately. This is referred to as **input** VAT.

The difference in the output VAT and the input VAT (what the vendor paid and they received) is calculated. If the vendor received more VAT than what they paid (output VAT is more than input VAT) the difference is paid to SARS. If the vendor paid more VAT than what they received (input VAT is more than output VAT), the difference is paid to the vendor by SARS. This is often the case with agribusinesses because of the fact that their produce is zero rated and that they therefore do not receive VAT on their income.

It is a criminal offence to not be registered for VAT if you meet the requirements for registration, and to not pay the VAT that you have received to SARS. SARS has the option of auditing the VAT returns of any vendor at any time and there are heavy penalties for any one who is found to have transgressed the regulations.

3.4. Skills Development Levies (SDL)

Skills development levies (SDL) were instituted to assist with the funding of skills development in South Africa. All business entities that has a wage bill of more than R500,000 per year must be registered for SDL.

SDL are calculated as a percentage of the taxable earnings of the employees of the business entity. At the moment, the percentage is fixed at 1% of taxable earnings. SDL is collected by SARS, and forms part of the monthly employment tax return on which PAYE is declared. SARS is however only the collection agency for SDL, and the amounts that they receive from employers are paid over to the National Skills Fund.

When an employer registers for SDL, he is asked to indicate the nature of his main business activity. According to this, the employer is allocated to the jurisdiction of one of the twenty-five Sectoral Education and Training Authority (SETAs) in South Africa. The SETAs are tasked with the funding of skills development in their specific sector. The AgriSETA is the body that fulfils this function for the agricultural SETA.

The National Skills Funds retains 20% of the levies that they receive from employers via SARS and pays the rest over to the SETA under whose jurisdiction the employer falls. The employer can claim back 50% of the SDL that he paid throughout the year if he submits and implements a workplace skills plan. The SETA therefore keeps 50% of the levies that they receive until it is claimed back by the employer. Of the remaining 30%, the SETA uses 10% for administration and 20% goes to the discretionary fund of the SETA. From this fund, the SETA funds skills development in their sector according to the priorities that have been identified by the sector.

Every employer that meets the minimum requirements is obligated to pay skills development levies, and have the opportunity of getting half the levies that they paid back.

3.5. Unemployment Insurance (UIF)

Unemployment insurance is paid to the Unemployment Insurance Fund. SARS collects UIF levies on behalf of the fund, and the details are also disclosed on the monthly employee tax returns. All business entities and individuals that have employees are obligated to register for UIF.

Unemployment insurance was instituted to provide a measure of protection for employees against unemployment. If an employee loses his job, he may lodge a claim with the fund and is then paid a percentage of his salary for a fixed number of months. This is to provide the employee with at least some income while he is finding another job. Unemployment benefits are also paid out to women during their maternity leave if their employer is not willing to pay their full salary during this time.

Contributions to the UIF are paid in equal portions by the employer and the employee. It is calculated as 1% of the gross salary of the employee in total, meaning that the employee and employer both contribute 0.5% of the employee's gross salary. There is a maximum levy for individual employees, meaning that if an employee earns more than a certain amount per month he will pay only up to this maximum amount. The benefits that the employee may claim should he become unemployed are also limited to this level.

Employers are obligated to deduct UIF from the salaries of their employees, and to pay over this together with their own contribution every month.

3.6. Workmen's Compensation

Workmen's compensation is aimed at providing compensation to employees or their families if the employee should become ill, or be injured or killed as a direct result of a workplace accident or work-related disease.

Every employer is obligated to be registered for workmen's compensation. On an annual basis, the employer completes a return that states the total estimated salary expenditure for the year, and the nature of the business that he operates.

Based on this, an assessment of the contribution that the employer must make is calculated. The employer is responsible for the total contribution.

4. Legislative Framework

The citrus industry and the wider agricultural sector operates within the framework of specific legislation, such as laws, or Acts of Parliament, that stipulates requirements or otherwise place boundaries on the various production and marketing activities and how they are conducted.

