

Submission by NSFAS on the MTT Report on developing a support and funding model for poor and “missing middle” students

to the
Director-General, Mr GF Qonde
Department of Higher Education and Training (DHET)
Ministerialtaskteam@dhet.gov.za

Submission made by:
The NSFAS Executive and Senior Management Team
Email: MotlalepuleM@nsfas.org.za (obo)
Office: 021 763 3200
10 Brodie Road, House Vincent | Wynberg | Cape Town | 7744
www.nsfas.org.za

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Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

Contents

List of Abbreviations.....	4
Executive Summary	6
Preamble	7
Introduction	7
i. Background and context.....	8
ii. Purpose of the report.....	8
iii. Framing principles of the NSFAS Response.....	9
iv. The NSFAS Response and Approach	12
Focus Area 1: The NSFAS Act – Structure, Mandate and Relevance	13
i. PPP arrangements with NSFAS, ISFAP, the DHET and other public funders.....	13
ii. Reducing drop-out through providing value-adding support at institutional level	15
iii. Raising loan funding	17
iv. Some other considerations	17
Focus Area 2: Raising sufficient funding.....	18
i. Funding modelling and modelling assumptions	19
ii. Sources of funding.....	20
iii. If there is a constraint in funding – who gets declined?.....	21
Focus Area 3: Feasibility of a graduated mixed-modality funding matrix	22
i. Student selection and funding allocation.....	22
ii. Household means testing and grant vs loan allocation formula	25
iii. ISFAP will fund the full cost of study	29
Focus Area 4: Funding of Occupations in High Demand	30
i. More focus on scarce skills and Occupations in High Demand	30
Focus Area 5: Improving the performance of funded students	32
i. Wrap-around Social support – the social support eco-system	33
ii. Students with Disabilities	35
Focus Area 6: Creating a model for granting, disbursing, collecting loans.....	36
iii. Legal considerations.....	38
iv. Loan repayment considerations and collections – the loan and broken bursary management system	38
v. Sustainability through increasing the loan recovery rate	40
vi. Change in design philosophy.....	43



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

General Recommendations for IFSAP to consider44

i. Implementation of the pilot in 2017 with full roll-out in 201844

ii. Transitioning arrangements for NSFAS and ISFAP46

iii. General points46

Concluding Comments47

Annexure A48

Further points to be noted

Annexure B60

The NSFAS Response to the Ministerial Review Report – May 2010

Annexure C61

DPRU Final Report – Targeting Rules for Student Financial Aid

Annexure D62

NSFAS Handbook 2017

Annexure E63

Draft NSFAS Student Funding Policy

Annexure F64

Project reports – Institute for Design Thinking



List of Abbreviations

BTech	Bachelor of Technology
CAS	Central Applications Service
CESM	Classification of Educational Subject Matter
CHE	Council of Higher Education
DBE	Department of Basic Education
DHA	Department of Home Affairs
EDC	External Debt Collectors
FCS	Full Cost of Study
FMCG	Fast moving consumable goods
FundCo	Funding Company
GEPF	Government Employees Pension Fund
HEDSA	Higher and Further Education Disability Services Association
HEMIS	Higher Education Management Information System
HEQSF	Higher Education Qualification Sub-Framework
HRDC	Human Resource Development Council of South Africa
DHET	Department of Higher Education and Training
EFC	Expected Family Contribution
HE	Higher Education
ID	Identity
IES	Income and Expenditure Survey (StatsSA)
ISFAP	Ikusasa Student Financial Aid Programme
KYC	Know-Your-Customer
MANCO	Management Company
MTT	Ministerial Task Team
MSDF	Michael and Susan Dell Foundation
NCR	National Credit Regulator
NCA	National Credit Act
NDP	National Development Plan
NDip	National Diploma



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

NRF	National Research Foundation
NSF	National Skills Fund
NSFAS	National Student Financial Aid Scheme
NYDA	National Youth Development Agency
PER	Performance and Expenditure Review (by National Treasury)
PFMA	Public Financial Management Act
POPI	Protection of Personal Information Act
PPP	Public Private Partnership
SARS	South African Revenue Service
SASSA	South African Social Security Agency
SCM	Supply Chain Management
SET	Science, Engineering and Technology
STATSSA	Statistics South Africa
TEFSA	Tertiary Education Fund of South Africa
TVET	Technical Vocational Education and Training
UCT	University of Cape Town
UKZN	University of KwaZulu-Natal
UOT	University of Technology



Executive Summary

Over its 25 years, NSFAS has been at the front line of providing financial aid for students from poor households who are wishing to study further. The Scheme has grown from a small non-profit organisation to a substantial public entity, with much more complex systems, much more funding under administration, a greater number of staff, and a large community of NSFAS-funded students and debtors.

However, this journey has not been without its challenges. Several reviews¹ of the Scheme have identified areas which needed attention – from the methodologies inherent in making the funding decisions, to mechanisms for disbursing funds to students in a reportable, consistent manner. Some of these have been systematically addressed over time, but there are many which remain work-in-progress, and which have perhaps been slowed down by processes and practicalities characteristic of the public entity or public sector. But, none of these have been in isolation of a rapidly changing socio-political environment, in which the demands for free higher education, for more academic spaces to match the needs of the economy and for more differentiated funding for higher education prevail.

As such, the report of the MTT comes at a time when government is re-examining its own systems, funding approaches and policies so that the needs of students who may have been previously excluded can be better accommodated. This report does not stand alone, but will, by design, feed into the Fees Commission and the policy dialogues being convened on a regular basis within the sector. The NSFAS response to the MTT report therefore positions NSFAS as a partner, a key stakeholder in the next evolution of student financial aid within South Africa. Most importantly, it recognises that NSFAS has a far broader role to play within this new landscape than that proposed in the report.

Looking forward, NSFAS is uniquely positioned to provide insight into the post-school education and training sector, for which student financial aid is an instrument for transformation. Having itself introduced a new funding model and process, and implemented this progressively over four (4) years, NSFAS will be able to share insights with ISFAP on the potential risks and areas that may have been overlooked, and that we are critically aware of now as the sector is posed for the 2017 registration. As such, the

¹ A review of the NSFAS was requested by the Minister of Education in 2003 – the report was released between 2004 and 2005 – this followed a brief set of questions posed by the Minister in 2001. There was the significant Ministerial Review undertaken in 2009 (report released in 2010) and there was the PER review in 2014 (report released in 2015).



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

DHET and the MTT have a resource that can be leveraged off so that we can learn from our experiences over the last few years to ensure that the student experiences the benefit.

Preamble

Whereas, it is incumbent upon NSFAS, as an entity of the State and the Department of Higher Education and Training, responsible for the funding of poor students in post-school education and training, to –

critically acknowledge the strengths of the funding model detailed in the report;

constructively provide input into areas which require further development, especially given our experience within the sector over 25 years;

use evidence to identify elements of the report which do not adequately or accurately reflect the functional components of the NSFAS model; and

proactively suggest recommendations for transitional arrangements and for the implementation of the pilot,

Be it therefore submitted by NSFAS, the response that follows:-

Introduction

The NSFAS Executive and Senior Management team welcome the opportunity to respond to the Report of the Ministerial Task Team (MTT) on the development of a support and funding model for the poor and “missing middle” students. This comes at a time when NSFAS is implementing the student-centred model in all universities and TVET colleges, progressively introducing business processes which will fundamentally shift the way in which NSFAS connects to its students and manages its’ funds. Having been subject to a number of reviews in its lifetime, NSFAS acknowledges that despite the significant impact it has had over 25 years, there remain operational, funding and policy challenges which have severely constrained its ability to be fully responsive to the growing demands within the sector.



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

The NSFAS management further welcomes the far-reaching proposals of the MTT in respect to leveraging financing from various private capital sources, and with this, positioning a mixed modality funding model which directs grant funding to the poorest amongst us and increases the loan component of the funding package in the higher income bands and as the student progresses towards completion of their degree. We believe that these recommendations, along with some of the other elements of this report and with the experience and knowledge that NSFAS has, will provide the Ministry with the tools required to reasonably make further education progressively available and accessible.

i. Background and context

- 1.1. NSFAS recognises that the Report represents a reflection of the views of the Ministerial Task Team.
- 1.2. NSFAS acknowledges that a substantial body of research, public comment and concept design has provided the basis for shaping the development of the IFSAP model and for the recommendations about next steps that are contained in this report.

ii. Purpose of the report

- 1.3. The task team was mandated by the Minister of Higher Education and Training to “determine and advise on alternative financing and operating models for funding poor and ‘missing middle’ students having regard to the Constitution of South Africa, all relevant higher and basic education legislation, all relevant public policy/legislation/regulations, all findings and recommendations of the various Presidential and Ministerial Task Teams and all relevant educational policies, reports and guidelines.”
- 1.4. Within this mandate, the Task Team was explicitly asked to address the following:
 - 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;



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

- the feasibility of granting fully subsidized loans to poor students and loans with progressively 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 rate; 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.

iii. Framing principles of the NSFAS Response

- 1.5. Student financial aid is a critical contributor to the promotion of equity of access to higher and further education and training within the national policy framework of human capital development. This is a sentiment captured clearly in the preamble to the NSFAS Act 56 of 1999 which reads as follows²:

“Whereas it is desirable to:

Redress past discrimination and ensure representivity and equal access;

Respond to human resource development needs of the nation; and

Establish a national student financial aid scheme that is affordable and sustainable.”

- 1.6. As such, NSFAS has not only a role to play in administering grants to students, but through its grant making role and by working with and through other stakeholders, NSFAS continues to make a key contribution to promoting the human resource development needs of the country. Since its establishment - by means of the NSFAS Act - in 1999, NSFAS has become recognised as a reputable disbursing of financial aid, and as a model of good practice on the African continent. This is despite recent critique of its administrative efficiencies and operations – most notably in the Ministerial Review published in 2010, and in the MTT report (2016) - and despite a chronic under-funding of its operations and the students it serves. The full response (unpublished to date) to the 2010 Ministerial Review is included as Annexure B to this submission for reference purposes.

² NSFAS Response to the Ministerial Review Report - May 2010 (Annexure A).



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

- 1.7. As the single largest provider of financial aid to students from poor households, over the 25 years since its inception as the Tertiary Education Fund of South Africa (TEFSA), NSFAS has provided funding to date to over 1,7 million(m) students. In this time, the amount of funding allocated by the Department of Higher Education and Training (DHET) and administered by NSFAS has grown from R22m in 1991 to R8,9 billion (bn) for the university sector in 2016 alone, supplemented by funding from other state departments and private sector funders, with a further grant for the Technical Vocational Education and Training (TVET) colleges. Despite this, there is compelling evidence that NSFAS has made an important contribution towards making higher education more affordable to the poor. It has been argued that NSFAS has been an important source of funding especially for universities that traditionally served poorer communities³.
- 1.8. One of the key objectives of NSFAS is to improve equity and access for the poor (social targeting), by easing the financial burdens of students therefore enabling the reduction of dependence of students on their families during their studies (the student independence model) and promoting academic performance (access-with-success rationale).
- 1.9. However, it is acknowledged that while progress has been made in broadening access to post-school education and training, success rates remain unacceptably low, especially for black students⁴. The provision of financial aid on its own cannot alter this trajectory, as access does not of its own guarantee success. The broader issues of academic and psycho-social support at post-school level to bolster throughput rates should be part of a wider institutional mandate, alongside the national drive to systemically address the quality of education at a basic education level.
- 1.10. At the same time, it is recognised that the State, in its efforts to promote the objectives of the National Development Plan, is seeking to find mechanisms and solutions which will enable government to maintain its focus on youth development, through the production of graduates from the post-school sector that will facilitate a stronger economic growth trajectory. This can only be achieved through a much

³ De Villiers, P. (2012). The National Student Financial Aid Scheme: Important gains, significant challenges. In Hofmeyr, J (Ed) *Transformation Audit 2012: The Youth Divided: Unlocking the Potential of Young South Africans*. Wynberg: Institute for Justice and Reconciliation. pp. 56–62

⁴ Accessed on 24/01/2017 - <http://www.timeslive.co.za/local/2017/01/23/Blacks-not-succeeding-at-university-statistician-general1>



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

more robust, efficient and effective model of grant-funding students to-and-through their post-school studies.

