South African Institute of Race Relations
The power of ideas

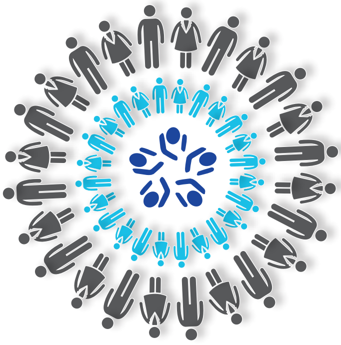
2016
87th ANNUAL REPORT

1 409
media agencies, newspapers, television, radio stations and journalists reached with all IRR reports

127 government departments, major investors and foreign governments advised on policy decisions for South Africa

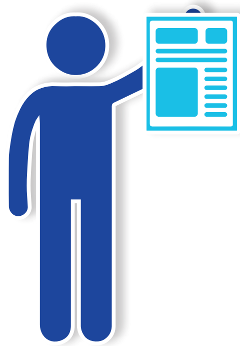
1 321
politicians across the political spectrum reached with all IRR reports

528
civil society groups supported with all IRR reports



365
meetings/briefings facilitated for investors, policy makers and opinion formers

61
IRR reports and policy submissions released



an IRR-authored newspaper article published every

1.2 days

6.4 ×
daily news media mentions

9
laws and policies changed to protect property rights and promote economic growth

SOUTH AFRICAN INSTITUTE OF RACE RELATIONS NPC

87th ANNUAL REPORT

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CHIEF EXECUTIVE'S REPORT TO MEMBERS FOR THE ANNUAL GENERAL MEETING OF MEMBERS OF THE IRR ON MONDAY 10 JULY 2017

Mr President, Members of the IRR, I have pleasure in presenting this report to you. The attached annual financial statements cover the financial year ended 31 December 2016. The narrative report is written in the main to reflect developments in 2016, with some limited comments on subsequent events.

A track record of success

"What impact do you have?" is the most important question that you can put to a think tank. In our case, that impact must be measured in two ways. The first is the ability to persuade policy makers to scrap counter-productive policies and replace them with reforms that promote market-driven economic growth in an environment that safeguards civil rights and the rule of law. The second is to influence public opinion in supporting such reforms.

Think tanks may operate in the realm of ideas, but the hard quantitative impact of their work is something that can and should be measured. This is a very important point. South Africa's think tanks attract a fraction (we estimate less than 1%) of total corporate social investment (CSI) spending in the country. Part of the reason is that funders do not understand how to gauge the return on their investment in a think tank. Funding a small-scale development project, such as refurbishing a school, produces a fixed result, which experience shows is a very attractive proposition to a South African philanthropic or CSI donor. The result can be reported, measured in a performance assessment, and weighed against competing projects. The trouble, however, is that small-scale development initiatives fail to address the systemic problems, whether in education or elsewhere, that result from bad policies. Put simply, schools are not dilapidated for lack of paint, but rather because education policy is counter-productive and gives rise to poor management practices. Supplying paint and painters fails to address the deeper problem. This is an admittedly simple example to emphasize a simple point, but it can easily be extrapolated to encompass far more serious shortcomings in the education system and beyond. Consider, for example, that despite education being the most popular destination for CSI funding, the number of children achieving a grade of 70% or higher for mathematics has fallen by almost 30% since 2008, and that less than 2% of children can expect to achieve such a grade.

Not even an infinite number of small development projects – even if they report a series of positive results and earn a series of empowerment points for donors – will achieve results capable of resolving South Africa's many social and economic problems. Such projects cannot turn a bad education system into a good one, or dangerous neighbourhoods into safe ones, or poor people into well-off ones.

This is where think tanks become important. They have the ability to influence policy, so as to deliver socio-economic results on a scale far exceeding localised development projects. Many of South Africa's socio-

economic challenges, from poor education outcomes or structural unemployment to low levels of entrepreneurship, are so immense that they will never be resolved unless they are addressed at a policy level. By identifying the systemic policy problems that underpin poor socio-economic outcomes, devising alternative policies, and marketing these alternative ideas to policy makers and the broader public, think tanks are able to achieve results on a genuinely meaningful scale.

Investing in the work of think tanks is important for a second reason. Such investment avoids the risk that, in pursuing attractive development projects, a donor is inadvertently helping to shape an ideological climate hostile to investment, economic growth, property rights, and the private sector. We regularly see such misalignment when investors seek our advice on countering threats to their property rights, for example, only to learn that they have inadvertently been funding organisations hostile to property rights. At times an unbridgeable chasm seems to exist between the strategic planning and CSI divisions of large firms, which effectively end up working against each other. The same is true for foreign investors who consult us on hostile policy only to find that development agencies headquartered in their countries are funding the organisations driving such hostile policy. We comfortably estimate that ten times as much money is going to organizations hostile to property rights, for instance, than to those safeguarding such rights.

Much could thus be gained, not least for the country as a whole, if philanthropic, development, and CSI funders were to set aside a proportion of the grants they make to fund think tanks with clearly delineated policy positions that promote private sector-led investment, market-driven economic growth, property rights, and the rule of law. However, getting there will require that think tanks themselves become better at measuring the results they achieve. The ability to do this well is something which distinguishes the IRR from other think tanks. Every initiative or campaign we run is closely tracked to assess its impact on public policy making. The specific results of some of our current initiatives are set out below.

On securing property rights

Property rights anchor human liberty in every free and open society. They also provide the foundation for a market economy. It is because they are so important in both these respects that the IRR led a series of campaigns against proposed **Expropriation Bills** dating back to 2008. As originally drafted, these Bills would have allowed the state to seize almost any fixed or movable property without paying adequate (or any) compensation.

The IRR led the fight against both the 2008 and 2013 iterations of these Bills. It also spearheaded a comprehensive campaign against the 2015 Bill, an initiative which it continued to drive through to the end of 2016. IRR actions included drafting an alternative bill, making direct submissions to lawmakers, holding closed briefing sessions for political and business leaders, and placing a significant amount of writing and commentary in the media about the likely destructive consequences of the 2015 Bill. These efforts secured a number of important changes to the wording used: for example, a clause under which many owners would have been 'deemed' to have accepted the compensation offered by the state was deleted, while the right of access to court was confirmed.

However, despite those successes, the Bill remains a fundamentally bad and counter-productive measure. In 2016 we thus also petitioned the President not to give his assent to the Bill. We pointed out that the Bill was unconstitutional on substantive grounds (particularly in its definition of expropriation) as well as on procedural ones (a lack of proper consultation by the National Council of Provinces or NCOP). We also encouraged other organisations to petition the Presidency, and advised them on how to do this. In response to the IRR's initiative, the President asked both the National Assembly and the NCOP to clarify the procedures that had been used in adopting the Bill. Early in 2017 he referred the Bill back to the National Assembly because of its procedural unconstitutionality – a problem the IRR had been the first to raise with him.

Problem: Government wanted to introduce legislation that would allow the State to seize fixed and movable property without adequate (or any) compensation

Actions: The IRR produced submissions for lawmakers on the proposed legislation and its likely consequences. An alternative bill was drafted. Briefings were held for political and business leaders. A great number of press releases and opinion articles were released into the public domain to shift public opinion on the Bill. Scores of media interviews warning against the legislation and advocating for the IRR's alternative bill were conducted.

Results: The government repeatedly stalled on introducing the legislation. Particularly damaging clauses were removed by lawmakers. In 2016 the President refused to sign the Bill into law, citing concerns raised by the IRR, and in 2017 he referred it back to Parliament on those same grounds.

On an attractive investment environment

Unless South Africa offers investors sufficient levels of protection, it will never attract the domestic or foreign direct investment it needs for higher levels of economic growth. Motivated by the need for a more supportive investment environment, the IRR campaigned against a series of bills that evolved into the **Protection of Investment Act of 2015**.

An early version of this legislation was published as the Protection of Information Bill of 2013. As originally worded, it would have allowed the government to avoid having to pay compensation through the simple expedient of taking property as 'custodian', rather than as owner. It was the IRR that alerted investors to the significance of the relevant provision and pointed out how damaging it would be to investor confidence and the country's growth prospects. After the IRR had blown the whistle on this clause, others joined with it in condemning the provision both in the media and the wider political debate.

In 2015 the Bill was revived, but this time without the contentious custodianship clause against which the IRR had warned. The IRR campaigned against the Bill once again, writing submissions to Parliament and drawing up an alternative bill that would honour the government's pledge to include all the standard provisions commonly found in bilateral investment treaties in its new investment protection legislation. The IRR also pointed out that the Bill conflicted with South Africa's binding obligations under the 2006 SADC Protocol on Trade and Investment, which has been incorporated into our domestic law. In the interim the Bill was signed into law but amidst IRR objections the new Act was not made operational.

IRR successes

an IRR-authored newspaper article published every

1.2 days

In a widely cited 2016 policy paper circulated to political and government leaders, the IRR emphasised that the first of four specific steps the government needs to take to draw higher levels of capital investment into the country is to rework the Act to align it with the SADC Protocol. This conflict is prima facie enough to make the law unconstitutional, as the IRR has pointed out – which is presumably why the law has not yet been made operative.

Problem: The Department of Trade and Industry (DTI) wanted to introduce legislation that would greatly weaken the protections available to foreign investors, and deter further direct investment into South Africa.

Actions: Having succeeded in having the 'custodianship' clause deleted from an early version of the legislation, the IRR led a further campaign against the 2015 measure. It wrote in-depth analyses of the dangers in the law and its likely impact in deterring future direct investment. It briefed business leaders and diplomats on these risks. Submissions were also made to lawmakers, which emphasised the negative economic ramifications of the legislation and urged the South Africa government to fulfil its commitments under the SADC Protocol. A number of media releases and opinion articles were also produced to help shift public opinion on the legislation.

Result: The most damaging clause was removed from an early draft of the legislation. A revised version was adopted by Parliament and signed into law by President Jacob Zuma in December 2015. However, IRR objections to its constitutionality seem to have borne fruit, for the Act has not yet been brought into operation.

On constructive rural development policy

Government policy on land reform is essentially deceitful. The ruling party has whipped up anger around the apartheid injustice which denied land ownership to black South Africans in 'white' areas. It has also promised to provide redress for this historical wrong via the land reform process. At the same time, however, the African National Congress (ANC) has insisted that land acquired for redistribution must remain in the ownership of the state.

Emergent black farmers have repeatedly appealed to the government to give them individual ownership over this land, but the government persists in confining them to leasehold title instead. This robs them of tenure security, makes it harder for them to raise working capital, and deepens their reliance on the state. It also strengthens the ruling party's power, even as it continues to deny black South Africans the opportunity to own their own farms.

The historical injustice is thus being used to bring about a process of incremental land nationalisation. In this way, more and more of the country's commercial farmland will end up – not in the hands of new black farmers – but rather in the ownership and control of the state. Indeed, early in 2017, a senior figure in the ANC said that 'at least 70% of the land must be expropriated into the ownership of the state and then leased to the people who are going to use it'.

Incremental nationalisation of commercial farms might deliver some short-term political benefits to the ANC, but it will also destroy the property rights that underpin the rural economy. This, in turn, will stunt rural investment and job creation, and lead to increased food prices.

In 2014 the government published the **Preservation and Development of Agricultural Land Bill of 2014**. This aimed at vesting all agricultural land in the 'custodianship' of the state, which would give the state control over such land without its having to pay any compensation. The IRR was at first alone in blowing the whistle on this new use of the 'custodianship' idea. We also showed how damaging the Bill would be in giving the agricultural minister extensive regulatory powers over the 'right to farm'. In addition, we warned that the Bill would establish a plethora of bureaucratic structures from which farmers would have to obtain a host of costly permissions.

Throughout 2014, 2015, and 2016 the IRR took its campaign to journalists, political leaders, government officials, and the commercial agricultural sector. It went to great lengths to educate policy makers about the Bill and its likely negative consequences. As a result of the IRR's interventions, all these damaging provisions have been removed from the latest version of the Bill, as published for comment in 2016.

IRR successes

263

IRR-authored articles in newspapers

Problem: The Department of Agriculture, Forestry, and Fisheries tried to introduce legislation that would have vested all agricultural land in the custodianship of the state.

Actions: The IRR wrote submissions for lawmakers on why the legislation was at odds with the Constitution and would cause great economic damage. It also toured all nine provinces to brief farmers directly. A pithy document was produced for farmers to warn them about what the government was seeking to do and to advise them on how best they could counter these damaging proposals. Farming unions were also briefed and advised on how to respond to the Bill, while the IRR briefed several specialist agricultural journalists as well. A media campaign was launched in which press releases, opinion articles, and radio and TV interviews were used to warn all South Africans about the risks in the proposed Bill. The IRR also pointed out that the more the 'custodianship' concept was used to empower the state, the more people would be robbed of their property rights.

Result: Under pressure, the government changed the Bill in substantial ways. It removed the custodianship clause, the minister's regulatory powers over the 'right to farm' and the cumbersome bureaucratic procedures that would have trussed all farmers up in regulatory knots.

On an effective empowerment policy

Just as politicians have exploited historical land injustices to justify eroding property rights, so many of them have also exploited existing inequalities to justify ever more draconian and counter-productive black economic empowerment (BEE) policies. Finding constructive and effective policies to redress past wrongs and current inequalities is arguably South Africa's greatest policy need. It is also the IRR's top policy objective.

BEE regulations of 2016, as gazetted by the DTI for comment under BEE legislation in January last year, showed just how destructive and wasteful BEE policies are becoming. The IRR criticised these regulations, pointing out that they would require all state entities, when awarding licences or entering into contracts, to give preference to companies with 51% BEE ownership. This would put great pressure on many companies to raise their BEE ownership levels from 25% to 51%. Yet any such shift would amount to a 'regulatory' expropriation, for which compensation would normally be payable in Western democracies, but was likely to be denied here. (In such an expropriation, the state does not take ownership of the property in issue, but its regulations rob existing owners of many of the normal powers and benefits of ownership.) Instead, companies would have to bear the costs of the additional BEE deals that would be needed – and these costs would inevitably be high. At the same time, this further intervention would do little to help the poor, most of whom would never be able to participate in BEE ownership deals. To warn against the damaging impact of this provision, in particular, the IRR made both written and oral submissions to the DTI and wrote several articles for the media. In response to the IRR's campaign, the 51% BEE ownership requirement was dropped from the regulations as finally gazetted.

