ISFAP and the capture of state resources

There are plenty of reasons to reject ISFAP – but its intentions to break the law alongside the sale of poor black souls to white capital for profit are the most disturbing of them all

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In December 2016, just after all students had vacated campuses, the leadership of the Higher Education sector in South Africa undertook 2 exercises in moral cowardice. Firstly, the universities finally announced their 8% increase for 2017 – as expected. And then Minister Blade Nzimande gazetted his proposed solution to the funding crisis – ISFAP. ISFAP is an abbreviation for the Ikusasa Student Financial Aid Programme – a blueprint for what he imagines the solution to the university crisis ought to look like. The gazetting process is aimed primarily at facilitating and soliciting public comment for the ISFAP blueprint until 31 January 2017.

In the Gazette itself, only the Executive Summary of ISFAP is presented, the full 150-page blueprint is available on the DHET website. Whether one reads the summary or labours through the entire document – the fundamental problems are the same – ISFAP has completely missed the point of the university crisis and the #FeesMustFall movement. The task team responsible for producing ISFAP has simply reduced the university crisis to an anecdotal assumption that there are a few poor black students in the system who need loans. This is completely at odds with the reality.

The university crisis is a combination of affordability question at the student level; the declining subsidies and the structure of the system at large. Subsidy funding forms a core component of any university system throughout the world – and that is linked to the essence of what universities exist for. Not all universities should be enrolment based. By simply focusing on the identification of poor students in the system and finding a larger volume of loans to fund then, ISFAP seems to exist on the assumption that all institutions are primarily driven by enrolment numbers – this is not the case; and it should not be the case. The university system exists for 2 primary reasons – the creation and cultivation of knowledge (research) and the dissemination of knowledge (teaching and learning). A healthy and robust university system ought to maintain a balance between the two pillars. In that case, there will inevitably be some research-intensive institutions and some teaching-intensive institutions. Clearly the enrolment philosophy across the 2 will not be the same. Consequently, the idea of reducing the university crisis to a matter of 'dealing with the enrolment of the poor' indicates a limited understanding of the university system by ISFAP and the Ministerial Task Team.

The funding crisis that developed over the past 15 years was essentially created by the mismatch between the 3 primary sources of funding for universities – subsidies (first

stream); student fees (second stream) and corporate participation (third stream). In the 15 years up to the #FeesMustFall movement, the state subsidies (first stream income) declined from 50% to 38% which means that a greater share of the costs was allocated to students – hence the ridiculous increases in fees. It is therefore clear to everyone with an understanding of the university system that the subsidy funding needs to be addressed as part of any proposed solution. ISFAP says absolutely nothing about this. The risk of focusing on the single stream of income (student fees) without calling on the state to restore the balance in subsidy funding simply means that the subsidy funding will keep declining and the student fees will keep rising, which then makes the cost of ISFAP itself much higher than it should be.

ISFAP has transformed this crisis into an entry point for private enterprise to replace the state as the custodians of the higher education funding system. The idea that a public-private-partnership should be created to deal with the funding crisis has been correctly criticised by SASCO. The privatisation of social goods in our society is not only misguided but remarkably dangerous in a society that is subject to such an imbalanced economic compact. In its blueprint; ISFAP proposes the creation of a ManCo and a FundCo on the primary premise that private enterprise has no faith in the state. The ManCo that ISFAP proposes will be a private company owned by FundCo and will run ISFAP. For the university administrators (the vice-chancellors), the most difficult part about adopting ISFAP is simply that it has done nothing to address their primary concerns – the declining subsidy income. It would be remarkably surprising for them to endorse this blueprint in its current form as it simply provides a stop-gap mechanism to the funding of a specific aspect of the university environment and does nothing to address the problem they have been highlighting for the past 2 decades.