- 1.11. This response has therefore been framed by NSFAS’ student-centred view, one which looks at what NSFAS has done and what ISFAP is proposing through the eyes of the students, so that we can ensure that we deliver services that fund the right student, with the right amount of funding, at the right time, to enable that student to get to, through and out of university/TVET college. In developing this model, NSFAS has been challenged by its student community, its institutional stakeholders and its funders to re-imagine a world in which students have the choice of where they want to study, in which their choices are not driven by an imposed view of what is possible, but rather driven by awareness that they have a choice, and that NSFAS/ISFAP is there to support their dreams. In this world, the student-centred model is the NSFAS solution for doing things differently, for fundamentally shifting the playing field, and enabling the next generation of NSFAS-funded students to gain access to post-secondary education and training and to succeed.
- 1.12. The student-centred model, which is our reference point for our commentary on the MTT report, emphasises the building of relationships with students from the time of application to the completion of their qualifications, and for those with loans, to continue this relationship until their NSFAS debt has been settled. It is our view that by truly putting students at the centre, NSFAS/ISFAP has the potential to become the centre of social change in South Africa – through reducing unemployment, through decreasing inequality and uplifting the social standing of families.
- 1.13. We acknowledge that this means that NSFAS cannot operate a business-as-usual mindset, that we need to adopt a business-unusual approach to process design, to operational systems and functions, to the design of the organisation so that we can become more agile (from technology solutions to procurement), more responsive (from student to stakeholder), doing things differently to serve the student better. Conceptualising a new value chain and documenting the business processes more rigorously has been part of this journey.
- 1.14. The MTT report proposes a public-private partnership which represents an opportunity to do things differently, in a way that NSFAS perhaps cannot, to be more agile, be more responsive,. As such, it is welcomed. It is the view of NSFAS that by jointly looking for ways to eliminate unnecessary processes, simplify those



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

that are in place, standardise and adopt best practice wherever possible, such a public-private partnership must create platforms through which we can share our knowledge, experience and skills so that NSFAS/ISFAP learn from each other and do what works – all while keeping within a framework of good governance, and transparent public accountability and regulatory compliance.

- 1.15. It is further noted that the MTT report acknowledges that the ISFAP blueprint was developed independently of any detailed review of any systems, processes and people used in the current NSFAS model. This may have contributed to the limited recognition of the work that has been done by NSFAS in the intervening years since the Ministerial Review in 2010. However, even this work that has been done has not been adequate given the need to provide opportunities to many more young people from households struggling to find ways to enable their dreams. With this understanding, NSFAS embraces developments such as ISFAP which seek to open opportunities and provide a wider net of financial resources to provide access to young people and build success for them and the communities that they come from.

iv. The NSFAS Response and Approach

- 1.16. The NSFAS response to the MTT report has been driven and shaped by the NSFAS executive and senior management team. It is intended to serve not only as a response to the MTT report but also as a source of advice and constructive input to the Minister in his deliberations on the MTT report and the implementation of the pilot project in the 2017 academic year.⁵
- 1.17. As with the NSFAS response to the Ministerial Review undertaken in 2010, it is recognised that the MTT report includes recommendations for business processes and operational elements which were identified by NSFAS and have been/are in production within the student-centred model. These will be detailed in the later sections of this response, and where requested, NSFAS will be pleased to share this with the Ministry and/or the ISFAP ManCo.

⁵ It should be noted that the NSFAS management have only had sight of the document released by the DHET on the 5 January 2017. As such, this commentary has not been referenced against any other founding documents which may have been developed by the MTT or the ISFAP working groups.



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

1.18. This response to the MTT report will be structured in line with each of the key elements included in the terms of reference of the MTT. Where appropriate, it will highlight the strengths of the proposals detailed, constructively provide input into elements which are not sufficiently detailed in the report, note elements of the report that do not adequately or accurately reflect the functional components of the NSFAS model and proactively suggest recommendations for transitional arrangements and the implementation of the pilot. In addition, the table included at the end of this report (Annexure A) will highlight specific elements which NSFAS would like to draw attention to. A full reference list of all supporting documents will be appended to this response.

Focus Area 1: The NSFAS Act – Structure, Mandate and Relevance

Recommendation by the MTT:

“The MTT recommends that the NSFAS Act be amended and extended (so) that the functions of NSFAS be expanded to include the following:

- a) To work with institutions and other stakeholders to reduce the drop-out 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; and*
- d) To enter into PPP arrangements in terms of the Treasury regulations.”*

It should be noted that in addition to this recommendation, the MTT report makes recommendation for changes to other pieces of legislation and for the promulgation of Regulations as authorised by the current NSFAS Act. Comments on these elements will be made in this section, where appropriate, and in Annexure A.

i. PPP arrangements with NSFAS, ISFAP, the DHET and other public funders

Recommendation by the MTT (pages 32 – 33, 24)

“The ISFAP model proposes that new structures be launched that fulfil the student funding and support requirements on behalf of NSFAS through a PPP agreement between NSFAS and a new SPV called ManCo. It is proposed that some of the NSFAS systems and processes (of the student-centred model) will be incorporated in a PPP arrangement. The (private) funding requirements of ISFAP will be managed by a funding company FundCo.



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

ManCo will be set up as a private company owned by FundCo. Government and NSFAS will participate in ISFAP through loans, grants and subsidies directed via ManCo.”

AND

“It is recommended that ManCo cover 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 resource management, legal, technology, risk management. It is recommended that the role of NSFAS will be stakeholder management including interacting with universities and TVET colleges, liaison with students and student formations. It is further recommended that NSFAS establishes offices in provinces to be closer to all the universities and TVET colleges.”

- 2.1 The MTT report reflects several reasons for the need for a PPP, not least of which is to leverage off the current public funding received by NSFAS, which will remain a critical stream of revenue for the new funding model going forward. In addition, the PPP will leverage off NSFAS’ existing stakeholder relationships within the sector, and adopt elements of the new systems and processes built by NSFAS which ISFAP deems are fit-for-purpose (this is one of the recommendations of the DHET).
- 2.2 It is also noted that the DHET has recommended in its submission that NSFAS should continue to administer public funding. NSFAS supports this position, and suggests that the role of ISFAP should be to bring the private sector contributions received through FundCo into the PPP. Through this, a decision engine could be built upon the best practice and understanding of the post-school sector that NSFAS has, and the best practice and understanding of the financial services and corporate sector that ManCo offers, so that more students can be funded through a single engine, with a single brand⁶.
- 2.3 It is also worth noting that the report proposes that the new vision of ISFAP is to create a government/investor partnership “that is inherently different to the current NSFAS model”. However, while some of the policy considerations proposed in the MTT report (such as no loan-to-grant conversion factor for good academic performance, the loans/grants matrix, removing the N-factor⁷, non-reliance on means test proxies) represent significant policy shifts from the existing student-centred NSFAS model, many of the other aspects of the model are conceptually

⁶ This, from a student perspective, could still be NSFAS.

⁷ N refers to the minimum/regulation time required to complete an undergraduate qualification. In the current NSFAS rules, students cannot be funded beyond N + 2 additional years, in recognition that some students may struggle with the transition from school to university – both academically and socially.



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

similar to the existing NSFAS and the student-centred model (namely, centralised application and decision-making, payments direct to students and institutions, postgraduate provision channelled through a partnership agreement with the NRF, registration as a developmental credit provider, a weighted focus on scarce skills built into each ranking-and-funding decision made, separate agreements for loans and for bursaries, means testing and the determination of an EFC).

- 2.4 There is therefore much to be gained from analysing systemically the proposed ISFAP model and the current NSFAS student-centred model to identify synergies in business processes, policies and practices. This would be a win-win for NSFAS, the DHET, ISFAP and ultimately the students that we are all serving. The PPP would therefore not be effectively reducing the role of NSFAS to “stakeholder liaison”.
- 2.5 A further recommendation in the PER that was undertaken in 2015 was that the NSFAS Act needed to distinguish much more clearly between NSFAS as an entity and NSFAS as a loan/bursary/granting programme. Such a distinction would recognise that the management of the funding programme (loans, bursaries and grants) has its own governance requirements and parameters which are separate to those that affect the management of the entity itself. This may flow over into the way in which the annual financial statements are presented⁸, in the way in which the funding flows are managed, and this could be incorporated into the way in which the PPP is structured.

ii. Reducing drop-out through providing value-adding support at institutional level

Recommendation by the MTT (page 35, 56) (to be expanded upon later):

“ISFAP plans to work with the DHET, universities and TVET colleges to enhance the wrap-around support which is given to students.”

- 2.6 This has long been acknowledged as an area for further development, and the proposals in the MTT report have been derived from experiences both with the Thuthuka Bursary programme and the Michael and Susan Dell Foundations’ Young Leaders programme, amongst others. It is recognised that a wide net of non-governmental organisations and university professionals from Student Support Services at various universities have been consulted in the design of this “wrap-around support”.

⁸ See page 36 of the PER Final Report.



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

- 2.7 One of the legacy default positions of NSFAS has been that the Act does not mandate NSFAS the responsibility for student success or student support. As such, the proposal to amend the Act to reflect the need to focus more holistically and systemically on the student, and the factors affecting throughput, is welcomed. This would require that such support becomes a funded mandate of NSFAS/ISFAP so that sufficient resources can be allocated to this role and function, even if this is predominantly achieved through partnership roles – with the universities, and with organisations working in this field.
- 2.8 Over many years, NSFAS has worked with several NGO partners⁹ whose focus has been on providing the wrap-around support needed to students funded by a NSFAS grant. Evidence from their own impact assessments and a NSFAS impact assessment undertaken in 2009 attest to the value of support which connects students to mentors, academic and non-academic tutors, peer support (student-to-student) and psycho-social support for the different stages of the students journey through university.
- 2.9 NSFAS is in the process of drafting a position paper on this issue for review by the Board in the fourth quarter 2016/17, and we would welcome the opportunity to engage with the ISFAP work stream on the findings of its own research, undertaken through an extensive literature review and a thematic analysis of the discussions from a series of focus groups with past students and focus groups with key opinion leaders.
- 2.10 What should be noted by ISFAP is that the graduation and drop-out rates per university differ – probably as a factor of both institutional capacity to monitor students or provide support and due to the distribution of feeder schools with high quality matric passes. Universities such as VUT, WSU, TUT, UNIVEN, UniZulu take longer to produce graduates, and have higher numbers of first-year students that drop-out. Such institutional characteristics may or may not be related to the amount of NSFAS funding they receive, but it will nonetheless impact on the planning for the support services, the resourcing of these services and the measures of NSFAS/ISFAP’s impact over time.

⁹ Included amongst these is the Rural Education Access Programme (REAP), StudieTrust, Umthombo Youth Development Foundation, Ziphakhamise. However, it is also recognised that there are other programmes of excellence funded by philanthropic organisations which provide different levels of wrap-around support, for students that are funded. Examples not already cited include the Moshal Scholarship Program, the Allan Gray Orbis Foundation, Tomorrow Trust, the Thusanani Foundation, the MAD Leadership Foundation, SA Study, LinkSA, amongst others.



iii. Raising loan funding

Recommendation by the MTT (page 63):

“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.”