In this section, we look at various acts that have a bearing on the industry, and their implications.

4.1. Conservation

The Acts regulating the conservation of the environment are the following:

- Conservation of Agricultural Resources Act of 1983
- National Environmental Management Act of 1998
- Plant Improvement Act of 1976

4.2. Product Standards, Phytosanitary Requirements and Food Safety

Food safety standards in South Africa are prescribed by the Department of Agriculture through the Agricultural Product Standards Act of 1990 (APS). The Act in turn empowers a number of regulations which apply to specific commodities.

Based on these regulations, standards and requirements documents are developed by the Department of Agriculture in consultation with commodity organisations. Standards and requirements documents are applicable to specific cultivars and types within a commodity, and are in the form of checklists.

Perishable Products Export Control Act of 1983 regulates the activities of the PPECB, while the Agricultural Pests Act 1983 regulates the movement of plant material between regions and districts in South Africa.

4.3. Health and Safety

The health and safety related to farming activities are prescribed by the following legislation:

- Health Act of 1977
- Registrar of Fertilisers Act 36 of 1947
- Farm Feeds, Agricultural Remedies and Stock Remedies Act of 1947
- Occupational Health and Safety Act

4.4. Citrus Marketing

The marketing of fresh produce and the activities of marketing agents are regulated by the following legislation:

- Marketing Act No.47 of 1996

- Marketing of Agricultural Products Act (Amended) of 2001
- Agricultural Produce Agents Act of 1992

4.5. Citrus Research

The research activities in the industry that are conducted mostly by the CRI are regulated by the following legislation:

- Agricultural Research Act of 1990
- National Advisory Council on Innovation Act of 1997
- Plant Breeders' Rights Act of 1976

4.6. Technical Advisory Services

The Natural Scientific Professions Act of 1993 regulates the activities of individuals and organisations that provide technical advisory services to the industry.

4.7. Equity and Human Resource Management

The human resource management and employment equity of growers and growers organisations are regulated through the following legislation:

- Employment Equity Act of 1998
- Basic Conditions of Employment Act
- The Land Reform Act (Labour Tenants) of 1996
- Skills Development Act

Chapter 5

- Once the appropriate business entity has been selected, the required business licences must be obtained, and the production unit must be registered with the Department of Agriculture.
- Statutory registrations that are required by law in South Africa are income tax, Pay As You Earn (PAYE), Value Added Tax (VAT), Skills Development Levies (SDL), Unemployment Insurance (UIF), and Workmen's Compensation.
- Income tax is paid to the government of South Africa through the South African Revenue Services (SARS), and there are two main types being company tax and personal income tax.
- Companies, including CC and cooperatives, pay income tax on the profit they make at a fixed rate.
- Every individual that earns a salary or makes a profit is subject to personal income tax, which works on a sliding scale depending on the amount of money you earn.
- Individuals who earn salaries are taxed on a monthly basis through Pay As You Earn (PAYE) tax. Any business entity that employs people has to be registered for PAYE.
- VAT is a tax that is charged on every item (with a few very specific exceptions) that is sold by a business, and any business entity that has an annual turnover of more than R500,000 is obligated to register for VAT and to charge VAT on everything they sell.
- Skills development levies (SDL) were instituted to assist with the funding of skills development in South Africa, and all business entities that has a wage bill of more than R500,000 per year must be registered for SDL.
- All business entities and individuals that have employees are obligated to be registered for UIF and all business entities and individuals that have employees are obligated to register for UIF.
- Workmen's compensation is aimed at providing compensation to employees or their families if the employee should become ill, or be injured or killed as a direct result of a workplace accident or work-related disease.

- The citrus industry is regulated through a variety of legislation.
- The following aspects of the industry is regulated:
  - Conservation
  - Product standards and food safety
  - Health and safety
  - Citrus marketing
  - Citrus research
  - Technical advisory services
  - Equity and human resource management

Complete activity 9 in the **Learner Workbook**.

