

# Department of Higher Education and Training

## Ministerial Task Team Report on a Support and Funding Model for Poor and “Missing Middle” students.

*11 January 2017*



Ikusasa Student Financial Aid  
Programme (ISFAP)



# Agenda

Background

Governance & Operating Model

Funding Model

Legislative Changes

2017 Pilot

Progress Made



# Agenda

## Background

Ikusasa Student Financial Aid Programme (ISFAP).



# Background

- 2010 Ministerial Committee on Review of NSFAS
- 2013 Working Group Report on Free University Education for the Poor in South Africa - recommended a policy dialogue model to determine parameters
- 2015 Presidential Task Team Report - recommended a reviewed funding model for poor and missing middle students be developed and tested in the 2017 academic year, for full implementation in 2018 if practical
- Ministerial Task Team (MTT) established on 13 April 2016 to develop a support and funding model for poor and “missing middle” students
- MTT chaired by Sizwe Nxasana Chairperson of NSFAS

# MTT Mandate

- Determine and advise on alternative financing and operating models for funding very poor and “missing middle” students
- Consider relevant legislation, public policy findings and recommendations of Presidential and Ministerial Task Teams, reports and guidelines
- Funding of occupations in high demand
- Create an efficient and robust model
- The Minister also appointed a Reference Group to interrogate the findings – all relevant stakeholders included and replaced the policy dialogue

# MTT Work streams

## **Seven Workstreams made up of:**

- Project Management
- Legal
- Funding
- Origination
- Social Impact Bond (SIB)
- ISFAP Pilot
- Systems and Technology

## **Consultation with business:**

- Business Leadership South Africa (BLSA)
- Business Unity South Africa (BUSAs)

# Ministerial Reference Group

## 1. Student Organisations invited:

- South African Union of Students (SAUS) (attended)
- South African Students Council (Sasco) (attended)
- Pan Africanist Student Movement of Azania (PASMA)(did not attend)
- Democratic Alliance Student Organisation (attended once)
- EFF Student Command (did not attend)
- South African Further Education and Training Student Association (did not attend)

## 2. Higher Education Institutions' bodies:

- Financial Aid Practitioners of South Africa
- The Universities Council Chairs Forum (UCCF-SA);
- Universities SA (USAf)

## Ministerial Reference Group ...

### 3. Government departments and agencies:

- Department of Higher Education and Training
- Department of Finance/National Treasury
- Department of Planning, Monitoring and Evaluation
- Department of Trade and Industry
- National Student Financial Aid Scheme (NSFAS)
- Sector and Education and Training Authorities (SETAs)
- South African Revenue Service (SARS)
- The Broad-Based Black Economic Empowerment Commission
- The Council on Higher Education (CHE)



# Agenda

## Governance & Operating Model

Ikusasa Student Financial Aid Programme (ISFAP).



# ISFAP Blueprint

- Blueprint: Ikusasa Student Financial Aid Programme (ISFAP)
- Section 29 of the Constitution of the Republic of South Africa, section 29(1) states:  
*Everyone has the right –*
  - (a) to basic education, including adult basic education; and*
  - (b) to further education, which the state, through reasonable measures, must make progressively available and accessible.*
- Basic education is a fundamental right, while further education (especially higher education and technical and vocational education and training) must be made progressively available and accessible

# ISFAP Blueprint

- A significant number of very poor and “missing middle” TVET students are already receiving fee-free education;
- Possible and financially viable in the short term to offer fee-free university education with a combination of grants/bursaries, expected family contributions (EFCs) and loans to poor and “missing middle” students.

# Key Strategic Objectives of the Model

## 1. Promote progressive support to financially needy students to access higher education

- The Constitution of the Republic of South Africa clearly supports the notion of affordable higher education for all and progressive support for financially needy students to access higher education, but it does not promise free higher education

## 2. Improve efficiency of the new model over the current model

- Create an efficient and robust model to minimise leakage, fraud and risk in the granting and disbursement of bursaries and loans to deserving students

# Key Strategic Objectives of the Model

## 3. Align the skills promoted by the model with the NDP and Human Resources Development Council Strategy

- Fast track South Africa's skills production for the 21<sup>st</sup> century
- Incentivise all stakeholders (government, students, universities, TVET colleges and private sector) to focus on producing skills and occupations in high demand (OHD)

## 4. Reduce the dropout rates of poor students

- Provide sufficient funding to poor and "missing middle" students to cover the full cost of study at universities
- Provide comprehensive psychosocial and life skills support for all students funded