- 2.11 NSFAS has existing loan funding arrangements in place with several of the universities that have channelled their gap funding through NSFAS, primarily for the purposes of collections and re-distribution back to students. Each of these loan funding arrangements are covered by funder agreements. It is important to note that in only one instance, do cash transfers between the universities and NSFAS takes place. The universities advance the cash directly to their students, and NSFAS accepts the loan contracts and then collects once the student has graduated.
- 2.12 Should such an amendment to the Act be made, this should be broadened to include other avenues for raising sufficient funding, including but not limited to the social impact bonds, senior funding, raising of risk capital, development finance, bonds, and the securitisation of the loan book by improving the quality of debtor information and the asset value of the loan book.

iv. Some other considerations

- 2.13 While it may not be necessary for amendments to the Act itself to reflect this, some consideration should be given to agreeing to a set of output, outcome and impact indicators that would reflect the true nature of the programme itself - from a strategic positioning of the NSFAS/ISFAP PPP. Through the evolution of NSFAS from TEFSA, and the subsequent reviews of the Scheme, a theory of change has not been fully conceptualised or matured, and without this, the robustness of exercises to gauge impact is limited. As part of the PER process, a new set of outputs, outcomes and impact indicators emerged from the log frame exercise, and these may add value to the process of determining a theory of change and a strategic plan for the ISFAP/NSFAS partnership.



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

- 2.14 Amongst these were three impact statements for the programme, which incorporate some of the elements of the ISFAP model¹⁰:
- Increases post-school participation rates amongst the youth, while reducing skills shortages in critical and scarce skills fields;
 - Ensuring that the financial needs of able learners/students do not create a barrier to accessing post-school education and training opportunities; and
 - All public universities and colleges are able to admit targeted, able, financially needy learners/students to programmes of study with committed funding.

Focus Area 2: Raising sufficient funding

Recommendation by the MTT (pages 78 – 86):

“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.”

- 3.1 A critical shortfall in the availability of NSFAS’ funding for students from poor households has been well documented over NSFAS’ history. From as early as 1996¹⁰, the gap between the number of students who have applied for NSFAS funding and the number of students who received funding has, at 68,1%, been significant. In 2003, during a review of NSFAS commissioned by the Higher Education branch of the Department of Education, figures quoted demonstrated that although the gap seemed to have shrunk, 25,2% of students who applied for NSFAS at the selected institutions profiled were still not funded¹¹. The latest figures supplied by the DHET provide evidence that the shortfall in 2014 was 18,7%, and suggests further that of those who are supported, many may not be supported for their full cost of study.¹²
- 3.2 Even in universities generally considered to have lower fee structures, tuition fees remain too high for many families, evidenced by the growing student fee debt at the universities¹³. As such, NSFAS’ impact has been “diluted” by the increase in fees,

¹⁰ The full log frame was referenced as one of the supporting documents, and the indicators for these impact statements are provided on page 31 of the PER document.

¹¹ Pillay, P. (2003). *Review of the National Student Financial Aid Scheme: Report to the Department of Education*. NSFAS internal document.

¹² DHET (2015). *Are we making progress with systemic structural transformation of resourcing, access, success, staffing and researching in higher education: what do the data say?* Paper prepared for the second national Higher Education Transformation Summit

¹³ De Villiers, P. (2012). *Opinion: Removing the financial obstacles for access to tertiary education - The National Student Financial Aid Scheme: Important gains, significant challenges*. In Hofmeyr, J (2012). 2012 Transformation Audit: The Youth Dividend. Institute for Justice and Reconciliation.



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

which has meant that despite increases in the funding, the number of actual beneficiaries has not significantly expanded over the years since 2012. It has been shown that the annual inflation for higher education fees (tuition and accommodation) over the past few years has been in some instances almost double that of headline inflation, per figures cited from StatsSA data (2015). It is therefore no surprise that the gap between those that can afford and those that cannot afford has, in a sense, narrowed with increasingly more households unable to afford the cost of a tertiary education.

i. Funding modelling and modelling assumptions

- 3.3 It should be noted that the PER report (and accompanying spreadsheets¹⁴) suggested a wide range of variables that could be considered in the funding model. Should this not have been made available to the MTT, this can be obtained from NSFAS, the National Treasury or DHET directly.
- 3.4 It is noted that university student numbers have been modelled on a 2008 population study (page 80). It is suggested that a more accurate estimate would be gained by looking at the undergraduate student enrolment figures from HEMIS, which are updated annually – the 2015 data is the most recent, fully audited set. A projected growth could be forecast based on their historical data, considering the recommendations of the NDP in respect to the growth of places within the sector.
- 3.5 The full cost of study valued of R92 000 for 2018 is an over-estimation of the average full cost of study, given that values such as book and meals allowances could be at the discretion of NSFAS/ISFAP. The PER projects an average full cost of study of R81 554 in 2030, using the 2014 weighted average full cost of study adjusted by an inflation variable of 4.3% per year. While this is lower than anticipated for the 2030 academic year, considering that the NSFAS cap for 2017 is R76 000, it is a closer estimation of costs.
- 3.6 NSFAS has available data from means testing over the past few years (not from all institutions) which could be used to improve the modelling capabilities for ISFAP. Understandably, data on household incomes and university attendance are not

¹⁴ Which provided for variables to be manipulated to assess the impact of certain triggers on the costing of student loans and grants over time. One such workbook is titled “2015.11.10 NSFAS Loan Choices Model Final” which contains a dashboard of different policy choices which can be adjusted to determine the funding needs for the loan/bursary/grant programme itself.



necessarily readily available other than through survey data, such as that collected by StatsSA. This could be made available to the ISFAP team, on request, and with the understanding that the data is privileged and for the purposes of informing decision-making.

- 3.7 While it has been suggested that the funding for the support systems to be put in place could come from social impact bonds, there may be some value in further discussions with MSDF and other partners (such as Moshal, Allan Orbis Gray, REAP, etc.) about the per capita cost of providing support so that this could be built into latter modelling.

ii. Sources of funding

Recommendation by the MTT (Page 13, plus chapter 6):

Potential sources of funding have been detailed and outlined, and include current NSFAS government grants, grants from the social sector (including NGOs and NPOs), private sector grants, social impact bonds, senior long term funding and senior funding. In addition, the BBBEE Act may provide a source of funding through the skills development expenditure compliance targets of companies to invest in bursaries.

- 3.8 The MTT report notes that the Board had proposed a funding solution for students of the Government Employees Pension Fund (GEPF) members, but that this proposal on its own was inadequate to fund most students classified as the “missing middle”.
- 3.9 However, the NSFAS response to the Ministerial Review also briefly suggested two further models for leveraging this additional capital – i) a revenue stream from the performing part of the loan book by improving the debtor information and the asset value of the book, and then securitising this as an income generating asset; and ii) designing a model like that in the housing sector where collateral benefit is provided by commercial banks. There is evidence of this type of funding stream for student financial aid in many developed and developing economies, from the United States (e.g. Sallie Mae), to Chile (e.g. the CORFO model and private financial institutions), China (all three loan programmes are underwritten by the banks with state guarantees), Finland, France, Germany, India, Poland, Portugal, Korea (some), etc. This has not been further investigated, but may be a consideration in the structuring of the PPP or the funding agreements reached by FundCo.



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

3.10 In addition, the Fundisa Fund is a partnership arrangement that was instituted between the DHET, NSFAS and the banking sector, aimed at encouraging the parents of future students to save towards their higher education costs. When it was conceptualised in 2007, it was with the intention of being able to offer bonuses to parents who had saved a minimum targeted amount. Each of the existing banks offer this investment option for parents, and there may be some value in exploring ways in which revenue could be generated from the investments out of this fund into NSFAS/ISFAP. This may even be in the form of grant matching from private investors.

iii. If there is a constraint in funding – who gets declined?

Recommendation by the MTT (page 134):

“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.” Options include lowering the top threshold of the R600k household means tested students, declining lower quality students based on academic performance, giving preference to scarce skills, offering lower amounts, adjusting the offer of the total loan/grant to household means, and filtering on the basis of fields linked to possible funder constraints.

3.11 The most efficient use of NSFAS funds is to fund students that graduate within regulation time, although evidence from various cohort studies provides different and sometimes conflicting evidence on this indicator. However, as enrolment at the universities increases in line with the targets set by the NDP, the absolute number of students that require funding at university will increase. In response, NSFAS/ISFAP will need to more carefully select students who are likely to graduate within regulation time so as to limit the pressure for funding from continuing students who are not performing sufficiently well to complete within regulation time, or as close to regulation time as possible. This serves two purposes: reducing the total cost of credit passed to the student at the end of his/her qualification and ensuring that students graduate and can access employment opportunities and so kick-start the recovery process and re-inject these funds back to fund more students.

3.12 A more intuitive look at student success at university level (as the TVET parameters are much clearer on this), and indicators of the potential for students to complete their qualifications in regulation time (or as close to this as possible) is needed. This may require increasing the courses passed rate threshold (from a minimum of 50% at the end of first year, to 60/65% at the end of second year, etc.), building in a



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

weighting system for the actual average percentage attained for all courses for which examinations were written (and/or funded), or applying priority ranking to students on track to graduate within regulation time (N), then those on track to graduate within N+1, and finally those on track to graduate within N+2. While the current NSFAS rules set a minimum academic criterion for continued funding, this criterion should be reviewed to incorporate not only a higher performance threshold, but also a weighted score for individual subject performance based on the weighted credits needed for graduation/completion and not only an overall course passed ratio. On this basis, all students could be ranked from most academically deserving to least academically deserving, given that means testing has been undertaken at point of entry.

- 3.13 Policy dialogue on this with Universities South Africa and the sector more broadly will need to be considered in the process of reviewing this. A firmer set of rules on how to weight the financial and the academic criteria may need to be considered in the student-centred model, and could be applied by ISFAP. By stricter application of the rules regarding the length of financial support offered to students, and by more closely aligning the academic pass criteria to the maximum period of funding (N+2), this wastage from students who do not ultimately complete can be minimised.
- 3.14 One of the suggestions made by NSFAS in response to the Ministerial Review was to adopt principles in which funding of first time entering students could be linked to the results of the national benchmark tests. While poor performance on these testing protocols may not be considered grounds for non-funding, it could be built into the conditions that at-risk students need to participate in academic development support programmes at the university to mitigate the likelihood of drop-out, failure and therefore leakage of funds (especially if this is grant funding in the first year).

Focus Area 3: Feasibility of a graduated mixed-modality funding matrix

i. Student selection and funding allocation

Recommendation by the MTT (page 23, 47, 51 and 133):

“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



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

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.”

AND

“ISFAP will have a centralised decision engine within which decisions are tabled.” Detailed specifications and data elements were not given, however high-level elements to be included were proposed.

- 4.1 NSFAS is in a process of transforming its business model from one which distributes funds via an allocations formula to the universities – who then make the student funding decision – to one in which NSFAS will directly determine which student is funded. This is as a direct result of evidence which has pointed to wide-ranging institutional practices that may have served to deepen the gap between the adequacy of the supply of funding and the effective utilisation of this funding.
- 4.2 For the 2017 academic year, NSFAS will be implementing the student-centred model in all universities and most TVET Colleges. This means that all students attending any of the public institutions who receive NSFAS funding for tuition fees will be required to apply directly to NSFAS (either online or through the paper-based manual application) and be funded through the student-centred model.
- 4.3 The current NSFAS ranking and funding decision engine takes into account the household means (EFC), the qualification applied for and accepted to (as this holds a weighted score dependent on relative scarce skills index of 1 – 5) and the academic courses passed ratio (this is currently set to the minimum of 50% but many institutions have historically applied a higher cut-off to improve retention and throughput). Additional elements can be selected based on funder-specific requirements – which may be linked to specific institutions only such as gender, race, qualification (or broad field of study – using the first and second-order CESH categories). A final filter is to determine whether or not the student will complete his/her degree/diploma within the N+2 timeframe.
- 4.4 This decision engine is detailed in the Student Funding Policy, the NSFAS Handbook and in the technical specifications for the design of the ranking-and-funding stage. Once the funding decision has been made, the registration of the student activates the contracting with the student, and the payments to the institutions and to the student via the allowance disbursement system. For the 2017 transition year, this is variable across institutions.



