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Policy reform
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Effective government
Growing middle class

Annual Report

July 2014

Policy reform
Growth
Electricity
Skills
Reform
Law and order
Policy alternatives
Growth focused policy

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OF RACE RELATIONS NPC

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P O Box 291722
Melville
2109 South Africa
Telephone: 011 482 7221
Telefax: 011 482 7690
E-mail: infoirr@irr.org.za
Website: <http://www.irr.org.za>

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Our front cover features the key policy priorities the IRR seeks to influence in building a better South Africa as part of a more prosperous Africa.

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CHIEF EXECUTIVE'S REPORT TO MEMBERS FOR THE ANNUAL GENERAL MEETING OF MEMBERS OF THE IRR ON MONDAY 28TH JULY 2014

Mr President, Members of the IRR, I have pleasure in presenting this report to you. The attached financial statements cover the financial year ended 31st December 2013. The narrative report is written in the main to reflect developments in 2013, with some limited comments on subsequent events.

POLICY RESEARCH

Rising living standards

The marking of 20 years of democracy provided an opportunity for the IRR to reflect on the progress made by South Africa over the past two decades, as well as to assess the challenges that remain. Contrary to much public opinion, we believe that more has been achieved in improving the basic living standards of poor people than is commonly acknowledged. We have thus repeatedly pointed out that these living standards have rapidly improved via the service-delivery and welfare-extension effort of the Government. Social welfare grants now reach more than a quarter of the population. Moreover, the provision of cash payments in the form of these grants has been accompanied by a significant rolling-out of 'free' (in other words, subsidised) housing, water, and electricity services. Despite a 50% increase in the number of households within the country, the proportion of households living in formal housing and having access to clean water and electricity has thus increased, while the proportion living in shacks has declined.

We thus wrote in *The Star* (and elsewhere) that 'it is not true to suggest that the ANC has nothing to show for its 20 years'. We added: 'Any assessment of our progress as a country...requires an understanding that balances the successes with the failures to produce an honest and realistic assessment of progress.'

Relying on this perspective, the late David Gleason – a great friend of the IRR and for many years a *Business Day* columnist – wrote: 'There is an increasingly vocal segment of South Africans who feel that Mandela sold out the liberation struggle to white interests... The nub of the argument is that the deal between the National Party and the African National Congress was a fraud...which focused on the cosmetics of reconciliation while changing nothing materially in the lives of the majority.' This, he said, citing IRR research and analysis, was 'an extraordinary lie'.

The IRR was much criticised for pointing out the Government's achievements in alleviating poverty and raising living standards via social grants and the wider 'social wage'. Activists on the political Left and leading members of the official opposition were outspoken in their critique. So too was an extremist fringe of right-wing commentators, who said that to suggest that South Africa was better off in 2013 than it had been in 1994 was to appease the Government and the ruling party.

At no point, however, did the IRR deny that South Africa also still faces many and serious problems of corruption, ineptitude, and misguided policy. For example, even as we spoke of the successful roll-out of the welfare programme, we wrote in *Business Day*: 'Whereas four people were employed for every person on welfare in 1994, by 2010 the number of people on welfare exceeded the number in jobs.' On the basis of this data, we questioned the sustainability of social welfare, while pointing to the urgent need to step up 'the rate of job creation, which had slowed significantly over the past decade'.

Despite the criticisms made, there was also much support for our acknowledgement of the progress achieved. A leading business personality wrote that our willingness to challenge the negative consensus view showed 'real thought leadership'. Several leaders within the African National Congress (ANC) and South African Communist Party (SACP), including cabinet ministers, publicly endorsed our views on improved living standards. They also quoted the IRR on several prominent platforms. A senior Daily Maverick journalist, Brooks Spector, commented that one such endorsement of the IRR 'must surely be a first for a sitting South African government minister'.

We are reliably told that our arguments became a basis for the ANC's election campaign, with its emphasis on the ruling party's having 'a good story to tell'. A senior government official told us, 'You do not know just what an impact you have had on the Cabinet.' This is an unusual position for the IRR to find itself in, having spent most of its 85-year history on very much the wrong side of various South African governments.

Growing negative trends

Despite the successes of the overall welfare programme, our research has also identified a number of growing negative trends. The number of violent anti-government protests has increased by 1 000% over a decade, we pointed out. We published opinion polls showing that the Government's popularity has fallen to its lowest point since 1994. We showed that the number of people likely to vote for the ANC is lower than the number choosing not to vote at all. We also noted a clear rise in radical sentiment, as reflected in the emergence of the Economic Freedom Fighters (EFF). We also identified some of the key reasons for these disturbing trends, which lie in a toxic cocktail of growing corruption, sometimes staggering government ineptitude, and a significant number of very damaging policies.

These factors partly explain the apparent contradiction between rising living standards and increasing anger at the Government. Also relevant, however, is a 'crisis of rising expectations'. People who have enjoyed rapidly rising living standards have mounting expectations that these standards will continue to improve. However, the Government cannot easily afford to extend the welfare net. Hence, further improvements can be achieved solely through investment-led economic growth and the creation of millions of new jobs. But the policy foundation for investment, growth, and jobs has not been laid. Rather, through its policies of redistribution and redress – as reflected in its employment equity and black economic empowerment (BEE) policies – the Government is creating expectations while simultaneously undermining its ability to meet them. This is a dangerous position for the ruling party.

In our view, the protests and the ANC's declining popularity are not the result of a 'failure to improve socio-economic conditions', as many commentators maintain. Hence, the solution does not lie in 'better' service delivery, or more comprehensive BEE. Such interventions will not restore the economic and political stability vital to investment and growth.

It is on this critical point that the IRR's policy analysis departs significantly from mainstream assessments. We believe that the entire thrust of redistributive policy is fatally flawed, and will have to be revised to meet rising expectations. It is futile to step up redistribution (whether via welfare or BEE), as this will simply raise expectations even higher while further compromising the growth and investment needed to meet those expectations. A vicious cycle could thus arise in which rising expectations drive ever more demands for yet more radical redistribution. This in time could compromise the success of the entire democratic transition, as an increasingly desperate Government begins to fiddle further with constitutional safeguards in an attempt to shore up its support.

In our view, sustaining the democratic transition – and preserving the legacy of Nelson Mandela – requires dramatic reforms to economic policies. Central to those reforms

should be the single-minded pursuit of investment-led economic growth. This alone will create the wealth and opportunities that poor people need to liberate themselves from dependency and destitution.

Consequences of low economic growth

The threat posed by low rates of economic growth is already significant. In the five years from 2009 to 2013, South Africa's average rate of economic growth was a mere 1.9% of gross domestic product (GDP). Bringing the growth rate up to even 3% of GDP a year is also becoming more difficult to achieve as the ANC embarks on 'radical socio-economic transformation' against a background of warring unions, labour unrest, infrastructure bottlenecks, and electricity shortages.

Since 1994, moreover, the number of unemployed people has more than doubled, while the past decade had seen almost no new jobs created. The unemployment rate among youths aged 15 to 24 is 53% on the official definition (which excludes people not actively seeking work) and 67% on the expanded one. Among the population as a whole, the official unemployment rate remains stubbornly high at around 25%.

So serious are the problems of persistent low growth and stubbornly high unemployment that they could suffice to bring about the political demise of the ANC. In December 2013, we thus used a briefing to the Atlantic Council in Washington DC (at which South Africa's ambassador to the US was also present) to reiterate that the ANC's days in power were likely to be numbered unless it embarked on major economic reforms. The idea that the ANC could be defeated at the polls – first put forward by the IRR in 2013 – represented a major shift in policy thinking on South Africa. It is only since we prepared the way, as it were, that many commentators have begun to voice the same view. The IRR was, of course, not unique in concluding that South Africa's economic malaise would have serious political repercussions. However, we were the first think-tank to state clearly and publicly that this could culminate in the ANC's loss of power.

National Development Plan

The Government has also been examining the implications of low economic growth and seeking to boost both growth and the generation of new jobs. One result was the publication of an initial version of the National Development Plan (NDP) in November 2011, followed by its adoption by the Cabinet, in a modified form, in August 2012. The NDP seeks to raise the annual rate of economic growth to 5.4% of GDP and to generate 11 million new jobs by 2030, which would bring the official unemployment rate down to 6%. According to the ANC, the NDP is South Africa's 'agreed vision for the next 20 years', and has precedence over all conflicting policy ideas.

The NDP has been widely and repeatedly hailed by organised business, opposition parties, the media, and much of civil society as the answer to South Africa's social and economic problems. The refrain that the NDP must simply 'now be implemented' to put the country on the right path is heard almost every week in the business press.

The IRR was more cautious. Unlike many other commentators, we began with a detailed study of the almost 500-page long plan, making us uniquely qualified to identify its real strengths and shortcomings. Our analysis (published in *Fast Facts* in July 2013) jarred with the popular wisdom which had sprung up around the plan, for we warned that the NDP had created 'an illusion that somehow the Government had finally figured out how to arrest the country's downward slide'.

We also cautioned that 'there was little in the document to suggest that it would see unemployment drop to 6% by 2030'. The NDP, we added, was in fact a mix of 'fanciful job targets, contradictory ideas, costly racial engineering, reckless assumptions, and irresponsible promises'. We also wrote in *Business Day* that the NDP had done 'a brilliant

job of co-opting business into the state-directed economic planning model favoured by the ANC. Yet the plan showed 'little faith in markets' and 'steered clear' of a necessary privatisation and relaxation of *dirigiste* regulation.

Overall, we said, the NDP was 'a fundamentally flawed plan that was bound to fail'. It was a far cry from the Growth, Employment, and Redistribution (Gear) strategy drafted in 1996 under the watch of Nelson Mandela. Instead, it sought more state control, more rigorous enforcement of BEE and employment equity rules, and the undermining of the property rights essential to building a more prosperous society.

Our critique of the NDP drew wide and often supportive media attention – an encouraging development. *The New Age* described our report on the NDP as 'scathing'. *The Citizen* wrote that it might be 'time to rethink South Africa's grand plan', adding that the IRR had raised 'fresh doubts' about the dominant line of policy thinking in South Africa. *Die Burger* stressed our finding that the NDP could not possibly meet its 'social and economic goals'. *The Star* quoted our finding that the plan was 'fatally flawed'. The *Cape Argus* cautioned that we saw the plan as 'a blank cheque for more taxes and borrowing'. *The Mercury* reported our criticism under the headline 'Critique shreds flawed NDP'.

For our part, we wrote in the *Cape Argus* that the plan 'betrays the poor...because it is not willing to go against political wisdom and propose the dramatic reforms necessary for South Africa to reach its full economic potential'. We added: 'What South Africa needs instead of the NDP...[is] the deregulation of labour markets to free the poor to find work,... the abandonment of racial policy to boost investment and entrepreneurship,...effective steps to improve the quality of teaching and learning...and a constituency-based electoral system to compel government accountability downwards into communities.'

