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P O Box 31044, Braamfontein, 2017 South Africa
Telephone: (011) 403-3600
Telefax: (011) 403-3671 or (011) 339-2061
E-mail: sairr@sairr.org.za
Website: http://www.sairr.org.za

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Our front cover, using a photograph from PictureNET Africa (photographer Themba Hadebe), depicts a woman and her child crossing from Zimbabwe into South Africa near Musina in March this year. The back cover features Mr Ernesto Nhamuave, who arrived in South Africa from Mozambique in February this year and worked on a construction site. On 18th May, during the wave of violent attacks on foreigners in Gauteng and elsewhere, he was burnt to death by an angry mob in the Ramaphosa informal settlement on the East Rand. The photographs are from Avusa Media (photographers Simphiwe Nkwali and Halden Krog).

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From time to time the Institute has received bequests from its members and others who support its work. The most recent and largest of these was R3 353 000 worth of shares in 2007 from Mr Harry James Barker, a prominent Johannesburg attorney who had been a member for many years. Such bequests are critically important in enabling us to carry out our core functions of research, public vigilance, and policy analysis.

Please contact the Chief Executive should you be willing to discuss a possible legacy or bequest, large or small.

HIGHLIGHTS

- A new Council is elected to be in office from 2008 to 2012.
- Income from investments of R2.3 million changes an operating surplus of R1.7 million, which would have been a deficit but for receipt of a bequest from Mr Harry James Barker of R3.3 million, into an operating surplus of R4 million.
- Assets under the control of the Institute increase in value from more than R41 million at the end of December 2006 to more than R48 million at the end of December 2007.
- The 2007/2008 *South Africa Survey* is broken down into the standard eight chapters as follows: demographics, the economy, business and employment, education, health and welfare, living conditions and communications, crime and security, and politics and governance. The *Survey* is made up largely of statistical data supplemented by graphics, but also contains about 130 pages of narrative material describing key developments in all eight focus areas.
- Twelve editions of *Fast Facts* are printed as a monthly supplement to the annual *Survey*, bringing the total number of issues published to 206 since the first one appeared in February 1991.
- The Institute's annual *South African Mirror* presentation of key demographic, economic, social, and political data excerpted from the *Survey* and *Fast Facts* or retrieved from our files is given to Institute members, parliamentarians, officials and legislators in all nine provinces, political groups, and business delegations. To date some 70 Mirror presentations have been given since October 2001.
- Thirteen briefings on a variety of topics and three *South African Mirror* presentations are hosted for Institute members. Nineteen briefings are given to members and other audiences by Institute staff.
- The *Parliamentary Information Service* runs until May 2008, supplying all MPs with the *Survey* and *Fast Facts*. We are seeking funding to continue the project.
- The *Provincial Information Service* is extended for another three years.
- The Ten Pillars of Democracy project continues into its second year.
- The Free Society Project continues into its 14th year.
- The President and the Chief Executive of the Institute continue to serve on an independent panel to assess Parliament's performance as an institution.
- The Institute launches a new website.
- Students on Institute bursaries who supplied their marks achieve a 94% pass rate at the end of 2007 and 91 students graduate, bringing the total since 1980 to 3 527 and total bursary expenditure to R206 million.

CHIEF EXECUTIVE'S REPORT TO MEMBERS FOR THE ANNUAL GENERAL MEETING ON FRIDAY 19th SEPTEMBER 2008

Mr President, Members of the Institute, I have pleasure in presenting this report to you. While the attached financial statements cover the financial year ended 31st December 2007, this narrative report is up to date to the end of June 2008.

FINANCE AND GOVERNANCE

The attached accounts cover the full financial year ended 31st December 2007. This is our first set of figures for a financial year that coincides with a calendar year, following our decision in 2006 to change our financial year-end from 31st March to 31st December. The figures included in the accounts for the prior year cover only the nine months ended 31st December 2006, so they are not comparable with last year's figures. Our operating surplus for the period ended 31st December 2007 was R1 678 707. Income from investments yielded R2 315 323, leaving us with an overall surplus of R3 994 030. Our large operating surplus would have been a deficit but for receipt of a bequest from Mr Harry James Barker of a share portfolio which was worth some R3 353 000 when it was transferred to us. A large part of the overall surplus was accounted for by an increase in the value of the Institute's share portfolio, which was worth R11 695 975 on 31st December.

A new Council was elected in May this year for a four-year term of office.

RESEARCH, PUBLICATIONS, AND INFORMATION

This is the Institute's core business. The annual *South Africa Survey* and its monthly supplement, *Fast Facts*, are the main vehicles for our factual information. Some of the Institute's research also finds its way into the Chief Executive's fortnightly column in *Business Day*. Professor Sipho Seepe, President of the Institute, also has a fortnightly column in *Business Day*. Information is also supplied on demand to members, parliamentarians, and provincial legislators. Early in 2008 the Institute launched a new website. The website not only enables us to make the *Survey* and *Fast Facts* available on line, it also provides a vehicle for information and opinion that appears only on line and not in printed format.

South Africa Survey

Last year's *Survey*, dated 2006/2007, was available only at the beginning of November 2007. The new *Survey*, for 2007/2008, was being finalised as this report was being written and we expect to bring it out earlier. As was the case last year, each of the eight chapters of the new *Survey* will be sent to corporate members electronically as soon as they have been written. This means that the electronic version of each chapter will be available at least two months before the written version, which takes at least that long for indexing and printing.

Fast Facts

Twelve issues of this monthly appeared in the year up to the end of June. In addition to the regular macro-economic, business, and social indicators carried in the five statistical pages in each issue, various topics were dealt with in special features. Among them was the growth of the black middle class, the significance of Steve Biko, the skill shortage, success stories in public schooling, the problems facing the mining industry as a result of growing regulatory demands, the causes of the country's electricity crisis, threats to global free trade, the risks to various kinds of property rights posed by new expropriation legislation, the need to restore family life in South Africa, and the factors preventing the economy from speeding up its growth rate. In addition to these analytical articles, *Fast Fasts* provided national and provincial data on all major crime trends since 1994, information of the provision of housing and related infrastructure and services over the past ten years, comparisons of all key social and economic indicators between the nine provinces, and a breakdown of the national budget over seven years.

Member Information Service

The Institute's library is an unrivalled resource made up of both physical and intellectual capital. The physical material embraces both archives dating back over the decades and current files updated on a daily basis, so that there is little happening in South Africa about which information does not find its way into the appropriate file. Far from being simply a mechanical exercise, classification for filing involves separating the wheat from the chaff, which means our research and library staff are constantly analysing the data the Institute gathers from a wide variety of sources. Corporate and company members who make use of the library as part of their membership entitlement thus draw not only on what is in the files but on the knowledge about all aspects of South Africa that goes into compiling them.

Parliamentary Information Service

This project continued into the first few months of 2008 with sponsorship from the Royal Danish Embassy. It provides all members of Parliament (MPs) with access to the Institute's library. In addition, they are supplied with a free copy of the *Survey*, and a free *Fast Facts* each month, and other occasional publications. They also receive invitations to the Institute's annual *South African Mirror* presentation at a venue close to Parliament. We provide this service because it is vital to strengthen Parliament as an institution, without which democracy cannot work. In October 2007 a team of Institute researchers and information staff visited Parliament to ascertain the particular information needs of the various parties. Research staff of the African National Congress (ANC) made a special request for information on areas of service provision where policy was not working. At the time of writing, the Institute was seeking funding to continue the project for another three years.

Provincial Information Service

At the time of writing we had signed a contract with Irish Aid, the sponsor of this project, which began in 2006, to extend it for another three years. Essentially, it entails providing members of all nine provincial legislatures with the same services as parliamentarians receive, but with a provincial emphasis. Members of provincial legislatures (MPLs) all receive the *Survey* and *Fast Facts* as well as access to our library. We have made presentations of key provincial data to provincial legislators, research staff, departmental officials, and local councillors in all nine provinces. The purpose of this project is to strengthen democratic government at provincial level by supplying MPLs with data that they can use in formulating policy and engaging in debates at provincial level. Better informed MPLs should also be better able to hold the executive branch of government to account at provincial level.

South African Mirror

For the last seven years (since October 2001) the Institute has been doing an annual presentation of key demographic, economic, social, and political data excerpted from the *Survey* and *Fast Facts* or retrieved from our files. Entitled *South African Mirror*, this is presented to our members at evening briefings, but is also available to them in-house. To date some 70 Mirror presentations have been given. The 2008 presentation identified three key risks for the country:

- The major economic risk was a growth slowdown of such magnitude as to cause living standards to decline, with possible social instability;
- The major social risk was continued failures in education, health care, land reform, and security; and
- The major political risk was Sovietisation of the State, which would undermine democracy and accountability and foster corruption.

Free Society Project

This project originates in the idea that the best alternative to apartheid is not another form of social and racial engineering but a free, open, and democratic society based on the principles of constitutional and economic liberalism. The project is sponsored by the (German) Friedrich Naumann Foundation for Liberty and the International Republican Institute in the United States, whose funding is derived from the National Endowment for Democracy in the US. *Fast Facts* is used as a vehicle for publication of relevant opinion and information, as are the print and electronic media and the Institute's website. The Institute also provides platforms for others to promote liberal ideas. In addition to those referred to above under *Fast Facts*, issues addressed this past year include threats of ministerial intervention in the private health system, attacks on the judiciary, the assertion by the new ANC leadership of the right to prescribe to Parliament and the Cabinet, threats to the freedom of the press, affirmative action, the crisis in Zimbabwe, racial sports quotas, and majoritarian tyranny.

Ten Pillars of Democracy

In terms of a three-year sponsorship agreement with the Belgian Embassy, the Institute launched a monitor of South Africa's performance as a democracy. The following ten criteria are being used:

- the rule of law
- individual rights, responsibilities, and opportunities

- democratic governance
- targeted and effective government
- scope for free enterprise both big and small
- liberation of the poor
- growth-focused policies
- racial goodwill
- vigorous and vigilant civil society
- good citizenship

Solid progress has been made with a view to presenting a draft report to a workshop this year in preparation for a conference in 2009.

Assessing Parliament

The President and the Chief Executive of the Institute, plus a member of our governing Council, Dr Frederik Van Zyl Slabbert, have been serving since the beginning of 2007 on an independent panel appointed by the Speaker of the National Assembly and the Chairperson of the National Council of Provinces to assess Parliament's performance as an institution. A first draft of the panel's report and a series of recommendations have been produced. It is anticipated that these will be presented to the Speaker and the Chairperson before the end of the year.

Maurice Webb

The Institute received a grant from the Maurice Webb Trust, which is based at the University of KwaZulu-Natal, to conduct research into 'Trends in race and ethnic relations in South Africa since 1994: Institutional re-racialisation of the society or a passing phase in transformation?' At the time of writing, eight opinion leaders had been interviewed.