Later in the year, the IRR also challenged the draft **BEE procurement regulations of 2016** issued by National Treasury under the Preferential Procurement Policy Framework Act of 2000. The IRR criticised, in particular, clauses aimed at raising the ceiling for the application of an '80:20' preferential procurement formula from R1m to R100m in all state contracts. Under this formula, firms tendering for state contracts are awarded 20 points for their BEE status, while the remaining 80 points are awarded on the basis of price. This 20% weighting for BEE commonly results in a 20% increase in the price at which goods and services are bought by the government. Raising the current ceiling by the proposed 9 900% was thus sure to add greatly to the state's procurement costs, the IRR warned. This would leave less revenue available to the government to meet the needs of the poor. At the same time, the benefits of these preferential tenders would go primarily to a small elite, bypassing the great majority of black South Africans.

The IRR also warned against provisions under which firms would be obliged, on all contracts worth R30m or more, to sub-contract at least 30% of the contract value to small 51% black-owned firms. This obligation would apply irrespective of whether or not these firms had the capacity to deliver the goods or services in issue. The IRR warned that these shifts would lead to greater inefficiency and further undermine the delivery of essential goods and services.

In the face of IRR objections, these regulations, as finally gazetted in January 2017, have been changed in two important ways. First, the new ceiling for the application of the 80:20 formula has been brought down from R100m to R50m. Second, if the tendering firm with the most points cannot provide 'a market-related price', the contract may not be awarded to it at all. For contracts worth more than R50m, a 90:10 formula applies, with 10 points for BEE status and 90 for price. Again, the tendering firm with the most points must be able to provide a 'market-related' price in order to obtain the contract. These changes will help to reduce wastefulness in BEE procurement. However, they will not be enough to remove it, especially as the Treasury now estimates that some 40% of state procurement is tainted by 'fraud and inflated pricing'. With the state's annual procurement bill standing at some R500bn, roughly R200bn of what the government spends on goods and services each year is flawed in these ways.

In addition, though it is important that fundamentally bad BEE policies should be improved, these changes are also not enough to open up opportunities for the marginalised. The IRR has thus also taken pains to develop a better alternative to BEE, which it calls 'Economic Empowerment for the Disadvantaged' or 'EED'. EED policy differs from BEE in three key ways. First, it links its interventions to socio-economic disadvantage, rather than to race (which is often no longer an accurate proxy for poverty). Second, EED seeks to provide the inputs necessary to empower poor people, rather than merely auditing compliance with racial targets. Third, EED recognises that redistribution is not enough and that the main focus of policy must be to promote economic growth. Growth is vital if 'transformation' is to have any hope of expanding opportunities for the disadvantaged.

In 2016 the IRR presented its EED alternative in face-to-face meetings with policy makers in both the ANC and the Democratic Alliance (DA). The EED idea was also presented to various chambers of commerce, who were encouraged to lobby for it. Media releases were put out and interviews conducted to show the benefits of an alternative approach which would help the great majority, and not simply a small, politically connected elite. The IRR also placed a number of opinion articles on EED in the media and found a growing interest in the idea.

IRR successes

45
media releases

Problem: Both the DTI and the Treasury wanted to press ahead with BEE regulations that would further deter investment and raise the costs of doing business. They would also lead to inflated prices and increased wastefulness and inefficiency in state procurement, while doing nothing to help poor people.

Action: The IRR made submissions to policy makers in which it highlighted the most damaging provisions in the BEE regulations put forward by both the DTI and the Treasury. It also challenged the ruling party to adopt a different approach and showed how this could be crafted so that empowerment would benefit the poor and not only a small elite. It presented its alternative 'EED' policies to both the ANC and the DA. It lobbied organised business to support this alternative

'EED' approach. It also led a media campaign explaining why the government's approach to BEE was damaging and why the IRR's alternative would be far more effective in helping the disadvantaged to get ahead.

Result: The DTI dropped the most damaging proposal (the 51% BEE ownership requirement) from its regulations, and modified other key clauses as well. The National Treasury reduced the ceiling for the application of the 80:20 formula from R100 million to R50 million. For all state contracts worth more than R50 million, a lower (10%) weighting for BEE will apply, while price will count for 90%. It also barred tendering firms unable to provide market-related prices from obtaining contracts. Damaging price inflation in public procurement – which hurts the poor without bringing them any compensatory benefits – will thus be reduced.

On a productive mining economy

South Africa missed out on the peak of the previous commodity super-cycle because of hostile and counter-productive mining policy. Because mining is vital to any sustainable economic recovery, the IRR challenged the **Draft Reviewed Mining Charter of 2016**. It made written and oral submissions to the Department of Mineral Resources (DMR), and put forward constructive alternative suggestions for it to consider. The IRR also briefed political parties on how the draft charter would damage the mining sector and what this would mean for the wider economy. It took its arguments into the public domain through a comprehensive media (and social media) campaign that included media releases and a series of opinion articles in newspapers.

Earlier, the IRR had also challenged the **MPRDA Amendment Bill of 2013**, pointing out that the Bill was not only damaging but also unconstitutional in various ways. It thus helped to persuade the President not to sign it into law, but rather to refer it back to Parliament instead. Opposition parties and the public now have the opportunity to continue pushing for damaging and unconstitutional provisions to be deleted from the Bill. To help reinvigorate the mining industry, the IRR has also put forward alternative policy proposals. In particular, it has stressed the need for stable, certain, and predictable mining legislation. This, it suggests, should be modelled on Botswana's mining statute, which has served that country very well.

Helping to bring about constructive reforms to mining law remains a primary IRR policy objective. It plans to extend its initiatives in this sphere into 2017, via a series of mining policy papers. It will also mount campaigns aimed at encouraging lawmakers to adopt new mining legislation that will allow South Africa to realise more of the benefits of its enormous mineral wealth.

Problem: Mining is central to the economy, but hostile policy and policy uncertainty risk seeing South Africa miss out on the next commodities uptick.

Actions: The IRR challenged the draft mining charter and continued to warn against the MPRDA Amendment Bill. Submissions were made to lawmakers and alternative policy ideas were put forward. Political parties were briefed. A significant amount of opinion writing was placed in the media. The damaging rhetoric of activists hostile to the mining industry was also challenged and countered in the media.

Result: The most damaging proposals – those in the draft mining charter – have to date been stalled. The MPRDA Amendment Bill is back before Parliament and will soon be reconsidered by the National Council of Provinces (NCOP). This is an ongoing project.

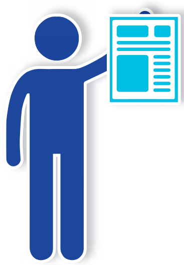
On an intelligent and fair healthcare policy for South Africa

South Africa's world-class private healthcare system is one of the country's most valuable assets. But policy makers are hostile to the private healthcare sector, and would like to bring it under such extensive state control that it will effectively lose its autonomy. The implications extend well beyond the healthcare domain, as the country's capacity to retain a productive middle class depends in large measure on its having a world-class healthcare system.

In 2016 the IRR challenged the **2015 White Paper on National Health Insurance (NHI)**. The IRR made a written submission to lawmakers warning that the NHI proposal would give the state control over every aspect of medical treatment. It would effectively put an end to the country's excellent private healthcare system, and encourage emigration among people with scarce skills. Moreover, instead of providing quality affordable healthcare to all, it would so reduce the supply of health services that almost all South Africans would find themselves waiting inordinately long periods for almost any medical treatment they might need. The IRR also highlighted other weaknesses in the NHI proposal – including its heavy bureaucratic and other costs – and made a number of constructive suggestions as to how affordable universal health coverage could instead be achieved.

IRR successes

61 IRR reports and policy submissions released



The IRR also made a written submission to the Davis Tax Committee on the funding of the proposed NHI. Here, the IRR pointed out that South Africa, with its low growth, limited tax revenues and tiny base of taxpayers, simply could not afford the NHI (or the massive bureaucracy the system will spawn). Again, the IRR stressed that universal health coverage could be achieved in better and more cost-effective ways. The IRR was also invited to make an oral presentation to the committee at a workshop in early November in 2016. Here, it became clear (from comments made by committee members) that the Davis committee had taken careful note of the IRR's critique. A revised White Paper is now pending.

Problem: The Department of Health proposed a National Health Insurance (NHI) system that would limit, rather than expand, the health services available to South Africans. The NHI system would effectively end private healthcare, while doing nothing to improve the quality of public healthcare services. It would also cost far more than the struggling economy can afford.

Actions: The IRR presented its critique of the NHI proposal to lawmakers and suggested a far better way of achieving universal health coverage in South Africa. The IRR also made submissions to a committee looking into the funding of the NHI. All its submissions were buttressed with opinion pieces in the press, and media releases. Face-to-face meetings in which the NHI was discussed took place with senior politicians. The IRR advised medical industry groups on how to respond to the proposed policy and counter the government's damaging proposals.

Result: A revised NHI white paper has been promised, which is a good start. This remains an ongoing IRR project.

On positioning South Africa as an innovation and technology leader

Protecting the innovations and intellectual property of entrepreneurs and investors is just as important as protecting their tangible assets. If intellectual property (IP) rights are not safeguarded, South Africa cannot position itself as an innovation hub on the African continent. It will also continue to export its best and most entrepreneurial individuals (people such as Elon Musk and Mark Shuttleworth), who will go on to make other countries rich. Yet, in line with its assaults on other forms of property, the government has been looking for ways to undermine both copyright and patent rights.

To help position South Africa as a competitive research and innovation destination, the IRR developed a media and public awareness campaign against the obvious absurdities in the **Copyright Amendment Bill of 2015**. One such provision was a clause vesting copyright in the state on the death of any author whose work has copyright protection here. However, the IRR also highlighted a far more serious risk that might otherwise have passed unremarked. This was the proposed introduction of an 'intellectual property rights' tribunal (to be appointed and controlled by a minister), which would decide not only on copyright issues but also on wider IP ones. These would include the granting of patent rights and the issuing of compulsory licences. Such licences would allow the copying of patented products, against the wish of the patent holder, and in return for minimal royalties. The IRR drove a campaign against this throughout 2015 and 2016. In the face of its initiative, the government has delayed bringing this bill before Parliament.

Earlier, the IRR had successfully challenged the DTI's **2013 draft policy on IP rights** by alerting lawmakers and business leaders to various damaging proposals that most commentators had overlooked. As a continuation of that work, the IRR made a written submission on the DTI's revised **IP Framework** in September 2016. Here, it warned that the amended proposals would still contradict South Africa's binding obligations under the TRIPS Agreement of the World Trade Organisation. The IRR has since been invited to participate in further discussions on the IP Framework with DTI officials.

The IRR's work in the IP policy sphere is linked to its earlier challenge to a damaging 'business licensing' bill proposed in 2013. If the economy is to thrive, South Africa needs to encourage and protect innovation. It also needs to spur on new ventures by vast numbers of risk-taking entrepreneurs. Instead, the government has placed a series of obstacles in the way of young business leaders and entrepreneurs. One of the most comprehensive barriers was the **Licensing of Businesses Bill of 2013**, which would have forced all businesses, from the largest to the smallest, to obtain operating licences from inept local authorities. This would have increased the state's power of control over every enterprise in the country. BEE ownership and other requirements could thus have been enforced against all businesses, both large and small. Many family businesses might have closed down, rather than submit to such interventions. But any such outcome would harm the economy, reduce employment, and limit opportunities for the poor. The IRR thus launched a campaign against the Bill. This included submissions to lawmakers, and media interventions aimed at warning journalists and the wider public against the dangers in the Bill. The Bill was subsequently withdrawn.

Problem: Between 2013 and 2016 the government tried on four occasions to introduce policies that would weaken protection for IP rights and undermine innovation, entrepreneurship, and investment.

Action: The IRR created campaigns to challenge each of these four policy proposals by warning of the damage they would do and urging their withdrawal in the best interests of the country and its people. The IRR drafted submissions for lawmakers, held meetings with politicians, and placed a significant number of opinion articles and statements in the media.

Results: The most damaging policy proposal was withdrawn. Others have been delayed and are being reworked.

On job creation and employment

South Africa has uniquely low labour-market participation and absorption levels. Much of the reason lies in coercive labour laws, which must be reformed if jobs are to expand – and the poor are to be freed from a life of destitution and welfare dependency. In 2016 the IRR, which had previously identified ten essential reforms to labour laws, focused on the most urgent of these in putting forward a detailed (and doable) 'National Growth Strategy' for the country. This strategy was the subject of a media and communications drive that was buttressed by face-to-face meetings with policy makers and politicians. Later in the year, the government and the ANC opened the door to some of the IRR's proposed labour market reforms when, after years of intransigence, the introduction of strike ballots was announced. The IRR, in its policy papers and advocacy efforts, was for many years the lone voice calling for this specific reform. We trust that the move towards strike balloting may pave the way for further essential reforms, and will continue to press for these policy shifts.

Problem: South Africa's heavily regulated labour market locks the poor and unskilled out of jobs.

Solution: The IRR has run a multi-year campaign on the benefits that labour market deregulation would bring to the country. The campaign has been built around policy papers, media blitzes, briefings, and face-to-face meetings with politicians and lawmakers.

Result: In 2016 the government announced that it was open to the idea of strike balloting, one of the key reforms the IRR had been pushing for.