# Key Strategic Objectives of the Model

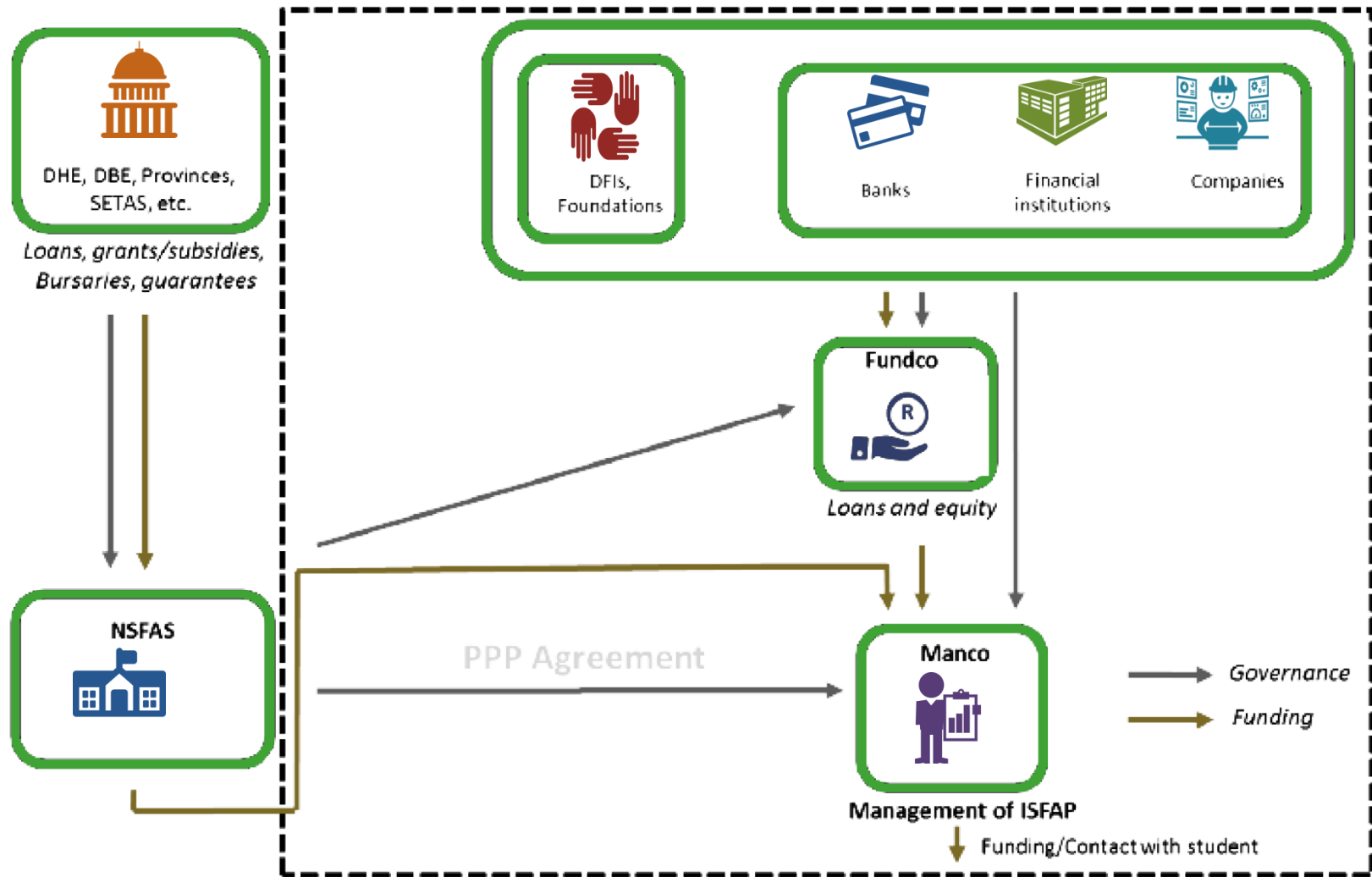
## 5. Improve “skin in the game” in the future of South Africa for all

- Create a shared and common vision for education in South Africa.

## 6. Shared responsibility for funding students in higher education and training

- Leverage funding from various sources including the private and public sector to effectively fund students at universities and TVET colleges