The IRR's alternative to the NDP

The economic malaise confronting South Africa requires much more than a critique of failed policies. Also essential are workable alternative policies with a realistic prospect of improving the lives of poor people. The IRR has thus developed a proposed plan which offers a sound alternative to the NDP and has been distilled from our long commitment to the classically liberal tradition. Published in the first edition of *@Liberty*, the IRR's new policy bulletin, our proposed 12-point plan is as follows:

1. Advance economic growth as the central policy priority of the government. Without reaching a growth rate of 5% of GDP, we cannot push our unemployment rate sharply downwards.
2. Reform the labour market to make it easier for the poor to find work.
3. Reform the education system by passing more control over schools from politicians and bureaucrats to communities and parents, via a voucher system.
4. Reform healthcare policy by allowing the private sector a greater role in provision, while ensuring that much of that provision is funded by the state.
5. Get the state to sell the very many companies it owns and controls. Turn these parastatals into taxpayers rather than tax consumers.
6. Reform the investment environment to promote entrepreneurship and economic growth.
7. Liberalise trade policy to promote competitiveness and reduce prices for consumers.
8. Rework current land reform policy to provide and safeguard ownership rights for all.
9. Scrap race-based empowerment and affirmative action policies and adopt a new empowerment model that seeks to empower poor people – most of whom will, in any event, be black.
10. Professionalise the civil service and end cadre deployment.

11. Change the electoral system to include a constituency-based system and make politicians more accountable to voters.
12. Decentralise political decision-making downwards as far as is feasible.

These twelve points are not written in stone and the plan of which they form a part is not a policy straitjacket for the IRR. Rather, it is a point of departure for the development of a clear and classically liberal alternative to the racial nationalism and state control that characterises so much of present government policy. New proposals may in time be added, while others might be discarded as changing circumstances require. Indeed, the IRR is also exploring a number of ideas – how best to manage urbanisation, for example – that fall outside the twelve points presently listed in the plan. However, any additional proposals we put forward will be consistent with the core liberal principles for which the IRR has always stood.

For liberals across the spectrum, these are exciting and auspicious times. A renewed interest in liberal ideas has become evident, creating new opportunities to exert influence over policy thinking. The IRR is thus already positioning itself to use these opportunities to the full. With stagflation looming and the country battling to move beyond its current economic ills, these opportunities are arguably greater than at any time since 1994.

However, as we move forward, the IRR must also remain mindful that there are principles about which liberalism needs to be uncompromising. The IRR has always been loyal to these principles. Since 1994 it has been resolute in its rejection of race-based empowerment and employment equity practices. It has also stood firm in its defence of property rights, while strongly warning that the ANC is effectively perpetuating the denial of ownership rights to black Africans under the rubric of land reform. It has been outspoken on the importance of freeing the private sector from *dirigiste* and damaging regulation. It has consistently maintained that investment-led economic growth must become South Africa's single most important policy priority. It has taken the lead in warning about abuses of state power and emphasising the great importance of maintaining the rule of law.

These are all strongly held and entrenched IRR positions. The challenge now is to build support for them via the battle of ideas and so ensure that they are translated, in time, into the policies essential to a prosperous future for all South Africans.

@Liberty, the IRR's new policy bulletin

It is to help wage the battle of ideas that we have launched a new policy bulletin, aptly named *@Liberty*. Edited by our Head of Policy Research, Dr Anthea Jeffery, this is the primary vehicle we will use to promote the liberal perspective on policy issues. *@Liberty* is better geared to this task than our monthly *Fast Facts* publication, for two main reasons. First, *@Liberty* is free, which means we don't have to get people to pay for it before they receive it and that all its recipients are welcome to pass it on to as many people as they choose. In addition, it does not have to stick to a defined publication schedule. This gives it a particularly wide reach and a great deal of flexibility in responding quickly to issues and events.

@Liberty was launched in February 2014 and has already published ten issues. The first issue, as noted, highlighted the IRR's 12-point plan in response to the NDP. Subsequent issues have continued to highlight policy alternatives and the pressures making for their adoption, while often also blowing the whistle on damaging policy developments.

As part of this second endeavour, the IRR was the first to highlight the ramifications of the misleadingly named Promotion and Protection of Investment Bill of 2013. This Bill echoes a judgment of the Constitutional Court, handed down in April 2013, in which Chief Justice Mogoeng Mogoeng found that no expropriation occurs – and no compensation is payable – if the State takes property as custodian for others rather than as owner. This approach could result in zero compensation being payable on the expropriation of

mines, farms, factories, and virtually any other kind of commercial property, making the Bill potentially the most damaging measure to have been put forward since 1994.

The IRR also broke new ground in pointing to a raft of interventionist bills and other policies which 'comprehensively contradicted' the growth and job creation goals of the NDP. *The Economist* later reported on this issue of *@Liberty* under the headline 'Why invest?' It went on: 'The South African Institute for Race Relations has just published a report on all business-related legislation since the start of 2013. The report faithfully echoed our assessment in writing that the common thread running through the bills in question was that 'they weakened property rights, reduced private-sector autonomy, threatened business with draconian penalties, and undermined investor confidence'.

Submissions to lawmakers

In addition to writing on these bills in *@Liberty*, the IRR made submissions on many of them (either to Parliament or the relevant government departments). During 2013 and early 2014, we thus made written or oral submissions on:

- The Draft Mineral and Petroleum Resources Development Bill of 2012 (Department of Mineral Resources) (8th February 2013)
- The Licensing of Businesses Bill of 2013 (Department of Trade and Industry) (17th April)
- The Expropriation Bill of 2013 (Department of Public Works) (29th April)
- The Restitution of Land Rights Amendment Bill of 2013 (21st June)
- The Property Valuation Bill of 2013 (21st June)
- The Employment Equity Amendment Bill of 2012 (August)
- The Employment Services Bill of 2012 (August)
- The Mineral and Petroleum Resources Development Amendment Bill of 2013 (6th September)
- The Promotion and Protection of Investment Bill of 2013 (Department of Trade and Industry) (31st January 2014)

We also published our submissions and issued press releases and articles to newspapers summarising their key points. This in turn generated numerous requests for interviews from newspapers, radio and television.

Supplementing detailed submissions with succinct public commentary was particularly useful in promoting awareness and debate. Moreover, though the relevant ministers may never see detailed submissions, they may well read a column or op-ed article in a newspaper while flying around the country. We also try to show that legislation that ostensibly affects only a particular industry often has a wider import. For example, legislation requiring domestic minerals beneficiation in circumstances where South Africa has little comparative advantage could affect investment and therefore growth and hence also employment.

SOCIAL AND ECONOMIC RESEARCH

Social and economic research into key trends and statistics remains an extremely important part of the IRR and its work in South Africa. Without such work the IRR could not survive financially, and its research would lose the solid factual grounding upon which our analyses and policy alternatives have always been based.

South Africa Survey

The *South Africa Survey* remains the primary social and economic research publication of the IRR. The first issue of the *Survey* came out in 1946, while the 2013 issue has brought the total number of pages published in this way to almost 32 000.

The 2013 edition of the *South Africa Survey* was published in November 2013 and ran to over 900 pages of data, tables, and charts tracking every area of social and economic development for South Africa. It has 14 chapters (up from 11 in 2012), which cover demographics, the economy, public finance, employment, assets and incomes, business and infrastructure, industrial relations, education, health, social security, living conditions, communications, crime and security, and politics and government.

For the first time in its history the *Survey* featured a recognisable public figure on its cover. This was Nelson Mandela, and the 2013 *Survey* was thus named the Mandela Commemorative Edition. This marks an association between the IRR and Mr Mandela which goes back as far as 1947, when the IRR provided him with a bursary to attend university.

The 2013 *Survey* thus has a striking photograph of Mr Mandela on the front of the cover, while the back cover cites a passage from his celebrated speech from the dock in the Rivonia Trial in 1964. In this famous address, Mr Mandela cited IRR research from 1963 which had highlighted discrepancies in the quality and availability of schooling to black and white children. This gives some measure of the value and continuity of the IRR's contribution, for we are still empowering decision-makers with information and analyses some 50 years later.

The 2013 edition of the *Survey* was released to media in January 2014 and secured extensive media coverage, both *City Press* and *Rapport* publishing full page spreads of key *Survey* data on issues ranging from the police to population ratios and provincial migration data. In addition, a large number of newspapers cited *Survey* information on education, labour issues, crime, living standards, poverty, health care, social development, and demographics. The ambit of this media coverage will be further reported in our next *Annual Report*.

Fast Facts

Our monthly *Fast Facts* report supplements and updates the information in the *Survey*, and remains a vital vehicle through which the IRR can bring major social and economic trends to the attention of the media and civil society, along with leaders in Government and business. Twelve editions of *Fast Facts* were published in the year to December 2013. These issues focused, among other things, on:

- the comparative performance of South Africa's nine provinces on 125 economic and social indicators (January 2013);
- education and the extent to which the country lags most emerging markets on its educational outcomes (February 2013);
- the HIV/AIDS pandemic and the successful rolling out of antiretroviral treatment in the past five years (March 2013);
- the 2013/14 budget, plus an incisive analysis of the Government's overall performance since 1994 on 80 key indicators (April 2013);
- the need for fundamental reforms to BEE and other racial laws (May 2013);
- the extent to which poverty has been alleviated through social welfare (June 2013);
- the strengths and many weaknesses in the National Development Plan, as earlier described (July 2013);
- the plight of the underclass (August 2013);
- the three 'Es' of real empowerment: education, entrepreneurship and economic growth (September 2013);
- key obstacles to faster economic growth (October 2013);
- demographic and socio-economic profiles of South Africa's nine provinces (November 2013); and
- eight metropolitan and 44 district municipalities in statistical overview (December 2013).

In addition, each issue of *Fast Facts* contained our regular six pages of statistics on economic, socio-economic, business, property market, and labour trends, plus forecasts on key economic indicators – more than 200 line items in all.

RESEARCH AND POLICY PROJECTS

During 2013 the IRR also conducted a number of successful research projects. These included:

Ten Pillars of Democracy: The Rainbow Index

The IRR continued to monitor South Africa's performance according to the following ten criteria: democratic governance, the rule of law, individual rights and responsibilities, a vigilant media and civil society, good citizenship, effective government, racial goodwill, liberation of the poor, scope for free enterprise, and growth-focused policies. However, instead of publishing a comprehensive (but necessarily brief) overview of progress in all these spheres, we are now concentrating on providing a more detailed analysis of some of the most important policy issues within this wide spectrum.

Dick Gawith Project on Affirmative Action

This project, funded in part by a bequest to the IRR from the late Dick Gawith, seeks to monitor the implementation of racial laws, 'publicly to criticise such laws where appropriate', and promote policies that will instead advance the goal of 'genuine non-racialism'. The focus of research is primarily on affirmative action and black economic empowerment in their various manifestations.

The IRR has continued to monitor relevant developments in this sphere. It has also analysed a number of relevant bills introducing key changes to legislation on employment equity, black economic empowerment, mining, and land reform. The IRR's comprehensive review runs to some 300 pages and is shortly to be published by Tafelberg. To the best of our knowledge, this will be the first systematic study of all the relevant legislation to be published. It will also contain an analysis of the economic consequences of these laws.

Digging for Development

In December 2012 the IRR secured funding from the Swedish International Development Cooperation Agency (SIDA) for a new project entitled 'Digging for Development'. The project sought to investigate the social and economic circumstances of mine workers via interviews with mining companies, trade unions, civil society groups, and miners and their families. This project has been completed and its results were published in June of 2014.

Local Government Research Project

The objective of this project, which was funded by the International Republican Institute, was to encourage better governance at the local level and investigate social and economic conditions across all municipalities. The project has been completed and its results were published in a report titled *The 80/20 Report: Local Government in 80 Indicators Over 20 Years of Democracy* in May 2014. The report monitors performance on 80 indicators by every local authority in the country. It also includes an account of the structure and functioning of local government and puts forward various policy proposals aimed at ensuring better governance at a local level.

Broken Blue Line

The IRR has secured funding to update the *Broken Blue Line* report on police criminality which we published in 2011. The new report will investigate the extent of police criminality between 2011 and 2013, and is to be published late in 2014.