On education

South Africa's public schooling system is one of the worst in the world. Only roughly half of children who enter Grade One will ever reach matric. Only about two in every hundred children will pass matric maths with a grade of 70% or more. Some 80% of public schools are dysfunctional, as teachers are often absent and commonly fail to complete the curriculum set for each year. At the same time, private schools, plus a relatively small number of state schools which are run with extensive parental involvement and control, produce much better results than those run by the government alone. In 2014 the IRR embarked on a campaign directed at influencing lawmakers to allow parents greater control over the schools in their communities. A policy paper on charter and contract schools was produced, while the IRR also explained the benefits that tax-funded school vouchers have brought to many countries, both developed and developing.

These vouchers are funded by the government out of tax revenues and made available directly to parents, so as to give them a real choice as to what schools they would like their children to attend. Schools must then compete for the custom of voucher-bearing parents, which gives schools strong incentives to improve the quality of teaching and generally up their game. In its National Growth Strategy in 2016, the IRR again called for contract and charter schooling, plus the introduction of school vouchers, as the best way to bring about quick and effective reforms in the failing public education system. In 2016 this proposal was put directly to senior political leaders at face-to-face meetings. The Western Cape provincial government has also introduced a pilot scheme to assess the benefits of a charter model through its 'collaboration' schools. Five primary and high schools, all no-fee schools in poorer communities, are participating in this pilot scheme, in which specialist non-profit organisations provide expert support and resources to principals and teachers. Some trade union resistance has been encountered at two schools, but good results are evident elsewhere, marked by improved teaching performances and growing community support.

IRR successes

9 laws and policies changed to protect property rights and promote economic growth

Problem: Parents have too little control of the schools in their communities. With more parental control of schooling, better results may be achieved.

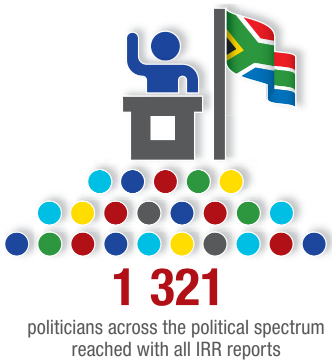
Actions: The IRR launched a campaign around various policy models through which parents may become more closely involved in the successful education of their children.

Results: Political leaders have been briefed on the model, and a pilot scheme is being conducted in one province.

Our approach

The IRR's approach is not to try and force or cajole the government into reforms. Rather, we seek to win over reform-minded leaders by means of reasoned argument. We marshal evidence on the harm that existing policies are already doing or which proposed policies will bring about, and juxtapose that harm against the major gains to be made through the IRR's alternative ideas. This is an infinitely more complex and time-consuming strategy than seeking to win short-term battles in the courts, for instance, but it is also likely to be far more productive in the long term. It is thus encouraging that, over the past year, the IRR was invited to offer advice on specific policies to both the ANC and the DA. We also ensure, via a project called the Democracy Support Project, that all political parties and over 1 000 of their elected public representatives receive all our policy analyses and proposals. In most cases, these are the only independent policy assessments and advice that these MPs, MPLs, and municipal councillors ever receive.

IRR successes



Problem: Political leaders make counter-productive policy decisions.

Actions: The IRR goes to great lengths to develop and maintain constructive relationships with politicians. Programmes are in place to ensure that all political parties and increasing numbers of their elected representatives receive all IRR policy outputs.

Results: The IRR briefs both South Africa's major political parties face-to-face on key policy issues. Over 1 000 elected public representatives and all political parties directly receive our policy analyses, advice, and alternatives.

Talking directly to the right people is useful. However, much of our strategy is to influence public opinion on key policies and laws, so that it becomes "safe" enough for reform-minded leaders publicly to endorse or seek to implement important reforms. These campaigns are by necessity multi-year initiatives built around the constant repetition of the same arguments. For the three years to the end of 2016, our efforts to sway public opinion saw the publication of 131 reports and submissions to lawmakers, the release of 143 media statements, the placing of 545 IRR-authored opinion articles in newspapers, and the granting of 2 620 television, radio, and other media interviews. In addition, we met with 1 041 business and civil society organisations and other groups. We provided 470 formal briefings on South Africa and its future policy options. In each of these initiatives, the IRR argued for the policy solutions vital to the success of the country and its ability to fulfil its great potential. Every IRR intervention was rooted in an understanding of the importance of property rights, a thriving private sector, and a market economy. This makes the IRR the primary driver of liberal policy advocacy in South Africa.

In 2016 alone, the IRR drafted and placed 292 opinion articles in newspapers. It issued

45 media releases, granted 867 television, radio, and print interviews, and garnered 1 472 print citations. Adding these numbers together, the broader public had at least 7 opportunities every day to encounter policy arguments and policy proposals put forward by the IRR.

Our media initiatives reached right across the spectrum, from small regional radio stations and newspapers to global news networks and some of the world's most influential newspapers. IRR staff appeared on television for E-TV, the SABC, China Central Television, ANN7, and the BBC. IRR staff wrote articles for, or were cited in *Business Day, The Sowetan, The Citizen, The Star, The Post, the Volksblad, Rapport, the Sunday Times, City Press, The Economist, the Los Angeles Times, the Wall Street Journal,* and *Le Monde*, among many others. IRR staff granted radio interviews to Jacaranda FM, 702, Power FM, the Voice of the Cape, SAFM, Metro FM, Lesedi FM, RSG, and Radio France International – again, among many other radio stations.

In order to focus our efforts most effectively we track our media results with a high degree of precision. The media tracking software we employ shows that our efforts to sway public opinion reached millions of people every month. For example:

IRR successes

1 472

local and international media citations in print and online

- In February 2016 the IRR released a report on an opinion poll it had commissioned to probe the true state of race relations. Within 24 hours of its release, media coverage of the report reached a potential 4 million people. The subsequent 24 hours saw just over 2 million people being reached. Almost 50 citations of the report appeared in the media within the first week of its release. Over the full year, the IRR granted 90 radio, television and print interviews on the subject of race relations. It also secured 187 citations on the subject in the media – or roughly one such citation every two days.
- In late May 2016 the IRR released a report on agriculture and land reform. Over the subsequent week, the IRR granted 17 media interviews on the subject, while the report garnered 35 citations in the media. Media coverage peaked soon afterwards, on 31 May, when the IRR secured a potential reach of 3.7 million people. Over the full year, the IRR granted 32 media interviews on land reform, resulting in 93 media citations. IRR staff also drafted 27 opinion articles and letters on the subject in 2016.

This is the degree of detailed monitoring that think tanks need to use to track their impact properly. They also need to assign appropriate human and financial resources to media campaigns and the measurement of their impact. Figures on a similar scale were reached for several more of the 61 reports that the IRR released in 2016. This confirms its claim to being the most influential policy think tank in South Africa.

Problem: Think tanks need to influence public opinion in order to put pressure on policy makers to shift public policy in constructive ways.

Actions: The IRR crafted a series of media and PR programmes which support journalists and other opinion-formers by providing them with comprehensive policy analysis and alternative policy ideas.

Results: In 2016, IRR media and PR staff placed 292 opinion articles in newspapers. They also released 45 media statements, which resulted in the granting of 867 television, radio and print interviews. On average, seven opportunities were created every day for members of the public to encounter the IRR's policy analysis and alternative ideas in the media.

We prefer to work quietly and, at times, behind the scenes. Our aim in reporting these results is simply to show just how much we have done to ensure that any financial investment in our work delivers tangible results. Impact and influence are the key measures by which think tanks should be judged – and there is no other think tank in the country that can come close to matching our results.

The care we take in monitoring our initiatives and results is also useful in another way. It demonstrates that, where we have been able to devote significant time and human resources to a policy problem, we have generally succeeded in securing a positive outcome. This shows the success of our approach, which rests on well-informed policy analysis and the repeated advocacy of better policy ideas. We have deep political reach and the ability to shift public opinion. We are well positioned to expand our reach and influence over an even broader range of policy areas. The key constraint holding us back is a shortage of financial resources.

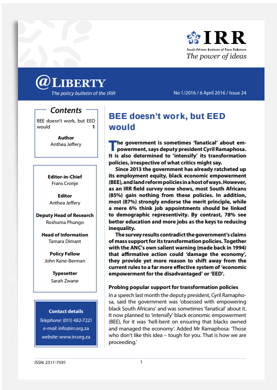
The next three years will make (or break) the future of South Africa for the following decade. Later this year the ANC may elect a new leadership. In 2019 South Africans will vote for a new government. We must do everything possible to ensure that this new government respects property rights, fundamental civil liberties, the primacy of market-led economic growth, and the rule of law. We will do the hard miles to help the reformers get there. However, to improve the chances of success we need more financial investment in our work.

Reports and submissions released in 2016

@Liberty

@Liberty is the vehicle through which the IRR most commonly introduces new policies into the public domain. Six *@Liberty* reports were released.

BEE doesn't work, but EED would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BEE doesn't work, but EED would

The government is sometimes 'fanatical' about empowerment, says deputy president Cyril Ramaphosa. It is also determined to 'intensify' its transformation policies, irrespective of what critics might say.

Since 2013 the government has already ratcheted up its employment equity, black economic empowerment (BEE), and land reform policies in a host of ways. However, as an IRR field survey now shows, most South Africans (85%) gain nothing from these policies. In addition, most (87%) strongly endorse the merit principle, while a mere 6% think job appointments should be linked to demographic representivity. By contrast, 78% see better education and more jobs as the keys to reducing inequality.

The survey results contradict the government's claims of mass support for its transformation policies. Together with the ANC's own salient warning (made back in 1994) that affirmative action could 'damage the economy', they provide yet more reason to shift away from the current rules to a far more effective system of 'economic empowerment for the disadvantaged' or 'EED'.

Probing popular support for transformation policies

In a speech last month the deputy president, Cyril Ramaphosa, said the government was 'obsessed with empowering black South Africans' and was sometimes 'fanatical' about it. It now planned to 'intensify' black economic empowerment (BEE), for it was 'hell-bent on ensuring that blacks owned and managed the economy'. Added Mr Ramaphosa: 'Those who don't like this idea – tough for you. That is how we are proceeding.'

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6 April 2016 – This edition of *@Liberty* argued that the government should shift away from current BEE and other transformation policies to a far more effective system of 'economic empowerment for the disadvantaged' or 'EED'. This issue began by canvassing the outcomes of a comprehensive opinion poll commissioned by the IRR and carried out in September 2015. This field survey confirmed that only 15% of black South Africans benefit from BEE in its various aspects, while the remaining 85% derive no personal advantage from the policy at all. Worse still, the great majority are harmed by BEE, which erodes efficiency in the state while helping to reduce private investment, growth, and jobs. This in turn leaves most South Africans mired in poverty and with little prospect of ever gaining a better life. Against this background, the IRR urged a shift from BEE to EED. This would focus on all the right 'Es', for it would help to generate rapid economic growth, excellent education, very much more employment, and a rise in genuine entrepreneurship (in place of the crony capitalism that BEE has fostered). The EED system would also provide the disadvantaged with tax-funded vouchers to help them buy the schooling, housing, and healthcare of their choice. This would tangibly help them to climb the economic ladder. By contrast, most disadvantaged South Africans have no chance of ever benefiting from BEE deals, management posts, or preferential tenders.

From land to farming: bringing land reform down to earth

26 May 2016 – This issue called on the government to redesign its land reform policies. Most land reform projects have failed, for transferred land has generally fallen out of production and has thus been unable to bring any significant gains to the supposed beneficiaries of land transfers. This is also not surprising, for land is only one out of the many ingredients needed for success in farming. Equally vital are entrepreneurship, experience, know-how, individual title, working capital, labour, infrastructure, and markets. Most black farmers are small-scale operators lacking these essentials. Most of these emergent farmers have little interest in the government's grandiose land reform schemes. Instead, they want secure ownership and effective help in expanding their operations. The focus of policy should thus shift from how quickly more land can be transferred to how best commercial farming can be preserved and expanded. In essence, policy should focus not on land to farm (which most South Africans do not want in this rapidly urbanising society) but rather on commercial farming and how to foster and expand it.

'Re-imagining the mining industry'

16 August 2016 – In this issue we noted that the draft 'reviewed' mining charter unveiled in April 2016 would be hugely costly and damaging to the mining industry. The charter demands that black ownership be kept at 26% for the whole of the 30-year (or longer) period that a mining right may last. This obligation will require mining companies to do ever more BEE deals, each time BEE investors sell out. Moreover, every new deal will have to be done at a heavily discounted price and will dilute the value of all existing shareholdings. The draft charter also threatens mining companies with the cancellation of their mining rights if they fail to sustain 100% compliance not only on the ownership element, but also on onerous skills development and housing targets, again over a 30-year period. The draft charter thus pushes the risks of mining in South Africa into the stratosphere. This will further damage an industry vital to South Africa's economy. The draft charter needs to be replaced by a new 'EED' scorecard which focuses on mining's contribution to investment, jobs, tax revenues, and export earnings. This approach should be combined with the introduction of tax-funded education, housing, and healthcare vouchers to give people real choices and drive up quality in these key spheres. A shift from BEE to EED will be far more effective than the draft charter in uplifting the disadvantaged and giving them real prospects of a better life.

Privatisation or bust

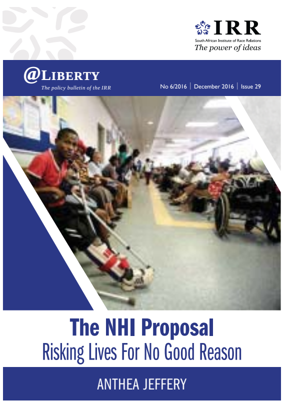
20 September 2016 – This issue of *@Liberty* pointed out that some of South Africa's biggest state-owned enterprises (SOEs) are seldom out of the news – and most of them are in it for all the wrong reasons. Reports abound of financial crisis, corruption, bad governance, political interference, chaos, or all five, at one or another of these SOEs. Some of the biggest, such as South African Airways (SAA) and Eskom, cannot survive without government guarantees enabling them to borrow money. Every new bail-out provided is supposed to be the last one, but the promised turnarounds have never been achieved. By contrast, privatisation of SOEs would help rebuild business confidence, stimulate growth, encourage

innovation, generate jobs, and revitalise the economy. It would also ensure much better services in many spheres, for the benefit of all South Africans.