# Governance and Operating Structure

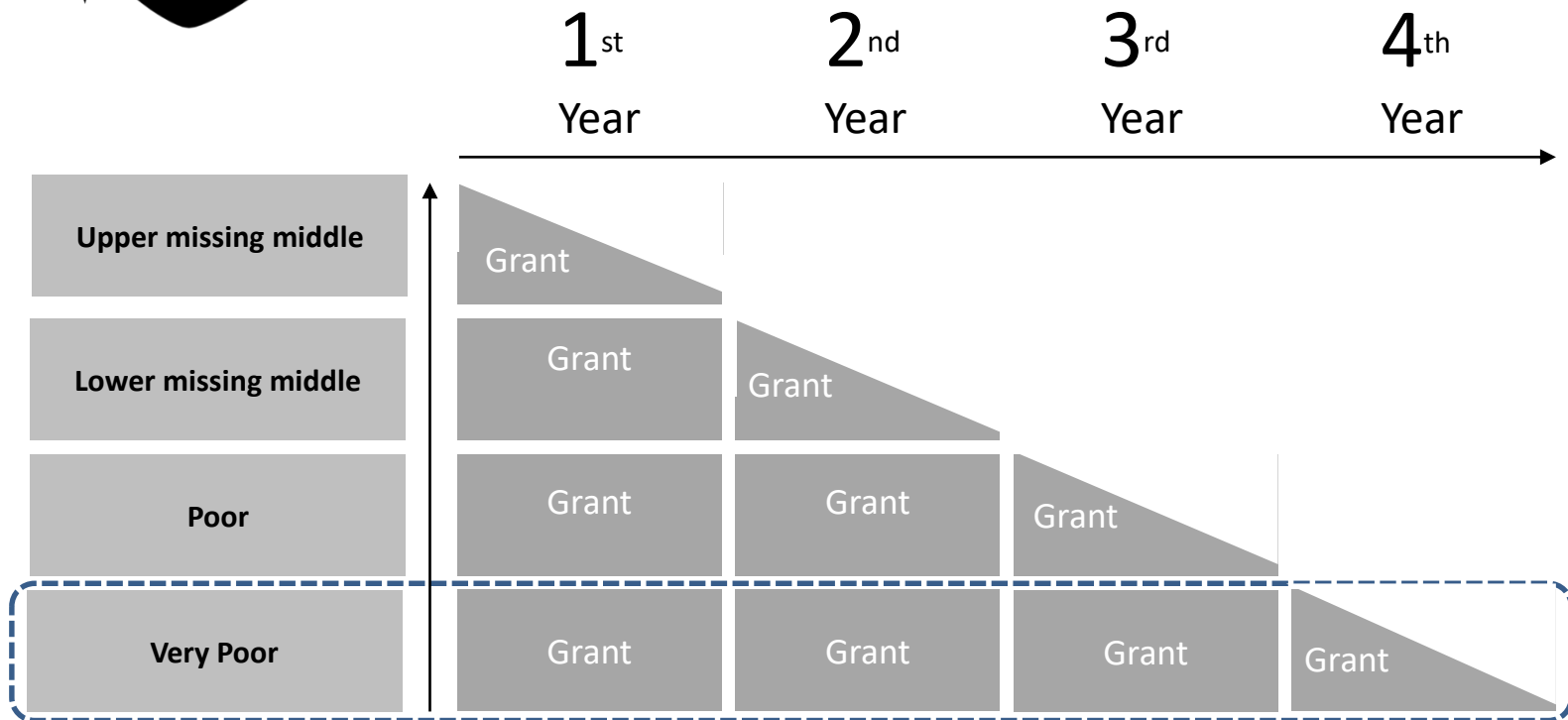


Ikusasa Student Financial Aid Programme (ISFAP).

# Grant decision matrix (illustrative for a 3 year programme)



Loans according to higher loan repayment  
(due to drop out) plus household means