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

Recommendation by the MTT (page 51):

“Students will apply to their choice of institution 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 be either via a mobile application, or online via the web, or through a manual process.”

- 4.5 In the design of the student-centred model roll-out for 2017, one of the assumptions made by NSFAS was that students would have pre-applied to their institution of choice and course of choice before applying to NSFAS. However, experience has shown us – through both our walk-in centre in Cape Town, and through teams on the ground who have been working with community/student groups – that this is not the case. Based on this assumption, NSFAS built an online platform which first asks the student to indicate which university and specific programmes of study, before proceeding through the means testing process. Even if this was reversed, an enhancement on this for the 2018 academic year would be to design the application process and the data structure so that high-level generic programmes are given as options¹⁵, and that these are linked in the background to course codes, the full qualification description¹⁶ and the scarce skills coding.
- 4.6 In efforts to increase the channels through which students can apply, NSFAS has engaged the services of local municipalities (manual applications) and the Vodacom ICT Teachers Centres (online applications) across the country. Discussions were previously held with the South African Post Office to leverage off this network, as well as recently with some national retailers¹⁷, with footprints in most small towns and villages. The NYDA has also been engaged to facilitate and channel manual applications from students to NSFAS. These efforts have borne great fruit, but do create backlogs in the capturing and processing of these applications.

¹⁵ For example, instead of referring to a B Social Work at one university and a B Sc in Social Work at another university, the high level generic identifier could be Social Work.

¹⁶ It is important to note that the NSFAS Act (Section 19, sub-section 2) specifies that the “loan or bursary is granted in respect of a particular course of study, which must be specified in the loan or bursary agreement in question, and may not be used for any other purpose.” The full qualification description (aligned to the HEMIS qualification description) is required to ensure that the reporting on qualifications funded between the DHET and NSFAS can be more consistent. In addition, many of the enquiries from funders and from the media require NSFAS to be able to report at a qualification level, and not a generic field of study.

¹⁷ This was to be facilitated through the Channel Management function at NSFAS, and initial discussions were started. Further information can be shared in discussions between NSFAS and ISFAP.



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

4.7 Certainly, utilising the services of the banking infrastructure, particularly for the universities where many of the banks have on-campus presence, would be particularly useful as this would also then provide the benefit of student ID verification and leverage off the banks’ extensive information systems. It would also enable the opening of transactional accounts for students, and kick-start the KYC process for NSFAS/ISFAP. The need for students to have transactional accounts was incorporated into the initial design of the student-centred model in 2013, but was later shelved.

ii. Household means testing and grant vs loan allocation formula

Recommendation by the MTT (page 23, 134):

“Means testing will be done on all applicants 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 degrees¹⁸. Where loans are granted, more grants versus loans will be given in the earlier years to reduce the financial burden on students.”

AND

“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.”

4.8 In identifying who the “right” students are to fund, “decision-making algorithms” which effectively identify processes to prioritise applicants, with the appropriate mix of academic excellence and financial need must be considered to optimise the prioritisation of deserving students. As such, the current NSFAS means test is central to identifying which students are the most financially deserving of those who apply for financial aid. It is widely recognised as a legitimate tool for subsidy targeting, enabling low-income or no-income families to access government support – in this case, for financial assistance for tuition and accommodation fees¹⁹. In its pure form, the NSFAS means test is intended to not only differentiate and rank students from most financially deserving to least financially needy, but also to

¹⁸ It should be noted that in the NSFAS Response to the Ministerial Review (2010), NSFAS recommended that funding could be directed as follows: grant-awarding for the very poor (linked to a model of bonded bursaries) and loans for the remainder where repayments do not need to be income-contingent but qualification for the loans remains income-contingent assessed through a means test (page 22-23 for other considerations)

¹⁹ Marcucci, P. & Johnstone, DB. (2010). *Targeting financial assistance to students in higher education: means testing with special emphasis on low- and middle-income countries*. Draft unpublished paper (monograph) prepared for the World Bank contract no 0007728373.



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

determine the size of the award through a formula which considers the value of the expected family contribution (EFC). This formula is based on the combined income of the students and/or his/her parents.

- 4.9 To be clear therefore, by no means does the existing means test exclude children from upper working class or lower middle class families – the so-called “missing middle” – as often reported. As such, some of the critique in the literature has been based upon a misunderstanding of the core principles of the NSFAS means test. Based upon the availability of funding, by default most of these children were not prioritised for funding and thus, individual institutional thresholds were adopted by some universities to limit the number of applicants from households that are better positioned to afford their university costs and to mitigate the impact of creating “false expectations”.
- 4.10 The NSFAS means test itself is under review in this year, with a view to not only updating the parameters of the expected family contribution (EFC) value, but to also ensure that the principles and assumptions used to determine how NSFAS assesses the ability of the family to support a student’s full cost of study hold true. Determining which indicators or inputs to use to assess the “ability to pay” for higher education, how to accurately distinguish between which students are dependent or independent of their families and, particularly in the South African context, defining adequately the calculation of the combined household income that will arguably be responsible for supporting the students cost of study are key elements of the ongoing challenge to review the core parameters of and processes for administering the NSFAS means test. Administrative systems to support, verify and validate the means test outputs will contribute significantly to improving efficiencies
- 4.11 The use of proxies for means-testing should be considered in the light of their suitability, their validity as a measure of poverty, the rigorousness of the data available to support the use of this measure and the ease of use for NSFAS and for students.²⁰ Using a proxy, students deemed to meet the proxy criterion would not need to be means-tested.

²⁰ The NSFAS Ministerial Review of 2010 also identified the means-test as an area which needed review and revision, and proposed alternative proxies for identifying which students are the neediest, and deserve differentiated financial aid support. In addition, it suggested the use of income thresholds as a proxy for financial need and suggested three different financing models dependent on need. From full subsidisation for the poor and those from working class backgrounds, to income-contingent loans for children of public sector employees and lower middle-income households earning up to R300 000.



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

4.12 The need to adopt other measures as proxies (for example, the school quintiles) for poverty in the absence of good, verifiable data has also been considered as part of the review of the means test undertaken by NSFAS.²¹ Using data from the National Income Dynamics Study (NIDS) and statistical modelling techniques, a number of proxies were analysed in respect to the extent to which they correlated with poverty and household expenditure. See below for examples (page 17):

1) Best Targeting Proxies	2) Normatively Important Proxies	3) Most Easily Verifiable Proxies	4) Potentially Verifiable Proxies
School Fees	Race	Quintile Dummy	School Fees
Parental Education	Female	SASSA Grant	Water
Dependency Ratio	Parental Education	Race	Electricity
Race	Rural Area	Gender	Rural Area
Car	Quintile Dummy	-	Dependency Ratio
-	-	-	Car

4.13 These were then combined into a set of indices²² which NSFAS could choose between and apply, taking into account those which would be easier to verify, and which at the same time would reduce leakage. The model proposed that the use of proxies to construct an index while assuring that leakage was minimised may place a greater administrative burden on the second stage of the application process – that is, the means test itself – as higher numbers of non-poor students would correctly be directed to the means test. The conclusion from this study was that NSFAS has three major trade-offs to consider in the selection of one of the indices suggested – i) the complexity of the proxy test that will trade off targeting accuracy against verifiability; ii) trading off coverage of the poorer population of students versus leakage in the choice of where the index selected cuts-off those eligible and those not eligible; and iii) trading off how better targeting saves budget but increases second stage application volumes. The report does recommend and motivate for the adoption of one of the proxies.

²¹ The report on the research undertaken by DPRU on behalf of NSFAS in respect to the use of alternative proxies is available and will be submitted as Annexure C. A further report, to be finalised in March 2017, on the updating of the actual basket of goods used in the EFC calculation will be made available on request.

²² (5 indices were provided with different points ranges and cut-off thresholds for full funding)



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

- 4.14 In the 2017 implementation of the student-centred model, a means-test waived student is a learner whose last year of schooling (matric year) was at a quintile 1 to 3 school (fee-free schools), or who is the beneficiary of a SASSA grant. These applicants need to supply no family income or expenditure information, but are automatically assigned an EFC of 0, and therefore eligible for NSFAS funding should all other conditions be met. The adoption of these proxies has been on the basis not only of the Ministerial Review but also on extensive work undertaken by the DSD/SASSA on their means testing process.
- 4.15 In general, these two proxies are supported by good administrative data which has been audited, and so may be more reliable than self-reported income information, which NSFAS has been unable to validate. Despite the provisions of the recently government gazette which provides NSFAS with access to SARS data, this is limited to non-financial data. In terms of POPI, NSFAS/ISFAP requires the consent of the parents to obtain income information. While student consent has been built into the NSFAS online application process for the 2017 academic year, POPI requires that the parent of the applicant give consent for NSFAS to process personal information.
- 4.16 More recently, the need to differentiate and differentially fund students from low-income or no-income families from students in the “missing middle” has been recognised as an element for further review as NSFAS rolls-out the student-centred model. In the interim, for the current implementation of the student-centred model, the means-test calculation applies to all non-means test waived students who are applying and the EFC is then used to rank and fund these students.
- 4.17 The DHET 2012 report on Fee Free Higher Education also recommended the use of the lowest threshold of the SARS tax tables as sufficient, given the difficulty in adequately defining and measuring poverty in South Africa. This report reflects on three different degrees of poverty from absolute, moderate to relative poverty and provides characteristics of the households within each of these categories. This report further goes on to suggest that there are some indicators that are useful in characterising low income students, and listed three broad indicators as below:
- Those who are first generation university students whose parents are unemployed and do not have stable sources of income;
 - Those who attended under-resourced, poorly performing schools generally in quintiles 1 to 3; and
 - Those that come mainly from rural areas and from poor urban areas with limited access to basic facilities such as decent housing.



iii. ISFAP will fund the full cost of study

Recommendation by the MTT (page 23, 134):

“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”. Where additional grant funding can be raised, it is recommended that students from working class/poor households also receive fully subsidized education.”

“The full cost of study will cover tuition, accommodation, books, meals, and in some cases, a stipend. This may have an impact on ... student migration patterns.”

4.18 NSFAS recognises the need to have an expanded view of the full cost of study, one which is inclusive of books, meals and additional stipends, particularly for the very poor and low-income families who have no/little access to other financial resources to support them while studying. These costs, as determined by the universities, have been tracked for many years and used by NSFAS to determine an average weighted FCS, to which the NSFAS annual cap is pegged. It is acknowledged that such a cap is – by virtue of its impact – a form of “top-slicing” by reducing the loan or bursary size for a student at a more expensive university to that of the average in order to fund more students.

4.19 However, NSFAS’s approach to manage the maximum award size has had two very different and opposing effects: firstly, to leave poor students who are studying at more expensive universities with a student fee account debt that cannot be met by their parents (often leading to financial exclusion from the university); and two, to manage down the increasing costs of tuition, residence and (in some cases) allowances at universities that have generally fallen below the NSFAS capped amount. Evidence shows that in programmes where there is no national maximum applied (e.g. Funza), costs for those funded programmes have increased at a higher rate than other programmes.