Empowerment Policy Project

A group of business leaders has pledged the seed financing necessary to start a three-year project aimed at analysing in more detail both the social and the economic consequences of current BEE policies. The project will also seek to devise an alternative policy, termed 'economic empowerment for the disadvantaged' or EED. This will not be race-based. Instead, it will target the truly disadvantaged and will seek to empower them via education, employment, entrepreneurship, and economic growth.

'Time-Traveller' scenarios

The 'time-traveller' scenarios were developed by the IRR during 2013 and published in book form by Tafelberg in April 2014 under the title *A Time Traveller's Guide to Our Next Ten Years*. The scenarios describe likely developments over the next decade, culminating on the morning after the 2024 election, at which point (according to one scenario) the ANC could find itself voted out of power. The book also sketches the policy shifts needed to move the country towards increased prosperity. According to market research made available to Tafelberg, the book quickly entered the top-10 non-fiction best-sellers lists. Briefings on the book remain very popular, more than 50 to date having been delivered to a range of audiences.

'Born-Free' Project

The IRR has received a grant from the International Republic Institute (via the National Endowment for Democracy in Washington DC) to conduct a research project into the experiences of the 'born-free' generation in South Africa. This project is currently in progress and will be completed by the end of 2014.

Bursaries

The bursary programme remains a particularly important IRR project. In 2013 there were 67 students on bursaries for tertiary studies via the IRR's various bursary trusts. Of these, 45 students were continuing ones previously also funded by us, while 22 were 'new' students receiving IRR support for the first time. Overall, 96% of our students passed in 2013 and proceeded either to the following year of their studies or to graduation. In 2014 bursary awards worth R3.6m have been made to 71 students, of whom 20 are new. Of these 71 awardees, 58 are at tertiary institutions and 13 are at high schools.

OUTREACH AND ADVOCACY PROJECTS

During 2013 the socio-economic and policy research efforts of the IRR were successfully leveraged through the outreach and advocacy activities of its **Free Society Project**. This project is funded by a number of IRR donors and supporters. It is intended to ensure the country remains a free and open society while also creating the economic opportunities needed to free South Africans from poverty, unemployment, and inequality. Its specific objectives include:

- identifying and advocating policies that will promote investment and economic growth;
- empowering the media, business, civil society, and political leaders with relevant data and analysis; and
- supporting policy makers in crafting and implementing workable policies that will improve the lives of ordinary people through better service delivery, better education, more jobs, and the overall creation of economic opportunities.

The project is the major outreach and advocacy initiative of the IRR. It grew from strength to strength during 2013, especially with the addition of the successful Civil Society Support Programme under its broad umbrella.

The project comprises four separate initiatives, each of which is a project in its own right, managed by its own project manager. These four are:

- the **Centre for Risk Analysis**, which examines economic and social risks and uses scenario planning to help business and government leaders make constructive policy and other decisions for South Africa. The centre currently has more than 180 private companies, government agencies, and foreign embassies as its subscribers.
- the **Media Alert Service** through which we provide close on 650 media agencies, bureaus, newspapers, television stations, individual journalists, and radio stations around the world with a vast range of socio-economic and other information.
- the **Democracy Support Programme**, which helps more than 2 000 elected public representatives across the political spectrum to hold the executive to account, benchmark social and economic progress, and identify policy challenges needing to be resolved.
- the **Civil Society Support Programme** through which we are increasing the effectiveness of more than 500 civil society groups in meeting the social and economic needs of their beneficiaries.

The success of any think-tank depends on its ability to reach out to policy and decision makers across all important spheres. These four initiatives give the IRR a uniquely powerful reach, which is further complemented by the success of its media and public relations initiatives.

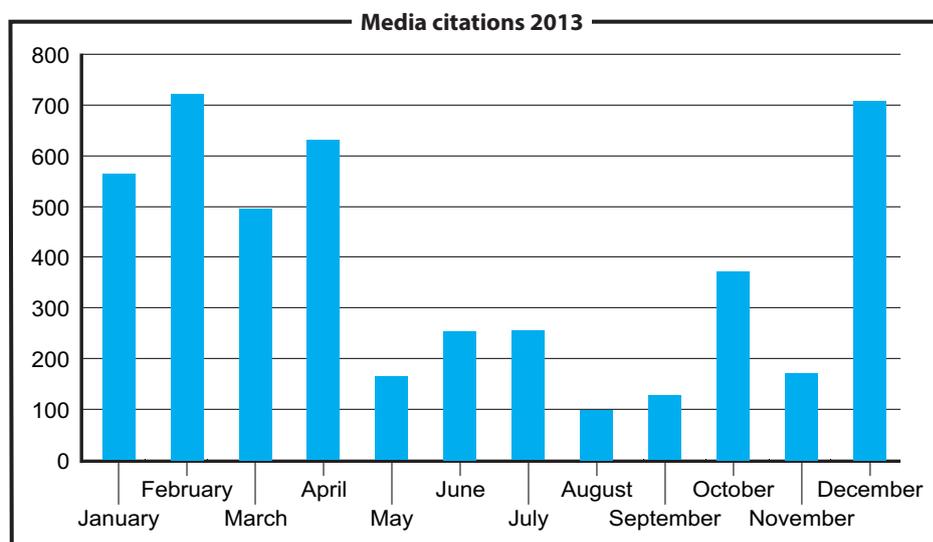
MEDIA AND PUBLIC RELATIONS

Our research, marketing, and management teams spend a great deal of time on media and public relations work ranging from media interviews and press releases to the extensive use of social media and the IRR website.

Media interviews and citations

In the year to December 2013 IRR research and other staff provided 793 media interviews to radio, television, and print media. It is hard to think of a single South African radio, television, or print outlet that did not make regular contact with the IRR to seek out its views on a very broad cross-section of policy and socio-economic issues.

Our media tracking system shows that the IRR was cited 4 566 times in local and international media over the course of the year – an average of nine citations a day, as shown in the table below:

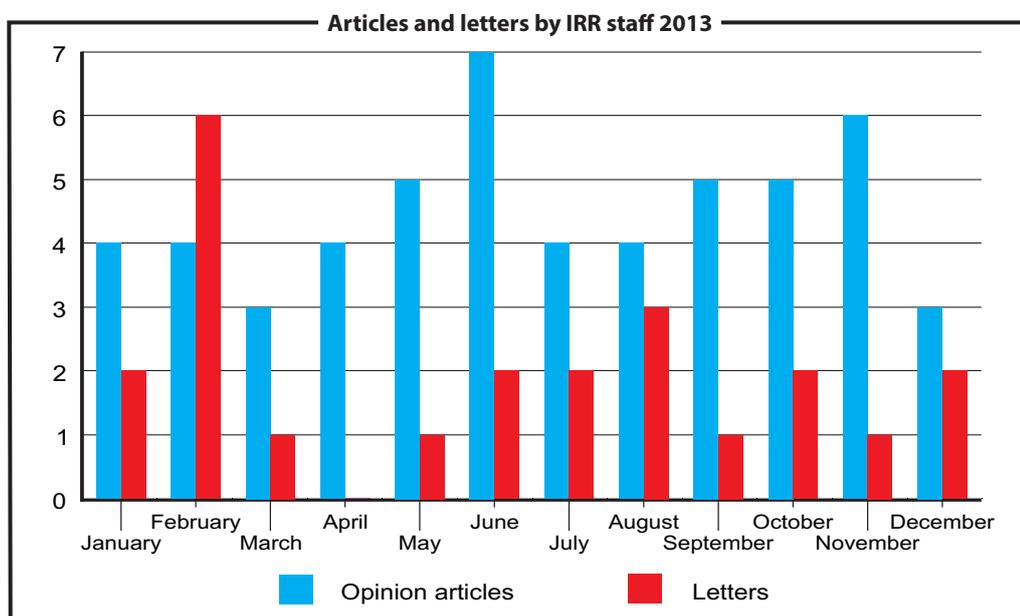


Some 630 of these citations were on the broader situation within South Africa, including the position following the death, in December 2013, of Nelson Mandela. In addition, 300 citations dealt with IRR research into employment and unemployment; while 202 related to our views on BEE and affirmative action.

The citations appeared in a very broad cross-section of newspapers, radio stations, and television stations. These ranged from the BBC, the *Wall Street Journal*, *New York Times*, and *The Economist* to *Volksblad*, *Radio Sonder Grense*, and even *Cosmopolitan* and the *Compleat Golfer*. Every citation was a further testament to the IRR's impact.

Opinion articles and columns in newspapers

Over the year, IRR staff also published 54 columns and opinion articles in newspapers, along with 23 letters to the press. In terms of a public contribution to policy formulation and public information-sharing we doubt that there is any other think-tank in the country able to match this performance.



Media releases

During 2013, 43 media releases were published, generating an extraordinary degree of media coverage and interest in the work of the IRR. These releases played a significant part in attracting the 4 566 media citations of the IRR's research that we recorded during the year.

Social media

Social media have become an increasingly important platform upon which to contest the battle of ideas. Twitter is an especially effective tool. Hence, a number of Twitter campaigns have been launched in recent months, while the IRR plans to launch yet more of its reports via Twitter and other social media. While the IRR's own Twitter account and that of its CEO have fewer than 10 000 followers, this figure is set to grow. In addition, the re-tweeting of key campaigns can reach hundreds of thousands of people – numbers far greater than the readership of daily newspapers in South Africa.

Website

Communication in social media depends in part on having an excellent website through which research reports and analyses can be inserted into the public domain. To that end

the IRR has commissioned a state-of-the-art website which is also friendly to social media. At the time of writing, this site was at the testing phase. It will soon go live and is set to become our primary outlet and storehouse of reports, ideas, and policy alternatives in the years ahead.

Events, briefings and presentations

The IRR hosted seven events for subscribers and the general public during 2013, and has provided four to date in 2014. These include:

- The National Development Plan: Feasible or Fanciful? (John Kane-Berman) (27th June 2013)
- Freedom Seminar, co-hosted by the Friedrich Naumann Foundation for Freedom (John Kane-Berman, Anthea Jeffery, Neil Emerick, Russell Lamberti, and Ivo Vegter) (17th October 2013)
- Prospects and policies: what to expect from the 2014 elections (Helen Zille) (17th October 2013)
- Back from the brink: What the South African government must do to reverse our flailing fortunes, co-hosted by the IRR and the Institute for Security Studies (John Kane-Berman) (1st November 2013)
- Back from the brink: What the South African government must do to reverse our flailing fortunes (John Kane-Berman) (5th and 7th November 2013)
- Consistently Contrarian (John Kane-Berman) (24th February 2014)
- South Africa's next ten years: The second transition (Frans Cronje) (10th April 2014)

The IRR also provided a far greater number of briefings via its meetings with a host of outside organisations. In 2013 there were 222 such meetings (against a total of 162 in 2012). Here, we were able, either formally or informally, to present our data, analyses, and policy solutions to a diverse range of audiences, including banks, mining houses, foreign embassies, chambers of commerce, universities, and civil society organisations.

A particularly successful set of briefings were those presented to audiences in Europe and America in 2013. In Berlin, the IRR spoke to the German Chamber of Commerce (courtesy of the Friedrich Naumann Foundation for Freedom), while in Washington DC we addressed the State Department, the Atlantic Council, guests of the Friedrich Naumann Foundation, and the International Republican Institute. The IRR also visited Israel, where we met a number of political and government leaders (including a future Israeli ambassador to South Africa).