BRIEFINGS AND LECTURES

A list of the briefings hosted by the Institute is as follows:

- *Biko: The legacy betrayed* (Professor Sipho Seepe, president of the Institute)
- *The black middle class* (Hannah Botsis, member of the Institute's research team)
- *Does the South African mining industry have a future?* (Peter Leon, a partner at Webber Wentzel Bowens)
- *Launch of the 2006/2007 Survey in Johannesburg* (Judge Edwin Cameron, judge of the Supreme Court of Appeal)
- *Launch of the 2006/2007 Survey in Cape Town* (Themba Godi MP, chairman of the Standing Committee of Public Accounts)
- *South African Mirror* (Chris Kriel, member of the Institute's research team) (Annual General Meeting of Members)
- *Media freedom under threat?* (Jane Duncan, director of the Freedom of Expression Institute)
- *The unanswerable case for trade liberalisation* (Dr Otto Count Lambsdorff,

immediate past chairman of the Friedrich Naumann Foundation for Liberty in Germany)

- *Solving the national power crisis* (Andrew Kenny, engineer, energy researcher, and freelance journalist)
- *Excellence in the public school system* (Dr Gillian Godsell, associate research fellow at the School of Public and Development Management at Wits and chairwoman of the governing body at Parktown Girls High School, and Anthea Cereseto, headmistress of Parktown Girls High School)
- *South African Mirror 2008 'post-Polokwane'*
- *Challenges facing students at South African universities* (David Maimela, president of the South African Students' Congress)
- *Why can/can't South Africa's economy grow at 8%* (Chris Hart, Ulrich Joubert, Azar Jammine, Dawie Roodt, Elna Moolman, private sector economists)
- *South Africa: the good news* (Steuart Pennington, CEO of SA Good News)
- *Xenophobia on the rise* (Bishop Paul Verryn, Central Methodist Church)

All but three of these briefings were sponsored by the Friedrich Naumann Foundation for Liberty.

Briefings to member and other audiences by Institute staff:

- Tshikululu Social Investments
- De Beers Consolidated Mines
- Provincial legislatures in Limpopo, Mpumalanga, North West, Northern Cape, Free State, KwaZulu-Natal, and the Eastern Cape
- Security Industry Alliance First Annual Conference
- Milpark Business School
- African People's Congress
- Gauteng Department of Economic Development
- Merrill Lynch
- Inkatha Freedom Party
- Skills Africa HR conference
- Total SA
- University of Johannesburg
- Investec
- Sanlam (Belville)
- Coface
- Royal Netherlands Embassy (Pretoria)
- Janssen-Cilag South Africa (Cape Town)
- International Republican Institute (Washington DC)
- Helen Suzman (private *South African Mirror* show)

BURSARIES

Altogether 91 students graduated last year. In the past 26 years the Institute has awarded bursaries, most of them to black students, worth R206 million.

Since 1980, no fewer than 3 527 students have graduated through our bursary programme in the following fields: science and engineering 1 056, business and commerce 959, medicine, health sciences and dentistry 519, education 404, arts 365, and law 224.

Last year's overall pass rate among our 401 tertiary students was 94%. Another 161 students (29% of the total) did not supply their marks. In architecture, dentistry, and health sciences all our students passed, while in medicine 99% did. The lowest pass rate was 50% in built environment.

The number of bursaries awarded for the 2008 academic year is 598, which is 20 more than in 2007. Of this total, 348 are new bursaries and 250 bursaries of students which were renewed following their satisfactory performance last year. The names of the various bursary trusts administered by the Institute, as well as the names of our corporate clients and of the sponsors of our bursary programme, appear as part of the notes to our financial statements later on in this report.

STAFF

During the period under review, Mildred Monyane (Data Capturer/Library) celebrated 25 years of service, Obed Zuma (Maintenance) 25 years, Johannes Mcira (Student Counsellor) 20 years, Mapule Santhu (Student Counsellor) 15 years, and Tamara Dimant (Head of Information) 15 years. The Chief Executive will celebrate his 25 years of service in September this year.

THANKS

Thanks are due to our members for their continuing loyalty and support. We are grateful also to the various sponsors of our bursary programme, along with those who back our annual *South Africa Survey* and our other benefactors. Our thanks are also due to all those who have given donations or made bequests to the Institute. Major donors to the *Survey* are listed in the printed work, while donors to the bursary funds are listed in the notes to the financial statements. We are grateful in addition to the supporters of our Parliamentary and Provincial Information Services, our Free Society Project, and our Ten Pillars of Democracy project, all referred to above.

I am grateful to the members who serve on our various governing bodies and in particular offices, including Sipho Seepe, our President; Charles Simkins, our Chairman; Peter Horwitz, our Vice Chairman; Derek Bostock, our Honorary Legal Adviser; and Tom Wixley, Chairman of our Remuneration Committee. I am also particularly grateful to Brian Hawksworth, our Honorary Treasurer, for his careful monitoring of our share portfolio over the years. Thanks are due also to staff for their dedication and professionalism.

PUBLIC POLICY ISSUES

Introduction. 'Seek the facts and make them known' has been the Institute's watchword since its foundation in 1929. The annual *Survey* is still the main vehicle for publication of factual data. Since 1991 it has been supplemented by a monthly bulletin, *Fast Facts*. Unlike the *Survey*, *Fast Facts* is also a vehicle for the Institute to comment on factual data and express opinion. These publications are supplied not only to our members, but over the past few years to all members of Parliament and the nine provincial legislatures as well. *Fast Facts* enables us to convey both facts and ideas to policymakers. Regular columns in newspapers, press statements, media interviews, and briefings to various audiences are other vehicles for the Institute to contribute to public debate, and provide platforms for others to do so. Over the past year we have had extensive media coverage both here and abroad. Matters on which we have focused particular attention over the past year include the following:

- **HIV/AIDS.** The most reprehensible of all public policy failures is the Mbeki government's handling of the HIV/AIDS tragedy. We pointed out that the failure here had evoked little public dissent from the African National Congress (ANC). But we also expressed the hope that if Mr Jacob Zuma became president of the country, he would see HIV/AIDS as a health rather than a racial issue. We highlighted official statistics showing that only 41% of people in need of anti-retrovirals from the public sector were receiving them in 2007, a proportion which was projected to rise to 67% in 2010. We noted official statistics suggesting a decline in the HIV infection rate among pregnant women under the age of 24, but an increase in the rate among older mothers-to-be visiting public ante-natal clinics. We also noted the wide provincial discrepancies in prevalence rates among such mothers-to-be, from 15% in the Western Cape to 39% in KwaZulu-Natal. However, only 2% of babies born in public facilities were tested for having possibly received the HIV virus from their mothers. Of the newly-borns so tested, 18% were HIV-positive. Finally, we drew attention to forecasts of a big increase in the number of children orphaned by AIDS.
- **Education.** We highlighted data showing various quantitative improvements: for example, the proportion of people over 20 years of age with no schooling had dropped from 19% to 10% over the past decade. However, the proportion of pupils in public schools obtaining matriculation passes good enough to qualify them for university had halved since 1980. South Africa continued to score very badly in international comparative studies of educational achievement, while the level of school violence in this country was much higher than in many others. The director-general of education objected to our press release suggesting that schools in South Africa were the most dangerous in the world, but other studies, though not going that far, identified school violence as a major problem. We again cited studies showing that perhaps as many as 80% of the country's 25 000 public schools were dysfunctional and said it was 'difficult to see any light at the end of the educational tunnel'. Criticised for not giving enough credit to the success stories in the public schooling system, we invited two leaders in the field to address an Institute meeting on such successes, and published the text of their remarks in *Fast Facts*. We welcomed ministerial promises to provide more funding for pre-school education, but also warned that the widespread breakdown of discipline among both pupils and teachers had to be addressed. Among other changes we suggested were scrapping outcomes-based-education in favour of a curriculum that was easier to teach; strong encouragement of mother-tongue instruction for the first seven years of schooling; re-opening of teacher training colleges; full teaching bursaries repayable through specified years of teaching service in public schools; and proper devolution of teacher selection to school level.

- **Skill Shortage**. South Africa's skill shortage was the focus of a comprehensive article in *Fast Facts*. Citing numerous figures from a variety of sources, we noted that there were shortages in all occupations across the economy in both the public and the private sector. We acknowledged the efforts of government and business to address the skills deficit through their Joint Initiative on Priority Skills Acquisition (Jipsa). However, given the major problems plaguing the country's education system, we suggested that 'the skills deficit looks permanent'. Elsewhere we noted that many of the sector education and training authorities (Setas) established by the government in 1998 were failures. Recognising that a great many other countries faced skill shortages, we argued that South Africa might be in a particularly serious predicament because it could not 'produce, retain, or attract the skills we need'. We published data showing that South Africa was at the bottom of a list of 30 countries in its ability to attract talent from elsewhere. We also pointed out that skill shortages had been exacerbated by affirmative action policies which had deprived the country of the services of many skilled people. This, we said, was one of the reasons why Eskom had not been able to keep up a stable supply of electricity, resulting in destructive power shutdowns in the first part of 2008 (see below).

- **Employment**. The Institute has long been critical of South Africa's illiberal labour market policies. We noted with satisfaction that Mr Zuma had suggested reform was necessary. Although he recanted after being repudiated by the Congress of South African Trade Unions (Cosatu), we said that his suggestion created a new opportunity to open up debate on an issue which President Thabo Mbeki had 'ducked'. We have previously argued that the growth of what has been called 'atypical' employment — outsourcing, temping, and the like — reflects efforts by employers to escape restrictive labour market regulation. Several commentators on the violence against foreigners in South Africa in May 2008 (see below) suggested that one of the causes was resentment among local workers that foreigners had taken jobs at lower wages than locals were willing to accept. If so, this suggests a further erosion of restrictive labour law. The very high levels of unemployment in South Africa are in part a function of our labour relations regime. We noted that although the expanded unemployment rate had dropped from its peak of 42% in 2003 to 36% in 2007, the number of unemployed had risen from 4.2 million in 1996 to 7.4 million last year. We also published data derived from the 2001 census (but only made public more recently) that showed enormous discrepancies by race in the incidence of employment. Thus, whereas 80% of whites aged between 25 and 29 had jobs, only 32% of Africans in that age cohort did.

- **Poverty and inequality**. A press statement we issued in November to the effect that poverty levels in South Africa had doubled over the past decade was widely reported both in South Africa and abroad. We attributed the rise in poverty to the fact that the supply of new jobs had not kept pace with demand. The poverty data we used came from a private research house called Global Insight and had been included in the *2006/2007 South Africa Survey*. Our statement elicited a lengthy response from President Mbeki in his weekly 'Letter from the President' published in *ANC Today*. Mr Mbeki accused us of 'falsifying reality' and propagating the 'absurd assertion' that poverty levels had doubled. The statistics in question, using the World Bank yardstick of $1 a day to measure the extent of extreme poverty, showed that the number of people living in poverty in South Africa had risen from 1.9 million in 1996 to 4.5 million in 2002 and had then dropped to 4.2 million in 2005. Turned into proportions of the population, these figures showed a rise in the incidence of poverty from 4.5% in 1996, to 9.7% in 2002, and then a decline to 8.8% in 2005. These statistics were cited in a reply to the president. Other critics used living standards measures (LSMs) to question the data we published, but we pointed out that LSMs did not measure poverty or even income and that their use to question our data was invalid. South Africa has no official poverty line, and the Chairman of the Board of the Institute, Professor Charles Simkins, commented in *Business Day* that 'the government has been pushing the jelly round the plate for too long' on defining one.

Mr Mbeki questioned the use of 'money-metric' measures of poverty. The Institute said it agreed with him that the 'social wage' — education, health, housing, and other services provided by the state — 'enhances people's lives'. We further agreed that the extension of social grants — now reaching a quarter of the population, mostly children - should be taken into account in measuring poverty. But we also pointed out that the massive extension of the South African welfare system, rather than the generation of sufficient jobs, 'seems to have become the main antidote to poverty'. We further noted the impact of the country's electricity debacle on the poor. While the government might try to shield poor households from the impact of much higher electricity tariffs, the poor would still suffer from the inevitable slowdown in economic growth and job creation caused by the crisis. On inequality, the Institute noted in a press release in November 2007 that it had been rising faster among Africans than among other races. Inequality was cited as one of the factors giving rise to the violence which broke out on the Reef in May.

