

COMMISSION OF INQUIRY INTO HIGHER EDUCATION AND TRAINING

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Set8 Hearings1 – Public Hearings

COMMISSION OF INQUIRY INTO HIGHER EDUCATION AND TRAINING

PARTIES PRESENT:

The Chairperson

- Judge J. Heher

Commissioners

- Adv G. Ally
- Ms L.T. Khumalo

Head of Evidence LEADER

Evidence LEADER

Experts

Secretariat

WITNESSES:

Governance innovation

- Prof Lorenzo Fioramonti

Business Unity South Africa

- Ms Tanya Cohen

Chamber of Mines

- Mr Mutak Ally

ADV K PILAY: Good morning Chair. Mr. Mubuda will be leading the witness,

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chair.

ADV MABUDA: Thank you chair

JUDGE HEHER: Do you have any objection to taking an Oath?

PROF FIORAMONTI: I do not have any objection

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

PROF FIORAMONTI: So help me God.

ADV MABUDA: Thank you chair. Professor just to begin can you just give us a brief background of yourself in terms of your work experience and your academic qualification and could you please give us the indication of what exactly the centre for the study of governance innovation

PROF FIORAMONTI: My name is Lorenzo Fioramonti I am a professor of Political Economy at University of Pretoria. I have a doctorate in political Science have been in the academics field for about 15 years. The centre for the study of Governance Innovation of the government which I found years ago studies and researches new ways of governance in the public domain, in the public sector and in the research sector and vision of the centre is to basically find innovative ways of dealing with long standing social, economical and political problems of funding of universities in South Africa. The issue of free education is also one of them.

ADV MABUDA: Thank you professor. Chair, the professor has prepared a presentation for us and I will ask him to proceed on the presentation and he will take question from the panel and as well as evidence when they arise.

JUDGE HEHER: Thank you professor, you can go ahead at your leisure professor.

PROF FIORAMONTI: Today, I am presenting an action for what we believe inarguably the best option for achieving free education in South Africa, which is based on research and practice that has been pioneered in Australia, since the late 1980s. The tools which I am presenting is called contingent loans as you see in the

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slides. One of the problem of funding education in general, especially tertiary education, across the world is the increasing amount of personal and public debt, that is associated with the cost of the educational system. There are three main ways of funding education around the world. The most popular one is government funding which is the one in South Africa, with government funding, public institution providing money for the payment of their tuition fee.

The problem that we face around the world is the resources that government has less and less resources which is associated with a lot of administrative cost because government have to screen applications. All of these come with additional cost and increasing public debt already among many governments around the world, including the government of South Africa.

Another option is private sector and it is the time bound repayment loan, like the private loans banks made available for students to study, very well known case in the US. So government doesn't to get involved and at times they do get involved as a guarantor They have also administrative and management cost which is difficult because banks have to go through a screening process to check actually if the student comes up with the ability of repaying the debt and leading to increasing personal debt to the student in their life time. This is already the case in South Africa and in the US, well in to the 50s and 60s, many people are still paying the money back.

And the third one which I am going to present today is called income contingent loans. The difference between this system and the other ones is that this is flexible, adaptable. They don't really require a lot of screening because they are open to everyone and they are very low risk of insolvency. I am going to tell you more about them but if you care to know what the difference between this loan and the other one is that this is not based on the student's or the family's ability to repay the debt in terms of their time in their life over the period of study and afterwards, but actually only kicks in when the student gets a job and the amount of repayment is gauged on the amount of the salary once the student gets the job and changes according to the salary of the student over time. It is adaptable, it is flexible and it is open and it should be open over everyone and ideally all students should be able to access the

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system and their repayment level will be proportional to their income. So that it doesn't lead to additional stress to them in the future.

ADV MABUDA: Professor before you proceed, you indicated that this is income contingent loan is not based on the ability to pay and you proposed that this is offered to everybody including those without the ability to pay.

PROF FIORAMONTI: This I will explain more later but it is the key point in the South African case that this apply to all South African student. This is what it does, it hedges the risk of repayment later on. If you allow me to go to the next slide i will get in to more details about this. Just a bit of history, this is not necessarily something that has not been applied all over the world. And in the Pre-late 1980s, there were nine contingency loan around the world, only time bound repayment loans, bank private loans. In most countries, the most famous which is the US, but also applied in Canada and Columbia. Many have problems with the systems. In Australia, it pioneered the system in 1989, ever since the system has been adopted in New Zealand, in the UK, Ethiopia, Hungary, and Thailand and more recently in South Korea, and the Netherlands. There are conversations for the government of the government of Columbia, Ireland and Japan to apply it now. An ongoing research are better being organised in countries like the Malaysia, China, Ireland, US and Brazil. So, there is a growing community of countries around the world of countries realising that how useful the system can be. The difference between income contingency term bound loan and the conventional bank loan are, we know default rate of private bank loan are high. In the US, we are looking at 30% default rate, so students don't pay the money back. Banks have issues of insolvency and the government or other institution including private share holders of bank and account holder have to personally check in. In the Philippines, they have the highest default rate, 80%.

So, if we have to use a system like that in SA we will be looking at a very high default rates, we have already have experience of many South Africans being unable to pay back the money when they subscribe to any loan including short term loans. They usually have high rate of repayment income ration, this means because they fluctuate with market rate, you turn to pay a lot of money out of your salary in order

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to pay the bank over a period of time and they have limited elasticity. They did not take into account the ability to repay and they lead to stressing the society and subscribers. We know that one of the problems in American funding systems is that people are continuously under the pressure of having to repay the money for a prolonged period of time. So, these are the reasons why we would advise against conventional time bound loans.

The good thing about income contingency loan is that they tend to have income repayment ratio. Hungary which is used as income contingent loan system, they pay an average 6% of their salary to repay the loan. So this is a relatively minor amount of money, that the students when they get a job have to pay back to those who provided the loan over a certain period of time. The highest one is the New Zealand and South Korea with 10%. The capacity to repay I said is linked to income in just a proportion, I don't pay anything for my study, I get a job at a local bar, and I pay proportional to my salary and two years later I get a better job, my repayment will increase proportionally. If I get a very good job, I will pay a higher proportion, I may end up even paying more than what I have loaned. This is the difference between system and the time bound repayment loan, because I am offsetting those that are going to pay less and those that are going to get a job and therefore will not be able to repay until they get an occupation. So this is very important.

JUDGE HEHER: What are the interests?

PROF FIORAMONTI: The interest would move the chambers of Mines accordingly.

JUDGE HEHER: Does it include loans from the time you incur the loan or does it run from the time you incur the liability to repay?

PROF FIORAMONTI: The interest is incurred from the time that you incur the liability to repay, as soon as he gets a salary. The repayment will start kicking in and the interest will apply to that one and they will fluctuate and will be proportional to your salary. The experience we have is that it will go from 6% in Hungary and 10% in South Korea, it will fluctuate and grow according to your salary expectation, but the most important point is that it would be pegged to your salary. In any case, it will not

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grow independently of your level of income which is the case with a private conventional loan. Today grow regardless of how much money you make every month. It is to be broad based, especially in the case of RSA where there many people who gets very good income and people that gets very relatively low income, you need to have a broad based access system. To put it simply, those who are going to get a good job are going to offset the risk associated with those who are going to get a low paying job. If you do not do that and if you exclude the so called wealthy or those that may actually have in the future a possible high income, you going to end up with the high risk and therefore the system may not work efficiently and therefore the system must apply to everyone. Technically, all SA students should be able to access the loan and pay tuition fee out of the loan and when they get a job should start repaying the money.

ADV G. ALLY: Prof, isn't that the problem, is voluntary number one, the risk that you are saying if the rich people are outside of the system, because the rich people don't want a loan because they can pay their bill.

PROF FIORAMONTI: That is why they have to be made part

ADV G. ALLY: The issue is that you are saying if the high income earner is not part of the system, the low income earners grows and therefore will have to pay the higher rate and normally, isn't that determinant on any system that they have a volunteer nature?

