



# higher education & training

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Department:  
Higher Education and Training  
**REPUBLIC OF SOUTH AFRICA**

## Report of the Ministerial Task Team to develop a Support and Funding Model for Poor and “Missing Middle” students

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## Glossary

Amortisation	The paying off of debt with a fixed repayment schedule in regular installments over a period of time and the spreading out of capital expenses for assets over a specific period of time (usually over the asset's useful life) for accounting and tax purposes.
ASISA	Association for Savings and Investment South Africa
Bad debt	Debt that is not collectible and therefore worthless to the creditor.
BASA	Banking Association of South Africa
BASA	Banking Association South Africa contributes to the enablement of a conducive banking environment, provides information for consumers, bankers and members of the financial services industry.
BBBEE	Broad-Based Black Economic Empowerment
Bonds	A debt investment in which an investor loans money to an entity (typically corporate or governmental) which borrows the funds for a defined period of time at a variable or fixed interest rate.
Capital Markets	Markets for buying and selling equity and debt instruments. Capital markets channel savings and investment between suppliers of capital and users of capital.
CAS	Central Application System
CHE	Council on Higher Education
CoSATU	Congress of South African Trade Unions
Credit Bureau	An agency that researches and collects individuals' credit information and sells it for a fee to creditors so they can make a decision on granting loans.
Credit Risk	The risk that a borrower may not repay a loan and that the lender may lose the principal of the loan or the interest associated with it.
DBE	Department of Basic Education
DEA	Document Exchange Association allowing the provision of bank statements from a customer's transactional bank (the disclosing bank) to a credit provider where the customer is applying for credit, strictly with the customer's consent.
DFIs	Development Finance Institutions are alternative financial institutions which include microfinance institutions, community development financial institutions and revolving loan funds to play a crucial role in providing credit in the form of higher risk loans, equity positions and risk guarantee instruments to private sector investments in developing countries.



DHET	Department of Higher Education and Training
EDC	External Debt Collectors' are companies or agencies that are in the business of recovering money that is owed on delinquent accounts. They are hired by companies to which money is owed by debtors and they charge a fee or a percentage of the total amount collected.
EFC	Expected Family Contribution is a financial contribution towards higher education that a student's family is expected to make and thus reduces the total funding requirement
ETDP SETA	Education, Training and Development Practices Sector Education and Training Authority
FICA	Federal Insurance Contributions Act
Fee-free	A situation where students receive fully subsidised higher education which includes registration, tuition, accommodation, books, devices, and meals.
FundCo	A special purpose funding company to be created to manage and administer private investors' funds for ISFAP
GEPF	Government Employee Pension Fund
GTAC	Government Technical Advisory Centre is an agency of the National Treasury, established to support public finance management through professional advisory services, programme and project management, and transaction support.
HEMIS	Higher Education Management Information System contains various kinds of data (student and staff numbers, curriculum, financial) relating broadly to the conditions in, and performance of, higher education institutions.
Household means testing	Means test to determine whether an individual or family is eligible for government assistance, based upon the family/household's annual income.
HRDC	Human Resources Development Council
IDX	Consent to electronically obtain account statements from financial institutions
Integration Layer	An integration layer can automate complex business processes or provide unified access to information that is scattered across many systems.
ISFAP	Ikusasa Student Financial Aid Programme
ITA	Income Tax Act
ManCo	The operations of ISFAP will be managed and administered by a special purpose management company ("ManCo") – Effectively and legally this ManCo is ISFAP



Missing Middle Students	Students from middle income households with income higher than R122,000 per annum but do not qualify for commercial bank student loans/finance
NCA	National Credit Act, 2005
NSFAS	National Student Financial Aid Scheme
OHD	Occupations in High Demand, i.e.: scarce skills, as defined by the Human Resources Development Council
PASA	Payments Association of South Africa is the payment system management body recognised by the South African Reserve Bank (SARB), in terms of the National Payment System Act of 1998
PAYE	Pay As You Earn system for the deduction of income tax and other elements such as Unemployment Insurance Fund (UIF) mandatory contributions
PCI	Payment Card Industry Data Security Standard (PCI DSS) is a set of security standards designed to ensure that all companies that accept, process, store or transmit credit card information maintain a secure environment.
PFMA	Public Finance Management Act, 1999 applies to government departments, public entities listed in Schedules 2 and 3 to the PFMA, constitutional institutions and the provincial legislatures.
Poor students	Students from poor households with an income below R122,000 per annum based on current NSFAS rules
POPI	Protection of Personal Information Act to promote the protection of personal information processed by public and private bodies
PPP	Public Private Partnership is defined as a contract between a public sector institution/municipality and a private party, in which the private party assumes substantial financial, technical and operational risk in the design, financing, building and operation of a project. In ISFAP the form of the PPP would be one where the private party performs an institutional function.
Reference Group	People appointed by the Minister of Higher Education and Training to support the work of the Ministerial Task Team and ensure that the task is well considered. The reference group includes senior officials of the Department of Planning, Monitoring and Evaluation (DPME); USAf, the Universities Council Chairs Forum of South Africa (UCCF-SA); the Council on Higher Education (CHE); South African Union of Students (SAUS); Sector and Education and Training Authorities (SETAs); Financial Aid Practitioners (FAPSA); Congress of South African Trade Unions (COSATU); NSFAS and DHET
RFI	Request For Information is a standard business process whose purpose is to collect written information about the capabilities of various suppliers in a format that can be used for comparative purposes.



Risk Capital	Investment funds allocated to speculative activity and refers to the funds used for high-risk, high-reward investments. In ISFAP this would be loan funding.
SAICA	South African Institute for Chartered Accountants
SARB	South African Reserve Bank
SARS	South African Revenue Services
SASSA	South African Social Security Agency has a mandate to ensure the provision of comprehensive social security services against vulnerability and poverty within the constitutional and legislative framework.
SAUS	South African Union of Students
Sbux	System used to dispense allowances to students using cellphone vouchers currently used by NSFAS for students, provided by Celbux.
SDLC	Systems Development Life Cycle is a process for planning, creating, testing, and deploying an information system.
Senior funding	Funding frequently issued in the form of senior notes or senior loans that takes priority over other unsecured or otherwise more "junior" debt owed by the issuer. Senior debt has greater seniority in the issuer's capital structure than subordinated debt.
SIB	Social Impact Bond is a type of innovative finance mechanism that enables government and donors to more effectively allocate resources in the face of poor social outcomes and fiscal austerity.
TDG	Teaching Development Grant
TEUF	Thuthuka Education Upliftment Fund entity (founded by SAICA) is a Public Benefit Organisation with goals in line with ISFAP and is to be used for the pilot in 2017
TVET	Technical Vocational Education and Training
UCCF-SA	The Universities Council Chairs Forum
University Education	University education is understood to refer to undergraduate university education, including degrees, diplomas and certificates. Postgraduate education is therefore excluded.
USAf	UniversitiesSA is a membership organisation representing South Africa's universities





## Foreword

It gives me great pleasure to submit this Ministerial Task Team report. This report is presented at a time when South Africa is experiencing student protests across the country demanding free education for the students who come from poor and working class backgrounds.

I believe that the proposed model and recommendations contained in the report, if approved and implemented, will go a long way in not only addressing the funding problems faced by very poor, poor and “missing middle” students, but also in addressing amongst other challenges which South Africa faces, including;

- Reducing the high dropout rates of poor and working class students in the higher education and training sector,
- Improving the employability of the funded graduates,
- Improving the skills profile of the country,
- Improving the partnership between government, the private sector and higher education institutions in supporting very poor, poor and “missing middle” students.

I would like to thank the members of the workstreams who worked tirelessly to produce the Ikusasa Financial Aid Programme (ISFAP) blueprint and presentations for various stakeholder meetings as well as members of the MTT Reference Group for their contribution and support.

I would like to thank the Minister of Higher Education and Training, Dr. Blade Nzimande for entrusting me with the important task of finding a long-term solution to the current challenges faced by students from poor and working class backgrounds. The Director General and senior officials of the Department of Higher Education and Training were always available to support me and the Ministerial Task Team (MTT). Their support and assistance is highly appreciated.



Sizwe Nxasana

**Chairperson:** Ministerial Task Team on funding poor and “missing middle” students

**MTT Workstream lead members:** Bester Ngoepe (Webber Wentzel), Chantyl Mulder (SAICA), Gill Raine (ASISA), Johannes Gouws (Webber Wentzel), Leon von Moltke (BASA-RMB), Simon Trupp (BASA), Susan de Witt (Bertha Centre-UCT), S’onqoba Maseko (Sifiso Learning Group), Thashlin Govender (Michael and Susan Dell Foundation), Trevor Chandler (ASISA)

**Department of Higher Education and Training MTT leader:** Dr. Di Parker

**14 November 2016**



Ministerial Task Team to develop a Support and Funding Model for Poor and “Missing Middle” Students

## Acknowledgements

The Ministerial Task Team would like to sincerely thank government, the private sector, the public higher education and training institutions and student organisations who participated in the process of developing the model for financing and supporting students who come from poor and working class backgrounds.

The Ministerial Task Team consulted, received inputs and suggestions from the following government departments and agencies, higher education institutions and bodies, the private sector and student organizations;

### 1. 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
- South African Revenue Service (SARS)
- The Broad-Based Black Economic Empowerment Commission
- The Council on Higher Education (CHE)

### 2. Higher Education Institutions' bodies

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

### 3. Private Sector

- 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
- Business Leadership South Africa (BLSA)
- Business Unity South Africa (BUSA)
- Michael and Susan Dell Foundation
- South African Institute of Chartered Accountants (SAICA)
- Webber Wentzel

### 4. Student Organisations

- South African Union of Students (SAUS)



## Executive Summary

### 1. Introduction

On 13<sup>th</sup> April 2016 the Minister of Higher Education and Training, Dr Blade Nzimande established a Ministerial Task Team to develop a funding and support model for poor and “missing middle” students chaired by Sizwe Nxasana.

The Ministerial Task Team was established with a mandate to determine and advise on alternative financing and operating models for funding very poor, poor and “missing middle” students, having regard to:

- the Constitution of the Republic of South Africa,
- all relevant higher and basic education legislation,
- all relevant public policy, legislation and regulations,
- all findings and recommendations of the various Presidential and Ministerial Task Teams and,
- all relevant educational policies, reports and guidelines.

### 2. Ministerial Task Team Terms of Reference

In developing the proposals, the Ministerial Task Team were asked to address the following issues:

- Whether or not the existing NSFAS Act, structure and mandate is still suitable to address the funding and other forms of support to poor and “missing middle” students,
- Raise sufficient funding from the public sector, private sector and other sources to offer a complete solution to fund poor and “missing middle” students at universities and TVET colleges,
- The feasibility of granting fully subsidised loans to poor students and loans with progressive reducing subsidies as household income increases for the “missing middle” students,
- The funding of occupations in high demand,
- Develop proposals which contribute towards the improvement of the success and graduation rates for poor and “missing middle” students and reduce dropout rates and,
- Create an efficient and robust model with appropriate internal controls to minimise leakage, fraud and risk in the granting and disbursement of bursaries and loans to deserving students, whilst improving the collection of loan portion granted and convenience to students.

### 3. Objectives of the report

This report contains the proposals developed by the Ministerial Task Team, with the objectives of this report being:

- To answer the question of whether or not South Africa can afford to offer fully subsidised or “fee-free education” to the poor, and subsidised education to the students who come from working class backgrounds,
- To present the Minister with the feedback from the Ministerial Task Team mandated to develop a funding and support model for poor and “missing middle” students,
- To recommend that the Minister adopt this proposal for funding and support for the poor and “missing middle” as the strategy and direction for funding and support for university and TVET students across tertiary education in South Africa.

### 4. The blueprint for funding students from poor and working class backgrounds

In order to answer the mandate given, the Ministerial Task Team developed a blueprint entitled the Ikusasa Student Financial Aid Programme (ISFAP). After a thorough engagement process, various inputs have been incorporated into the ISFAP blueprint, and agreement for the future governance structure of ISFAP has been obtained across all key stakeholders. The full blueprint has been detailed within this report.

Education rights are contained in Section 29 of the Constitution of the Republic of South Africa, section 29(1) which states that:



Ministerial Task Team to develop a Support and Funding Model  
for Poor and “Missing Middle” Students

*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. The funding recommendations of the Ministerial Task Team therefore focus mainly on funding university students studying towards degrees, diplomas and certificates.

In support of the Constitution to make higher education *progressively available and accessible*, the Ministerial Task Team reaches a conclusion that it is possible and financially viable in the short term to offer fee-free university education to the very poor students with a combination of subsidies and loans to the poor and “missing middle” students. The blueprint recommends a model which will provide very poor, poor and “missing middle” students financial assistance to cover the full cost of study at universities. The blueprint recommends a fully subsidised education to the very poor in the form of bursaries and grants and progressively reducing bursaries and grants as household income increases to the poor and “missing middle” students.

The ISFAP model assumes that all very poor students will receive free higher education. At a minimum, the Ministerial Task Team recommends that university students who come from households who receive social grants be given free higher education through grants which cover the full cost of study. The Ministerial Task Team further recommends that students who come from poor and “missing middle” backgrounds receive a combination of grants and loans to cover the full cost of study, together with an expected family contribution that increases with household means. Where additional grant funding can be raised, it is recommended that students from working class/poor households also received fully subsidised education.

The Ikusasa Student Financial Aid Programme (ISFAP) blueprint sketches scenarios of how this can be achieved by mobilising funds from both the public and private sectors.

The ISFAP blueprint detailed within this report includes several areas for consideration, the key areas being:

- Funding required for very poor, poor and “missing middle” students, approaches and considerations,
- Legal and governance structure and set-up,
- Design concepts that are different to NSFAS,
- Details for key next steps including soft launch/pilot in 2017,
- Design considerations for the final operations,
- Legal and Policy considerations.

##### **5. Funding required for very poor, poor and “missing middle” students, approaches and considerations**

In order to fund students from poor and working class backgrounds, the MTT conducted actuarial and financial modelling of a number of scenarios of the number of students expected to be enrolled at TVET colleges and public universities, the estimated progression and graduation rates, estimated student dropout rates, the average full cost of study and household incomes. The modelling exercise was very challenging given the paucity of reliable data, especially with regards to household incomes, graduation and dropout rates. This has resulted in very wide ranges of the number of students at universities and TVET colleges who could be supported as well as potential funds required to fund the very poor, poor and “missing middle” students.

The total number of students to be funded through the ISFAP model is approximately 65% of students enrolled at public universities. The MTT is currently in discussions with National Treasury about the broad costing requirements to fund the full cost of study for the very poor, poor and the “missing middle”.



If the average household income of R600,000 is used to define the cut-off for the missing middle, approximately 65% of students (the very poor, poor and missing middle students) in the South African university system will be funded according to the ISFAP blueprint. This will require approximately R42 billion per annum, escalating annually into the future in line with university fees and other costs of study increments. The estimated R42 billion will fund just over half a million very poor, poor and missing middle students in 2018.

The MTT is also in discussion with National Treasury about the requirements to entice private investors, which may require such mechanisms as government guarantees and sharing of risk capital. Modeling and sensitivity analysis has been undertaken and the ISFAP team is scheduled to present to the Executive of the National Treasury Asset and Liabilities committee with the anticipated costing, funding requirements and sensitivities.

In order to raise the required funding of R42bn per annum, potential sources of funds include:

- Government grants - DHE, DBE, Provinces, SETA's via NSFAS
- Social sector grants - NGO's, CSI funds
- Private sector grants – B-BBEE skills development contributions
- Social Impact Bonds (return dependent on social results) – DFI's, Foundations, International Donors
- Senior Long Term Funding (with return) – DFI's, Foundations
- Senior Funding (with return) – Financial Institutions, Individuals, Pension Funds

For one of the funding sources, ISFAP proposes the 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.

The Commissioner of B-BBEE 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. The MTT is engaging with the DTI to explore the process which would be required to give effect to the B-BBEE Commissioner's recommendation. The MTT **recommends** that the Minister of Higher Education and Training sponsors and motivates for a process which will result in the DTI amending the B-BBEE Act to allow for 25% of the skills development expenditure to be redirected to ISFAP. Whilst this is potentially a significant source of funding for very poor, poor and "missing middle" students, the contributions by companies towards skills development in terms of the B-BBEE Act are voluntary thus making it difficult to reliably estimate how many measured entities will contribute and how much. Unlike the skills development levy which all employers have to deduct and pay over through the payroll system and therefore can be reliably estimated, there is no historic or reliable data to estimate the B-BBEE skills development expenditure within a reasonable level of certainty. Certain assumptions have therefore been used to estimate the potential source of funding.

Key to the ISFAP model is to broaden the available funding which will include accessing private institutional funding. Private institutional funders are mainly asset managers that invest on behalf of Pension funds, Unit Trusts, Life office policy holders, and Banks. In order to entice private institutional funders, the ISFAP proposed entities (ManCo and FundCo) will need to address several factors that are taken into account when considering investment by the institutional investors. These include:

- 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

In order to raise funds, institutional investors will need to be made aware of the opportunity:



- An investment thesis and prospectus will need to be prepared for investing to fund students as envisaged in ISFAP,
- A comprehensive media and communications campaign including road shows to investors will need to be undertaken

## 6. Legal and governance structure and set up

From a legal and governance standpoint, the ISFAP model proposes that new structures be launched that fulfill the student funding and support requirements on behalf of NSFAS through a Public Private Partnership (PPP) between NSFAS and a new special purpose vehicle called “ManCo”. NSFAS is investing in new systems and processes to implement a “student centred model” which is being fully implemented across all public universities and TVET colleges in 2017. It is proposed that some of the NSFAS systems and processes will be incorporated in a PPP arrangement which will see enhanced student funding and tracking systems being built for the future. The creation of a PPP arrangement between NSFAS and ManCo will be critical for the following five main reasons:

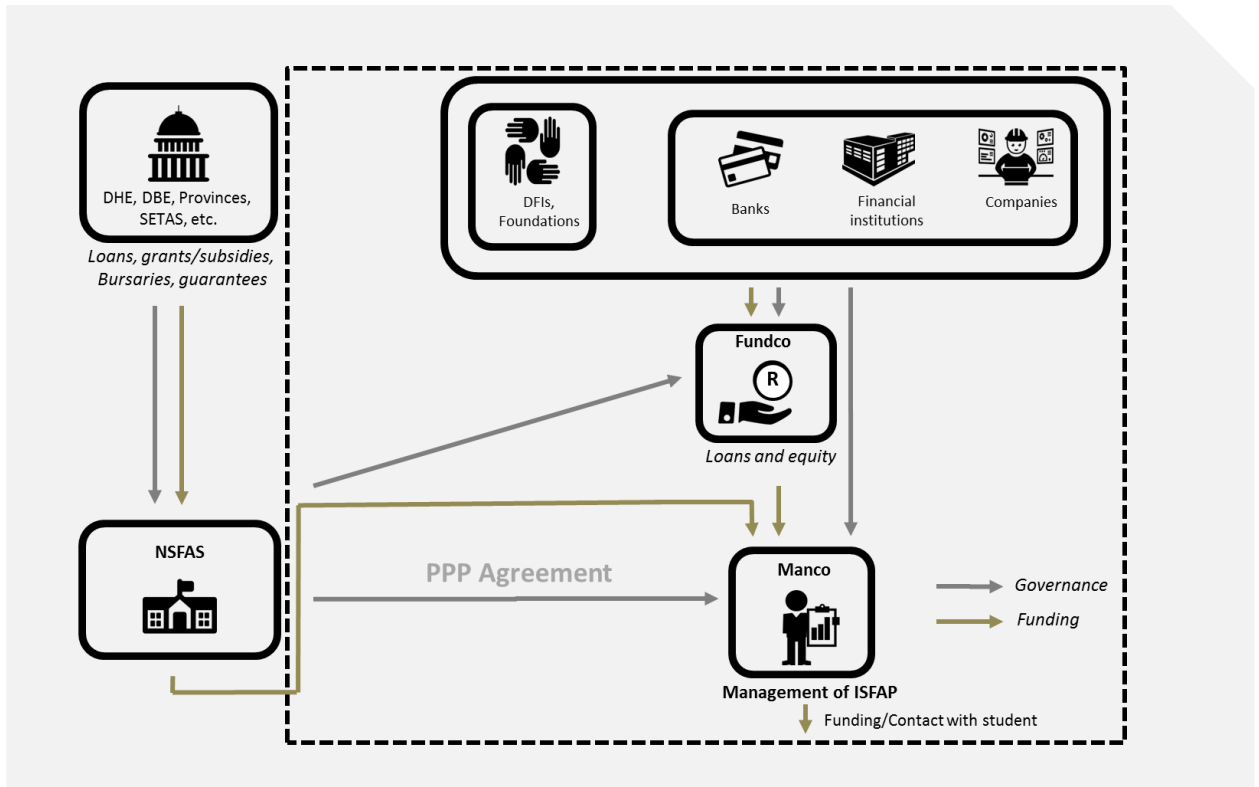
- 6.1 To forge a strong and sustainable public private partnership.** The National Development Plan calls for active citizenry. In pursuing this objective, it is important to create an organisational structure which will make it easy to raise funding from the public and private sector. NSFAS currently receives almost 100% of its funding from the public sector and because of the weaknesses in its external reporting and accountability structure, linked with inefficient processes and operations, it lost most of the funding it used to receive from the private sector. Given NSFAS’ legacy issues it will be very difficult to restore the confidence of the private sector to start funding NSFAS.
- 6.2 To raise adequate funding from the public and private sectors** - In order to gain private funding, the new entity will need to be rated, have “fit-for-purpose” systems and reputable operations, evidence of recoverable loans, and an aspirational brand. The known NSFAS operation has many challenges, has many negative public views regarding the recovery rate of loans, and according to the funding experts, would not be appetising to private investors.
- 6.3 To create the best of breed systems which are effective** – In spite of the improvements in the efficiency and management, the current NSFAS organisation still faces many challenges and it will be very difficult to take the body to the new vision without being ‘contaminated’ by current inefficiencies and legacy systems.
- 6.4 To implement a new operating model** - The new vision of ISFAP is to be a government/investor partnership with a new operating model that is inherently different to the current NSFAS model.
- 6.5 To improve skills capability and communication to key stakeholders** - The new ISFAP vision will require new resource levels, an enhanced operational structure, and is proposed to be based in Gauteng, accessible to particularly the Department of Higher Education and Training and the financial hub, other arms of the public sector, thus drawing on a stronger resource pool.

In the new ISFAP model, it is envisaged that;

- The key component behind the legal/commercial structure of ISFAP is a PPP agreement with NSFAS
- The NSFAS Act will have to be amended to allow for the formation and implementation of the PPP
- The operations of ISFAP will be managed and administered by a management company (“ManCo”) – effectively and legally this ManCo is ISFAP
- The funding requirements of ISFAP, insofar as private investors’ funds are concerned, will be managed and administered by a funding company (“FundCo”)



- Details of the control, governance and management of the PPP as well as the role of FundCo and ManCo will be set out in the PPP contract
- ManCo will be set up as a private company owned by FundCo (subject to reporting and disclosure requirements under the PFMA due to the PPP agreement)
- Private investors will participate in ISFAP through senior funding, bonds, notes, Social Impact Bonds and other instruments directed through FundCo
- Government and NSFAS will participate in ISFAP through loans, grants and subsidies. Directed via NSFAS into ManCo (FundCo will only administer private investors funds)



## 7. Design concepts that are different to NSFAS

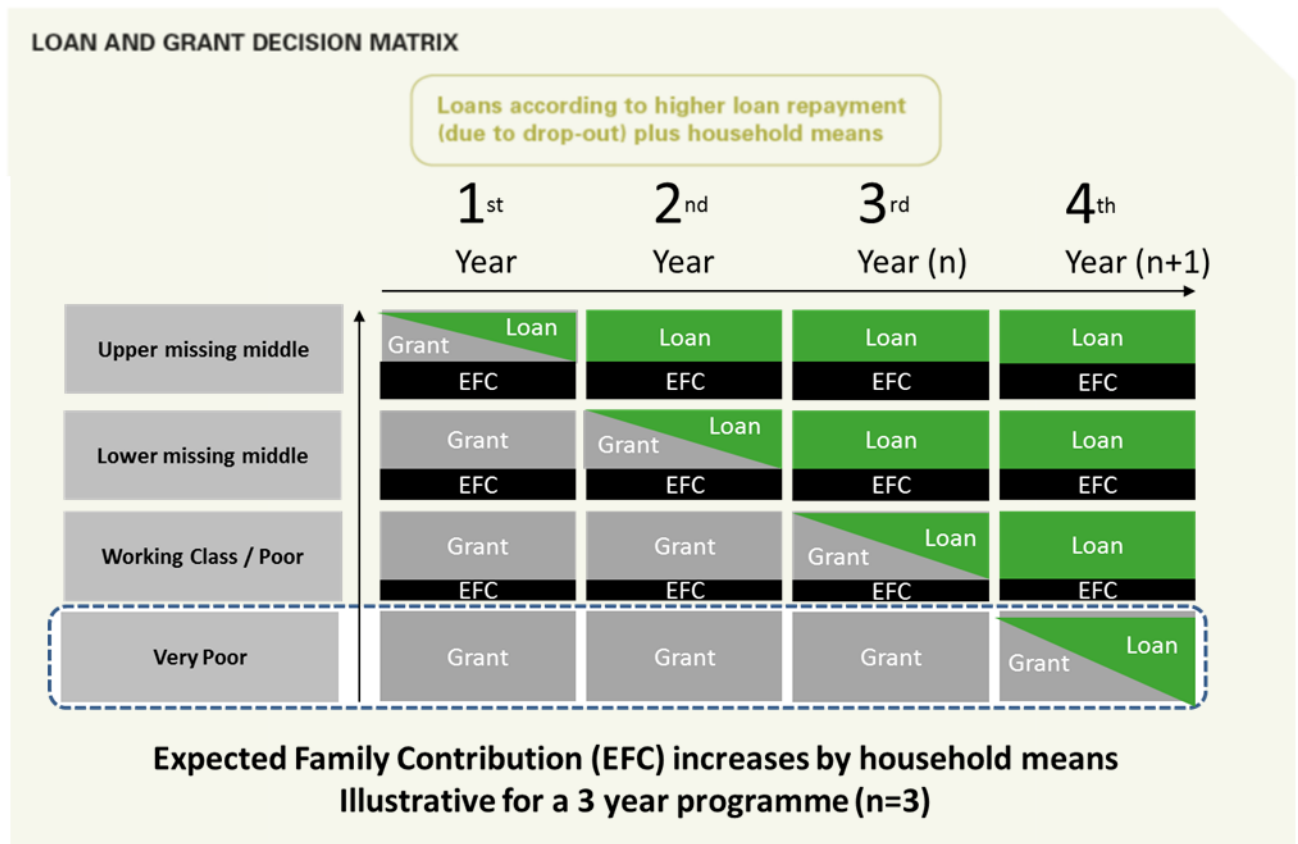
There are several areas of conceptual design in ISFAP that differ from NSFAS. ISFAP will make decisions centrally regarding who is accepted for funding, together with the terms, conditions, and the grant/loan/bursary make-up of the funding. This will remove the decision-making, administration and processing of NSFAS funding applications from institutions and thus require less resources than currently maintained by such institutions such as loan and financial aid officers, etc.

Regardless of which institution a student has been accepted into, ISFAP envisages making available funds to cover the full cost of study through grants and bursaries to the very poor and a combination of grants, loans and family contributions to the poor and “missing middle”. Where additional grant funding can be raised, it is recommended that students from working class/poor households also received fully subsidised education. The full cost of study will cover tuition, accommodation, books, meals and, in certain cases, a stipend. The model accepts the differential in full cost of study from one institution to another. This may have an impact of giving more access to students from poor and working class backgrounds to the more expensive institutions, thus affecting student migration patterns.

True Household Means testing will need to be undertaken on all applications for financial support to determine the ratio of grants/bursaries versus loans to be offered to qualifying applications. Very poor students will receive fully subsidised funding during the regulated time for a degree, diploma or certificate for the full cost of study. A combination of grants/bursaries and loans will be offered beyond the regulated time to enable supported



students to complete and graduate. Where loans are offered to the poor and “missing middle”, more grants versus loans will be given in the earlier years of study to reduce the financial burden on students and increase the probability of loan repayment. The following illustration shows the funding combination assuming a three year programme.



The new model proposes to keep loans and grants separate. There will be no loan-to-grant conversion as is currently the case with the NSFAS. This means that separate records and agreements will be entered into with students for the two components of funding. Keeping loans separate from grants will enable a more efficient management of the loan component. The performance of the loan book will build a track record over time allowing the loan book to get a credit rating which is critical for long-term funding.

One of the critical areas which the ISFAP model will address is the promotion of scarce skills to grow the South African economy. The model seeks to give a bigger focus to producing graduates with scarce skills. Balance will have to be struck between degrees in humanities and social sciences and those that prepare students for professional practice or vocational degrees. The definition of scarce skills or occupations in high demand will be based on the list of Occupations in High Demand gazetted by the Department of Higher Education and Training from time to time and targets set by the Human Resources Development Council.

The South African higher education sector generally has low participation and graduation rates compared to the international norm. There are various cohort studies which have been conducted and they all indicate that the dropout rates for NSFAS funded students are thus increasing the cost to the state.

There are various reasons for the high dropout rates. The 2013 White Paper for post-school education and training lists the main ones, including the weakness of much of the schooling system, especially those schools catering to poor and rural communities; high student-to-staff ratios at undergraduate level and especially for first-year students; inadequate systems for recognising students who need support; insufficient student support for academic and social adjustment to university life; weak support for professional development and recognition of academic staff in the area of undergraduate teaching.





The ISFAP model seeks to significantly increase the funding and resources which are made available to higher education institutions to support students from very poor, poor and "missing middle" families to graduate and find employment or play an active role in the economy by leveraging private sector funding to build capacity for supporting students funded through the proposed ISFAP model at TVET colleges and universities. This will require that government works in partnership with universities, non-governmental organisations, the private sector and students to improve the success rates.

The ISFAP model includes the supply of managed "wrap-around" student support to improve the success and graduation rates of very poor, poor and "missing middle" students and reduce dropout rates, using services supplied by the Institutions which will cover:

- managed academic support (tutorial support and academic literacy)
- managed social support (using existing systems)
- life skills training (including time management, stress management and study skills)

The disbursement mechanism for food and stipends will be via vendors prevalent in the academic sector today but compliant with the financial network of South Africa e.g. bank transaction accounts as the underlying mechanism, or the Fundi product, etc.

The ISFAP model proposes the use of the South African Revenue Services (SARS) to collect outstanding ISFAP debt as soon as SARS can accommodate this. In order to improve the collections and performance of the loan book, it is proposed that the National Credit Act be amended to allow for the deduction of student loan installments from the income of debtors through payroll deductions via the SARS system. The NCA does not make provision for the collection of outstanding credit agreements through the South African Revenue Service ("SARS").

## 8. Details for key next steps including soft launch/pilot in 2017

Contained within this report are the 3 main components underway in taking ISFAP forward:

- ISFAP pilot using existing systems in 2017
- ISFAP design and build of infrastructure
- ISFAP legal and governance set-up (following a PPP process)

If a decision is taken in cabinet to adopt ISFAP following the PPP feasibility study, the transition from NSFAS to ISFAP will begin with some elements of NSFAS being retained:

- NSFAS will continue to be the conduit for all government funding
- Some of the systems which have been developed by NSFAS for the student centred model including IT systems, student application, means testing, integration with other state databases such as SASSA and Home Affairs and the Department of Basic Education and disbursement of claims will be retained and incorporated in the new PPP arrangement between NSFAS and ManCo
- The structures relating to liaising with universities, TVET colleges, and financial aid offices will still be required

## Design considerations for the final operations

It is proposed that the back office functions, old NSFAS model, and NSFAS student-centered model be migrated to ISFAP over time. Industrial labour negotiations will be required in this regard. Changes will also be required for service providers, as new disbursement mechanisms are envisaged in the ISFAP model.

If ISFAP is adopted as the strategic vision for student funding and support for tertiary education, a complete communications strategy will need to be devised across all stakeholders.

## 9. Legal and Policy considerations



Ministerial Task Team to develop a Support and Funding Model for Poor and "Missing Middle" Students

In summary the Ministerial Task Team is confident that the ISFAP model addresses all the key areas of concern:

- The concept of offering fully subsidised loans to very poor students and loans with progressive reducing subsidies as household income increases for the poor and “missing middle” students has been devised,
- A new governance structure is recommended to address the funding and other forms of support to very poor, poor and “missing middle” students,
- Detailed approaches and requirements have been given to raise sufficient funding from the public sector, private sector and other sources to offer a complete solution to fund very poor, poor and “missing middle” students at universities and TVET colleges,
- The funding of occupations in high demand are included within the proposed decision model,
- Student “wrap-around” support has been developed and detailed within this report, together with operational funding from Social Impact Bonds, which will contribute towards the improvement of the success and graduation rates for very poor, poor and “missing middle” students and reduce dropout rates.

The detailed design concepts and plan are included within this report that would be used to create a “best in class” model that is both efficient and robust, with appropriate internal controls to minimise leakage, fraud and risk in the granting and disbursement of bursaries and loans to deserving students, whilst improving the collection of the loan portion granted and convenience to students.

## 10. Recommendations

The Terms of Reference of the Ministerial Task Team require the following areas to be dealt with:

- Whether or not the existing NSFAS Act, structure and mandate is still suitable to address the funding and other forms of support to poor and “missing middle” students,
- Raise sufficient funding from the public sector, private sector and other sources to offer a complete solution to fund poor and “missing middle” students at universities and TVET colleges,
- The feasibility of granting fully subsidised loans to very poor students and loans with progressive reducing subsidies as household income increases for the poor and “missing middle” students,
- The funding of occupations in high demand,
- Develop proposals which contribute towards the improvement of the success and graduation rates for poor and “missing middle” students and reduce dropout rates,
- Create an efficient and robust model with appropriate internal controls to minimise leakage, fraud and risk in the granting and disbursement of bursaries and loans to deserving students, whilst improving the collection of loan portion granted and convenience to students.

### 10.1 Public Policy Recommendations

#### 10.1.1 The Policy Framework

The Constitution of the Republic of South Africa states that;

Everyone has the right-

(a) to a basic education, including adult basic education; and

(b) to further education, which the state, through reasonable measures, must make progressively available and accessible.



Ministerial Task Team to develop a Support and Funding Model for Poor and “Missing Middle” Students

The Ministerial Task Team **recommends** that a comprehensive policy framework for the post-school education sector in South Africa be developed as a matter of urgency. This policy framework must seek to provide a framework which will ensure that higher education is progressively made fee-free for the students who come from poor and working class families.

#### 10.1.2 The NSFAS Act

The Ministerial Task Team **recommends** that the NSFAS Act be amended and extended. Currently the functions of NSFAS as spelled out in the NSFAS Act are:

- (a) to allocate funds for loans and bursaries to eligible students;
- (b) to develop criteria and conditions for the granting of loans and bursaries to eligible students in consultation with the Minister;
- (c) to raise funds as contemplated in section 14(1);
- (d) to recover loans;
- (e) to maintain and analyse a database and undertake research for the better utilisation of financial resources;
- (f) to advise the minister on matters relating to student financial aid; and
- (g) to perform other functions assigned to it by this Act or by the Minister.

In terms of the ISFAP proposal, the Ministerial Task Team **recommends** that the functions of NSFAS be expanded to include the following;

- a) To work with institutions and other stakeholders to reduce the dropout rates of funded students,
- b) To work with institutions of higher learning and other stakeholders to ensure that all eligible and funded students are given value-adding support to improve their chances of success, graduation and employability,
- c) To raise loan funding,
- d) To enter into PPP arrangements in terms of the treasury regulations.

#### 10.1.3 Regulations

In terms of the NSFAS Act, “the Minister may make regulations on any matter which may or must be prescribed by regulation in terms of this Act and any matter which is necessary or expedient to prescribe in order to achieve the objects of this Act”.

For the ISFAP model to be implemented effectively, the Ministerial Task Team **recommends** that the Minister must take the opportunity to gazette and implement regulations in respect of the NSFAS and the PPP arrangement with “ManCo”. These regulations could include the following areas:

- A framework for equity targets to be incorporated in the enrolment plans to promote the DHET transformation strategy
- The means testing process and the determination of household income
- The definition of “full cost of study”
- The qualifying criteria for students to continue receiving support
- The minimum requirements which institutions of higher learning must provide to NSFAS/ISFAP funded students in terms of residencies, travel, meals, broadband connectivity and devices such as laptops and tablets
- The interest rates cap which NSFAS/ISFAP can charge
- The definition of which programmes are funded, including clarification of funding of students who may be pursuing multiple certificates, diplomas, degrees and undergraduate qualifications
- The relationship between NSFAS/ISFAP with Higher Education Institutions
- The framework for contractual relationship between NSFAS/ISFAP with parents/guardians and students

#### 10.1.4 The Governance and Operating structure

The Ministerial Task Team **recommends** that the ISFAP model proposes that new structures be launched that fulfil the student funding and support requirements on behalf of NSFAS through a Public-Private Partnership (PPP) agreement for the following five main reasons:



Ministerial Task Team to develop a Support and Funding Model for Poor and “Missing Middle” Students

In the proposed ISFAP model, it is envisaged that;

- The key component behind the legal/commercial structure of ISFAP is a PPP agreement with NSFAS
- The NSFAS Act will have to be amended to allow for the formation and implementation of the PPP
- The operations of ISFAP will be managed and administered by a management company ("ManCo") – effectively and legally this ManCo is ISFAP
- The funding requirements of ISFAP, insofar as private investors' funds are concerned, will be managed and administered by a funding company ("FundCo")
- Details of the control, governance and management of the PPP as well as the role of FundCo and ManCo will be set out in the PPP contract
- ManCo will be set up as a private company owned by FundCo (subject to reporting and disclosure requirements under the PFMA due to the PPP agreement)
- Private investors will participate in ISFAP through senior funding, bonds, notes, Social Impact Bonds and other instruments directed through FundCo
- Government and NSFAS will participate in ISFAP through loans, grants and subsidies. Directed via ManCo (FundCo will only administer private investors' funds).

#### 10.1.5 The SARS Act: Using the South African Revenue Services (SARS) to collect outstanding ISFAP debt

SARS administers and operates as the collecting agent for several Acts, covering a wide range of legislation in terms of Part 1 and Schedule 1 to the SARS Act, as well as any regulation, proclamation, government notice or rule issued in terms of any of the relevant Acts, and any agreement entered into in terms of those Acts or the Constitution. The ambit of the SARS Act could be widened so that SARS could become the collecting agent for ISFAP.

The Ministerial Task Team **recommends** that the SARS Act be amended to enable SARS to have the power to collect the student fees on behalf of ISFAP in a manner similar to which SDL and UIF are collected. There is international precedence for such an approach.

#### 10.1.6 The Income Tax Act

There are various sections of the Income Tax Act which the Ministerial Task Team **recommends** be amended:

- a) Section 10 lists the persons and instances which are exempt from income tax. The proposed ISFAP vehicle will not fall within any exemption currently listed under section 56 of the Income Tax Act. The Ministerial Task Team **recommends** that section 10 of the Income Tax Act be amended, so that the proposed ISFAP entity will be exempt from income tax. This could simply be achieved by widening the definition of section 10(1)(cA) of the Income Tax Act to include the ISFAP vehicle.

- b) Section 56 of the Income Tax Act

The Ministerial Task Team **recommends** that the list of Donations be expanded. Tax exemptions set out in section 56 of the Income Tax Act to include donations made to ISFAP, so that donations made by South African resident individuals and corporations will be exempt from donations tax. Furthermore, it is **recommended** that similar to a PBO, ISFAP be provided with the ability to issue section 18A tax certificates, such that persons who make donations to ISFAP will be entitled to receive an income tax deduction for donations made.

- c) The 9th Schedule of the Income Tax Act

The Ministerial Task Team **recommends** that *Regulation Gazette* 24941 of 28 February 2003 be amended to address the terms on which loans may be advanced under paragraph 4(o) of Part I and paragraph 3(o) of Part II of the Ninth Schedule to the Income Tax Act. This will increase the ability to source donor funding.