Chapter 6

Human Capital in an Agribusiness

This chapter addresses the following specific outcomes:

Identify the statutory elements in the structure of an organisation in a selected business sector
Describe the structure of an organisation within their own business sector
Explain how their own business sector is regulated
Identify legislation that applies to their own business sector

1. Introduction

No agribusiness can survive without its people. It is important that every person that is involved in a business understands their role in the success of the business and enters the business with realistic expectations.

2. Basic Organisational Diagram (Organogram)

Below is an example of a basic organogram for a citrus production unit.

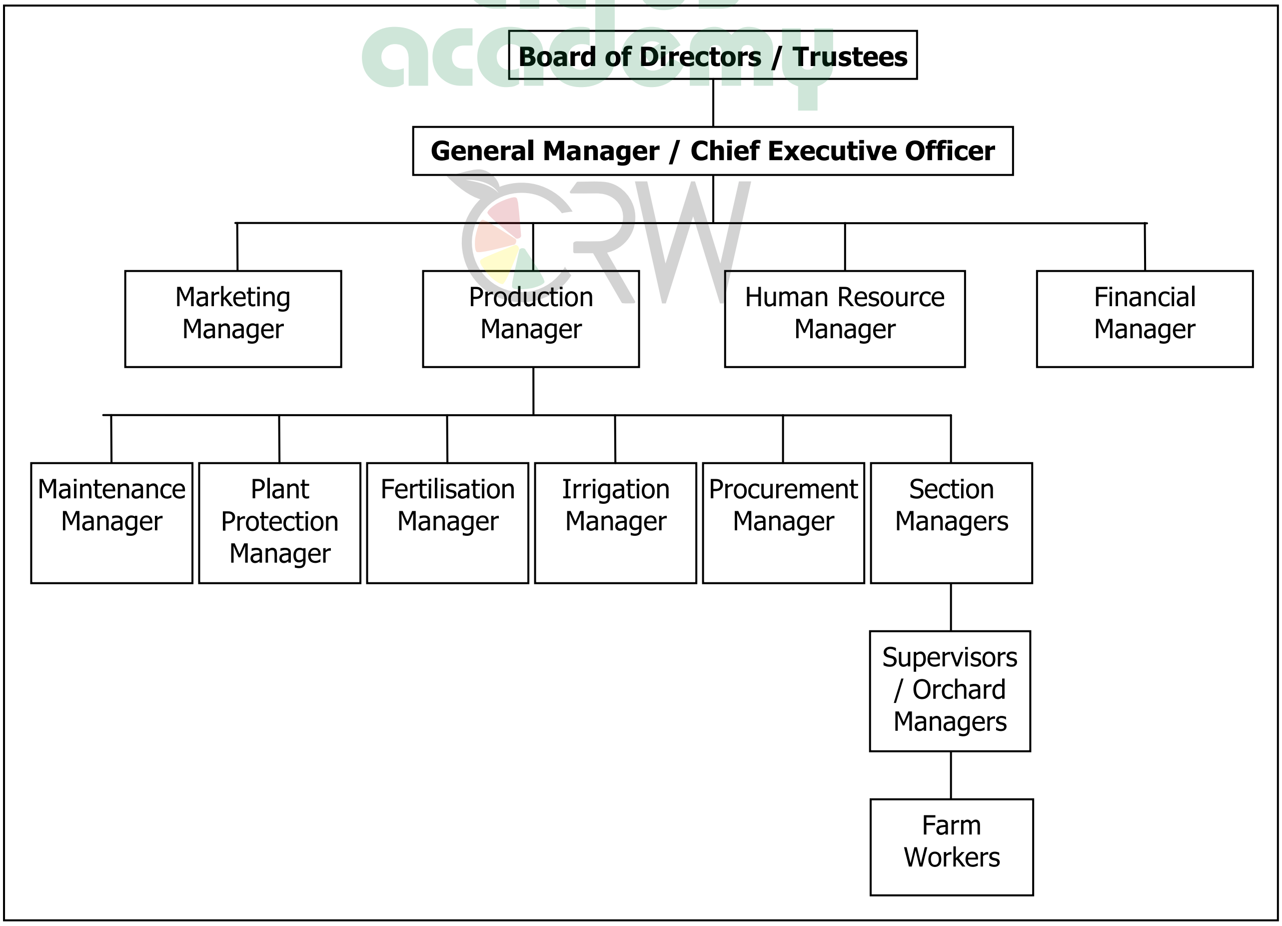


Figure 6.1: Agribusiness Management Organogram

This organogram is more detailed than the average production unit would need, and shows positions that will in many cases not each be filled, or where more than one position will be filled by the same person. On many smaller farms, the production manager will for instance fulfil the function of the fertilisation, plant protection, irrigation, etc. managers that are shown in the organogram under him.

This organogram also does not include the positions under the other managers. The financial manager will have the administration personnel under his management; in fact, most of the managers will have a workforce under them that assist them in their tasks.

Note that the upper management positions under the general manager are in line with the plans that have been developed as part of the business plan. Each manager will take responsibility and cooperate with each other to execute and implement these plans, and therefore the business plan as a whole.

3. The Role of the Board of Directors and Trustees

In a business entity such as a company, CC, or cooperative strategic management decisions are taken by the Board of Directors, and by the Board of Trustees in the case of a trust. The Board is responsible for ensuring that the business operates in a legal and responsible way.

The Board of Directors or Trustees is the highest governing authority within the management structure of such a business entity. The primary responsibility of the Board is to look after the interests of the owners of the business entity, and the beneficiaries of a trust. The Board also makes strategic decisions that guide the direction of the business entity.

