

**L** E S E D I EDUCATION  
ENDOWMENT  
FUND



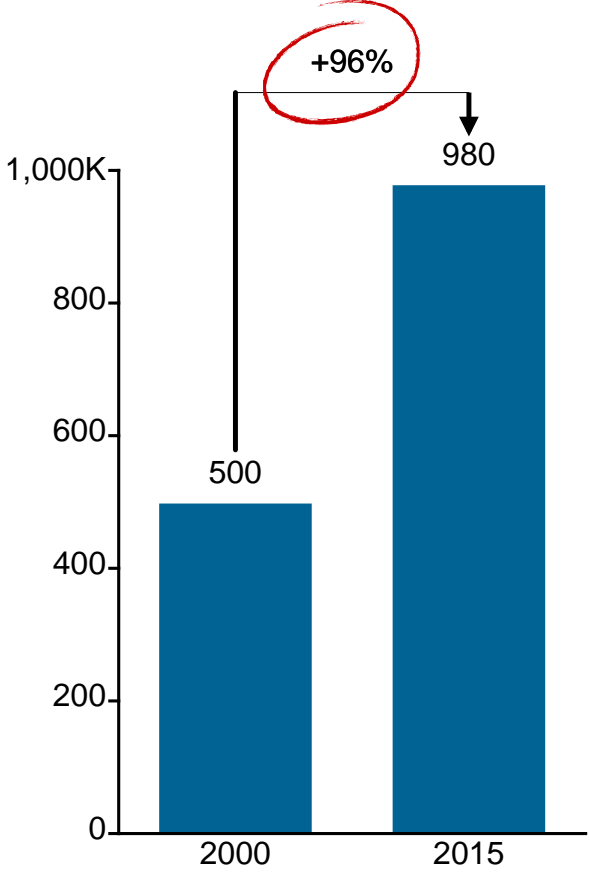
# Executive Summary

- SA higher learning environment characterized by **high enrolments, escalating costs, declining subsidies and inadequate funding solutions**. Bias towards increasing student fees above inflation rate – resulting in the #FeesMustFall campaign
- 3 critical questions need to be addressed in formulating a suitable solution
  - **How big is the funding gap** to be filled? (**Size**) Free for all or for some? (**Coverage**)
  - **How do we fund** the higher education funding gap? (**Source**) Focus on a mix of existing and new sources of funding
  - **Historic injustices – #EndOutsourcing**, a failed loan system & addressing **historic debt**
- We propose a **multi-pronged solution** towards the realisation of **Free Education** drawing on state, community and corporate participation, but centred around **the Lesedi Education Endowment Fund**
  - Funding to be rolled out in **phased approach, prioritizing students facing greatest affordability challenges**, over time – more students get funded to study
  - A **self-sustaining Endowment Fund** ultimately shifts the burden of funding higher education away from society to the primary beneficiaries

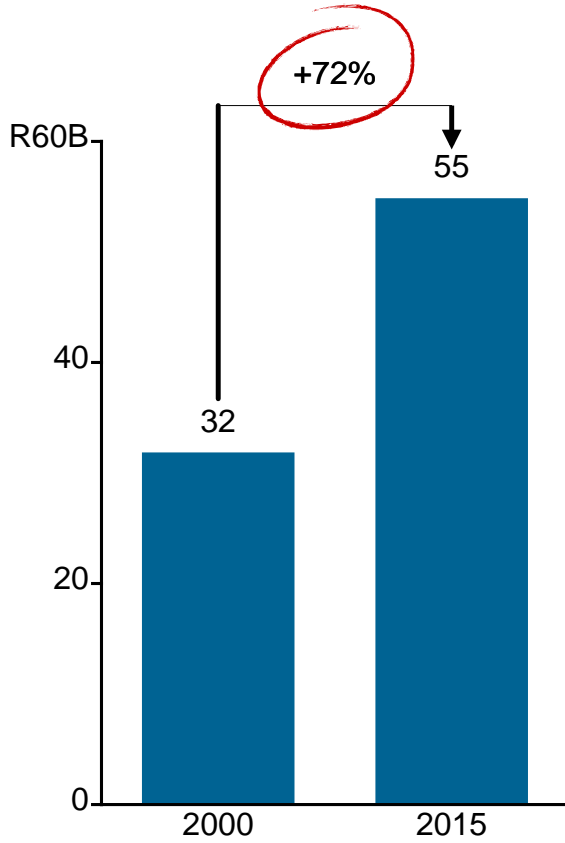


# State funding for higher education has not kept pace with the cost of study and growth in student numbers – a 15-year review

