



IRR

South African Institute of Race Relations

The power of ideas

2017

88TH ANNUAL

REPORT

**WE STAND FOR
CLASSICAL LIBERALISM —
AN EFFECTIVE WAY TO
DEFEAT POVERTY AND TYRANNY
THROUGH A SYSTEM
OF LIMITED GOVERNMENT,
A MARKET ECONOMY,
PRIVATE ENTERPRISE,
FREEDOM OF SPEECH,
INDIVIDUAL LIBERTY,
PROPERTY RIGHTS,
AND THE RULE OF LAW.**



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OF RACE RELATIONS NPC

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CHIEF EXECUTIVE'S REPORT TO MEMBERS FOR THE ANNUAL GENERAL MEETING OF MEMBERS OF THE IRR ON MONDAY 9 JULY 2018

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 2017. The narrative report is written in the main to reflect developments in 2017, with some limited comments on subsequent events.

Our role and influence on a future South Africa

South Africa's future will ultimately be determined by who wins its battle of ideas. Ideas are the most powerful determinant of the trajectory of a society. They determine what people think and advocate for and they determine the drift of policy. It is futile to expect a profound degree of policy reform in any society until the dominant ideas that have anchored current and historical policy give way to a new set of ideas. In South Africa the battle pits those who advocate for a powerful state-led model of economic development, complete with curbs on private enterprise, individual choice and property rights, against those who champion the classically liberal ideal of a small but effective government that creates the circumstances for individual citizens to make choices about their own lives and to say and do what they want in a market economy where private sector-led investment creates the prosperity to pull millions of people out of poverty and into the middle classes.

The bulk of opinion in the media, civil society, organised business and politics sits on the statist side of that divide and champions ideas and policies that continue to price poor people out of the labour market, deny citizens choice over how they educate their children or access healthcare for their families, undermine property rights, strictly police acceptable speech and opinion, and promote ever more state intervention into the lives of ordinary people and greater wealth extraction from households. The IRR stands for a very different ideal. At the end of the main corridor in our office in Richmond is an epigraph in large letters that takes up most of the wall. It reads:

*We stand for classical liberalism –
an effective way to defeat
poverty and tyranny through
a system of limited government, a
market economy,
private enterprise, freedom of speech,
individual liberty, property rights,
and the rule of law*

This article of faith was placed there to be a constant reminder of what the IRR is – a bold champion for a free society.

The battle of ideas that we engage in every day is contested on two broad fronts. The first relates to the rule of law, corruption and accountable government – and is getting the bulk of analyst attention. The second is arguably even more important and relates to policy reform in areas of empowerment, the labour market, property rights,

and education. The role of the IRR has been, and remains, to have a definitive influence in shaping public opinion in favour of policies that advance property rights, a market economy, free speech and the rule of law, while supporting policy makers with the advice and analysis necessary to craft and implement reforms.

Our thesis is this: the initial post-1994 economic recovery, born of equal measures of good fortune and some sensible policy, made possible a far greater improvement in living standards than is commonly understood. That trajectory was broken in the aftermath of the 2007 Polokwane conference and later global financial crisis. Public frustration (measured in polling and voting data) born of now unmet expectations frightened ruling party politicians who tried to counter the trend with equal measures of ideological dogma and populist policy. The response was wholly counterproductive and stalled South Africa's post-crisis recovery, even as other emerging markets grew out of the crisis. The ensuing weak economic performance triggered a significant loss of confidence in the ruling party, which in turn triggered deepening populism – and hence the slow turning of a dangerous negative spiral was set in motion. This is essentially where South Africa came to stand in November of last year.

Subsequently, a degree of political realignment has taken place in the ruling party. Whether this realignment will be sufficient to break out of the spiral via an economic recovery sufficient to meet popular expectations is the question this analysis seeks to address.

Meeting popular expectations is essentially a challenge of labour market access – which is why we have dedicated significant resources to shaping labour market policy. If you conduct a polling exercise and ask South Africans what they most want, what is necessary above all else to improve living standards and build thriving communities, the answer, every time, is employment. Many analysts and politicians argue that South Africa has experienced two decades of jobless growth – but our analysts show a more complicated picture.

- In fact, since 1994, the number of South Africans with a job has doubled from nearly 8 million to just over of 16 million today.
- The number of black people with jobs has more than doubled.
- The labour market participation rate (a rate that measures what proportion of people of working age work or look for work) increased by almost 30% for black people.
- The dependency ratio that measures how many people depend on every 100 who work has fallen from 380 to 251.

All the above trends brought about great improvements in the lives and circumstances of millions of people across hundreds of thousands of households.

That the extent of labour market expansion surprises many people reveals a problem of a country (and a government) that has, at times, got it wrong in communicating the fine balance that must be struck in any accounting of socio-economic progress or failure.

If labour market data reveals the problem, then service delivery trends establish its extent. It is widely accepted that service delivery has failed, but the data tells a different story:

- In 1996, there were an estimated 5.8 million families living in a formal house. That number has more than doubled to over 13 million today. In 1996, 64% of families lived in a formal house, but now the figure is almost 80%.
- Similar numbers are true for water and electricity delivery. For example, the number of families cooking with electricity (an excellent indicator of living standards) has increased from just over 4 million in 1996 to just under 13 million today – or from less than 50% to more than 80%.

- The number of families with access to clean water has doubled.

Even in areas associated with almost complete failure, such as in schools and education, there has been pleasing progress – the extent of which is brought out most starkly by sketching some historical context:

- In 1955, for example, only 259 black children passed matric. Twenty years later, in 1975, the number was just above 5 000. In 1990 it was slightly over 100 000. Today, it has risen to just under 400 000.
- In 1995, less than half the university class was black, but today the figure is more than 70%, and the number of people being afforded the opportunity of university study has almost tripled since 1990.
- In 1990, there were more than 40 white engineers graduating for every black engineer. Now there are roughly twice as many black as white engineering graduates – even though the number of white graduates has not declined.

In healthcare:

- The number of public sector nurses has increased by almost 50% since 2000.
- The number of public sector doctors has increased by over 60% over the same period.
- The number of new HIV infections has been cut in half since 1999.
- The still-birth rate (a very useful measure of living standards and public health) has fallen by roughly a quarter over the past 15 years.

Violent crime takes a terrible toll on South African communities and the quality of policing is very far from what it should be. But the murder rate, per 100 000 people, has fallen from 67 in 1994 to 34 today – a decline of almost 50%.

We could go on to examine trends that stretch from vehicle ownership rates, property purchase patterns, and junior school enrolment levels all the way to trends on the ownership of fridges and vacuum cleaners (the hard measures of middle-class expansion), commercial farm land, and the ownership of shares in companies listed on the stock exchange – but all those numbers will point to the same place; a country that is a fundamentally better place to live in than it was 28 years ago – and, considering what might have been, an end that was never assured.

Because of the progress made, and the democratic dividend that has accrued for many millions of people, relations between South Africans are better than many people understand. Our analysis shows that the democratic dividend arose in large part because of the liberalising policy reforms introduced by the government in the 1990s – reforms that triggered rising levels of private investment that took advantage of South Africa as a market economy that respected property rights.

Because of that dividend, and contrary to the fearmongering, our polling conducted over the past year again revealed that a comfortable three quarters of the population believe that different class and race groups need one another if they are to realise the country's potential – while a comfortable majority believe that relations between South Africans are better, or have suffered no deterioration, than was the case in the heady days of 1994. The social fabric of the country remains sound, albeit under strain – but, of course, no complacency is warranted on this remaining true.

Why it is important to emphasise the story of South Africa's progress is because it is first and foremost the truth – and, secondly, because it is good for South Africa to know it, along with those who watch the country from abroad. Thirdly, and most usefully, the data on progress, and the trends that flowed from it, contain critical information we need to accurately anticipate what will occur over the decade ahead. Most critical of all is the insight of a crisis of rising expectations – that the successes bred new and ever increasing

demands for further improvement and that if these demands are not now met the ruling party may soon find itself in the same trouble it was in just a few months ago – and for the same reasons.

Central to meeting initial expectations was the degree of economic liberalisation secured in the Mandela and Mbeki eras, which allowed for a much-improved economic growth performance between 1994 and 2007 relative to what had occurred in the 1980s and the first three years of the 1990s.

Success in politics requires some good fortune and, admittedly, Mr Mandela and his *de facto* prime minister came to power amidst a great deal of that. Interest rates that peaked at over 20% in 1996 would be cut in half. In the 1990s, consumer debt levels (a measure of untapped spending potential) sat at 25 percentage points below where they are today. Bond yields would be cut in half. There was considerable cheap and surplus electricity – and Mr Mbeki would govern through the steepest commodity price cycle the world had ever seen.

Matched with some of the good sense underpinning the GEAR policy of 1996, the data tells the story of what happened next:

- The year-on-year change in levels of fixed investment peaked between 2003 and 2008.
- The year-on-year change in consumer expenditure also peaked in the 2004 to 2007 window. Such expenditure is equivalent to around 60% of GDP and is therefore important in giving direction to the economic growth rate.
- The two above trends conspired to ensure that the economic growth rate recovered from averaging levels of 0% or below for 40% of the 1980s to average around 3% into 2003 before, for four brief years between 2004 and 2007, averaging five percent – incredibly, the first time it had sustained such an average for that number of years since 1970.

It was still a too modest performance and, given the context, much higher levels of economic growth might have been attained. But those criticisms would soon be forgotten as the picture changed very quickly for the worse in late 2007 as trade unions and the communist party led a successful drive to eject Thabo Mbeki as leader of the ruling party:

- The growth rate sank in the aftermath of the ANC conference at Polokwane, bottomed out in the global financial crisis year, rallied into 2010 and 2011 (as fixed investment and consumer spending rallied) and then declined year after year to a very low 0.3% in 2016.
- Fixed investment levels fell through a deep trough into the global financial crisis, rallied in 2010 and 2011, and subsequently fell flat.
- Consumer confidence and expenditure numbers dived with the fixed investment data into the financial crisis, then rallied briefly off the low base effect and delayed purchasing decisions of 2009, and then fell flat.

The consequences were best read against the global economic growth rate. Having parted ways through the 1980s, South Africa's economic growth rate again showed a high degree of coincidence with the global rate from 1994 to the peak of 2007, through the financial crisis, and back out of the crisis – but only to 2012. From 2013, as the fragile global recovery saw the world's growth rate increase year after year, South Africa's growth rate peeled away on a sharply downward trajectory.

The reasons for the divergence, particularly after 2013, related in the main to counter-productive domestic policy – engineered by leftist ideologues in the government and encouraged by left wing activists in the media, academia, and civil society. Threats to nationalise industries from mines to banks were made. Rafts of new expropriation legislation were drafted. The infamous mining charter was introduced. The era was

summed up best by the Licensing of Businesses Bill, which promised to send scores of start-up entrepreneurs to jail.

But the rolling back of GEAR-style thinking left the government and the ruling party exposed to a harsh set of economic and fiscal consequences.

Perhaps the greatest economic policy success of the ANC in government had been the relationship between the budget deficit and the debt-to-GDP ratio. Between 1994 and roughly 2007, debt levels were cut in half (and the saving on the interest bill was sufficient to finance the initial rollout of the social grants net) while the deficit was reduced from a level of around -4% in 1994 to record a small surplus 13 years later. If you plot the two indicators over time they produce an X effect of a narrowing deficit across a falling debt level – and that effect was central to the ANC's initial political success.

But by last year, debt levels had doubled to exceed apartheid-era highs and the budget deficit was forecast to remain at levels last seen pre-1994. At a multiple of the economic growth rate, the deficit was leading the government into a fiscal crisis.

One after another, the key indicators that had been central to South Africa's initial successes in raising living standards began to slow. Private investment as a share of total investment fell by more than 10 percentage points after 2007. The rate of formal private-sector job creation – given its strong relationship with economic growth and the growth rate's relationship to fixed investment – plateaued after 2007. The rate of increase in welfare extension slowed sharply. Per capita GDP, which in 2006 had for the first time exceeded the previous 1981 high point, plateaued, and, in real terms, has declined since 2014.

For the government and the ruling party the political ramifications were almost instantaneous.

If you overlay the economic and jobs and welfare data with polling information, a remarkable degree of coincidence is revealed. Popular confidence in the future of the country, and by extension the government, peaked in the 2004 to 2007 window (as fixed investment, economic growth, and formal sector job creation peaked). However, such confidence fell by almost 40 percentage points over much of the subsequent decade in near unison with the year-on-year changes in real household income levels. Those income levels in turn show a close inverse correlation to levels of violent anti-government protest action.

