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SET 6 - DAY 1

**COMMISSION OF INQUIRY INTO
HIGHER EDUCATION AND TRAINING**

PARTIES PRESENT:

Commission

Evidence Leaders

Experts

State Attorney

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SESSION 1 – 6 FEBRUARY 2017

ADV. K. PILLAY SC: Today we begin set 6 hearings where we look into alternative forms of funding for free Higher Education and Training Chair and the witness, our first witness in this set is Miss Thabi Leoka who is
5 an economist employed by Argon Asset Management.

JUDGE: Yes, we have had the opportunity of talking previously to Miss Leoka and she will have come with some knowledge of what the commission has in mind.

ADV. K. PILLAY SC: That is correct Chair we have asked Miss Leoka to
10 specifically look at the question of bonds and of impact bonds.

JUDGE: Yes.

ADV. K. PILLAY SC: Specifically social impact bonds but she will also talk to development impact bonds in order to enlighten us on what the distinctions are between the different impact bonds.

15 JUDGE: Yes what are your full names please Miss Leoka.

DR. T. LEOKA: Thabi Leoka.

JUDGE: Do you swear that the evidence that you will give will be the truth the whole truth and nothing but the truth.

DR. T. LEOKA: I do.

20 JUDGE: If you do raise your right hand and say so help me God.

DR. T. LEOKA: So help me God.

DR. THABI LEOKA: [sworn in]

JUDGE: Thank you. Yes Miss Pillay.

ADV. K. PILLAY SC: Thank you Chair. Miss Leoka may we begin with

you just giving us an indication of your background, what it is that you are qualified to do, what your expertise is and your specifically your qualifications?

DR. T. LEOKA: Okay I am an economist at Argon Asset Management
5 and previous to that, so I studied at University of the Witwatersrand, I did
undergrad honours and masters there in economics and then I studied in
London, I did MSC in economics and a PHD in economics. I then
worked in financial services, I started my career at Investec Asset
10 Management so dealing with bonds predominantly and buying, I was in
the fixed income team then that is when I went to the UK and then I also
joined Barclays after my studies, Barclays Capital and Barclays Wealth
where I looked at emerging markets looking at 11 emerging market
countries and more on the bond side too and wealth, high income
15 individuals wealth, managing their wealth. I then moved back to South
Africa in late 2011 in October, end of October and I worked for Standard
Bank where I was the head of research for the South Africa team and
then Renaissance Capital and then now I am currently at Argon Asset
Management.

ADV. K. PILLAY SC: Thank you and if you can just give us an indication
20 of your qualifications.

DR. T. LEOKA: So I have got five degrees, I have got an undergrad from
Wits University, I did for my undergrad it was a BA focusing on
international economics and international relations and then I did an
honours degree and a masters degree in international economics and
25 international relations at Wits University. Then I did an MSC in

economics and looking at economics and economic history and then a PHD in international economics at, the last two University of London LSE.

JUDGE: And when did you get your latest degree?

5 DR. T. LEOKA: In 2008.

JUDGE: Thank you.

ADV. K. PILLAY SC: Thank you Miss Leoka, if you can then just begin by taking us through the research that you have done and the expertise that she gathered around bonds specifically and then maybe then go into
10 social impact bonds and development impact bonds specifically.

DR. T. LEOKA: Okay so I would like to explain the difference between social impact bonds and you know what we understand in the financial market as a bond. So bond is a financial instrument of indebtedness and in simple I will explain it further so if you look at you know a country like
15 South Africa that has very low savings rate, South Africa generally or typically would issue a bond for infrastructure as an example and this would be done by the National Treasury, they would issue a bond and that bond would be bought by investors both domestically and internationally and the bond will have a duration so sometimes it is a
20 short term bond over five years, a long term bond of you know the main bond that we look at in South Africa is a 10 year bond but we do have bonds beyond 10 years and an investor would buy that bond and buying the bond meaning that you are buying the debt so it is like an IOU and in the hope that you will be paid by that country in 10 years time, if it is a 10
25 year bond, when the bond matures.

You will be also paid with interest and if for instance the country defaults that means that the country will be unable to pay back your bond or the bond that you hold, the debt that you hold and you lose out as an investor and there are several ways of getting your money back
5 but a default is very bad for the country because then we know that you know we are very familiar I hope with rating agencies so the role of rating agencies is to rate the countries bond and economy so the countries economy based on the health of the country, so if a country is unable to pay back its debt the rating agencies will typically downgrade
10 the country and it will be very difficult for that country to raise further debt and will also mean that the countries currency will devalue and the country will also go into a recession.

But if a country can pay back its debt there is no problem the investor gets its money back with interest so when you look at that
15 versus a social impact bond so it is a similar exercise in terms of an issuing of a bond but this time it is not so much to the international investors it is more localised so if I looked at all the case studies they all localised and it is not a government that issues the bond so if you look at the picture that I put up it is so if there is a problem in all cases that I
20 have looked at ...[intervenes]

FEMALE SPEAKER: Just to interrupt you Miss Leoka, on the condition you say SIBS are a new financial instrument, how new are they, how far back have they started?

DR. T. LEOKA: So they started the launch in 2010 in the UK by a
25 program called the social finance UK and they were targeted at

recidivism in a prison in the UK and we have I think about currently, I did write it down, so there are about, the value of SIBS globally is about 50 million US Dollars and the success rate is still out there because it is, they are continuing so if you look at the example that I gave you with the
5 government bond, yes if it is a 10 year bond it is still within the 10 year period so the success rate is still unknown in many cases.

JUDGE: I am sorry it may be totally irrelevant but I do not understand how a bond can be issued in respect of recidivism in prisons?

DR. T. LEOKA: So I will go through it, so in the UK, I want to go there, in
10 the UK they have had, they have used it quite relatively successful in the UK and how it works is, okay so in the UK a SIBS so this is the Peterborough SIB, it provides for a practical example of how a SIB is applied, so social finance which is the one that started a SIB raised 5 million pounds from private capital markets and this is mostly trusts and
15 foundations to reduce the rate of recidivism amongst a thousand prisoners in England in a specific ...[intervenes]

JUDGE: Sorry, how do you reduce recidivism by issuing bonds?

DR. T. LEOKA: So how it works is that, okay let me go through it and then it will explain because it is more about raising money which help
20 the rehabilitation of prisons so that prisoners do not then, are rehabilitated to the point where they do not ...[intervenes]

JUDGE: Commit the crimes.

DR. T. LEOKA: Exactly, they do not relapse and commit the crime again.

JUDGE: Yes.

DR. T. LEOKA: And this was the case, it was a problem for the government because it was not for the local give because you know there was no funding for recidivism and a SIB helps in terms of including money from, that is outside of government but what government does is
5 that it does back it up, it is the guarantor, government is the guarantor and also government pays back the investor or the NGO or the trust or the foundation that is involved in the investing but before we ask questions, just so that we are all in the same place, so if you look at the graph and how it works in terms of funding so there is a problem,
10 government then makes it a priority, the investor does not come in so the government makes it a priority and then gets intermediaries, intermediaries includes you know private equity, fund managers so this is the financial part of it that raises capital.

So they raised capital and that capital goes to service providers,
15 service providers can be SME's, charities, people who will, those who are working on the ground to help with whatever problem that a community may have, be it a school or early childhood development. Then you have evaluators and an evaluator would then assess the success of the entire thing so whether the service providers have been
20 doing their role and the intermediaries raised, the capital that is required for the project only then after the evaluators have assessed the entire project and have given it a go ahead and remember that all of this is pre-agreed upon and if there are steps that are not agreed upon then it has failed, if everything is fine according to the evaluators then the
25 government is satisfied the government pays back the investors who are

the ones who provided the funding in the first place so the investors do not play a role in this model, they just in terms of being hands on so what they do is just provide the money to intermediaries and intermediaries are the ones that invest the money either through private equity or through, if it is an asset manager then they could invest it in an equity so that they could buy a stock and you know Anglo American stock for instance and grow the money that way, once the money has reached the agreed upon terms then they take the money to the service providers who work on the ground making sure that if it is an HIV program that the community is benefiting from this program on the ground.

The evaluators will assess the program and then the government will be satisfied and the investors will be paid back with interest so it is similar to the bond I described but this one is more localised, more community based and in all the examples that I have looked at they tend to be a more community based SIBS rather than a national type of SIB.

JUDGE: Well now you give an example in your report I see of something having taken place in the Western Cape in relation to the Department of Social Development and Health.

DR. T. LEOKA: Yes.

JUDGE: Alright can you just make that a practical example for our purposes?

DR. T. LEOKA: So South Africa is the only middle income country to fund impact bonds for early childhood development and this was initiated on 18 March 2016 and this is a project between the Department of Social Development and also the Western Cape, Health in the Western Cape,

these two departments committed R25 million in outcome funding for three SIBS ...[intervenes]

JUDGE: Sorry what is outcome funding?

DR. T. LEOKA: So it is funding for, so they provided money for funding
5 for maternal and early childhood outcomes so this, the funds go to, they
have also included two active impact bonds which are the development
bonds, the DIBS and this comes from donors and I believe also social
finance UK is also involved in the funding of this SIB and the only other
10 country that seems emerging market or middle income country that
seems to have also applied the SIB, example is Peru and also India so in
the South Africa case the Department of Health will fund outcomes for
pregnant mothers and children in their first 100 days and the Department
of Social Development will fund outcomes for children ages 2 and 5
15 years and the funding will be made available to three community based
organisations working with pregnant women and children and with
outcomes including improved antenatal care, prevention of mother to
child transmission of HIV, excluding breastfeeding, reduction of growth
and stunting and improved cognitive and language and motor
20 development so these funds are going towards a community based
projects where the outcome should be prevention of and ensuring that
early childhood development is, there is funding into early childhood
development.

JUDGE: You have lost me somewhere here, where has the R25 million
come from?

25 DR. T. LEOKA: So the R25 million comes from the two departments.

JUDGE: Well that is the point, are they the bond holders?

DR. T. LEOKA: So it not necessarily, so they are loaning, so the money comes from, so they are, the money comes from the departments from their budgets so nothing out of their budget, it also comes from funders
5 as well including social finance UK so this is money that comes from these two departments.

JUDGE: But who are the bond holders?

DR. T. LEOKA: So it is not a, in this case it is not a, when you mean a bond holder there is no bond holder, there is no bond to speak of in the
10 sense of investors holding a bond, it is a community, so I think you are using, you are understanding the term bond only as a financial instrument that is bought by investors.

JUDGE: Yes this is just a loan of money then.

DR. T. LEOKA: It is a loan of money because a bond is an IOU.

15 JUDGE: But it is a loan of money by government department.

DR. T. LEOKA: By government, no not by government bonds by government departments and money that also comes from funders and also from including the UK organisation.

JUDGE: Well what do the funders get, do they not get a bond?

20 DR. T. LEOKA: No so you, so you give out money, so they have given out money and the money goes into community work and if it is successful because we do not know whether it is successful or not because it is an ongoing project, if it has reached the terms and conditions that all these organisations have agreed upon and at that time

the evaluators of this SIB is happy with the outcome then the funders get their money back.

JUDGE: There must be a bond then?

DR. T. LEOKA: So it is not a bond it is money that is borrowed from
5 investors, from funders, from social finance UK so that is the bond in terms of it is a bond in that it is money that is donated, not donated, money that is given by these organisations for this project, only if this project is successful will the government then pay back those who funded the project with interest.

10 COMMISSIONER KHUMALO: So the success of the project, you saying if the project is successful then that is the only time, so are these for, what is success in this context is I the achievement of the goal of the project or is it making some profit?

DR. T. LEOKA: You see that is the thing because I do say here there are
15 only 15 studies examining the effects of early childhood development interventions in low and middle income countries, on later life socio emotional development and which has been shown to be a critical determinant of success in school and life but because you know we are yet to know the success of SIBS since it is ongoing however a majority
20 of evaluations show, prove that early childhood development can have unparalleled returns so there is a high return on this but we still do not know because it is an ongoing program currently, but there are ...[intervenes]

JUDGE: Can we bring it to the education sector in our country, you
25 know that the presidential task team has recommended, as I understand

it, some reliance upon social impact bonds.

DR. T. LEOKA: Yes.

JUDGE: Do you know how those are to work?

DR. T. LEOKA: So my problem with let us say applying it to South Africa
5 which is one of the disadvantages which have noted is that we are
looking at it from a national perspective rather than a provincial or even a
localised community problem and every case that I have looked at is
more community based than a national problem so if we were to say you
know the country has a problem, the government has prioritised it, the
10 question is who are the investors and how much money will the investors
put aside to fund this money so there is a lot of upfront money that is
required for education and let us just say we do find this money and then
the intermediaries raise this money, they can choose many ways of
raising this money but again this cannot be a once off, the examples of
15 SIBS globally last between no more than five years and we are looking a
problem that is supposed, you know that is supposed to solve the
education crisis from you know today until I guess time immemorial so.

JUDGE: Ja but that is not a problem surely, I think you roll over the
bonds or you issue new bonds.

20 DR. T. LEOKA: But you are not issuing, it is not an issue, so you do not
issue bonds to pay for consumption it is not, you never issue bonds for
consumption, you issue bonds for an investment and you can argue that
and education is an investment but again the returns are unknown.

JUDGE: Yes but then that depends upon the manner in which the
25 agreement is structured I take it so as to determine what the outcome,

the refundable outcome will be.

DR. T. LEOKA: So then that is not a social, it leaves, it does not become a social impact bond it then becomes a national Treasury, being asked by the government to issue a bond for education.

5 JUDGE: No, no whoa, whoa, whoa that would be just the government lending money that it is responsible to pay anyway but surely what is in mind here is the involvement of the private sector in funding, is that not what the presidential task team has solely here, the presidential task team has in mind.

10 DR. T. LEOKA: It does.

JUDGE: The money will not be coming from government but from private investors raised as you said through intermediaries perhaps and through private equity funds and such organisations.

DR. T. LEOKA: The problem here is that if you raise money, so if I were
15 to give money to Investec Asset Management and to raise, as an investment and I am hoping that I will get a return in 5 to 10 years time. I would have dedicated let us say a million rand, given Investec a million rand for them to raise so my question is I do not know where the money will come from for the intermediaries to raise that capital and that capital
20 of that amount and like, you know any bond it would be a 10 year bond or a 20 year bond it will not be a bond that will pay R50 billion or R50 million that is required every year.

JUDGE: No I understand you have a number of social inputs in order to raise a certain amount of money which will be dedicated to education
25 and the investors would expect some sort of return, maybe less than a

commercial return I do not know, on their money.

DR. T. LEOKA: Who would pay it back because the government then ultimately always pays back the investor, if the government had that money it would invest it directly but because government does not have
5 that money it is relying on private investors to invest, to come up with that money so that that money is invested so if let us say we have donors, a combination of investors from donors to the private sector to even international donors will that money be enough to raise and if it is enough to raise how much are we getting per year from the money that
10 is raised by the intermediaries.

JUDGE: Is the purpose whether it be government or somebody else is repaying it, is the purpose not to enable the government or well yes government to stimulate a social conscience which lead investors to say we are prepared to stake money on the possibility of a less than
15 commercial return for the sake of the country and is that not why they are social impact bonds?

DR. T. LEOKA: I mean I do not think, that is part of the reason why there are social impact bonds but not from such a big scale where if the success rate is low then they would you know lose a lot of money, for
20 instance a bank or a funder would argue or let us just say call them investors, an investor would argue that if there are a million students that enter University only 400 000 would leave with a degree, that is not a very good return on investment and they would say well why did I invest, why would I invest in such a low return on investment because I typically
25 do not do that in any other investment and one could also argue but you

have some form of social responsibility but again ...[intervenes]

JUDGE: So now what now persuades the investor to invest in the recidivism program at Peterborough Prison?

DR. T. LEOKA: So there would be I guess it would fore mourn to the
5 social, corporal social investment or responsibility initiative so it is a
small budget that goes through rehabilitating prisoners and it is for the
good of a community rather than where money is required to help a crisis
that is national so it is easier money, I mean you see it here also in
South Africa where banks or funders or you know funders investing in
10 putting their money for social outcome, funding some form of schools or
students who come from low income poor backgrounds to go into better
schools, I think it is in the same vain rather than having this national
problem where investors are putting, dedicating an enormous amount of
money where their returns are not certain and if the project does not
15 work out or the program does not work out they lose out on that
investment.

So I think that it is easy for a company to lose out on prison
rehabilitation than a national education crisis where a lot of money is,
where a lot of money would be lost versus in a you know local
20 community situational setup.

COMMISSIONER ALLY: Miss Leoka I think we said perhaps the
problem that we are not sure how the ministerial task team understands
the ...[inaudible] how would they implement it now. It would appear you
have done your studies on how SIBS work across the world and from the
25 questions that have been raised presently it would appear that the same

questions ...[inaudible] questions need to be put from my point of view to the drafters of the report because it would seem that there could be a hybrid of a SIB that would work in this issue of the education and the funding of education, for example we are aware in South Africa that
5 company's have a social impact responsibility budget that they distribute to people as part of their, I am just looking for the adjective or phrase in terms of their social responsibility. Now on the one hand you say it is a financial instrument on the other you say in respect of recidivism in Peterborough and it is not necessarily so and I am thinking there has to
10 be some kind of hybrid for it to make sense for funding of education in South Africa so business says we need so many people in various areas across the country and we would like to invest in that, now it is for government to sell that to them whether they take it up or not is a different question so we are asking the questions why would an investor
15 invest in something that they do not get any financial return on.