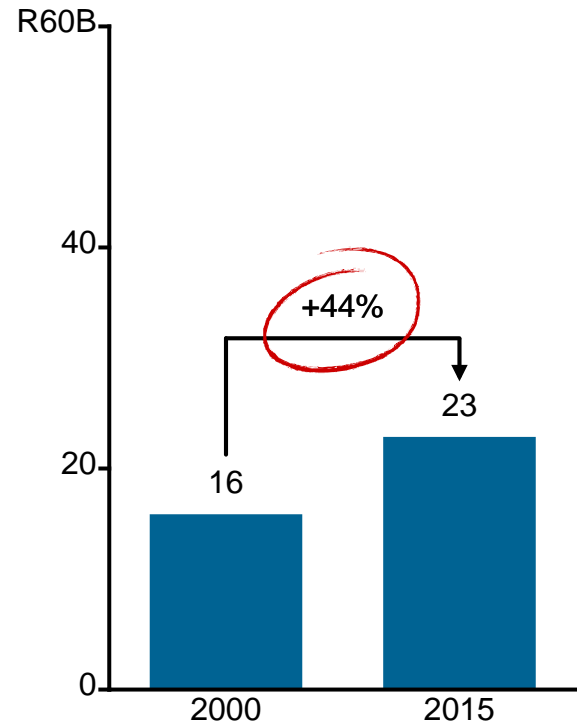
## UNIVERSITY ENROLMENTS



## TOTAL COST OF STUDY



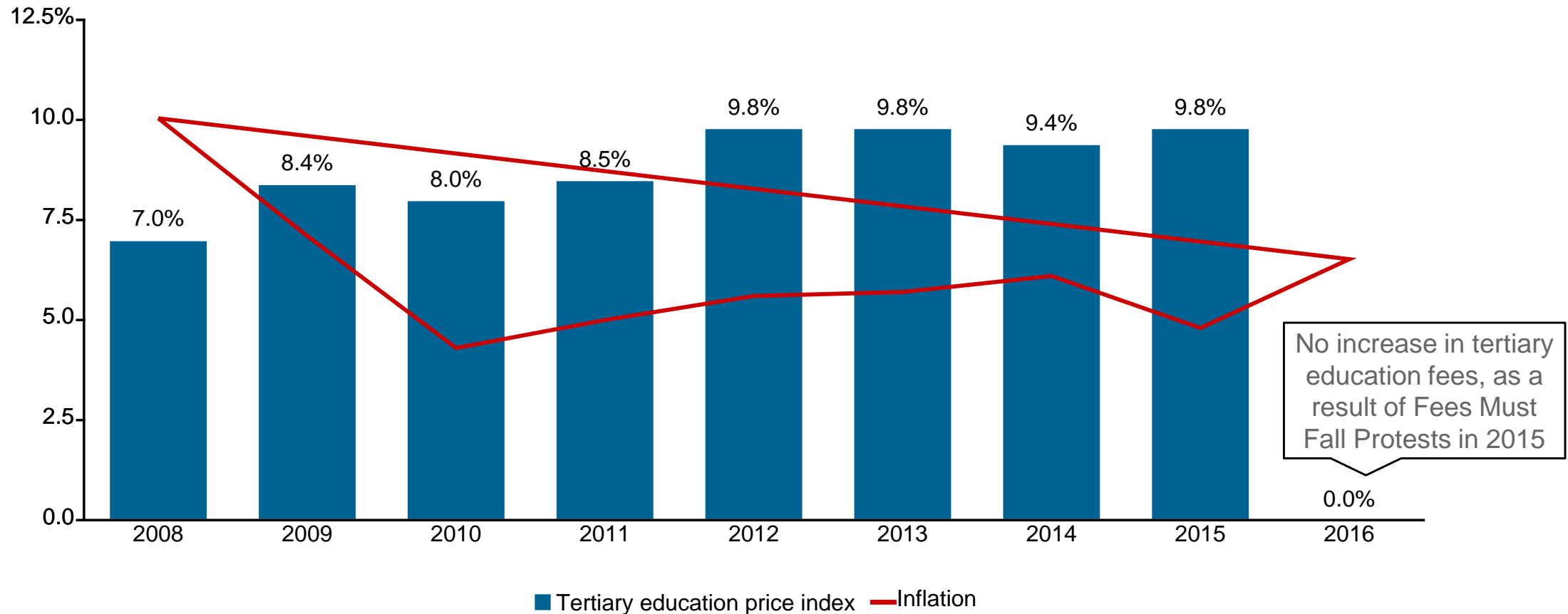
## GOVERNMENT SUBSIDY





# University costs outstripped inflation from 2009 - 2015

Average p.a. % change: Cost of study vs inflation 2008 - 2016



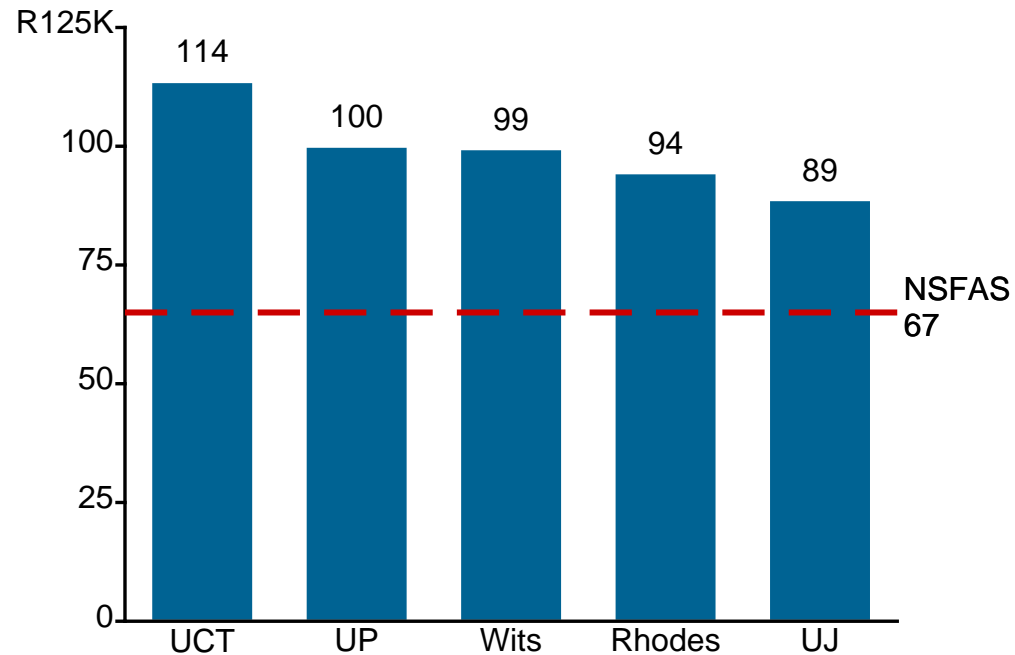
Source: Stats SA 2008 - 2016



# NSFAS designed in 1997 as interim mechanism but has not been adapted to meet increasing fee burden

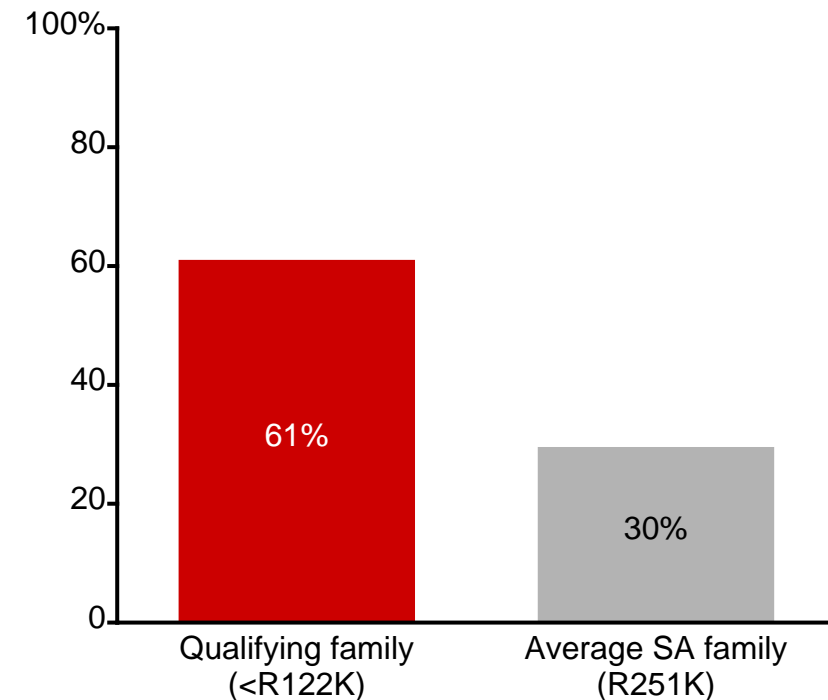
## NSFAS FUNDING NOT ENOUGH TO COVER FEES

Average fees 2015



## HIGH BURDEN ON QUALIFYING FAMILIES

% of income paid as fees\*



**Recovery rate of ~4% exacerbates inefficiency of NSFAS model**

Notes: \*Pre- NSFAS contribution

Source: NSFAS recovery as quoted by Minister for Higher Education and Training Blade Nzimande



# Current state interventions do not provide required level of financial support, therefore rejected by students

## INTERVENTION

- 2015: 0% fee increase

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- 2016: 8% cap on fee increase

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- 2017 – 2019: Additional R8B funding for NSFAS

## CHALLENGES & CONCERNS

- Does not provide a long-term solution to cost increases

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- Does not address overall affordability
- Does not address self-funded costs (e.g. private accommodation, books)
- Does not amend qualification criteria for access to funding

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- Does not address operational inefficiencies of NSFAS
- Does not amend qualification for full access to funding platform