You can extend the correlations to voting data. In 2006, at South Africa's post-1994 economic peak, and 18 months before the fateful Polokwane conference, the ANC secured over 66% of the vote in a local government poll – close on the heels of its record 69% showing in the national election two years before that, a moment at which it performed more strongly than when Mr Mandela had led the party a decade earlier. But the post-2007 economic reversal triggered a spectacular reversal in the party's support levels to below 54% in the 2016 local poll – with a like comparative drop of over ten percentage points for the decade. Newspapers warned of a 2019 sub-50% shock for the ruling party (a stick used by the media and his critics to beat Mr Zuma with, but somewhat too sensational, as reliable polling last year suggested the ANC – still pre-Ramaphosa – was on track to get 58% in the 2019 poll, and we would now upgrade that number by a considerable extent).

While it was less sensational than had been reported, a turn in voter support against the ANC had undoubtedly occurred which, as we have established, was preceded by the post-2008 dip in popular confidence in the future of the country which in turn coincided very neatly with changes in household income levels – and, in turn, with protest levels. So good and strong are these patterns and relationships between the economic, social, and political markers that we are confident the information exists to anticipate exactly

where to from here for South Africa, its economy, and its political parties – based on the policy decisions that will be taken over the year ahead.

A complete command of the data and correlations is the essential ingredient to making long-term strategy for South Africa – but in our experience very few people have that command.

The years of weak economic performance had left South Africa vulnerable to populist incitement. It was alarming to see the extent to which absolute nonsense such as the ‘rogue unit’ story and the ‘white monopoly capital’ argument gained mainstream traction that was nearly sufficient to so distort public perceptions away from the real challenges facing the country that the state capture project almost survived, and in December last year South Africa came within 200 votes, cast by ordinary men and women, of what would have been a very dangerous situation.

In 2013, five years after Polokwane and five years before today, we developed a skeletal scenario set called New Dawn – Dark Night.

- New Dawn spoke of an internal ANC reformation that we compared to the experience of the verligte-Afrikaners and predicted that ‘reformists within the party, building largely on the blueprint laid down in the National Development Plan, [will] seize policy control of the ANC and bring about a series of initially unpopular changes...’
- Dark Night set out the implications of accelerated racial nationalist fervour amidst worsening investment and economic indicators warning that ‘an obstinate ruling party and government [may] press ahead with failed interventionist policy despite all evidence suggesting that such interventions are doing more harm than good’. In that case, we said the ANC will see ‘its electoral majority slip to below 60% in 2019, leading to the party’s losing the 2024 election’.

Our confidence in predicting that the ruling party would not survive a further decade of misrule was established in the work we had done on the correlations between South Africa’s economic performance and the sentiment of ANC supporters.

That insight may remain a heartening realisation for many South Africans – that a government that strays too far for too long from the path of economic righteousness will probably not retain a national majority for very long. The country may have an immunity to long-term misgovernment built into its voting DNA – a powerful countervailing force in favour of South Africa’s long-term success.

We presented the scenario set to leaders of political parties. One side of the divide dismissed the New Dawn outcome out of hand – that it could never occur, they were emphatic. But there were leaders on the other side of the divide who showed interest in the scenario and in the reforms that would underpin it. It was in part on the tentative strength of that experience that we built the Wide Road scenario in 2014 and the Rise of the Rainbow in 2017 – both of which suggested that the ruling party might reform to survive.

It is too early yet to say with any confidence whether that is what has happened since the ruling party’s leadership change – and whether our upside scenarios are now firmly in play. Whether that will be the case hinges on how the new administration led by Mr Ramaphosa addresses two fundamental questions:

- The first is the restoration of the rule of law. It is some months into the year, and the signs so far are promising. But the test will be to see if these early actions translate into a raft of successful prosecutions – an important catharsis and marker that the paradigm has indeed shifted.
- The second is economic policy reform and, here, the obstacles are very great. There are three that must specifically be overcome and that are each so important that failure in

any one of them will see the reformation stall – even if Mr Ramaphosa manages to take confident control of his party, deals effectively with corruption and malfeasance, and re-establishes the rule of law.

The first is the budget deficit. The deepening deficit since 2008 mirrors perfectly a fall-off in company tax as a share of GDP. Yet both government revenue and expenditure as a share of GDP have continued to rise sharply – financed in part through the borrowing that doubled the debt-to-GDP ratio and through placing a now near intolerable burden on individual income tax payers. We estimate that in the region of half a million individuals, out of an adult population of near 30 million people, contribute over 60% of individual income tax. It must alarm any observer that the revenue paid by individuals as a share of GDP has increased by more than two percentage points since 2007, while the total revenue-to-GDP ratio is advancing on a two-decade high point.

Mr Ramaphosa's new administration may not, as a consequence, immediately have the money it needs to develop the infrastructure needed to support an economic recovery while also delivering on the welfare and service delivery demands of several million households.

The antidote is growth, but our forecasts are that growth rates will this year underperform emerging market averages by around 70%. It worries us that policy makers are talking of taking the economic growth rate up to 2% by 2020 as that is nowhere near the watershed level for breaking the structural unemployment crisis – the second major obstacle the government faces.

Roughly, South Africa creates 100 000 net new jobs per point of GDP growth per year. To reduce the black unemployment rate to the white rate, which is competitive with developed economy norms, will require the creation of around one million net new jobs per year over the next decade. An economic growth rate of 5% will get South Africa halfway there. Short of that, the ruling party may not sufficiently deliver on popular expectations to secure a decade-long 60% mandate. We sense this because of polling showing that people too young to have a lived experience of apartheid are considerably more sceptical of the ruling party than those who remember the time – an age-bracket trend that further correlates to unemployment rates. Fail to address that scepticism through employment, and popular opinion among young people will progressively swing against the ruling party, opening a new door for opposition politicians – although not, perhaps, to the extent that the door was thrown open over the past decade.

Remember, too, that Mr Ramaphosa sets about his task without the same measure of good economic fortune that was the case for Mr Mbeki. Most notably, consumer debt levels today are too high to allow for a domestic consumer-driven recovery – fixed foreign and domestic investment numbers will be a key lead indicator for the growth rate.

The third hurdle is in education. An assessment we conducted of the Grade 10 class of 2014 found that just over 50% of that cohort progressed to matric in 2016. Around 14% of the cohort qualified for university study at a standard set so low as to be useless to any serious analysis. Less than 3% of the cohort passed matric maths with a grade of 60% or higher – a qualification that offers a young person the reasonable prospect of ascending to the middle classes within a decade.

There is a strong correlation between levels of education and labour market absorption – so much so that only among university graduates does South Africa display an absorption rate on a par with its emerging market peers. This insight in turn correlates with data on the changing structure of both GDP and the labour market. Without doubling the number of maths passes in matric every five years (there are so few such passes as things stand that the target could be reached) it will be very difficult for the government to deliver on demands for middle class access.

Reflecting on these three policy challenges will temper the expectations of even

the most fervent South Africa bulls. Meeting popular expectations is a much greater challenge than the bulk of the writing on South Africa, especially in the early weeks of Ramaphosa's ascendancy, has suggested – and a challenge that extends well beyond the problem of state capture.

Why is there any doubt that the government will move more swiftly towards these reforms?

There are three reasons.

- One is that the balance of power in the leadership of the ruling party does not align perfectly with public opinion – a key reason for the party's recent weakness. Polling suggests that people may be more open to reform in the three critical policy areas above, and others, than some senior leaders in the government and the ruling party are.
- The second, and related reason is the crippling effect of ideological dogma that regards markets, investors, property rights, entrepreneurs, free speech, independent institutions, constitutional safeguards, and the rule of law as the impediments that stand between people and the realisation of their aspirations to a better life. The dogma must, and can, be overcome.
- Finally there is the question of competence – reform is very difficult and even with the right intentions a reformist agenda will fail if the people who must drive it at ground level are not up to the job.

If these obstacles are overcome, and they can be, what would a sufficiently ambitious and effective reformist agenda entail?

We brief many firms on the likely trajectory of the country, and the briefings, which are a useful barometer of investor sentiment towards current government policy, time and again reveal three areas of investment disincentives.

The first of these is empowerment policy – as it has come to be practised. There is never any doubt that effective ways of ensuring accelerated rates of economic inclusion are necessary and desirable. However, as it is practised, the policy is often seen as a tax on investment and an attempt to extract wealth on behalf of a small political elite. Very few, perhaps none, of the firms we brief will state this in public for fear of the political consequences. But our experience is sufficient to suggest that unless fundamental changes are made to empowerment policy, South Africa will not succeed in becoming a competitive investment destination again.

We would encourage the government to consider that current empowerment policy be turned on its head to focus on the inputs (education and entrepreneurship being key) that are necessary to accelerate disadvantaged people into the mainstream economy – with beneficiaries of the policy being selected on the grounds of established socio-economic disadvantage, the same basis that made the social grants system so effective in securing a degree of socio-economic upliftment. Critics of the latter proposal say it cannot be done because race must remain the founding basis of empowerment policy. But the distinction between what we propose and the approach of the government is not as great as that critique suggests – and there is much common ground on the importance of ensuring that black people benefit. Our response to the critics would be to say that under our approach the beneficiaries will be black, almost all of them, as a function of the inequalities in our society. But they will have benefited not because of their race but because their circumstances are such that it is right and good that they are supported to enter the mainstream (circumstances that can easily be established via a means test that may, for example, determine if your parents went to university or owned property above a certain value). We will also remind our critics that under the policy of the government, the beneficiaries are not always black (we have scandalous data in our possession) while often the beneficiaries are already firmly established in business and

the middle classes – and the policy seldom reaches as deep into poor communities as an empowerment policy should.

The second area of investor concern is threats to property rights. From the cancellation of investment treaties to the undermining of intellectual property rights and the recent resolution on expropriation without compensation, the conclusion is inescapable that South Africa is not a country in which your investment is as safe as it might be in other competing jurisdictions. It is futile to entertain the idea that diluting the protections on offer in Section 25 of the Constitution can be done in a manner that does not raise alarm among investors – the drift across emerging markets is towards stronger property rights, not away from them. Nor is there a way out of that conundrum by limiting any dilution to agricultural land. With the precedent set, policy creep means that similar dilution will in time be expanded to other economic sectors – and the risk will for decades affix a flashing red light above the gateway to the economy. The manner in which the new mining charter put the brakes on fixed investment in that industry, by essentially threatening the property rights of shareholders, is a perfect example of the problem.

Property rights must be sacrosanct if we are to attract the investment we need, and to allow poor households to start accumulating assets. Title to their homes would be a good start, as would title and proper financing for emerging farmers. Land reform, as one controversial area of policy, does not fail because of property rights – it fails because emerging farmers are not allowed the advantages of ownership that are central to the model of agricultural production in South Africa. Eliminate freehold title in favour of leases, for example, and you wipe hundreds of billions of rands off the balance sheet of the agricultural economy forever, stunting capital investment and innovation and sabotaging the hopes and dreams of emerging producers.

The third is labour market policy that prices poor people out of work, thereby reducing South Africa's domestic competitiveness and stunting the domestic consumer market – a frustration for many firms who have exhausted South Africa's consumer base. Arguments in favour of ideas such as 'decent work', and the 'outing' and public – often social media-based – 'shaming' of firms that are seen as 'exploitative', have the further effect of scaring firms off the idea of employing what may be seen as relatively low-wage and therefore often entry-level labour. This fear, exacerbated by already low investment levels, in turn serves to underpin South Africa's very low levels of labour market absorption. Far from protecting the most vulnerable South Africans from exploitation, the consequence of South Africa's labour regulatory regime is often to exclude poor people from the most important avenue to social and economic advancement ... and the dots back to the ANC's electoral performance connect themselves.

Our advice is that market access needs to be simplified by, for example, a system of private voluntary contracts, so that unskilled people can get onto the first step of the labour market ladder where they will learn the skills denied to them in South Africa's weak school system and earn the income that will rise to rival and then exceed their welfare income as their skills and therefore productive capacity grow.

Reforms to all three areas of policy are necessary if South Africa is to draw the investment to make possible the growth which will, in turn, lead to higher levels of employment. This is especially true for small and start-up businesses. Large firms can to an extent overcome even serious policy obstacles, or pass the costs onto consumers, and may even, perversely, exploit bad policy to freeze out smaller competitors.

Yet, even though the case for reform is compelling, we wrote earlier this year in the media that "all three areas of reform attract needless controversy through ...the fallacious argument that reform would advantage only the elites in society and further disadvantage the poor".

South Africa's own track record of the past 20 years, and the correlations between investment and growth, and living standards and popular confidence in the ANC,

dismisses more powerfully than anything else the fallacy that there is a binary trade-off to be made in policy between the interests of the established middle classes and investors on the one hand and the poor on the other.

