

Financial Lifeskills, Tenure Options and Contracts NQF 1 Workbook



human settlements

Department:
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SUSTAINABILITY
INSTITUTE



JUTA

Financial Lifeskills, Tenure Options and Contracts NQF 1 Workbook

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In the quest for building 'integrated sustainable human settlements', a learning partnership between the National Department of Human Settlements (NDHS) and the Sustainability Institute (SI) was formed, at the request of NDHS, in November 2008.

In our journey, together with community members and NDHS officials, we have developed this curriculum – trying, testing and reworking in all South Africa's nine provinces.

We have many to acknowledge:

- NDHS for initiating and funding this ambitious project;
- Officials and community members who have provided input and feedback;
- SI for the pioneering work with Lynedoch EcoVillage that began this journey, and the overall project design;
- SI and Juta for project management and support;
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- Many thanks to all authors, editors, project managers and support teams that produced these materials.

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Individual learning plan

Surname	Name
ID number	Employee number
Company	Venue
Training days	Training times
Start date	Facilitator

Introduction

Welcome to this course! On successful completion of this workbook, you should have acquired all the knowledge and skills against the following unit standard:

ID #	Title	Credits	Level
15092	Plan and manage personal finances	5	1
13995	Demonstrate an understanding of contracts and their sources	2	1
262904	Describe and select appropriate tenure options	4	1
14444	Demonstrate an understanding of a general business plan and adapt it to a select business idea	7	1
10006	Demonstrate an understanding of entrepreneurship and entrepreneurial qualities	2	1

Each of the unit standards is included at the end of each chapter in the form of a self-assessment document.

What is assessment all about?

Assessment takes place at different intervals of the learning process and includes various activities. Some activities will be done before the commencement of the programme whilst others will be done during programme delivery and others after completion of the programme.

The assessment experience should be user friendly, transparent and fair. Should you feel that you have been treated unfairly, you have the right to appeal. Please ask your facilitator about the appeals process and make your own notes.

Important words and ideas

In this book we will use and introduce you to terms and phrases used in the industry but we will also explain those concepts in simple terms.

Something to know

We learn from teaching and by experience, which means that each of us brings different prior knowledge to any new learning process. Inevitably, each individual in a group has a different depth of prior knowledge and this characteristic has led to the universal 'Rule of Thirds in Learning':

- one third of the information you are given will already be known by you;
- one third is likely to be information you have come across before but you may have forgotten, or perhaps you were not paying attention at the time; and
- one third will probably be information that is new to you.

Our advice is to check everything you read in this book and, if you are sure it is something you know and understand, then press on with the next section (perhaps offering help to someone to whom the information is new, which will reinforce your understanding).

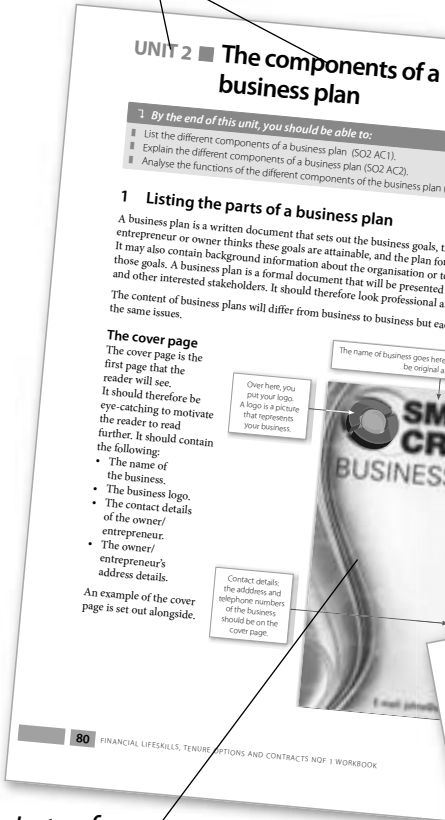
Something to do

These are suggestions of things learners can do to enhance their understanding of the content.

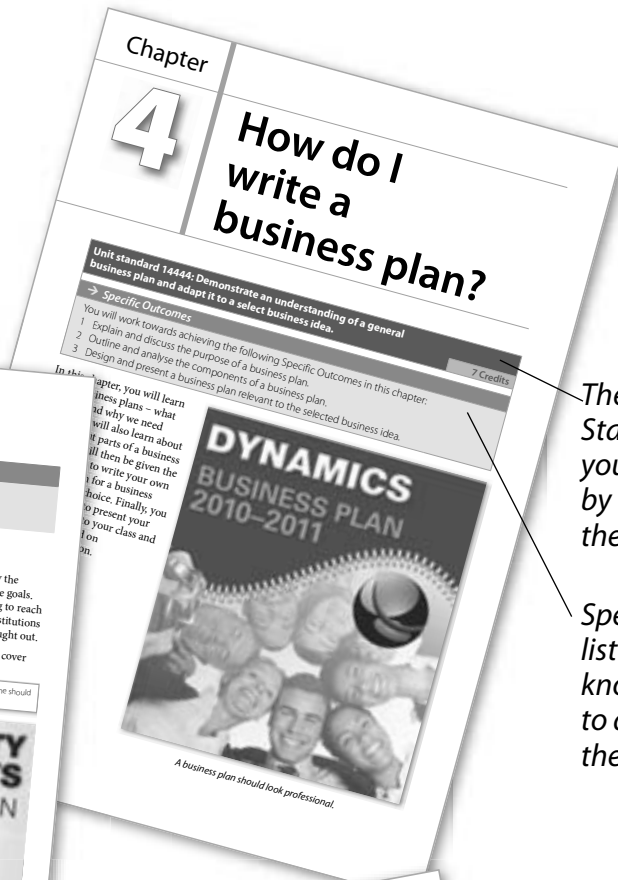
Please note that all completed activities, tasks and other items on which you were assessed must be kept in good order as it becomes part of your Portfolio of Evidence for final assessment.

How this book works

This is the unit number and title, which tells you what you will be covering

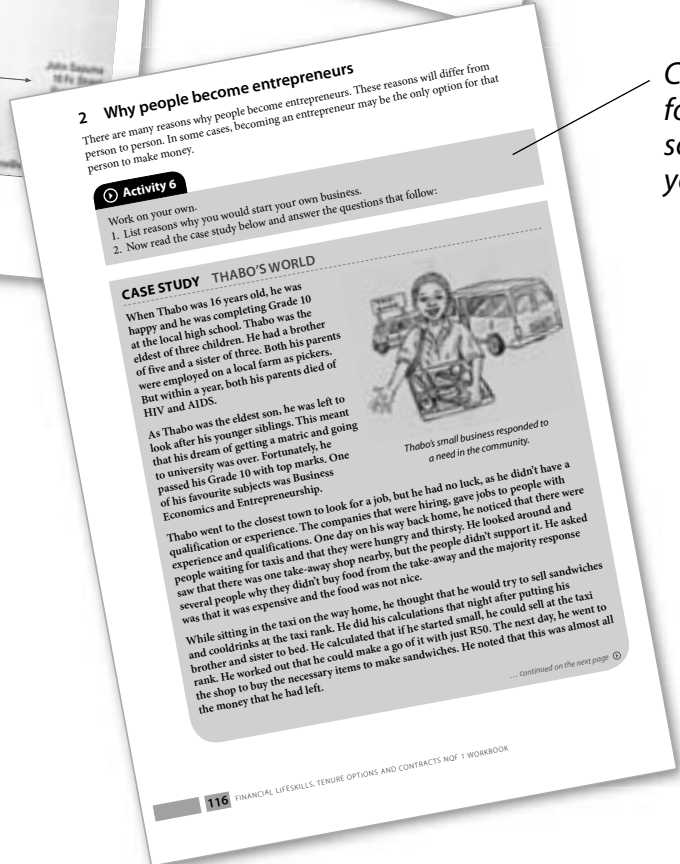


Lots of artwork to help you understand the work



These are the Unit Standard/s that you will achieve by the end of the chapter

Specific Outcomes list what you will know and be able to do by the end of the chapter



Case studies are followed by activities so you can apply your skills

Plan and manage personal finances

U/S No. 15092 NOF Level: 1 Credits: 5

Specific Outcome 1: Explain the importance of managing personal finances.					
#	Assessment Criteria Can the learner:	Learner Guide Pg #	Assessment method/ tool	Facilities/resources required	
1.1	Socio-economic circumstances in South Africa are explained in order to understand the impact on one's financial situation.	2-3	Theoretical assignment and discussion	Learner's Guide	
1.2	The consequences of not having a good credit rating are explained in relation to financing credit related purchases.	4-5	Theoretical assignment and discussion	Learner's Guide	
1.3	The risks, pitfalls, limitations and unforeseen events that affect a budget are identified to understand the consequences of poor financial planning.	6-7	Theoretical assignment and discussion	Learner's Guide	
Specific Outcome 2: Set personal financial goals.					
#	Assessment Criteria Can the learner:	Learner Guide Pg #	Assessment method/ tool	Facilities/resources required	
2.1	The difference between "wants" and "needs" is explained by providing examples from personal experience Range: Needs may include things required for survival. Wants refer to extras that are nice to have.	8	Theoretical assignment and discussion	Learner's Guide	
2.2	Personal wants and needs are identified and listed to set personal financial goals.	9	Theoretical assignment and discussion	Learner's Guide	
2.3	Personal goals are planned and recorded in order to meet own or family needs or wants. Range: Formal financial institutions may refer to banks, micro-financial institutions, and building societies.	9	Theoretical assignment and discussion	Learner's Guide	

Specific Outcome 3: Identify ways to achieve personal financial goals.				
#	Assessment Criteria Can the learner:	Learner Guide Pg #	Assessment method/ tool	Facilities/resources required
3.1	Basic financial terminology is explained with examples. Range: These terms may include but are not limited to: hire purchase agreements, savings account, cheque account, transmission account, mortgage loan, credit, debit, interest.	10–12	Theoretical assignment and discussion	Learner's Guide
3.2	Formal financial institutions and their services are described in order to make an informed choice of which service to use. Range: Formal financial institutions may refer to banks, micro-financial institutions, and building societies.	12–15	Theoretical assignment and discussion	Learner's Guide
3.3	Informal financial institutions and their services are described and explained in terms of advantages and disadvantages so that an informed choice can be made. Range: Informal financial institutions may refer to friends, family, "stokvel", "loan sharks", burial societies, pyramid schemes and other informal lending schemes.	16–18	Theoretical assignment and discussion	Learner's Guide
3.4	Ways to save money using various financial options are listed in terms of personal priorities and long-term financial stability.	19–20	Theoretical assignment and discussion	Learner's Guide
3.5	Ways to generate extra money to supplement personal income are identified to achieve goals. Range: These ways may include working overtime, taking on extra jobs, starting a small, home-based business, investments, lending money.	21–22	Theoretical assignment and discussion	Learner's Guide

Specific Outcome 4: Develop a personal and/or family budget.				
#	Assessment Criteria Can the learner:	Learner Guide Pg #	Assessment method/ tool	Facilities/resources required
4.1	Items on a personal and/or family budget are listed including income and expenses for a period of three months. Range: Income may include salaries, income from extra jobs or home-based businesses, investment profits, dividends from stock. Expenses may include essential and non-essential expenses based on needs and wants.	23–25	Theoretical assignment and discussion	Learner's Guide
4.2	Items on a personal and/or family budget are prioritised to determine potential expenditure.	26	Theoretical assignment and discussion	Learner's Guide
4.3	The budget is written down to meet financial needs and responsibilities and to provide surplus cash for emergency expenses.	26–28	Theoretical assignment and discussion	Learner's Guide
4.4	Ways to continuously check personal and/or family expenses and income are explored and described to keep budget on track.	29–30	Theoretical assignment and discussion	Learner's Guide
4.5	A plan to adjust income and expenses is chosen to keep budget on track.	30–31	Theoretical assignment and discussion	Learner's Guide

Demonstrate an understanding of contracts and their sources

U/S No. 13995 NQF Level: 1 Credits: 2

Specific Outcome 1: Explain and discuss contracts. .				
#	Assessment Criteria Can the learner:	Learner Guide Pg #	Assessment method/ tool	Facilities/resources required
1.1	The concept contract is explained.	33–34	Theoretical assignment and discussion	Learner's Guide
1.2	The components of a contract are identified and explained. Range: Parties involved, date, objectives, expiry dates, responsibilities of parties, etc.	35–36	Theoretical assignment and discussion	Learner's Guide
1.3	The purpose/s and conditions of contract is/are explained. Range: To protect both parties, service to be delivered in agreed time period, at price, etc.	36	Theoretical assignment and discussion	Learner's Guide

Specific Outcome 1: Explain and discuss contracts. .				
#	Assessment Criteria Can the learner:	Learner Guide Pg #	Assessment method/ tool	Facilities/resources required
1.4	An understanding of contractual obligations is demonstrated. Range: Case studies, personal experiences, etc.	36–39	Theoretical assignment and discussion	Learner's Guide
Specific Outcome 2: Discuss and compare kinds of contracts and the role of government.				
#	Assessment Criteria Can the learner:	Learner Guide Pg #	Assessment method/ tool	Facilities/resources required
2.1	Different kinds of contracts are discussed and compared. Range: Personal contracts, Business contracts, etc.	40–44	Theoretical assignment and discussion	Learner's Guide
2.2	Breach of contract is discussed. Range: Procedures to follow, where to seek assistance, etc.	44–46	Theoretical assignment and discussion	Learner's Guide
2.3	The role of the government in contracts is debated. Range: Role of judicial system, ombudsman, constitution, small claims court, LegalWise, etc.	46–53	Theoretical assignment and discussion	Learner's Guide
2.4	An understanding of individual contracts is demonstrated. Range: Case studies etc.	54–61	Theoretical assignment and discussion	Learner's Guide
Specific Outcome 3: Identify and discuss institutional sources of contracts.				
#	Assessment Criteria Can the learner:	Learner Guide Pg #	Assessment method/ tool	Facilities/resources required
3.1	Different institutional sources of contracts are identified. Range: Financial institutions, insurance companies, retail stores, etc.	62–63	Theoretical assignment and discussion	Learner's Guide
3.2	The functions of the different institutions are examined. Range: Financial institutions, insurance companies, retail stores, etc	63–64	Theoretical assignment and discussion	Learner's Guide
3.3	The role of each source of contract in society is explained. Range: Social responsibility, etc.	63–64	Theoretical assignment and discussion	Learner's Guide

Demonstrate an understanding and knowledge of different tenure options in housing

U/S No. 262904 NQF Level: 1 Credits: 4

Specific Outcome 1: Identify and list tenure options.					
Outcome Range 1: Tenure options include ownership, rental, rent to buy, permission to occupy, and instalment sale.					
#	Assessment Criteria Can the learner:	Learner Guide Pg #	Assessment method/ tool	Facilities/resources required	
1.1	Housing typologies are identified and described in relation to housing provision programmes.	66–68	Theoretical assignment and discussion	Learner's Guide	
1.2	Tenure options are identified in terms of their application in different housing typologies contexts.	68–70	Theoretical assignment and discussion	Learner's Guide	
Specific Outcome 2: Explain and compare the rights and responsibilities linked to different tenure options.					
#	Assessment Criteria Can the learner:	Learner Guide Pg #	Assessment method/ tool	Facilities/resources required	
2.1	Rights linked to each option are explained with examples.	71–73	Theoretical assignment and discussion	Learner's Guide	
2.2	Responsibilities linked to each option are explained with examples.	71–73	Theoretical assignment and discussion	Learner's Guide	
2.3	Rights and responsibilities for different options are compared in terms of their limitations.	73	Theoretical assignment and discussion	Learner's Guide	
Specific Outcome 3: Choose tenure option appropriate to individual, family or community circumstance.					
Outcome Range 3: Circumstances include marital status, financial status vs affordability, ratio between income and expenses, access to finance, motive.					
#	Assessment Criteria Can the learner:	Learner Guide Pg #	Assessment method/ tool	Facilities/resources required	
3.1	A tenure option is identified and assessed in order to make an appropriate choice.	74–75	Theoretical assignment and discussion	Learner's Guide	
3.2	General advantages and disadvantages attached to the option are discussed in context.	75–76	Theoretical assignment and discussion	Learner's Guide	
3.3	The motive for making the choice is explained on the basis of individual family or community circumstance.	77	Theoretical assignment and discussion	Learner's Guide	

Demonstrate an understanding of a general business plan and adapt it to a select business idea

U/S No: 14444 NQF Level: 1 Credits: 7

Specific Outcome 1.: Explain and discuss the purpose of a business plan.					
#	Assessment Criteria Can the learner:	Learner Guide Pg #	Assessment method/tool	Facilities/resources required	
1.1	Describe a business plan.	79	Theoretical assignment and discussion	Learner's Guide	
1.2	Discuss the need for, and use of, a business plan.	79	Theoretical assignment and discussion	Learner's Guide	
Specific Outcome 2: Outline and analyse the components of a business plan.					
#	Assessment Criteria Can the learner:	Learner Guide Pg #	Assessment method/tool	Facilities/resources required	
2.1	List the different components of a business plan.	80–81	Theoretical assignment and discussion	Learner's Guide	
2.2	Explain the different components of a business plan.	82–95	Theoretical assignment and discussion	Learner's Guide	
2.3	Analyse the functions of the different components of the business	82–95	Theoretical assignment and discussion	Learner's Guide	
Specific Outcome 3: Design and present a business plan relevant to the selected business idea.					
#	Assessment Criteria Can the learner:	Learner Guide Pg #	Assessment method/tool	Facilities/resources required	
3.1	Gather and analyse information relating to the individual selected business idea.	94, 96	Theoretical assignment and discussion	Learner's Guide	
3.2	Assess the development of the business plan.	94, 96	Theoretical assignment and discussion	Learner's Guide	
3.3	Assess the written business plan.	94, 96	Theoretical assignment and discussion	Learner's Guide	
3.4	Explain various presentation skills.	96–99	Theoretical assignment and discussion, practical presentation	Learner's Guide	
3.5	Assess the oral presentation of the business plan.	98–99	Theoretical assignment and discussion, practical presentation	Learner's Guide and end of chapter assessment and checklist	

Demonstrate an understanding of entrepreneurship and entrepreneurial qualities

U/S No: 10006 NQF Level: 1 Credits: 2

Specific Outcome 1: Discuss entrepreneurship					
#	Assessment Criteria Can the learner:		Learner Guide Pg #	Assessment method/ tool	Facilities/resources required
1.1	Describe and discuss entrepreneurship		101	Theoretical assignment and discussion	Learner's Guide
1.2	Describe and discuss different types of business.		102–105	Theoretical assignment and discussion	Learner's Guide
1.3	Discuss the advantages and disadvantages of entrepreneurship.		106	Theoretical assignment and discussion	Learner's Guide
1.4	Discuss the role of entrepreneurship in social development.		106–107	Theoretical assignment and discussion	Learner's Guide
1.5	Identify enabling programmes for the entrepreneur.		108–112	Theoretical assignment and discussion	Learner's Guide
Specific Outcome 2: Identify and describe the characteristics of a successful entrepreneur.					
#	Assessment Criteria Can the learner:		Learner Guide Pg #	Assessment method/ tool	Facilities/resources required
2.1	Identify characteristics of a successful entrepreneur.		113–115	Theoretical assignment and discussion	Learner's Guide
2.2	Describe characteristics of a successful entrepreneur.		116	Theoretical assignment and discussion	Learner's Guide
2.3	Analyse the importance of each characteristic.		116–118	Theoretical assignment and discussion	Learner's Guide

Specific Outcome 3: Identify, assess and improve individual entrepreneurial characteristics.					
#	Assessment Criteria Can the learner:	Learner Guide Pg #	Assessment method/ tool	Facilities/resources required	
3.1	Identify and list individual/personal entrepreneurial characteristics.	113–118	Theoretical assignment and discussion	Learner's Guide	
3.2	Assess individual/personal characteristics against the general entrepreneurial characteristics.	115, 118	Theoretical assignment and discussion	Learner's Guide	
3.3	Develop ways to address shortcomings.	118–120	Theoretical assignment and discussion	Learner's Guide	
3.4	Implement strategies to address shortcomings.	118–120	Theoretical assignment and discussion,	Learner's Guide	
Specific Outcome 4: Discuss business ethics and social responsibility					
#	Assessment Criteria Can the learner:	Learner Guide Pg #	Assessment method/ tool	Facilities/resources required	
4.1	Discuss the importance of business ethics.	121	Theoretical assignment and discussion	Learner's Guide	
4.2	Discuss the need for social responsibility in business.	121–123	Theoretical assignment and discussion	Learner's Guide	
4.3	Discuss the inter-relationship between business ethics and a code of conduct.	123–125	Theoretical assignment and discussion	Learner's Guide	

How do I plan and manage my personal finances?

Unit standard 15092: Plan and manage personal finances.

5 Credits

→ *Specific Outcomes*

You will work towards achieving the following Specific Outcomes in this chapter:

- 1 Explain the importance of managing personal finances.
- 2 Set personal financial goals.
- 3 Identify ways to achieve personal financial goals.
- 4 Develop a personal and/or family budget.

In this chapter, you will gain an understanding of the world of money so that you will be able to manage your personal finances. You will learn how to actively plan and manage your own financial well-being by taking into account risks and safety measures. You will also develop an understanding of your own income and expenditure patterns. You will be able to plan short- and long-term financial commitments and will learn how to budget for them.

Once you have completed this unit, you will be able to:

- Explain the importance of managing personal finances,
- Set personal financial goals,
- Identify ways to achieve personal financial goals,
- Develop a personal and/or family budget.

In today's society, a person cannot function or survive without money. Unfortunately, for most of us, money is not an unlimited resource and we have to make sure that the money that we have at our disposal can cover everything that we need. In this unit, we are going to look at how to make ends meet with the money that we have so that we don't get into too much debt.



Setting financial goals helps us to prevent overspending and to maintain control of our money.

UNIT 1 ■ How to manage personal finances

↳ *By the end of this unit, you should be able to:*

- Demonstrate an understanding of South Africa's socio-economic circumstances so that you are able to understand its impact on one's financial situation (SO1 AC1).
- Understand the consequences of not having a good credit rating in relation to financing credit-related purchases (SO1 AC2).
- Identify the risks, pitfalls, limitations and unforeseen events that affect a budget so that you are able to understand the consequences of poor financial planning (SO1 AC3).

1 Socio-economics in South Africa

Socio-economics is the study of the relationship between the economic activity and social life of a person, a group of people and/or a country.

Socio-economic status is determined by the following:

- The amount of money coming into a household or earned by a single person,
- The educational level of the guardians of the household,
- The occupations (jobs) held by the guardians of the household.

The Constitution of South African addresses the social and economic rights of an individual, including the following:

- The right to education
- The right to food
- The right to health
- The right to land
- The right to water
- Environmental rights
- The right to social security
- The right to housing.



The Constitution of South Africa protects the socio-economic rights of all its citizens.

Important words and ideas

The word '**tangible**' refers to things that we can see, touch and measure. In contrast, the word '**intangible**' relates to things that we can't see, touch or measure.

'**Urbanisation**' refers to the movement of people from rural areas to towns and cities.

Factors that have a tangible impact on socio-economics

The factors that affect socio-economics in a **tangible** way are:

- New technologies
 - Cars
 - Mobile phones
- Changes in laws
 - A new constitution
 - Changes in gun regulations
- Ecological changes
 - A reduction in fish stock
 - Droughts
 - Farmers changing their crops
- Changes in the physical environment
 - **Urbanisation**
 - New building and housing developments

Something to know

Freedom of association is the right of individuals to come together with other individuals to collectively promote and defend common interests. In other words, all people have the right to hold political meetings or public rallies and to engage in political protests.

Factors that have an intangible impact on socio-economics

The factors that affect socio-economics in an **intangible** way are:

- Personal safety
- Personal dignity
- **Freedom of association**
- Freedom of fear from physical harm.

These factors, regardless of whether they are tangible or intangible, will have an impact on how we act as consumers as well as on the way in which we behave in general. They will also influence the way in which wealth is distributed, how we spend our time and how we interpret quality of life.

Example

Due to the economic crisis, many people have moved closer to town and cities to try to find jobs. Many of these people have been unable to find jobs and have turned to crime in order to survive. As a result, many homeowners have had to spend money on installing burglar bars and burglar alarms.

Activity 1

Work on your own.

- 1 Explain in your own words what is meant by socio-economics?
- 2 How do you think the changes in technology have affected your personal income?
- 3 Explain how urbanisation has affected your personal income.
- 4 Do you think that education will have a negative or positive influence on your personal income? Explain your answer.

2 The consequences of not having a good credit rating

A **credit rating** is an estimate that is based on a person or company's history of borrowing and repaying borrowed money. In other words, it refers to a person or company's available financial resources and is used by **creditors** to determine the maximum amount of **credit** the borrower can get without too much risk of not being able to repay the debt.

Why is it important to have a good credit rating?

It is very important to have a good credit rating. Your credit rating will be assessed whenever you apply for a loan. The assessment of the credit rating will then be used to determine your **creditworthiness**.

i Important words and ideas

The term '**credit**' refers to the amount of money that a bank or other lending institution lends to a person.

A **creditor** is a person or commercial enterprise to whom money is owed.

Creditworthiness is a person's ability to repay their debt.

To make sure that you have a good credit rating, it is important that you follow the guidelines below:

- **Pay your accounts on time.**
When applying for credit, the lenders will look at how well you have been paying your current accounts. This history will give the lender a guideline as to how you will pay your future debt.
- **Use credit cards in moderation (not too many or too few).**
Don't get too many credit cards. Having too many will keep you in debt for too long. But if you have too few, a lender will not be able to see your credit history.



Credit cards reduce the need to carry cash, but can tempt us to spend too much.