4.20 An alternative model would be one in which an annual cap per institutional type could be determined, an argument that has also been positioned within the sector in the drive for differentiated funding allocations based on the teaching-research nexus. This is on the basis that the cost drivers for research-intensive universities are different from the comprehensive universities and from the universities of technology – in terms of differentiated resource provision for teaching and research competencies.



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

4.21 While this recommendation is supported, it is recommended that cost containment measures and other control mechanisms are put in place by the universities, UniversitiesSA and the DHET to ensure that the burden of meeting the increasing costs of tuition are not simply passed to students, and inadvertently to NSFAS/ISFAP.

Recommendation by MTT (page 55):

“There should be a maximum cumulative loan amount for each student. This should be limited to an amount per annum. This is to avoid excessive debt at the beginning of their careers.

4.22 While this principle is supported by NSFAS, it will be difficult to manage given the varied cost structures across all the universities and the commitment by ISFAP to fund the full cost of study. Limiting the loan amount would therefore imply that the grant portion would need to be higher in universities where the full cost of study is greater than the “annual limit” applied by ISFAP. The other alternative would be to then limit the allowance values given by the loan amount so that these FMCG items (food, etc) are not accrued for the years of study and into the loan repayment periods.

4.23 This will also be difficult to manage where students are exceeding the regulation time for their qualifications. The MTT report indicates that “these students (referring to very poor students) will continue to qualify for partial grants and be offered loans until they graduate beyond the regulation time subject to terms and conditions” (page 35). Mechanisms will need to be put in place to track and monitor this and identify students at risk.

Focus Area 4: Funding of Occupations in High Demand

i. More focus on scarce skills and Occupations in High Demand

Recommendation by the MTT (page 23, 134):

“The MTT recommends that a bigger focus be given to producing graduates with scarce skills (noting that a balance must be struck between degrees in humanities and social sciences with professional degrees and vocational programmes). It is recommended that the definition of scarce skills or occupations in high demand will be based on the targets set by the HRDC and the Gazette of Occupations in Demand. It is recommended that



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

students funded through ISFAP be required to engage in community or national service (to be developed in consultation with the DHET).”

- 5.1 This recommendation is welcomed by NSFAS. In the design of the student-centred model for the pilot university implementation, NSFAS adopted the professional categories identified by the NSF (at the time) and used this as the basis for assigning a weighting of 1 – 5 for each qualification offered by the pilot universities, which also took account of the differentiation between professional degrees and diploma programmes. In the current ranking process, this weighted score contributes 10% towards the final score of the student – with financial need (EFC) and academic ability (course pass rate) each contributing 45%.
- 5.2 It should be noted however that even though the Gazette of Occupations in Demand was released in 2014, the exercise of rating each qualification against this Gazette for all the remaining universities has not been updated for the 2017 academic year.
- 5.3 It should also be noted that the NSF and SETA funding administered by NSFAS is responsive to occupations in high demand, with each of the SETAs determining which qualifications will be funded and at which university.
- 5.4 It is recommended that in the design of the ISFAP systems, the use of the CESM categorisations is adopted so that more standardised and effective reporting in respect to scarce skills can be made possible. Using the second order CESM for any one academic programme will provide a more nuanced analysis of the fields of study being supported.
- 5.5 It should also be noted that the PER study cautioned that increasing enrolments in the SET fields of study would impact upon the costing of funding students in the following ways:
 - Many SET qualifications require four years regulation time (even in the UoTs where the NDip programmes articulate into BTechs currently, and from 2019 will be offered as professional degrees as part of the new HEQSF);
 - Tuition fees in these programmes are often higher than in non-SET programmes (especially in research-intensive academic universities); and
 - There was some evidence provided in the PER cohort study, that the drop-out rates in these programmes are higher and the graduation rates lower than in other fields of study. As such, consideration may need to be given to prioritising the support to these fields of study, or considering a higher grant-



loan ratio so that these students do not graduate with a higher than average loan size.

Focus Area 5: Improving the performance of funded students

- 6.1 NSFAS recognises that the inability of the sector to produce graduates in regulation time is a factor of both the effectiveness of the basic and post-school sector and NSFAS’s own internal regulations and mechanisms for monitoring students at risk. However, it is important to note that NSFAS is not responsible for academic matters and this falls under the authority of the DHET and the universities/colleges themselves. It is recognised though that the drop-out and throughput of students leads to unnecessary wastage of funding allocations and as a result of high drop-out, there is low recovery as students are not able to find meaningful employment that provides an income sufficient enough to meet their loan obligation and their family cost-of-living expenses.
- 6.2 NSFAS is in the process of finalising a report for the Board which considers various factors that impact on student throughput in universities and TVET colleges. This report has been based on engagements with a range of key opinion leaders working in this area, recent graduates and NSFAS staff that are student-facing and familiar with student issues. The issues raised in this report mirror the recommendations by the MTT in respect to the “wrap-around social support”, which NSFAS has referred to as ‘scaffolding’.
- 6.3 NSFAS’s ability to report on the performance of its students is an area which needs attention. The use of a courses-passed rate as a reportable indicator of success creates a picture that NSFAS-funded students are achieving high-levels of success, without recognition that this indicator is skewed in favour of students who take a lower course load, or who are just passing all their courses. It is not an adequate indicator for determining if students are not progressing academically from year-to-year, nor does it predict whether or not a student will graduate in regulation time. As such, NSFAS only has the capability of retrospectively reporting on drop-out and graduation, and even here, has limited capacity to do this in-house.
- 6.4 It should therefore be noted that the DHET is in the process of finalising a cohort study which will look at the graduation and drop-out rates of a series of panels of NSFAS-funded students. This would be a much more empirical basis for the projection of success-rates and graduation-rates within the ISFAP costing model.



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

i. Wrap-around Social support – the social support eco-system

(pages 56 – 57, 90, 106 – 107)

- 6.5 While this has not been a focus of NSFAS (see previous comment on this), NSFAS has worked closely with several NGOs, partnering with them to provide different layers of support dependent on their needs. NSFAS has also engaged, although to a limited degree, with the Student Services offices in some universities and at the TVET, but has actively encouraged partnerships between the financial aid offices and the Student Support services on campus, from as early as 2008. The 2011 Handbook specifically recommended ways in which financial aid offices could partner with other service units in universities.
- 6.6 We must recognise that most of the NSFAS-funded students entering university are first-generation students, and for some students, this may place a significant burden on them in terms of their social adjustment to university (not having known someone in their families who has been to university), their ability to fall-back on a home support system for academic support (especially if the academic literacy levels at home are not adequate), and the psychological isolation they feel when faced with not being able to cope adequately academically and having no-one to confide in. As such, developing a support system needs to account for different ways in which these students adapt or not to being at university, and find ways of identifying them early.
- 6.7 In the PER report, it was suggested that a student help-line or referral process should be designed, one which is easy to access and use, gives students assurance of its confidentiality, and which “meets them where they are at” – for example, a peer supporter, or senior student mentor.
- 6.8 It is recommended that the use of the robot system – developed and used at UKZN – may have some value to the MSDF as they develop their integrated IT platform for tracking student data. In addition, survey instruments developed by the university are pushed to all first time entering students to assess their adjustment to university life, and it is based on this, that many students are referred for additional support. This may be worth further exploration.
- 6.9 However, it is recommended that extensive training and support is provided to the university staff involved with updating this as such a system will only be as good as the data inputted into it. The MSDF dashboard that has been developed has been used at the University of Cape Town and the University of Pretoria only – both



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

highly effective and well-functioning universities. There is a risk that without sufficient support and change management when rolled out more widely that this will not have the same functional value in other universities. Universities will need to create more capacity for the provision of psycho-social support, particularly for those universities which are under-resourced currently.

- 6.10 It is also suggested that systems could be built which are more intuitive and which push communication to students, encouraging students to respond to quick surveys which themselves can have built-in early warning systems²³. The report suggests ‘embedded triggers’ based on student behaviours, results. From the focus groups hosted, it was suggested that many times students do not disclose when they are struggling or know where to look for help, and therefore embedded triggers could be used as an early warning system.
- 6.11 In a project undertaken by the Institute of Design Thinking (UCT)²⁴ on behalf of NSFAS in 2016, a prototype was mooted for a platform called the NSFAS ‘Collective’ which “combines social and technological mediums to create a healthy relationship between NSFAS and students, and amongst NSFAS students”. It was noted in their report that “students themselves are on a journey, changing from high school learner, to a junior and eventually senior university student... finally, the student becomes a graduate – an alumni member.” In their solution, they proposed four elements which made up the framework for the ‘Collective’ – i) the NSFAS student-centred model; ii) existing technology platforms; iii) proposed re-engineering of existing technology platforms; and iv) a social solution. In this latter element, the team suggested the development of incentive programmes which connect senior students to junior students (this could be linked to rebates on loans granted) and ambassador/mentorship programmes amongst NSFAS students. Together these concepts contributed to the formation of a social society on campus, which not only eliminated the notion of a faceless NSFAS and poor communication, but through the connectedness of students who were engaged with one another, it enabled a sense of family.
- 6.12 It is suggested that “wrap-around support” should include medical support when required. The opportunity – particularly for universities with allied/health services

²³ It may be worthwhile engaging PwC’s Ms Pamela Maharaj, as her team presented a case study on one of the UK universities (University of Warwick?) and their digital journey with students. Built into the platform were triggers for students and academics to use that could identify and flag students who are struggling.

²⁴ The reports from the two multi-disciplinary student groups who participated are available, and can be requested.



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

departments – should be further explored for there to be collaboration between the Student Support Services and these services to not create an additional cost burden on the funding of students. It should also be noted that for students from households considered very poor or poor, the Department of Health provides a range of free services which may be coordinated and integrated into the university offering, rather than an add-on component of ISFAP.

- 6.13 It is also noted that the report suggests that “the responsibility of the student is to attend lectures and tutorials, supply regular feedback for monitoring and engage with the support system”. From NSFAS’ limited experience with this in the TVET funding programme, the monitoring of attendance in class and in test sessions is extremely difficult if approached through timesheets and workbooks. This would have to be integrated into the technology platform, either through a wi-fi tracking system which logs student attendance in class (each time a student passes a registered wi-fi zone), or through biometrics (thumb prints outside classrooms), or other mechanisms. It is also recommended that such a feedback loop is made visible to students and/or their mentors/programme manager on a mobile app.
- 6.14 Student contracting for this social support as part of the loan/bursary offer will be critical, with specific clauses/consequences that deal with non-adherence to these conditions. Creating a student pledge would be a suggestion – one which can be self-monitored (to build independence) and mentor/peer-monitored (to build accountability).

ii. Students with Disabilities

(page 57)

- 6.15 NSFAS has had in place a policy for the funding of students with disabilities since 2008. The current version of this policy has been deliberated upon by the Higher Education Disability Services Association (HEDSA) and by NSFAS in consultation with the financial aid offices and the Disability Units at the various institutions. It requires not only that these students are fully funded (full cost of study), but also provides for allowances for assistive devices, human support and will cover the cost of a carer residing at a university residence. It further emphasizes the need for the financial aid offices to work closely with the Disability Units and Student Support Services to ensure that these students are supported throughout their academic career, where required. This policy can be made available to ISFAP.



