Support and Funding Model for Poor and "Missing Middle" students–a public-private partnership

SIZWE NXASANA – NOVEMBER 2016

ISFAP

Terms of Reference DHET Ministerial Task Team

- Support for poor and “missing middle” students?
  - Poor: Household income below R122 000 per annum
  - ”Missing middle”: Household income above R122 000 and below R600 000 per annum .
- Raise sufficient funding (public, private sector and other sources),
- Fully subsidised loans, expected family contributions (EFCs) or loans with progressive reducing subsidies as household income increases,
- Funding of occupations in high demand,
- Proposals for the improvement of the success and graduation rates and reduce drop-out rates,
- Create an efficient and robust model.

Ministerial Task Team Workstreams -Private Sector Development

Seven Workstreams made up of reps from;

- Association for Savings and Investments South Africa (ASISA)
- Banking Association South Africa (BASA)
- Bertha Centre for Social Innovation and Entrepreneurship at the Graduate School of Business, University of Cape Town
- Michael and Susan Dell Foundation
- South African Institute of Chartered Accountants (SAICA)
- Webber Wentzel

Consultation with business

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

Ministerial Reference Group (Input and consultation)

1. **Student Organisations**

- South African Union of Students (SAUS)

2**. 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)

3. **Higher Education Institutions' bodies**

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

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.
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 21st 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 poor students.
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.

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.
- A significant number of 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, expected family contributions (EFCs) and loans to the "missing middle" students.

Student Enrolment Numbers

YEAR	Grand Total	Annual Growth
2009	684416	-
2010	726882	42466
2011	766772	39890
2012	781709	14937
2013	800955	19246
2014	790898	-10057
2015	804089	13191
2016	813418	
2017	822748	
2018	832077	