- **Living conditions**. Although it is widely believed that the government has failed to 'deliver' better living conditions, survey data from *Statistics South Africa* show that this is not the case — at least not from a quantitative standpoint — as the Institute once again pointed out. The past decade has thus seen the number of households living in formal housing rise by 51% from 5.8 million to 8.8 million. But supply has not kept pace with growing demand, so that the number of households living in informal settlements (on open land or in backyards) has also risen, from 1.5 million to 1.8 million. The proportion of households with access to piped water has risen in all provinces, even in the badly-run Eastern Cape, where it now stands at 70% as opposed to 54% in 1996. Several million more households enjoy access to modern sanitation and electrification, while several million more children receive social grants. On the other hand, there is clearly much dissatisfaction with the quality of service provision. Moreover, unemployment has risen over that same period, while statistics published by the government itself showed almost no decline in the number of people (about 20 million) living in poverty, which may help to explain the outbreaks of violence in May.

The government has for some time been promising — or threatening — to eradicate informal settlements. The Institute commented that such attempts would fail, just as the previous government's had failed. We said that informal settlements were a form of affordable housing for the poor. This is not a new argument: it has been made repeatedly over more than three decades, and nobody has ever successfully countered it. We also cautioned the minister of housing against implementing her threats to prevent owners of formal houses provided by the state from selling or letting them. A housing policy reliant on this type of coercion was bound to fail, we predicted. Our comments elicited a reply from the minister in which she said, inter alia, that we were endorsing illegal behaviour.

- **Land reform**. The Institute noted that 'apartheid land engineering' had involved 'a century of exclusion, confiscation, and forced removal'. Rectifying this injustice remains one of the most difficult challenges facing the country. A host of studies has now shown that land reform has been mostly a failure, partly because of bureaucratic incompetence and partly because its supposed beneficiaries have frequently lacked the capital and skills — and perhaps even the real desire — to make a go of farming. We were thus not surprised by what the new director-general of land affairs stated in his previous capacity as chief land claims commissioner, viz. that 'close to half our land reform projects have failed' and that the target of redistributing 30% of white farmland to blacks by 2014 should be revised downwards. There was, he said, no point in dishing out land and 'ending up with assets that are dying in the hands of the poor'. By contrast, his minister planned to speed up land reform by assuming greater powers to expropriate land (and other property) (see below). We argued that this approach would not address the reasons for failed land reform, which arose from government ineptitude rather than failure of the willing-buyer-willing-seller principle on which land redistribution policy had hitherto been based. Draft new expropriation legislation also showed no regard for its likely impact on confidence, investment, or even food production. For the target of 30% to be met by 2014, we said, the pace of land redistribution would have to be doubled, tripled, or even quadrupled, with the risk of even more assets dying in the hands of the poor.

- **Economic growth**. The governor of the South African Reserve Bank is on record as saying that South Africa's sustainable rate of economic growth is about 4.5% a year. President Mbeki, on the other hand, has stated that we need to grow at 8% to achieve the government's objectives of halving poverty and unemployment by 2014. In May 2008 the Institute accordingly convened a panel of five independent economists to explore the question, 'Why not 8%?' None thought 8% attainable, and all doubted that even 4.5% could be maintained. Between them they cited various economic factors acting as constraints upon faster growth, among them the obvious ones of rising inflation, the very large deficit on the current account of the balance of payments, and the volatile exchange rate. What was striking about the five economists' analysis, however, was the extent to which they cited social and political factors, and failures of policy, as impediments to faster growth. Such impediments included a skills shortage exacerbated by inadequate schooling, affirmative action, and HIV/AIDS. Governance had become more inefficient as the skills shortage took its toll. Red tape had grown while becoming ever more unworkable. Minimum wages and other labour market rigidities had priced millions of the unskilled out of jobs. Key productive sectors of the economy — mining and agriculture — had been hampered by transformation policies. Redistribution via social grants had increased dependency while lowering the savings rate essential to more fixed investment. Crime affecting business people had been allowed to grow exponentially, adding to the brain drain. These are all issues to which the Institute has all along been paying attention. The key arguments put forward by our panel were summarised in the June 2008 issue of *Fast Facts*.

- **Trade**. The Institute has previously drawn attention to the link between the expansion of global trade and the reduction in poverty levels. In January 2008 we hosted a former federal economics minister in Germany, Dr Otto Count Lambsdorff, to give our members an update on the state of free trade in the world. He said that the current state of play in the Doha round of negotiations in the World Trade Organisation (WTO), following the failure of the Cancun conference in 2003, was alarming. Describing free trade as one of the biggest blessings a government could give a country, Dr Lambsdorff said that the growth of regional and bilateral trade agreements was a threat to multilateral free trade. Such agreements might initially lead to a liberalisation of trade flows between the countries involved, but in the longer run they were harmful to international markets. This was because regional trade agreements discriminated against all countries excluded from such agreements. The trade agreement between members of the European Union had thus led to a decline in interest in trade liberalisation vis-à-vis other countries. Dr Lambsdorff added, 'Protectionism by developed countries under the cloak of something new — let it be anti-dumping rules, the imposition of health and safety guidelines, or the enforcement of social standards — is harming peace, because open access to markets in the long run is the most effective way to secure prosperity for everyone, and ultimately mutual security.' Dr Lambsdorff's address was published in *Fast Facts*.

Discussing free trade in the African context, the Institute noted that current debates about north-south trade policies often tended to obscure the extent to which trade within Africa was inhibited by African states' own trade policies. Countries in sub-Saharan Africa thus levied very high tariffs against imports from other countries in the region. Reporting on a conference in Berlin in which the Institute participated, we noted that although poverty in Africa was often blamed on globalisation, South Korea, Vietnam, and other east Asian countries 'had massively reduced poverty levels while being subject to the same globalising forces as everyone else'.

- **Crime**. Referring to a spate of what appeared to be racially motivated crimes in 2008, the Institute noted that only a minority of crimes were committed across the colour line and that 'the great majority of violent crimes have no racial content'. That said, however, 'there is a risk that the persistence of violent crime at such high levels and racially-based perceptions about it, will poison race relations irrespective of the extent to which such crime actually has a racial motive.' The Institute pointed to data showing that there had been a huge investment of private and public funds and personnel in efforts to combat crime over the past decade or more. We also showed that there had been a 45% increase in the number of prisoners, and a 2 368% increase in the proportion of prisoners serving sentences longer than ten years. Over roughly the same period the crime rate had dropped by 14%, while the absolute number of crimes had risen by 5%. Even though the absolute number of crimes was now on the decrease, we suggested that these were modest returns for all the investment in security and prisons. We also showed, using police statistics, that there had been substantial increases over the last few years in aggravated robberies at both business and residential premises. We also drew attention to the frequency of crime that attracted relatively little media attention, stock theft being a case in point. Some 178 000 animals worth R560 million had thus been stolen last year and the Emergent Red Meat Producers' Organisation had stated that stock theft made potential farmers 'scared to enter the market'. It was a bigger problem than disease and natural disaster.

Referring to a call by the deputy minister of safety and security for police to 'shoot the bastards' when dealing with criminals, we commented that it showed that the government had run out of ideas to combat crime. We also pointed out that her advice was in conflict with the law and that police officers who followed it could find themselves serving life sentences. We also drew attention to a wider problem of lawlessness on the part of the the country's law enforcers. Police raids on students in Stellenbosch and on Zimbabwean refugees in a Methodist church in Johannesburg had thus been characterised by wanton brutality reminiscent of the old pass raids. Moreover, 'although police interventions in political gatherings at local level seldom result in fatalities nowadays, the last ten years have seen 55 innocent bystanders shot dead by police in crime combating exercises. There are also persistent allegations of corruption, torture, assault, and attempted murder. Allegations are only that — allegations. Nevertheless, they are so persistent that this is a problem.'

In an address to private security companies in September 2007 we argued that combating crime required not only a much better criminal justice system, but also the revival of internal constraints upon human behaviour, which had been cast aside. The family (see below) was the critical institution in the transmission of values on which self-constraint could be built.

- **Family life**. One of the worst features of the apartheid system was the labour and influx control legislation, which sought to minimise the number of Africans in the supposedly white cities and towns by curtailing the rights of working husbands or wives to bring their spouses and children with them from the rural areas. These cruel laws have gone, but there are new threats to family life, among them AIDS and pervasive unemployment. We stated that among the new threats was misguided children's rights legislation likely to encourage promiscuity and teenage pregnancy while undermining parental authority. President Mbeki had quoted census data to the effect that nearly one third of young women became pregnant in their teens. We published figures showing that 43% of all urban parents were single parents, 75% of these being women, 84% African, and 21% having no income. We noted that the United Nations Children's Fund (Unicef) had predicted that the number of orphans in the country would increase from 2.2 million in 2003 to 5.7 million by 2015 (thanks largely to AIDS). The number of child-headed households was also rising. Among African mothers between the ages of 30 and 34, the 2001 census had showed, 40% had never married (against 3% among whites and Indians and 26% of coloured mothers). Given the extent of poverty and unemployment in South Africa, the absence of schooling, and the paucity of jobs for young people, it seems likely that the availability of child support grants to more and more people is having the perverse consequence of encouraging teenage pregnancy. Such grants may reduce the impact of poverty in the short term, but over the longer term they may perpetuate it by encouraging the poor to have more and more children who will themselves become dependent on welfare grants in the absence of decent schooling and employment opportunities. We noted official data suggesting that among the poorest 10% of households, three times as much income came from social grants as from work. We quoted *Statistics South Africa* as having said, 'The conventional idea that two parents and their children live together as a household in a nuclear family does not apply in South Africa today.' This might have been an apt comment about the apartheid era with its pass laws, migratory labour regime, and single-sex compound systems. That it can be applied today is horrifying.

- **Race relations**. Referring to the Springbok rugby team's victory in winning the 2007 rugby world cup, the Institute said that it had made a 'massive contribution to improving race relations', as had earlier sporting achievements, such as the winning of the 1995 rugby world cup, and the 1996 African cup of nations. The critical factor uniting blacks and whites in celebrating the 2008 victory in Paris had been the success of the team, not its racial composition. We called on sports policy makers, particularly the parliamentary portfolio committee on sport, to recognise this and we cautioned against calls for quotas to transform the team. We also stressed the importance of providing opportunities for young black rugby players at school level.

Also on the question of race relations, the president of the Institute, Professor Sipho Seepe, referred to widespread accusations of racism levelled against the blacks-only Union of Black Journalists (UBJ) for holding a meeting from which people of other races were excluded. He said that if racism was understood from the perspective of the victim, people 'would have been less likely to jump on the bandwagon of condemnation of the relaunch of the [UBJ]'. Professor Seepe added that 'while apartheid laws have been removed, the subtle racism that exists is equally devastating.' Racism also took the form of institutionalised discrimination. While whites accused blacks of overreacting to supposedly isolated incidents of discrimination, they forgot that 'blacks live lives of quiet desperation generated by a litany of daily large and small events that, whether or not by design, remind them of their place in society.' The Institute criticised the University of the Free State for tolerating a segregated residence (some of whose occupants had abused black workers) on the campus. Professor Seepe said, 'We need to reflect on whether we have created enabling environments in which African students are no longer subjected to social, cultural, and political alienation.' He also made the point that it was a pity that the killing of a black student on another campus by three black students had not received as much coverage as the Free State incident. 'There should be no double standard with regard to human rights.'