JUDGE: So what is being put to you is that an investor will invest when he has a personal interest in the outcome or a financial interest in the outcome I should rather say.

DR. T. LEOKA: That is correct.

20 JUDGE: And so in the education context shall we shall that engineering contractors might invest in the skilling of engineering students and they might be prepared to advance money on some sort of bond with the outcome being related to the graduation of engineering students, would that be a possible way of working a social impact bond?

25 DR. T. LEOKA: That would be a way because it is smaller scale, it is

targeted, it would benefit both the student and the company and it is something that so I met recently last week met the Chairman of GE Global and he asked a similar question, he complained about the skills, the lack of skills in South Africa and funding that they, you know because
5 government does not have enough money so they would have to put up a lot of money in terms of their operations in South Africa and I did say to him but if you are, if there is a demand that you need from you know from an education perspective so you are looking for engineers for instance and you feel that the engineers are not skilled enough is not up
10 to you to be a part of the Education and Training because it is the demand so it is from the company, the company would know what type of engineers they are looking for not necessarily the University and the students coming into University and I think that for a company like GE they concluded that you know they would want to be involved in the
15 education of students because it benefits them ultimately because if you are you know funding a student of a particular speciality and that person, that student will have to work for you because of the funding model or the agreement that you have with the student it will benefit both the student and the company so I think in that example it is, it would benefit
20 both and it is something that could be a SIB, could be arranged as a SIB.

The problem with that is that if students want to study philosophy or you know to become a social worker or where there is typically no investment or no backer it becomes very difficult so a law firm can do it, an engineering company can do it, a bank may be able to fund some
25 courses or some students in BCom but you have BSC who may not get

direct funding or easily identifiable funding or a backer.

JUDGE: No but that can be justified because it would mean that your scarce skills are being backed by social impact bonds, I mean your BA and your religious student, religious philosophy student will not
5 necessarily be backed but that may not be important in the needs of the country anyway.

DR. T. LEOKA: Sure but that is then the discussion to be had then you change, it either discriminates against those who ...[intervenes]

JUDGE: What is a discrimination it is simply a judgment call.

10 DR. T. LEOKA: Because you are not giving them a chance.

JUDGE: A judgment call on what is valuable for the country it is not discrimination.

DR. T. LEOKA: It would be because you come into University and you want to study philosophy and you do not have funding for philosophy
15 because your subject is not subject that is needed so I guess what then ...[intervenes]

JUDGE: That is just the same as saying when I come out of school as a teacher I do not get paid the same salary as an advocate or the same income as an advocate and now that is quite unfair we must all be paid
20 the same, that is not the fact of the matter, life is different.

DR. T. LEOKA: But then you are determining what a student should study based on the availability of funding.

JUDGE: I disagree but there you are.

ADV. K. PILLAY SC: Doctor, I must just correct the record it is actually

Dr Leoka and not Miss Leoka. Doctor may I ask whether or not the social impact is realised or not, does the private investor get repaid the money he or she invests?

DR. T. LEOKA: Yes they do, in all cases they do with or the agreement
5 is that they do with interest and where it has failed they lose out on their money.

ADV. K. PILLAY SC: And in the ordinary course with the social impact bond who would be the underwriter of the bond, so who would repay the money to the private investor?

10 DR. T. LEOKA: It is the government, so the government repays only and only if it is successful and that is the agreement that they would have before a SIB takes place.

COMMISSIONER KHUMALO: Dr Leoka I just want to know, what legislative framework governs the bonds as it is?

15 DR. T. LEOKA: That is the thing because there is no legislative, so it is more all of these parties sit together and agree on the terms and conditions of a SIB so they would agree on the time, they would agree on what is deemed a success, they would agree on what the evaluators are looking for in order for them to give it the go ahead and when they do
20 give it a go ahead that is only when the government pays back the investor.

COMMISSIONER KHUMALO: Okay the inception in 2010 what was the enabling Act or any framework, what enabled it, was there a meeting, was there a convention, what started it?

25 DR. T. LEOKA: No it was not, so it was a social finance UK which is an

NGO and they then designed this so it was not in legislation, it is not something that is a rule of law that it has to happen, it is, and that is why the SIBS they do not always follow this format but these are the main characteristics of a SIB so if we had to formulate a SIB here we would
5 have our own SIB based on the agreement that we have you know agreed upon.

COMMISSIONER KHUMALO: So we do not have any reference point of a successful sale anywhere in the world?

DR. T. LEOKA: Well the UK one is seen as a success, the New York
10 has, I think it is New York has copied the prison one which seems to have been, that is Ricas Island which was also a success and ...[intervenes]

COMMISSIONER KHUMALO: Remember Doctor you said a success is you know at a point where there has been full realisation like you saying
15 from 2010 to now we do not have the teniers and I do not know if it has been paid back, you remember you saying it gets paid back at success so do we have reference for those things?

DR. T. LEOKA: So we have in terms of the UK one, ja the UK one seems as a success because it has been paid back, the US one it seems
20 that it is ongoing it started in 2012 and there are a few other ones which were you know one to two years that have been success but very, very small community based SIBS.

ADV. K. PILLAY SC: Dr Leoka in your exchange with the Chairperson the issue was raised about whether or not it is appropriate to issue a SIB
25 every year for a certain amount in order to continually finance free higher

education, can you just address that issue please.

DR. T. LEOKA: The problem with that is that you would have to have committed funders so an investor would have to commit themselves to funding a large amount of money every year towards education so if for
5 instance it is R49 million that is required or you know the question is will we have that amount of money or if it is you know R20 billion would we have that amount of money every year raised by an investor?

JUDGE: Do you not have the danger that the present third party funders of University education may say well I will divert my contribution to social
10 impact bonds?

DR. T. LEOKA: That is very true because currently you do have funders they are not expecting a return and then if suddenly you introduce this what is in it for them because they would rather then get a return out of the money that they provide for education.

15 JUDGE: After all it is better to get 3 percent than no percent at all.

DR. T. LEOKA: Exactly and the failure rate of it is equivalent to you just dedicating X amount of money every year.

JUDGE: As you would have anyway perhaps yes.

DR. T. LEOKA: Yes.

20 JUDGE: So for example the accountants profession which puts a lot of money into education as far as I understand it, it in the interest of their own profession naturally might be inclined to invest it through social impact bond.

DR. T. LEOKA: Yes, I think the greater problem is the government for

me is that is the government willing to pay back the investor rather than the investor or the current funders wanting to be part of a SIB because there was a return or that there is you know investment and whether we will have enough investment every year and then the question is, in a

5 SIB scenario the government pays back the investor, if the government is paying back why does the government not have this money directly and in all the other SIB cases the reason, it is almost as if the government, the government takes it out of their duties and gives it to an NGO who then runs the project and ensures that the prejudice is

10 successful and when it is successful and only when it is successful then the government can come in and fund it so it gives government like a hundred percent guarantee that you are doing the right thing and if they are not, if the process does not work out the government does not lose because the government is not putting out money on a project that is not

15 successful.

So that example I think benefits government but where the government pays back the investor even after the project has been successful, even let us just say you know we have a hundred percent success rate in University students as in everyone gets their degree the

20 government would still not be able to pay back the investor.

COMMISSIONER ALLY: Hence my earlier point that I raised, is it not that in this example of the ministerial task team report they are not asking for the investor would be told actually you will not get money back but you will get an educated employee as being your investment and this

25 is the part that from your study it would seem everybody pays back the

money that has been invested and hence the hybrid issue that I mentioned, is it not possible under this social impact bond to have a situation where the investor accepts that I will not get money back but I will get an educated workforce for the money that I gave over this
5 period.

JUDGE: No, no then it is not a bond it is a donation.

DR. T. LEOKA: Ja and also it raises what the Chairperson has said is that we then lose out on, or we risk losing out on the current funders the current donors who are funding students so all of them would want to go
10 into a SIB and all be part of a SIB so that they can get a return on their investment so that is the risk of following that scenario.

JUDGE: Is the truth not that the government has to do a risk assessment as it were to say the value of the additional money is that it will enable us to produce a 50 percent graduation rate instead of a 25
15 percent graduation rate and the value of those additional 15 percent is such that it justifies us in backing this loan?

DR. T. LEOKA: So the question also is, does the private sector, because the private sector seems to be doing okay with the few graduates who come out to the system and to the extent that we also have graduates
20 who are unemployed so what is in it for the private sector to invest even if the success rate is over 50 percent when the absorption rate is low so if there are jobs especially in the current economic environment where we are seeing job losses than job gains why would a company or a, you know why would anyone fund students only because it would increase,
25 not only because but if the catch is or if the carrot is we will have a

higher percent of graduates I still do not know how that would benefit the private sector.

DR. T. LEOKA: Now you raising a problem that I have had throughout but people like the statistician general have almost waived it aside to say
5 the more graduates you produce the more will be taken up, that there should be no problem with worrying about employing graduates simply because you are producing them in greater numbers, now I am not convinced that that is so in an economy which is not working to full capacity but we have been assured that the economy will take up the
10 graduates that are produced.

JUDGE: So from the Stats SA they have, because they produce all the data in the country or most of it together with the Reserve Bank, they have data on job, they produce the employment data every month and every month there are, there is evidence of job losses especially in
15 certain sectors like manufacturing and mining so you know I do not understand why he would say that because his own department is producing the opposite, his own department is also producing documents, data on a quarterly basis that shows that big sectors such as the manufacturing sector which was a few years ago, 20 percent of the
20 economy is now only 13 percent of the economy and if a sector is shrinking to that extent it is obviously losing workers quite rapidly and that is also indicated in the Stats SA numbers so again I think that, you know I think that it raises a question of which belongs to the planning commission is what kind of a country do we want to have and that also
25 answers the type of if we are going to grow through exports and

manufacturing then we should align ourselves that way and the education system should be aligned with the economy but because there is no such alignment we are just producing University students or that is the aim and then they do not get absorbed into the workforce because
5 they are not required by some or maybe there is you know the workforce is not, does not need extra workers currently and then you have a problem of over qualified students who have never worked.

COMMISSIONER KHUMALO: Doc maybe on that note, so success would have to be in the agreement when the SIBS so like if its success is
10 graduation or success is attaining employment then what would be the ideal time though for success for the repayment if necessary.

DR. T. LEOKA: So in an education example I think success should be in the you know whether that student has been employed because it is one thing to have a degree which is, which actually is the purpose of this to
15 make sure that students go through University and finish their University but then you have another problem of where are they going to go so I can imagine having this discussion with government or with anyone who is putting money the success would be that student has a degree and this is what we funded them to do right and then the question will be then
20 what we have 100 000 or 200 000 students who, or graduates, and the government will then turn back to the private sector and say we need you to employ them.

COMMISSIONER KHUMALO: I remember in our discussion it appeared as if the social impact, maybe the investors would employ the successful
25 candidates of a project, was that not envisaged?

DR. T. LEOKA: Ja that would be ideal if there is a hundred percent absorption but I know that you know that would not be the case, already we have just very few percentage, 30 or 40 percent of the total intake leave with degrees and job absorption is less, is not optimum so it is not
5 a hundred percent.

JUDGE: What would you say instead of turning these students into graduates they were directed towards technical fields and they were turned out by technical colleges?

DR. T. LEOKA: So the difference between a University where in that you
10 know given your example I think a technicon education system equips a student with practical work because it is part of the curriculum and that student can also work for themselves far quicker and easier than somebody who is, take engineering for instance has the practical, has the theoretical experience through University in engineering but lacks the
15 practical experience so they would have to be employed to learn the usage of their skills that they have acquired theoretically whereas somebody from a technicon typically has that knowledge because it is in the curriculum and they can work on their own or they can start their own company.

20 And the other problem I think is that we have the technical colleges is the Tvet's where the majority or the bulk of the education funding goes to and the success, that is where the biggest failure is because it is not, technical or the Tvet's are not well equipped they don't have the great standard of lecturers and that is where I think in the
25 whole system where money is being lost because Treasury has or at

least the Department of Education has dedicated a lot more funds to Tvet's than any other of the you know higher education or tertiary education segments.

JUDGE: Miss Pillay we have raised all sorts of side issues and
5 problems perhaps you would like to direct the witness to the true line of her evidence.

ADV. K. PILLAY SC: Thank you Chair. Dr Leoka you were about to deal with the difference between SIBS and DIBS and what instance the government would either use a SIB or a DIB, perhaps explain what a DIB
10 is.

DR. T. LEOKA: Okay so a DIB is like a SIB but it is development so development impact bonds and they are, instead of getting an investor involved from let us say the financial sector it would be a donor and that donor can be anyone from an individual to an NGO, it could be anyone
15 domestically or internationally.

ADV. K. PILLAY SC: What would be the outcome that the payment of the DIB would be dependant on?

DR. T. LEOKA: So it operates in the same way and sometimes a donor by its nature would not want to return from government so would not
20 want their money paid back by government and where it benefits them is that the SIB model or the DIB model kind of guarantees us success because the cost of, there is a cost to failure and the model also unlike your normal NGO activities that there is an interaction and an agreement up front between the go, the investor, you have the intermediaries
25 involved so for the, where I think one of the benefits of this model is that

there is an interaction of groups that you would ordinarily not be interacting with if you were just a donor getting money from a funder and then having to do the work, you then also have to interact with government, you have to interact with the donor, the donor interacts with
5 the government as well.

ADV. K. PILLAY SC: Can I just understand you, you mentioned that in the instance of development impact bond there is no real obligation that you would get paid back.

DR. T. LEOKA: Yeah in agreement so you can agree to not pay because
10 the nature of a donor is not to make money so it is easier to have that discussion with a donor than to have it with, in a SIB model.

ADV. K. PILLAY SC: And what kinds of entities would in the ordinary course opt for or be interested in taking up DIBS?

DR. T. LEOKA: So those would be let us say your Ford Foundation, your
15 big international foundations or your small NGO's that would fund in the education sense education but again in the South African if you are not, I am still not sure what the incentive is because if you are an NGO that is involved in education I do not know why you would then be involved in education through DIBS, what the incentive is because I think with the,
20 when you are going for it directly you then determine the terms and conditions of your funding whereas with the DIBS it involves the government, it involves you know evaluation so if your donor activity, if you are a donor no one really evaluates you, you do your own internal evaluation whereas in a DIBS there is an external evaluator so there is, I
25 do not see why it would benefit.

ADV. K. PILLAY SC: I was about to ask you why a donor would go, would donate money via DIBS, what would be the difference between that and a straightforward donation?

DR. T. LEOKA: Ja the difference would be that a straightforward
5 donation it is your terms and conditions based on the mandate that you get from your donors whereas this one it removes the mandate that you get from those who give you money, who fund you and it is done within a process and agreed upon terms and conditions with various organisations.

10 ADV. K. PILLAY SC: Just the third creature I wanted you to briefly explain before you go back into the SIBS is, we have had certain submissions that have raised the prospect of an ordinary bond, a government bond but which is then ringfenced to fund higher education specifically. Now what is the difference between that type of bond, let us
15 call that a special bond and a social impact bond?

DR. T. LEOKA: So the difference with that and I already see problems with that, the difference with that would be that it would come from Treasury so Treasury would raise a bond and that bond would be bought internationally, domestically, it would have a duration, it would then, if
20 the, because I am trying to think what would be the reason to, say if it is a 10 year bond you have raised X amount then the government pays back the investors and then with that money injects it into funding education, a bond is not, so a bond is never for education so you do not ever raise a bond, there are many issues about raising, problems with
25 raising a bond for education because it is something that you should

have within budget allocation, I can already see that raising flags with let us say a rating agency and you know if those who are wondering why rating agencies are so important is that they actually raise, they rate the health of a the economy and rate your ability to handle your fiscas and I think if you are raising education debt it speaks badly about the way you are managing your fiscus because you are basically raising a debt to fund an education system that whose success story or success rate may not be optimum and so that is where I see the problem with raising a bond for, because already you do have, you do raise bonds for Treasury so that Treasury can allocate funds to each government department so if you are doing an extra out of you know Department of Education then it raises questions on your ability to just handle your fiscas because you are obviously not, and also importantly we are mandate endorsed by parliament is to we are currently undergoing fiscal consolidation and if you are then raising a bond you are going outside of that consolidation because you are supposed to work with in the confines of the limit that you have given yourself so the allocation is within the limit, the spending limit and if you are then raising debt to increase the risk and increase your debt levels for something that already has a limit that means that you are kind of, you are bridging your limit as well.

ADV. K. PILLAY SC: Then what would be the difference between the special bond which we have just discussed and a social impact bond because if the social impact bond if the intention is to rely on social impact bonds on a yearly basis to make up the difference between what the cost of free education is and what government allocates in terms of

its budget every year for higher education, so what would be the difference?

DR. T. LEOKA: So that would be, the problem with even that is that because the government still has to pay back the investor so unless the
5 investor does not want to get money back and is doing it in a corporate social investment then there is no involvement within the government, the problem with that is unless it is small scale like the Western Cape example where they within their budget so they are not raising money outside of their budget to do this it is within their budget so now you are
10 asking government to then be, to pay it back every year money which they have already said they do not have to investors, to intermediaries you know for service providers to do their work and then evaluators, if it is successful government then has to pay back the investor.

ADV. K. PILLAY SC: So does that mean that when government creates
15 the social impact bond it cannot commit itself to an amount which is beyond its budget?