- **Never miss a payment. At least, always pay the minimum amount due.**
If you miss a payment, it will reflect badly on your credit rating. If you pay less than you should, it will result in additional interest payments and the repayment period will increase.
- **Evaluate your credit on a regular basis.**
Check your credit at least once a year to make sure that you are up to date with payments. By checking your credit due, you will also be able to pick up any illegal purchases made on your account. Credit card fraud is currently a serious problem in South Africa. Many people make illegal purchases on other people's credit cards.

The advantages of having a good credit history

Having a good credit record has a number of advantages, including the following:

- You will have improved creditworthiness.
- You will be in a position to negotiate lower interest rates.
- It will be easier to obtain loans.

The consequences of having a bad credit rating

If you have a bad credit history, you will get 'black marks' against your name. This will make it difficult to apply for credit in the future.

The following can result in 'black marks' against your name:

- Late payments.
- Non-payments.
- Having your accounts handed over to a debt collection agency.

In addition, a bad credit rating can affect you in the following ways:

- By limiting your borrowings from registered financial institutions,
- By subjecting you to debt counselling.

How to improve your credit rating

To improve your credit rating, follow the steps below:

- Avoid overspending, that is, spending more money than you have.
- Set a realistic budget – plan your expenses.
- Get out of debt now – pay off all your current debt.
- Build a financial cushion – save.
- Read and understand your credit report – study all your financial statements.
- Make sure that mistakes on your credit report are fixed – query mistakes.
- Get positive information added to your credit report – pay the extra when you can and never miss a payment.
- Negotiate with creditors – discuss your repayments with the person to whom you owe money.

Activity 2

Work on your own.

- 1 What is meant by the term 'credit rating'?
- 2 Explain the consequences of having a bad credit rating when applying for a loan.
- 3 Note down ways in which can improve your credit rating.

3 The consequences of poor financial planning

Financial planning is how a person or company uses assets to make ends meet or to make a profit.

For financial planning to be effective, ensure that you do the following:

- Set financial objectives
- Develop plans to meet the objectives
- Establish a **budget**
- Review your plans and objectives to check for progress.

i Important words and ideas

A **budget** is a plan or schedule that details income and expenditure. It is used in financial planning to reduce poor spending habits and to help you to make sure that you do not spend more than you earn.

What is a financial plan?

A financial plan is a budget, which plans your income and spending pattern over a specific period of time.

When you receive income, you will need to plan how you are going to spend and save the money you received. This money should be used wisely, so that you don't fall into debt. You may receive your income in the following ways:

- Monthly
- Fortnightly (that is, every two weeks)
- Weekly
- Daily

A budget will help you to spend your income wisely. When you set up a budget, you need to take all your income and expenses into consideration. By setting up a budget, you will be guided by a plan on how you will meet your financial obligations and, at the same time, satisfy most of your needs.

Tips for successful budgeting

- List all expenses.
- List all forms of income received.
- Prioritise your expenses. This means that you must budget for the most important things first. These are those things that could possibly cause you to be evicted (kicked out of your home) or to have an item repossessed.
- Decide on what you need and what you want.
- Compare the monthly budget with your actual expenditure.

The advantages of budgeting

Budgeting will enable you to do the following:

- Plan in advance for how you are going to manage your money.
- Achieve your financial goals.
- Bring about responsible and disciplined financial management.
- Reduce impulsive buying (that is, when you buy something, without planning the purchase).

External factors that affect budgeting

A budget is never one hundred per cent accurate. The reason for this is that certain factors, such as changes in price and income, are beyond our control.

External factors that affect our budgeting are:

- Interest rate increases
- Petrol price increases
- Food price increases
- Retrenchment
- Theft
- Sickness

Unfortunately, the above factors affect our budgets negatively and, to make matters worse, we have little or no control over them. For example, if the petrol price increases, then we are forced to spend more money on petrol or on taxi fares. This means that the money must come from some other allocation (that is, by reducing money spent on entertainment or even worse, by reducing savings).



Budgeting helps us to prioritise expenses and to spend wisely.

Poor financial planning

Poor financial planning can lead to many problems that could be avoided by simply putting a budget together.

Here is list of possible problems you may experience:

- You have little to no control over your money.
- You will not achieve your financial goals.
- Your financial management may be irresponsible and undisciplined.
- Your debt will increase.
- You will not be able to save.
- Your money may run out before the end of the month.

Activity 3

Work on your own.

- 1 What is a financial plan?
- 2 What risks, pitfalls, limitations and unforeseen events can negatively affect your budget?
- 3 What can happen to your personal finances if you plan poorly?

UNIT 2 ■ Setting personal financial goals

↳ *By the end of this unit, you should be able to:*

- Explain the difference between 'needs' and 'wants' by providing examples from personal experience (SO2 AC1).
- Identify personal needs and wants and be able to list them in order to set personal financial goals (SO2 AC2).
- Plan and record personal goals in order to meet your own or your family's needs or wants (SO2 AC3).

1 What are needs and wants?



Budgeting involves balancing our needs and wants.

Needs are the things such as food, shelter and clothing that we must have in order to survive in today's society.

Wants are the things that we may want, but don't have to have in order to survive.

Example

- You need clothes, but you want Levi jeans.
- You need water to drink, but you want sparkling flavoured water.
- You are planning to start a small business and need to purchase a vehicle. You need a Opel Corsa bakkie, but you want a Toyota Hilux Legend.

2 Identifying personal needs and wants

▶ Activity 4

Work on your own.

- 1 Make a list of the things that you *need* to buy every month.
- 2 Make a list of things you *want* to buy this month.

3 Planning and recording personal goals

Goals are things that we strive to obtain. Goals can be set for our everyday lives, careers, sport, finances, etc. Goals can be divided into the following categories:

- Short-term goals
- Medium-term goals
- Long-term goals

We will now look at each of these categories in turn.

Short-term goals

Short-term goals are the goals that we wish to achieve in less than three months, for example, saving enough money to buy a new pair of jeans.

Medium-term goals

Medium-term goals are the goals that we wish to achieve within three years, for example, paying off your car in three years.

Long-term goals

Long-term goals are the goals that we wish to achieve within ten to 20 years, for example, paying off your house in 13 years' time.



Setting and achieving goals in all aspects of our lives can motivate us to strive for greater success.

▶ Activity 5

Work on your own.

Give *one* example of a financial goal that you would set for *each* of the three categories of goals discussed in this chapter (that is, short-term, medium-term and long-term goals).

UNIT 3 ■ Achieving personal financial goals

↳ *By the end of this unit, you should be able to:*

- Understand basic financial terminology, using examples (SO3 AC1).
- Describe formal financial institutions and their services so that you can make an informed choice of which service to use (SO3 AC2).
- Describe and explain informal financial institutions and their services in terms of advantages and disadvantages so that you can make an informed choice (SO3 AC3).
- Identify ways to save money using various financial options, and list them in terms of personal priorities and long-term financial stability (SO3 AC4).
- Identify ways to generate extra money to supplement your personal income and to achieve goals, including, for example, working overtime, taking on extra jobs, starting a small, home-based business, taking out investments or lending money (SO3 AC5).

1 Understanding basic financial terminology

The table below lists the basic financial terminology you will need to follow this course:

Automatic teller machine (ATM)	A cash machine outside banks and in shopping centres that dispenses cash when you key in a personal code or pin number
Bond	A loan from a bank that is used to purchase land and/or buildings
Budget	A plan of what money is coming in versus what money is going out
Cheque	A means of payment, available to current account holders – a piece of paper which the bank honours to the amount written on it
Cheque account	An account held with a registered financial institution that allows you to issue cheques
Credit	A positive amount in your bank account (that is, money that you have)
Debit	A negative amount in your bank account (that is, money that you owe)
Expenditure	Money that is spent; money that goes out to pay someone for goods or services
Financial planning	A plan that helps to ensure financial stability. A budget is an example of a financial plan.
Fixed expense	Expenses that remain the same from month to month. Your rent payments are fixed expenses as they stay the same every month.
Gross salary	The total amount of earnings per month or per year before deductions
Hire purchase (HP)	A form of purchasing that is used when you can't afford to pay for the item in one lump sum, but you can afford a deposit and monthly instalments. You only own the item once you have paid the whole loan back. The company that makes the loan, can repossess the item if you miss payments. HP is usually used to purchase items such as furniture, appliances, and cars.
Income	Money earned for services or products sold. Your salary is seen as income.
Inflation	An increase in the cost of living. The cost of bread and milk has increased since the previous year, due to inflation.

Interest	A percentage the bank or the person/institution you are borrowing money from charges you. For example, if you borrow R10 from person A, they may charge you 2% interest on the loan. This means that you must pay them back R10.20.
Investment account	An account with a financial institution in which you put your money for later use. In many cases, you don't have daily access to the money.
Mzansi account	These are accounts that were introduced into the South African banking environment for people who in the past couldn't get a bank account. They are low-cost transmission accounts aimed at those who work in the informal economy. These accounts allow you to deposit and withdraw money, do balance enquires, use an ATM etc.
Mortgage loan	A loan that is secured by the property that you own. If you don't pay your mortgage, you can lose your house or land.
Need	Something like food that is required by an individual in order to survive
Net salary	The amount of earnings an employee takes home after deductions
Pay As You Earn (PAYE)	A system of taxation in which an employer deducts income tax from the employee's salary before he or she receives it and pays the tax directly to the government
Personal identification number (PIN)	A code or number, known only to the user that allows you to access certain services, for example, an ATM machine
Repossession	When you don't make the repayments on loans, the financial institution or lender can take the items away in lieu of the loan
Savings	Money put aside to purchase a specific item
Savings account	Accounts that are designed to allow the money you have invested to grow. Savings accounts are usually card based.
Standard Income Tax for Employees (SITE)	A system of taxation that operates alongside the PAYE system. SITE is the term used to identify a certain portion of employees' tax deducted by an employer from an employee's net remuneration under the pay-as-you-earn system.
Tax	Money deducted from earnings and or added to items by the South African Revenue Service (SARS)
Transmission account	An account that is between a cheque account and a low-cost Mzansi account. A transmission account has very low transactional costs but it does not offer you access to credit or cheque book facilities.
Unemployment Insurance Fund (UIF)	A system that insures employees against loss of earnings if they become unemployed as a result of retrenchment, illness, or maternity
Variable expense	Expenses, such as your telephone or electricity accounts, that change from month to month
Want	Something like chocolate that you like, but don't need in order to survive

Activity 6

Work on your own.

1 Match the terms in Column A with the correct definitions or examples in Column B:

	Column A		Column B
1	Bond	A	When opening this account, you would receive a cheque book.
2	Personal loan	B	They are low-cost transmission accounts aimed at those who work in the informal economy.
3	Overdraft	C	You can use this system to do your banking from the comfort of your home.
4	Savings account	D	These payments are taken from your account every month without you having to go to the bank to conduct the transaction.
5	Current account	E	Something you like, but don't need to survive.
6	Garage card	F	It is used when you can't afford to pay for the item in a lump sum, but you can afford a deposit and monthly instalments.
7	Interest	G	A loan that the bank gives for personal use.
8	Internet banking	H	When the bank allows you to spend more than you have.
9	Stop and debit orders	I	You would put money in this account to save for something special.
10	Credit card	J	When you don't make the payments on loans, the financial institution or lender can take items away in lieu of the loan.
11	Hire purchase (HP)	K	An account with a financial institution in which you put your money for later use. In many cases, you don't have daily access to the money.
12	Want	L	You pay a percentage amount to the bank when you use its money and the bank pays you a percentage when you leave your money in the bank.
13	Mzansi account	M	You can use this account to pay for vehicle-related expenses.
14	Repossession	N	You would use this funding to buy a house.
15	Investment account	O	It is also called plastic money. When you do a purchase you don't use cash, but you are actually spending the bank's money.

2 What is the difference between a credit and debit balance in your banking account?

3 If you had to purchase a new stove, what type of financing would you use?

4 What does it mean to have your goods repossessed?

2 Formal financial institutions and their services

In this section, we will discuss the services offered by formal financial institutions such as banks.

Banks

When you go to the bank to open a bank account, you will notice that there are a variety of different bank accounts. The following types of bank accounts are available at most banks:

- Savings accounts
- Current/cheque accounts
- Credit card accounts

Before we discuss and compare each of these accounts, let's first look at the advantages and disadvantages of having bank accounts.

Advantages

- If you have a bank account, you tend not to waste money as it is sometimes inconvenient to have to obtain cash.
- Your cash can't be stolen as it is stored in the bank.
- Your money will generate interest when it is the bank.
- The money in your bank account is put away for something, and you can't access it immediately.

Disadvantages

- If you have an account, the bank charges you every time you deposit or withdraw cash. These charges are called **finance charges**.
- You have to either go to the bank or an ATM to draw cash.
- If your bank account is a current account, it can lead to overspending as you are issued with a credit card.

Savings accounts

- **Savings accounts** are designed to encourage people to save.
- They can be used to save money that you are putting aside in order to buy something, such as a TV.
- The interest rate on savings accounts is usually higher than the interest earned on current or transmission accounts.

The two main types of saving accounts are:

- Ordinary savings accounts
- Fixed deposit accounts

With an **ordinary savings account**, you have access to your money when you require it. With a **fixed deposit account**, you will need to give the bank notice when you wish to withdraw the money. With some banks, you will also need to wait for a period before the money becomes available. In some cases, the money can only be withdrawn if it has been in the account for a set period.

Advantages of saving accounts

- The interest earned is higher than the interest earned on a current account.
- The interest will increase as the interest rate increases.
- The savings in your account can help the country to grow, as the bank can only lend money to other people if they have money to lend.



By saving, we put money aside for the future.

Current/cheque accounts

- **Current/cheque accounts** offer low interest rates.
- You can withdraw the money whenever you want, but you can only draw what you have in the account.
- You can have your fixed costs such as your bond repayments automatically deducted from this account.
- You will receive a cheque book. However, it is important to remember that when you write a cheque, you must have the money in the account in order for the cheque to be valid.
- Most banks will send you monthly statements showing the movement of cash to and from this account.



When writing a cheque, make sure you have sufficient money in your account or the cheque will 'bounce'.

Credit cards

- **Credit cards** are also known as charge cards.
- They offer higher interest rates on credit amounts than current accounts.
- You don't have to carry cash with you.
- You can spend more money than you actually have.
- You will be charged high interest rates when you spend more than you have or can't make the monthly repayments.
- You receive a monthly statement showing all transactions that happened during that specific month.
- It is important that you settle the amount owing in full by the given dates, otherwise you will pay interest on the amount *not* paid.
- They can be used to purchase most goods, such as food, TVs, movie tickets etc.
- A credit card, which is not used wisely, can lead to unnecessary debt. Always remember, don't spend what you can't afford to repay.
- Be careful that you don't lose your card, because if it is used by someone else, you will still be responsible for their expenditures. If you do lose your card, it is important to report this to the bank *as soon as possible*.



Something to know

Never use one credit card to pay off another.



Important words and ideas

The term 'micro' means small. **Micro-finance institutions** are organisations that offer financial services to low-income earners. Banks are macro-finance institutions that offer financial services to higher income people.

Micro-finance institutions

Micro-finance institutions are registered financial institutions that offer financial services to the following types of clients:

- Low-income earners
- People who are self-employed (work for themselves).



Important words and ideas

The term '**self-employment**' refers to a situation in which a person works for him or herself, rather than for someone else.

They offer the following services:

- Credit
- Savings
- Insurance

Activity 7

Work in pairs.

- 1 Go to two different banking institutions.
 - a) Obtain information from each about the various services that they offer their clients.
 - b) Make a table to compare the services offered by each of the chosen banks.
 - c) Make a table comparing their transaction fees.
 - d) Choose which bank you would bank with.
- 2 Support your choice in Question 1d) by providing reasons.

Building societies

Building societies are registered financial institutions that offer their clients banking and other financial services, but they mainly concentrate on providing home and mortgage loans.

In South Africa, there are no longer many institutions that concentrate solely on providing home and mortgage loans. Most of the building societies in South Africa were absorbed by the major banking groups.

An example of an institution in South Africa that concentrates on home and mortgage loans is SA Home Loans. An example of a building society that has been incorporated into a bank is the PERM Building Society, which was absorbed into Nedbank.

3 Informal financial institutions and their services

In this section, we will look at services offered by informal financial institutions.

Stokvels

Stokvels are clubs or funds in which people put money every week, fortnight or month. The money is then given to a different member every month. To get the money, you may not default on monthly payments. Once you receive your money, you can do with it with what you like. These 'clubs' are informal and are not controlled by registered financial institutions. Stokvels are mainly found in black communities.

Advantages

The advantages of stokvels are that, in many cases, it becomes a social event, as all the members get together at a set time. Usually, when they get together, they have some form of celebration. Stokvels also allow people who are in remote areas to invest money, so that they can improve their living standards.

Loan sharks

A **loan shark** is a person or group of people who lend money to people who don't have any financial security.



Loan sharks have a reputation of being dishonest.

Disadvantages

- Loan sharks charge high interest rates.
- They sometimes use violence and threats to get their money back.
- They take your identity documents away from you.
- They can claim your wages.
- They are often linked to gangs.

Advantages

- A person can get a loan even if they are **blacklisted**.

Important words and ideas

If you are **blacklisted** because of debt or because you have a poor credit rating, you are not allowed to receive credit from registered financial institutions.

Burial societies

Burial societies are similar to stokvels, except that the funds collected are used solely to cover funeral expenses or as a payment to a member's family on the death of the principal member. Many burial societies have been replaced by funeral insurance plans. Many banks, insurance companies and the post office offer their clients funeral plans. The member pays a monthly amount and a lump sum is paid out on their death or the death of another family member included in the policy.

Advantages

- Burial societies help pay for funerals which can be extremely expensive.
- Some companies offer assistance in planning the funerals.

Disadvantages

- The member does not receive interest on the money paid in.
- If you stop the investment, you lose all the money paid in the past.

Pyramid schemes

A pyramid scheme is a business model that is not sustainable. A pyramid scheme involves the following:

- Enrolling other people into the scheme.
- The people who have been enrolled pay a sum of money to join.
- You receive money for each person you enrol.
- Once you stop enrolling people, you receive no more money.

A true pyramid scheme offers no product or service to clients. In most countries, pyramid schemes are classified as financial fraud.

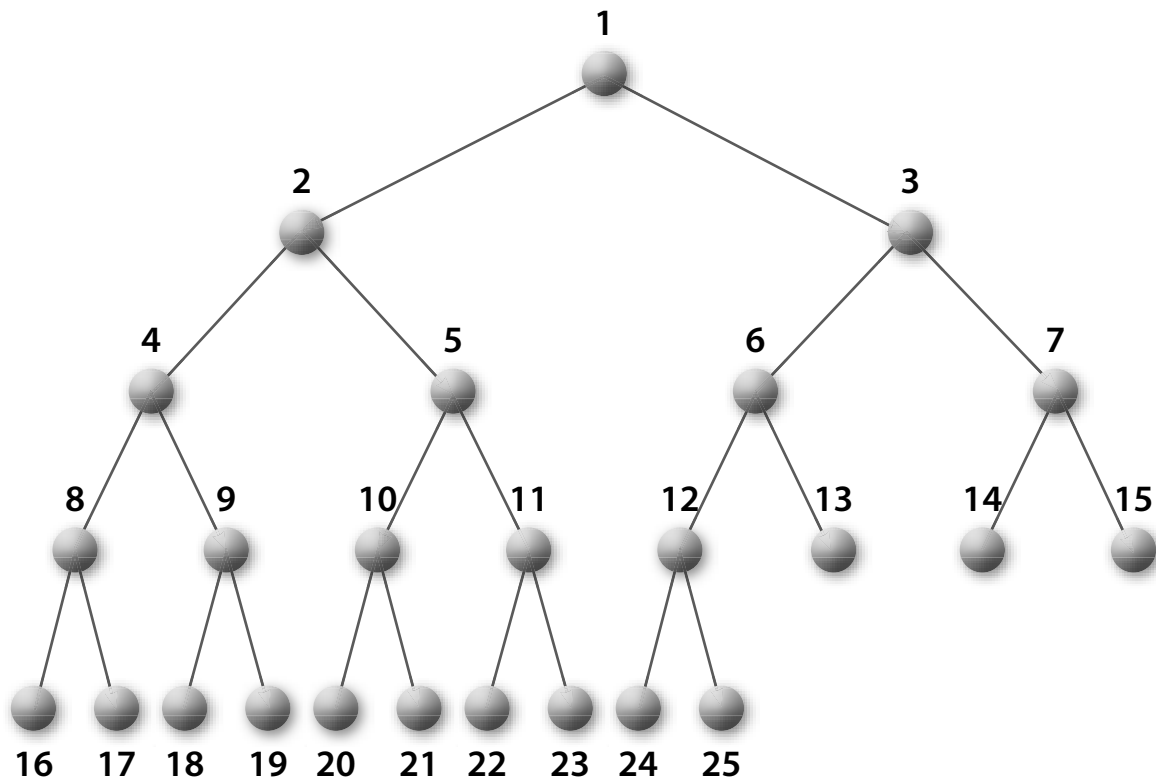
Some companies function as modified pyramid schemes. In addition to enrolling people under you, you also have to sell products to the public. You receive commission on the products sold. The product is used to disguise that fact that you are getting involved in a pyramid scheme. This type of business is known as **multi-level marketing**. Unlike true pyramid schemes, multi-level marketing is legal. Many companies such as Amway and Mannatech function as multi-level marketing companies.

Advantage

- If you join a scheme early, you can make a lot of money.

Disadvantages

- True pyramid schemes are illegal.
- If you join a scheme late, you can lose a lot of money.



A diagram of a typical pyramid scheme.

Activity 8

Work on your own.

- 1 Explain what is meant by the following terms:
 - a) Stokvel,
 - b) Loan shark,
 - c) Pyramid scheme.
- 2 What are the advantages of getting involved in a stokvel?
- 3 Is it a good or bad idea to borrow money from a loan shark? Give reasons.
- 4 Is it a good or bad idea to become involved in pyramid schemes? Give reasons.

4 Ways to save money

i Important words and ideas

To be **financially stable** means that you are able to live within your means and not on debt. **'Impulse spending'** is the money we spend on the spur of the moment, without thinking if we want or can afford the item we are buying.

We all strive to be **financially stable**. To become financially stable, we need to do the following:

- Increase our savings
- Get rid of our debt
- Control **impulse spending**
- Evaluate our expenditure
- Budget

Everybody needs to save money. Savings are important for our future financial stability. We save money for the following reasons:

- To buy something in the future
- To make sure we have money when we are too old to work
- To pay for our children's education
- To pay for emergencies

There are three main categories for savings, namely:

- Short-term savings: for savings from three months–three years
- Medium-term savings: for savings from three–five years
- Long-term savings: for savings from six years and longer

Short-term savings

These forms of saving are usually when we put money in the bank and get interest on the money in the account. The banks offer the following accounts for short term-savings:

- Savings accounts
- Fixed deposit accounts (when an amount is put in the bank for a fixed period)
- Money market accounts
- Call accounts

Short-term savings are generally used for luxury purchases such as holidays, furniture, sound systems, fancy clothing etc.

Medium-term savings

Medium-term savings relate to the money we put in a bank or with a registered financial institution for a specific period of three–five years. Medium-term savings can be done by using the following:

- **Unit trusts**
- Fixed deposits
- **Endowment policies**
- Government bonds
- **Money market accounts**

Something to know

- **Unit trusts** are collective funds that allow private investors to pool their money in a single fund and thereby spread their risk across a range of investments.
- An **endowment policy** is an insurance policy that pays out a specific amount to the client after a specified time period or if the client dies. In return, the client pays a monthly premium to the insurer.
- A **money market account** is a deposit account offered by a bank that invests in government and corporate securities and pays the depositor interest based on current interest rates in the money markets.

We use medium-term savings to pay for expensive purchases, such as education costs, a deposit on a house, renovations, the purchase of a car etc.

Long-term savings

Long-term savings are mainly done to give us an income when we are too old to work. Examples of long-term savings are:

- Unit trusts
- Endowment policies
- Purchasing shares on the stock market
- **Retirement annuity funds**
- Owning property

Something to know

A **retirement annuity** is a way to save for your retirement. Your contributions are tax deductible as per tax regulations. You cannot access your capital before you retire. In addition, your investment is protected from creditors should you go insolvent (bankrupt).

Activity 9

Work on your own.

- 1 Give reasons why we need to save money.
- 2 Complete the table below with regard to savings:

Priority list	What saving option to use
e.g. Children's education	e.g. Fixed deposit

- 3 What is meant by the term 'long-term financial stability'?
- 4 Do you think that in the current financial situation, it is possible to be financially stable? Explain your answer.
- 5 Why is it important to have savings for when we can no longer earn money?

5 Ways to generate extra money to supplement personal income

In the following section, we will look at a range of different ways to earn extra money to supplement what we earn each month.

Working overtime

When companies are pushed for time during peak production periods, they usually ask staff to **work overtime**. The overtime hours worked by employees are paid at overtime rates.

i Important words and ideas

To '**work overtime**' means that an employer may need employees to work longer hours than they are contracted to work.

Overtime rates

Overtime rates are:

- At least 1.5 times the normal rate for a maximum of 10 hours per week, except for Sundays and public holidays.
- Twice the normal rate for overtime on a Sunday and public holidays.

💡 Something to know

Note that you cannot be paid overtime for Sundays if you are contracted to work on Sundays.

Taking on extra jobs

Another way to earn extra income is take on an extra job. Many companies do not mind as long as it doesn't interfere with your current job or is not in conflict with the interests of your current employer.

Starting small, home-based businesses

One way of earning extra income is to start a small business from your home. Home businesses can sometimes be very lucrative, so much so, that they can even become your sole source of income. Examples of home-based business are:

- Garden services
- Repairing electrical appliances
- Baking
- Catering
- Sewing



Earn extra money by starting a small business.

Investments

If you invest wisely, the payouts or monthly payments can be used to supplement your income. Investments don't only need to be with a banking institution, but can also be in property. By investing in an additional property, you can receive rental income. If you build on to your current house, you can rent out a room or granny flat.