- **Racial policy**. In an article in *Fast Facts* on the black middle class, we noted that racially-based policies such as affirmative action and black economic empowerment undermined their beneficiaries because they made it difficult to distinguish between people who reached positions on merit and those who were put there to fill quotas. Many black South Africans had 'made it' despite present or past racial policies, but they were lumped with those who had achieved success as a result of racial preferencing. 'The result is to strengthen the racist argument that black success arises mainly from affirmative action.' We also observed that many members of the black middle class were dependent on government and therefore 'a long way from being the independent middle class of typical social theory'. In an article in *Business Day*, we noted a paradox in affirmative action and black economic empowerment policy. Various targets were set for white firms and white employers to achieve, and various ratings agencies were engaged to measure performance against such targets. Black achievement did not seem to enter into the picture. We asked, 'How many black professionals and entrepreneurs have been made offers they cannot refuse by white firms pursuing some or other target or quota?' We suggested that South Africa was building an economy in which whites 'have to become more and more self-reliant, while blacks become ever more dependent on what the government forces whites to do for them. That is a strange form of liberation.'

  In an address at the Institute on the 30th anniversary of the death of Steve Biko in police detention in September 1977, Professor Seepe said that Biko had emphasised self-reliance and would 'have great discomfort with affirmative action and the current form of black economic empowerment'. 'Biko wanted people to be agents, not recipients. The ANC has created a dependency that Black Consciousness wanted to address in the first place'. Professor Seepe added, 'Biko taught that you should create your own economic success. So today we need new companies. This is what will help unemployment, not integrating black people into the white economy. Entrepreneurship will reduce unemployment.' The text of Professor Seepe's address was published in *Fast Facts*.

- **Protest and public violence**. Over the past few years there have been thousands of protests at local level, many of them violent, though generally without fatalities. Some were manifestations of anger against transfers of townships from one province to another. There was also much antagonism towards local authorities that were accused of corruption and failure to provide the promised better living conditions. The Institute noted that a likely ingredient in many of the protests was a sense of relative deprivation. Contrary to widespread perception, we stated, 'delivery' had not 'failed'. Official surveys monitored by the Institute and reported regularly in the *South Africa Survey* and *Fast Facts* in fact show quite dramatic increases in the numbers of households receiving housing, sanitation, water supply, and electricity (see above). We suggested that the obvious gains by some had heightened grievances among those left behind.

  Since 2006 public violence has reached murderous heights unprecedented since 1994, Somalis being prominent among the people attacked, notably in Cape Town and Port Elizabeth. This violence seemed to be partly motivated by jealously among local traders that Somalis were undercutting prices in spaza shops in black townships and informal settlements. Somali community leaders were reported as saying the number of their nationals killed since 1997 was 470, but the South African minister of safety and security said in 2006 that it would be too time-consuming to compile information on such attacks, which continued into 2008, in Pretoria and elsewhere. In March we criticised the government's handling of the 'ongoing problem' of xenophobic violence as 'anaemic'. On Sunday 11th May violence broke out in Alexandra township in Johannesburg. It then spread to other parts of Johannesburg and the East Rand, with incidents also in Durban, Cape Town, and a few smaller places. Within a month, according to the government, 62 people had died, most of them in Gauteng province and about a third of them South Africans. Of the remainder who could be identified, eleven were Mozambicans, five Zimbabweans, and three Somalis. Some of the victims were burnt alive in 'necklace' executions, among them the Mozambican who appears on the back cover of this Annual Report. Thousands of foreigners fled from their homes in townships or informal settlements, some to refugee camps set up in Johannesburg and Cape Town, others back to Mozambique, Zimbabwe, and elsewhere on the African continent. An estimated 32 000 people were displaced. The violence, which soon took the form of mere criminality, was widely attributed to xenophobia, and the Institute commented that the country's preoccupation with white-on-black racism might have 'caused us to overlook a far more widespread form of racism in our midst'. Opinion surveys suggest high levels of intolerance of people from other countries, even refugees. Perhaps such intolerance is in part an outcome of a wider problem, viz. the heightened consciousness of race and the entitlements attached thereto arising from government policies.

Many reports and commentators attributed the xenophobic violence in 2008 to anger that foreign Africans were undercutting local traders, taking jobs at lower wages than local people were willing to accept, and occupying houses to which local people felt they were not entitled. In a comprehensive press statement issued in the midst of the violence, the Institute suggested that the collapse of border controls and the resulting presence of a very large population of illegal foreigners were key contributing factors to it. (A parliamentary task team investigating the violence said there were an estimated six million foreign nationals in South Africa, among them permanent residents, temporary residents, asylum seekers, those with study and work permits, and 'undocumented migrants'.) Other factors cited by the Institute were failure to maintain the rule of law, endemic corruption in the state, very high youth unemployment, poor education, failure of the South African Reserve Bank's inflation targeting policy, the contrast between the middle class and the conditions of squalor in which most South Africans lived, and incompetent local authorities. The violence could be attributed to this series of policy failures on the part of the Mbeki government, which had too often dismissed warnings about them as motivated by racism or emanating from prophets of 'doom and gloom'. These failures 'have come together to create a virtual tinderbox of dissatisfaction' which had been ignited in Alexandra. The Institute's critique elicited considerable interest from media around the world. Local newspapers described it as a 'scathing indictment' and 'blistering attack' on these policy failures.

Noting that the Department of Home Affairs was unable properly to process and document the millions of African immigrants in South Africa, the Institute called for a moratorium on their arrest until such time as the department could grant refugee status to people fleeing violence, political oppression, and economic collapse.

- **Politics and governance**. Commenting on the election of Mr Zuma to the presidency of the ANC at its conference in Polokwane in December, Professor Seepe said that it disproved the 'myth' that Mr Zuma's campaign had been based on ethnicity, for he had managed to garner significant support in Mr Mbeki's strongholds. Professor Seepe also stated that the ANC had awoken to the fact that it had previously given Mr Mbeki powers to fashion government at national, provincial, and local levels. In so doing they had forgotten that power tended to corrupt, but they had now reclaimed power from Mr Mbeki. 'This was a show of force and democracy in action.'

The Institute also commented that some of the demands emanating from the new ANC leadership were 'ominous'. One of these was the demand that Parliament obey orders from party headquarters to abolish the special anti-crime unit known as the Scorpions. The Institute also cited some of the new senior officials in the ANC as having said that the party's new national executive committee was the only centre of power in the country and that the president and his cabinet were accountable to it. We observed that this was subversive of the Constitution, in terms of which all members of the cabinet were accountable to Parliament, not party headquarters. The ANC's evident determination to turn both Parliament and the cabinet into subcommittees of the ruling party would also undermine parliamentary democracy. 'In short, what the ANC has in mind is nothing less than to exhume the Soviet model of government and impose it on our political system.' At the same time we noted that the new ANC leadership had also said that Parliament should be much more vigilant vis-à-vis the executive branch of government. 'Taken at face value, this is music to the ears. But questions arise. Is Parliament's new-found vigilance merely an expedient to keep Mbeki in line? Or will Parliament be expected to enter into a new period of vigilance irrespective of whoever heads the government after Mbeki?' We said also that it was vitally important to strengthen Parliament, which is why the President and the Chief Executive of the Institute are serving on an independent panel to assess Parliament's performance. (A member of the Institute's new Council, Dr Frederik van Zyl Slabbert, is also on this panel.)

- **The State**. The Institute questioned the assumption that if Mr Zuma became president of the country, there would be an automatic leftward shift in macroeconomic policy as a pay-off by him to the trade unionists and communists who had helped him oust Mr Mbeki from the presidency of the ANC. We pointed out, as we have done in earlier years, that the government's commitment to inflation targeting and fiscal prudence was not simply a question of what the Presidency, the National Treasury, and the reserve bank desired, but that it had wider support within the ANC. That said, we also observed that there had been a steady shift under Mr Mbeki towards more interventionist economic policies. This shift included affirmative action and black economic empowerment, as well as increased interventions in the labour market. Privatisation had been abandoned, and trade policy had become more protectionist. Another important example of growing dirigisme was mining legislation, details of which a mining law specialist, Mr Peter Leon, explained in a lecture hosted by the Institute and published in *Fast Facts*. At the time of writing this report, proposed health care legislation had elicited widespread criticism from private health practitioners and the private hospital sector. The Institute had taken this matter up in November last year, commenting that the health minister would be better advised to fix the numerous problems in the public health sector. We also warned against legislation to give the state wider powers to expropriate private property. Although ostensibly designed to expedite land reform, an expropriation bill introduced in Parliament in May applied to a wide range of property rights, including homes, patents, and shares. It also allowed expropriation to take place by executive fiat. A detailed critique of the bill was published in *Fast Facts* and also submitted to the parliamentary portfolio committee on public works, which was processing the legislation at the time of writing this report.

The Institute has for several years now suggested that the State was assuming too many powers over the private sector while failing satisfactorily to carry out the basic functions that a government should perform, such as combating crime and providing proper education and public health care. The most dramatic example of failure was the electricity shutdowns inflicted upon the country by the government's wholly-owned electricity utility, Eskom, in the early part of the year. These arose in large part from failure on the part of both Eskom and the government to plan and budget timeously to augment the country's electricity generating capacity. The Institute hosted a lecture by Mr Andrew Kenny, an energy specialist, on the electricity crisis. This was later published in Fast Facts under the title 'Eskom: a disaster that could have been avoided'. We noted that the failure of anyone to resign over the 'catastrophe which Eskom and the cabinet have inflicted upon the country' carried the implication that public officials knew they were immune to the consequences of major mistakes and derelictions of duty. On the basis of the Eskom and other failures, we questioned whether the government was actually capable of turning South Africa into the promised 'developmental state.' We noted that the ANC had passed a resolution at its Polokwane conference to the effect that 'the state must play a central and strategic role by directly investing in underdeveloped areas and directing private sector investment'. However, we noted, the chief executive of Eskom had said after the country's electricity crisis had become apparent, 'I think we need to be circumspect about our expectations of what government can do.' In our annual *South African Mirror* presentation at the end of March we stated as follows: 'We need to recognise the risk of gradual decline as South Africa ratchets downwards and we become conditioned to

- entrenched criminality,
- police brutality and corruption,
- decaying infrastructure,
- unprotected borders,
- dubious passports,

- high-level cover-ups of corruption,
- dysfunctional public education,
- the steady exodus of scarce skills,
- declining public accountability,
- the callousness of the government's response to AIDS,
- incompetence at all three levels of government, and
- the distorted sense of priorities that can spend a few hundred million on a new Pan-African parliament but cannot make sure that all schools have decent lavatories.'

As reported above, numerous failures on the part of the State were cited by the Institute as among the causes of the violence that broke out in May. The Institute suggested that policy failures, along with problems such as 'arrogance, complacency, corruption, and cronyism' risked turning South Africa into a 'failed state'.

- **The future**. At the time of writing this report, it seemed likely that Mr Zuma would become president of the country after the general election which must be held by the middle of next year. After Mr Mbeki's open support for the Mugabe government, we were pleased to note Mr Zuma's clear disapproval of the actions of that government. We suggested that his foreign policy was likely to be driven by South Africa's economic interests instead of by the hostility to the Western liberal democracies that seemed to characterise Mr Mbeki's foreign policy. As already noted, we also suggested that Mr Zuma was likely to see AIDS as a health issue rather than through the racial prism used by Mr Mbeki. Beyond that, we said with reference to South Africa's slide towards failed statehood, 'the big question is whether Zuma has the wisdom, the strength of character, and the leadership skills to turn the ruling party into a different kind of animal'. There are also other questions about Mr Zuma. One relates to his honesty. Although he has yet to stand trial on charges that include fraud, corruption, and racketeering, doubts about his ethics cannot be ignored. Moreover, although both he and the prime minister of Mauritius denied it, it seems that he did attempt to get the prime minister to interfere in the judicial proceedings in that country involving him. The other question arises from the nature of some of his supporters. They try to intimidate the courts, they threaten violence, and they sometimes behave like thugs. They are a warning to us that the ANC contains people who would feel at home in Mr Mugabe's party. Mr Zuma's response to their threats of violence has been mealy-mouthed. So we actually do not know whether or not he agrees with their obvious belief that they, and he, are above the law.