- d) The 7<sup>th</sup> Schedule of the Income Tax Act



In order to encourage employers to take over student debts, the Ministerial Task Team **recommends** that the 7th Schedule to the Income Tax Act be amended to defer, over an appropriate period, the taxable fringe benefit which would arise for an employee upon his or her employer assuming the full amount of such employee's student debt.

e) 9<sup>th</sup> Schedule to the Income Tax Act

The Ministerial Task Team recommends that *Regulation Gazette* 24941 of 28 February 2003 be amended to address the terms on which loans may be advanced under paragraph 4(o) of Part I and paragraph 3(o) of Part II

**10.1.7 The Broad-Based Black Economic Empowerment Act, 2003 ("B-BBEE Act") and the Codes of Good Practice on Broad-Based Black Economic Empowerment issued under section 9(1) of the B-BBEE Act, as amended ("Codes")**

The Ministerial Task Team recommends that the Minister of Higher Education and Training initiate a process to propose the following:

a) ISFAP as a BEE Facilitator

The Ministerial Task Team **recommends** that ISFAP be designated as BEE Facilitator. This will potentially assist ISFAP in raising commercial debt financing, through Equity Equivalent Programmes, as provided for in the soon-to-be gazetted, revised Financial Sector Codes. By way of example under the proposed Financial Sector Codes, South African companies within the financial sector may receive recognition under the "Ownership" element of their scorecards for, inter alia, providing empowerment financing and access to financial services to ISFAP. It could also assist in on-boarding multinationals operating under the generic code Equity Equivalent provisions, provided that the appropriate recognition from the DTI can be obtained.

The Ministerial Task Team further **recommends** that ISFAP apply to the DTI for recognition as a BEE Facilitator to encourage local entities in the finance sector to invest in or finance ISFAP.

b) Statement 300 Skills Development

The Ministerial Task Team **recommends** that the Skills Development element of Code 300 be amended as follows:

i) the Skills Development Expenditure on learning programmes specified in the Learning Programme Matrix: weighting element to change from 8 to 6 and the Compliance target from 6% to 4.5% of the leviable amount

ii) the Bursary Fund spend for Black people (missing middle as defined) paid to the Ikusasa Student Financial Aid programme: weighting element 2 and the compliance target 1.5% of the leviable amount.

c) Statement 500: The General principles for measuring Socio-Economic Development

Contributions or donations made to ISFAP would currently qualify as Grant Contributions (as defined in the Codes) provided that ISFAP is able to procure an annual "independent competent persons report" as defined in the Codes, which certifies the nature of the funding and the % black student beneficiation.

The Ministerial Task Team **recommends** that the potential impact on numerous non-profit organisations that have become virtually exclusively reliant on BEE Socio-Economic Development spend be considered, for their survival could be put at risk.

**10.1.8 The National Credit Act (the NCA)**

The NCA does not make provision for the collection of outstanding credit agreements through SARS. The Ministerial Task Team **recommends** that ISFAP must disclose its proposed collection mechanism and obtain



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consent in respect thereof from the regulator as part of the process of being registered as a developmental credit provider.

#### 10.1.9 The Banks Act

The Ministerial Task Team **recommends** that consideration should be given towards potentially proposing amendments to the Banks Act and the Banks Regulations that would have the effect that banks that contribute funds (whether through loans, debt instruments or otherwise) benefit from favourable capital treatment. Likewise, the investment and regulatory capital requirements of other regulated financial institutions should be considered.

ISFAP will have to request a special fundraising exemption in terms of section 2(b)(vii) of the Banks Act from the Minister of Finance to have its activities designated as activities that do not fall within the definition of "the business of a bank". In terms of section 2(b)(vii) the Minister of Finance may designate certain specific activities of an institution or body as activities that do not constitute the carrying on of the business of a bank. Presumably the designation will stipulate the disclosure requirements that ISFAP will have to satisfy whenever it raises funds from the public.

#### 10.1.10 The Companies Act

Chapter 4 of the Companies Act regulates the offering of securities by a company to members of the public. Subject to certain exemptions, all offers of securities (including debt instruments) are subject to the prospectus and other requirements of the Companies Act if the relevant offer is made to the public. The Ministerial Task Team **recommends** that an exemption, which is often used, is the exemption that relieves an offering from the regulation of the Companies Act if no single instrument issued has a nominal value below R1 000 000 (one million Rand). The nature and size of debt instruments may be influenced by Chapter 4 of the Companies Act.

The Ministerial Task Team **recommends** that as an alternative to using the exemptions contained in Chapter 4 of the Companies Act, that the NSFAS Act be amended to include provisions that could override the relevant sections of the Companies Act but suitable protections and safe guards for private sector investors should be considered. This will probably be accommodated in terms of the disclosure requirements that will inevitably form part of any Banks Act exemption (see above under the Banks Act).

#### 10.1.11 The Financial Advisory and Intermediary Services Act (FAIS)

FAIS requires that every person who as a regular feature of their business furnishes advice or renders any intermediary service to clients in respect of financial products to be registered as a Financial Services Provider ("FSP").

To the extent ISFAP will provide financial advice, render intermediary services and have discretion to administer ISFAP's assets that qualify as "financial products" under the FAIS Act, ISFAP will be required to hold a Category II FSP licence in terms of FAIS. Category II covers Discretionary FSPs; being those FSPs that render intermediary services of a discretionary nature as regards the choice of a particular financial product.

ISFAP, as an authorised Discretionary FSP, will be required to comply with the ongoing compliance obligations as imposed by FAIS which include the General Code of Conduct for Authorised FSPs and Representatives, and the Code of Conduct for Administrative and Discretionary FSPs.

The Ministerial Task Team **recommends** that, to the extent the ManCo will provide financial advice, ManCo will be required to hold a Category II FSP licence in terms of FAIS.



### 10.1.12 Other Policy Considerations

#### a) Student selection and funding allocation

It is **recommended that** ISFAP will make the decisions centrally regarding who is accepted for funding together with the terms, conditions, and the grant/loan/bursary make-up of the funding. This will remove the decision-making, administration and processing of NSFAS funding applications from institutions in terms of the old NSFAS model as well as the “student-centred model” and thus requires less resources currently maintained by such institutions, e.g. financial aid officers, etc.

#### b) ISFAP will fund the full cost of study

Regardless of which institution a student has been accepted into, ISFAP **recommends** making available funds to cover the full cost of study through grants and bursaries to the very poor and a combination of grants, loans and family contributions to the poor and “missing middle”. The full cost of study will cover tuition, accommodation, books, meals and, in certain cases, a stipend. The model accepts the differential in full cost of study from one institution to another. This may have an impact of giving more access to students from poor and working class backgrounds to the more expensive institutions, thus affecting student migration patterns.

#### c) Grant versus loan allocation formula

The Ministerial Task Team **recommends** that means testing will be done on all applications for financial support to determine the ratio of grants versus loans for qualifying applications.

It is **recommended** that very poor students will receive fully subsidised funding for the full cost of study to complete their degrees. Where loans are granted, more grants versus loans will be given in the earlier years of study to reduce the financial burden on students.

#### d) Household means testing

It is **recommended** that a household means test alone (income only, not full affordability) is calculated as part of the determination of whether a student is granted a loan, bursary, or a grant. The NCA makes provision for this type of assessment when an institution is granting loans for the purposes of developmental credit.

#### e) Loans versus grant financial administration

It is **recommended** that loans and grants be accounted for separately. There will be no loan-to-grant conversion as is currently the case with the NSFAS. This means that separate records and agreements will be entered into with students for the two components of funding. Keeping loans separate from grants will enable a more efficient management of the loan component. The performance of the loan book will build a track record over time allowing the loan book to get a credit rating which is critical for long-term funding.

#### f) More focus on scarce skills and Occupations in High Demand

One of the critical areas which the ISFAP model must address is the promotion of scarce skills to grow the economy.

The Ministerial Task Team **recommends** that a bigger focus be given to producing graduates with scarce skills. Balance will have to be struck between degrees in humanities and social sciences and those that prepare students for professional practice or vocational degrees. The Department of Higher Education has established the National Institute for Humanities and Social Science (NIHSS) to ensure that the focus on producing graduates and academic staff who play a role in social sciences and humanities is maintained.



It is **recommended** that the definition of scarce skills or occupations in high demand will be based on the targets set by the Human Resources Development Council and the Gazette of Occupations in High Demand.

The Ministerial Task Team recommends that students funded through the ISFAP model be required to engage in community or national service. The details of this community or national service should be developed in consultation with DHET.

**g) If there is a constraint in funding - who gets declined?**

The MTT **recommends** that if the funds available do not cover the number of student applications, then a decision philosophy will need to be derived to decide who to decline. Some options to consider are:

- Lower the top threshold of R600k household means tested students (e.g. R500k)
- Decline lower quality students based on academic performance
- Give preference to scarce skills
- Offer lower amounts - not full student requirements in certain agreed cases
- Total loan/grant amount offered adjusted to household means

## 10.2 The Implications of ISFAP on NSFAS

The creation of ISFAP will have implications for NSFAS as it is **recommended** by the MTT that ManCo will take over all the operations including functions regarding student selection, awarding of grants and loans, contracting, management of the “wrap-around” support, financial management, treasury functions, human resources management, legal, technology, risk management. Some of the systems and processes of NSFAS will be migrated to ManCo. This includes some of the systems which have been developed for the NSFAS student centred model which is being fully implemented at all public universities and TVET colleges in 2017.

### 10.2.1 Proposed future role and function of NSFAS

Once ISFAP has been implemented, it is **recommended** that the role of NSFAS will be stakeholder liaison including, interacting with universities and TVET colleges, liaison with students and student formations. The resources and human capital required will be reduced. However in line with the recommendations of the Ministerial Review Committee, it is further recommended that NSFAS establishes offices in all provinces to be closer to all the universities and TVET colleges. Some NSFAS systems and processes will be migrated to ISFAP.





The table below outlines the differences between NSFAS and ISFAP:

Lending Programme	NSFAS	ISFAP
Poor Students	• Income below R122 000 p.a.	• Income below R600 000 p.a. (including “missing middle”)
Rates	• 80% of repo rate	• Varied depending on means test and course of study
Funding	• Government	• Public/Private sector (incl. NGOs, DFIs, etc)
Debt management	• Government funded	• Privately/Public managed
Dropout rates & cost to government	• High	• Low
Programme qualifications	• Means test and acceptance to HEI	• Means test and acceptance to HEI
Principal loan forgiveness	• Government/Donation funded	• Government/Donation funded
Loan versus bursary ratio	<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 loan, bursary and EFCs based on means test.</li> <li>• More loan versus grant in final of study. Higher proportion of grant in year 1 and 2 of study.</li> </ul>
Programme qualifications	• Means test and acceptance to HEI	• Means test and acceptance to HEI
Occupations in high demand	• Limited funding and incentives	• More funding, better incentives for students, universities, private sector
Government overall cost	• High	• Lower
Loan repayment while at HEI	• No	• No

### 10.3 Piloting the ISFAP model in 2017

The MTT recommends that an ISFAP pilot be run in 2017. The pilot will be offered to “missing middle” students only at selected faculties at selected Universities and a single TVET college as follows:

- Six professional, one general course and one artisan course at TVET college:
  - Medical Doctors
  - Pharmacists
  - Actuaries
  - Engineers
  - Chartered Accountants
  - Prosthetists / Physiotherapists
  - Artisans (Welders, plumbers and electricians)
  - Humanities (Selected majors)
- Seven Universities:
  - University of Venda
  - Walter Sisulu University
  - University of the Witwatersrand



- University of Cape Town
- University of Pretoria
- Tshwane University of Technology
- University of KwaZulu Natal
- One TVET College
  - Orbit Technical College
- First year student entries in 2017 only
- Pilot is to be transferred to ISFAP “ManCo” and ISFAP “FundCo” once the legal entities are established and the PPP agreement is finalised.
- Full cost of study to be funded, including “wrap-around” support

The proposed student numbers and splits will be constrained by the final amount of funding obtained from this appeal for the pilot. Assuming the funding supplied covers a minimum of 1000 students, the relative splits will be as follows:

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

#### 10.4 DHET Recommendations

Following the submission of this comprehensive report to DHET, a number of recommendations were made:

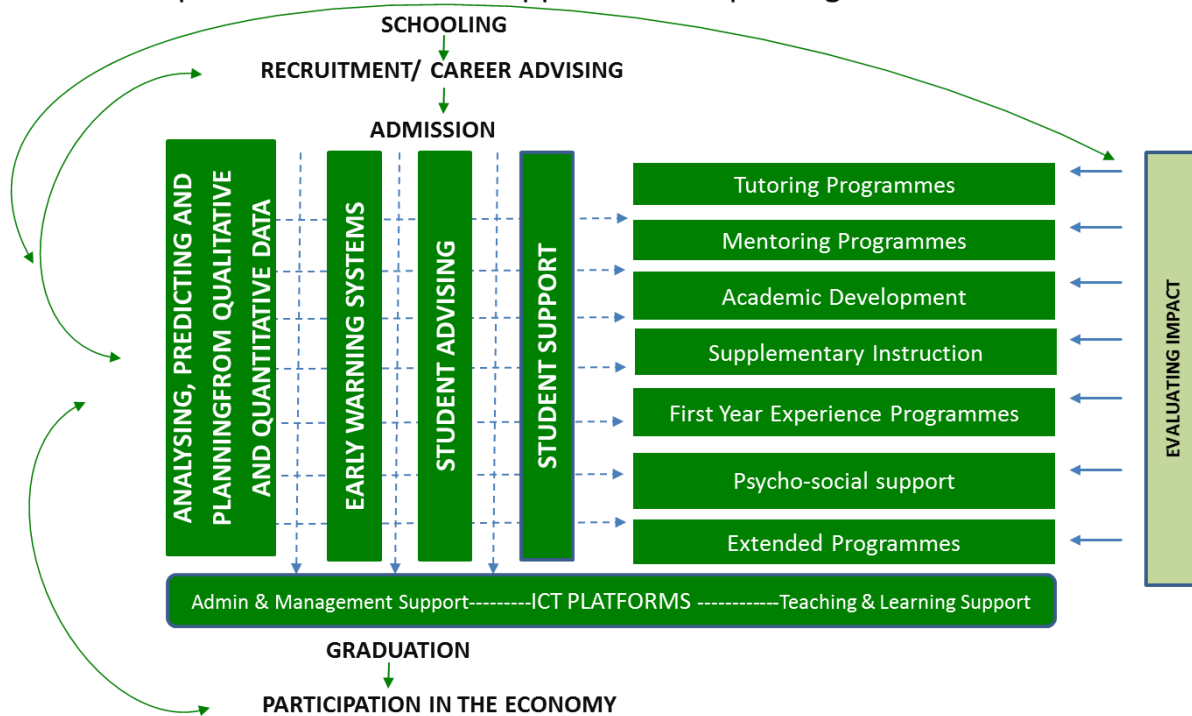
- NSFAS should continue to administer public funding
- ISFAP must leverage the substantial resources put into the new NSFAS student centred model (IT platform etc.)
- A comprehensive feasibility study required in terms of National Treasury Regulations for setting up a Public Private Partnership project (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)



- The final model be based on outcomes of Pilot, feasibility study and public comments and outcomes of the Presidential Commission
- “Wrap-around” support to leverage the DHET University Capacity Development Programme being rolled out in institutions of higher education as per the diagram below:

### DHET University Capacity Development Programme

Will promote a structured approach to improving student success...



The MTT report was presented to the Cabinet on the 2<sup>nd</sup> of November where the report was noted, approved for publishing for public comment and was approved to be tested at selected institutions for “missing middle” students in the 2017 academic year.

On the 21<sup>st</sup> of November the MTT proposals were presented to the Presidential Commission of inquiry into higher education funding (the fees commission).

A PPP process which requires a detailed feasibility study has been sponsored by DHET and registered as per the National Treasury regulations. The detailed feasibility study is to be conducted during 2017. A PPP Project Office has been established with the MTT Chairperson, Sizwe Nxasana, appointed as the Project Officer.

Transaction advisors required in terms of Treasury Regulations have been appointed and the contracting process is complete with the feasibility study to begin in early 2017. The ISFAP pilot and detail design and build work will begin in in 2017 and feed into the feasibility study.

The implementation of the ISFAP model to be decided by government based on the outcome of the feasibility study.



Ministerial Task Team to develop a Support and Funding Model for Poor and “Missing Middle” Students

# Chapter 1

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## Introduction



Ministerial Task Team to develop a Support and Funding Model for Poor and “Missing Middle” Students

## 1 Introduction

The past 24 months have ushered in a new era of a highly politicised and volatile climate on South African university campuses. This has been underpinned by a call for free higher education in a context of limited financial aid and the opening up of access to universities by students from poor families. Whereas the student protests and demands for free education are legitimate in a democracy, there has been some misinterpretation of the constitution in the call for free education. Chapter 2 sub-section 29 (1) (b) of the Constitution of the Republic of South Africa states, "Everyone has a right to higher education which the state, through reasonable measures, must make progressively available and accessible." The Constitution of the Republic of South Africa does not promise free higher education.

A 12 member Presidential Task Team on short-term solutions to address university funding challenges was established shortly after a meeting on the 6<sup>th</sup> October 2015 between President Jacob Zuma, Minister Blade Nzimande, several ministers and deputy ministers, and representatives from UCCF-SA and USAf. The task team was given the mandate to develop a short-term plan to mitigate possible student protests and unrest at the start of the 2016 academic year, and to report on possible solutions to the immediate student funding challenges.

The Presidential Task Team submitted its report and recommendations to the President at the end of November 2015. The report contained recommendations which focuses on the need for stakeholders in the sector to rethink current funding sources and how higher education could be adequately funded in the short to long-term. The recommendations of the Presidential Task Team resulted in government committing to providing funding to take over the historic debt of NSFAS qualifying students who were underfunded or unfunded in the years 2013, 2014 and 2015, as well as returning NSFAS qualifying students in 2016.<sup>1</sup>

In his January 8<sup>th</sup> statement<sup>2</sup>, the President announced that government will prioritise R4.582 billion of state funding in the 2016/17 financial year to be allocated to the National Student Financial Aid Scheme (NSFAS) to provide:

- For loans amounting to R2.543 billion to assist 71,753 identified students who qualified for NSFAS funding but were either partially funded or not funded at all over the last three academic years, and
- An additional allocation of R2.039 billion to ensure that any of these students still in the university system in 2016, are supported financially to continue and complete their qualifications.

Despite the significant funding which has been made available by government, the so-called "missing middle" students, who are the children of lower-middle income households that are excluded from qualifying for financial aid as their household income is above the R122 000 per annum qualification threshold and are too poor to be funded by their parents or access commercial bank funding, face severe challenges in raising funding to access higher education. The funding difficulties faced by these "missing middle" students continue to be the source of student protests in 2016.

In attempting to address the funding of the "missing middle", the Minister of Higher Education and Training mandated the NSFAS to explore ways to fund these students who do not meet the current NSFAS means test criteria for funding. The NSFAS board report focused on the funding solution for students of the Government Employee Pension Fund (GEPP) members. The proposed solution was inadequate to deal with the majority of students classified as "missing middle".

<sup>1</sup> Report of the Presidential Task Team on Student Funding Challenges at Universities, November 2015

<sup>2</sup> Statement of the National Executive Committee on the occasion of the 104th Anniversary of the African National Congress



In addition to the need to find a funding solution for the very poor, poor and “missing middle” students, there are other challenges particularly faced by poor students including high dropout rates, the high unemployment rate amongst those who graduate, etc.

A Ministerial Task Team was established in April 2016 to develop a comprehensive funding and student support model for poor and “missing middle” students. The Task Team was tasked with the creation of a model which will provide affordable financial support for very poor, poor and “missing middle” students and fully subsidised loans for the financially needy students.

### **1.1 Terms of Reference of the Ministerial Task Team (MTT) on Funding Poor and “Missing Middle” Students**

Recognising the work already undertaken by the Presidential Task Team and the additional funding which the government made available to deal with the NSFAS funding shortfall and historic debt, it is recognised that the current NSFAS funding model does not cover the funding of “missing middle” students.

The MTT was established with a mandate to determine and advise on alternative financing and operating models for funding poor and “missing middle” students, having regard to;

- the Constitution of the Republic of South Africa,
- all relevant higher and basic education legislation,
- all relevant public policy, legislation and regulations,
- all findings and recommendations of the various Presidential and MTTs,
- all relevant educational policies, reports and guidelines;

In developing the proposals, the MTT must also address the following issues:

- Whether or not the existing National Student Financial Aid Scheme Act, 56 of 1999 ("**NSFAS ACT**"), structure and mandate is still suitable to address the funding and other forms of support to poor and “missing middle” students,
- Raise sufficient funding from the public sector, private sector and other sources in order to offer a comprehensive solution to fund poor and “missing middle” students at universities and TVET colleges,
- The feasibility of granting fully subsidised loans to very poor students and loans with progressive reducing subsidies as household income increases for the poor and “missing middle” students,
- The funding of occupations in high demand,
- Develop proposals which contribute towards the improvement of the success and graduation rates for poor and “missing middle” students and the reduction of dropout rates,
- Create an efficient and robust model with appropriate internal controls to minimise leakage, fraud and risk in the granting and disbursement of bursaries and loans to deserving students, whilst improving the collection of loan portion granted and convenience to students.

This document is the high-level blueprint that was produced by the MTT. This document does not yet deal with detailed technological recommendations as the business processes must still be designed in detail.

### **1.2 Members of the Ministerial Task Team**

Sizwe Nxasana was appointed as the member and chairperson of the MTT. The chairperson co-opted various members to the MTT including representatives of various banks seconded from the Banking Association of South Africa (BASA), the Association for Savings and Investment South Africa (ASISA), the South African



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Institute of Chartered Accountants (SAICA), Webber Wentzel attorneys, and Michael and Susan Dell Foundation an Bertha Centre for Social Innovation and Entrepreneurship at the Graduate School of Business, University of Cape Town to participate in the development of the blueprint.

### 1.3 Methodology

In order to fulfil its mandate, the task team created a project name for their work called “Ikusasa Student Financial Aid Programme” (ISFAP). The task team also performed various tasks which included;

- Reviewing various reports including NSFAS annual reports, cohort progression studies, various reports from the Department of Higher Education and Training, UniversitiesSA, Higher Education Management Information System (HEMIS) data,
- Reviewing White and Green Papers on Post School Education and Training,
- Reviewing documents and resolutions from various stakeholder engagements including the 1st and 2nd higher education summits, colloquiums, conferences, and meetings,
- Reviewing the Presidential Task Team report on student funding challenges at universities,
- Reviewing the Performance and Expenditure Review performed by the Government Technical Advisory (GTAC) unit of National Treasury on NSFAS,
- Developing the conceptual framework and solutions to address funding challenges for students from poor and middle income backgrounds,
- Identifying relevant public policy affected by new model,
- Building an ISFAP operating model including;
  - Student selection model
  - Household means testing model
  - Grant versus loan split model
  - Continuing support rules for students
  - Exit and support termination rules
  - Debt recovery model
- Building a Social Impact Bond model,
- Determining the total funding requirements for the students who come from poor and “missing middle” backgrounds,
- Identifying various potential sources of funding,
- Developing a private sector funding model,
- Identifying appropriate fundraising instruments, including potential size, tenure and investment appetite, and potential rules,
- Presenting the model to various stakeholders, including the Human Resources Development Council, the Reference Group, UniversitiesSA, student bodies, government departments.

A reference group specified by the Department of Higher Education and Training was also set up to contribute to the development of the model constituted of individuals at Deputy Director-General level, in the relevant government departments, chief executive officers of public entities, vice-chancellors of universities and leaders of student organisations from the following key stakeholders:

- Department of Higher Education and Training
- Department of Finance/National Treasury;
- Department of Planning, Monitoring and Evaluation;
- Department of Trade and Industry
- Universities SA (USAf);
- The Universities Council Chairs Forum (UCCF-SA);



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- The Council on Higher Education (CHE);
- South African Union of Students (SAUS);
- Sector and Education and Training Authorities;
- National Student Financial Aid Scheme (NSFAS);
- Congress of South African Trade Unions;
- Financial Aid Practitioners of South Africa; and

Five reference group meetings were held where the objective was to debate key elements of the blueprint. The output from each of the reference group meetings was incorporated into the blueprint.

#### 1.4 Policy Considerations

The Department of Higher Education and Training has held a number of engagements with stakeholders on access, success and the funding challenges faced by students in higher education institutions. Most of these engagements identified policy changes which are required to further advance the South African higher education sector. In order to successfully implement the proposed student funding and support model which seeks to improve access, success and employability of students from poor and working class families, a number of policy decisions are required. They include the following;

##### 1.4.1 Creation of a sustainable public/private institutional framework

The ISFAP model proposes that new structures be launched that fulfil the student funding and support requirements on behalf of NSFAS through a Public Private Partnership (PPP) agreement between NSFAS and a new special purpose vehicle called “ManCo”. NSFAS is investing in new systems and processes to implement a “student centred model” which is being fully implemented across all public universities and TVET colleges in 2017. It is proposed that some of the NSFAS systems and processes will be incorporated in a PPP arrangement which will see enhanced student funding and tracking systems being built for the future. The creation of a PPP arrangement between NSFAS and ManCo will be critical for the following five main reasons:

- **To forge a strong and sustainable public private partnership.** The National Development Plan calls for active citizenry. In pursuing this objective, it is important to create an organisational structure which will make it easy to raise funding from the public and private sector. NSFAS currently receives almost 100% of its funding from the public sector and because of the weaknesses in its external reporting and accountability structure, linked with inefficient processes and it lost most of the funding it used to receive from the private sector. Given NSFAS’ legacy issues, it will be very difficult to restore the confidence of the private sector to start funding NSFAS.
- **To raise adequate funding from the public and private sectors** - In order to gain private funding the new entity will need to be rated, have “fit-for-purpose” systems and reputable operations, evidence of recoverable loans, and an aspirational brand. The known NSFAS operation has many challenges, has many negative public views regarding the recovery rate of loans, and according to the funding experts, would not be appetising to private investors.
- **To create the best of breed systems which are effective** - In spite of the improvements in the efficiency and management, the current NSFAS organisation faces many challenges and it will be very difficult to take the body to the new vision without being ‘contaminated’ by current inefficiencies and legacy systems.
- **To implement a new operating model** - The new vision of ISFAP is to be a government/investor partnership with a new operating model that is inherently different to the current NSFAS model.
- **To improve skills capability and communication to key stakeholders** - The new ISFAP vision will require new resource levels, an enhanced operational structure, and is proposed to be based in Gauteng to be accessible to particularly the Department of Higher Education and Training and the financial hub, other arms of the public sector, thus drawing on a stronger resource pool.





In the new model, it is envisaged that;

- The key component behind the legal/commercial structure of ISFAP is a PPP agreement with NSFAS
- The Department of Higher Education and Training or NSFAS would need to be empowered to enter into a PPP agreement to authorise ISFAP to perform functions that the Department or NSFAS is required to perform. Currently, neither the Department of Higher Education and Training nor NSFAS are empowered to do this. Currently, NSFAS is empowered by the NSFAS Act to:
  - allocate funds for loans and bursaries to eligible students,
  - develop criteria and conditions for the granting of loans and bursaries to eligible students in consultation with the Minister of Higher Education and Training,
  - raise funds comprising money appropriated by parliament, donations or contributions, interest, money repaid or repayable by borrowers and any other income received by NSFAS,
  - recover loans,
  - maintain and analyse a database and undertake research for the better utilisation of financial resources,
  - advise the Minister of Higher Education and Training on matters relating to student financial aid,
  - perform other functions assigned to it by the NSFAS Act or by the Minister of Higher Education and Training
- In terms of the ISFAP proposal, the NSFAS Act will have to be amended to allow for ISFAP to, *inter alia*:
  - enter into and implement the PPP arrangements in terms of the National Treasury regulations
  - work with institutions and other stakeholders to reduce the dropout rates of funded students
  - work with institutions of higher learning and other stakeholders to ensure that all eligible and funded students are given value-adding support to improve their chances of success, graduation and employability
  - raise loan funding
- The operations of ISFAP will be managed and administered by a management company ("ManCo") – effectively and legally this ManCo is ISFAP
- The funding requirements of ISFAP, insofar as private investors' funds are concerned, will be managed and administered by a funding company ("FundCo")
- Details of the control, governance and management of the PPP as well as the role of FundCo and ManCo will be set out in the PPP contract
- ManCo will be set up as a private company owned by FundCo (subject to reporting and disclosure requirements under the PFMA due to the PPP agreement)
- Private investors will participate in ISFAP through senior funding, bonds, notes, Social Impact Bonds and other instruments directed through FundCo
- Government and NSFAS will participate in ISFAP through loans, grants and subsidies directed via ManCo. (FundCo will only administer private investors funds)

#### **1.4.2 Using the South African Revenue Services (SARS) to collect outstanding ISFAP debt**

- Neither the National Credit Act, No 34 of 2005 ("NCA") nor the NSFAS Act makes provision for the collection of outstanding credit agreements through the South African Revenue Service ("SARS"),
- In order to improve the collections and performance of the loan book, it is proposed that ISFAP disclose its proposed collection mechanism (i.e. allowing for the deduction of student loan instalments from the income of the students through payroll deductions via the SARS system) and obtain consent in respect thereof from the NCA regulator as part of the process of being registered as a developmental credit provider under the NCA (Further details on registration as a developmental credit provider can be found in Chapter 8),
- This will, in addition, require an amendment to the NSFAS Act and the South African Revenue Service Act, No 34 of 1997, as amended ("SARS Act").



### 1.4.3 Various SARS Act and Income Tax Act amendments

There are various sections of the SARS Act and the Income Tax Act, No 58 of 1962 ("**Income Tax Act**") which are proposed to be amended, especially those that deal with;

- SARS as a collection agent for another party,
- Expanding the list of donation tax exemptions to include the ISFAP corporate vehicle,
- Income Tax Act provisions which deal with scholarships and bursaries,
- Income Tax Act provisions which incentivise future employers of students to settle the student's debt without triggering large adverse tax consequences for the student/employee,
- Income Tax Act provisions to potentially exempt the ISFAP corporate vehicle from income tax,
- In addition, there is a need for the Minister of Finance to expand the relevant conditions that have been prescribed by the Minister of Finance in Regulation Gazette 24941 of 28 February 2003 in respect of the advancement of loans under paragraph 4(o) of Part I and paragraph 3(o) of Part II of the Ninth Schedule to the Income Tax Act.

### 1.4.4 Broad-Based Black Economic Empowerment Act, 2003 ("**B-BBEE Act**") and the Codes of Good Practice on Broad Based Black Economic Empowerment issued under section 9(1) of the B-BBEE Act, as amended ("**Codes**")

To actively use the Skills Development Expenditure (6% compliance target) of companies to invest this expenditure in bursaries as envisaged in the model. The Commissioner of B-BBEE in the Department of Trade and Industry ("**DTI**") has given guidance that a maximum of 25% of the 6% compliance target could be used by private institutions by donating funds to ISFAP.

### 1.4.5 Other Policy Considerations

- *The new entity will make decisions centrally*

ISFAP will centrally make the decisions regarding who is accepted for funding together with the terms, conditions and the grant/loan/bursary make-up of the funding. This will remove the decision-making, administration and processing of NSFAS funding applications from institutions and thus require less resources currently maintained by such institutions such as loan officers, etc.

- *ISFAP will fund the full cost of study*

Regardless of which institution a student has been accepted into, ISFAP recommends making available funds to cover the full cost of study through grants and bursaries to the very poor and a combination of grants, loans and family contributions to the poor and "missing middle". The full cost of study will cover tuition, accommodation, books, meals and, in certain cases, a stipend. The model accepts the differential in full cost of study from one institution to another. This may have an impact of giving more access to students from poor and working class backgrounds to the more expensive institutions, thus affecting student migration patterns.

Funding the full cost of study for poor and "missing middle" students means that significant funding must be raised from government and the private sector if the same number of students as currently funded by NSFAS plus the "missing middle" will be funded. Currently NSFAS has a "funding cap" (R71,800 for the 2016 academic year). This means that if the full cost of study is above this amount (which is the case for at least 13 of the 26 public universities), students still have to find other sources of funding to settle all their costs of study.

There are a number of universities which routinely divide up the available funding between all eligible applicants, meaning that all are underfunded to a greater or lesser extent. This is called "top-slicing". Funding the full cost of study will eliminate top-slicing but may have the consequence of funding less students if sufficient funding is not raised.

- *More grants and subsidies will be given in the earlier years of study*



Means testing will be done on all applications for financial support to determine the ratio of grants versus loans for qualifying applications. Very poor students will receive fully subsidised funding for the full cost of study if they complete and graduate within the regulated time for any degree, diploma or certificate. These students will continue to qualify for partial grants and be offered loans until they graduate beyond the regulation time subject to certain terms and conditions. Where loans are granted, more grants versus loans will be given in the earlier years of study to reduce the financial burden on students.

The new model proposes to keep loans and grants separate. There will be no loan-to-grant conversion as is currently the case with the NSFAS. This means that separate records and agreements will be entered into with students for the two components of funding. Keeping loans separate from grants will enable a more efficient management of the loan component. The performance of the loan book will build a track record over time, allowing the loan book to get a credit rating which is critical for long-term funding.

- *More focus on scarce skills and Occupations in High Demand*

One of the critical areas which the ISFAP model must address is the promotion of scarce skills to grow the economy. The model seeks to give a bigger focus to producing graduates with scarce skills. Balance will have to be struck between degrees in humanities and social sciences and those that prepare students for professional practice or vocational degrees. The Department of Higher Education and Training has established the National Institute for Humanities and Social Science (NIHSS) to ensure that the focus on producing graduate and academic staff who play a role in social sciences and humanities is maintained.

The definition of scarce skills or occupations in high demand will be based on the targets set by the Human Resources Development Council.

- *Reducing dropout rates and improving the throughput pass rates*

South African universities generally have low graduation rates compared to the international norm. There are various cohort studies which have been conducted and they all indicate that the dropout rates for NSFAS funded students is higher than the national average, thus increasing the cost to the state.

There are various reasons for the high dropout rates. The 2013 White Paper<sup>3</sup> lists the main ones, including the weakness of much of the schooling system, especially those schools catering to poor and rural communities; high student-to-staff ratios at undergraduate level, especially for first-year students; inadequate systems for recognising students who need support; insufficient student support for academic and social adjustment to university life; weak support for professional development and recognition of academic staff in the area of undergraduate teaching.

The DHET has allocated the Teaching Development Grant (TDG) with funds which are used to:

- target and address specific blockages that students struggle with, for example high-risk modules that have high failure rates;
- support students who need extra support - especially at, but not limited to, the first-year level through the implementation of strong first-year experience programmes and tutorship and mentorship programmes;
- link the tutor and mentor programmes to the development of the next generation of academics to ensure that a stronger academic pipeline is created;
- enhance the teaching and responsive capacity of lecturers through lecturer development activities that may be qualification-based, or through relevant, high-quality short courses; and
- promote a scholarship of teaching and learning.

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<sup>3</sup> White Paper for Post-School Education and Training: Building an Expanded, Effective and Integrated Post-School System, 20 November 2013



In addition the Department of Higher Education and Training is planning to introduce a university capacity development programme (UCDP) in January 2018, aimed at enhancing development initiatives at universities.

The programme follows on from the successes achieved through programmes that were implemented using the Earmarked Teaching Development Grants and Research Development Grants allocated by the department to universities, and is a consolidation and extension of the functions of these grants. The UCDP will be implemented in three-year phases and will assist to address transformation imperatives in student development, staff development and programme/curriculum development.

According to the department, the grant will help fund interventions in the university system which enables:

- Increased levels of success for students
- The creation of an academic development pipeline to transform the academic workforce and provide for quality research development
- Development opportunities for other professional staff at universities including management staff
- Develop new academic programmes that are of strategic importance and are national priorities and support their introduction until they become self-sustaining
- Review and renew curricula to respond to transformation imperatives.

In addition to the DHET funding, the ISFAP model seeks to significantly increase the funding and resources which are made available to support students from working class families to graduate and find employment by leveraging private sector funding which would be raised through a Social Impact Bond. This will require that government works in partnership with universities, non-governmental organisations, the private sector and students to improve the success rates.

#### **1.4.6 Postgraduate considerations**

The Ministerial Task Team's terms of reference only addresses the funding and support of students from poor and working class backgrounds who are pursuing undergraduate studies. Most of these poor and working class students do not participate in postgraduate studies for various reasons including the lack of financial and other incentives to make it easier for them to pursue postgraduate studies. NSFAS has a very small funding allocation to fund postgraduate students at the moment. The National Research Foundation as part of its transformation mandate currently carries the responsibility of supporting poor and working class students to pursue postgraduate studies.

The NRF, as an entity of the Department of Science and Technology, is a statutory organisation whose mandate is *"to support and promote research through funding, human resource development and the provision of the necessary research facilities in order to facilitate the creation of knowledge, innovation and development in all fields of science and technology, including indigenous knowledge and thereby to contribute to the improvement of the quality of life of all the people of the Republic."* In conducting its business the NRF promotes transformation, with excellence in its work and in particular in human capacity development, across the national system of innovation (NSI).

In this regard, two key areas of support in the grant funding business of the NRF, include:

- The provision of scholarships/bursaries, which are provided as competitive free-standing (around 75%) or grant-holder-linked (around 25%)
- The provision of research grants, as most of these include funding for students trained within the funded research projects (the grant holder-linked bursaries)

The NRF funds a relatively small portion, approximately 8% of the national body of postgraduate students, (10,500 out of 130,000 ) with this portion increasing from Honours to PhD (less than 6% of Honours/BTech; less than 8% of Masters; and less than 16% of PhD). According to the Department of Higher Education and Training's approved student enrolment plans, the number of postgraduate students is to increase to an expected 183,147



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by 2017. Thus the number of bursaries and scholarships available across the system would need to be significantly increased in line with the expected growth in postgraduate student numbers.

The currently funded portion is based on a general graduation rate of each cohort of 40% to 60%. Scholarships are awarded, on a competitive basis, against set equity targets hence the success rate for black students are higher than that that of their white counterparts. The graduation rate for NRF-funded students is generally better than the nationally set targets, averaging at 100%, 46% and 26% for Honours, Masters and PhD degrees respectively, which are significantly higher than the national average.

The NRF is of the view that a more affordable and sustainable solution is one that funds students on the basis of full cost of study but that is selective and differentiates on the basis of the following principles and/or guidelines:

- Selectivity informed by focus/priority areas and transformation imperatives and targets.
- Differentiation which categorises students for full, partial or no funding depending on income levels and access to other funding such as bursaries.

The Ministerial Task Team **recommends** that consideration be given to extending the ISFAP model to cover postgraduate studies in partnership with the NRF and other private and public sector entities that support and fund postgraduate studies. The NRF is currently in discussions and project collaborations with a number of strategic partners such as DHET, NSFAS, Universities South Africa (USAf) and individual higher education institutions with regard to achieving improved policy synergy, data sharing as well as improved analytic and modelling capabilities in order to achieve greater system-wide efficiencies and enhance NRF support for improved access and success for many more students within the postgraduate human capacity development pipeline.



# Chapter 2

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## Vision, Mission and Context of ISFAP



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## 2 Vision, Mission and Context of ISFAP

### 2.1 Vision and Mission of ISFAP

#### 2.1.1 Vision

To financially and socially support students in tertiary education that come from poor households up to and including the “missing middle”, in order to increase and maximise graduation rates and subsequent employment and economic participation in line with the needs of the country, within a sustainable public/private partnership.

#### 2.1.2 Mission

The Ikusasa Student Financial Aid Programme (ISFAP) is based on a public/private partnership in which government and the private sector participate to provide funds to qualifying students who are studying at universities and TVET colleges.

The model seeks to give effect to the South African Constitution - 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. The model specifically focuses on “financially needy” students which includes the poor and the so-called “missing middle”.

Financial support for students will be a combination of grants, bursaries and loans governed by various criteria but with a guiding principle of providing fully subsidised university and TVET education to the very poor, reducing the financial burden on very poor means tested households and the promotion of the production of graduates qualifying in occupations of high demand.

The granting and disbursement criteria will be centrally controlled to optimise the outcomes within the constraints.

