

2009

REPORT ON THIRD STREAM FUNDING



exploring...
Third Stream Income
FOR SOUTH AFRICAN UNIVERSITIES

18 and 19 March 2009, Kievits Kroon Country Estate, Pretoria

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THE KRESGE FOUNDATION
Stronger universities. Stronger communities.



The South African Institute for Advancement
Stronging our nation by inspiring a shared purpose.

Exploring Third Stream Income for South African Universities

18 and 19 March, Kievits Kroon Country Estate, Pretoria

A joint initiative: The *Kresge Foundation*, *Inyathelo* and *Higher Education South Africa*

Introduction

Barney Pityana (VC, UNISA) opened the conference. In his keynote address he touched on many issues of relevance to this meeting. Specifically worth mentioning is his review of the recent history of policies and visions affecting Higher Education, in particular, and South Africa, in general, specific challenges we face, the role of intellectual leaders, the need to collaborate, and much more. He asked “how we, as Higher Education institutions, are coping with the three main challenges that face us in a knowledge driven society, namely, (i) human resource development, (ii) the mobilization of human talent and (iii) the potential for lifelong learning to contribute to the socio-economic, cultural and intellectual life of a rapidly changing society?” and issued the following frame for the discussion to follow:

“For any society, ours included, socio-economic prosperity presupposes a well equipped and trained source of human capital capable of facilitating the required development – and there cannot be no doubt in that sense that higher education is a national resource. Where previously higher education institutions served merely as sites of relatively autonomous knowledge production – there is now an urgent need for higher education institutions to respond in a more targeted fashion to national growth and development needs. But while we acknowledge the prioritization of the role education and the socio-economic development of our country, it remains the responsibility of all of us to ensure that higher education is not entirely subsumed within that socio-economic agenda. Higher Education has to safeguard the intellectual and institutional freedoms of our institutions and their academic autonomy.”

It is also worth our while to remind ourselves of Pityana’s emphasis on the global context in which we make decisions, not only about Higher Education, but also about third stream funding, in his own words:

“The global higher education environment is very dynamic, mirroring the fluidity of global socio-economic and political interactions. There can be no denying that

significant changes and shifts are in process and that these will, to a large extent, be driven by demand and not so much by policy. This is particularly relevant in the light of the increasing commodification of knowledge, the increasing eminence of technology, reduced government subsidies, and an increasing dependence on partnerships and collaboration. It is therefore incumbent upon us to find means of offsetting the reductions in resources, funding and subsidy by generating an additional third stream income that will supplement the more traditional income from first and second streams.”

After the keynote address, the conference moved to its central business: 'third stream income': defining the concept and discussing how to access, secure and generate income from sources *other* than government subsidies and tuition or student fees. Speakers from the United States of America, key local figures, and close to a hundred delegates participated in what was clearly a much needed initiative. In addition to South African participants, the *Partnership for Higher Education in Africa* supported the attendance of five delegates: two from the University of Ibadan, Nigeria, and one each from the University of Port Harcourt, Nigeria, Kenyatta University, Kenya, and the Council for Tertiary Education, Ghana.

The problem stated in its simplest form is as follows: If first stream income from state subsidies, and second stream income from tuition no longer suffice to keep a university going, the question about what to do¹ becomes pressing. A drop in government subsidies to public universities and other institutions of higher learning is a worldwide trend. One obvious response to this has been to raise student fees, but this is clearly also an option with severe limitations, especially in South Africa.² Local delegates repeatedly pointed out during the two

¹ 'If the old perennial belief in the possibility of realising ultimate harmony is a fallacy ... and if we allow that Great Goods can collide, that some of them cannot live together, even though others can – in short, that one cannot have everything, in principle as well as in practice – and if human creativity may depend upon a variety of mutually exclusive choices: then, as Chernyshevsky and Lenin once asked, 'What is to be done?' How do we choose between possibilities? What and how much must we sacrifice to what?' Isaiah Berlin. 1992. *The Crooked Timber of Humanity*. Vintage Books, pp. 13 & 17; highlight added.

² Neither this situation, nor some of the responses to a drop in government subsidies (e.g., raising student fees/tuition, and entering into research partnerships with industry), are unique to South Africa. See Stanley Fish's piece in *The New York Times* a few days before the conference at Kievits Kroon <http://fish.blogs.nytimes.com/2009/03/08/neoliberalism-and-higher-education/>. Additional readings well worth scrutiny are: Eric Beerkens. 2009. Centres of Excellence and Relevance: The Contextualisation of Global Models. *Science, Technology & Society*, 14 (1): 153–175; Paulo N. Figueiredo, Conceição Vedovello and Marcela C. Martelotte. 2007. Firms and Innovation System Supporting Organisations: A brief empirical scrutiny of their knowledge-centred links in a developing area in Brazil. *Science, Technology & Society*, 12(1): 73-112; Glenda Kruss. 2006. Creating Knowledge Networks: Higher Education, Industry and Innovation in South Africa. *Science, Technology & Society*, 11 (2): 319-349; Jo Lorentzen. 2009. Learning and Innovation: What's Different In the (Sub) Tropics and How Do We Explain It? A review essay. *Science, Technology & Society*, 14 (1): 177–205; Mei-Chih Hu. 2009. Developing Entrepreneurial Universities in Taiwan: The Effects of Research Funding Sources. *Science, Technology & Society*, 14 (1): 35–57; B. Panduranga Narasimharao. 2009.

days that, in our case, it ought not only to be about 'filthy lucre' (as one of the speakers put the thorny focus of the conference). That is to say, government, universities and consumers of the 'products' of education (students and employers, as well as society and the region at large) face at least the following two *additional* questions: (1) how to ensure a demographically defensible response to *who gets HE* and (2) how to ensure an economically and developmentally justifiable response to the needs, demands and specific shortages of the labour market, or the question about *where HE leads students*.³

The limits on second stream income, locally, deserve an excursus:

The 'access question' (see note 3, above) and student fees, generally, were not included as themes for the conference, but note of these have to be taken. Not to underline a case for our exceptionalism (see **Michael Lomax's** presentation, and **Saleem Badat's** response to this, below), but to emphasise specific factors that are clearly bound up in the South African higher education system and thus implicated in projects aimed at improving on the quality of education for all.

Duma Malaza (CEO of HESA) said the following in this regard at the 16th Commonwealth Education Ministerial Conference:

"For the 730 000 students at our universities and the 400 000 at our further education colleges, South Africa is in a relatively strong position in comparison with much of the continent. We have a 17% participation rate in our universities and although this cannot compare with the UK's 40% participation, it is still better than the 1-2% participation estimate for Africa as a whole. This participation rate is partly made possible by South Africa's strong bursary scheme. In 2005, for example, our national

Knowledge Economy and Knowledge Society—Role of University Outreach Programmes In India. *Science, Technology & Society*, 14 (1): 119–151; Daniel Schiller and Peter Brimble. 2009. Capacity Building for University–Industry Linkages in Developing Countries: The Case of the Thai Higher Education Development Project. *Science, Technology & Society*, 14:1 (2009): 59–92; Daniel Schiller and Ingo Liefner. 2007. Higher Education Funding Reform and University–Industry Links in Developing Countries: The Case of Thailand. *Higher Education*, 54:543–556; Tim Turpin and Cristina Martinez-Fernandez. 2003. Bridging Knowledge Boundaries: A Challenge for S& T Policy in Mozambique. *Science, Technology & Society*, 8 (2):215-234; R. Waast and V.V. Krishna. 2003. Science in Africa: From Institutionalisation to Scientific Free Market —What Options For Development? *Science, Technology & Society*, 8 (2): 154-181; Nattaka Yokakul and Girma Zawdie. 2009. The Role of Triple Helix for Promoting Social Capital, Industrial Technology and Innovation in the SME Sector in Thailand. *Science, Technology & Society*, 14 (1): 93–117; David Zweig, Chung Siu Fung and Donglin Han. 2008. Redefining the Brain Drain: China's 'Diaspora Option'. *Science, Technology & Society*, 13 (1): 1–33.