DR. T. LEOKA: Yes.

ADV. K. PILLAY SC: And if the amount is kind of on a 10 year trajectory where you create the social impact bond today but your duty to pay
20 would only be in 10 years time.

DR. T. LEOKA: Be in 10 years time that is, yes I think that is something that government would consider, what I am uncertain about is what happens with fiscal consolidation because I do not see us, the economy growing rapidly to the extent that we have a fiscal surplus because right
25 now the reason why we are consolidating because we have this deficit

that we are trying to shrink and it will take a lot of years for us to get to a point where we have a surplus, the reason why we have a deficit is because during the financial crisis in 2008 we undertook countercyclical policies where we were spending money from the fiscas to help South
5 Africa, to buffer South Africa so that we do not go into a recession and we were trying to then recover that money so that we have a healthier fiscas and it depends on how quickly the consolidation occurs, already if you look at we will see at the end of this month because they do have, they do look at the outer years but they do not really go beyond 4, 5
10 years but if the fiscas, if we do have a fiscas surplus I think that we will have more room to manoeuvre, right now I think you are talking about removing, the only way I can think about it is looking, allocating a resources differently so either re-looking at the entire education system where looking at how, why are we losing money in the Tvet's and
15 ensuring that we do not because I do not think the problem really is raising money, we do have a lot of money I think it is the allocation of money where the problem lies.

And you know Treasury has tried to talk to other departments in terms of lowering their or shrinking their budgets but it is, they have not
20 been successful because there is health that also needs money that, money needs to also go towards health and social work, I believe the military is also demanding a lot of money for defence so they are in a very difficult position in terms of reducing or shrinking other budgets to fund education but I do believe that, I do not think that, I do not think that
25 money is a problem I just think that the allocation of money is a problem

if you look at how much money we spend in education versus other countries, we obviously you know the return, and our return on investment is so poor versus other countries including also if you look at us versus our African, the rest of the continent we perform very badly so
5 it is a matter of allocation, it is also the Unions are a problem, ja.

ADV. K. PILLAY SC: And can I just understand, how do you measure the return of investment, is it measured by whether or not increased numbers of poor students are accessing University or whether you have got better throughput rates or whether there is absorption at the end of
10 the day?

DR. T. LEOKA: So it is all of them, it is absorption but it is also throughput and more students graduating.

JUDGE: Does it not depend upon the terms of the bond giver thinks are necessary?

15 DR. T. LEOKA: That too so in a SIB it would agree, it would be determined by the agreement, if the agreement is you know we just want 60 percent or 30 percent increase on the current graduate rate then that would be a success if those are the terms agreed upon or if the terms are agreed upon are that they you know, they would prefer an absorption
20 rate into the workplace or higher absorption rate and if that is a success because also involves the public, the private sector to absorb those graduates then that could be deemed as a success.

ADV. K. PILLAY SC: And can I understand the implications of a success indicator not being met, so assuming the agreed upon success indicator
25 is absorption, 60 percent absorption of all graduates into the economy

and what is the implication if that is not met?

DR. T. LEOKA: So the SIB is a failure and the government does not pay so it is not a cost to the government.

ADV. K. PILLAY SC: So are there broader economic implications to for
5 example fiscal planning etcetera if the SIB is a failure?

DR. T. LEOKA: So what do you mean by?

ADV. K. PILLAY SC: Also specifically whether or not there will be take up by private investors further down the lien if the SIB is a failure in one year?

10 DR. T. LEOKA: And then you try it again the next year.

ADV. K. PILLAY SC: Yes.

DR. T. LEOKA: Ja this is possible.

COMMISSIONER KHUMALO: Just I wanted to check that specifically on what you spoke about, about how the ratings agency view student debt
15 in line with how they view the country and how they rate it later, is it not the implications that Advocate Pillay is asking?

DR. T. LEOKA: So with, how a rating agency would be affected is if it undermines the fiscas so there would be money going into, from government that is above what government has stated that it would
20 spend and so if for instance it fails, government does not lose out on money and then if they try it again and it is a success then government would have to pay back, the problem that I have is the paying back by government because government does not have money to pay back and if government had that money it would not be getting involved itself in,

commit itself to a SIB in the first place it would fund it directly, it would fund education directly.

JUDGE: What strikes me and I have read your full report and thank you for the amount of detail and example that you have given there but what
5 strikes me about places like United States for example is that there are a large number of private investors with a large amount of money.

DR. T. LEOKA: Ja.

JUDGE: Family funds and trust funds and all sorts of things and is there that sort of money available in this country?

10 DR. T. LEOKA: So we are not a philanthropy type of country in the same way as the UK and the US, you have got in the UK have families funding education system and providing scholarships and that is not very big in South Africa and even if you would have, there is a few examples of funded schools like the African Leadership Academy which is funded by
15 the private sector and a lot of families on the continent but that again is a one school in Kew and not the entire education system. You also have a few wealthy families in Stellenbosch who also fund, I know Wendy Applebaum also does a lot of funding of schools but that is also not in a large scale Western Cape rollout, it is specific schools.

20 JUDGE: Just from your experience just give us your view of whether you think social impact bonds would be a successful medium for financing education in South Africa?

DR. T. LEOKA: I think because education is a national problem, I do not think that it is you know social impact bond would be a success because
25 a lot of money is required, I think that if we were to do it in the US it is

very localised and because of the structure of the US economy where there are federal states or the federal system helps because then there is power at the federal level versus the national level and I think it would require for us to be that kind of country where the national government is
5 of a different structure so it is smaller, it manages less and if everything then goes to the local governments and provincial governments I think we would have, it would be easier for provincial government to then take it up given that it has a bigger budget and a bigger responsibility but because we are not structured in those, you know in that way as a
10 country it would be very difficult to implement because you need a lot of funding from either donors or the private sector and it is a lot of funding not that it is just once off, it would be one thing to have a once off funding it is required every year.

ADV. K. PILLAY SC: Thank you Chairperson, may we take the tea
15 adjournment Chair just to see if there is anything else that we would like Dr Leoka to deal with?

JUDGE: We will take an adjournment for 5 or 10 minutes.

ADV. K. PILLAY SC: thank you Chair.

JUDGE: Thank you.

20 **MEETING ADJOURNS**

MEETING RESUMES

JUDGE: The tea break was extended.

ADV. K. PILLAY SC: Thank you Chairperson. Well because Dr Leoka had prepared quite a structured presentation and I think she was taken off her stride a bit with the questions that were asked she has asked for
25 an opportunity just to recap and to just put in more concrete terms what

the positive and the negative aspects are of social impact bond.

JUDGE: Yes of course.

ADV. K. PILLAY SC: And she feels that that is the last issue which she would like to deal with before the end of her testimony Chair.

5 JUDGE: Yes thank you Doctor.

ADV. K. PILLAY SC: Thank you Dr Leoka.

DR. T. LEOKA: Thank you. So as I said earlier that I think that the social impact bonds are better applied if they are in a small scale rather than a national scale, mainly because of financial reasons that on a
10 smaller scale you will have, you tend to have a lot more investors involved versus on a bigger scale where in a country like ours I do not, given the problem that we are faced with I think it will be very difficult to raise the kind of money from the investor community and funding community.

15 JUDGE: So you could for example use them at the University of Venda or at the University of Zululand or wherever.

DR. T. LEOKA: Yes, yes.

JUDGE: If the investors could be found.

DR. T. LEOKA: That is correct and I think that could be a good example
20 of especially given that these Universities are what they call previously black institutions known to have very little money from funders and philanthropists versus your Wits or UCT so that could be used as a way of correcting some of the ills of the past if you would, for lack of a better term. So I think that would be a better example of using the SIBS and

having it a localised SIB, but having said that you know the problem is also not just on higher education maybe a SIB could actually be useful for early childhood which is many of the cases that I have read and also at high school level so that you do not get a situation where there is a low or a high failure rate or a low success rate at University level. I would also want to speak about just the advantages, I know I have spoken about the disadvantages so if you had to localise it I think that it promotes efficiencies and effectiveness of the program, it also, you know for you do not always get this partnership between the government and NGO's and the financial sector and I think in our case the Unions are very strong and I think that they should be involved in a SIB, a situation either from the evaluation side or from the service providers or involvement in some ways of the service provider stage and this would be, would help with the success rate when you have different parties involved in achieving one goal.

You also have a backing from everyone, be it political, business, labour, government and I think that it will, it is likely to be a success if you have all these backers and also I guess you know it is any collaborative initiative is kind of useful for the country like a South Africa where it is always beneficial it have everyone involved versus excluding an exclusive funding model and of course I did mention the disadvantages from a South Africa perspective but also the SIBS do take a long time so I think one of the disadvantages is that it can be bureaucratic as much as we are saying that or I am saying that it could be efficient and effective in its collaborative, it can be bureaucratic

especially at the negotiating stage because everyone wants to, has their own interest at heart so the government will have their own interest, the intermediaries would have their own interest because they raising money for investors so they want to make sure that they are, they raise money
5 optimally or they are successful in raising that money. The service providers may also have their own interest and also it is a time consuming process.

JUDGE: Okay essentially in your example here that you have showed us, this one, who is the driving force in setting up the SIB?

10 DR. T. LEOKA: So it would come from the government to say look, because the government is the one that I identify as a problem so the government would say we have a problem in health and we want to involve you know this intermediary and because the government then chooses an intermediary or a couple of intermediaries so it can be
15 private equity or it can be asset managers and then they would also choose a service provider either a charity, a smaller medium size enterprise or an SME, sorry an SME or a charity to do the ground work and then an evaluator is always external.

JUDGE: Yes but take the American example where it seems Goldman
20 Sacks put a lot of money in, I assume that it did so as the representative of various investors.

DR. T. LEOKA: So it would do that as an investor.

JUDGE: Now would they set up the SIB in that situation?

DR. T. LEOKA: No it is still the government, so the government would
25 approach the parties that would be involved to say look we have this

because the government has to identify a problem, a bank would, so Goldman Sacks has no interest in identifying a problem for them they are coming in as a funder.

JUDGE: No that I realise, would they not be the vehicle for setting the
5 SIB up?

DR. T. LEOKA: So Goldman Sacks in that case or any funder is just an investor, they are not even raising so they are not an intermediary so they are not even raising the money.

JUDGE: They are a merchant bank.

10 DR. T. LEOKA: Yes so they would have the capital, give it to the intermediary to raise, their interest as a bank is I guess for their social, the corporate social responsibilities it is part of that, this is what we are doing even though they are getting a return so it is good for them for their image, their part of community work and for community funding but
15 they are getting a return.

COMMISSIONER KHUMALO: So Doc if maybe the intermediary invest the money if it is allocated there, interest bearing whatever is to their interest, what is the status there?

DR. T. LEOKA: So the interest could also be determined, it would be, if
20 you are investing it, depending, so if I am investing it in stocks and I buy Anglo America and then I cannot determine the performance of the stock but I will say to the government that this is what I expect Anglo America, how I expect Anglo America to perform over the duration of the SIB and that in the past they have to prove it that you know there has been a 6
25 percent return and if indeed it is a 6 percent return and everybody is

happy with that they are targeting a 6 percent return then they get into this agreement but again a SIB is, does not tolerate failure so if there is no 6 percent return and the return is 3 percent then it is failed SIB as well because then government would have to pay the investor with
5 interest that has been agreed upon because the investor here is an external, the investor is just putting money and getting a return and that is why the bond name is in it because it is a loan, the investor provides the funds in the same way as an investor provides a fund when there is a bond issued by Treasury and it expects a return. If there is a bond
10 issued by Treasury to build roads in South Africa the investor is not involved in the roads, is not involved in the procurement process, all that the investor is interested in is that it will get its returns when the bond has matured.

COMMISSIONER KHUMALO: I am imagining that maybe at the
15 beginning of the year and then there is allocation, the whole thing is in place, there is an intermediary and there is funds allocated for the SIB and I am saying that is the amount that is allocated but if there is over and above an amount that is capitalised during that SIB where does it go, does it, do you attribute it to success as a return or does it get
20 reinvested in the SIB, what do you do?

DR. T. LEOKA: That would be a success but then again it would, so all parties have to be paid because service providers are also paid and evaluators are also paid during the process.

COMMISSIONER KHUMALO: It becomes operational in the SIB.

25 DR. T. LEOKA: Yeah.

COMMISSIONER KHUMALO: Or it could be determined what happens depending on how bit it is.

DR. T. LEOKA: Exactly, so if for instance and again because they are not cast in stone, if we could agree, if you and I are part of a SIB and say
5 look if there is access money beyond what we expect because the intermediary bought a stock that over performed our expectations then we can decide what to do with it we then take it back to government because government is ultimately the one that is paying the investor and so then the government gains slightly or do we, you know because I can
10 imagine the service providers are ready determined in terms of payment so it would be money that would ...[intervenes]

COMMISSIONER KHUMALO: That is why I am saying everything is costed already so there is extra cash here so I am just imagining where people do not use the SIB as a way to make you know money or to
15 increase their potential investments through a SIB that is intended for something else.

DR. T. LEOKA: Ja.

COMMISSIONER KHUMALO: What would be the controls there?

DR. T. LEOKA: That is something that we need to consider but again
20 because it is so involved with so many stakeholders and ultimately the loser here if it does not work out, well if it does not work out I guess the investor is a loser but if the money that, I think government it has to go back to government is the one that is paying back so it is between, the relationship between government and the intermediary because the
25 intermediary, there should be a contract between government and the

intermediary because government is the one that identifies the intermediary not the investor.

COMMISSIONER KHUMALO: And the tax benefits that are derived from being part of a SIB?

5 DR. T. LEOKA: I am not too sure because nothing has been, you know from a tax benefits perspective, let me think how can you, because donations are not taxed so for something like this I do not know if there would be a tax that are.

JUDGE: Well it would depend, the tax system could be regulated in
10 such a way that people who make these investments and social impact bonds can obtain tax advantages.

DR. T. LEOKA: True but it could also be, I think you could also get away from let us say any taxation in this model given that it is as you know, it would depend on our, I would have to look this up what are the tax
15 implications if you would be taxed or not and what are the tax benefits.

COMMISSIONER KHUMALO: Control around the abuse.

DR. T. LEOKA: Yeah, yea.

JUDGE: Sorry we interrupted you, you can pick up the thread where you left off.

20 DR. T. LEOKA: So I was just looking at the disadvantages, you know time consuming, there has also been evidence of tension between the service provisions and profits, also because there is, everyone has an interest which could also be a problem, a negative on a SIB, so far again we do not have an example of national so that could be another problem

with the way the Department of Education or the task team has been looking at it and I do believe looking at the document that I was sent that there is a confusion between a funder and funding and I do not know if there are people in the financial sector that were involved in this, I tried
5 to look at who makes up because there is a confusion even in the pack between a person who is funding because a person who is funding does not necessarily, so may demand or require a return and a funder does not require a return.

COMMISSIONER KHUMALO: That distinction is as per SIBS only or
10 generally?

DR. T. LEOKA: Ja generally in the document so they confuse in many of the statements in many of the paragraphs between like what is a funder and what is funding, you know somebody who is funding may require money back, a return and a funder is not someone who or an entity that
15 requires money back. And in the SIBS is that you do have funders, so an investor is a funder and an investor wants money back and that is part of the disadvantage here that there is somebody who will have, there is a risk and the risk is the investor, the risk is government and these are the two most important entities for a SIB to function, if the
20 government does not have that money to give back to the investors if it is successful then there is a problem because the government has defaulted.

COMMISSIONER ALLY: Doctor would your position be the same if you take into account that the task team report envisages a public private
25 partnership as well as the establishment of Fund Co which would be a

private company that would raise funds. Now they have given various vehicles in terms of raising funds and the social impact bond would be just one vehicle. Now in those circumstances where Fund Co consists of this public private partnership and not necessarily government alone can
5 you take us through the pros and cons of that kind of, or the cons of that?

DR. T. LEOKA: Sorry your last one is that not necessarily, you said Fund Co is?

COMMISSIONER ALLY: Remember you saying it is government that
10 guarantees the bond but Fund Co is not government it forms part of this public private partnership that is agreed upon, now in those circumstances do your cons apply to that scenario also?

DR. T. LEOKA: Definitely because if Fund Co, then Fund Co is the one that guarantees the funds that go to, that are managed by an
15 intermediary and fails then it is Fund Co that loses out money and Fund Co would then, it would be better for Fund Co to go directly to Universities and fund directly versus going through a model that may not be, may not have a success rate or may not be successful. I think with a private public partnership it may work but again I think not, because of
20 the amount of money that is required every year it, you know my question still remains where is government going to take that money from.

COMMISSIONER ALLY: Okay let us, if you develop that out you will see in the document or would have seen in the document that they talk about
25 the skills levy going up instead of 3 percent 6 percent and that would be

on the company's and that amount is there and comes through annually
in any event, I would imagine that there would be a certain point that
those monies then invested elsewhere to generate more funds that you,
because you need a sustainable vehicle for the purpose for which you
5 want it in the first place so is that not a means to that particular end?

DR. T. LEOKA: So my understanding with the skills levy is that it does
go towards, so it is utilised in its entirety towards the up-scaling of
current workers and already I think that company's are not happy with
that additional tax and so there would not be any money left from the
10 skills levy to go elsewhere because it is already utilised and fully so
towards the development of current employees.