IRR IMPACT

Impact in numbers

Reduced to numbers, the IRR's influence on South Africa looked as follows in 2013:

- **4 566** media citations of our work.
- **2 000+** political leaders given access to information on social and economic development.
- **793** media interviews and information requests granted.
- **650+** media outlets and journalists empowered to report better on South Africa.
- **500+** civil society groups helped to be more effective in helping others.
- **202** meetings and/or briefings presented to outside audiences.
- **54** opinion articles published (as well as 23 letters).
- **45** briefing notes published for political leaders.
- **43** media statements released.
- **12** Fast Facts reports published.

- *7 policy submissions released.*
- *5 briefings hosted for outside speakers.*
- *1 South Africa Survey published.*

Impact on policy and the battle of ideas

Assessing the impact of the IRR's work is never easy, especially since many of its objectives are long-term ones which cannot realistically be attained within a short period. In addition, it is often difficult to tell to what extent we have influenced ideas, policies, and pending bills. We are nevertheless confident, based on information we have been given – or have otherwise been able to marshal – that the impact of our work has been profound.

Influence on the Government

It is notable that some 20% of our paying subscribers are government departments, local authorities, provincial premiers' offices, or other public institutions. Our submissions on pending bills, plus the wider policy debate we helped to generate, have also had an influence on the Government. For example, in 2013 alone, the IRR helped to bring about the withdrawal of the ill-considered Licensing of Businesses Bill of 2013; a rethink of the Expropriation Bill of 2013; and major amendments to the Property Valuation Bill of 2013 (which no longer obliges aggrieved expropriated owners to exhaust flawed internal remedies before being allowed to turn to the courts for relief).

The Government has also increasingly come to echo our view that the best antidotes to poverty are not grants that increase dependence on the State but jobs that give people the opportunity to earn their own income. For many years after 1994, the Government constantly stressed the need to combat poverty and inequality, but without ever recognising that unemployment was the key factor contributing to both these ills. Now, however, the ruling party and the State repeatedly warn against the 'triple evils' of unemployment, along with poverty and inequality. This is a significant shift towards a view put forward by the Institute since 1994.

Also important is the Government's increasing awareness of the negative consequences of overly rigid labour laws, as well as its frequent acknowledgments of the growing costs of BEE policies. Though the changes it is currently making to both labour legislation and BEE requirements are unlikely to solve present problems, they nevertheless lay the foundation for more constructive shifts in the future – once the failure of these amendments has also become apparent to the State.

Media influence

As noted, our research and other staff were interviewed by the media on more than 780 occasions during 2013, the IRR's work was cited in the media 4 566 times in twelve months. There is not much data against which to compare our performance, but the following statement from the Cato Institute in Washington DC may be of interest:

*'In 2011 Cato's policy experts were cited in 3 754 news articles, authored 519 op-eds, appeared on 853 television interviews, and participated in 1 437 radio interviews. In particular, the perspectives of Cato's scholars on economic issues were highly sought throughout the year. Cato scholars were cited in 1 012 news articles on economic policy, including 28 citations on the Associated Press wire, 22 in the *New York Times*, and 20 in the *Washington Post*.'*

In 2012 Cato had a budget of \$21 million and a staff of 123 plus 108 fellows and adjunct scholars. In 2013, the IRR had a budget of less than \$2m, while its research staff numbered fewer than 20. Given the difference between our resources and Cato's, the media coverage garnered by the IRR is an extraordinary achievement.

A year or so ago we asked journalists subscribed to our Media Alert Service to comment on the quality of our work. In response to this request, we received a host of complimentary comments. Five examples follow:

Classic FM: 'The Institute provides some of the country's top unbiased analysis. The research is of a high standard and is very informative. Many articles from it appear in *Business Day's* Opinion and Analysis pages regularly – alongside other pieces from the country's intellectual giants. Its staff are well versed on the nuances of a wide range of issues and current affairs, and make for great pundits. Their ability to articulate research into mediums such as radio and television is also of the highest calibre.'

Cape Times: 'Journalists need easy access to comprehensive and reliable data, and no-one provides this service better than the South African Institute of Race Relations.'

SABC TV news: 'I would like to take this opportunity to thank you and the South African Institute of Race Relations for the exceptionally high quality and balance of your reports and commentary on a wide range of key and topical South African and continental socio-economic issues. Your invaluable documentation has helped me to navigate complex issues of the South African political economy from a deeply informed perspective.'

Wall Street Journal: 'The Institute and its annual *South Africa Survey* are an invaluable resource to the Wall Street Journal's coverage of South Africa. Much of the data in the Survey may be public, but no government ministry or other institute collects it and presents it with such depth, precision, and organisation. It's a constant companion in writing stories on everything from mining to land reform, and often fuels graphics that our artists construct in New York, with credit to SAIRR.'

Sunday Times: '[Your] research nearly always pointed us to stories we had not yet identified or had not had time to explore. I hope we gave reasonable credit to the Institute, but they certainly helped us to improve the context of our reporting significantly and pointed us to a variety of stories we would otherwise not have covered. I sincerely hope you are able to keep doing what you do while so many NGOs that played important roles in the run up to democracy and during its creation and refinement are being forced to close down.'

Award to the IRR

The 2013 AmCham Leadership Award was given to the IRR for its 'outstanding contribution to economic growth, business dialogue and strengthening democratic processes'. The award was presented to the IRR by the American Chamber of Commerce in South Africa, on behalf of the American business community within the country, at AmCham's thanksgiving dinner in November 2013. An extract from the citation appears below:

AmCham honours the **South African Institute of Race Relations** for playing a pivotal role in the demise of apartheid and its support of the development of democracy which underscores the fact that the importance of ideas is not to be disdained.

AmCham salutes the **South African Institute of Race Relations** for its independence, courage, research and dissemination of powerful ideas. Its mission over decades gives effect to Victor Hugo's injunction that only one thing is stronger than all the armies of the world and that is an idea whose time has come.

The award was handed to Mr Kane-Berman by Mr Cyril Ramaphosa and the AmCham president, Mr Jeff Nemeth.

GOVERNANCE AND COMPLIANCE

Succession

At a meeting on 26th August 2013, the Board of Directors of the IRR unanimously decided to offer the post of Chief Executive to Dr Cronje, once Mr Kane-Berman retired from this position at the end of February 2014. Dr Cronje accepted the offer. In terms of Clause 11.8(ii) of the Memorandum of Incorporation, all Council members were informed of the Board's decision and asked to indicate their approval or otherwise. Approval was received from 35 out of 37 Council members. Two did not respond. The appointment was accordingly announced to the staff and via a press release sent out on 16th September 2013. Dr Cronje took office as the new CEO of the IRR on 1st March 2014.

Mr Kane-Berman, chief executive for 30 years and five months, simultaneously took up the position of consultant to the IRR. Countless messages poured in from all corners of the country, as well as from abroad, to thank him for his sterling contribution and strong leadership over many challenging years.

Office bearers

It is with great regret and sadness that I record the deaths of:

- Dr Gavin Lewis, who died in July 2013 after a short illness. Dr Lewis became a member of the IRR in 1991 and served on this Council from 2008 until the time of his death;
- the Most Reverend Philip Russell in August 2013. Archbishop Russell died in Australia, having moved there in 2001. He served on the IRR's Executive and was made an Honorary Life Member in 1983;
- Mr Brian Hawksworth, who died in May 2014 after a long illness. He served as Honorary Treasurer of the IRR from 1996 to 2010, and also as Chairman of the Finance (later Audit) Committee;
- Mr John Morrison, who died in May 2014, also following a long illness. He was the IRR's librarian for many years and also served as a representative of KwaZulu-Natal Inland on Council.

Dr Musa Shezi retired in January 2013, after many years of service as one of our vice presidents. He remains a member of the IRR.

Elections, reappointments, and committees

The following four directors automatically retire this year and will require re-election by the annual general meeting (AGM) of Members: Mrs Jenny Elgie, Mr Peter Joubert, Mr Peter Letselebe, and Mr Ishmael Mkhabela. Ms Colleen McCaul is not available for re-election to the Board of Directors. The Chairman of the Board thanked her on behalf of the IRR for all the support and hard work she has put in, initially as a researcher at the IRR and thereafter as a member of the Board for some 15 years.

The Board of Directors, at its meeting on 25th November 2013, reappointed all members of the Audit, Remuneration, Investment, and Social and Ethics committees for a period of three years. Messrs Garth Towell and Ishmael Mkhabela were appointed to the Remuneration Committee. Dr Cronje took over from Mr Kane-Berman as executive director of the Social and Ethics Committee, and Mr Sherwin van Blerk was appointed as a member of this committee.

Dr Cronje also took over from Mr Kane-Berman as chairman of the Board of the Friends of the IRR in the United States.

New Memorandum of Incorporation (MOI)

A copy of the IRR's new Memorandum was lodged with the Companies and Intellectual Property Commission (CIPC) on 24th April 2013. We have confirmation of receipt and

are still waiting for the signed and stamped copy. According to CIPC, a signed copy was posted to us in May 2013. However, we never received it. A new signed version will be ready for collection by us in June 2014.

Good Governance Africa

After a series of confidential meetings and emails, the Board at its meeting on 26th August 2013 unanimously agreed that the IRR's relationship with Good Governance Africa (GGA) should be terminated as it had become impossible to maintain. All GGA and IRR staff were informed of this decision. All six GGA staff took voluntary retrenchment and their employment at the IRR was accordingly terminated at the end of September 2013.

Strategic planning

Long-term strategic planning is important for any organisation and the IRR is no different. In April 2014, the Board thus adopted a strategic plan for the IRR that had been drafted by the CEO. Under this new strategy, the IRR has instituted a three-year planning cycle. This will help it set (and meet) relatively long-term financial targets, so enabling it to fulfil its research and advocacy goals.

The plan showed that the IRR is generally able to meet the costs of its socio-economic research (the mainly statistical research published in the *South Africa Survey* and *Fast Facts*) via the income it secures from subscriber and member fees. Day-to-day management and overhead costs are generally covered by core-support contributions. Hence, where deficits occur, these generally arise as regards the policy research done by the IRR. This is, of course, a comment on the difficulty of raising money in South Africa for this kind of work, which makes a major contribution to the battle of ideas.

Examples of our policy research include our submissions on proposed legislation to government departments and parliament, the policy commentary we put out in the media, the policy critiques we set out in *Fast Facts* (and now also in *@Liberty*), and the policy alternatives we are increasingly busy crafting in a host of areas. To ensure that we continue with this vital work, we needed a new long-term approach to identify and secure the necessary funding.

The new plan states that, if fund-raising efforts for such policy research fall short of what is needed within the three-year planning cycle, the IRR will use its capital reserves to keep funding such research. This will help ensure that the IRR can continue to have as great an impact as possible on the battle of ideas. It has also freed the CEO to commit to relatively long-term policy research, staffing, and output targets.

Towards the end of every three-year planning cycle, the CEO will present a new three-year strategy to the Board. Social and economic research, overhead costs, and management functions will continue, in the main, to be funded by membership and subscription fees as well as core support contributions, but policy research may still need to be funded from our capital reserves from time to time.

Fund-raising

As is the case across the civil society sector, fund-raising remains difficult. While the IRR often garners broad business support for many of its ideas, the private sector provides very little core funding to expand the reach and impact of its policy work. As a general rule, the research and advocacy work of the IRR falls outside the scope of most corporate social investment (CSI), which generally focuses on 'brick-and-mortar' projects. Hence, this significant pot of money is largely inaccessible to the IRR. In addition, many embassies and other funders within the diplomatic community are redirecting funding away from South Africa. For most think-tanks, the funding future looks bleak – and the consequences are already visible, most markedly in the collapse of IDASA in 2013.