The directors or trustees that sit on the Board are selected or appointed in accordance with the founding documents. The founding documents prescribe the composition of the Board, meaning who will be represented and who elects or appoints the members, and the duties and remuneration of the members of the Board.

Directors and trustees can be appointed in an executive or a non-executive capacity. **Executive** Board members take part in the day-to-day management of the business, while non-executive members do not.

The founding documents also prescribe the procedures for calling and conducting Board meetings. Minutes must be held of all meeting of the Board, and these minutes must be made available to the owners (shareholders, members or beneficiaries) of the business entity. The Board also has the responsibility to see to it that the financial matters of the entity are in order, and that the annual financial statements is drawn up and distributed to the business owners.

Directors and trustees carry a very special responsibility. They are held accountable for all the actions of the business entity, and are therefore exposed to legal prosecution if the entity's affairs are not conducted in a responsible and legal manner.

4. The Role of Management

The management team are directly involved and responsible for the day-to-day management of the business entity. In the organogram above, the management team will consist of the general managers and the managers who report to him such as the production manager and the financial manager. The general manager is in some companies referred to as the Chief Executive Officer, or CEO.

The management team carries the primary responsibility for implementing the plans that make up the business plan. The general manager or CEO must report to the Board on a regular basis on progress that has been made with implementation. The Board has to approve any changes to these plans should it become necessary.

The management team is made up of a group of experienced, skilled and knowledgeable individuals. This management team, and in particular the general manager or CEO, is appointed by the Board. Executive Board members also forms part of the management team.

The management process chain below gives and indication of the actions that the management team take.