There is a fourth area of reform that relates to education in schools. The single most impactful policy shift the government can make would be to embrace a hybrid schools system combining the best elements of charter, contract, and voucher schools – it does not matter which – that has the effect of giving parents far greater influence over the management of the schools their children are in. Communities must own their schools and run them as they see fit – to standards set by regulators. Yet the drift of current education policy is in the opposite direction – to reduce parental choice and involvement in favour of dirigisme. It is an approach to policy that may work in other jurisdictions, and in less free societies, but it has not and will not work here. Parents can be trusted to make better decisions about the future of their children than bureaucrats and politicians. No less a figure than a former minister of education made this clear when the opposition called her out for sending her children to an independent school. Her response, quite rightly, was that it had nothing to do with politicians how parents decided to educate their children. The government must afford all parents that same privilege.

Match that change in education policy with the very welcome idea announced by Mr Zuma in December, that qualifying children from poor households will not face financial exclusion from higher education, and South Africa's education outcomes will become much better very quickly. It is quite mad that a country that talks so much about empowerment will maintain a status quo in which, year after year, universities, and the politicians that oversee them, will turn away thousands of young black people who, if given the chance, would help to build the country. That there has been any criticism of Mr Zuma's announcement reveals a remarkable ignorance of the force for good that his proposal will be.

When we are asked why necessary reforms are not adopted, our answer is firstly that policy makers are unlikely to move against the drift of popular media opinion (as distinct from public opinion) – even if the long-term benefits of reform are apparent. A senior politician, for example, asked us how to square our proposals with the 'revolutionary agenda' of his party – an agenda that finds much favour with mainstream commentators and many newspapers. It is not difficult, but ultimately of little use, to convince a politician of the need for reform if he or she cannot at the same time be convinced that policy reform will be met with immediate media and commentator adulation.

We take that answer further to say that a necessary step towards reform, and in direct support of those who might take reformist decisions, is to invest more time and money in tackling, in public, the fallacious arguments that underpin the current policy malaise in the country – or, in fewer words, to fight and win what Thabo Mbeki understood so well as the battle of ideas. The fallacies that empowerment policy as currently practised is the only effective strategy for ensuring meaningful black economic participation, that current levels of labour market regulation are in the best interests of the poor, that giving more power to officials will finally solve problems of access to high quality schools, and that the property clauses of the constitution are to blame for the dearth of black commercial farmers – must be defeated before reform can be expected to occur. You dare not doubt this.

The battle of ideas, then, is ultimately what the terrain of struggle, to use a revolutionary term, must be reduced to. But the fallacies are very powerful and it does not take much to appreciate that in the end it may be the fallacies, and the grip they exercise, that will perhaps prove the most formidable obstacle to policy reform of all.

Will the reforms happen?

We hold out four scenarios for South Africa.

The first, Rise of the Right, suggests that civil rights in South Africa will have to be eroded in order to create the space for a dramatic state-driven economic reformation to position South Africa as a high-growth emerging market. That model of authoritarian capitalism and a 'guided democracy' will then become the definitive precedent shaping the evolution of similar high-growth economies across the continent. Think Asian-Tigers – just decades later, and in a different global context. Economic growth would return to levels above 6% over the next decade, the unemployment rate would be cut in half, and South Africans would surrender civil liberties for the promise of prosperity and stability.

The second is the Tyranny of the Left. With poverty and inequality feeding populist anger and incitement, property rights will be eroded, opening the way for mass nationalisation and asset stripping at the hands of a cruel political elite. Civil rights and the rule of law will fall away. Investment flight, rapid currency depreciation, a multi-year recession, and hyper-inflation will erode all the progress the country has made – before triggering a cataclysmic drop in living standards.

The third is the Break-up of South Africa. Here, an out-of-touch and corrupt government will grow ever more distant from South Africa's people, with counterproductive policy undermining investment and entrepreneurship. The fiscal deficit will deepen and service delivery, public education and healthcare will suffer as the government's coffers run dry. Repelled by their politicians, South Africans will withdraw into enclaves – some prosperous and others urban slums and rural backwaters. South Africa will continue to underperform comparable to emerging markets on almost every measure.

We have been there for the past several years.

But now South Africa has an opportunity to realise the fourth scenario – the Rise of the Rainbow. In this outcome a reformed ruling party, with or without the support of the opposition parties (we had originally considered a coalition built around ANC reformers – but it appears now that ANC reformers may not require such an encumbrance), will introduce a series of reforms to restore the rule of law and position South Africa as a competitive investment destination. Economic growth will exceed 5% by 2029 and the unemployment rate will be cut in half. South Africa will turn from the brink of disaster to become one of the world's most exciting emerging markets.

But that outcome will not happen without profound and fundamental reform in areas of property rights, education, the labour market, and empowerment policy. Cyril Ramaphosa may have named his reformist agenda the New Dawn – but at the time of writing this report it demonstrated very few of the attributes necessary to secure a real economic turnaround. It is far from sufficient to have a more effective and less corrupt government – if that is indeed what South Africa now has. Many of the leftist ideologues who engineered the policies that triggered South Africa's economic slide of the past decade remain in the ruling party, the government and the Cabinet, as do many of their supporters in the media and civil society. They have skilfully avoided culpability for that catastrophe by casting the weak economic performance of the past decade as arising in the main from corruption and state capture. But that is not the whole truth or even the balance of the truth, as the balance of the catastrophe arose from policy that undermined investor confidence, increased statist interventions, and threatened property rights – the very types of policy which in fact heighten the risks of corruption and state capture.

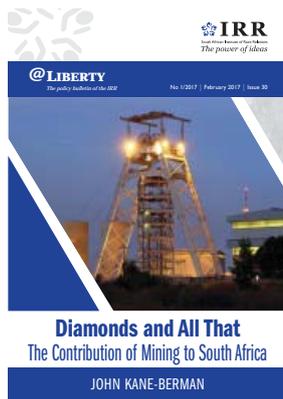
The detail and data that follow in this report set out our efforts to win the battle of ideas that must be the precursor to the policy reforms needed to see South Africa reach its potential as a free and prosperous society.

Reports released in 2017

@Liberty

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

Diamonds and all that



February 2017 – This issue dealt with mining and its contribution to the South African economy. Mining triggered the South African industrial revolution, along with the development of towns such as Kimberley and Johannesburg, and the expansion of railways, roads and other infrastructure. The report noted that although mining contributed only 8% to GDP, it made a major contribution in other ways. Mining accounted for the single largest proportion of the output of four of the nine provinces, while six of South Africa's 16 largest towns were substantially dependent on mining. The mining industry spent almost as much on the purchase of goods and services from other sectors (some R250bn in 2015 alone) as it generated in output. It accounted for 1.5 million direct and indirect jobs and supported some 15 million

people. Yet this vital industry was under significant threat. This was partly due to the volatility of commodity prices and ever rising input costs. However, it also had much to do with shifting and ever more onerous 'empowerment' requirements in the Mining Charter, with increasingly damaging legislation (which made investors reluctant to risk their capital here), and with increasingly vocal environmental lobbyists. The report cautioned that government should stop putting the mining industry at risk through its policy interventions. Instead, it should focus on helping the sector to match the growth which other mining jurisdictions had been able to achieve.

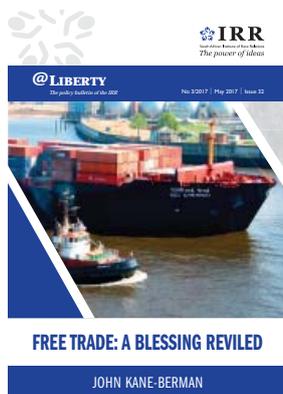
EED is for empowerment, whereas BEE has failed



April 2017 – This issue analysed the results of the IRR's most recent opinion survey on BEE (carried out in September 2016) showing that BEE helped only 14% of blacks. Worse still, BEE harmed the great majority by eroding public service efficiency, promoting fraud and inflated pricing in public procurement, and choking off investment, growth and employment.

Since BEE was so clearly failing, this issue of @Liberty asked what should take its place. The answer, it suggested, lay in a new system of 'economic empowerment for the disadvantaged' or 'EED'. This would put its primary emphasis on rapid economic growth and the generation of millions of new jobs. An EED policy would also empower people by giving them tax-funded vouchers for education, housing,

and health care. Instead of having to rely on a failing state, people could then send their children to the schools of their choice, start buying or upgrading their homes, and take out insurance or medical aid cover for their health-care needs. Under an EED system, businesses would earn EED points for their vital economic contributions to investment, employment, innovation, and tax revenues. They would also earn EED points for topping up tax-funded vouchers for the poorest, or for helping to improve the quality of provision in these key spheres. An EED scorecard of this kind would make for genuine empowerment. Its benefits would also go to the great majority, rather than a relatively small elite.



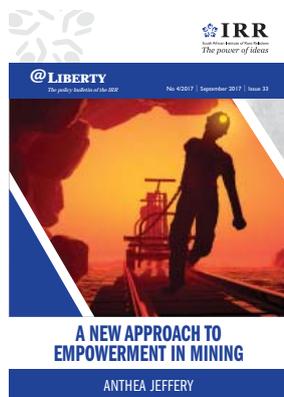
Free trade: a blessing reveiled

May 2017 – In this issue we explained that it would be "disastrous" if President Donald Trump were to reverse the process of trade liberalisation that had been the single greatest global economic success story of the post-war era. Trade liberalisation, the report pointed out, had helped to lift hundreds of millions of people out of poverty.

Yet, it noted that pressures in both the US and other countries for protection against cheaper imports had been growing for many years – and from long before Mr Trump became a presidential candidate. One such pressure came from the “fair trade” movement, which amounted to another form of protectionism. The imposition of “fair trade” and other social and labour requirements on the exports of poor countries was both selfish and deeply misguided, the report argued, preventing those countries from using their comparative advantage of abundant unskilled cheap labour to pull themselves out of poverty by their bootstraps.

China had successfully used this comparative advantage, with the result that it had made astonishing inroads into poverty as employment and wages rose. India, Vietnam, and other countries in the region were next in line. Like China, they would eventually also see labour costs rise, losing their comparative advantage of cheap labour. Against this background, Africa should start positioning itself to take over as the next workshop of the world. This would require the dismantling of its own internal trade barriers, along with effective steps to improve productivity, education, governance, and infrastructure.

A new approach to empowerment in mining



September 2017 – This issue dealt with proposed mining policy. It pointed out that the 2017 mining charter threatened companies with the cancellation of their mining rights if they failed to maintain 100% BEE scores on ownership, skills development and community upliftment for 30 years or more. This unreasonable requirement was likely to halt investment, increase unemployment, and bring irreparable damage to the mining industry. The country therefore needed a bold new approach to empowerment in mining, which put the emphasis on growth and expanding opportunities for the truly disadvantaged. In place of the current charter scorecard, a new EED scorecard should be introduced. This would reward mining companies for all their important economic, labour,

environmental and community contributions. The EED approach would also include state-funded vouchers for education, health, and housing, to be supplied directly to disadvantaged households. These vouchers would further liberate the poor by allowing them to choose private suppliers instead of having to rely on the state’s poor provision in these key spheres.

Pressing Ahead with NHI Implementation



November 2017 – Here, the IRR noted that there was still no clarity on what the proposed National Health Insurance (NHI) system would cost, how it would be financed, how the supply of health services would be increased to match stepped-up demand, how the NHI’s enormous administrative burden would be met, or how corruption would be curbed. The government was nevertheless pressing ahead with NHI implementation. Access to private health care was increasingly being limited by the state’s own regulations. New primary health insurance policies had already been prohibited, while the tax credit for medical scheme membership was soon to be removed. Smaller medical schemes were to be ‘folded’ into larger ones, while all medical schemes would have to narrow

down the cover they currently provided to a single option decided by the state. To help pave the way for the NHI, the stigmatisation of the private health sector persisted. So too did the health minister’s claim that the NHI offered the only way to achieve universal health coverage in South Africa, when clearly this was not so.

Deep and dangerous: Health and safety in our mines



December 2017 – This paper explained that mining was inherently a risky business – and that health and safety on South Africa’s mines had long been controversial issues. Gold mining was particularly hazardous to health because it generated silica dust from which underground workers could not easily be protected. Exposure to silica dust often triggered silicosis. At the same time, some 80% of South Africans had latent tuberculosis (TB), which exposure to silica dust could turn into active TB (though many other factors also contributed to this risk). Black mineworkers were particularly vulnerable to TB, partly because far more blacks than whites worked underground, and lived in poor, overcrowded conditions. The depths at which mining often took place in South Africa also made it uniquely challenging.

Protecting health and safety in South Africa’s deep and often dangerous mines was vital, the report said, but policies and laws must strike the right balance. The government should recognise and applaud all that the mining industry had done to reduce fatalities and diminish dust. DMR inspectors should not be allowed to order safety stoppages for trifling reasons, or otherwise abuse their regulatory powers. The government, with private sector help, should maintain an adequate and efficient statutory compensation system for those who contracted silicosis and other debilitating diseases underground. The legacy issues that had tainted the mining industry and eroded trust needed to be acknowledged, but a constant focus on the evils of the past would deter fresh investment and make it harder still for the industry to survive and thrive.

