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**GOVERNMENT NOTICES • GOEWERMENTSKENNISGEWINGS**

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**DEPARTMENT OF HIGHER EDUCATION AND TRAINING**

NO. 1569

15 DECEMBER 2016

**HIGHER EDUCATION ACT, 1997 (ACT NO. 101 OF 1997)****CALL FOR COMMENTS ON THE REPORT OF THE MINISTERIAL TASK TEAM TO DEVELOP A SUPPORT AND FUNDING MODEL FOR POOR AND “MISSING MIDDLE” STUDENTS**

I, Bonginkosi Emmanuel Nzimande, MP, Minister of Higher Education and Training, in accordance with section 3 of the Higher Education Act, 1997 (Act No. 101 of 1997), hereby publish for public comment the Report of the Ministerial Task Team to develop a support and funding model for poor and “Missing Middle” Students as contained in the Schedule. The Executive summary of the report is attached in the Schedule.

The full Report is available on the website of the Department, [www.dhet.gov.za](http://www.dhet.gov.za).

All interested persons and organisations are invited to comment on the Report in writing, and to direct their comments to –

The Director-General, Private Bag X174, Pretoria, 0001, for attention: Mr GF Qonde, email [Ministerialtaskteam@dhet.gov.za](mailto:Ministerialtaskteam@dhet.gov.za); fax: 086 298 9717.

Kindly provide the name, address, telephone number, fax number and email address of the person or organisation submitting the comments.

**The comments on the Report of the Ministerial Task Team to develop a support and funding model for poor and “missing middle” students must be submitted not later than 31 January 2017.**



**Dr BE Nzimande, MP**  
**Minister of Higher Education and Training**

Date: 13/12/16

**SCHEDULE**

**REPORT OF THE MINISTERIAL TASK TEAM TO DEVELOP A SUPPORT AND  
FUNDING MODEL FOR POOR AND 'MISSING MIDDLE' STUDENTS**

**EXECUTIVE SUMMARY**



# 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

### (Executive Summary)

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## 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:

*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.

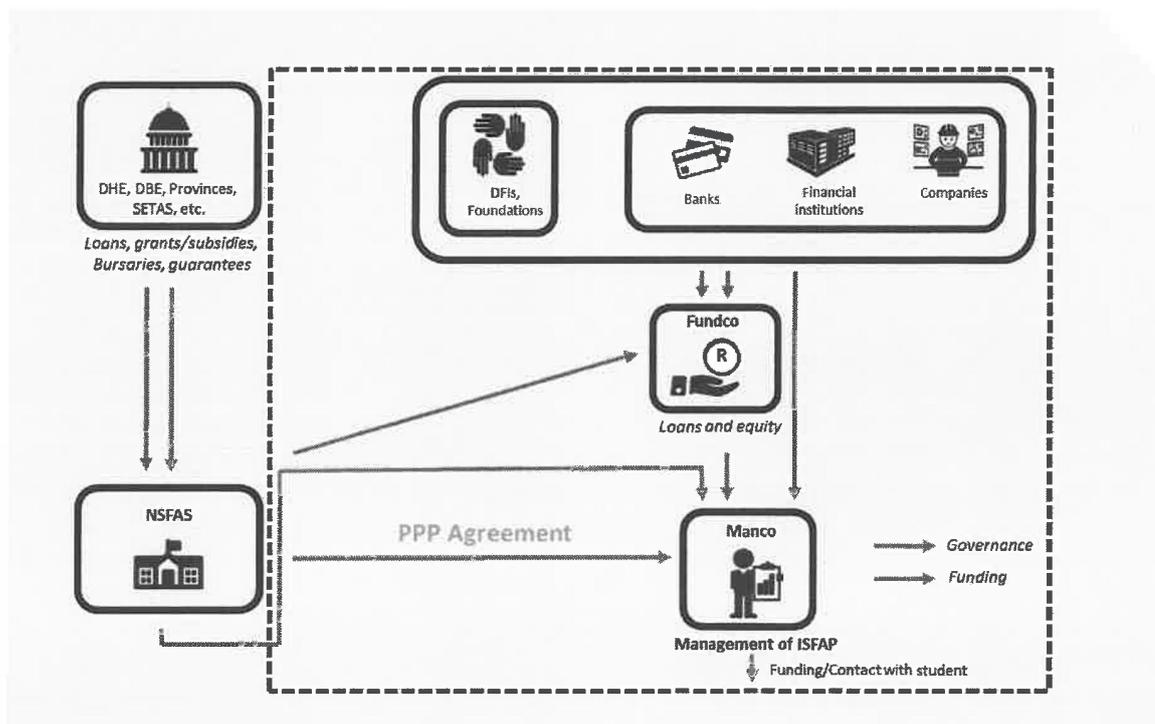
**6.4 To implement a new operating model** - The new vision of ISFAP is to be a government/investor partnership with a new operating model that is inherently different to the current NSFAS model.