CONCLUSION

Members might be interested in a tribute paid to the Institute in the memoirs of Peter Hawthorne, which were being prepared for publication as this report went to the printers. Mr Hawthorne covered South Africa for numerous foreign newspapers, radio, and television, and for the American news magazine *Time* over almost half a century.

> "At a time when most English-language and foreign journalists were regarded as hostile liberals at best and communist anarchists at worse and

were deliberately excluded from the workings of the political machine, sourcing information from the government was extremely difficult and often impossible. For myself and many of my colleagues our reference bible became the annual Survey of the South African Institute of Race Relations.

"On a shelf in my study I have a collection of some 40 years of the SAIRR annual *Surveys* — the curriculum vitae of a unique society that has at various times shocked, sickened and amazed the entire world... From 1964 — when I stood in the crowds in Church Square, Pretoria, outside the Palace of Justice, waiting for the verdict in the Mandela trial — to 1994, when the new South Africa was born, the SAIRR has faithfully recorded each year in the cold photography of print — each year, as the country lurched from one crisis to another, as it bled from the self-inflicted flagellations of apartheid and as it emerged from darkness into light, from the grey of despair to the rainbow of hope. It is hard to believe that the South Africa of the apartheid era could become the South Africa of today.

"To the annoyance of the new government, the *SAIRR Surveys* were now focusing no longer on the broad subject of apartheid but on the ANC government's performance, or lack of it, on social and economic issues.

"The collective reporting system of *Time* magazine taught me a lot about my own profession. This wasn't in-your-face, Fleet Street, 'I was there' journalism. It was recording everything in the finest detail for a professional writer who would eventually put his own name to the finished product. It was important, therefore, that every word, every fact, had to be checked and double-checked. You didn't just write a *Time* file and that was that. Before the week was out I'd be up, often throughout the entire Friday deadline night (Johannesburg was six, sometimes seven, hours ahead of New York), answering *Time* 'checkpoints': 'What's the population of Soweto?', 'Are all South African policemen white?', 'Confirm black unemployment figures', 'How many executions of blacks this year?' Through the night the telex would come alive with more checkpoints and I'd thank the Lord for the South African Institute of Race Relations *Survey* which would answer many of them."

Johannesburg
30th July 2008

HONORARY TREASURER'S REPORT ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st December 2007

The surplus for the year amounted to R3 994 030, compared to a surplus of R337 378 for the nine-month period ended 31st December 2006.

Operating income was R10 557 879 compared with the previous nine-month figure of R4 369 312. The significant variances in income were an increase in grants and donations of R1 168 690, an increase in bequests of R3 368 530, and an increase in membership fees and subscriptions of R708 565. Administration fees received increased by R1 028 098 compared with the previous nine months, mainly due to the increased activities in the Bursary Department. There was an unrealized surplus on investment revaluation of R1 820 636, compared to a surplus of R1 298 320 in the previous nine months. Dividend income increased by R118 471 and interest received increased by R60 119.

Expenditure increased from R5 658 351 for the nine-month period ended December 2006 to R8 879 172 for the twelve months ended December 2007. This was largely attributable to an increase in personnel cost of R2 462 081 for additional research personnel, and an increase in general overheads and administration cost of R758 740, again taking into consideration that we compare a nine-month period to this year's twelve-month period.

The unrealised surplus on bursary fund investments was R3 454 317 (2007 R5 572 898).

The Institute's financial position at the year end was sound. At that date it had total assets of R48 279 380 under its control, compared to R41 123 031 at December 2006.

Cash resources decreased by R418 370, after taking into account capital expenditure of R299 239.

Brian M Hawksworth
Honorary Treasurer
Chairman of the Finance Committee

SOUTH AFRICAN INSTITUTE OF RACE RELATIONS
(INCORPORATED ASSOCIATION NOT FOR GAIN REGISTERED UNDER SECTION 21 OF THE COMPANIES ACT) AND ITS SUBSIDIARY COMPANY

ANNUAL FINANCIAL STATEMENTS
for the year ended 31st December 2007

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

CONTENTS

STATEMENT OF DIRECTORS' RESPONSIBILITY

The directors are responsible for the maintenance of adequate accounting records, and the preparation and integrity of the financial statements and related information. The auditors are responsible to report on the fair presentation of the financial statements. The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act of South Africa, 1973.

The directors are also responsible for the Institute's systems of internal financial control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify, and maintain accountability of assets, and to prevent and detect misstatements and losses. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures, and systems has occurred during the year under review.

The financial statements have been prepared on the going concern basis, since the directors have every reason to believe that the Institute has adequate resources in place to continue in operation for the foreseeable future.

The annual financial statements set out on pages 33 to 53 have been approved by the Board of Directors, and are signed on its behalf by:

J S Kane-Berman B M Hawksworth

26th June 2008

INDEPENDENT AUDITORS' REPORT

To the Members of the
South African Institute of Race Relations
(Incorporated Association Not For Gain
registered under Section 21 of the Companies Act)

Report on the financial statements

We have audited the annual financial statements of the South African Institute of Race Relations and its subsidiary (the group), which comprise the report of the directors, the balance sheet and consolidated balance sheet as at 31st December 2007, the income statement and consolidated income statement, the statement of changes in equity and consolidated statement of changes in equity, the cash flow statement and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The Institute's directors are responsible for the preparation and fair presentation of these financial statements, in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the Institute and the Group as of 31st December 2007, and of their financial performance and their cash flows for the year then ended, in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act of South Africa, 1973.

PricewaterhouseCoopers Inc.
Director: M A Horsfield
Registered Auditor
Johannesburg
1st September 2008

CORPORATE GOVERNANCE

The South African Institute of Race Relations remains committed to the principles of openness, integrity, and accountability as advocated in the King Report of 1994 on corporate governance and the subsequent King II Report as they apply to the Institute. The directors consider the Institute to be a going concern.

BOARD OF DIRECTORS

The Board meets quarterly. The roles of Chairman and Chief Executive do not vest in the same person. Directors are appointed for a specific term of office and re-appointment is not automatic. Membership of the Board is set out on page 38 of the Annual Financial Statements.

AUDIT COMMITTEE

An Audit Committee has been in existence since 1998. The Committee is responsible for ensuring that management creates and maintains an environment of effective corporate control, for reviewing the accounting policies, and for the optimal functioning of the financial and operational control systems. The Committee, consisting of five non-executive members, meets at least twice annually.

REMUNERATION COMMITTEE

A Remuneration Committee was established on 15th November 2002. The Committee is responsible for determining the remuneration packages of executive management. The Committee consists of no fewer than three members appointed by the Board, all of them non-executive.

COMPANY SECRETARY

All directors have unlimited access to the advice and services of the company secretary, who is responsible to the Board for ensuring that the 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 executed and recorded in accordance with general business practices. These controls include proper delegation of responsibilities, effective accounting procedures, and adequate segregation of duties, and are monitored regularly throughout the Institute. Employees are required to act with integrity in all transactions.

CODE OF ETHICS

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

CHANGE IN YEAR END

The Board voted on 9th September 2006 to change the year-end reporting date. This needs to be taken into consideration when comparing the prior period of nine months to the twelve months ended 31st December 2007.

REPORT OF THE DIRECTORS

The directors have approved the attached annual financial statements and submit their report for the period ended 31st December 2007.

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.

DIRECTORS AND SECRETARY

The following acted as directors:

P S Seepe	— President
H B Giliomee	— Vice President
L Schlemmer	— Vice President
M M A Shezi	— Vice President
H Suzman D B E	— Vice President
C E W Simkins	— Chairman of the Board of Directors
P J Horwitz	— Vice Chairman of the Board of Directors
B M Hawksworth	— Honorary Treasurer
D S L Bostock	— Honorary Legal Adviser
T Coggin	
R D Crawford	
J A Hudson	
J D Jansen	
C J McCaul	
I Mkhabela	
D K Rose	
J W Wentzel	
T A Wixley	
T S Gugushe	— Appointed on 29th August 2007
P G Joubert	— Appointed on 28th November 2007
N S Kgopong	— Appointed on 28th November 2007
M S Mosikili	— Appointed on 28th November 2007
J S Kane-Berman	— Chief Executive*
N C Mathiane	— Resigned 31st January 2007
T J Sono	— Resigned 31st January 2007
E R Jenkins	— Resigned 31st January 2007

* Executive director

K Schultz served as secretary of the Institute for the period ended 31st March 2008 and R le Roux was appointed as from 1st April 2008. Their addresses are:

Business address	**Postal address**
68 De Korte Street	P O Box 31044
Braamfontein	Braamfontein
2001 Johannesburg	2017 South Africa

EVENTS AFTER THE BALANCE SHEET DATE

Investments to the value of R4 300 000 were disposed of subsequent to year end, of which R3 200 000 was for bursary funding in the new financial year and another R1 100 000 Institute shares to maintain a 1.9 ratio between equity and cash. The directors are not aware of any other 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 and the group or the results of those operations significantly.

BALANCE SHEET

as at 31st December 2007

	Notes	GROUP		INSTITUTE	
		As at Dec 2007	As at Dec 2006	As at Dec 2007	As at Dec 2006
		R	R	R	R
ASSETS					
Non current assets					
Property, plant and equipment	2	1 646 902	1 528 837	763 152	630 087
Investment in subsidiary	3	–	–	864 890	885 329
		1 646 902	1 528 837	1 628 042	1 515 416
Investments					
Special Funds					
— Bursary	12	30 899 374	29 218 304	30 899 374	29 218 304
— Institute	12	1 905 173	1 580 340	1 905 173	1 580 340
— Other	12	1 065 862	536 644	1 065 862	536 644
		33 870 409	31 335 288	33 870 409	31 335 288
Other Institute investments	12	11 729 091	7 316 792	11 729 091	7 316 792
		45 599 500	38 652 080	45 599 500	38 652 080
Current Assets					
Accounts receivable	4	1 032 978	563 338	1 032 027	562 387
Cash resources		–	378 776	–	378 776
		1 032 978	942 114	1 032 027	941 163
TOTAL ASSETS		**48 279 380**	**41 123 031**	**48 259 569**	**41 108 659**
FUNDS AND LIABILITIES					
Funds and reserves					
Accumulated funds		12 929 246	8 935 216	12 929 246	8 935 216
		12 929 246	8 935 216	12 929 246	8 935 216
Special funds					
— Bursary	10/11	30 899 374	29 218 304	30 899 374	29 218 304
— Institute	10/11	1 905 173	1 580 340	1 905 173	1 580 340
— Other	10/11	1 065 862	536 644	1 065 862	536 644
		33 870 409	31 335 288	33 870 409	31 335 288
Current liabilities					
Accounts payable	5	1 440 131	852 527	1 420 320	838 155
Bank overdraft		39 594	–	39 594	–
		1 479 725	852 527	1 459 914	838 155
TOTAL FUNDS AND LIABILITIES		**48 279 380**	**41 123 031**	**48 259 569**	**41 108 659**