Lending money

To increase your income, you can always borrow money from a registered institution or from family or friends. But remember that while the money that you borrow may increase your cash flow now, you will have to repay the loan with interest at some time in the future.

Activity 10

In groups of not more than four, discuss the following:

- Skills that you have that can be used to generate extra income,
- Ways of making extra money.

UNIT 4 ■ Developing a personal and/or family budget

↳ *By the end of this unit, you should be able to:*

- Identify and lists items on a personal and/or family budget, including income and expenses for a period of three months (SO4 AC1).
- Prioritise items on a personal and/or family budget to determine potential expenditure (SO4 AC2).
- Draw up a budget to meet financial needs and responsibilities and to provide surplus cash for emergency expenses (SO4 AC3).
- Describe ways to continuously check personal and/or family expenses and income to keep your budget on track (SO4 AC4).
- Choose a plan to adjust income and expenses to keep your budget on track (SO4 AC5).

1 Identifying items in a personal and/or family budget

In the following section, you will identify items that can be included in a personal or family budget. You will then assess the affordability of these items in terms of your income and expenditure. Before you do this, we will discuss three important terms:

- Personal finance
- Income
- Expenditure

What is personal finance?

The term '**personal finance**' refers to the finances (money) that you have and use to meet your own personal needs.

Income and expenditure

Income is the money that you get from various sources, such as the following:

- Employment (either full-time or part-time)
- Rent
- The sale of goods
- The sale of a house
- Interest earned on savings
- **Stock dividends**

i Important words and ideas

A **dividend** is the distribution of a company's earnings to its shareholders.

Stock dividends are dividends paid in additional shares of stock rather than in cash.

Expenditure is when you use your income to obtain goods and or services, in other words, when you buy things. It means that money goes out of your account and is no longer yours. Examples of goods and services you would spend your money on are:

- Food
- Clothes
- Transport
- Electricity and water
- Insurance
- Loan repayments

To be financially stable, you do not need to be rich. But to become financially stable, it is essential to make sure that your expenditure does not exceed your income. In other words, you should not spend more that you earn. The only way to do this is to ensure that you plan beforehand how you are going to spend your money. It is important to be financially stable, because if you are not, then it could mean that you may need to borrow money.

Some expenses will stay the same for a given financial period, while others will change from month to month. The expenses that stay the same are called **fixed expenses** and include things such as medical aid contributions, rent or **bond** repayments, **provident fund** contributions, loan repayments, etc.



Something to know

- A **bond** is a formal contract to repay borrowed money with interest at fixed intervals. A bond is like a loan. It provides the borrower with funds to finance long-term investments, like purchasing a house.
- A **provident fund** is a fund into which the employer and the employee both pay money regularly, so that when the employee retires or leaves the company, he or she receives a sum of money.

Activity 11

Work on your own.

Study the table below and identify what expenses you incur each month and how much you spend on that expense:

Type of expense	Monthly cost	Type of expense	Monthly cost
House		Electricity	
Rent		TV licence	
Bond		Groceries	
Rates and taxes		Perishables	
Insurance		Cleaning materials	
Car		Non-perishables	
Personal/life		Education	
House		School fees	
Funeral		Stationery	

... continued on the next page ▶

⌚ ... continued

Type of expense	Monthly cost	Type of expense	Monthly cost
Financial		School uniform	
Investments		Other	
Provident fund		Clothes – new	
Retirement annuity		Clothes – second-hand	
Savings		Telephone	
Medical		Telkom	
Medical aid contribution		Cell phone/airtime	
*Doctor's bills		Personal	
*Dentist's bills		Toiletries	
*Medicines		Cosmetics	
*Optometrist's bills		Beauty treatments	
Accounts		Hair	
Clothing		Transport	
Furniture		Taxi	
Other		Train	
Other		Bus	
Home		Petrol	
Furniture		Entertainment	
Appliances			
Bedding			
Curtains			
Towels			
Water		Other	
Total expense		Total expense	
Add both columns			

Note that you will only include the expenses marked with an asterisk (*) if they are not covered by your medical aid or if you have to pay up front and claim back from your medical aid.

2 Prioritising items in a personal and/or family budget

In order to spend your income wisely, you should set up a budget that shows what you earn and how you plan to spend it. Drawing up a budget is extremely challenging, but a budget will help you to meet your financial obligations and to satisfy most of your needs. Before we can draw up a budget, it is important that you know the difference between needs and wants (see page 8).

To prioritise your expenses, you need to budget for the most important things first. These are the things that could possibly cause you to be evicted or to have an item repossessed if you do not have sufficient money to cover them.

▶ Activity 12

Work on your own.

Refer to the list of expenses you drew up in Activity 11. List these expenses in order of priority. The most important expense should be first on the list, and the least important, last.

3 Planning and preparing a personal budget

Every person who earns an income has a specific amount of money to spend every month. This money should be used wisely. Your income can be paid to you as follows:

- Monthly
- Fortnightly
- Weekly
- Daily

A budget is based on the income received (this will be indicated on your payslip) versus your expenditure.

Tips for successful budgeting

To draw up a workable budget, you should:

- List all expenses.
- List all forms of income received.
- Prioritise your expenses. Decide on what you need and what you want.
- Compare the month's budget to your actual expenditure.

Advantages of budgeting

- You can plan in advance how you are going to manage your money.
- You will be able to achieve your financial goals.
- It will lead to responsible and disciplined financial management.
- It will reduce impulsive buying, that is, when you buy something without planning the purchase.

A personal budget

A personal budget should look something like this:

Budget for Mr D Red, February 20 ...			
Income	Details	Estimated expenses	Actual expenses
Salary			
Total income			
Less: expenditure			
Rent/bond			
Water			
Electricity			
Food			
Transport			
Clothes			
School fees			
Account payments			
Entertainment			
Savings			
Total expenditure			

**DETAILS ON WHAT THE
MONEY WILL BE SPENT ON**

**WHAT YOU THINK IT
WILL COST YOU**

**WHAT YOU ACTUALLY
SPENT ON THAT ITEM**

Example

Here is an example of a completed budget:

Budget for Mr D Red, February 20 ...			
Income	Details	Estimated income	Actual income
Salary	Glass City	5 000	5 500
Total income			
		Estimated expenses	Actual expenses
Less: expenditure			
Rent/bond	Mrs C Flat	1 000	1 000
Water	Municipality	80	80
Electricity	Eskom	150	200
Food	Shoprite	1 000	1 300
Transport	Petrol	600	700
Cell phone	Cell X	250	290
Clothes		200	190
School fees		0	0
Account payments		400	400
Entertainment		500	540
Savings		500	500
Insurance	InsureSafe	200	200
Medical	Medsure	100	100
Total expenditure		4 980	5 500

Activity 13

Work on your own.

1 Match the words in Column A with the correct definitions or examples in Column B:

	Column A		Column B
1	Income	A	The money you spend
2	Expenses	B	An example of a fixed expense
3	Balancing the budget	C	An example of a non-essential expense
4	Housing	D	Adjusting the budget to make sure that your income and expenses match each other
5	School fees	E	An example of an essential expense
6	Entertainment	F	A plan to keep track of your money
7	Budget	G	The money you get in every month

2 Using the template below, draw up a budget for yourself:

Budget for _____ for _____ 20 ...			
Income	Details	Estimated income	Actual income
Salary			
Total income			
		Estimated expenses	Actual expenses
Less: expenditure			
Rent/bond			
Water			
Electricity			
Food			
Transport			
Cell phone			
Clothes			
School fees			
Account payments			
Entertainment			
Savings			
Other			
Other			
Other			
Other			
Total expenditure			

4 Checking expenses to keep within a budget

Budgeting is not an exact science, as it is a forecast. In other words, it is based on what we think will happen.

Evaluating an example budget

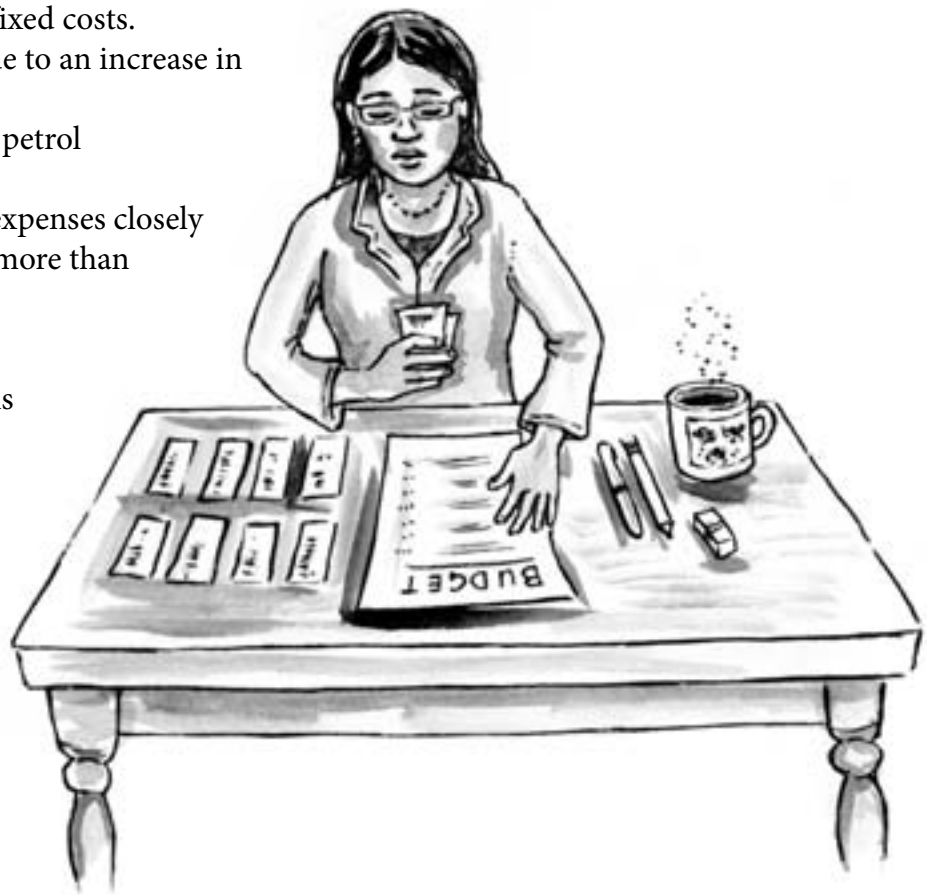
If you look at the example budget on page 27, you should have observed the following:

- Mr Red's income and expenditure were the same.
- Savings were made.
- He spent more on food than he budgeted, due to the increase in inflation.
- His entertainment and cell phone expenses increased. These are luxuries and should be monitored more closely. If he hadn't earned more than he expected that month, his expenses would have exceeded his income.
- His insurance, medical and account payments stayed the same, as they are fixed costs.
- Electricity costs increased due to an increase in electricity tariffs.
- Petrol costs increased due to petrol price increases.
- Mr Red should monitor his expenses closely as he might not always earn more than he expects.

You will note that there was a difference in the budget in terms of what was budgeted for and what the actual expenses were. We call this difference on the budget, a **variance**. If we spend more on an item than we budgeted, it is called a **negative variance**. If we spend less on an item, it is called a **positive variance**.

To calculate a variance, we use the following formula:

$$\text{Budgeted expense} - \text{actual expense} = \text{variance}$$



Check your expenses each month to make sure that you have remained within your budget.

Example

An extract from Mr D Red's budget

Let's look at what Mr Red spent on food and electricity and work out the variance for each item:

		Budgeted	Actual
Electricity	Eskom	150	200
Food	Shoprite	1 000	1 300

Solution

Electricity

Budgeted expense – actual expense = variance

$$150 - 200 = - 50$$

This means that he spent R50 more than he budgeted.

Food

Budgeted expense – actual expense = variance

$$1000 - 1300 = - 300$$

This means that he spent R300 more on food than he budgeted.

The importance of saving

Saving is important because it will enable us to:

- Have money for unforeseen circumstances.
- Buy something nice at a later stage.
- Save for when we no longer earn a set salary.

Tips on successful saving

Remember the following:

- Only spend what you have.
- Debt costs money.
- Money doesn't grow on trees.
- Be disciplined with your money.
- Don't waste.

5 Adjusting your income

If you are not disciplined with your money, then the following could happen:

- Your debt will increase.
- You will not have enough money to meet your basic needs.

When expenditure exceeds income

If your expenses are greater than your income, you would need to do the following:

- Spend less.
- Only buy what is necessary.
- Plan all your expenses.
- Stop buying impulsively.
- Stop wasting electricity.
- Stop wasting water.
- Learn to do your own repairs.
- Make your food and not buy take-aways.

- Close all accounts that tempt you to buy unnecessary goods.
- Pay off your debt as quickly as possible.
- Avoid gambling.

Adjust your income and expenses to keep your budget on track.

Activity 14

Work on your own.

- 1 Refer to the personal budget you drew up in Activity 13 and complete the following:
 - a) Evaluate your budget.
 - b) Calculate your variances.
 - c) Give reasons for the variances.
- 2 Plan how you can improve your budget.

By now you should be familiar with the concepts of personal finances and budgeting. To find out how well you have grasped the topic, complete the self-assessment below:

Self-assessment

How well have you understood the issues covered in this chapter?
Complete the following table to find out:

I can:	4 Very well	3 Quite well	2 With help	1 Not at all
Understand the factors that influence the country's socio-economic circumstances,				
Understand the consequences of having a poor credit rating,				
Understand the consequences of poor financial planning,				
Understand the advantages of budgeting,				
Draw up my own personal budget,				
Adjust my spending to remain within my budget.				

If you scored 1s or 2s for each category, it means that you are unsure about certain aspects of the topic. It would be a good idea for you to re-read the chapter or to go over certain issues again so you can improve your knowledge and understanding.

What do I need to know about contracts?

Unit standard 13995: Demonstrate an understanding of contracts and their sources

2 Credits

→ *Specific Outcomes*

You will work towards achieving the following Specific Outcomes in this chapter:

- 1 Explain and discuss contracts.
- 2 Discuss and compare kinds of contracts and the role of government.
- 3 Identify and discuss institutional sources of contracts.

Once you have completed this chapter, you will have been introduced to a range of different contracts which you may encounter in both your personal and business lives. You will also be able to talk about the role that government plays in contracts by learning about the different government organisations responsible for issuing contracts and for settling disputes or claims that may arise as a result of breaches of contract.

When anyone (regardless of whether they are an individual or a company) engages in business with someone, they should draw up a contract. A contract is always a necessary document. It will help the relevant people involved to outline who does what and by when. A contract will also help all parties involved sort out any issues that might arise during this relationship. Contracts not only address the business side of life, but also the personal side of things.



Contracts are a means of ensuring consensus between contracting parties and of ensuring that such agreement is enforceable by law.

UNIT 1 ■ Explain and discuss contracts

↳ *By the end of this unit, you should be able to:*

- Explain the concept of contracts (SO1 AC1).
- Identify and explain the components of a contract (SO1 AC2).
- Explain the purpose/s and conditions of contracts (SO1 AC3).
- Demonstrate an understanding of contractual obligations (SO1 AC4).

1 What is a contract?

A **contract** is a legally binding agreement between two or more people. This agreement will state:

- Which services are to be delivered by a party,
- Which products will be delivered by a party,
- Which party will pay for the services and/or products.



Read the contract carefully before signing it.

A contract is only legally binding when the following criteria are in place.

- There is consensus between the contracting parties in terms of:
 - What is being sold, for example, a TV, a car, a house, etc.
 - How much the item or service will cost
 - When the buyer will get the item from the seller
 - When the services will be delivered by the contractor to the contractee.
- The contracting parties:
 - Are both over the age of 18
 - Agree on the contents of the contract
 - Have not been declared legally to have a mental illness
 - Have not been forced by violence, threats and/or intimidation to sign the agreement.
- The legality is not in question:
 - A contract can only be legal if the goods or services offered are of a legal nature, for example, a contract is not legal if a person buys a stolen car.
- Physical possibility exists:
 - The item and or service must be of a tangible nature. For example, a contract to buy a TV is legal as the TV exists but a contract to sell eternal youth is not legal as eternal youth doesn't exist.
- All formalities have been completed:
 - All parties involved have signed the contract on all the pages,
 - At least *two* witnesses have signed the contract.



Something to know

- The term '*contracting parties*' refers to the people or parties who enter into a contract with one another.
- A '*verbal contract*' is an agreement which people make orally, but which is not written down.

Contracts *do not* need to be in writing to be legally binding. For example, when you buy a bus ticket, you have created a contract with the bus company to take you to a specific location.

A verbal contract is a legally binding contract. A contract exists when two or more parties agree to something without formulating it in a written contract. In many cases, a verbal contract is supported by a basic written agreement. However, for a verbal contract to be enforced, there needs to be a reliable witness, preferably more than one.

Activity 1

Work on your own.

- 1 In your words, explain what a contract is.
- 2 Must all contracts be in writing? Give reasons.

2 The components of a contract



Contracts involve making and accepting an offer.

A contract consists of the following components:

- An offer
- An acceptance of the offer
- Objectives
- Parties

What is an offer?

An offer is what one party offers another for specific services and/or goods. An offer can be made in the form of an advert or, someone can simply walk up to someone else and make a verbal offer.

When is an offer accepted?

An offer is accepted when the other party agrees or accepts the offer made by the other party. The acceptance can be when a customer walks into a shop and makes a purchase or when someone gives another person a signed contract accepting the offer. Once an offer has been accepted by the parties concerned, the relevant parties will either need to produce the goods or to supply the services, as stipulated in the contract.

How long will the offer remain open?

In order for an offering party to be able to change the offer or to approach another individual or company, he or she must first determine how long the offer is valid for. The offering party may not approach another individual or company if the offer is still valid.

i Important words and ideas

The term '**revoke**' means to cancel, annul or withdraw.

Can an offer be revoked?

An offer is revoked when one of the party making the offer cancels the offer.

What are legal relations?

If the parties show their intention to enter legal relations, it means that all parties involved are ready to **formulise** their relationship legally. When legal relations are formulised, one party may sue another if the terms of the contract are not met.

i Important words and ideas

A **formulised contract** is a contract that has been signed by all parties concerned indicating that they agree on its contents.

What are the objectives of a contract?

The objectives of a contract will tell the reader why the contract was formulised. For example, an objective of one particular contract may be to provide the support required to Land Mine Eradication Services (LMER) in fulfilling their constitutional responsibilities.

Who are the parties involved?

- The parties involved will be all the people who are legally liable to ensure that the contract is implemented.
- All of these parties must sign the contract.
- Other parties may be involved, but may not necessarily be legally liable for the implementation of the contract.

Activity 2

Work in pairs.

Name and discuss the different components of contract.

3 The purpose and conditions of a contract

The purpose of a contract

The purpose of a contract is to:

- Put down conditions that need to be met by all parties involved in the contract.
- Legalise an agreement between parties.
- Clarify the rights and duties of each party and to put them down in writing.

The conditions of a contract

The conditions of a contract are those specific things that a party must meet, for example, to build a wall or to supply 3 000 firebricks to Mr G George on 20 April 2011.

4 Contractual obligations

A **legal obligation** is a tie between two or more legal subjects (individuals, companies and/or the government). The obligations are created by certain legal facts (contracts) which outline the rights and duties of the parties. These rights and duties are recognised by law.

Important words and ideas

The verb '**obligate**' means to be compelled or obliged to do something. Therefore, an **obligation** is something you have to do.

What are legal obligations?

A legal obligation consists of two elements:

- The right of the creditor to claim performance.
- The duty of the debtor to perform accordingly.

Obligations can be divided into the following categories:

- **Civil obligation:** The rights and duties are recognised and enforced by law (for example, by means of a contract).
- **Natural obligation:** The rights and duties are recognised but not enforced by law (for example, a bet with an individual).

The example on page 37 explains the difference between civil and natural obligation:

Example

Tito promises to deliver 1000 bricks to Siphio by 23 March 2011. This is written in the purchase agreement. By 30 March, Tito has not yet delivered the bricks and can't be found. Siphio has already paid Tito 60% of the money in accordance with the purchase agreement. Siphio can sue Tito in a court of law. In this instance, Tito has failed in his **civil obligation**, which is stipulated in the purchase agreement, to deliver the bricks to Siphio.

Senzo, who knows Tito very well, takes a bet with Siphio that Tito will deliver on time. Siphio wins the bet when Tito doesn't deliver, but Senzo won't take Siphio out for beer as per the bet. Siphio can't sue Senzo as a bet is not enforceable by law. This is an example of a **natural obligation**.

Obligations are sourced from legal facts, which we find in legal contracts. Obligations are categorised into the following:

- Events without human intervention, for example, an accident which is not caused by negligence.
- Forces of nature, animal behaviours, lapse of time etc., for example, hail storms, high winds, lightning, cows not producing milk.
- Human conduct – performance by a person.
 - **Non-juristic acts** – any act that is in line with the legal aspects of business.
 - **Juristic acts** – acts conducted by one or more people to whom the law gives effect according to the intentions of the party or parties.
 - **Unilateral juristic acts** – acts conducted by an individual, for example, a personal will and testament.
 - **Multilateral juristic acts** – acts conducted by two or more co-operating parties (for example, contracts).

Signing a contract

Before signing a contract ensure that you understand the following:



Before signing a contract, make sure you understand all the legal jargon as well as the penalty clauses.

- The contract wording or terms
 - This refers to all the words that you don't understand.
 - Many contracts include Latin words. It is important that the salesperson explains them to you *before* you sign. The salesperson is obligated by law to explain the contract to you in detail, before you sign.
- The 'legalese'
 - Legalese is a technical writing style that lawyers, judges and legislators use to express a legal analysis and legal rights and duties.
 - This use of language is, in many cases, confusing to the general public.
 - *Always* ask the salesperson to explain the legalese to you in plain English.

It is also important that you:

- Exercise simple proof-reading techniques to spot errors that could create loopholes.
 - Always read through the contract to see if you can spot mistakes. Mistakes create loopholes which can be used in court if there is a dispute.
- Reduce misunderstandings and ambiguity,
 - Make sure that you understand the terms and conditions in the same manner as the other party.
- Define the timeframe of all projects clearly.
 - All dates and timeframes must be clearly outlined in the contract.
 - All costs, timeframes and deliverables must be clearly defined in the contract.
- Be specific about equipment or service.
 - If you are buying a car, computer, cell phone, furniture or hi-fi, make sure that model name, year of manufacture, accessories etc., are clearly listed.
- Understand the penalty clauses.
 - Make sure that they are fair and in line with the National Credit Act of 2007,
 - Make sure that you understand *when* the penalty clauses will be implemented.



Something to know

The *National Credit Act (NCA)* applies to all credit agreements entered into after 1 June 2007 between consumers and credit providers, including

- Credit cards
- Mortgage loans
- Instalment agreements
- Lease agreements
- Overdraft facilities

Activity 3

Work on your own.

- 1 What is meant by the following:
 - a) Non-juristic acts
 - b) Legalese
 - c) Penalty clauses
- 2 What *two* elements does a legal obligation consist of?
- 3 Give your friend *three* tips that he or she must follow before he or she signs a contract.

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⌚ ... continued

- 4 By using a practical example, explain the difference between civil and natural obligations. (Don't use the example given in this unit.)
- 5 Read the extract from the contract below and answer the questions that follow:

The Seller agrees to manufacture, test and make available to the Buyer the goods and services described in the Agreement Term Sheet in accordance with the product design, manufacturing and test specifications provided by the Buyer.

Purchase Orders and/or notices are issued by the Buyer and the referencing Agreement will constitute the sole authorisation for the Seller to take action or incur any costs for which the Seller expects reimbursement from the Buyer.

- a) What are the obligations of the Seller?
 - b) What must the Seller get from the Buyer before he or she incurs any costs that the Buyer must reimburse?
- 6 If you signed the following agreement and you default on the payment, what obligations do you need to meet?

In the event of default, the undersigned shall be liable, jointly and severally, for all legal costs incurred in the collection of the outstanding balance on the scale as between attorney and own client including collection commission on Capital, interest and costs, plus interest at the rate of 19% per annum. Interest shall be calculated and capitalised on the same day of each month, in arrears, on the outstanding balance until the total amount due has been paid.

UNIT 2 ■ Comparing contracts and outlining the role of government

↓ *By the end of this unit, you should be able to:*

- Discuss and compare different kinds of contracts (SO2 AC1).
- Discuss breach of contract (SO2 AC2).
- Debate the role of the government in contracts (SO2 AC3).
- Demonstrate an understanding of individual contracts (SO2 AC4).

1 Comparing different kinds of contracts

In the following section, you will learn about different kinds of contracts – business contracts, as well as personal contracts.