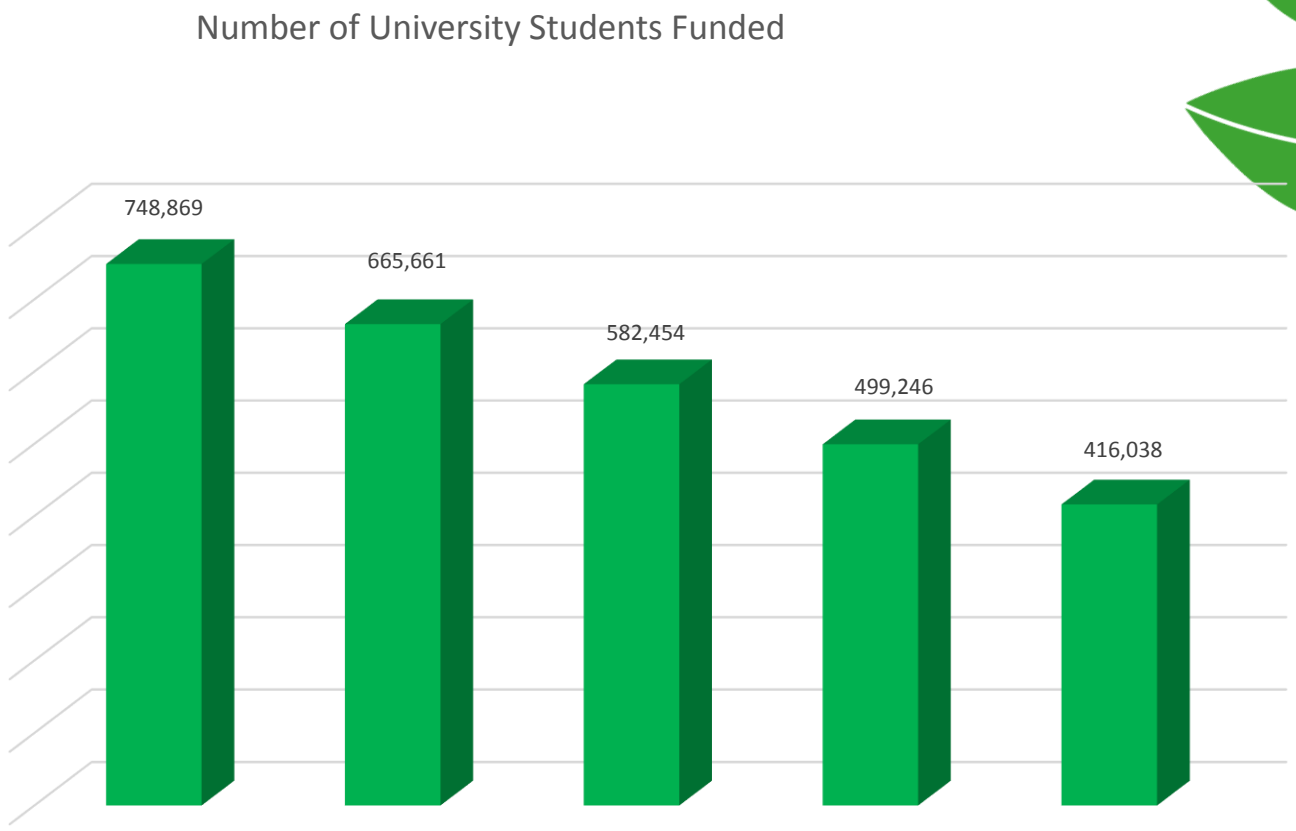
SOURCE: DHET, 2016

Assumptions (2012-2018):

- University student numbers grow linearly between 2010 and 2015
- Annual growth in enrolment is steady between 2012 and 2015, averaging 9,329 students
- Enrolment is assumed to grow at 9,329 students between 2015 and 2018.

*Numbers include full-time and part-time students pursuing undergraduate degrees, diplomas and certificates.

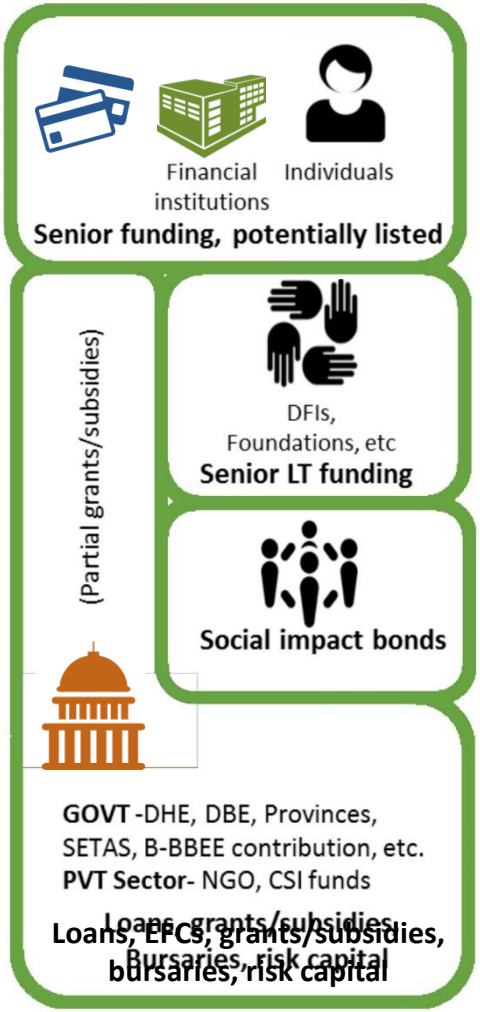
Funding Implications



Funding Cost	R66,786bn	R59,366bn	R51,945bn	R44,524bn	R37,104bn
% of Uni Population	90%	80%	70%	60%	50%

Ikusasa Student Financial Aid Programme (ISFAP).

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

Loans, EFCs, grants/subsidies, bursaries, risk capital

Government funding

	2016/17	2017/18	2018/19	2019/20
	R'000	R'000	R'000	R'000
Administration - subtotal	**177,118**	**185,974**	**196,760**	**207,779**
Universities				
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			
Universities: subtotal	**8,893,811**	**9,889,421**	**10,362,305**	**10,944,739**
TVET college - sub total	**2,321,745**	**2,437,620**	**2,579,002**	**2,782,709**
Universsity + TVET	**11,215,556**	**12,327,041**	**12,941,307**	**13,727,448**
Grand total	**11,392,674**	**12,513,015**	**13,138,067**	**13,935,227**
SUMMARY				
NSFAS LOANS AND BURSARIES	**11,215,556**	**12,327,041**	**12,941,307**	**13,727,448**
FEES SUBSIDIES				
University Fees 2016 FEES subsidies	300,000	2,563,117	2,819,429	
University Fees 2017 FEES subsidies		2,469,800	2,617,988	2,775,067
TVET college fee 2017 FEES subsidy		**158,230**	**168,040**	**178,459**
Total:	**11,515,556**	**17,518,188**	**18,546,764**	**16,680,974**