COMMISSIONER ALLY: But let us assume they get their ducks in a row,
firstly by amending the legislation relating to what the funds are used for
and secondly in amending you have got the buy in of labour and
15 business and all things being equal you are then able to do that so the
cons are taken away at the marketing stage at the, what we call a
consultation stage, now you would have seen that contributors in the
document are Assesor and there is also the banking sector that have
...[intervenens]

20 DR. T. LEOKA: Ja SARS.

COMMISSIONER ALLY: Correct so there is initial consultation
processes that have taken place and what we wanted to know from you
whether a SIB would be able to work in South Africa in the
circumstances envisaged by them, you have now given us the
25 advantages and the disadvantages however you rather you emphasis

flow towards government providing the guarantee, in the circumstances of what they propose it is not government alone but a public private partnership that would then do that guarantying, my initial understanding of that proposal is.

5 DR. T. LEOKA: That is correct it is, so if the issue that I have with your example of let us say the skills levy being utilised differently and changing the Act then company's will say because they also benefit from up-scaling their workers so you are removing that already from the current model into funding education so what is in it for company's
10 because you are taking that money that they are paying as a tax and that money that they using to skill you know their own workers and you want it removed to then go into form part of a PPP yeah to form part of funding and that is managed by or within the PPP model.

COMMISSIONER ALLY: Ja I do not think their proposal relates to use of
15 the whole amount, I think it is a top up that they would use in terms of funding initial funding so the company's themselves you will understand that presently the skills levies and that department is now under the Department of Education higher education and not Department of Labour so and the understanding presented to us in the commission has been
20 that the skilling and education is actually one part of development, the development of the skills in the country so and that was the reason for the shift to the Department of Education. Now if some of the amount of the skills levy is then used, if my understanding of the proposal is correct, then it does not necessarily take the whole amount nor does it
25 take away the up-scaling of the workers themselves.

DR. T. LEOKA: Ja but currently the whole amount is being used for up-scaling so somebody will have to lose out and that is company's because if you are taking some of that then they would have to top it up from their own revenues which is an additional tax which I do not think that they would agree upon because you now saying the tax that they already paying which is a skills levy tax part of that would have to, instead of training their own current employers they would have to then or the employees would have to then dedicate some of it, a portion of it to this PPP but then there is a need for up-scaling within company's and that up-scaling would have to come from their own revenues so they paying tax twice.

ADV. K. PILLAY SC: Miss Leoka I think what would be useful is we obviously going to be leading other witnesses who will look specifically at the skills levy and the consequences of an increase or decrease in the percentage of the skills levy so perhaps it would be useful if you would answer Commissioner Ally's questions on the assumption that the skills levy would be increased.

DR. T. LEOKA: So if it is increased and then it is provided then you could do a, then a SIB model would be okay but again I think that a SIB more localised than nationally.

COMMISSIONER ALLY: Thank you.

COMMISSIONER KHUMALO: Doctor just to maybe take you back, on your stakeholders the evaluator is it usually an international person because you were saying it is a government appointed person and is it the same person that actually evaluates the saxes where the repayment

is due?

DR. T. LEOKA: Yes, so it is an external person, it does not have to be an, ja it is an external person that does the evaluation.

COMMISSIONER KHUMALO: Is it the same person at, because you
5 see the example that was made with the UK SIB.

DR. T. LEOKA: Ja.

COMMISSIONER KHUMALO: Is that 7.5 percent then the independent evaluator is brought, is it the same person or for the purposes of a SIB?

DR. T. LEOKA: Okay I am looking at it, usually it is not the same person
10 so the evaluator.

COMMISSIONER KHUMALO: Because it says there it is paid by government directly so I think comes back to what you are saying paying with what unless it is the tapping into the asset management investments.

15 DR. T. LEOKA: Yes, ja.

COMMISSIONER KHUMALO: And then your reference to SIB in the roll of stakeholders, would you say it is the same as Fund Co in the report, is it a similar role because you just call it SIB and you say it is a special purpose.

20 DR. T. LEOKA: Special purpose vehicle.

COMMISSIONER KHUMALO: Yes.

DR. T. LEOKA: Okay.

COMMISSIONER KHUMALO: Because they also call it something along those lines so it is a SIB already.

ADV. K. PILLAY SC: I think the Fund Co that is envisaged in the NTT report it is a slightly different animal from the PPP as well so I think that we will hear about further when the task team appears before us.

ADV. K. PILLAY SC : Just one question around the administration of the SIB, Dr Leoka is there any cost attached to actually creating a SIB and have seen your diagram for example you refer to the appointment of the intermediary, are there any costs attached to all of these units of administration?

DR. T. LEOKA: I do not think there are because already they are benefiting so an intermediary would already be making money from doing what they are doing so if you are getting an asset manager to raise money so they will have a, it will be a cost already for them to manage your funds so there is no additional costs but the cost of what they do but manage investor funds and then a service provider has already, so everyone has a price determined already, service provider let us say a charity or an SME has already to a price so they will say look we will do this project and this is what we are billing so everyone has already, so there is no over and above what would have been agreed upon and what they already do. So something like an asset manager would not come up with a cost that is above what they normally would charge.

ADV. K. PILLAY SC: And who would pay these costs for all the various role players in the SIB?

DR. T. LEOKA: So if, so I guess it is the money, so it is the money that is agreed upon, so money coming from investors would also account for monies to be paid to either the intermediaries or service providers and

external evaluator and then government pays back the entire amount plus interest to investors.

ADV. K. PILLAY SC: And then just finally Doctor, Dr Leoka there was one issue which we wanted you to address and that was the question of
5 CSI's, what kind of monies is available out there under corporal social investment and what other constraints attached to that?

DR. T. LEOKA: Ja, that one it is very difficult because it is determined by the company itself and the projects are determined by company's so it will be very difficult to approach let us say an Old Mutual which has a big
10 CSI to say you know we need you to invest or fund education and they will come back to you and say but look we are already doing these projects which are targeted towards education and these, and we are very happy with what we are funding. So there are a lot but there are not sufficient to cover the costs for instance and even if they are it would,
15 you would have to approach them and ask them to change their own mandate and it comes back to the question of like what is it for Old Mutual to go directly to you know to fund education to the Department of Education versus what they are already doing.

JUDGE: That was going to be my next question is how do you
20 incentivise company's to direct their CSI money towards higher education?

DR. T. LEOKA: Ja it will be a very difficult one because again I think that they would, if the process is outside of their own process it is, what is in for them and then they would want a SIB situation where they are
25 making their, they are making a return and currently they are not making

a return so they are, it is almost better for them to, if they are already funding education through funding students who are going to Universities it is better for them to continue doing that than to say actually this is what we propose because then for them it will be, it will look slightly lucrative because then they have a return or they are making a return where otherwise they are not currently. And then maybe you could say, you twist their arm and say look we want you to pay more towards this then the relationship becomes a money making one rather than one where somebody is doing out of their goodness of their heart through the current CSI model that they are participating in.

COMMISSIONER KHUMALO: But Doctor are we able to quantify in the country how much would reside in the CSI's and private company's?

DR. T. LEOKA: Ja it is very difficult because there is nobody that looks at, that collates that data and some also CSI budget shrink you know according to whatever the company's is experiencing in that financial year so it was a very difficult one to look at or to try to get data on CSI in South Africa, it is mostly company based and it is quite volatile depending on company performance.

JUDGE: And SARS will not be able to make that determination because I know it has got tax benefits as well so maybe from the calculations?

DR. T. LEOKA: Ja I can check with SARS.

ADV. K. PILLAY SC: Thank you Chair I believe those are our questions for Dr Leoka, we will not doubt be calling Dr Leoka further on in later sets because there are a number of issues on which she still has to come back to us and still has to address.

JUDGE: Dr Leoka is there anything else that you want to add at this stage that you have been deprived of adding?

DR. T. LEOKA: No I think you have asked a lot of questions and were extensive and something that I had not actually considered so ja.

5 JUDGE: Right thank you very much then you are presnetly excused.

DR. T. LEOKA: Thank you everyone for the opportunity.

JUDGE: Thank you for your assistance.

NO FURTHER QUESTIONS

ADV. K. PILLAY SC: Thank you Chair the next witness is Professor
10 Linda Bozzoli from the Democratic Alliance, we have tried to arrange for Professor Bozzoli to come in a bit earlier, as soon as she is if I may suggest that we take the lunch adjournment now and we will let you know as soon as Professor Bozzoli has arrived.

DR. T. LEOKA: Thank you.

15 **MEETING ADJOURNS**

MEETING RESUMES

JUDGE: Yes Miss Pillay.

ADV. K. PILLAY SC: Thank you Chair. The next witness Chair is Professor Belinda Bozzoli who is a member of parliament and the shadow Minister of Higher Education and Training for the Democratic
20 Alliance, and Professor Bozzoli will led by Miss Lekoane.

JUDGE: Do we address you as Doctor Bozzoli, Professor Bozzoli, how would you like to be addressed?

PROF. BOZZOLI: Professor Bozzoli.

JUDGE: Thank you. Do you have any objection to taking the oath?

PROF. BOZZOLI: No.

JUDGE: What are your full names please?

PROF. BOZZOLI: Belinda Bozzoli.

JUDGE: Do you swear that the evidence that you will give will be the
5 truth the whole truth and nothing but the truth, if you do raise your right
hand and say so help me God.

PROF. BOZZOLI: So help me God I do.

PROFESSOR BELINDA BOZZOLI: [sworn in]

JUDGE: Thank you, you will be led by Miss Pillay thank you.

10 ADV. K. PILLAY SC: Chair Miss Lekoane will lead Professor Bozzoli.

JUDGE: Yes Miss Lekoane.

ADV. M. LEKOANE: Thank you Chair. The Professor has prepared a
presentation for us, Professor if you may begin with your presentations
and we will ask you questions or seek clarity where it is required.

15 PROF. BOZZOLI: Thank you. My presentation is based upon our
written presentation that we submitted to the commission last year and I
would like to highlight some of the main points in that presentation, it
was long and fairly detailed, to give you a feel for what it was that we
were trying to get at in that presentation. We are suggesting to the fees
20 commission that the protests that have arisen around fees in 2015 to 16
cannot be resolved by addressing fees alone, our analysis looks at the
fundamental causes of the fees protests and argues strongly that the
causes do not lie only in the lack of support for students but in the more
deep seated original sin, as you might call it, of lack of support for

Universities themselves.

Without a serious examination of the lack of support for Universities we believe the problem of fees will never be solved. In fact everybody claims they agree that the University system is under funded
5 as we are aware, there is an unstoppable ground swirl of student disaffection about fees and NSFAS is also generating a lot of dissatisfaction even today. But what is only recently becoming clear to the public is something that we may, were at pains to point out, it is the fact that University leaders and several others are telling us that their
10 instructions are themselves under threat for financial reasons and our two top Universities Wits and Cape Town have both in recent months mentioned that they are really struggling and these are Universities that have always lived without debt.

Our argument is that if you throw money at the problem of fees
15 this will not solve the issue and this is what President Zuma did when he simply declared no fee increase for 2016 and that was not a solution as we saw, it was simply a postponement of the problem. We have argued that the University economy itself has become deformed over the past two decades particularly since 2000 and it needs to be put right, unless
20 this is done the problems plaguing the sector will continue in future years and University education will continue to be at risk.

ADV. M. LEKOANE: Sorry Professor I am over here, when you speak about the sector are you talking about the entire Tvet sector or just Universities?

25 PROF. BOZZOLI: Just Universities, our presentation focuses specifically

on Universities.

JUDGE: Well what you are saying about Universities, what you have already said about Universities has become very obvious to us and any report that we write about funding will necessarily be, will include a preliminary which says there is no point in pouring money into the bucket unless you fix the holes.

PROF. BOZZOLI: Right.

JUDGE: But I must also tell you that what you are saying applies equally as much according to the evidence to Tvet colleges.

10 PROF. BOZZOLI: Correct, I agree with that, we chose to focus on Universities because that is where the bulk of the protests were but if Tvet's are going to be offered as an alternative to the vast numbers of people who need to be trained there needs to be a serious look at Tvet funding not using current government formally but actually looking seriously at how short they also have become over the years. Given the fact that you are very cognitive of this issue I will skip some of what I want to say but I do want to mention the question of the role of third stream income, we argue strongly that there is a very strong temptation among most observers who do not know the University sector, that third stream income could be the solution.

Now while it is a very important and useful component of University income it would be naïve to think it could provide a serious base particularly in South Africa for this solution, this is because the third stream income is donor funding, it is normally given to specific projects, no donor will pay for the basic cost items in the average University

budget, Staff salaries or overheads, they usually pay for added extras, usually vanity linked kind of things, the donor wants his or her name to be acknowledged. Research units, perhaps the odd laboratory, higher level scholarships and that and third stream income costs money to
5 administer. In the US for example it is normal for third stream income to cost the University 75 percent of the amount that is donated so it cannot be considered as a serious alternative.

Not only that South African philanthropy is minimal and it does not get directed towards historically black Universities, generally
10 because philanthropists like to associate themselves with international, Universities of international standing.

COMMISSIONER KHUMALO: Yes Prof, what would those costs be, the 75 percent you are saying?

PROF. BOZZOLI: When you get a donation in the US the government
15 guarantees that it will pay the overheads, it costs you to manage and run that donation and those overheads will include water, lights, electricity, rates, the cost of the building, depreciation, all the things that the donation will not include, all the donation will be it will pay for a few extra researchers to join the research unit it will very rarely pay for their
20 accommodation, their basic costs, their pensions etcetera so there are a huge number of overheads that are tied to every big donation and I remember from being at Wits that we in fact were beginning to think about not accepting any more donations at one point because they were costing us so much money to manage, it sounds implausible but I am
25 afraid that is what happens.

ADV. M. LEKOANE: Is there specific in that they cover those costs do they have the same bearing, does it happen?

PROF. BOZZOLI: Could you just elaborate when you say cover?

ADV. M. LEKOANE: I am saying you get a grant and then it says you
5 also have to cover this and this and this so that the University does not suffer?

PROF. BOZZOLI: I have never ever received a grant of that order, never, no donor will pay it and in fact if you go to a US donor it is forbidden by law for them to pay overheads for foreign recipients of their
10 money, it is forbidden by their law.

ADV. M. LEKOANE: Sorry Professor I am over here sorry, other than reputation what other considerations would a prospective donor take into account when making the decision to make a donation and I am just linking it to your statement that they are unlikely to make donations to
15 historically disadvantaged institutions?

PROF. BOZZOLI: It is to do with sustainability of the institution, concerns about state funding being reliable and sufficient and also usually high level say research projects or other sorts of things which are less easily mounted in disadvantaged Universities.

20 COMMISSIONER KHUMALO: That would mean that there has to be an addition to the subsidy to get those institutions up to par in order to place them in a better position to attract those positions.

PROF. BOZZOLI: I am not prepared to go along with that because I think what that leads to is an assumption that the Universities that are
25 not historically disadvantaged have no deficiency in funding and they

really do, they seriously do and much of the focus has been on historically disadvantaged Universities quite correctly but to focus only on that at the expense of the advantage so called Universities is I think a huge mistake.

5 JUDGE: Can you just with regard to Wits which is your first experience or your major experience does Wits go out of its way to seek third party funding.

PROF. BOZZOLI: Yes the top Universities have entire departments well staffed to seek funding.

10 JUDGE: And would you describe that as an easy, difficult or an impossible task.

PROF. BOZZOLI: Having been involved in fund raising myself it is an extremely difficult task, it is, we are not flavour of the month anymore internationally, South Africa was very much the darling of funders in the
15 late 90's early 2000's because of you know the wonderful shift that happened here, no longer the case and we have to struggle extremely hard to prove ourselves to be you know a plausible applicant for funding.

JUDGE: So would it be correct then to assume that it is (a) difficult to find new third party funders and (b) difficult to persuade existing funders
20 to increase their donations?

PROF. BOZZOLI: Yes extremely difficult and the world recession has not helped. One of the biggest and most generous donors in the South Africa University sectors is Mellon Foundation which has over the years donated millions to South African Universities.

25 JUDGE: Is that an overseas foundation?

PROF. BOZZOLI: Yes an American, but last time I visited them they said their holdings had been, had shrunk dramatically because of the world recession and you know they had to cut down on what they were offering.

5 JUDGE: When you speak of seeking third party funding do you mean mostly overseas or is there a large amount of similar seeking in South Africa?

PROF. BOZZOLI: There is seeking in South Africa but unfortunately our philanthropy sector is extremely small so funding here is mainly the
10 national research foundation whose funding has recently been cut by the state and ...[intervenes]

JUDGE: They too have given evidence to us.

PROF. BOZZOLI: Yes they give excellent funding and they of course do take historically disadvantaged Universities seriously. Then
15 philanthropists I think there are probably two or three foundations which will give unencumbered money or not unencumbered but money in projects which the University thinks of and there are many funders who will give money to suit them, so they might give it to chemical engineering for some specific thing that they want work done in.

20 JUDGE: Yes.

PROF. BOZZOLI: Ja.

JUDGE: Thank you.

PROF. BOZZOLI: Okay so you obviously are aware of the change in the ratio between fees and state funding which started off as, the ratio

was 30/40/30 and it has now moved to 40/30/30, in other words as the fees proportion of University income has gone up, as the state proportion has gone down by 10 points the fees proportion has gone up by 10 points and there is the trigger mechanism for the protests right there in the heart of the University funding system and one of the things that NSFAS has done has been simply to follow the fee increases by putting more and more money into NSFAS but never address, the department has never addressed the cause of the fees constantly going up which has been the fall in real terms of state income.