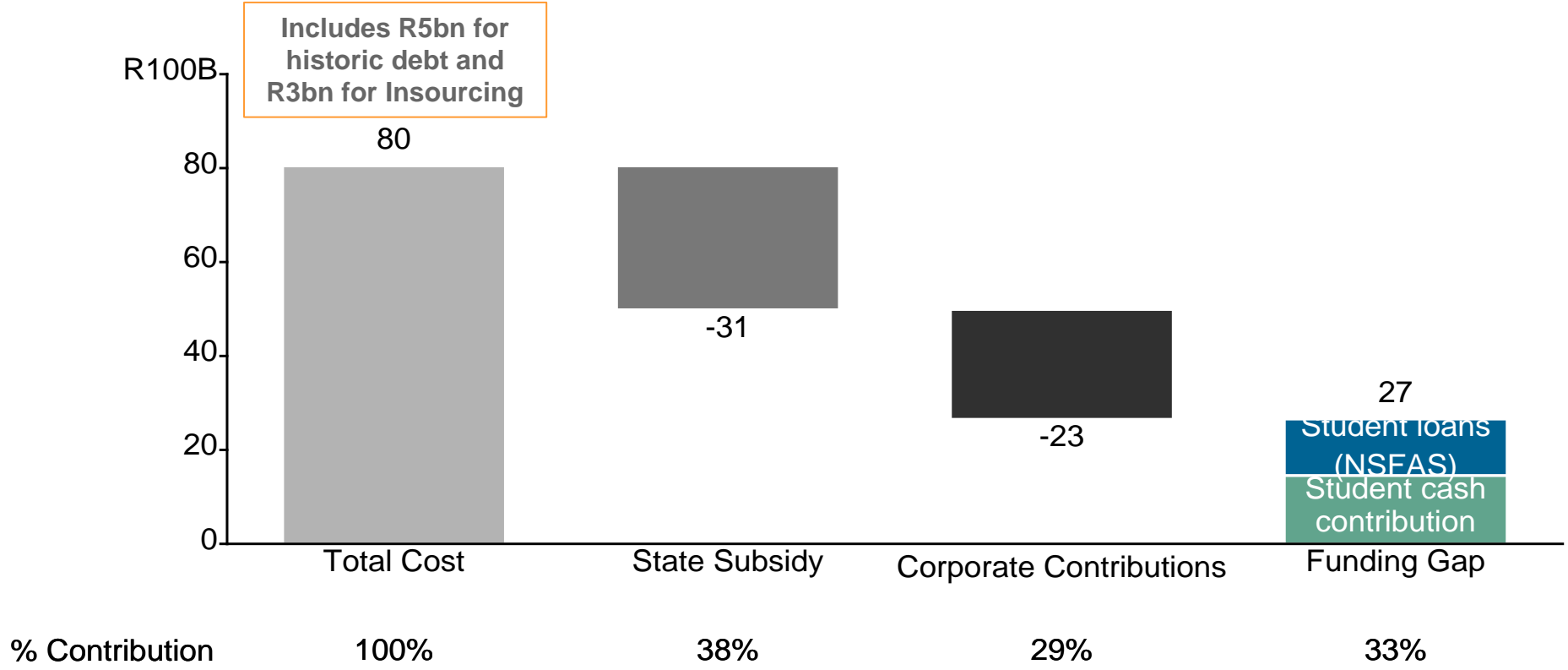
**Longer term, holistic solutions are required to address the underlying challenges**

Source: 2016 Medium Term Budget Policy Statement:



# Current funding gap of R27B needs to be filled to ensure higher education access to all students currently in the system

Tertiary education costs per annum (2017)



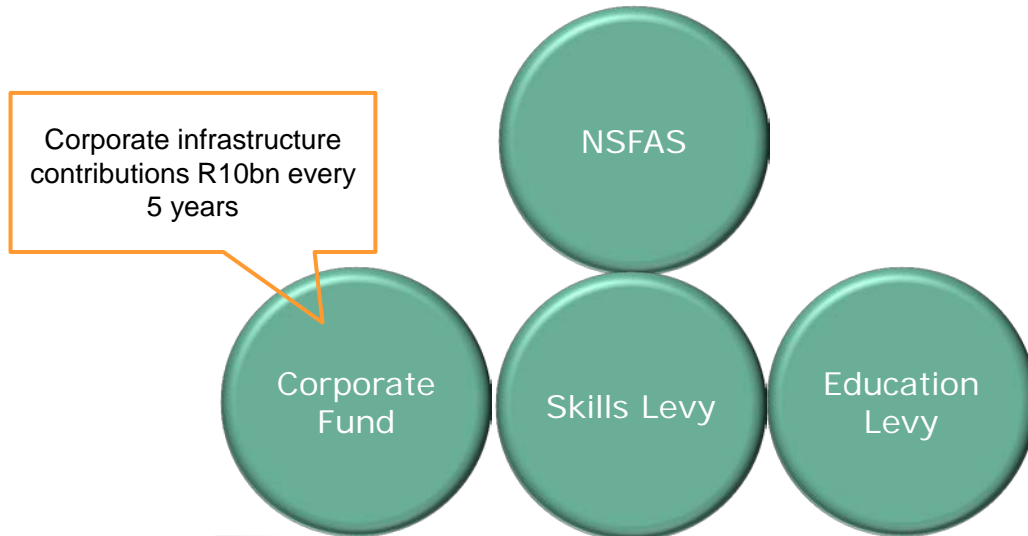
**Success would be a system that would ease the country's educational funding burden now and into the future**