The RiskREPORT

The RiskREPORT is a confidential briefing note made available exclusively to premium subscribers of the Centre for Risk Analysis (CRA). It seeks to give insight into developments in the country by assessing global economic circumstances and the domestic political, economic and social landscape. Also featured are forecasts on what to expect in the realm of policy. The CRA produced seven editions of the RiskREPORT in 2017.

30 May 2017: This edition focused primarily on developments in Europe – from the election of Emmanuel Macron as President of France to the likelihood of Britain’s exit from the European Union (Brexit) – and their anticipated impact on South Africa’s trade with Europe.



12 July 2017: An estimate of who will win the 2017 ANC leadership battle

This edition introduced a series looking ahead to the likely outcomes and implications of the ANC’s December 2017 national conference, highlighting the delicately balanced leadership contest between main contenders Nkosazana Dlamini-Zuma and Cyril Ramaphosa.





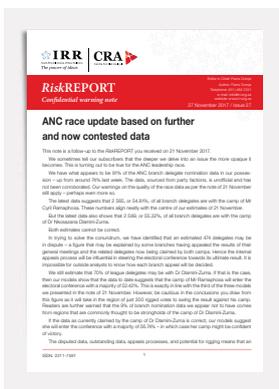
7 November 2017: ANC leadership race update

This edition updated estimates of the outcome of the ANC's leadership battle, emphasising that, whatever the result, uniting the party would be a defining challenge for the victor.



21 November 2017: Update on current ANC leadership race

This edition sketched possible scenarios arising from data on the ANC's leadership race, cautioning that factors ranging from vote rigging and corruption to internal appeals and court action rendered the outcome uncertain.



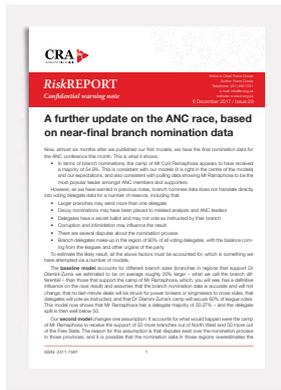
27 November 2017: ANC race update based on further and now contested data

This edition updated ANC leadership race scenarios, emphasising that if vote rigging were to occur, Nkosazana Dlamini-Zuma had a fair chance of turning the tables.



4 December 2017: Watch Free State controversies for direction of final ANC result

This penultimate edition focused once more on the ANC leadership race, highlighting the potential impact of court action on the elective processes.



6 December 2017: A further update on the ANC race, based on near-final branch nomination data

This final edition on the ANC leadership race presented four models to estimate the likely result, concluding – correctly – that Cyril Ramaphosa was the most popular candidate and, against many odds, would emerge as leader.

Fast Facts

Twelve editions of *Fast Facts* were published in 2017.



January 2017: Auditing racial transformation

This edition cautioned that, on its own, pursuing ‘racial representivity’ in the economy and other spheres of society would fail to address South Africa’s socio-economic challenges. The report advocated a shift from race as a basis of empowerment policy to the most fundamental building blocks – good education and high economic growth.



February 2017: Squeezing blood from a stone

This report provided an in-depth review of the 2017 Budget, including break-downs of revenue and expenditure, spending allocations, long-term trends, debt and deficit levels, projections, and changes in taxation.



March 2017: Soft infrastructure flaws underpin lukewarm global competitiveness

This edition compared South Africa to a range of selected countries and regions in four key performance categories – economic activity, institutional environment, hard infrastructure and soft infrastructure. The report concluded that ‘soft infrastructure – education, financial development, and health – was the key to any future upturn in the country’s fortunes.



April 2017: South Africa's Quality of Life: A Brief Reading:

This report introduced the IRR’s newly developed Quality of Life Index, a means of tracking South Africa’s progress in improving living standards by comparing indicators across the nine provinces and the four major race groups. A clear urban/rural divide emerged, with more urbanised provinces such as Gauteng and the Western Cape performing better. The report also highlighted persisting racial inequality, particularly within the broader ‘black’ population.



May 2017: Non-communicable diseases barely at heart of policy

This edition focused on diseases and health conditions that receive scant policy attention. The data covered cancer, heart disease and hypertension, diabetes, obesity and smoking, as well as the treatment of chronic diseases and the deaths that result from them. As part of the drive to increase awareness of cancer and related illnesses, the publication of this *Fast Facts* corresponded with International Cancer Survivors’ Day on 4 June 2017.



June 2017: Fixed investment on shaky ground

This report looked at trends in public, private and sectoral fixed investment dating back to the early 1990s. As a proportion of GDP, fixed investment sat at 19.6% — a level below the target of 30% set in the National Planning Commission’s National Development Plan. The report argued that only an attractive policy climate would boost confidence in South Africa and raise prospects for increased fixed investment.



July 2017: South Africa losing out on foreign investment

This edition followed up on the June Fast Facts and gave an overview of investment in South Africa by foreigners, as well as South Africans’ investments across the globe. It noted that while the value of foreign investment in South Africa used to exceed the value of South African investments offshore, the relationship between the two had reversed, as investing in the country became less appealing.



August 2017: Wathint’ Abafazi, wathint’ Imbokodo’

This report, celebrating South Africa’s women, featured data on the population of women, births, life expectancy and mortality, education, employment, crime and law enforcement as well as the contribution of women in influential positions. The report concluded that while progress could be seen in various spheres, there remained a need for a more inclusive economy and an increased focus on the safety and security of women.



September 2017: Crime: Through the eyes of the beholder

This edition examined perceptions of crime and policing in South Africa. The data showed that only 57% of households were satisfied with the quality of policing in their neighbourhood and that white South Africans were more satisfied with policing than their black counterparts, a telling sign of inadequate policing in poor communities.



October 2017: Nice work... if you can get it

This report focused on employment and unemployment in South Africa, cautioning that while the country continued to move towards a tertiary and skills-based labour market, skills remained in short supply. The report noted that the labour force absorption rate had decreased and was especially low compared to similar emerging markets.



November 2017: We’re queer and we’re here!

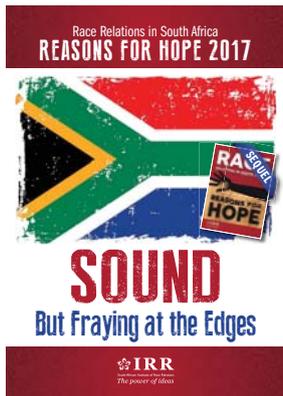
This edition offered an overview of South Africa’s Lesbian, Gay, Bisexual and Transgender (LGBT) community, noting the emergence of some progressive trends amid continuing discrimination and violence against LGBT people, particularly in rural black communities. The data indicated that South Africans and other (mostly young and educated) Africans appeared to have become more tolerant of members of the LGBT community.



December 2017: Profiling the provinces

The final report of the year presented a summary of indicators by province, covering data on demographics, the economy, education, health and social security, living conditions, politics and government, crime and security. Among the key patterns to emerge was the continuing movement of South Africans away from worse-off areas to better-performing provinces.

Occasional reports



February 2017: Race Relations in South Africa – Reasons for Hope 2017

Despite the damaging vitriol so often found on social media, race relations in South Africa remained sound, the IRR said in this report. The document was based on an opinion poll carried out for the IRR in September 2016 among a representative sample of some 2 300 people. According to the survey results – and contrary to what many commentators claimed – some 72% of South Africans reported no personal experience of racism in their daily lives. This percentage, though down from the 80% figure reflected in 2015, had gone up significantly from the 49% who reported this in 2001. More than half of South Africans (55%) thought race relations had improved since 1994, which was well up on the 48% who endorsed this view in 2001. Some 11% of black people thought race relations had worsened since 1994, which was not insignificant, but was also well down on the 23% who spoke of deterioration in 2001. An overwhelming majority (84%) agreed that the different races needed one another and that there should be full opportunities for people of all colours. In addition, very few South Africans regarded racism (linked here with inequality and xenophobia, for comparative purposes) as a serious problem. Some 6% identified it in this way in 2016, down from 8% in 2001. Instead, people generally saw the most important problems confronting the country as unemployment, followed either by service delivery failures (highlighted in 2016) or by crime (listed in second place in both 2015 and 2001).



February 2017: SONA 2017 – The Silver Lining

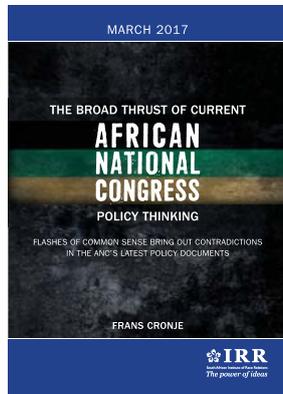
In order to bring some perspective to the 2017 SONA and subsequent media reporting, we produced this report, featuring some examples of the progress South Africa had made in the economy, the world of work, living standards, education, health, and crime. The report noted that regular readers of our reports and users of our briefing services would know how serious the challenges confronting our country were. However, those readers would also know that a lot had gone right in South Africa and that the successes achieved were often overlooked. The report highlighted significant progress across a range of measures, emphasising that South Africa needed to build on its successes in order to more effectively tackle outstanding, and considerable, socio-economic challenges, and that only policies which stimulated investment-driven growth could be counted on to enable this.



March 2017: South Africa's Immigrants – Building a New Economy

This report found that most refugees and immigrants who came to South Africa seeking a better life, managed to do so, and set out to investigate how they achieved the seemingly impossible, and what South Africans could learn from this. Typically of migrations elsewhere, the great attractant in South Africa was the opportunities for people who were willing to start at the bottom and do the 3D– work too dirty, difficult or dangerous to appeal to those already there. Though South Africa's unemployment rate was high – 27 percent, rising to around 40 percent by the expanded definition – joblessness among migrants was only 14.6 percent. The report found that where South Africans saw problems, migrants saw opportunity, finding work

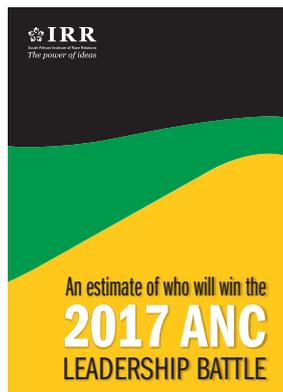
where there was none, raising capital even though they had no access to bank loans, and moving into arenas where competition was brutal – and all this against the odds of rampant xenophobia, constant police harassment and repeated government attempts, via legislation, to curb their participation in business activity. The report concluded that their success was testimony to a rare triumph of the human spirit, and the endurance of values like hard work and perseverance – important lessons for South Africans.



March 2017: The broad thrust of current African National Congress policy thinking

Our assessment of the policy discussion documents released ahead of the mid-year ANC policy conference found that flashes of common sense brought out contradictions in the ruling party's thinking. We noted that in the party's most recent set of nine policy documents, some of the more rabid Marxist dogma had been very clearly toned down, while flashes of economic common sense shone through here and there, such as an acknowledgement that mass-based economic transformation was severely retarded by low levels of economic growth. Nevertheless, there was little in any of the documents to suggest that the ANC was prepared to accept

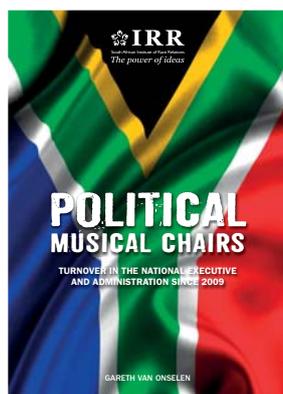
the structural reforms necessary to actually achieve higher levels of growth. Though heartening, we concluded that the flashes of common sense were fatally compromised by the contradictions that continued to run through ANC policy thinking. We cautioned that time was not on the ruling party's side, and that, if left unresolved (with continuing economic under-performance being an unavoidable consequence), the contradictions could bring about the ANC's political demise.



July 2017: An estimate of who will win the 2017 ANC Leadership Battle

This report was drafted exclusively for top-tier subscribers to our Centre for Risk Analysis. It provided an estimate, via seven models, of who would win the internal African National Congress leadership battle. It concluded that an exceptionally delicately balanced political race was playing out. The report also noted that it was clear from the CRA modelling that were Mr Ramaphosa to win, he could do so only with the support of many of those had supported and profited from Mr Zuma's time in power. Mr Ramaphosa's party would be divided on issues ranging from state capture and corruption to political and economic ideology. At the same time, popular

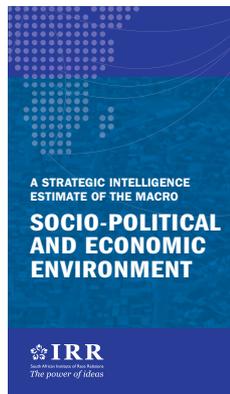
and media adulation at his defeat of Mr Zuma would drive popular expectations of a better life sky-high. But it would be difficult to meet those expectations with a party so split over economic policy direction. The report anticipated that such adulation might turn to frustration and, later, anger, which could fracture the fragile unity around which Mr Ramaphosa's defeat of Mr Zuma had been secured.