Psychosocial and life skills support will be provided by a combination of services providers, and managed in order to maximise key outcomes:

- Graduation in courses that provide skills for occupations of high demand
- Employment post-graduation

The envisaged entity will be highly governed, will raise funds, and achieve its goals in a sustainable public/private partnership.

#### 2.1.3 Key Success Criteria

- To build an efficient application process providing easy access to deserving students:
  - An efficient means testing process to identify students who come from poor and working class backgrounds,
- To increase graduation rates from courses that provide skills for occupations of high demand,
- To increase student prospects for employment post-graduation,
- To substantially increase the funding for further education via a private fundable model with returns,



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- To reduce the non-productive component of the cost of education for the government, and South Africa. To increase overall effectiveness of all funds used,
- To increase the overall financial support for all students from poor and middle income households for further education at Universities and TVET colleges, offering more support for lower means tested households,
- To minimise the subsequent financial burden on students from lower means tested households towards 'free education',
- To set and maintain high governance protocols throughout and minimise potential for fraud and risk in the granting and disbursement of loans and bursaries,
- To set predictable loan collections rates that meet the funding constraints,
- To develop the operating model in 2016, to pilot in 2017, and roll out from 2018.

#### 2.1.4 'Must Haves' within the model

- A sustainable public/private partnership,
- Various successful innovative funding mechanisms in order to substantially increase the funds available to fund very poor, poor and missing middle students,
- Centralised objective control of all granting and disbursement decisions in order to optimise outcomes,
- Salary deductible loans collections processes, collected via South African Revenue Services as SARS systems allow this,
- Highly governed student identification, verification and controlled payment mechanisms,
- Household means testing calculation and verification to determine terms of financial assistance,
- Social contracts with students together with comprehensive psychosocial and life skills support structures,
- Comprehensive data structures, auditing and monitoring in line with key goals,
- Clear and communicated split between loans and grants,
- An operating model that can be developed and implemented within aggressive timeframes (developed in 2016, piloted in 2017, roll-out from 2018).

#### 2.1.5 Assumptions of this Blueprint

- The blueprint has been developed independently of any detailed review of any systems, processes or people used in the current NSFAS model;
- In future as the system allow, It will be possible to use SARS in the repayments process;
- Bad debt rates will drop when collections and recoveries can be done through SARS;
- CAS (Central application system) may not be available on roll-out but will be integrated when available;
- It will be possible to structure loan repayments in line with funding constraints;
- Appropriate funding from the private sector will be available;
- Funding will be sourced from the B-BBEE Codes as it relates to Skills Development expenditure by providing proper implementation guidelines to the public and private sector in this regard;
- Private and public sector supports the process with funding and student support;
- The financial services sector follows governance rules set out by the regulators in verifying identification of transactional customers so that no additional risk is added to the model;
- Post-graduate degrees will not be funded through this model. However, some of the elements of the model could be used for funding and supporting students from poor and working class backgrounds pursuing post-graduate studies as indicated under policy considerations recommendations;
- Funding for the Social Impact Bond will be partially or fully funded by a reduction in the current fiscal leakage inherent in the current student funding model.





## 2.2 Information gathered from current NSFAS operation

The finance support for students in tertiary education is governed and managed by NSFAS. As an input to the blueprint, the task team held a meeting with the current CEO to get a high level view of the current operating model decision processes and stakeholders within those decisions.

Currently there are two systems being used, the original system, which is using what is described as the traditional model, and a new system implemented in 2014 using the "student-centred model". 6 of the 26 universities have been transitioned to the new system based on a "willing and able" evaluation.

### 2.2.1 Traditional Model

- The process is University centric,
- The University performs the means test as well as a fund allocation using NSFAS rules and guidelines,
- The NSFAS rules, particularly regarding the qualifying criteria, level of funding, and continued funding for students initially supported are being implemented arbitrarily by universities. For example, the rules indicate that students need to pass 50% of their registered courses to qualify for continued funding, but not all institutions apply the same criteria,
- Situations exist where funds intended for one student may be split over several students.

### 2.2.2 Student-Centred Model

- The student-centred model runs on a new system developed by Deloitte,
- The amount students receive is centrally administered, however this still works within the stated university allocations,
- NSFAS works with the universities to determine the allowances needed by students,
- Sbus cellphone vouchers are used to dispense allowances to students (food, accommodation, books and transport). Sbus collects a fee as a percentage of purchases from the retailers. This fee is shared 50/50 between NSFAS and Celbus (provider for sBus),
- NSFAS plans to add about 80% of the universities and TVET colleges to the new model by 2018,
- A link is/has been established with Home Affairs to check student parent status. This resolves the need for students to provide affidavits in the case of their parents being deceased,
- A link is/has been established with SASSA to check for the issuing of social grants. This is used together with the school attended (fee paying or not) as a proxy for household means to determine if the student is eligible for support.
- SARS is also providing NSFAS with addresses and data regarding outstanding debtors.

### 2.2.3 SETA's and other rules

Certain organisations also provide funds to NSFAS, these include SAICA, DHET, TVET, Fundisa etc. A number of these funds are bursaries where funds are administered by NSFAS but where the funder manages the application process. This was anecdotally reported to work well, particularly in the ETD P SETA where teaching students are selected and monitored by the SETA.



## 2.3 Stakeholder Map

### KEY STAKEHOLDERS

Students
Universities, TVET Colleges
ISFAP
NSFAS
Department of Higher Education and Training
Department of Finance/National Treasury

#### SASSA

Sourcing the information in terms of household SASSA dependency.

#### Department of Home Affairs

Verifying the household relationships and deceased status

#### National Learners Record Database

Monitoring student progress and results.

#### Broad-Based Black Economic Empowerment Commissioner

Developing guidelines for contribution towards bursaries by the private and public sector and monitoring performance.

#### Auditor General

Performs the auditing function for NSFAS/ISFAP.

#### Regulators

Interaction will be required to set up the institution/company governance and regulatory compliance.

#### Financial Institutions

Verification of student identity.  
Possible verification of income.  
Private sector funding.  
Student mentoring and employment.

#### Credit Bureaus

Possible verification of household income.  
Reporting of loans.

#### Document Exchange Association

Possible verification of household income.

#### Private Funders

Funding of the model in relationship (or not) to what government is funding.

#### Service Providers

Initial set up of technology components as well as support function once implemented.

#### Social Impact Bond Formation

#### CAS & Origination

The CAS Function will become a primary Stakeholder once launched.

#### Legal stream (W&W)

Overall legal support.

### SECONDARY STAKEHOLDERS

Care giver/Household
Department of Labour
National Skills Fund
SETAs
SARB
Regulators
BASA/PASA
Development Bank of SA
Private Funders (Funza Lushaka, National Skills Fund, ASFIP, etc.)



Ministerial Task Team to develop a Support and Funding Model for Poor and "Missing Middle" Students

# Chapter 3

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## ISFAP Model Concepts



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### 3 ISFAP Model Concepts

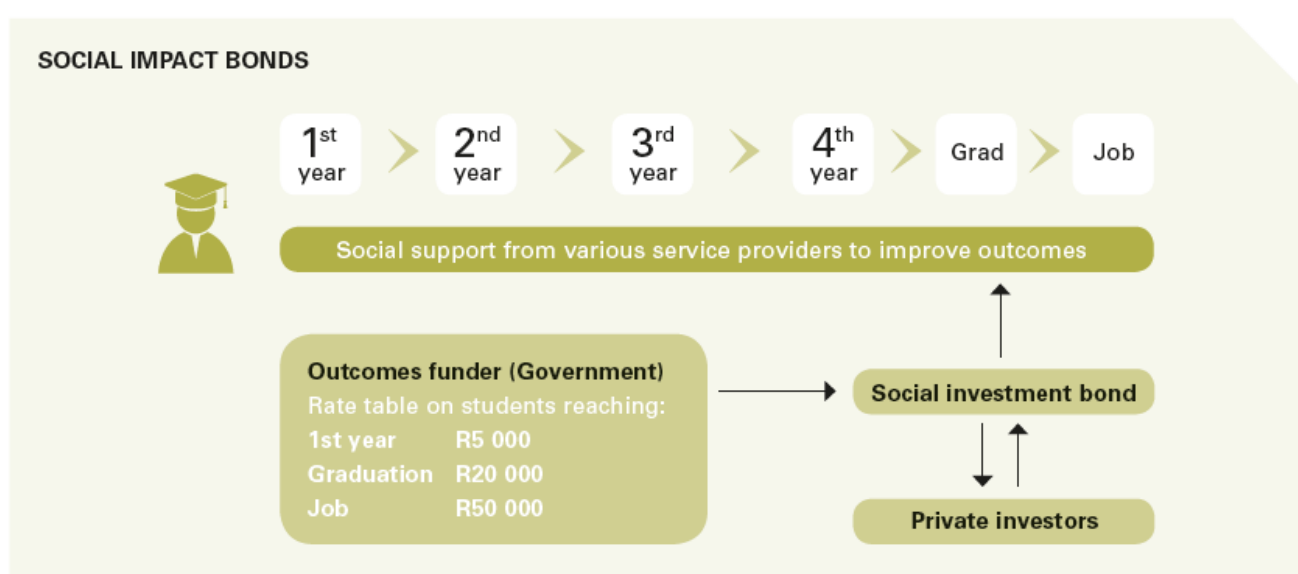
There are several key areas within the concept of ISFAP that are new concepts that differ from the current NSFAS model:

#### 3.1 Public/Private Partnership

ISFAP is a public/private partnership rather than a purely government-funded entity. Following this, ISFAP must be highly governed, have high data integrity, and be rated for external private funding.

#### 3.2 Social Support

ISFAP introduces the concept of more holistic social support provided by universities, TVET colleges and external service providers offered to the students funded through ISFAP in order to increase graduation rates and subsequent employment rates. In order to build capacity at all institutions of higher learning to offer this additional support, this component of ISFAP is envisaged to be funded by a combination of funds to be raised from the B-BBEE skills development contributions, private sector and non-governmental organisations and issuing Social Impact Bonds. The Social Impact Bonds in simple diagrammatic form will work as follows:



A key assumption is that the funding for the Social Impact Bond will be partially or fully funded by a reduction in the fiscal leakage inherent in the current student funding model. The above figures in the model are for illustrative purpose only. Within the contractual set-up of the Social Impact Bond, the hurdle rate for paying outcomes can be set. For example, a hurdle could be set where the outcomes funder (government) only pays outcomes at higher levels of graduation than currently achieved. A balance must be set between the funder and the outcomes provider to provide sufficient returns to entice the funder.

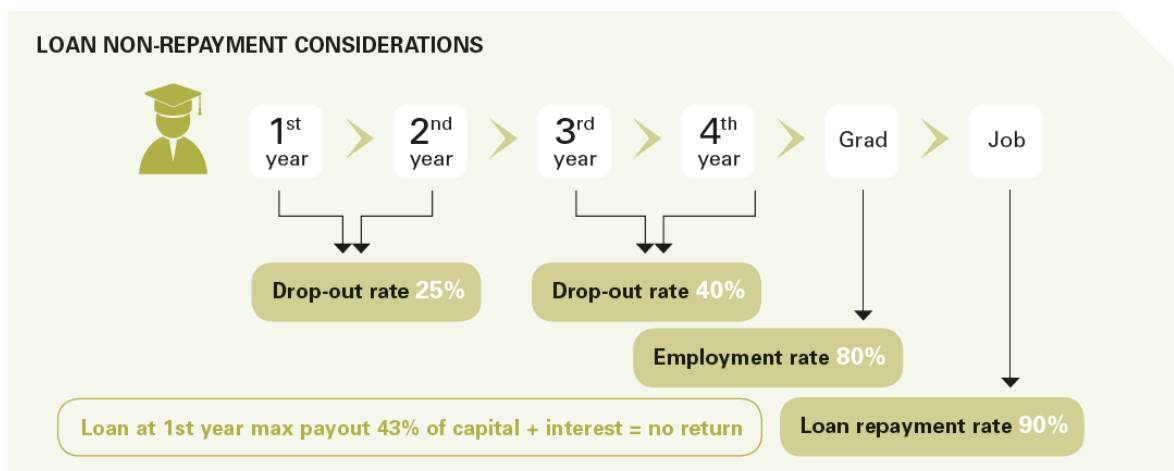
#### 3.3 Loan Repayment Considerations

ISFAP includes the concept of funding for the poor and “missing middle” using a combination of loans, grants and bursaries, funded by government and external or private investors. For the loans to give a return to the investors, the repayment ability of student loans needs to be considered. Assuming that a loan is only repaid once a student graduates and starts earning an income, there are three main hurdles that the student needs to pass in order to repay the loan:

- Graduating (not dropping out)
- Earning an income from employment or entrepreneurial activities
- Retaining employment and repaying the loan



Each of these hurdles are effectively non-repayment hurdles for the loan which can be described in the following diagram:



The diagram above illustrates the barriers to repayment.

Firstly, let us assume that a loan cannot be repaid if the student succumbs to any of the following conditions (the figures are illustrative):

- Drops out during the course (25% drop out in the first two years, cumulatively 40% drop out through all years)
- Fails to find employment (80% employment rate, therefore 20% fail to find employment)
- Fails to repay the loan during employment (typical credit risk - 90% repay, therefore 10% non-repayment when employed)

Assuming a loan is granted to a student in the first year then the possibility of repayment is calculated by multiplying the success rates as follows (these are illustrative figures):

- 60% successful graduation (not dropped out)
- 80% successfully find a job once they have graduated
- 90% then go on to repay the loan once they find employment

Therefore, in this example the percentage of students that will be in a position to repay the capital is  $60\% * 80\% * 90\% = 43\%$ .

Thus any lending model needs to work within this framework, by reducing and/or removing some of these factors through options such as:

- Lending later in the course tenure
- Improving graduation rates by interventions such as student support
- Lending to students on courses that will find employment (e.g.: students studying towards occupations in demand)

Therefore, in order to make the loans profitable and give a return, the distribution of loans needs to be considered within these hurdles, i.e. restrict loans to latter years of study within the decision philosophy. The Funding Model must be cognisant of this.

### 3.4 Centralised Decisioning Considerations

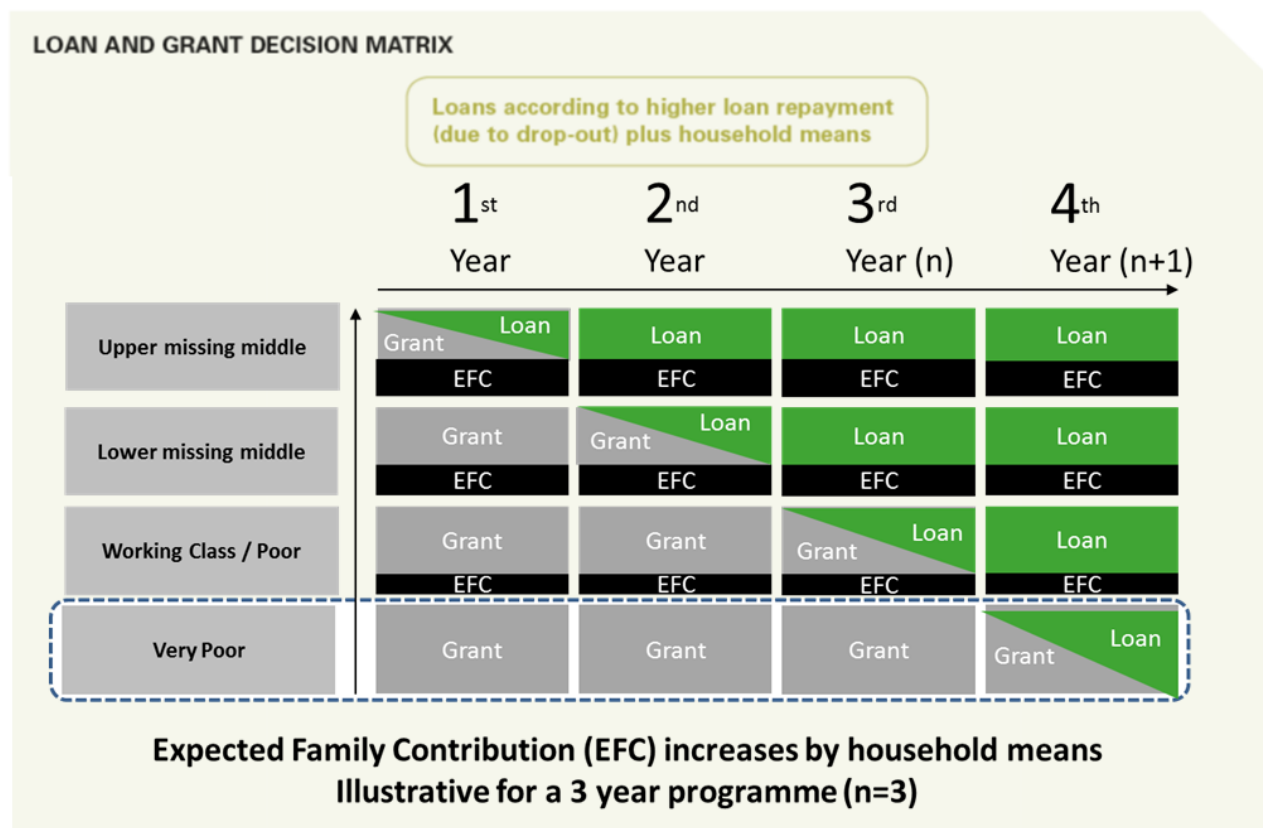
ISFAP will centrally make the decisions regarding who is accepted for funding together with the terms, conditions, and the grant/loan/bursary make-up of the funding.



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A strategy and process will be devised within a centralised decision system. This system will process all the parameters and information required in order to make a decision and output this decision. Following the concepts described within ISFAP, the loan/grant allocation will be determined using household means, loan repayment ability, and course of study with reference to Occupations of High Demand (OHD). Expected family contribution (EFC) will be calculated with respect to household means.

A conceptual diagram of how to incorporate these decision elements is given below:



This conceptual model reduces the future burden of debt for the poorer households, and also distributes the loan according to higher repayment ability segments (later years of study). Linked to this decision matrix will be the course studied. A maximum cumulative loan amount will also need to be considered within the decision strategy. The absolute amounts of Household Means will be devised in the model according to funding constraints. Funder constraints will also be applied in selecting students (e.g. any funds from B-BBEE based sources can only be used to support black students in the form of grants).

The definition of very poor will be required in the model, some possibilities include social grants and subsidy cut-offs (R66k), lowest income tax hurdle (R78k) or the current NSFAS cut-off (R122k).

### 3.5 Collections Considerations

The loan product collectability will be significantly increased by a new collection mechanism. It is envisaged that the loans will be collected via a direct deduction from income through the SARS system, thus students will automatically begin to repay the loan once they have formal employment or earn income (with a salary above a certain amount). This collections process will remove a level of credit risk.

### 3.6 Verification and Disbursement Considerations

The ISFAP disbursement mechanism is envisaged to be different. The recommended option is to use banks' transaction accounts and other service providers who provide disbursement platforms as the student



disbursement mechanism. Following the student's successful application to a tertiary education course, the student will then need to open a transactional bank account.

The reasoning behind this recommended option is as follows:

- The banks payment channels are secure, efficient, regulated and accessible.
- It is possible to constrain the payment mechanisms on these accounts if required. The banks' account opening processes are all regulated, governed, sufficiently scaled and must be FICA compliant, so this can substitute for the verification of the student.
- The banks already have this facility/product so minimal further training will be required.

Part of the loan/grant will then be paid into the transaction account (according to payment distribution decision criteria discussed later). The student will utilise the payment mechanisms afforded by the transaction account. The banks would compete to attract students to open a transaction account. This also removes the need for intermediaries, and any negotiations with service providers/retailers, thus increasing governance. This recommendation is beneficial to all parties which will ensure sustainability of the model.

### 3.7 Household Means Considerations

It is recommended that a household means test alone (income only, not full affordability) is calculated as part of the determination of whether a student is granted a loan, a bursary, or a grant. The NCA makes provision for this type of assessment when an institution is granting loans for the purposes of developmental credit. The decision concept of what will determine whether the student will receive a grant versus a loan is outlined in section 6.4 and the decisioning process is described in section 6.8 below.

### 3.8 Decision Philosophy

It is recommended that ISFAP has a centralised decision engine within which the decisions are tabled. As the decisions will be centralised and made differently, there are a number of areas where the decision philosophy should be devised in order to set the detailed decision strategies.

#### Decision Elements

The detailed specifications will describe the full set of data elements that should be passed to the decision engine, however it should include:

- Household means
- Tertiary course accepted (and flag to say if it is an OHD)
- Year of course currently studying
- Quality of student (matric marks)
- Marks from previous years at tertiary institution
- Unisa or not
- Data required for models
- Fields related to possible funder constraints e.g. race or profession

#### Models calculated:

- Bad debt forecast model
- Drop off forecast model
- Employment probability model

#### Decisions made:

- Accept/Decline
- Amount of Grant offered from which fund



- Amount of Bursary offered from which fund
- Amount of Loan offered from which fund
- Amount of Expected Family Contribution (EFC)

#### **Monitoring requirements:**

- Total by fund
- Total by bursary, loan, grant
- Total by University

#### **Change in Decision Philosophy**

The current (not the student-centred model) decision philosophy at NSFAS is that the University is allocated an amount for student funding. In many cases the university decides how much the students receive. The objective function is to maximise the number of students that receive funding, given that the minimum amount offered covers the university fees.

The new decision philosophy at ISFAP will be that the loan/grant/bursary decisions are made independent of the University allocation. The most common reason for University dropout is due to lack of appropriate finances, therefore the allocation amount per student is to be reviewed.

The objective function will be more sophisticated in order to optimise the effectiveness of spend in order to:

- Significantly increase scarce skills and OHD courses;
- Offer 100% grants to poor students, higher grant-to-loan ratio to lower household means test students;
- Offer loans to higher repayment ability forecast students; and
- To offer the correct amount to cater for the full needs of the student (full cost of study to cover fees, accommodation, books, living expenses).

Several areas will need further monitoring including, total University allocation, funding pools, student spending patterns etc. This will be accomplished by building “fit-for-purpose” information technology, data and information collection and management systems and data analytics capabilities.

#### **Discussion points regarding the change in Decision Philosophy**

##### **Can we move away from University allocation?**

Currently the universities are aware of the amount and number of students that will get funding/fees paid.

In the new model, based on the current funds allocated by NSFAS to universities and TVET colleges, fewer students may be funded at a university or a TVET, depending on the total funds available, students applying with regards to OHD, means, full needs of student, etc.

A change management process will be needed here, as the new model will adjust the number and types of students funded. Universities may need to reduce the administration capacity which they use to manage NSFAS loans and adapt their course structures and roll-out in order to not be negatively impacted.

For example, envisage a simple scenario in a constraint with only R66,000 available. Currently using universities (and not TVETs), a single university may decide to offer this amount to 3 students split as R22k each (just to cover fees). In the new model, the centralised decision may decide to offer this amount to only one student at the university (to cover full cost of study requirements), or even no students at this university but to one at another university.

It is important to note however, that the total funding under ISFAP is proposed to be increased (R10bn to between R40bn to R50bn) and therefore the chances are high that each university will see an increase in students with fees funded by ISFAP.





**If there is a constraint in funding - who gets declined?**

If the funds available do not cover the number of student applications, then a decision philosophy will need to be derived to decide who to decline. Some options to consider are:

- Lower the top threshold of R600k household means tested students (e.g. R500k)
- Decline lower quality students based on academic performance
- Give preference to scarce skills
- Offer lower amounts - not full student requirements in certain agreed cases
- Total loan/grant amount offered adjusted to household means



## Chapter 4

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# Business Processes and Modelling



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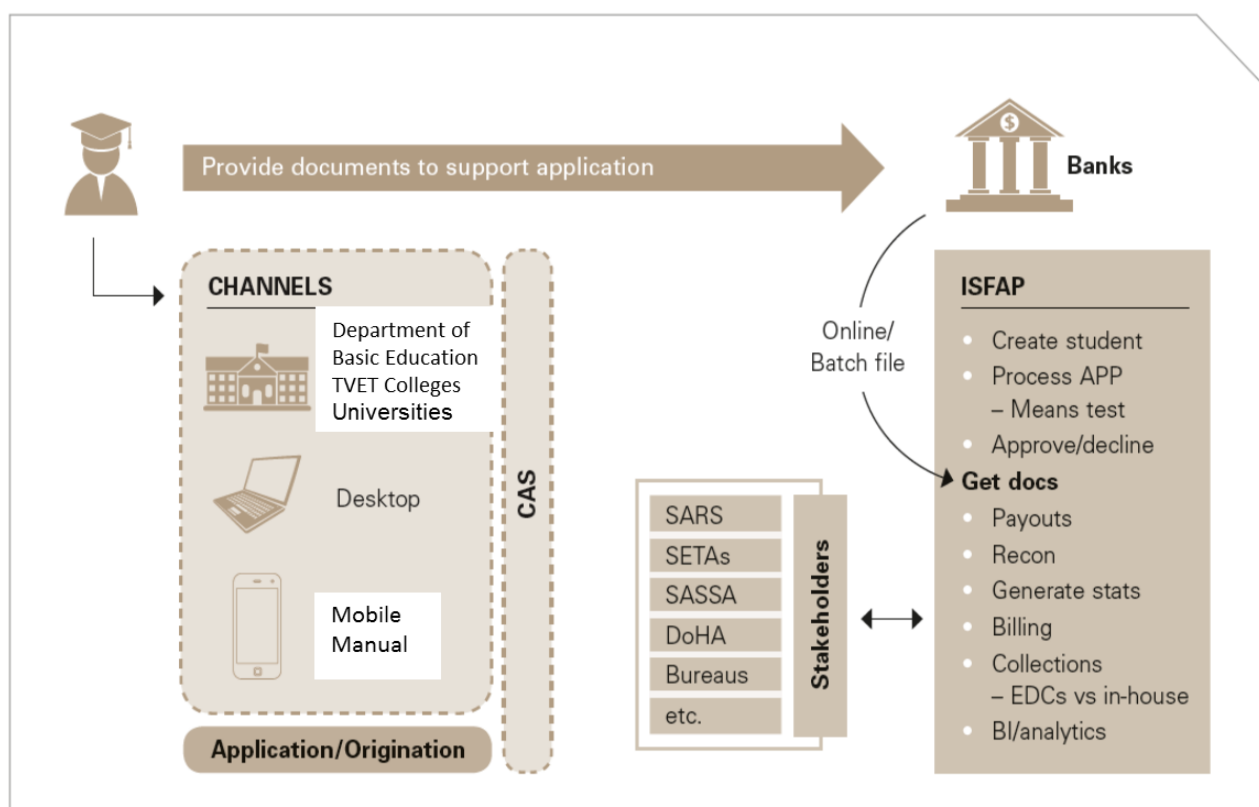
## 4 Business Processes Modeling

The diagram below depicts the basic interactions within the key entities of the model. The aim of this is to provide an overview of the interaction of the entities and their relationship.

Students will apply to their choice of institutions and courses. Only once accepted will the student then apply for funding from ISFAP directly. The proposed channels for this application by the students in the absence of CAS could either be via a mobile application, or online via the web or through a manual process.

The application will be submitted electronically or manually to ISFAP for processing, including a control mechanism with the institution. There are various functions that will be executed at ISFAP. For the purposes of the application process, ISFAP processing will primarily involve integration into the external entities for the decision-making and income verification data.

The student will then need to apply at a bank of their choice for a transactional account if they don't already have one. Banks will leverage their existing infrastructure to ensure that the verification of the student identity and further information is correct, and then the opening of a transactional account is confirmed to ISFAP. The confirmation of these prerequisites should ideally be transmitted electronically to ISFAP to enable the finalisation of the application.



### 4.1 Student funding application process

It is recommended to simplify and digitise the application process as much as possible, to remove administration overhead from the tertiary education institutions and leverage the banking and Post Office infrastructure for verification.

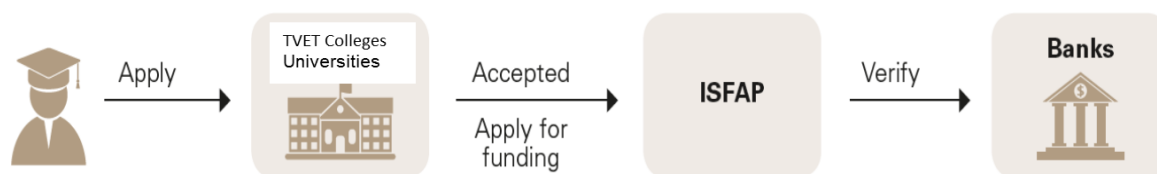
The two options suggested below differ in terms of the processing of order requirements. The first option requires the student application to the tertiary education institution be completed first, and the second option allows the funding to be applied for before the application to the tertiary education institution.



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Following application to ISFAP for the funding, the next step for the student is to apply at a bank for a transaction account. This application process, due to the very nature of the application process for a transactional account, will verify the identification of the student. The student will then pass the transactional account information to ISFAP, and ISFAP will confirm the ID and account number with the bank. This may require resources in the banks' customer service centres to cater for student account details requested.

### STUDENT OPTION 1 (RECOMMENDED)



#### ADVANTAGES

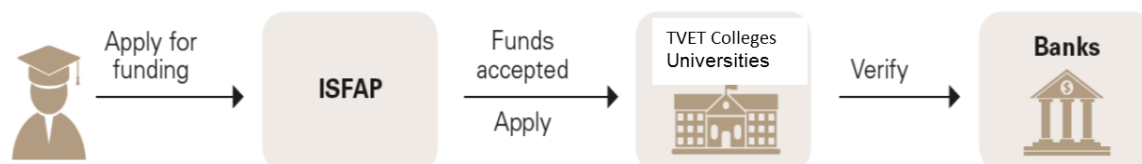
- Student applies to University/TVET and is accepted for a particular course so no need for the student to go back to University/TVET for the purposes of this flow
- Costing for course is confirmed so funding application can be done to ISFAP with confirmed course details, amounts, etc that is required for decisioning

#### DISADVANTAGES

- Student could be accepted at University/TVET but is then declined for funding by ISFAP

**NB:** Student gives consent for 3<sup>rd</sup> party verification

### STUDENT OPTION 2 (NOT RECOMMENDED)



#### ADVANTAGES

- Student applies to ISFAP for an "approval in principle" (before applying for acceptance to University)
- Gives the student a sense of comfort that affordability is not a cause for concern/embarrassment
- Student doesn't have to waste his/her time waiting in queues at University if they weren't able to get funding in the first place

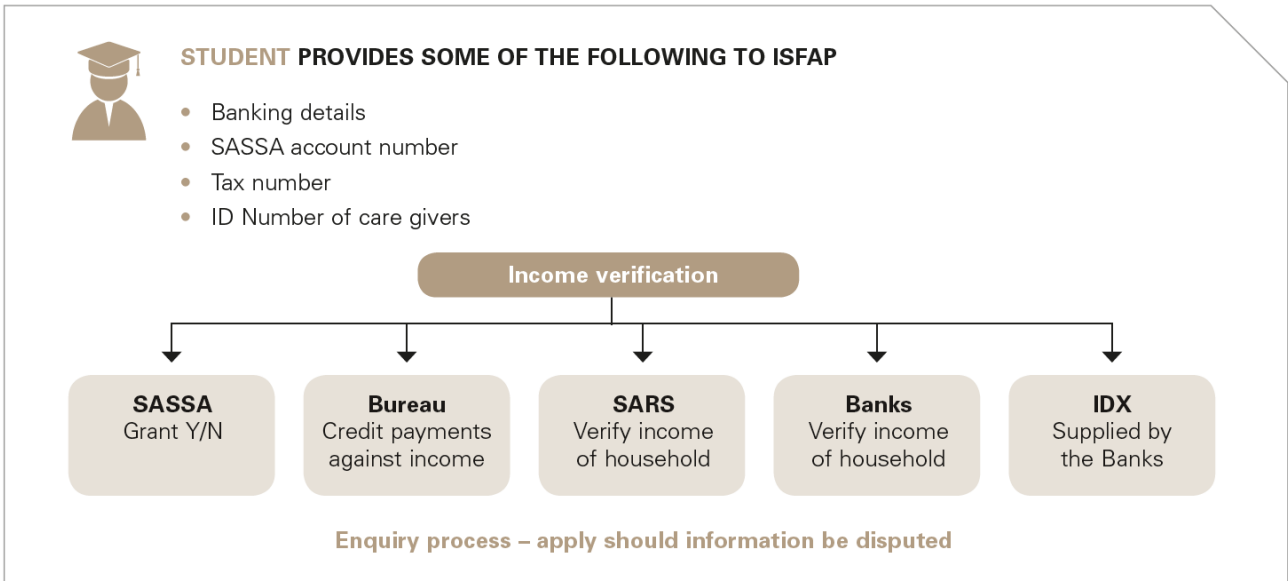
#### DISADVANTAGES

- Student may not be accepted for the course that was already approved for by ISFAP
- Not able to use any Course Information to decide to grant a loan
- ISFAP wastes resources



### 4.2 Means test process

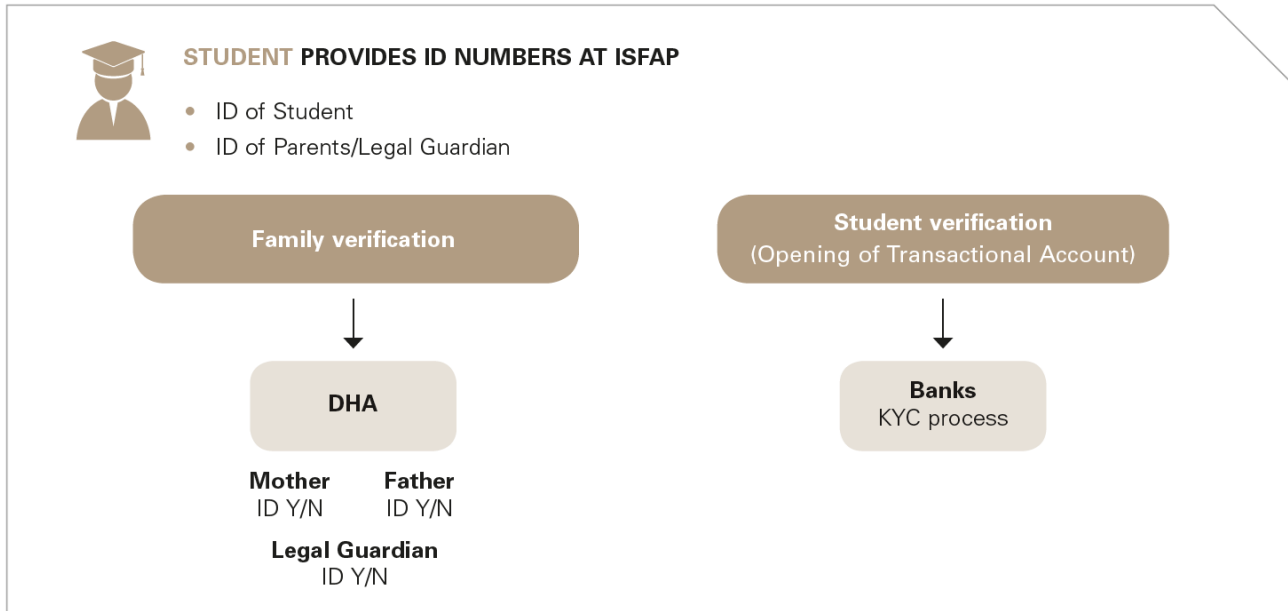
This process must be internal to ISFAP, ring-fenced, and strictly governed. ISFAP will calculate the household means with reference to 5 outside parties as depicted in the diagram below:



For applications coming from students who are applying to university for the first time, the school information will be checked against the Department of Basic Education database which indicates quintile categories.

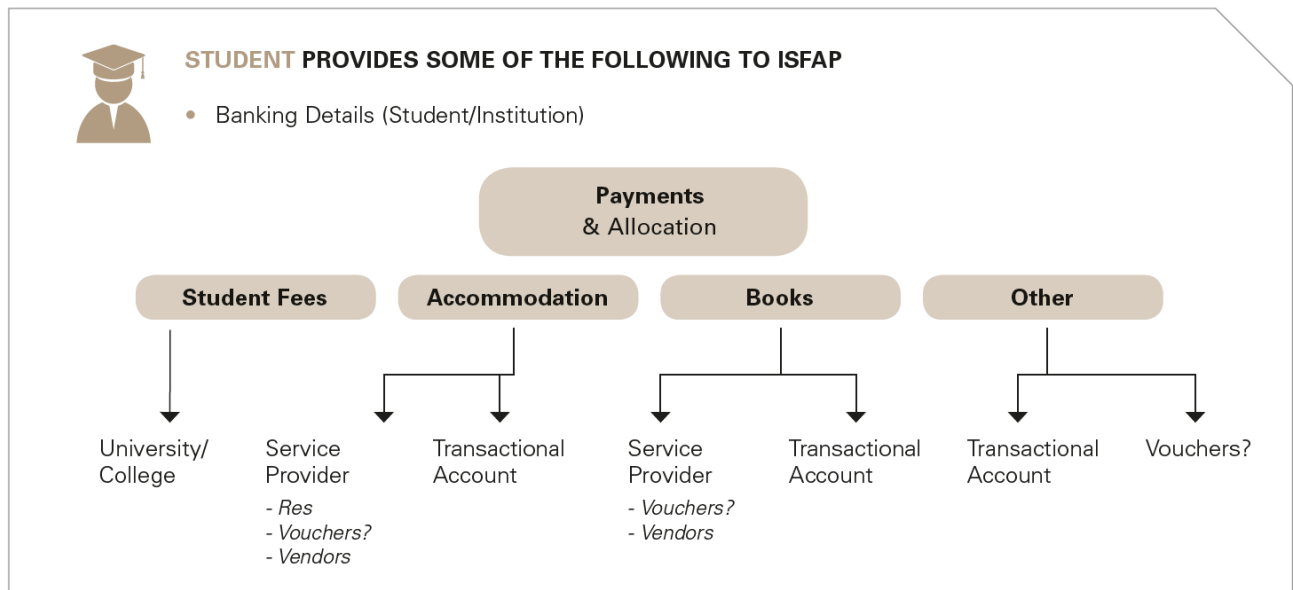
### 4.3 Verification process

Family verification will be processed by ISFAP, and the student verification will be managed by the banks in the transactional account opening process.



#### 4.4 Payments and control

ISFAP will need to determine the level of governance and control required regarding student disbursements. The following diagram depicts some of these considerations:



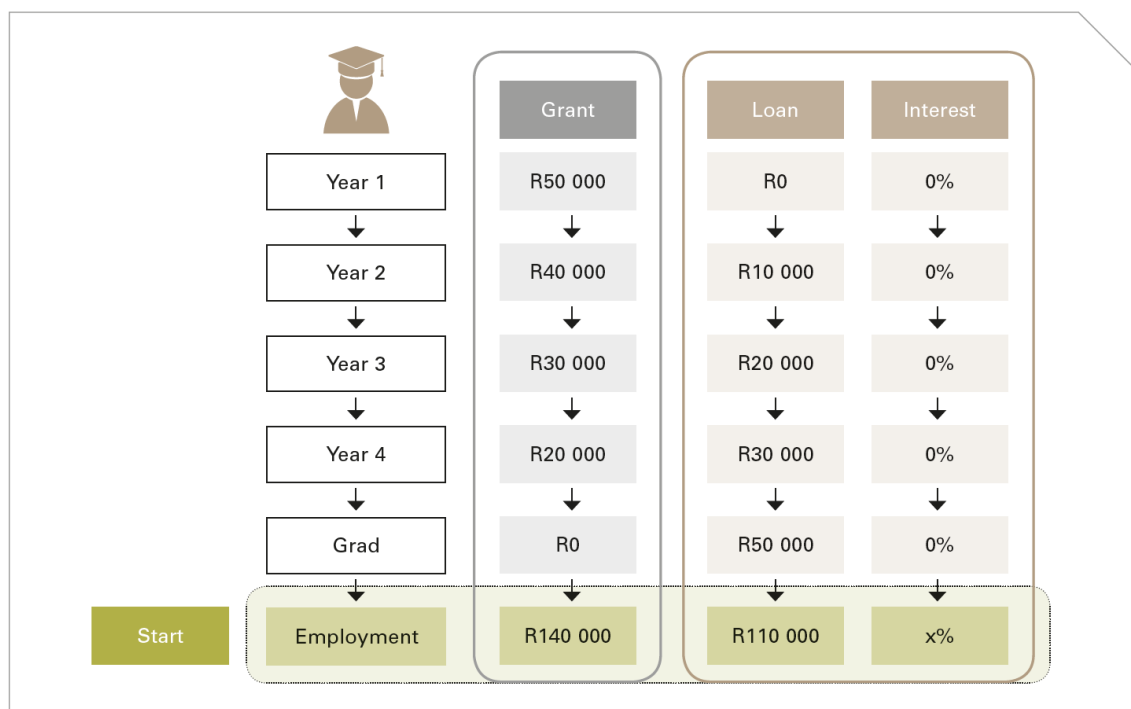
Consideration is needed regarding the control and governance of the disbursements for accommodation, books, stipends and food in order to avoid leakage in these areas.