Back to the drawing board on mining law

4 October 2016 – In this issue, we urged a fundamental rethink of mining law and policy. South Africa has the richest mineral resources in the world, but its mining sector is nevertheless becoming increasingly unattractive to investors. This is mostly because of damaging and ever-shifting mining legislation. By contrast, Botswana's mining rules are stable, certain, and predictable. Botswana has thus been able to use its more limited mineral resources far more effectively. If South Africa is to make the most of its enormous mineral wealth, it needs to follow Botswana's example in making its mining law similarly sensible and stable. As this policy paper shows, Botswana has clear and certain rules on the granting of mining rights and the grounds on which they can be cancelled. It does not impose price and export controls on minerals, or demand compliance with unrealistic and ever shifting BEE obligations. Nor does it threaten its mining industry with nationalisation. The time has come for South Africa to go back to the drawing board and embrace the real reforms required to get the mining sector growing. It should base these on Botswana's mining law, which has served that country very well.

The NHI Proposal: Risking lives for no good reason



12 December 2016 – This issue of *@Liberty* challenged the validity of the claims made in the White Paper on the proposed National Health Insurance (NHI) system. The White Paper claims that the NHI will provide 'quality, affordable health services' that are free to all South Africans at the point of delivery. However, this promise is most unlikely to be met, as the IRR pointed out. We also warned that the NHI is far too costly for the country to afford. In addition, current inefficiencies will inevitably worsen once the state takes control over every aspect of medical care, from the treatment protocols to be followed to the medicines to be prescribed and the fees to be paid to doctors and other health professionals. Moreover, health practitioners could wait months (or even years) to be reimbursed for the treatment they have already provided to patients free of charge. Many private practitioners might thus prefer to emigrate.

At the same time, some 84% of public healthcare facilities score so badly on such essentials as cleanliness and the availability of medicines that they would not qualify to take part in the NHI. The supply of health services is thus likely to diminish, just as the demand for them goes sharply up. Most people will wait many weeks to see a doctor and very much longer for treatment by a specialist. In pushing for the NHI system, the ruling party is making reckless promises that it cannot hope to meet. It should instead focus on improving public healthcare, repealing the regulations that push up the costs of private healthcare, and introducing tax-funded health vouchers to make low-cost medical schemes and health insurance cover affordable to all.

Written and oral submissions

We made the following submissions directly to politicians and lawmakers:

Submission to the Department of Trade and Industry regarding the draft Broad-Based Black Economic Empowerment Regulations, 2016 (17 March 2016): In this submission, the IRR warned that encouraging all organs of state to increase BEE ownership requirements from 25% to 51% for companies wanting to do business with the government would further damage the economy. We also warned against giving the new BEE Commission the power to demand the retroactive revision of major BEE ownership deals and other empowerment transactions. We further stressed that BEE was never supposed to put a stranglehold on the economy, eliminate existing property rights, or keep ever more South Africans mired in poverty for the benefit of a relatively small and politically connected elite. The most damaging of these proposed provisions have been removed from the regulations, as gazetted in their final form.

Submission to the Economic Development, Environment, Agriculture, and Rural Development Portfolio Committee of the Gauteng Provincial Legislature, to help inform the deliberations of the National Council of Provinces, regarding the Expropriation Bill of 2015 (15 April 2016): Here, the IRR once again pointed out that the Bill was unconstitutional in various ways. Among other things, it empowers an expropriating authority to take ownership and possession of property simply by serving a notice on the owner – and without first obtaining a court order confirming the validity of the proposed expropriation. We urged that the Bill be amended to introduce appropriate safeguards for the benefit of all South Africans, including the 8.6 million black, coloured, and Indian people who currently own their own homes.

Petition to the President of the Republic of South Africa regarding the Expropriation Bill of 2015 (27 May 2016): The IRR petitioned the president to use his powers under Section 79(1) of the Constitution to refer the Bill back to the National Assembly for reconsideration. This constitutional provision requires the president to send a Bill back to Parliament in this way if he 'has reservations about its constitutionality'. The IRR reiterated that many provisions in the Bill were inconsistent with the Constitution. It also cautioned that the National Council of Provinces (NCOP) had adopted the Bill without properly 'facilitating public involvement' in its legislative processes, as the Constitution requires it to do. Mr Zuma thereafter requested both the National Assembly and the NCOP to clarify the procedures they had used in adopting the Bill. In February 2017, the president referred the Bill back to the National Assembly because of the very procedural defects the IRR had earlier flagged.

IRR successes

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formal IRR-presented briefings

Submission to the Department of Health regarding the White Paper on National Health Insurance for South Africa (Version 40) (25 May 2016): The IRR warned that the NHI system would reduce, rather than expand, access to healthcare (for all the reasons outlined earlier). The NHI would also impose a crippling financial burden on an already struggling economy. The NHI was premised on a number of false assumptions, and would do nothing to improve poor performance in the public healthcare system. Instead, it would focus on putting an effective end to South Africa's excellent private healthcare system. It was also likely to trigger emigration among both health professionals and others with scarce skills. This would reduce the size of the (already small) tax pool and worsen the country's economic woes.

Submission to the Department of Mineral Resources regarding the Reviewed Broad-Based Black Economic Empowerment Charter for the South African Mining and Minerals Industry, 2016 (13 May 2016): The IRR explained that the draft mining charter, which is supposed to comply with other BEE rules, in fact goes well beyond what the generic BEE codes require. On ownership, for instance, the BEE generic codes would give mining companies credit for partial performance, sanction them comparatively lightly (by reducing their level of BEE contribution by one level) if they fail to reach a 40% minimum score, and take account of indirect black ownership via pension funds and unit trusts. Under the draft charter, by contrast, mining companies will receive no points at all for indirect black ownership, even though many mining shares are owned by local pension funds and unit trusts in which black South Africans hold increasing stakes. In addition, the draft charter gives no credit for BEE ownership at any level below 26%. It further threatens companies with a devastating penalty – the cancellation of their mining rights – if they fail to fulfil this target at any point over the life of a mining right, which may extend for 30 years or more. No punishment could be more draconian or more damaging to investor confidence. After it had sent in its written submission, the IRR was invited by the Department of Mineral Resources (DMR) to attend a public consultation, where we elaborated on our concerns. A revised charter, though promised for the end of October 2016, has yet to be released by the DMR.

Submission to the Office of the Chief Procurement Officer, National Treasury, regarding the draft Preferential Procurement Regulations, 2016 (15 July 2016): The IRR pointed out that, under the Preferential Procurement Policy Framework Act of 2000 (the Act), a '90:10' BEE formula for preferential procurement currently applies to tenders worth more than R1m. According to this formula, 90 points are allocated on price and 10 points for BEE status, which means a BEE firm can generally charge 10% more and still win the contract. Under the current rules, an 80:20 formula applies to contracts below R1m. This effectively allows BEE firms to charge 20% more for contracts below the R1m threshold and still win the tender. However, the draft regulations sought to raise the ceiling for application of the 80:20 formula from R1m to R100m. This was an increase of 9 900%. It would also greatly expand the scope for price escalation in state tendering, as the IRR pointed out.

The proposed rules might help a relatively small group of BEE business people, but they would also hurt the millions of poor South Africans dependent on the government for vital goods and services. This is especially likely to occur because the BEE price premium paid by the state is often 200% or more, rather than the 10% or 20% permitted by the Act. The regulations also propose compulsory sub-contracting to small 51% black-owned firms, irrespective of their capacity to comply with tender specifications. They would also allow state entities to impose 'pre-qualifying' BEE criteria that could exclude many of South Africa's most experienced and cost-effective companies from contracting with the government at all. The IRR's intervention helped delay the introduction of these damaging regulations. It has also seen the ceiling for the 80:20 formula reduced from R100m to R50m in the regulations as finally gazetted in January 2017. In addition, irrespective of their point count, firms cannot win contracts unless they can provide 'market-related' prices. These changes will help to limit the damaging impact of the new provisions.

Submission to the Economics Tax Analysis Chief Directorate, National Treasury, regarding the Policy Paper on Taxation of Sugar-Sweetened Beverages of 2016 (22 August 2016): According to the Treasury, the primary rationale for the proposed 20% sugar tax is not to increase the government's tax take, but rather to help overcome the problem of obesity in South Africa. However, as the IRR pointed out, international evidence showed that sugar taxes are among the least effective interventions against obesity. The most effective measures, by contrast, include portion control, reformulation, parental education, and promoting physical exercise at schools. The sugar tax, the IRR warned, is effectively a 'stealth tax' rather than a health tax. It will bring in useful amounts of additional revenue (R10.5bn or more) to the fiscus, while allowing the government to pretend that it is tackling the obesity problem.

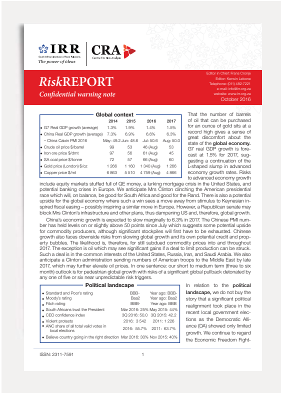
Submissions to the three committees of the High Level Panel on the Assessment of Key Legislation adopted since 1994, (29 August 2016): The IRR made three submissions to the three committees established by the High Level Panel. Submissions had to be limited to two pages, but could be supplemented with further documents. The IRR thus appended a number of informative documents to the two-page submissions it made to Committee 1, dealing with 'growth, poverty and inequality'; to Committee 2, dealing with land reform; and to Committee 3, dealing with 'social cohesion and nation building'. The deadline for submissions to the High Level Panel was revised to March 2017.

Submission to the International Trade and Economic Development Division of the Department of Trade and Industry, regarding the Intellectual Property Consultative Framework approved by Cabinet on 6 July 2016 (30 September 2016): In this submission, the IRR pointed out that the DTI is seeking to introduce a different set of rules to govern the granting of patents over medicines and other health products. However, this differential treatment is contrary to the World Trade Organisation's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), which is binding on South Africa. The proposed rules will also make it easy for generic producers to copy patented medicines (and other health products) in return for very limited royalties. However, these changes go much further than TRIPS allows, even in the context of health emergencies, such as HIV/AIDS. Other changes proposed in the IP framework are likewise contrary to TRIPS. So too is the DTI's proposal (contained in the Copyright Amendment Bill of 2015) to replace the independent patents court with a new patents tribunal, to be appointed by the minister and made accountable to him.

Submission to the Davis Tax Committee regarding the funding of the proposed National Health Insurance (NHI) system (14 October 2016): The IRR made a submission to the Davis Tax Committee on the funding of the proposed NHI system. It warned that the cost estimates included in the White Paper on the NHI were unrealistic and unconvincing. In practice, NHI costs would be far higher than the Department of Health was willing to acknowledge. This would worsen public debt and could help trigger a ratings downgrade. Overall, the NHI would impose a crippling financial burden on an already struggling economy, while in fact failing to meet the country's healthcare needs.

IRR Submission to High Level Panel on Proposed National Health Insurance (NHI) – (15 November 2016): In response to a request from a member of the High Level Panel, the IRR made an additional submission to the Panel on the proposed NHI. Here, it reiterated the many problems in the NHI proposal. It also pointed out that the goal of universal health coverage can be attained in far better ways. Among other things, the government should use public-private partnerships to overcome the often poor management of state hospitals and clinics and improve the quality of public healthcare. It should repeal the regulations that currently push up the costs of private healthcare and make this increasingly unaffordable. It should also allow low-cost medical schemes and low-cost health insurance products. In addition, it should provide the poor with tax-funded health vouchers so that they too can afford to buy low-cost medical cover of these kinds. Combined with other reforms, these proposals would give all South Africans access to efficient healthcare in an affordable and sustainable way.

The *Risk*REPORT



The *Risk*REPORT is made available exclusively to premium subscribers to the Centre for Risk Analysis and is never made public or discussed in the media. The report has six sections that deal with global economic circumstances, the domestic political landscape, the domestic economic landscape, social driving forces and living standards, young people, an updated set of scenarios, a SWOT analysis, and 3, 6, and 12 month forecasts for what to expect in the policy environment. The IRR released six editions of the report in 2016.

Fast Facts

Twelve editions of *Fast Facts* were published in the year to December 2016.

January 2016: The puzzle of South Africa's people: The January edition featured a report on demographic trends from the age-sex structure of the population to growth rates, fertility trends, birth rates, life expectancy, and deaths. The data revealed the youth bulge that could be central to a future economic recovery if appropriate education and entrepreneurship policies were in place.

February 2016: Schools drag South Africa down: This report tracked trends in the education system from pre-school enrolment levels to university completion rates. Lowlights included significant school drop-out rates and frighteningly low standards in the majority of schools. Highlights included the extent to which access to higher education had improved over the past two decades. The report provided evidence for why the school vouchers policy advocated for by the IRR was so important.

March 2016: A trillion and a half but none the richer: This report produced an in-depth analysis of the 2016 budget. Rising debt, deficit, revenue, and spending trends were highlighted. The IRR argued that the government was on an unsustainable fiscal trajectory and that liberalizing policy reforms were necessary to trigger higher levels of growth.

April 2016: A tale of two provinces (and seven others): This report compared more than 100 social and economic indicators across all nine provinces. It revealed the extent to which Gauteng and the Western Cape essentially cross-subsidized the other seven provinces. The IRR has long advocated for the increased devolution of political power out of Pretoria and into a more federal system of government. This report revealed why such a system was necessary to allow poorer provinces to develop competitive advantages to attract investment.

May 2016: All politics is local from Cape to Capricorn: The May report launched a Comfort and Deprivation Index (CDI) that policy makers could use to track the socio-economic performance of local authorities in South Africa. The index will allow policy and lawmakers to assess the performance of local municipalities and draft effective localized policy solutions.