August 2017: Political Musical Chairs

This report showed the extent to which the turnover among national ministers and directors-general negatively impacted continuity and stability in the national administration under President Jacob Zuma between May 2009 and July 2017. Over this period, the average national department was subjected to a cabinet reshuffle every nine months, and a new director-general every 22 months, with the result that the time any given minister and director-general would work together amounted to no more than 14 months. The report noted that failure of national governance had become a permanent feature of almost all public commentary. Though there were

many contributing factors – a dearth of skills, the lack of a clear policy programme of action, poor leadership and internal politics, supplemented by rampant corruption and maladministration – underpinning it all was the more basic problem of the president being incapable of allowing anyone to actually govern for any meaningful period of time.



SOUTH AFRICA

October 2017: A strategic intelligence estimate of the current socio-political and economic environment: South Africa

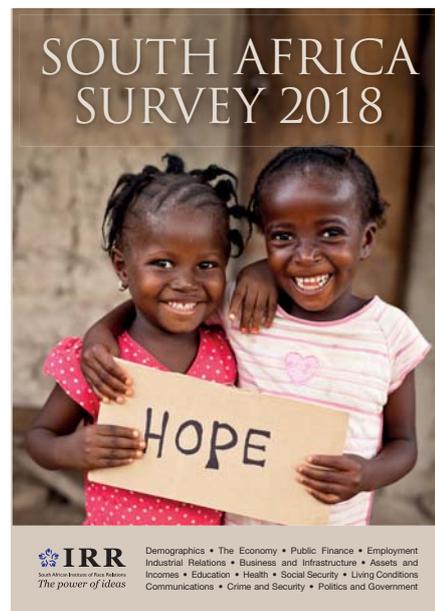
This strategic report by the Centre for Risk Analysis analysed how the leadership race in the ANC was likely to conclude and what the long-term implications for South Africa and the economy would be. The IRR cautioned readers not to see the race as a zero-sum game for South Africa and not to see December 2017 (the time of the ANC's 54th National Conference) as a zero-sum date for the country. The report argued that mainstream analysis was overly simplistic in reducing the leadership race to such binary outcomes, and presented three – short-, medium- and long-term – views.

The short-term view was that the ruling party would seek to extricate itself from the snare of state capture/corruption allegations and unite around a common leadership, but not introduce any reforms capable of achieving improved economic performance. The medium-term view was that short-term political leadership changes were likely to be more apparent than real and would not deliver fundamental structural reform. It predicted that policy interventions would be more about wealth extraction in the pursuit of new sources of patronage than about investment-driven growth – while a fear of losing fiscal sovereignty would mitigate the worst excesses of the patronage strategy. In the longer term, the context engineered in the medium term would leave each of four current scenarios in play, including an effective drive at structural reform, which the ruling party would have to introduce should it survive 2019 (in whatever form) to assure itself of a free-and-fair majority mandate in 2024.

South Africa Survey

The 2018 edition of the *South Africa Survey* was published in February 2018. It runs to some 1 120 pages of tables and graphics on South Africa's socio-economic data. This edition of the *Survey* features the fourteen chapters listed below, which are also published online as stand-alone PDF and Excel 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



Written and oral submissions

We made the following submissions directly to politicians and lawmakers:

Submission to the Department of Justice and Constitutional Development regarding the draft Prevention and Combating of Hate Crimes and Hate Speech Bill of 2016 (31 January 2017): Here, the IRR said that, instead of pushing ahead with this unconstitutional, unnecessary, and damaging Bill, the government should build on the racial goodwill already so strongly evident across the country (as the IRR's field surveys had repeatedly shown). It should abandon its own racial rhetoric and race-based policies, commit itself to non-racialism immediately (rather than at some elusive future point), shift its focus from BEE to EED – and focus on expanding opportunities for the poor to get ahead in the context of a rapidly growing economy.

Submission to the Department of Trade and Industry regarding the Regulations on Mediation Rules in terms of the Protection of Investment Act of 2015 (28 February 2017): Here, the IRR said that if South Africa was to succeed in attracting much more foreign investment, it must give potential investors increased confidence in the security of their investments. Instead, the government had cancelled British and European bilateral investment treaties (BITs) and replaced them with a meaningless Protection of Investment Act of 2015 (yet to be made operative). The IRR criticised the regulations on mediation put forward under the Act, saying they would further erode investor protection by barring aggrieved investors from using mediation to resolve disputes unless the government gave its consent to the mediation process. The regulations would also give the state the power to choose the mediators to be used irrespective of what the preferences of investors might be.

Submission to the Economic Development, Environment, Agriculture, and Rural Development Portfolio Committee of the Gauteng Legislature regarding the Mineral and Petroleum Development Amendment Bill of 2013 (28 February 2017): In this oral presentation we pointed to a lack of proper public participation in the re-adoption of the Mineral and Petroleum Resources Development Amendment Bill of 2013. We also stressed that various proposed amendments to the Bill could not be introduced at this late stage. (The Bill was first adopted by Parliament in 2014 but President Jacob Zuma declined to sign it into law because of concerns about the unconstitutionality of some clauses. These clauses still need to be amended, while the entirely new clauses now being proposed – which fall way outside scope of the president's referral mandate – cannot lawfully be introduced at this point in the legislative process.)

Submission to the Select Committee on Land and Mineral Resources of the National Council of Provinces regarding the Mineral and Petroleum Development Amendment Bill of 2013 (22 March 2017): Here, the IRR reiterated that the NCOP could not lawfully incorporate into the Bill a host of proposed new provisions that fell outside the president's referral mandate. The NCOP also had an obligation to delete all provisions of the Bill which were inconsistent with the Constitution. These included not only the provisions flagged by the president, but also a host of other unconstitutional clauses. In addition, a full socio-economic impact assessment still needed to be carried out and made public, so that the people of each province could indeed have a 'meaningful' opportunity to evaluate the Bill's provisions in the light of this assessment.

Submission to the Department of Rural Development and Land Reform regarding the Regulation of Agricultural Land Holdings Bill of 2017 (17 May 2017): Here, the IRR noted that this measure would empower land minister Gugile Nkwinti to 'determine the categories of ceilings for agricultural land holdings' in every relevant municipal district. We noted that the Bill did not say what these ceilings might be, but that Mr Nkwinti previously proposed limits of 1 000 hectares for 'small-scale' farms, 2 500 hectares for 'medium-scale' ones, and 5 000 hectares for 'large-scale farms'. As an exception, an

overall limit of 12 000 hectares may apply to 'forestry, game farms, and renewable energy farms, especially wind farms'. The IRR argued that these land ceilings were arbitrary and unrealistic. They were also likely to be reduced over time, which would make it increasingly difficult for farmers to achieve necessary economies of scale. According to the Bill, any land that 'falls between or exceeds any category of agricultural land holdings' would be considered 'redistribution agricultural land' to be acquired (in most instances) by the state. Where the owner could not agree with the minister on the price, then the minister would be empowered to 'expropriate the redistribution agricultural land in question'. The IRR pointed out that compensation payable on such expropriation was likely to be significantly less than market value. This would also be enormously damaging to commercial farming.

Submission to the Speaker of the National Assembly regarding the proposed Resitution of Land Rights Amendment Bill. Private Member's Bill, proposed by Mr P J Mnguni MP (African National Congress) (19 May 2017): The aim of the Bill is to re-open the period for the lodgement of land restitution claims, from an unspecified (and thus uncertain) date until 30th June 2021. The Bill is based on the ANC's oft-repeated assertion that access to land will bring incomes and jobs to the poor, but this claim has no basis in reality, as the IRR pointed out. Ordinary people, we pointed out, had long been voting with their feet against this idea by moving to town. The money that would need to be spent under the Amendment Bill on investigating and settling some 400 000 new land claims would thus be far better used in buying land for housing in the cities and towns.

Submission to the Davis Tax Committee regarding the desirability and feasibility of three possible forms of wealth tax (31 May 2017): The IRR made a submission to the Davis Tax Committee on the desirability and feasibility of three different forms of wealth tax: a land tax, a tax on the value of property (over and above municipal rates), and an annual wealth tax. We noted that the tax burden in South Africa was already very high, while much of this burden fell on a very small group of individuals (some 560 000) and companies (about 600) that currently paid around 60% of all personal and corporate income taxes. An annual wealth tax was also unlikely to reduce inequality, which had many and complex causes. An annual wealth tax would, however, exacerbate already existing capital flight; encourage a further exodus of scarce skills; reduce incentives to work, invest, and save; lower the anaemic growth rate; and worsen the crisis of unemployment, especially among the young and inadequately skilled. In conclusion, we stressed (in the words of Dan Foster, tax director at law firm Webber Wentzel) that "South Africa, like all developing countries, needs more growth and not more taxes. Taxes lead to wealth destruction, low investment, low returns, low growth, and lower tax collections".

Submission to the Portfolio Committee on Trade and Industry of the National Assembly regarding the Copyright Amendment Bill of 2017 (19 June 2017): The IRR noted that the time allowed for comment was too short to facilitate proper public consultation on the Bill. In addition, neither an initial nor a final socio-economic assessment had been made available. This made it still more difficult for members of the public and other interested parties to 'know about the issues' and to 'have an adequate say' on the proposed legislation. The IRR also stressed that, if South Africa was to attract direct investment, raise the growth rate, and generate millions more jobs, it needed to uphold and respect property rights, including intellectual property (IP) rights. Provisions in the Copyright Bill that sought to establish a new IP tribunal, with jurisdiction over both copyright and patent issues, overlooked this vital requirement. The IRR noted that this tribunal was to be appointed by the minister and would be accountable to him at all times. It would also be barred from applying the normal rules of evidence applicable in a court of law. The establishment of this tribunal would conflict with the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), which is binding on South Africa. It would also be inconsistent with key constitutional provisions, including Section 34 (the right of access to court) and Section 2 (guaranteeing the supremacy of the rule

of law). The IRR urged that the provisions establishing the IP tribunal be removed from the Bill.

Submission to the Valuer General regarding the Draft Regulations of 2017 gazetted under the Property Valuation Act of 2014 (19 June 2017): Here, the IRR pointed out that many of the provisions in the Regulations were impermissibly vague. Some were also in conflict with the Constitution, while others were *ultra vires* the Property Valuation Act. The valuation formula in the Regulations, it warned, would also be extremely damaging as it would generally reduce the compensation payable on the expropriation of property targeted for land reform to less than half of market value. At times – and particularly where the property had been inherited, not bought – the formula would reduce the compensation to zero. The regulations were clearly intended to encourage expropriation by making this much cheaper for the state to implement. However, this erosion of property rights would deter investment, reduce growth, and add to unemployment.

Oral presentation to the NCOP select committee on the Mineral and Petroleum Resources Development Amendment Bill of 2013 (28 June 2017): The IRR presented the Institute's views on the mining amendment bill to this select committee. In doing so, it made many of the same points as it had previously made to the Gauteng committee (as earlier outlined).

Representations to the Department of Mineral Resources regarding the minister's proposed moratorium on the granting, renewal, or transfer of prospecting and mining rights, as set out in a Notice in the Government Gazette (No 40989) on 19th July 2017 (3 August 2017): The IRR noted that the minister's proposed moratorium on the granting, renewal, or transfer of prospecting and mining rights was intended to apply for an indefinite period and to govern all minerals throughout the country. Yet Section 49(1) of the Mineral and Petroleum Resources Development Act (MPRDA) of 2002 did not authorise such a general moratorium on the granting of prospecting and mining rights. The minister's proposal was thus *ultra vires* the powers conferred on him by the statute, and unlawful. The minister withdrew his proposed moratorium soon afterwards, saying that he had decided to do so in response to the representations he had received.