B-BBEE 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 poor and "missing middle" students but 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

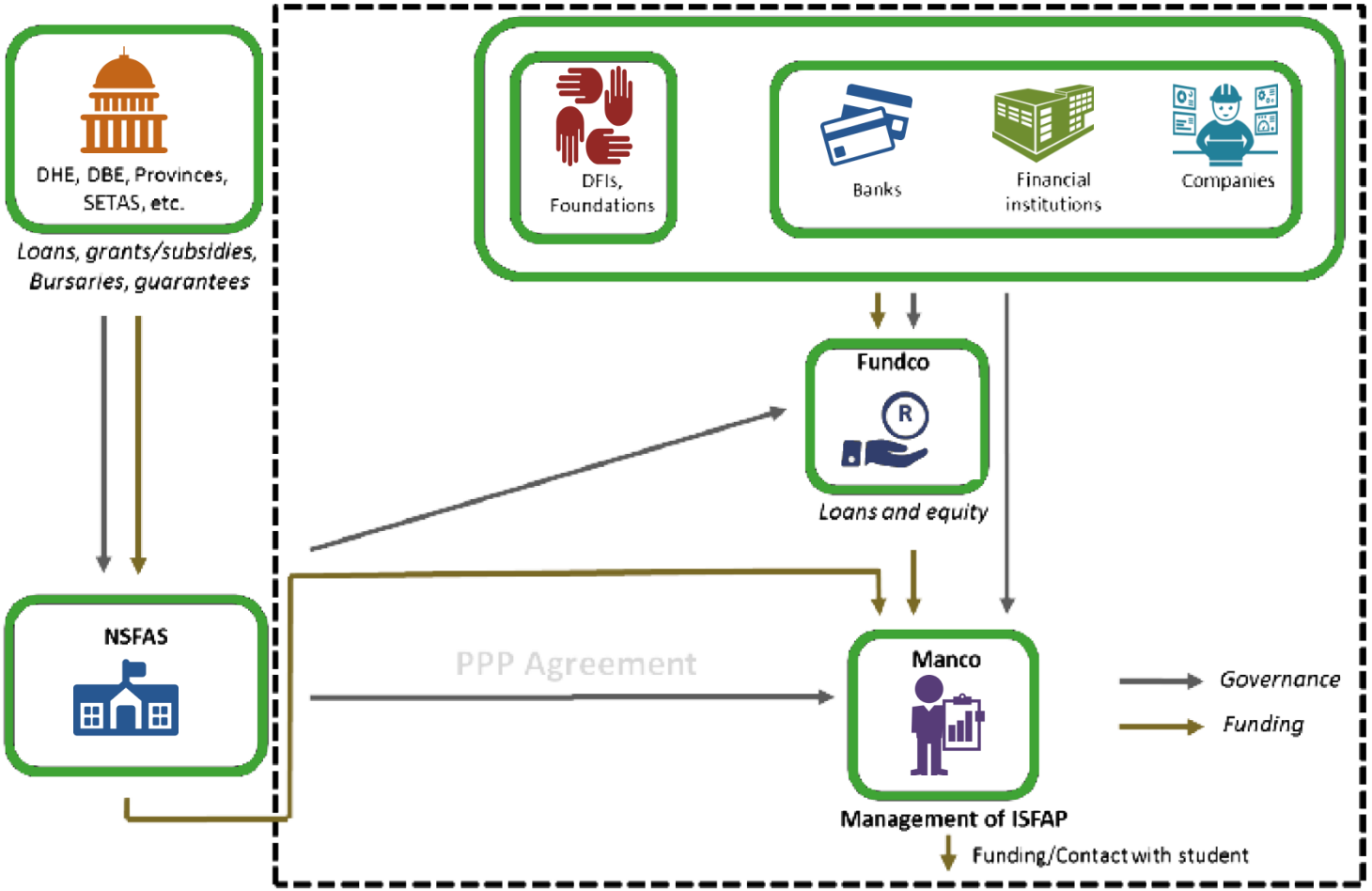
	Short Term (2017/18)	Medium Term (2018/19)	Long Term (2019/20)
Government Funding	R17bn	R18,5bn	R19bn
B-BBEE Skills Development Levy	R8bn	R10bn	R15bn
Private Capital Markets	R1bn	R1bn	R8bn
DFIs, Foundations, CSI	R0.5bn	R0.5bn	R7bn
Total	**R26,5bn**	**R30bn**	**R49bn**

Ikusasa Student Financial Aid Programme (ISFAP).