³ The questions often asked in this context are: *Who* gets higher education? (the **access** question); *What* do they get (the **curriculum** question); *Where* does it lead them (a **labour market** question; also a political and status question); and *how* best to conceive of **the relationship between university, state and society** (a question about academic freedom, institutional autonomy and accountability). See Brennan, J. , King, R., and Lebeau, Y., November 2004. *The Role of Universities in the Transformation of Societies*. An International Research Project. Synthesis Report. Association of Commonwealth Universities, Centre for Higher Education Research and Information. The Open University; emphases added.

student funding entity managed to give financial assistance to 100 000 students who otherwise would not have been able to access higher education. However, this cannot detract from the access challenges that we still face."

"In 1996, soon after gaining democracy, the first examination of higher education took place and the recommendations were published in the NCHE Report. A need was identified for fast-tracking the massification of higher education. This entered into policy and by 2001, the National Plan on Higher Education was estimating a 20% (participation rate) by 2010. However, government revised this mandate under the guise of a 'no access without success' argument which drew attention to the debilitating throughput rate that sees some 50% of those who gain access to higher education dropping out during the course of their degree" (p.6; access this at <http://www.hesa.org.za/hesa/resource/details.asp?id=34&cluster=0>).

The appointment of a National Commission on Higher Education (NCHE) in 1995 was a much needed response to a system in which access to university studies was severely restricted for the majority of South Africans. In the words of the Green Paper on Higher Education:

'The first and most obvious inequality concerns access to higher education. Participation rates indicate stark and persistent racial inequalities in student access. Racial inequalities in access also exist across disciplines and are most pronounced at the more senior levels of study. Black students are notably underrepresented in natural sciences, technology and engineering'.⁴

It is not clear that the issue of access has been resolved, specifically in terms of the following: the selection of economically challenged but intellectually gifted students, adequate academic support for underprepared but gifted students during their degree studies (to improve on 'throughput'), and an efficient system that cultivates the next generation of leaders, scientists, scholars and informed citizens more generally.⁵

A number of speakers pressed the ethical demands of, or 'value framework' ('value' not conceived of in economic terms), underlying the ongoing quest for answers to these and other questions; indeed, a few speakers were even prepared to suspend questions of 'commercialisation' in view of the pressing political and moral choices and decisions faced by Higher Education (HE) in South Africa. Moreover, South Africa, like the world over, faces both a growing demand for the 'products' of HE and a dramatic increase in student mobility

⁴ See <http://www.info.gov.za/greenpapers/1996/highereduc.htm> and T. Reddy. 2004. *Higher Education and Social Transformation* on the Centre for Higher Education's website at www.che.ac.za .

⁵ Brain O'Connell, VC, University of Western Cape, asked at last year's *Kresge* Retreat, 'Why does enough education *not* happen? Why do the HE institutions not produce 800 000 graduates per year?' – and this question is the elephant in the room of HEIs locally.

and migration away from their country towards better opportunities for study and work, and better living conditions, generally. What is still in its infancy here, and was not discussed, is the growth of private HE institutions in, for example, Eastern Europe after the collapse of the Soviet Union.⁶

In what follows, each of the topics presented and discussed during the two-day conference are briefly outlined by way of noting crucial issues for ongoing and further deliberation. The participants pointed towards the need to take the Kievits Kroon initiative further, and for the involvement of HE institutions, Higher Education South Africa (HESA), the Department of Education (DoE) and/or any other relevant government body, as well as key figures in the private sector/industry, in the next rounds of deliberations.

The topics of the conference were: (i) 'Third Stream Income at South African Universities'⁷; (ii) Commercialisation; (iii) The Role of the Vice Chancellor in Fundraising, Advancement and Third Stream Income; (iv) Endowment and Reserves Management; (iv) Public/Private Partnerships, and (v) Short-term and Long-term Financing.

Each of the above topics is presented separately, below. We take for granted that the details of each presentation can be verified and filled out from the power point presentations of the speakers on a disk distributed to all conference participants (by *Inyathelo*).

Third Stream Income at South African Universities

In the Duncan report, third stream income was defined as follows: 'all income derived from sources other than public subsidies ('first stream income') and tuition and other student fees ('second stream income')'. According to the report, third stream income typically comprises:

- contract or sponsored research funding ('contract income')

⁶ See Carlo Salerno. 2004. 'Public money and private providers: Funding channels and national patterns in four countries'. *Higher Education*, 48, pp. 101–130). The only South African private, non-profit tertiary education provider to offer its own degrees up to doctoral level has been in operation since 1999. St Augustine is accredited by both the Council for Higher Education (CHE) and the International Federation of Catholic Universities; visit <http://www.staugustine.ac.za/>.

⁷ J. Duncan. February 2009. Prepared by the Centre for Higher Education Research, Teaching and Learning, Rhodes University (hereafter 'the Duncan report').

- entrepreneurial and commercial income ('contract', 'sales of services' or 'other income')
- philanthropic funding ('donations and gifts')
- internal financing ('interest/dividends' and 'income from investments')
- long- and short-term financing
- other private income ('other income').⁸

The Duncan report outlined various differences between the 23 Higher Education Institutions (HEIs), both in terms of their (first and second stream) income over the period 2004 to 2007, from different sources of third stream income, and differences between HEIs regarding specific sources of income (e.g., contract income, sales of services, investments). Of note is the following:

“... the average South African university now gets more than a quarter of its income from Third Stream sources, an increase from 23% since 2004. At the high end, the average historically white university (HWU) gets about 40% of its income from Third Stream income (as much as 53%), and the average university of technology (UoT) gets about 12% of its income from Third Stream sources (p.11).”

Apart from obvious quibbles with what an 'average' university in South Africa could possibly refer to (even when an institution is tagged with the by now well-known, if not very informative labels, 'historically white', or 'black' and, post-mergers, 'university of technology'), the point to note about the above is that any particular HE gets anything from 12% to 53% of its income from the third stream. It is thus clearly a source of income that deserves closer scrutiny. Moreover, in real terms, the actual sums involved are quite different across institutions.

Discussants and commentators urged those responsible for the report to refine:

- the review of literature to include more relevant, developing world contexts such as India,⁹
- their categorisation of institutions, data analysis and modelling (percentages do not always show important differences even within a category),¹⁰ and

⁸ Unless otherwise indicated, extracts are from the PPTs of speakers (see disk provided to all participants by *Inyathelo*), or from the verbatim transcripts of proceedings; the latter sometimes had to be edited for the sake of clarity and brevity.

⁹ See for example, D. Schiller. 2007. 'Higher education funding reform and university-industry links in developing countries: the case of Thailand'. *Higher Education*, 54: 543-556; S.O. Oduleye. 1985. 'Decline in Nigerian Universities'. *Higher Education*, 14: 17-40.

¹⁰ See <http://halffman.net/papers/Halffman%20&%20Leydesdorff%20-%20Inequality%20among%20universities.pdf> for a fine analysis of inequalities between universities; also Jos

- the report's general take on the local situation.

Shelagh Gastrow (*Inyathelo*) made the following submission regarding the Duncan report:¹¹

Introduction

The Report on Third Stream Income was undertaken by the Centre for Higher Education Research, Training and Learning (CHERTL) at Rhodes University, Grahamstown. The aim of the report is to:

- determine the size of third stream income within higher education and individual universities in relation to first and second stream income, and how these have changed over time;
- describe and analyse the different sources and kinds of third stream income, their relative sizes and how each has changed over the past five years;
- indicate the size of the financial reserves of universities;
- describe and analyse the organisational structures and mechanisms employed by universities to generate third stream income;
- identify the challenges faced by SA universities in generating third stream income; and
- indicate possible areas of future fruitful research and analysis such as comparisons with international best practice.