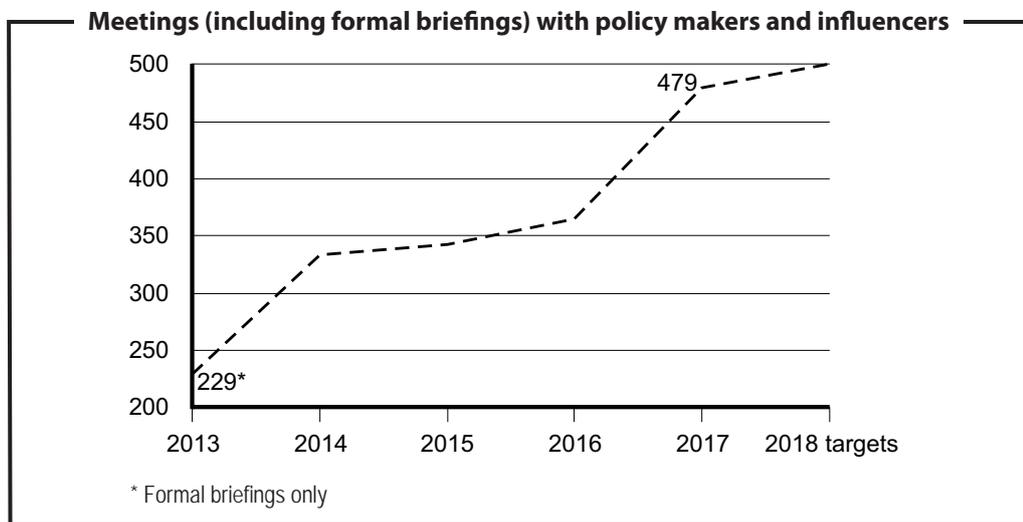
Submission to the International Trade and Economic Development Division of the Department of Trade and Industry regarding the Draft Intellectual Property (IP) Policy of South Africa – Phase 1 (2017) (9 October 2017): The IRR pointed out that the DTI's policy focus, in its first phase, on patents in the health sphere alone was in itself inconsistent with South Africa's binding obligations under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The policy also breached TRIPS in many other ways. Its key aim was to allow the state pharmaceutical company to obtain compulsory licences over patented medicines in return for minimal royalties amounting, say, to 2% to 3% of the price of copied products. This would allow this state-owned entity to produce cheap generic copies of innovative medicines, against the will of the pharmaceutical companies which had developed those medicines (often at great cost) and which still held valid patents over them.

According to the DTI, the policy would allow South Africa to develop a thriving generics industry, which would be able to manufacture copies of the patented antiretrovirals (ARVs), cancer drugs, and other medicines the country required. South Africa would also be able to make money by exporting these generic ARVs and other medicines to the rest of Africa. But the IRR argued that TRIPS did not allow the use of compulsory licences in this way. In practice, South Africa would also battle to compete with India's established generics industry in accessing markets elsewhere in Africa. Overall, noted the IRR, the proposals remained largely unchanged from earlier versions and still constituted a major threat to property rights. If implemented, they would make it harder still to restore business confidence, attract direct investment, or raise the rate of economic growth.

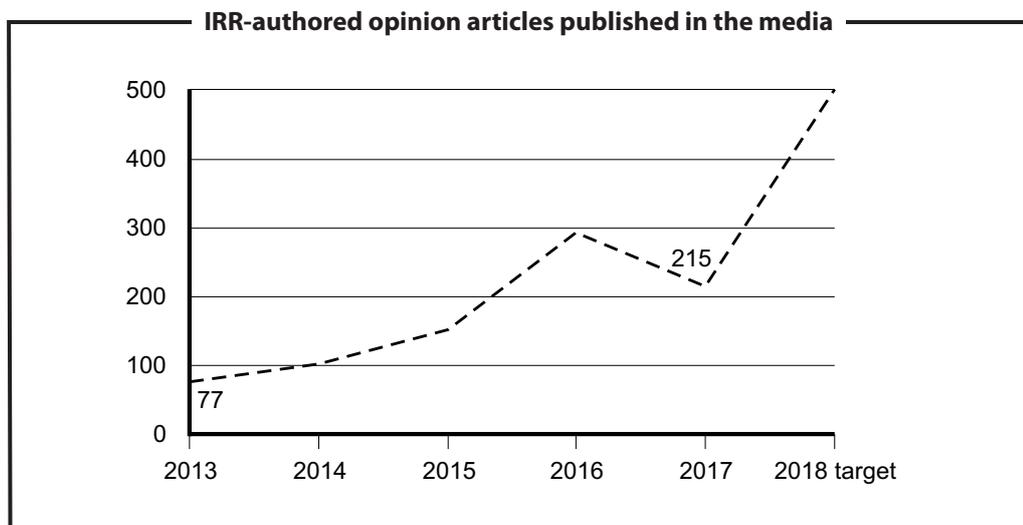
The Model of our Success

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, *RiskREPORTs*, *Fast Facts*, the *South Africa Survey* and our occasional reports, the IRR released 60 reports in 2017, 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 outputs of that project for last year and the three preceding years are tracked on the graphics below.

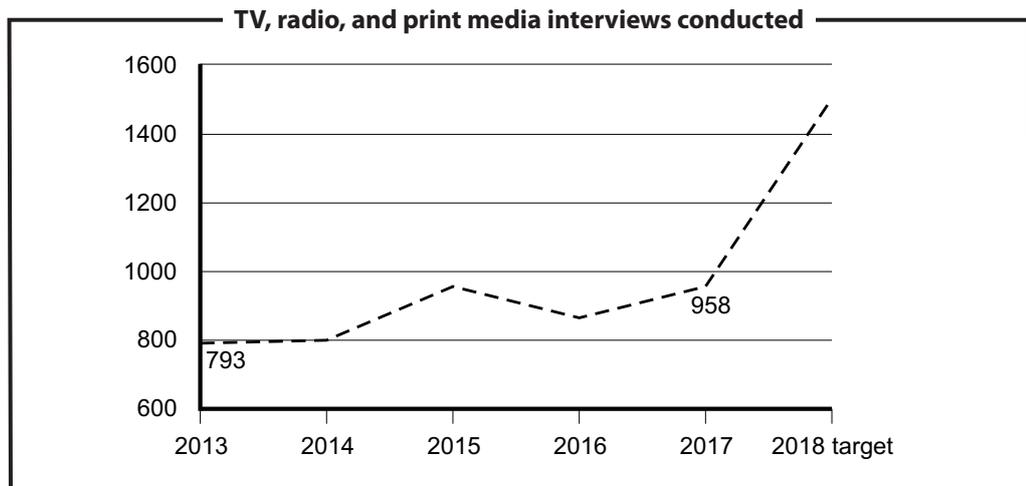
Since 2013, the number of meetings or formal briefings facilitated or presented by the IRR for policy makers increased from 229 to 479 or by 109%.



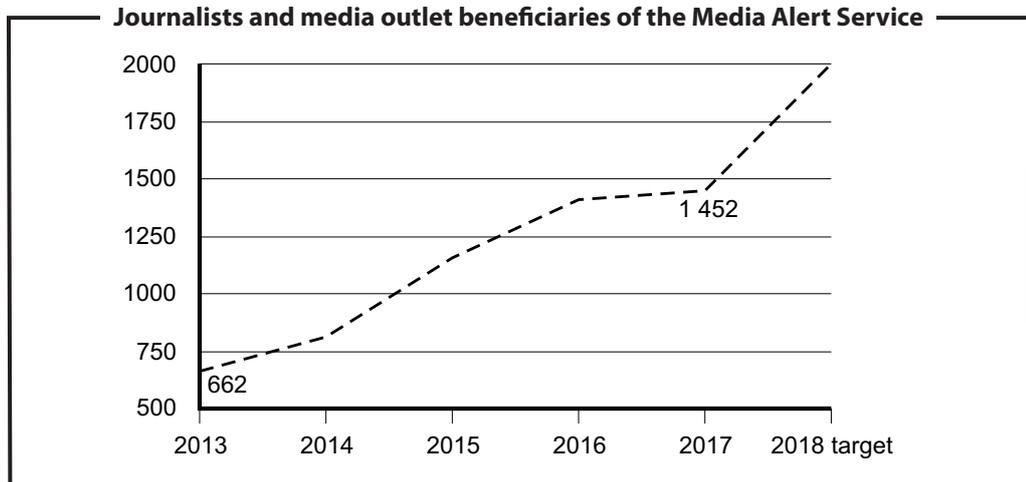
The number of IRR-authored opinion articles placed in newspapers and online media increased from 77 in 2013 to 215 in 2017 or by 180%.



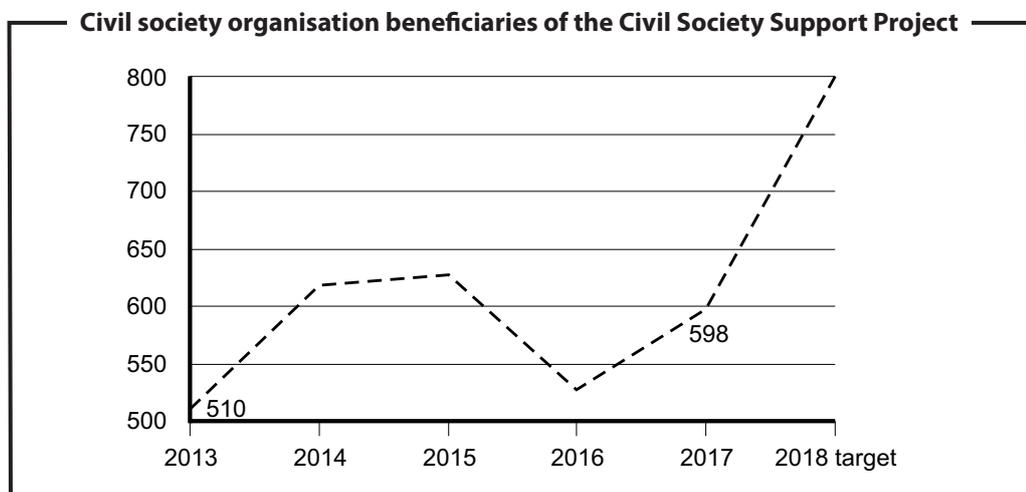
The number of TV, radio, and other media interviews conducted has increased from 793 in 2013 to 958 in 2017 or by 21%.



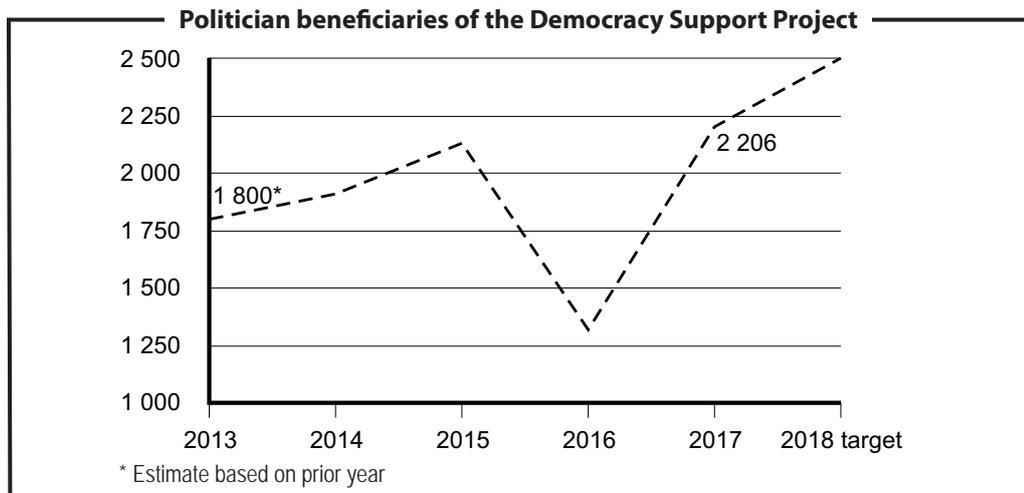
In 2013, 662 journalists were subscribed to the IRR's Media Alert Service. By 2017 that figure had increased to 1 452 or by 119%.



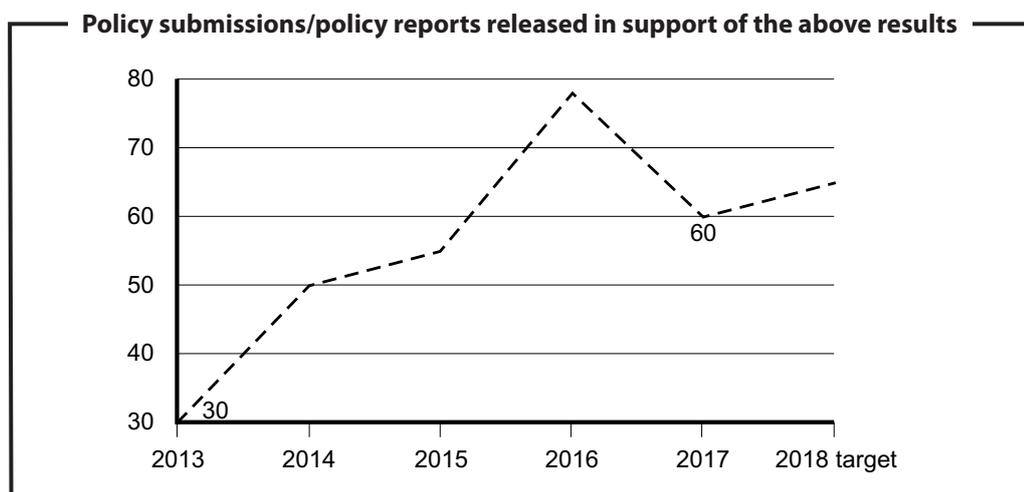
The number of civil society organisations subscribed under the auspices of the Free Society Project was 510 in 2013 and 598 in 2017 – an increase of 17%.