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

- 6.16 A separate funding stream (bursary funding) has been identified for students with disabilities at universities, and discussions with the DHET to offer similar grant allocation for the TVET colleges are underway. However, in discussions with Disability units in 2016, it was noted that the support infrastructure for students with disabilities at TVET colleges is generally poor, and this is an area for further discussion with the DHET.
- 6.17 One further recommendation that has been made for the 2017 academic year is the establishment of a regional/national advisory panel at NSFAS, constituted of persons with disabilities, representatives of HEDSA and representatives from the financial aid offices. The role of this advisory panel is to provide guidance to NSFAS on the selection and funding of students with disabilities, to inform amendments to the policy, to promote and advocate the availability of this funding to community-based organisations and schools to ensure that eligible students with disabilities are encouraged to apply – both for admission and for financial support.

Focus Area 6: Creating a model for granting, disbursing, collecting loans

Loan/grant decisioning

- 6.1 It would not be necessary to source an IT platform for the loan/grant decisioning – NSFAS has one built which could be tweaked to serve the purposes for ISFAP. If so, it would facilitate a much more integrated interface between NSFAS and ISFAP to create a single decision engine for public funds and private funds. Research into parameters and proxies which could be built into a multi-variate decision engine has been undertaken by NSFAS and is available for consideration by ISFAP.
- 6.2 Considering that ISFAP has suggested real-time decisions, this would be one area which would need to be addressed in the NSFAS system, as this has been built to undertake ranking and funding decisions on a batch of applications. However, functionality was built to be able to update the decision-status of an application based on whether a student has been means-test waived, so this could be expanded to the means-testing output. It is suggested that a decisioning reply should not take more than 0,05 seconds (page 101), which assumes both sufficient funding for all eligible applications and that no ranking is applied to the applications received. It also assumes that all required documents and verifications have been done in the back-end, and that there are no capture delays or errors.



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

- 6.3 One of the experiences of NSFAS in the implementation of the pilot has been the need to accommodate walk-in registrations and walk-in applications. Although this has been mostly in the TVET colleges, there are many universities that have also employed this practice for programmes which have not reached their enrolment quotas. This would need to be accommodated for in the application and granting process proposed by ISFAP.
- 6.4 For improved accountability and to safeguard manipulation, it is not recommended that “super-users configure the rules without IT intervention.” (page 94)

Channel Management

- 6.5 Channel management (page 95) is a function currently on the NSFAS organisational structure. Its’ focus is to open up platforms through which students can connect to NSFAS – from point of application to final payment. It is also the portfolio through which merchants are managed (for student allowances).
- 6.6 The ICT team in NSFAS have already begun the development for a mobile app that will mirror functionality in the MyNSFAS student web-portal. Consideration could be given to some of the recommendations by the Institute for Design Thinking on the core components of such a mobile app for prospective applicants, students, graduates, debtors and NSFAS alumni. The proposal for this prototype can be made available to the DHET/ISFAP on request.

Technology considerations (pages 101 – 102)

- 6.7 One of NSFAS’ biggest weaknesses is its capabilities to use data consistently, effectively and reliably. It is therefore critical that in the planning for ISFAP, sufficient time and resource is allocated to understanding the long-term data management and reporting requirements so that these capabilities are built dynamically upfront, and are easily customisable based on the nature of the need for information.
- 6.8 There are various platforms which NSFAS has adopted – not only to manage the operations of the entity itself (in terms of auditable controls for SCM, for payments, for IT changes), but also for the management of the loans/bursary/grant application, origination, loan management and reporting functions. Further discussions between NSFAS and ISFAP on these platforms could identify areas that can be integrated into the ISFAP model for seamless data flow.



iii. Legal considerations

6.9 The MTT report recognises that as ISFAP will be substantially funded by the National Revenue Fund and accountable to Parliament, the PFMA requires it to be managed as a public entity. However, it is noted that it is recommended by the MTT that ISFAP is excluded from the provisions of the PFMA, if there are rigorous controls and reporting standards in place to enable ISFAP, and by virtue of the PPP, NSFAS and the DHET to remain accountable for the public funding.

6.10 While it is noted that there is a recommendation to amend the SARS Act to enable SARS to collect loan repayments from ISFAP, there is little reference to how the amendment to the SARS Act or the NSFAS Act will treat the “predecessor” loans from NSFAS. There is also silence on this in respect to the transitioning from NSFAS to ISFAP.

iv. Loan repayment considerations and collections – the loan and broken bursary management system

Recommendation by the MTT (page 44):

“For the loans to give a return to the investors, the repayment ability of student loans needs to be considered.” As such, the model proposes three non-repayment hurdles which include drop-out, unemployment or default while employed. These should be addressed through specific measures such as lending later in the tenure of the course, improving graduation rates through interventions and lending to students qualifying in one of the occupations in demand.

6.11 In addition to this, as per the DHET Working group for fee-free education, two issues of relevance to the loan arrangements needed to be addressed. These include:

- The parameters of the loan scheme – the income thresholds at which debtors start to repay their loans and at what proportion of their income; the grace period; differential interest rates (this would need further research) dependent on the student-debtor lifecycle stage; should repayments cease after a pre-determined period of time after the student leaves the university;
- The lending cap – whether an annual cap or a per-qualification cap, i.e., the point beyond which no further advances to non-poor students should be made, because such additional lending would be reckless. Since, in the case



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

of poor students, further advances are made in the form of grants, how should this cap be set.²⁵

- 6.12 A collections and recovery strategy has been designed by NSFAS, and is currently being implemented. It has been responsible for the growth in recoveries over the past financial year. With the recruitment (some on secondments) of specialists in recovery from the banking sector, NSFAS has begun re-examining the income salary deduction table with a view to updating this.
- 6.13 The suggestion that in-house collections operations is not a core activity of ISFAP is reasonably consistent with the current NSFAS model. While Collections is undertaken in-house, this is a small team mostly located within the outbound call centre. This should be a specialist function, using a panel of EDCs in addition to the PERSAL and possible SARS collection routes.
- 6.14 No reference to the treatment of the current NSFAS debt has been provided in the report. It is therefore assumed that in the PPP, NSFAS will continue to be responsible for the collection of NSFAS debt, and that all new debt will be originated within the ISFAP model from 2018. This will then need to be made more explicit in future founding documents. In this case, there will be a need to strengthen NSFAS' debt management capabilities through the use of a wider set of debt management tools, including the proper and fair use of blacklisting and attaining positive consent for the use of emolument attachment orders etc.
- 6.15 The report does not specifically address whether or not the ISFAP loan repayments will be income-contingent, and the extent or mechanisms which will be adopted in respect to income contingency. Questions to be addressed include: i) is the income threshold simply a threshold under which repayments are not due, and which triggers repayment for those above the threshold; ii) is the income salary band a driver of the % of the students' salary which is due in repayment (if so, the term of repayment could either be indefinite or a fixed term, with forgiveness built-in beyond 20-25 years)²⁶; and iii) is their consideration for determining a fixed term for repayments based on the value of the loan?

²⁵ Department of Higher Education and Training (2012). *Report of the working group on fee free university education for the poor in South Africa*. Pretoria: DHET

²⁶ A view has been expressed that if the students receive the benefit of a sizeable subsidy – through the loan-grant matrix – early in their studies, that no forgiveness after a designated time period should be provided for.



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

6.16 One element that is silent in the report, and which has been under discussion at NSFAS in the past year, is that of the adoption of a age threshold for new loanees, so that this correlates with the likelihood of their ability to repay the full loan over the duration of the term agreed upon. While NSFAS currently has no age restriction in force, some of the institutions did apply discretion in the awarding of loans to applicants - this age threshold ranged between 35 – 50 years old. NSFAS has prepared a policy brief on this issue, and had recommended that consideration be given to implementing an age threshold for loan funding to limit the number of older students as the likelihood of recovery is low. However, this has not been incorporated into the Student Funding Policy yet.

v. Sustainability through increasing the loan recovery rate

Recommendation by the MTT (page 40,):

One of the key success criteria has been suggested as: “to set predictable loan collection rates that meet the funding constraints”. The adoption of different tools to improve collections has been suggested including salary deductible loans collections processes, collected via the SARS.

6.17 The NSFAS Act mandates the recovery of loans issued to students, so that these funds can be recycled back into student awards in the following academic year.

6.18 Cost recovery remains the most significant challenge for student loan programmes to be sustainable and effective²⁷. This is because these programmes tend to offer interest rates that are too low, grace periods and repayments periods that are too generous to the debtors, and origination processes which do not sufficiently educate potential borrowers on their repayment obligations.

6.19 In NSFAS’s case, the interest rates are set at 80% of the repo rate, annually adjusted; interest is not accrued while the student is still studying and for up to 12 months post exit; the application of the in-duplum rule limits the amount of interest that can be accrued over the full life of the loan; and interest is only charged on the nett capital loan (after credit balances and post-conversion) – as the cost of credit is reduced by a conversion factor based on the academic performance of the student (nett capital loan is the principal loan amount recognised).

²⁷ World Bank (2010). *Financing higher education in Africa*. From the Directions in Development: Human Development series 54441. World Bank: Washington DC. ISBN-13: 978-0-8213-8334-6



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

- 6.20 For student loan programmes to be financially sustainable, the view has been expressed that they must work towards meeting the following criteria: i) they must offer a high rate of recovery; ii) they should be able to tap into the private capital market; and iii) they should be able to demonstrate a reduced risk of default by repayers²⁸. Based on the current analysis, NSFAS is not in a position to become financially sustainable. Like NSFAS, most loan schemes operating across the globe benefit from sizeable government grants, and also apply significant subsidies to the student borrowers, reducing the effective repayment ratio.²⁹
- 6.21 Given the nature of the model as it is currently conceptualised, NSFAS/ISFAP will therefore continue to be dependent heavily on government grants to remain viable and to expand the number of students funded. In the years detailed in the plan (page 82), the income stream from government remains high overall (61% in 2018, 58% in 2019, and 39% in 2020), although it is anticipated that this will taper off over time. However, growth in the loan recoveries could provide upwards of 35% of the required funding, given the growth in the number of loans being issued – as determined against the current parameters guiding the number of loans or bursaries that can be provided.
- 6.22 International research by IZA³⁰ has shown that by factor of being a government loan scheme, a “sizeable proportion of the total loans paid out by the loans body will not be received back in repayment” (p 3). This is not only on account of the interest subsidisation discussed earlier, but also the repayment default rates are normally high. This is referred to as the “hidden grant” portion of the loan and represents a significant contribution towards making the loan “free”.
- 6.23 Relating this to NSFAS, this “hidden grant” include the following:
- the loan-to-bursary grant conversion which effectively reduces the cost of capital, and the treatment of credit balances as first repayments against the original capital amount (nett principal loan amount);
 - the discounted interest rate (80% of the repurchase rate from the SA Reserve

²⁸ Johnstone, D.B. & Marcucci, P. (2007). *Financially sustainable student loan programs: the management of risk in the quest for private capital*. Prepared as an Issue Brief for the Global Centre on Private Financing of Higher Education at the Institute for Higher Education Policy, Washington, DC. Made available through personal communication with the author.

²⁹ Shen, H. & Ziderman, A. (2008). *Student loans repayment and recovery: international comparisons*. IZA Discussion Paper no 3588.

Accessed 16-Mar-2016 at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1158984

³⁰ Shen, H. & Ziderman, A. (2008). *Student loans repayment and recovery: international comparisons*. IZA Discussion Paper no 3588.

Accessed 16-Mar-2016 at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1158984



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

Bank), which is a below-market interest rate. In most loan programmes, this is usually the biggest factor in the ‘hidden grant’. In NSFAS’s financial reporting, this is reflected as a social benefit component of the loan and adjusted for after the fair value recognition;

- the interest break while the student is still studying and the 12-month post-exit grace period;
- repayments and the interest rate not linked to inflation (which would reduce the future value of the loan to be repaid); and
- longer amortisation periods – linked to income thresholds and gross income, and not based on loan value – the longer the length of the loan repayment and the grace periods, the greater the ‘hidden grant’ component.