Critique of the advancement/development/fundraising component of the report

This reader's knowledge base is entrenched in university advancement and therefore this critique of the draft report will focus on this area in the main. Without any clarity on the questions asked of the subjects, it appears that the interviewer did not have a good handle on what is required for effective advancement operations, but relied on the universities themselves to provide this information. This meant that the report tended to be a passive receptor of information, rather than an active seeking of information. The following questions relating to advancement were either not asked or not answered in the report:

- How much do universities invest in rand terms in advancement operations, i.e. alumni relations, fundraising/development, marketing and communications?
- What financial targets are set against the investment?
- Does every advancement operation have a functional prospect research office, proposal writing capacity, asking capacity, stewardship capacity (i.e. report writing, donor recognition, gift processing, etc.)?
- Does every alumni office have a researcher, an up-to-date database, a reunions function, an interactive website, a newsletter and a magazine?
- How many donors did institutions have five years ago versus the number of donors they have now, broken down by individual, corporate, international foundation, local foundation, international aid agency, foreign government and lotteries? (Philanthropic income was seen in the narrowest sense – besides individual, corporate and foundation giving, advancement offices also raise money from foreign governments, foreign aid agencies, the lotteries and other local sources of government income.)
- What evidence do institutions have that there is only a 'small pool of funding' available in South Africa or does this situation indicate a lack of asking capacity?

BJ Koelman. 1998. 'The funding of universities in the Netherlands: Developments and trends'. *Higher Education*, 35: 127-141.

¹¹ Note: this and two more submissions are included in this report to capture some of the possibly *unsaid* ideas and sentiments among the 'silent majority'; the submission might also of course merely put on record the writers' own viewpoints.

- Do any of the institutions run ‘mailshot’ annual fund campaigns?
- Do any institutions run a bequest programme?
- How many fundraising meetings are held per annum by advancement staff and the Vice Chancellor?
- How much of the Vice Chancellor's time is allocated to raising money and building relationships with potential supporters?
- What is the status of the head of advancement within the university, i.e. what level of accountability, salary, etc? Does she or he have a direct reporting line to the Vice Chancellor?
- How are the key elements (i.e. alumni, communications and marketing, fundraising) of an advancement operation clustered, or are they separate entities?
- How many universities are running capital campaigns? What are the projects and targets?
- Are universities involved in BEE deals? This question not only relates to advancement, but also to public-private partnerships, research and innovation.
- Why do universities believe they need endowment?
- What advancement training do universities need beyond that offered by *Inyathelo*?
- What specific advancement structures are in place to meet the needs of the institution?
- Is so-called 'international best practice' appropriate to the South African context? What is meant by best practice?

Other issues that need clarification include the suggestion that private giving to universities in Europe and the UK was not entrenched. This suggestion is incorrect. There has been a significant change in the amount of giving in Europe and the UK, especially in the case of the latter where universities have begun to invest in effective advancement operations.

The report also indicated that those universities that were part of The *Kresge* Special Initiative in South Africa had experienced a difference in their fundraising, but this was not fleshed out – what difference? What has been learned from the programme? The researcher did not contact *Inyathelo* to provide additional information on this issue.

A key theme that emerged from the report is the view that there is a small pool of funding for which all institutions are competing and that the problem is external, while alumni are seen as not having a culture of 'giving'. However, there appears to be no self critique on the part of institutions that:

- universities are not investing adequately in advancement;
- universities allow internal politics to impact on their advancement operations, hamstringing the personnel;
- universities do not position the head of advancement at the appropriate level at the institution nor remunerate him or her adequately;
- universities view advancement and alumni relations as separate from the mainstream operations of the institution;
- universities do not connect alumni relations, fundraising, communications, public relations and marketing in one cluster;
- universities have little interest or understanding of the role of convocation and neither do they accept the fact that alumni are the only constant in a university's life (as all other players come and go);
- alumni are not seen as part of the institution and key donors over the long term;

- the Vice Chancellor, who is responsible for resourcing the university, is not playing an adequate role to raise the resources required;
- advancement personnel do not attend high level training already available in South Africa;
- there is no culture of 'asking' at the institutions and no or very marginal attempts are made to build relationships with alumni;
- institutions are loath to invest in annual 'mailshot' campaigns and bequest programmes that provide for long term sustainability and open up individual giving potential for the long term; they prefer to 'cherry pick' for capital campaigns (mainly from corporate) and then do not understand that this giving is not sustainable; and
- the expectations of universities on the levels of funding that can be raised by shoestring operations are unrealistic in the light of the level of investment in the personnel base of their advancement operations.

An interesting case study could be the University of Cape Town, which established a functional development and alumni office between 1998 and 2002. If I recall, this advancement unit was raising about R120 million a year by 2001, and had increased the numbers of alumni and corporate donors substantially. For some reason, the university dismantled the operation, including its alumni unit, in the same year that it launched its 175 Anniversary campaign. It would be an interesting exercise to possibly have some statistics on UCT's donor funding from 1998 – 2008. The R113 million raised in 2007 should have been in the region of R200 million if the university had maintained a cohesive and fully functional advancement operation.

Another interesting case study could be Wits, which has recently implemented a functional advancement operation with a leader at the level of Deputy Vice Chancellor. The university has also launched an annual 'mailshot' campaign focused on their alumni. The results of this campaign have contradicted the 'wisdom' that alumni have no culture of giving.

One area that hasn't been explored at all is that of universities bidding to be part of BEE deals. The University of Fort Hare has some experience in this area, although it is very much long-term thinking in terms of financial benefits.

Conclusion

My assessment of the report is that it provides a general overview of the situation relating to third stream income, but does not deal with the issue in depth. This makes it difficult to gain a real understanding of the situation and the real difficulties faced, etc. One key area that is largely missing is any analysis of the organisational structures and mechanisms employed by universities to generate third stream income. There was no detailed information on advancement operations, the investment, the size, the functionality, and the strengths and weaknesses. In this respect, the report falls short of one of its key stated aims.

It is recognised that some of the questions raised may be too detailed for the report but, in my view, the report has been too vague and it is therefore difficult to assess its value. However, as a general overview, the report provides enough to form the basis of a discussion that can be taken forward.

The Duncan report was nonetheless regarded by all speakers and participants as a commendable first attempt to deal with third stream income in local terms. Problems in reporting income across institutions, a lack of standardisation in reporting sources of income, and no clear, national coordination either for soliciting funding or sharing data were all mentioned by participants as negative factors inherent in the local situation and, at times, shortcomings of the research undertaken by the *Centre for Higher Education Research, Teaching and Learning*.

Commercialisation¹²

Gerhard Prinsloo (Professor, Durban University of Technology)

In this presentation, no bones were made about the many challenges – often hidden – faced by a technology transfer office. For example, efficiently and profitably closing or overcoming various gaps between ideas and designs and the manufacture of these, and between knowledge and the market, is not a simple matter.

A great deal of experience, support networks, incentives, resources and capital are needed on both the knowledge side of things (creativity, research, publications, HR development, sharing, infrastructure), and the market (or where goods and services change hands) to face the innovation challenge successfully and profitably. The good news we were left with is that the South African Revenue Services (SARS) is a great support to universities at this point; in Prinsloo's own words:

"Vice-chancellors, be prepared that during the second half of this year, you're going to be approached by people that you don't know and you've never met. They're going to be standing at your doors with bags full of money begging you to give them ideas because they want to invest money. Why would that be? Because there's a new tax regulation coming in that allows firms to establish a venture capital firm and to allow the public and companies to buy shares in this firm. And the shares that they buy you can deduct directly from taxes. So, instead of going to Sanlam to buy shares on the stock market there, I am going to go and buy venture capital shares from one of these companies, especially if its one that's going to universities because I think that is where great things will happen."

¹² See Susan Haack on the need to preserve the integrity of science, and university-industry collaborations that end in tears in: S. Haack. 2008. *Putting philosophy to work. Essays on science, religion, law, literature, and life. Inquiry and its place in culture*. (Prometheus Books, pp. 103-145.

Prinsloo submitted the following comments and recommendations after the two-day conference:

My view is that the Conference clearly indicated that in South Africa (SA), there are four sources of potential third stream income that stand out head and shoulders above the rest:

- Fundraising or Development Office
- Endowment and Reserves Management
- Contract Research
- Commercialisation of Research (i.e. technology transfer mostly flowing from a sound foundation or well-established research programme)

The rest of the third stream activities (e.g. short courses, campus commercial ventures, academic consultation, etc.), even in examples given from the United States of America (US), take a backseat to these sources. For *Kresge*, the above four sources should therefore remain the areas of continuous focus, as they will have the greatest impact in SA, especially since:

- these sources are also supported by the SA government through the Department of Education and the Dept of Science & Technology (this could be *Kresge's* greatest alliance partner);
- they are **sustainable** sources for academic institutions;
- these sources are relatively easy to tap into for any academic institution;
- the process of tapping into these sources fits in with the financial systems and procedures of a university (supports its missions, visions and objectives); and
- these sources provide little risk in terms of financial investments or potential fraud.