In 2013, 1 800 politicians were subscribed to receive reports and policy information from the IRR. That number was 2 206 in 2017 – an increase of 23%.



The IRR released 30 formal reports or policy submissions in 2013. By 2017 that number had increased to 60 or by 100%.



What the above numbers attest to is the extraordinary reach and influence that the IRR has been able to maintain over a prolonged period of time. In total, in 2017 the Free Society Project produced 2 926 media interventions (roughly 8 per day, 100 per staff member, or one for every R500 in income). We define such interventions as an opportunity created for members of the public to encounter our arguments in the public domain – whether via a briefing, media citation, opinion article, or television or radio appearance. When we apply that number to the readership, viewership, and listenership of the media platforms we appeared on we are confident that several hundred thousand people are confronted with IRR ideas most days of the week and that the IRR is the foremost source of liberal argument entering the public domain. We are further confident that no other think tank can compete with our public outputs on a per staff member or per Rand of income basis. At a strategy meeting late last year, the decision was taken to invest in driving these figures considerably higher and targets have been set for 2018 to secure significant increases in share of voice – we are, for example, looking to increase the number of self-authored opinion articles in the media from the 215 recorded in 2017 to 500 for 2018 or by over 130%. A lot of time and money has been expended since 2014 in developing strong policy positions in areas from the labour market, to property

rights, empowerment policy, security, healthcare, social development, education, service delivery, infrastructure development, and the electoral system. We now want to spend more time on selling those positions.

Governance and Compliance

Elections

Board election: All members of the Board are nominated annually by Council and elected by the AGM of Members.

Finance, Administration, and Staff

Finance and administration

The attached financial statements show that the IRR secured income of R14 027 143 in 2017, an increase of 12% over that in 2016, and had expenses of R18 631 447 in 2017 against R16 851 082 in 2016, an increase of 11%. After realised and unrealised investment income was taken into account the IRR ended 2017 with a deficit of R2 308 501. This is a large deficit and questions will be asked about the sustainability of such numbers. The view of the management and the Board is that South Africa has found itself in a state of considerable peril and that it was correct for the IRR to draw on some of its reserves, within limits, to ensure that it exercised the greatest possible influence on the future trajectory of the country. The balance of our share portfolio, out of which such deficits are financed, sat at R39 071 370 in December of 2017. It remains our view that the position of the country is such that the IRR should continue to draw on reserves over the five years to 2022. Allowing for a contingency reserve of R5.5 million over that period to cover fluctuations in funding while ensuring that our work can continue regardless, and assuming that the contingency amount is spent, we now forecast a deficit before unrealised gain for 2018 of R3 556 262 dropping to R2 238 231 in 2019 and R2 159 532 in 2020 before stabilising at near break-even level in 2021 and 2022. These are long-term projections and may change as circumstances change. Assuming that the contingency funds are spent, and further assuming a 6% year-on-year increase in our share portfolio, the IRR anticipates a share portfolio of R39 348 578 at the end of 2022. We think these numbers strike the best balance between prudence and meeting our responsibility to exercise the greatest possible influence on the future of the country at a time when the success of its democratic transition is far from assured. At the same time, the management and the board are implementing a review of all IRR functions and outputs with a view to reducing costs and increasing efficiencies.

Readers must be aware that the IRR is increasingly being weaned from traditional donor funds. Four years ago, funds that originated from the traditional donor community accounted for 52% of all IRR income. Today that figure has fallen to 20%. I am afraid that there is a price attached to standing up for our principles, as we learned again last year when FirstRand refused to continue our funding over our refusal to commit to racial staff quotas – this despite the fact that the IRR was one of the most ‘transformed’ organisations they had dealings with and that all its work was directed at real empowerment and human upliftment. Doing what FirstRand demanded would have required the IRR to surrender one of its founding principles and the very basis of the classical liberal tradition for short term financial expediency. We will never do that regardless of the financial implications. In a country driven mad with racial dogma, political correctness, and a dangerous fixation with not causing offence, the IRR is essentially cut off from traditional funding sources. Our funding now depends in very great part on subscriber fees and self-generated income. This makes us unique in some respects and, while we are poorer than many of our counterparts, our funding mix has served to strengthen our independence and sense of purpose.

Staff

During 2017 we made one new appointment and received one resignation. Alfred Nkungu celebrated 30 years of service, and Rhona le Roux and Carol Archibald 10 years of service each.

Thanks

I am immensely grateful to our friends and supporters and to my colleagues who have collectively done such a heroic job in upholding liberal principles in South Africa. The nature of our work is that it is seldom possible to report our greatest successes. But there must be no doubt that over recent years the IRR has won some very important battles holding the line in favour of a market economy, property rights, freedom of speech and the rule of law. Those who supported and fought those battles may never get the credit due to them.

A handwritten signature in black ink, appearing to be 'F J C Cronje', written in a cursive style with a long horizontal stroke extending to the right.

F J C Cronje

Johannesburg

March 2018

SOUTH AFRICAN INSTITUTE OF RACE RELATIONS NPC

ANNUAL FINANCIAL STATEMENTS for the year ended 31st December 2017

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

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The annual financial statements set out on pages **46-59** 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 2017**

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 D Crawford	Vice President
	P G Joubert	Vice President
	I Mkhabela	Vice President
Non Executive Directors	T Coggin	Chairman of Board of Directors
	T A Wixley	Audit Committee Chairman and Honorary Treasurer
	P Leon	Honorary Legal Adviser
	P L Campbell	
	R D Crawford	
	R Dagada	Resigned January 2018
	J A Elgie	
	P G Joubert	
	P Letsелеbe	
	I Mkhabela	
	M J Myburgh	
	A Patel	
	D F P Taylor	
	G N Towell	
Executive Director	F J C Cronje	Chief Executive
Company Secretary	R D le Roux	
	<i>Business address:</i> 2 Clamart Road Richmond 2092 Johannesburg	<i>Postal address:</i> 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 5 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 main object of the Institute is to promote democracy, human rights, development, and reconciliation between the various peoples of South Africa through the conduct and publication of relevant political and socio-economic research and the provision of bursaries on the basis of merit and need. 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.

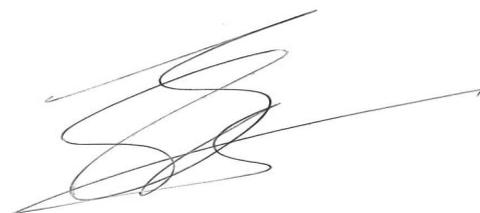
The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Institute and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the Board sets standards for 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 2018 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 45.

The annual financial statements set out on pages 46 to 59, which have been prepared on a going concern basis, as well as the Directors' report presented on pages 43 and 44, were approved by the Board on 14 May 2018, and were signed on its behalf by:



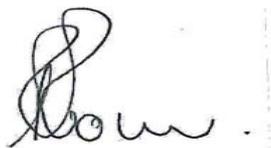
F J C Cronje



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 2017 all such returns and notices as are required of a non profit 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 2017.

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 2017.

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
	P L Campbell	
	R D Crawford	
	R Dagada	– Resigned January 2018
	J A Elgie	
	P G Joubert	
	P Letselebe	
	I Mkhabela	
	M J Myburgh	
	A Patel	
D F P Taylor		
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 five members, all of whom are independent non-executive directors of the Institute. The committee has met twice since the previous Annual General Meeting of Members and has performed the following functions:

- Recommended Grant Thornton as auditors and Mandi Turner as the designated auditor for the 2017 financial year;
- Satisfied itself that the auditors are independent;
- Approved the annual financial statements of the Institute for 2017, 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.
- The Audit Committee evaluates and considers the risk facing the IRR from time to time.



Independent Auditor's Report To the members of South African Institute of Race Relations NPC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of South African Institute of Race Relations NPC set out on pages 46 to 59, which comprise the statement of financial position as at 31 December 2017, 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 2017, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act of South Africa.

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 the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of the 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 Turner
Partner
Registered Auditor
Chartered Accountant (SA)

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

28 May 2018

STATEMENT OF FINANCIAL POSITION

as at 31st December 2017

	Notes	2017 R	2016 R
ASSETS			
Non current assets			
Plant and equipment	2	2 122 354	1 364 238
		<u>2 122 354</u>	<u>1 364 238</u>
Investments			
Special Funds			
– Bursary	17.1.1	15 101 952	14 426 523
– Institute	17.1.2	–	2 882
– Other	17.1.3	–	1 089
		<u>15 101 952</u>	<u>14 430 494</u>
Other Institute investments	19	39 071 370	39 946 870
		<u>54 173 322</u>	<u>54 377 364</u>
Current Assets			
Trade and other receivables	4	882 580	2 475 836
Cash resources	5	567 425	1 924 455
		<u>1 450 005</u>	<u>4 400 291</u>
TOTAL ASSETS		<u>57 745 681</u>	<u>60 141 893</u>
FUNDS AND LIABILITIES			
Funds and reserves			
Accumulated funds		35 622 438	37 930 939
		<u>35 622 438</u>	<u>37 930 939</u>
Special funds			
– Bursary	16/17	15 101 952	14 426 523
– Institute	16/17	–	2 882
– Other	16/17	–	1 089
		<u>15 101 952</u>	<u>14 430 494</u>
Non current liabilities			
Finance leases	7	958 762	9 055
		<u>958 762</u>	<u>9 055</u>
Current liabilities			
Finance leases	7	243 665	219 837
Income received in advance		2 565 456	4 618 448
Trade and other payables	6	3 253 408	2 933 120
		<u>6 062 529</u>	<u>7 771 405</u>
TOTAL FUNDS AND LIABILITIES		<u>57 745 681</u>	<u>60 141 893</u>

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31st December 2017

	<i>Notes</i>	2017 R	2016 R
INCOME			
Administration fees received		838 910	793 876
Bad debts recovered		95 062	115 696
Grants and donations		6 769 378	6 051 370
Membership fees and subscriptions		5 995 993	5 479 879
Publication sales		327 800	129 687
		14 027 143	12 570 508
EXPENSES			
Amortisation		–	105 211
Auditors' remuneration			
– Fees for the audit	10	283 435	266 130
BEE Survey cost		250 000	448 470
Outsourced contributors		1 225 133	1 170 181
Depreciation	2	496 155	377 287
Finance cost	9	130 766	60 066
Lease expenditure		25 003	147 265
Loss on disposal of plant and equipment		12 683	12 166
Overheads and administration		1 354 530	1 272 624
Personnel		12 368 459	10 764 571
Postage		176 620	178 617
Printing		234 475	194 693
Rent and utilities		1 068 980	1 119 432
Telecommunications		180 474	156 398
Travel		824 734	577 969
		18 631 447	16 851 082
OPERATING (DEFICIT) FOR THE YEAR		(4 604 304)	(4 280 574)
INCOME FROM INVESTMENTS			
Dividends from investments		749 311	1 083 373
Realised and unrealised gain on investments		1 428 129	(3 019 344)
Interest received		118 363	107 188
		2 295 803	(1 828 783)
DEFICIT FOR THE YEAR		(2 308 501)	(6 109 357)
Other comprehensive income		–	–
DEFICIT FOR THE YEAR AFTER OTHER COMPREHENSIVE INCOME		(2 308 501)	(6 109 357)

STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December 2017

INSTITUTE	Note	<i>Accumulated funds R</i>
Balance at 1st January 2016		44 040 296
Deficit for the year		(6 109 357)
Balance at 31st December 2016		37 930 939
Balance at 1st January 2017		37 930 939
Deficit for the year		(2 308 501)
Balance at 31st December 2017		35 622 438

STATEMENT OF CASH FLOWS

for the year ended 31st December 2017

	2017 R	2016 R
Cash flows from operating activities		
Deficit for the year	(2 308 501)	(6 109 357)
Adjustments:		
Depreciation/Amortisation	496 155	482 498
Interest received	(118 363)	(107 188)
Fair value loss/(gain) on investment	(1 428 129)	3 019 344
Straight-lining of office lease	25 350	85 718
Loss on disposal of plant and equipment	12 683	12 166
Movement in working capital		
– (increase)/decrease in trade and other receivables.	1 593 256	(1 231 804)
– (decrease)/increase in trade and other payables	(1 734 226)	2 824 566
Sub total	(3 461 775)	(1 024 057)
Interest received	118 363	107 188
Net cash inflow/(outflow) from operating activities	(3 343 412)	(916 869)
Cash flows from investing activities		
Net sale/(acquisition) of shares	2 357 586	2 412 326
Proceeds received from disposal of plant and equipment	–	10 310
Acquisition of plant equipment	(208 470)	(411 001)
Net cash inflow/(outflow) from investing activities	2 149 116	2 011 635
Payment of finance lease arrangements	(162 734)	(190 555)
Net cash (utilised in) generated for the year	(1 357 030)	904 211
Cash resources at beginning of the year	1 924 455	1 020 244
Cash resources at end of the year	567 425	1 924 455

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31st December 2017

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.