PROF FIORAMONTI: In SA, that is correct and that is why my recommendation is that we should not make it voluntary, they should come with a registration process of the University.

ADV G. ALLY: Just explain to us, is your proposition that anybody going to the University must take out a loan?

PROF FIORAMONTI: Correct, I think that the best way of insuring in a Case of SA where we have high rate of inequality, not only level of the entry but the output level so there will relatively poor students that may one day get a very good job, we need to guarantee that their diversity is factored into the system. Our current tuition fees are currently low compared to other countries. If we do it now, the loan will be

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insignificant and the system will have a guarantee to work. If we only open to those that have a lower chance to get a good paying job, the system will still work, but the risk will be higher. Certainly less than any other solution, less than any government fund scheme which has made ready lot of money for the public institutions. Certainly for the private banking system which is going to be less inclined to offset the loss with other forms of income but we have a high risk if everyone when the student registers and subscribes to the loan which should be a loan governed by public institutions and associated with every tax institutions and poses no risk whatsoever to the students. The difference is that if you impose a private loan on the student too many may say why do I have to get into the banking system when I do have enough money to pay. This system poses no risk for the student so I see it as much justifiable as part of the way the system works, imposed so to speak and everyone will be able to repay when you get a job proportionally to your income if you don't you are not going to repay and if you get a lower pay job you are going to pay as much as you earn.

JUDGE HEHER: Shall we say the wealthy man that is applying can take care of the loan buy doesn't get a job, does he have to incur the obligation to repay?

PROF FIORAMONTI: The same will apply as any other person that doesn't have a job, there are evidence that this is happening all over the world and this doesn't often that people say I take care of the loan because I have the money. There are cases of people who take a decision to have a very significant education attainment or become an artist not like everyone but in the laws of numbers, these are totally irrelevant in the sense that the bigger numbers is what matters.

JUDGE HEHER: Now one of the thing that hasn't been made clear to us is that understanding the foreign regimes and the way they work. We for example have not been told that the income contingent loan fostering in any of the country in which it is been used, is it in fact correct that the income contingent loan was compulsory in any of the countries in which it is been practiced. Is it in fact correct that in Australia, the income contingent loan is compulsory for all students?

PROF FIORAMONTI: In this country, there are not compulsory because they don't have the level of inequality that we have, in the countries where it's been used,

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it is voluntary and it is accessed by many people. It simply make sense and people just like doing it because they feel what's the point of using the money that I have when I can access new money and the risk associated with that, but there are very large middle classes which means that the risk is more or less equalized across the spectrum. In the cases of SA believe that if the system is proposed as the most intelligent and cost efficient way of study and it is made mandatory. You are urging the risk to the level that you can barely sleep while at night without worrying what is going to happen in the future.

JUDGE HEHER Is there any country where this is mandatory?

PROF FIORAMONTI: None that I know of, but all the country that have used it or of the countries that are planning to use it, for instance Colombia are making it mandatory for the same reason that they have high level of inequality. This is basically by ensuring that those that are likely to be top earners are in the system. Basically it is a way of income redistribution rather than increasing taxes now, so that they indirectly pay for education, they will only pay more for education, it much more acceptable socially as poses few risks and it is also more effective than simply asking people to pay more taxes that their parents have earned at the moment.

MS L.T KHUMALO: Have you been able to quantify the repayment and when it comes back to people start to repay does it include all what has been given to the student for sustainability?

PROF FIORAMONTI: Yes! As I said the level of default in basically inexistent, and at moment the loan application loan across the world on the level of individual default is irrelevant to the markup figure. Some of them as I said will pay more than what they have taken out, but still minor part of their income 10% maximum because that money will go into the guarantee that those who does not get into the same level of income will pay less than what they have taken. It is equalised so that the risk is low. Also, want to emphasize that our current education cost at the tertiary educational level are much lower than many other countries around the world. So we are talking about repaying a relatively low amount of money for almost everybody who get a medium to good income job, the problem is to ensure that those who fall below the line still given an opportunity to study and one day not have to stress

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about what will happen. This is the only system that guarantees that. Very low administrative cost if it's made accessible by anyone

ADV MABUDA: Can you consider how practical the proposal is considering the pressure on the fiscal ability of the country?

PROF FIORAMONTI: Yes, I think in the next slides we can have a conversation about it. I suggest that a public private partnership is in charge of this process, so that the government accessing that does not eventually give money to anybody but get to the bank for this process and then administered by an institution in partnership with SARS. This is how it works all over the world. The tax revenue system is part of this because the repayment happens in connection with the tax returns. Simply the money will be coming from the private bank. The government will guarantee that the repayment will be that the risk will be low. The private bank will find a good current rate of economic rate of the country and it could be a way of helping banks make significant returns and lower the risk of non repayment which is very high with conventional loan including mortgages and so on. We have 11 million people who are blacklisted in South Africa because of other forms of loans. This is going to be an opportunity for banks to lend money and see good returns. And if everything goes well and there is no major systemic crisis that will cause other problems. The government will save money, the government will not have to do anything as long as the system works, the government will not spend a Rand on Education.

JUDGE HEHER: Are you sure the banks will buy into this?

PROF FIORAMONTI: If I was the bank, will consider what I will get in return to 5-6% on any forms of investment. If I was a bank in SA, I will jump at it, especially if the government says it's going to guarantee case of default.

JUDGE HEHER: When does the fund return?

PROF FIORAMONTI: The theory is after four years basically.

JUDGE HEHER: Does the fund return until you get a job?

PROF FIORAMONTI: That's correct. The government still guarantees and could set aside the money that is funding education as guarantee for the banks. It is found

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that the average of 4-5 years is what it takes to graduate from the University. We are talking about like a 150 thousand Rands loan per student to graduate.

ADV G. ALLY: You can't seem to get the numbers right, conservatively. Yesterday, Mr. Andrews put it at 225,000 after four year, taking it from the 50,000,. We know for a fact that the minimum course will be around 71,000 and that doesn't even cover everything. You are sitting between 200,000 and 300,000 a debt and that you must pay back at the end. The other issues we need to mention to you about the guarantor issue is that Treasury is of the opinion that any guarantee is then reflected on the debt book and any institution that you borrow from will want to know what is happening in terms of liability in debt and therefore an increase put the economy at a disadvantage. Is that correct in terms of economics and finance?

PROF FIORAMONTI: Yes, I think it is, that is why this system doesn't change the liability that the government already has, because every year the government sets aside money for the student education fund, what is this money is set aside as a guarantee for this loan. The government will be liable for it anyway, now it is liable for giving the money out and not freezing the money together as a guarantee. If i was a bank and i have an opportunity to have a high repayment of loans in my hands with the government guaranteeing almost 50% of that cost, i will jump at it.

ADV G. ALLY: Okay, let's put it in practical terms. The amount government is giving NSFAS doesn't cover all the student presently and therefore you will need more funds from somewhere else, because government says they don't have anymore. It also pre suppose that you will stack up money from somewhere to make the system sustainable, and you propose that the money that government is proposing that the money that the government is giving to NSFAS presently serves as the money you give to the banks and what happens to all the Universities?

PROF FIORAMONTI: This money is not given to the banks, this money stays as a guarantee in case of default, and if the system works, that money should not be spent at all.

ADV G. ALLY: That is fine, so you have that as a guarantee. So the amount owed is more than the guarantee? What happens in that event and you are of the

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view that the banks are going to buy into it because they have partial guarantee as it were?

PROF FIORAMONTI: Yes! Otherwise I suppose almost that there is no risk for the banks. I didn't say there is no risk at all, but there is minimum or almost irrelevant risk compared to other system of loans banks give out anyway. Banks give out loans everyday to customers and account holder, this is comparatively speaking very high return save type of investment compared to other form but there is a risk.

JUDGE HEHER: Is there any an example of any income contingency loan anywhere in the world being guaranteed in this way? Both suggesting that it is wrong because you don't. Is there any example?