I've included further specific comments and recommendations below.

Comment 1 (Fundraising):

I see that, so far, *Kresge* has done great work in analysing the South African situation in terms of fundraising and assisting selected institutions in a pilot project to improve their foundations, efforts, strategies and targets in respect of fundraising (as a third stream income).

Even after the previous (2008) conference in Cape Town, there was an expectation from the rest of the institutions that *Kresge* would announce the extension of the fundraising pilot to some other institutions, and some disappointment when this announcement was not made. I observed the same disappointment following the conference last week. *Kresge* has built a fantastic reputation and gathered (and is still continuing to gather) significant experience and expertise in the field of assisting SA HEIs with (international) fundraising, and if I were *Kresge*, I would have continued with this as a major strategy in SA. We fear that *Kresge* is planning to conclude the fundraising project?

Recommendation on Comment 1:

Judging from the presentations of our US counterparts, I see that South African institutions are (selfishly) working too much on their own and in isolation. Groups of institutions (alliances such as United Negro College Fund (UNCF) and the Massachusetts State College Building Authority) achieve success by working towards common goals.

If I were *Kresge*, I would discuss with SATN the possible extension of the CPUT pilot fundraising initiative to the rest of the UoT sector, that is, assist SATN to fundraise and develop infrastructure jointly (in addition to the efforts of each UoT, similar to the projects initiated by UNCF). I think the *Kresge* team can expect great co-operation from UoTs in SATN to establish a UoT fundraising organisation/programme/project under the SATN umbrella.

Comment 2 (Endowment and Reserves Management):

The conference has taught me the significant value of this source, especially if it is managed in the same way as the *Kresge* Foundation manages its reserves.

Recommendation on Comment 2:

New June/July income tax regulations on 'Venture Capital Tax Incentives' will greatly assist clever academic institutions and foreign foundations with valuable investment opportunities in SA. This will be especially true if an institution sets up the required infrastructure to manage its reserves and includes venture capital in university innovations as a tax-deductible portion as part of its investment portfolio.

Comment 3 (Contract Research and Commercialisation of Research):

Kresge had this potential third stream income source, namely 'Support for Innovation', in their strategy from the beginning (contract research, *Kresge* Innovation Fund, etc.).

This *Kresge* goal fits the goal of the new Department of Science & Technology (DST) in SA, and what better way for *Kresge* to play a role here in bringing US perspectives, contacts, technology and networking to SA. The Technology Innovation Agency (TIA) is also being set up by the DST and will provide further support to such an initiative, thus providing the *Kresge* Foundation with an even easier role to play as an interface between the HESA and TIA.

GTZ from Germany formed an alliance with the SA DST to support SA academic institutions and to link these institutions to the Steinbeiss Foundation in Germany, and the results in SA has been nothing less than phenomenal.

I do not think *Kresge* should attempt to assist SA academic institutions in setting up 'Research Offices' or 'Technology Transfer Offices', since the Department of Education subsidy formula together with the DST (and the new TIA bill) already force most institutions to establish these offices or infrastructure. The new TIA bill basically forces each institution to run a Technology Transfer Office as an extension of (on top of) a Research Office.

However, most Technology Transfer Offices in SA have not yet made any significant breakthroughs to prove the success of this form of third stream income. This is not due to a lack of new inventions or technology innovations, but due to a lack of networking with companies abroad.

A key ingredient to make technology transfer a success is contact with multinational companies – it is in this area that most SA institutions with brilliant breakthroughs, failed miserably, despite significant DST support and the new DST initiatives.

Recommendation on Comment 3:

This situation means that there is a major opportunity for an international foundation, (especially one with a status and reputation in the US, like *Kresge*) to assist SA academic institutions to network with US companies, (e.g. companies like Cisco, Microsoft, Coca-Cola and Millers).

Most US corporations already have the people (known as Technology Scouts), infrastructure (known as New Technology Development Office or Technology Licensing Offices), capital (venture capital), policies and procedures to take new ideas on board and to investigate potential market opportunities for such ideas. These corporate 'Licensing Offices' literally send their Technology Scouts from university to university on the lookout for new ideas; yet, they are not always aware of many brilliant (technology/commercial/innovative) opportunities at SA academic institutions.

If I were *Kresge*,¹³ I would consider a 'Screening Board' (possibly in collaboration with the *Kresge* investment team) to look at new ideas at HESA institutions and to link these ideas with US companies. This will lead to some immediate successes and will attract the attention of the DST, as well as the TIA, who may soon support the *Kresge* objectives. It should be anticipated that, initially, there may be some resistance (since the TIA may want to keep SA innovations in the country – but experience have shown that the TIA may reconsider this stance once it can be shown that we all operate in an international playing field.¹⁴

¹³ Now, of course, *Kresge* could repeat Alexander the Great's put down to Parmenion when the latter opined that he would accept the proposal (for battle), 'if he were Alexander', who then replied, 'So would I, if I were Parmenion' ...

¹⁴ The submission was shortened and edited for this report.

Marvin Parnes (Associate Vice President and Executive Director of Research Administration at the University of Michigan)¹⁵

Marvin talked about the growing research programmes at the University of Michigan and pointed out that the bulk of their research revenue comes from the federal government.

Further:

“... it's done through competitive proposals, not based on the targets, but in terms of publications and other evidence of scholarships. So we get money on the front end through writing proposals to a whole host of different federal agencies. Now obviously your record of success as evidenced by your scholarly output makes you more competitive and you're going to be better funded. But what you see here is that our research, which is the origin of anything to do with commercialisation, is primarily funded by the federal government. We also invest a lot of our own funds in research and I'll comment on that in a moment. Direct funding from industry is very small. In the United States nationally, the funding from industry averages at about 7,5%. This percentage has been constant for 30 years and it doesn't fluctuate much. Foundations are a source of funding and there are other associations, as well as state and local government, who also contribute. However, from the research perspective, the point I'm making is that if you don't have a substantial amount of funding from the federal government – if, as in your case, 50% of research funding is coming from industry – one of my concerns is how much that influences the mission of research at your university and the structure of education, particularly if that much comes from industry.”

“We view research as having many other benefits, which also came up in the Duncan report too. Facilities are built through the research funds, training, relationships with partners and stipends (or 'bursaries' as you call them) for our graduate students all come from these funds. So, when we talk about research funding, it really sustains the academic mission of our university and pays for many of the things that make our universities highly competitive. I mention this, why? Because we aggressively seed research: we use a small amount of our own funds to do seed projects and we help people who are in areas that are under-funded, for example the arts and humanities where there isn't a lot of federal funding, because, again, the issue is one of balance. If we're solely focused on revenue, it can, in a sense, begin to destroy the values of your institution.”

A particularly interesting point that Marvin made had to do with recouping the indirect costs of research. They track costs along two dimensions:

Indirect costs: Goods and services that support multiple research projects (e.g. utilities, hazardous waste management, etc.)

Direct costs: Goods and services that are specific to an individual research project (e.g. faculty salaries, research assistant stipends, lab equipment).

¹⁵ Parnes drew our attention to the following, useful websites: <http://www.cogr.edu/> ; <http://www.autm.net/> ; <http://www.aau.edu/> ; <http://www.nasulgc.org/> ; and <http://www.uidp.org/> .

Unless the indirect costs are calculated carefully, the university may end up the loser in research partnerships.

On partnerships with industry, and given the large amounts of federal money at their disposal, he gave the following reasons for industry research partnerships:

- Disseminating emerging knowledge to the private sector
- Testing concepts and face challenges in the 'real world'
- Benefiting from specialized industry knowledge and facilities
- Encouraging partnerships that promote student learning and employment opportunities
- Creating new jobs in a changing economy
- Supplementing and enabling federal research support
- Generating political support and philanthropy.