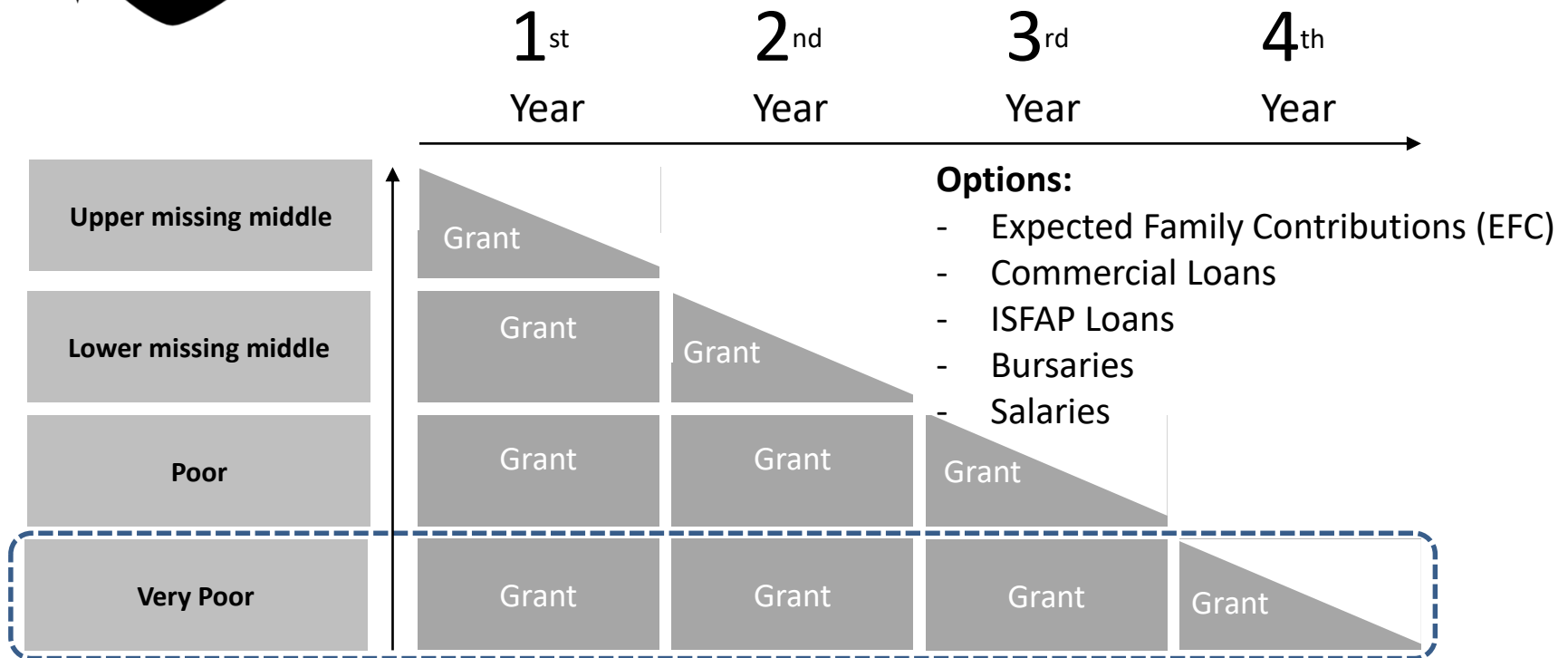




# Funding Full Cost of Study (illustrative for a 3 year programme)

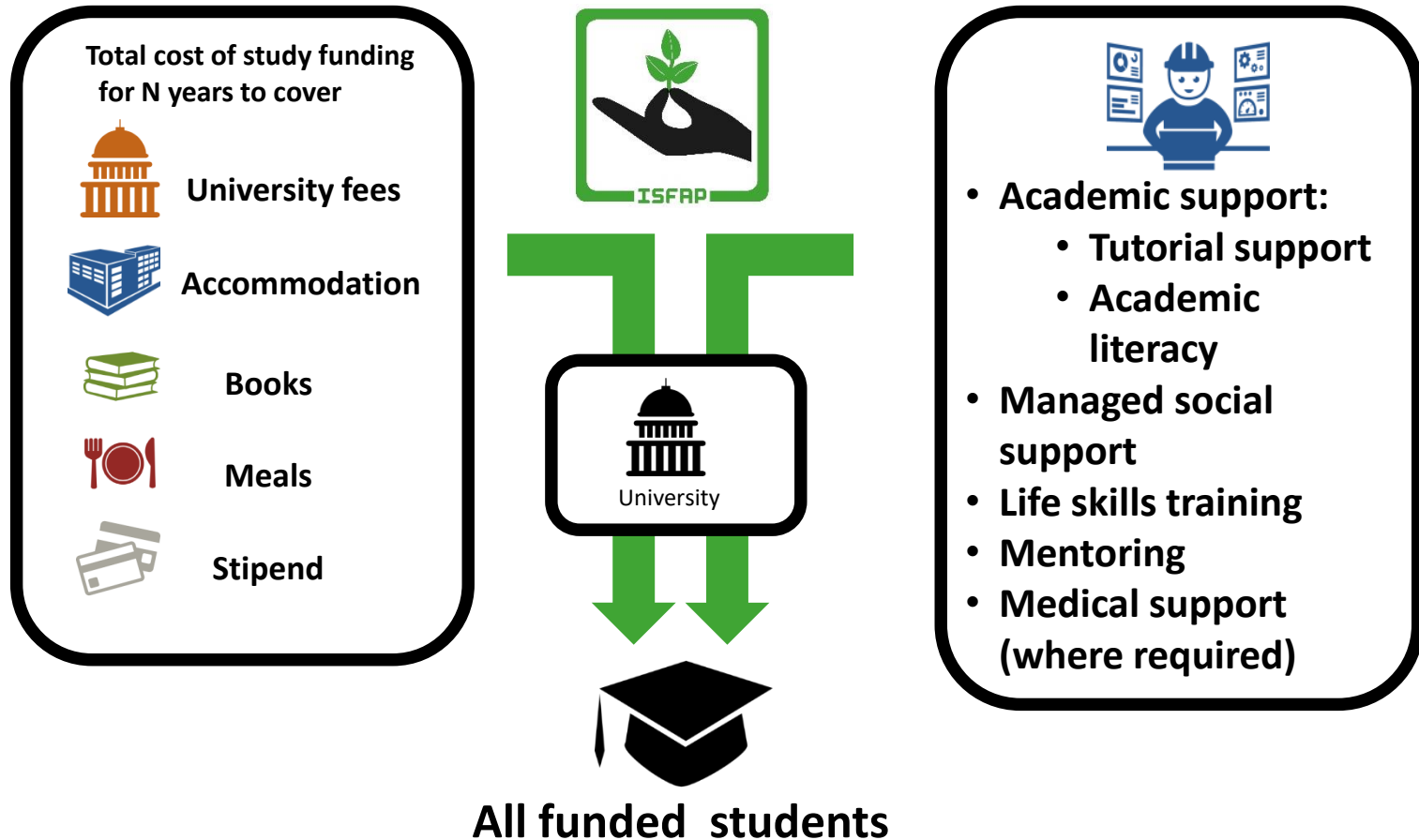


Loans according to higher loan repayment  
(due to drop out) plus household means