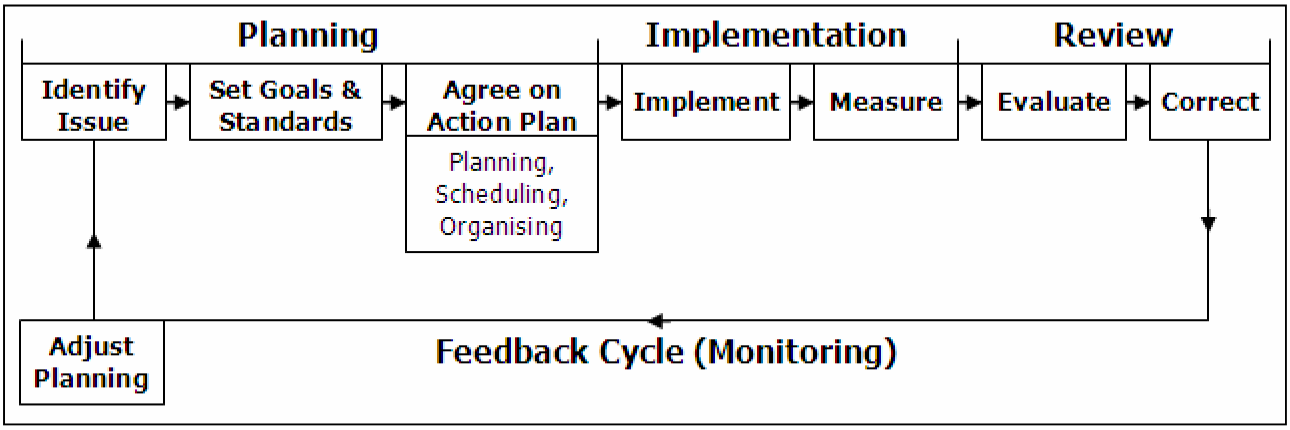


Figure 6.2: Management Process Chain

There is a lot more to be said about the principles of managing a complicated operation such as a citrus farm. The Production Management learning material of the Citrus Academy is strongly recommended for assisting you in developing the necessary skills and knowledge for this challenging task.

5. Corporate Governance and Ethics

Managing a business entity in an ethical, responsible manner is in the interest of all those involved with the business. The Board and the management team must ensure that the decisions and actions take cognisance of their responsibility towards the business owners, the employees, the wider community in which they operate, and the natural environment.

Ethics are personal beliefs that guide a person when deciding on a course of action. For a decision to be ethically sound, cognisance must be taken of everyone and everything that the course of action may impact on and an effort must be made to act fairly and justly. Morals are the principles of doing the right thing according to the norms of society. Morals contribute to ethical standards.

Business ethics are the standards of behaviour that guide managers in their work and the actions they take. A business entity may choose to develop guidelines that regulate the ethical behaviour of its management, employees and owners. These guidelines define the values by which the business will function.

Corporate governance principles are generally accepted in the business community as the "right" and ethical way to do business. These guidelines prescribe the manner in which Board members should carry out their duties, the manner in which financial reporting should be undertaken, and the manner in which management and employees should act.

A business entity develops a culture over time. An entity that is able to foster a culture that is based on ethical, responsible behaviour is able to build and protect the reputation of the business, to promote investor confidence, and to attract customers and keeps them loyal. If employees know that the decisions and actions taken by business owners and management have a sound ethical basis, they are more loyal and will contribute more to the success of the business.

6. Organisational Citizenship and Social Responsibility

Every business entity has a social responsibility to the community in which they operate. The business must also make a positive contribution as a citizen of the broader business environment.

A business has the primary responsibility towards its owners of generating a profit in a sustainable manner. Secondarily, the business has a responsibility towards its employees to pay them fair salaries and provide them with the necessary support, towards its customers to provide them with good quality products at reasonable prices, towards the community to support it and the well-being of its citizens, and towards the environment to ensure that the manner in which it conducts its business does not impact negatively and threaten the long-term sustainability of natural resources.

As a citizen of the wider business community, the business should be aware of the impact that its actions and decisions have on a wider front. An example is when a citrus producer takes the decision to export fruit that does not meet the prescribed quality standards, which can result in rejections and a loss of confidence in overseas markets. This may have a negative impact on all the citrus producers in the country, because it may impact on the willingness of that market to accept their fruit.