10 Alright so the doubling of student numbers has accompanied this fall over particularly since the year 2000 and this has been accompanied by an appalling rate of student success, 50 percent of students drop out or fail and in part this is because the amount spent on each student has itself fallen in real terms so that graphs shows you the student numbers, 15 the yellow one going up and the amount spent per head of student going down. And this is why you get these huge classes, you get unhappy Staff because they cannot manage to teach the students especially the disadvantaged ones who may need special attention who have been to poor schools etcetera and there just is not time or space in their lives for 20 those students, so I think that is one of the causes, one of the many causes of the high dropout rate.

 So NSFAS has not been able to fund all the poorer students let alone the missing middle and it has not been able to recover funds adequately from those to whom it has lent money. So I put up a graph 25 showing how recoveries went up in the early 2000's but now the rate of

recovery of NSFAS has actually gone down quite substantially which puts into question the efficiency and nature of NSFAS itself, not only that but not all of NSFAS funds are spent in any one year and NSFAS itself has acknowledged the existence of corruption in many Universities.

5 Recent signs are that the much vaunted new scheme being developed under the leadership of Mr Ncasana is not going as smoothly as we originally thought, its launch has been delayed we understand, the CEO of NSFAS has resigned suddenly and there are reports that NSFAS is behind scheduling notifying students the outcome of their application

10 causing enormous hardship among students.

COMMISSIONER ALLY: Sorry Prof, the CEO that you mentioning would that be the present CEO that has resigned?

PROF. BOZZOLI: Yes, Mr Ncasana is not the CEO he is the Chair of the board.

15 COMMISSIONER ALLY: No, no, no he is the Chairperson of the board.

PROF. BOZZOLI: Yes, the present CEO has resigned, so there is a feeling one gets from looking from the outside that there is trouble in NSFAS, it is not quite as smooth sailing as some of the presentations might have led us to believe. So NSFAS in efficiencies and collections,

20 huge rates of failure and dropout mean that billions has been wasted in student funding over the past 20 years and so it is no wonder that Treasury has borked at most calls for more money to be invested in the sector.

ADV. M. LEKOANE: Sorry Professor if I may just take you back to the

25 reasons for the dropout rates, at least some of the reasons, I see you

mentioned in the submission the DA submission mentions the inefficiencies in the basic education sector as one of the reasons for the high dropout rates at higher education level, can you just explain that to us.

5 PROF. BOZZOLI: Yes, most students who come from formerly Bantu education schools are unable to cope with University even when they get good matric marks, one gets the sense that they have been coached through matric and that some extremely bright and intelligent students who somehow or other have managed to do stunningly in their matric in
10 spite of poor schooling, even they flounder when they come to University because of this lack of a sense that they are being taught how to be independent thinkers how to sort of manage the student year independently without constant teaching input and so on but in our submission we mention many causes, we mention schooling, we
15 mention poverty, we mention multiple causes.

JUDGE: I ought to tell you that we had a long convincing presentation on the articulation between school and University suggesting ways of improving the position and that also would be one of the prerequisites towards pumping money in.

20 PROF. BOZZOLI: That is very interesting to hear because at the moment and over the past 20 years what has happened is more and more pressure has been put on Universities to provide this articulation, to provide mechanisms that will help the articulation but no money so Universities have had to take money from their core budget and put it in
25 things like foundation courses, extra courses etcetera and as the

budgets have been squeezed those courses have been squeezed so this is another cause of high student dropout, there is not the same level of help that should be there and the department constantly and the Minister constantly berates Universities for you know they must give more support, they must give more this, they must give more that but not a penny ever comes for it so it is taken out of their main budget.

So they are constantly juggling this main budget which is shrinking in real terms and on which more and more demands are being made to assist students who need help of all sorts. Okay so in our recommendations we asked, right so we agreed now that increased funding needs to be given but our presentation asks what should that additional funding look like and we put forward our three scenarios, partly for purposes of discussion and sort of think piece. The first one would be the pure fee free approach such as exist in countries like Germany, Scotland etcetera, there are many countries that do this but all that they pay for is the fees that is it, there fee free means literally fees are paid for.

Assuming that all other things remain equal and frozen in say the year 2016 for the state to ensure that no fees what so ever are paid by any students would cost about 14 billion per annum we guess, we estimate, more than is currently being paid to both NSFAS and Universities themselves. Now here is the problem, that 14 billion would have to come from the tax payer and most of it would go straight into the pockets of the people who have already shown that they are able to pay for their fees or another interesting aspect those who have sponsors

from company's or philanthropists and there are many such students so that 14 billion would go straight back to the people who are able to pay the fees or who have had them paid for them. We believe this is not an ethical solution in a relatively poor economy in times of economic
5 scarcity.

COMMISSIONER KHUMALO: Sorry Professor is this 14 billion only for tuition and not extra costs.

PROF. BOZZOLI: Only for tuition. Our first scenario assumes only tuition. And because many times you do hear students mentioning aah
10 well they do it in Germany, they do it in Brazil, they do it in whatever, that is what they do there they only pay the fees. This leads us to our second scenario so we think the first scenario is ethically unsupportable, the second scenario is what we call the full cost approach, now what we have done here is we have said let us assume the completely the other
15 end of the spectrum and that is everything is paid for by the state, everything, so we have included in there all the costs for a student to be at University, accommodation, transport, books whatever, all the costs
...[intervenes]

JUDGE: I take it you do not include family support?

20 PROF. BOZZOLI: No.

JUDGE: Because some people would say that everything includes family support.

PROF. BOZZOLI: Oh no.

JUDGE: Oh yes.

PROF. BOZZOLI: Well I would not endorse that no.

JUDGE: Well I am just warning you that they are telling you that there have been a number of representations which have suggested this.

PROF. BOZZOLI: Well this really is turning the University into a welfare
5 system rather than an educational system.

JUDGE: This may be but I must tell you that there are a number of people at ...[inaudible]

PROF. BOZZOLI: Ja it is a sign of the dreadful poverty which confronts us.

10 ADV. M. LEKOANE: And Prof on the scenario 2 is it for those on the system or is it for everyone, who is the scenario 2 for?

PROF. BOZZOLI: Everyone.

ADV. M. LEKOANE: Everyone.

PROF. BOZZOLI: Ja.

15 JUDGE: Well I do not, I must say nobody has advocated for family support for everyone but for those who cannot afford family support is certainly an item which has been ...[inaudible]

PROF. BOZZOLI: Yes, I think that would not be something we would support. Okay this would also include enough money into Universities to
20 make it unlikely that they will need to put this kind of pressure on fees again because we believe that ideally that would be part of the package of full cost and it would help satisfy one of the big demands made by students which is broader access to accommodation, one of the reasons why accommodation is so scarce is because the funding has not been

made available for it.

ADV. K. PILLAY SC: And Prof may I ask, the R9.5 billion which you have allocated in this scenario to additional infrastructure is that new infrastructure or is it maintenance of an existing infrastructure?

5 PROF. BOZZOLI: That is new infrastructure and I think we do refer to a document where that amount was mentioned.

ADV. K. PILLAY SC: And have you done a costing exercise of what it would take to ensure that existing infrastructure is brought to the level it should be?

10 PROF. BOZZOLI: That is also in our document but I am afraid I do not have it.

ADV. K. PILLAY SC: The actual submission.

PROF. BOZZOLI: Yes it is actually there yes. There was a survey done by the department on what it would cost and then we have also
15 estimated additional accommodation particularly as a need.

ADV. K. PILLAY SC: May I just ask, the numbers which you aim to cater for under scenario 2 does that mean each student gets full cost of studies, so each student will be provided with accommodation.

PROF. BOZZOLI: No I think in that one we have eliminated the fee free
20 for everyone, just let me check, oh inevitably that page is missing from my copy of the presentation, so in the second scenario we have got number of students supported, no, no it does include all students who need support including the missing middle estimated, it does not include students who can pay.

ADV. K. PILLAY SC: So it is the poor and the missing middle.

PROF. BOZZOLI: Yes.

ADV. K. PILLAY SC: Alright and the definition you have used for the missing middle is the same definition that the ...[intervenes]

5 PROF. BOZZOLI: At the moment in this section it is simply a guess and I do not think anybody knows how big the missing middle is and it is a point we have made in our submission that a proper estimate needs to be made of that, there seems to be no, nobody knows how big the missing middle is.

10 ADV. K. PILLAY SC: And the test I propose to identify the missing middle?

PROF. BOZZOLI: A means test, I know there have been objections to that but I do not see any alternative.

JUDGE: Well that does not bear any relation then to the people who
15 actually cannot afford it because there may be missing middle people who can afford it and there may be people above the missing middle who cannot afford it depending on family circumstances.

PROF. BOZZOLI: May I point you to scenario 3.

JUDGE: Yes of course.

20 PROF. BOZZOLI: Ja where we do try and address that so scenario 2 is really just, it is argument sake, it is just putting forward, look it would cost and I think our total is something like an extra 60 billion to do something really generous, you know give everyone full costs, give the Universities money, give them money for accommodation and give NSFAS more

money.

JUDGE: I do not understand you to be saying that your accommodation would be for those who are ...[inaudible]

PROF. BOZZOLI: No it would not, okay the 330 000 students that we
5 estimate would need this full funding come from our understanding of
how many students apply for NSFAS but, and are deemed eligible but do
not get funded which is I think in addition to the I think 170 000 get
funded there is another 100 000 who do not get funded so those are
automatically part of any estimate for the poor students which I think is
10 nearly 300 000 and then we included an additional small amount for
missing middle or students who are not included ja, okay.

JUDGE: Yes thank you.

PROF. BOZZOLI: Alright so the fact that this solution is so expensive
that it would cost 60 billion over and above what is already spent, in
15 other words it would bring the annual budget for higher, just for
Universities to 100 billion, it is actually an indictment of past neglect, that
is what happens when you neglect something it costs far more to rectify
that neglect 20 years later than it would have done to pay adequately all
the way through as they found in Eskom I think.

20 JUDGE: One of the things you do not in relation to this scenario
although you provide for infrastructure is you do not provide for an
upgrade in teaching costs, either in numbers or in costs, incomes in
other words.

PROF. BOZZOLI: Yes in teaching income.

25 JUDGE: Yes well there is no provision made for improvement in salaries

of educators for example.

PROF. BOZZOLI: No there is, there is, that is the middle proposal has an increase in the subsidy now the point of that increase in the subsidy is salaries.

5 JUDGE: Okay.

PROF. BOZZOLI: And other basics that are not at the moment are not being catered for.

JUDGE: Do you take into account the possibility of the need to provide increased, what is the word, educators because of the increase in
10 student numbers?

PROF. BOZZOLI: Absolutely, that is the essence of our ...[intervenes]

JUDGE: Is that also built into this?

PROF. BOZZOLI: Yes.

JUDGE: Thank you.

15 PROF. BOZZOLI: That is the essence of our presentation ja. So in our third scenario ...[intervenes]

ADV. K. PILLAY SC: Professor sorry before we move to the third scenario, I just need to understand the numbers that you used in your second scenario.

20 PROF. BOZZOLI: Yes.

ADV. K. PILLAY SC: Now in terms of the number of students who you cater for in your second scenario, you have referred to 350 000 students but we know that in the ministerial task team report they quantify the number of poor and missing middle students at 500 000 so I just wanted

to understand how did you arrive at 350 and what test did you use to get to that number of poor and missing middle students?

PROF. BOZZOLI: Okay I think it was an estimate, ja I think it was an estimate.

5 ADV. K. PILLAY SC: Because that does link then to second amount, are you estimate your cost of just your fee income at 26.63 billion for poor and missing middle, I think the Ncasana report is working on an estimate of 42 billion so just an explanation for why there is such a big variation between the two estimates of costs of covering the tuition fees of poor
10 and missing middle students?

PROF. BOZZOLI: Well so much has already been paid by NSFAS and Universities are helping students with millions, all our amount is, is the gap, theirs might be the full amount.

ADV. M. LEKOANE: Theirs is the full amount for tuition fees for poor and
15 missing middle.

PROF. BOZZOLI: Yes, no ours is the gap between the old amount and the new amount. If you look at our scenario 1 we assume that 9.63 students a billion is already being put into students and then an extra 14 billion would be required for the additional subsidy so it still comes to
20 less than the amount you have proposed, it still only comes to 23, 24 billion but it is not the 14, so the 14 is the gap and the 9.53 is what NSFAS gave that year.

ADV. K. PILLAY SC: No I understand that.

PROF. BOZZOLI: The year we calculated this for.

ADV. K. PILLAY SC: So in scenario 1 where you refer to simple universal fee free for those currently in the system.

PROF. BOZZOLI: Yes.

ADV. K. PILLAY SC: Those are referring to NSFAS students?

5 PROF. BOZZOLI: Yes currently yes, only NSFAS students.

ADV. K. PILLAY SC: Yes.

COMMISSIONER KHUMALO: Prof ...[intervenes]

PROF. BOZZOLI: This is why we have said 170 000 ...[intervenes]

COMMISSIONER KHUMALO: Prof before you move from the slide, we
10 have heard a lot of evidence about the state of readiness from basic education of the intake of, and then there has been suggested teaching aids and programs that would be necessary to equip the success rate other than the access rate.

PROF. BOZZOLI: Right.

15 COMMISSIONER KHUMALO: So where do we find it here because it would appear that it also needs the substantive grounds.

PROF. BOZZOLI: Well if the University subsidy goes up in our scenario 3 we are putting it up to 42 billion from 27 billion, we are saying that out of that increased subsidy and that is why I like to move to scenario 3, out
20 of that increased subsidy will be able to be paid things like assistance for poor students, better salaries for Staff, remember that the governments job is not to ringfence funding give to Universities, the governments job is to give them the subsidy they need, the Universities will then decide on what they spend it, they are independent bodies and so that is why a

global figure like 42 billion or in scenario 2, 48 billion is given because the Universities will then put it in the areas in which it is needed. It is fine for the government to make recommendations, they can say we recommend that you should have foundation courses and then that extra
5 subsidy will be able to pay for it. So we have budgeted for a generous extra subsidy for precisely those reasons of the things that cannot at the moment be paid for.

PROF. BOZZOLI: And this is for all varsity despite the size and the offerings, this is a global figure for the whole sector because we have
10 simply worked on the existing subsidy and an increase on that existing subsidy based on our estimate of how much infrastructure is still needed, how much Staff salaries are lagging etcetera, I have not presumed to differentiate between Universities.

COMMISSIONER KHUMALO: Can you later on, maybe when you are
15 finished with scenario 3 maybe just give us your thoughts on the autonomy, I just heard you mentioning it now or varsity?

PROF. BOZZOLI: Yes, alright okay so we now come to our scenario 3 which in a way I suppose the other two scenarios were put up for contrast sake. What we tried to do in our third scenario is address the
20 main issues without the enormous costs entailed in scenario 2, our feeling is that those costs are not likely to be obtained and that if the commission puts forward costs of that scale I just do not think it is going to be perceived to be a realistic ...[intervenes]

JUDGE: Well the first thing that struck me is that you do not provide the
25 9.5 billion for infrastructure in scenario 3 and I wondered why because

why do you not need it?

PROF. BOZZOLI: Well something has to go in order to make it affordable.

JUDGE : But is this not one of the prerequisites to fee free education
5 that you should not only have the fees paid but that you should have all
the things which are necessary to make a student successful available
and one of those things is surely adequate infrastructure.

PROF. BOZZOLI: Yes you need adequate infrastructure and you can put
the 9 billion back in, in which case instead of being 20 billion it will be 30
10 billion, yes these are simply illustrative scenarios, these are not models
to be taken as they are, they are illustrative scenarios.

JUDGE: No, no I understand but I am trying to work out why you would
have leave the 9.5 billion out which seems to be a necessity to me.

PROF. BOZZOLI: Well then that is fine, if it is a necessity then that
15 scenario would have to be adjusted but it is simply put forward to show
what you could achieve with a far smaller, how, let me explain the
scenario and then I will come back to that point what does it meant to, it
is meant to restore the balance between the different sources of
University income and that balance must be restored back to the old
20 40/30/30 relationship, it also will assist poor students in a more
comprehensive manner and we speak out quite strongly in our
presentation about the uselessness of giving students a partial package
if they need a full package. We speak out very strongly against that and
we think it is also one of the factors that leads to failure by the students.

25 ADV. K. PILLAY SC: Prof Bozzoli before you continue may I just ask

how does the number of students covered by this scenario drop from 350 scenario to 330 in scenario 3, in other words why is there a reduction by 20 000 and the number of students covered, what is the difference in the two tests?

5 PROF. BOZZOLI: Okay the first scenario 2 is based on the government idea of there is a thing called the missing middle, we actually reject that, we do not think it is a useful category at all, that is why we have put forward our three tier scale of funding and we found this in some other countries that is what is used, Italy being one, the awarding of funds to
10 students is done according to the amount the family earns. Now the advantage of this is firstly you know how much money you are going to get if your family earns a certain amount and secondly you know it in advance, you do not find out three weeks after you have registered which is what currently happens, absolute disaster for students not to
15 know while they are registering, find out later and then some find out they did not get funding and they go into debt so what the scheme will do, it will have a means tests and it will decide what bracket of funding you are in, now please take the brackets we have put here as illustrative, they are not intended to be the final brackets but they are illustrative, we
20 have just said if you earn between nought and, sorry let me just find it.