Business contracts

The table below outlines the range of different business contracts you may encounter:

	Contract name	Other names	Brief description	Who should use it	Why it should be used	Contents
1	Lease agreement (residential)	<ul style="list-style-type: none"> • Rental agreement • Property rental agreement • Rental contract 	A landlord signs this with a tenant who is renting or leasing the property from the landlord.	<ul style="list-style-type: none"> • Any property owner • Tenants 	<ul style="list-style-type: none"> • To protect the property owner • To protect the tenant 	Definitions Lease period Rental amount Deposit Defects list (what is wrong on the property) Additional amounts to be paid, for example, rates, water Acknowledgements When the tenant can occupy the property What the property may be used for Notice (eviction, termination) Breach Who is responsible for maintenance
2	Acknowledgment of debt	<ul style="list-style-type: none"> • Payment of undertaking • Hire purchase agreement 	This is used when a person or legal entity owes debt to another party.	<ul style="list-style-type: none"> • Individuals who lend money • Businesses who lend money • Training institutions who allow students to pay off their tuition 	<ul style="list-style-type: none"> • Confirms that the debt is owed by the debtor • Is an agreement that the debtor will pay the debt back in instalments • Can be used by the creditor to take further action if the debt is not paid 	Name of debtor Name of creditor Amount of debt Repayment details Settlement details Period of payment

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▶ ... continued

	Contract name	Other names	Brief description	Who should use it	Why it should be used	Contents
3	Offer to purchase		Where a person makes a formal offer to purchase an item	An individual or legal entity who want to make a formal offer to purchase	<ul style="list-style-type: none"> To formalise the offer, so that all parties know what will be expected if the offer is accepted 	Option to purchase Purchase price and costs
4	Credit application form	<ul style="list-style-type: none"> Application for credit 	A document that allows the business owner to source information about the debtor before granting the loan	To protect the creditor from bad debt	<ul style="list-style-type: none"> Assists in background checks 	Client's personal details Client's banking details References (other places the client has debt) Consent clause Client's signature Supplier's approval
5	Contract of sale	<ul style="list-style-type: none"> Purchase agreement 	A legal document that is completed when a large sale is finalised	All people buying and or selling large items	<ul style="list-style-type: none"> To protect the seller from complaints from the buyer To protect the buyer from the seller 	Seller's details Buyer's details Price Date of transfer Condition of the goods
6	Employment contract	<ul style="list-style-type: none"> Contract of employment Conditions of employment 	A legal document between an employee and an employer	Any business employing people on a permanent and part-time basis	<ul style="list-style-type: none"> All legal entities and/or individuals who employ people All people who are employed by a legal entity or an individual 	Employer's details Employee's details Remuneration (pay) Pension details Medical aid details Employee's duties Working hours Leave Termination
7	Insurance contract (Indemnity)	<ul style="list-style-type: none"> Insurance policy 	A legal document between the insurer (for example, Santam, Old Mutual) and the insuree (you) to insure assets	<ul style="list-style-type: none"> Everyone who has assets of value People buying assets (TVs, cars) Shop owners Home owners 	<ul style="list-style-type: none"> To pay for goods (TV, car, computer etc.) that are stolen To pay for a house if it were to burn down To pay for assets that are damaged, for example, to pay for repairs to a car that was in an accident 	Details of assets (model, price, serial numbers) Details of the owner Details of the premises in which the goods are stored Monthly instalments Excesses to be paid Additional services offered by the insurer, for example, medical services, towing services, roadside assistance

Personal contracts

The table below outlines the different kinds of personal contracts you may encounter:

	Contract name	Other names	Brief description	Who should use it	Why it should be used	Contents
1	Will		A will can be used by anyone. It is a document that determines what happens to your belongings once you have died.	All people that have current and fixed assets	<ul style="list-style-type: none"> If you die without a will, your estate is executed by the state To provide for your family once you have died 	Revocation Appointment of an executor Power to appoint Bequests Heirs Remains
2	Power of attorney	<ul style="list-style-type: none"> Authorisation Principal and agent 	A document that gives another person the right to enter contracts and or transactions, oversee or conduct activities on behalf of another person	Anyone who wishes to authorise someone else to act on his or her behalf	<ul style="list-style-type: none"> If, for health reasons, you cannot conduct certain business obligations If you are away for a specified time and cannot perform your normal duties 	Details of all transactions, agreements and activities permitted to be conducted Details of the authorised person
3	Affidavit		A document that is completed to confirm a particular event or state of affairs	By people who need another person to confirm events or state of affairs	To prove something legally	The details of the person who completed the affidavit The details of the event or state of affairs NB: it needs to be signed in front of a commissioner of oaths , for example, a policeman.
	Insurance contracts (Non-indemnity)	<ul style="list-style-type: none"> Life insurance policy 	A legal document between the insurer (for example, Santam, Old Mutual) and the insuree (you) for life	People who have families or loved ones who they want to provide for after they have died Those people who apply for or have home loans	To provide for loved ones once you have died To cover your home loan, so that your family can continue to have a home To cover your debt once you have died	Details of insured person Details of insurer Amount the person's life is insured for Monthly premiums Details of insured person's health Exclusions , for example, some policies exclude death by extreme dangerous sports Details of beneficiary/ies

i Important words and ideas

The verb '**revoke**' means to withdraw something or to counteract the force or effectiveness of something.

A **bequest** is a gift of personal property in a will; a legacy which is left to someone.

An **executor** is a person named in a will who must carry out what the will says.

An **affidavit** is a formal, written statement confirming the truth of the facts stated.

An **exclusion** is the omission of a certain class of person (for example, people who engage in dangerous sports) or event from coverage by a particular contract.

Beneficiaries are the people who will benefit from an insurance policy or will.

Debit orders

A **debit order** is an instruction to the bank from the account holder. This instruction gives permission for the beneficiary to deduct money directly from the account holder's account. For instance, when you take out a cell phone contract, the beneficiary (the cell phone company) will instruct the bank on how much money must be paid into their account.

By signing a debit order, you don't need to remember to pay your creditor. This will be done automatically until you instruct the bank to stop the debit order.

Loan agreements

A **loan agreement** is a contract that is entered into between a **creditor** and **debtor**. The contract will regulate the terms of the loan. The terms of a contract will cover the following issues:

- The amount of money being borrowed.
- What the monthly repayments are.
- The interest rate.
- Penalties for late or no payment.

i Important words and ideas

A **creditor** is a person (or company) who is owed money by a borrower or customer.

A **debtor** is a person (or company) who is obliged to either repay money that is borrowed, including interest, or to make payments for goods and services received on credit.

By obtaining loans from registered financial institutions, you will be able to improve your lifestyle.

Home loan agreements

The **home loan** market is currently the biggest loan market in South Africa. By obtaining a home loan, you can purchase a dwelling. By purchasing a dwelling, you are investing in your future, as you are increasing your fixed assets. By purchasing a dwelling, you will provide the seller, the property developers and the estate agents with an income.

Life insurance policies

Life insurance policies perform the following functions:

- They provide for your loved ones once you have died.
- They enable you to invest in the future of your children.
- They reduce the risk of your family becoming poverty stricken in the event of your death.

Funeral policies

Funeral policies reduce the financial burden on the family when the policy holder dies. By having a funeral policy, you will:

- Ensure that your family won't get into debt to pay for funerals.
- Provide work for funeral homes.

Sales contracts

A **contract of sale** is a legal contract between a buyer and seller. The contract will stipulate what goods, services or property are being sold, and for how much.



Funeral policies will take care of all the unpleasant details surrounding a person's death, particularly funeral costs.

▶ Activity 4

Work on your own.

- 1 If you are going to buy a car, what contract will you be completing?
- 2 If you were to make a statement at the police station, with regard to the whereabouts of a person, what document would you complete?
- 3 What information would you find on an employment contract?
- 4 Who should complete a will and why?
- 5 When completing a lease agreement with your landlord, what information should you find in the agreement?
- 6 What is the difference between an offer to purchase and a contract of sale?
- 7 What form of insurance would you take out if you were going to purchase a house?

2 Breach of contract

In the following section, you will learn about **breach of contract**, which is the failure to perform as promised in a contract.

i Important words and ideas

The word '**breach**' means a gap or an opening, particularly in something that has been broken. In law, it means a failure to do something that is required in a contract.

What is a breach of contract?

A person or persons is in breach of contract when an agreement within the contract is not met.

A contract can be breached when:

- A party has not done what he or she should have done.
- A party has not delivered what he or she should have delivered.
- A party has not paid for goods or services as promised.
- A party refused to implement the contract.
- A party interfered with the other party, so that he or she couldn't do what they should have.
- The goods and/or services were not of the standard required by the contract.

When a contract is breached, usually one party will go to a lawyer, a small claims court or a court to settle the situation.

Categories of breach

Breach of contract can be divided into the following categories:

- Minor breach
- Material breach
- Fundamental breach
- Anticipatory breach



A breach of contract may need to be settled in a court of law.

Minor breach

A **minor breach** is also known as an immaterial breach. When a minor breach has been committed, the non-breaching party is only allowed to collect for actual damages.

Example

Person A hires Person B to put irrigation in her garden. Person A states that the irrigation pipes must be black and should be 5 cm in diameter. Person B installs the irrigation system, which works well, but Person B uses piping that is black but is 3 cm in diameter. Person A can only sue Person B for the price difference between the 5-cm and 3-cm diameter pipe.

Material breach

With a **material breach**, the breaching party uses something else instead of another specified item and the substitute item's performance is inferior to the specified item.

Example

Person B installs transparent pipes that were not UV protected. Person A can then sue Person B for the cost of correcting the defect, as well as for the cost of replacing the pipes.

Fundamental breach

A **fundamental breach** is when the basis or an essential part of the contract is not fulfilled

Example

Person B doesn't install the irrigation system, but simply delivers the pipes and disappears. Person A can then sue Person B for damages and doesn't have to meet any of their obligations as stipulated in the contract.

Anticipatory breach

An **anticipatory breach** is when a party gives an indication that they will not deliver as per the contract agreement. When this happens, the non-breaching party can then terminate the agreement immediately and, if necessary, sue for damages. This can happen even before the breach has occurred.

Activity 5

Work on your own.

- 1 In your own words explain what is meant by breach of contract.
- 2 Name and explain the different categories of breach of contract.
- 3 Name three circumstances in which a contracted can be breached.

3 The role of the government in contracts

If there is a breach of contract, an individual is able to turn to the following institutions for help and assistance in settling the matter:

- The judicial system
- The Constitution of South Africa
- The Ombudsman
- The Small Claims Court
- LegalWise
- Non-governmental legal aid organisations

The judicial system and the Constitution

The South African government set up a constitution for the country and its entire people. The Constitution of South Africa is seen as the supreme law of the country.

The Constitution binds all legislative, executive and judicial branches of government together.

In Section 165 of the Constitution, it states that all judicial authority in South African is conducted by the courts. The courts are to function independently (and should *not* be controlled by a specific party). The courts need only answer to the Constitution and other laws in our country.

Furthermore, the Constitution also stipulates that the following courts should exist:

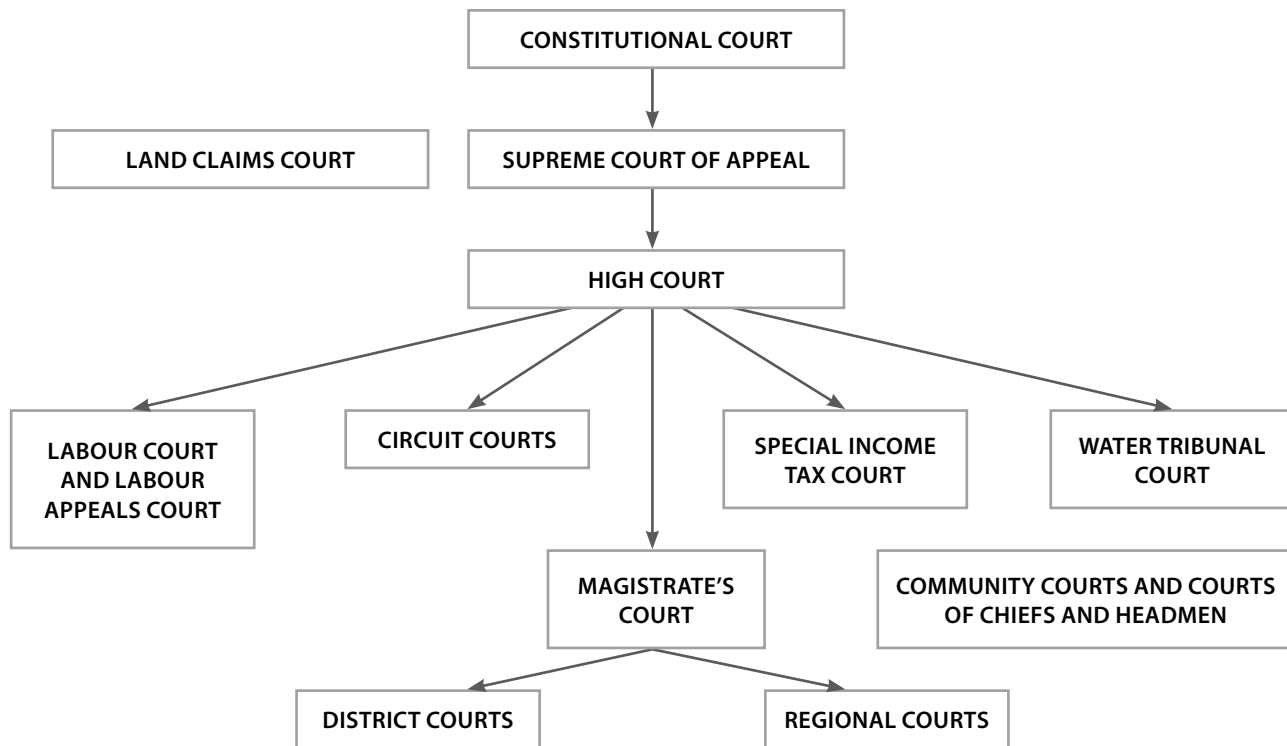
- The Constitutional Court
- The Supreme Court of Appeal



Supreme Court in Pretoria.

The following courts were established by an Act of Parliament:

- The Constitutional Court
- The High Courts
- Regional Magistrate's Courts
- Magistrate's Courts



The diagram above shows the structure of the judicial system in South Africa.

The Constitutional Court

The **Constitutional Court** is the highest court in South Africa. This court doesn't hear any cases. It only deal with appeals. Appeals are lodged by lawyers who don't agree with the decisions made by judges in the lower courts.

The High Courts

The **High Courts** only hear serious criminal and/or civil cases. For instance, the following cases would be heard in a High Court:

- Cases that could have a potential imprisonment of a *minimum* of ten years and/or a fine of R200 000.
- Treason.
- Divorce.
- Interpretation of wills.
- Declaring a person insane.

The Regional Magistrate's Court – criminal

A **Regional Magistrate's Court** can hear all cases, with the exception of treason cases. Judgments imposed by this court don't *exceed* ten years' imprisonment and/or a R200 000 fine.



Criminal cases are heard in the Regional Magistrate's Courts.

The following cases would be heard in a Regional Magistrate's Court:

- Rape
- Murder
- Armed robbery
- Assault

The District Magistrate's Court – criminal

A sentence imposed by the **District Magistrate's Court** does not exceed fines of R20 000 or one year's imprisonment. The following cases may *not* be tried in this court:

- Rape
- Murder
- Treason

The Regional Magistrate's Court – civil

The following cases may *not* be heard in this court:

- Divorce
- Cases with fines exceeding R100 000
- Interpretation of wills
- Declaring a person insane

i Important words and ideas

An **Ombudsman** is a government official who investigates citizens' complaints against the government or its functionaries.

The Ombudsman

In South Africa, the **Ombudsman** is known as a Public Protector. The Public Protector System was set up by government as stipulated in the country's Constitution. Public Protectors are there to investigate complaints against government agencies or officials.

Any person may take a complaint to the Public Protector. Once the Public Protector receives the complaint, he or she will investigate. These services are free. Public Protectors are appointed by the President of South Africa and are appointed for a seven-year period, which can't be renewed.

i Important words and ideas

A **parastatal** is a company or organisation owned in part by the government.

The Public Protector investigates complaints from the public against:

- Government – central and provincial.
- Any person performing a public function, for example, a policeman or woman.
- **Parastatals** such as Eskom.
- Agencies or officials, and has the power to recommend corrective action and to issue reports.
- Statutory councils such as the Human Sciences Research Council (HSRC).

What can be investigated?

The Public Protector can investigate the following types of claims:

- Improper prejudice suffered by the **complainant** or another person, as a result of:
 - Abuse of power, for example, if a policeman used his power to have sex with a woman, who was a sex worker.
 - Unfair, **discourteous** or other improper conduct, for example, a politician **slandering** a person in public.
 - Undue delay, for example, if a municipality takes ten years to fix a road.
 - The violation of a human right – for example, if a municipality cuts off the water supply to a community.
 - Any other decision taken or situation brought about by the authorities – for example, if a policeman arrests you and beats you up and your injuries result in permanent damage to your left eye.
 - Maladministration, for example, the fraudulent issuing of identity documents by the Department of Home Affairs.
 - Dishonesty or improper dealings with respect to public money, for example, a government official using taxpayers' money to buy a new sports car.
 - Improper enrichment, for example, a politician making a profit from issuing government tenders to his own company.
 - Receipt of improper advantage, for example, a politician making a profit from issuing government tenders to his own company.

Important words and ideas

A '**complainant**' is a person who lodges a complaint, usually before judges.

'**Discourteous**' means impolite.

'**Slander**' is a false statement or words spoken about another person.

Claims that cannot be investigated by the Public Protector

- Acts made against you by other individuals.
- Sentences or decisions made by judges and magistrates made against you or any other individual.
- Claims against private companies.
- Judgments by judges and magistrates, including sentences imposed by them.
- Claims against medical practitioners who don't work for the state, for example, those that work in private practices or hospitals.

Activity 6

Work on your own.

- 1 Name the courts that make up the justice system in South Africa and give example of cases that can be heard in these courts.
- 2 Explain what role a Public Protector will play in a contract dispute.
- 3 Give examples of matters that a Public Protector *can* investigate.
- 4 Give examples of matters that a Public Protector *cannot* investigate.
- 5 Read the newspaper article below and answer the questions that follow:

... continued on the next page 

ENTREPRENEUR STEWES OVER PERMIT DELAY

Trader goes to city ombudsman

A Summer Greens resident has accused the City of Cape Town of dragging its feet in processing an application to operate a small business from her Soldier Way home.

Entrepreneur Irene Armstrong has taken her case to the office of the City Ombudsman, citing unfair treatment by officials.

Ms Armstrong's complaints go back to 2006 when she was granted a permit to trade on erf 3366, an open space along Summer Greens



Drive and Ploughman's Road.

According to Ms Armstrong, this permit was terminated after five months because she was told this was a public

open space and trading space is reserved to next to the pedestrian bridge across Bosmansdam Road.

"Do you know how dead it is there, who wants to go from here to buy fruit and vegetables there?" she asked.

She said she was advised by the Blaauwberg planning office to

apply for a permit to trade from home, which she did in 2006.

"Till now, I have heard nothing. Now they've lost my application.

"The ombud gave a deadline, on March 24 they must have answers," Ms Armstrong said.

She is further incensed that another trader started selling on erf 3366 about a month ago.

"How can they approve a licence for somebody else while they said it's going to remain a public open space? Do I have the right to be angry? If they give him a licence, why not the others? They can turn that place into a market where people can trade," she said.

"People are trying to make an honest living, why not give it to them," she asked.

But City officials have countered Ms Armstrong's claims, saying her initial permit was temporary and was altered for permission to trade under the bridge.

Service Coordinator, Economic and Human Development for the City, Paul Williamson, said her letter to trade was renewed in 2009.

"At this stage Ms Armstrong enquired about an alternative site. Area coordinator Liesl Kenny of Economic and Human Development explained the procedure and she said she would respond. There was no communication from Ms Armstrong until the City was informed of her complaint," he said.

Regarding the new trader selling his wares on erf 3366, Mr Williamson said a permit to trade for a month was issued on Friday February 12, and there was no indication that complaints would arise.

According to George Frost, City Parks' Manager for technical and general support, northern district, there are very few public open spaces in Summer Greens.

"The public open spaces that it does have are not suitable for trading for various reasons and none have been demarcated for this purpose in the area," he said.

Meanwhile the Office of the Ombudsman confirmed that it is dealing with Ms Armstrong's application to trade from her home.

"They (Blaauwberg planning office) have informed our office that the delay in processing the application was due to an objection to the initial application by the ward councillor."

According to the Office of the Ombudsman, they have been informed by Blaauwberg that Ms Armstrong's application to trade from home has been advertised with the closing date for objections on Tuesday March 23.

"We are currently awaiting the outcome of that process," it said.



■ Entrepreneur Irene Armstrong from Summer Greens is upset about having her trading permit terminated.

SOURCE: *Tabletalk*, March 24, 2010

- Who did Irene go to for assistance to help her solve her problem?
- What was the problem?
- Why did she go to the Ombudsman and not a lawyer?
- Who was the complaint laid against?
- What type of claim do you think Irene has the right to make?

The Small Claims Court

The Small Claims Court has limited jurisdiction and may hear civil cases only. The claims are usually small private disputes that do not involve large sums of money.

Who *can* lodge a claim with this court?

- Any individual who is at least of 21 years of age.
- A person under 21 years of age can lodge a claim with this court as long as that person is assisted by a parent or legal guardian.

Who *cannot* lodge a claim with this court

- Companies
- Corporations
- Associations

Who can you claim against?

- Any individual
- Companies
- Corporations
- Municipalities

Who you cannot claim against

- Government

How much can you claim for in the Small Claims Court?

- Any amount *not exceeding* R7 000.

What types of claims can you take to the Small Claims Court?

- Claims in which monies are owed to you.
- Claims involving the non-delivery of moveable property *not exceeding* R7 000.
- Claims involving the non-delivery of immovable property *not exceeding* R7 000.
- Claims involving failure to pay rent, provided the amount *does not exceed* R7 000.
- The breach of a Credit Agreement *not exceeding* R7 000.

What types of claims can't you take to the Small Claims Court?

- Claims that are more than R7 000.
- Claims against the Government.
- Claims based on the cession or transfer of rights.
- Claims for damages in respect of:
 - **Defamation**
 - **Malicious prosecution**
 - Wrongful imprisonment
 - Wrongful arrest
 - Seduction
 - Breach of promise to marry
- Divorce
- Claims against the validity of a will
- Claims against an individual's mental capacity

Important words and ideas

Defamation is when a person makes false, derogatory statements in private or in public about another person.

Malicious prosecution is the intended filing of lawsuits, without adequate reason, with the sole intention of creating a problem that has to be responded to.

Do you need legal representation when lodging a claim?

A person lodging a claim with this court is not allowed to be represented by an attorney or an advocate. You may, however, get advice before you lodge the claim, at your own cost. You will be assisted free of charge by legal assistants and clerks allocated by the courts. You may also request an interpreter.

Activity 7

Work in pairs to design a poster highlighting the role of the Smalls Claims Court in contract disputes.

LegalWise

LegalWise, an organisation that offers insurance against legal expenses, is an affordable way to get a lawyer on your side when you need one. It provides legal protection and services for members and their families. Members pay a monthly subscription fee.

Non-governmental legal aid organisations

In South Africa there are a number of non-governmental organisations (NGOs) that offer legal aid.

The Legal Aid Board

The Legal Aid Board provides independent legal help to needy South Africans. It operates through Justice Centres.

Lawyers for Human Rights

Lawyers for Human Rights (LHR) promotes, upholds and strengthens human rights. LHR has a proud history of fighting for human rights in South Africa.

The Legal Resources Board

The Legal Resources Board is an independent, non-profit public interest law centre that uses law as an instrument of justice.

The Lesbian and Gay Equality Centre

The Lesbian and Gay Equality Centre is a non-profit, non-governmental organisation that works towards achieving legal and social equality for lesbian, gay, bisexual, transgender and intersex people.

The Women's Legal Centre

The Women's Legal Centre is a non-profit, independently funded law centre. It was started by a group of women lawyers. The main focus area of the centre is to advance women's rights.

Activity 8

Work in groups of four.

- 1 Research any of the legal aid centres discussed in this unit and find out the following:
 - a) What services they offer,
 - b) Who they offer their services to,
 - c) What these services cost,
 - d) Where their offices are.
- 2 Obtain any literature or pamphlets offered to clients.
- 3 Once you have gathered all the information, write a report on the legal aid centre you have chosen and hand it to your assessor or facilitator.

4 Understanding individual contracts

You will encounter a range of different contracts in your working life. We have included two sample contracts in this chapter for you to read through and study. In each case, detailed notes have been supplied to help you understand the language and particular format in which the contracts are written and presented.

Example

Contract 1

CONTRACT OF EMPLOYMENT

Between
Fast Delivery Services cc
(HEREINAFTER REFERRED TO AS "THE COMPANY")

And
Jan Joubert
(HEREINAFTER REFERRED TO AS "THE EMPLOYEE")

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PREAMBLE

W H E R E A S the Company is desirous of engaging the services of the employee in the capacity of a ... **driver: code 08**.....

What the company wants Jan to do.

AND W H E R E A S the employee is desirous of accepting such position

This means that Jan wants the job.

AND W H E R E A S the parties wish to record the terms of the agreement of employment in writing

IT IS ACCORDINGLY AGREED AS FOLLOWS:-

1. EMPLOYMENT

The Company hereby engages the employee in the capacity of a **driver: code 08** on the terms and conditions as more fully set out hereunder.

2. JOB DESCRIPTION

2.1 The employee shall be engaged as a **driver: code 08** and in this regard, his duties shall include, but not necessarily be limited to:

2.2 The employee shall, at all times, perform his duties in a diligent, satisfactory and responsible manner ensuring that the interests of the Company are protected and ensuring that the good name and standing of the Company be maintained. The employee will report to **Anne Fast** or such other person as may be designated from time to time.

This is Jan's supervisor.

3. HOURS OF WORK

3.1 The ordinary hours of work of the employee shall be from **07h30 to 17h30**

3.2 In addition to the foregoing, the employee acknowledges that bearing in mind the nature of the Company's business, it may, from time to time, require that the employee work such reasonable overtime as may be requested. By agreeing to the contract of employment, the employee acknowledges that he will work such overtime as and when he is required to do so. This includes stock counts where the assistance of the employee is required.

This means that, if necessary, Jan may be required to work overtime and has committed himself to doing so.

4. REMUNERATION

4.1 The employee shall be remunerated as follows:-

4.2 Such remuneration shall be made on or before the last workday of each month.

This means Jan will be paid on the last working day of each month.

4.3 An annual bonus may, subject to management's sole and entire discretion, be paid during, **December** of each year.

The above statement doesn't mean Jan **will** get a bonus, but if he does, it will be paid in December.

5. TERMINATION OF CONTRACT OF EMPLOYMENT

5.1 The employee shall be required to serve a probationary period for the first six months of his employment with the Company. During the first four weeks of his employment with the Company, either party may terminate this contract of employment by the furnishing of not less than one week's notice of its intention to do so. If the employee is employed for more than four weeks but less than one year, no less than two week's notice of either party's intention to terminate this contract of employment shall be given. If the employee is employed for one year or more, then four weeks notice of either party's intention to terminate the contract shall be given.