NOTES (continued)

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 Accumulated Funds

All reserves are reflected under accumulated funds.

1.4 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.

1.5 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.

1.6 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.

NOTES (continued)

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 15.

1.7 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.

1.8 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.

NOTES (continued)

1.9 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.

1.10 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.

1.11 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.

1.12 Finance costs

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

NOTES (continued)

2. PLANT AND EQUIPMENT

	<i>Furniture and equipment R</i>	<i>Motor vehicles R</i>	<i>Library R</i>	<i>Total R</i>
Year ended 31st December 2017				
Opening net carrying amount	815 301	144 937	404 000	1 364 238
Additions	1 447 670	–	–	1 447 670
Disposals	(193 399)	–	–	(193 399)
Depreciation	(458 425)	(37 730)	–	(496 155)
Closing net carrying amount	1 611 147	107 207	404 000	2 122 354
Year ended 31st December 2017				
Cost	4 528 308	248 749	404 000	5 181 057
Accumulated depreciation	(2 917 161)	(141 542)	–	(3 058 703)
Closing net carrying amount	1 611 147	107 207	404 000	2 122 354
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

Certain office equipment is held under finance lease (refer to Note 7).

The book value of assets held under finance lease cost R1 239 200.

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. RELATED PARTY NOTE — INSTITUTE.

Board of Directors:

Full details of all directors of the Institute are set out under the Report of the Directors on pages 43 and 44 of this annual report. There has been one payment of R8 000 to a Non-Executive director in 2017, there have been no other transactions with Non-Executive directors. The remuneration of the Executive Director is set out in note 11.

NOTES (continued)

4. TRADE AND OTHER RECEIVABLES	2017	2016
	R	R
Receivables	661 778	2 114 271
Receiver of Revenue – VAT	144 145	176 534
Staff debtors	76 657	185 031
	882 580	2 475 836

5. CASH RESOURCES

Cash on hand	1 835	191
Current account	554 335	305 251
Credit cards	–	34 273
Call account	11 255	1 584 740
	567 425	1 924 455

6. TRADE AND OTHER PAYABLES

Payables	2 631 840	2 113 530
Accruals	8 000	144 123
Accrual for leave pay	613 568	675 467
	3 253 408	2 933 120

7. FINANCE LEASES

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

Office equipment:	2017	2016
	R	R
Minimum lease payments:		
– within a year	243 665	219 837
– within second to fifth year	1 203 900	22 555
	1 447 565	242 392
Less future lease charges	(245 138)	(13 501)
Present value of minimum lease payment	1 202 427	228 891
Current liabilities	243 665	219 837
Non current liabilities	958 762	9 055
	1 202 427	228 891

The book value of the assets held under finance lease of R1 239 200 is detailed in Note 2 of the financial statements. The Institute signed a new 5 year financial lease for office equipment in 2017. The outstanding amount at the end of 2016 was settled during the year.

NOTES (continued)

8. 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:

	2017	2016
	R	R
Premises:		
Minimum lease payments:		
– within a year	880 176	814 976
– within second to fifth year	1 272 938	2 155 649
	2 153 114	2 970 625

Operating lease payments represent rentals payable by the Institute for its office premises. The average escalation is 8% (2016: 8%) and has been reflected in the amounts above.

Avaya IP Office PABX

Minimum lease payments:

– within a year	–	153 768
– within second to fifth year	–	221 652
	–	375 420

The PABX system of the Institute lease was cancelled and combined in operating lease of office equipment.

9. FINANCE COST

	2017	2016
	R	R
Finance lease charges	130 766	60 066
	130 766	60 066

10. AUDITOR'S REMUNERATION

	2017	2016
	R	R
Institute	283 435	266 130
	283 435	266 130

Audit fees paid in the 2017 financial year to Grant Thornton for the audit of the 2016 financial year. The 2017 audit fees to Grant Thornton will be paid in 2018 and will reflect as such in the financial statements.

11. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION

One director and two prescribed officers' emoluments in connection with the affairs of the Institute were as follows:

	2017	2016
	R	R
FJC Cronje – Salary	1 703 943	1 549 047
RD Le Roux – Salary	971 782	962 419
G Ngwenya – Salary (Resigned February 2018)	1 000 000	109 900
	3 675 725	2 621 366

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

12. 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.

NOTES (continued)

13. 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.

	2017 R	2016 R
The total contribution to such schemes	151 448	122 612

14. CAPITAL EXPENDITURE

Authorised but not yet contracted for

	2017 R	2016 R
	200 000	408 000

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

15. SPECIAL FUNDS

	Bursary R	Institute R	Other funds R	2017 R	2016 R
INCOME					
Donations and grants	5 299 601	–	–	5 299 601	5 382 406
Interest	123 682	–	–	123 682	172 070
Dividends	227 572	–	–	227 572	248 643
Surplus on investments	1 283 053	–	–	1 283 053	666 583
	6 933 908	–	–	6 933 908	6 469 702
EXPENSES					
Administration fees and running costs	35 408	2 882	1 089	39 379	2 524 250
Bursaries and grants	6 223 071	–	–	6 223 071	4 310 184
	6 258 479	2 882	1 089	6 262 450	6 834 434
(LOSS)/SURPLUS FOR THE YEAR	675 429	(2 882)	(1 089)	671 458	(364 733)
Accumulated funds at beginning of year	14 426 523	2 882	1 089	14 430 494	14 795 227
NET ACCUMULATED FUNDS	15 101 952	–	–	15 101 952	14 430 494

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)

16 SPECIAL FUNDS

16.1 Bursary Funds

	<i>Capital R</i>	<i>Amounts held for Bursary awards R</i>	<i>2017 R</i>	<i>2016 R</i>
Amcham Fund	–	1 198 339	1 198 339	1 157 513
Berkowitz Family Scholarship Fund	–	(1 097)	(1 097)	(1 319)
Clive Beck Education Trust	–	544 814	544 814	430 106
Durban Thekwini Bursary Fund	–	41 869	41 869	39 683
Giannopoulos Bequest	322 000	198 761	520 761	473 246
Horace Coaker Fund	500	1 032 922	1 033 422	895 530
Hungjao Bequest	821 831	321 028	1 142 859	1 038 889
Isaacson Foundation Bursary Fund	–	936 474	936 474	1 297 651
Johnson and Johnson Medical Bursary Fund	–	219 151	219 151	254 281
Luthuli Memorial Foundation Fund	107 883	57 276	165 159	165 159
Oppenheimer Memorial Trust	–	2 546 845	2 546 845	2 299 586
Reginald Smith Memorial Trust	10 000	3 782	13 782	13 072
Robert Shapiro Trust	–	4 441 808	4 441 808	4 179 997
Senior Bursary Fund	50 000	32 574	82 574	79 435
Shirley Simons Fund	772 778	1 442 414	2 215 192	2 103 695
TOTAL BURSARY FUNDS	2 084 992	13 016 960	15 101 952	14 426 523

16.2 Special Research Projects:

	<i>2017 R</i>	<i>2016 R</i>
International Republican Institute	–	1 653
Open Society Foundation for South Africa	–	1 229
	–	2 882

16.3 Other funds:

Johnson and Johnson BTC Fund	–	1 089
	–	1 089
TOTAL SPECIAL FUNDS	–	3 971

NOTES (continued)

17 INVESTMENTS

	2017 R	2016 R
17.1 Special funds		
17.1.1 Bursary Funds (Note 16.1)		
Listed Investments (Note 18)	8 561 842	7 315 125
	<u>8 561 842</u>	<u>7 315 125</u>
Total equities and other investments	8 561 842	7 315 125
Cash deposits	4 910 645	6 147 199
Debtors	1 629 465	964 199
	<u>15 101 952</u>	<u>14 426 523</u>
17.1.2 Institute Special Research Projects (Note 16.2)		
Unit Trusts and Cash on call	–	2 882
17.1.3 Other funds (Note 16.3)	–	1 089
Total Special Funds	<u>–</u>	<u>3 971</u>
17.2 Other Institute Investments		
Listed Investments (Note 19)	39 071 370	39 946 870
	<u>39 071 370</u>	<u>39 946 870</u>
TOTAL INVESTMENTS	<u>54 173 322</u>	<u>54 377 364</u>

18. LISTED INVESTMENTS OF BURSARY FUNDS

	2017 Qty	2017 R	2016 Qty	2016 R
Asset Managers				
Peregrine Holdings Limited	–	–	15 740	472 357
Banks				
Standard Bank Group Limited	–	–	7 700	1 168 475
Broadcasting and Entertainment				
Naspers Limited	380	1 311 380	–	–
Chemicals, Oils and Plastics				
Sasol Limited	3 060	1 310 231	3 060	1 220 634
Clothing and Accessories				
Compagnie Financière Richemont SA	12 450	1 391 287	12 450	1 129 713
Food Retailers and Wholesalers				
Bid Corporation Limited	6 344	1 909 481	6 344	1 555 232
Mining Holdings and Houses				
BHP Billiton Plc	–	–	2 830	618 864
Services				
Bidvest Group Limited	6 344	1 383 563	6 344	1 149 850
Trading cash				
Cash held for share trade	–	1 255 900	–	–
		<u>8 561 842</u>		<u>7 315 125</u>

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

NOTES (continued)

19. LISTED INVESTMENTS OF OTHER FUNDS	2017 Qty	2017 R	2016 Qty	2016 R
Beverages				
Anheuser-Busch InBev SA NV	820	1 122 826	820	1 194 568
Broadcasting & Entertainment				
Naspers Limited	1 385	4 779 635	1 135	2 285 992
Business Support Services				
Santova Limited	500 000	1 540 000	700 000	2 450 000
Equity Investment Instruments				
Rand Merchant Insurance Holdings Limited	42 209	1 937 393	41 500	1 651 700
Stellar Capital Partners Limited	–	–	39 485	58 833
Exchange Traded Funds				
DB x-trackers Col in USA	–	–	81 300	2 381 277
Food Retailers and Wholesalers				
Bid Corporation Limited	6 690	2 013 623	–	–
The Spar Group Limited	–	–	10 200	2 025 516
Furnishings				
Steinhoff International Holdings Limited	33 900	157 635	33 900	2 416 392
General mining				
Glencore Plc	16 000	1 029 760	–	–
Investment Services				
PSG Group Limited	8 000	2 160 000	8 000	1 748 560
Life Insurance				
Sanlam Limited	21 000	1 827 000	21 000	1 320 900
Mobile Telecommunication				
Bluelabel Telecommunications Limited	–	–	46 000	837 200
Vodacom Group Limited	–	–	9 700	1 478 280
Mining Holdings and Houses				
BHP Billiton Plc	–	–	5 564	1 216 736
Paper				
Mondi Plc	5 150	1 644 498	5 150	1 435 408
Pharmaceuticals				
Aspen Pharmacare Holdings Limited	6 350	1 762 125	6 350	1 800 733
Real Estate Holding & Development				
Capital and Counties Properties Plc	–	–	20 234	1 001 583
Investec Australia Prop Fd	–	–	120 000	1 606 800
Nepi Rockcastle Plc	16 847	3 598 014	–	–
Rockcastle Global Real Estate Company Limited	–	–	77 532	2 674 854
Restaurants and Bars				
Famous Brands Limited	–	–	11 000	1 721 610
Retailers				
Clicks Group Limited	17 000	3 079 210	17 000	1 963 500
Services				
Bidvest Group Limited	10 390	2 265 955	7 190	3 482 570
Tobacco				
British American Tobacco Plc	4 102	3 402 609	4 102	3 193 858
Foreign instrument: Socgen				
Berkshire Hathaway Class'B'com USD	650	1 592 706	–	–
Facebook Inc com USD	450	981 598	–	–
Alphabet Inc Cap Stk USD	120	1 552 221	–	–
Siemens AG NPV EUR	750	1 293 597	–	–
Roche Holdings AG Genusscheine NPV	410	1 280 372	–	–
Cash on hold foreign investment		50 593	–	–
		39 071 370		39 946 870

The fair values of listed investments are based on the quoted market price at the reporting period date. The foreign investments values are based on the quoted market price and converted into South African Rand at the exchange rate of 31 December 2017.

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