FastFACTS
Public health sector in need of an antidote

June 2016: Public health sector in need of an antidote: In the June report the IRR assessed the state of the healthcare system. The report had three sections dealing with healthcare finances, healthcare resources (skills and physical infrastructure), and healthcare trends. The IRR is advocating for healthcare vouchers instead of the proposed National Health Insurance scheme. It is also advocating that the private sector be employed to raise standards in public sector clinics.


FastFACTS
Fenced-in farmers will battle to subsist

July 2016: Fenced-in farmers will battle to subsist: This report studied the agricultural economy. It warned that counter-productive policy and threats to property rights may cause serious harm to the commercial farming economy. Such harm would be seen in rising food prices, declining capital investment into rural areas, and lower levels of exports. The report indicated that there was potential to commercialize aspects of the informal agricultural economy and that this should be a focus of policy.


FastFACTS
My enemy's enemy is my friend

August 2016: My enemy's enemy is my friend: This report was the 300th edition of *Fast Facts*. It provided an analysis of the 2016 local government election results and a prognosis of likely political trends. The report flagged the likelihood of an EFF return to the ANC and questioned the extent to which mainstream analysts were correct in concluding that the election had seen opposition parties advance on the ANC.


FastFACTS
A powder keg in our midst

September 2016: A powder keg in our midst: This report was perhaps the most important *Fast Facts* edition of the year as it dealt with the most urgent of all policy challenges – young people and how to empower them. The report showed that almost half of young people were NEETs – or those people Not in Education, Employment or Training. Rather than silly gimmicks such as youth wage subsidies, minimum wages, and industrialist programmes, the IRR argued that South Africa needed structural reforms.


FastFACTS
Bartering up other economies

October 2016: Bartering up other economies: South Africa's trade competitiveness was the focus of this report. It revealed, as was to be expected, that the country records deficits with most major country and regional trade partners. This is, in turn, a reflection of the hostile and counter-productive investment-policy climate and therefore another example of why the liberalizing reforms advocated for by the IRR are so important.


FastFACTS
The internet goes mobile

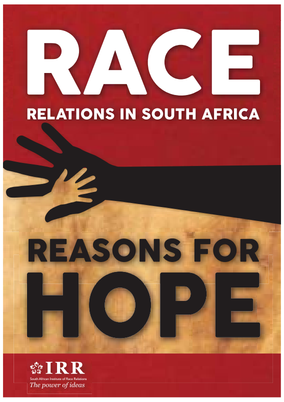
November 2016: The Internet goes mobile: This report provided a new level of detailed analysis of South Africa's communications infrastructure. Despite a clear shift to online retail, banking, communications and other practices, high costs, low bandwidth speeds and the monopolistic nature of the telecoms economy will continue to stunt South Africa's economic development. The report led to the IRR becoming a leading influencer in campaigns to reduce bandwidth costs.


FastFACTS
He ain't heavy, he's my brother

December 2016: He ain't heavy, he's my brother: This report was an analysis of dependency in South Africa. IRR analysts studied relationships such as those between the employed and unemployed, taxpayers and grant recipients, and employed people and taxpayers. The report revealed alarming levels of dependency on a small productive working class. Seeking to extract further revenues out of that class was futile.

Each report also contained 200 socio-economic indicators – ranging from confidence measures and tractor sales to commercial property vacancy rates – which are all indicative of the trajectory of the South African economy. Each report was made available to over 1 000 journalists, over 500 civil society groups, all political parties, and over 1 000 politicians.

Occasional reports

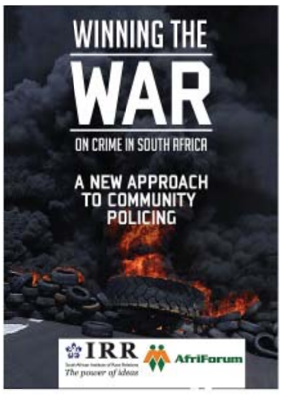


February 2016: Race Relations in South Africa – Reasons for Hope

Released into the fray of racial conflict and tension that characterised the early months of 2016, this report was based on field survey data collected for the IRR. Contrary to the incitement and conflict manufactured by the mainstream media and social media, the report showed that race relations were sound. The great majority of South Africans respected each other across lines of race and class. South Africans were not as race-obsessed as many politicians and journalists appeared to be. The report was influential in countering the hateful rhetoric spouted by journalists and politicians. It served to remind ordinary people to have faith in one another and not to be swayed by false news and political rhetoric.

May 2016: NGS: National Growth Strategy

This report was the IRR's blueprint for the policy reforms necessary to secure significantly higher levels of economic growth. Unlike other plans, it was short. Moreover, rather than 'calling for growth', it listed the practical reforms that lawmakers could introduce to improve the quality of education, draw in much more investment, and help generate many more jobs. A great effort was undertaken to advocate for the reforms proposed in the report and it was presented to the leadership of all serious political parties.



May 2016: Winning the war on crime in South Africa – a new approach to community policing

This report made the case for more community involvement in policing. It set out a detailed analysis of crime trends and patterns as well as international comparisons. It made the case that communities and the private sector should take the lead in organising themselves to prevent and combat crime and then seek to draw the police into those initiatives. Because of corruption, incompetence and infiltration by criminal syndicates, relying purely on the police for protection is no longer an option for communities that wish to safeguard their property and personal safety.

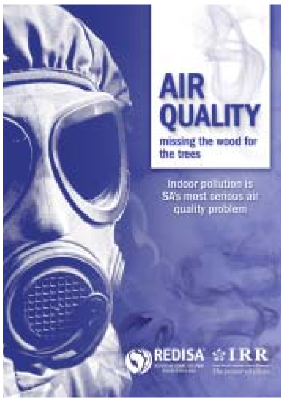
September 2016: A stealth tax, not a health tax

In this report the IRR showed that the South African government, though desperate for more revenue, is reluctant to overtly raise the VAT rate, as this would unleash a political storm. Instead, the Treasury was planning to raise some R10.5bn – half of what an increase in the VAT rate from 14% to 15% would yield – by introducing a 20% tax on sugar-sweetened beverages. The IRR countered this idea for three reasons. First, it remains opposed to secondary and backdoor taxes in principle, and especially so in an economy where the revenue-to-GDP ratio has hit an all-time record high of 30%. Second, what the Treasury is trying to do is underhanded and will have the same regressive impact as a VAT increase. Third, the government's fixation with mechanisms to help raise more revenue continues to delay the adoption of the structural reforms the country so urgently requires.

IRR successes

6.4 ×

daily news media mentions

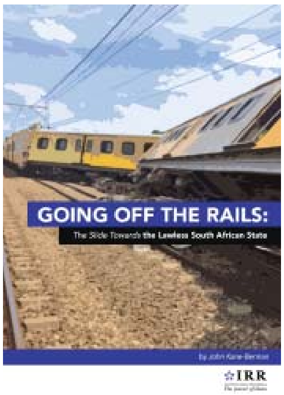


September 2016: Air Quality – Missing the wood for the trees

The IRR has tried to turn South Africa's environmental debate (and the attention of policy makers) away from carbon and climate change and onto issues that directly affect the health of ordinary people. One such issue is air quality. In this report the IRR showed that the particulate-matter count inhaled by people in poor communities had dangerous health implications. The problem arose not in the main from large industry but rather from the burning of solid fuels for cooking and heating. The IRR brought this previously low-tier environmental problem to the attention of policy makers.

October 2016: The Rise of The New Right – South Africa's road to 2024

In this report the IRR set out a new scenario for South Africa. This saw policy makers follow the lead of Asian Tiger reformers in turning their economies from being Marxist backwaters to serious global economic influencers. The IRR said that the Asian Tiger experience contained important lessons on how to make poor countries rich – including the importance of a professional civil service selected on merit. Most important, however, was to draw high levels of fixed investment in a climate of rising levels of education and limited labour market regulation. The report was launched in Washington DC and the IRR pushed it onto a select group of political leaders and policy makers.



October 2016: Going off the Rails: The Slide Towards the Lawless South African State

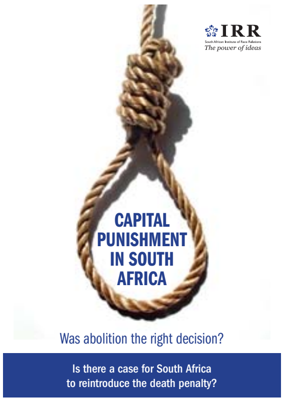
In this report the IRR took stock of the extent of lawlessness in society in order to draw public and media attention to the problem. The report showed that lawlessness now characterises the behaviour of the president, top policemen, and the prosecuting authorities, but that this is "just the tip of a large iceberg". Moreover, though independent institutions are vital in countering lawless behaviour, these institutions are under increasing threat and need more political and financial support. The ultimate guardians of legality are, of course, the courts, but these are insulted, while their orders are sometimes ignored and their decisions are constantly taken on appeal.

November 2016: Life in South Africa: Reasons for Hope

This report was about the things that have gone right in South Africa. It featured a selection of the socio-economic successes to highlight the many ways in which life has become better. Some people thought it an odd time to release such a report. The economy is not performing strongly. Many people are unemployed. There is a great deal of corruption. Violent protests are commonplace. Questions are being asked about the future of South Africa's democracy. All of this is true, but it is for this reason that it is so important to highlight the things that have gone right. The IRR said that South Africa has achieved much that can be built upon if sensible structural policy reforms are introduced. It is also important, we think, as arguably the most serious prominent critic of government policy, to show that we will provide balance and acknowledge progress with the same intensity that we advocate for structural reforms. It is further important to give people hope and something to be proud of. South Africa is currently in such a mess. The media assails readers with stories of failure and incompetence. We wanted to cut through all of that and say that, while the negative analyses have their place, there is at the same time a lot to celebrate. Good analysts, we explained, could understand the truth in both views.

November 2016: Fees can fall, but first…

With student protests having ravaged the country amidst much hooliganism, looting, violence, intimidation, and destruction of property, the IRR drafted a set of proposals on how to restore law and order. Too many analysts, the IRR argued, had indulged and encouraged lawless behaviour. The IRR backed the police and encouraged vice-chancellors to criminally charge students who had broken the law. The protests were, first and foremost, a law and order issue for the IRR. There was also the issue of securing the future of higher education institutions. If these were harmed, generations of poor young people would be denied the chance of a middle-class standard of living. In risking denying them that chance, the protest leaders and their supporters in the media and civil society were acting in the most morally repugnant manner.



November 2016: Capital punishment in South Africa: Was abolition the right decision?

In this report, and against a background of unacceptably high levels of serious and violent crime, the IRR asked whether abolishing the death penalty was the right policy decision. Despite finding that over 500 000 South Africans had been murdered since 1994, the IRR found that while some arguments against the penalty could be overcome, the risk of error, especially in South Africa's inept justice system, was very great. While encouraging debate of the subject, the IRR was unable to recommend that policy makers look to re-introduce the penalty.

November 2016: Water pollution and South Africa's poor

In this report, the IRR dealt with the effect that water pollution has on poor households. As with its earlier work on air-quality, the IRR wanted to bring South Africa's environmental policy debate back to earth. The most important finding of the report was that ideological interference in water policy and inept civil servants were an even greater threat to supply than climatological factors. The IRR showed how and why waterways were being polluted and made recommendations for policy and lawmakers to consider.

South Africa Survey

The 2016 edition of the *South Africa Survey* was published in March 2016. It contained some 900 pages of socio-economic data on South Africa, spread across 14 chapters. It was published in hard copy and online in various formats. The *Survey* is marketed to corporate users, with the income so earned (together with some donor financing) allowing the IRR to provide free access to civil society, the media, and politicians.

The 2017 *South Africa Survey* was published in February 2017 and ran to 950 pages of tables and charts on all socio-economic aspects of South Africa. This edition was dedicated to the late Sarah Zwane, who had worked at the IRR since 1979 and spent the bulk of her career working on the Survey. The 2017 *Survey* features the fourteen chapters below, which are also published online as stand-alone reports:

- Demographics
- The Economy
- Public Finance
- Employment
- Industrial Relations
- Business and Infrastructure
- Assets and Incomes
- Education
- Health
- Social Security
- Living Conditions
- Communications
- Crime and Security
- Politics and Government

Access to sound and independently researched socio-economic data is critical in helping to craft policy. The Survey is therefore an integral part of our advocacy efforts. The socio-economic rigour forced on us by the production of the Survey gives us a unique advantage in winning over political and other leaders in the battle of ideas.

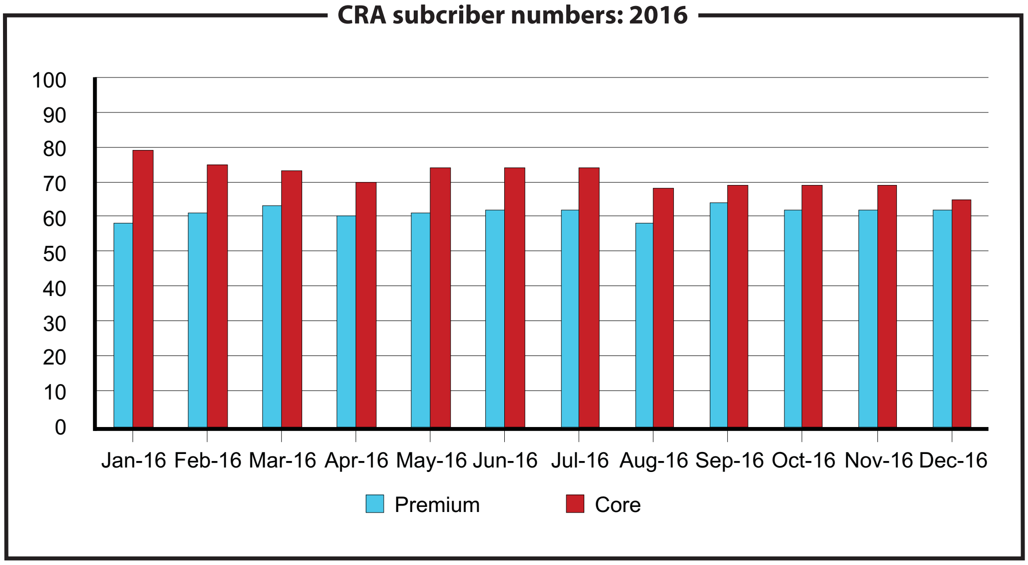
Free Society Project

There is a three-step formula that is central to our success. The **first step** is very high quality socio-economic research and analysis. It is critical to do your own original analysis, and, from our policy submissions to socio-economic reports, we have the best in-house think tank analytical capacity in South Africa. From *@Liberty* to submissions to lawmakers, *Risk*REPORTs, *Fast Facts*, the *South Africa Survey* and our occasional reports, the IRR released 61 reports in 2016, which is 1 report every 4.2 working days. The **second step** is to have very effective communication in order to reach the broadest audience with that analysis to make sure that the right people see and understand it. **The third** is to back up that reach with highly effective advocacy efforts that aggressively promote the conclusions and policy proposals that arise from IRR analysis. You need to get buy-in for your ideas from politicians, government leaders, opinion formers, and policy makers and influencers. The latter two steps are the work of the Free Society Project.