However, the financial information that follows shows that the IRR, for the time being at least, is bucking this negative trend. There are six reasons for this. First, the Centre for Risk Analysis (CRA) generates enough income from subscribers to maintain its basic social and economic research functions. Second, the IRR maintains excellent long-term relationships with its core funders. Third, key individuals have made a significant financial investment in its future, which is greatly appreciated. Fourth, reserves built up over 30 years in the IRR's investment portfolio give us a degree of breathing space to commit ourselves to key policy and research goals over relatively long (three-year) periods of time. Fifth, since the IRR was never seen as politically correct enough to receive much in the way of mainstream development funding, the organisation has been left relatively unscathed by the departure of much of that funding from South Africa. Sixth, the IRR has implemented a series of strict cost-cutting mechanisms and its expenditure is well controlled. Following the departure of GGA, the IRR was, for example, able to trim almost R2 million in annual expenditure without compromising its research and policy advocacy efforts. However, any additional cuts would certainly undermine the IRR's research and policy output.

From this sound base, we seek now to grow the IRR and expand its reach still further. Success here will depend in part on our ability, in a difficult funding environment, to convince key business leaders and high-net worth individuals of the value of our work. A series of fund-raising efforts are already under way to secure their investment in the IRR.

Updated brands

Since the start of 2014, the IRR has been updating its brands. We have abbreviated our acronym to 'IRR', and emphasised that acronym in our new branding. We have also added to the new acronym the by-line 'The Power of Ideas', so as to emphasise our role in shaping ideas and policies in South Africa. We have upgraded our successful Unit for Risk Analysis, turning it into the 'Centre for Risk Analysis', now known by the acronym 'CRA'. It is via the CRA that business and government users of our information gain access to this data. The CRA does not have a public profile, nor does it make public pronouncements on policy or other developments. Instead, this is left to the IRR, while the CRA functions largely as the marketing and consulting division of the IRR.

We have applied the new branding across the organisation in order to present a single brand image to the public. From the cars we drive to our business cards and PowerPoint templates, we now present one consistent brand.

FINANCE, ADMINISTRATION, AND STAFF

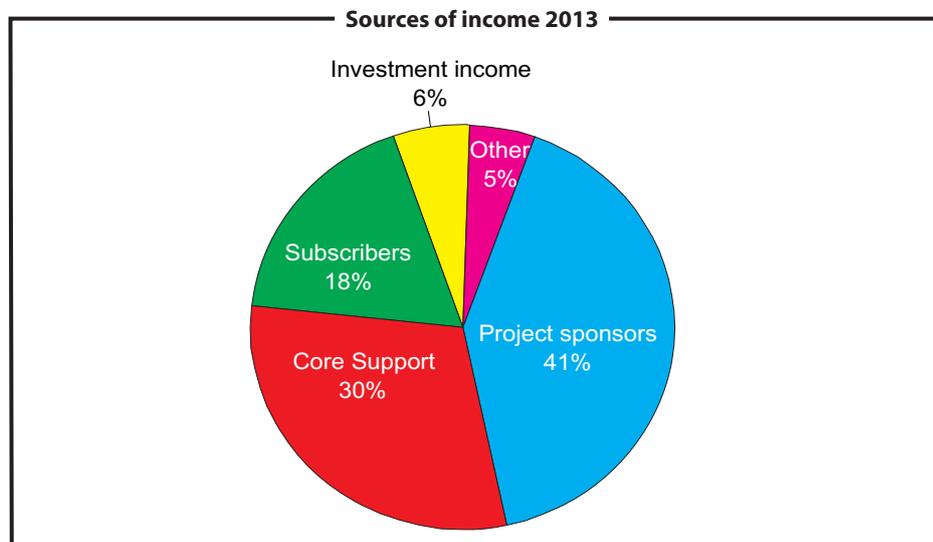
Finance

The attached accounts cover the financial year ended 31st December 2013. Operating income was R19.2 million and expenditure R16.3 million, leaving an operating surplus of R2.9 million. This operating surplus arose largely as a result of a generous donation of R5 million, which significantly boosted our income for the year and helped turn what would otherwise have been an operating deficit into a surplus. Income from investments (interest, dividends, and unrealised gain) was R4.6 million, bringing the overall surplus for the year to R7.6 million. Of the investment income R3.3 million related to the unrealised gain in the value of our share portfolio.

In 2013 we succeeded in generating R3.9 million in membership and subscription fees, against R3.4 million the previous year.

For 2013 the IRR's operating income (excluding unrealised gains on investments) fell into five categories: corporate and individual membership and subscriber fees, comprising 19% of the total; individual and corporate core support (including the R5m donation earlier described), making up 30%; project sponsors, accounting for 41%; interest and

dividends, making up 6%; and other income amounting to 4%. (This last category included royalties, consultancy fees, and bursary administration charges.) The names of core supporters and project sponsors are listed on page 7 and/or cited in relevant project reports.



As at 31st December 2013, the assets under the control of the IRR were valued at R60.8 million, a 13.4% increase over the year before. Of this amount, R18.3 million was accounted for by bursary funds.

In the current financial year, we initially budgeted for an operating loss of R1.2 million. However, the likely outcome for the year already looks brighter, as additional funding has now been secured.

Staff

During 2013 we made two new staff appointments, while in 2014 we engaged Dr Conrad Steenkamp as our Business Development Consultant in the Western Cape to help enrol subscribers there and generally draw attention to our work in that province. Three staff members were reluctantly retrenched owing to financial constraints and restructuring after the departure of GGA. One post-retirement contract expired and was not renewed. Two staff members have recently resigned, while one has been dismissed.

In 2013 we also promoted six people: Ms Boitumelo Sethlatswe to Head of CRA, Ms Lerato Moloi to Head of Research, Mr Sherwin van Blerk to Head of Marketing, Ms Natasha de Oliveira to Accounts Manager, Mr Alfred Nkungu to Researcher, and Ms Roshuma Phungo from intern to Researcher.

At a one-day bosberaad held in 2013, relevant line-managers agreed to a set of 'key performance indicators'. These, in essence, are financial and outputs targets which relevant departmental heads are required to meet. Staff performance and advancement in these critical roles will in future be measured according to these indicators.

A new system of financial incentives aimed at encouraging research staff to meet and exceed their output targets has been introduced. This is consistent with the IRR's management philosophy, which aims increasingly to include incentives and commission structures into the employment contracts of new staff (as well as some of our current personnel).

The IRR has from time to time made use of interns, many of whom have gone on to full-time positions in the organisation. In 2014 a formal internship programme was

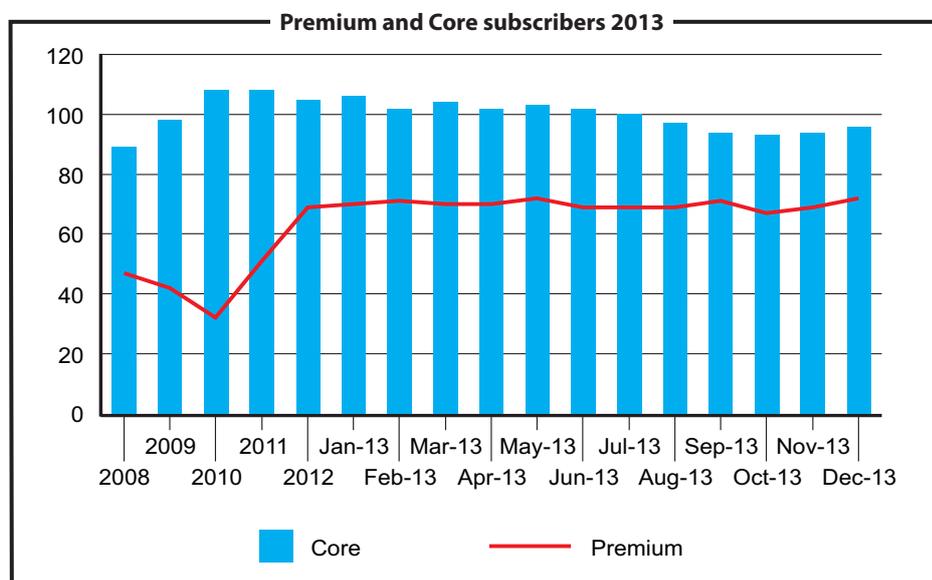
established, which will seek to develop relationships with top-quality post-graduate students at leading universities. The programme has already commenced at North West University, which currently has six interns attached to the IRR.

In 2013 we also established a Health and Safety Committee, which is run by the Head of Finance together with three staff members.

Dr Frans Cronje celebrated ten years of service with the IRR in January 2014. Ms Sarah Zwane will celebrate 35 years in September 2014.

Membership and subscriptions

A good measure of the health of the IRR is always to be found in its membership and subscriber figures – particularly for the two top-tier categories (Core and Premium), which are the particular responsibility of the Centre for Risk Analysis. The table below shows the number of Premium and Core level subscribers for 2013 by month with the numbers for 2008–2012 included for reference purposes:



The 2013 target for the CRA team was to secure subscriber and member income of R3 855 233. The team ended the year with a figure of R3 912 643. New sales income disappointed at R426 468 against a budget of R780 880, but renewal income exceeded expectations at R3 486 175 against a budget of R3 074 353. For 2014 we have split the sales and renewals functions that previously vested mainly in the same person and to date this has secured excellent results.

The IRR has not for some time actively recruited new individual members or subscribers, as its attention was focused on growing the top-tier Premium subscriber category. The new *@Liberty* publication offers the opportunity to grow a new individual subscriber base and this will become a management priority from 2015.

THANKS

Thanks are due to our members and subscribers for their continuing loyalty and support. We are also grateful to our core supporters, the various sponsors of our special projects, and donors to our bursary programme. Their names are on pages 7 and 8. We wish also to thank the members who serve on our various governing bodies including Professor Jonathan Jansen, President of the IRR; Mr Theo Coggin, Chairman of the Board; Mr Tom Wixley, Chairman of the Audit Committee; Mr Roger Crawford, Chairman of the

Remuneration Committee; Mr Peter Joubert, Chairman of our Investment Committee; and Mr Derek Bostock, Chairman of the Social and Ethics Committee. We are privileged to be able to draw on Mr Wixley's expertise not only in the accounting field but also in keeping us up to the mark with corporate governance legislation and other requirements. We are also grateful to Mr Peter Joubert and Mr Ian Cruikshanks for their guidance on our investment decisions.

Thanks are also due to all IRR staff for their dedication and professionalism. We are also grateful to all the organisations, governmental and private, that supply us with, or allow us to use, the information they compile.

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

Johannesburg
June 2014

SOUTH AFRICAN INSTITUTE OF RACE RELATIONS NPC

ANNUAL FINANCIAL STATEMENTS for the year ended 31st December 2013

COMPANY REGISTRATION NUMBER: 1937/010068/08
NON-PROFIT REGISTRATION NUMBER: 000-709-NPO
PUBLIC BENEFIT ORGANISATION NUMBER: 930006115

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The annual financial statements set out on pages 38–51 were drawn up by R D le Roux BCom (Acc), audited as required by the Companies Act, and have been approved by the Board of Directors.