Note: Total cost includes tuition in all institutes of higher learning including UNISA based on weighted average cost per student, accommodation on and off campus, books & catering allowances; state subsidy assumed to remain at 38% of cost,



# Lesedi Education Endowment Fund will be created from 4 major funding sources, fully funds class 1 & 2 students, historic debt

## FUNDING SOURCES



- **NSFAS** – represents state contribution
- **Corporate Infrastructure Fund** – private sector contribution in lieu of tax rebates
- **Skills Development Levy** – corporate contribution into skills development, payroll based
- **Education Levy** – collected on **ALL** graduates regardless of funding status

Note: Skills Development Levy (SDL)

## WHERE DOES IT GO?



- **Historic debt and Insourcing**
- **Phased funding of students**
  - Start with Class 1 & 2 (100% funding for full cost of study)
  - Class 3 & 4 – Full tuition funding & family contribution
  - Class 5 – full family contribution
- **Facilitates access** into higher education for all





# We propose a multi-pronged solution ultimately driven by creation of self-sustaining Lesedi Education Endowment Fund

	RESTORE STATE SUBSIDY TO 50%	INCREASE CORPORATE SA SUPPORT	CREATION OF LESEDI EDUCATION ENDOWMENT FUND
<b>Current system:</b>	<ul style="list-style-type: none"> <li>Total cost of higher education is <b>38% subsidized</b> by state (down from 50% in 2000)</li> </ul>	<ul style="list-style-type: none"> <li>Corporates (third stream) <b>contribute ~30%</b> of total cost of higher education</li> <li><b>Infrastructure</b> (incl. residence) is <b>responsibility of state and universities</b>, and is facilitated through earmarked grants               <ul style="list-style-type: none"> <li>Res can only support ~20% of students; private accommodation is expensive and ill-located</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li><b>Inefficient NSFAS loan system</b> is incapable of supporting ballooning enrolments</li> <li>Outdated criteria means <b>too few students eligible</b> for support</li> <li>Recovery of ~4% makes it a <b>permanent cost to the state</b>, no sustainability in sight</li> </ul>
<b>Lesedi Proposal :</b>	<ul style="list-style-type: none"> <li><b>Restore state subsidy to 50%</b>, as it was in 2000</li> </ul>	<ul style="list-style-type: none"> <li><b>Creation of a Capital Infrastructure Fund</b> that is <b>fully supported by Corporate SA</b>, in addition to maintaining current third stream contribution</li> <li>Capital infrastructure fund injects capital into the system in exchange for tax rebates</li> <li>Unlocks private sectors participation and ends the 'investment strike'</li> </ul>	<ul style="list-style-type: none"> <li><b>Create centralised fund</b> to consolidate &amp; distribute all higher education contributions</li> <li>Fund to have <b>independent structure overseen by DHET</b></li> <li><b>Initial investment</b> to come from current <b>NSFAS</b> allocation and <b>SETA</b> contributions</li> <li><b>Longer-term</b>, fund will be <b>self-sustained by graduates</b> that exit the system through a <b>education levy</b></li> </ul>
<b>Financial impact</b>	<ul style="list-style-type: none"> <li><b>Additional R 12B</b> per annum (phased in)</li> </ul>	<ul style="list-style-type: none"> <li><b>Additional R 10B</b> (on top of current third stream contribution of R 18B)</li> </ul>	<ul style="list-style-type: none"> <li>NSFAS allocation: <b>R 12B max</b></li> <li>Skills Levy: <b>~R 15B maximum</b></li> </ul>