Motivation for a revised governance structure

- To forge a strong and sustainable public private partnership
- To raise adequate funding from the public and private sectors
- To create the best-of-breed systems which are effective
- To implement a new operating model
- To improve skills capability and communication to key stakeholders

Governance and Operating Structure



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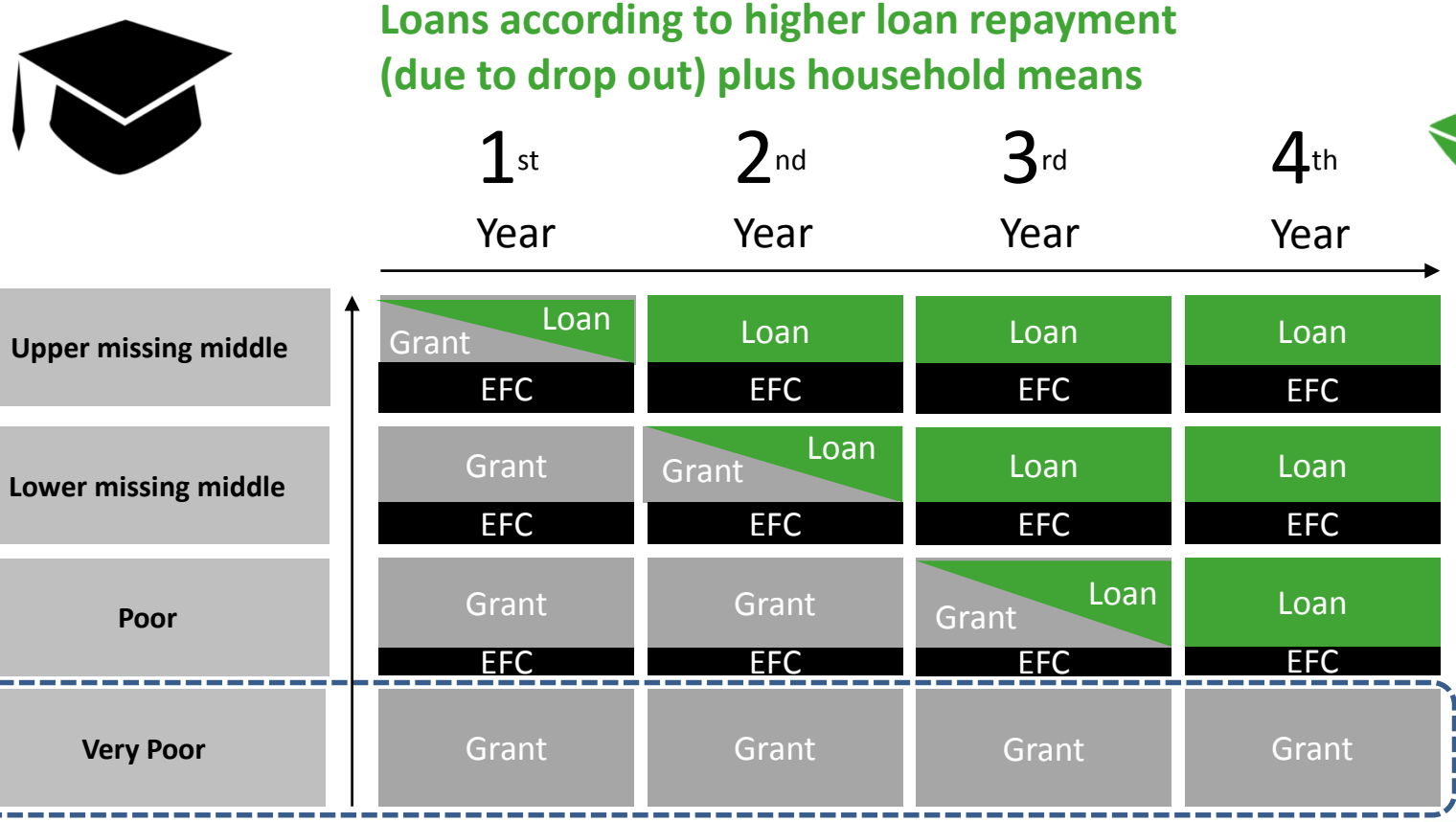
Loan and grant decision matrix