Consideration also needs to be given regarding the mobility of students, as they may change bank accounts. Further to this, consideration needs to be given to the stipend amounts in the transaction accounts, as these will be needed to keep the accounts active.



#### 4.5 Monitoring and collections

The following diagram illustrates a practical consideration of how the grant/loan process may work for the very poor, poor and “missing middle students.

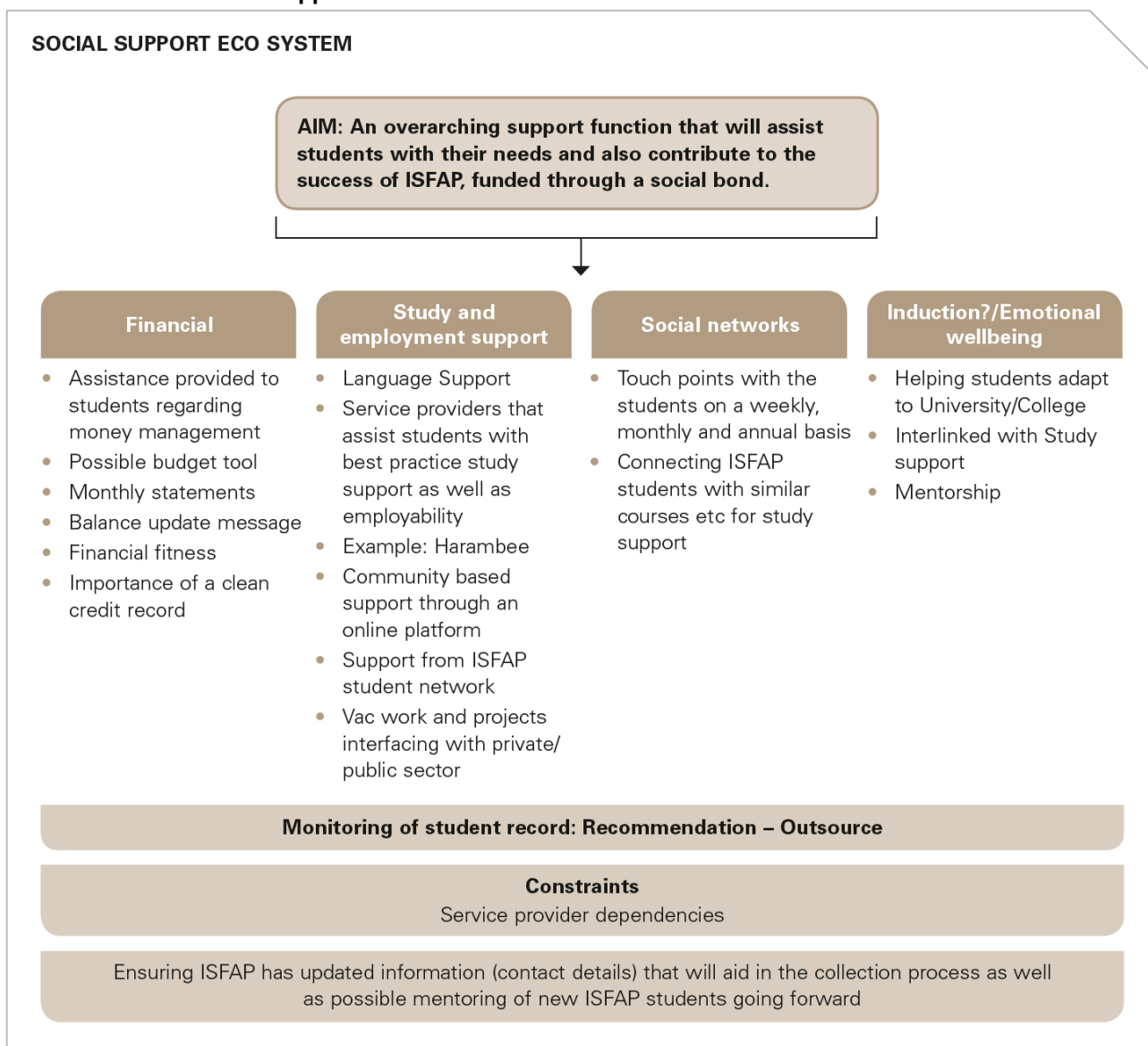


In this process, the loan component of the student funding will only start bearing interest and fees once the student has graduated and gained employment or started earning income. Assuming that the majority of up-to-date collections are collected via a SARS mechanism, this component can be handled internally by ISFAP. However, as soon as a loan defaults, it is recommended that collections should be handled through the financial sector or external debt collectors. These external partners have scale benefits and expertise in collections as well as access to different payment mechanisms outside of PAYE.

**Recommendation:** there should be a maximum cumulative loan amount for each student. This should also be limited to an amount per annum. This is to avoid excessive debt at the beginning of their careers.



## 4.6 Social Support

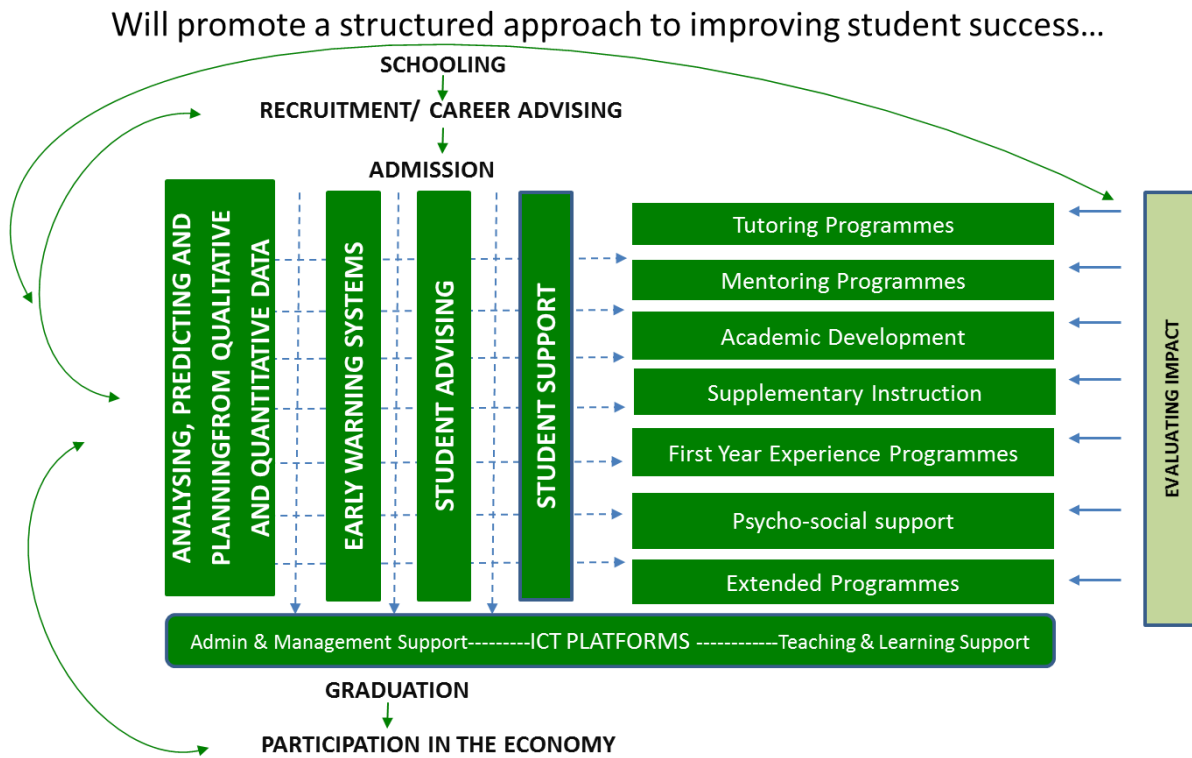


ISFAP plans to work with the DHET, universities and TVET colleges to enhance the wrap-around support which is given to students. The resources which have been allocated to the University Capacity Development Programme will be leveraged for the optimal benefit of very poor, poor and missing middle students. The following graphic depicts the DHET's plan for a structured approach to improving student success.



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#### 4.7 Students with Disabilities

ISFAP, through the SIB, will need to raise additional funds to serve the needs of people with disabilities to ensure that they have comprehensive “wrap-around” support including assistive devices at universities and TVET colleges.

The White Paper for Post-School Education and Training 2014 states that DHET will develop a strategic policy framework to guide the improvement of access to and success in post-school education and training for people with disabilities.

Thus, included in the ISFAP model, is support for the integration of students living with disabilities in all aspects of university or TVET college activities, as based on the norms and standards. This support will cover academic, cultural and accommodation needs as guided by the strategic policy framework detailed in the White Paper.

This additional support is envisioned to assist in increasing throughput rates of students with disabilities and the probability of employment.



## Chapter 5

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### Legal Considerations



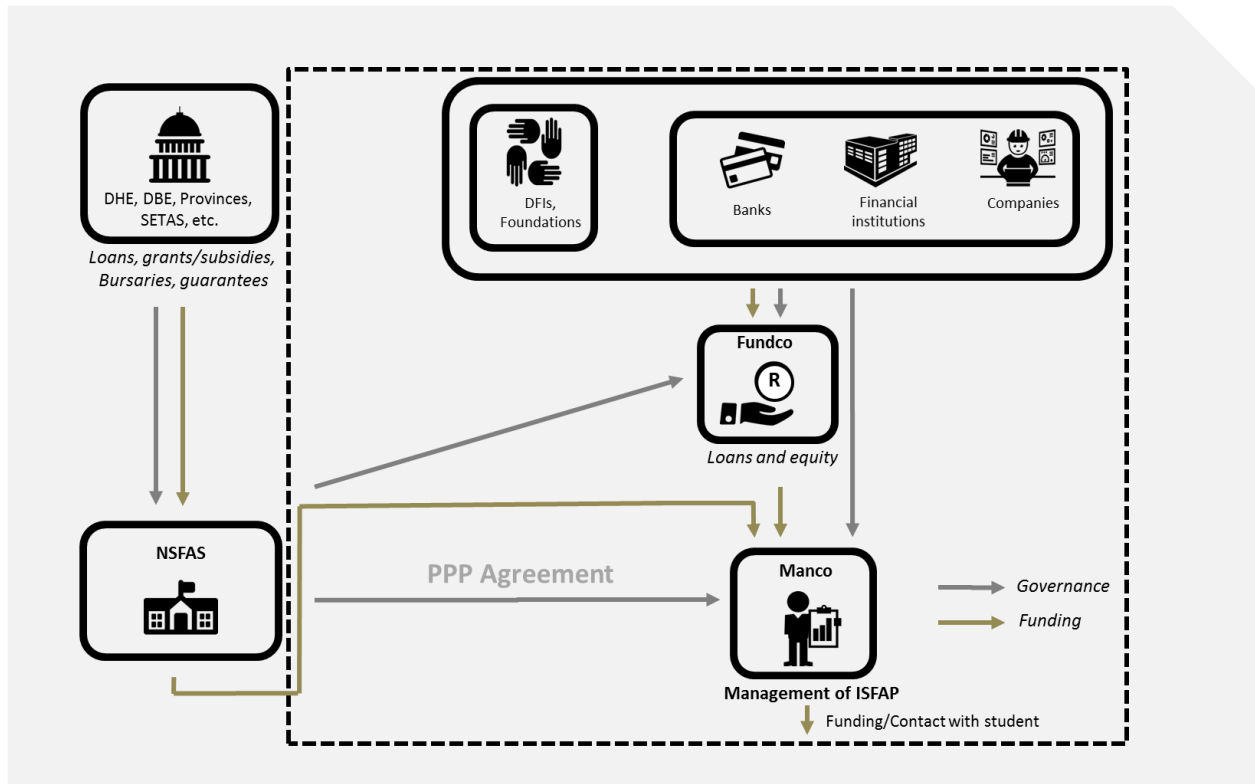
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## 5 Legal Considerations

The legal workstream was mainly undertaken by Webber Wentzel and debated by the MTT workstreams and reference group. Below is a summary of the legal issues and recommendations of the MTT.

### 5.1 Proposed Legal/Commercial Structure of ISFAP

The proposed legal structure of ISFAP is as follows:



- The key component behind the legal/commercial structure of ISFAP is a PPP agreement with NSFAS
- Currently, neither the Department of Higher Education and Training nor NSFAS are empowered to enter into a PPP agreement to authorise ISFAP to perform functions that NSFAS is statutorily required to perform. Currently, NSFAS is empowered by the NSFAS Act to:
  - allocate funds for loans and bursaries to eligible students
  - develop criteria and conditions for the granting of loans and bursaries to eligible students in consultation with the Minister of Higher Education and Training
  - raise funds comprising money appropriated by parliament, donations or contributions, interest, money repaid or repayable by borrowers and any other income received by NSFAS
  - recover loans
  - maintain and analyse a database and undertake research for the better utilisation of financial resources
  - advise the Minister of Higher Education and Training on matters relating to student financial aid
  - perform other functions assigned to it by the NSFAS Act or by the Minister of Higher Education and Training
- In terms of the ISFAP proposal, the NSFAS Act will have to be amended to allow for ISFAP to, inter alia:



- enter into and implement PPP arrangements in terms of the National Treasury regulations;
  - work with institutions and other stakeholders to reduce the dropout rates of funded students;
  - work with institutions of higher learning and other stakeholders to ensure that all eligible and funded students are given value-adding support to improve their chances of success, graduation and employability; and
  - raise loan funding.
- The operations of ISFAP will be managed and administered by a management company ("ManCo") – effectively and legally this ManCo is ISFAP
  - The funding requirements of ISFAP, insofar as private investors' funds are concerned, will be managed and administered by a funding company ("FundCo")
  - Details of the control, governance and management of the PPP as well as the role of FundCo and ManCo will be set out in the PPP agreement
  - ManCo will be set up as a private company owned by FundCo (subject to reporting and disclosure requirements under the PFMA due to the PPP agreement)
  - Private investors will participate in ISFAP through senior funding, bonds, notes, Social Impact Bonds and other instruments directed through FundCo
  - Government and NSFAS will participate in ISFAP through loans, grants and subsidies directed via ManCo (FundCo will only administer private investors' funds)

## 5.2 Legal implications of ISFAP on public policy and laws

To make ISFAP successful as a fundraising vehicle that attracts meaningful levels of private sector funding, certain legislative incentives, exemptions and/or allowances are recommended by the MTT.

The section below highlights certain legislation that can impact on ISFAP and recommendations are made on potential amendments and incentives that can be created within the statutory and/or policy framework to promote private sector investment.

### Relevant Legislation

Legal Instrument	Relevant Sections of Legal Instrument	Recommendations of the MTT
Regulation of Higher Education		
Higher Education Act 101 of 1997	The funding of public higher education institutions is dealt with in Chapter 5 of the Act. In particular in terms of section 39(1) of the Act, the Minister of Higher Education and Training is required (subject to consulting the National Council of Higher Education and with the concurrence of the Minister of Finance) to determine policy on the funding of public higher education. The policy is required to include appropriate measures for the redress of past inequalities.  Chapter 5 of the Act may be useful in respect of ISFAP as the Minister of Higher	No proposed changes



Legal Instrument	Relevant Sections of Legal Instrument	Recommendations of the MTT
	<p>Education and Training would arguably be in the position to impose reasonable requirements to the provision of funding such as increased performance and/or the linking of funding to outcomes etc. as envisaged in terms of the ISFAP model.</p>	
<p>The Funding of Public Higher Education Policy Notice No. 1791 (9 December 2003)</p>	<p>In accordance with the Minister's Section 39(1) obligation under the Higher Education Act, the Minister published the policy on <i>Funding of Public Higher Education</i> in Government Gazette no. 1791 of 9 December 2003.</p> <p>In terms of clause 2.1 of the policy, the funding of higher education institutions is based on two elements, namely: block grants and earmarked grants. The amounts to be allocated to each of these grants are to be determined by the Minister.</p> <p>Block grants are undesignated amounts to cover the operational costs of higher education institutions linked to the provision of teaching and research-related services. Whilst earmarked grants are designated for specific purposes.</p> <p>The policy identifies broad purposes of earmarked grants. The National Student Financial Aid Scheme is identified as one of the purposes.</p>	<p>No proposed changes</p>
<p>Skills Development Act 97 of 1998 and Skills Development Levies Act 9 of 1999</p>	<p>The Skills Development Levies Act provides for a levy grant scheme which serves to fund the skills development initiative in the country, as envisaged in the Skills Development Act.</p> <p>The Skills Development Act and the Skills Development Levies Act create an enabling regulatory framework for developing the skills of the South African workforce. The two Acts, together with the regulations published in terms of them, constitute a single regulatory structure.</p> <p>Importantly, section 27(1) of the Skills Development Act establishes the National Skills Fund and provides that the fund must be credited with money received from skills levies, interest and penalties collected in respect of every SETA and of those employers who fall outside the jurisdiction of a SETA, monies from</p>	<p>The MTT recommends the active use of the Skills Development Expenditure (6% compliance target) of companies to invest in bursaries as envisaged in the model. The Commissioner of BBBEE in the Department of Trade and Industry ("DTI") has given guidance that a maximum of 25% of the 6% compliance target could be used by private institutions by donating funds to ISFAP.</p>



Legal Instrument	Relevant Sections of Legal Instrument	Recommendations of the MTT
	<p>Parliament and interest earned on investment and donations to the fund.</p> <p>Currently a large percentage of the revenue of the National Skills Fund goes towards the National Students Financial Aid Scheme.</p>	
<p>National Student Financial Aid Scheme Act, 56 of 1999 ("NSFAS ACT")</p>	<p>Currently, the Department of Higher Education and Training or NSFAS are not empowered to enter into a PPP agreement or to authorise ISFAP to perform functions that NSFAS is statutorily required to perform.</p> <p>Currently, in terms of section 4 of the NSFAS Act, NSFAS is empowered to:</p> <ul style="list-style-type: none"> <li>– allocate funds for loans and bursaries to eligible students</li> <li>– develop criteria and conditions for the granting of loans and bursaries to eligible students in consultation with the Minister of Higher Education and Training</li> <li>– raise funds comprising money appropriated by parliament, donations or contributions, interest, money repaid or repayable by borrowers and any other income received by NSFAS</li> <li>– recover loans</li> <li>– maintain and analyse a database and undertake research for the better utilisation of financial resources</li> <li>– advise the minister of Higher Education and Training on matters relating to student financial aid</li> <li>– perform other functions assigned to it by the NSFAS Act or by the Minister of Higher Education and Training.</li> </ul> <p>Section 14(1) of the NSFAS Act sets out a list of NSFAS' funds which comprises money appropriated by parliament, donations or contributions, interest, money repaid or repayable by borrowers and any other income received by NSFAS. The list set out in section 14(1) does not include loan funding. Therefore NSFAS is currently not empowered to raise loan funding which will be required as envisaged by the proposed PPP arrangements for ISFAP.</p>	<p>Sections 4 and 14(1) of the NSFAS Act are recommended to be amended to allow NSFAS to, <i>inter alia</i>:</p> <ul style="list-style-type: none"> <li>– enter into and implement the PPP arrangements in terms of the National Treasury regulations (see PPP registration process in Chapter 13, item 13.3 below);</li> <li>– work with institutions and other stakeholders to reduce the dropout rates of funded students;</li> <li>– work with institutions of higher learning and other stakeholders to ensure that all eligible and funded students are given value-adding support to improve their chances of success, graduation and employability; and</li> <li>– raise loan funding.</li> </ul>



Legal Instrument	Relevant Sections of Legal Instrument	Recommendations of the MTT
	<p>Section 20 of the NSFAS Act provides that the board may enter into an agreement with a public college or designated higher education institution for purposes of administering loans and bursaries to students of that institution, which agreement must authorise the institution on behalf of NSFAS to:</p> <ul style="list-style-type: none"> <li>– administer loans and bursaries to students of that institution</li> <li>– receive loans and bursaries applications from students</li> <li>– consider and assess applications in the light of the criteria for the granting of loans and bursaries determined by NSFAS;</li> <li>– grant loans and bursaries if the criteria are met, after ascertaining that funds are available</li> <li>– enter into a written agreement with a borrower or bursar in accordance with the provisions of the NSFAS Act and on the terms and conditions determined by NSFAS.</li> </ul> <p>Section 21 of the NSFAS Act provides that a loan must be repaid as provided in the loan agreement. The proposed ISFAP model envisages collection of loans from students through SARS.</p>	<p>As ISFAP would centrally make the decisions regarding who is accepted for funding together with the terms, conditions, and the grant, loan or bursary make-up of the funding and administer the grants, loans or bursaries, it is recommended that section 20 of the NSFAS Act be amended to reflect this.</p> <p>It is recommended that section 21 of the NSFAS Act be amended to enable SARS to have the power to collect the student fees on behalf of ISFAP in a manner similar to which unemployment insurance funds are collected (Please see the Tax section below as well).</p>
<b>Corporate and Financial Regulatory</b>		
<p>National Credit Act, 2005 ("NCA")</p>	<p>The NCA applies to every credit agreement between parties dealing at arm's length and made within or having effect within the Republic of South Africa, except credit agreements where the consumer is the state, an organ of state or a juristic person whose asset value or annual turnover, is more than R1 million.</p> <p>The NCA makes provision for a credit provider to provide developmental credit by applying for supplementary registration with the National Credit Regulator.</p> <p>An educational loan is deemed a developmental credit agreement. An "educational loan" is defined in the NCA to mean a student loan, a school loan or another credit agreement entered into by</p>	<p>No amendments to the NCA are recommended by the MTT, but ISFAP will need to register as a developmental credit provider. The current collection rules within the NCA do not prevent ISFAP from setting a minimum income threshold from which students begin to repay their student loans. Further the NCA makes provision for a credit provider to attempt to resolve any default with a student prior to instituting formal legal proceedings against the student.</p>



Legal Instrument	Relevant Sections of Legal Instrument	Recommendations of the MTT
	<p>a consumer for purposes related to the consumer's adult education, training or skills development.</p> <p>A '<i>student loan</i>' is defined in the NCA to mean a credit agreement in terms of which:</p> <ul style="list-style-type: none"> <li>– money is paid by the credit provider to an institution of tertiary education on account of education fees or related costs for the benefit of the consumer or a dependant of the consumer; or</li> <li>– an institution of tertiary education defers payment of all or part of the consumer's education fees or related costs.</li> </ul> <p>A student loan is a credit agreement in terms of the NCA and subject to the provisions of the NCA.</p> <p>The current consumer credit regime makes provision for affordability assessments to be conducted on prospective consumers at the time of applying for credit.</p> <p>The NCA seeks to prevent over-indebtedness of consumers and prohibit reckless credit. Section 81(2) places an obligation on credit providers, before entering into a credit agreement, to assess the prospective consumer's:</p> <ul style="list-style-type: none"> <li>– general understanding and appreciation of the risks and costs of the proposed credit, and of the rights and obligations of a consumer under a credit agreement;</li> <li>– debt re-payment history as a consumer under credit agreements; and</li> <li>– existing financial means, prospects and obligations.</li> </ul> <p>Section 78(2) of the NCA provides that the assessment provisions set out in section 81 to 84 of the NCA, to the extent that they relate to reckless credit, do not apply to a school loan or a student loan.</p> <p>Section 78(3) of the NCA provides that "<i>financial means, prospects and obligations</i>" with respect to a consumer or prospective consumer includes -</p>	<p>The NCA does not make provision for the collection of outstanding credit agreements through SARS. ISFAP must disclose its proposed collection mechanism and obtain consent in respect thereof from the regulator as part of the process of being registered as a developmental credit provider.</p>





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	<ul style="list-style-type: none"> <li>– income, or any right to receive income, regardless of the source, frequency or regularity of that income, other than income that the consumer or prospective consumer receives, has the right to receive, or holds in trust;</li> <li>– the financial means, prospects and obligations of any other adult within the consumer's immediate family or household, to the extent that the consumer, or prospective consumer and that other person customarily share their respective financial means and mutually bear their respective financial obligations; and</li> <li>– if the consumer has or had a commercial purpose for applying for or entering into a particular credit agreement, the reasonable estimated future revenue flow from that business purpose.</li> </ul> <p>In regards to student loans, there is a challenge in assessing the affordability of the student, as at the time of applying for the loan, the student does not have an income against which he/she can be assessed. The NCA recognises this challenge and carves out the application of sections 81 to 84 of the NCA in regards to reckless credit from applying to student loans; and providing for an assessment to be conducted on the financial means, prospects and obligations of the consumer's immediate family or household.</p> <p>Regulation 23A of the National Credit Regulations, 2006 sets out the criteria for conducting an affordability assessment by credit providers. Regulation 23A(2)(a) and (b) provides that the criteria set out in Regulation 23A do not apply to a developmental credit agreement, a student loan, or a school loan. This exclusion means credit providers can create their own mechanisms for assessing affordability for a developmental credit agreement, a student loan or a school loan provided such mechanisms comply with the provisions NCA.</p>	



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	<p>It appears that the NCA is not an obstacle to IFSAP in regards to the assessment of students' affordability at the time of applying for the student loans.</p> <p>In practice, financial institutions will still conduct affordability assessments on prospective consumers who apply for student loans, but base their affordability assessment on the consumers' family income, as provided for in section 78(3).</p> <p>If ISFAP wishes to issue developmental credit agreements it must apply for supplementary registration as a developmental credit provider.</p> <p>In regards to collection of loans, the NCA was amended in 2014 to provide for more protection to consumers from abusive collection practices. The NCA makes provisions for procedures to be followed by credit providers where a consumer is in default, prior to instituting legal proceedings and procedures to be followed once legal proceedings have been instituted.</p>	
Banks Act, 1990 ("Banks Act")	<p>The current prudential regime envisaged under the Banks Act and its Regulations does not incentivise banks to participate in the proposed new funding model. If, however, banks were to benefit from favourable capital treatment by, for example, being able to classify loans and funding extended under the new funding model as "liquid assets" this could serve as a powerful incentive for banks to participate meaningfully in the proposed new initiative. Similar amendments could be considered to the legal and regulatory regime that applies to insurance companies and other financial institutions such as pension funds.</p> <p>The Banks Act requires that any person who conducts "the business of a bank" be registered as a bank. The definition of "the business of a bank" includes the acceptance from the general public of deposits as a regular feature of the business in question. The issuance of notes, bonds and other debt instruments is generally regarded as the acceptance of deposits and this activity, in principle, qualifies as conducting the business of a</p>	<p>Consideration should be given towards potentially proposing amendments to the Banks Act and the Banks Regulations that would have the effect that banks that contribute funds (whether through loans, debt instruments or otherwise) benefit from favourable capital treatment. Likewise, the investment and regulatory capital requirements of other regulated financial institutions should be considered.</p> <p>ISFAP will have to request a special fundraising exemption in terms of section 2(b)(vii) of the Banks Act from the Minister of Finance to have its activities designated as an activity that does not fall within the meaning of "the business of a bank". In terms of section 2(b)(vii) the Minister of Finance may designate certain specific activities of an institution or body as activities that do not constitute the carrying on of the business of a bank. Presumably the designation will stipulate the disclosure</p>



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	<p>bank in respect of which registration as a bank is required.</p> <p>The Minister of Finance has designated certain types of activities as activities which do not fall within the meaning of "the business of a bank". One such activity is the issuance of commercial paper. In appropriate circumstances, some entities avoid the requirement to register as a bank by ensuring their issuance of debt instruments satisfies the requirements of the Commercial Paper Regulations ("<b>CP Regulations</b>").</p> <p>The CP Regulations set out the conditions under which the acceptance of money from the general public against the issuance of commercial paper will fall within the commercial paper exemption.</p> <p>One such condition is that the funds raised through the issuance of commercial paper may not be applied directly or indirectly for the granting of money loans or credit to the general public.</p>	<p>requirements that ISFAP will have to satisfy whenever it raises funds from the public.</p> <p>The funds raised by ISFAP will be applied directly for the granting of money loans or credit to students (i.e. the general public). In our opinion the raising of funds by ISFAP for the issuing of loans to students will therefore not satisfy the requirement in paragraph 4 of the CP Regulations and therefore ISFAP cannot benefit from the exemption provided in terms of the CP Regulations.</p>
Companies Act, 2008 (" <b>Companies Act</b> ")	Chapter 4 of the Companies Act regulates the offering of securities by a company to members of the public. Subject to certain exemptions, all offers of securities (including debt instruments) are subject to the prospectus and other requirements of the Companies Act, if the relevant offer is made to the public. An exemption which is often used is the exemption that relieves an offering from the regulation of the Companies Act if no single instrument issued has a nominal value below R1 000 000 (one million Rand).	Nature and size of debt instruments may be influenced by Chapter 4 of the Companies Act. Alternatively, it is recommended that the NSFAS Act can be amended to include provisions that could override the relevant sections of the Companies Act but suitable protections and safe guards for private sector investors should be considered. This will probably be accommodated in terms of the disclosure requirements that will inevitably form part of any Banks Act exemption (see above under the Banks Act).
Financial Advisory and Intermediary Services Act, 2002 (" <b>FAIS</b> ")	<p>FAIS requires that every person who, as a regular feature of their business, furnishes advice or renders any intermediary service to clients in respect of financial products to be registered as a Financial Services Provider ("FSP").</p> <p>To the extent ManCo/ISFAP will provide financial advice, render intermediary services and have discretion to administer ISFAP's assets that qualify as "financial products" under the FAIS Act, ManCo will be required to hold a Category II FSP licence in terms of FAIS. Category II covers Discretionary FSPs; being those FSPs that</p>	<p>No amendments proposed.</p> <p>To the extent that ManCo will provide financial advice, ManCo will be required to hold a Category II FSP licence in terms of FAIS.</p>



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	<p>render intermediary services of a discretionary nature as regards the choice of a particular financial product.</p> <p>ISFAP, through ManCo, as an authorised Discretionary FSP, will be required to comply with the ongoing compliance obligations as imposed by FAIS which include the General Code of Conduct for Authorised FSPs and Representatives, and the Code of Conduct for Administrative and Discretionary FSPs.</p> <p>FAIS does not make provision for an exemption to the requirement to be authorised as a FSP to state entities that provide financial services as defined under FAIS. Section 1 of FAIS provides that "person" includes an organ of state as defined in section 239 of the Constitution; any company incorporated or registered as such under any law; and anybody of persons corporate or unincorporated.</p>	
<b>Public Law</b>		
<p>Public Finance Management Act, 1999 ("PFMA")</p>	<p>Public-private partnerships ("<b>PPP</b>") in South Africa exist primarily as a method of procurement and fall within the legislative regime governing public procurement. Consequently, the term "public-private partnership" is a specific term in the procurement legal framework and not a general term which refers to any scheme in which the public sector and private sector collaborate or jointly undertake a particular project.</p> <p>Regulation 16 of the Treasury Regulations published in terms of section 76 of the PFMA (under Government Notice R225 in <i>Government Gazette</i> 27388 of 15 March 2005) ("<b>Treasury Regulations</b>") sets out the process through which national or provincial departments, constitutional institutions and certain public entities may conclude PPPs.</p> <p>A PPP is primarily a procurement tool used to enable state institutions to contract private sector participants to enter into commercial transactions to deliver certain services which the public sector institutions are required to provide or deliver. A PPP is thus a contract, not an entity.</p>	



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<p>Public Finance Management Act, 1999 ("PFMA")</p>	<p>The PFMA applies to government departments, public entities listed in Schedules 2 and 3 to the PFMA, constitutional institutions and the provincial legislatures.</p> <p>A "national public entity" is defined in section 1 of the PFMA to include a board, commission, company, corporation, fund or other entity (other than a national government business enterprise) which is established in terms of national legislation; is fully or substantially funded either from the National Revenue Fund, or by way of a tax, levy or other money imposed in terms of national legislation; and is accountable to Parliament.</p> <p>The proposed ISFAP structure amounts to a national public entity as defined in the PFMA. This is consistent with the fact that the NSFAS is currently listed as a national public entity in Schedule 3A of the PFMA.</p> <ul style="list-style-type: none"> <li>– If the ISFAP structure is established as a national public entity, it will be subject to all the provisions of the PFMA which are applicable to national public entities, unless it has been excluded therefrom in terms of section 92 of the PFMA. Importantly, this will likely still be the case even if the state and private sector both provide the funding and hold equal management power. This is because, notwithstanding shared control/management by government and the private sector, it would still amount to an entity established in terms of national legislation and which will be substantially funded from the National Revenue Fund and therefore, accountable to Parliament.</li> </ul> <p>Sections 49 to 55 of the PFMA set out the responsibilities of accounting authorities (i.e. the board or other controlling body or, in some instances, the chief executive officer) of public entities. Section 51, in particular, sets out the general responsibilities of accounting authorities, thereby indirectly stipulating certain operational requirements for the functioning of such public entities. These</p>	<p>The proposed ISFAP structure may, as stated in the previous column, be excluded or exempt from the provisions of the PFMA. However, the requirements of the PFMA provide extensive and necessary safeguards in the administration of a public entity and these safeguards may be considered beneficial to the administration of the ISFAP structure.</p>



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	<p>responsibilities include, amongst other things:</p> <ul style="list-style-type: none"> <li>– ensuring that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control (51(1)(a)(i));</li> <li>– ensuring that the public entity has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective (51(1)(a)(iii)). The practical implications of a detailed tender process should be considered in the context of ISFAP. ISFAP will be raising funds (i.e. procuring financial services) on an ongoing basis from the private sector (which is not the case with NSFAS);</li> <li>– taking effective and appropriate steps to collect all revenue due to the public entity (51(1)(a)(ii));</li> <li>– taking effective and appropriate steps to prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct (51(1)(a)(ii));</li> <li>– taking effective and appropriate steps to manage available working capital efficiently and economically (51(1)(b)(iii));</li> <li>– the management of the assets, revenue, expenditure and liabilities of the public entity (51(1)(c); taking effective and appropriate disciplinary steps against unauthorised, irregular or fruitless and wasteful expenditure (51(1)(e)(iii); and</li> <li>– promptly informing National Treasury on any new entity which that public entity intends to establish or in the establishment of which it takes the initiative, and allow the National Treasury a reasonable time to submit its decision prior to formal establishment (51(1)(g).</li> </ul> <p>The accounting authority of a national public entity is required to inform National Treasury and to seek the approval of its</p>	



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	<p>executive authority (in the present case, the Minister of Higher Education) prior to concluding, amongst others, the following: the establishment or participation in the establishment of a company; participation in a significant partnership, trust, unincorporated joint venture or similar arrangement; the acquisition or disposal of a significant asset; the commencement or cessation of significant business activity; and a significant change in the nature or extent of its interest in a significant partnership, trust, unincorporated joint venture or similar arrangement.</p> <p>Lastly, section 66 of the PFMA also imposes restrictions, in the sense of certain prerequisites, on the ability of national public entities to conclude transactions which entail the borrowing of money, the issuing of guarantees and the entry into future financial commitments.</p>	
<b>Tax</b>		
Section 4 of the SARS Act	<p>SARS administers and operates as the collecting agent for several Acts covering a wide range of legislation in terms of Part 1 and Schedule 1 to the SARS Act, as well as any regulation, proclamation, government notice or rule issued in terms of any of the relevant Acts, and any agreement entered into in terms of those Acts or the Constitution.</p> <p>The ambit of the SARS Act could be widened so that SARS could become the collecting agent for ISFAP.</p>	<p>It is a recommendation that the SARS Act is amended to enable SARS to have the power to collect loan repayments from ISFAP graduates on behalf of ISFAP in a manner similar to which SDL and UIF are collected. There is international precedence for such an approach.</p> <p>Alternately, a separate standalone act could be developed to enable SARS to collect the loan repayments on behalf of ISFAP, similar to the Skills Development Act.</p>
Section 10 of the Income Tax Act	<p>The ISFAP vehicle is not intended to earn a profit. Rather, any profits will be utilised to expand the number of loans which it will be able to advance to students.</p> <p>To simplify the administrative burden and complex treatment of financial instruments it is proposed that the new ISFAP vehicle, which primarily operates as an intermediary between students and funders, be tax neutral.</p> <p>Section 10 lists the persons and instances which are exempt from income tax.</p> <p>The proposed ISFAP vehicle will not fall within any exemption currently listed under section 56 of the Income Tax Act.</p>	<p>The MTT recommends that section 10 be amended, so that the proposed ISFAP entity will be exempt from income tax. This could be achieved by widening the definition of section 10(1)(cA) of the Income Tax Act to include the ISFAP vehicle.</p>



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Section 56 of the Income Tax Act	Donations tax is ordinarily payable on the value of any property disposed of under a donation by any resident. Section 56(1) of the Income Tax Act contains various exemptions from Donations Tax. For South African resident individuals and corporations (excluding public companies) to receive an exemption from Donations Tax, additional exemptions will need to be inserted in section 56(1) in order to exempt all other donations made to an ISFAP entity.	The expansion of the list of Donations Tax exemptions set out in section 56 of the Income Tax Act is recommended, to include donations made to ISFAP/ NSFAS, so that donations made by South African resident individuals and corporations will be exempt from donations tax. Furthermore, similar to a PBO, it is recommended to provide ISFAP with the ability to issue section 18A tax certificates, such that persons who make donations to ISFAP will be entitled to receive an income tax deduction for donation made.
Ninth Schedule to the Income Tax Act	<p>The provision of loans for study is in terms of paragraph 4(o) of Part I of the Ninth Schedule to the ITA, a 'public benefit activity' ("PBA") for purposes of section 30 of the ITA. Furthermore, public benefit organisations conducting this approved PBA qualify under paragraph 3(o) of Part II of the Ninth Schedule to the ITA for approval to issue section 18A receipts for donations received subject to certain conditions being met.</p> <p>Currently <i>Regulation Gazette</i> 24941 of 28 February 2003 does not provide for the circumstances and interest rates at which loans may be advanced under paragraph 4(o) of Part I or paragraph 3(o) of Part II of the Ninth Schedule to the Income Tax Act.</p>	<p>The MTT recommends the amendment of the <i>Regulation Gazette</i> 24941 of 28 February 2003 to address the terms on which loans may be advanced under paragraph 4(o) of Part I and paragraph 3(o) of Part II of the Ninth Schedule to the Income Tax Act.</p> <p>This will increase the ability to source donor funding.</p>
7th Schedule to the Income Tax Act	<p>The Income Tax Act does not specifically cater for the assumption of student debt by an employer. In terms of paragraph 2(h) of the Seventh Schedule to the Income Tax Act, a taxable benefit will arise in the hands of an employee if an employer pays debt payable by the employee to any third person without requiring the employee to reimburse him/her.</p> <p>However, in terms of paragraph 13 of the Seventh Schedule to the Income Tax Act, a taxable benefit will not arise if an employee has undertaken an obligation to render services for a certain period to a person who has granted the employee a bursary and the employee becomes liable to pay an amount to that person (his former employee) as a consequence of terminating his services without fulfilling his obligations and the new employee settles the obligation in return for the</p>	The amendment of the 7th Schedule to the Income Tax Act to defer, over an appropriate period, the taxable fringe benefit which would arise for an employee upon his or her employer assuming the full amount of such employee's student debt, is recommended.