**SOUTH AFRICAN INSTITUTE
OF RACE RELATIONS NPC
ANNUAL FINANCIAL STATEMENTS
for the year ended 31st December 2013**

COMPANY INFORMATION

Country of incorporation	South Africa	
Registration numbers:		
Company registration number	1937/010068/08	
Non-Profit registration number	000-709-NPO	
Public Benefit Organisation number	930006115	
Nature of business	Research and bursary administration	
Registered address	2 Clamart Road Richmond 2092 Johannesburg	
Postal address	P O Box 291722 Melville 2109 Johannesburg	
Auditors	Grant Thornton Chartered Accountants (SA) Registered Auditors A South African member of Grant Thornton International	
Bankers	First National Bank	
Non Executive Directors	J D Jansen	President
	H B Giliomee	Vice President
	T Coggin	Chairman of Board of Directors
	T A Wixley	Audit Committee Chairman and Honorary Treasurer
	D S L Bostock	Honorary Legal Adviser
	P L Campbell	
	R D Crawford	
	J A Elgie	
	P G Joubert	
	E le Roux Bradley	
	P Letselebe	
	C J McCaul	
	I Mkhabela	
	M J Myburgh	
	C E W Simkins	
	D F P Taylor	
	G N Towell	
Executive Director	J S Kane-Berman	Chief Executive – Retired 28th February 2014
	F C J Cronje	Chief Executive – Appointed 1st March 2014
Company Secretary	R D le Roux	
	Business address:	Postal address:
	2 Clamart Road	P O Box 291722
	Richmond	Melville
	2092 Johannesburg	2109 Johannesburg

CORPORATE GOVERNANCE

The South African Institute of Race Relations applies the principles set out in the King Report on Governance for South Africa 2009 (King III) except for those principles that are inappropriate because of its nature and limited size. Exceptions are explained below.

Board of Directors

The Institute is controlled by the Board, which meets quarterly. The roles of Chairman and Chief Executive do not vest in the same person. Directors are appointed for a three-year term of office and re-appointment is not automatic. New members of the Board are appropriately inducted and the Board and its committees are evaluated annually. Membership of the Board is set out on page 34 of the annual financial statements. The Board is assisted by the Audit, Remuneration, and Social and Ethics Committees, whose members are listed on page 4.

Audit Committee

The Audit Committee, which is not a statutory committee but established by decision of the Board, assists the Board by reviewing the annual financial statements and obtaining assurance from management, supplemented by external audit, regarding the effectiveness of internal controls, the management of risk, and compliance with relevant laws and regulations. The small size of the Institute's administrative structures makes it unnecessary to establish formal risk management or an internal audit function. The Committee satisfies itself regarding the effectiveness of the Institute's finance function. The Committee, consisting of five independent non-executive directors, meets at least twice a year.

Remuneration Committee

The Remuneration Committee is responsible for determining the remuneration of executive management and recommending overall remuneration policies to the Board. The Committee consists of no fewer than four members appointed by the Board, all of them non-executive. The remuneration of the Chief Executive and the Prescribed Officers is disclosed. Members of the Institute are asked to approve the remuneration policy at the Annual General Meeting.

Social and Ethics Committee

To advise the Board on social and ethical matters in accordance with the Companies Act, the Board appointed a Social and Ethics Committee at its meeting on 27th February 2012. The Committee will report to the Annual General Meeting of Members on 28th July 2014.

Company Secretary

All directors have unlimited access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed.

Financial control

The Institute maintains accounting and administrative control systems designed to provide reasonable assurance that assets are safeguarded and that transactions are appropriately executed and recorded. These controls include proper delegation of responsibilities, effective accounting procedures, and adequate segregation of duties, and are monitored regularly.

Sustainability

The Institute's main purpose is to promote democracy, development, human rights, and reconciliation across the colour line. In doing so it aims to enhance the sustainability of South African civil society. The sustainability of the Institute itself depends on careful management of its financial resources as reflected in its annual financial statements. The effect of the Institute's operations on the physical environment is immaterial and is not separately dealt with in this report.

Code of ethics

The South African Institute of Race Relations conducts its activities in accordance with the principles of excellence, integrity, human dignity, and fairness.

DIRECTORS' RESPONSIBILITIES AND APPROVAL

The directors are required by the Companies Act of South Africa to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the Institute as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with the International Financial Reporting Standard for Small and Medium-sized Entities. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Institute and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the Board sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures, and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Institute and all employees are required to maintain the highest ethical standards in ensuring the Institute's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Institute is on identifying, assessing, managing, and monitoring all known forms of risk across the Institute. While operating risk cannot be fully eliminated, the Institute endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems, and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

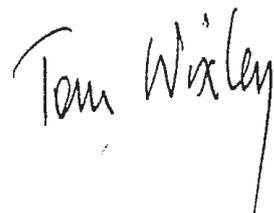
The directors have reviewed the Institute's cash-flow forecast for the year to 31st December 2014 and, in the light of this review and the current financial position, they are satisfied that the Institute has, or has access to, adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the Institute's annual financial statements. The annual financial statements have been examined by the Institute's external auditors and their report is presented on page 37.

The annual financial statements set out on pages 38 to 51, which have been prepared on the going concern basis, as well as the Directors' report presented on pages 35 and 36, were approved by the Board on 26th May 2014, and were signed on its behalf by:



F C J Cronje



T A Wixley

CERTIFICATE BY THE COMPANY SECRETARY

In accordance with the provisions of section 88(2)(e) of the Companies Act, I certify that to the best of my knowledge and belief, the company has filed for the financial year ended 31st December 2013 all such returns and notices as are required of a private company in terms of the said Act, and all such returns and notices appear to be true, correct and up to date.



R D le Roux

REPORT OF THE DIRECTORS

The directors submit their report for the year ended 31st December 2013.

Review of the Institute's business and operations

The main purpose of the Institute is to promote democracy, development, human rights, and reconciliation across the colour line. We seek to attain these objectives by conducting and publishing relevant research and policy analysis and by providing bursaries (mainly to black South Africans) on the basis of merit and need.

The operating results and state of affairs of the Institute are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

The Institute accounts only are now presented as consolidated accounts are no longer required given the de-registration of the subsidiary De Korte Street Properties (Proprietary) Limited.

Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations, and commitments will occur in the ordinary course of business.

Dividends

The Institute is a non-profit organisation. It has no shareholders and is not permitted by its memorandum of incorporation to distribute profits to its members.

Events after reporting date

The directors are not aware of any matter or circumstances arising since the end of the financial year, not otherwise dealt with in the financial statements which would affect the operations of the Institute or the results of those operations significantly.

Auditors

Grant Thornton will continue in office as recommended by the Audit Committee and the Board, subject to the approval by the Members at the Annual General Meeting.

Prescribed officers

The prescribed officers during the year:

F C J Cronje – until 28th February 2014

(Appointed as Chief Executive on 1st March 2014)

R D le Roux

Secretary

R D le Roux served as secretary of the Institute for the year ended 31st December 2013.

Directors

The directors of the Institute during the year and to the date of this report are as follows:

Non Executive Directors	T Coggin	Chairman of Board of Directors
	T A Wixley	Audit Committee Chairman and Honorary Treasurer
	D S L Bostock	Honorary Legal Adviser
	P L Campbell	
	R D Crawford	
	J A Elgie	
	P G Joubert	
	E le Roux Bradley	
	P Letselebe	
	C J McCaul	
	I Mkhabela	
	M J Myburgh	
	C E W Simkins	
	D F P Taylor	
G N Towell	Appointed 25th January 2013	
P Horwitz	Resigned 12th February 2013	
M Shezi	Resigned 31st January 2013	
Executive Director	J S Kane-Berman	Chief Executive – Retired 28th February 2014
	F C J Cronje	Chief Executive – Appointed 1st March 2014

Remuneration policy

The Remuneration Committee operates in terms of a charter approved by the Board. All members are non-executive. The committee meets in time to approve remuneration adjustments normally due on 1st October each year. Pay rises of senior management are determined by the committee in consultation with the Chief Executive. The Chief Executive's own salary is determined by the committee in his absence. Salaries of other staff members are decided by the Chief Executive after consulting the committee and his senior colleagues. All pay rises are performance-based, while also taking into account affordability and increased responsibility. Remuneration consists entirely of a fixed salary except in the case of a few individuals whose remuneration is partly dependent on success in marketing Institute services or raising funds for special projects (excluding the Chief Executive, Deputy Chief Executive, and Head of Finance). The Chief Executive is provided by the Institute with a car. This fringe benefit is taxed.

The Chief Executive is authorised to grant pay rises during the year at his discretion, except where it involves senior management, in which case he obtains permission from the Chairman of the committee.

Report of the Audit Committee

The Audit Committee has five members, all of whom are independent non-executive directors of the Institute. The committee has met twice since the previous Annual General Meeting of Members and has performed the following functions:

- Recommended Grant Thornton as auditors and Annalisa Amiradakis as the designated auditor for the 2013 financial year;
- Satisfied itself that the auditors are independent;
- Approved the annual financial statements of the Institute for 2013, prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs), and recommended them to the Board for approval;
- Satisfied itself, based on information received from management and the auditors, that the internal control of the Institute is adequate, that the accounting policies followed are appropriate and that the audit was properly carried out.

REPORT OF THE INDEPENDENT AUDITORS

To the members of the
South African Institute of Race Relations NPC ("SAIRR")

We have audited the financial statements of South African Institute of Race Relations NPC ("SAIRR") set out on pages 38 to 51, which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act of South Africa and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of South African Institute of Race Relations NPC ("SAIRR") as at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 December 2013, we have read the Directors' Report for the purpose of identifying whether there are material inconsistencies between this report and the audited financial statements. This report is the responsibility of the respective preparers. Based on reading this report we have not identified material inconsistencies between this report and the audited financial statements. However, we have not audited this report and accordingly do not express an opinion thereon.



GRANT THORNTON
Chartered Accountants (SA)
Registered Auditors

26 May 2014

Grant Thornton Office Park
42 Weirda Road West
Weirda Valley
Sandton
Johannesburg

A Amiradakis
Partner
Chartered Accountant (SA)
Registered Auditor

STATEMENT OF FINANCIAL POSITION

as at 31st December 2013

	Notes	2013 R	2012 R
ASSETS			
Non current assets			
Plant and equipment	2	1 748 050	1 299 795
Intangible assets	3	–	33 167
		<u>1 748 050</u>	<u>1 332 962</u>
Investments			
Special Funds			
– Bursary	19.1.1	18 291 129	18 463 522
– Institute	19.1.2	1 251 677	1 658 615
– Other	19.1.3	131 538	642 408
		<u>19 674 344</u>	<u>20 764 545</u>
Other Institute investments	19.2	38 328 770	29 837 793
		<u>58 003 114</u>	<u>50 602 338</u>
Current assets			
Accounts receivable	5	612 565	786 803
Cash resources	6	403 192	874 058
		<u>1 015 757</u>	<u>1 660 861</u>
TOTAL ASSETS		60 766 921	53 596 161
FUNDS AND LIABILITIES			
Funds and reserves			
Accumulated funds		36 522 569	28 943 686
		<u>36 522 569</u>	<u>28 943 686</u>
Special funds			
– Bursary	17/18	18 291 130	18 463 522
– Institute	17/18	1 251 677	1 658 615
– Other	17/18	131 537	642 408
		<u>19 674 344</u>	<u>20 764 545</u>
Non current liabilities			
Wesbank instalment sale agreement	8	36 051	67 295
Sunlyn investment finance lease agreement	9	679 324	135 886
		<u>715 375</u>	<u>203 181</u>
Current liabilities			
Wesbank instalment sale agreement	8	39 850	45 038
Sunlyn investment finance lease agreement	9	173 679	125 712
Accounts payable	7	3 641 104	3 513 999
		<u>3 854 633</u>	<u>3 684 749</u>
TOTAL FUNDS AND LIABILITIES		60 766 921	53 596 161