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



Expected Family Contribution (EFC) increases by household means

How will the ISFAP work for students

Students will supported for the duration of their studies

Total cost of study funding for N years to cover

- University fees
- Accommodation
- Books
- Meals
- Stipend

ISFAP

University

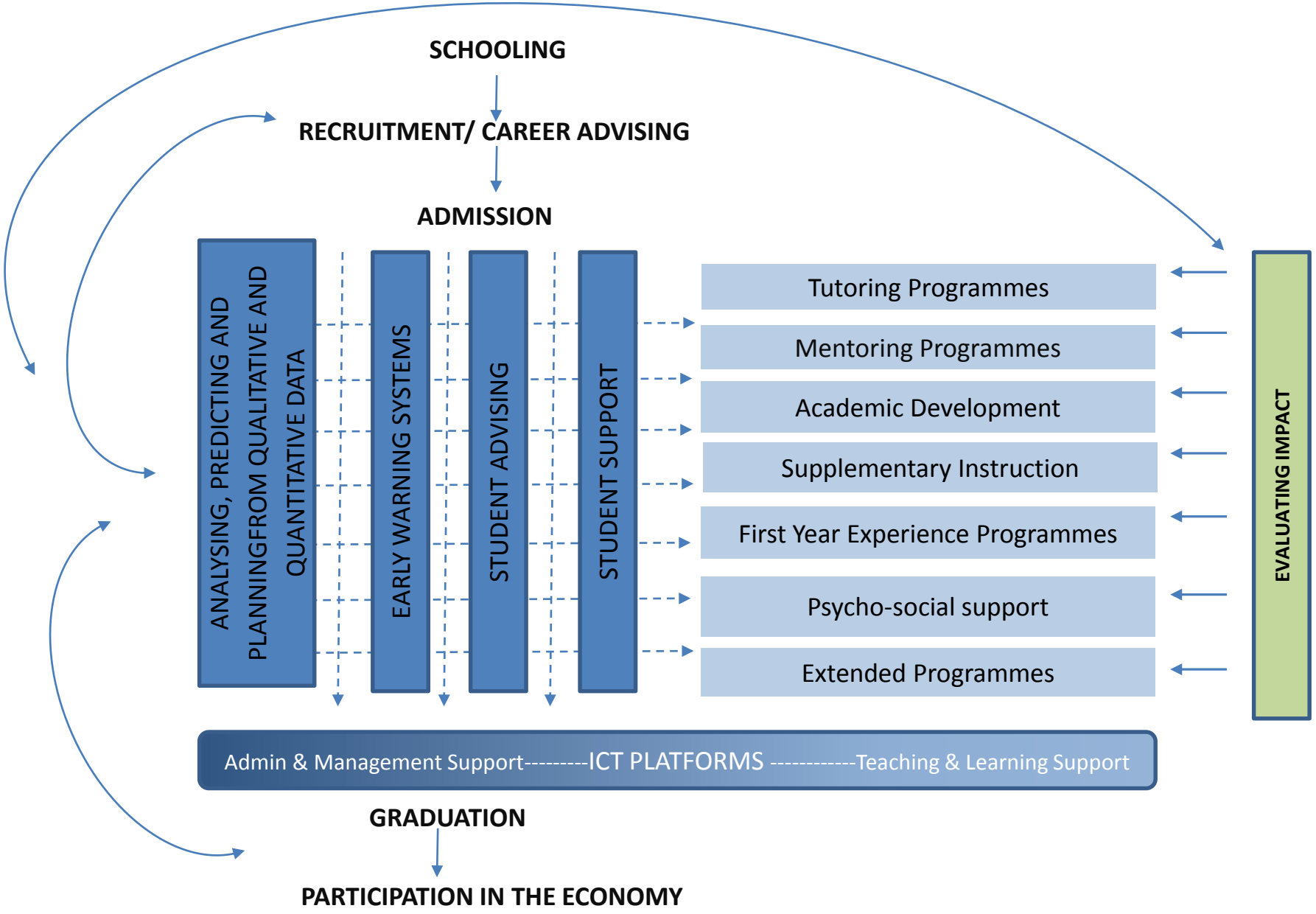
All funded students

- **Academic support:**
  - **Tutorial support**
  - **Academic literacy**
- **Managed social support**
- **Life skills training**
- **Mentoring**
- **Medical support (where required)**