PROF FIORAMONTI: Colombia may be the only one, the other one take government, in that it is the government itself giving out the loan because the government has more money than we do, because the government feel less risk. Then it has been confirmed that none of these system has a very low risk level. In the case of SA, I believe our current condition makes it more imperative to involve the private sector. Especially when the private sector is trying to make profits and this is the important component of these. It is not just the system of funding but an opportunity to align the private sector interest with the public sector. If good jobs are the way we are going to be able to fund education then the banks will have an incentive of creating good jobs rather than speculative but high risk type of investment. So you align the interest of the banks that understand that if they invest small money in small business and creating good companies that create good jobs, then the students that get those jobs will be able to repay timely and with a good level of returns to the banks which they have lend them without the government getting involved at all. In time the government will have only important responsibility of managing the economy responsibly to that it produces those good, well skilled, dignified jobs to keep the system going.

JUDGE HEHER: I see obviously the sense of a true view but why haven't you come her with the banks proposal for buying into this?

PROF FIORAMONTI: Well I see myself as a researcher and a modeling how to

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get out of this, i am not paid to fix this. In the Education system of South Africa, there are more qualified people who are paid to do that and i think they should be here talking to the banks.

JUDGE HEHER: What you got here is a broad brush proposal, is it not possible to put it into more structure...?

PROF FIORAMONTI: Certainly, my center has been inviting the department of higher education in training to have a serious conversation, to see how we can apply our study to the case of South Africa. In the past, we have made calls for government to support some series of researches. We believe that innovation is necessary if we are not just going to get stuck between the rock and a hard place and we need some level of innovation. It doesn't have to be exactly this proposal but some level of innovation that goes in this direction may help free up resources that are stuck somewhere.

JUDGE HEHER: Isn't it possible to structure proposal which from our point of view we could hold on and then can say what do you think of these?

PROF FIORAMONTI: Yes! Yes!

JUDGE HEHER: Because at the moment, the theory is in your innovation that to bring the theory and finance providers together is what i will like to see.

PROF FIORAMONTI: Quickly I work closely with Professor Bruce Chapman, he was the guy who invented ICL, IN 1989 in Australia, he has told me many times that if there is an opportunity for the SA to apply this application to the SA situation that he will be very happy to jump on board. The problem is that how are we going to make the resources available to conduct the research and have meaningful applied research conducted on the South African case.

JUDGE HEHER: How much additional money is going to be used to put together more practical structure in the that the ...(statement not clear)

PROF FIORAMONTI: I don't know, I am not in a position to tell you now but I think it will not be an outrageous amount, if the Commission is anxious then I will be very happy to put together the best team in SA that can actually move from the

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theory to the practice how it works in SA. What we can do at the moment is speculating on what others have done and how this can work in South Africa. We do need the kind of support from the commission to be able to say let's take it to the next level and apply study to the case of SA. As I proposed ICL a year ago already in series of debate and newspaper articles that I wrote regularly and I have invited government to explore available the national network that is behind it.

JUDGE HEHER: What response have you had?

PROF FIORAMONTI: The response that I have had is that they invited me today.

JUDGE HEHER: You didn't make that recommendation to us?

PROF FIORAMONTI: I have written for newspapers, and you know how to find me...

JUDGE HEHER: Are there any response from department of Higher Education?

PROF FIORAMONTI: No other response

ADV MABUDA: Chair, we are trying to arrange for Professor Bruce Chapman to give evidence by skype because he is presently in Australia and we are arranging for him to come and give testimony via skype.

JUDGE HEHER: I understand that, but Professor Fioramonti is much more a live situation here than I would imagine.

WITNESS: Professor Chapman anyway will be happy to be on skype anytime and we talk and he knows that I am here today and we put this presentation together. What I want to say and I will be very frank with you is academic research puts issues out there but I am sorry it is not their job to fix the problem. So, all we need is a support from government that says interesting issue why don't you take it to the next level, and here is the opportunity to do so and if it comes from the Commission we will be glad to do so. It needs to come from someone.

JUDGE HEHER: Well have you seen the ministerial team task with that?

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PROF FIORAMONTI: Yes, I have.

JUDGE HEHER: There are some element of income contingency plan there involving the banks and that is why I am particularly interested in your proposal because the best have to submit it and see me buying into that.

PROF FIORAMONTI: This kind of proposal takes it to the next level. We believe this is the way it should be done across the board and I don't know whether the ministerial task team did and somehow included that in their report or just came out of their own way of looking for answers from different part of the world. One thing i want to say about the bank is, a loan interest, i stand to be corrected, but our conversation with the banks in other fields are looking for good investment and they are expecting to find good investment at the moment, having an opportunity and there is nothing worst for a bank than not being able to lend money. And therefore having an opportunity at the time of relatively sickening economy with the whole transition in the conventional economics systems, mining plummeting and so on and so forth, getting an opportunity to invest in something that may actually be much more broad base, that guarantee of the good return is guaranteed in part by government . And evidence from all over the world says that it is much more convenient on overhead cost as well as repayment than any other form of private loan and that we are still handing out private loans to students, many of them not going to pay back the money anyway. So why don't we come to the party together. I agree with you Judge that the conversation hasn't happened yet and that I think a position paper will be very useful.

JUDGE HEHER: I am thinking that if it is workable that government may even from it's resources be able to interpret some element of the group to reduce the interest rate. In order words, carrying 1 or 2% of the interest rate, which may makes it more acceptable to the students. You know there is the considerable opposition to any loan system and an opinion that any loan that is not addressing the existing inequality and the burden upon the students.

PROF FIORAMONTI: I am aware of it and I agree with that, I agree with the fact that the current loan system does exactly that, and I see students of mine queuing up and every campuses in South Africa has a private bank on campus advertising

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loans to students and it pains me to see them cuing up every day to get more money out of what I believe to be a blown shorts (not clear). The issue here is to change the system totally. Taking advantage of credit mechanism that is there from the beginning in human civilization and making it so that you can benefit from it is also spreading the risk and making different interest combine in job creation. That is the most important thing. It makes no sense to me that we are going to give them free Education without telling them what is going to happen after they educate themselves. Even if we are able to fund it from money coming from Mars, they won't be able to get a job except if we turnaround the economy. Having different sector converge and have the same stake and at creating good and qualified jobs for the students once they get out of the university because the system is based on their ability to repay and if you can banks to think more intelligently about their own interest only but also to understand that the money they invest in the economy must be invested in the real economy so that they can then support in the economic growth model that is able to put people on the position that will enable them pay the banks back, it is a double reward for them and the same time works more positively for the society. I believe that the education task is much bigger than how to turn the SA economy around and i want to provide the solution that is not only able to guarantee free education but change the terms the rules of engagement on how the economy is managed.

MS L.T KHUMALO: If the system is to be applied and the banks are not the only source of funds that we are relying on how do you think that should be managed?

PROF FIORAMONTI: My proposal is that we create an institution that works in partnership with SARS. SARS is one of the best functioning public institutions that we have in South Africa. It is well perceived by the population at comparatively level of the peaks of excellence that we have in the public administration that we have in this country. we have not had good experiences with Chapter 9 institutions in the country instead of being created with specific tasks, there will be no reason to create a similar body that is part of government but not seen as necessarily a life saving one by the cabinet or necessarily politically accountable to the leadership of the moment . That is more seen as in in charge of connecting the loans with the tax revenue.

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JUDGE HEHER: Is that why you want to cut the private?

PROF FIORAMONTI: Yes! My sense again here is based on another research that we have done, there is a lot of mistrust between the public and institutions. There is resentments in the areas of where I think may be useful. But the paper I propose which will be useful to also clarify if this there is a need or not or a public/private partnership that is managed by a so called independent institution in partnership with our revenue assistants.

ADV G. ALLY: Prof, I have a problem with this proposition because you haven't said to us how constitutional it is to force somebody to go into debt that he/she doesn't want. Or forcing somebody to have his debt deferred, which he doesn't want. So, you need to cross that hurdle first, you can work the system but if it is not possible legally the issue falls flat because you maintain that everybody have to be in the system before the system could be viable. So, if the system is not legal in terms of forcing people to go and defer debt and the viability of your system falls flat just on what you have given us. Have you and Professor Chapman began to check the constitution and how the law applied to situation on ground?