ADV. K. PILLAY SC: I think it is 150 000, it is the previous slide.

PROF. BOZZOLI: Right, if you earn between nought and 150 000 a year you will get full cost of study. If you earn between 150 and 350 you will only get 66 percent of the full cost of study and 350 to 500 you will get
25 33 percent of the full cost of study.

COMMISSIONER KHUMALO: Sorry Professor may I just ask, why is the cut off for cost of study at 150 on the current NSFAS at 122?

PROF. BOZZOLI: As I say these are illustrative, these are simply illustrative but we do believe, well you should know that the NSFAS cut-off is shockingly low, far too low, I mean it stayed the same for 15 years while inflation has proceeded at pace so that should have been adjusted, inflation adjusted every year anyway, it will probably be higher than 150 if you were to take the real value of 120 000 as it was when it was first introduced and put it up now I guess it would be higher than 150 so our cut off at the moment is illustrative and that is where you would get 100 percent funding which would be somewhere around R75 000 a year because that would cover fees and your accommodation and maybe some books.

ADV. K. PILLAY SC: Professor I accept that the amount used here is illustrative, the 150 000 but has the DA adopted any position on what the amount is to identify the poor?

PROF. BOZZOLI: Well.

ADV. K. PILLAY SC: Just to assist the commission because this is one of the issues which we will be looking at.

PROF. BOZZOLI: No I do not ...[intervenes]

COMMISSIONER ALLY: I suppose if you have it, it is simple to say you have not, not that you will not.

PROF. BOZZOLI: No we have not but I suppose this was a sort of an attempt at it, it was an attempt at it but it certainly not definitive, I do not think it can be done definitively without proper research into cost of

living.

JUDGE: A poor person is somebody who cannot afford what he needs.

PROF. BOZZOLI: Yes.

JUDGE: Now that depends on all sorts of factors.

5 PROF. BOZZOLI: Ja so I think it would require some sort of economic,
economist to decide, it is not something that is, why I am slightly balking
at the question it is not something that you have a political line on if you
see what I mean, this is an issue of science, it is an issue of working out
below which threshold it would be impossible for that family to pay
10 anything towards their higher education.

JUDGE: Ja well I am not sure whether impossibility is a measure of the
poor I should have thought it reasonable ability to pay was, if you fall
below the reasonable ability to pay.

PROF. BOZZOLI: Reasonable ability to pay, that is fine but how do you
15 calculate that level it is certainly not a matter for politicians to
...[intervenes]

JUDGE: Ja well it obviously depends on every persons own
circumstances.

PROF. BOZZOLI: Yes so my hesitation is more to do with the fact that I
20 do not know whether that is the, we could throw out a thing and say this
is the DA's thing but I do not think it should be done that way so that is
why I have emphasised the illustrative nature of these figures.

COMMISSIONER KHUMALO: Okay sorry on those figures as well you
were saying on scenario 3 something has got to go and the question was

asked why zero here so is it an alternative that those who can already afford fees they also have zero so is it a determinable factor what goes what does not in your illustration?

PROF. BOZZOLI: I think what the three tiers are designed to do is to
5 find a way of supporting as many students as you can without it costing
as much as NSFAS has been spending at the moment on students and if
you only give a student who earns over a certain amount, a third of what
the costs are, so that student would get something like R25 000 or R30
000 a year, you actually expanding the number of students who can be
10 supported and you are not giving partial support to people who really
need full support, you are actually saying to that family we expect you to
contribute two thirds of the costs and we the state will contribute a third
so the aim of those is to allow more students to be covered.

COMMISSIONER KHUMALO: So on cross-subsidisation how do you
15 feel about that, the richer kids are subsidising the poor kids?

PROF. BOZZOLI: Oh absolutely the rich students do not even appear in
these three scenarios, they are above 500 000 they pay the lot so it is
the lower tier gets a full fee, the middle tier which we do not think should
be called the missing middle anymore, the middle tier gets 66 percent of
20 what it costs and the upper tier gets 33 percent and those who can
afford it pay the full amount, they are like in a way the fourth tier, they get
nothing.

JUDGE: For clarification, your 66 and 33 is that, are we now talking
about a total grant without any obligation to repay?

25 PROF. BOZZOLI: That is a different question.

JUDGE: Well no wait a moment, if it is 66 percent I do not see how it can be any different from 100 percent if there is a loan obligation because if you have a loan for the other 33.3 percent then you, well sorry let me put it this way, if your 66 and your 33 lead to a scenario
5 which is somewhat similar to what the presidential task team has produced.

PROF. BOZZOLI: Yes it is.

JUDGE: As I see it that on their ...[intervenes]

PROF. BOZZOLI: The poorer you are the more money you get.

10 JUDGE: Yes on their graph there is a reducing proportion of entirely grant fee or entirely free students, the more money you get the more, the greater the proportion that you have to pay yourself and that is what you are proposing here?

PROF. BOZZOLI: It is what we are proposing, the reason why we
15 propose brackets is for simplification of admin because I fear that sliding scale thing is going to be almost impossible to manage whereas simplification like this might be you know a better way to administer it.

JUDGE: Alright.

COMMISSIONER ALLY: Perhaps we should muddy the water a little
20 more, the issue of household income does not take into account the number of children you have at the University and there is different responses to that particular question, from your point of view one person, one household earning 500 000 with one student should they be judged or should they be measured in the same manner as a household with
25 three children.

PROF. BOZZOLI: All at University.

COMMISSIONER ALLY: Correct.

PROF. BOZZOLI: I absolutely see no reason why some concessions should not be made for that that the second child is in some way slightly
5 assisted and the third you know slightly assisted, I think some sort of sliding scale could be developed for that but you know once again you come to the administration of these things, the amount of you know affidavits and the complexities around administering frighten me.

JUDGE: It has already become apparent to us.

10 PROF. BOZZOLI: Yes.

JUDGE: That students are quite willing to commit fraud in order to bring themselves within the limits.

PROF. BOZZOLI: Yes so what I am suggesting is the simpler the scheme the less likely it is to be vulnerable to fraud and also that the
15 missing middle is too broad a category, it needs to be divided into even smaller category which is like our middle and our top.

COMMISSIONER ALLY: Well let us forget about those categories are missing, at the moment all I am interested in is whether we should be talking about the household income and not taking into account the
20 students themselves because students have come here and expressed the view that it is unfair on them that you are using a measurement that does not include them necessarily to disadvantage them and that is why I am asking whether you have got a position ...[intervenes]

PROF. BOZZOLI: I have answered you on that, I have said I see no

reason why some concessions should not be made for a second and third child but I would like to be convinced of the administrative feasibility of that, if you were to make a recommendation I would strongly support making it saying subject to administrative feasibility being demonstrated.

5 JUDGE: Does your flexibility extend to dependent grandparents, suppose you have an extended family living together and you not only have the three children at University but you have two dependent grandparents or four dependent grandparents that could be the case.

PROF. BOZZOLI: Yes, no we all know that every income in a township
10 household supports up to 15 people, it is called jokingly the black tax, it is an enormous problem and I am not sure whether you are not entering an absolute minefield of complexity if you start doing this ...[intervenes]

JUDGE: Well it has been seriously argued to us.

PROF. BOZZOLI: It may have been seriously argued to you but you do
15 need to think about how viable such a proposal is to take on board.

JUDGE: We maybe are.

PROF. BOZZOLI: Ja.

JUDGE: Yes thank you.

PROF. BOZZOLI: Okay.

20 ADV. K. PILLAY SC: Professor before you continue I am just trying to understand the amounts allocated for the University subsidy over the three scenarios, so the second scenario you see substantial increase in the University subsidy, is this to accommodate the student accommodation?

PROF. BOZZOLI: And extra salaries for staff or extra staff and also the mounting of additional classes for students who need them, foundation courses etcetera, at the moment those are not paid for.

ADV. K. PILLAY SC: Okay and then from scenario 2 to 3 you see a
5 decrease in the University subsidy but not a very substantial decrease.

PROF. BOZZOLI: Yes, that is simply trying to pair scenario 3 down to 20 billion so we set ourselves the task of saying can this be done for an additional 20 billion rather than the massive 60 or 80 whatever billion people are coming up with, if you are going to add an extra 20 billion
10 what could you do with it and we are saying you could expand the number of students covered although not totally, you would have to differentiate between degrees of coverage, you could increase the University subsidy although not as much as you would like and you would have to forego massive maintenance inputs although the extra
15 subsidy going to Universities could be used for maintenance some of it, so it is not as if that would be non existent, so for an extra 20 billion we are saying you can do quite a lot, you can do quite a lot more than you would think and we think it could be done.

ADV. K. PILLAY SC: May I just ask, these third scenario caters for 330
20 students and the coverage you say is sustainable in-depth coverage for the poor, now specifically in respect of accommodation under scenario 3 who receives free accommodation?

PROF. BOZZOLI: Nobody receives free anything, you receive a lump sum, the costs are calculated, let us say it costs 80 000 to have the full
25 support for a student, you would then receive a third of that if you are in

the top bracket, none of it if you are in the super bracket and all of it if you are in the bottom bracket so you would get a grant not this would be covered that would be covered, you would just get a grant, this is your grant.

- 5 ADV. K. PILLAY SC: Okay and so assuming you in the 100 percent coverage bracket, your grant would cover full cost of study.

PROF. BOZZOLI: Yes.

ADV. K. PILLAY SC: Irrespective of what the full cost is.

PROF. BOZZOLI: Yes.

- 10 ADV. K. PILLAY SC: Depending on the University.

PROF. BOZZOLI: We know that there are variations but it would have to.

ADV. K. PILLAY SC: And then for a student in the second ground who cannot afford accommodation?

- 15 PROF. BOZZOLI: The students in the second charge will be getting two thirds of the amount they need so it is assuming that they would only have to pay in one third and their family income is presumably sufficient for them to be able to do that.

- ADV. K. PILLAY SC: Alright so the students in the 66 percent category
20 they would be required to pay the third.

PROF. BOZZOLI: The remaining third they would have to pay themselves and then the 33 percent they are simply getting a third towards because their families can afford it.

ADV. K. PILLAY SC: And so I just want to understand in scenario 3 there

is no NSFAS at all I mean this is the complete support.

PROF. BOZZOLI: This is it.

ADV. K. PILLAY SC: Okay.

PROF. BOZZOLI: It is a much simpler more streamlined way of doing
5 things because NSFAS has now become so complex that I do not know
whether it can be fixed, you asked me earlier for comments on the new
scheme, the complexity of it is such that it will need ...[intervenes]

JUDGE: I am sorry there are two new schemes.

PROF. BOZZOLI: Oh okay.

10 JUDGE: There is the student centred scheme.

PROF. BOZZOLI: Yes, no I am talking about the Ncasana new scheme.

JUDGE: Which is the do away with NSFAS in its present form.

PROF. BOZZOLI: They also say do away with it right.

JUDGE: Yes I see.

15 PROF. BOZZOLI: The student centred scheme actually has been
around for years, they have been trying to introduce it I think for about
four years and failing.

JUDGE: Yes but they had only recently succeeded in introducing it as I
understand.

20 PROF. BOZZOLI: Well have they?

ADV. M. LEKOANE: Or so we were given to understand.

PROF. BOZZOLI: Well not from what students are telling me, they are
not getting their money, they are not being informed and NSFAS recently
had a meeting with several Universities trying to work out a way of

dealing with the fact that it had not properly been implemented.

COMMISSIONER ALLY: I think the issue is there was a pilot on the student centred scheme.

PROF. BOZZOLI: Correct.

5 COMMISSIONER ALLY: The implementation of that would have been taking place according to the evidence and presentation given to us by the CEO and the CFO about the student centre scheme and the flow chart of how it would be implemented and we saw good thing within it especially with regards to recovery of the loans that have been given.

10 PROF. BOZZOLI: Correct and also it does tackle corruption quite well.

COMMISSIONER ALLY: So these were the new dimensions that were brought in until Mr Ncasana came and gave his report and said well actually that is my interpretation of what was given is that you know NSFAS in this new student centre it will be phased out also in any event.

15 PROF. BOZZOLI: Yes.

COMMISSIONER ALLY: So that was and the Chairpersons indicating so NSFAS has the student centre model which is being implemented this year according to them, that is this year, going along there are those teething problems and misunderstandings and breakdown in
20 communication, there is also a pilot of what they call Isfab the presidential task team proposal so but as we, as I understand it NSFAS student centre model is supposed to be implemented at the Universities they are supporting in 2017.

PROF. BOZZOLI: Correct that is what has not happened, they come to

you with lots of plans and we are going to do this and we are going to do that and inevitably what happens is that those plans do not get implemented either on time or even at all and it is partly because NSFAS was designed 20 years ago and although they may have added staff and
5 increased staff and everything it is basically the, an acronistic organisation based on needs of long ago when the budget was 2 billion or something, less so it is body that really cannot cope with what it is expected to do.

JUDGE: Would you at the end of your presentation be kind enough to
10 give us your views on the ministerial task team proposal?

PROF. BOZZOLI: If you tell me what about the ministerial, I have finished my presentation, I mean I had all other things to say but they are not, you know they were a little bit redundant given that you already have heard them all.

15 JUDGE: Well one thing that I would like to know about is what is the DA's attitude to student loans or to repayable obligations, let me just put it that way.

PROF. BOZZOLI: Yes, well we support loans but we do think they should only be repaid when you get a job.

20 JUDGE: Do you support loans from the absolute bottom up or from a particular level?

PROF. BOZZOLI: Well at the moment what happens is that you get a loan and you can convert it to a bursary if you succeed, that seems a good scheme, it incentivises people to succeed and presumably it
25 pushes up or pushes down the dropout rate so that would seem to be a

good scheme.

ADV. M. LEKOANE: Sorry Professor that would be a portion of the loan that would be converted into bursary you advised I thin 40 percent.

PROF. BOZZOLI: Yes, well that seems a good idea but you cannot
5 expect someone to repay a loan if they cannot and to me that is where, that is the end that the real problem lies.

JUDGE: Take it from a political point of view which you probably very much better at than we are, what is the attitude of the students going to be if a recommendation is put up that all monies advanced should be
10 repayable at a later date when they are able to do so or even a large portion if not all?

PROF. BOZZOLI: Yes it depends who you mean by the students.

JUDGE: Well I think ...[intervenes]

PROF. BOZZOLI: I think there are at least eight groupings.

15 JUDGE: Well let me just say what will the reaction be?

PROF. BOZZOLI: Well I think some groupings, those who are in favour of fee free will object to anything you propose because you are presumably going to propose some fees somewhere along the line so they will not be able to accept that so I do foresee problems ja but do
20 you not fee you have to propose what is right?

JUDGE: Oh yes certainly.

PROF. BOZZOLI: And take the fiscas into account.

JUDGE: Yes of course.

PROF. BOZZOLI: So if you were to say loans to be converted to

bursaries on success and only to be paid back when you are working surely that is quite a generous move towards the student side.

JUDGE: Well I would have thought so but a student might not necessarily think so.

5 PROF. BOZZOLI: Ja.

JUDGE: And I have got to try to understand his view point.

PROF. BOZZOLI: Yes of course.

JUDGE: But I hear what you say thank you.

COMMISSIONER KHUMALO: Prof on the second slide in your
10 presentation given what is being discussed and what the Judge is asking, should we anticipate maybe student fees if their repayment to increase maybe on the next research because this was last done in 2014, is it still a second stream the repayments or it is a repayment to ...[inaudible] do you think it will come back as fees to varsities?

15 PROF. BOZZOLI: Sorry I am not sure, which is the second slide, is that the one about the repayments going down.

COMMISSIONER KHUMALO: Sources.

PROF. BOZZOLI: Oh the sources, so if University subsidies go up which is what we are proposing in our second and third scenarios, we do not
20 believe fees will have to be increased by as much as they have been over the past 10, 15 years and I think that would be a huge gain because at the moment Universities are using fees to cover the costs that are not being covered anywhere else and if those costs were now covered fees would not have to be increased as much.

COMMISSIONER KHUMALO: Is this percent not influenced as well by maybe who can afford and who cannot afford, other than the subsidy per say.

PROF. BOZZOLI: I do not think so, I mean I think, well I know that in
5 several Universities that I am familiar with huge and intensive negotiations take place around fees and no University is going to get away with putting them up any higher than is absolutely hundred percent necessary and they have to prove that to their students and to their staff all of whom are watching very carefully what their fee increases are but
10 every single time the University is able to show that without that fee increase thing are going to have to be cut in the University that nobody wants cut like staff, academic staff for example.

COMMISSIONER KHUMALO: Just follow up, so in terms of what I had asked that you speak to us about the autonomy are we able to regulate
15 this pay University?

PROF. BOZZOLI: Well Universities are autonomous and they should be autonomous and they need to be autonomous, they cannot be captured by the state, they are autonomous institutions I would say similar to our chapter 9 institutions, they require independence in order to pursue their
20 tasks properly. Nevertheless autonomy with social responsibility is something that is in our constitution, the Universities they are defended as autonomous but the very first higher education Act after 1994 says very clearly that that autonomy should be balanced by social responsibility to the social world and I think in that respect the state, the
25 department is able to influence and shape what it is that Universities do

with their money and has done for all this time, they issue policy guidelines, they issue proposals, they workshop them with the Universities and the CHE takes part in those workshops and advises so there is a very complicated and well designed systems set up in place to
5 have a relationship between state and University without it being state capture as it were, the role of the CHE is very important in that, it is the buffer between the two levels of society, state and University and its job is to interact and to provide the middle ground between the two so that is why the Minister is very keen always to talk to the CHE and bring it on
10 board in anything he wants to do.