6.24 At a macro-level, the recovery of loans is impacted by the individual hidden grants and the administrative efficiency with which the loan programme is able to recover the loans – in terms of both the actual cost of recovery and the cost of the extent of repayment default. Repayment default must include payments in arrears and the non-payment by debtors. For NSFAS, student default is currently measured in respect to the number of NSFAS loans held by debtors who are no longer studying, but which are not being paid. This certainly could be reviewed in light of best practices within the banking sector and from other student loan programmes.

6.25 Some different mechanisms employed by other countries that impact on the hidden grant ratio include the following:

- 20 of the 44 loan programmes do not levy interest while still studying;
- Some have no interest while studying, but then high interest after studying (prime plus) which encourages repayment (e.g. Canada);
- A short repayment horizon is employed in Namibia results in a lower hidden grant ratio (number of years funded = number of years to repay); and (amongst others)
- Set minimum monthly repayment for all students, but generous grace periods and long amortisation periods encourages faster repayment (Germany) reducing the effective hidden grant.

6.26 A review of mechanisms for recovery in other countries suggests different approaches, including the following: graduate tax, deferred graduate retirement³¹,

³¹ Barakat, B. (2011). *Time is money: could deferred graduate retirement finance higher education?* Paper written for the Vienna Institute of Demography. By personal correspondence with the author. Available at http://www.oeaw.ac.at/vid/download/WP2011_05.pdf.



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

collection through internal tax collection agencies (e.g. SARS), employer settlements on behalf of employees as a part of the cost-to-company, payroll deductions where low earners make low or no repayments and repayments track earnings, loan forgiveness if not paid within a pre-determined time (e.g. 20 or 30 years), partial loan forgiveness if employer by the public sector, external debt collectors (EDCs) etc.

- 6.27 Pushing loan recoveries through the tax system is currently being explored in a paper under development by NSFAS. This paper has reviewed collections mechanisms in several different countries, with a view to making recommendations for best practice. This paper also identifies factors that will need to be considered in respect to engagements with SARS, and references legislative and technical systems that will be impacted upon by such a strategy. This paper will be available during the last quarter of this financial year, and can be requested via the Executive Office.
- 6.28 Further to this, it is suggested that – given the mantra of “that which is measured gets done” – NSFAS/ISFAP determine a set of ratios that can be tested against international benchmarks for a student government-subsidised loan book³². These can be reported quarterly through reporting metrics which could be developed. This capability would be supported by the ISFAP recommendation that the recording and reporting of loans is kept separate to that of the grants.
- 6.29 The evidence from the projects undertaken by the Institute of Design Thinking have suggested that one of the factors impacting on NSFAS’ success in collecting loans due has been our inability to maintain contact with debtors from the point of origination of the loans to the time of collection. This has also come through in assessments of the rule of prescription, and NSFAS/ISFAP needs to ensure that it takes the required actions to prevent the debt due from prescribing.

vi. Change in design philosophy

Recommendation by the MTT (page 48):

“The new decision philosophy at ISFAP will be that the loan/grant/bursary decisions are made independent of the University allocation.” The following question is asked in the report: “Can we move away from university allocation?”. It is recognised that by so doing, the migration of students to/from different universities may change, and the number of

³² Refer to the Shen and Ziderman paper for more information on the construction of these ratios.



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

students funded at any particular institution may be affected. It is recommended that a change management process will be needed.

- 6.30 In the NSFAS response to the Ministerial Review, one of the key recommendations was that funding should follow the student, rather than the institution³³. It is on this basis that the student-centred model has been developed, even though in the pilot years of implementation and in this first transition year, allocations have been retained to build continuity (especially for pipeline students) and maintain some stability in the cash forecasting for the universities. As such, for the first time entering students, this will be easier to manage, to track and to model in terms of impacts on university funding flows.
- 6.31 Some thought should be given to the following caveat: if a student is given the choice of where to study (principle behind the “funding following the student”) and chooses an institution which offers the same qualification but at a higher cost, it should be made clear that he/she will have the consequence of a higher debt burden at the end of his qualification. While higher cost is not necessarily synonymous with higher success rates (graduation and drop-out), there is some correlation between those universities with better success rates and higher full cost of study.³⁴ As such, it is possible that the universities with higher costs may have better throughput which would reduce the long-term burden for these students. However, it is also possible that many students who have been academically progressed from grade 11 to grade 12 without meeting the promotion requirements for the grade may struggle more, and therefore their cost burden would be higher.

General Recommendations for IFSAP to consider

i. Implementation of the pilot in 2017 with full roll-out in 2018

- 9.1 Of the three main activities in transitioning to ISFAP over the coming year, it is suggested that key individuals from NSFAS (with a combination of technical knowledge, subject matter expert knowledge, and experience in working with multiple stakeholders) work closely with the ISFAP “design-and-build” working

³³ In this response, it was suggested that a practical process by which funding could follow the student may necessitate a pre-accreditation for admission (provisional admission), a pre-qualification for financial aid (provisional funding decision) and the adoption of a voucher system. This was based on the understanding that there are far higher numbers of students wishing to study who require financial aid than there are places for admission and funding available (this latter point may not be relevant if ISFAP can secure the additional funds).

³⁴ Refer to pages 22 of the PER for success rates, and page 27 for the full cost tables.



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

teams to ensure knowledge transfer, and provide opportunities to share learning from the pilot implementation and from the full-scale roll-out currently underway.

- 9.2 While the report notes that the pilot will be limited to the “missing middle”, safeguards may need to be put in place to ensure that no student funded by ISFAP has also been funded by NSFAS in 2017. This should be built into the contracts with the universities and ISFAP, and could be facilitated through a data exchange between NSFAS and ISFAP.
- 9.3 It is recommended that in the design of the IT systems, consideration is given to the building of a data warehouse which can integrate data from different sources that can be then used not only for reporting on an annual basis, but which can track the impact of ISFAP over time. Such a data warehouse should incorporate data from ISFAP and/or NSFAS, HEMIS, SASSA, DHA, SARS, DBE, banks etc, at a unique ID level. This has been one of the significant limitations of the NSFAS business information systems, in that data on the students that have been funded or that have applied sits on multiple separated data tables/databases, which makes analytical reporting (not operational reporting) for strategic decision-making difficult.
- 9.4 From NSFAS’ experience in the implementation of the initial pilot (2014 to 2016) and the full-scale roll-out (2017), ISFAP is advised to consider a revised timeframe, especially given the volatile nature of the student movements, and the expected release of the Fees Commission report on fee-free higher education during this year.
- 9.5 It is also critical that planning for the 2018 roll-out give consideration to the following key learnings from our experience in implementing the project:
- Modelling the numbers of applications to be expected should be based upon both the anticipated bachelors pass rate for 2017, and the university admission rates/enrolment plans for 2018; and
 - Modelling the balance between applications received as hardcopies (manual) and applications received as online is critical. Initial planning by NSFAS had been on the basis that most applications would be routed through the online platform, and it was only when applications opened that the paper-based channel was opened. NSFAS missed opportunities earlier in the year to plan pro-actively for, and explore channels with universities, schools, clinics, banks, retail outlets (sBux merchants for example) for distributing and collecting applications. Planning should also have ensured that a third-party



capture interface was up-and-running when the online application went live so that all manual applications could be captured in-situ.

ii. Transitioning arrangements for NSFAS and ISFAP

- 9.6 From the various 90-day plans that have been articulated, the high-level timescales given (page 105) and the assumption that changes to legislation (such as those recommended) will not be immediate, it is reasonable to suggest that NSFAS will remain responsible for the operations it currently holds in respect to the Act until well beyond the end of 2017, or possibly even 2018.
- 9.7 From the report, it is not clear how the pipeline students currently funded by NSFAS will be accommodated within the new ISFAP model when it is fully implemented in 2018. It is suggested that these pipeline students are held with NSFAS until completion of their degree programme, but that measures are built during 2017 to ensure that NSFAS is able to maintain contact with these students so as to ensure collection of their loans.
- 9.8 Consideration must be given as soon as possible to a communication strategy that will educate not only the students and institutions we serve, but also the broader public and the internal staff, many of whom have expressed great anxiety given the nature of the statements in the report (“human resources will be reduced”, “to be based in Gauteng”).
- 9.9 In addition, legislative changes to the NSFAS Act should make provision for the treatment of the existing NSFAS loan book – it is not clear from the report whether this remains the responsibility of NSFAS to collect or otherwise, or whether this will be migrated to ISFAP.
- 9.10 A change management programme will need to be implemented with a number of workstreams – communications, staffing, data migration, stakeholder engagement.

iii. General points

- 9.11 The report recommends an “exception process” whereby applicants may provide additional information on a voluntary information if they are not satisfied with the outcomes of the means test.” (page 115). However, there is very little detail provided in the report on the scenarios which would result in a decline decision. Not all the decline decisions in NSFAS are linked to the means test – on many



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

occasions, the appeals that are received by NSFAS relate to academic performance, academic exclusion, late submission of documents thereby invalidating their application. It is recommended that further consideration be given to this. An area that may need further deliberation is the management of an exception process when the grant size exceeds anticipated annual limits (for example, with the disability funding, grant sizes may be very high as they are inclusive of various allowances).

- 9.12 While the report references TVETs throughout, there is little acknowledgement in the report of the stark differences between the matured university sector and a TVET sector which is still developing, and where significant differences between well-functioning TVETs and poorly-functioning TVETs are still evident. From experience, the profile of the student cohort attending TVET colleges is quite different to that of universities, and their aspirations, needs and behaviours may need to be catered for differently within the ISFAP model.

Concluding Comments

The ISFAP model proposed represents an opportunity to not only do things differently, but to do things wisely. Tapping into the understanding that NSFAS has of the sector, of the institutions and of the students, ISFAP can use this to develop a robust, sound business model, system and support infrastructure for the poor and the missing middle. Our end goals are the same – to ensure that students from poor and working class families are provided access to higher education, and are enabled to succeed. Charting the path to that objective requires collaboration, commitment and achieving a common understanding of the students we serve, the environments they come from, and the stakeholders who are a necessary part of the journey. We look forward to further engagement with the DHET, the MTT and ISFAP as an entity.



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

Annexure A

Further points to be noted

Extract from MTT Report	NSFAS Comment
<p>(page 7) Poor students are defined as “students from poor households with an income below R122 000 per annum based on current NSFAS rules”</p>	<p>As noted in the NSFAS Handbook 2016, NSFAS does not employ an income threshold in the determination of which students are poor. The R122 000 household income threshold was adopted by the DHET in the TVET funding programme when it was introduced. A DHET letter dated 9 February 2011 specifies the use of R122 000 as the threshold. However, this threshold is only used to differentiate those who receive full grant funding from those who are expected to make a family contribution.</p>
<p>(page 80) The current NSFAS household income cut-off for poor students is R122 000 pa – this figure has not been revised in a number of years.</p>	<p>An estimation of a revised threshold based on inflation adjustments (of R158 000) was undertaken for the 2016 academic year, although this was not adopted.</p>



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

Extract from MTT Report

(page 8)

The Glossary does not define or differentiate “loans”, “grants” or “bursaries”. The terms bursaries and grants seem to be used interchangeably throughout the report.

NSFAS Comment

The NSFAS Student Funding Policy defines these as follows, based upon the broad definitions in the Act:

Loans are a form of financial support granted to a person by NSFAS to enable the person to defray the costs connected with his/her education at a designated higher education institution, and those connected with the board and lodging of that person for the purposes of attending the institution. Loans need to be repaid by the student.