A probationary period is a period during which an employer can evaluate a new employee's skills, ability to do the job, conduct and character.

5.2 The foregoing notice period shall not affect the right of the Company to terminate the contract without notice for any cause recognised by law as sufficient.

6. SICK LEAVE

6.1 The employee shall be entitled during the first six months of continuous employment to one day's paid sick leave for every 26 days worked.

6.2 The employee shall be entitled, during a sick leave cycle of 36 consecutive months of employment, to thirty days paid sick leave, equal to the number of days the employee would normally work during a period of six weeks.

6.3 Notwithstanding this, the employee will not be entitled to any remuneration if the employee has been absent from work for more than two consecutive days on more than two occasions during an eight-week period and the employee on request by the employer, does not produce a medical certificate duly completed and signed by a medical practitioner or person certified to diagnose and treat patients and who is registered with a professional council, stating that the employee was unable to work for the duration of his absence on account of sickness or injury.

7. MATERNITY LEAVE

The employee will be entitled to four months' maternity leave in respect of each child to which she has given birth. The leave must be taken consecutively, and must commence four weeks before the expected date of birth and the employee concerned shall not be required to return to work within six weeks after the birth.

8. FAMILY RESPONSIBILITY LEAVE

Family Responsibility Leave is available to both men and women.

8.1 When the employee's natural child is born;

8.2 When the employee's natural child is sick;

Family Responsibility Leave is available to both men and women.

8.3 In the event of the death of the employee's parent, adoptive parent, grandparent, natural or adoptive child, grandchild or sibling.

9. ANNUAL LEAVE

The employee shall be entitled in respect of each completed period of twelve months of employment with the company to 15 (fifteen) consecutive days leave on full pay. Such leave shall be taken at a time which is mutually convenient to both parties provided that it is taken within the annual leave cycle.

10. PROVIDENT FUND

Membership of the Company's Provident Fund is compulsory and with immediate effect you will become a member. Provident Fund booklets containing the rules and benefits are available on request. Contributions in terms of the rules are currently levied at 7.5% of pensionable emoluments. The Company will also contribute an amount of 7.5%.

11. MEDICAL AID

Membership of a health care scheme is available to employees.

12. CONFIDENTIALITY

No other form of employment may be undertaken without written consent of the Company.

The disclosure of any information concerning the Company results, methods or procedures, the names and structural arrangement with the Company's suppliers or customers, the ideas, research, software and hardware in use in the Company's computer operations and applications, and, without being limited by the foregoing, any relevant data which is either being used or will be used by the Company, as well as any other matter or information which is known by an employee or employees, suppliers and customers of the Company and which is not readily available in the ordinary course of business to a competitor or potential competitor of the Company, will constitute a breach of contract, unless you are required by law to disclose such knowledge.

Inventions or improvement which you make in the course of your employment will be the property of the Company.

This means that Jan must join the Provident Fund.

An emolument is compensation received by virtue of holding an office or having employment (usually in the form of wages or fees).

This means that Jan can join a medical fund if he wishes, but is not forced to.

If Jan wants a second job, then he must get permission from his employer first.

This means that Jan can't give the Company's competitors confidential information about the Company, and how it operates.

13. TRANSFER TO BRANCHES

The employee acknowledges that it is pivotal to the Company's operations that interbranch transfers are necessary from time to time. It is an express material term thereof, of this contract that the employee agrees to be transferred to stores situated throughout the Republic, depending on the needs and exigencies of the Company's operations.

Such transfers will be affected after consultation (not negotiation) with the employee.

This means that if the Company needs Jan at another branch, he must agree to work there.

14. ENTIRE AGREEMENT

This agreement constitutes the entire agreement concluded between the parties and no variation, modification or addition hereto shall be of any force and effect unless reduced to writing and signed by the parties.

DATED AT this 1st day of April 2010

Jan Toubert
EMPLOYEE

Anne Fast
FOR: THE COMPANY

For this contract to be valid, both Jan and a representative from the Company must sign.

Example

Contract 2

ACKNOWLEDGEMENT OF DEBT

I/We, the undersigned,

Gideon Mahlangu

of 12 Swift Street, Braamfontein, 2017

hereby acknowledge that I am/we are jointly and severally liable to **Appliance City cc** (hereinafter referred to as "the Creditor") in the sum of **R1 900** (hereinafter referred to as ("the Capital") and I/we jointly and severally undertake to pay to the order of the Creditor the Capital together with interest at the rate of 15 % per annum from the 1st day of **June** year **2010** to the 30th day of **June** year **2011** subject to the following terms and conditions:

You must insert you name and address. If more than one person is liable, then both names must be inserted.

Details of the company that lends the money must be inserted here.

This is the period for which the money is being lent.

If a person borrows money from a registered institution, the percentage interest will be in line with the National Credit Act.

1. The full Capital together with the interest as aforesaid shall be due, owing and payable to the Creditor on the **30th** day of **June 2011** at Appliance City cc free of bank charges and commission.

2. In the event of default, the undersigned shall be liable jointly and severally for all legal costs incurred in the collection of the outstanding balance on the scale as between attorney and own client including collection commission on Capital, interest and costs, plus interest at the rate of 19% per annum. Interest shall be calculated and capitalised on the same day of each month, in arrears, on the outstanding balance until the total amount due has been paid.

3. **I/We** hereby choose as my/our *domicilium citandi et executandi* for all purposes hereof, the following address/addresses:

Name **Gideon Mahlangu**
 Address **12 Swift Street, Braamfontein, 2017**

4. The Creditor will be entitled to increase the interest rate from time to time to the maximum rate allowed by law.

5. **I/We** hereby consent to the jurisdiction of the Magistrate's Court having jurisdiction over my/our person/s in connection with all legal proceedings arising here from.

6. **I/We** renounce the benefits of the legal exceptions *non numeratae pecuniae*, *non causa debiti*, *error calculi*, division and revision of accounts. **I/We** acknowledge that I am/we are fully aware of the meaning and effect of such renunciations.

7. The Creditor may cede or pledge its rights herein without the consent of the Debtor/s.

This is when the full amount must be returned to the Creditor.

This paragraph states that if you don't make payment, **you** will be liable for all legal costs the Creditor might incur to get the money owed back from you.

The interest rate for the loan will change if you don't settle the loan by the required date. At this stage, the interest rate will increase, to compensate for the increased risk.

This is where the debtor lives. It must be his or her physical address, so that, if necessary, a legal notice can be delivered to him or to her. A post box address may not be inserted here.

The interest rates normally increase when the Reserve Bank increases its lending rate.

This means that by signing this contract, you agree to having your case heard in your local Magistrate's Court.

non numeratae pecuniae is the defence used by a debtor that the money has not been paid to him.

non causa debiti is the defence used by a debtor that there is no reason for the obligation.

error calculi is the defence which can be taken by a debtor relating to errors of calculation.

8. The Debtor/s may pay any portion of the Capital plus interest before the due date without derogating from any right he/she/ they may have in terms hereof.
9. The Capital plus interest will become due and payable immediately on a provisional order of insolvency of the Debtor/s.

This means that you may settle the debt before the due date.

SIGNED at *Appliance City cc* this *27th day of May year 2010*.

Gideon Mahlanqu

Debtor

27 May 2010

Date

Sipho Sales

Creditor

27 May 2010

Date



Something to know

Before you sign **any** contract, you must make sure that **you** understand all the requirements clearly. If you break any of the conditions, it could result in a breach of contract.

Activity 9

Work on your own.

Obtain a copy of a completed employment contract.

- 1 Identify the parties involved in the contract.
- 2 What duties must the employee fulfil as per the employment contract?
- 3 Is the employee entitled to medical aid?
- 4 Does the employer commit him or herself to making any payments on behalf of the employee?
- 5 What hours must the employee work?
- 6 What leave does the employee get?
- 7 What are the conditions of leave?

Remember to attach the completed contract to your answers.

Activity 10

Work on your own.

- 1 Study the contract of employment and the acknowledgement of debt on pages 54–59 and answer the questions that follow:
 - a) Who are the contracting parties in this agreement?
 - b) In what capacity is the employee being employed?
- 2 Can the employee refuse to work overtime? State the reasons why.
- 3 Will the employee automatically receive a bonus every year?
 - a) What are the conditions surrounding the payment of bonuses?
 - b) When are bonuses paid?
- 4 How much sick leave and annual leave does the employee receive?
- 5 Is an employee permitted to take maternity leave for an adopted child? Quote from the contract to support your answer.
- 6 Explain the following terms:
 - a) *domicilium citandi et executandi*
 - b) *non numeratae pecuniae*
 - c) *non causa debiti*
 - d) *error calculi*
- 7 Who are the contracting parties in the acknowledgement of debt?
- 8 Is the Creditor entitled to increase the interest rates? Give reasons.

UNIT 3 ■ Institutional sources of contracts

↳ *By the end of this unit, you should be able to:*

- Identify different institutional sources of contracts (SO3 AC1).
- Examine the functions of the different institutions (SO3 AC2).
- Explain the role of each source of contract in society (SO3 AC3).

1 Institutions that use contracts

The following institutions use contracts in the daily business:

- Banks
- Insurance companies
- Micro-financing companies
- Retail stores
- Wholesale stores
- Estate agents

Banks

Banks use a number of different contracts on a daily basis. The types of contracts they use are determined by the National Credit Act of 2007.

Banks issue contracts for the following:

- Debit orders
- Loan agreements
- Home loan agreements
- Car loan agreements
- Life insurance policies
- Credit card agreements
- Funeral policies
- Investment contracts

Insurance companies

Insurance companies issue contracts for the following:

- Short-term insurance – for household goods.
- Medium-term insurance – for cars.
- Long-term insurance – for life insurance.

Micro-financing institutions

Micro-financing institutions issue the following contracts:

- Loan agreements
- Funeral policies

Retail and wholesale stores

Retailers and wholesalers issue the following contracts:

- Loan agreements
- Hire purchase agreements
- Sales contracts

Estate agents

Estate agents issue the following contracts:

- Rental agreements
- Offer-to-purchase agreements
- Purchase agreements
- Rent-with-an-option-to-purchase agreements



A range of different contracts you may encounter in your daily life.

2 The functions of different institutions

Financial institutions in South Africa perform the following functions:

- Provide access to financial services.
- Provide finances to support innovations to improve the productivity so that growth in South Africa can improve.
- Provide finances to assist in the delivery of economic development and investment projects.
- Work with public and private partners to improve technical capacity (by providing additional input in terms of mentors and advisors) and resources for infrastructure projects.
- Give clients credit in line with the National Credit Act.
- Assist in job creation by investing in businesses and infrastructure developmental projects.
- Assist in the development of small and medium enterprises.
- Provide sponsorship for sports events. For instance, Nedbank sponsors road running, and First National Bank (FNB) sponsors soccer.

Insurance companies

- Insurance companies insure items for government, private companies and individuals.
- Items are usually insured against loss, theft, fire and flood damage.
- For a person or business to be insured, they are required to sign a contract with the insuring company.
- The contract will stipulate the value, make and model of the items insured.
- Everyone has to take out an insurance policy if items are purchased on hire purchase or by means of a home loan.

- Insurance companies also insure people's lives. These are called life policies. These policies pay out when an individual dies.
- Insurance companies also invest in South Africans on both a professional and recreational basis. For example, Old Mutual sponsors the Two Oceans Marathon in Cape Town, but also provides bursaries to enable previously disadvantaged people to study.

Retail stores

- Provide goods to consumers which they either pay cash for or buy on credit.
- If purchasing on credit, it is usually done by means of a hire purchase agreement.
- Retail stores invest in South Africa by providing jobs, bursary opportunities, training and sponsorship of events. They also attract investment in the form of property as retail stores often purchase land to build their stores.

Activity 11

Work in groups of two to four.

- 1 Identify *three* different institutions that use contracts.
- 2 Choose one of these institutions and explain the role this institution plays in South African society.

By now you should be familiar with the concepts of contracts and how they work. To find out how well you have grasped the topic, complete the self-assessment below:

Self-assessment

How well have you understood the issues covered in this chapter?
Complete the following table to find out:

I can:	4 Very well	3 Quite well	2 With help	1 Not at all
Understand the purpose of contracts,				
Understand what it means to have contractual obligations,				
Discuss the components of contracts,				
Discuss and compare different kinds of contracts,				
Discuss what it means to be in breach of contract,				
Identify the institutions that use contracts.				

If you scored 1s or 2s for each category, it means that you are unsure about certain aspects of the topic. It would be a good idea for you to re-read the chapter or to go over certain issues again so you can improve your knowledge and understanding.

3

How do I choose the right housing option?

Unit standard 262904: Describe and select appropriate tenure options

4 Credits

→ *Specific Outcomes*

You will work towards achieving the following Specific Outcomes in this chapter:

- 1 Identify and list tenure options.
- 2 Explain and compare the rights and responsibilities linked to different tenure options.
- 3 Choose tenure option appropriate to individual, family or community circumstances.

Once you have completed this chapter, you will be able to demonstrate an understanding of different tenure options in housing. By tenure we mean the right to occupy something of value for a period of time. In addition to discussing different housing typologies/types, you will also discuss various tenure options and will compare the rights and responsibilities of the different options. In this way, you will be able to make an informed decision on which tenure option best suits your current circumstances.



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A range of different housing typologies.

UNIT 1 ■ Tenure options

↓ *By the end of this unit, you should be able to:*

- Identify and describe housing typologies in relation to housing provision programmes (SO1 AC1).
- Identify tenure options in terms of their application in different housing typology contexts (SO1 AC2).

1 Identifying housing types

Housing options come in a range of different of shapes and sizes to suit a variety of people and families. Houses can be classified into the following categories:

- Detached dwellings
- Semi-detached dwellings
- Attached dwellings
- Moveable dwellings
- Informal dwellings

You will learn more about each of these options in the section that follows.

Detached dwellings

Detached dwellings are free-standing houses that are not attached to other houses.

Detached dwellings are suitable for families as they often have gardens surrounding the house. Unfortunately, these houses are usually more expensive than the other housing options, as they occupy more land. A town house is an example of a detached dwelling.



A free-standing house.



A semi-detached house.

Semi-detached dwellings

A semi-detached dwelling shares a wall with another dwelling. This type of house is suitable for families, but is usually smaller than a detached house. The wall that is shared makes the two houses appear as one. In some instances, the shared wall may also be the ceiling, in which case the two houses are stacked on top of each other. This housing option is cheaper than detached housing as it occupies less land. A duplex is an example of a semi-detached dwelling.

Attached dwellings

An attached dwelling is a form of housing that refers to a range of housing options that are attached to each other, for example, flats, apartments, hostels or studio flats. Compared to semi-detached dwellings, they represent a cheaper housing option. Attached dwellings would in many cases have a communal garden, car park, laundry room etc. This form of housing is suitable for small families and/or single people.



A block of flats is an example of an attached dwelling.



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A caravan is an example of a moveable dwelling.

Moveable dwellings

Moveable dwellings can move from place to place. These houses are usually prefabricated. They are a cheaper housing option as they are not a fixed structure. Caravans, tents and prefab housing are examples of moveable dwellings. Many people in this country use this form of housing for holiday accommodation and for accommodation during disasters.

RDP housing

Houses built under the South African Government's Reconstruction and Development Programmes (RDP) are commonly referred to as RDP houses. The idea behind the RDP programme was to supply houses to those South Africans who are currently living in shacks or who can't afford to buy a house or flat at market-related prices. Unfortunately, the demand for these houses exceeds the supply. This means that many people are on long waiting lists for houses. Ronald Eglin, a senior projects co-ordinator at Afesis-corporation, who oversees the Co-operative Housing, LED and Planned Land Access Projects, estimates that in 2032, people will still be on the waiting list for their RDP houses. He states that this is due to the lack of resources and money.



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A RDP housing settlement.

Informal housing

In South Africa, we unfortunately see a lot of informal housing. Informal houses, commonly known as shacks, are in many cases built by the tenant on vacant land. These houses usually have no services such as running water, electricity, sewage and refuse removal. In many instances, the communities surrounding informal dwellings are extremely vibrant, and many have become popular tourist attractions. But living in these communities can be very dangerous as the crime rate is high. In addition, as a result of the lack of services, infection rates of diseases are also very high as is the risk of fire. In many instances, tenants are evicted from their homes as the shacks are often built on land that has been illegally occupied.



An informal settlement.

Activity 1

Work in groups of two to four people to complete the following activity:

- 1 Identify four different housing typologies in your area.
- 2 Obtain pictures of these housing typologies. You can take photos, make drawings or cut out adverts from the property section of the newspaper.
- 3 Use these pictures to make a poster
- 4 Write a few words under each picture/photo that best describes each example you choose.

2 Identifying tenure options

The term ‘**tenure option**’ refers to the way in which we take ownership or residence of a dwelling.

The following tenure options are available in South Africa:

- Ownership
- Renting
- Renting to buy
- Permission to occupy
- Instalment sale
- Housing subsidies
- Communal ownership

Each of these options will be discussed in the section that follows.

Ownership

Home ownership is the term used to describe the tenure option in which the person living in the house owns the house. You can become a homeowner in the following manner:

- Through an inheritance.
- By purchasing an existing house.
- By building your own house.
- By buying a house from a property developer.

As a homeowner you will only 'own' your own home once you have paid off the mortgage/home loan. When you own your own home, you will be responsible for the following:

- Property tax
- Maintenance
- Insurance
- Municipal rates



Home ownership.

Renting

Renting is a tenure option in which you pay a monthly amount to the owner of the home.

This person is called a landlord. When you rent a house, you don't own it and will never own it. The monthly amount you pay the landlord gives you the right to occupy the house. The rental or lease agreements will explain what additional costs you will be liable for and what the landlord undertakes to pay. For example, the agreement will say who is responsible for maintenance and if water and electricity are included in the rent or not.

Renting to buy

The term 'rent to buy' means that a person renting a house will be given the first option to buy it should the landlord wish to sell it. A clause stating this will be inserted in the lease agreement. Usually the price for which the house will sell is pre-determined and is included in the clause. However, many homeowners do not like including the sales price in the lease agreement and therefore many landlords give the tenant the first option to buy if he or she wishes to sell.

Permission to occupy

When a person receives written consent from the landowner or homeowner to occupy the house or land, this is known as permission to occupy. This tenure option is often used when a purchase offer has been accepted, but the transfer of ownership has not taken place. Government also gives people or organisations permission to occupy land without ownership.

Instalment sale

Under the new National Credit Act of 2007, it is a lot more difficult for people to get a home loan than it was in the past. As a result, it is more difficult for sellers to sell their houses. To overcome this hurdle, many sellers are selling their houses on an instalment sale basis.

When a house is bought or sold by instalment sale, the following happens:

- The seller becomes a credit provider to the buyer.
- The seller remains the legal owner of the property.
- The buyer pays off the house in instalments.

- The instalment amount is usually equal or more than the seller's bond/mortgage payments.
- The buyer might be required to pay a deposit.

Housing subsidies

The government has developed a housing subsidy programme to assist in addressing the housing problems in the country.

To obtain a subsidy from the government, the following criteria need to be met:

- You have to be 21 years or older.
- You have to be a citizen or lawful resident of South Africa.
- You have to be legally competent to contract.
- The gross monthly income of the household must not exceed R3 500 per month.
- You should not have received any state housing subsidy previously or have owned a property, except in the case of a consolidation subsidy scheme. This subsidy is designed to assist current beneficiaries who received financed houses under the previous housing dispensation with the option to acquire houses. A top-up subsidy to construct a house is granted to beneficiaries with a household income not exceeding R3 500 per month, while beneficiaries with a household income of between R1 501 to R3 500 per month will be required to pay the contribution of R2 479.
- You should be able to contribute R2 479 towards your house or be prepared to give 'sweat equity' (a contribution made to a project by the potential owner who contributes his or her time and effort to the development of the project *without* payment).

Communal ownership

Communal ownership is when the property or house is owned by a number of people, a community or a stokvel.

Communal ownership can be organised in different ways:

- By setting up a trust.
- By setting up a Section 21 company.
- By setting up voluntary organisations.
- By setting up a communal property association.

Activity 2

Work on your own.

Copy the table below into your workbook and give four more tenure options and complete the required sections:

	Tenure option	Definition	Type of housing option that best suits the tenure option
1	Rent to buy	You can rent a house and in the lease agreement, a clause will have been inserted to state that if the landlord wishes to sell, you have first option to buy.	<ul style="list-style-type: none"> • Detached dwelling • Semi-attached dwelling • Attached dwelling • Farm
2			
3			
4			
5			

UNIT 2 ■ Rights and responsibilities linked to tenure options

↳ *By the end of this unit you should be able to:*

- Explain the rights linked to each tenure option, giving examples (SO2 AC1).
- Explain the responsibilities linked to each tenure option, giving examples (SO2 AC2).
- Compare the rights and responsibilities of different tenure options in terms of their limitations (SO2 AC3).

1 Rights and responsibilities of tenure options

Rights of homeowners

Homeowners have the following rights:

- To carry out alterations, as long as they are in line with municipal regulations.
- To sell the property to whomever they please.
- To leave their property to family members or friends in their will.



Inherent in home ownership is a set of rights and responsibilities.

Responsibilities of homeowners

Homeowners have the following responsibilities:

- To maintain their property. This means that they should conduct repair work, paint, attend to the garden etc, when necessary. This protects the value of their property.
- To keep their loan payments up to date.
- To pay their municipal rates – this enables the municipality to deliver the required services, such as refuse removal, sewage, street lights etc.

Rights of landlord and tenants

The rights of **tenants** and **landlords** are set out in The Rental Housing Act, No 50 of 1999.

The landlord's rights include the following:

- To be paid the correct amount at the correct time.
- To recover unpaid rent from the tenant.
- To terminate a lease as long as it is not done unfairly.
- To claim fair compensation for damages to property.
- To receive the property back in a good state after termination of a lease.
- To repossess the property after an order of court has been obtained.

Important words and ideas

A **tenant** is a person who occupies land or property that is owned by another person, a landlord to whom the tenant pays rent.

A **landlord** or landlady is someone who owns and rents property.

The tenant's rights include:

- The right not to be discriminated against as a result of his or her race, gender, sex, pregnancy, marital status, sexual orientation, ethnicity, age, disability, religion, conscience, belief, culture or language.
- The right to privacy (the property or residence may not be searched by the owner or a representative of the owner).
- The right to receive back the balance of his or her deposit (with interest) after a fair deduction by the landlord for damages to the property.

Responsibilities of landlords

The landlord's responsibilities include:

- Ensuring that the premises are in a safe condition for occupation.
- Ensuring that the residence is habitable.
- Allowing the tenant to receive visitors.
- Placing the tenant's security deposit in a savings account that has the highest rate of interest.
- Returning the security deposit, plus all interest accrued, to the tenant minus any costs for reasonable repairs for damages caused by the tenant.
- Providing proof to the tenant of any costs incurred through having a lease drawn up when passing on such costs to the tenant.

A tenant has a duty to:

- Pay the correct rent on time as specified in the lease.
- Keep the dwelling/property clean and tidy.
- Not to use the premises for an improper purpose (for example, illegal activities, running a business, sub-letting).
- Returning the property to the landlord in the same condition minus reasonable wear and tear at the end of the lease.
- Keeping to the provisions of the lease, provided the provisions are legal.

2 Comparing the rights and responsibilities of different tenure options

This is a practical unit where you will apply all the information you have learnt on pages 71–73, to complete the activity below.

▶ Activity 3

Work on your own.

- 1 If you were to rent a flat, what would your rights and responsibilities be towards the landlord?
- 2 You own a second house and are currently renting it out. What are your rights and responsibilities?
- 3 If you are a homeowner, it is your responsibility to pay municipal rates and taxes. Explain why.
- 4 Your tenant is using your flat as a Tik factory. Can you evict the tenant? Explain your answer.
- 5 You have now bought you own home. What are your rights and responsibilities?

UNIT 3 ■ Choosing appropriate tenure options

↓ *By the end of this unit, you should be able to:*

- Identify and assess a tenure option in order to make an appropriate choice (SO3 AC1).
- Discuss in context the general advantages and disadvantages attached to the option (SO3 AC2).
- Explain the motive for making the choice on the basis of individual, family or community circumstances (SO3 AC3).

1 How to identify and choose the correct tenure option

The following aspects will influence your choice of tenure options:

- Your marital status – whether you are single, married or co-habiting.
- Your financial status – what you can afford.
- Whether you qualify for a home loan with a financial institution.
- Whether you get a housing subsidy.
- Where you want to live.
- What infrastructure (schools, shops, public transport, parks etc) you need close by.
- Whether you have a deposit saved up.

Once you have got answers to the above questions, you need to look at the advantages and disadvantages of each tenure option, *before* you start looking for accommodation.



Choosing the right house is a difficult decision to make.

Activity 4

Work on your own.

List all the personal factors you would take into consideration when deciding what tenure option you would use to take up residence in a dwelling.

2 Comparing the advantages and disadvantages of various tenure options

Home ownership

Advantages

- Home ownership gives you more security compared to renting.
- It is a good investment. Property values generally increase over time.
- When applying for a loan, you can use your house as **collateral** or security against the loan.
- You can leave your house to relatives or to friends when you die.
- You can modify/change/renovate your house as you please.
- You have freedom to exercise your own beliefs and customs.

i Important words and ideas

The term **collateral** refers to assets pledged by a borrower to secure a loan or other form of credit. These assets are subject to seizure if the borrower defaults.

Disadvantages

- Costs such as maintenance and insurance costs can change from month to month.
- The value of the house may increase or decrease depending on the economic environment.
- If you want to move to another area, you first need to sell your house.
- You need a lot of capital when you first buy a house as the banks require a deposit.
- In the beginning, your bond repayments can be higher than it would cost you to rent a similar house.