The Free Society Project is made up of five separate initiatives, each of which is a project in its own right, managed by its own project manager. These include the Centre of Risk Analysis, that focuses its communication and advocacy efforts on the business community, the Media Alert Service, that focuses its efforts on journalists, the Democracy Support Programme, that focuses on politicians, the Civil Society Support Programme, that focuses on civil society groups and trade unions, and the Bursary Programme, that targets emerging young leaders.

Initiative 1: Centre for Risk Analysis

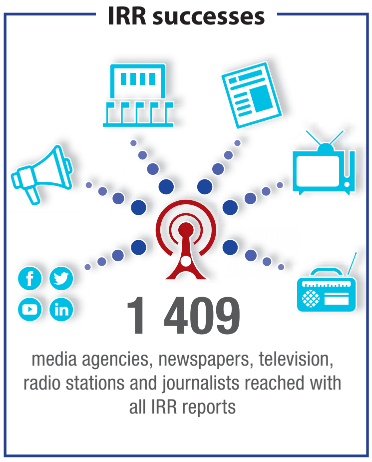
The Centre for Risk Analysis (CRA) is the project via which corporate and government users receive access to IRR reports and briefings. The CRA examines economic and social risks and uses scenario-planning to help business and government leaders make constructive policy decisions for South Africa. The centre has 127 private companies, government agencies, political parties, and foreign embassies in its top two subscriber categories, allowing the IRR a unique degree of direct access to policy shapers in the country. Premium users receive access to all IRR reports and services. Core users receive a far more limited selection. The number of premium and core users are set out in the graphic below. Our intention is to gravitate core users to the premium category and discontinue the core category.



For 2016, the CRA sales and marketing staff had an income target of R5 117 735. They exceeded the target and recorded an income of R5 312 304 for the year. Of this amount R4 130 267 was renewals and R1 182 037 was new sales. CRA income amounted to 42% of all IRR income in 2016. That income is in turn used to cross-subsidise other IRR advocacy projects.

The CRA also runs the IRR's briefing programme. In 2016 the IRR conducted 365 meetings with third party groups – 118 of these were formal briefings that the IRR presented on South Africa, its policy options, and its future. At these events and meetings, 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. Briefings allow us to reinforce the messages in our reports and media citations while answering queries on how and why our proposals will work and what the best method to implement them may be.

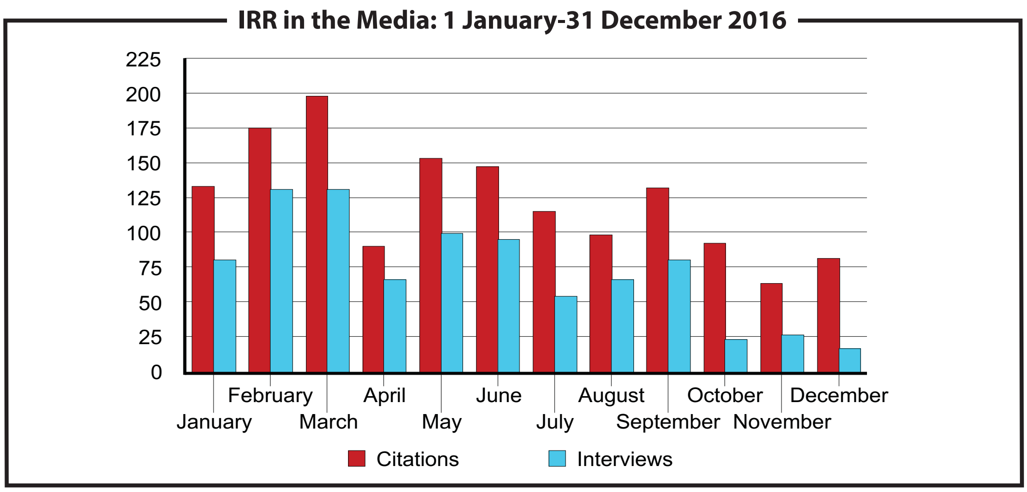
Initiative 2: Media Alert Service



The Media Alert Service is designed to support journalists with access to socio-economic and policy advice. The need for such a project is growing as newsrooms are juniorised, senior journalists are placed under ever greater time pressure, and a welcome host of smaller news providers and websites enter the media scene but without significant research or policy expertise. Through the **Media Alert Service (MAS)**, we provide 1 409 media agencies, bureaus, newspapers, television stations, individual journalists, and radio stations around the world with a vast range of socio-economic and other information. Arguably now South Africa's largest private media agency, the MAS allows the IRR to present its findings to literally millions of people every year while providing valuable support to the news media. The MAS is financed by the IRR's own funds, bolstered by donor support.

In 2016 the MAS achieved the following results:

Media interviews and citations



IRR successes

IRR research and other staff provided **867** media interviews to radio, television, online and print media in the year to December 2016. Furthermore, our media tracking system shows that the IRR was cited **1 472** times in local and international print and online media over the course of the year.

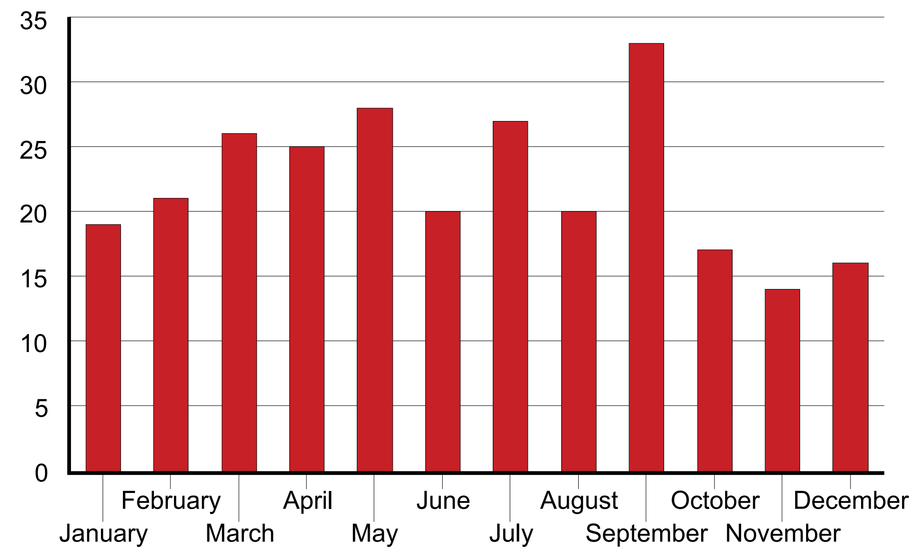
In total, we were interviewed and/or cited on average **6.4** times every day of the year. Each one of those citations was an argument in favour of the structural reforms necessary to secure higher levels of investment-driven growth, and made the IRR the leading advocate for market and growth-friendly policy reform in South Africa.

Opinion articles, letters and columns in newspapers

Opinion articles are arguably the most influential component of our communications efforts. Published widely, the articles make it possible for us to spread our ideas and solutions in our own words. In total, we produced **263** published columns and opinion articles and **29** letters in 2016. An IRR-authored opinion article, column or letter thus appeared in the media every **1.2** days. This is another hard piece of evidence of the extent of the influence that the IRR exerts on policy formulation in the country.

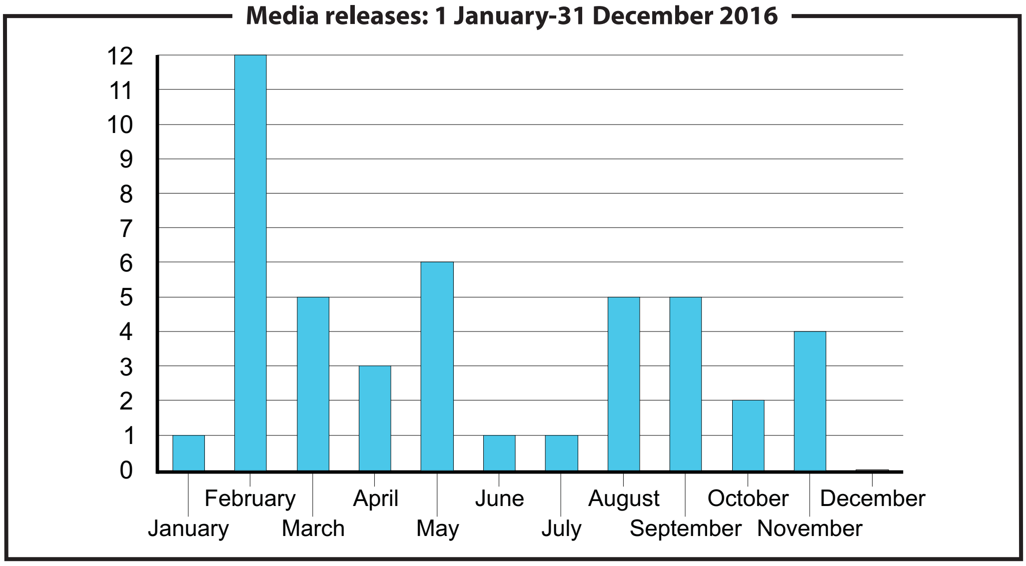
The following chart shows the monthly spread of articles and columns in the press written by IRR staff from 1 January to 31 December 2016.

IRR authored articles: 1 January-31 December 2016



Media releases

Another important part of our efforts to influence public opinion is our media releases. During 2016, **45** media releases were published, securing media attention and, in turn, underpinning our policy influence. The following chart shows the monthly spread of media releases from 1 January to 31 December 2016.



IRR TV and social media

The IRR launched a new initiative called IRR-TV two years ago, and, since then, a total of 37 video clips on important policy issues have been produced in-house and disseminated via Twitter and Facebook. We are excited about where this initiative may lead as it helps the IRR to reach greater audiences outside the traditional media space. In the year from January to December 2016, **16** clips were produced. We have also taken steps to increase our social media following and at the end of 2015 the IRR's two most important Twitter accounts totalled **24 814** followers.

Initiative 3: Democracy Support Programme

The Democracy Support Programme or DSP is the link between the IRR and political parties and individual politicians. **The DSP** helps more than **1 321** 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. Through this project, the IRR is able to secure a significant degree of reach into the political environment in South Africa and use that reach to promote policy reform. Through the DSP, political parties and their elected representatives receive access to most IRR reports and services. This programme is a key part of our advocacy efforts.

Initiative 4: Civil Society Support Programme

The Civil Society Support Programme or CSSP is designed along similar lines to the MAS and the DSP. Civil society is playing an ever more prominent role in standing up to bad governance and threats to political freedom. Yet few civil society groups have any significant research or policy expertise. Very often they take on government departments and politicians with vast legal, research, and policy resources. The CSSP is designed to level the playing fields by providing civil society groups with free access to IRR reports and advisory services. The project is in great demand and currently **528** civil society groups are active subscribers. This programme allows the IRR to support other influential civil society groups to identify and advocate for reforms that will improve the social and economic conditions of all South Africans.

IRR successes

Initiative 5: Bursaries Programme

Bursaries are the fifth FSP initiative. Having been in existence since 1935, the IRR bursary project is today focused on providing access to tertiary education to extremely poor students. In 2016, there were 72 students on our bursary programme. Of these, 49 were continuing students previously funded by us, while 23 were 'new' students receiving IRR support for the first time. Overall, 96% of our students passed in 2016 and proceeded either to the following year of their studies or to graduation. In 2017 bursary awards worth R7.6 million are to be made to 84 students, of whom 32 are new. Of these 84 awardees, 70 will be at tertiary institutions and 14 at high schools. The bursary programme practises the IRR's EED approach to empowerment. Students are selected on grounds of socio-economic disadvantage. As of 2017, the IRR bursary staff will expand their role to include communicating all IRR ideas and reports to young people on campuses around the country.

Summary of Free Society Project results

Beneficiaries and reach:

- 127 companies, embassies and government departments
- 528 civil society groups, political parties, and trade unions
- 1 321 individual politicians
- 1 409 media houses, publications, radio and television stations and journalists

Reports promoted and disseminated:

- 6 *@Liberty* policy papers
- 11 policy submissions
- 6 *Risk*REPORT documents released
- 12 *Fast Facts* reports
- 11 occasional reports
- 1 *South Africa Survey* published
- 14 *South Africa Survey* chapters published
- In total one report every 4.2 working days

Advocacy and outreach:

- 365 face-to-face meetings and briefings
- 867 television, radio, and print media interviews
- 1 472 citations in the media
- 45 media statements
- 292 own-authored opinion articles or one every 1.2 days
- 16 IRR-TV clips
- 9 laws and policies changed for the better
- Around 7 opportunities created per day for political leaders, policy makers, journalists, and the broader public to encounter IRR ideas and arguments

Governance and Compliance

Council and Office-Bearer elections

A new Council was elected for a four-year term and met on 4 June 2016. All office bearers were elected or re-elected as follows:

- Professor Jonathan Jansen for President
- Mr Tom Wixley for Chairman of the Audit Committee
- Mr Peter Leon for Honorary Legal Adviser
- Mr Roger Crawford for Vice President
- Mr Peter Joubert for Vice President
- Mr Ishmael Mkhabela for Vice President
- Professor Hermann Giliomee for Honorary Life Member

Other elections

Board election: All members of the Board are nominated annually by Council and elected by the AGM of Members. Two vacancies on the Board were filled. Dr Rabelani Dagada and Mr Akshar Patel were elected by Council in December 2016 and this will be formalised at the AGM of Members on 10 July 2017 as per our Memorandum of Incorporation.