INCOME STATEMENT

for the year ended 31st December 2007

	Notes	GROUP		INSTITUTE	
		Year Ended Dec 2007	*Nine months ended Dec 06*	*Year Ended Dec 2007*	*Nine months ended Dec 06*
		R	*R*	*R*	*R*
INCOME					
Administration fees received		1 663 606	635 508	1 743 610	695 508
Bequests		3 373 000	4 470	3 373 000	4 470
Grants and donations		3 519 653	2 350 963	3 519 653	2 350 963
Membership fees and subscriptions		1 969 134	1 260 569	1 969 134	1 260 569
Publication sales		32 486	117 802	32 486	117 802
		10 557 879	**4 369 312**	**10 637 883**	**4 429 312**
EXPENSES					
Auditors' remuneration					
- Fees for the audit	6	152 120	90 239	150 000	86 802
Depreciation	2	181 174	140 515	166 174	129 265
Impairment of loan to subsidiary		–	–	101 866	95 520
Lease expenditure		114 999	81 558	114 999	81 558
Overheads and administration		705 667	542 084	596 447	416 383
Personnel		6 425 278	3 963 197	6 287 041	3 854 564
Postage		157 805	146 264	157 805	146 264
Printing		344 445	266 596	344 445	266 596
Rent and utilities		198 013	68 723	440 728	307 592
Telecommunications		409 654	231 121	409 654	231 121
Travel		190 017	128 054	190 017	128 054
		8 879 172	**5 658 351**	**8 959 176**	**5 743 719**
OPERATING SURPLUS/(DEFICIT) FOR THE YEAR/PERIOD		**1 678 707**	**(1 289 039)**	**1 678 707**	**(1 314 407)**
INCOME FROM INVESTMENTS					
Dividends		383 344	264 873	383 344	264 873
Interest received		111 343	51 224	111 343	51 224
Surplus on sale of fixed asset		–	12 000	–	12 000
Surplus on investments		1 820 636	1 298 320	1 820 636	1 298 320
		2 315 323	**1 626 417**	**2 315 323**	**1 626 417**
SURPLUS FOR THE YEAR/PERIOD		**3 994 030**	**337 378**	**3 994 030**	**312 010**

STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December 2007

	Accumulated funds
GROUP	***R***
Balance at 1st April 2006	8 597 838
Surplus for the year	337 378
Balance at 31st December 2006	**8 935 216**
Balance at 1st January 2007	8 935 216
Surplus for the period	3 994 030
Balance at 31st December 2007	**12 929 246**
INSTITUTE	
Balance at 1st April 2006	8 623 206
Surplus for the year	312 010
Balance at 31st December 2006	**8 935 216**
Balance at 1st January 2007	8 935 216
Surplus for the period	3 994 030
Balance at 31st December 2007	**12 929 246**

CASH FLOW STATEMENT

for the year ended 31st December 2007

	GROUP		***INSTITUTE***	
	Year ended Dec 2007	***Nine months ended Dec 06***	***Year ended Dec 2007***	***Nine months ended Dec 06***
	R	***R***	***R***	***R***
Cash flows from operating activities				
Operating surplus for the year	3 994 030	337 378	3 994 030	312 010
Adjustments: Depreciation	181 174	140 515	166 174	129 265
Interest received	(111 343)	(51 224)	(111 343)	(51 224)
Impairment of loan to subsidiary	–	–	101 866	95 520
Surplus on investments	(1 820 636)	(1 298 320)	(1 820 636)	(1 298 320)
Bequests received	(3 373 000)		(3 373 000)	
Surplus on disposal of fixed assets	–	(12 000)	–	(12 000)
Movement in working capital				
- (increase)/decrease in accounts receivable	(469 640)	614 577	(469 640)	614 577
- increase in accounts payable	587 604	36 989	582 165	35 354
Sub total	(1 011 811)	(232 085)	(930 384)	(174 818)
Tax paid	–	(2 613)	–	–
Interest received	111 343	51 224	111 343	51 224
Net cash outflow from operating activities	**(900 468)**	**(183 474)**	**(819 041)**	**(123 594)**
Cash flows from investing activities				
Increase in subsidiary current account	–	–	(81 427)	(59 880)
Surplus on disposal of property plant and equipment	–	12 000	–	12 000
Proceeds on disposal of investments	781 337	497 517	781 337	497 517
Additions to property, plant and equipment	(299 239)	(138 710)	(299 239)	(138 710)
Net cash inflow from investing activities	**482 098**	**370 807**	**400 671**	**310 927**
Net cash (utilised in) generated for year/period	(418 370)	187 333	(418 370)	187 333
Cash resources at beginning of year/period	378 776	191 443	378 776	191 443
(Bank overdraft)/cash resources at end of year/period	**(39 594)**	**378 776**	**(39 594)**	**378 776**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31st December 2007

1. ACCOUNTING POLICIES

Basis of preparation

The principal accounting policies adopted in the preparation of these annual financial statements are set out below, and are consistent, in all material respects, with those applied in the previous period.

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

The annual financial statements have been prepared on the historical cost basis of accounting, as modified by the revaluation of financial assets and financial liabilities, and in accordance with, and comply with, South African Statements of Generally Accepted Accounting Practice.

The preparation of financial statements in conformity with South African Statements of Generally Accepted Accounting Practice requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

(a) Improved, revised and replaced South African Statements of Generally Accepted Accounting Practice effective for the first time this year.

The following statements are mandatory to the Institute's accounting periods beginning on or after 1st January 2007:

— Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective date 1st January 2007)

— AC 144, Financial Instruments: Disclosures and consequential amendments to AC 141: Revised Implementation Guidance (effective date 1st January 2007)

(b) Interpretations of South African Statements of Generally Accepted Accounting Practice effective for the first time this year

The following interpretations are mandatory to the Institute's accounting periods beginning on or after 1st January 2007:

— AC 440, Applying the restatement approach under IAS 29 Financial Reporting Hyperinflationary Economies (effective date 1st March 2006)

— AC 441, Scope of IFRS 2 (effective date 1st May 2006)

— AC 442, Reassessment of Embedded derivatives (effective date 1st June 2006)

AC 443, Interim Financial Reporting and Impairment (effective date 1st November 2006)

AC 503, Accounting for Black Economic Empowerment (BEE) transactions (effective date 1st May 2006)

Management assessed the relevance of these interpretations with respect to the Institute's operations, and concluded that they are not relevant to the Institute.

(c) *Standards, interpretations and amendments to published standards that are not yet effective*

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Institute's accounting period beginning on or after 1st January 2007 or later periods, but which the Institute has not early adopted, are as follows:

— AC 145, Operating Segments (effective date 1st January 2009)
— IAS 23, Borrowing Costs – Revised (effective date 1st January 2009)
— AC 444, IFRS 2 – Group and Treasury Share Transactions (effective date 1st March 2007)
AC 445, Service Concession Arrangements (effective date 1st January 2008)
AC 446, Customer Loyalty Programmes (effective date 1st July 2008)
AC 447, IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective date 1st January 2008)

Consolidation

The group results include the Institute's results and the operating results and assets and liabilities of the wholly-owned subsidiary.

Membership fees

Membership fees due and payable are brought to account on a cash-received basis.

Donations and grants

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

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 the income statement 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.

Special Funds

Funds specially designated by donors may, at the discretion of the recipient activity, 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 12.

Property, plant, and equipment

Land and library books are not depreciated. Other assets are stated at cost or valuation less accumulated depreciation. The land and buildings are occupied by the Institute and are used for operational purposes and are not treated as an investment. Library books are stated at valuation. The archives, which are housed at the University of the Witwatersrand, are carried at no cost. Depreciation is calculated on a straight-line basis to write off the cost of each asset over its estimated useful life as follows:

Buildings	50 years
Furniture and equipment	3–6 years
Motor vehicles	5 years

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 property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

Investments

Investments are stated at market value. The increase or decrease in market value is capitalised to Bursary Funds, and recognised as income for Institute investments as fair value through profit and loss.

Accumulated funds

All reserves are reflected under accumulated funds.

Financial risk management

FINANCIAL RISK FACTORS

The company's activities expose it to a variety of financial risks: market risk, credit risk, and liquidity risk. The Institute's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Institute's financial performance. Risk management is carried out under policies approved by management.

(a) Market risk

Foreign exchange risk
The Institute is not exposed to foreign currency risks.

Price risk

The group is exposed to equity securities price risk because of investments held by the Institute classified on the balance sheet at fair value through profit or loss. The Institute is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the group diversifies its portfolio.
At 31st December 2007, if the market value of investments had weakened/strengthened by 10% with all other variables held constant, post taxation profit for the year would have been approximately R3 700 000 (2006 : R3 100 000) lower/higher.

Cash flow and fair value interest rate risk

As the Institute has no significant interest-bearing assets, the Institute's income is substantially independent of changes in market interest rates. Borrowings issued at fixed rates expose the Institute to fair value interest rate risk. Borrowings issued at variable rates expose the Institute to cash flow interest rate risk. The interest rates are monitored on a daily basis and any additional or available cash resources are redirected towards reducing the interest bearing debts.

All borrowings are denominated in South African Rands. The Institute has no specific processes in place to manage cash flow risks. Interest rate exposure is not analysed on a specific basis but should the interest rates increase/decrease by 2% the profit after tax will decrease/increase by R150 000 (2006: R114 000).

(b) Credit risk

Potential concentrations of credit risk consist mainly of short–term cash and trade debtors. The Institute limits its counter party exposure from its money market operations by only dealing with well established financial institutions of high quality credit standing. The table below shows the credit limit and balances of the major counter parties at the balance sheet date:

	2007	**2006**
	Balance	Balance
Counter party	R	R
First National Bank Limited	(39 594)	378 776

(c) Liquidity risk

The Institute manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained. Due to the dynamic nature of the underlying businesses, the Institute aims to maintain flexibility in funding by keeping committed credit lines available.

GROUP	**2007**	**2006**
Payable within a year	R	R
Accounts payable	1 440 131	852 527

INSTITUTE	**2007**	**2006**
Payable within a year	R	R
Accounts payable	1 420 320	838 155

CAPITAL RISK MANAGEMENT

The Institute's objectives when managing capital are to safeguard its ability to continue as a going concern in order to maintain an optimal capital structure to reduce the cost of capital. The executive directors are involved in the daily operations of the Institute, and the necessary decisions regarding capital risk management are made as and when necessary.

FAIR VALUE ESTIMATION

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the company for similar financial instruments.

NOTES (continued)

for the year ended 31st December 2007

FAIR VALUE OF FINANCIAL INSTRUMENTS

GROUP	2007		2006	
	Carrying Value	*Fair Value*	*Carrying Value*	*Fair Value*
	R	*R*	*R*	*R*
Investments	45 599 500	45 599 500	38 652 080	38 652 080
Accounts receivable	1 032 978	1 032 978	563 338	563 338
Cash resources	(39 564)	(39 564)	378 776	378 776
Accounts payable	(1 440 131)	(1 440 131)	(852 527)	(852 527)

INSTITUTE	2007		2006	
	Carrying Value	*Fair Value*	*Carrying Value*	*Fair Value*
	R	*R*	*R*	*R*
Investments	45 599 500	45 599 500	38 652 080	38 652 080
Accounts receivable	1 032 037	1 032 037	562 387	562 387
Cash resources	(39 564)	(39 564)	378 776	378 776
Accounts payable	(1 420 320)	(1 420 320)	(838 155)	(838 155)

2. PROPERTY, PLANT, AND EQUIPMENT

GROUP	*Land*	*Buildings*	*Furniture and equipment*	*Motor vehicles*	*Library*	*Total*
	R	*R*	*R*	*R*	*R*	*R*
Year ended 31st December 2007						
Opening net carrying amount	250 000	648 750	155 282	70 805	404 000	1 528 837
Additions			299 239			299 239
Depreciation		(15 000)	(150 066)	(16 108)		(181 174)
Closing net carrying amount	**250 000**	**633 750**	**304 455**	**54 697**	**404 000**	**1 646 902**
Year ended 31st December 2007						
Cost/Revaluation	250 000	750 000	1 409 268	296 797	404 000	3 110 065
Accumulated depreciation		(116 250)	(1 104 813)	(242 100)		(1 463 163)
Closing net carrying amount	**250 000**	**633 750**	**304 455**	**54 697**	**404 000**	**1 646 902**
Period ended 31st December 2006						
Opening net carrying amount	250 000	660 000	184 133	32 509	404 000	1 530 642
Additions			58 664	80 046		138 710
Depreciation		(11 250)	(87 515)	(41 750)		(140 515)
Closing net carrying amount	**250 000**	**648 750**	**155 282**	**70 805**	**404 000**	**1 528 837**
Period ended 31st December 2006						
Cost/Revaluation	250 000	750 000	1 110 029	296 797	404 000	2 810 826
Accumulated depreciation		(101 250)	(954 747)	(225 992)		(1 281 989)
Closing net carrying amount	**250 000**	**648 750**	**155 282**	**70 805**	**404 000**	**1 528 837**