Marvin stated that there are clear benefits to embarking on a tech transfer initiative. For example, these initiatives will enhance the likelihood that new discoveries and innovations will lead to useful products, processes and services to benefit the general public. In particular, tech transfer:

- propels new research collaborations, promotes the exchange of materials, information and personnel with industry, and offers unique research opportunities for faculty and students
- provides income to fund new research, teaching programmes and financial support for students
- assists in recruiting and retaining faculty and graduate students with interests in research and technology transfer
- provides educational benefits through student internships and work-study opportunities
- leverages business partners to stimulate local and regional economic development
- enhances the reputation of the university to attract researchers, faculty and students.

A warning regarding tech transfer initiatives is that to 'break even' is not a simple matter and may take up to twenty years according to research that Marvin cited.

Parnes concluded his presentation with a number of questions to consider regarding research as a cash cow or sacred cow:

- Can we accelerate the pace of increasing third stream income and still do a careful assessment of risk and reward?

- Can we promote promiscuous engagement with industry and do a fine-grained review of COI at every level?
- Do we understand the impact that increasing such activity will have on our *mission*? On incentives?
- How can we best model the continuum of research, development, consulting and technology transfer emerging from universities and the associated risks and best practices?
- How can we institute national policies to promote excellence and success?
- How do we balance the traditional role of universities as 'citadels of knowledge' with the increasing expectation that they become 'economic engines'? Who gains and who loses?

He also stated that more national discourse across sectors is required.

This session elicited a lively discussion and interesting questions about calculating the indirect costs of research and, in cases of tech transfer, balancing moral and political imperatives with commercialisation. In particular, questions and comments from the floor pressed issues such as: what is possible and not possible locally, given certain debts and commitments, and how far to push a natural task for a university – the diffusion of knowledge and expertise – into commerce for commerce's sake.

<p>The Role of the Vice Chancellor in Fundraising, Advancement and Third Stream Income</p>

Michael Lomax (CEO of the United Negro College Fund)

Lomax set the tone of his input just off the drift of some of the discussion that took place beforehand by announcing at the outset of his presentation:

"Now there's been a lot of discussion here today about academic mission, vision and value. And I want to admit at the very beginning that I'm going to talk about filthy lucre – money. And I am reminded of the words of Booker T Washington, who was once heard to say that the only thing wrong with tainted money is t' aint enough!."

Michael's contribution to the conference was both heartening – given local realities – and unashamedly focussed on the funding needed for excellent academic work. Consider the following extract from his talk.

"This year, the United Negro Communication Fund's (UNCF) annual campaign, which ends on 31 March, ... should raise approximately \$84 million – that's up from the \$750 000 in my first campaign, and it's actually up from last year's campaign of about \$82 million. Of that \$84 million, we anticipate that about \$55 million will be unrestricted, and \$29 million will be restricted. We'll actually exceed our unrestricted goal for this year, but we won't exceed our restricted goal. I would also say that our

total revenue for the organisation, is about to double, but that's a different story. Our sources of revenue are about one third from individuals, one third from corporations and one third from foundations. And our largest gift this year, which came in a couple of weeks ago, was a \$7 million anonymous, unrestricted gift. I don't know whether it came from a foundation or from an individual. My suspicion is that it came from an individual. Restricted includes, by the way, support for our scholarship programme, and as was pointed out, we support about 8 000 or 9 000 students, although it can go up to around 10 000. We have an emergency scholarship fund here as a result of the downturn in the economy – so we think it will probably support closer to 10 000 students and about 1 000 colleges and universities."

"Now UNCF is a network of 39 private, historically black colleges with 55 000 students. Additionally, as I said, we are the nation's largest minority scholarship provider, supporting over 9 000 students at 1 000 colleges and universities. Five years ago, when I left Dillard University in New Orleans to become president of UNCF, I believed that one of the primary challenges facing our 39 member colleges was the strengthening of their overall capacity. The US has a very stringent accreditation body system with rigorous standards for both financial accountability and for academic performance. And these two are very closely linked – how much money you have often says how good you are academically. And I believe that we had to work systematically to strengthen all 39 of our colleges by creating strong academic programmes through a highly qualified professoriate, a strong professional financial management, an improvement in graduation rates through professional strategic enrolment management operations, competent and qualified boards of trustees and executive leadership, and a robust advancement or fundraising operation."

Michael underlined the importance of cultivating and increasing private giving from individuals as a major source of funding, especially from trustees and alumni. He also noted that there was a 'culture of exceptionalism' among the colleges, i.e. that because they were historically disadvantaged and have been discriminated against, and because their alumni were not perceived as wealthy, they devalued fundraising as a source of meaningful, unrestricted support and believed that they couldn't do it – that they were different from everyone else. It is this lack of a culture of philanthropy that their Fund overcame. In this regard, the role of the Vice Chancellor, or the president or chairman as they term it in the US, is crucial. Lomax noted that:

"First of all, presidents must be able to engage people; in the US they spend between 50% and 60% of their time, at minimum, in fundraising. And that's not the most effective institutions by the way. Colleges and universities with the most successful fundraising programmes must have more than one or two people operating those programmes. There is in fact a direct relationship between the size and professionalism of the fundraising team and the amount of money that you raise. And the more you invest in it, the more you get from it."

"You can't just focus on identifying potential donors and soliciting them. That's called the 'ready buyer' aim approach. You must, in fact, have something between the

identification and the solicitation and that's called the cultivation or building of the relationship. And oftentimes that takes a long time."

"So, finally, it's not just an issue of identifying, cultivating and soliciting. It's also what you do with the dollars when you get them. And if you don't live up to the promise that you made when you asked for them, believe me you won't get a second chance. Fundraising is a predictable and replicable cycle of activities: identification, cultivation, solicitation, stewardship. It is 90% perspiration and 10% inspiration. And finally, if you don't ask, you don't get."

Specific inputs on the local situation by **Heather Regenass** (*WITS*), and **Shelagh Gastrow** (*Inyathelo*), as well as many questions and queries from the floor underlined the following issues: the difficult role of the VC in view of his or her many duties, which have an impact on the amount of time he or she can reasonably spend on fundraising and, therefore, the extent to which the VC requires support from his advancement office as well as the rest of the university. It was stressed over and over again that this office has to be well equipped. A strong advancement office not only eases the load of the VC, but there is also a direct correlation between the quality of the office and the amount of revenue generated through it. Regenass outlined the importance of thorough preparations, investigations and networking *before* the VC will be able to target his fundraising interventions. Gastrow, in turn, emphasised that 'the millions' for big projects have to come through top-end negotiations and meetings, in other words from the VC to his equals in the corporate world. Moreover, many questions and problems suggest that our local culture is still naive when it comes to asking and giving when compared to the US.

Lomax reiterated the crux of his view on the role of the VC in fundraising as follows:

"I'll close with just two other points. One is that if you're going to create a culture of fundraising, you have to have the buy-in of your entire institution. Because, if you ask and you get a gift, but faculty don't deliver on that gift, or your financial management people don't manage the funds, or your development office doesn't report back effectively – if you don't have all of that working together – then guess what? You won't get a second gift from that donor. So it's really got to be the entire institution that buys into the fundraising. And the second point I'd make is that there is an extraordinary connection in your environment between development and the academic enterprises. That's what you're asking people to invest in."

Endowment and Reserves Management

John A Barker (Investment Director, *Kresge* Foundation)

John started his presentation with two slides. In the first, he showed the relative contributions from the three streams of income in South Africa (2004) and the US (2000).

	SA	USA
First stream	43%	11%
Second stream	30%	62%
Third stream	27%	27%

The second slide showed a breakdown of third stream funding in SA and US, as follows:

	SA	USA
Contracts	32%	29%
Endowments	11%	68%
Other (sales of service, gifts, ST interest)	57%	4%

These figures show, at a glance, the differences between the two situations. The question is whether local institutions can model themselves on their USA counterparts? Locally, a problem is that fewer students can pay and pay more, which indicates a certain limit to second stream (Slide 1), and that we have a long way to go to get our endowments – the topic of this very session – to the level of our American counterparts (68%, Slide 2 above).