Chapter 6

- It is important that every person that is involved in a business understands their role in the success of the business and enters the business with realistic expectations.
- In a business entity such as a company, CC, or cooperative strategic management decisions are taken by the Board of Directors, and by the Board of Trustees in the case of a trust.
- The Board is responsible for ensuring that the business operates in a legal and responsible way.
- The directors or trustees that sit on the Board are selected or appointed in accordance with the founding documents.
- The management team are those people who are directly involved and responsible for the day-to-day management of the business entity.
- The management team carries the primary responsibility for implementing the plans that make up the business plan.
- Managing a business entity in an ethical, responsible manner is in the interest of all those involved with the business.
- Ethics are personal beliefs that guide a person when deciding on a course of action, and for a decision to be ethically sound, cognisance must be taken of everyone and everything that the course of action may impact on and an effort must be made to act fairly and justly.
- Business ethics are the standards of behaviour that guide managers in their work and the actions they take.
- Corporate governance principles are generally accepted in the business community as the "right" and ethical way to do business.
- Every business entity has a social responsibility to the community in which they operate and must also make a positive contribution as a citizen of the broader business environment.

Complete activity 10 in the **Learner Workbook**.

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PLEASE NOTE: Trusts have not been included in the table below, because it is not considered to be a viable trading entity.

	Sole Ownership	*Partnership*	*Close Corporation*	*Private Company*	*Public Company*	*Cooperative*
Owners	Sole trader	Partners	Members	Shareholders	Shareholders	Members
Number of Owners	1 to 10	2 to 20	1 to 10	1 to 50	7 to unlimited	
Liability of Owners	Unlimited liability	Unlimited liability	Limited liability	Limited liability	Limited liability	Limited liability
Owners Earnings	Profit	Profit share according to partnership ratio	Salary / Dividends	Salary / Dividends	Salary / Dividends	Salary / Dividends
Taxation	Personal tax - owner	Personal tax - partners on profit share	Company tax	Company tax	Company tax	Company tax
Strategic Management Body	Owner	Partners	Members	Board of Directors	Board of Directors	Board of Directors
Continuity	None	None	Full	Full	Full	Full
Founding Documents	None	Partnership agreement	Registration forms	Registration forms Memorandum of Association Articles of Association Certificate of Incorporation Shareholders Agreement	Registration forms Memorandum of Association Articles of Association Prospectus	Registration forms Constitution
Advantages	• Easy to form • Owner has personal contact with customers and employees • Owner gains experience in all aspects of business • Owner can easily change strategies and plan to suit his personal goals	• Easy to form • More than one person contributes to capital • Joint decision making • Partners contribute their skills and expertise • Workload is spread better, increasing efficiency and	• Easier to form than company, but still more expensive than partnership • Members have limited liability • Business continuity • All members can participate in management activities • Has business	• Shareholders have limited liability • Has business continuity • Shareholders are protected through legislation • Annual audits protect shareholders' interests • Directors cannot bind company with	• Shareholders have limited liability • Has business continuity • Access to capital • Shareholders protected though legislation and stock exchange • Easy transfer of shares	• Shareholders have limited liability • Has business continuity • Flexibility in securing assets and income • Easy transfer of membership

	Sole Ownership	*Partnership*	*Close Corporation*	*Private Company*	*Public Company*	*Cooperative*
	• All profit belongs to the owner	productivity	continuity	unauthorised actions • Tax planning and estate planning advantages		
Disadvantages	• Capital is limited to what owner can contribute • All debts incurred are responsibility of owner • Liability of owner is unlimited • Business lifespan is determined by that of owner	• Partnership has to dissolve with change of partners • Urgent decisions cannot be made in the absence of other partners • Liability of partners is unlimited	• Limited to 10 members, which may hamper growth and expansion • Under certain conditions, members may lose limited liability • Members must consent to a member selling his interest • Every member can, with or without the knowledge of the other members, bind the business to an agreement	• High establishment and operating costs • Extensive accounting and statutory requirements, even for small companies • No shares on offer to the public and limited share transfers	• Establishment cost much higher than for CCs or private companies • Strict requirements of stock exchange	• Members' investment does not increase in value • Lack of cooperation between members has been the major cause of failure