Legal Instrument	Relevant Sections of Legal Instrument	Recommendations of the MTT
	employee assuming the obligation to render services to the new employee for a specified period of time.	
Section 30 read together with the Ninth Schedule of the ITA	Provides for a potential exemption from donations tax on all donations made to a qualifying Public Benefit Organisations ("PBO") and further, for those activities qualifying under part II of the Ninth Schedule and actual deductions, subject to conditions, in the hands of the donor. The specific entity selected, namely a wholly government-owned for profit incorporated SOC, will be specifically excluded from accessing the public benefit organisation mechanism. It should further be noted that the provisions of the Ninth Schedule are extremely narrow.	This only presents an opportunity if the structure is altered or if the legislation specifically is amended to include it in its current form, namely a for-profit SOC.
<b>B-BEE</b>		
The affected legislation is the Broad-Based Black Economic Empowerment Act, 2003 (" <b>BBBEE Act</b> ") and the Codes of Good Practice on Broad Based Black Economic Empowerment issued under section 9(1) of the BBBEE Act, as amended (" <b>Codes</b> "). Any capitalised terms which are not otherwise defined in this section, will bear the meaning ascribed to them in the BEE Act and/or Codes.		
Statement 100:  Measurement of the Ownership Element of Broad-Based Black Economic Empowerment	<p><b>Current Status</b></p> <p>In terms of the current proposed structure, it is contemplated that ISFAP will be wholly owned by the State (through its various organs such as the Department of Higher Education and Training, National Department of Basic Education, SETAs or the like).</p> <p>As the Codes are currently drafted, any ownership by an organ of State is expressly excluded from measurement under the Ownership Element of the Generic Scorecard.</p> <p>However, the Minister of Trade and Industry ("<b>Minister</b>") may, by notice in the gazette, designate certain public entities as "BEE Facilitators" and, for purposes of measurement under the Ownership Element, such BEE Facilitator must be treated as (i) having rights of ownership, (ii) being held 100% by Black People, (iii) being held 40% by Black Women, (iv) being held 10% by black designated groups, (v) being held without any acquisition debts and (vi) being held without any third-party rights.</p> <p>The Minister has on previous occasions granted BEE Facilitator status to a number</p>	<p>If ISFAP is designated as a BEE Facilitator:</p> <ul style="list-style-type: none"> <li>– it will potentially assist ISFAP in raising commercial debt financing, through Equity Equivalent Programmes, as provided for in the soon to be gazetted, revised Financial Sector Codes. By way of example under the proposed Financial Sector Codes, South African companies within the financial sector may receive recognition under the "Ownership" element of their scorecards for, inter alia, providing empowerment financing and access to financial services to ISFAP,</li> <li>– it could also assist in on-boarding multinationals operating under the generic code Equity Equivalent provisions, provided that the appropriate recognition from the DTI can be obtained.</li> </ul> <p>We recommend that ISFAP apply to the DTI for recognition as a BEE Facilitator to encourage local entities in the finance sector to invest in or finance ISFAP.</p>



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	<p>of government owned entities i.e. Public Investment Corporation SOC Limited and the National Empowerment Fund.</p> <p>Being designated as a BEE Facilitator is particularly important as it will potentially assist ISFAP in raising commercial debt financing, through Equity Equivalent Programmes, as provided for in the soon to be gazetted, revised Financial Sector Codes. Accordingly, under the proposed Financial Sector Codes, South African companies within the financial sector, may receive recognition under the "Ownership" element of their scorecards for, inter alia, providing empowerment financing and access to financial services to ISFAP.</p> <p>It could also assist in on-boarding multinationals operating under the generic code Equity Equivalent provisions, provided that the appropriate recognition from the Department of Trade and Industry ("DTI") can be obtained.</p>	
<p>Statement 200: The general principles for measuring Management Control</p>	<p>Notwithstanding that ISFAP may not wish to be rated for BEE purposes under Statement 200, when deciding on the composition of the management of ISFAP (including board participation and other executive management (including, senior, middle and junior management)), ISFAP should nonetheless aim to ensure that the management composition is in line with the management control scorecard under the Codes.</p>	<p>N/A</p>
<p>Statement 300: The general principles for measuring Skills Development</p>	<p><b><u>Current Status</u></b></p> <p>A Measured Entity may gain recognition under Statement 300 of the Codes if such Measured Entity contributes to skills development as set out in the learning programme matrix set out in Annex 300(A).</p> <p>Qualifying contributions that can be measured for purposes of the Skills Development Element of the Scorecard include bursaries, internships, learnerships, apprenticeships, work-integrated learning or informal training to qualifying Black people.</p>	<p>As the Codes are currently drafted, it is doubtful that any loans advanced to students will be recognised as a qualifying contribution or spend on Skills Development and accordingly, any investment/contribution made by third parties to ISFAP, would not be recognised as a qualifying contribution or spend on Skills Development.</p> <p>We understand that in addition to providing loan funding available to students at tertiary education institutions, ISFAP will apply a portion of the funds it receives towards advancing grants to eligible students at tertiary education institutions. Given that the ISFAP does not propose recovery of any portion of</p>



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		<p>the grant funding from the student, such grants should qualify as bursaries and accordingly any entity which contributes/invests funds that are utilised to make such grants should receive recognition under the "Skills Development" element of the Scorecard.</p> <p>ISFAP must ensure that any loan funding received is applied towards granting loans to students and any contributions/investments received from juristic entities must be applied towards grants for eligible students, to ensure that each creditor, investor and/or shareholder is able to receive the appropriate recognition under the respective BEE Scorecards.</p> <p>The DTI is currently in the process of preparing the technical assistance guide ("the Guide") to the Codes for public comment. ISFAP should seek to influence the Guide such that any ISFAP loans and/or contributions to ISFAP are recognised as a qualifying contribution or spend on Skills Development.</p> <p>To afford loan funders the opportunity to elect whether the funding that they make available to ISFAP contributes towards the "Ownership" element of their scorecard, or the "Skills Development" element, the Codes could be amended such that Annex 300(A) of Code Series 300: Statement 300 includes ISFAP loans.</p>
<p>Statement 500: The general principles for measuring Socio-Economic Development</p>	<p><b>Current Status</b></p> <p>Measured Entities may receive recognition for any quantifiable Socio-Economic Development Contributions.</p> <p>Socio-Economic Development Contributions include, <i>inter alia</i>, :</p> <ul style="list-style-type: none"> <li>– grant contributions to beneficiaries of Socio-Economic Contributions;</li> <li>– development programmes for women, youth, people with disabilities, people living in rural areas;</li> <li>– support of healthcare and HIV/AIDS programmes;</li> <li>– support for education programmes, resources and materials at primary, secondary and tertiary education level, as well as bursaries and scholarships;</li> </ul>	<p>Contributions or donations made to ISFAP would currently qualify as Grant Contributions (as defined in the Codes) provided that ISFAP is able to procure an annual "independent competent persons report" as defined in the Codes, which certifies the nature of the funding and the % black student beneficiation.</p> <p>Social Impact Bonds would not qualify as a Socio-Economic Contribution.</p> <p>The potential impact on numerous non-profit organisations, that have become virtually exclusively reliant on BEE Socio-Economic Development spend for their survival should also be considered.</p>



	Legal Instrument	Relevant Sections of Legal Instrument	Recommendations of the MTT
		<ul style="list-style-type: none"> <li>– community training; skills development for unemployed people and adult basic education and training; or</li> <li>– support of arts, cultural or sporting development programmes.</li> </ul>	



## Chapter 6

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# Funding Requirements to Implement ISFAP



Ministerial Task Team to develop a Support and Funding Model  
for Poor and “Missing Middle” Students

## 6 Funding Requirements to Implement ISFAP

### 6.1 Introduction

The Ikusasa Student Financial Aid Programme (ISFAP) is based on a public/private partnership in which government and the private sector participate to provide funds to qualifying students who are studying at tertiary institutions.

The ISFAP model seeks to give effect to the South African Constitution - 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. The model specifically focuses on “financially needy” students which includes the very poor, poor and the so called “missing middle”.

Financial support for students will be a combination of grants, bursaries and loans governed by various means-testing criteria, but with a guiding principle of providing fully subsidised education to the very poor and reducing the financial burden on the poor and “missing middle” students who will receive a combination of grants and loans. Grants will reduce on a sliding scale as the household income increases up to a limit to be determined by the availability of funds. Loans will be offered to students with consideration for Expected Family Contribution (EFC). Where additional grant funding can be raised, it is recommended that students from working class/poor households also received fully subsidised education.

The granting and disbursement criteria to the very poor, poor and “missing middle” students will be centrally controlled to optimise the outcomes within the constraints.

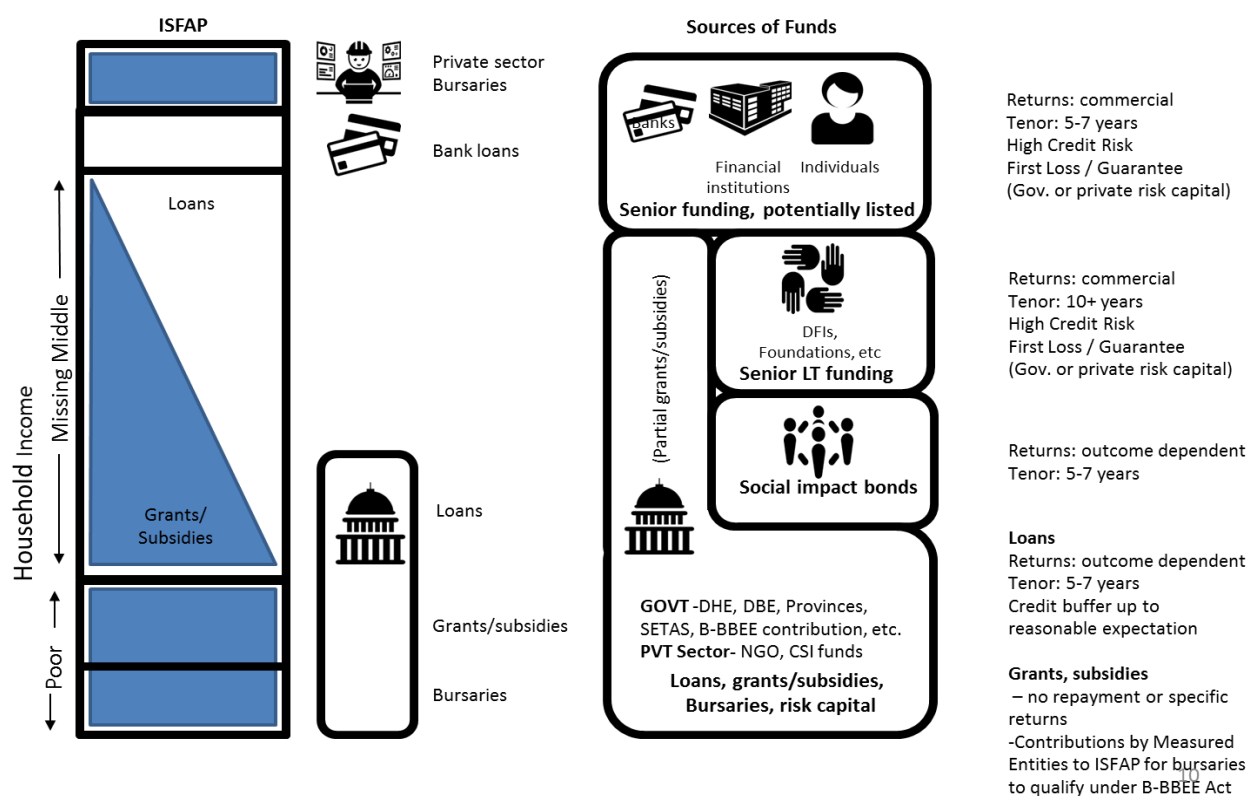
Psychosocial and life skills support will be provided to ISFAP funded students at universities and TVET colleges through a combination of the institutions and services providers, and managed in order to significantly increase key outcomes:

- Graduation in courses that provide skills for occupations of high demand
- Employment and economic participation post-graduation

The envisaged entity will be highly governed, will raise funds from the public and private sector, and achieve its goals in a sustainable public/private partnership.



The funding model overview is as follows:



## 6.2 Funding Modelling

Extensive modelling was undertaken to estimate the extent of funding required for the proposed ISFAP model. This model has been discussed with the National Treasury Asset and Liability Management team for refinement, testing of assumptions and understanding possible sources of funding.

Detailed modelling and sensitivity analysis has not been concluded given the complexity of confirming major variables in the funding model, including the determination of the full cost of study, current and future participation and enrolment rates, progression and dropout rates, the capacity and resources required at all universities and TVET colleges to offer NSFAS funded students “wrap-around” support. There are also cases where data is unreliable or simply unavailable. For example, data on the TVET colleges’ dropout rates could not be obtained.

The Ministerial task team is scheduled to present to the Executive of the National Treasury Asset and Liabilities committee with the anticipated costing, funding requirements and sensitivities.

The funding requirements contained in this report to fund and support students from poor and working class backgrounds are therefore purely indicative at this stage and should not be relied upon as 100% accurate.

### 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:



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- 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)\*(relevant total cost of study per year)
- 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.

In 2011, the income distribution of households in South Africa, as per IES 2011, is as follows :

2011 Income Bands (R per annum)	2016 Adjusted Figures	Cumulative % of population
Less than R66,636	Less than R83,128	20%
R66,636 – R120,108	R83,128 - R149,834	40%
R120,108 – R186,528	R149,834 - R232,692	60%
R186,528 – R539,376	R232,692 - R672,867	80%

**SOURCE: Income and Expenditure of Households, 2010/2011**

Based on the Stats SA General Household Survey 2015, 45,5% of all households benefitted from social grants in 2015. It could be argued that these are households that can be defined as very poor.

The 2016 adjusted figures have been reached using the annual inflation rate as supplied by the SARB. Given the above table, we can see that 80% of households would have a household income of up to R672,867.

### **Transition/Progression**

These rates are modelled using the current DHET reported rates of higher education institutions' progression and graduation rates. Using these rates, it is assumed that the current rates continue to prevail into the future. The ISFAP model proposes comprehensive student support to ensure better throughput rates and decreased dropouts. This support will be funded through the SIB and thus the cost thereof is not included in this section looking at the cost of funding study.

### **Annual Household Income Cut-off**

The current NSFAS household income cut-off for poor students is R122,000p/a. This figure has not changed in a number of years. Thus there may be room to revise this upwards given inflation considerations.

The upper cut-off for the missing middle is not formally defined. For the fee increases at universities in 2017, the Minister of Higher Education and Training announced that R600,000 would be used as the upper cut-off for support to exempt the poor and missing middle from the fee increment.

### **Funding Cost for university students**

Given the ASSA 2008 Population Model figures for 2018, actuarial modelling has been conducted to



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understand the total number of bachelor degrees and diplomas in 2018. The estimated 2018 undergraduate student numbers as well as the annual full cost of study estimated at R92,000 per student.

Using the above listed assumptions as well as the projected student numbers and the Statistics SA IES 2011 household income bands, below is an estimate of the number of students that would be funded in 2018 as well as which household income bands they belong to:

<b>FUNDING COST IMPLICATIONS - 2018</b>				
<b>Income band</b>	<b>&lt; 150k</b>	<b>&lt; 300k</b>	<b>&lt; 450k</b>	<b>&lt; 600k</b>
<b>Number of students funded (cumulative)</b>	209,907	334,761	397,187	501,232
<b>% university population (cumulative)</b>	30%	45%	52.5%	65%
<b>Funding cost (R'bn) (cumulative)</b>	19	28,9	33,8	42

If the average household income of R600,000 is used to define the cut-off for the missing middle, approximately 65% of the poor and missing middle students in the South African university system will be funded. This will require approximately R42billion per annum, escalating annually into the future in line with university fees and other costs of study increments. The estimated R42 billion will fund just over 500,000 poor and missing middle students.

#### **Split between grants and loans and the determination of very poor, poor and missing middle**

The ISFAP model assumes that all very poor students will receive free higher education. At a minimum, the Ministerial Task Team recommends that university students who come from households who receive social grants be given free higher education through grants which cover the full cost of study. The Ministerial Task Team further recommends that students who come from poor and “missing middle” backgrounds receive a combination of grants and loans to cover the full cost of study, together with an expected family contribution that increases with household means. Funder constraints will also need to be recorded to be applied in the decision model to select students (e.g. any funds from B-BBEE based sources can only be used to support black students in the form of grants).

#### **How many poor university students will be funded at the level of R150,000 household income?**

The definition of very poor will be required in the model, some possibilities include social grants and subsidy cut-offs (R66,000), lowest income tax hurdle (R78,000) or the current NSFAS cut-off (R122,000).

The students that come from households that are not defined as very poor and have household incomes less than R150,000 per annum are defined as poor. Thus very poor and poor students would be students from households with an household income less than R150,000.

Subject to the availability of funds, students who come from households deemed poor and the “missing middle” should receive a combination of grants and loans with grants progressively reducing as household income increases.

Further actuarial and statistical modelling is currently being done to refine the potential number of students to be funded and the financial implications.



### Sources of funding

Funding pools for ISFAP are government funding, CSI/Foundation funding, DFI funding, and Capital Markets funding. Funder constraints will also need to be recorded to be applied in the decision model to select students (e.g. any funds from B-BBEE based sources can only be used to support black students in the form of grants).

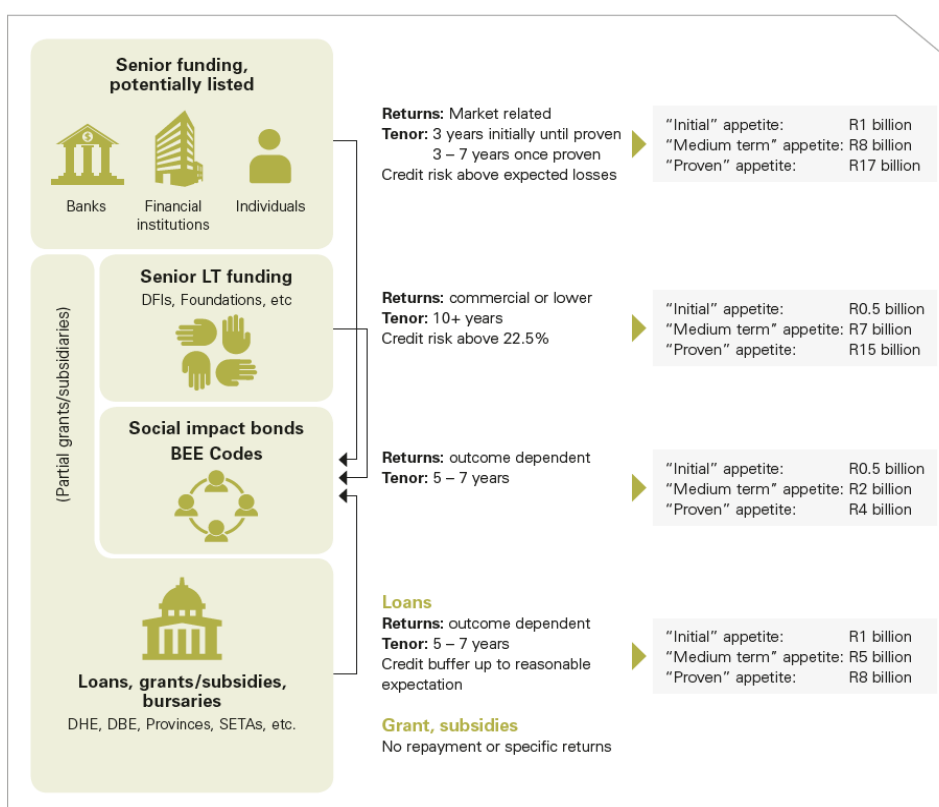
The MTT did a review of the possible funding available from these sources over the short, medium and long term as detailed below:

	<b>Short Term (2017/18)</b>	<b>Medium Term (2018/19)</b>	<b>Long Term (2019/20)</b>
<b>Government Funding</b>	R17,5bn	R18,5bn	R19,7bn
<b>B-BBEE Skills Development Levy</b>	R8bn	R10bn	R15bn
<b>Private Capital Markets</b>			
- Bonds	R0,5bn	R0,5bn	R5bn
- 20% Credit Enhancement	R1,5bn	R2bn	R5bn
<b>DFIs, Foundations, CSI</b>	R1bn	R1bn	R5bn
<b>Total</b>	<b>R28,5bn</b>	<b>R32bn</b>	<b>R49,7bn</b>



## 6.3

## Indicative (untested) Funding appetite for various layers

**Government Funding**

Current government funding as per the NSFAS MTEF projections are assumed. These include NSFAS loans as well as the other funds managed by NSFAS (eg: SETA Funding, Fundza Lushaka). No increase in this MTEF funding allocation has been assumed. Government funding will mainly be used for the purpose of providing grant funding to ISFAP funded students.

**B-BBEE Skills Development Contribution**

Given the guideline from the B-BBEE Commissioner that 25% of the 6% of the skills development contribution can be re-directed to funding black poor and missing middle students, work was done by the MTT to estimate the potential funding that can come from this avenue.

B-BBEE in the private sector is either implemented via the DTI's generic code, or sectoral dispensations under the BEE act, or other sectoral dispensations, for example the mining charter which operates under the auspices of the DMR sectoral codes.

B-BBEE in the public sector is only measured via the generic code, and is compulsory. Despite this, not all government departments produce BEE certificates, or actively monitor compliance to any of the elements other than Employment Equity and procurement. SOE's often produce scorecards and operate similarly to the private sector.



The vast bulk of the sectoral dispensations have not yet been finalised under section 9(1) of the B-BBEE Act. The estimated amounts to be raised thus reference draft gazettes for the most part.

Given that B-BBEE is not mandatory in the private sector, sectors with no government procurement or licensing dependency do not chase BEE scores aggressively. These tend to be sectors which are subject to the generic code. Companies subject to sectoral dispensations are significantly more likely to be commercially motivated to provide grants to ISFAP under the skills development levy.

Current SETA levies total approximately R16bn p/a at 1% of payroll, based on the estimates derived from SARS PAYE tax statistics. It must however be noted that in certain sectors, there is not a direct correlation to BEE legislation (eg: finance is grouped with property and business services and ICT is not separately specified). In these instances we have either used contribution to GDP as a proxy or judgement.

Certain sectors have to spend sub-minimums on core and critical skills in that particular sector. This may require ring-fencing funding for certain qualifications.

Given all of the above, the assumption is for conservative estimates of how much funding may be received to fund poor and missing middle students through the B-BBEE contributions in the short-term, growing from R8bn to R10bn in the medium-term as compared to the R15bn estimated to be available. Funds raised from the B-BBEE contributions will be used for the following purposes in the ISFAP model:

- Contributing risk capital in the ISFAP model
- Contribution towards building the “wrap-around” support at universities and TVET colleges

### **Private Capital Markets**

Retirement and Investment Funds and Investment Managers who manage funds for third parties have stringent guidelines on the type of entities they can invest funds into for a return, e.g.: the PIC and GEPI. This requires ISFAP to be a rated organisation and this will only happen after the ISFAP loan book has built up a track record e.g.: 5 years.

Thus, as reflected in the table above, this source of funding is likely to be low initially, growing as a track record of delivering returns to investors is established.

Funds raised from the private capital markets will be used for providing loan funding for students in the ISFAP model.

### **DFI, CSI Funding**

This funding is envisioned to contribute to the risk capital of ISFAP from the non-governmental sectors. Given the range and requirements of DFIs and CSIs, it is difficult to estimate an appetite for this source of funding for ISFAP. It is however, a channel of funding that will be pursued by approaching local and international DFIs, Corporate Social Investment departments and domestic and international philanthropy funds.

The shortfall in funding in the Short Term can either be funded from increased government allocations, skills development or DFI and CSI funding. Alternatively, the number of students supported would have to be reduced as ISFAP is introduced gradually.

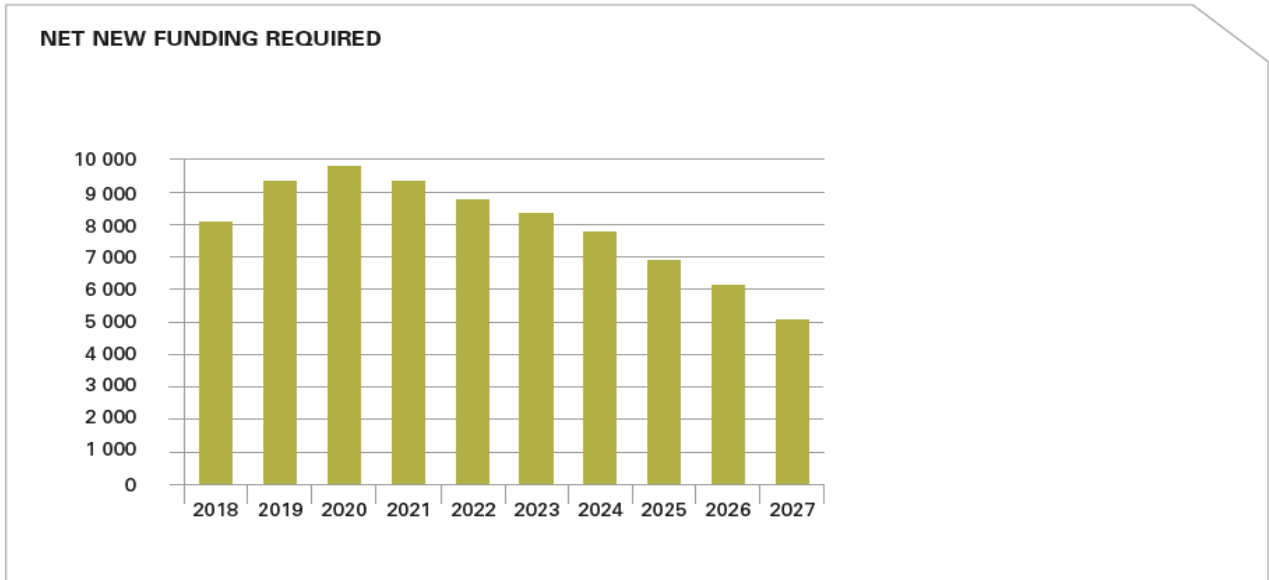
In the medium to long-term, funding from capital markets and DFIs will increase with the ISFAP track record on management and loans recovery, as well as through loan recoveries feeding back into the system to fund



more students. The support provided, intended to increase throughput rates is also seen as an opportunity to have more funds recycled back into the funding system.

### 6.4 Net new funding required for loans alone

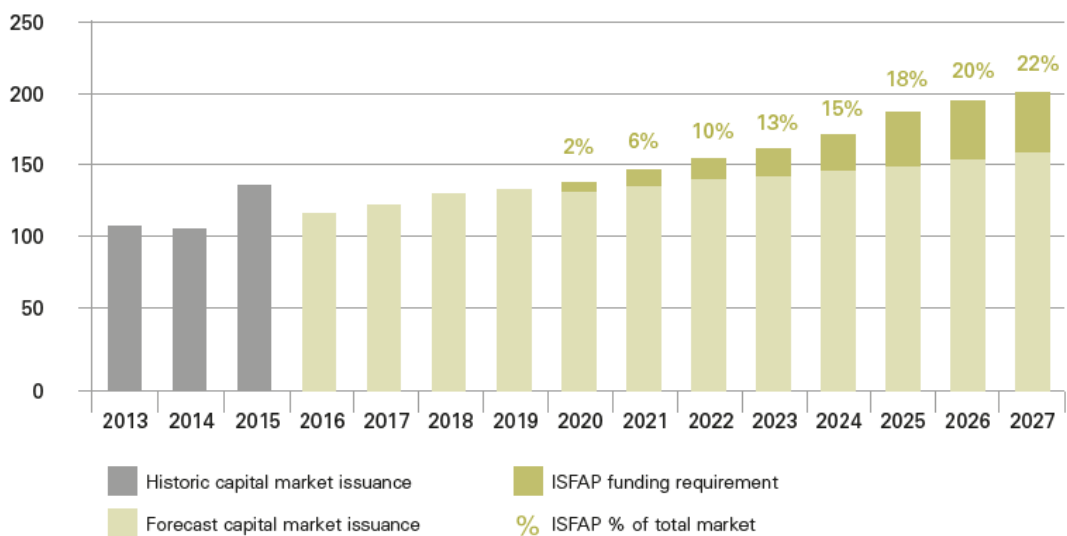
The funds to be raised from the capital markets is estimated to peak in 2020 at R8 billion and then start to decline as the loan book starts to generate returns from interest.



### South African Capital Market Size

**ANNUAL ISSUANCE SIZE**

- The 2016 forecast for listed capital market debt is R125 billion
- The charts below assumes a capital market issuance forecast growth in line with forecast GDP
- The ISFAP funding requirement is added to the existing debt capital market issuance to illustrate the extent of the funding that needs to be raised



## 6.5 Considerations for private capital institutional funders

**There are two main types of private institutional funders:**

- Banks
- Asset managers that invest on behalf of:
  - Pension funds
  - Unit trusts
  - Life office policy holders

**When determining whether to invest, there are many factors to be taken into account by private institutional investors, including:**

- Reputation
- Strength of balance sheet of borrower
- Minimum risk adjusted returns
- Credit ratings
- Client mandates
- Environmental, social and ethical governance
- Government and key stakeholders
- Regulations

Once an investment instrument is developed, institutional investors need to be made aware of the opportunity via:

- Investment thesis/prospectus
- Road show to investors

International DFIs will battle with a hybrid model

- Some DFIs can only fund government entities (e.g. KfW and AFD)
- Some DFIs can fund non-government entities (e.g. DEG, FMO and Proparco)

## 6.6 Phased Funding Approach

Dependent on the ability of government to provide guarantees, a phased approach may be required to build a prospectus and appetite for private institutional funders.

Initial phases may only seek to bolster the current funding statures of students in tertiary education by using private grant funding from DFI's, universities and other private parties. In addition to this, the addition of the skills levy will be pursued.

Once a five to eight year balance sheet recoveries track record has been shown, then private institutional investors will be sought.



## Chapter 7

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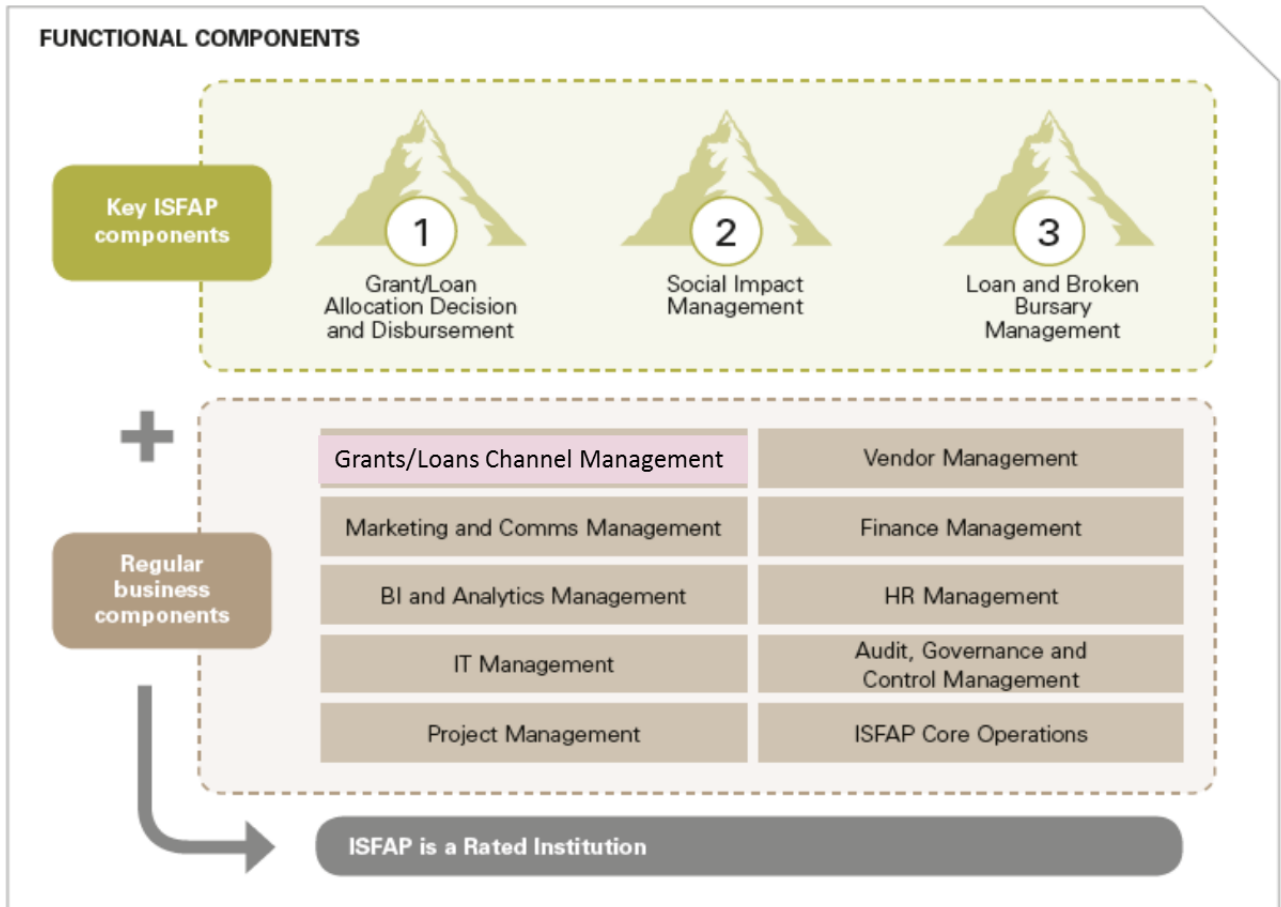
### Functional Components of ISFAP



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## 7 Functional Components

The envisaged ISFAP/ManCo organisation is a complex organisation with multiple stakeholders that will need to be effectively managed. As such, in order to design and develop such an organisation, the following segregated components are recommended:



The business should be comprised of three key peak components: firstly the Grant vs. Loan allocation decision and disbursement management, secondly the social impact management and finally the loan management components. These three key peak components, combined with regular functional business components (such as IT, Marketing, HR, etc.) will result in ISFAP being a highly rated flagship public-private-partnership institution. This should assist with raising funds for ISFAP in the future.

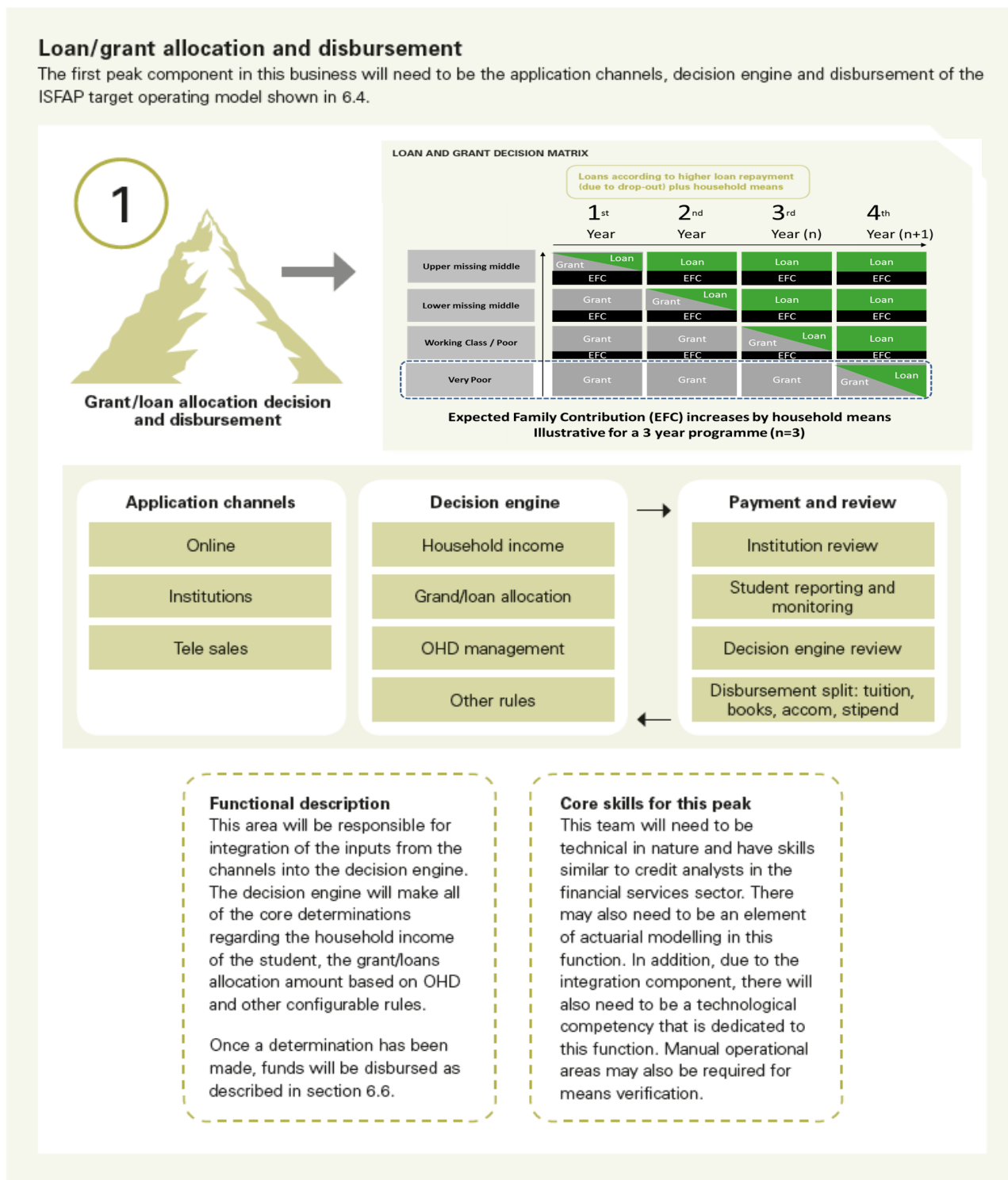
It is envisaged that this type of segregation can assist with the ultimate organisational structure of the ISFAP organisation.





### 7.1 Loan/Grant Allocation and Disbursement

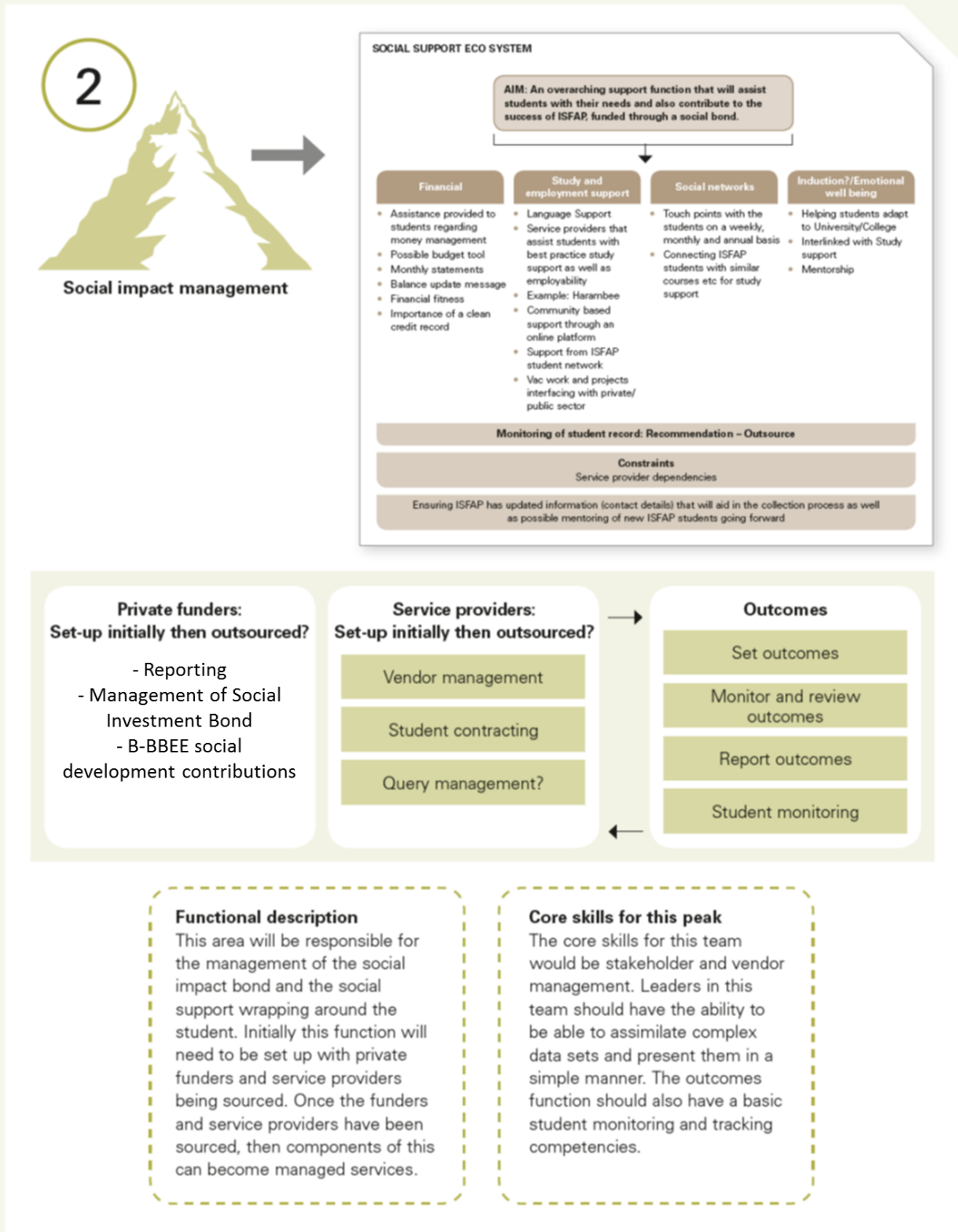
The first peak component in this business will need to be the application channels, decision engine and disbursement of the ISFAP target operating model shown in 6.4.