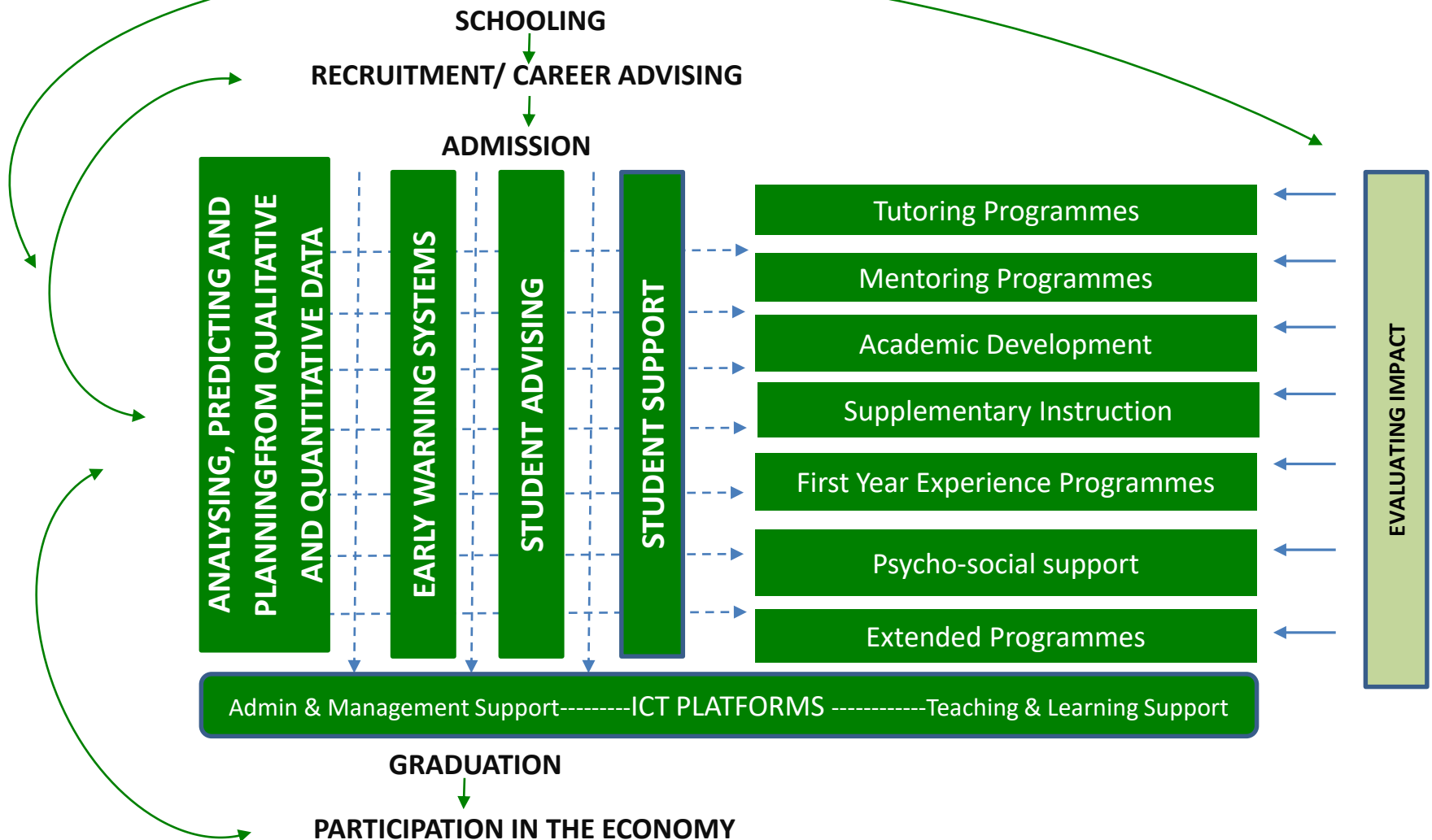
# How Will ISFAP Work For Students

Students will supported for the duration of their studies



# University Capacity Development Programme

A structured approach to improving student success – ISFAP wrap around integrated



# Agenda

## Funding Model



# Funding Model Assumptions

For the purposes of understanding the required funding, the following assumptions have been made to arrive at scenarios for required for funding:

- **Cost per student** is assumed at **R92 000** for 2018:
  - This is arrived at with attention paid to the **2015 average full cost of funding** based on the **Performance and Expenditure Review of the NSFAS**. This is an average total cost of study across higher education institutions
  - Student numbers modelled include **contact and distance students** pursuing **bachelor and diploma studies**
- Costs per annum = (student numbers) x (relevant total cost of study per year)

# Funding Model Assumptions

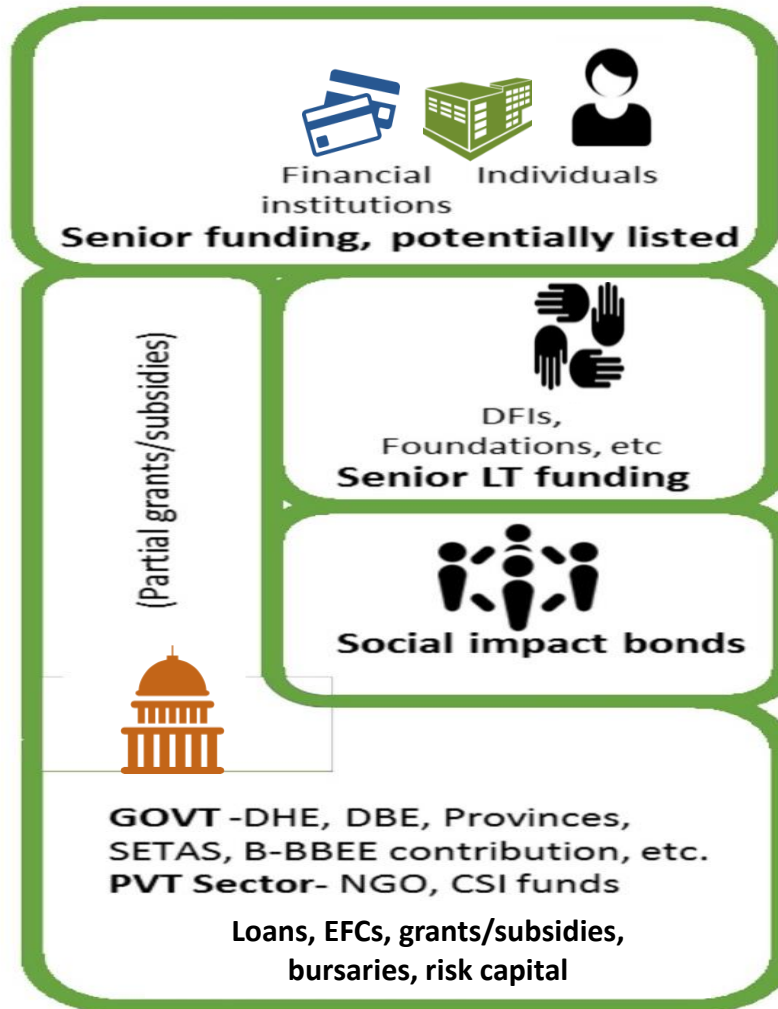
- University student numbers are modelled from the **Actuarial Society of South Africa 2008 Population Model** adjusted by the number of matriculants in each year that eventually go on to study bachelor degrees and diplomas
- Household income distributions are based on the **Statistics South Africa 2011 Income and Expenditure Survey** with income adjusted by inflation to 2016
- **Expected Family Contributions (EFCs), Grants and Loans** used for funding