Barker defined the central concepts in his presentation as follows:

Endowment: The permanent funds of a non-profit institution, consisting of cash, securities or property. Income from endowment is used to help finance the ongoing operations of the institution. 'True' endowment is that portion of the funds that are commonly restricted as to use of principal and/or income.

Function of endowment: To preserve purchasing power and to provide a growing stream of income to fund the programmes of a university or non-profit organization.

In addition, in his presentation, Barker gave the following reasons for endowment being so important:

- Constraints in tuition or fee income due to markets and competition
- Cuts in government funding
- Free from political influence
- Reserve against rising expenses
- Smoothing of annual budgets
- Tightening or disappearance of research funding
- Increased competition for charitable gifts.

According to Barker, the following ingredients are necessary for endowment success:

- Leadership by University Presidents, Vice Chancellors and Boards
- An appropriate spending policy
- Qualified investment staff with adequate resources
- Governance structure
- A development or fundraising office.

Barker showed in enticing detail just how much various endowments at the big-name universities in the US have grown, and used the *Kresge* experience to outline his evidence for concluding that:

- endowment is essential
- a small asset base can become large
- a spending rate policy is vital
- depressed markets are a good time to begin.

Hennie van der Westhuizen (*WITS*) underlined the importance of the Wits Foundation's efforts in fundraising (visit: www.witsfoundation.co.za) as follows:

"The efforts of the Foundation are therefore of critical importance in assisting with fundraising initiatives. On average, 40% of income received by Wits is derived from third stream income. Donations and endowments form approximately 5% of this amount and, of this 5%, approximately 50% is received from outside South Africa, mostly from donors in the United States. Wits' strength lies in its commitment to academic and research excellence. It is therefore important to create an environment conducive to teaching, learning and research at the highest level."

Questions from the floor pressed both speakers on the structure of their boards of governors or 'investment committees' as they are called in the US (the expertise they bring not only to successful fundraising, but also to managing their endowments). Barker's response to a question about what comes first – good endowments or good universities – was clear:

"And this is a dangerous question, I'll say it right off the bat – remember you're talking to a money guy – so I would say it's the former, good endowments make good colleges. And why? If you look at that list of the top colleges with the largest endowments, it's simple just to say that size matters, but the question is why does size matter? If you're a Harvard spending 5% of \$36 billion, you're talking about \$1,75 billion spent annually on your college. And think in terms of the resources this can afford your university from attracting world-class faculty to having world-class classrooms to offering student financial aid – it's full-needs based."

This was a particularly useful session, and a great deal of discussion ensued. Particularly interesting were the views from UCT. **Max Price** (VC, UCT) asked **Enrico Uliana**, Executive Director of Finance at UCT, to relate their practices as he thought that UCT's unique approach to calculating the value of their endowment and, therefore, the annual payout, created huge stability. Uliana answered as follows:

" ... we take the view that over the long term, sustainable returns are 4% real. And whatever the value of our endowment is, we simply put a hypothetical value, what we call a theoretical value, to it by increasing that amount by the inflation rate, and then we distribute 4% of that theoretical value irrespective of what the actual value is. So, a handful of years ago, our actual value was *below* the theoretical value and certain members of our investment committee, our foundation and others questioned this. They asked whether we should not distribute less because we're eating into capital and, as you know, this is an infinite horizon and the market will turn at some point, etc. But we stayed with it. Then, a few months ago, last year sometime, the question came around the other way: our actual value was significantly above the theoretical value and we were questioned about whether we shouldn't distribute a bit more than the 4%. And again we argued quite strongly that we should not do so. Thank God we didn't. We will continue to distribute 4% real on that theoretical value. It's a great comfort at the moment that all the activities supported by our endowments can continue, and that they're not under any sort of threat. Of course, if the financial crisis gets down to major recession, well it doesn't matter what your policies are, there isn't any money. I totally identify with Hennie van der Westhuizen's earlier point that cash is reality, profits an opinion, and I want to add, turnover is ego."

And this will certainly *not* be the last word on the topic! Moreover, what was clear from the presentation and the questions from the floor is that with endowment and reserves management, universities are entering a domain of expertise that will become increasingly important in appointing executive and board members, and in choosing endowment and reserves managers and management strategies.

Public-Private Partnerships

Marvin Parnes (Associate Vice President and Executive Director of Research Administration at the University of Michigan)

Marvin talked about some of the ways that they manage aspects of public-private partnerships, and notes that this presentation is, in some ways, an extension of his input on commercialisation (see above). First off, he talked about different ways in which they generate revenue related to industry. For example: they created a 'business engagement centre' aimed at improving their relationship with industry. In his words:

" ... we want to improve our partnerships and connect industry needs with what the university has to offer, promote economic development in our region, which is very distressed by the collapse of the US auto industry, and we want to optimise and maximise the kind of engagements we have. And basically, this becomes a marketing portal for different aspects of how we interact. We have companies that want to recruit our students, we have joint research projects, and we have student design teams that go into businesses as part of their courses. We have tech transfer, we have faculty consulting with businesses, we do short courses, and we do professional development. We have specialised labs that industry can come in and use for a fee. We have speaking opportunities."

Both the aim of their business engagement centre and the specific activities that are part of this initiative are attractive to local universities. Differences in 'leverage capital' might make this move more feasible in specific HEs. A point made by **Cheryl de la Rey** (CEO, CHE) as regards the way HEs are categorised in the Duncan report is relevant here too:

" ... the issue I would emphasise for further discussion is what I would call 'the leverage capital' of different institutions in terms of generating third stream income. Let me give you an example of what I mean: If an institution is located outside of a major metropolitan area, there are implications for its leverage capital, its capital to leverage further funding in the form of commercialisation, and so forth."¹⁶

Parnes made many thoughtful contributions to the conference, in general, and also specifically on partnerships. In terms of the latter, he outlined the importance of relationship building, and the pitfalls and benefits of faculty doing consultancy work. He noted that: "Faculty consulting is an issue that comes up a great deal – is this private work on the part of

¹⁶ See also the valuable work done by Edgar Pieterse, NRF Research Chair in Urban Policy at UCT, in particular, visit: <http://www.nrf.ac.za/sarchi/index.stm> ; <http://www.acc.uct.ac.za/> ; and http://74.125.95.132/search?q=cache:vbkc73Ta_SIJ:www.acc.uct.ac.za/CITYLABJuly2008%2520Announceme nt.doc+cape+town+city+lab&hl=en&ct=clnk&cd=1&gl=za .

the faculty, or is it institutional? Do faculty have the right to do private consulting? In our system, and most universities do what we do, we allow faculty four days a month where they can consult, but they really need to manage this process so that it does not conflict with their university commitments." However, there are benefits to allowing consultancy in the form of the increased visibility of what the university has to offer.

The University of Michigan also has a centre for entrepreneurship to handle the intense interest shown by students as well as an entrepreneurship education fund. In order to encourage the generation of more risk capital, they had created a 'gap fund' to help move technology out of the university into commercialisation. Parnes showed in much detail how they are moving with the times and generating revenue in the process through well-thought out partnerships.

He also spoke about something close to many at the conference: stimulating and contributing to regional economic development, and introduced their university's 'research corridor'.

"In Michigan, we have three large research universities and we have joined together to form a university research corridor. And I'll tell you, the majority of this is pure public relations. It's an effort to communicate better to the legislature, to citizens, to the corporations and to the world that we have this rich resource of knowledge and students that can make this a very productive place for businesses to thrive. And it's actually been helpful, and we're actually seeing some good play and interest in this corridor. And it has also resulted in more collaborative projects among the three universities, particularly in areas of energy and sustainability. These universities used to be very competitive, but really aren't any more. We have learned that if we do not collaborate and cooperate, we're all going to suffer."