So a lot of what happens in Universities is a matter of negotiation rather than decree, we do not have a kind of Donald Trump like situation where the Minister signs an executive order and says from now on Universities are going to do X there is rather a negotiation and a
15 discussion and a democratic sort of series of relationships.

JUDGE: Yes I think our mandate says something about breaking down walls not building them up.

PROF. BOZZOLI: Well I think that is what the CHE's job is, it is to break down walls and to provide this channel of communication so that the
20 state is not constantly held at a distance, it is actually engaged with but in regards to is engaged with in a slightly buffered way rather than the Trump like wall.

ADV. K. PILLAY SC: Professor just to pick up on slide 2 where you demonstrate over the period 1994 to 2014 the decline in government
25 subsidy and the increased reliance on student fees and on third stream

income.

COMMISSIONER ALLY: That was the one you had previously Prof.

ADV. K. PILLAY SC: I think it is the slide before this.

PROF. BOZZOLI: The graph or the?

5 ADV. K. PILLAY SC: No, no, no the slide yes, ja this is the correct one.

PROF. BOZZOLI: That one.

ADV. K. PILLAY SC: Ja that is right, now the department has given evidence before the commission and it has very carefully explained its policy position regarding the decline in government subsidies over the
10 period of time and the explanation that has been put before us is the following and that is that government has decided to increase its NSFAS allocation so that it specifically targets poor students and that is the reason why money has in a sense been moved from University subsidies to NSFAS allocation so that it ensures that its money is targeted towards
15 poor students.

PROF. BOZZOLI: Okay let us assume that we are Eskom and we have a whole lot of power stations which are about to collapse and the government decides that there is a problem in Eskom and what it is going to do is it is going to pay everybody's electricity bills, will that help
20 that power station that is about to collapse, no it will not so paying the student fees is actually not providing the Universities with the money they need it is not, it is simply paying them the money they are owed, they are due, that is part of their budget.

ADV. K. PILLAY SC: I think what is different from your Eskom example

Prof is that the government continues to pay subsidies to Universities it has just kind of tapered off those subsidies and buffered up the NSFAS allocation because it feels that not sufficient money is going directly to poor students.

5 PROF. BOZZOLI: Yes but not sufficient money is going to the Universities either. I feel extremely strongly that if this commission does not take on board the issue of University subsidies you are really going to not solve the problem of fees in the future, they will continue to go up and I have sat in University budget meetings where it has been like
10 ringing you know a dry rag to see if there is any water left in it because the money is so short.

ADV. K. PILLAY SC: Will you propose that money be redirected from NSFAS to University subsidies or that additional money be put into the system?

15 PROF. BOZZOLI: Additional money, first of all you can, I do not want to use the word dilute but you can slightly manage the high degree of NSFAS funding by the graded way in which we have proposed because those students who earn, whose families earn a reasonable amount do not have to get a big NSFAS grant they can pay for some of it but you
20 have to have a lump sum increase going into Universities.

COMMISSIONER KHUMALO: Prof on the task team report there is a recommendation of the use of the SIBS, do you guys, do you have a position on that, are you familiar with that ...[intervenes]

JUDGE: Well can I ask you, can you deal with that when we are finished
25 with your report, I would like you to deal with the task team report but

there are other questions that I for one have got in relation to what you have already said.

PROF. BOZZOLI: Yes.

JUDGE: Which I would rather deal with first if you do not mind.

5 PROF. BOZZOLI: I do not mind.

JUDGE: Okay is that fine, we will come back to that part of the other question.

PROF. BOZZOLI: Go ahead.

JUDGE: Have you got any questions. Now the question I asked you is
10 where is this 20 billion to come from because that is really one of the essential questions we have to answer?

PROF. BOZZOLI: Yes, we did propose in last years budget as the DA that there were three items of expenditure which we believed were unnecessary, the first was 10 billion in total for the leer jet for the
15 President, exorbitant expenditure on our foreign missions, we have more foreign missions that any country in the world, more than any country in the world, I think except the US, the Bricks Bank which we think was an unnecessary thing and we had to put billions into, a hiring freeze in non essential departments and exorbitant VIP protection so those billions we
20 believe can be found. We also think public private partnerships can be looked into, now public private partnerships are not the same as third stream income, third stream income is really money raised for the University, a public private partnership would be a relationship between say a company or even another private teaching institution and the
25 University so the University could perhaps outsource some of its

teaching to a private college or it could persuade a company to pay for the basic costs of running chemistry 1 rather than for five undergraduates in chemistry masters which is what the moment what you get.

5 So you could develop public private partnerships and I do believe improved efficiency if NSFAS can generate additional funds so the proper streamlining of NSFAS is absolutely vital to this whole exercise and I cannot believe that it cannot be done more cheaply per head you know not more cheaply than it is being done now because I
10 think more money will need to go into it but you will get more bang for your buck if NSFAS is properly streamlined and turned into a very smoothly functioning organisation. So those are our suggestions at the end of 2016 they would have to be re-looked at say at the end of 2017 when the new budget comes in but we believe there is money available
15 in the state budget and it could be used.

JUDGE: May I ask you something which we also put to your student organisation when they came, they also raised the question of embassy and I said I thought ...[inaudible] the Chairman of your student organisation although the person who was doing the presentation that
20 would, could they please give us some information upon which we could work other than merely saying that we waste all this money in the embassies and we have far too many embassies, you will appreciate we are essentially looking into an educational question and to do an investigation into South African embassies will be a very big venture
25 outside of what would be thought to be part of our normal investigation.

PROF. BOZZOLI: Should I, I mean I can simply get a list of all the embassies and the cost and that should give you the basic point that we are making.

JUDGE: Well without some sort of guidance.

5 PROF. BOZZOLI: It is comparative cost.

JUDGE: Well yes without some sort of guidance to justify the proposition that these monies are being spent, we are really waving in the dark.

PROF. BOZZOLI: Yes.

10 JUDGE: We might believe that there is an awful lot of money wasted there but to have some fact would help us greatly.

PROF. BOZZOLI: With pleasure, we actually have that information.

JUDGE: Well that would, it is worth having thank you.

PROF. BOZZOLI: I will do that.

15 JUDGE: Then what do you say about the unemployment insurance fund?

PROF. BOZZOLI: The what?

JUDGE: The unemployment insurance fund which I heard from a government spokesman recently has R126 billion in it.

20 PROF. BOZZOLI: Well government is very keen on raiding funds that are meant to be for worthy causes.

JUDGE: Yes but if one compares what is being spent on fund payouts and compares it with what is being received all one finds is that the fund is going up and up and up, the reserve is going up and up and up and

that there is no likelihood that ever anybody is ever going to need R126 billion for unemployment insurance in this country ever and sometimes when monies are growing like that one should give attention to whether they cannot be better diverted, better spent than they presently are.

5 PROF. BOZZOLI: One should but there is an ethical problem here and this is money meant for the poor, the poorest people.

JUDGE: It is meant to subsidise unemployment well what better subsidy for unemployment than to provide educated people.

PROF. BOZZOLI: Mm.

10 JUDGE: Provided you are not prejudicing those who are entitled to the benefits of the fund.

PROF. BOZZOLI: Yes.

JUDGE: And that would be an absolute first consideration naturally.

PROF. BOZZOLI: It would be slightly setting a precedent for the raiding
15 of these kinds of funds, I am thinking of the Road Accident Fund which is now virtually bankrupt.

JUDGE: I wish we could raid it I would like to do it myself.

PROF. BOZZOLI: Then the unemployment fund, then peoples pensions, there needs to be a line drawn between what you know funds are raised
20 for, maybe that fund needs to look more at what it spends its money on.

JUDGE: Well Professor Bozzoli do you not think it would be a fair way of going about it to see what is, what the annual expenditure on unemployment payouts is and to see whether any proportion of that R126 billion is ever going to be needed for that purpose.

PROF. BOZZOLI: If the unemployment insurance board were to maybe look into whether some of its money could be donated towards bursaries that might be okay but you are looking at actually overriding a board which is in charge of a ...[intervenes]

5 JUDGE: No, no, no not at all, we are looking at where monies might be made available for purpose of education and supposing one has R126 billion, even if you do not use the capital but use the interest you will have R10 billion which could be contributed to education in this country.

PROF. BOZZOLI: Yes.

10 JUDGE: Now all I want to know is whether you have given any attention to that?

PROF. BOZZOLI: I have not given it any thought, all I am expressing is reservation about the raiding of funds intended for other purposes.

JUDGE: If raiding has a pejorative meaning then you are right entirely.

15 PROF. BOZZOLI: Yes, it is just that how would one set, ringfence that as a special kind of raiding because it is for good purposes as opposed to others, how would this be identified and decided upon, who would decide upon it and how would it be justified in terms of the unemployed, I think it would need a lot of thought.

20 JUDGE: Right so, thank you that is alright. Then I just wanted to say with regard to the dropout rate in South African Universities, the dropout rate is despite the substantial number of students who are being provided with NSFAS funds which indicates that of course there is something else wrong with the system but I also mentioned to you that
25 when I was in Australia recently, just before I left there was an article in

the newspaper which said that of the 2009 cohort in Australian Universities by 2014 only 33 percent graduated the rest dropped out. Well now that is also on a system which funds students.

PROF. BOZZOLI: Yes.

5 JUDGE: It also indicates that there might be shortcomings in that system which suggests that we should be looking beyond the sheer lack of means in this country to other considerations.

PROF. BOZZOLI: Okay I mean my answer to that is 50 percent is a lot higher than 33 percent and our dropout is 50 and NSFAS students it is
10 60, according to NSFAS own study so we are looking at a substantially greater dropout rate.

JUDGE: I am sorry I said 33 percent at, I put it wrongly, 33 percent had graduated of the 2009 cohorts by 2014 so 66 percent was the dropout.

PROF. BOZZOLI: Oh I did not, I thought you said 33 had not.

15 JUDGE: I might have phrased it wrong.

PROF. BOZZOLI: Okay, that is pretty dire.

JUDGE: It is pretty dire and they thought ...[intervenes]

PROF. BOZZOLI: If the figures are comparable there is all sorts of ways of measuring you know, there is a graduation rate and there is a dropout
20 rate, those are two different things and we do have measure of our graduation rate which I think is what they have been measuring so I think we would have to compare the two figures with each other.

JUDGE: I am not wishing to draw a direct comparison I am merely suggesting that the fact that we have a lot of poor students here is not

necessarily the cause of the dropout and that there are other systemic factors which are just as important, perhaps more important.

PROF. BOZZOLI: There are systemic factors which lie in schools, they lie in schools (a) and (b) I still think the dropout rate is to do with poverty,
5 students not getting the full loan, if you need 70 ...[intervenes]

JUDGE: But NSFAS is providing.

PROF. BOZZOLI: Full, very few get a full loan, very, very few, let us say you need R70 000 and you get a R50 000 grand and you have no money in your family that student will eventually drop out because by the end of
10 their first year they will owe R20 000, by the end of their second year they will owe R40 000 and eventually they cannot register anymore they owe so much so that is a student with NSFAS money.

JUDGE: That is all very well but you know the rate of repayments at NSFAS is 4.5 percent.

15 PROF. BOZZOLI: Yes but this is why we are proposing ...[intervenes]

JUDGE: Many students do not actually care very much whether they repay or whether they do not.

PROF. BOZZOLI: True but this is why we are proposing at the very poorest level you get full coverage to reduce dropouts for that reason but
20 then we also have quite a long section there on reasons for dropouts and we think it is schooling, it is money, it is the missing middle who get no money so they really are, in a fact they are in a way the most disadvantaged and it is the lack of bridging programs and inadequacies of what bridging programs there are for financial reasons.

JUDGE: Thank you. Now can we come to the question of the DA's view if there is one or your own if you would be kind enough to let us have it, of the ministerial task team, its report was dropped on us rather like a bomb at the end of November because we had no idea that it was in the
5 offering and neither was there any cooperation with us during the course of our hearings on any of the topics they were concerned with and we really were taken by surprise. Now that is the case, the fact of the matter we have now been confronted with the report, we have had some time to think about it and what our approach to it should be but we would like
10 very much to hear what your approach is?

PROF. BOZZOLI: I cannot answer that, I would have to go back and look at it and maybe come back with a written answer for you.

ADV. K. PILLAY SC: Chair if I could just come in here, we did raise the issue with Professor Bozzoli around the fact that the submission and the
15 presentation do not deal with the task team report simply because the task team report was only released recently and we have offered Professor Bozzoli an opportunity to come back in set 8 or after that to deal specifically with the task team report.

JUDGE: Well might I put it this way, I do not think we should ask her to
20 come back I think we should ask her if she wishes to contribute anything in relation to the consideration of the task team report to let you know, would that be fairer.

PROF. BOZZOLI: Alright we will liaise about that thank you.

JUDGE: In the light of that will you ...[inaudible]

25 COMMISSIONER KHUMALO: Just two more questions Chair. Has the

DA considered or what is the DA's view regarding the use of Seta funds and whether those funds are better placed at Tvet's or Universities because I think in your submission was the commission should consider releasing those funds to the Tvet's so that you can focus the NSFAS
5 funds to Universities only.

PROF. BOZZOLI: Correct, now we think that Seta's which are kind of like the third wing of the department but are not part of your commission and I think they get R12 billion a year, they do spend up to R10 billion of that but every year there is a surplus and our proposal is that it be
10 considered that that surplus be used to fund students in Tvet's who are doing skills related courses that the Seta's like and then the money that is going into Tvet's straight from NSFAS goes to Universities so that you have a kind of knock on effect. You save money in the Tvet's by putting the Seta money in there and then that money you save can go to
15 Universities so that the, you would not want the Seta money to go to Universities it is really not appropriate, it really is for skills and also the Tvet's you know have a relationship with the Seta's already, most Tvet's have Seta offices in them etcetera so there is a relationship with the Seta's, there could well be that kind of deal if we are looking for sources
20 of funding done.

JUDGE: Well we have been give an vast amount of evidence in Tvet's the essence of which is that the Tvet's need a complete structural overhaul in relation to infrastructure, in relation to a curricula, in relation to workplace employment and a number of other factors as well which it
25 is unnecessary to mention which is going to cost a huge amount of

money, that would be on top of the R20 million that you presnetly suggested, I mentioned that not because you testified but simply to tell you that is the case currently.

PROF. BOZZOLI: Well what you are implying is that if the NSFAS, if the
5 Seta money were to go into Tvet's it could not be instead of.

JUDGE: No.

PROF. BOZZOLI: Ja it would have to be in addition to.

JUDGE: Yes.

COMMISSIONER KHUMALO: I wanted to check on the question the
10 Judge asked earlier where can you get the R20 billion does the DA have a position on how to access maybe the CSI funds in private company's, JSE listed company's and all those potential?

PROF. BOZZOLI: Okay as somebody who has done fundraising in a University for many years CSI funds are something that we do look at,
15 we used to look at and they generally are oriented towards community projects not something at the level of tertiary education, they directed towards crashers for the community or an environmental project in a community or maybe upgrading a school, I think tertiary education would be conceived of and certainly that is my experience, is something not
20 quite broad enough, something that is a little bit of an elite activity that is not broad enough for community benefit to be gained out of it and if you look at the report of any big company, CSI delivery over the previous year say you will see the kinds of things that they fund and they are not really tertiary education oriented so it would reuquire the CSI funds in a
25 way to be redefined to include something like Universities but then that

would take the funding away from these valuable community projects which get, you know get this donated money so it is not an easy answer on that one.

COMMISSIONER KHUMALO: But basically if it is redefined CSI is
5 redefined to include or remove the elitism from the University, those are potentially accessible funds.

PROF. BOZZOLI: Well I am saying in a way to redefine CSI would be a huge, I am not sure whether that would be possible, you know you are a commission you can propose anything.

10 COMMISSIONER KHUMALO: In the context of the beneficiaries being poor students, is it not a community?

PROF. BOZZOLI: You could, the thing about student funding is that it inevitably ends up being given to an individual rather than a community you know, it is not something that a community would feel that one
15 student got that funding whereas if there is a crisis or some sort of thing in a community that is far more keenly felt by the community than the student but it is worth a try, it is worth a try, I think it would be difficult.

JUDGE: May I ask what the Democratic Alliance attitude would be to something that was said to us very early in the commission and has
20 cropped up again in an article that I have given to the evidence leaders today that I read in the paper over the weekend about the British attitude to technical education and technical Universities *vis-à-vis* Universities and that is, it was said early here, that the pyramid needs to be reversed.

PROF. BOZZOLI: Right.

25 JUDGE: Which is to say that more people should be going to Tvet

colleges than going to Universities and that more emphasis should be laid upon the standard of education at Tvet colleges, the number of people who are served and the importance that the Tvet colleges should be playing in the national economy than is presently the case. If
5 necessary at the expense of the Universities and the report in the paper that I have given regard in Britain says that Britain has in fact determined that Tvet colleges or the equivalent of the Tvet should be given a far higher priority equal with that of the Universities. What is the Democratic Alliance attitude to relationship between the two?