# Funding Implications

## FUNDING COST IMPLICATIONS - 2018

Income band	< 150k	< 300k	< 450k	< 600k
Number of university students funded (cumulative)	209,907	334,761	397,187	501,232
% university population (cumulative)	30%	45%	52.5%	65%
Funding cost (R 'bn) (cumulative)	19	28,9	33,8	42

# ISFAP Sources of Funding



Returns: commercial  
 Tenor: 5-7 years  
 High Credit Risk  
 First Loss / Guarantee  
 (Gov. or private risk capital)

Returns: commercial  
 Tenor: 10+ years  
 High Credit Risk  
 First Loss / Guarantee  
 (Gov. or private risk capital)

Returns: outcome dependent  
 Tenor: 5-7 years

**Loans**  
 Returns: outcome dependent  
 Tenor: 5-7 years  
 Credit buffer up to  
 reasonable expectation

**Grants, subsidies**  
 – no repayment or specific  
 returns  
 -Contributions by Measured  
 Entities to ISFAP for bursaries  
 to qualify under B-BBEE Act



# Government Funding

	2016/17	2017/18	2018/19	2019/20
	R'000	R'000	R'000	R'000
<b>Administration - subtotal</b>	<b>177,118</b>	<b>185,974</b>	<b>196,760</b>	<b>207,779</b>
<b>Universities</b>				
Universities	4,311,811	4,527,614	4,790,216	5,167,889
Additional allocation	2,039,000	2,991,883	3,012,571	3,012,571
Additional allocation - unfunded		2,369,924	2,559,518	2,764,279
Historic debt	2,543,000			
<b>Universities: subtotal</b>	<b>8,893,811</b>	<b>9,889,421</b>	<b>10,362,305</b>	<b>10,944,739</b>
<b>TVET college - sub total</b>	<b>2,321,745</b>	<b>2,437,620</b>	<b>2,579,002</b>	<b>2,782,709</b>
<b>Universssity + TVET</b>	<b>11,215,556</b>	<b>12,327,041</b>	<b>12,941,307</b>	<b>13,727,448</b>
<b>Grand total</b>	<b>11,392,674</b>	<b>12,513,015</b>	<b>13,138,067</b>	<b>13,935,227</b>
<b>SUMMARY</b>				
<b>NSFAS LOANS AND BURSARIES</b>	<b>11,215,556</b>	<b>12,327,041</b>	<b>12,941,307</b>	<b>13,727,448</b>
<b>FEES SUBSIDIES</b>				
University Fees 2016 FEES subsidies	300,000	2,563,117	2,819,429	2,982,956
University Fees 2017 FEES subsidies		2,469,800	2,617,988	2,775,067
TVET college fee 2017 FEES subsidy		<b>158,230</b>	<b>168,040</b>	<b>178,459</b>
<b>Total:</b>	<b>11,515,556</b>	<b>17,518,188</b>	<b>18,546,764</b>	<b>19,663,930</b>

# B-BEE Skills Development Contributions

- Proposed use of the Broad-Based Black Economic Empowerment Act, 2003 ("BBBEE Act") to actively use the Skills Development Expenditure (6% compliance target) of companies to invest in bursaries for students as envisaged in the model
- B-BBEE Commissioner in the DTI has recommended that a maximum of 25% of the 6% compliance target could be used by private institutions by donating funds to ISFAP
- Engagement with DTI to explore the process required to give effect to the B-BBEE Commissioner's recommendation
- Potentially significant source of funding for very poor, poor and "missing middle" students
- No reliable data to estimate this potential source within a reasonable level of certainty

## Private Institutional/Retail Funding/DFI's

- Key to broaden available funding, including accessing private institutional funding
- To entice private institutional/retail funders, ISFAP entities (Manco and Fundco) need to address several factors that are taken into account when considering investment:
  - Reputation of the institution; Strength of the balance sheet; Risk adjusted returns; Credit ratings; Client mandates; Environment, social and ethical governance; Government and key-stakeholders; Regulations
- Institutional investors need to be made aware of the opportunity:
  - An investment thesis and prospectus will need to be prepared
  - Road shows to investors will need to be undertaken

# Possible Funding Available

	Short Term (2017/18)	Medium Term (2018/19)	Long Term (2019/20)
Government Funding	R17,5bn	R18,5bn	R19,7bn
B-BBEE Skills Development	R8bn	R10bn	R15bn
Private Capital Markets	R2bn	R2,5bn	R10bn
DFIs, Foundations, CSI	R1bn	R1bn	R5bn
<b>Total</b>	<b>R28,5bn</b>	<b>R32bn</b>	<b>R49,7bn</b>

# Summary of the Funding Policy Changes

Lending Programme	NSFAS	ISFAP
Poor Students	<ul style="list-style-type: none"> <li>Income below R122 000 p.a.</li> </ul>	<ul style="list-style-type: none"> <li>Income below R600 000 p.a. (including “missing middle”)</li> </ul>
Rates	<ul style="list-style-type: none"> <li>80% of repo rate</li> </ul>	<ul style="list-style-type: none"> <li>Varied depending on means test and course of study</li> </ul>
Funding	<ul style="list-style-type: none"> <li>Government</li> </ul>	<ul style="list-style-type: none"> <li>Public/Private sector (incl. NGOs, DFIs, etc)</li> </ul>
Debt management	<ul style="list-style-type: none"> <li>Government funded</li> </ul>	<ul style="list-style-type: none"> <li>Privately/Public managed</li> </ul>
Dropout rates & cost to govt	<ul style="list-style-type: none"> <li>High</li> </ul>	<ul style="list-style-type: none"> <li>Low</li> </ul>
Programme qualifications	<ul style="list-style-type: none"> <li>Means test and acceptance to HEI</li> </ul>	<ul style="list-style-type: none"> <li>Means test and acceptance to HEI</li> </ul>
Principal loan forgiveness	<ul style="list-style-type: none"> <li>Government/Donation funded</li> </ul>	<ul style="list-style-type: none"> <li>Government/Donation funded</li> </ul>