7.2 Social Impact Management

**Social impact management**

The second key component of the ISFAP target operating model is the management of the social impact component shown in section 6.2



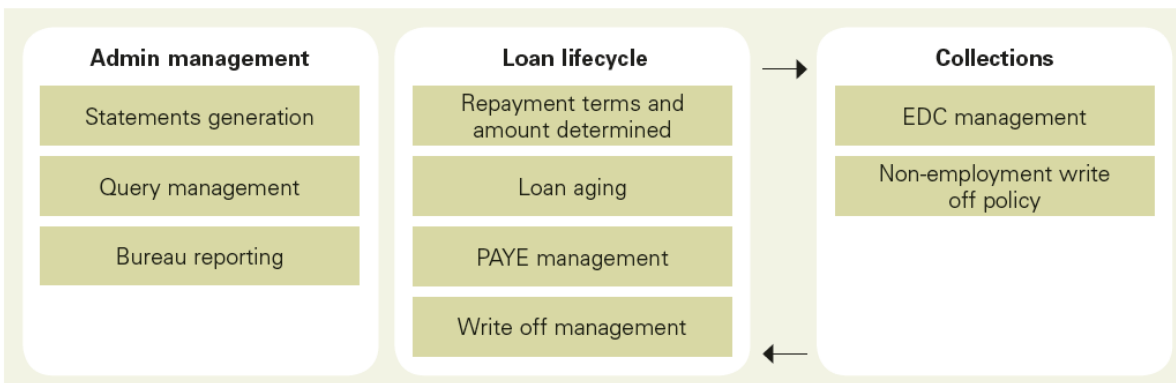
7.3 Loan and Broken Bursary Management

**Loan and broken bursary management**

The third peak of the ISFAP target operating model pertains to the management of loans and bursaries where the conditions of the bursary have been broken.



	Grant	Loan	Interest
Year 1	R50 000	R0	0%
Year 2	R40 000	R10 000	0%
Year 3	R30 000	R20 000	0%
Year 4	R20 000	R30 000	0%
Grad	R0	R50 000	0%
Start	R140 000	R110 000	x%



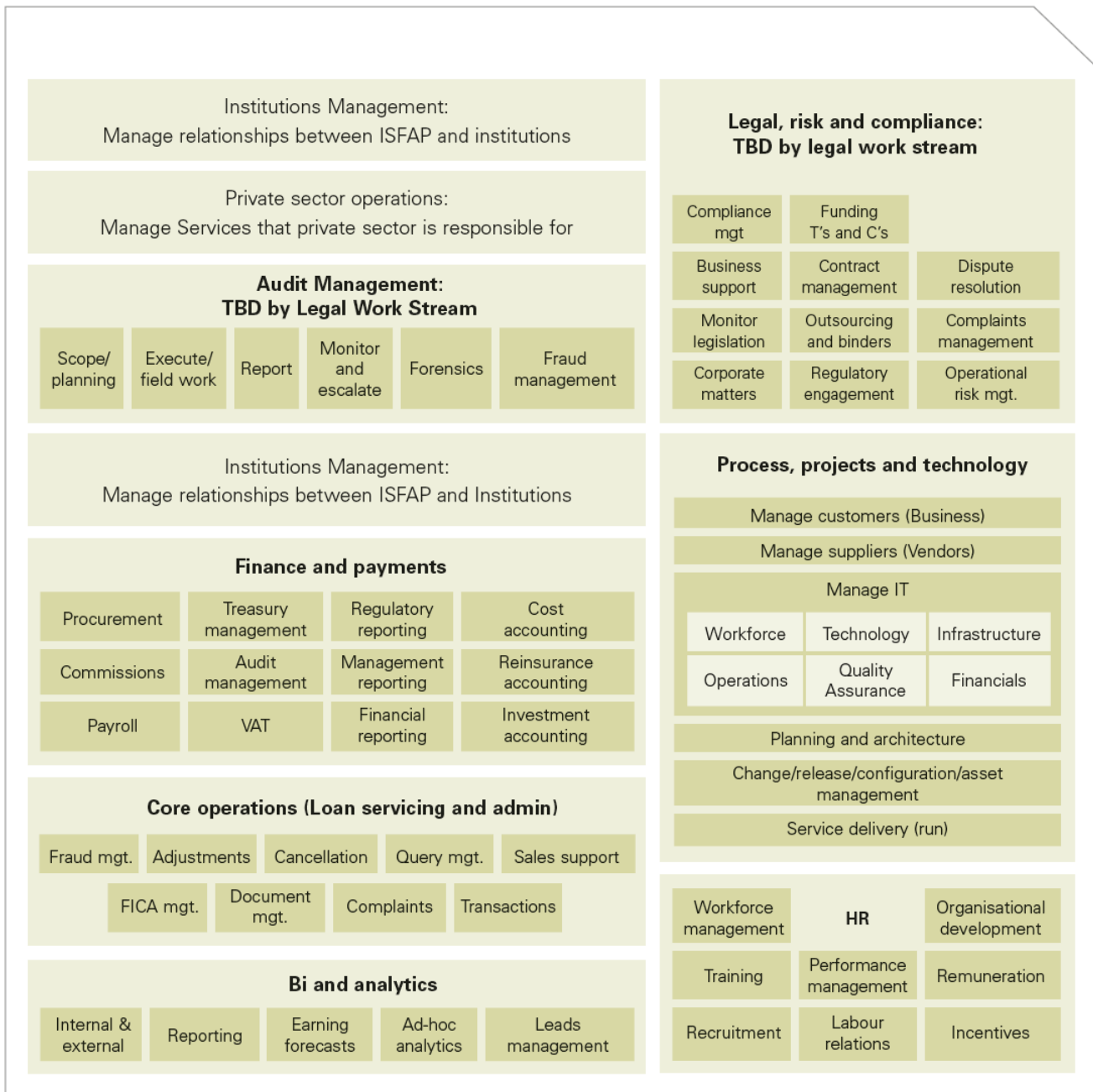
**Functional description**  
 This area will be responsible for the management of loans collections and administration. The system should comply with all of the relevant NCA and other legislative requirements.

**Core skills for this peak**  
 The core skills in this team will be similar to a retail loans functions with a focus on collections activities. Since the recommendation is to outsource this function, the team should have a focus on vendor/EDC management.



**7.4 Traditional Business Components**

There are traditional business components that will need to be managed. These components are not core to the ISFAP target operating model, however are required. Some of these business considerations are illustrated below:

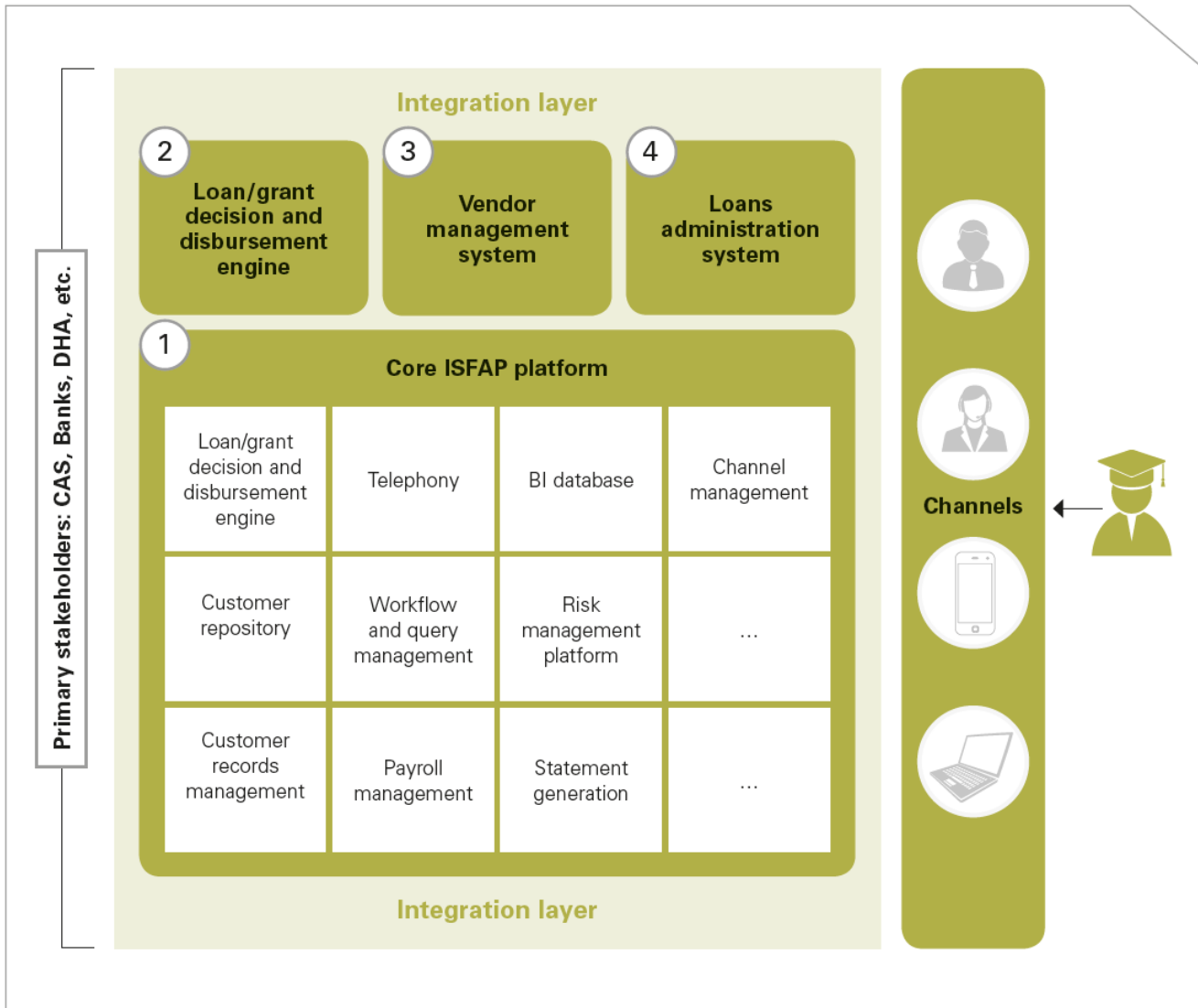


Despite these being non-core functions in the ISFAP business target operating model, it is recommended that detailed processes are mapped for each. This will help enable a systems specification and could significantly assist with an RFI process.



### 7.5 ISFAP Application and Integration Considerations

The ISFAP platform will follow the same architecture as outlined in section 7.1 of this report. There will need to be a core platform that integrates the regular business functional components such as the customer repository, databases, operations workflow and other components. In addition, the three key peak components will need to have separate nuanced system requirements.



ISFAP will have to have an integration layer that interfaces via application programme interfaces (API's) to some of their primary stakeholders. In addition, the ISFAP platform will have to manage and integrate all of the various application and query management channels via a suitable interface.

### 7.6 Loan/Grant Decisioning

- Sourcing of IT platform via an RFI process or building one is an option.
- This process involves the activities required from decisioning until the student becomes employed.
- Means testing must be performed to inform the granting decision to either approve or decline. The possible variables that can form the input into the decisioning process have been highlighted in the decisioning philosophy section of this document.



- Ability to perform real-time decisions on an independent decision system – **recommendation**.
- Offers the flexibility for super-users to configure the rules without IT intervention.
- Ability to perform simulations based on historic data to assist in informing the strategy.
- Options would be to:
  - Engage in an RFI process
  - Leverage off a reputable vendor with these abilities
  - Build

### 7.7 Loan/Bursary Disbursement

- Processing payments (consideration: if utilisation of funds is required to be limited to certain service providers, then rules will need to be controlled by VISA, MasterCard and BankServ or else they will be controlled by the Banks – the downside being that this will lead to issues with maintaining consistent rules over a period of time amongst the Banks) – If this is a key feature that is required then intervention will be required by SARB and PASA.
- Bursaries administered by ISFAP should be treated as grants.
- The payment options that can be considered are:
  - Transaction account or
  - Voucher system and
  - Pay directly to institutions

### 7.8 Loan and Broken Bursary Administration System – (amortises from employment date)

- This process involves the activation of the loan for the ageing, billing and repayment of the debt from the start of the student’s working life until the debt has been fully repaid.
- The following are options and recommendations that can be considered:
  - 3rd party lender – recommended and
  - 3rd party processor – recommended or
  - Build a system – not recommended
- Outsourcing the lending and processing functions to a world-class provider could offer best-of-breed processes, governance, systems and overall specialist knowledge.
- The system must be able to house the loans/grants accounts base – some of the required functionality would be the amortisation, triggering (e.g. change in course, dropout, graduated, trouble, etc.) of activities for updates to indicators on primary systems which could then be required to make decisions around re-funding etc. and production of statements on the base.

### 7.9 Collections System

- Option to source proprietary software that can be integrated into core system.
- Simple collections process via the SARS system - **recommendation**.
- A high-level collections strategy framework will need to be adopted and incorporating rules around the timeframe required before an account is e.g. handed over to an EDC or written-off.
- Panel of External Debt Collectors - **recommendation**
  - Possible cost effective means of collections coupled with solid collections expertise and strategies.
  - EDC’s have access to various sources of information that allow for easier traceability of defaulters.
- Assumption: In-house Collections Operations is a non-core activity



- The assumption is based on the fact that the ongoing management of collections functions will require a sizeable part of the ISFAP workforce.
- This may not be a focal point of the ISFAP roadmap.
- Final option to sell off debt - **recommendation**

### 7.10 Financial System

- Investigate current NSFAS financial processes to understand the governance and reporting framework – consider re-use where applicable.
- Investigate if financial governance principles are disseminated by government – this could inform the sourcing decision.
- Governance considerations (handling of write-offs, reporting to bureaus, etc.)
- Focal point should be to ensure that the funds are managed according to agreed standards:
  - Reconciliation – balancing/accounting for funds paid to institutions, service providers and students – feedback loop will be required throughout the lifecycle.
- Payment mechanism - consideration: Pay to service provider directly where possible via existing infrastructure available in financial institutions.

### 7.11 Telephony

- There will be a need for a call centre to service student queries and for this, a telephony platform will be required
- RFI Process – in-house vs outsourced (vendor solution is recommended)
- Consideration: Calls to be recorded with added advantage of voice logging contracts with applicants
- Record retention policy will drive the period required for call archiving requirements
- Monitoring requirements may be needed to ensure that the area performs optimally e.g. staff productivity reports
- Ability to feed data into a secondary system for further optimised processes would be a value-add to ISFAP

### 7.12 Channel management

- ISFAP could create a platform for students to apply for funding via a mobile application or the web – **recommendation**.
- These applications should be accessible via any device to enable and mobilise a comprehensive distribution network e.g. mobile ISFAP staff setting up application stations in tertiary institutions when required.
- In the absence of the CAS: generic application info can be submitted to ISFAP. Consideration: Backward compatibility should not pose a problem if the required input into CAS is the required fields to move the funding application forward. This will need to be ratified by those tasked with building the CAS.

### 7.13 Workflow

- Workflow system can be built or sourced from a vendor through an RFI process.
- The function of this will be to create queues for specific processing requirements through the student lifecycle from origination until contract terminates, e.g. cater for apps through the origination process until payout.



- There could be an element of integration from this platform into external entities, e.g. documents required to further the application or payout may be sourced from this platform.
- Notifications generated through the process and through the lifecycle of the contract– could drive incentives based on progression and related results (grant vs. loan).

#### **7.14 Legal, Risk and Compliance Management Platform**

- Workflow and Reporting system
- Access Management – role-based access is recommended and can be further analysed once the ISFAP structure is clearer
- Conformance to POPI and PCI related regulations should be considered
- More considerations required from Risk specialist

#### **7.15 Database/ Document Management**

- Engage in an RFI Process
- Volumes (performance and storage impact) should be a factor in determining critical success factors into database considerations
- Business processes should be firmed up so as to understand database design requirements
- Data security to be considered where data is submitted from ISFAP to external parties
  - Possible regular audits/due diligence can manage this risk
- Origination, decisioning, disbursement related data could be stored either internally or distributed across vendor systems
- Supporting documents should be stored in this repository, thereby eliminating the need for paper-based records

#### **7.16 Student support elements (tutors, recruitment etc)**

- Engage in an RFI Process
- Administration system could be enhanced to trigger the request based on either student demand or embedded trigger in the lifecycle.
- Registry of available support elements could be created and managed centrally by the core administration system – consider a procurement process to fairly manage the on-boarding, maintenance and termination of service providers.





# Chapter 8

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## Risk and Mitigation Considerations



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## 8 Risks and Mitigation Considerations

### 8.1 Development of Regulatory Compliance

- ManCo and FundCo will develop regulatory compliance and enterprise risk management frameworks: Compliance Management and Regulatory Engagement
- Compliance with all applicable legislation, including compliance with Government Policies and procedures, legislation pertaining to lending organisations including NCA.
- We have considered NCA and POPI basic requirements in our recommended processes.

### 8.2 Monitor Compliance

- Compliance monitoring on the following levels:
  - Compliance embedded processes
  - Internal compliance monitoring by sample testing and systems analysis
  - Internal audit monitoring
  - External audit monitoring

### 8.3 Corporate Matters

- Internal and external governance and regulations will adhere to what is set out in the bylaws of the company.

### 8.4 Funding Terms and Conditions

- Funding terms and conditions will be agreed and documented. Agreement should be reached with all Universities, Private Funders and Government stakeholders.

### 8.5 Contract Management

- Contract design and vetting to be completed by legal teams with approval from Credit and Risk committee members.

### 8.6 Outsourcing and Binders

- Outsourcing and RFI processes to follow Government Policies and Procedures.

### 8.7 Dispute Resolution

- Dispute resolution policies and processes will be implemented and should be managed by the administration area. All outstanding disputes should be reported as part of the Risk Management process which should include a team who looks after Ombudsman Complaints.

### 8.8 Complaint Management

- Complaints will be tracked and managed via an Electronic or Call Centre process which will be documented and communicated to students. Service Level Agreements with all vendors should include terms of managing complaints. Customer Service considerations should be considered and for part of all RFI's and SLA's will be contracted with all service providers.



## 8.9 Access Management

- Access Management – will be determined downstream once the ISFAP structure is clearer (role-based).
- Role-based access management offers a controlled way of ensuring that functions are allocated to individuals based on a ‘need-to-have’ basis. This could significantly reduce the occurrences of fraudulent activity.

## 8.10 Operational Risk Management

- Operational Risk Management will be embedded within processes and should be monitored by a Risk Management function, which will include Regular risk identification practises. Risk reporting to Risk Governing Committees and Board Committees depending on materiality.



# Chapter 9

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## Implementations Considerations



Ministerial Task Team to develop a Support and Funding Model for Poor and “Missing Middle” Students

## 9 Implementation considerations

### 9.1 Technology considerations

#### Infrastructure Considerations

The current infrastructure and technology of NSFAS will be evaluated to determine which IT systems meet the following requirements;

- **Scalability**
  - Chosen architecture should ensure that the systems are able to scale up with minimal disruption should the number of instructions received and processed increase.
- **Monitoring & Availability**
  - Performance during peak periods should be in line with agreed on thresholds, e.g. decisioning reply should not take more than 0.05 seconds
  - Monitoring tools could be used to pro-actively generate alerts to the relevant resources for investigation and resolution.
- **Business Continuity Process**
  - In the case of a widespread epidemic or the like, ISFAP should be able to follow a documented and clearly communicated business continuity process. The successful execution of this exercise should be experienced as business-as-usual from a stakeholder perspective.
- **Disaster Recovery**
  - Irrespective of the decision to build or outsource services and applications, ISFAP should ensure that itself and its vendors have the capability to recover its' infrastructure and related applications and data from a remote site.
- **In-house/Hosted Data Centre**
  - The scale of the IT operations should inform the decision to host the infrastructure on-site or outsource the capability.
  - This could further be influenced by the cost factor, available expertise and possibly an executive decision that will be informed by the ISFAP technology strategy.
- **Security**
  - Policies governing the accessing and usage of data through various methods, e.g. strong authentication coupled with firewall rules.
  - Ongoing monitoring is key in ensuring that security breaches are managed



## Project and Operational Process Considerations

- IT Governance Framework
  - ISFAP could consider subscribing to an IT Management and Governance Framework, e.g. COBIT
  - This could provide the necessary processes to ensure that aspects aligned to the technology strategy are focused on and realised
- **Tools (PM and central Repository) and Methodologies**
    - ManCo could explore various tools to enable an efficient project delivery model and applicable methodology, e.g. waterfall vs. agile models.
- **Change and Release Management**
    - Scheduling and managing changes within agreed release cycles could provide a framework that could be consistently executed on, thereby creating a culture of effective planning and deployment through the SDLC.
- **Incident and Problem Management**
    - Operational issues and defects will require an agreed process to log, prioritise, investigate, resolve, test and deploy to ensure that implementation is speedy and effective.

### 9.2 Change Management

#### Upfront institutional stakeholder engagement

An interaction timeline should be set to involve key stakeholders by giving input towards the new system and hence win their support. This continued engagement is also key to clarify assumptions and hence ensure cooperation for rollout.

#### Student or user engagement

Focus groups could be used to collect opinions from students on what is currently working well and the gaps/requirements that may assist them further in order to complete their qualifications.

#### Ongoing stakeholder involvement and feedback

Ongoing feedback would be required at least every 6 months to keep stakeholders engaged and supportive. Without stakeholder buy-in, implementation could be slowed. Institutions could be asked to nominate people that form part of working committees.

#### Staggered project rollout and testing

Ideally a staggered implementation method would best suit successful uptake if this is possible.



**Risks and stakeholder map**

Regular stakeholder assessments should be done, highlighting health and troubled areas where more focus needs to be given.



Ministerial Task Team to develop a Support and Funding Model for Poor and “Missing Middle” Students

# Chapter 10

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## Next Step / Phases



Ministerial Task Team to develop a Support and Funding Model for Poor and “Missing Middle” Students

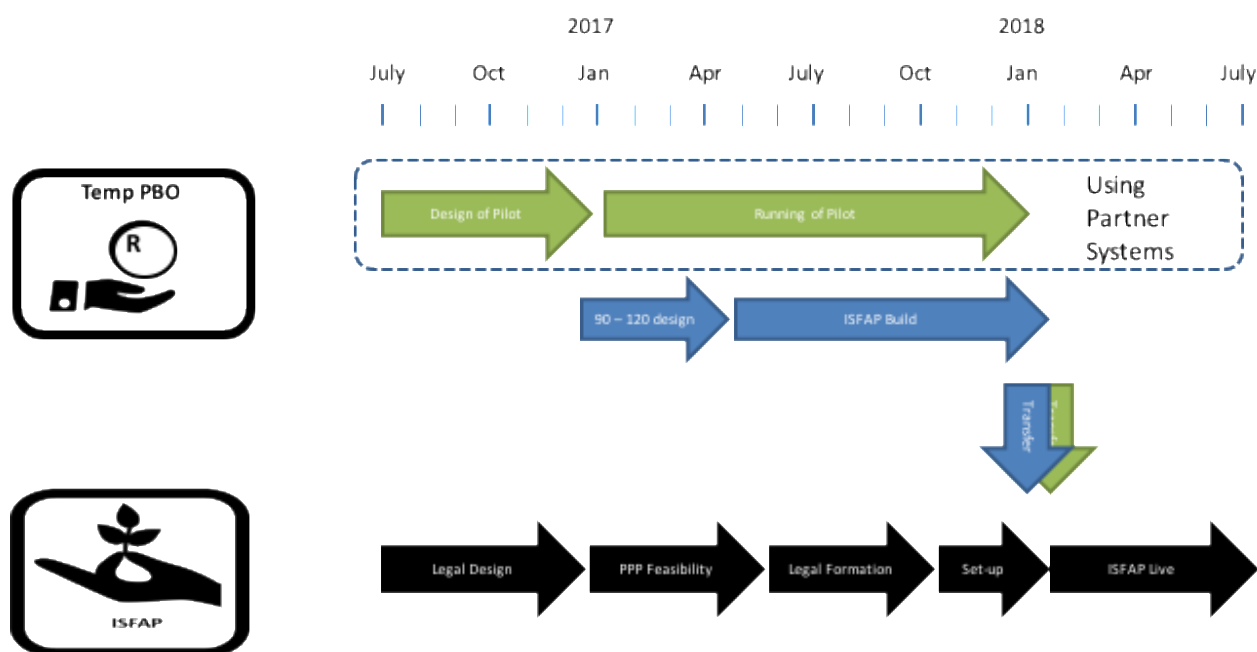


## 10 Next Steps/Phases

There are three main sets of activities envisaged to transition to the vision of ISFAP over the coming year:

- Pilot - using partners existing systems and processes
- Design and build
- Legal/Governance set-up (including PPP feasibility)

The envisaged timescales for these three sets of activities are as follows:



During the pilot phase, the Legal, Funding and SIB workstreams are envisaged to be fulfilled by Webber Wentzel, RMB and Bertha Centre respectively. The Legal and Funding activities have been described in previous sections. The three sections below cover:

- Pilot – using partners existing systems and processes during the pilot phase
- Detailed design and build/buy decision
- PPP feasibility study process

### 10.1 ISFAP Pilot – using partners existing systems and processes

As an immediate next step, the key objective is to pilot the proposed ISFAP student funding model in 2017. The key objective of the ISFAP pilot is to test the focused implementation of certain elements of the full ISFAP blueprint, using partner systems to allow the funding of selected students in 2017. Although the full ISFAP vision addresses both the poor and “missing middle”, the pilot will be restricted to the “missing middle” as NSFAS is currently supporting the poor, and it is imperative that the pilot does not interfere with the current NSFAS focus. The focused pilot will address the following issues relating to the original mandate:

- Raise sufficient funding from the public sector, private sector and other sources to offer a complete solution to fund selected “missing middle” students at universities and TVET colleges,
- The feasibility of granting loans/grants with progressive reducing subsidies as household income increases,



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- The funding of selected professional qualifications that relate to occupations in high demand,
- The supply of managed “wrap-around” support to improve the success and graduation rates of “missing middle” students and reduce dropout rates,
- The application of an efficient and robust model with appropriate internal controls to minimise leakage, fraud and risk in the granting and disbursement of bursaries and loans to deserving students.

In order to move forward with this critical initiative of national importance, support is sought to supply grant capital funding for the ISFAP pilot to be launched for new University and TVET College entrants in February 2017.

The ISFAP pilot team is looking to raise in excess of R200m to enable the direct total cost of study funding of 2,000 “missing middle” students, with “wrap-around” student support for studies leading to mainly occupations of high demand.

Each student selected to be part of the ISFAP pilot will receive:

- Total cost of study funding offered for each year of study (offset by expected family contribution)
- Direct student funding provided (administered through University) to cover:
  - accommodation and travel (on merit and for University accredited accommodation only – not only residences)
  - books
  - meals
  - stipend
- “Wrap-around” student support supplied by University (managed by programme manager) which will cover:
  - managed academic support (tutorial support and academic literacy)
  - managed social support (using existing systems)
  - life skills training (including time management, stress management and study skills)
  - medical support when required

In detail, the elements of the ISFAP blueprint to be tested in the pilot are:

- Application of the core elements of a proposed ISFAP Selection process:
  - Household means test
  - Determining the Academic/Behavioural Strength of the student through a National Benchmarking Test
  - Determining who will be funded using household means and academic/behavioural strength through a loans/grants decision matrix
  - Funder constraints: Different funders will have different goals and constraints e.g. transformational funds such as B-BBEE skill levies
- The contracting process with the Universities and the students:
  - The responsibility of the University will be to supply the “wrap-around” support following guidelines set out by the ISFAP pilot team, plus the University must supply programme managers (50% funded by ISFAP) and utilise specific custom programme management technology to enable monitoring and feedback
  - The responsibility of the student is to attend lectures and tutorials, supply regular feedback for monitoring, and engage with the support system
- The disbursement process whereby funds are supplied through appropriate channels for the following requirements:



- Studies
- Accommodation
- Books
- Food
- Stipend
- The structure and management of partnerships between ISFAP and Universities/TVET Colleges
- The design and implementation of appropriate student support
- The determination and monitoring of key performance indicator metrics required for the development of Social Impact Bonds as a funding mechanism for ISFAP in the future (Social Impact Bonds are a type of innovative finance mechanism that is becoming increasingly popular across the globe. They enable government and donors to more effectively allocate resources in the face of poor social outcomes and fiscal austerity)
- The roll-out of technology to manage and monitor student “wrap-around” support
- Administrative requirements

Technology will be at the centre of the programme management and the student-by-student tracking will enable timely and targeted intervention to help prevent students from falling off track. Technology – in conjunction with face-to-face student self-reporting – will help let programme staff know if a student needs grief counselling, is pregnant, depressed or at risk of failing a course.

The integrated IT platform (to be developed and supplied by the Michael and Susan Dell Foundation for the pilot) will help the programme team maintain and track student data across multiple fields (which reflect the areas of “wrap-around” support).

The administration tool uses flags as an early-warning system to staff, categorising each student’s situation as “on track”, “monitor” or “needs attention” across a range of risk indicators as students move through university, bucketed into three categories: academic, situational and financial.

All of this will be monitored so as to ensure that the throughput pass rates improve and proper study foundations are laid. This will be reported on every term to the central ISFAP pilot team at TEUF.

### **Governance and Operating Structure of the ISFAP Pilot**

The pilot will be housed within the Thuthuka Education Upliftment Fund entity (“**TEUF**”) (founded by SAICA). This Public Benefit Organisation has goals in line with ISFAP. The TEUF and its advisors are currently in the process of engaging with SARS to confirm that the proposed operating structure will not compromise the TEUF's section 30 and section 18A exempt tax status. Specifically, it will amongst other things be confirmed that the interest rate which is to be applied to the loan portion of the student funding is levied at a rate “*which is directed towards the recovery of cost*” and that “*the provision of scholarships, bursaries, awards and loans for study*” as provided for in paragraph 4(o) of Part I of the Ninth Schedule and paragraph 3(o) of Part II of the Ninth Schedule to the Income Tax Act extends to the additional funding for accommodation, meals, books, equipment and a stipend.

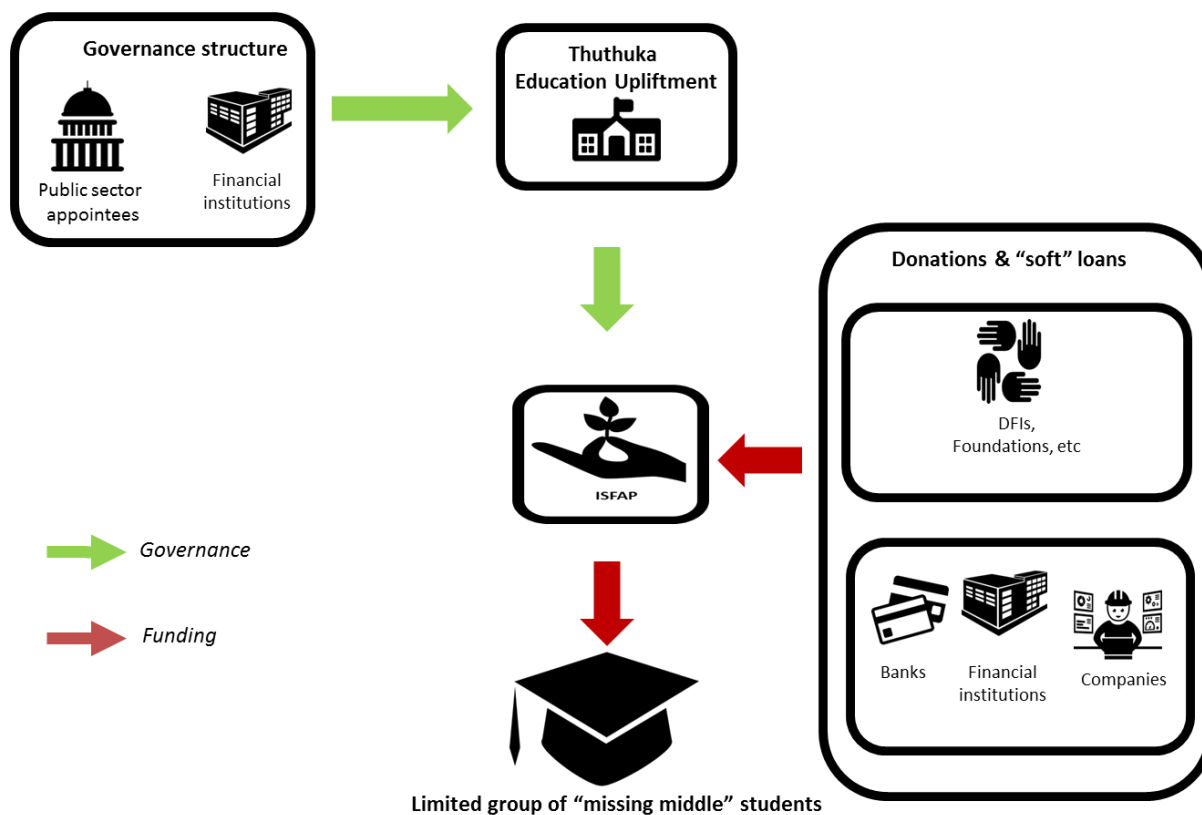
In order to cater for the pilot, the board of TEUF has been reconstituted to include board members from outside the accounting profession. The board is comprised of the Ajen Sita (CEO of EY); Lwazi Bam (Deloitte CEO); Prof Alex van der Watt (Head of Accounting School UJ), Sizwe Nxasana (chairman of the Thuthuka Bursary Fund), Thabo Dloti, (CEO of Liberty). More board members will be appointed to make TEUF more representative of the ISFAP stakeholders. The Audit and Finance committee is comprised of the main SAICA Board members. SAICA has already asked various members of TEUF to resign to create space for the



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appointment of a diverse team of trustees to represent key strategic funders, diverse skills such as information technology, knowledge of the university and TVET sector, legal, and government.

Administration will be performed by an ISFAP pilot team within TEUF, and the programme management will follow a similar model to the TEUF approach.