Some are poor, some are very poor and some are not

In the ISFAP blueprint, students are classified as either very poor, poor or missing middle. Surprisingly ISFAP does not actually explain how these distinctions or classifications have been derived. There is a ceiling of R600 000 mentioned in the model. In summary, the R600 000 number implies that students from families with incomes below R600 000 are poor/working class and need assistance; those above R600 000 are then regarded as 'rich' and are expected to pay their own way into the system. The danger with this number is that of the 26 universities in South Africa only one – the University of Cape Town – has ever actually assessed its student population to establish who falls within that bracket. The rest of the institutions have never needed to do this as NSFAS funding is limited to students from families earning less than R122 000. It may well turn out that the R600 000 bracket covers over 90% of the student population. ISFAP alleges that that R600 000 bracket covers 65% of the university population – no one knows where this number comes from. Surprisingly, SARS and National Treasury then state – in their annual reports – that

only 566 074 taxpayers in South Africa earn more than R500 000 (that 566 000 represents 1% of the total South African population of 55 million). It is therefore mathematically suspicious to place any reliance on ISFAP's 65% calculation at this stage.

Perhaps ISFAP's most controversial feature is the actual student funding matrix. In the blueprint, the ISFAP funding matrix includes grants and loans for students. The fact that the concept of a loan system has been overwhelmingly rejected by the student movement does not seem to have been captured by the ISFAP blueprint. In relation to the 'very poor' students (whatever that may mean), ISFAP proposes grant funding for the first 3 years plus a combination of grants and loans in the fourth year. As students become 'less poor' then the value of loans increases and the grants decrease. At the high end – ISFAP's upper missing middle students – there is limited grant funding only in the first year and loans from first year until the end of study. The ISFAP blueprint therefore appears overwhelmingly loan-based which leads one to ask what exactly was so wrong with NSFAS in the first place?

For all groups of students not regarded as very poor, there is an expected family contribution. It is not presently clear how such a contribution will be calculated. Interestingly, the full ISFAP blueprint seems to indicate that the family contribution will be calculated based on gross annual family income. This is strange. Firstly, the ISFAP model is clearly modelled on the philosophy of the banking model in South Africa. In the banking model, the National Credit Act clearly indicates that a person's affordability assessment should be based on their disposable income (what is left over after core expenses) rather than their gross income. ISFAP appears to undermine this aspect of the National Credit Act and opt for gross income as the assessment variable. Secondly the ISFAP blueprint states that there will be an expected family contribution from the poor students also. This is problematic as it implies that the definition of poor students remains unresolved or misunderstood by ISFAP. Surely a poor student is the one whose family is unable to contribute towards higher education costs? So where is the family contribution to be sourced from?

The loan funding itself is likely to confuse even more students. In the ISFAP matrix, the loan funding kicks in not when a family becomes wealthier but when a student progresses through university. For example, in the poor/working class category, the loans kick in from third year. However, the income levels remain the same in that bracket. Given the fact that the key issue at hand is the fact that such families do not qualify for loans due to the lack of collateral/security it is confusing how ISFAP has worked out that once a student is in third year then the banks will advance the loans without asking for the security/collateral that the family still can never afford. Disturbingly, even for the very poor students, there is a loan component in the fourth year. How exactly very poor families will qualify for these loans simply because their child has survived 3 years of university is, unfortunately, not

explained at all. I do suspect that what ISFAP has really done is that it has created a way for the state to fund the private sector in a rather creative way. Think about it.

In the ISFAP matrix, all students in the poor and missing middle categories should be funded by the state in first year through the grant system. The reason behind this is quite simple. In ISFAP's own assessment, the greatest risk of dropouts is at first year. Therefore since the private sector has no interest in matters of social justice to begin with, ISFAP wants the state to shoulder the risk and the burden of dropouts – hence the grant system in the first year. Thereafter, once students have proved their academic potential by remaining in the system, the private sector then steps in and funds some of the students. In other words, the capitalists are only participating in the profitable side of the transaction.

In the ISFAP matrix, the assumption is the very poor students are unlikely to pass and hence the state is required to fund them in full for 3 years. If by some chance they make it to the fourth year then suddenly the private sector steps up and provides some funding. This is a scandalously transactional approach to social services. ISFAP has classified South African students as commodities whose quality is linked to their socio-economic circumstances. The poorer you are the lower your credit quality and hence corporate South Africa is not interested in buying you.