PROF FIORAMONTI: I have never said that the system wouldn't be viable if it wasn't mandatory. I said it should make mandatory earlier risk will be even lower. So the system works even if it's not mandatory by all the evidence we have globally and the system is more efficient than any other government scheme and or private bank finance scheme. So this is to be clear, I said that in the case of SA, if there was a way of making a system that is as broad based as possible, you will lower even other risk because of our level of inequality. I want to make clear, my system is not a contingent upon being mandatory, the system works anywhere.

In the cases of SA, the preliminary analysis is that the moment we accept the case of Colombia. There is no way a country that is unequally with such a high level of unemployment are high, income gap between the top level and the low or that is important. Like many people so much in this country. So the system works any way and there is high risk, high level of unemployment, income differentials. I am not an expert or a constitutional lawyer, so it will be difficult for me to determine if this is constitutional. There will be modalities that will make it fit into our constitution and

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that is why we do need a team of different expertise to determine if these is constitutional or legally acceptable.

ADV G. ALLY: So there are increases in the risk. Increases your risk, increase the percentage of your income you will pay to the loan? Explain to us, you have indicated that if broad based the risk is low and if not in terms of what that indicates to you.

PROF FIORAMONTI: The risk is not to the individual, as I said there are payments attached to the salary and the system cannot change. So if you earn a R100,000 a year, you pay a 100,000 a year, you will pay 5000 back that year. If you earn 200,00, you will pay 10,000 or 12,000 as the case may be because it will be proportional.

ADV G. ALLY: What is then different from all the papers that has been proposed to this commission, exactly then they say not based not based on broad based on those who cannot afford take the income contingency loan and pay back in accordance with how much they are earning. How is this different to others?

PROF FIORAMONTI: As I said, if they have proposed income contingency loan, that is why you guys have invited me here. My proposal because of the South Africa contest is to make it broad based if not mandatory. The system will work anyway but you will have high risk for those guaranteeing either the government or the banks for the individual.

JUDGE HEHER: The greater proportion you have of rich people the less the risk of default.

PROF FIORAMONTI: We design the ways of convincing as many people as possible, we have to avoid a system of like self selection to avoid a reversal of like problems that a few students of the student who cannot have a good chance of a good job will come out and take the loan and then we will one day be faced with not getting a good job and thus not being able to pay and the system will not be able to create a vicious circle. So what we need in this country not in Australia, New Zealand but this country is find a way of making it as broad based as possible, so that those with the highest chance of a paid job are subsidizing indirectly as suppose those who

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get a lower pay job. May be if done well and there is a convergence of interest more pay jobs and better pay jobs, may be people that we have thought wouldn't have means of paying back will find a well paying job and be able to pay back more money one day.

JUDGE HEHER: Thereby reducing the risk of calling on the government to pay the money?

PROF FIORAMONTI: Absolutely! That is why some pattern is broad based and some pitched not as a risk free system that is totally guaranteed and we have to ensure that the most intelligent, better resource student are sent out to the system that willing to do that and understanding that there is no risk for them and not using the money of their dad and mum and allowing us to create a vicious circle that saves the money to the government and create opportunities in the economy for growth and makes everybody happy.

MS L.T KHUMALO: Do you think is one of the options that an imposition is made on the banks that at certain percentage of whatever loans they give at this income countdown loans and it becomes a legislative imposition because I don't see the voluntary element in that?

PROF FIORAMONTI: That will solve the problem of risk. It will still be from the government that banks will still disburse the money. That won't change the risk of non repayment unless for those take up the loans ...Really not because I do this or this is my job but I believe that it will be entire capitalless and entire investment for banks not to sign up those scheme that is beautiful guaranteed. Actually it promises more returns than giving money and not getting paid back. We have to understand that at times the banks are in trouble, they don't know where to put the money This is an opportunity for them to make profit from a good cause which is what a good capitalist around the world always look for. And that justify why they are capitalist.

JUDGE HEHER: From a point of view of a student government, to enable us to pay the money ten years down the line of whatever..... For payment will put us at a disadvantage us at that stage if all students are on equal footing that argument may not carry the same weight?

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PROF FIORAMONTI: Exactly, lawyers will have to investigate how this can be done more effectively in terms of our constitution but the economy is still there because you will have everybody facing the same expectation, just like everybody with a job will have this as part of their very task, and there is not going to be some student having to pay back and some student not having to pay back and everyone will do it proportionally to their income and if one day you get fired and you stop paying and gets another job and you start paying again as soon as you start paying again, there is no risk and everyone is on a good level ground. I don't see why student wouldn't embrace this.

JUDGE HEHER: I am not sure that i see it as a constitutional objection because the constitution is about balancing interest and balancing rights and it seem to me that if you design a system that is going to provide access for all to education it may be that you can justify the position of the one offsetting the other.

PROF FIORAMONTI: In this you are more qualified to say that

JUDGE HEHER: I am just speculating, that seems to that perhaps...

PROF FIORAMONTI: We should see this relatively speaking as a social justice mechanism and that is not only efficient but gives everyone equal footing and importantly it lowers the overhead cost for the banks and government. How we manage public funds efficiently according to the models come with a lot of overhead but this system comes with very little or no overhead cost. It spreads the risk, for there are risks in everything we do. What is our disadvantage? It is our level of inequality right? So come our problems with intelligently managing our economy or our government but if we find a way of making everybody have a stake in the system, which means some level of inequality can actually be an advantage.

JUDGE HEHER: This may not appeal to you but is voice not voice which says down with qualification education at the same voice will say this is a preservation of the qualification and that's the distinction of the qualification because you may not be paying directly to the university but you are paying to the banks and banks of course can say for itself say from people's mind

PROF FIORAMONTI: I would say that this is a way of making the whole of the

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society have a stake and the responsible for guarantying free education rather than qualification this is basically a way of taking the burden away from government university and making it a societal problem so that everybody comes to the party and says we do believe that education is a human right and we all willing to take a little bit of risk to ensure every citizen every student in this country is able to go study for free and we have a better life one day and the country will be economic developed to our well being to our opportunity to improve the state of this country... it will be an opportunity to actually bring definition together to say that we are in the same boat either will make it sail or sink and i will think this kind of language will find an appeal to some of those who believe education should be commodified we are in a sense of making the commodity to be for it and it's a technique and innovation to make it possible.

JUDGE HEHER: Thank you, you can proceed with your presentation.

PROF FIORAMONTI: I suppose have already said what is next but I already said

JUDGE HEHER: Just explain to me the indirect redistribution process

PROF FIORAMONTI: It was part of this slide I think I have mentioned it. I mean there is lot of this south Africans that talked about redistribution and it's a not only South African, this conversation is globally that for our economy to be.

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TESTIMONY BY MS COHEN

JUDGE HEHER: Good afternoon Ms Cohen and to your colleagues. And who is leading this evidence?

ADV K PILAY: Chairperson, Ms Lekoane will lead the evidence in respect of BUSA and I will lead in respect of the Chambers.

JUDGE HEHER: I see both representatives here. Who is representing who? Ms Cohen you representing BUSA?

MS COHEN: Yes, good afternoon. Just to clarify I am here on behalf of BUSA and I will submit the input. Mr. Ali is a member of BUSA, but they are doing separate inputs as chambers of mines.

ADV K PILAY: Chairperson, may I suggest that the chambers makes their presentation immediately after BUSA and we can probably post questions to the two interchangeably because the issues are similar?

JUDGE HEHER: Ms. Cohen do you object to take the oath or would you rather affirm? Do you swear that the evidence you will give is the truth and nothing but the truth? If you do say so help me God.

MS COHEN: So help me God.

ADV LEKOANE: Thank you chair. Before we go into BUSA presentation, I will ask MS. Cohen to tell us about her employment background and her current position in BUSA and a brief description of what BUSA is, whose its members are and what its mandate is?