His last slide put the gist of his presentation as 'Differentiate, Coordinate, Compete and Collaborate', and he outlined the agenda for establishing winning partnerships as follows:

- Institutions and their regions present different challenges and opportunities.
- Working across sectors and with other institutions can strengthen performance.
- Competition is a motivator, but it must be moderated to acknowledge variable capacity and missions.
- Collaboration builds norms for successful practices.
- Manage conflicts of interest aggressively

Max Price (VC, UCT)

Price summarised his views on the positive and negative aspects of different kinds of public-private partnerships. He used the following five cases to argue his point:

- Challenge grants, from either a public or private donor, which needed to be matched by other grants;
- Income generation from international students;
- Partnerships with the private sector, for example the WITS Donald Gordon Medical Centre;
- Corporate sponsorship for students, bursaries, research and for research units;
- Public-private partnerships around residences.

This session brought out many questions and points of view. Particularly interesting were concerns raised about the ethics of using students (e.g. from the rest of Africa) as sources of additional income. Price outlined the situation locally and in Australia as follows:

" ... the students who come here for a full three years, four years or for postgraduate degree. And at the moment, our experience is that this scenario is not generating any profit. We cover our costs, but we only cover these costs because we charge a specific international administration fee, otherwise we would not even cover these costs. In other words, the additional costs of managing international students are high. If we were to simply charge our current fees, we would make a loss. UCT has 4 500 international students who are there for full degrees, but most of them come from the African continent. Half of them are from SADC and to whom we are not allowed to charge extra fees anyway because the government provides a subsidy. We charge the others something that is only marginally above the standard fees because we are committed to having more of these students in the university community. The number of full degree students we get from outside the continent, who may be able to pay higher fees, is still very small and it doesn't really appear on our income statement."

" ... the Australian experience, where Australian universities are funded by the government on a capped level. In other words, they get x dollars per student and there's a limit to that budget, in terms of how many students they can admit or how many students are funded. Although they can admit more students, only a certain number are funded. And they then went the route of saying, okay, we'll take more and we'll charge them higher fees to compensate for the lack of government subsidy for these additional students. And the general experience, which I think was certainly experienced in Uganda, or with Makerere Medical School at any rate, was that this decision raised the quality rather than dropped the quality. The expectations and the demands of the private students paying very large sums, much more money than the other students are paying, is that they were not willing to sit in a classroom where they're sitting on the steps, they're not willing to have lecturers that don't pitch or don't mark or don't return marks on time – so they're actually much more demanding. And there was a spillover, a halo effect from those private students to the public students. At one point, they used to run parallel classes, so the daytime classes were for the, let's call them public students, and the evening classes were for the private students. But then the public students started all moving over the evening classes because those were so much better and the quality was better and the lecturers were paying much more attention there. So then they amalgamated the two and created a situation

whereby the student can't differentiate and no one actually knows who is a fee-paying student and who isn't, except the bursar of the university. However, what they do know is that if the quality isn't up to the level expected by the fee-paying students, the full fee-paying students, they're going to lose them. So there's a strong quality incentive there."

Short-term and Long-term Financing

Rolf Stumpf (recently retired VC, Nelson Mandela Metropolitan University)

Rolf summarised his own input as follows:

"The point is we have a regulatory framework that regulates borrowings, both short-term borrowings and long-term borrowings. If one analyses this regulatory framework within the socio-economic context in which many of our institutions function, you find that this regulatory framework, although it was not intended to, will be more beneficial or softer on institutions that have students who can pay than it will be on students who can't pay. Let me explain: because the amount that you can borrow is limited at 5% of your total income over two years, after taking into account short-term debts, long-term debts and any other approved loans, one will easily find that your HDIs, where the students generally can't pay, will find it virtually impossible to comply with this 5% restriction. And that seems to be an unintended unfairness in the present regulatory framework."

"The second point is that the direct grants for infrastructure, which have replaced the previous system of subsidised long-term loans for building projects, are obviously extremely welcome and, from my personal point of view, are also the correct way for government to go about it and not play quasi-financial institutional bank. But the direct grants for infrastructure renewal do lead to new buildings, which do lead to increased maintenance costs, which have an impact on your running costs. And in my last slide, I pointed out that institutions are coming under increasing pressure as far as their running costs are concerned because of shifts between the block grant in favour of earmarked funding and the direct infrastructure grants. And I listed all the pressures. So I suspect that, five years from now, institutions are going to find it virtually impossible to come out in terms of their block grant and their tuition fee income. And they will be forced into short-term borrowing on running expenditure, which is a very bad thing, because typically you should limit your functions to your income. And I'm not quite sure how we in South Africa in our higher education system are going to get around this particular one."

And given the issue of running costs, what does the future hold? Stumpf says that we should expect an increase in short-term borrowings to cover the running expenses of HEIs, i.e. in overdrafts, and outlined the reasons for this as follows:

- The decline in real terms of the block grant subsidy since 2000 (from an indexed value of 100 in 2000 to 81 in 2006)
- The increase in earmarked funding: 87:13 split in 2004 to 80:20 in 2007

- The anticipated regulatory framework to cap student fee income
- The need to increase salaries of academic staff appreciably
- The HE inflation rate being appreciably higher than general rate of inflation.

He concluded by saying that: "For all these reasons, I expect more and more institutions to be forced into overdraft facilities with their banks, especially in the January, February, March window period. And, as those of us know who have been in this situation in our personal lives, the difficulty is that once you're in it, it's very difficult to get out of it again."

Edward Adelman (Executive Director of Capital Projects for the Massachusetts State College Building Authority (MSCBA))

Michael Lomax called Ed Adelman 'the Rolls Royce of capital financing', so, this last speaker of the two-day conference provided yet another important perspective on our ongoing attempts to grasp third stream funding in its various guises and proffered opportunities.

Ed said, by way of introduction, that his 'key note', is "that we issue bonds to fund student activity and residence facilities. They're essential to the missions of our state colleges that just will not be funded any other way. There is no other revenue source to do this work". Further, he mentioned that "we have 29 public institutions. In total, there are 190 institutions of higher learning in the commonwealth of Massachusetts. Arguably, many of them are small, but it's a major part of our economy, and higher education is a major part of the culture of Massachusetts. There are 420 016, I checked this morning, students enrolled at these 190 institutions. So it's kind of a big deal – good employment."

He divided their projects into the following types:

Renewal:

- Replace existing building components in kind
- Performed on predictable cycle
- Mandatory to maintain useful facility.

Adaption:

- Change configuration of the facility
- Comply with new laws, codes and regulations (access, sprinklers).

New facilities:

- Additional capacity driven by strategic goals of the College (enrolment, percent of students in residence, ancillary services)
- Revenue sufficient to support debt service, operations, renewal.

The MSCBA issues project revenue bonds, which are secured with project revenues and, as Ed noted, "this is what the underwriters are interested in: they want to know how much money is coming in for this project." He covered specific issues regarding bond financing, project affordability, project financing, credit and security, and tax exempt financing. The following, in his words, captures the gist of a most interesting presentation:

"The bonds are secured with the project revenues. And this is all that the underwriters look at. They want to know how much money is coming in for this project. It's not a mortgage, and it's not a loan that's secured by collateral. The loan is secured, and the bonds are secured, by future revenues. We get a ground lease from the state, and we don't pay for it. And we borrow money on the maturity of the bonds. The loan is tied to the projected useful life of the improvement. So it can be 30 to 40 years for a new building, five years for equipment, furniture, and generally 20 years for repair bonds or parking structures or other buildings that don't have as long a useful life. So, in this very small point we're leveraging current year revenues to build a larger capital project that we could never afford. And there's also a concept of inter-generational equity. If we build a residence hall that's going to be durable and useful for 40 years, the idea is that the bond should mature over its useful life, so that the students in the first 20 years are not paying a substantial part of the cost of that building."

"Project affordability – we're very, very conscious of the students, many of whom are the first in their family to achieve a higher education. Many of them are urban minority students that do not have the kind of income that their cohorts at a private institution would certainly have. So we're conscious of what the rents are. They are at or below the level of the off-campus rents that these students would be paying if they were off campus."

"We also then have a housing financial aid programme that redistributes aid within the system, and about 10% of our students is assisted in this way with about a quarter of their housing. And also to reduce the student cost during the academic year, we have academic conferences during summer, as well as summer camps, which are sometimes problematic but they do bring in money, and then there's also the dining conference and retail revenue."