# Summary of the Funding Policy Changes

Lending Programme	NSFAS	ISFAP
<b>Loan versus bursary ratio</b>	<ul style="list-style-type: none"> <li>• 100% Loan to all NSFAS qualifying students</li> <li>• 40% converted to bursary if student passes</li> <li>• 100% of final year funding converted to bursary if student pass</li> <li>• Effectively 60% grant 40% loan on completion</li> </ul>	<ul style="list-style-type: none"> <li>• Very poor students receive fully subsidised funding for the minimum qualification time</li> <li>• Poor and “missing middle” split between grants/bursaries and options for funding the balance which includes ISFAP loans.</li> <li>• Higher proportion of grant in year 1 and 2 of study.</li> </ul>
<b>Programme qualifications</b>	<ul style="list-style-type: none"> <li>• Means test and acceptance to HEI</li> </ul>	<ul style="list-style-type: none"> <li>• Means test and acceptance to HEI</li> </ul>

# Summary of the Funding Policy Changes

Lending Programme	NSFAS	ISFAP
Occupations in high demand	<ul style="list-style-type: none"> <li>Limited funding and incentives</li> </ul>	<ul style="list-style-type: none"> <li>More funding, better incentives for students, universities, private sector</li> </ul>
Government overall cost	<ul style="list-style-type: none"> <li>High</li> </ul>	<ul style="list-style-type: none"> <li>Lower</li> </ul>
Loan repayment while at HEI	<ul style="list-style-type: none"> <li>No</li> </ul>	<ul style="list-style-type: none"> <li>No</li> </ul>

# Agenda


## Legislative Changes





## MTT Recommended Legislative Changes

- The **NSFAS Act** amended and expanded to include focus on:
  - reducing dropout rates
  - production of scarce skills (occupations in high demand)
  - support of quality improvements of university and TVET programmes
  - stronger partnership with employers to increase employability
- The amendment of the **Broad-Based Black Economic Empowerment Act** to allow:
  - 25% of the skills development contributions by companies to qualify under the Act.
  - This funding will be used to support very poor, poor and “missing middle” students

## MTT Recommended Legislative Changes ...

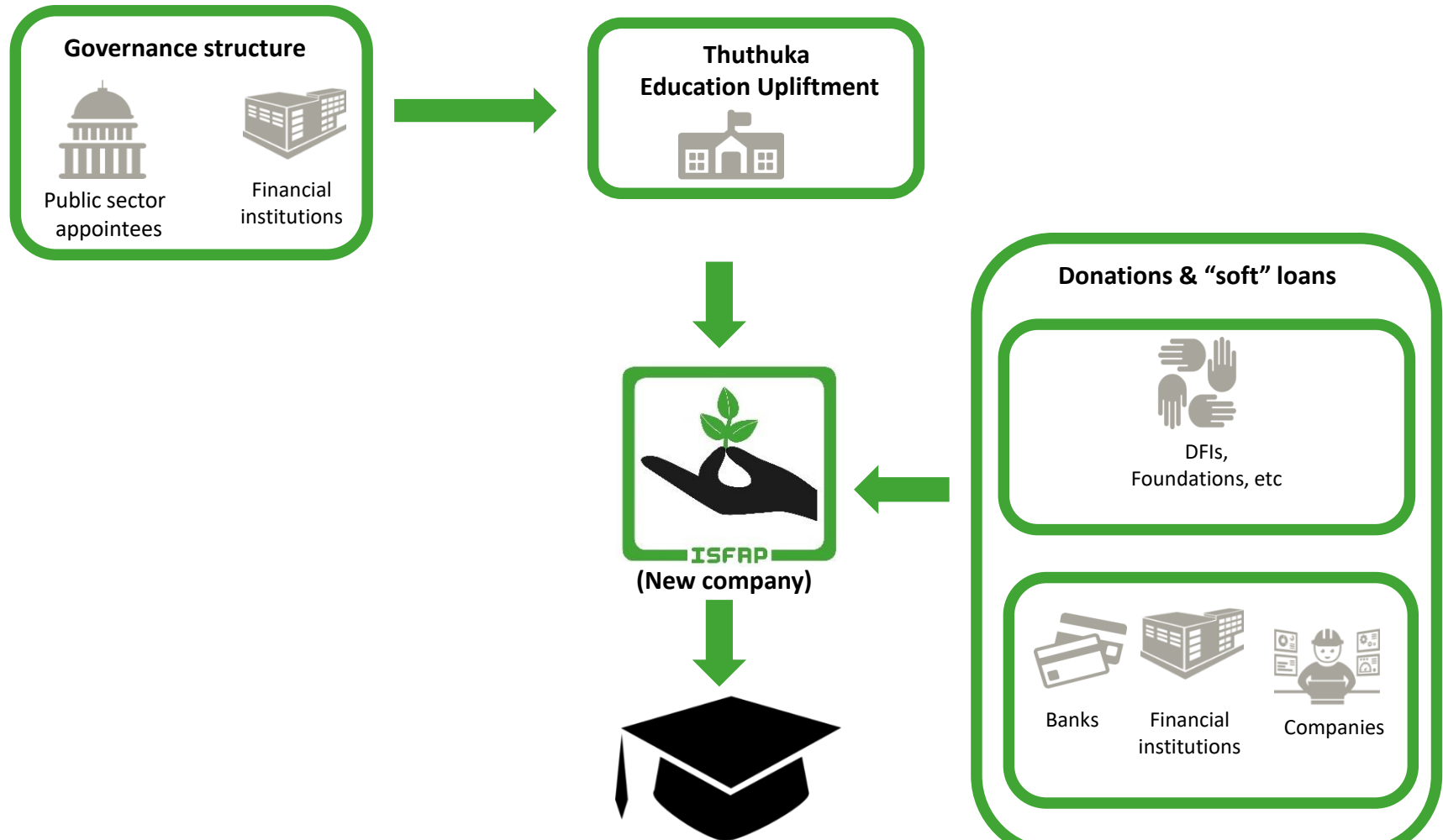
- Various amendments to the **Income Tax Act**:
  - particularly private sector contributions to ISFAP to qualify under section 18(a)
  - deferral of fringe benefits tax on student loans taken over by companies
- The **South African Revenue Services (SARS) Administration Act** to be amended to allow for SARS to collect outstanding student loans as soon as SARS can accommodate this function