MS COHEN: Thank you. I am the newly appointed Chief Executive Officer of BUSA. I joined BUSA at the beginning of the year. Before that, I was member of the Retails Association which was BUSA member. And before that I used to work at Woolworths for 12 years and prior to that I was trained as an attorney and I did my BA, LLB and masters in Law at the WITS University. In relation to BUSA, I have incorporated that into our presentation.

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BUSA is an apex body representing organised business of all different sizes and across all different sectors. We are structured in a way in which we have uni-sectoral organisation just as the Chambers of Mines and Retailers Association and the skills and engineering organisations. We also have categories of chambers which include SACCHI and AHI and all business representatives, professional organisations and we have corporate category which is Leadership South Africa as well as a limited number of direct corporate members. We represent primarily on policy advocacy and issues across social and economic spheres. We participate on behalf of business in national structures.

ADV LEKOANE: Sorry Ms Cohen, are financial institutions part of BUSA?

MS COHEN: Banking Associations of South Africa are also members of our uni-sectoral category and some of the banks are direct members in our board of trustees. We've recently signed off our strategic priority areas and you will find it in front of you, but those are in bold are the most significant ones for the purpose of this conversation. So, the one area and I think it fits into this discussion is the transformed inclusive economy that creates sustainable employment. The other is the productive and stable labour market, a progressive tax system that supports growth objectives and education and skill development for current and future workers. Those are the areas that of interest to us in relation to this discussion.

ADV LEKOANE: The number 8 on your table relates to your members' contributions to national skills fund.

MS COHEN: Inter-alia, there are a lot more to it and I will deal with it further in the terms of the extent to which business is participating in as well as contributing to various statutory structures. In the context of this conversation, we do see a role as BUSA on behalf of business in terms of we design and promote enabling environment and how the 6.9 million people that are out of work and employable can actually engage in the workforce and also be able to have access to participate in private sector businesses. We also regard educational skills as critical strategy in achieving that objective.

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BUSA does and we support quality, relevant accessible free higher education for the poor provided that government is able to effectively manage the fiscal burdens and impact. We are also seriously concerned and are opposed to the nature of violence of the protests that took place during the course of the last two years. But we do think that this needs to be addressed by the key political players in consultation with social partners. We have been engaged in a process at (NEDLAC). Both Mr. Ally and myself served on Section 77 committee where there has been protest action launched. And we think that that is the start of the consultation process among the social partners that is quite helpful.

In terms of current low growth levels, business is unable across the border to afford additional financial burden without it impacting negatively on business and employment. But there are a range of business contributions that readymade and planned across multiple interventions. There are several engagement platforms where business is demonstrating its commitment to viable solutions and the challenges that are currently being experienced and we list some of them there. Obviously, the (ECOSAS) initiative the DHPPC, HEPaD and NEDLAC processes that I have just referred to.

JUDGE HEHER: I know what NEDLAC is but I don't know what HEPaD is.

MS COHEN: It is a group of parents that actually come together across the universities to try and engage.

ADDV LEKOANE: If I may ask Ms. Cohen the third bullet option under intervention, they are not just directed towards education or higher education or are they various interventions for various sectors?

MS COHEN: I think they are more focused on higher education although there are other that are business involved.

MS COHEN: We believe that we need to ensure that solutions need to be integrated into single coordinated solutions and this can only be achieved through bringing the collective together.

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ADV G. ALLY: We found out that when people are meeting outside and come up with resolutions and only on invitation have decided to come to us.

JUDGE HEHER: Your banks members for example, haven't come and cooperate with us.

MS COHEN: I think we can certainly take that back to our membership. I have no doubt that they will be willing to come and engage. I think they are involved in a number of initiatives.

JUDGE HEHER: That is part of the trouble. We had the report of the ministerial task team brought to our attention. Meanwhile your members had been participating and creating the structures with the ministerial task team. But they never come near us to tell us about or propose it, and neither did your representative put in a memorandum of representation when they were invited.

MSCOHEN: I can undertake to investigate that and look into it.

CHAIRPERSON: I just draw your attention to, but we don't feel we've had cooperation

MS COHEN: Point taken. One of the key principle issues for BUSA is that we believe that higher education institutions must be protected and supported in order for them to provide the roles they need to in terms of the country's development. We think that high education institutions are our national assets. This requires strengthening of the basic and post-school education system. And we think there is a strong need to address inefficiencies and wastage

ADV G. ALLY: Ms Cohen when you speak of higher education institutions, must we also assume that you speaking about TVET and colleges or you are only speaking about universities?

MS COHEN: When we speak to post-school education, we speak to the whole, but when we speak to higher education we speak to the universities.

MS L.T KHUMALO: Sorry, is the concentration on varsity deliberate?

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MS COHEN: In the context of this conversation, it is not. It is in the context of our NEDLAC engagement that we focus on higher education because that is where we focused.

MS L.T KHUMALO: So, the interventions of some of your members are limited to universities not to TVET?

MS COHEN: I am not too sure what you are referring to.

MS L.T KHUMALO: You were speaking about multiple interventions in slide 6 bullet point 3. Shall we read that to mean that it applies to universities only?

MS COHEN: No. That is broadly. We believe that it is important to speed up the realignment of the SETA post-school training and development systems. We believe that the stakeholders including business engage in that and that we find solutions sooner than later. Business is better placed to coordinate voluntary initiatives and the participation of business in important together with different stakeholders. We believe that we need to strengthen NSFAS and make it more efficient in terms of awarding bursaries, loans and in relation to collection of money and working in partnership with the private sector. We do not believe using unemployment or SETA funds are longer term sustainable solutions. While they might create short term relief, we have hesitation as an overarching business organisation that it will be appropriate to utilise those funds for the purposes they have been established to service.

JUDGE HEHER: So the UIF for example has been collecting money for no particular purpose for the last ten years, why should that money not be used a particular purpose?

MS COHEN: The UIF funds. There have been some amendments that have been recently passed.

JUDGE HEHER: Have you looked at the costing of those amendments?

MS COHEN: We were part of the task team that did look at that.

JUDGE HEHER: Did you see that in 10 years they proposed that their service should be R292 billion?

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MS COHEN: Chair, I know the issue, I know we are going a little bit off track. But those amendments are passed in stages. This is the first draft of the amendment, there is a commitment that went like we go back and look at the coverage of those that aren't currently covered.

JUDGE HEHER: I agree with you that in the long term it is not a method that it is sustainable but as a temporary measure until the system can be made sustainable. I think it may be very useful.

MS COHEN: Yes, I think that it is without that in terms of short term intervention.

ADV LEKOANE: Ms. Cohen, correct me if I am wrong, but I think that one of the recommendations of the ministerial task team is to use some of the SETA funds for the purpose of providing bursaries. And do I understand you to say that you don't recommend that?

MS COHEN: I think our answer is quite similar that it might be a short term intervention but to divert the funds away from what they were set up to do which is to help with workless skills intervention whether they are doing that effectively or not is not an issue. But the objective should not have been to fund the higher education system.

JUDGE HEHER: If you mean by the higher education system- university, point taken, but if you don't mean only universities but include TVET, surely there is a very good reason to use SETA funds to assist TVET as much as possible.

MS COHEN: Absolutely. BUSA considers that there is a role that the Triple BB and double EE frameworks can be used better in terms of our investment skills from the private sector and in terms of economic growth imperatives, and also the need to ensure that it becomes much more inclusive. We have concern in term of traditional taxation of companies be that direct or indirect through levies. And we believe that should be avoided as far as possible because it can impact negatively on growth. That's just overarching principles. What we've tried to do is to address some of the ways business is contributing currently to give overarching view to the Commission. Currently, approximately 17 billion is contributed towards skill development by business through skills development levies, so that is the 1% of payroll. The SETA ()

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is approximately 4% of the discretionary grants from skills development levies to NSFAS and this include direct support provided by the SETA. For example internships, work placement experience and it goes as far as supporting TVET colleges in some cases.