Committee elections: All members of the Audit Committee, Remuneration Committee, Social & Ethics Committee, and Investment Committee were reappointed by the Board of Directors on 14 November 2016 for a period of three years.

Finance, Administration, and Staff

Finance and administration

Since 2014 we have been planning our financial affairs in three-year cycles, as this better enables us to commit to long-term policy objectives. The first such cycle commenced in January 2014 and concluded in December 2016. For that full three-year cycle, we had originally budgeted for a deficit after investment income of R4 458 111 or 12% of total income. The actual deficit came to R2 539 435 or 7% of total income.

The current cycle runs from January 2017 to December 2019. A likely and a worst-case scenario were put to the Board in late 2016. The likely case suggested a deficit after investment income of R2 106 387 or 5.1% of total income and the worst case suggested a deficit of R9 329 379 or 33.65% of total income. The likely case assumed that our current CRA sales trajectory remains unchanged and that our current funders remain on board and commit funding on a par with past years. The worst case assumes that a significant proportion of major funders drop the IRR or cut their funding contributions. The reason for producing the worst case is to stress test the organisation so that the management knows whether it can withstand a significant series of funding setbacks. The worst case included no cost cuts. Both the best and the worst-case outcomes could be financed through share sales, although, in the latter case, that would not be ideal and the extent of such sales would have to be offset by cost cuts. The upshot is that the IRR is in a sound position as it is able to survive setbacks that would close other similar organisations. We remain in close contact with all funders, the majority of whom have expressed the view that their commitment to the IRR will continue.

Our latest forecasts for 2017 currently suggest income of R12 410 000 against expenditure of R15 375 327, making for an operating deficit of R2 965 327. After investment income estimated at R1 330 000, we expect to end the year with a deficit of R1 635 327 – or 13% of income. Any realised and unrealised gain in our investments would be subtracted from that figure.

The attached accounts show that, for the 2016 financial year, the IRR recorded income of R12 570 508 and expenses of R16 851 082. This resulted in an operating deficit of R4 280 574. After investment income of R1 190 561 that figure was reduced to a deficit of R3 090 013 or 25% of income (before unrealised loss on investment).

Staff

It is with great regret that I record the death of Sarah Zwane, who worked for the IRR for about 35 years, then retired and worked for us as an independent consultant to do typesetting. She fell ill suddenly and died in May.

We expanded the Policy Fellows programme by admitting another four Fellows to take the total to eleven. Fellows were instrumental in allowing us to draft and place the **290** opinion articles published in 2016.

During 2016 we made six new appointments and received five resignations. One member of staff retired. Susi Eusman celebrated 30 years of service and Tamara Dimant 25 years of service. One member of staff was on maternity leave during the second half of the year.

Our internship programme was successful and saw us host a total of seven young people over the course of the year.

Also in 2016 we took the significant step of appointing Ms Gwen Ngwenya as Chief Operating Officer. Ms Ngwenya has taken operational responsibility for key IRR functions, including media and public relations, strategic and funding partners, and a series of research and policy projects. Dr Cronje has also requested that Ms Ngwenya draft a strategic plan to take the IRR towards its centenary in 2029. That plan will be presented to the board in the course of 2018 and will be refined and put to Council in 2019. It can then be adopted, assuring the IRR that it will surge into its centenary year. The IRR is delighted that it has been able to attract an executive of the calibre of Ms Ngwenya.

Thanks

As the introductory pages of this report show, the IRR knows how to win policy battles. It is an organisation with a firmly established track record of positive results. In every case in which we have invested sufficient human and financial resources, we have achieved success. There is no need, therefore, to ask, 'Who will take a stand and do something?', or to plead, 'Something must be done!' We stand ready to tackle the mountain of counter-productive and hostile policy that threatens South Africa's prosperity and civil rights culture. The only thing that holds us back is the human and financial resource constraints that force us to pick our battles carefully.

Johannesburg

March 2017

F J C Cronje

SOUTH AFRICAN INSTITUTE OF RACE RELATIONS NPC

ANNUAL FINANCIAL STATEMENTS for the year ended 31st December 2016

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

CONTENTS

The annual financial statements set out on pages **50-63** 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 2016

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	
Council Office Bearers	J D Jansen	President
	R Crawford	Vice President – Elected June 2016
	P Joubert	Vice President – Elected June 2016
	I Mkhabela	Vice President – Elected June 2016
	H B Giliomee	Vice President – Retired June 2016
Non Executive Directors	T Coggin	Chairman of Board of Directors
	T A Wixley	Audit Committee Chairman and Honorary Treasurer
	P Leon	Honorary Legal Adviser – Elected June 2016
	P L Campbell	
	R D Crawford	
	R Dagada	Appointed January 2017
	J A Elgie	
	P G Joubert	
	P Letselebe	
	I Mkhabela	
	M J Myburgh	
	A Patel	Appointed January 2017
	D F P Taylor	
	G N Towell	
Executive Director	F J C Cronje	Chief Executive
Company Secretary	R D le Roux	
	Business address: 2 Clamart Road Richmond 2092 Johannesburg	*Postal address:* P O Box 291722 Melville 2109 Johannesburg

CORPORATE GOVERNANCE

The South African Institute of Race Relations (the Institute) applies the principles set out in the King Report on Governance for South Africa 2009 (King IV) 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 **48** 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 a 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 4 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 4 independent non-executive directors appointed by the Board. 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. The Committee reported during the year to the Annual General Meeting of Members and the Board.

Company Secretary

All directors have unlimited access to the advice and services of the Company Secretary, who is responsible 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, which 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 2017 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 auditing 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 **49**.

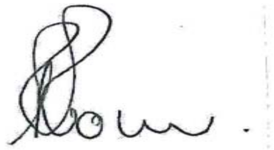
The annual financial statements set out on pages **50** to **63**, which have been prepared on the going concern basis, as well as the Directors' report presented on pages **47** and **48**, were approved by the Board on 15 May 2017, and were signed on its behalf by:

Tom Wixley

F J C 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 2016 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

DIRECTORS' REPORT

The directors submit their report for the year ended 31st December 2016.

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.

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.

Secretary

R D le Roux served as secretary of the Institute for the year ended 31st December 2016.

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
	P Leon	Honorary Legal Adviser – Elected June 2016
	P L Campbell	
	R D Crawford	
	R Dagada	– Appointed January 2017
	J A Elgie	
	P G Joubert	
	P Letselebe	
	I Mkhabela	
	M J Myburgh	
	D F P Taylor	
	A Patel	– Appointed January 2017
	G N Towell	
Executive Director	F J C Cronje	Chief Executive

Remuneration policy

The Remuneration Committee operates in terms of a charter approved by the Board. All members are non-executive directors. 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 and Head of Finance).

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 4 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 Mandi Terner as the designated auditor for the 2016 financial year;
- Satisfied itself that the auditors are independent;
- Approved the annual financial statements of the Institute for 2016, 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.

Grant Thornton

Independent Auditor's Report

To the members of

South African Institute of Race Relations NPC

Opinion

We have audited the financial statements of South African Institute of Race Relations NPC set out on pages 50 to 63, which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of South African Institute of Race Relations NPC as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors **for the financial statements**

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards 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 misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Grant Thornton

GRANT THORNTON
Registered Auditors
Practice Number: 903485E

M Terner
Registered Auditor
Chartered Accountant (SA)

@Grant Thornton
Wanderers Office Park
52 Corlett Drive
Illovo, 2196

STATEMENT OF FINANCIAL POSITION

as at 31st December 2016

	Notes	2016 R	2015 R
ASSETS			
Non current assets			
Plant and equipment	2	1 364 238	1 353 000
Intangible assets	3	–	105 211
		1 364 238	1 458 211
Investments			
Special Funds			
– Bursary	18.1.1	14 426 523	13 550 936
– Institute	18.1.2	2 882	1 243 257
– Other	18.1.3	1 089	1 034
		14 430 494	14 795 227
Other Institute investments	18.2	39 946 870	45 378 540
		54 377 364	60 173 767
Current Assets			
Trade and other receivables	5	2 475 836	1 244 032
Cash resources	6	1 924 455	1 020 244
		4 400 291	2 264 276
TOTAL ASSETS		**60 141 893**	**63 896 254**
FUNDS AND LIABILITIES			
Funds and reserves			
Accumulated funds		37 930 939	44 040 296
		37 930 939	44 040 296
Special funds			
– Bursary	16/17	14 426 523	13 550 936
– Institute	16/17	2 882	1 243 257
– Other	16/17	1 089	1 034
		14 430 494	14 795 227
Non current liabilities			
Finance lease agreement	8	9 055	240 672
		9 055	**240 672**
Current liabilities			
Finance lease agreement	8	219 837	178 774
Income received in advance		4 618 448	2 640 425
Trade and other payables	7	2 933 120	2 000 861
		7 771 405	4 820 060
TOTAL FUNDS AND LIABILITIES		**60 141 893**	**63 896 254**

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31st December 2016

	Notes	2016 R	2015 R
INCOME			
Administration fees received		793 876	737 297
Bad debts recovered		115 696	130 445
Grants and donations		6 051 370	7 187 610
Membership fees and subscriptions		5 479 879	4 076 649
Publication sales		129 687	63 485
		12 570 508	**12 195 486**
EXPENSES			
Amortisation	3	105 211	152 516
Auditors' remuneration			
– Fees for the audit	11	266 130	242 030
Bad debts		-	321 301
BEE Survey cost		448 470	325 200
Outsourced contributors		1 170 181	347 630
Depreciation	2	377 287	369 850
Finance cost	10	60 066	47 146
Lease expenditure		147 265	137 951
Loss on disposal of plant and equipment		12 166	447
Overheads and administration		1 272 624	1 026 542
Personnel		10 764 571	10 265 038
Postage		178 617	98 985
Printing		194 693	206 333
Rent and utilities		1 119 432	917 433
Telecommunications		156 398	144 049
Travel		577 969	527 603
		16 851 082	**15 130 054**
OPERATING (DEFICIT)/SURPLUS FOR THE YEAR		**(4 280 574)**	**(2 934 568)**
INCOME FROM INVESTMENTS			
Dividends from investments		1 083 373	1 218 616
Realised and unrealised (loss)/gain on investments		(3 019 344)	4 916 137
Interest received		107 188	82 554
		(1 828 783)	**6 217 307**
(DEFICIT)/SURPLUS FOR THE YEAR		**(6 109 357)**	**3 282 739**
Other comprehensive income		–	–
(DEFICIT)/SURPLUS FOR THE YEAR AFTER OTHER COMPREHENSIVE INCOME		**(6 109 357)**	**3 282 739**

STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December 2016

	Accumulated funds R
Balance at 1st January 2015	40 757 557
Surplus for the year	3 282 739
Balance at 31st December 2015	**44 040 296**
Balance at 1st January 2016	44 040 296
Deficit for the year	(6 109 357)
Balance at 31st December 2016	**37 930 939**

STATEMENT OF CASH FLOWS

for the year ended 31st December 2016

Cash flows from operating activities	***2016 R***	***2015 R***
(Deficit)/Surplus for the year	(6 109 357)	3 282 739
Adjustments:		
Depreciation/Amortisation	482 498	522 366
Interest received	(107 188)	(82 554)
Fair value gain/(loss) on investment	3 019 344	(4 916 137)
Straight-lining of office lease	85 718	49 110
Loss on disposal of plant and equipment	12 166	447
Movement in working capital		
– (increase)/decrease in trade and other receivables.	(1 231 804)	17 230
– increase/(decrease) in trade and other payables	2 824 566	1 610 853
Sub total	(1 024 057)	484 054
Interest received	107 188	82 554
Net cash (outflow)/inflow from operating activities	**(916 869)**	**566 608**
Cash flows from investing activities		
Net sale of shares	2 412 326	111 800
Proceeds received from disposal of plant equipment	10 310	7 567
Acquisition of plant equipment and other intangible assets	(411 001)	(465 541)
Net cash outflow/(inflow) from investing activities	2 011 635	(346 180)
Payment of finance lease arrangements	(190 555)	(170 248)
Net cash generated for the year	904 211	50 180
Cash resources at beginning of the year	1 020 244	970 064
Cash resources at end of the year	**1 924 455**	**1 020 244**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31st December 2016

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 (cN) of the Income Tax Act No. 58 of 1962, ('the Act') and the receipts and accruals are exempt from Income Tax in terms of Section 10(1) (cN) of the Act.

Fair value measurement

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the company is the current bid price.

Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and IT equipment.

1.2 Plant and equipment

Library books are not depreciated. Library books are stated at cost 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:

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
Computer software	1 year

1.4 Accumulated Funds

All reserves are reflected under accumulated funds.

1.5 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.

1.6 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)

1.7 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.

Investments

Investments are stated at fair value. For Bursary Funds, the increase or decrease in fair value is capitalised. 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 **17**.

1.8 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.

1.9 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.

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.

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.

1.10 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.

1.11 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.

1.12 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.

1.13 Finance costs

Finance costs are recognised as an expense in the period in which they are incurred.