You'd think that is the worst of it all – but it isn't. As part of its ambitious plan to galvanise private sector participation ISFAP has created this loan system with limited risk for the private sector – especially the banks. However, anyone with a working knowledge of the banking system can see right through this glorified trade in poor black students. When banks advance loans they charge interest. The interest itself is charged to cover the cost of borrowing plus also the various risks associated with the transaction. One of the key risks in any lending arrangement is that the borrower might not be able to pay back – hence the banks charge interest in order to protect themselves. In the ISFAP matrix, the banks are expected to provide loans to students – and obviously charge interest. One of the reasons a student might not be able to pay back is simply the risk that they might not pass. So any loan advanced to a student will incorporate this dropout risk in calculating the interest to be charged. In the ISFAP matrix however, the state is expected to cover this risk by paying for all students at first year. In other words, the banks will only deal with students who have passed which means that the risk of default on the loans as a result of the dropout is moved from the banks to the state. So naturally you would expect the banks to lower their interest rates because the taxpayer is taking on the risk of dropouts, right? You would be wrong. ISFAP says nothing about the banks decreasing their interest rates to acknowledge the fact that we as society are taking on the risk of defaults through dropout.

As part of the rollout process – yes, ISFAP has a rollout process for a model that is only being Gazetted for public comment now – ISFAP aims to raise R200 million to run a pilot in 2017 with a view of full implementation in 2018.

ISFAP states that the R200 million raised from the private sector is an indication of the private sector's commitment to supporting ISFAP. This is far from reality. ISFAP projects that the true cost of running the system will be R42 billion per year. Corporate South Africa will never invest anything close to that in our education system. One of the recommendations in ISFAP is more BEE funding being channelled towards education. Unfortunately BEE is not a law in South Africa, it is a mere recommendation. The real reason corporate South Africa could advance R200 million to run the ISFAP pilot is very simple. ISFAP has gone to corporate South Africa and proposed to sell hundreds of thousands of poor students at a profit. The profits to be generated by the private sector through this loan system over the next 10 years is worth billions to them – naturally they could find R200 million to fund the pilot!

ISFAP has identified 8 institutions for the pilot in 2017. Of the 8 institutions, 3 are regarded as black institutions (Walter Sisulu, Venda and TUT) plus one TVET college. The 4 historically white institutions in the pilot – UCT, Wits, Pretoria and UKZN – have been allocated 910 of the 1 000 students in the pilot. Yes, that is 91% of the funds is being spent at white universities.

The best feature of ISFAP however is how it seeks to abuse state resources to generate profit for the private sector. Well it turns out that one of the other risks that a bank has to consider when calculating an interest rate is the risk that an individual might graduate and simply not pay; this is known as the collection risk. So ISFAP has found a novel way to deal with this – they have proposed the amendment of the SARS act to allow SARS to become a collection agent for the banks.

In this case, ISFAP proposes the amendment of the law to force SARS to become a debt collection agent for ISFAP debt. Now remember that the state only provides grants to ISFAP and doesn't seek to collect them? The only entities whose debt needs to be collected would be the banks who have provided loans. In other words, the banks have firstly transferred the default risk to the state by refusing to participate in the first-year funding; and now also have passed on the collection risk to the state by lobbying to amend the SARS Act. These 2 initiatives have eliminated most of the risk for the private sector and passed it on to the state. And yet they have not decreased their interest rates to acknowledge that they actually have no risk of losing at all. The billion-rand fire sale of poor black students is underway; and the banks are smiling.

The problem with using SARS as the collection agent for ISFAP is that at some point the banks will simply lump up all the loans that you owe them and send SARS an instruction to deduct the money from you without even distinguishing between the ISFAP loan and

other loans. The fancy term they will use for this is of course ‘loan consolidation’. So, we are indeed entering a new era when our socialist Minister of Higher Education has been co-opted by the banking sector to use state resources to become the collector of debt for the private sector and generates billions in profits for the banks. You might think it is all about ISFAP but it will eventually be about everything you owe to the banks. And thanks to Blade Nzimande and the cabinet, the privatisation of SARS is underway. This is clearly illegal.

A more glorified capture of state resources is being signed off by our government – and the capitalists are yet again the winners! So if you have no other reason to reject ISFAP, the risk to you will soon be visible on your tax return.