The significant concern for business is the inefficiency in the system. BUSA does have some legal proceedings under way with Minister of Higher Education and Training regarding SETA grants regulation.

JUDGE HEHER: What is the subject of dispute?

MS COHEN: The SETA mandatory grant used to be set at 50% of your contribution as a business to the levies. You could recover 50% as a mandatory grant provided you meet certain criteria. That was reduced in 2013 to 20% with the objective that the difference will then go to discretionary and pivotal grants. Now, discretionary grant is very difficult to administer to decide who gets the grant and to distribute and manage the funds because they are more project-based and it is meant to address specific gaps. What that means from business perspective is that 30% has dissipated into the system it is not recoverable. So, many businesses are only able to claim 20%. The other challenge that was addressed in the legal proceeding was that there is now a proposition that at the end of year, all funds not spent by SETA and then get swept into the nation skills fund, which means that it goes out of SETA specific support and goes into a big pool which it is quite difficult to measure and see its impacts in terms of workplace skills training. So, there are a number of related concerns and number of SETAs that are in difficulties and that regarding various levels of administration with the SETAs and there are some legal processes involved as well with some of our members. The particular referred to here on the mandatory grant BUSA did launch a legal case and it was successful. When SETAs are increasing it becomes very unmanageable in terms of the corporate governance principles because they are caught between court orders and instruction from the department of higher education and training.

ADV G. ALLY: Let me understand how the SETA finds it difficult to implement governance principles because of certain regulations? The ones that are not effective, what has BUSA being doing in terms of getting this people up to

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standards? Is it a matter of educating the people because I can't believe it can just be the matter of the funds that have come in.

MS COHEN: I think it is important to first recognise there is independent governance structure in place in each of the SETA. So, BUSA's role is more of influential than ability to do anything tangible. So, we introduce through our members and individuals that sit on those boards. And they are members from labour and business and from community. So, it is indirect influencing in that regard. In terms of governance processes, there are different processes in disbursing mandatory grants to discretionary. If they disburse in terms of regulations that have been set aside, they will be doing one thing, and if they disburse in terms of court order, they will be doing another thing. And that is something that the court recognises. The judgement was they were given time in order to make necessary adjustment which hasn't taken place. It has caused uncertainties. We are also concerned that it will cause a number of qualifications from audit point of view around that issue. But I digress because the reality is our concern in this regard is that it illustrates what the difficulty is within the SETA landscape as things currently stand. What it demonstrates is the real important and urgent work that needs to be done in terms of saying how does this landscape be restructured so it's fits for purpose and there is no duplication. There is a multitude of structures, councils and functions. We as business really struggle to operate across a number of institutions operating in this space. The delineation between the functions of these institutions is not that clear.

ADV G. ALLY: When you speak of these institutions perhaps you could give examples.

MS COHEN: I think there is the SETA system, the councils, there are steering committees. We are constantly getting nomination for people to sit on different skills related cross-cutting structures. It is difficult to understand how they function together with each other and the other thing is inefficiency.

ADV G. ALLY: Now you are seated in NEDLAC and I would expect these difficulties are discussed. One of the issues we are told NEDLAC is also dealing with is the national skill development plan. They have sat down as one of the SACCHI policy managers told us; they haven't discussed the project plan going forward. How

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far in the future we can wait for such a plan to start implementation, let alone conceptualisation?

MS COHEN: Sir, I think there are two issues question raises for us. The one is that even if the fragmentation issues are tabled at NEDLAC, it is difficult to deal with because you have different task teams that will deal with Section 77 process which is legal process that is slightly different. But you have a task team that is dealing with legislation and others are dealing with the plans and the Acts and the landscape. So, that is the challenge and what we see clearly is the need to bring all of these together comprehensively. The second is the extent to which we as business and other stakeholders are engaged in consulting on what the plan looks like. It is really important because that has been at arm's length and lip service in a lot of circumstances.

The other thing to note is that the success that was gained on (employment task system) and its contribution in terms of workplace skills. In its first year of operations, 648,000 employment opportunities were created with 35% absorption of the youth into permanent jobs. And that has contributions in terms of the placement of young graduates between the ages of 18 and 30. And it has often been combined with formal and informal workplace training. The formal workplace training experience in the forms of learnerships has been different depending on the sector and how effective the SETA is. Some SETAs have not been able to issue formal learnerships for quite some time. And that is a challenge. The CEOs initiative is an initiatives consisting of individual CEOs is exploring the YES concept in the youth employment service whereby the intention is to place 300,000 youth into workplace environment in a one year experience for three year period. So, they are targeting 1 million youth. They have settled for informal workplace experience given the current environment where it is difficult to access formal work experience.

JUDGE HEHER: Can I just understand this 300,000 youth, are they going to be graduates, or people are not in employment or people seeking employment? What are they?

MS COHEN: They will be first time work seekers. They will also be between ages of 18 and 30 because of those on employment tax incentive. CHAIRPERSON:

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JUDGE HEHER: It may include unemployed graduates?

MS COHEN: Absolutely.

JUDGE HEHER: What sorts of jobs are we talking about?

MS COHEN: It could be anything. What we've seen from the employment tax incentive is that labour employers that employing young people tends to be the services sector and small takes from manufacturing. The sectors are just retails, hospitality, contract cleaning, security and agriculture. And it is not only big businesses, but also smaller businesses. It is not confined but some sector will be able to take more than the other.

MS LT KHUMALO: So, it is still a concept?

MS COHEN: It is a concept. It is quite actively being explored and led by Steve of Investec and Collins from Goldman Sachs on behalf of the CEO initiative. They have progressed with having conversation with government. They are also exploring a partial contribution holiday for the employees under this concept. But there is an agreement with the Minister of Finance on behalf of government to proceed with it as soon as possible.

JUDGE HEHER: But the first of the million has not yet been deployed?

MS COHEN: No, other than to the employment tax incentive process which is on-going at this stage?

ADV G ALLY: if I can understand the two concepts correctly. You are aware of the gripe of the students at TVET with regards to not being able to receive certificates because they can't get workplace-based training. What I put to Mr Mokoni from SACCHI was and I put you: how is it possible that you are aware of a person cannot get employment because they are looking for papers and cannot get the papers because businesses are not taking them? And about you are talking of 625,000 employment opportunities; perhaps you can explain that to us and also what BUSA is doing with regards to the challenge of certificate.

MS COHEN: I think with regards to the challenge of the certificate, if you ask businesses why they are not giving them workplace experience, I think that is a key

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question. Some of them; would say how do we fund and manage these students in the workplaces? When I say manage, those are some of the feedback from the employment tax incentive experience. It is that you need to have a different induction as introduction into the workplace when you are dealing with first time employees. I think one of the challenges is that you are as a business you have to be in sustainable yourself to be able to take in people in this way.

JUDGE HEHER: So, it is an on-going progressively worsening situation. What is business doing about it?

MS COHEN: I think the employment tax incentive and the YES process provide possible solution because it is a way in which we can match the requirements. You also did asked important question. The work opportunities under the employment tax incentive are two years work opportunities. Year one, up to 2000 or 50%, depending of the income of the young person is subsidised and year two, that goes down to R1000 a month. So, it has been on-going employment over two year period. And the 30-35% absorption rate is after the end of the two year period where those people remain i other employment in the business.

JUDGE HEHER: I am not sure I understand what you mean by 30-35%.

MS COHEN: There has been a range of research; some of them done by the Treasury and different researchers with different results. Some of the researches have demonstrated 30-35 % and some 5%.

JUDGE HEHER: It is awful result, 5% for 645,000 employment opportunities.

MS COHEN: Well, I think what we've got to recognise is that the employment opportunities is for a two-year period. And there has been other research that suggests that when you have workplace opportunity, your employability increases in a multiplied ways; the rate of employability goes up to 80% of what it used to be. So, this is direct employment into different roles.