Renting

Advantages

- You won't lose money if the property loses value.
- Your rent amount will stay the same for the rental period, no matter what happens to the interest rates.
- It is easier to move to other areas, as you don't have a house to sell.
- You are liable for all the maintenance.
- Renting allows you to live in house/flat if you don't qualify for a home loan.
- Compared to purchasing a house, you only need a small deposit.
- You can usually afford to rent in a more upmarket area than you could afford to buy in.

Disadvantages

- You will never make any profit or capital gains on the house as you don't own it.
- You are actually paying off someone else's bond.
- Most landlords don't like it if you paint or renovate the house. This prevents you from personalising your house.

Renting to buy/instalment sale

Advantages

- The sale price is locked and is valid for the lease period.
 - If the property value increases more than expected, the seller loses out, while the buyer benefits.
 - If the property value decreases, the seller benefits by getting more than it is worth.
- If the buyer purchases the property, then the option fee he or she paid forms part of the deposit.
- For buyers who would not normally qualify for a home loan or have money saved to secure a home of their own, this is an alternative.

Disadvantages

- The sale price is locked and is valid for the lease period.
 - If the property value increases more than expected, the seller loses out, while the buyer benefits.
 - If the property value decreases, the buyer pays more than the property is worth.
- If the buyer doesn't purchase the property at the end of the lease, then the option fee is not refundable.
- The rent is usually slightly higher than normal rent.
- If the buyer chooses not to purchase the property, he or she loses any additional money that is put into the house.

The right to occupy

Advantages

- The occupier has the right to use a site for residential/commercial purposes as long as the site is continually occupied.
- The occupier has the right to rent out part of the site.
- The occupier has the right to 'sell' the right to use the site, on the condition that this exchange is recorded by the local authority.

Disadvantages

- You don't own the residence or land.
- The owner can evict you, as long as it is based on fair practice.
- In many cases, services such as electricity, water, sewage, refuse removal, roads, schools etc, are not included.

Communal ownership

Advantages

- This form of ownership can help to create strong social and economic support networks in low-income households.
- You can leave the rights to your heirs or sell the rights.
- It reduces the cost of infrastructure as all members contribute to the development.

Disadvantages

- There is a risk of mismanagement by the communal leadership team.
- Some members might not pay their contributions.
- The value of your share can't be used as collateral for a loan.
- Members need to pay monthly levies to cover operating costs such as maintenance.

Activity 5

Work on your own.

Read the following case studies and provide answers where applicable:

Fabian is a single father of eight-year-old twin daughters. His elderly mother also lives with him. He is currently employed at the local municipality. He earns R7 000 a month after deductions. His monthly expenses, excluding rent, are R4 200. Fabian wants to move from his current rented flat. He has a good credit rating. Give Fabian advice on which housing option would suit his current situation best.

Ashlyn is moving to Cape Town to study. She has a bursary that gives her R3 000 for living expenses. Give Ashlyn advice on what tenure option would suit her.

Thabo has just got married. He and his wife are both employed. Their combined take-home income is R21 900. Currently, their monthly expenses, excluding rent, are R8 240. They both want to further their careers and have decided not to have children for at least five years. Both of them travel for their business. Give them advice on the best housing option that would suit their needs.

By now you should be familiar with the concept of housing tenure. To find out how well you have grasped the topic, complete the self-assessment below:

Self-assessment

How well have you understood the issues covered in this chapter?
Complete the following table to find out:

I can:	4 Very well	3 Quite well	2 With help	1 Not at all
Identify a range of different housing typologies,				
Understand the concept of 'tenure' in relation to housing,				
Identify tenure options in terms of their application in different housing typology contexts,				
Understand the rights and responsibilities linked to each tenure option,				
Identify the advantages and disadvantages of each tenure option,				
Choose an appropriate tenure option based on my current circumstances.				

If you scored 1s or 2s for each category, it means that you are unsure about certain aspects of the topic. It would be a good idea for you to re-read the chapter or to go over certain issues again so you can improve your knowledge and understanding.

4

How do I write a business plan?

Unit standard 14444: Demonstrate an understanding of a general business plan and adapt it to a select business idea.

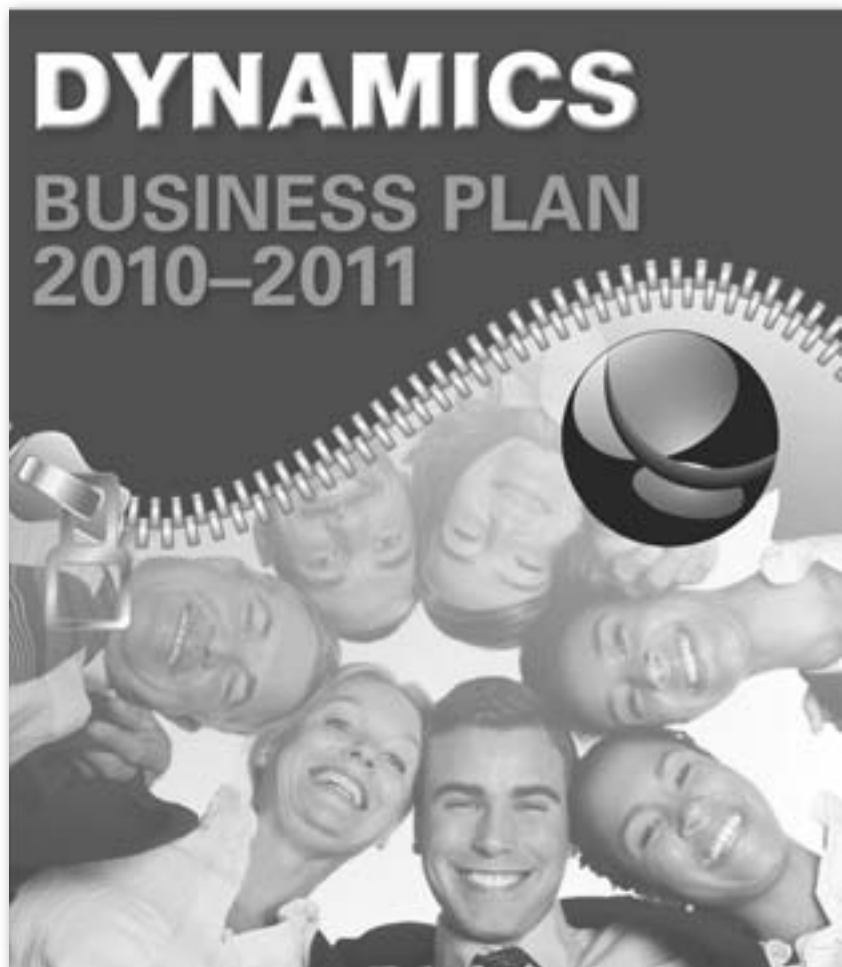
7 Credits

→ *Specific Outcomes*

You will work towards achieving the following Specific Outcomes in this chapter:

- 1 Explain and discuss the purpose of a business plan.
- 2 Outline and analyse the components of a business plan.
- 3 Design and present a business plan relevant to the selected business idea.

In this chapter, you will learn about business plans – what they are and why we need them. You will also learn about the different parts of a business plan. You will then be given the opportunity to write your own business plan for a business idea of your choice. Finally, you will be asked to present your business plan to your class and will be assessed on your presentation.



A business plan should look professional.

UNIT 1 ■ What is a business plan?

↳ *By the end of this unit, you should be able to:*

- Describe a business plan (SO1 AC1).
- Discuss the need for, and use of, a business plan (SO1 AC2).

1 Describing a business plan

A business plan is a formal document that sets out what kind of business is being conducted, and what the business goals are.

A business plan should not only be seen as a document that is set up because financing institutions require it, but also as a working document that is constantly updated as the business grows and as the environment changes.

2 The need for and use of a business plan

A business plan is essential for any business, no matter how big or small it is. A business plan will assist the business owner in the following ways:

- By helping to determine where the business is going.
- By identifying the resources required to develop a successful business.
- By serving as a plan to assist in accessing financing.
- By serving as promotional material for the business.
- By ensuring that the owner sets out a detailed plan requiring research, which, in turn, will help the owner to get a reliable picture of the market/business environment he or she wants to enter.
- By serving as a tool that can be used to convince potential investors/partners to support the business.
- By enabling him or her to identify potential threats and difficulties, which means the owner can put plans or processes into place to combat them.

▶ Activity 1

Work on your own.

In your own words, describe to a friend what a business plan is and why he or she will need one if he or she starts a business.



Something to know

A *business plan* is an essential planning tool that will help small businesses to start up, manage and operate in the marketplace.

UNIT 2 ■ The components of a business plan

↓ *By the end of this unit, you should be able to:*

- List the different components of a business plan (SO2 AC1).
- Explain the different components of a business plan (SO2 AC2).
- Analyse the functions of the different components of the business plan (SO2 AC3).

1 Listing the parts of a business plan

A business plan is a written document that sets out the business goals, the reasons why the entrepreneur or owner thinks these goals are attainable, and the plan for reaching those goals. It may also contain background information about the organisation or team attempting to reach those goals. A business plan is a formal document that will be presented to financial institutions and other interested stakeholders. It should therefore look professional and be well thought out.

The content of business plans will differ from business to business but each plan should cover the same issues.

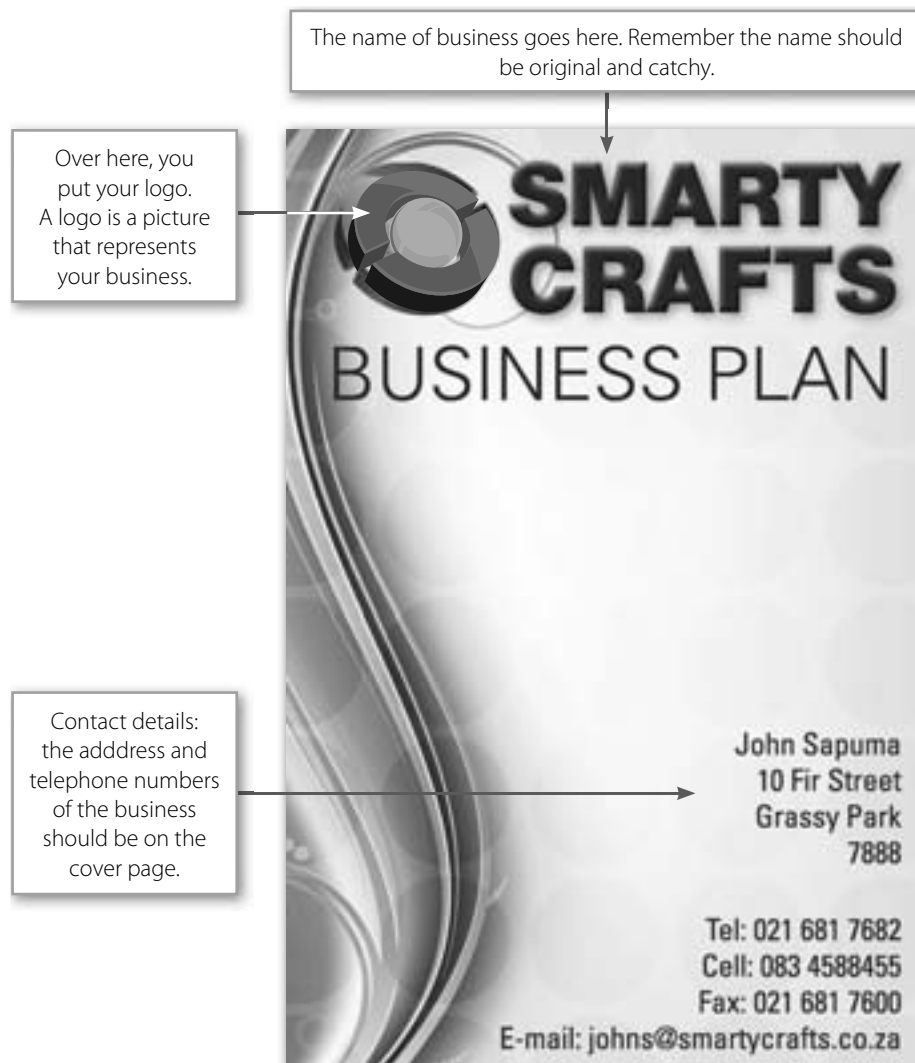
The cover page

The cover page is the first page that the reader will see.

It should therefore be eye-catching to motivate the reader to read further. It should contain the following:

- The name of the business.
- The business logo.
- The contact details of the owner/entrepreneur.
- The owner/entrepreneur's address details.

An example of the cover page is set out alongside.



The table of contents

The table of contents is the next important page readers will turn to. It lists the information contained in the business plan. It also provides page references so the reader can find the relevant information quickly and easily.

Example

A table of contents would look something like this:

TABLE OF CONTENTS	
1. BACKGROUND INFORMATION	4
Executive summary of the business	4
Personal information on the owner	4
The vision of the business	5
The mission of the business	5
The goals of the business	5
2. A DESCRIPTION OF THE BUSINESS	6
A detailed description	6
Type of ownership	6
SWOT analysis	7
3. MARKETING AND ADVERTISING	8
Target market (customer profile)	8
Market research	9
Questionnaire and results	10
Market potential	11
Competitor analysis	11
Promotional strategy	11
Advertisement	12
Promotional plan	12
4. FINANCIAL PLAN	13
Costing of product	13
Variable costs	13
Fixed costs	13
Total costs	13
Gross profit for one product	13
Income statement	14
5. ORGANISATIONAL PLAN	15
Labour requirements	15
Layout	15
List of suppliers	16
6. MOTIVATION AND CONCLUSION	17
Appendix	17

We will now look at each item on the table of contents and discuss them in detail.

2 Explaining the parts of a business plan and their functions

Background information

Executive summary

An executive summary is a brief summary of your business. The summary should tell the reader the following information:

- What your business does or sells.
- Where your business operates.
- Who your target market is.

Personal information

It is important to include all your personal information and contact details so that the bank manager will be able to contact you.

Example

This is the type of information that will need to be included:

Name: John Sapuma
Address: 10 Fir Street, Grassy Park,
Cape Town, 7888

Tel: 021 681 7682
Cell: 083 4588455
Fax: 021 681 7600
E-mail: johns@smartycrafts.co.za

The vision of the business

A vision statement is a statement that tells clients where you see your business going in the future.

Example

Here is Smarty Craft's vision:

Smarty Craft's vision

- ▶ To become the preferred provider of crafts for both local and export markets, by providing high-quality products that meet the needs of local and international clients.
- ▶ To provide world-class customer service.



Smarty Craft's vision.

The mission of the business

A mission statement is a statement that explains to your customers what you stand for. Your mission statement should be visible to your clients but should also be part of your business plan.

Example

Here is Smarty Craft's mission statement:

Smarty Craft's mission statement

- ▶ To provide high-quality crafts at a competitive price to our valued customers.
- ▶ To contribute to the development of the rural communities within South Africa.

Business goals

The business goals are the objectives that you want to achieve to make your business grow and to be sustainable. Goals can be divided up into long-, medium- and short-term goals.

Example

These are Smarty Craft's goals:

- ▶ Long-term goal: To buy a van for delivering and collecting crafts.
- ▶ Medium-term goal: To increase our **market share** by 3% after the first six months of operation.
- ▶ Short-term goal: To sell crafts at corporate functions.



Something to know

Market share is the portion of the market that your business attracts. For example, if there are 100 customers and your business can attract 30, this means that you have 30 out of 100 customers. Therefore, your market share is 30%.

Description of the business

A detailed description

A detailed description of your business should include the following aspects:

- Details of products and/or services you plan on offering.
- The finances required to set up the business.
- The potential of the business, that is, what the business could become in the future.
- Where the business will be situated.
- An **environmental assessment**, if necessary.
- What benefits your business will bring to the community.



Something to know

An **environmental assessment** or survey is an assessment that evaluates the impact of the business on the environment, for example, how the pollution emitted by the business will affect the surrounding air.

Example

This is Smarty Craft's business description

Smarty Crafts aims to sell its crafts to local clients first. We then hope to expand internationally. The crafts that we currently sell include articles made from wire, beads and woven reeds. We also make small leather articles (key rings).

At the moment, Smarty Crafts operates on an informal basis. The crafters are all unemployed and make crafts to sell at local craft markets in the Western Cape. By formalising the business, it will allow the business to grow and create more jobs in rural communities.

To register and expand the business, the owners will require R60 000. The current owners will invest R10 000 of their own money as start-up costs.

Smarty Crafts will eventually have stalls at all the major craft markets in the Western Cape. We also hope to supply crafts at corporate functions and events. The owners will ensure that customers remain satisfied, by continuing to produce high-quality products.



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The products Smarty Crafts makes and sells.

Type of ownership

The range of different ownership options are discussed in Chapter 3. Refer to Chapter 3 to choose the form of ownership that would suit your business.

SWOT analysis

This is an analysis conducted *before* you start a business to identify the Strengths, Weaknesses, Opportunities and Threats (SWOT) of your business.

An example of Smarty Craft's SWOT analysis can be found on page 85.

Example

This is Smarty Craft's SWOT analysis:

Strengths	Weaknesses
What is good about your business <ul style="list-style-type: none">• Well-priced product,• High-quality product,• Little competition,• Community involvement.	What is bad about your business <ul style="list-style-type: none">• Lack of money to start and run the business• Lack of experience• Lots of competitors• Lack of management training and experience
Opportunities	Threats
Where your business can go <ul style="list-style-type: none">• Can help to improve international trade relations• Can help to boost tourism• Can increase employment	What can prevent your business from growing or succeeding <ul style="list-style-type: none">• New competitors• An increase in the unemployment rate• Political instability• A shortage of raw materials• Urbanisation

Marketing and advertising

Target market (customer profile)

The table below, or one like it, can be used to determine a business' target market.

Smarty Crafts has completed the table, describing the potential customers it would like to attract:

Criteria	Description
Average age	Give a description of the product Our products will appeal to a range of different age groups – from teenagers through to people in their fifties.
Gender	Male, female or both Our products will appeal to both male and female customers.
Marital status	Single, married or divorced The appeal of our product does not depend on whether a person is single, married or divorced.
Home language	English, Afrikaans, Xhosa, Zulu Our products will appeal to all South Africans, irrespective of the language they speak.
Average income per month	Give a range of income We would target people earning between R5 000–R10 000 per month.
Description of geographic location	The area that you want to target: Be specific Western Cape; Green Point, Green Market Square, Kirstenbosch

... continued on the next page ▶

▶ ... continued

Criteria	Description
Comments on their lifestyle	<p><i>How do these people live?</i></p> <p><i>What do these people believe in?</i></p> <p>Our potential customers have sufficient disposable income to buy our high-quality yet inexpensive products.</p> <p>Our customers are Proudly South African and support local initiatives.</p>

Market research

Questionnaire

A questionnaire is one of the key instruments you would use when conducting market research. Market research is carried out to find out information about your target market. A questionnaire should consist of open-ended questions (that is, questions that allow the interviewees to give their own opinions and thoughts), as well as closed questions (questions for which the interviewer supplies the possible answers).



Conducting market research.

Results of the questionnaire

Once the questionnaires have been completed, you will need to analyse the results. The answers to the questions will help you to decide if your business will work or not.

Market potential

The calculation below will help you to understand how possible customers can bring money into your business. Smarty Crafts used it as a tool to work out its market potential.

1. Number of customers		20 people
2. Average income		R8 000 per month
3. Total income in your area	1 × 2 20 × R8 000	R160 000
4. Percentage spent on your product/service	0.5%	
5. Total amount available	2 × 4 R160 000 × 0.5%	R800
6. Your market share %	10%	
7. Expected market share	5 × 6 800 × 10%	R80

This amount will hopefully increase as your product becomes well known and as your clients know and trust your product or service

Competitor analysis

When starting a business, it is important to know who your competitors are, so that you can attract the customers away from them. A table, like the one below, can help in giving an overview of current competitors in your market.

	Smarty Crafts	Competitors		
Product		Anni's Crafts	Curio City	Cool Stuff
Wire and bead baskets	R145	R155	R165	R145
Woven reed mats	R110	Don't sell	R95	Don't sell
Leather key rings	R20	R22	R25	R20
Wire and bead lamp shades	R100	R75	R100	R70
CD Racks – wire	R40	Don't sell	R23	R20
Leather peak caps	Don't sell	R70	Don't sell	Don't sell

Something to know

A *competitor analysis* is an assessment of the strengths and weaknesses of current and potential competitors. Often when starting up, people operate on informal impressions which can be dangerous.

Promotional strategy

Advertising

Advertising is important for your small business for the following reasons:

- To tell your potential customers about your business.
- To inform your customers about specials.

Advertising can be done in the following ways:

- Advertisements in newspapers and magazines.
- Radio advertisements.
- Putting up posters at shopping malls, taxi ranks, community centres etc..
- Handing out pamphlets.
- Giving free samples to potential customers at shopping malls.

The advertisements should include the following information:

- The name of the business
- The product/s or service being sold
- The price of the product/s or service
- The location of the business
- Any special offers
- Contact details
- A picture of the product or service
- Your logo.



An advertisement for Smarty Crafts.

Promotional plan

Your promotional plan, like the one below, should show how you plan to advertise your business:

Month	Activity	Budget
January	Hand out flyers at traffic lights	R30
February	Put flyers in local hotels and guest houses	R30
March	Send flyers to local businesses – full colour	R50

Financial plan

Variable costs

Variable costs are the costs that increase when you increase the amount of products you make. In other words, the cost of a single product will remain the same, but the total variable costs will increase the more you make. The cost per single product will only change if your raw materials and/or labour costs increase.

The tables below show Smarty Craft's variable costs for the items it sells:

VARIABLE BUDGET FOR TEN WIRE BASKETS

Materials and labour	Cost	Calculation	Cost per item (R)	Total (materials and labour)	Total (R)
Beads: 1000	R15 per 500	15×2	30	10 000	300
Wire: 2.5 m	R10 per m	$2.5 \times R10$	25	25 m	250
Labour: 2 hours	R10 per hour	$2 \times R10$	20	20	200
Total cost of materials and labour for ten wire baskets					750

VARIABLE BUDGET FOR TEN WOVEN REED MATS

Materials and labour	Cost	Calculation	Cost per item (R)	Total (materials and labour)	Total (R)
Reeds: 1 bunch	R20 per bunch	$R20 \times 1$ bunch	20	10	200
Labour: 3 hours	R10 per hour	$R10 \times 3$	30	30	300
Total cost of materials and labour for ten woven reed mats					500

VARIABLE BUDGET FOR TEN LEATHER KEY RINGS

Materials and labour	Cost	Calculation	Cost per item (R)	Total (materials and labour)	Total (R)
Leather: 8 cm	R150 per m	$\frac{150}{100 \text{ cm}} \times 8 \text{ cm}$	12	80 cm	120.00
Ring: 1	R10 per 30	$\frac{10}{30} \times 1$	0.33	10	3.33
Labour: 30 min	R10 per hour	$\frac{10}{60} \times 30$	5	5	50.00
Total cost of materials and labour for ten leather key rings					173.33

VARIABLE BUDGET FOR TEN WIRE AND BEAD LAMP SHADES

Materials and labour	Cost	Calculation	Cost per item (R)	Total (materials and labour)	Total (R)
Beads: 500	R15 per 500	$R15 \times 1$	15	5000	150
Wire: 2 m	R10 per m	$R10 \times 2$	20	20 m	200
Labour: 2 hours	R10 per hour	$R10 \times 2$	20	20	200
Total cost of materials and labour for ten wire and bead lamp shades					550

VARIABLE BUDGET FOR TEN CD RACKS – WIRE

Materials and labour	Cost	Calculation	Cost per item (R)	Total (materials and labour)	Total (R)
Wire: 3 m	R10 per m	$R10 \times 3$	30	30 m	300
Labour: 1 hours	R10 per hour	$R10 \times 1$	10	10	100
Total cost of materials for ten CD racks – wire					400

Fixed costs

Fixed costs are costs that stay the same no matter how many products you make or sell. The table below shows Smarty Craft's fixed costs:

PRODUCT

Type of cost	Calculation	Cost (R)
Salary: administrator	R 1 500	1 500
Loan	R150 per month	150
Rent	R50 per day × 8 days per month	400
Transport	R10 per taxi ride × 8 rides	80
Total fixed costs		2 130

Total costs

Total costs include all the costs required to make the items and are therefore made up of variable costs and fixed costs.

This is Smarty Craft's budget for the production of all items:

Variable costs			2 373.33
	Wire baskets	750	
	Mats	500	
	Key rings	173.33	
	Lamp shades	550	
	CD racks	400	
Fixed costs			2 130.00
Total costs			4 503.33

GROSS PROFIT FOR ONE MARKET DAY

Production capacity per market	Ten of each item			
Total costs for ten of each products				4 503.33
Selling price per unit (cost per unit + mark up)	Item	Selling price × quantity		
	Wire baskets	145 × 10	1 450	
	Mats	110 × 10	1 110	
	Key rings	20 × 10	200	
	Lamp shades	100 × 10	1 000	
	CD Racks	40 × 10	400	
Total income				4 160.00
Gross profit/loss (selling price – cost price)	4 160 – 4 503.33			343.33
Total gross profit/loss for the market			718.33	343.33

Something to know

- **Gross profit** is the profit you make before any additional expenses are taken off. Additional expenses could be advertising, stationery, interest on a loan, tax and value-added tax (VAT).
- The **selling price** refers to the amount you will be charging you customers.
- The **cost price** refers to the amount that it cost you to make or buy the item you are selling.

Even though Smarty Crafts is currently making a projected loss, the loss could be due to the following:

- Costs being too high
- Projected sales being too low.

How to decrease costs

If the costs are too high, the business can do the following:

- Increase the number of products or services that are sold, in other words, increase the number of clients.
- Try another supplier to see if you can reduce your variable costs.
- Examine your fixed costs and ask yourself if you really need all of these expenses.

How to increase projected sales

If projected sales are too low, the business can do the following:

- Look at the results of the market research/questionnaire again.
- Increase advertising.
- Identify additional craft markets where items can be sold.
- Increase the selling price to compensate for low quantities.