NOTES (continued)

2. PLANT AND EQUIPMENT

	Furniture and equipment R	*Motor vehicles R*	*Library R*	*Total R*
Year ended 31st December 2016				
Opening net carrying amount	766 313	182 687	404 000	1 353 000
Additions	411 001	–	–	411 001
Disposals	(22 476)	–	–	(22 476)
Depreciation	(339 537)	(37 750)	–	(377 287)
Closing net carrying amount	**815 301**	**144 937**	**404 000**	**1 364 238**
Year ended 31st December 2016				
Cost	3 274 037	248 749	404 000	3 926 786
Accumulated depreciation	(2 458 736)	(103 812)	–	(2 562 548)
Closing net carrying amount	**815 301**	**144 937**	**404 000**	**1 364 238**
Year ended 31st December 2015				
Opening net carrying amount	855 405	220 437	404 000	1 479 842
Additions	251 016	–	–	251 016
Disposals	(8 008)	–	–	(8 008)
Depreciation	(332 100)	(37 750)	–	(369 850)
Closing net carrying amount	**766 313**	**182 687**	**404 000**	**1 353 000**
Year ended 31st December 2015				
Cost	2 885 512	248 749	404 000	3 538 261
Accumulated depreciation	(2 119 199)	(66 062)	–	(2 185 261)
Closing net carrying amount	**766 313**	**182 687**	**404 000**	**1 353 000**

Certain office equipment is held under finance lease (refers to Note 8).

A register with details of Plant and Equipment is available for inspection by members or duly authorised representatives at the registered office of the company in terms of Regulations 25(3) of the Companies Act 2011.

3. INTANGIBLE ASSETS – WEBSITE DEVELOPMENT AND COMPUTER SOFTWARE

	2016 R
Website development and computer software:	
Year ended 31st December 2016	
Opening net carrying amount	105 211
Additions	–
Amortisation	(105 211)
Closing net carrying amount	–
Year ended 31st December 2016	
Cost	457 127
Accumulated amortisation	(457 127)
Closing net carrying amount	–
Year ended 31st December 2015	
Opening net carrying amount	43 202
Additions	214 525
Amortisation	(152 516)
Closing net carrying amount	**105 211**
Year ended 31st December 2015	
Cost	457 127
Accumulated amortisation	(351 916)
Closing net carrying amount	**105 211**

NOTES (continued)

4. RELATED PARTY NOTE – INSTITUTE

Board of Directors:

The names of all the directors of the Institute are set out under the Report of the Directors on pages 47 and 48 of this annual report. With the exception of one executive director whose remuneration is set out in Note 12 there have been no transactions with the non-executive directors of the Institute.

5. TRADE AND OTHER RECEIVABLES

	2016 R	*2015 R*
Receivables	1 909 034	864 852
Deposits	62 000	62 000
Prepayments	143 237	165 375
Receiver of Revenue – VAT	176 534	-
Staff debtors	185 031	151 805
	2 475 836	1 244 032

6. CASH RESOURCES

Cash on hand	191	3 500
Current account	305 251	231 025
Credit cards	34 273	–
Call account	1 584 740	785 719
	1 924 455	1 020 244

7. TRADE AND OTHER PAYABLES

Payables	2 113 530	1 133 241
Accruals	144 123	89 624
Receiver of Revenue – VAT	–	56 802
Accrual for leave pay	675 467	721 193
	2 933 120	2 000 861

8. FINANCIAL LEASES

The Institute has certain financial leases on office equipment.
In terms of the leases the Institute's commitments are as follows:

Office equipment:	*2016 R*	*2015 R*
Minimum lease payments:		
– within a year	219 836	178 774
– within second to fifth year	22 556	285 242
	242 392	464 016
Less future lease charges	(13 501)	(44 570)
Present value of minimum lease payment	228 891	419 446
Current liabilities	219 836	178 774
Non current liabilities	9 055	240 672
	228 891	419 446

The book value of the assets held under finance lease is detailed in Note 2 of the financial statements.

NOTES (continued)

9. OPERATING LEASE COMMITMENTS

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

Premises:	***2016*** ***R***	***2015*** ***R***
Minimum lease payments:		
– within a year	814 976	754 608
– within second to fifth year	2 155 649	2 970 625
	2 970 625	3 725 233

Operating lease payments represent rentals payable by the Institute for its office premises. The average escalation is 8% (2015: 8%) and has been reflected in the amounts above.

Avaya IP Office PABX		
Minimum lease payments:		
– within a year	153 768	143 226
– within second to fifth year	221 652	375 420
	375 420	518 646

The operating lease payments represent rentals payable by the Institute for its PABX system. The average escalation is 5% and has been reflected in the amounts above.

10. FINANCE COST	***2016*** ***R***	***2015*** ***R***
Finance lease charges	60 066	47 146
	60 066	47 146

11. AUDITOR'S REMUNERATION	***2016*** ***R***	***2015*** ***R***
	266 130	242 030
	266 130	242 030

Audit fees paid in the 2016 financial year to Grant Thornton for the audit of the 2015 financial year. The 2016 audit fees to Grant Thornton will be paid in 2017 and will reflect as such in the financial statements.

12. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION

The directors' and prescribed officers' emoluments in connection with the affairs of the Institute were as follows:	***2016*** ***R***	***2015*** ***R***
FJC Cronje – Salary	1 549 047	1 437 117
RD Le Roux – Salary	962 419	852 600
G Ngwenya – Salary – from 14 November 2016	109 900	–
	2 621 366	2 289 717

The directors' emoluments were payable to executive directors only. Non-executive directors are not paid for their services. Ms G Ngwenya was appointed 14 November 2016 as Chief Operational Officer.

13. TAXATION

The Institute is exempt from tax in terms of Section 10(1) (cN) of the Income Tax Act No. 58 of 1962, ('the Act') for the period under review.

14. RETIREMENT BENEFITS

Defined contribution plan

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

	2016 ***R***	***2015*** ***R***
The total contribution to such schemes	122 612	132 402

15. CAPITAL EXPENDITURE

	2016 ***R***	***2015*** ***R***
Authorised but not yet contracted for	408 000	240 000

The future capital expenditure is for computer equipment and will be funded out of cash resources.

16. SPECIAL FUNDS

INCOME	***Bursary*** ***R***	***Institute*** ***R***	***Other funds*** ***R***	***2016*** ***R***	***2015*** ***R***
Donations and grants	5 010 905	371 501	–	5 382 406	3 304 010
Interest	78 941	93 074	55	172 070	185 647
Dividends	248 643	–	–	248 643	357 278
Surplus on investments	666 583	–	–	666 583	–
	6 005 072	464 575	55	6 469 702	3 846 935
EXPENSES					
Administration fees and running costs	819 301	1 704 949	–	2 524 250	4 436 718
Audit fees	–	–	–	–	9 540
Bursaries and grants	4 310 184	–	–	4 310 184	4 055 816
Loss on investments	–	–	–	–	77 125
	5 129 485	1 704 949	–	6 834 434	8 579 199
SURPLUS/(LOSS) FOR THE YEAR	875 587	(1 240 375)	55	(364 733)	(4 732 264)
Accumulated funds at beginning of year	13 550 936	1 243 257	1 034	14 795 227	19 527 491
NET ACCUMULATED FUNDS	**14 426 523**	**2 882**	**1 089**	**14 430 494**	**14 795 227**

A list of the balances of the Special Funds administered by the Institute appears in Note 17 and the related investments are set out in Note 18.

NOTES (continued)

17. SPECIAL FUNDS

17.1 Bursary Funds

	Capital *R*	*Amounts held for Bursary awards* *R*	*2016* *R*	*2015* *R*
Amcham Fund	–	1 157 513	1 157 513	1 172 865
Berkowitz Family Scholarship Fund	–	(1 319)	(1 319)	163 539
Clive Beck Education Trust	–	430 106	430 106	272 727
Durban Thekwini Bursary Fund	–	39 683	39 683	37 919
Giannopoulos Bequest	322 000	151 246	473 246	440 866
Horace Coaker Fund	500	895 030	895 530	913 326
Hungjao Bequest	821 831	217 058	1 038 889	972 590
Isaacson Foundation Bursary Fund	–	1 297 651	1 297 651	1 838 698
Johnson and Johnson Medical Bursary Fund	–	254 281	254 281	89 098
Luthuli Memorial Foundation Fund	107 883	57 276	165 159	165 159
Oppenheimer Memorial Trust	–	2 299 586	2 299 586	819 087
Reginald Smith Memorial Trust	10 000	3 072	13 072	12 401
Robert Shapiro Trust	–	4 179 997	4 179 997	4 433 543
Senior Bursary Fund	50 000	29 435	79 435	86 659
Shirley Simons Fund	772 778	1 330 917	2 103 695	2 132 459
TOTAL BURSARY FUNDS	**2 084 992**	**12 223 892**	**14 426 523**	**13 550 936**

17.2 Special Research Projects:	*2016* *R*	*2015* *R*
Royal Belgian Embassy	–	1 165
Dick Gawith Fellowship	–	982
International Republican Institute	1 653	1 037
Open Society Foundation for South Africa	1 229	1 166
Reform Project	–	1 238 907
	2 882	**1 243 257**

17.3 Other funds:		
Johnson and Johnson BTC Fund	1 089	1 033
	1 089	**1 033**
TOTAL SPECIAL FUNDS	**3 971**	**1 244 290**

NOTES (continued)

18. INVESTMENTS

18.1 Special funds	*2016* *R*	*2015* *R*
18.1.1 Bursary Funds (Note 17.1)		
Listed Investments (Note 19)	7 315 125	9 110 726
	7 315 125	9 110 726
Total equities and other investments	7 315 125	9 110 726
Cash deposits	7 111 398	4 449 751
	14 426 523	13 560 477
Less: Creditors	–	(9 540)
	14 426 523	**13 550 937**
18.1.2 Institute Special Research Projects (Note 17.2)		
Unit Trusts and Cash on call	2 882	1 243 257
18.1.3 Other funds (Note 17.3)	1 089	1 033
Total Special Funds	**3 971**	**1 244 290**
18.2 Other Institute Investments		
Listed Investments (Note 20)	**39 946 870**	**45 378 540**
TOTAL INVESTMENTS	**54 377 364**	**60 173 768**

19. LISTED INVESTMENTS OF BURSARY FUNDS

	2016 Qty	*2016 R*	*2015 Qty*	*2015 R*
Asset Managers				
Peregrine Holdings Limited	15 740	472 357	15 740	461 182
Banks				
Standard Bank Group Limited	7 700	1 168 475	9 300	1 055 550
Beverages				
SAB Miller Plc	–	–	2 280	2 139 826
Chemicals Oils and Plastics				
Sasol Limited	3 060	1 220 634	3 060	1 283 364
Clothing and Accessories				
Compagnie Financière Richemont SA	12 450	1 129 713	12 450	1 389 420
Food Retailers and Wholesalers				
Bid Corporation Limited	6 344	1 555 232	–	–
Mining Holdings and Houses				
Anglo American Plc	–	–	3 000	206 970
BHP Billiton Plc	2 830	618 864	2 830	492 250
Services				
Bidvest Group Limited	6 344	1 149 850	6 344	2 082 164
		7 315 125		**9 110 726**

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

NOTES (continued)

20. LISTED INVESTMENTS OF OTHER FUNDS	*2016 Qty*	*2016 R*	*2015 Qty*	*2015 R*
Banks				
Standard Bank Group Limited	–	–	13 900	1 577 650
Beverages				
SAB Miller Plc	–	–	4 166	3 909 874
Anheuser-Busch InBev SA NV	820	1 194 568	–	–
Broadcasting & Entertainment				
Naspers Limited	1 135	2 285 992	300	636 000
Business Support Services				
Santova Limited	700 000	2 450 000	700 000	2 975 000
Chemicals, Oils and Plastics				
Sasol Limited	–	–	5 000	2 097 000
Clothing and Accessories				
Compagnie FinanciEre Richemont SA	–	–	22 600	2 522 160
Computer Services				
Datatec Limited	–	–	3 053	157 230
Equity Investment Instruments				
Rand Merchant Insurance Holdings Limited	41 500	1 651 700	41 500	1 606 465
Stellar Capital Partners Limited	39 485	58 833	160 083	377 796
Exchange Traded Funds				
DB x-trackers Col in USA	81 300	2 381 277	–	–
Food Retailers and Wholesalers				
Shoprite Holdings Limited	–	–	9 250	1 325 155
The Spar Group Limited	10 200	2 025 516	10 200	1 877 820
Bid Corporation Limited	8 890	2 179 383	–	–
Furnishings				
Steinhoff International Holdings Limited	33 900	2 416 392	33 900	2 661 489
Investment Services				
Brait SE			21 309	3 557 324
PSG Group Limited	8 000	1 748 560	8 000	1 788 000
Life Insurance				
Sanlam Limited	21 000	1 320 900	21 000	1 271 340
Mobile Telecommunications				
Bluelabel Telecommunications Limited	46 000	837 200	20 000	243 000
Vodacom Group Limited	9 700	1 478 280	9 700	1 478 377
Mining Holdings and Houses				
Anglo American Plc	–	–	2 000	137 980
BHP Billiton Plc	5 564	1 216 736	5 564	967 802
Paper				
Mondi Plc	5 150	1 435 408	–	–
Pharmaceuticals				
Aspen Pharmacare Holdings Limited	6 350	1 800 733	6 350	1 965 198
Real Estate Holding & Development				
Capital and Counties Properties Plc	20 234	1 001 583	6 900	707 250
Investec Australia Prop Fd	120 000	1 606 800	–	–
Redefine Properties Limited	–	–	100 861	978 352
Rockcastle Global Real Estate Company Limited	77 532	2 674 854	48 018	1 675 828
Restaurants and Bars				
Famous Brands Limited	11 000	1 721 610	11 000	1 430 000
Retailers				
Clicks Group Limited	17 000	1 963 500	17 000	1 513 000
Services				
Bidvest Group Limited	7 190	1 303 187	7 190	2 359 830
Tobacco				
British American Tobacco Plc	4 102	3 193 858	4 102	3 581 620
		39 946 870		**45 378 540**

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

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