ADV G. ALLY: One other aspect is that the TVET colleges have problem with lecturers' qualifications. So apart from certificate issue, the gripe of the students is that you have a lecturer teaching without practical experience of what the subject,

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but just theoretical knowledge. Has business thought of coming up with innovative ideas to help out in that regard?

MS COHEN: A lot of our businesses in many sectors are already doing that. They voluntarily form relationships with TVET colleges where they give the lecturers experience in the business and business people go and lecture. So, they have partnerships arrangement. Actually my erstwhile employer had such arrangement in the Western Cape where they've been partnering with SETA in that regard. And there are a number of them. That is certainly happening and it is not to say that there are no opportunities to leverage across more TVET colleges. It is something that we have started to speak about but do we have the programme in place for that? Not at this stage.

MS L.T KHUMALO: What are the demographics of these numbers?

MS COHEN: That information is available. I wouldn't be able to give it to you now, but treasury did a detailed economic report on it. All I can say is that it was heavily weighted towards black people and obviously women as well. We can forward that because it is on treasury website.

MS L.T KHUMALO: And in terms of geographical; urban, rural?

MS COHEN: It was a bit of both, but I think mainly urban and it was linked to where the firms were.

MS L.T KHUMALO: What I am to establish is if it progressively realise the right of all, so to speak in that it is not only people that are exposed are the beneficiaries. Do you think it has that potential?

MS COHEN: It certainly does and if one looks at the benefits that were identified by the research; we did our own research as business as well, which we looked qualitatively at the impacts; it's that they were significant benefits in terms of people accessing portals in terms of employment, skill development, dignity and self-determination and the people thinking they were employable and were able to access the job market which before they didn't have the opportunity. I am going to move forward with your permission.

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Corporate social investment; we have tried to do a rough work, BLSA- Business Leaders South Africa and Chambers of Mines- Mr Ali can speak to that when he presents – that their contributions towards higher education amounts to 2-3 billion annually. In addition, other sectors, doing business in the areas of charters, councils, there is additional estimated 5 billion that is contributed.

MS L.T KHUMALO: Sorry, is that support that direct to tuition fees or?

MS COHEN: It depends on the charter of council. It is directed. Some goes for women, for example, education at management level. It depends on the objectives the sector has set for themselves and what the main challenges are. There is also flexibility in terms of how businesses engage realizing that one size fits all is not strategic in terms of how they support.

ADV LEKOANE: So, it could also take the form of a bursary or loan?

MS COHEN: Yes. And there is of course the 6% contribution to skills development. It is regulated through the triple BB and double EE requirements. A significant amount of that is allocated to post-school and higher education

JUDGE HEHER: This is voluntary contribution?

MS COHEN: It is voluntary but you get acknowledged particularly if you provide public services and you meet the requirements.

JUDGE HEHER: What percentage of your members makes these contributions?

MS COHEN: I will not be able to tell you on top of my head.

ADV LEKOANE: You will recall Ms. Cohen one of the recommendations made by the BBBEE was 25% of the 6% contribution be redirected to funding bursaries for missing middle students. Now, what will the impact be on skills development if that was out?

MS COHEN: I think the principle to directing some of the funds to higher education is helpful one and I said higher education deliberately because it is not just about bursaries. I think part of the challenges business is having is that we want to create the skills we need. If you are funding bursaries for qualification that is not applicable

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to the business now or in future, you are going to be doing disservice to the student and to the business, because there is going to be mismatch.

I think it is also important to note some of the engagements that BUSA and its members are looking into. The one is the (ECOSA) initiative and the National Education Crisis Forum. The ECOSA initiative I believe they have been before you and I don't need to go into details. I am not sure you are familiar with the Moseneke Commission, but it is essential a dialogue to try and unlock the challenge that brings parties together.

JUDGE HEHER: We haven't been a party to it. We know nothing about it.

MS COHEN: Noted

ADV K PILAY: Chair, just to note that we will be having someone from the NECF to address us.

MS COHEN: I think it is important to also note that BUSA works closely with NSFAS in terms of turnaround strategies, they system strategy and extensive technical support is offered to the entity through business. And at firm and sector levels, in partnership with other mix, we make overall big contribution to education through different mechanisms and processes. These contributions are around innovation and demand-led contributions in terms of development of skills that are needed.

In terms of previous business engagements and positions on this issue, we have given extensive positions and critical inputs to the green and white papers on post-school education. At the time in 2012-2013, we identified the challenges in terms of inadequate resources relating to NGO roles, maintenance and expansion. We noted the concerns at that time the burdens on the state, the fiscals and infrastructure capacity constraints in the high education system.

And we don't believe as a constituency that we were adequately engaged or heard on these issues. We were not taken along in the process because we could have been part of better solutions. We do believe we have a role as a social partner in terms of proffering solutions, and that we should be engaging and we are as business are committed. We also think NEDLAC has a role to play as experienced in

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successful labour relation and settled national minimum wage. And the structure of having committee of principals led by the Vice President with key government ministers involved supported by technical team, we think it is the type of process that can help us with finding a more sustainable solution in this space.

ADV LEKOANE: Sorry, Ms Cohen. The (ISFAB) model actually goes beyond social partnership. It faces one of the biggest assumptions that business will actually contribute money to making the model successful. Can you just tell us a bit more about that?

MISS COHEN: The proposal as I understand is that there is voluntary contribution from those who are able to avoid it. We do think that it is a solid proposal and it is something that we will engage with. We need to say that we are in support of the short term intervention that has been proposed by the Minister of Higher Education with regards to funding poor and missing middle, but we do believe we have to find ways in which this is done without placing obligatory burdens on corporate South Africa.

JUDGE HEHER: Sorry, what are you referring to? Are you referring to the absolution of the students from the liability to pay the increases of the previous two years? Is that what you are concerned about when you speak about the proposal of the Minister of Higher Education?

WITNESS: It is that there aren't increases and that is in combination with initiatives from NSFAS as very meaningful short term intervention.

ADV LEKOANE: If I may go back to the voluntary nature of the contribution. What would that do to the sustainability and predictability of the model?

MS COHEN: We think that there are a number of businesses that are willing to participate and the ability to do so on continued basis will probably remain in place depending on their business sustainability. I think for businesses it is sensible to invest a solution that is longer term than to change every year. So, if there is a package of intervention delivers to business where they can invest their corporate social investment or skills contribution, in a streamlined manner, I think there is no reason business we will want to jump in and out of that.

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ADV LEKOANE And does that mean want return on investment and at what time?

MS COHEN: I think there is a high recognition by many businesses that they want to achieve national objectives, not necessarily a direct return on investment.

In terms of fees-free higher education, obvious it is a mechanism to make access into higher education accessible at a low cost to the individual. We have chosen to see it as an access issue not a fee issue because fundamentally, what we are dealing with is access to opportunity and education. However, in South Africa it is not feasible in the light of competing priorities, and payment has to come from somewhere; either from the state or from corporate South Africa through donations or increases in taxes or from households and through taxation or savings. We don't think there is an easy space in any of that to try and find fiscal space, corporate space or household space to actually fund free education for those who need it in the short term.

JUDGE HEHER: We heard a presentation this morning which says the very simple way to do it is by income contingent loan. What do you say to that?

MS COHEN: That is something we wouldn't be immediately oppose to as a short term intervention.

JUDGE HEHER: No, longer time intervention. Basically, what the proposition says is that the government should provide the backing, NSFAS will no longer be required. And because you have a large body of students going through the system, and the banks receiving commercial rates, and a proper recovery mechanism. And a substantial amount of that money will be paid in due course when people can afford it and government backing will not substantially be required. And the more that system is perpetuated, the less banking would be required.

MS COHEN: I think it sounds similar to what happens in Lesotho where they have similar system and you pay back when you've qualified over a period of time. I think what we have to think about carefully is its impacts more differently on students from poor household compared to others. I think what we've been experiencing in our conversation at NEDLAC; the students that have come to us said for them to have

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this debt and loans hanging over their heads when they are going to workplace after they have achieved some significance independence puts them at a comparative disadvantage.