A strict accountability framework will be followed, with each party being contracted directly:

- Contracts to be signed with Universities and TVET college for running the programme within the faculties under supervision of the ISFAP team within TEUF
- Contracts to be signed with students to fulfil the study, lecture, tutor group and engagement requirements
- Contracts with funders to be signed to state funding constraints and monitoring requirements

The ISFAP pilot programme management structure will be governed as follows:

- Programme managers recruited, one for each University/Course cohort
- Programme managers employed and managed by the University and the participating TVET within the respective faculty
- Programme managers 50% funded by ISFAP/50% funded by University/TVET
- Technology approach and control process to be applied for performance and programme management
- Programme manager co-ordination and administration team employed within the ISFAP pilot team at TEUF
- All monitoring, evaluation and co-ordination activities supplied by the ISFAP pilot team at TEUF



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## ISFAP Pilot Scope (detail of Institutions and Degrees)

The pilot will be offered to ‘missing’ middle students only at selected faculties at selected Universities and a single TVET college:

- Six professional, one general course and one artisan course at TVET college:
  - Medical Doctors
  - Pharmacists
  - Actuaries
  - Engineers
  - Chartered Accountants
  - Prosthetists / Physiotherapists
  - Artisans (Welders, plumbers and electricians)
  - Humanities (Selected majors)
- Seven Universities:
  - University of Venda
  - Walter Sisulu University
  - University of the Witwatersrand
  - University of Cape Town
  - University of Pretoria
  - Tshwane University of Technology
  - University of KwaZulu Natal
- One TVET College
  - Orbit Technical College
- First year student entries in 2017 only
- Pilot is to be transferred to ISFAP “ManCo” and ISFAP “FundCo” once the legal entities are established and the PPP agreement is finalised.
- Full cost of study to be funded, including “wrap-around” support

The proposed student numbers and splits will be constrained by the final amount of funding obtained from this appeal for the pilot. Assuming the funding supplied covers a minimum of 1000 students, the relative splits will be as follows:



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



## ISFAP Pilot Detailed Operational Plan

	Application	Selection	Acceptance and Onboarding	Ongoing support
Objectives and measurements	<p>Potential students for ISFAP pilot to be passed from University/TVET to TEUF</p> <p>All data required to be gathered by the University/TVET</p> <p>Derivation of optimum administration requirements</p> <p>Measurement:</p> <ul style="list-style-type: none"> <li>• Successful numbers of student candidates passed through to ISFAP</li> <li>• All data required for selection decision passed through</li> <li>• All in good time (define what this timescale is)</li> </ul>	<p>ISFAP centralised team to select candidates according to:</p> <ul style="list-style-type: none"> <li>• Means test</li> <li>• Academic criteria: <ul style="list-style-type: none"> <li>- Differs by institution</li> <li>- NBT for some universities (may differ by cohort and uni)</li> <li>- For TVET colleges - Matric results</li> </ul> </li> <li>• Funding constraints</li> </ul> <p>Measurement:</p> <ul style="list-style-type: none"> <li>• Successful calculation and application of decision parameters, models and final selection</li> </ul>	<p>Student contacted, and prepared for University success (first two weeks of Feb)</p> <p>Successful contracting and disbursements (first two weeks of February)</p> <p>Measurement:</p> <ul style="list-style-type: none"> <li>• Correct numbers of students all ready for day 1</li> <li>• Successful disbursement of funds by end March.</li> <li>• Pilot objective is to use disbursement service providers and not testing the roll-out. (After testing the roll-out - use bank accounts and bank products)</li> </ul>	<p>Management of appropriate support (support provided by university):</p> <ul style="list-style-type: none"> <li>• managed academic support (tutorial support and academic literacy)</li> <li>• managed social support (using existing systems)</li> <li>• life skills training</li> <li>• career preparation support</li> </ul> <p>Derivation and measurement of data required for SIB development and key metrics</p> <p>First year progression rate = (Definition of progression rate = passing all subjects) Higher than current rate – to be confirmed)</p>
Communication	<ul style="list-style-type: none"> <li>• Requirements <ul style="list-style-type: none"> <li>- communication plan from Universities/ TVET to students</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Communication requirement: <ul style="list-style-type: none"> <li>- To guardians</li> <li>- To banks</li> <li>- Home affairs</li> <li>- Disbursement service providers</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Communication with student on disbursements, loan payments, online check-in, introduction to project manager.</li> <li>• Send list of ISFAP students to: <ul style="list-style-type: none"> <li>- Deans</li> <li>- Finance Department</li> <li>- MSDF</li> <li>- Disbursement service providers</li> <li>- Programme Manager</li> <li>- Financial Aid Offices</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing communication between student and programme through the ISFAP Admin tool</li> </ul>



	Application	Selection	Acceptance and Onboarding	Ongoing support
Process and information required	<ul style="list-style-type: none"> <li>ISFAP to send criteria to Universities (beginning November)</li> <li>Universities to communicate with eligible student/courses (invited to apply from November to mid-January)</li> <li>University to arrange NBT test for all potential candidates where applicable</li> <li>Universities to gather all required data from student applications (using specified format) – in tranches as completed by mid-Jan</li> <li>Universities to send potential funding recipients to ISFAP (as completed in tranches as completed by mid-Jan)</li> <li>University to send NBT results (in tranches as completed by mid-Jan)</li> <li>University to send through final acceptances mid-Jan</li> </ul>	<ul style="list-style-type: none"> <li>ISFAP to run means test on potential candidates:               <ul style="list-style-type: none"> <li>Home affairs supplies guardian IDs</li> <li>Banks supply guardian income (to be gathered)</li> <li>Means test will be on household income only (no outgoings)</li> <li>Batch process required for gathering of household means from banks (mid-December and mid-January 2017).</li> </ul> </li> <li>ISFAP to apply grade 11, NBT where appropriate, and funders selection criteria</li> <li>In mid-January apply matric results and final selection</li> <li>Non-funded students only (contracted with University)</li> <li>Decisions completed by end Jan:               <ul style="list-style-type: none"> <li>Actual decision process to be derived (e.g. by bands)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Students contacted at end of January (including registration fees)</li> <li>Students contract and introduction before course starts</li> <li>Introduction includes:               <ul style="list-style-type: none"> <li>Online check-in and associated trouble-shooting</li> <li>What the programme is and what it is not!</li> <li>ISFAP's expectations of the student</li> <li>Student expectations of ISFAP</li> <li>University orientation/introduction to student mentors (if necessary)</li> </ul> </li> </ul>	<p>Once every semester - mandatory online check-in. Thereafter, as per the needs of the student. University project manager to work with service departments to get student the assistance they require. All interventions tracked in ISFAP Admin tool.</p> <p>University project manager to upload financial and academic information to ISFAP Admin tool (once per semester)</p> <p>Governance: University programme managers to report student data to ISFAP programme manager (supported by analyst)</p> <p>ISFAP programme manager to report out to TEUF board</p> <p>Early warning signal of issues will require that university programme managers will report to the TEUF board on corrective action taken</p>
Data specification for this and all subsequent processes		<ul style="list-style-type: none"> <li>Final list from ISFAP to be sent to University finance to confirm students have no other funding by February</li> </ul>		





	Application	Selection	Acceptance and Onboarding	Ongoing support
Data required	<ul style="list-style-type: none"> <li>• Student ID number</li> <li>• Guardian/parent ID number</li> <li>• Race</li> <li>• Guardian consent for ALL guardians (for banks to do background check)</li> <li>• Degree programme</li> <li>• University faculty</li> <li>• NBT test results</li> <li>• Grade 11 and 12 matric results</li> </ul>	<ul style="list-style-type: none"> <li>• Household means for each guardian ID number</li> </ul>	<ul style="list-style-type: none"> <li>• Student to complete online check-in. Information to be reviewed by university project manager.</li> </ul>	<ul style="list-style-type: none"> <li>• Student academic and financial information</li> <li>• Online check-in data</li> <li>• Quarterly university programme manager reports</li> <li>• Semester report to be sent to faculty</li> </ul>
Obligations from all parties, contractual arrangements required	<p>Letter of commitment and timelines from ISFAP to University by end September.</p> <p>Defined communication letter to University by end of September.</p> <p>Contract with University by end December.</p> <p>University requirements:</p> <ul style="list-style-type: none"> <li>• Communication with student</li> <li>• NBT</li> <li>• Prescribed Application form</li> <li>• Final acceptance</li> <li>• Consent required from guardians to go to bureau and banks to get means test (legal counsel required for this)</li> </ul> <p>Student must include application for bursaries and funding included – this will be checked. If not included, then null and void</p> <p>Timeline for onboarding process to be agreed with each pilot site (September)</p>	<p>Funding contracts and proof packs</p> <p>Third party data sources:</p> <ul style="list-style-type: none"> <li>- Home affairs</li> <li>- Banks</li> </ul> <p>Contracts with third parties by end October (confidentiality and consent)</p>	<p>Contract with students on their obligations, and consent to allow university to provide semester financial and academic information (summarise Thuthuka and MSDF programme obligations).</p> <p>Thuthuka to sign contract with disbursement service providers for University to provide ISFAP with student support (academic, psycho-social and career preparation) activities, includes mentors).</p>	<p>Contract with University</p> <p>Contract with the student</p> <p>ISFAP disbursement policy</p> <p>Grant agreement between MSDF and TEUF (mid-Oct)</p> <p>Contract between TEUF and BBD (for MSDF Admin tool) by end-October</p>



	Application	Selection	Acceptance and Onboarding	Ongoing support
Resource requirements, role definitions and reporting lines	<p>University Programme Manager needed by beginning November (hire of secondment) - Role defined and given, dotted line ISFAP programme manager</p> <p>Need ISFAP Programme Director by beginning November – needs definition by end September</p> <p>Reports to Senior Executive Nation Building</p> <p>Need ISFAP administration resource by beginning November</p>	<p>ISFAP Programme admin resource needed to collate files from universities and application system, send to banks in a batch process, receive the information back, and populate the master file.</p> <p>Resource to start December to mid-January to collate data for banks.</p>	<p>ISFAP Programme manager coordinator Administration</p> <p>Institutions: 15 programme managers reporting directly to faculty head Dotted reporting line to ISFAP programme manager coordinator</p> <p>ISFAP finance team (for example: payment to disbursement service providers)</p>	<p>ISFAP Programme manager coordinator Administration</p> <p>Institutions: 15 programme managers reporting directly to faculty head. Dotted reporting line to ISFAP programme manager coordinator</p> <p>Research analyst to produce university baseline data</p>
Enabling tools and system infrastructure	Need case management process to be defined because arriving in tranches	Information store per case NBT criteria	Payout mechanism Disbursement service providers	ISFAP Admin tool
Costs	<p>Programme Manager CTC (R800k)</p> <p>Programme analyst(R400k)</p> <p>Collation and case management (internal)</p> <p>Legal counsel for application consent and data storage</p>	<p>Programme Manager CTC (R800k)</p> <p>Programme analyst(R400k)</p>	<p>Programme Manager (R800k)</p> <p>University Project Managers (15 x 50% x R650k)</p> <p>ISFAP finance team. No direct cost in pilot to ISFAP for the finance team. Will be using Thuthuka finance team.</p>	<p>Research analyst (R1000 per hour)</p> <p>Programme Manager (R800k)</p> <p>University Project Managers (15 x 50% x R650k)</p> <p>Two meetings for university Programme Managers to discuss Tech Admin tool (R?)</p> <p>Programme Manager travel and accommodation (R150k)</p>



## ISFAP Pilot Household Means Test Process

The method for calculating the household means is envisaged to be processed as follows:

- Thuthuka will receive applications for finance including guardians' ID numbers and consent forms (see criteria below).
- Deloitte will administer the process of supplying the ID numbers to the SA banks and requesting them to match the ID numbers with transaction savings accounts and returning the income/turnover.
- Deloitte will consolidate the information and send back 'income bands' to the ISFAP pilot team thereby retaining the confidentiality of where the accounts are held and the absolute income levels.

Calculation of transactional account credit turnover of accounts in name of parents/guardians of students with ISFAP applications:

- Locate all current/cheque and savings accounts in the name of the ID holders linked to a particular student (i.e. exclude loan, investment & other non-transactional accounts). For the vast majority of customers, income is deposited into cheque and/or savings accounts. The reason for excluding other accounts such as loan or investment accounts is these accounts may reflect other flows such as settlement of secured loans/mortgages from the sale of assets or, in the case of investments, it could be transfer of investment amounts from one instrument to another.
- For applicable accounts, calculate the incoming/credit monthly turnover, excluding all inter-account transfers (i.e. across accounts for both of the parties) for the last 12 months. By excluding all inter-account transfers we obtain the external credit flow into the accounts.
- On the aggregated credit turnover (aggregated across the parents/guardians), calculate the median credit turnover as well as the average (mean) turnover. For purposes of a 'normalised' 12 monthly credit turnover, use the lowest of the calculated median or average (mean). The reason for calculating the median is to exclude months with high, non-income inflows (such as from taking out an unsecured loan, cashing in investments, etc.). If, however, the average is lower than the median, it will be used as may indicate periods over which no income is received.

Clearly this estimate does not cater for all scenarios of customer account behaviour, especially if the accounts are used for trading, it may rather reflect turnover as opposed to actual income. It is recommended the ISFAP process caters for an exception process whereby applicants may provide additional information on a voluntary basis if they are not satisfied with the outcome of the means test.

The MTT proposes that the consent obtained from the bank customer should address the following:

- The consent obtained for the processing of the personal information of the bank customer must be voluntary, specific and informed (POPI section 1 "consent").
- Record must be kept of the consent obtained from the bank customer so as to meet the burden of proof placed on the bank/ISFAP in terms of section 11(2)(a) of POPI.
- The disclosure requirements contained in section 18 of POPI must be adhered to.
- It may also be prudent to consider the provisions in POPI which deal with "automated decision making" per section 71 of POPI. For example, where the personal information of the bank customer (the financial history) would be processed without human intervention. It would be advisable to get



the view of your attorneys if the bank customer has the right to query the decision made and request reasons for the decision.

Kindly note that for personal information security requirements sections 19 to 22 of POPI will have to be adhered to and our understanding from the discussions is that Deloitte will address this aspect.

## 10.2 Detailed design and build/buy decision

It is recommended that the next sets of activities be preceded with the appointment of the CEO, rapidly followed by the appointment of the workstream leaders for each workstream. A project management office will be needed to manage overall project management, stake-holder management, and co-ordination.

Initial '90 day' plans have been devised for the 'design/build/buy' workstreams as detailed below:

- Grant/Loan Application, Allocation, and Disbursement –design/build/buy
- Loans Management – design/build/buy
- Regular Business Components (Support) – design/build/buy
- Social Impact Bond development

Overall full-time resources requirements for the next phase of the design/build/buy components are as follows:

- CEO
- Project Management Office (project admin resource)
- 3 'design/build/buy' work-stream leads / Business architects, one for each of the following:
  - Grant/Loan Application, Allocation, and Disbursement
  - Loans Management
  - Regular Business Components (Support)
- 6 business analysts
- 1 information architect
- 1 application architect

Over and above this, regular access to subject matter experts in each field will be required as highlighted in the following plans.

In addition to this, an actuarial/data science team will also be required to devise the decision strategy.



## Grant/Loan Application, Allocation, and Disbursement 90 day plan

<b>ACTIONS</b>	<b>Est. Days</b>
Review system proposal assessment for potential re-use	10
Determine integration requirements to CAS	10
Determine verification process feasibility (as per section 7.3)	10
Determine operational structure to support the decision engine component	20
Determine decision engine platform	20
Map out multi-channel origination platform	90
Map out processes as depicted in section 7 of the blueprint	120
Determine high-level business architecture based on business process mapping	60
Perform high-level technology evaluation (CEB, Celent, Gartner, etc.)	30
Determine job specifications to support the structure	120
Develop multi-channel payment and review specification (as per section 7.4)	120
Investigate and document payment mechanism options (As per section 7.4)	120
Perform RFI based on key requirements	5
Determine decision strategy requirements with bespoke inputs	<b>160</b>

### Required roles

3 Process/Business Analysts/Business Architect
Access to SME's
Actuarial skills/data science skills
Loan origination peak needs to be a core competency for ISFAP

## Loans Management 90 day plan

<b>ACTIONS</b>	<b>Est. Days</b>
Create specifications incorporating the below as the scope:	<b>135</b>
Customer Communication (statements, letters, sms, email)	20
Determine Data requirements	20
Determine Bureau reporting requirements	15
MI requirements (reporting, BI)	15
Rules Engine (e.g. Statement cycle, Billing Frequency)	15
Triggers (influencing change of OHD initially approved, activation of loan, defaulting loans, etc.)	5
Interest Processing Criteria	20
Administration (maintaining due dates, banking details, etc.)	20
Account Closure	5
Integration into Telephony platform	10
Determine business process to inform the workflow component	20
Based on the complete specification assess the 2 options below:	<b>30</b>
Investigate current and future capabilities of Phoenix (current NSFAS backend loans system)	20
Initiate an RFI process	10



**Required roles**

2 Process/Business Analysts/Business Architect
Access to SME's
Loan management peak needs to be a core competency for ISFAP

**Regular Business Components (Support) '90 day' Plan**

- The action in this 90 day execution plan is aggressive and subject to many dependencies.
- Additional Business Components were identified and added to the action list.
- Resource planning will play a critical role.

**Finance Management**

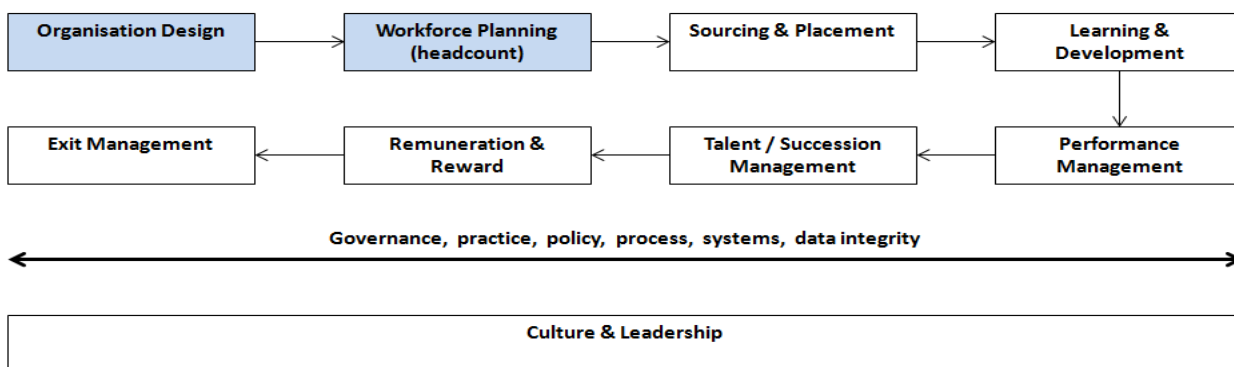
**Actions**

- Business Requirements for Core Finance Systems
- Business Requirements for Supporting Financial Systems i.e. Banking Account modules, Reporting modules, Budgeting tools, General Ledger tools, Accounts Payable and Receivable tools
- Determine company structure and registration processes
- Design of financial modelling
- Decision making mandate requirements
- Job specification for CFO
- Mapping of best practice financial processes, including mapping of sub-system/Ledger reconciliation
- Determine regulatory reporting requirements
- Determine capital requirements
- Determine provision modelling

**Dependencies**

Obtain clear directive from Webber Wentzel on company structure.

**Human Resources Management**



Ministerial Task Team to develop a Support and Funding Model for Poor and “Missing Middle” Students

### Transactional Basics

- Define blueprint frameworks/methodology for Levels of Work structures & Job Evaluation
- Begin defining people governance policies, practices & process build (e.g. recruitment, training, disciplinary procedures, remuneration etc.)
- Define Terms & Conditions and build Contract of Employment
  - Working hours
  - Code of Conduct
  - Etc.
- Define employee benefits (leave, bursaries etc)
- Decide on an integrative ERP to run the employee database and payroll (initially) – *based on IT infrastructure decision making*
- Determine operational requirements for work and build a budget
  - In collaboration with relevant functions (Building Facilities, Finance, Technology) – identify work space requirements including hardware/software; telephony etc.

### Actions (in parallel with the Transactional Basics)

- Unpack the strategy with the CEO
- Build the Executive structure with the CEO (who needs to sit around the Exco table to get the ball rolling in the start-up phase?)
- Build a functional organisation blueprint that:
  - Reflects the start-up, maturing and established phases (this is then used as a point of departure with each of the Exco members when building their structures)
  - Ensures business process stability and accommodates for the maturation of business processes and structure
- Recruitment & selection of Exco members – prioritise appointments of CHRO, CFO, COO

### Dependencies

- IT Infrastructure
- Business processes and structure to be mapped in order to conduct work force planning

### Risk and Compliance

#### Actions

- Define and map Key Processes to enable achievement of Business Strategic objectives
- Identify Key Risks from Key Processes i.e. Risks which will result in non-achievement of objectives
- Identify Key Controls
- Business requirements for Risk systems such as Audit trading and risk scenarios and monitoring requirements



- Determine Regulatory Universe and Processes which will underpin Compliance to Regulatory Universe
- Establish requirements for King III in terms of segregation of duties
- Making Board Resolutions, decisions etc.
- Determine risk appetite
- Identify governance policies to be drafted

**Dependencies**

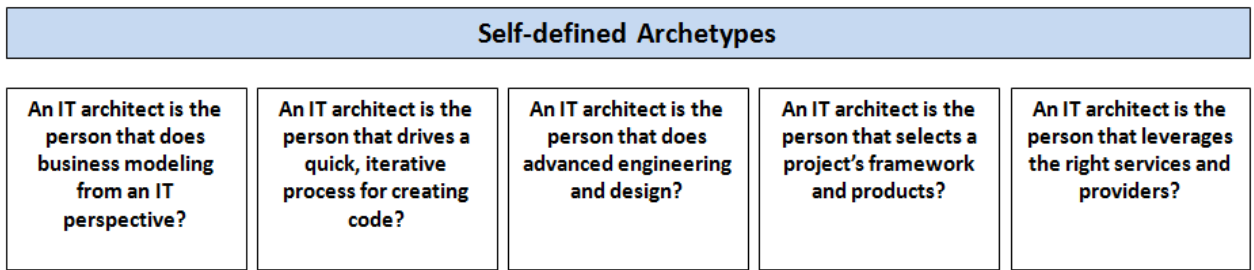
Obtain regulatory framework and compliance universe from the legal workstream

**Information Technology**

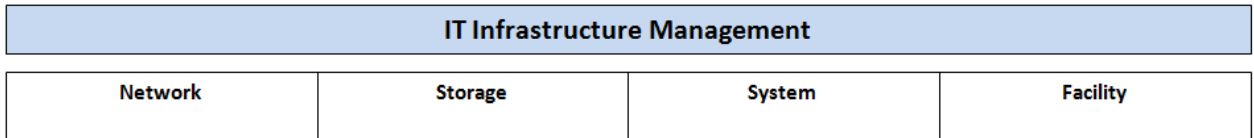
**Actions**

- Formalise Feasibility Studies or Business Requirements Specifications (whichever is required) for decision making for the following disciplines:

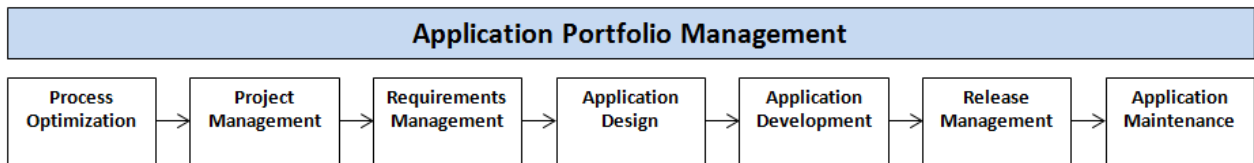
- **Architecture Management**



- **Infrastructure Management**

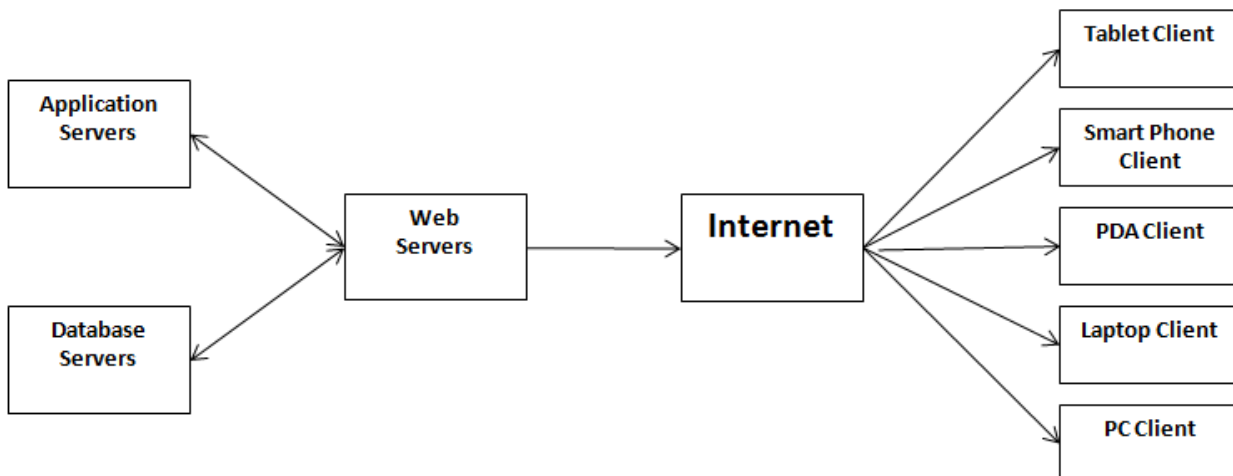


- **Application Management**

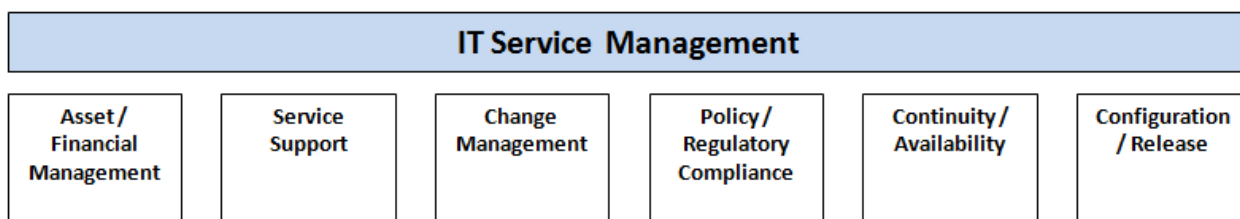




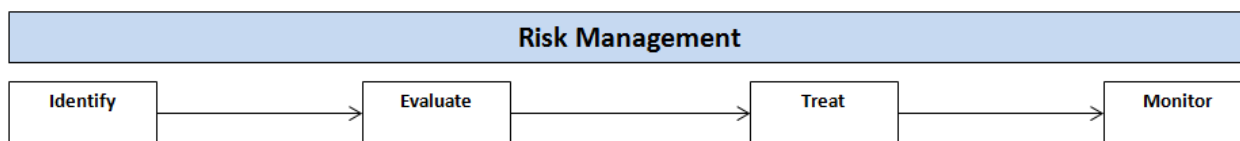
- **Network Management**



- **Service Management**



- **Risk and Security Management**



- Investigate outsourcing opportunities and formulate RFIs where possible

**Dependencies**

Business processes and requirements to be clearly defined and mapped.

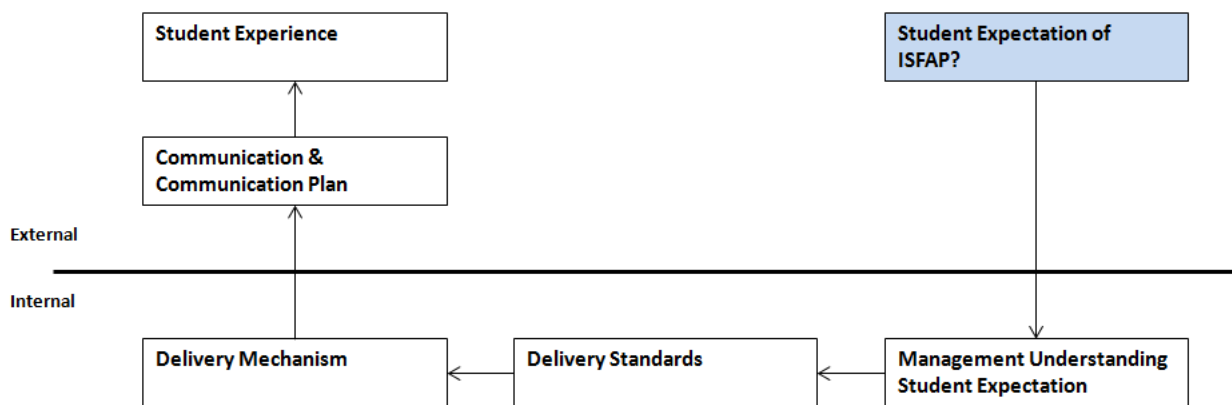


Information Technology 90 Day Role requirements

Information Technology 90 Day Role requirements					
Role	Subset Skill	Estimated hours (Max allowed 45 per week)			
		Per Day	Per Month	90 Days	Staff Needed
Systems Analyst	Tech spec writing	1	126	378	1
	Planning	3			
	Design	2			
Infrastructure Architect	Infrastructure Design principles	2	168	504	1
	Network Design Principles	2			
	System/Servers	2			
	Storage	1			
	Facility	1			
Application Architect	Requirements Management	2	168	504	1
	Application Design principles	6			
IT Risk Officer	IT Governance	1	63	189	1
	IT Security	2			
IT Project Manager	Ensure IT Team tracks are aligned	2	168	504	1
	Task tracking and assigning	6			
<b>TOTAL HOURS</b>			<b>693</b>		<b>5</b>
TOTAL PERMITTED			900		

Communication

Value Chain



Actions

- Design a brief for marketing companies to facilitate Focus Groups and compile survey questionnaires.
- Facilitate Focus Group discussion with students, clearly identifying student expectations.
- Distribute questionnaires and compile findings.
- Communicate student expectations to Management in order to design delivery standards.



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**Dependencies**

None identified at this stage

**Procurement****Components to be considered**

- Strategic Sourcing: Right product from the right suppliers at the right Price
- Legal: Purchase and Tender Contracts
- Accounts Payable: Payments/Admin

**Actions**

- Compile list of Procurement items required
- Consider outsourcing solutions into Accounts Payable and Legal
- Investigate the possibility of leveraging Financial Services Supplier databases
- Draft Procurement policies and map Procurement processes into solid Governance principles
- Tender: Process to be mapped and defined

**Dependencies**

None identified at this stage

**Service Standards & Complaints Resolutions (Linked to Call Centre Environment)****Actions**

- Map the Customer Experience. Value Chain and Customer Touch Points'
- Formulate CRM Business Requirements Specifications, including requirements for System, People and Processes
- Formulate Best Practice Service Standards
- Investigate outsourcing or in-house Call Centre environment

**Dependencies**

- IT Infrastructure
- Student requirements to be completed

**Establish ISFAP Offices****Actions**

- Formulate Business Requirements for Office Infrastructure.
- Site Surveys to be conducted. These covers initial Landlord discussions and comparison of options presented.
- Design Brief to be completed.

**Dependencies**

Completion of work force planning



Ministerial Task Team to develop a Support and Funding Model for Poor and "Missing Middle" Students

## 90 Day Resource Requirements

Discipline	Skills	Number of resources
Finance	Finance Manager	1
	Finance Administrator	1
Human Resources	HR Manager	1
Risk & Compliance	Risk Manager	1
Information Technology	Please see detailed requirements under the IT section	5
Communication	Communication Specialist	1
Procurement	Procurement Specialist	1
Service Standards & Complaints Resolution	Customer Experience Manager	1
Establish ISFAP Offices	Infrastructure Manager	1
Operations Office	Business Analysts	4
TOTAL		17

### Social Impact Bonds '90 day' Plan

The work on developing this initiative would happen in three phases, with the latter phases becoming more clearly developed in the first phase:

- Phase 1: Scoping study consisting of six streams to assess whether an Impact Bond structure and/or Outcomes Fund should be pursued
- Phase 2: Impact Bond or Outcomes Fund Development
- Phase 3: Implementation

The work streams for Phase 1 would be as follows:

- Metrics
- Intervention model and Provider Marketplace
- Structuring, Contracting and Procurement
- Investor engagement
- Stakeholder Governance

The first two streams would run in parallel, informing each other. Stream 4, the structure for an Impact Bond or Outcome Fund, would build on the initial output of those activities. Stream 5, engaging with investors, would only get going in earnest once an initial structure was available. Stakeholder governance is outside our scope of activities.

#### Stream 1: Metrics

The first requirement is to agree the objectives of the Impact Bond. This would include investigating existing indicators and whether they relate sufficiently to outcomes and ultimately impact what the contracting body would like to achieve.



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A survey of the literature reveals the following to be common factors used to assess the performance of outcomes-based funding interventions:

- Number of Bachelor and Masters graduates/degrees
- Number of exams passed or credits earned by students
- Number of students from under-represented groups
- Study duration
- Number of PhD graduates
- Research productivity
- Research performance in terms of winning (research council) contracts
- Third party income
- Revenues from knowledge transfers
- Quality of education based on student surveys
- Employability indicators, e.g. the number of employed graduates

### **Stream 2: Intervention model and Service Provider Market Place**

Often these elements go hand-in-hand with service providers developing specific interventions.

The development of the intervention model would involve drawing on the knowledge of stakeholders with regards to best practice and how an outcomes-based approach could improve the implementation of those approaches. The work would not be limited to existing models, but would also involve considering the potential for piloting innovative approaches.

This phase would address the following key questions:

- What would be the most appropriate starting intervention model?
- What is the level of confidence in the model, how much is well defined and how much still emerging from research?
- Would a Social Impact Bond potentially add value – i.e. is there good scope for improved service provision compared to existing more rigid and input-driven approaches?
- If so, what would be the key drivers of that improved performance management -- i.e. how would impact-oriented adaptive management improve the efficiency and effectiveness of intervention?

The success of the intervention model will clearly depend on the capacity and potential of service providers.

- The service provider market place, specifically the capacity, adaptability and cost structures of potential providers.
- The technical assistance needed to ensure that service providers could effectively deliver interventions within an impact-oriented and adaptive approach.



- The ease with which service provider elements could be combined in implementing a good practice model, and where service providers would be dependent on each other in order to generate outcomes.
- Stream 2 is the key to determining whether an Impact Bond approach would be able to improve service provision. It would address the question of whether the intervention model would add value if implemented effectively and whether effective implementation is feasible and can be achieved cost-effectively.

### **Stream 3: Structuring, Contracting and Procurement**

This stream would define the structure of the Impact Bonds or Outcomes Fund, and the contacting and procurement processes for the key elements of the Impact Bond.

### **Stream 4: Investor Engagement**

This phase would assess the potential investor interest within and outside South Africa, and estimate the potential returns that might be sought and their understanding of the risk of delivery. It would also examine whether there would be a need for some or all investor classes to have risk guarantees on specific risks, and if so, who the providers would be, and the likely cost (no formal discussions with investors would be held until a well-structured Impact Bond had been developed, with outcome funding sourced).

### **Stream 5: Stakeholder Governance**

During the project, key stakeholders would need to develop governance and decision-making milestones and requirements. Each would need to agree coordinators and staffing requirements for their elements of any work being undertaken. A coordination structure would need to be formalised.

The need for, and possible role of, an Impact Bond advisor for these work streams would be considered, and any procurement process defined.

## **10.3 Public Private Partnership (PPP) Registration Process**

There is a prescribed process for a government entity to enter into a PPP:

- An accounting officer must register with National Treasury to apply for a PPP
- A transaction advisory must be appointed
- A feasibility study must be performed
- Then the contracting and RFP process begins

To be eligible to enter into a PPP a government entity must have the following properties:

- Own Assets
- Be able to borrow money
- Be able to raise money
- Have a spend allocation



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- Have an obligation to fulfill

Within the PPP feasibility study, the following two areas of the NSFAS Act will need to be reviewed (and possibly amended; see full details above in the Legal section under the NSFAS Act):

- Ability to enter into a PPP
- Ability to raise/borrow funds

A recommendation letter to register the PPP application was sent to the Minister in order to begin the PPP feasibility process. The Department of Higher Education and Training has registered the ISFAP project with the PPP Unit of National Treasury.

A "Variation" to the contracts with the existing Student Housing transaction advisors has been prepared by Government Technical Advisory ("GTAC") unit of National Treasury and presented to both the Department Higher Education and Training and the transaction advisors for their consideration and approval. The amended terms of reference for the transaction advisors is currently being finalized by DHET and National Treasury. This "Variation" will direct the transaction advisors to conduct a feasibility study on the ISFAP PPP proposal created by the MTT ("MTT"). Any additional transaction advisor funding will be sourced from the private sector.

A PPP process which requires a detailed feasibility study has been sponsored by DHET and registered as per the National Treasury regulations. The detailed feasibility study is to be conducted during 2017. A PPP Project Office has been established with the MTT Chairperson, Sizwe Nxasana, appointed as the Project Officer. The Department of Higher Education and Training has created a Project Steering Committee, populated, in part, by key members of the MTT group and DHET representatives.

The feasibility study is to begin in early 2017. The ISFAP pilot and detail design and build work will begin in 2017 and feed into the feasibility study.

GTAC will brief the Project Steering Committee on every aspect of the process going forward.

The implementation of the ISFAP model to be decided by government based on the outcome of the feasibility study.



# Chapter 11

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## Recommendations



Ministerial Task Team to develop a Support and Funding Model for Poor and “Missing Middle” Students



## 11 Recommendations

The Terms of Reference of the Ministerial Task Team require the following areas to be dealt with:

- Whether or not the existing NSFAS Act, structure and mandate is still suitable to address the funding and other forms of support to poor and “missing middle” students,
- Raise sufficient funding from the public sector, private sector and other sources to offer a complete solution to fund poor and “missing middle” students at universities and TVET colleges,
- The feasibility of granting fully subsidised loans to very poor students and loans with progressive reducing subsidies as household income increases for the poor and “missing middle” students,
- The funding of occupations in high demand,
- Develop proposals which contribute towards the improvement of the success and graduation rates for poor and “missing middle” students and reduce dropout rates,
- Create an efficient and robust model with appropriate internal controls to minimise leakage, fraud and risk in the granting and disbursement of bursaries and loans to deserving students, whilst improving the collection of loan portion granted and convenience to students.

### 11.1 The Policy Framework

The Constitution of the Republic of South Africa states that;

Everyone has the right-

(a) to a basic education, including adult basic education; and

(b) to further education, which the state, through reasonable measures, must make progressively available and accessible.

The Ministerial Task Team **recommends** that a comprehensive policy framework for the post-school education sector in South Africa be developed as a matter of urgency. This policy framework must seek to provide a framework which will ensure that higher education is progressively made fee-free for the students who come from poor and working class families

### 11.2 The NSFAS Act

The Ministerial Task Team **recommends** that the NSFAS Act be amended and extended. Currently the functions of NSFAS as spelled out in the NSFAS Act are:

- (a) to allocate funds for loans and bursaries to eligible students;
- (b) to develop criteria and conditions for the granting of loans and bursaries to eligible students in consultation with the Minister;
- (c) to raise funds as contemplated in section 14(1);
- (d) to recover loans;
- (e) to maintain and analyse a database and undertake research for the better utilisation of financial resources;
- (f) to advise the minister on matters relating to student financial aid; and
- (g) to perform other functions assigned to it by this Act or by the Minister.

In terms of the ISFAP proposal, the Ministerial Task Team **recommends** that the functions of NSFAS be expanded to include the following;

- a) To work with institutions and other stakeholders to reduce the dropout rates of funded students,



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- b) To work with institutions of higher learning and other stakeholders to ensure that all eligible and funded students are given value-adding support to improve their chances of success, graduation and employability,
- c) To raise loan funding,
- d) To enter into PPP arrangements in terms of the treasury regulations.

### 11.3 Regulations

In terms of the NSFAS Act, “the Minister may make regulations on any matter which may or must be prescribed by regulation in terms of this Act and any matter which is necessary or expedient to prescribe in order to achieve the objects of this Act”.

For the ISFAP model to be implemented effectively, the Ministerial Task Team **recommends** that the Minister must take the opportunity to gazette and implement regulations in respect of the NSFAS and the PPP arrangement with “ManCo”. These regulations could include the following areas:

- A framework for equity targets to be incorporated in the enrolment plans to promote the DHET transformation strategy
- The means testing process and the determination of household income
- The definition of “full cost of study”
- The qualifying criteria for students to continue receiving support
- The minimum requirements which institutions of higher learning must provide to NSFAS/ISFAP funded students in terms of residencies, travel, meals, broadband connectivity and devices such as laptops and tablets
- The interest rates cap which NSFAS/ISFAP can charge
- The definition of which programmes are funded, including clarification of funding of students who may be pursuing multiple certificates, diplomas, degrees and undergraduate qualifications
- The relationship between NSFAS/ISFAP with Higher Education Institutions
- The framework for contractual relationship between NSFAS/ISFAP with parents/guardians and students

### 11.4 Legislation changes recommended

#### 11.4.1 The Governance and Operating structure

The Ministerial Task Team **recommends** that the ISFAP model proposes that new structures be launched that fulfil the student funding and support requirements on behalf of NSFAS through a Public-Private Partnership (PPP) agreement for the following five main reasons:

In the proposed ISFAP model, it is envisaged that;

- The key component behind the legal/commercial structure of ISFAP is a PPP agreement with NSFAS
- The NSFAS Act will have to be amended to allow for the formation and implementation of the PPP
- The operations of ISFAP will be managed and administered by a management company (“ManCo”) – effectively and legally this ManCo is ISFAP
- The funding requirements of ISFAP, insofar as private investors' funds are concerned, will be managed and administered by a funding company (“FundCo”)
- Details of the control, governance and management of the PPP as well as the role of FundCo and ManCo will be set out in the PPP contract
- ManCo will be set up as a private company owned by FundCo (subject to reporting and disclosure requirements under the PFMA due to the PPP agreement)
- Private investors will participate in ISFAP through senior funding, bonds, notes, Social Impact Bonds and other instruments directed through FundCo
- Government and NSFAS will participate in ISFAP through loans, grants and subsidies. Directed via ManCo (FundCo will only administer private investors' funds).



#### 11.4.2 The SARS Act Using the South African Revenue Services (SARS) to collect outstanding ISFAP debt

SARS administers and operates as the collecting agent for several Acts, covering a wide range of legislation in terms of Part 1 and Schedule 1 to the SARS Act, as well as any regulation, proclamation, government notice or rule issued in terms of any of the relevant Acts, and any agreement entered into in terms of those Acts or the Constitution. The ambit of the SARS Act could be widened so that SARS could become the collecting agent for ISFAP.

The Ministerial Task Team **recommends** that the SARS Act be amended to enable SARS to have the power to collect the student fees on behalf of ISFAP in a manner similar to which SDL and UIF are collected. There is international precedence for such an approach.

#### 11.4.3 The Income Tax Act

There are various sections of the Income Tax Act which the Ministerial Task Team **recommends** be amended:

a) Section 10 lists the persons and instances which are exempt from income tax. The proposed ISFAP vehicle will not fall within any exemption currently listed under section 56 of the Income Tax Act. The Ministerial Task Team **recommends** that section 10 of the Income Tax Act be amended, so that the proposed ISFAP entity will be exempt from income tax. This could simply be achieved by widening the definition of section 10(1)(cA) of the Income Tax Act to include the ISFAP vehicle.

b) Section 56 of the Income Tax Act

The Ministerial Task Team **recommends** that the list of Donations be expanded. Tax exemptions set out in section 56 of the Income Tax Act to include donations made to ISFAP, so that donations made by South African resident individuals and corporations will be exempt from donations tax. Furthermore, it is **recommended** that similar to a PBO, ISFAP be provided with the ability to issue section 18A tax certificates, such that persons who make donations to ISFAP will be entitled to receive an income tax deduction for donations made.

c) The 9th Schedule of the Income Tax Act

The Ministerial Task Team **recommends** that *Regulation Gazette* 24941 of 28 February 2003 be amended to address the terms on which loans may be advanced under paragraph 4(o) of Part I and paragraph 3(o) of Part II of the Ninth Schedule to the Income Tax Act. This will increase the ability to source donor funding.

d) The 7<sup>th</sup> Schedule of the Income Tax Act

In order to encourage employers to take over student debts, the Ministerial Task Team **recommends** that the 7th Schedule to the Income Tax Act be amended to defer, over an appropriate period, the taxable fringe benefit which would arise for an employee upon his or her employer assuming the full amount of such employee's student debt.

e) 9<sup>th</sup> Schedule to the Income Tax Act

The Ministerial Task Team recommends that *Regulation Gazette* 24941 of 28 February 2003 be amended to address the terms on which loans may be advanced under paragraph 4(o) of Part I and paragraph 3(o) of Part II

#### 11.4.4 The Broad-Based Black Economic Empowerment Act, 2003 ("B-BBEE Act") and the Codes of Good Practice on Broad-Based Black Economic Empowerment issued under section 9(1) of the B-BBEE Act, as amended ("Codes")

The Ministerial Task Team recommends that the Minister of Higher Education and Training initiate a process to propose the following:

a) ISFAP as a BEE Facilitator



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The Ministerial Task Team **recommends** that ISFAP be designated as BEE Facilitator. This will potentially assist ISFAP in raising commercial debt financing, through Equity Equivalent Programmes, as provided for in the soon-to-be gazetted, revised Financial Sector Codes. By way of example under the proposed Financial Sector Codes, South African companies within the financial sector may receive recognition under the "Ownership" element of their scorecards for, inter alia, providing empowerment financing and access to financial services to ISFAP. It could also assist in on-boarding multinationals operating under the generic code Equity Equivalent provisions, provided that the appropriate recognition from the DTI can be obtained.