10 PROF. BOZZOLI: Well of course they should be expanded, we all know that we are short of highly skilled labour but without the revamp that you are proposing, I am not sure whether that expansion is going to be of much use because what you will be doing is expanding poorly taught and very badly designed and dated courses, we have been to a few Tvet's
15 and what we found there was courses that were for things like the fax machine which I do not think anyone has a fax machine anymore you know or they kind of very dated and they have not been revamped so just simply expanding numbers in the Tvet colleges is not going to do the trick however a revamp and expansion would be hugely important and I
20 think the country that should be emulated there is Germany where they have a very substantial two stream program of education which goes from school to college to skills acquisition or school to University to higher education post grad and then also you can cross this way between them if you fulfil certain criteria and I think that maybe what the
25 minister has in mind you know with his articulation and all of the ideals

that he has put forward but we are a long way from that, we are a long way from that, I would say if you can persuade the government to revamp the Tvet's that is pretty good and that we should take it one step at a time.

5 However to support Tvet's at the expense of Universities is really cutting off your nose to spite your face because you have to think about the skills that Universities provide, they provide us with all our professionals, architects, lawyers, doctors, nurses, teachers all our professionals, we cannot do without Universities it is just that they are
10 different kinds of skills from plumbers and electricians so Universities are as important as Tvet's, I would not like to put a hierarchy between them but I do think we cannot neglect those Universities either, we are going to be extremely short in very keen, engineers for example we are very short of at the moment.

15 ADV. M. LEKOANE: Professor presuming that well we accept that more students should be diverted towards Tvet's, now your earlier proposal that Seta monies should be used for Tvet's and NSFAS money should be used for Universities, is there not a danger that once you agree that you move students, more students towards Tvet's now you will have more
20 students that are unfunded because the Seta's will fund those students who are in those special skills areas?

PROF. BOZZOLI: Well I do not see how you would have more students unfunded, you would presumably if you brought in the Seta money have more students funded.

25 COMMISSIONER KHUMALO: Will the Seta monies fund across the

board without linking it to a specific skills area?

PROF. BOZZOLI: Oh I see, well I think what the Judge was saying was you cannot have the Seta money put into Tvet's and the NSFAS money taken out, he was saying you have to have both so it could be that our
5 proposal is not quite what is needed but our idea was that you know NSFAS never used to give money to Tvet's at all and in fact when the Tvet's started getting money it was taken from the students in Universities so it would be correcting historical wrong to put that NSFAS money back into the students and use Seta money for the students.
10 Whether it would cover students with special skills or not that is true but you know there may be many, I think what we are going to find increasingly as we look further into the Tvet's is many students there are getting qualifications in areas that are of no use, I mean if you are getting an office qualification being an office assistant or something and
15 you learn mainly about fax machines and I do not know telex telephones or something from the 1960's you are not going to be much use in an office and you would much rather go to Rosebank college or something like that who are right up to date. So unless the Tvet's are revamped many students are going to come out with poor qualifications anyway
20 and I do not know if you have had Tvet students giving evidence here but this is one of the things they complain about.

JUDGE: Yes we have and you are quite correct.

PROF. BOZZOLI: Ja.

ADV. K. PILLAY SC: Professor on the topic of correcting a historical
25 wrong what is your submission on the level of assistance to Tvet

students and should it be full cost of study or not in other words specifically accommodation, should there be efforts made to fund Tvet students accommodation which is not happening at the moment?

PROF. BOZZOLI: It is true it is not happening at the moment and this is
5 almost entirely because of shortage of funds and shortage of accommodation, Tvet's never had accommodation so very few of them have any, I mean they are tiny institutions you know they only have up to 1000 students some of them and they will have accommodation for 100 so changing that sector is, I mean there are 50 Tvet's, building
10 accommodation for them and providing students with money to afford that accommodation is going to be huge, what you could do is, sorry just one more point.

JUDGE: No go ahead.

PROF. BOZZOLI: What you could do is pay for transport that might be a
15 better more doable thing for them to come into the college and out everyday rather than pay for accommodation.

JUDGE: You will appreciate that this whole question of whether one provides fee free education or not is really a matter of priorities and if for example one were to determine that the revamping of the Tvet structure
20 was a major priority and more important than providing fee free education for students at University, and I am not saying that is the case but it is conceivable that one might take such a view given the evidence that we have heard from witnesses, it may mean that all the priorities are cast, are directed towards providing the necessities and that the fee
25 free education might have to wait.

PROF. BOZZOLI: I think I opened by saying I do not, we do not support fee free education, we support the remodelling of NSFAS basically and an increase in subsidy to Universities, that is the basics of our proposals, remodelling of NSFAS is streamlining it, increased subsidy and then
5 along with that should be going a revamping of Tvet's but Tvet's revamp will take 10 years it is a longer term proposal, what we are proposing is a shorter term proposal, it could go alongside a longer term one in relation to the Tvet's.

ADV. K. PILLAY SC: And then performance how do you deal with the
10 philosophical basis underlying the claim for fee free Higher Education and Training and that it is really three fold, the first is that it is a constitutional right to fee free Higher Education and Training, the second is that it is a public good and not a private good and the third is that there should be de-commodification of higher education so that everyone
15 can access it equally.

PROF. BOZZOLI: Okay I have answers on all three of those, what was the first one?

ADV. K. PILLAY SC: That there is a right to fee free education.

PROF. BOZZOLI: Right, that is not true, both the constitution and the
20 freedom charter say the right to access to higher education should be expanded gradually, there is nowhere where it says it should be fee free.

JUDGE: Well it has been pointed out to me that we are party to a convention which provides that we agree to fee free education, higher education.

25 PROF. BOZZOLI: What convention is that?

ADV. K. PILLAY SC: It is the ICE SCR, I think there was a condition attached to it but that is essentially the argument that has been made on behalf of students.

PROF. BOZZOLI: Well fine, I do not agree with it and I do not think and
5 presumably as lawyers you are all perfectly aware that it is not a constitutional right. And then the second one is?

ADV. K. PILLAY SC: That higher education is a public good and not a private good.

PROF. BOZZOLI: Okay I have actually published something on that
10 where I talk of higher education as both a public and a private good. It is a private good in that it benefits the student disproportionately to others whereas basic education offers the same benefit to all. Higher education offers a disproportionate benefit to the individual and so it has a private dimension to it but of course it is a public good in the sense that as I was
15 pointing out earlier it trains our doctors, our lawyers, blah, blah, blah and humanities people, so that is the second one I do not agree with and I can give you a copy of that piece that I wrote. I do think a problem does rest though however with the body that advises the department, it advises all departments whether it advises the Treasury which has
20 defined it entirely as a private good and that is one reason why the Treasury has not bought fully into generously funding higher education because its key advisory body says to it, it is private so I think the students are right to introduce the public good element of it.

ADV. K. PILLAY SC: I am not sure if you referring to the planning
25 commission Professor.

PROF. BOZZOLI: No it is not the planning commission.

ADV. K. PILLAY SC: Because the NDP does seem to do exactly the opposite and does seem to articulate higher education more as a public good and not a private good.

5 PROF. BOZZOLI: Yes, I think you have to have both elements is my view and while higher education only goes to a few it must be seen as a private good but it has to have a public dimension so I just say it is a mixture.

ADV. K. PILLAY SC: And then your response to the demand for
10 decomodified, de-commodification of higher education.

PROF. BOZZOLI: Commodification is a problem but I do not think that can be addressed by fee free, you can have commodified education and have your fees paid because commodification of education entails you know the running of the Universities as though they are businesses and
15 things like that, now the University does not care where the fees come from, they just come in and they are part of their budget so whether the fees come from the state as in fee free or from the student as in fees being paid that is still treated the same way by the University so treating the course that is being offered as a commodity has got nothing to do
20 with where the fees come from.

JUDGE: We had criticism of private education, private higher education and there is evidence that well over 100 000 people get private higher education willingly they pay the money to get private higher education.

PROF. BOZZOLI: Right.

25 JUDGE: Now surely that points against the de-commodification of higher

education, if you have a substantial number of your apocalypse that wants to pay for its education and is able to do so.

PROF. BOZZOLI: I agree with you.

JUDGE: Because it presumably finds there what it wants.

5 PROF. BOZZOLI: Yes I think what happens on the commodification is that you start running a place that is meant to be for contemplation and thought as though it is a place to churn out degrees and you can see it happening in commerce faculties in Universities for example and it happens in private of course, they mainly teach commerce precisely
10 because it is where the money is to be made so what you see happening in Universities is the University saying well you know we make most of our money out of our BCom because it is cheap to teach and there are large numbers of students, does not require laboratories or medical schools or anything of that sort it is just a classroom and then they start
15 saying well maybe we, well let us use commerce to subsidise philosophy you know and it starts becoming a deal between different kinds of education, the one subsidises the other, now there is nothing wrong with that but it starts getting to the point where you beginning to wonder whether what you really interested in is educating people or where the
20 money is coming from and how it is going to be used and it does taint the University experience to a degree I think.

JUDGE: Have you thought about the provision of more places in Universities for shall we say medicine and how that might be funded so that you can have more students funded by the system who can go and
25 undertake courses like the medical field for example.

PROF. BOZZOLI: I think about it a lot because I think it is absolutely essential that we have more doctors and it is very difficult to do because of the costs of academic, you can only have as many students as you have staff to teach and there are not that many people who are willing to
5 teach in medicine and so unless you can find the staff to teach them and the hospitals to host them as interns and to give them practice you are not going to be able to do it so there is a very complex eco system around medical school that would need to be enhanced and developed in order to expand the numbers but I think it is one of the most
10 fundamental things that we need to do. People who should be admitted to medical school are not being, people who are dying to become doctors are not even getting in and I think we need to look very seriously at that.

COMMISSIONER KHUMALO: Prof if DA has got any opinion on the
15 decolonisation as has been requested by students?

PROF. BOZZOLI: Well decolonisation is a slogan which poses the theory that there are two sides in South Africa, there are the colonialists and there are those who were colonised but if you actually look at South African history what you will find is that that is not the case, our
20 population is incredibly complex and diverse all the way across, we have people of different backgrounds, different histories, different origins, different bases it is not a simple binary thing and so I think the whole decolonisation narrative being based as it is upon a binary conception of the nature of the society is misguided not that there is not a problem
25 where you have places that are not teaching African studies or you know

making our curriculum relevant to the local but to cast it all as a decolonisation narrative I think is not correct.

What you rather need to do is maybe look back to the 1960's and 70's where African studies and African research started taking off in this country and actually making itself felt internationally you began to get people visiting this country to meet the scholars who were working in that area and build on what has already been done but to cast the situation as one that is completely new and one that is entirely encapsulated within the idea of a binary I think is a mistake, I have many friends who come from say the so called coloured community for example who are not happy with the idea that everything in South Africa can be reduced to a coloniser and a colonised, they have been here in this country for hundreds of years and they really belong to neither category and so we need to have a much more thoughtful nuanced idea of who is you know, who is placed where in our society, binary thinking does not help.

COMMISSIONER KHUMALO: Because a Professor earlier when we were asking his understanding of decolonisation was that like you were saying earlier University is elite so and you were saying a poor child from the township is going to come to varsity and not relate and maybe that is what we are talking about access to success because you need the adjustment period because it is not decolonised, in that context do you still think it is binary so to speak?

PROF. BOZZOLI: Well that has been a problem for decades and it is only now that it has suddenly been called decolonisation, I think it is a

problem of poverty and poor education and poor background, whether it will be fixed by a sort of rampant militant ideology of decolonisation is not clear to me, I mean what are the decolonisation people doing about bursaries or revamping NSFAS or thinking of ways in which funds can be found, no they are all about the curriculum, I do not know whether this is, I find the whole thing a little bit difficult to get my head around that this is going to offer the solution to such students who are in a very, very, I agree with you in a very, very bad situation.

JUDGE: Well I am not entirely sure that I understand what the problem is with the curriculum either, there is a perfectly free choice at University for example as to what courses you can or cannot take.

PROF. BOZZOLI: Ja.

JUDGE: In what respect do they, do decolonisers wish the curriculum to be altered?

PROF. BOZZOLI: Well I think they have not clearly articulated their position in relation to say the sciences so most of what they have been talking about has been in humanities and mainly in literary art and other similar fields where their argument I presume is the Africanisation of these fields needs to be pursued which is quite correct.

JUDGE: Which is what is happening.

PROF. BOZZOLI: It began many years ago and it needs to be continued but to propose it as a whole new thing I am not sure and also I am not sure what the relevance of it is to the sciences, I do not think it is relevant.

ADV. K. PILLAY SC: I think Professor the demand or the claim for

decolonisation goes beyond curriculum development, I think we have had students appear before us who have indicated that it is a question of identity that they do not feel they belong on campus and so I think the call is for transformation of the societies, University societies as a whole
5 rather than specifically focussed on curriculum development.

PROF. BOZZOLI: I am sure that is the call but I do not ever see any practical recommendations as to how that call can be answered, there is the call, it is all about the call, not many practical solutions you know, why do we not do X, why do we not have say a better childcare facility
10 for unmarried mothers who might be students and who feel out, you know it seems to be very vague.

ADV. K. PILLAY SC: I think the one that we have heard is that we must ensure that there is more black academics, more black lecturers on campuses.

15 PROF. BOZZOLI: Again this is not at all new, in fact the Department of Higher Education has been working for years on a scheme to fund more black academics, in fact Melon Foundation I think gave money in 1980 for more black academics to be trained and many of the black academics you see there today were trained under those schemes who then
20 became incorporated into the staff so this has been a problem for decades at the moment the Department of Higher Education has through stealing money from University subsidies developed another scheme for funding the development of black academics so it is really not new, the thing about it is to develop an academic takes 15 years you cannot just
25 suddenly invent a black Professor out of nowhere, that person needs to

be trained, they need to then get their degree, their PHD, a post doc, they then have to have worked for at least 5 to 10 years before they will even be eligible for a Professorship so.

ADV. K. PILLAY SC: I think the complaint was that we are still having
5 this debate two decades on.

PROF. BOZZOLI: Yes.

JUDGE: And that not much seems to have changed, I think that is what we have heard from students.

PROF. BOZZOLI: Yes.

10 JUDGE: Would you agree that not much has changed?

PROF. BOZZOLI: No not at all, academe was completely white 20 years ago, not 20, 25, completely white and it is not anymore so things have changed but I can understand how if you come to a campus that is whiter than anything you have experienced before in your life that can be
15 quite disconcerting, very but unfortunately there is no solution to that other than slow development there is no solution, there is nothing instant that you can do. And I think what is the ANC is partly to blame for this because I think what they have done in other areas of the economy is if there has been you know not enough black people in a certain area they
20 have just appointed people who are not qualified for the position, cadets and then those people have not been able to do the job and many of our institutions have failed as a result. So if Universities were to do the same thing and appoint people simply for the sake of the needing to be a black face present I think that would do a huge disservice both to the
25 genuine black academics who have developed over the past years and

to those people themselves.

ADV. M. LEKOANE: And the last question from me Professor, you have recommended I think about four alternative sources of funding in your submissions but you did not address the alternative of tax, raises taxes
5 as a way of meeting the demand, do you have a view about that?

PROF. BOZZOLI: Well we do not support the raising of taxes no, we do not support that.

JUDGE: I deliberately refrained from asking you that question.

PROF. BOZZOLI: Yes we do not support raising tax to pay for education
10 then you will have to raise tax to pay for the national health scheme, then you will have to raise tax to pay for better schooling and in the end you know how do you decide between higher education and the national health.

JUDGE: No but is this not, it is a matter of priorities.

15 PROF. BOZZOLI: Right.

JUDGE: And if the cabinet decides that X is a priority and we cannot afford it then what is the alternative but to raise taxes but I am not asking you to decide that because I do not see that it is in your interest one way or the other to make a statement on that. I assume that if we
20 recommend it that a tax be raised you would protest because you have just said you are against the raising of taxes.

PROF. BOZZOLI: Mm.

JUDGE: Well I understand that and you may also assume that we would not do that unless we had no other way.

PROF. BOZZOLI: Yes that is true. I do believe that you need an economist who has had a serious look at wasteful expenditure in the budgets including in municipalities and provinces as well as central, the central budget where funds and I know this is what students say and
5 people sort of do not take it seriously the wasteful expenditure is in the multi billions

JUDGE: What sort of wasteful expenditure, just give us one example out of the air, what sort of thing?

PROF. BOZZOLI: Well Ministers huge entourage of security officers.

10 JUDGE: That sort of thing.

PROF. BOZZOLI: That is inflated to the point of disbelief. Travel, entertainment, vanity projects, I mean in Johannesburg the DA Mayor has now found tens of millions of rands worth of projects on the most obscure things while basic services are not being delivered to people so
15 the politicians seem to have got in and decided they want something that will make them look good and they invent the fancy project, get you know 50 billion, 50 million for it and it never goes anywhere anyway so there is a vast amount of wasted expenditure.

JUDGE: Thank you.

20 ADV. M. LEKOANE: No further questions from me Chair.

JUDGE: Professor Bozzoli thank you for your helpful presentation and your frank exchange, we appreciate it.

PROF. BOZZOLI: Thank you very much.

NO FURTHER QUESTIONS

JUDGE: Miss Pillay.

ADV. K. PILLAY SC: Thank you Chair we will convene tomorrow morning with our next witness at 10:00.

JUDGE: 10:00 thank you.

5 HEARING ADJOURNS

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SET 6 - DAY 1

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