Income statement

An income statement is a document that shows a company's income and expenses over a given period (for example, monthly or annually).

This is Smarty Craft's income statement:

INCOME STATEMENT OF SMARTY CRAFTS FOR THE CENTRAL PARK MARKET ON 2 FEBRUARY 2011

	R	R
Sales		4 160.00
Less: cost of sales		2 373.33
Gross profit		1 786.67
Less: fixed expenses		2 130.00
1. Salary	1 500	
2. Loan	150	
3. Rent	400	
4. Transport	80	
Net profit/loss (before tax)		-343.33

Organisational plan

Labour requirements

An organisational plan shows the number of employees you need and the skills they require in order to do the job you want them to do.

This is Smarty Craft's organisational plan:

Position	Skill required	Salary
1. Wire and bead weavers	<ul style="list-style-type: none">• An ability to weave wire and beads into baskets, lamp shades, CD racks	R10 per hour
2. Reed weavers	<ul style="list-style-type: none">• An ability to weave reeds into mats	R10 per hour
3. Administrator	<ul style="list-style-type: none">• Ordering stock• Paying wages• Promoting crafts	R1 500 per month



Smarty Craft's crafters.

List of suppliers

A list of suppliers shows the list of people or organisations from whom you buy your materials.

This is Smarty Craft's suppliers' list:

Equipment/raw material, etc.	Supplier	Price	Supplier	Price
1. Wire	Wire City	R10 per metre	Wire Inc.	R12 per metre
2. Beads	Sparkle Beads	R15 per 500 beads	Beads for Crafts	R33 per 1000
3. Reeds	Happy Farm	R20 per bunch	Waterways	R22 per bunch
4. Leather	Sun Valley Tannery	R150 per metre	Hide Tannery	R154 per metre

Supplier of choice

The table below shows Smarty Craft's preferred suppliers:

Supplier	Price
Wire City	R10 per metre
Sparkle Beads	R15 per 500 beads
Happy Farm	R20 per bunch
Sun Valley Tannery	R150 per metre

Motivation and conclusion

You should conclude your business plan by writing a short motivation to explain why your business will succeed and be sustainable.

The following should be covered:

- Why the business will work.
- Why the products supplied by your business will be preferred by customers when compared to similar businesses.
- Ways in which you can motivate or prove that there are sufficient customers interested in buying your products.

Your motivation and conclusion should be convincing and should make the reader believe that your business will be a success and that they will get their money back if they invest in you.

Appendix

In this section, which always comes at the end of the document, you will put in the following:

- Proof of any prior qualifications or courses related to your business.
- Proof of registration.
- Reference letters from clients.

Activity 2

Work on your own.

Complete a business plan for a business you wish to start or dream of starting.

Your business plan will be assessed as follows:

KEY	
C	Competent
NYC	Not yet competent

	Contents of the business plan	Does the business plan answer the following questions?	C	NYC	Comment/s
1	Cover sheet/front page	The name of the business describes what the business will be doing.			
		Contact details are included.			
		The logo is original, catchy and colourful.			
2	Background information	The nature of the business is described.			
		The location is identified.			
		Clients are identified.			
		The mission highlights what the business stands for.			
		The vision highlights where the business is going.			
		The goals/objectives of the business are included.			
3	Detailed description	Detailed descriptions of products/services are included.			
		Job creation is discussed.			
		How much money is required to set up this business?			
		Will this business do any good for the community?			
		Has this business got potential?			
		The type of ownership			
		What are the strengths of the business?			
		What are the weaknesses of the business?			
		What threats are there to the business?			
		What opportunities are there for the business?			
4	Marketing and advertising	What is the customer profile?			
		Is there an example of the questionnaire?			
		What are the results of the market research?			
		Is there room in the market for this business?			
		What is the market potential?			
		Who are the competitors?			
		How do the competitors fare against the business?			
		Is there a well-designed advert?			
Is there a plan for promotion?					

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KEY
C – Competent
NYC – Not yet competent

	Contents of the business plan	Does the business plan answer the following questions?	C	NYC	Comment/s
5	Financial plan	Do I know how much the product will cost to make?			
		What are the variable costs?			
		What are the fixed costs?			
		What are the total costs?			
		What is the gross profit?			
		Is there an income statement?			
6	Organisational plan	What are the labour requirements?			
		How will the business be laid out?			
		Who are the suppliers?			
		What are the suppliers' prices?			
		Is there a preferred supplier?			
7	Motivations and conclusion	Did the conclusion persuade me to invest?			
		Are there reasons why this business will succeed?			
		Why are the business' products better than those of its competitors?			
8	Appendix	Were there any included?			
Overall comments					

UNIT 3 ■ Presentation skills

↓ *By the end of this unit, you should be able to:*

- Gather and analyse information relating to your chosen business idea (SO3 AC1).
- Assess the development of the business plan (SO3 AC2).
- Assess the written business plan (SO3 AC3).
- Explain the presentation skills required (SO3 AC4).
- Assess the oral presentation of the business plan (SO3 AC5).

1 Gathering information for your business idea

In Activity 2 on page 94, you completed a business plan for a business of your choice. If necessary, refer back to this activity before you proceed with this unit.

2 Assessing the business plan

Again, use the business plan you developed in Activity 2. Think back to how you developed your plan. Use the table below to help you assess it:

Strategy	Comment
What do I think worked well?	
What would I do differently in the future?	
Am I happy with the way in which I developed the plan?	
Would other people (that is, potential investors) be happy with or impressed by the plan?	
Is the business plan well presented in terms of: <ul style="list-style-type: none">• content• layout• language• presentation?	

3 What presentation skills are required

When presenting a business plan to a potential partner, investor or financing institution, it is important to remember that you are actually selling your business idea or concept. Therefore, during the presentation, you should aim to get the people you are presenting to as excited about your idea as you are.

Your presentation should be based on a well-researched and neat business plan. In your presentation, you should:

- Identify who your audience is (for example, investors, potential partners, financial institutions)
- Identify what you want to accomplish in the presentation
- Identify the most important facts about the business that you want to communicate to the audience (in other words, possible issues you should touch on are how the product will meet a demand, the lack of competitors, job creation etc.).

Planning your presentation

Plan your presentation on paper. Don't just use your business plan. Make sure you include the following:

- A catchy introduction
- The body of your presentation, which will include the following:
 - Details about the product/service
 - How it will add to the South African economy
 - Goals and objectives of the business
 - How you aim to get a competitive edge
 - Job creation.
- Conclusion: Why the business will succeed in the South African economy.

Don't forget to plan answers to potential questions that your audience might ask you.

Delivering your presentation

While you are giving your presentation, concentrate on the following:

- Making eye contact with each person in your audience, even if it is for a few seconds.
- Speaking to your audience and not to your notes.
- Making sure that each person in the audience can hear you.
- Not speaking too fast.
- Varying the volume and tone of your speech.
- Keeping your hands still during your presentation.
- Not pacing up and down during your presentation.



Remember to make eye contact with the people you are addressing.

Tips for presenting your plan in hard copy

- Ensure that people can read it. Type your business plan. Don't submit a handwritten copy.
- Before submitting your business plan, ask someone to proofread it, to make sure there are no errors.
- Bind your business plan professionally. Never submit loose pages.

▶ Activity 3

Present to your business plan to your class. You will be assessed as follows:

Criteria	Competent	Not yet competent	Comments
Voice			
Voice was clear.			
Voice projection was suitable for the venue.			
Volume and tone were varied.			
Tempo was varied.			
Presentation			
Presentation was structured.			
Use of visual aids was effective.			
Business proposal was clearly communicated.			
Enthusiastic about selected topic.			
Presentation persuaded the audience to agree with presenter's view/s.			
Body language			
Body language portrayed a positive attitude.			
Eye contact was maintained with audience.			
Posture was correct.			
Audience			
Ability to read the audience.			
Ability to manage the audience.			
Answered questions from the audience.			
Established a rapport with the audience.			
Questions			
Body language remained positive when questioned.			
Could answer questions from the audience.			
Personal grooming			
Personal appearance was professional.			

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Criteria	Competent	Not yet competent	Comments
Overall comments			

Checklist

Complete the checklist below to rate the quality of a presentation you heard. If you wish, you can adapt the checklist slightly to help you rate your own presentation.

Checklist Rating the quality of presentation						
Name						
Date						
	Concept	5	4	3	2	1
1	The speaker was well-prepared.					
2	The speaker was confident.					
3	The pace was suitable and appropriate.					
4	Everyone could hear.					
5	The tone was suitable for the occasion.					
6	The body language was appropriate.					
7	The speaker was polite and respectful.					
8	The speaker was convincing.					
9	The presentation was professional.					
10	If I were an investor, I would invest in this company.					

How can I become an entrepreneur?

Unit Standard 10006: Demonstrate an understanding of entrepreneurship and entrepreneurial qualities

2 Credits

→ *Specific Outcomes*

You will work towards achieving the following Specific Outcomes in this chapter:

- 1 Discuss entrepreneurship.
- 2 Identify and describe the characteristics of a successful entrepreneur.
- 3 Identify, assess and improve individual entrepreneurial characteristics.
- 4 Discuss business ethics and social responsibility.

Entrepreneurship is the most important economic driver in South Africa and internationally. Without entrepreneurs, unemployment would be higher and many new products and services would not be delivered. It is also the means by which people who operate outside the formal sector are able to earn a living.

In this chapter, you will discuss the concept of entrepreneurship. You will also learn about the characteristics required by entrepreneurs and will find out how you can develop and improve these characteristics in order to become successful. You will conclude this chapter by learning about the ethics you will need to adopt in order to operate openly and honestly.



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Entrepreneurs are the backbone of the economy.

UNIT 1 ■ Entrepreneurship

↓ *By the end of this unit, you should be able to:*

- Describe and discuss entrepreneurship (SO1 AC1).
- Identify, describe and discuss different types of business (SO1 AC2).
- Discuss the disadvantages of entrepreneurship (SO1 AC3).
- Explain and discuss the role of entrepreneurship in social development (SO1 AC4).
- Identify enabling programmes for the entrepreneur (SO1 AC5).

1 What is entrepreneurship?

An entrepreneur is someone who can organise and manage a business. To start a business you need initiative and must be prepared to take **calculated risks**.

Important words and ideas

A **calculated risk** is a risk undertaken once you have thought about the likely outcome very carefully.

The word **entrepreneur** comes from the French word '**entreprendre**' meaning to undertake something. By the sixteenth century the word was used to refer to someone who undertakes a business.

In the South African economy, entrepreneurship plays a key role in developing the economy. The majority of workers in South Africa are employed in small businesses. As new businesses start, they help create jobs for skilled, semi-skilled and unskilled labour. Job creation helps to create a sustainable and competitive country.

Something to know

Entrepreneurship is vital to the social and economic development of South Africa. Entrepreneurs create new businesses which lead to job creation. Entrepreneurship also empowers citizens and is essential for any emerging market as it will help us move forward and become integrated into the global economy.

Activity 1

Work on your own.

- 1 In your own words, describe to a friend what you think entrepreneurship is.
- 2 In your own words, explain to your friend what an entrepreneur is.
- 3 Think about someone you know whom you would consider to be an entrepreneur and tell your friend why you think this is so.

2 Different types of businesses and forms of ownership

When you decide to start your own business, you will need to decide what type of business you want. All business can be divided into the following categories:

- Service businesses
- Manufacturing businesses
- Retail and trading businesses
- Agri-Business

We will discuss each of these business categories in turn.

Service businesses

Service businesses provide services to their client and not actual products.

Examples of service businesses are:

- Hairdressers
- Tax services
- Gardening services
- Tour guides



Hairdressing is a service business.



A fast-food restaurant is an example of a manufacturing business.

Manufacturing businesses

Manufacturing businesses manufacture products from various types of raw materials.

Examples of manufacturing businesses are:

- Making crafts
- Making cement blocks
- Fast-food outlets

Retail and trading companies

Retail and trading businesses usually buy ready-made products from a manufacturing company and sell them on to individuals in the community for a profit.

Examples of retail and trading businesses are:

- Large supermarkets such as Pick n Pay
- Corner cafés
- Spaza shops



A spaza shop is an example of a trading business.



Sheep farming is an Agri-Business.

Agri-Business

At the name clearly states, Agri-Business involves agriculture and therefore entails either growing food or producing animals and/or poultry.

Examples of Agri-Businesses are:

- Sheep farmers
- Dairy farmers
- Grape farmers
- Chicken farmers

Legal forms of business

The categories of business discussed above can be registered in the following ways:

- Sole traders
- Partnerships
- Close corporations
- Private companies
- Section 21 companies

Use the table on page 104 to compare these forms of business:

Type	Number of members	Legal entity	Tax	Registration	Liability	Example
Sole trader	1	No	To be paid by the owner in his or her individual capacity	None	The owner is liable for everything.	A person making burglar bars in his or her garage
Partnership	2 to 20	No	To be paid by each individual member	Contracts required between each member	Each partner is liable for his or her own share.	A lawyer's practice
Close corporation (CC)	1 to 10	Yes	To be paid by the company	Yes, with the South African Revenue Service (SARS)	The company is liable.	A fashion boutique
Private company	1 or 50	Yes	To be paid by the company	Yes, with SARS	The company is liable.	Appliance City (Pty Ltd)
Section 21 Non-profit organisation (NPO)	1 or 50	Yes	To be paid by the company	Yes, with SARS	The company is liable.	An HIV and AIDS Trust



Something to know

A **member** is a person or people who own(s) the business.

The term '**liability**' refers to what the owners are liable or responsible for. For instance, a sole trader would be liable for all the debt incurred by the business, if the business were to fail.

Advantages and disadvantages of each form of ownership

The table below outlines the advantages and disadvantages of each form of business discussed above:

Sole trader	
Advantages	Disadvantages
You are your own boss.	You have limited access to financial resources.
You have limited legal requirements.	You are liable for all debt. This means that if you fail, your personal house could be taken away.
You can adapt quickly to keep up with trends.	You have to be 'Jack of all trades'. In other words, you have to be able to do a range of jobs very well.
You have close contact with your clients.	You are accountable for everything.
All the profits are yours.	Once the owner dies, the sole trader no longer exists. It therefore has a limited life expectancy.

Partnership	
Advantages	Disadvantages
Your skill level in the business increases as more people are involved.	If one partner enters a contract, he or she enters it on behalf of all the partners.
Liability is shared.	The partners are liable for everything, according to their level or percentage of ownership. This means they can also lose their personal belongings.
Financial resources increase.	A partnership is dissolved if one partner leaves or dies. There is limited life expectancy.

Close corporation (CC)	
Advantages	Disadvantages
It is easy to register a CC.	Membership is limited.
The company is liable and not you.	Financial resources can be limited.
There is no need for your financial records to be audited (examined carefully for accuracy).	If one member wants to leave, the whole group must agree and this would involve a buy-out.

Private company (Pty Ltd)	
Advantages	Disadvantages
The company is a separate legal entity.	Financial resources are limited as shares cannot be sold to the general public.
Shareholders have limited liability.	The maximum number of shareholders is 50.
Shares in the business can be left to a third party. There is unlimited life expectancy.	The process of registering a private company is complex.
	They are difficult to manage.

Important words and ideas

A **shareholder** is a person who owns a portion of the business. For example, if you buy shares in Eskom, it means that you own some of Eskom.

Activity 2

Work in groups.

Choose a form of business and make a poster about the business in which you state:

- The type of business.
- The form of ownership.
- The advantages and disadvantages of that specific form of ownership.

3 The advantages and disadvantages of entrepreneurship

You already know that starting up a business requires initiative and risk. The table below outlines the advantages and disadvantages of setting up a business:

Advantages		Disadvantages	
1	You can control your future in the business.	1	There is a high failure rate. Many small businesses fail within the first year of opening.
2	Your business can create new jobs, thereby reducing the unemployment rate.	2	You will always be working and will have no or limited holidays.
3	You can provide for your family.	3	You will have to deal with uncertainty. The business environment is always changing.
4	You can contribute towards the development and upliftment of the community.	4	The levels of risk are high.
5	You will be your own boss.	5	You may not always have enough support (both financial and business).

4 The role of entrepreneurs in the economy



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Entrepreneurs play an important role in the economy.

As entrepreneurs start new businesses and employ staff, they help to reduce unemployment. The reduction of unemployment is done in the following ways:

- **By adding new products or services to the market**
For an entrepreneur to be successful, he or she will need to introduce new products and services into the market. These products or services need to meet the needs of his or her potential clients. Creating new products and services can help to create new jobs.
- **By creating new jobs**
Many entrepreneurs don't necessarily start out by employing people. But as soon as their businesses improve and become busier, they might employ additional staff to help with the increase in trade. In addition, as the business picks up, they will require additional stock. This means that the suppliers might also need to employ additional staff.
- **By helping uplift communities**
Businesses contribute to communities in the following ways:
 - By paying rates and taxes.
 - By having the ability to pay for the services that they receive from the local municipality.
- **By meeting the needs of people**
For any business to be successful, it needs to meet the needs of its potential clients. An entrepreneur who can identify these needs and has the ability to meet them, will usually succeed and remain employed.
- **By creating wealth**
Wealth creation involves increasing the value of the entrepreneur's investment. Creating wealth lessens the negative effects of unemployment by creating a financial buffer for the entrepreneur in times when there may not be as many sales.

Example

The example below shows how an entrepreneur contributes to the South African economy:

Wealth creation

- ▶ A vendor buys cabbages from a farmer for R1 each. The vendor then sells these cabbages for R2.50 each to his clients. He has now created additional wealth of R2.50. Unfortunately, the R2.50 is not all his. He must still give the farmer R1 and pay for the delivery of the cabbages. This means that by selling his cabbages on the side of the road, he has contributed to the wealth of two other people.

Meeting the needs of the people

- ▶ This vendor has met the needs of his clients when they buy a cabbage.

Creating new jobs and helping to reduce unemployment

- ▶ He has contributed to the employment of the farm worker and delivery driver.
- ▶ He may possibly employ an assistant when he is very busy.

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Helping uplift the community

- ▶ He can use some of the income he generates to pay for services rendered by the municipality (such as water, electricity and solid waste removal).

Adding new products or services to the market

- ▶ Even though cabbages are not a new product, they might not have been available in that area before he started selling them.

▶ Activity 3

Work on your own.

- Write down reasons why you think the government should support the development of entrepreneurship in South Africa.

5 Where entrepreneurs can get help

Entrepreneurs can go to the following agencies for help, assistance and support:

Name of organisation	Type of assistance offered	Contact number
Black Management Forum (BMF)	Business training and networking	(011) 784 4407
Black Business Suppliers Development Programme (BBSDP)	Helps black-owned businesses to become more competitive	(011) 615 1661
Business Beat	Assists small business owners with: <ul style="list-style-type: none">• Advice,• Mentoring,• Bookkeeping ,• Company registration.	(021) 448 9075
Business Partners	Provides equity and bridging finance, as well as mentoring for viable businesses	(011) 470 8700 www.businesspartners.co.za
Business Referral and Information Network (Brain)	Provides business owners with up-to-date information on the following: <ul style="list-style-type: none">• Guidelines on starting a small business,• Where to find finance,• News on tenders,• Drawing up business plans.	(012) 349 0100 www.brain.co.za
Companies and Intellectual Property Registration Office (Cipro)	To register your company, CC, trademark or patent	www.cipro.co.za
Council for Scientific and Industrial Research (CSIR)	Assists business owners who want to improve on a product or product development with market-related research and product testing	(012) 841 2911 www.csir.co.za
Enterprise Competition	An annual national competition that runs over a few months and goes through various stages before the finalists are announced. Those whose business ideas are selected will receive intensive business training.	(011) 482 9697

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Name of organisation	Type of assistance offered	Contact number
Export Market Investment Assistance (Emia)	Provides funding for small business exporters Focuses on assisting business owners with trade missions and attending exhibitions Provides funding for things like marketing, patent registration and export readiness training	0861 843 384
Export Credit Insurance Corporation (ECIC)	Facilitates and encourages South African export trade, by underwriting export credit loans and investments outside the country, in order to enable South African contractors to win capital goods and services contracts in other countries	(012) 417 3850
The Franchise Association of South Africa (Fasa)	Fasa requires member franchises to subscribe to a set of rules. It's usually a good sign if the franchise you want to buy belongs to Fasa.	(011) 484 1285 www.fasa.co.za
Industrial Development Corporation (IDC)	Provides short-term capital to fund projects for business owners who have a turnover of at least R1m and who have secured contracts (except for the construction sector) Provides bridging finance	(011) 269 3000 www.idc.co.za
Khethani Business Finance	A non-profit organisation (NPO) Assists small business with financing Concentrates on those businesses whose loan applications would normally be turned down by the banks	(011) 781 7224
Khula Enterprise	The Department of Trade and Industry's small business finance organisation for Khula-guaranteed bank loans. These include amongst others, the Individual Guarantee Scheme which is available through the banks to small business owners who want loans of R1m or less but have no collateral and the Emerging Entrepreneur Scheme which lends to Small Medium and Micro-Enterprises (SMMEs) with less than R2 million.	(012) 394 5560 www.khula.org.za
The National African Federated Chamber of Commerce (Nafcoc)	Represents the interests of black business Provides networking opportunities Lobbies for small business members	(011) 268 2800 www.nafcoc.org.za
Ntsika	Promotion and support services to SMMEs	080013857 www.ntsika.org.za
National Empowerment Fund (NEF)	Enables, promotes and implements innovative investment and transformation solutions, to advance sustainable black economic participation	www.nefcorp.co.za
National Productivity Institute (NPI)	A non-governmental organisation (NGO) Subsidises programmes and solutions for small business owners looking to increase their productivity	086 0100 539 www.npi.co.za
The Netherlands Management Co-operation Programme (NMCP)	A Dutch support programme Uses retired business consultants to assist small business Assists with loans, equipment and development funds	(021) 951 6852
Progress Fund	Provides loans and equity finance to businesses Businesses must be owned by young previously disadvantaged people between 18 and 35 years of age.	(011) 371 6679 www.fnb.co.za
Programme for Co-operation with Emerging Markets (PSOM)	A Dutch initiative Assists small business owners with Dutch-SA partnership opportunities Covers half of all the linkage costs	(012) 939 9447

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Name of organisation	Type of assistance offered	Contact number
SAB Kickstart	An annual national competition organised and sponsored by SAB-Miller Business owners and entrepreneurs who enter the competition are also enrolled in a Kickstart training programme.	(021) 658 7395
The South African Bureau of Standards (SABS)	Assists small business with accreditation of products and services with a 50% subsidy	(012) 428 6110 www.sabs.co.za
Small Enterprise Development Agency (Seda)	A government agency for business support Funds local business support centres and tender advice centres	0860 103703 www.seda.org.za
Small and Medium Enterprise Development Programme (SMEDP)	Provides grants to small businesses in manufacturing, tourism, agro-processing, IT, arts and crafts, aqua culture and high value agricultures Funds are used for training or land, machinery or buildings for expanding existing projects or starting up new ones.	086 1843 384
Softstart	A Gauteng-based technology hub situated inside the CSIR campus Offers mentoring, product-development, finance referral and business plan assistance	(012) 349 2355 www.softstart.co.za
South Africa International Business Linkages (Saibl)	An American government-sponsored fund Helps historically disadvantaged small businesses to grow Provides funding Provides links with trade and investment partnerships both in the country and abroad	(011) 802 0015
Support Programme for Industrial Innovation (SPII):	An innovation support programme that currently provides grants to small business for new product and process development and is funded by the Department of Trade and Industry (DTI) and administered by the IDC.	(011) 269 3000
Swedish-South African Business Fund	A Swedish fund Supports historically disadvantaged small businesses in South Africa Provides them with linkages and joint ventures with Swedish firms The fund contributes 50% of external costs such as travel and setting up an alliance.	(011) 784 8087
Technology for Women in Business (TWIB)	Provides technology advice programmes and training opportunities for women Allows them to expand and enhance their business through the use of computers, Science and the latest equipment	(012) 841 4983 www.twib.co.za
Umsobumvu Youth Fund	Subsidises young entrepreneurs between the ages of 18 and 35	(011) 480 8700 www.uyf.org.za
Umsobomvu Franchise Fund	Managed by Business Partners and the Umsobumvu Youth Fund Assists youth in the franchising industry	(011) 480 8700 www.uyf.org.za
Upstarts	A technological incubator started by Mark Shuttleworth Provides funding and assistance to technological small businesses across the country	(011) 638 3001 www.zimele.co.za
Zimele Trust	Provides funding through loan and equity finance to junior mining companies	(011) 638 3001 www.zimele.co.za

CASE STUDY CELEBRATING LIFE IN SOWETO

Read the following case studies and answer the questions that follow:

A career in advertising taught Reggie Makhetha the power of unique differentiation. Which is why, when he left the advertising industry to open his own restaurant, he made sure it wasn't just another 'me-too' offering.

'I wanted to create a different kind of restaurant. I've always been a very adventurous eater and I am passionate about food. Being a creative person, I have always loved art, so I came up with the idea of combining a great Soweto restaurant with an art gallery that would add something extra to our guests' experience,' he says.

Roots Restaurant and Gallery was born, opening its doors in late 2008.

A UNIQUE EXPERIENCE

Situated across the road from the historic Isaac Morrison High School and a stone's throw from the Hector Pieterse memorial, the restaurant offers a fantastic view and a unique township experience. The gallery showcases the artwork of emerging township artists from around the country, while the restaurant serves up dishes that put a different spin on contemporary favourites. Township sushi is just one of these. 'I didn't want to be just another "upmarket authentic township restaurant". That's been done before and I wanted to create something new that nevertheless still captures the soul of the township,' says Makhetha.

DOUBLING THE DESTINATION

The business model ensures that Roots' two offerings – restaurant and gallery – play off one another and ensure a 'double destination' status. 'People who come here for the food wander into the gallery, while people interested in art who visit the gallery provide trade for the restaurant,' Makhetha explains, adding that people also spend more time in each location than they would if the venues were unrelated.

