

# EDITORIAL

Gideon Els

*University of Johannesburg*

gels@uj.ac.za

In this issue of the ***Journal of Economic and Financial Sciences***, one finds a strong income tax and tourism flavour. Other articles from the fields of economics and econometrics add further colour and substance.

The Tsitsikamma National Park is Africa's oldest and largest marine reserve and has considerable importance for the community and the region. In the face of declining government funding, it needs to attract more high spenders if it is to be sustainable which requires an understanding of expenditure patterns and the determinants of Park visitors' spending behaviour. In their study, **Martinette Kruger, Melville Saayman and Bianca Manners** investigated the socio-demographic and behavioural determinants of visitor expenditure, using visitor surveys at the Park in 2010/2011. By way of correlation and regression analysis they established the most significant determinants with results that indicated that a longer stay, a smaller travel group and obtaining information from magazines were the variables associated with higher spending.

**Marco Scholtz, Melville Saayman and Martinette Kruger** identified the determinants of demand of visitors for the Kruger National Park (KNP) during a recession. From 355 questionnaires, the results revealed that both behavioural determinants as well as socio-demographic determinants influenced visitors' demand for the Park. The results indicated that visitors to the KNP found that visiting the Park is a great way of getting away from their busy lifestyles (Gauteng Province), while visitors from Mpumalanga indicated that many of them considered visiting other tourism attractions. It was also found that visitors adapted their spending behaviour at the Park in order to afford a visit. This was the first time that the influence of determinants of tourism demand during a recession was determined. It was also found that the demand for visiting the KNP was not greatly influenced by the recession, because visitors could adapt their spending behaviour at the KNP. Furthermore, the study showed that visiting natural areas may have become a primary need or part of a lifestyle, especially during the 2008/2009 recessionary period.

In a society characterised by high levels of consumption that result in high levels of debt, saving sufficiently for retirement represents a major challenge, especially in light of the steadily increasing cost of living and the cost associated with healthcare. In their exploratory study, **Hugue Nkoutchou and Riëtte Eiselen** investigated the behaviour of young adults in relation to retirement provision by way of a web-based survey conducted in a single large organisation. The findings revealed that young adults tend to have a wide range of debt and although they are aware that the funds accumulated in their retirement funds would not provide sufficient cover during retirement, they tend not to save over and above the minimum contribution to their employing organisation's retirement fund.

**Polly Mashigo** and **Christie Schoeman** put forward the aim of their article to investigate the possible use of traditional stokvels as a channel or conduit to give poor households access to much-needed cash. Cash and access to cash or credit is central to economic life. The article hypothesised that traditional stokvels in South Africa can be used in their existing form, when pooled, as a special purpose vehicle (SPV) to extend much-needed cash to poor households in order to smooth their consumption. In dealing with uncertainty, traditional stokvels ensure reliable and predictable behaviour in a mechanism that makes it possible to supply credit at low cost and risk.

**Linda van Schalkwyk** and **Rozelle van Schaik** analysed and compared the concepts 'permanent establishment' and 'foreign business establishment' in order to make recommendations regarding the required additions and amendments to replace the concept foreign business establishment with the internationally recognised and accepted concept permanent establishment. The proposed replacement of the concept foreign business establishment with an internationally recognised and accepted tax concept will enhance the international compatibility of the Income Tax Act. The use of an internationally recognised and accepted tax concept will provide clarity and certainty regarding the tax implications of section 9D(9)(b) of the Income Tax Act 58 of 1962 for those affected by it.

In his article, **Chris Callaghan** extends and tests conceptions offered by the nutrition model of efficiency wage theory into the informal street-trading context. Three street-trader samples from 2008, 2009 and 2010 were drawn from the Johannesburg city centre. Statistical parametric and non-parametric analyses were used for a longitudinal investigation of certain associations of initial investment, or the money investments of street traders at start-up. Findings suggest that policymaker interventions might best target traders earning under a threshold of earnings of about R230 per day. More specifically, training might offer such traders insight into how to change their product offerings to products associated with higher returns. Further, any interventions that might raise street-trader earnings above this threshold might enable such traders to obtain a positive return on capital invested in the sector.

**Christiaan Smit**, **Merwe Oberholzer** and **Suria Ellis** challenged the fairness of sectional title schemes' levies that are ordered by the Sectional Title Act (95 of 1986) to be allocated according to the participation quota (floor area) of units. Previous studies have shown that larger units in a sectional title scheme tend to subsidise the levies of smaller units. A log-transformed linear regression analysis was performed to investigate the cost behaviour of 113 sectional title schemes. The results revealed that 86% of the variation in the operating costs of a scheme is attributable to the variation in the area of a scheme, while 87% of the variation in operating costs is attributable to a variation in the number of units in a scheme. The conclusion is that the area and the number of units in a scheme are equally significant drivers of operating costs.