# Agenda

2017 Pilot



# Proposed ISFAP pilot: suggested structure



Ikusasa Student Financial Aid Programme (ISFAP).

Limited group of students

# Implementation: Proposed ISFAP Pilot 2017

Goals of the ISFAP Pilot (test areas of ISFAP):

- Selection process (specific areas of this only)
  - ✓ Household means test
  - ✓ Universities list for selected courses
  - ✓ Academic / behavioural strength of student
  - ✓ Focus on professions in high demand, some general formative degrees and artisans
- Use of the NBT test (identify support required)
- Contracting and disbursements
- Structure University/TVET partnerships
- Private sector grant capital raising
- Design of appropriate student support
- Determination of Social Impact Bond (SIB)
- Application of funder constraints
- Administrative requirements

# R200 million targeted for 2 000 “missing middle” students

(based on R100 million -1000 students from 1<sup>st</sup> year to completion)

Universities	Medical doctors	Pharmacists	Actuaries	Engineers	Chartered Accountants	Prosthetists/Physiotherapists	Technical (Artisans)	Humanities (selected majors)
University of Venda					40			20
Walter Sisulu University	20							20
University of the Witwatersrand	100		20	120				50
University of Cape Town	100		20	100				
University of Pretoria	100		20	100	100			
Tshwane University of Technology						50		
University of KwaZulu - Natal	50	20				10		
ORBIT TVET							50	
<b>Total</b>	<b>370</b>	<b>20</b>	<b>60</b>	<b>320</b>	<b>140</b>	<b>60</b>	<b>50</b>	<b>90</b>

**Any student funded will be supported through to the conclusion of their studies**

# Roles and Responsibilities in the Pilot

## **Universities and TVET Colleges:**

- work with the ISFAP pilot team to select students to be included in the pilot
- supply the “wrap-around” support following guidelines set out by DHET and the ISFAP pilot team
- supply programme managers (50% funded by ISFAP)
- to utilise specific custom programme management technology to enable monitoring and feedback

## **Students**

- participate in the first year experience and mentoring programmes
- attend lectures and tutorials
- supply regular feedback for monitoring
- engage with the support system

## Roles and Responsibilities in the Pilot ...

### **The ISFAP Pilot Team (including DHET representatives)**

- the selection of means tested students to be funded
- the disbursement of funds through appropriate channels for studies, accommodation, books, food and stipends
- the structure and management of partnerships between ISFAP and universities/TVET college
- the design and implementation of appropriate student support
- the determination and monitoring of key performance indicator metrics
- the integrated information technology platform for maintaining and tracking student data across multiple fields, which reflect the areas of “wrap-around” support



# Agenda


## Progress Made



## DHET Recommendations

- NSFAS should continue to administer public funding
- ISFAP must leverage the substantial resources put into the new NSFAS student centred model (IT platform etc.)
- A comprehensive feasibility study is required in terms of National Treasury Regulations for setting up a Public Private Partnership project (already registered with NT)
- The Report of the MTT to be published for public comment
- The Report of the MTT to be sent to the Council of Higher Education (CHE) to advise the Minister of Higher Education and Training
- Received comments to be analysed by a Project Steering Committee established by the DHET, supported by the Government Technical Advisory Centre (GTAC)
- Final model be based on outcomes of Pilot, feasibility study and public comments and outcomes of the Presidential Commission

## Cabinet Meeting of 2 November 2016

- Noted the report of the Ministerial Task Team to develop a Support and Funding Model for Poor and “Missing Middle” students
- Approved that the report be published for public comment
- Approved that the model be tested at selected institutions for “missing middle” students in the 2017 academic year

# Feasibility Study

- Will be conducted during 2017
- DHET has sponsored a PPP registration with National Treasury PPP unit
- Project Office established with Sizwe Nxasana appointed as the Project Officer
- Transaction advisors appointed
- Once the feasibility study is complete, the contracting process will begin early in 2017
- ISFAP pilot and detail design and build work will begin in 2017 and feed into feasibility study
- Implementation of the ISFAP model to be decided by government based on the outcome of the feasibility study

# ***Thank You***

**Ikusasa Student Financial Aid Programme (ISFAP).**



Ikusasa Student Financial Aid Programme  
(ISFAP)