NOTES (continued)
for the year ended 31st December 2007

INSTITUTE	*Furniture and equipment R*	*Motor vehicles R*	*Library R*	*Total R*
Year ended 31st December 2007				
Opening net carrying amount	155 282	70 805	404 000	630 087
Additions	299 239			299 239
Depreciation	(150 066)	(16 108)		(166 174)
Closing net carrying amount	**304 455**	**54 697**	**404 000**	**763 152**
Year ended 31st December 2007				
Cost	1 409 268	296 797	404 000	2 110 065
Accumulated depreciation	(1 104 813)	(242 100)		(1 346 913)
Closing net carrying amount	**304 455**	**54 697**	**404 000**	**763 152**
Period ended 31st December 2006				
Opening net carrying amount	184 133	32 509	404 000	620 642
Additions	58 664	80 046		138 710
Depreciation	(87 515)	(41 750)		(129 265)
Closing net carrying amount	**155 282**	**70 805**	**404 000**	**630 087**
Period ended 31st December 2006				
Cost	1 110 029	296 797	404 000	1 810 826
Accumulated depreciation	(954 747)	(225 992)		(1 180 739)
Closing net carrying amount	**155 282**	**70 805**	**404 000**	**630 087**

Details of valuation of land and buildings	*As at Dec 2007 R*	*As at Dec 2007 R*
Freehold stand, lot 2794 Johannesburg township		
Situated at 68 De Korte Street, Braamfontein		
Purchased 1954 at cost	20 500	20 500
Building erected 1956	65 198	65 198
Revaluation — 2001	667 981	667 981
	753 679	**753 679**
Freehold stand, lot 5088 Johannesburg township		
Situated at 70 De Korte Street, Braamfontein		
Purchased 1989 at cost	375 000	375 000
Improvements and alterations – 1990	440 410	440 410
Improvements and alterations – 1991	47 528	47 528
Improvements and alterations – 1997	35 189	35 189
Revaluation - 2001	(651 806)	(651 806)
	246 321	**246 321**
	1 000 000	**1 000 000**

NOTES (continued)

for the year ended 31st December 2007

3. INVESTMENT IN WHOLLY-OWNED SUBSIDIARY COMPANY

The name of the subsidiary is:	***As at***	***As at***
De Korte Street Properties (Pty) Ltd	***Dec 2007***	***Dec 2007***
Details are as follows:		
Issued share capital	R6	R6
Company's holding	100%	100%
Book value of company's holding	R6	R6

	INSTITUTE	
	As at Dec 2007	***As at Dec 2006***
	R	***R***
Shares at cost	6	6
Loan to subsidiary	950 612	950 612
Provision for impairment	(249 792)	(147 926)
	700 826	**802 692**
Current account with subsidiary	164 064	82 637
	864 890	**885 329**

4. ACCOUNTS RECEIVABLE

	GROUP		***INSTITUTE***	
	As at Dec 2007	***As at Dec 2006***	***As at Dec 2007***	***As at Dec 2006***
	R	***R***	***R***	***R***
Other receivables	977 366	550 828	976 415	549 877
Receiver of Revenue - VAT	47 428	-	47 428	-
Staff debtors	8 184	12 510	8 184	12 510
	1 032 978	**563 338**	**1 032 027**	**562 387**

5. ACCOUNTS PAYABLE

	GROUP		***INSTITUTE***	
	As at Dec 2007	***As at Dec 2006***	***As at Dec 2007***	***As at Dec 2006***
	R	***R***	***R***	***R***
Other payables	534 451	47 146	514 640	35 733
Accruals	266 662	287 256	266 662	287 256
Accrual for leave pay	609 038	500 947	609 038	500 947
Sundry payables	29 980	13 934	29 980	13 934
Receiver of Revenue - VAT	–	3 244	–	285
	1 440 131	**852 527**	**1 420 320**	**838 155**

6. AUDITORS' REMUNERATION (GROUP)

	Year ended Dec 2007	***Period ended Dec 2006***
	R	***R***
Institute	150 000	86 802
De Korte Street Properties (Pty) Ltd	2 120	3 437
Charged to the income statement	152 120	90 239
Charged to bursary funds	48 000	34 650
	200 120	**124 889**

NOTES *(continued)*

for the year ended 31st December 2007

7. OPERATING LEASES

The Institute has certain operating leases pertaining to office equipment. In terms of the leases the Institute's commitments are as follows:

	As at Dec 2007	***As at Dec 2006***
Minimum lease payments:	***R***	***R***
Not later than one year	104 103	104 112
Later than one year and not later than 5 years	303 635	416 448
	407 738	**520 560**

8. DIRECTORS' REMUNERATION

	Year ended Dec 2007	***Period ended Dec 2006***
The directors' emoluments were as follows:	***R***	***R***
Salary	970 296	642 938
Fringe benefits	53 436	40 077
	1 023 732	**683 015**

Emoluments were payable to executive directors only. Non-executive directors are not paid for their services.

9. TAXATION

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

No provision has been made for South African normal taxation as the subsidiary, De Korte Street Properties (Proprietary) Limited, has an estimated assessed loss of approximately R86 923 (Dec 2006: R57) which is available for set off against future taxable income.

10. SPECIAL FUNDS

	Bursary	***Institute***	***Other funds***	***Total year ended Dec 2007***	***Total period ended Dec 2006***
	R	***R***	***R***	***R***	***R***
INCOME					
Donations and grants	9 242 700	2 577 947	1 251 005	13 071 652	3 738 898
Interest	397 240			397 240	143 808
Dividends	991 222			991 222	858 013
Surplus on investments	3 454 317			3 454 317	5 572 989
	14 085 479	2 577 947	1 251 005	17 914 431	10 313 708
EXPENSES					
Administration fees and running costs	1 752 413	2 253 114	721 787	4 727 314	2 962 712
Audit fees	48 000			48 000	34 650
Funds repaid to donors	96 542			96 542	
Bursaries and grants	10 507 454			10 507 454	3 603 558
	12 404 409	2 253 114	721 787	15 379 310	6 600 920
SURPLUS FOR THE YEAR/PERIOD	1 681 070	324 833	529 218	2 535 121	3 712 788
Accumulated funds at beginning of year net of deficit balances	29 218 304	1 580 340	536 644	31 335 288	27 421 396
Prior year adjustment*				-	201 104
NET ACCUMULATED FUNDS AS RESTATED	**30 899 374**	**1 905 173**	**1 065 862**	**33 870 409**	**31 335 288**

A list of the balances of the Special Funds administered by the Institute appears in Note 11 and the related investment is set out in note 12.

* The prior year adjustment arose mainly due to an overstatement of bursary awards in the Raymond Tucker fund in prior years which has now been corrected. This adjustment has no effect on the income of the Institute but only affects special bursary funds.

NOTES (continued)
for the year ended 31st December 2007

11 . SPECIAL FUNDS
11.1 Bursary Funds

	Capital R	Amounts held for Bursary awards R	Total as at Dec 2007 R	Total as at Dec 2006 R
3M Bursary Fund (staff)		6 628	6 628	25 762
Amcham Fund		1 004 902	1 004 902	912 434
ASA Educational Fund		32 735	32 735	34 830
Bertha McKay Fund		6 021	6 021	5 100
Clive Beck Education Trust		149 103	149 103	215 903
Dorothy Glauber Fund	50 000	844	50 844	50 000
Durban Thekwini Bursary Fund		65 796	65 796	93 524
Edinburgh Bursary Fund		–		29 954
Energos Fund		112 886	112 886	385 018
Esrael Lazarus Education Fund	67 000	53 694	120 694	293 745
Eva Dickhuth-Baumann Education Fund		7 332	7 332	7 216
FNB Fund Bursary Programme		200 515	200 515	108 227
Foschini Fund		165 690	165 690	–
Gert and Irmgard Brusseau Trust	45 990	714 998	760 988	788 813
Giannopoulos Bequest	322 000	281 672	603 672	598 320
GMKS Fund		22 515	22 515	–
Horace Coaker Fund	500	1 943 667	1 944 167	2 632 606
Hungjao Bequest	821 831	141 560	963 391	1 501 497
Isaacson Foundation Bursary Fund		6 632 685	6 632 685	6 088 043
Kilchberg Bursary Fund		411	411	411
Luthuli Memorial Foundation Fund	107 883	8 102	115 985	107 883
Margaret Ballinger Fund		6 615	6 615	5 079
MTN Fund		87 597	87 597	87 597
Nampak Fund		343 152	343 152	99 679
MaAfrika Tikkun Jewish Community Scholarship		–	–	44 060
Oppenheimer Memorial Fund		703 555	703 555	457 405
Pick & Pay Fund		33 829	33 829	–
RCS Bursary Scheme		18 727	18 727	179
Reginald Smith Memorial Trust	10 000	–	10 000	10 000
Robert Shapiro Trust	10 878	10 978 655	10 989 533	10 194 817
SAIRR Education Trust				
3M Bursary Fund (non staff)		1 036	1 036	11 095
African Rainbow Minerals Fund		13 655	13 655	18 162
Alumni Bursary Fund		20 245	20 245	12 949
Fulton Fund		35 356	35 356	17 315
John Deere Bursary Fund		106 408	106 408	106 408
National Brands Fund		8 979	8 979	–
Raymond Tucker Fund	25	111 409	111 434	109 443
Sentrachem Bursary Fund		29 823	29 823	77 249
Zurich Bursary Fund		151 066	151 066	77 642
Senior Bursary Fund	50 000	7 825	57 825	53 534
Shirley Simons Fund	772 778	3 261 088	4 033 866	3 471 670
Sonae Novobord Bursary Fund		46 006	46 006	258 941
Still-Gosnell Trust Fund		–	–	85 033
Trinity College Fund		58 209	58 209	–
UTI Education Trust Fund		1 063 021	1 063 021	138 474
USAID SA Scholarship Programme		221	221	277
Victor Daitz Fund		923	923	923
Yvonne Rabbow Memorial Music Award		1 333	1 333	1 087
TOTAL BURSARY FUNDS	2 258 885	28 640 489	30 899 374	29 218 304

NOTES (continued)

for the year ended 31st December 2007

11.2 Special Research Projects:	***Total as at Dec 2007***	***Total as at Dec 2006***
	R	***R***
Royal Belgian Embassy	134 307	–
Dick Gawith Fellowship	1 138 176	1 235 734
Irish Aid	147 089	12 855
Maurice Webb Trust	122 392	–
Royal Danish Embassy	363 209	331 751
	1 905 173	1 580 340

11.3 Other funds:

Hecate Fund	1 875	88 768
Johnson and Johnson BTC Fund	1 063 987	447 876
	1 065 862	536 644
TOTAL SPECIAL FUNDS	**33 870 409**	**31 335 288**

12. INVESTMENTS

	INSTITUTE AND GROUP	
12.1 Special funds	**As at Dec**	**As at Dec**
12.1.1 Bursary Funds (Note 11.1)	**2007**	**2006**
	R	***R***
Fixed deposits	133 137	125 035
Listed investments (Note 13)	25 399 373	24 453 894
	25 532 510	24 578 929
Funds administered by Standard Private Bank		
Listed investments	–	1 022 026
Gilts		298 604
Cash reserves		29 902
	–	1 350 532
Total equities and other investments	25 532 510	25 929 461
Cash deposits	5 418 752	3 157 481
Debtors	32 346	173 113
	30 983 608	29 260 055
Less: Creditors	(84 234)	(41 751)
	30 899 374	29 218 304

Note: Funds previously administered by Standard Private Bank were transferred to T. Sec (Pty) Ltd and are listed in note 13.