**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.

**LOAN AND GRANT DECISION MATRIX**

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

	1 <sup>st</sup> Year	2 <sup>nd</sup> Year	3 <sup>rd</sup> Year (n)	4 <sup>th</sup> Year (n+1)
Upper missing middle	Grant / Loan EFC	Loan EFC	Loan EFC	Loan EFC
Lower missing middle	Grant EFC	Grant / Loan EFC	Loan EFC	Loan EFC
Working Class / Poor	Grant EFC	Grant EFC	Grant / Loan EFC	Loan EFC
Very Poor	Grant	Grant	Grant	Grant / Loan

**Expected Family Contribution (EFC) increases by household means  
Illustrative for a 3 year programme (n=3)**

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**

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.

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:

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

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	• 100% Loan to all NSFAS qualifying students • 40% converted to bursary if student passes • 100% of final year funding converted to bursary if student pass • Effectively 60% grant 40% loan on completion	• Very poor students receive fully subsidised funding for the minimum qualification time • Poor and “missing middle” split between loan, bursary and EFCs based on means test. • More loan versus grant in final of study. Higher proportion of grant in year 1 and 2 of study.
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					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>

#### 10.4 DHET Recommendations

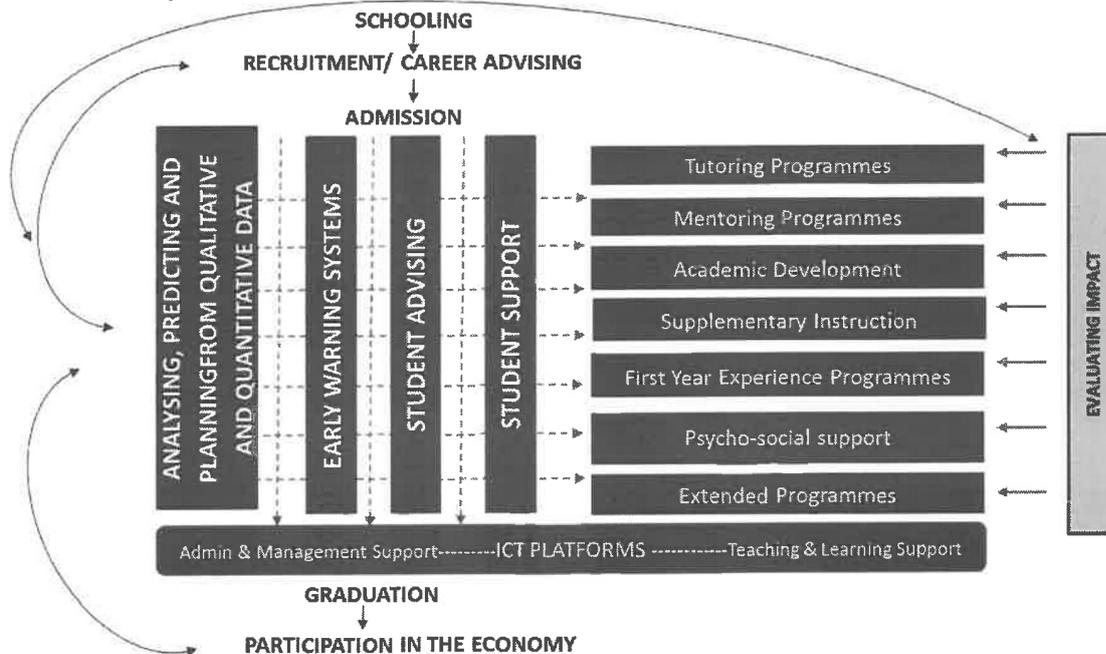
Following the submission of this comprehensive report to DHET, a number of recommendations were made:

- 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 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.

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