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31st December 2013

	<i>Notes</i>	2013 R	2012 R
INCOME			
Administration fees received		697 780	626 581
Bequests		10 250	41 014
Bad debts recovered		61 895	–
Grants and donations		14 482 519	9 377 418
Membership fees and subscriptions		3 912 643	3 361 389
Publication sales		71 002	19 307
		19 236 089	13 425 709
EXPENSES			
Amortisation	3	33 167	109 326
Auditors' remuneration			
– Fees for the audit	12	252 060	174 439
Bad debts		46 774	51 686
Depreciation	2	385 972	295 171
Finance costs	11	53 490	39 501
Lease expenditure		34 982	37 020
Loss on disposal of plant and equipment		61 047	2 554
Overheads and administration		1 736 231	1 469 593
Personnel		11 278 930	10 864 634
Postage		166 384	161 904
Printing		574 279	421 275
Rent and utilities		793 368	767 701
Telecommunications		157 517	152 438
Travel		696 894	194 796
		16 271 095	14 742 038
OPERATING SURPLUS/(DEFICIT) FOR THE YEAR		2 964 994	(1 316 329)
INCOME FROM INVESTMENTS			
Dividends from investments		1 031 290	825 032
Dividends from former subsidiary		–	2 770 050
Realised and unrealised gain on investments		3 348 437	3 762 360
Interest received		234 162	380 633
		4 613 889	7 738 075
SURPLUS FOR THE YEAR		7 578 883	6 421 746
Other comprehensive income		–	–
SURPLUS AFTER OTHER COMPREHENSIVE INCOME		7 578 883	6 421 746

STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December 2013

	<i>Accumulated funds R</i>
INSTITUTE	
Balance at 1st January 2012	22 521 940
Surplus for the year	6 421 746
Balance at 31st December 2012	28 943 686
Balance at 1st January 2013	28 943 686
Surplus for the year	7 578 883
Balance at 31st December 2013	36 522 569

STATEMENT OF CASH FLOWS

for the year ended 31st December 2013

	2013 R	2012 R
Cash flows from operating activities		
Surplus for the year	7 578 883	6 421 746
Adjustments:		
Depreciation/Amortisation	419 139	404 497
Interest received	(234 162)	(380 633)
Fair value gain on investment	(3 348 437)	(3 762 360)
Straight-lining of office lease	(29 696)	19 188
Lease instalments paid	–	(127 489)
Loss on disposal of plant and equipment	61 047	2 554
Movement in working capital		
– decrease/(increase) in accounts receivable	174 238	(112 455)
– increase/(decrease) in accounts payable	156 801	255 067
Sub total	4 777 813	2 720 115
Interest received	234 162	380 633
Net cash inflow from operating activities	5 011 975	3 100 748
Cash flows from investing activities		
Decrease in inter-company loan account	–	(2 770 049)
Acquisition of investments	(5 142 540)	(468 613)
Proceeds received on disposal of plant equipment	238 037	–
Acquisition of plant and equipment	(1 133 311)	(549 311)
Net cash outflow from investing activities	(6 037 814)	(3 787 973)
Net cash flow on financing activities		
Net proceeds from finance lease arrangements	554 973	–
Net cash (utilised in) generated for the period	(470 866)	(687 225)
Cash resources at beginning of period	874 058	1 561 283
Cash resources at end of period	403 192	874 058

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31st December 2013

1. ACCOUNTING POLICIES

Basis of preparation

The annual financial statements have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities, and the Companies Act of South Africa. The financial statements have been prepared on the historical cost basis, except for the measurement of certain financial instruments at fair value, and incorporate the principal accounting policies set out below.

These annual financial statements are presented in South African rands, the currency of South Africa and the country in which the Institute is incorporated.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement are inherent in the formation of estimates. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Financial assets measured at cost and amortised cost

The Institute assesses its financial assets measured at cost and amortised cost for impairment at each reporting period date. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Institute makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment of financial assets measured at cost and amortised cost is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting period date that correlate with defaults on the portfolio.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values. These calculations require the use of estimates and assumptions. It is reasonably possible that the residual value assumption may change which may then affect the estimations and require a material adjustment to the carrying value of tangible assets.

The Institute reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, including political stability, foreign sponsor contributions and demand for research as produced by the Institute, together with economic factors such as exchange rates, inflation, and interest rates.

Taxation

The Institute is a Public Benefit Organisation in terms of section 30 of the Income Tax Act, ('the Act') and the receipts and accruals are exempt from Income Tax in terms of Section 10(1) (cN) of the Act.

1.2 Plant and equipment

Library books are not depreciated. Library books are stated at fair value and the archives, which are housed at the University of the Witwatersrand, are carried at no cost. Other assets are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis to write off the depreciable value of each asset over its estimated useful life as follows:

NOTES (continued)

Furniture and equipment	3–6 years
Motor vehicles	5 years

The depreciable value is the cost less the residual value. The residual values and useful lives are reviewed at each reporting date and adjusted if appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (thus impairment losses are recognised).

Gains and losses on disposals of plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

1.3 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

Intangible assets are initially recognised at cost.

All research and development costs are recognised as an expense unless they form part of the cost of another asset that meets the recognition criteria.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting period date if there are indicators present that there is a change from the previous estimate.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Website development	1 year
---------------------	--------

1.4 Investments

Investments are stated at market value. The increase or decrease in market value is capitalised for Bursary Funds. For the Institute, the increase or decrease is recognised as a fair value adjustment through profit and loss in the Statement of Comprehensive Income.

Special Funds

Funds specifically designated by donors may, at the discretion of the Institute, be retained and invested by the Institute pending disbursement.

Bursary Funds and Special Research Projects

The Funds and Projects administered by the Institute are disclosed in these financial statements in note 19.

1.5 Accumulated Funds

All reserves are reflected under accumulated funds.

1.6 Impairment

The Institute assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Institute estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, a recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual assets, the recoverable amount of the cash generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of the fair value less cost to sell and its value in use. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The reduction is an impairment loss and is charged to profit and loss.

1.7 Contingencies and commitments

Transactions are classified as contingencies where the Institute's obligations depend on uncertain future events. Items are classified as commitments where the Institute commits itself to future transactions with external parties.

NOTES (continued)

1.8 Financial instruments

Initial recognition

The Institute classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the agreement.

Financial assets and financial liabilities are recognised on the Institute's statement of financial position when the Institute becomes party to the contractual provisions of the instrument.

Financial instruments at amortised cost

Financial instruments may be designated to be measured at amortised cost less any impairment using the effective interest method. These include accounts receivable, accounts payable, and instalment sale agreement liabilities. At the end of each reporting period date, the carrying amounts of assets held in this category are reviewed to determine whether there is any objective evidence of impairment. If so, an impairment loss is recognised.

1.9 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value. These are initially and subsequently recorded at fair value.

1.10 Revenue

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Institute; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Institute;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

Revenue is measured at the fair value of the consideration receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and valued added tax.

Membership fees and subscriptions

Membership fees are recognised in the accounting period in which the services to members are rendered.

For membership fees collected in advance, the revenue is deferred to income received in advance in the statement of financial position.

Donations and grants

Donations and grants are brought to account on a cash-received basis except where they cover more than one year, in which case they are brought into income over the period.

NOTES (continued)

1.11 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Finance leases

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property, or if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The lease payments are apportioned between the finance charge and reduction in outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of return over the remaining balance of the liability.

1.12 Investment policy

Investment income consists of net realised surpluses and deficits on the sale of investments, net unrealised surpluses and deficits on the valuation of investments at fair value, interest, and dividends.

Realised and unrealised surpluses and deficits are recognised in the profit or loss. Interest income is recognised on an accrual basis, using the effective interest rate method. Dividends received are recognised when the right to receive payment is established.

1.13 Short-term employee benefits

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service.

The accrual for employee entitlements to annual leave represents the amount which the Institute has a present obligation to pay as a result of employees' service provided up to the reporting date. The accrual has been calculated at undiscounted amounts based on current salary rates.

NOTES (continued)

2. PLANT AND EQUIPMENT

	<i>Furniture and equipment R</i>	<i>Motor vehicles R</i>	<i>Library R</i>	<i>Total R</i>
GROUP AND INSTITUTE				
Year ended 31st December 2013				
Opening net carrying amount	577 784	318 011	404 000	1 299 795
Additions	1 133 311	0	0	1 133 311
Disposals	(299 084)	0	0	(299 084)
Depreciation	(325 786)	(60 186)	0	(385 972)
Closing net carrying amount	1 086 225	257 825	404 000	1 748 050
Year ended 31st December 2013				
Cost	2 580 256	415 930	404 000	3 400 186
Accumulated depreciation	(1 494 031)	(158 105)	–	(1 652 136)
Closing net carrying amount	1 086 225	257 825	404 000	1 748 050
Year ended 31st December 2012				
Opening net carrying amount	532 512	211 197	404 000	1 147 709
Additions	282 811	217 000	–	499 811
	(2 554)	(50 000)	–	(52 554)
Depreciation	(234 985)	(60 186)	–	(295 171)
Closing net carrying amount	577 784	318 011	404 000	1 299 795
Year ended 31st December 2012				
Cost	1 746 029	415 930	404 000	2 565 959
Accumulated depreciation	(1 168 245)	(97 919)	–	(1 266 164)
Closing net carrying amount	577 784	318 011	404 000	1 299 795

	2013 R	2012 R
The net book value of the motor vehicle purchased in 2011 is pledged as security to WesBank, a division of FirstRand Bank Limited	75 901	112 333

3. INTANGIBLE ASSETS

Website development:

	2013 R	2012 R
Opening net carrying amount	33 167	42 993
Additions	–	99 500
Amortisation	(33 167)	(109 326)
Closing net carry amount at 31st December 2013	–	33 167

4. RELATED PARTY NOTE – INSTITUTE

Board of Directors:

Full details of all the directors of the Institute are set out under the Report of the Directors on pages 35 and 36 of this annual report.

Details of remuneration of directors and prescribed officers are set out in Note 13.

No other related party transactions were entered into during 2012 and 2013.

NOTES (continued)

5. ACCOUNTS RECEIVABLE	2013	2012
	R	R
Receivables	565 181	760 800
Receiver of Revenue – VAT	30 327	11 203
Staff debtors	17 057	14 800
	<u>612 565</u>	<u>786 803</u>

6. CASH RESOURCES		
Cash on hand	3 500	3 500
Current account	302 915	114 070
Call account	96 777	756 488
	<u>403 192</u>	<u>874 058</u>

7. ACCOUNTS PAYABLE		
Payables	1 299 706	716 180
Accruals	329 940	151 982
Accrual for leave pay	571 210	682 187
Income received in advance	1 440 248	1 963 650
	<u>3 641 104</u>	<u>3 513 999</u>

8. INSTALMENT SALE

Motor vehicle:

Minimum instalment payments:

– within a year	45 038	45 038
– within second to fifth year	37 352	82 569
	<u>82 570</u>	<u>127 607</u>
Less future lease charges	(6 669)	(15 274)
Present value of minimum lease payment	<u>75 901</u>	<u>112 333</u>
Current liabilities	39 850	45 038
Non current liabilities	36 051	67 295
	<u>75 901</u>	<u>112 333</u>

9. FINANCIAL LEASES

The Institute has certain financial leases on office equipment. The Institute entered into a new lease agreement in 2013 for office equipment and cancelled the previous one. In terms of the leases the Institute's commitments are as follows:

Office equipment:	2013	2012
	R	R
Minimum lease payments:		
– within a year	239 249	125 712
– within second to fifth year	779 166	177 614
	<u>1 018 415</u>	<u>303 326</u>
Less future lease charges	(165 412)	(41 728)
Present value of minimum lease payment	<u>853 003</u>	<u>261 598</u>
Current liabilities	173 679	125 712
Non current liabilities	679 324	135 886
	<u>853 003</u>	<u>261 598</u>

NOTES (continued)

10. OPERATING LEASE

The Institute has an operating lease on office premises. In terms of the lease the Institute's commitments are as follows:

Premises:	2013	2012
	R	R
Minimum lease payments:		
– within a year	712 628	667 215
– within second to fifth year	243 556	969 246
	<u>956 184</u>	<u>1 636 461</u>

Operating lease payments represent rentals payable by the Institute for its office premises. The average escalation is 8% (2012: 8%) and has been reflected in the amounts above.