Even South Africa's Income Tax Act No. 58 of 1962 uses the terminology 'place of effective management' when determining the residency of companies, this term is not defined in the legislation and there are no South African case law specifically dealing with this matter. In contrast, the United Kingdom uses the term 'central management and control' and its courts have been called upon to hear numerous cases on the interpretation of this phrase. Given the increasing pressure on South Africa to align its tax treatment with international trends as well as increased levels of trade with the United Kingdom, **Nirupa Padia** and **Warren Maroun** examined the interpretation of 'place of effective management' in a South African context and juxtaposed this with the conclusions reached in seven cases in the United Kingdom dealing with the

interpretation of 'centre of management and control'. The findings show that 'place of effective management' from a South African perspective may depend heavily on where decisions are implemented and day-to-day operations occur. 'Central management and control', however, appears to vest almost exclusively in where primary decisions are made or strategic directions emanate from.

The African continent contributes approximately 12% of the world's oil production but despite this wealth, many citizens of oil-rich African countries live in poverty, often because their governments do not collect sufficient compensation for the depletion of oil resources to fund national development or do not utilise compensation collected for the benefit of the people. In his article **Pieter van der Zwan** compares the extraction tax regime to collect compensation on Angola's oil resources to the regimes in other oil-rich countries to identify aspects from which Angola can learn with regard to the compensation systems of those countries. He concludes that Angola may be able to improve its extraction tax regime by learning from governance measures over natural resource funds in Norway and Canada, by implementing measures to increase its oil royalty income in times of economic prosperity and by defining deductible costs more specifically in its production-sharing agreements.

The residual variance method is the traditional method for measuring portfolio diversification relative to a market index. Problems arise, however, when the market index itself is not appropriately diversified. A diversification measurement (Portfolio Diversification Index), free from market index influences, has been recently introduced. In their article **Francois van Dyk, Gary van Vuuren and Paul Styger** explore whether this index is a robust and 'good' diversification measure compared with the residual variance method. South African unit trusts are diversification-ranked using the two measures and the results compared to the ranking results of several risk performance measures. Measuring relative concentration levels allows concentration risk to be effectively managed, thereby filling a gap in the Basel accords (which omit concentration risk).

It is well known that the forward exchange rate and the realised future spot exchange rate differ and this phenomenon is better known as the 'exchange rate puzzle'. **Chris van Heerden and André Heymans** followed two approaches to ascertain whether this difference is due to the weak explanatory ability of current economic fundamentals or whether the use of an ineffective econometric approach to model exchange rate theories is to blame. The first approach made use of stationary economic time series data to model the ZAR/USD realised future spot exchange rate, while the second used non-stationary level economic data to model the ZAR/USD realised future spot exchange rate. While the first approach reported weak results, the second approach illustrated that economic fundamentals are able to explain the ZAR/USD realised future spot exchange rate. These results also confirm that the 'exchange rate puzzle' is a pseudo-problem.

Using SVAR analysis, this paper finds what Sims calls a 'price puzzle', i.e. a case where CPI increases after a positive interest rate shock. The SVAR analysis controls for various monetary transmission mechanisms, including one based on the South African dominance hypothesis that links South African monetary policy to inflation in Botswana and Namibia. In their article **Philippe Burger, Helvi Fillipus and Innocent Molalapata** followed Castelnovo and Surico and interpreted the price puzzle as a symptom of an indeterminate monetary policy. Subsequently the paper explored the finding of indeterminate monetary policy further by using an unstructured VAR to estimate the monetary reaction functions of Botswana and Namibia. These results also pointed to the presence of an indeterminate monetary policy.

**Chimwemwe Chipeta** and **Douglas Mbululu** examined the impact of the new National Credit Act (NCA) No. 34 of 2005 and the global financial crisis on credit extension provided by all monetary institutions in South Africa. The econometric approach is estimated by way of ordinary least squares while controlling for several macroeconomic factors. The findings indicated that there was a general increase in the consumer credit provision in the period subsequent to the full implementation of the Act. The promulgation of the Act increased credit card, bank overdrafts, other conventional loans and total credit to the private sector categories but failed to reverse this trend and exerted a negative influence on lease finance. The paper sought to investigate an under-researched area on the interrelatedness of credit provider regulation, financial crises and credit extension.

Utilising literature analysis, **Nicolette Brouwer** demonstrates that business sustainability is found to encompass balanced stakeholder engagement, transparency, economic efficiency, creativity and adaptability to change. An analytical study was conducted on four sustainability and valuation models which are currently used by practitioners. The purpose of the analytical study was to explore and generate cash- and value-flow-related indicators of business sustainability within key business focus areas that are informed by fundamental financial and corporate governance principles. The research made a strong case for a holistic approach to achieving and measuring business sustainability.

Small and medium-sized enterprises are often seen as drivers of economic growth and development by generating employment opportunities. However, for SMEs to be successful they need finance and access to finance has been found to be a major obstacle to SMEs' ability to do business in South Africa. **Waldo Krugell** and **Marianne Matthee** took a closer look at firms, their access to finance and output per worker in South Africa, by using data from the World Bank Enterprise Survey 2007. The results showed that firms that are financially constrained are more vulnerable to shocks and competition and are weaker contributors to employment creation and growth. These firms are typically small and less established: they hold less inventory, have lower capacity utilisation and are unlikely to be exporters or to introduce new products in response to competition. The results from the regression model confirm that access to finance and different sources of finance are drivers of productivity at firm level.