JUDGE HEHER: In the proposition was put to us, the students that don't have those hanging over their heads with still have to repay their own loans.

MS COHEN: So, that sounds like a very good proposal. The next point is just like we are drawing from report of the research that has been done by the OECD in terms of the sustainability and long term impacts of taxes and transfers as a mechanism of sustaining higher education. And it seems the long term impact in a distributive ways is not as high as would expect. So, it speaks to the solution that you are considering. But I think we believe that we have to find sustainable and progressive long term solution to address the higher education funding issues, but it has to be part of a broader solution of how do we address the deficiencies.

ADV LEKOANE: No further questions from us chair.

JUDGE HEHER: Thank you Ms. Cohen

Part Two

JUDGE HEHER: Mr. Ally do you have any objection to taking the oath?

MR MUTAK ALLY: No objection.

JUDGE HEHER: Do you swear that the evidence you will give is the truth and nothing but the truth? If you do raise your right hand and say so help me God.

MR MUTAK ALLY: So help me God.

JUDGE HEHER: Who is leading this witness?

ADV K PILAY: I actually.

JUDGE HEHER: Thank you

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ADV K PILAY: Okay, Mr. Ally. Perhaps we can begin with what your role is at the Chambers and what is it that the Chambers does.

MR MUTAK ALLY: At the chambers of Mines, I am the head of skills development and that is to look at overall skills development and its impacts in the mining sector. My background to skills development; I worked in transportation. I have been in Transnet for 20 years. I ended up in HRD. I have been in retail space and also in steel and manufacturing environment, in HRD and HR skills department. I have now found myself in the mine sector also related to HRD and HR. I currently sit on the Human Resource Development Council as a business nominee. I also sit on the National Skills Authority Board as a Business Representative. I have also been on the board of couple of SETAs as well. My educational background is I hold a Master sin Business Administration, along with the qualifications required for the positions that I have been in.

ADV K PILAY: Can just describe for us what the Chamber of Mines does?

MR MUTAK ALLY: The Chamber of Mines is an association that advocates and lobbies the positions of the mining houses in respect of policy regulation and legislation. We play a booster role not as the apex of the association, call sub-sector, where we represent the interest of all miners.

ADV K PILAY: Are all mining house members of the chamber?

MR MUTAK ALLY: Not all of them but we represent about 90% of them.

ADV K PILAY: All the major mining houses?

MR MUTAK ALLY: Yes.

MS L.T KHUMALO: Is there any limitation to the membership? Or is it holder of mining right who can be a potential member?

MR MUTAK ALLY: Any individual and organisation that is issued a mining right or with associated works with mining can become the chamber's member. And our council vets membership.

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JUDGE HEHER: That means if you supply mining equipment you can be a member.

MR MUTAK ALLY: You can but there are rules and regulations with which you can engage with the chambers. We don't we want to have a scenario where we have a whole lot of suppliers trying to lobby the mining houses as suppliers of materials.

ADV K PILAY: Mr. Ally may ask that you begin with presentation and will put it up shortly.

MR MUTAK ALLY: As Chamber of Mines, we felt we should give some context and introduce our standpoint in respect of higher education. The chamber of mines believe consistent, quality, relevant and accessible tertiary education is one of the keys to South Africa's future and to enable the country to achieve the long term vision of prosperous and inclusive future as elucidated in the National Development Plan. Mining companies directly and through the chambers have over the many decades supported higher education infrastructural development, provided bursaries and scholarships, and sponsored many thousands students at tertiary education and institutions across the country. More than that, the industry is improving primary and secondary education. We do support a vast number of schools through our members.

The chamber recognises that industry needs and benefits directly from qualified, competent and committed graduates. This is not only necessary for the mining of today but it is even more critical for the growth and sustainability of mining of tomorrow as well as the benefits of the country as a whole. We cannot achieve NDP vision without a high calibre of graduates from our universities.

We agree that social partners should be part of the discussion related to the challenges and solutions in higher education. The chambers and its members believe that higher education should be funded properly by government with contributions from corporate sector and slightly small contributions from students. Government should over time be encouraged to allocate great share of its revenue streams towards higher education whilst balancing this with other demands.

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JUDGE HEHER: Mr Ally, let me take instruction from evidence leader. Mr. Ally what do you say About lunch break?

EVIDENCE LEADER: We are happy to take lunch break if Mr. Ally is willing to continue after break.

JUDGE HEHER: Half an hour adjournment until after break.

MR MUTAK ALLY: I am flexible either way.

JUDGE HEHER: Half an hour adjournment thank you.

BREAK

MR MUTAK ALLY: The climate that currently prevails has impacts in what we are trying to achieve. A lot of the statistics are probably known to this Commission. The slide bottom bullet shows the concerns in terms of the contribution of South Africa as the percent of GDP towards the funding of higher education in comparison to some other countries, you many countries having emerging economy lacking behind. Another concern is the situation that arises at the TVET colleges is the productivity which are extremely low and it is a serious cause for concern. There are plans to address those components chair or commissioner mentioned earlier on about the National Skills Development Plan within the context of processes that are being looked at in terms of how we achieve the objectives such as the quality of the educators themselves in these colleges. Unfortunately, these processes are not happening at the rare they suppose to be happening.

The other aspect is the challenges the mining and manufacturing sector is currently facing in terms of its production and where it is currently placed economically.

ADV G. ALLY: Are you aware, just going back to your first bullet point in term of unemployment that there is statistics about graduate being around 5-6%? However, unemployment among black graduates is around 16 and 19 % which is also a cause of concern. It should have been mentioned to BUSA. Are you aware of the statistics and the initiatives to improve them?

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MR MUTAK ALLY: I am broadly aware of the situation. I am also aware that there has been progress to reduce the percentage, however not substantially enough. It is a problem that has been identified and need to be addressed under other transformative policies that we have.

ADV G. ALLY: Concerning education Mr Ally what kind of wasteful expenditure are you talking about?

Just in terms of our recovery in terms of taxation, the 30 billion shortfalls has meant that our budget and the way we approach it. We need now to look at taxation increases. If we have recovered that 30 billion we could use it elsewhere. Another is one comment made was that when one sees an expenditure that is not reaping a lot of results, society starts to lean towards tax evasion, and this leads to us having shortfalls in our fiscals. The wasteful expenditure has also been in terms of the overspend. If you look at the municipal, local and national government budget and report last year, you will see a lot of wasteful expenditure which was over R40 billion. What the mining sector is saying that lets become more focused in the way we funding our initiatives. It is easier said than done because has it unique situations we have high unemployment, huge social burdens and economy that grows at less than 8%, etc. It is a tough one but the sector believes if we are focused we will be able to channels some of these funds rightly.

The Chambers of Mines and its members remain committed to engaging all its stakeholders to resolve the challenge facing the entire free education. We do believe it is not entirely about fees in higher education, even though that is what we are here to discuss. We need to look at the entire system because they are interlinked in so many ways, because it only through social consensus that we can address the challenges in basic and higher education holistically. One area we haven't looked is the basic education environment. And that has a huge implication to the higher education space. One is forced to believe that the post-school and higher education trainings have to compensate for the shortfalls or shortcoming of basic education. I thank you.

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MS L.T KHUMALO: Just one last question Mr Ally. On the skills side, I remember you saying it works fine because you are able to get skills for your sector. Is there success in that? Do you get enough miners, engineers and all of that?

MR MUTAK ALLY: We do have success in those environments and in terms of the targets we try to achieve, we do achieve those as well. One of the challenges for us is in terms of the huge focus in terms of the artisans. What we've cracked over the years in the sector is that the demand for artisans within the mining sector has gradually increased over the years. But we are still sitting with vision 2030; which say we need 30,000 artisans by 2030. Training wise, there are trainings developed, but absorption wise is not so great. Personal opinion is that we've got great strategy and plans, it is just time for execution and implementation.

ADV K PILAY: Thank you Chair. We have no further question

JUDGE HEHER: Thank you sir.

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SET 8 – HEARING 1 – DAY 3

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