The Ministerial Task Team further recommends that ISFAP apply to the DTI for recognition as a BEE Facilitator to encourage local entities in the finance sector to invest in or finance ISFAP.

#### b) Statement 300 Skills Development

The Ministerial Task Team **recommends** that the Skills Development element of Code 300 be amended as follows:

i) the Skills Development Expenditure on learning programmes specified in the Learning Programme Matrix: weighting element to change from 8 to 6 and the Compliance target from 6% to 4.5% of the leviable amount

ii) the Bursary Fund spend for Black people (missing middle as defined) paid to the Ikusasa Student Financial Aid programme: weighting element 2 and the compliance target 1.5% of the leviable amount.

#### c) Statement 500: The General principles for measuring Socio-Economic Development

Contributions or donations made to ISFAP would currently qualify as Grant Contributions (as defined in the Codes) provided that ISFAP is able to procure an annual "independent competent persons report" as defined in the Codes, which certifies the nature of the funding and the % black student beneficiation.

The Ministerial Task Team **recommends** that the potential impact on numerous non-profit organisations that have become virtually exclusively reliant on BEE Socio-Economic Development spend be considered, for their survival could be put at risk.

#### 11.4.5 The National Credit Act (the NCA)

The NCA does not make provision for the collection of outstanding credit agreements through SARS. The Ministerial Task Team **recommends** that ISFAP must disclose its proposed collection mechanism and obtain consent in respect thereof from the regulator as part of the process of being registered as a developmental credit provider.

#### 11.4.6 The Banks Act

The Ministerial Task Team **recommends** that consideration should be given towards potentially proposing amendments to the Banks Act and the Banks Regulations that would have the effect that banks that contribute funds (whether through loans, debt instruments or otherwise) benefit from favourable capital treatment. Likewise, the investment and regulatory capital requirements of other regulated financial institutions should be considered.

ISFAP will have to request a special fundraising exemption in terms of section 2(b)(vii) of the Banks Act from the Minister of Finance to have its activities designated as activities that do not fall within the definition of "the business of a bank". In terms of section 2(b)(vii) the Minister of Finance may designate certain specific activities of an institution or body as activities that do not constitute the carrying on of the business of a bank.



Presumably the designation will stipulate the disclosure requirements that ISFAP will have to satisfy whenever it raises funds from the public.

#### 11.4.7 The Companies Act

Chapter 4 of the Companies Act regulates the offering of securities by a company to members of the public. Subject to certain exemptions, all offers of securities (including debt instruments) are subject to the prospectus and other requirements of the Companies Act if the relevant offer is made to the public. The Ministerial Task Team **recommends** that an exemption, which is often used, is the exemption that relieves an offering from the regulation of the Companies Act if no single instrument issued has a nominal value below R1 000 000 (one million Rand). The nature and size of debt instruments may be influenced by Chapter 4 of the Companies Act.

The Ministerial Task Team **recommends** that as an alternative to using the exemptions contained in Chapter 4 of the Companies Act, that the NSFAS Act be amended to include provisions that could override the relevant sections of the Companies Act but suitable protections and safe guards for private sector investors should be considered. This will probably be accommodated in terms of the disclosure requirements that will inevitably form part of any Banks Act exemption (see above under the Banks Act).

#### 11.4.8 The Financial Advisory and Intermediary Services Act (FAIS)

FAIS requires that every person who as a regular feature of their business furnishes advice or renders any intermediary service to clients in respect of financial products to be registered as a Financial Services Provider ("FSP").

To the extent ISFAP will provide financial advice, render intermediary services and have discretion to administer ISFAP's assets that qualify as "financial products" under the FAIS Act, ISFAP will be required to hold a Category II FSP licence in terms of FAIS. Category II covers Discretionary FSPs; being those FSPs that render intermediary services of a discretionary nature as regards the choice of a particular financial product.

ISFAP, as an authorised Discretionary FSP, will be required to comply with the ongoing compliance obligations as imposed by FAIS which include the General Code of Conduct for Authorised FSPs and Representatives, and the Code of Conduct for Administrative and Discretionary FSPs.

The Ministerial Task Team **recommends** that, to the extent the ManCo will provide financial advice, ManCo will be required to hold a Category II FSP licence in terms of FAIS.

### 11.5 Other Policy Considerations

#### a) Student selection and funding allocation

**It is recommended that** ISFAP will make the decisions centrally regarding who is accepted for funding together with the terms, conditions, and the grant/loan/bursary make-up of the funding. This will remove the decision-making, administration and processing of NSFAS funding applications from institutions in terms of the old NSFAS model as well as the "student-centred model" and thus requires less resources currently maintained by such institutions, e.g. financial aid officers, etc.

#### b) ISFAP will fund the full cost of study

Regardless of which institution a student has been accepted into, ISFAP **recommends** making available funds to cover the full cost of study through grants and bursaries to the very poor and a combination of grants, loans and family contributions to the poor "missing middle". Where additional grant funding can be raised, it is recommended that students from working class/poor households also received fully subsidised education.



The full cost of study will cover tuition, accommodation, books, meals and, in certain cases, a stipend. The model accepts the differential in full cost of study from one institution to another. This may have an impact of giving more access to students from poor and working class backgrounds to the more expensive institutions, thus affecting student migration patterns.

#### c) Grant versus loan allocation formula

The Ministerial Task Team **recommends** that means testing will be done on all applications for financial support to determine the ratio of grants versus loans for qualifying applications.

It is **recommended** that very poor students will receive fully subsidised funding for the full cost of study to complete their degrees. Where loans are granted, more grants versus loans will be given in the earlier years of study to reduce the financial burden on students. Funder constraints will also need to be recorded to be applied in the decision model to select students (e.g. any funds from B-BBEE based sources can only be used to support black students in the form of grants).

#### d) Household means testing

It is **recommended** that a household means test alone (income only, not full affordability) is calculated as part of the determination of whether a student is granted a loan, bursary, or a grant. The NCA makes provision for this type of assessment when an institution is granting loans for the purposes of developmental credit.

#### e) Loans versus grant financial administration

It is **recommended** that loans and grants be accounted for separately. There will be no loan-to-grant conversion as is currently the case with the NSFAS. This means that separate records and agreements will be entered into with students for the two components of funding. Keeping loans separate from grants will enable a more efficient management of the loan component. The performance of the loan book will build a track record over time allowing the loan book to get a credit rating which is critical for long-term funding.

#### f) More focus on scarce skills and Occupations in High Demand

One of the critical areas which the ISFAP model must address is the promotion of scarce skills to grow the economy.

The Ministerial Task Team **recommends** that a bigger focus be given to producing graduates with scarce skills. Balance will have to be struck between degrees in humanities and social sciences and those that prepare students for professional practice or vocational degrees. The Department of Higher Education has established the National Institute for Humanities and Social Science (NIHSS) to ensure that the focus on producing graduates and academic staff who play a role in social sciences and humanities is maintained.

It is **recommended** that the definition of scarce skills or occupations in high demand will be based on the targets set by the Human Resources Development Council and the Gazette of Occupations in High Demand.

The Ministerial Task Team recommends that students funded through the ISFAP model be required to engage in community or national service. The details of this community or national service should be developed in consultation with DHET.

#### g) If there is a constraint in funding - who gets declined?

The MTT **recommends** that if the funds available do not cover the number of student applications, then a decision philosophy will need to be derived to decide who to decline. Some options to consider are:



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- Lower the top threshold of R600k household means tested students (e.g. R500k)
- Decline lower quality students based on academic performance
- Give preference to scarce skills
- Offer lower amounts - not full student requirements in certain agreed cases
- Total loan/grant amount offered adjusted to household means
- Fields related to possible funder constraints e.g. race or profession

### 11.6 Postgraduate considerations

The Ministerial Task Team recommends that consideration be given to extending the ISFAP model to cover postgraduate studies in partnership with the NRF and other private and public sector entities that support and fund postgraduate studies. The NRF is currently in discussions and project collaborations with a number of strategic partners such as DHET, NSFAS, Universities South Africa (USAf) and individual higher education institutions with regard to achieving improved policy synergy, data sharing as well as improved analytic and modelling capabilities in order to achieve greater system-wide efficiencies and enhance NRF support for improved access and success for many more students within the post graduate human capacity development pipeline.

### 11.7 The Implications of ISFAP on NSFAS

The creation of ISFAP will have implications for NSFAS as it is **recommended** by the MTT that ManCo will take over all the operations including functions regarding student selection, awarding of grants and loans, contracting, management of the “wrap-around” support, financial management, treasury functions, human resources management, legal, technology, risk management. Some of the systems and processes of NSFAS will be migrated to ManCo. This includes some of the systems which have been developed for the NSFAS student centred model which is being fully implemented at all public universities and TVET colleges in 2017.

#### Proposed future role and function of NSFAS

Once ISFAP has been implemented, it is **recommended** that the role of NSFAS will be stakeholder liaison including, interacting with universities and TVET colleges, liaison with students and student formations. The resources and human capital required will be reduced. However in line with the recommendations of the Ministerial Review Committee, it is further recommended that NSFAS establishes offices in all provinces to be closer to all the universities and TVET colleges. Some NSFAS systems and processes will be migrated to ISFAP.



The table below outlines the differences between NSFAS and ISFAP:

Lending Programme	NSFAS	ISFAP
Poor Students	• Income below R122 000 p.a.	• Income below R600 000 p.a. (including “missing middle”)
Rates	• 80% of repo rate	• Varied depending on means test and course of study
Funding	• Government	• Public/Private sector (incl. NGOs, DFIs, etc)
Debt management	• Government funded	• Privately/Public managed
Dropout rates & cost to government	• High	• Low
Programme qualifications	• Means test and acceptance to HEI	• Means test and acceptance to HEI
Principal loan forgiveness	• Government/Donation funded	• Government/Donation funded
Loan versus bursary ratio	<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 loan, bursary and EFCs based on means test.</li> <li>• More loan versus grant in final of study. Higher proportion of grant in year 1 and 2 of study.</li> </ul>
Programme qualifications	• Means test and acceptance to HEI	• Means test and acceptance to HEI
Occupations in high demand	• Limited funding and incentives	• More funding, better incentives for students, universities, private sector
Government overall cost	• High	• Lower
Loan repayment while at HEI	• No	• No

### 11.8 Piloting the ISFAP model in 2017

The MTT recommends that an ISFAP pilot be run in 2017. The pilot will be offered to “missing middle” students only at selected faculties at selected Universities and a single TVET college as follows:

- Six professional, one general course and one artisan course at TVET college:
  - Medical Doctors
  - Pharmacists
  - Actuaries
  - Engineers
  - Chartered Accountants
  - Prosthetists / Physiotherapists
  - Artisans (Welders, plumbers and electricians)
  - Humanities (Selected majors)
- Seven Universities:
  - University of Venda
  - Walter Sisulu University
  - University of the Witwatersrand



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- University of Cape Town
- University of Pretoria
- Tshwane University of Technology
- University of KwaZulu Natal
- One TVET College
  - Orbit Technical College
- First year student entries in 2017 only
- Pilot is to be transferred to ISFAP “ManCo” and ISFAP “FundCo” once the legal entities are established and the PPP agreement is finalised.
- Full cost of study to be funded, including “wrap-around” support

The proposed student numbers and splits will be constrained by the final amount of funding obtained from this appeal for the pilot. Assuming the funding supplied covers a minimum of 1000 students, the relative splits will be as follows:

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>

## 11.9 DHET Recommendations

Following the submission of this comprehensive report to DHET, a number of recommendations were made:

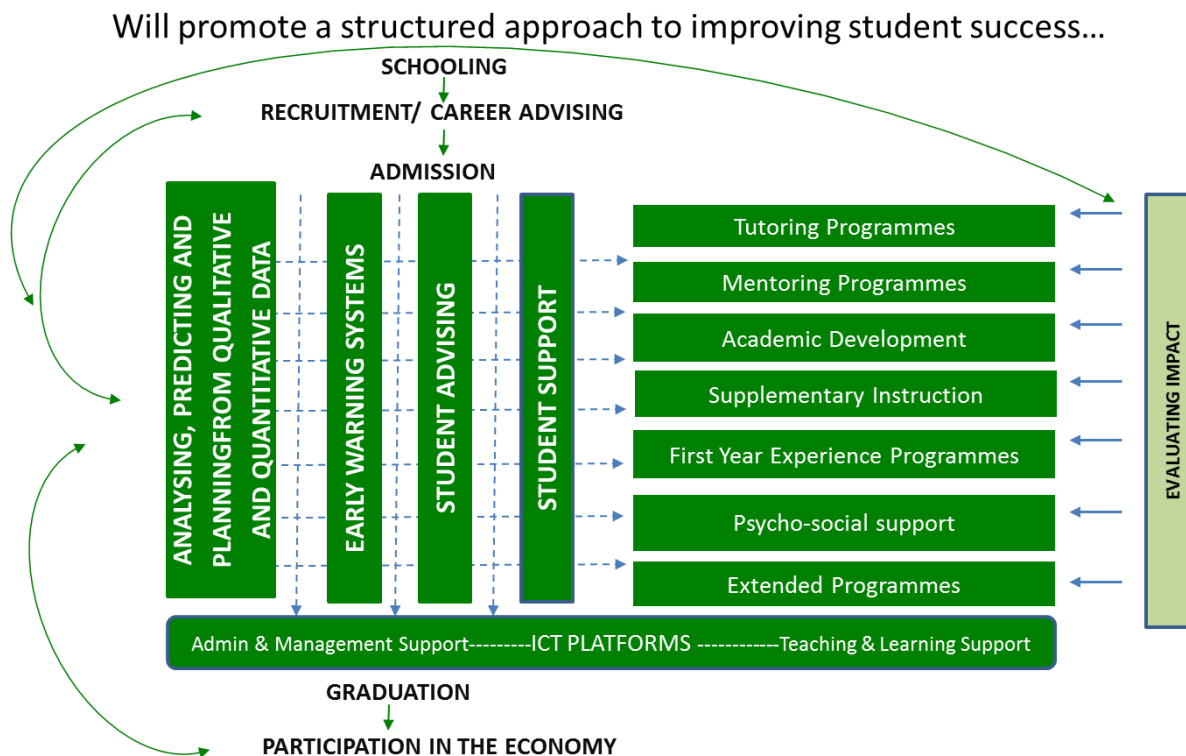
- NSFAS should continue to administer public funding
- ISFAP must leverage the substantial resources put into the new NSFAS student centred model (IT platform etc.)
- A comprehensive feasibility study required in terms of National Treasury Regulations for setting up a Public Private Partnership project (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)



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- The final model be based on outcomes of Pilot, feasibility study and public comments and outcomes of the Presidential Commission
- “Wrap-around” support to leverage the DHET University Capacity Development Programme being rolled out in institutions of higher education as per the diagram below:

#### DHET University Capacity Development Programme



The MTT report was presented to the Cabinet on the 2<sup>nd</sup> of November where the report was noted, approved for publishing for public comment and was approved to be tested at selected institutions for “missing middle” students in the 2017 academic year.

On the 21<sup>st</sup> of November the MTT proposals were presented to the Presidential Commission of inquiry into higher education funding (the fees commission).

A PPP process which requires a detailed feasibility study has been sponsored by DHET and registered as per the National Treasury regulations. The detailed feasibility study is to be conducted during 2017. A PPP Project Office has been established with the MTT Chairperson, Sizwe Nxasana, appointed as the Project Officer.

Transaction advisors required in terms of Treasury Regulations have been appointed and the contracting process is complete with the feasibility study to begin in early 2017. The ISFAP pilot and detail design and build work will begin in in 2017 and feed into the feasibility study.

The implementation of the ISFAP model to be decided by government based on the outcome of the feasibility study.



# Appendices

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Ministerial Task Team to develop a Support and Funding Model for Poor and “Missing Middle” Students

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## APPENDIX A: MTT Appointment Letter



MINISTER  
HIGHER EDUCATION AND TRAINING  
REPUBLIC OF SOUTH AFRICA

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Mr Sizwe Nxasana  
Chairperson of NSFAS  
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Plumstead

7801

By email: [sizwe.nxasana@sifiso.com](mailto:sizwe.nxasana@sifiso.com)

Dear Mr Nxasana

**ESTABLISHMENT OF A MINISTERIAL TASK TEAM TO DEVELOP A FUNDING AND SUPPORT MODEL FOR POOR AND “MISSING MIDDLE” STUDENTS**

I have the pleasure in confirming your appointment as the Chairperson of the Ministerial Task Team to develop a funding and support model for poor and “missing middle” students.

The Terms of Reference, which set out the specifics of the tasks, are appended. As indicated in the Terms of Reference, it is anticipated that the final recommendations and blueprint will be presented to me by 30 September 2016 and that the model will be piloted in universities in agreement with Universities South Africa (USAF), National Student Financial Aid Scheme (NSFAS) and the Department of Higher Education and Training (DHET) by January 2017 and with a view to fully implement it in 2018.

In order to ensure broad consultation, support of the work of the Ministerial Task Team and to ensure that the task undertaken will be well-considered, I have approved the appointment of a Reference Group consisting of senior officials of the Department of Finance; Department of Planning, Monitoring and Evaluation (DPME); USAF; the Universities Council Chairs Forum of South Africa (UCCF-SA); the Council on Higher Education (CHE); South African Union of Students (SAUS); Sector and Education and Training Authorities (SETAs); Financial Aid Practitioners of South Africa (FAPSA); Congress of South African Trade Unions (COSATU); NSFAS; and DHET.

Higher Education and Training • Hoër Onderwys en Opleiding • Imfundvo Lephakeme Nekuqeqasha • Ifundo Ephakemeko Nebandulo • Imfundo Ephakeme Nokugqasha • Imfundo ePhakemileyo noQeqesho • Dyondzo ya le Henhla na Vuleten • Pfunzo ya Nihla na Vhugudiel • Thuto ya Godimo le Tihahlo • Thuto e Phahameng le Thupelo • Thuto e Kgwotwane le Kalliso



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The Terms of Reference of the Reference Group is to interrogate the findings and recommendations coming from the workstreams that have been identified in order to provide feedback, comments and suggestions into the re-imagined financial aid scheme including the “missing middle”.

I have written to the relevant stakeholders and have requested nominations of senior officials who would be able to critically engage, strengthen and support the work of the Task Team. In this regard, I am also requesting you in your capacity as the Chairperson of the NSFAS Board, to confirm the membership of the Executive Officer and Chief Financial Officer of NSFAS to the Reference Group.

Yours sincerely



**Dr BE Nzimande, MP**

**Minister of Higher Education and Training**

Date:

13/04/14



## APPENDIX B: MTT Terms of Reference

### 1. TERMS OF REFERENCE OF THE MINISTERIAL TASK TEAM ON FUNDING POOR AND “MISSING MIDDLE” STUDENTS

1.1 Recognising the work already undertaken by the Presidential Task Team and the additional funding which the government has made available to deal with the National Student Financial Aid Scheme (NSFAS) funding shortfall and historic debt, it is known that the current NSFAS funding model does not cover the funding of “missing middle” students.

1.2 The Ministerial Task Team shall determine and advise on alternative financing and operating models for funding poor and “missing middle” students, having regard to:

- the Constitution of the Republic of South Africa;
- all relevant higher and basic education legislation;
- all relevant public policy, legislation and regulations;
- all findings and recommendations of the various Presidential and Ministerial Task Teams; and
- all relevant educational policies, reports and guidelines.

1.3 In developing the proposals, the Ministerial Task Team must address the following issues:

- Whether or not the existing NSFAS Act, structure and mandate is still suitable to address the funding and other forms of support to poor and “missing middle” students;
- Raise sufficient funding from the public sector, private sector and other sources to offer a complete solution to fund poor and “missing middle” students at universities and Technical and Vocational Education and Training (TVET) colleges;
- The feasibility of granting fully subsidised loans to poor students and loans with progressive reducing subsidies as household income increases for the “missing middle” students;
- The funding of occupations in high demand;
- Develop proposals which contribute towards the improvement of the success and graduation rates for poor and “missing middle” students and reduce drop-out rates; and
- Create an efficient and robust model with appropriate internal controls to minimise leakage, fraud and risk in the granting and disbursement of bursaries and loans to deserving students whilst improving collection of the loan portion granted to students.

### 2. OPERATING STRUCTURE OF THE MINISTERIAL TASK TEAM

2.1 The Chairperson shall create operating structures to deal with the following areas in developing a model for funding poor and “missing middle” students:

- The implications of public policy legislations and regulations;



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- Develop an efficient process which interfaces with the application process by students, the universities' enrolment and administration processes, financial services sector, etc.;
- The technology requirements and platforms which will improve accessibility, convenience and user-friendliness to students, whilst enhancing internal controls; and
- The funding options and instruments which will raise money from the public sector and private sector.

### **3. THE REPORTING AND IMPLEMENTATION TIMELINES**

3.1 The Ministerial Task Team must present its draft "blueprint" of the proposed model to the reference group on 30 April 2016. Subsequent reference group meetings will be arranged between the 30 April and the submission of the final report and blueprint as indicated below.

The ministerial task team must present its final recommendations and blueprint to the Minister of Higher Education and Training by 30 September 2016. It is envisaged that the model will be piloted by universities which will be agreed with USAf and DHET by January 2017 and be fully implemented in 2018.



Ministerial Task Team to develop a Support and Funding Model  
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## APPENDIX C: B-BBEE Commissioner Comments

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**Mr Sizwe Nxasana**  
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E-mail: [sizwe@sifiso.com](mailto:sizwe@sifiso.com)

Dear Mr Nxasana

### IKUSASA STUDENT FINANCIAL AID PROGRAMME (ISFAP)

1. The Broad-Based Black Economic Empowerment Commission ("B-BBEE Commission") is an entity established in terms of section 13B of the Broad-Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003) as amended by Act 46 of 2013 ("the B-BBEE Act").
2. The B-BBEE Commission is mandated to, *inter alia*, oversee, supervise and promote adherence to the B-BBEE Act. Such powers are exercised without fear, favour or prejudice in the most cost-effective manner and in accordance with the values and principles enshrined in section 195 of the Constitution.
3. The B-BBEE Commission would like to take this opportunity to thank you for the meeting held on 13 July 2016, and the subsequent submission of draft blueprint document transmitted to us on 20 July 2016, regarding your mandate to recommend short term solutions to address university funding for poor and 'missing middle' students.
4. The B-BBEE Commission welcomes the opportunity to submit its comments and recommendations to the draft blueprint document in contribution to this critical process of the Ministerial Task Team. We do acknowledge that the blueprint document is still in draft form, and therefore, it is within the spirit of enriching the process that we are submitting our comments and recommendations.



5. It is our view that the more effective intervention to accelerate the achievement of the inclusive economy is by increasing investment towards human resource and skills development in a manner that properly aligns to the objectives of the B-BBEE Act.
6. We have had limited time to consider the blueprint document, and therefore we do not seek to comment on each aspect of the blueprint document. Having considered the narrative and recommendations therein, we wish to indicate the following:
7. We have noted the mandate for the Ministerial Task Team to consider *short term solutions* to immediate student funding challenges, and we have considered the current provisions of the NSFAS Act in this regard. NSFAS is established as a juristic body in terms of section 3 of the NSFAS Act, managed, governed and administered by the NSFAS Board, which is appointed in accordance with section 5 of the NSFAS Act.
8. Further, section 9 of the NSFAS Act provides for the appointment of the Chief Executive Officer, the appointment of the Executive Committee in section 10 to whom the Board can delegate powers for effective decision-making, as well as the appointment of the Finance Committee in terms of section 11 of the NSFAS Act. Specifically, the Finance Committee provides an opportunity to draw required financial expertise from the private sector to provide advice on loan recovery, raising funds and investment of repayments, a role we consider critical in determining the short term solutions for funding challenges.
9. In respect of the source of funding for NSFAS, section 14 of the NSFAS Act clearly provides that the funds of the NSFAS consist of (a) money appropriated by Parliament; (b) donations or contributions; (c) interest; (d) money repaid or repayable by borrowers; and (e) *any other income received* by the NSFAS. The additional source of funding identified in the blueprint document must meet the parameters set in section 14. It is possible that solutions proposed herein extend beyond short term into a sustainable long term source of funding for NSFAS.
10. Therefore, the blueprint document must identify possible and viable sources of funding to increase the pool of funds available in NSFAS for students in the form of grants or loans, or a combination, given the current funding demands. Further, the blueprint document must identify measures to improve efficiencies in the administration of NSFAS in the short term by looking into a turnaround strategy, and in the long term introduce changes to the governance structures which require amendments to the NSFAS Act. It appears at this point that identified sources of funding in the blueprint document comply with the parameters set in section 14 of the NSFAS Act, while improvements proposed for administration and governance structures appear to fall outside the parameters of the NSFAS Act.



## 11. Contribution from B-BBEE Element of Skills Development

- 11.1 **6% Skills Development Target** – Page 9 of the blue print document recommends the active use of the entire 6% set for skills development for funding of bursaries through NSFAS.
- 11.2 Skills development is one of the critical and priority elements in the B-BBEE Act, and carries a 40% sub-minimum in the scorecard. Failure to comply with the sub-minimum results in the measured entity's overall B-BBEE recognition status being discounted one level down. This target was increased from 3% in an effort to increase investments towards skills development for black people in a manner that will effectively enhance and sustain participation of black people in the economy, and to give effect to the Skills Development Accord which is underpinned by the commitment to build a skilled economy with specific focus on critical and scarce skills. Skills development is a critical pillar in driving broader government objectives as set out in the National Development Plan.
- 11.3 Thus, the purpose of incorporating skills development within the economic transformation agenda is to measure the extent to which qualifying entities carry out initiatives designed to develop the competencies of black people (employees and non-employees). While measured entities would have proper strategies and plans regarding skills development, some entities battle to structure proper programs and schemes. This at times leads to what we can refer to as *expenditure dumping*, where a measured entity would allocate a significant amount of funds towards a scheme at last minute in order to claim points for such expenditure under skills development. Not only is this approach placing the measured entity at the risk of not being recognised for such spend or failing to make the required impact, it is also likely to constitute fronting as it undermines the objectives of the Act.
- 11.4 Therefore, while we implore measured entities to have proper and effective skills development strategies and plans, creating a structured and guided avenue for 'undecided' entities or those that have not finalised a scheme/programme to channel part of the 6% spend to a cause such as NSFAS, is likely to be progressive and in line with the purpose of the B-BBEE Act. Further, as measured entities are now allowed to spend this 6% to develop skills for both *own employees and non-employees*, the contribution to NSFAS will be recognised as skills development for non-employees, which is in line with the codes. This would also be in line with the provisions of section 14 of the NSFAS Act as a legitimate source of funding.
- 11.5 It is important to also note the fact that the 6% in the codes covers *all levels of skills development*, not only skills development of university education in nature. The codes do not however guide on the percentage of the 6% spend that a measured entity should implement towards its own employees vis-à-vis non-employees. Part of this 6% target is aimed at equipping black employees



in entities for improved productivity in the workplace, competitiveness, the quality of life of workers, and their prospects of work and mobility. It is important therefore to ensure that there is equitable spread in the skills development expenditure between employees and non-employees, taking into account also that not all skills development is of university education level.

- 11.6 It is therefore the recommendation of the B-BBEE Commission that the equitable split of 25/75 be applied in determining the maximum contribution that could be made to NSFAS for recognition under the B-BBEE Act. This means measured entities could make a contribution of up to 25% of the 6% towards NSFAS where the entire 6% has not been committed to a specific tangible plan, and 75% be spent on black employees and other non-employees other than NSFAS students. Practical circumstances, albeit exceptional, where more than 25% could be given to NSFAS without undermining the broader purpose of the skills development element under the codes could be outlined in the guidelines.
- 11.7 However, recognition of skills development points will only be recognised after the expenditure has been *initiated and implemented* by the institution of higher learning to which the fund has been allocated. This means, in line with the codes, the measured entity shall only get points at implementation of the allocation to students, not merely at the point where the fund is allocated to NSFAS. For this to be attractive to measured entities, it must be aligned with improved administration of the NSFAS processes to ensure that the allocation by a measured entity is effectively implemented so that a measured entity is not prejudiced by failure on the part of NSFAS to process allocations for implementation.
- 11.8 The above recommendations will not require any new changes to the codes. As the codes have been recently revised, it is important that we create stability to achieve the consistency that is required to make real impact in the implementation of the codes. The recommendations will also give the opportunity to make a contribution that can be easily measured through the systems that already exist within institutions of higher learning, and capitalise on the benefits of skills development through accredited educational institutions.
- 11.9 Further, Statement 103 under the codes presents an opportunity for additional funding towards NSFAS through the *Equity Equivalent Investment Programme*, which recognises skills development as one of the focus areas in lieu of ownership. It is recommended that a request be made for the Minister of Trade and Industry to consider skills development undertakings that could see a portion of the skills development contribution towards NSFAS funding.
- 11.10 A further opportunity exists under the *socio-economic development* element of B-BBEE in terms of which 1% contribution is to be made by measured



entities, a portion of which could be towards NSFAS where measured entities do not have a tangible plan to spend the said amount. However, the socio-economic development portion cannot be claimed both under skills development and socio-economic development.

- 11.11 Lastly, as all contributions through the B-BBEE Act are *strictly for black people* as defined in the B-BBEE Act, it is important to ensure that the said contribution is ring-fenced within NSFAS and allocated strictly to black students without deviation. This talks to the need to ensure that the administration of NSFAS is enhanced to make this possible at implementation; otherwise measured entities will not be recognised for contributions that are not implemented towards black people, and the objectives of the B-BBEE Act would be undermined.
- 11.12 To implement the above recommendation of the B-BBEE Commission in the short term, the Minister of Trade and Industry as the custodian of the B-BBEE Act, will need to issue a clarification or guideline in terms of section 14(2) of the B-BBEE Act. The clarification or guideline would merely direct measured entities to NSFAS as the recognised skills development avenue under the codes with applicable parameters, and thereby creating certainty and assurance that the contribution will be recognised under the codes.
- 11.13 As the need for additional source of funding is critical in the short term given the funding challenges, it is our recommendation that the Ministerial Task Team consider other feasible sources of funding for NSFAS to complement the ones identified in the blueprint document. For instance, voluntary contributions on a monthly basis by employed graduates which could be done on a monthly basis through debit orders, or at intervals considered practically possible, could add meaningful contributions to NSFAS. The intervals and amounts to be contributed could be determined through a quick survey, with a minimum set but graduates allowed to contribute above the minimum where they can afford to do so.
- 11.14 Simply put in this example, one million graduates each contributing R100 a month towards NSFAS, in a year a total of R1.2 million could go into the NSFAS coffers, unencumbered. With over a million graduates employed at the moment, the pool would be larger making the contribution even more significant. Also, where graduates have higher income streams or disposable income, they could be allowed to contribute more than the minimum at will, but with appropriate parameters to prevent manipulation of such higher contributions for illegal means. This could assist in the short term, with the actual possibility to sustain NSFAS into the long term.



## 12. *Administration of NSFAS and other recommendations*

- 12.1 As mentioned above, we have considered the other recommendations made in the blueprint document and we provide our views on the elements below:
- 12.2 **Administration of NSFAS** – There seem to be structural challenges experienced over the years with regard to the administration of NSFAS, in particular the allocation of funding to the targeted applicants. While we agree with the need to improve the administration, the core recommendations in the blueprint document seem to be more medium to long term. Recommendations made must be capable of immediate implementation without amending the NSFAS Act.
- 12.3 In regard to improving the administration in the short term, there is a need to enhance the effectiveness of the existing governance structures provided for in the NSFAS Act, such as the Executive Committee and the Finance Committee. If these committees are not in existence, they can be created to perform the functions required to improve fundraising, recovery and allocation of NSFAS funds to ultimate beneficiaries. The appointment of these committees allows for financial experts to be drawn from the private sector to close the gap that may exist in this regard. This will occur within the NSFAS Act without a need for a deviation, or a parallel structure such as the PPP to achieve the same goal.
- 12.4 The B-BBEE Commission is of the view that structural challenges that have been identified in the blueprint document can be rectified without having to introduce the complexity that is associated with the grant/loan splitting of funding. Simplicity in the administration of NSFAS, consistent with the recommendation to give full funding to needy students, is one aspect that could improve efficiencies in the NSFAS funding model. A clear threshold for a grant must be set, and the level at which a loan is to be considered, which can be implemented in the short term.
- 12.5 It is our recommendation that resources be dedicated towards (a) a full benchmark study against similar funding models in developing countries with the objective of revamping NSFAS, (b) putting in place proper governance structures, (c) revamping or updating current systems with user-friendly and state of art systems to support the model. Further, consideration should be given to amending the existing NSFAS Act to cater for these needs instead of developing a new policy. As indicated, this in our view is a medium to long term intervention, the elements of which are already included in the blueprint document.
- 12.6 **Threshold for NSFAS funding** - The threshold for NSFAS funding seems to be very low; hence it does not cover the missing middle, or at least a sizeable number of them. There is value in looking at increasing this threshold, but this can be considered once this exercise by the Ministerial Task Team has



identified a significant source of additional funding for NSFAS to grow the fund. This threshold must be reviewed at reasonable intervals to ensure that it remains relevant to the needs of students requiring assistance.

- 12.7 **Role of banks** – It is our view that banks have a significant role to play in provision of funding to the ‘missing middle’, or a significant part thereof, through loans with favourable repayment terms and interest rates, but should not necessarily be part of the management of the NSFAS/ISFAP funds to support the development goals of this country. Over the years, banks have continued to have limited appetite towards developmental funding in favour of more unsecured lending. This pattern is getting reversed but not in a significant manner, with lending practices still not favouring development credit. It is recommended that the Ministerial Task Team consider the contribution that the banks could make towards this area to cater for the market that is *capable of repaying loans advanced for educational purposes*. This could alleviate the pressure on NSFAS and allow it to focus on those poor and ‘middle missing’ students whose parents or guardians clearly won’t afford the fees or a loan for such fees.
- 12.8 Further, the process for NSFAS funding should continue to be government driven with the identified possibility of setting-up an agency of state or revamping the existing one to efficiently administer the funds and take full accountability and responsibility for the implementation, reporting directly to the Minister of Higher Education and Training. In the short term though, there is room to introduce efficiencies in how NSFAS is administered in order to inspire confidence of the private sector to contribute or invest in NSFAS to grow the fund. The financial expertise required to introduce such improvements, as alluded to in the blueprint document, *can be recruited in accordance with the NSFAS Act which already allows for financial experts to be appointed to both the Executive Committee and the Finance Committee of NSFAS*.
- 12.9 **Student funding application process** – It is important to consider the fact that both university admission and funding ought to be given equal recognition in shaping the learning opportunity, and not to consider one more valued than the other. The options proposed on pages 28 and 29 do not appear practically viable due to the risk in delayed approvals, and recommend that this be a parallel process, where a student submits the university admission application together with the request for funding through NSFAS. This will ease the determination of the required financial support. This should remain possible even with a new model as the risk remains.
- 12.10 **Disbursement of the grant/loan portion** – The blueprint document proposes that students need to open transaction accounts for disbursement of the grant and/or loan, and to allow the banks to compete to attract students to open accounts. We are of the view that this is a deviation from the mandate on short term solutions to prevailing funding challenges. This seems to merely



provide a market to the financial institutions through the management of the loan book and an opportunity to increase clientele.

- 12.11 This approach also ignores the current level of over-indebtedness that South Africa sits with, with almost 50% of credit active consumers having impaired credit record. It also fails to recognise the limited financial management skills and financial literacy that contribute to over-indebtedness, and assumes that students would be capable of managing the transactional account, and pay over funds to institutions of higher learning. Further, the ability of student accounts to be open to debit orders for other debts would allow for the student grant or loan to be debited by various credit providers, in the same manner that the SASSA accounts have been exposed. The avenue for students to have transactional accounts is not appropriate at this point.
- 12.12 We therefore recommend that disbursement of NSFAS funds for students be directed to institutions of higher learning to mitigate the risk associated with financial management. For other supporting packages such as access to learning material, accommodation etc. we recommend that institutions of higher learning enter into specific arrangements with potential service providers and be responsible for the direct payment of the costs from the monies allocated to the particular student. These are systems that are not new to institutions of higher learning, and improvements can just be introduced to make them more effective and efficient.
- 12.13 Further, it is acknowledged in the blueprint that the household means test will be calculated to determine whether a student is granted a loan, bursary or grant. It is our recommendation that the ratio or criteria driving the determination be clearly stipulated and not be the sole discretion of the decision-makers. For instance, it should be clear that where the household means test is at a particular level, a student would qualify for a grant. The simpler the criteria for making this decision, the more efficient, in our view.
- 12.14 **Social support eco-system** – This is considered a necessary support measure to contribute towards the improvement of success and graduation rates including reduction of drop-outs rates. The role of secondary external factors that have adverse effects on the success of students is often not sufficiently catered for. It is our view that the contributions made by the private sector in the normal course of their CSI should contribute to this area as it is critical. These are support measures that well-resourced universities have been able to provide in the past, but it is acknowledged that with the pressure on university funding, this may not be sustainable and consistently offered without additional resources.
- 12.15 **B-BBEE facilitator status** - Private entities that contribute towards the NSFAS/ISFAP will be able to recognise B-BBEE points under the skills development scorecard. Thus, we recommend that this be limited to skills development points and not the ownership element, reason being that the






mandate of NSFAS/ISFAP is to ensure sufficient funding for skills development through institution of higher learning.

- 12.16 We do not support the recommendation that ISFAP applies to **the dti** for a B-BBEE facilitator status in order for investing entities to recognise the ownership held in the fund when calculating ownership points. The purpose of allowing organs of state such as PIC and the NEF to hold B-BBEE facilitator status is to promote equity investment on behalf of the black people in order to achieve a substantial change in the racial composition of the ownership and management structures of existing and new enterprises.
13. Skills development is one of the effective and sustainable tools to facilitate economic transformation and must be implemented within the context of the B-BBEE Act. It is for this reason that the B-BBEE Commission is of the view that some contribution, albeit within parameters, can be directed towards NSFAS to address the immediate funding challenges.
14. We emphasise the need for 1) distinguishing between the short term solutions and the medium to long term ones that require a more consultative process and possible amendments to the NSFAS Act, 2) identifying additional sources of funding in the short term with no requirement to revamp the model, 3) introducing simplicity in the administration of NSFAS in the current legislative framework to improve effectiveness and efficiencies, 4) recruitment of private sector financial expertise within the provisions of the current legislative framework, 5) adjusting the threshold for NSFAS funding to cater for poor and 'missing middle' students, 6) outlining the role of private sector funding for students whose parents or guardians can afford the loan at affordable lending rates and terms, and 7) considering pooling available CSI funding towards funding for students.
15. The B-BBEE Commission thanks Ministerial Task Team for the opportunity to provide direction on B-BBEE related and other matters. We are available for a meeting or any further to clarify our comments and/or recommendations.

We thank you again for the opportunity to contribute to this process.

Yours sincerely



**Ms Zodwa Ntuli**  
Acting Commissioner

10 / 08 / 2016





# Ikusasa Student Financial Aid Programme