12.1.2 Institute Special Research Projects (Note 11.2)		
Unit Trusts and Cash on call	1 905 173	1 580 340
12.1.3 Other funds (Note 11.3)	1 065 862	536 644
Total Special Funds	33 870 409	31 335 288
12.2 Other Institute Investments		
First National Bank Call Account	33 116	442 628
Listed investments (Note 14)	11 695 975	6 874 164
	11 729 091	7 316 792
TOTAL INVESTMENTS	**45 599 500**	**38 652 080**

NOTES (continued)

for the year ended 31st December 2007

13. LISTED INVESTMENTS OF BURSARY FUNDS

	As at Dec 2007	*As at Dec 2007*	*As at Dec 2006*	*As at Dec 2006*
	Qty	*R*	*Qty*	*R*
Banks				
Standard Bank Group Ltd	7 498	787 290	6 748	637 687
ABSA Group Ltd	600	67 260	–	–
Building Material and Fixtures				
Pretoria Portland Cement	1 000	45 290	–	–
Beverages				
SAB Miller Plc	841	163 785	841	134 930
Chemicals, Oils and Plastics				
Sasol Ltd	2 285	803 178	2 285	591 336
Diversified Industrial				
Rembrandt Group Ltd	1 500	303 015	1 000	178 010
Richemont Securities Ag	24 900	1 170 549	30 000	1 227 000
Electrical Components and Equipment				
Reunert Ord	350	24 311	–	–
Food				
Anglovaal Industries Ltd	–	–	32 870	640 965
Avi Ltd	32 870	677 122	–	–
Tiger Brands Ltd	1 920	324 576	1 440	246 240
The Spar Group Ltd	1 500	90 000	1 500	64 800
Hotels				
City Lodge Htls Ltd Ord	3 481	289 619	–	–
Life Insurances				
Liberty Group Ltd	2 048	192 512	2 048	170 004
Old Mutual Plc	10 000	234 000	10 000	239 000
Mobile Electronic				
MTN Group	450	60 350	–	–
Mining Holdings and Houses				
Anglo American Plc	14 101	5 964 582	21 489	7 349 238
Kumba Iron Ore Ltd	1 710	506 160	–	–
BHP Billiton Plc	5 991	1 273 567	5 391	695 169
Packaging and Printing				
Nampak Ltd	900	19 692	900	19 566
Paper				
Mondi Ltd	1 522	100 452	–	–
Mondi Plc	3 808	227 642	–	–
Platinum				
Anglo American Platinum Corporation Ltd	3 663	3 904 758	4 206	3 600 462
Property				
Fountainhead Prop Trust	57 018	386 582	–	–
Liberty International Plc	4 467	665 762	4 067	774 072
Property Unit Trusts				
Allan Gray Property Trust	–	–	70 000	427 000
Ambit Properties Ltd	243 190	924 122	270 000	1 080 000
Apexhi Properties A	34 890	540 795	40 285	594 204
Apexhi Properties B	41 798	780 369	35 000	627 900
Apexhi Properties C	20 193	145 390	26 165	115 125
Hyprop Investments Ltd	9 922	446 490	12 448	479 248
Ifour Properties Ltd	33 925	434 240	38 500	456 225
Pangbourne Properties Ltd	27 177	463 368	28 900	414 715
Redefine Income Fund Ltd	158 404	1 243 471	163 500	1 136 325
Sycom Property Fund	30 750	610 080	32 560	586 080
Retail				
Pick 'n Pay Stores Ltd	16 402	633 444	16 402	542 906
Pick 'n Pay Holdings Ltd	2 800	43 120	–	–
Massmart Holdings Ltd	500	35 850	–	–
Services				
Bidvest Group Ltd	6 300	801 360	6 000	802 800
Consol Ltd			32 870	622 887
Trading Cash		15 220		–
		25 399 373		**24 453 894**

NOTES (continued)

for the year ended 31st December 2007

14. LISTED INVESTMENTS OF OTHER FUNDS

	As at Dec 2007 Qty	As at Dec 2007 R	As at Dec 2006 Qty	As at Dec 2006 R
Banks				
Standard Bank Group Ltd	3 382	355 110	1 795	169 628
FirstRand Ltd	6 474	134 400	–	–
Building Material and Fixtures				
Pretoria Portland Cement	5 643	255 571	–	–
Beverages				
SAB Miller Plc	966	188 129	–	–
Chemicals, Oils and Plastics				
Sasol Ltd	2 834	996 151	2 000	517 580
Diversified Industrial				
Rembrandt Group Ltd	1 000	202 010	1 000	178 010
Barloworld Ltd	3 041	331 469	2 000	328 000
Richemont Securities Ag	7 060	331 891	7 060	288 754
Farming and Fishing				
Astral Foods Ltd	522	79 344	–	–
Food				
Tiger Brands Ltd	1 775	300 064	797	136 287
The Spar Group Ltd	1 328	79 680	–	–
Heavy Construction				
Group Five Ltd Ord	5 200	286 000	5 200	236 600
Investment Services				
Investec Ltd	334	21 212	–	–
Investec Plc	447	28 286	–	–
Life Assurance				
Discovery Holdings Ltd	363	9 855	–	–
Marine Transportation				
Grindrod Ltd	1 660	38 180	–	–
Mobile Electronic				
MTN Group Ltd	4 462	598 399	4 462	380 607
Mining Holdings and Houses				
Anglo American Plc	5 834	2 467 724	4 000	1 368 000
BHP Billiton Plc	5 564	1 182 795	3 854	496 973
Metorex Ltd	5 400	118 260		
Paper				
Mondi Ltd	641	42 306	–	–
Mondi Plc	1 603	95 827	–	–
Platinum				
Anglo American Platinum Corporation Ltd	364	388 024	250	214 008
Impala Platinum HLGS LD	3 703	925 750	2 800	515 200
Property				
Liberty International Plc	2 147	319 989	1 483	282 259
Property Unit Trusts				
Ambit Properties Ltd	94 000	357 200	94 000	376 000
Apexhi Properties A	7 215	111 833	7 215	106 422
Apexhi Properties B	10 000	186 700	10 000	179 400
Apexhi Properties C	6 123	44 086	6 123	26 941
Hyprop Investments Ltd	3 552	159 840	3 552	136 752
Ifour Properties Ltd	12 000	153 600	12 000	142 200
Pangbourne Properties Ltd	10 000	170 500	10 000	143 500
Redefine Income Fund Ltd	15 540	121 989	15 540	108 003
Sycom Property Fund	4 440	88 090	4 440	79 920
Retail				
Pick 'n Pay Stores Ltd	10 000	154 000	10 000	142 000
Speciality Chemicals				
Freeworld Coatings Ltd	3 041	31 930	–	–
Services				
Bidvest Group Ltd	2 400	305 280	2 400	321 120
Trading Cash		34 501		–
		11 695 975		**6 874 164**

PRESIDENTS OF THE INSTITUTE 1930–2007

1930–1931	Charles Loram
1931–1933	Edgar Brookes
1933–1943	Alfred Hoernlé
1943–1945	Maurice Webb
1945–1948	Edgar Brookes
1948–1950	Winifred Hoernlé
1950–1953	J D Rheinallt Jones
1953–1955	Ellen Hellmann
1955–1957	Leo Marquard
1957–1958	Johannes Reyneke
1958–1960	Donald Molteno
1960–1961	Edgar Brookes
1961–1963	Oliver Schreiner
1963–1965	Denis Hurley
1965–1967	E G Malherbe
1967–1968	Leo Marquard
1968–1969	I D MacCrone
1969–1971	Sheila van der Horst
1971–1972	William Nkomo and Duchesne Grice
1972–1973	Duchesne Grice
1973–1975	Bernard Friedman
1975–1977	Ezekiel Mahabane
1977–1979	John Dugard
1979–1980	René de Villiers
1980–1983	Franz Auerbach
1983–1985	Lawrence Schlemmer
1985–1987	Stuart Saunders
1987–1989	Stanley Mogoba
1989–1992	Helen Suzman
1992–1994	W D (Bill) Wilson
1994–1996	Hermann Giliomee
1996–2003	Themba Sono
2003–2007	Elwyn Jenkins
2007–	Sipho Seepe

PAST HOERNLÉ LECTURES 1945–2006

No	**Year**	***Lecturer***	***Title***
1st	1945	Jan Hendrik Hofmeyr	Christian principles and race problems
2nd	1946	E G Malherbe	Race attitudes and education
3rd	1947	I D MacCrone	Group conflicts and race prejudice
4th	1948	Winifred Hoernlé	Penal reform and race relations
5th	1949	W M Macmillan	Africa beyond the Union
6th	1950	Edgar Brookes	We come of age
7th	1951	H J van Eck	Some aspects of the South African industrial revolution
8th	1952	Herbert Frankel	Some reflections on civilisation in Africa
9th	1953	Radcliffe Brown	Outlook for Africa
10th	1954	Emory Ross	Colour and Christian community
11th	1955	T B Davie	Education and race relations in South Africa
12th	1956	Gordon Allport	Prejudice in modern perspective
13th	1957	B B Keet	The ethics of apartheid
14th	1958	David Thomson	The government of divided communities
15th	1959	Simon Biesheuwel	Race, culture and personality
16th	1960	C W de Kiewiet	Can Africa come of age?
17th	1961	D V Cowen	Liberty, equality, fraternity — today
18th	1964	Denis Hurley	Apartheid: A crisis of the Christian conscience
19th	1966	Gwendolen Carter	Separate development: The challenge of the Transkei
20th	1966	Keith Hancock	Are there South Africans?
21st	1968	Meyer Fortes	The plural society in Africa
22nd	1970	Hobart Houghton	Enlightened self-interest and the liberal spirit
23rd	1971	A S Mathews	Freedom and state security in the South African plural society
24th	1972	Philip Mayer	Urban Africans and the bantustans
25th	1973	Alan Pifer	The higher education of blacks in the United States
26th	1974	Mangosuthu Buthelezi	White and black nationalism, ethnicity and the future of the homelands
27th	1975	Monica Wilson	'…So truth be in the field…'
28th	1976	M W Murphree	Education, development and change in Africa
29th	1977	G R Bozzoli	Education is the key to change in South Africa
30th	1978	Hugh Ashton	Moral persuasion
31st	1979	Alan Paton	Towards racial justice: Will there be a change of heart?
32nd	1980	Leon Sullivan	The role of multinational corporations in South Africa
33rd	1985	Alan Paton	Federation or desolation?
34th	1986	Charles Simkins	Liberalism and the problem of power
35th	1990	M M Corbett	Guaranteeing fundamental freedoms in a new South Africa
36th	1993	Richard Goldstone	Do judges speak out?
37th	1996	Lionel Abrahams	The democratic chorus and individual choice
38th	2000	Michael O'Dowd	Ideas have consequences
39th	2002	Carl Gershman	Aiding democracy around the world: the challenges after September 11
40th	2004	Jonathan Jansen	When does a university cease to exist?
41st	2006	Otto Count Lambsdorff	The welfare state: poverty alleviation or poverty creation?