GETTING THE WORD OUT

Having initially marketed by word of mouth, Makhetha engaged local and international tour operators in the lead-up to the 2010 Soccer World Cup. Regional and national placement in the SAB Kickstart competition secured the business R200 000 in grants, which Makhetha plans to spend on upgrading the interior and kitchen, installing flatscreen TVs so guests can watch the soccer, and extending the balcony. With vision and ambition, Makhetha epitomises a new breed of Sowetan entrepreneur who is redefining and successfully harnessing the marketability of the township.

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- 1 What makes this business unique?
- 2 Why do you think Reggie Makhetha received the funding he did?
- 3 Who did he get funding from?

CASE STUDY LOOKING AT DIFFERENT BUSINESSES

Read these case studies and answer the questions that follow:

MODISE WOODWORKS AND PROJECTS CC

In September 2009, Ntsika provided a loan of R1,5 m to Modise Woodworks and Projects to purchase machinery and production equipment and other assets, to improve the sustainability of the business. Owned by Mr Simon Mpinga, the company specialises in buying and selling furniture boards and fittings, and cutting and shaping these to meet customer requirements. The business operates from workshops in Soshanguve, northwest of Pretoria, and currently employs four people from the surrounding community.

OLEGRA OIL (PTY) LIMITED

Teaming up with the Rose Foundation to save our environment from the disposal of used oil, Ntsika invested R5 m in Olegra Oil. As part of its core business, Olegra will collect used oil from various mine sites and other businesses in the surrounding areas of Lime Acres to be used as start-up fuel at PPC Lime. The project will initially create 15 jobs, with the potential to create many more once the partnership with the Rose Foundation to establish collection depots over a wider area, is established.

RHULANANI CONCRETE MIXERS (PTY) LIMITED

Rhulanani is a black-owned ready-mix business in the town of Lephalale in Limpopo Province. The Lephalale area is currently enjoying strong growth as a result of developments around the construction of Medupi power station. The board of Ntsika approved R6 m for Rhulanani Concrete to acquire three additional ready-mix trucks, a front-end loader and working capital to run a successful business.

www.ppc.co.za

- 1 Name the organisation responsible for funding the businesses you have just read about.
- 2 State what the funding was used for in *each* of the three businesses.

Activity 4

Work on your own, then in pairs.

- 1 If you were to start your own business, where would you go for assistance? Explain and support your choice by providing reasons.
- 2 Work in pairs to do a role-play. One of you must take on the role of one of the agencies you read about on pages 109–111 and one of you must take on the role of the entrepreneur applying for assistance. Think about the services your selected agency provides and what you have learned about the SMME in order to guide your questions and responses.

UNIT 2 ■ The make up of an entrepreneur

↳ *By the end of this unit, you should be able to:*

- Identify the characteristics of a successful entrepreneur (SO2 AC1).
- List and describe the characteristics of a successful entrepreneur (SO2 AC2).
- Analyse the importance of each characteristic (SO2 AC3).

1 The characteristics of an entrepreneur

To be a successful entrepreneur, you need to have several characteristics. Look at the picture below and try to imagine yourself as that person:



Do you have what it takes to be a successful entrepreneur?

Successful entrepreneurs:

- **Can make decisions**

Entrepreneurs are able to make informed decisions and accept the consequences. They are not dependent on others making decisions for them. An informed decision is when a person does research on the impact and consequences their decision will cause.

- **Can manage themselves**

When you are self-employed, one of the hardest things to do is to start work. This is especially difficult if you have worked for someone all your life. If you were previously employed, then you would have had a boss who checked up on you, motivated and encouraged you; now you are the only one who can motivate yourself to do the jobs that you don't like.

- **Can see and identify opportunities**

An entrepreneur is person who can look at problems, disasters, unfinished things, happy events etc, and turn these into a business. For example, the increase in crime has resulted in many different businesses, such as security guard companies, burglar alarm and bar suppliers. To be a successful entrepreneur, you need to be able to identify the needs and wants of your potential customers and turn them into a business.

- **Are confident**

When starting and running your own business, you must always believe and trust in yourself, but at the same time, you must not be too arrogant. If you don't believe in yourself or your product or service, then the client will pick this up and might not buy your product or service.

- **Are creative**

To identify a business opportunity you need to be creative. This means **thinking out of the box**. You must not stay within the confines of current trends, but rather go against the norm and meet a need in a new and exciting manner. Consumers don't want to keep buying the same things month in and month out.

Important words and ideas

The expression **thinking out of the box** means to break away from traditional or conventional thought to develop a unique, superior solution to a difficult problem.

- **Are dedicated**

Many small businesses are not successful in the beginning. Entrepreneurs have to have the ability to dedicate themselves fully to their business, even when things are not going well. When you believe in your product or service, it is easier to dedicate yourself to a business.

- **Are disciplined**

A successful entrepreneur needs to have enough self-discipline to ensure that you do your work in a professional and ethical manner. Entrepreneurs don't have bosses to check up on them. They have to check up on themselves.

- **Are energetic**

An entrepreneur needs to be energetic and should have the ability to keep going and to remain focused for the entire day.

- **Like to take risks**

When entrepreneurs start their own businesses, there is always the risk of failure. A true entrepreneur doesn't mind taking risks, and would rather regard the risks as a challenge.

- **Are organised**

Entrepreneurs must have the ability to plan and organise themselves, as well as the resources at their disposal. Being organised means that the entrepreneur has clearly laid out plans, so that all resources can be used to maximum capacity and in the most effective manner.

- **Are responsible**

Entrepreneurs are responsible to their clients, employees and the environment.

- **Want to make a difference**

Entrepreneurs make a difference, not only in their own lives, but also in the lives of their employees, clients and communities. In most cases, the difference is positive. No business should have a negative effect on the community or the environment.

- **Want to be successful**

When entrepreneurs start their own businesses, they aim to be successful. Entrepreneurs must believe in that success, even when things are not going well. Success in business can be seen as sustainability, profit and the creation of job opportunities.

▶ Activity 5

Work on your own.

Complete the table below by listing the 13 characteristics of a successful entrepreneur.

Then match your own characteristics with those supplied in your list, by placing a tick in the 'yes' or 'no' column. Next, add up the total number of 'yes' and 'no' ticks.

	Characteristics of an entrepreneur	Do my characteristics match?	
		Yes	No
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
	Totals		

If you mainly have 'yes' ticks, then you possess sufficient entrepreneurial characteristics.

2 Why people become entrepreneurs

There are many reasons why people become entrepreneurs. These reasons will differ from person to person. In some cases, becoming an entrepreneur may be the only option for that person to make money.

▶ Activity 6

Work on your own.

1. List reasons why you would start your own business.
2. Now read the case study below and answer the questions that follow:

CASE STUDY THABO'S WORLD

When Thabo was 16 years old, he was happy and he was completing Grade 10 at the local high school. Thabo was the eldest of three children. He had a brother of five and a sister of three. Both his parents were employed on a local farm as pickers. But within a year, both his parents died of HIV and AIDS.

As Thabo was the eldest son, he was left to look after his younger siblings. This meant that his dream of getting a matric and going to university was over. Fortunately, he passed his Grade 10 with top marks. One of his favourite subjects was Business Economics and Entrepreneurship.

Thabo went to the closest town to look for a job, but he had no luck, as he didn't have a qualification or experience. The companies that were hiring, gave jobs to people with experience and qualifications. One day on his way back home, he noticed that there were people waiting for taxis and that they were hungry and thirsty. He looked around and saw that there was one take-away shop nearby, but the people didn't support it. He asked several people why they didn't buy food from the take-away and the majority response was that it was expensive and the food was not nice.

While sitting in the taxi on the way home, he thought that he would try to sell sandwiches and cooldrinks at the taxi rank. He did his calculations that night after putting his brother and sister to bed. He calculated that if he started small, he could sell at the taxi rank. He worked out that he could make a go of it with just R50. The next day, he went to the shop to buy the necessary items to make sandwiches. He noted that this was almost all the money that he had left.



Thabo's small business responded to a need in the community.

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That evening, he made sandwiches with curried mince and polony. The next morning, armed with a cooler box, sandwiches and cooldrinks, he went off to the taxi rank.

By midday, he had no more stock. Everything he made had been bought and people were asking for more. They looked happy when he said he would be back the next day with more stock. He could barely believe it. He had already doubled his money. On the way home, he bought more stock and decided to make twice as many sandwiches.

As soon as customers from the previous day saw him, they rushed to get their sandwiches from him before he was sold out. One customer said to him, 'These are the nicest sandwiches and they are good value for money. It is great that you have cooldrinks as well.' Thabo was proud of his efforts and was relieved that he could now provide for his brother and sister and that they could continue going to school.

A few months passed, and Thabo's business was getting bigger. He was even thinking of getting someone to help him in the evenings to make sandwiches.

He was interviewed by the local newspaper after it picked up on his success. He said that if it wasn't for his basic training at school, he would have never known how to start a small business. He also said that it was his dream to study further in the business field.

When the local municipality read about his story, they offered Thabo free entrepreneurship training and sponsored a stall for him at the taxi rank for a year. He now has a stall that protects him from the rain and where he can prepare additional sandwiches if he runs out.

- 1 Why do you think Thabo started his own business? Give two reasons.
- 2 Do you think Thabo is an entrepreneur? Provide reasons for your answer
- 3 List the characteristics of an entrepreneur that you think Thabo has.
- 4 Do you think Thabo's business could fail? If you think it could, state the potential reasons and suggest ways to remedy them. (Using the table below, list three reasons and three remedies.)

	Reasons	Remedies
1		
2		
3		

- 5 What advantages has Thabo received from opening his own business? List two advantages.

UNIT 3 ■ Small business and failure

↓ *By the end of this unit, you should be able to:*

- Identify and list individual/personal entrepreneurial characteristics (SO3 AC1).
- Assess individual/personal characteristics against the general entrepreneurial characteristics (SO3 AC2).
- Develop ways to address shortcomings (SO3 AC3).
- Implement strategies to address shortcomings (SO3 AC4).

1 Identifying personal entrepreneurial characteristics

In Unit 2, we identified the characteristics that entrepreneurs need in order to succeed. Refer back to Unit 2 to revise this work.

2 Assessing your own personal entrepreneurial characteristics

In Activity 5 of Unit 2, you identified your own personal entrepreneurial characteristics and compared them to a list of ideal entrepreneurial characteristics. If necessary, revise the work you did in that activity before continuing.

3 How small businesses can avoid failure

According to statistics, some 80% of small businesses fail within the first five years. To reduce the failure rate, you need to be able to identify the reasons why businesses fail. By identifying the causes, you can put plans into action to help save the business.

	Reason for failure	How to avoid failure
1	Bad business ethics	Good business ethics will make a business grow. When making an ethical decision, ask yourself if your parents, friends and community members would be proud of you for making that decision.
2	Granting too much credit to your customers	When granting credit to a client, make sure that you have done a thorough credit check. Don't give credit to your clients if you don't get credit from your suppliers. Have a good record-keeping system in place to keep track of your clients who purchase on credit.
3	Lack of experience	Sometimes, we start businesses without sufficient experience. You can get experience by working for someone else or you can form a mentorship relationship with an experienced business owner.

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	Reason for failure	How to avoid failure
4	Lack of funds	In order to receive money from a financial institution, you must develop a well-researched business plan. Unfortunately, in the current economic circumstances, most financial institutions are giving less money to support small businesses. This is because of the requirements laid down in the National Credit Act, as well as the risk of failure in small businesses.
5	Lack of stock	To purchase stock for your clients, you will need cash. If you try to hold too much stock, you might suffer, as you might not have enough cash to live on. However, if you don't hold enough stock, you will lose sales. To prevent this, you must know what your customers want, so that you can meet their needs.
6	Lack of training	Get involved in as many training programmes, support groups and mentorship programmes as you can. Besides increasing your skills, you can also increase your contacts. If you can't afford training at a formal institution, you can attend programmes sponsored by the Department of Labour and various Sectorial Education and Training Authorities (Setas).
7	Lack of understanding of financial records	Make sure that you learn how to understand the basics of financial management. In some cases, you might use a bookkeeper, but make sure that you understand what they are doing.
8	Over-investing	When you start your business, you will have big dreams. It is important that you don't increase your overheads unnecessarily. Remember that a fancy car, clothes and cell phone do not make a successful business. They can create unnecessary debt.
9	Poor management skills	Attend courses on management training or develop a partnership with a successful business person and use this person as a mentor.
10	Poor planning	When starting a business, it is important to develop a well-researched business plan. The business plan will act as your road map to success. Keep referring to it as you progress and make the necessary changes as the environment changes.



We have little control over natural disasters such as floods.

In business, there are some reasons for failure over which we have no or little control. These include:

- Xenophobia.
- War, such as the war in Afghanistan.
- Escalating inflation rates, such as the high inflation rates in Zimbabwe.
- Natural disasters such as drought and floods.
- A failing economy, like the economy in Zimbabwe.
- Political instability, like the unrest that occurred in Zimbabwe and the Democratic Republic of Congo.
- A shortage of raw materials, such as a water shortage.

Activity 7

Work in pairs.

- 1 A friend of yours has decided to start his own business. Explain to him what could go wrong and what he can do to prevent these potential problems from destroying his business. Write down your answers.
- 2 In your pairs, role-play the scenario. One person can be the friend and the other, the entrepreneur.

UNIT 4 ■ Business ethics and social responsibility

↳ *By the end of this unit, you should be able to:*

- Discuss the importance of business ethics (SO4 AC1).
- Discuss the need for social responsibility in business (SO4 AC2).
- Discuss the inter-relationship between business ethics and a code of conduct (SO4 AC3).

1 What are business ethics?

Business ethics can be defined as the way a business conducts its business activities on a daily basis. Ethics apply to the way the business interacts with the local community, the environment, employees and customers.

When running your own business, it is important to make money. But good ethics will determine how you make that money. You should try to make money from your business by taking your employees, customers, community and environment into consideration.

If your business doesn't practise good ethics, it can be fined, especially if laws are broken, for example, by dumping illegally, or engaging in price fixing, illegal mining, selling stolen goods, etc.

2 The need for social responsibility

Ethics can be defined as our personal beliefs about what is right and what is wrong. Ethics may be influenced by the following factors:

- Upbringing
- Culture
- Race
- Socio-economic background

When setting up your business, the following ethical behaviour should form part of your plan:

- Fairness
- Honesty
- Honouring of contracts
- Preserving the community and the environment
- Remaining within the law
- Showing respect

We will now discuss each of these factors in more detail.

Fairness

- Do not sell a low-quality product for the price of a high-quality product, for example, by selling Levi rip-offs, for the price of Levis.
- Reward your staff fairly with competitive salaries.
- Train and develop your staff.

Honesty

- Never advertise falsely.
- Do not alter products without telling the client.
- Always disclose all the information concerning the product to the client.

Honouring of contracts

- Always meet the requirement in contracts that you have signed with your clients.
- Remember that a verbal contract is just as binding as a written contract.

Preserving the community and the environment

- Do not dump your waste illegally, for example, in the bush or in the ocean.
- Get involved with community development projects where possible.
- Recycle your waste, such as cardboard, plastic and glass.
- Try to employ staff from the community in which you operate.
- Do not run businesses that will harm your community or environment, for example, dealing in drugs or cutting down trees illegally.



Make sure your business does not harm the environment.

Showing respect

- Treat all your clients with respect, no matter who they are.
- Listen to your clients' needs. Without them, you won't survive.
- Remember, the client is always king.
- Don't discriminate against clients on the basis of their race, gender, age, religion or sexual orientation.

Remaining within the law

- Ensure that your business complies with legislation, in terms of tax laws, pricing, health and safety and employment regulations.
- Pay your rates and taxes.
- Make sure your staff receive the correct wages, as per their contracts.
- Ensure your business has all the correct licences, for example, a liquor licence, if it needs one.
- Make sure that your business complies with the Occupational Health and Safety Act, for example, by having a first aid box and working fire equipment on the premises.

Something to know

The *Occupational Health and Safety Act* requires employers to maintain safe work environments which will not put the health and safety of workers at risk.

3 How business ethics interacts with a code of conduct

A business owner can set up the best ethical code he or she wants, but he or she also needs to guide employees in following these codes. This guidance can be provided through the implementation of a code of conduct. The business' code of conduct should be in a place where not only you and your staff can see it, but also your clients.

Code of Conduct

- ▶ Always treat the client with respect.
- ▶ The client always comes first.
- ▶ We don't discriminate.
- ▶ We will help to develop our community.
- ▶ We believe in equal opportunities.

Activity 8

Work on your own.

- 1 Why are good business ethics so important?
- 2 Name four different ethics a business should implement to ensure sustainability.
- 3 Why is it important for a business to be socially responsible?
- 4 Name two different social programmes a business could get involved in.
- 5 Why is a code of conduct important for any business to have?

Activity 9

Work in pairs.

This activity should be done in various steps. Follow the instructions carefully.

Step 1: Identify an entrepreneur in your community who you would like to interview.

Step 2: Use the questionnaire below to interview the entrepreneur.

Step 3: Analyse the questionnaire.

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Step 4: Once you have completed the questionnaire, answer the questions that follow:

Questionnaire				
Name and surname of the entrepreneur				
Name of the business				
Location				
Kind of business	Service	Manufacturing	Retail	Agri
Form of ownership	Sole trader	Partnership	Close corporation	
Does he or she need a trading licence? If yes, what licence is it, and how much does it cost?				
Why did the entrepreneur open the business?				
Does the entrepreneur enjoy owning the business?				
Name two of the business' goals.				
What characteristics does the entrepreneur think are important to make the business a success?				
Is the entrepreneur involved in any community projects? If yes, name the project.				
What does the entrepreneur think ethical business practices are?				
Does the entrepreneur have a code of conduct?	YES		NO	
Does the entrepreneur get support and advice from any organisation? If yes, supply the name.				
Why does the entrepreneur think small businesses fail?				
Does the entrepreneur think that there is anything he or she can do to prevent failure? If so, what?				

Signature (Interviewee) _____

Signature (Interviewer) _____

Date: _____

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Answer the questions below with regard to the entrepreneur that you interviewed.

- 1 Do you think that the form of ownership suits the business? Give reasons for your answer.
- 2 List the characteristics the entrepreneur gave you and explain the importance of each. It is important to use your own words here.
- 3 Why is it important for the business to get involved in community projects?
- 4 If the business is not involved in a community project, suggest two projects in which they can get involved.
- 5 Give two reasons for the possible failure of small businesses and state how these can be prevented.
- 6 Do you agree with the definition of ethical business practices given by the interviewee? Give reasons for your answer.
- 7 Why do you think it is important that a business should practise good ethics? Give one reason.
- 6 Name two organisations where these businesses can go to for help.



Self-assessment

By now you should be familiar with the characteristics that entrepreneurs need in order to succeed. To find out how well you have grasped the topic, complete the self-assessment below:

I can:	4 Very well	3 Quite well	2 With help	1 Not at all
Understand the concept of entrepreneurship.				
Identify the characteristics of successful entrepreneurs.				
Describe different types of businesses and discuss the advantages and disadvantages of each kind of business.				
Discuss the role of the entrepreneur in the socio-economic development of the country.				
Identify my own personal entrepreneurial characteristics.				
Compare my own entrepreneurial characteristics to a general list of ideal characteristics.				
Discuss the reasons why some businesses fail.				
Suggest strategies to address these shortcomings.				
Discuss the importance of business ethics.				
Explain how business ethics relate to a code of conduct.				

If you scored 1s or 2s for each category, it means that you are unsure about certain aspects of the topic. It would be a good idea for you to re-read the chapter or to go over certain issues again so you can improve your knowledge and understanding.

Glossary

A

advisory – with the power to advise or to give advice

accreditation – the act of granting recognition to an organisation, especially educational institutions, to ensure that it maintains recognised standards

acquisition funding – funding the acquisition or purchase of a business

appendix – additional material that is added at the back of a report or book

B

beneficiary – a person who benefits from something (for example, from a will, a trust fund, or a contract)

Black economic empowerment (BEE) – a programme launched by the South African government to correct the inequalities of Apartheid by giving previously disadvantaged groups (black Africans, Coloureds, Indians and Chinese) economic opportunities previously not available to them

body language – a form of non-verbal communication, consisting of body positions, gestures, and eye movements, which humans interpret subconsciously (without realising it)

buy out – to purchase an entire company

C

capital – the money that an owner deposits or invests in a business, in order to start it up or expand it

capitalise – to supply with capital

case study – a detailed study of a person, an organisation or a situation which presents a model that can be used as part of a learning experience

co-habiting – when two people live together on a long-term basis, especially when they are not married

consensus – agreement by everyone

consumer – a person who buys goods and services to use

contractee – one of the parties who signs a contract

contractor – a person or business that provides goods or services to another person under terms specified in a contract

compensate – when money is given or received as payment for a service or for loss or injury

components – the parts with which something is constituted or made up of

corporate – to do with a corporation; having a joint identity

D

default – failure to perform a task or obligation, particularly in respect of a contract or an agreement

deliverables – an end product; that will be delivered at the end of a project

discourteous – showing no courtesy; rude

E

economics – the study of how the forces of supply and demand allocate scarce resources

entrepreneurship – when people think of a good idea to start a business of their own and follow the idea through to actually getting the business going and running

essential – necessary and important; you cannot do without it

estate – a person's assets that are left to someone in a will when that person dies

ethically – relating to ethics

ethics – principles or morals; right and wrong behaviour and attitudes or values

excess – the amount of money that you have to pay towards a claim

executive summary – a term used in business for a short document that summarises a longer report or proposal so that readers can familiarise themselves with the content contained in the longer report without having to read it all

expenditure – the sum of money spent on buying things

F

forecast – to estimate or calculate in advance

fraudulent – dishonest; deceitful; intended to deceive

H

heir – a person who inherits something in a will

I

impact – the effect or influence that something or somebody has

in arrears – an unpaid or overdue debt

incentive – the offer of a reward in order to encourage better, faster and more productive work

income – the amount of money or other assets a person receives every month or year from work or investments

inflation – the rise in the general level of prices of goods and services in an economy over a period of time

infrastructure – the large-scale public systems, services and facilities of a country or region that are necessary for economic activity, including power and water supplies, public transportation (railways, roads, freeways, bridges), telecommunications, hospitals and schools

initiative – a new approach

in lieu – instead of; in the place of

insane – to have a mental derangement or disturbance

interest rate – the rate at which interest is paid by a borrower for the use of money that they borrow from the lender

J

jointly and severably liable – a term for the liability of two or more individuals, who each agree to repay an obligation

L

laws – rules that have been made by the government, which citizens of a country have to obey

legal entity – any individual or organisation that has, in the eyes of the law, the capacity to make a contract or an agreement and that will be responsible for paying off its debts.

legally binding – a phrase indicating that an agreement has been consciously made and is enforceable by law

liable – to be legally obligated or responsible for something

life expectancy – the average amount of time something (a person or organisation) is expected to live or exist

logo – a unique symbol or design that represents a company or organisation

M

manufacturers – a person or business who manufactures or makes things

mentoring – to guide and advise a more junior person at work or in studies

motivate – to get people to do things because they feel more encouraged, enthusiastic, or because they expect a reward

motivation – a short argument or reasons in support of an idea

mission statement – a document that sets out the overall purpose/objectives of an organisation

N

non-governmental organisation (NGO) – any non-profit, voluntary citizens' group which is organised on a local, national or international level. NGOs carry out a variety of service and humanitarian functions.

non-perishable – something that is not perishable; has a long life

O

obligation – something that someone is bound to do; a duty or responsibility

P

party – in law, a person taking part in a transaction or contract

patent – a document granting an inventor sole rights to an invention

PAYE – an acronym for 'pay as you earn'; an amount of money that is deducted from your income and paid over to the South African Revenue Service (SARS) as income tax

posture – the way a person holds his or her body

prioritise – to put in order from the most important to the least important

production capacity – the number of products that can be generated by a production plant or business in a given period using current resources

products – merchandise that is offered for sale

profit – the money left over once the costs have been paid; or when a business's income is greater than its expenses

R

rapport – a relationship of trust and understanding between people

regulations – instructions to be followed in order to obey a law

repossess – to claim back; regain possession of something

retail – the sale of goods in small quantities directly to consumers

retailer – a person or organisation that sells goods directly to people for their own use

retrenchment – when someone loses his or her job because the company is cutting back on expenses – the amount paid for goods and services

risk – when you know that there is a possibility that you will not be successful or that you will lose money that you have put into your business

S

services – an intangible product (something that you cannot touch) that are not tangible goods (something that you can touch) such as banking, cleaning, accounting, education, etc.

share – any of the equal portions into which the capital stock of a company is divided

slander – false words that will harm the reputation of another person

stakeholder – a person or organisation who has a direct interest or stake in that organisation

statutory – something that relates to statutes

stipulate – a condition required by a contract

stock – the goods that a trade or retail business sells to consumers

supplement – something added to complete a thing or to make up for a deficiency

suppliers – people or companies that supply a business with goods or services, which are then sold to consumers

supply – the total amount of a good or service that is available to be sold; along with demand, it is one of the two main factors in setting price

sustain – to make something last, to keep it going

sustainable – to hold up or endure for a long period of time; capable of being continued with minimal long-term effect on the environment

T

tempo – the speed or pace of a performance or presentation

tender – in business, a formal offer to buy or supply goods at a specified price

trademark – a symbol which identifies the manufacturer of a product

treason – a crime that undermines the offender's government

U

undersigned – the people who have signed an agreement or contract

underwrite – the process whereby financial institutions review applications to lend money and assess the risk of the application before agreeing to lend money

unforeseen – unexpected; not realised in advance

V

variable – something that is likely to vary or change

venture capital – funds made available to establish small businesses that have potential to grow

viable – capable of being done; capable of living or existing

voice projection – the ability to project your voice, that is, to make the voice carry clearly and audibly

W

wholesale – the sale of goods in large quantities, for resale by a retailer (see retail)