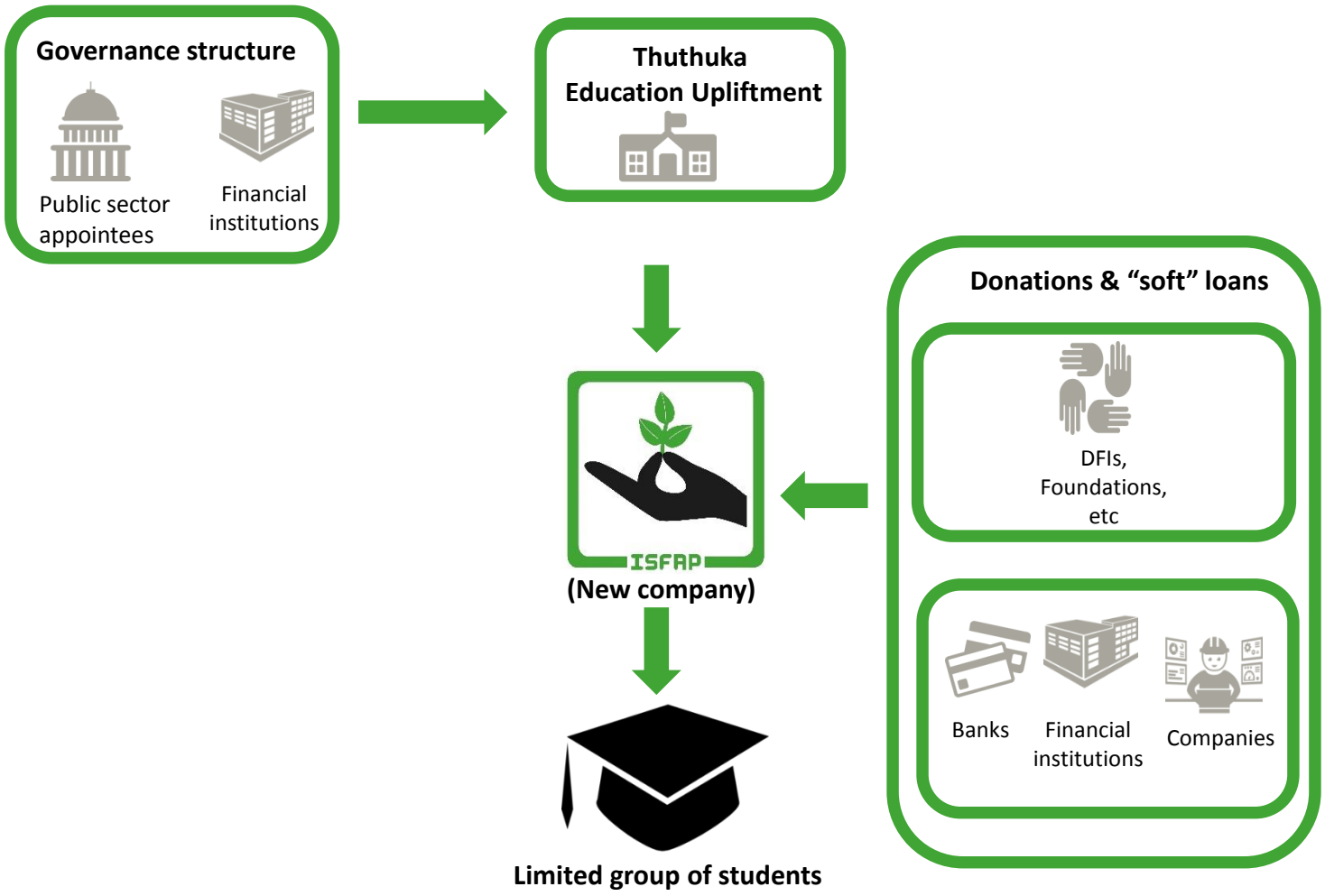
ISFAP

Ikusasa Student Financial Aid Programme (ISFAP).

THE UNIVERSITY CAPACITY DEVELOPMENT PROGRAMME WILL PROMOTE A STRUCTURED APPROACH TO IMPROVING STUDENT SUCCESS…



Proposed ISFAP pilot: suggested structure



Ikusasa Student Financial Aid Programme (ISFAP).

Proposed ISFAP pilot

Goals of ISFAP pilot (areas to test)

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

Pilot: R200 million targeted for 2 000 students

(based on R100 million – 1 000 students from 1st 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	
Total	370	20	60	320	140	60	50	90

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 2017
- ISFAP pilot and detail design and build work will begin in 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.

Ikusasa Student Financial Aid Programme (ISFAP).