Bursaries are a form of financial support/grant awarded to a student in need, that does not need to be repaid, but which may have contractual work-back commitments.



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

Extract from MTT Report	NSFAS Comment
<p>(page 32)</p> <p>The report notes that the current NSFAS has lost the confidence of the private sector to continue funding students through NSFAS, that it has “negative public views regarding the recovery rate of loans”, is “not appetising to investors” and expresses the view that it would be very difficult “to take the body to the new vision without being ‘contaminated’ by current inefficiencies and systems”. It is on this basis that a separate entity has been conceptualised, one which will become an “aspirational brand” and which will generate sufficient funding from the private sector.</p>	<p>Given this view, the report then details areas of weakness within NSFAS without acknowledging the significant work and achievements of the past three years in the implementation of the student-centred model, in the recent growth in recoveries, in improving the “brand integrity” and “brand reputation” of NSFAS, and in the renewed interest from non-public funders in the opportunity to fund students through NSFAS.</p> <p>However, it should be noted that NSFAS has only had one private funder over the past ten years (Nedbank), and this funding commitment was very small in value relative to the public funding under administration. It is recognised by NSFAS that many of the reasons which lead to the wrap-up of this funding commitment related to internal inefficiencies and NSFAS’ inability to consistently meet its commitments to Nedbank on a quarterly basis – especially in respect to reporting. From our experiences with this funder, NSFAS became critically aware of the importance of assigning dedicated funder relationship managers to key funders. Fixing the reporting remains a high priority for NSFAS, and an area that needs urgent attention.</p>



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

Extract from MTT Report	NSFAS Comment
<p>(page 33) ISFAP will disclose and obtain consent for its proposed collection mechanism through SARS and payroll deductions to the National Credit Regulator (NCR) in its process of obtaining registered as a developmental credit provider.</p>	<p>NSFAS has a current developmental credit registration with the NCR and it is suggested that mechanisms be put into place to ensure that the NSFAS loan book is brought up to date in terms of compliance measures (if not in place already), so that this debt can continue to be collected by NSFAS. If this debt is to be transferred to ISFAP for collection, and to build the ISFAP asset value base, the PFMA requires that National Treasury will need to approve the ‘disposal’ of any public assets.</p>



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

Extract from MTT Report	NSFAS Comment
<p>(page 35) “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.”</p>	<p>NSFAS undertook an analysis of the four most recent key cohort studies that have been conducted in the sector. The full analysis is available as a working paper published by NSFAS in 2015/16. It includes reference to the Stellenbosch study commissioned by NSFAS in 2010, the PER cohort, the CHE cohort and the DHET-own cohort (which is still a work-in-progress, due end March 2017). The Stellenbosch study (paper available on request) demonstrates that the drop-out rate for NSFAS-funded students is lower after 4 years (for the 2000 cohort, this is 37%) than for non-NSFAS funded students (for the same cohort, this is 46%). This latter value is consistent with the DHET cohort for all students which shows 44% for the same cohort after 5 years. It is only the PER study which showed that NSFAS funded students had a significantly higher drop-out rate than the DHET cohort. However, it should be noted that there has been some disagreement with the methodology for the cohort analysis employed in the PER report, and it is therefore recommended that the outputs of this study are not to be relied upon.</p> <p>Refer to the DHET cohort for 2005 – 2014 study mentioned previously.</p> <p>Recognise that most NSFAS-funded students come from schools which are under-resourced and therefore these students do not begin university on an equal footing to non-NSFAS funded students. Many are also first-</p>



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

Extract from MTT Report	NSFAS Comment
<p>(page 41) The student-centred model runs on a new system developed by Deloitte.</p>	<p>generation students with little/no family support for their integration into university.</p> <p>While Deloitte played a significant role in the initial conceptualisation and design of the student-centred model for the pilot in 2014, there has been significant in-house work done since then to enhance, improve and streamline the initial systems implemented. Deloitte fulfilled an advisory role in respect to the acquisition of systems such as Phoenix and Cordys which are in use by NSFAS. NSFAS has acquired specialist skills in Phoenix, Cordys, OpenText, and in other systems being used to manage the online application, the evaluation of applications, and the ranking and funding mechanism in the student-centred model.</p>
<p>(page 41) NSFAS works with the universities to determine the allowances needed by students.</p> <p>NSFAS plans to add about 80% of the universities and TVET colleges to the new model by 2018.</p>	<p>Currently, under the transitional arrangements with universities, NSFAS has adopted the allowance values in place at the various institutions. There have been proposals to standardise these allowances, and this will be under review in 2017, for the 2018 academic year.</p> <p>All universities and TVET colleges have been included in the new model for 2017. What has been negotiated as part of the transition year (2017) is the use of the sBux system for private accommodation, and in limited cases, for all allowances at a particular university/college.</p>



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

Extract from MTT Report	NSFAS Comment
<p>(page 53)</p> <p>Student will provide some of the following to ISFAP: SASSA account number Tax number</p> <p>For applications coming from students who are applying for the first time, the school information will be checked against the DBE database which indicates quintile categories.</p>	<p>The SASSA data file used by NSFAS identifies the student by his/her identity number.</p> <p>One of the recommendations in a paper being drafted by NSFAS currently, is that funding for university study is provided as an advance against a later income through the revenue services. An implication of this therefore is that students would need to generate a tax number as part of the application process.</p> <p>The ISFAP application process does not use the school quintile system as a proxy, as all applications will be means tested. If this is the case, why is there a need to check the school information against the DBE data. The processing of the academic admission decision – through CAS – will use this validation in any event, but it has no bearing on the decision to fund or not.</p>
<p>(page 55)</p> <p>“The majority of up-to-date payments are collected via a SARS mechanism. However, as soon as a loan defaults, it is recommended that collections should be handled through the financial sector or EDCs. These external partners have scale benefits and expertise in collections as well as access to different payment mechanisms outside of PAYE.”</p>	<p>One of the new mechanisms adopted by NSFAS has been the appointment of a panel of EDCs that are in the process of collecting outstanding NSFAS debt.</p> <p>In addition, National Treasury has specifically instructed NSFAS to commence discussion with SARS in respect to debt collection. This was received earlier this year.</p>



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

Extract from MTT Report

(page 59)

The diagram reflects at the end of the chain “funding/contact with student”

NSFAS Comment

It is assumed that this is meant to read “contract with the student”. The report does not detail how the contracting with the student will happen once the funding decision has been made. While it references the need for a transactional account, it does not state clearly that it will use the services of the banks to facilitate the signing of contracts with students. In the student-centred model, signing of contracts is done online, and this could be expanded to voice-prompted contracting as is used by some finance originators (e.g DirectAxis, Woolworths Financial Services etc). It is not clear whether this is what is referred to as “tele-sales” (page 89) under the functional component section.

The other consideration is that the ISFAP proposal states clearly that the loan book will be segmented from the grant book, and if this is the case, it must therefore be assumed that two agreements will be required. For NSFAS loans however, the bursary conversion is provided as part of the terms and conditions so does not necessitate a second contract. Students will only have both a bursary contract and a loan contract if they are funded by different funding streams.



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

Extract from MTT Report	NSFAS Comment
<p>(page 81) The definition of very poor will be required in the model. Some possibilities were suggested including the social grants/subsidy cut-off of R66 000, the lowest income tax bracket of R78 000, or what is suggested as the NSFAS cut-off thus, very poor and poor students would be from households with an income less than R150 000.</p>	<p>Based on the IES estimates (page 80), this would put the very poor (under R83 128pa) and poor students (under R149 834pa) as approximately 40% of the population. The first 20% of these students would be very poor, most probably receiving social grants, and therefore the likely recipients of fully subsidised higher education. However, the table on page 81 seems to indicate that 30% of the university population would be under the R150 000pa mark and have done their modelling on this assumption.</p>
<p>(page 106) The total cost of study funding for each year of study should be covered, offset by the EFC.</p>	<p>While reference is repeatedly made to the use of an EFC, the report as presented provides no further detail about the calculation of this EFC – the factors that are inputted to the calculation and the formula used to derive the EFC. NSFAS’s EFC is derived from a formula which includes the gross household income (parents and/or student and/or guardian), the tax tables (to calculate a net income), the size of the household dependent on that income, the postal code (to determine where the family lives, as cost variables differ regionally), and the number of siblings studying at a tertiary institution. The size of the household and the postal code determine a cost-of-living allowance based on a basket of goods. This is currently being updated in 2017 for 2018.</p> <p>It should also be noted that CHE is undertaking work to introduce mechanisms for the regulation of student fees across the universities.</p>



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

Extract from MTT Report	NSFAS Comment
<p>(page 112-3) There is a suggestion that students must do an online check-in for monitoring purposes.</p>	<p>In the MSDF model, all students are provided with laptops, and then access wi-fi networks to connect to the MSDF. It is worthwhile considering that all students on the ISFAP pilot are provided with a laptop as part of their learning support materials/book allowance. If possible, then this would also enable the programme to canvas the universities to consider e-learning materials rather than books.</p>



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

Extract from MTT Report	NSFAS Comment
<p>(page 130)</p> <p>The MTT 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 include the following:</p> <ul style="list-style-type: none"> a) Framework for equity targets to be incorporated in the enrolment plans to promote the DHET transformation strategy b) The means testing process and the determination of household income c) The definition of “full cost of study” d) The qualifying criteria for students to continue to receive support e) The minimum requirements which institutions of higher learning must provide to NSFAS/ISFAP funded students (residencies, travel, meals, broadband connectivity, devices such as tablets and laptops) f) The interest rates cap which NSFAS/ISFAP can charge g) The definition of which programmes are funded h) The relationship between NSFAS/ISFAP with higher education institutions 	<p>In respect to this recommendation, NSFAS will make available the NSFAS Student Funding Policy and the NSFAS Handbook which covers the rules and regulations for student funding pertaining to the following elements as listed in the adjacent column: b), c), d), f), g). In addition – as a contribution to element (h), NSFAS has drafted a Memorandum of Agreement that will regulate the relationship between NSFAS and institutions (there are two separate agreements for universities and TVET colleges).</p> <p>In respect to element (a), NSFAS incorporates equity targets in some of the funding programmes currently under administration (for example, the National Skills Fund programme, and some of the SETA programmes – these are driven by the funders and reported against in their quarterly reports). Such regulations should be written to authorise NSFAS to adopt the use of the equity-driven DHET-approved enrolment plans as a targeting mechanism in determining which students are funded, or to what extent. The autonomy of institutions to determine which students to enrol (and therefore their equity targets) is outside the mandate of NSFAS – however, NSFAS can use adherence to equity-driven enrolment targets as an incentive for more direct grant funding to institutions. Likewise, element (e) is an area which needs to be addressed by the DHET in respect to their Norms and Standards Funding Regulations, and should not necessarily be a regulation in respect to NSFAS and the PPP arrangement with ManCo.</p>



Submission to the DHET: A NSFAS Response to the MTT Report on “A support and funding model for poor and ‘missing middle’ students”

Extract from MTT Report

NSFAS Comment

i) The framework for the contractual relationship between NSFAS/ISFAP with parents/guardians and students

Promulgating element (g) in regulations will limit the responsiveness of the funder and/or NSFAS/ISFAP to changes in the economic environment – for example, the drive towards qualifications which will drive the green economy may change the scarce skills targets going forward.



Annexure B

The NSFAS Response to the Ministerial Review Report – May 2010



Annexure C

DPRU Final Report – Targeting Rules for Student Financial Aid



Annexure D

NSFAS Handbook 2017



Annexure E

Draft NSFAS Student Funding Policy



Annexure F

Project reports – Institute for Design Thinking

Group 1 – the NSFAS Collective

Group 2 – the Flamingos