## LESEDI ENDOWMENT FUND

### Endowment fund: sources of funding (R, B)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
<b>Cost of education</b>											
<b>Total cost (R, B)</b>	<b>85</b>	<b>90</b>	<b>98</b>	<b>108</b>	<b>119</b>	<b>130</b>	<b>142</b>	<b>156</b>	<b>173</b>	<b>191</b>	<b>211</b>
Cost of in-sourcing and Historic debt (R, B)	8	4	2	2	2	2	3	3	3	3	3
Inflation			0,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%
Cost per student (R, K)	81	90	100	111	123	136	151	168	187	207	230
Inflation		11%	11%	11%	11%	11%	11%	11%	11%	11%	11%
# of students (K)	956	958	958	954	954	938	924	913	910	907	903
Growth rate		0,2%	0,0%	-0,4%	0,0%	-1,6%	-1,6%	-1,1%	-0,3%	-0,3%	-0,5%
Less: government subsidy (R, B) - 38%	32	34	37	41	45	50	54	59	66	73	80
Less: corporate funding (R, B) - 29%	25	26	28	31	35	38	41	45	50	55	61
<b>Balance of funding required</b>	<b>28</b>	<b>30</b>	<b>32</b>	<b>36</b>	<b>39</b>	<b>43</b>	<b>47</b>	<b>52</b>	<b>57</b>	<b>63</b>	<b>70</b>
Less: self-funded student contribution (R, B)	0	16	17	19	21	23	17	18	20	22	25
% self-funded students		53%	53%	53%	53%	53%	35%	35%	35%	35%	35%
<b>Balance to be funded</b>	<b>28</b>	<b>14</b>	<b>15</b>	<b>17</b>	<b>19</b>	<b>20</b>	<b>30</b>	<b>33</b>	<b>37</b>	<b>41</b>	<b>45</b>
<b>Proposed sources of funding</b>											
Increased Government subsidy @ 1,5% per year (R, B)	-	1	3	4	6	8	10	13	15	23	25
<b>Balance to be funded (ex. CIF &amp; Gov Sub.) (R, B)</b>		<b>13</b>	<b>12</b>	<b>12</b>	<b>13</b>	<b>12</b>	<b>20</b>	<b>21</b>	<b>22</b>	<b>18</b>	<b>20</b>
<b>Effective subsidy contribution</b>		<b>40%</b>	<b>41%</b>	<b>42%</b>	<b>43%</b>	<b>44%</b>	<b>45%</b>	<b>46%</b>	<b>47%</b>	<b>50%</b>	<b>50%</b>
<b>Total funding raised (R, B)</b>	<b>12</b>	<b>22</b>	<b>23</b>	<b>25</b>	<b>27</b>	<b>29</b>	<b>31</b>	<b>33</b>	<b>36</b>	<b>39</b>	<b>42</b>
Growth rate			2%	9%	9%	9%	7%	7%	7%	8%	8%
Graduate levy tax (R, B) based on incremental 0,5% SDL	-	8	8	9	9	10	10	11	11	12	13
SDL increase (R, B) - redirect 40% of current SDL collections	-	6	6	7	7	8	8	9	9	10	10
NSFAS (R, B), 75% of current levels from 2018	12	9	10	10	11	11	12	13	14	14	15
Interest on adjusted prior year balance (R, B)		-1	-1	-1	0	0	1	1	2	3	4
<b>Annual funding surplus / deficit (R, B)</b>	<b>-16</b>	<b>9</b>	<b>10</b>	<b>12</b>	<b>14</b>	<b>17</b>	<b>11</b>	<b>13</b>	<b>14</b>	<b>21</b>	<b>22</b>
<b>Annual change (%)</b>			9%	19%	17%	18%	-34%	15%	12%	47%	6%
<b>Administration costs (R, B) - 2% of the total cost of the system</b>	<b>-3</b>	<b>-2</b>	<b>-2</b>	<b>-2</b>	<b>-2</b>	<b>-3</b>	<b>-3</b>	<b>-3</b>	<b>-3</b>	<b>-4</b>	<b>-4</b>
<b>Closing balance of fund (R, B)</b>	<b>-19</b>	<b>-11</b>	<b>-3</b>	<b>7</b>	<b>19</b>	<b>33</b>	<b>41</b>	<b>51</b>	<b>61</b>	<b>78</b>	<b>96</b>

*From here on we start adding more students or reducing NSFAS?*