11. FINANCE COST

	2013	2012
	R	R
Interest paid	–	3 069
Finance lease charges	53 490	36 432
	<u>53 490</u>	<u>39 501</u>

12. AUDITORS' REMUNERATION

	2013	2012
	R	R
Institute	252 060	174 439
Charged to the income statement	<u>252 060</u>	<u>174 439</u>

Audit fees paid in the 2013 financial year to Grant Thornton are for the audit of the 2012 financial year. The 2013 audit fees to Grant Thornton will be paid in 2014 and will reflect as such in the financial statements.

13. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION

The directors' and prescribed officers' emoluments in connection with the affairs of the Group, were as follows:

	2013	2012
	R	R
JS Kane-Berman – Salary	1 822 500	1 669 680
JS Kane-Berman – Fringe benefits	83 460	83 460
FJC Cronje – Salary	899 100	782 448
RD Le Roux – Salary	704 700	642 270
	<u>3 509 760</u>	<u>3 177 858</u>

JS Kane-Berman retired on 28th February 2014 and FCJ Cronje took over as the new Chief Executive.

The directors' emoluments were payable to executive directors only. Non-executive directors are not paid for their services.

14. TAXATION

The Institute is exempt from tax in terms of Section 10(1) of the Income Tax Act for the period under review.

NOTES (continued)

15. RETIREMENT BENEFITS

Defined contribution plan

The Institute encourages employees to belong to a pension or provident fund. Four staff members are currently covered by an umbrella fund under the SA Welfare Consolidated Investment Portfolio. The Institute is under no obligation to cover any unfunded benefits.

	2013 R	2012 R
The total contribution to such schemes	177 355	177 064

16. COMMITMENTS

Capital expenditure

	2013 R	2012 R
Authorised but not yet contracted for	150 000	250 000

The future capital expenditure is in relation to computer equipment and the upgrade of the website. Such future capital expenditure will be funded out of cash resources.

17. SPECIAL FUNDS

	<i>Bursary</i> R	<i>Institute</i> R	<i>Other funds</i> R	2013 R	2012 R
INCOME					
Donations and grants	2 335 254	7 031 493	–	9 366 747	10 606 519
Interest	90 233	47 174	13 256	150 663	252 411
Dividends	494 633	–	–	494 633	483 396
Surplus on investments	1 802 952	–	–	1 802 952	1 944 426
	4 723 072	7 078 667	13 256	11 814 995	13 286 752
EXPENSES					
Administration fees and running costs	808 974	7 485 605	524 127	8 818 706	8 569 442
Audit fees	8 811	–	–	8 811	8 320
Bursaries and grants	3 900 771	–	–	3 900 771	5 197 001
Loss on investments	176 908	–	–	176 908	108 127
	4 895 464	7 485 605	524 127	12 905 196	13 882 890
SURPLUS (LOSS) FOR THE YEAR					
	(172 392)	(406 938)	(510 871)	(1 090 201)	(596 138)
Accumulated funds at beginning of year net of deficit balances	18 463 522	1 658 615	642 408	20 764 545	21 360 683
NET ACCUMULATED FUNDS	18 291 130	1 251 677	131 537	19 674 344	20 764 545

A list of the balances of the Special Funds administered by the Institute appears in Note 18 and the related investments are set out in note 19.

NOTES (continued)

18. SPECIAL FUNDS

18.1 Bursary Funds

	Capital R	Amounts held for Bursary awards R	2013 R	2012 R
Amcham Fund	–	1 295 789	1 295 789	1 139 686
Berkowitz Scholarship Fund	–	637 692	637 692	494 111
Clive Beck Education Trust	–	208 805	208 805	89 786
Dorothy Glauber Fund	–	–	–	54 710
Durban Thekwini Bursary Fund	–	35 120	35 120	34 030
Giannopoulos Bequest	322 000	100 041	422 041	382 410
Horace Coaker Fund	500	1 112 961	1 113 461	1 089 575
Hungjao Bequest	821 831	113 458	935 289	828 774
Isaacson Foundation Bursary Fund	67 025	3 282 885	3 349 910	3 932 113
Johnson and Johnson Medical Bursary Fund	–	283 158	283 158	(38 660)
Luthuli Memorial Foundation Fund	107 883	57 276	165 159	163 830
Oppenheimer Memorial Trust	–	191 436	191 436	69 347
Pick & Pay Fund	–	–	–	177 566
Reginald Smith Memorial Trust	10 000	1 428	11 428	11 047
Robert Shapiro Trust	56 868	6 696 762	6 753 630	6 920 224
Senior Bursary Fund	50 000	84 594	134 594	198 103
Shirley Simons Fund	772 778	1 980 839	2 753 617	2 916 869
TOTAL BURSARY FUNDS	2 208 885	16 082 244	18 291 129	18 463 522

18.2 Special Research Projects:

	2013 R	2012 R
Anglo American Chairman's Fund	–	1 318
Royal Belgian Embassy	1 203 602	1 507
Dick Gawith Fellowship	43 754	42 507
Good Governance Africa Fund	1 003	1 011 146
International Republican Institute	1 095	1 012
Open Society Foundation for South Africa	1 011	1 038
Swedish International Development Cooperation Agency	1 212	600 087
	1 251 677	1 658 615

18.3 Other funds:

Johnson and Johnson Best Care Always Fund	1 323	75 003
Johnson and Johnson BTC Fund	130 215	567 405
	131 538	642 408
TOTAL SPECIAL FUNDS	19 674 344	20 764 545

NOTES (continued)

19. INVESTMENTS

	2013 R	2012 R
19.1 Special funds		
19.1.1 Bursary Funds (Note 18.1)		
Equities and listed investments (Note 20)	14 356 354	13 231 192
Cash deposits	3 943 587	5 240 650
	<hr/>	<hr/>
	18 299 941	18 471 842
Less: Creditors	(8 812)	(8 320)
	<hr/>	<hr/>
	18 291 129	18 463 522
	<hr/>	<hr/>
19.1.2 Institute Special Research Projects (Note 18.2)		
Unit Trusts and Cash on call	1 251 677	1 658 615
19.1.3 Other funds (Note 18.3)	131 538	642 408
	<hr/>	<hr/>
Total Special Funds	1 383 215	2 301 023
	<hr/>	<hr/>
19.2 Other Institute Investments		
First National Bank Call Accounts	2 000 000	3 500 000
Listed Investments (Note 21)	36 328 770	26 337 793
	<hr/>	<hr/>
	38 328 770	29 837 793
	<hr/>	<hr/>
TOTAL INVESTMENTS	58 003 114	50 602 338
	<hr/>	<hr/>

20. LISTED INVESTMENTS OF BURSARY FUNDS

	2013 Qty	2013 R	2012 Qty	2012 R
Banks				
Standard Bank Group Limited	9 300	1 203 606	9 300	1 106 700
Beverages				
SAB Miller Plc	2 280	1 214 670	2 280	894 170
Chemicals, Oils and Plastics				
Sasol Limited	3 060	1 574 370	2 285	830 026
Clothing and Accessories				
Compagnie Financière Richemont SA	24 900	2 604 042	24 900	1 655 850
Mining Holdings and Houses				
Anglo American Plc	6 200	1 419 800	6 200	1 624 090
Kumba Iron Ore Limited	2 600	1 152 970	2 600	1 471 730
BHP Billiton Plc	5 991	1 940 425	5 991	1 769 082
Platinum				
Anglo American Platinum Corporation Limited	–	–	2 200	983 400
Property Unit Trusts				
Redefine Income Fund Limited	161 200	1 570 088	161 200	1 528 176
Services				
Bidvest Group Limited	6 247	1 676 383	6 247	1 367 968
		<hr/>		<hr/>
		14 356 354		13 231 192
		<hr/>		<hr/>

The fair values of listed investments are based on the quoted market price at the reporting period date.

NOTES (continued)

21. LISTED INVESTMENTS OF OTHER FUNDS	2013 Qty	2013 R	2012 Qty	2012 R
Banks				
Standard Bank Group Limited	13 900	1 798 938	9 860	1 173 340
Beverages				
SAB Miller Plc	4 166	2 219 437	4 166	1 633 822
Business Support Services				
Santova Limited	700 000	812 000	–	–
Chemicals, Oils and Plastics				
Sasol Limited	5 000	2 572 500	5 000	1 816 250
Clothing and Accessories				
Compagnie Financière Richemont SA	22 600	2 363 508	22 600	1 502 900
Containers and Accessories				
Nampak Limited	26 100	1 070 100	–	–
Coal				
Exxaro Resources Limited	5 400	790 884	5 400	923 400
Equity Investment Instruments				
Rand Merchant Insurance Holdings Limited	30 700	842 715	–	–
Food Retailers and Wholesalers				
Tiger Brands Limited	4 575	1 221 205	4 575	1 496 025
Shoprite Holdings Limited	9 250	1 517 000	9 250	1 903 188
The Spar Group Limited	10 200	1 341 708	10 200	1 305 600
Furnishings				
Steinhoff International Holdings Limited	18 098	816 763	18 098	502 220
Home Improvement Retailers				
Cashbuild Limited	–	–	7 250	1 116 500
Lewis Group Limited	–	–	11 800	813 020
Investment Services				
Brait SE	14 900	781 356	–	–
Life Insurance				
Sanlam Group	16 900	899 756	–	–
Marine Transportation				
Grindrod Limited	54 300	1 522 028	27 000	424 170
Mobile Electronic				
Vodacom Group Limited	9 700	1 290 100	9 700	1 209 978
Mining Holdings and Houses				
Anglo American Plc	4 150	950 350	4 150	1 087 093
BHP Billiton Plc	5 564	1 802 124	5 564	1 642 994
Kumba Iron Ore Limited	3 300	1 463 385	3 300	1 867 965
Pharmaceuticals				
Aspen Holdings	6 350	1 706 372	–	–
Platinum				
Impala Platinum Holdings Limited	–	–	4 960	823 360
Real Estate Holding & Development				
Redefine Properties Limited	97 000	944 780	–	–
Restaurants and Bars				
Famous Brands Limited	11 000	1 053 360	–	–
Retailers				
Clicks Group Limited	17 000	1 067 430	17 000	1 099 050
Services				
Bidvest Group Limited	7 080	1 899 918	7 080	1 550 379
Tobacco				
British American Tobacco Plc	4 102	2 297 653	4 102	1 757 789
Transportation Services				
Trencor Limited	18 600	1 283 400	12 500	688 750
		36 328 770		26 337 793

The fair values of listed investments are based on the quoted market price at the reporting period date.



South African Institute of Race Relations

The power of ideas

2 Clamart Road, Richmond, Johannesburg, 2092 South Africa

P O Box 291722, Melville, 2109, South Africa

t. 011 482 7221 / f. 011 482 7690

infoirr@irr.org.za / www.irr.org.za