"Before we undertake a bond funding activity, we do two levels of feasibility studies. One is the market feasibility study, particularly with regard to housing. We ask the question: Is there a market? We're going to build a new residence now with 400 beds, so are there 400 or 600 or 800 students that we can identify who are going to live there, and who are going to occupy every bed: we can't have empty beds. And once we know how many students, what they want to pay and the type of configuration that we dealing with (i.e. is it a traditional residence home, or suites, or apartments), and we really understand the demographics of where these students are currently living and their commute time, as well as what are they paying where they are presently, we can then move to a financial feasibility, which looks at the building cost. What is it going to cost to build this building? What is the cost of the money going to be? What do the rents need to be? What's the schedule, what's the duration of construction, and

what are the other logistics for sub-surface facilities and the other plans for this real estate? Massachusetts is an urban state. It's pretty fully developed and we joke from time to time that all the good building sites were taken by the colonists and we have what's left. And people, a lot smarter than us, have avoided building on the land that's left, so there's a substantial amount of rigour that goes into the analyses prior to building."

"Before we issue bonds as an official statement, we need to establish fairly comprehensively and concretely for investors whether they're going to get their money back. We are rated – we have a rating from Moody's and Standard & Poor's. We did not always, but we do now. And then you have to do the actual pricing of the bonds. We hire underwriters who are familiar with Wall Street, and they, for their fee, do a scale showing how many bonds, of what maturity, what should you pay, and what should the coupon be? All I really care at the end is the one number. I said, okay, what's the average total interest cost of this bond and how does that compare to our initial feasibility study? So, suffice to say, there's a lot of complexity and moving parts in the bond market right now, and it is nothing if not volatile. Fundamentally, this is showing credit security of two kinds of projects. All project revenues – and its rental fee, its dining fees or rent that students pay, or parking fees – but every project has revenue that needs to be understood. If it is 'owner finance', which means we issue the bonds, we'll be looking potentially at capital contributions and also reserves, if there's a shortfall in revenue in any given year. It was asked earlier, whether you can lease to a third party, can someone come build a residence hall ... Although we're looking at the feasibility of this option, we have not gone ahead with it yet."

"With tax financing, very simply, it costs us less to issue tax exempt financing than taxable financing. For the investors, it simply means that their earnings on these bonds are not subject to state or federal taxation, so they will accept the lower yield. We have very strict rules regarding how the funds are used and how the building is then used."

There were many questions to both speakers about the role of the Development Bank of South Africa, the different ways to make money with money (from whatever sources), and the role of student politics. **Uliana**, again, came with a different take on matters of finance to what seemed to be the general tone and tenor of the discussion. He commented as follows:

"I feel pretty strongly that you should not include finance costs on any operating facilities. If that is the way you can sell it to your students, your board or whatever, then great, pack it how you like. But your whole point, Rolf, is right – if you finance one thing out of a package of debt, you use your free cash for another and, for yet another, you use a private partnership, then you will end up having different rates for exactly the same asset or exactly the same room, which is untenable."

"Then, going right back to Saleem's point¹⁷ and the discussion that followed about the R4 billion at the end, the flaw in that logic is that he hasn't priced the risk. Your risk

¹⁷ Saleem Badat commented on Rolf Stumpf's presentation as follows: "I have just been doing some back of envelope calculations, and I would like – I mean, Rolf's got a lot of experience in this area and I would like to hear his view. And it's really been stimulated by the colleague from Massachusetts in terms of how your

increases through taking on debt, and you have got to price that risk. And then again, you and other folk have answered this point. But every time you take an ounce of debt, your risk profile increases, and you have to discount at a higher rate, so your value comes down. It is pretty straightforward."

"And a final comment, and one that people do not often appreciate – you do not use debt to buy stuff that you cannot afford. Debt is not there to buy things that you cannot afford. It may be there to enable you to structure it, it may be there to enable you to have timing around it, like buying your house, a residence that has got a 40- or 50-year life, but if it is fundamentally not generating the right return that you need, debt doesn't do (it) – it can't. And this is why people get into trouble, whether they were merged or not, because you cannot just go and buy stuff with debt. You have got to service the debt, which does not only apply to the interest, as you have also got to repay the capital. Debt is (used), and they say that you should only have debt when you do not need it."

There were loads of titters from the audience on this point that you do not use debt to buy stuff you cannot afford, a point made by both **Rolf Stumpf** and **Enrico Uliana**.

Conclusions

The conference was concluded with the question: The next steps? Saleem Badat (VC, Rhodes University) and Nasima Badsha (CHEC) were asked to summarise the work of the two days. Each of the delegates undoubtedly went away with his or her own views on the best answers to this question. In this regard, we include a submission from **Sue Grant-Lewis** (Foundation Partnership for Higher Education in Africa) on the two-day conference by way of capturing another perspective on the two days.

Notes from the programme

The notes below highlight the discussion of the background paper, a few of the sessions and the final discussion about moving forward.

1. Opening session

In his keynote address that opened the conference, **Barney Pityana**, VC of UNISA, spoke of South Africa's higher education challenges and opportunities. On the fifth anniversary of the mergers, and 11 years after the White Paper, he feels a niggling concern that the external change has not been fully matched by change within the institutions. Persistent challenges

approach is to building. If we take that R5 billion that has been made available for infrastructure by government and we hand it out, then in fact it is not R5 billion – when you add the university share of that, it is R7 billion odd. One way is to pay cash, which is what we are doing. And so what we get in return is R7 billion worth of infrastructure. The back of the envelope calculation shows that if you as a private person getting bond finance for a house over a 10-year period, you can multiply that 7 by 4. And so R28 billion could be potentially be available to you immediately for infrastructure. You take that R7 billion and invest it, and you're going to get a certain return. Clearly, at the end of the 10-year period, there's going to be a shortfall, and this shortfall will be in the region of R4 billion. Over a 10-year period, if the government or treasury guarantees you that R4 billion, which is not a lot over a 10-year period, then we could be investing R28 billion in infrastructure right now instead of paying cash for R7 billion."

include quality and relevance, producing students who are prepared and committed, and leaders who are committed to improvement and transformation, as well as breaking down silos and inequities. The RSA is in a privileged position with a 15% increase in government support in 2008/09. Yet we suffer from implementation inertia, not seeing it through. The outlook for increased higher education financing is bleak and we need to network among institutions. Higher education changes will be demand-driven by external and not internal factors. These include the commodification of knowledge, increased mobilisation of technology, increased dependence on partnerships, and the decline in government subvention. We are not doing enough to explore third stream income, which is increasingly important to HE finance, and we cannot raise tuition to meet the budget shortfalls.

2. Background paper

John Duncan, consultant at Rhodes University, presented the conference background paper, "Third Stream Income at South African Universities". **Pundy Pillay**, independent consultant, served as discussant. His main points were as follows:

- The paper is a valuable contribution that breaks new ground.
- The paper would be strengthened by the inclusion of a discussion on the developing country context, such as a comparative analysis of middle-income countries such as South Korea and Singapore, which have well-developed higher education systems and are diversifying their financing.
- The data presentation, which aggregates the 23 institutions into five categories, masks important information for understanding the situation.
- The paper should provide greater clarity on the quantity and types of third stream income that are derived from outside the country.
- The paper stops short of answering what (the findings as reported) means for policy. The data affirms our sense of things but what are the implications for equity, including inter-institutional equity? What are the implications of the reduced government subsidy? Those institutions with enhanced third stream income can maintain themselves. For others, it means increased fees and such a shift in subsidies will therefore maintain the status quo regarding inter-institutional equity. What does this mean for differentiation of the system?

The historically-based categories used in the paper stimulated a lot of discussion. Several people complained that the clusters were not accurate (e.g. WSU is not a university of technology), while others suggested that the typology masked more than it revealed.

Cheryl de la Rey (CHE): The historical categories mask some issues such as leveraged capital. To try to think through how we might make changes to differential financing formulas, it would be useful to look at the data by (a) the size of the institution, and (b) the location of the institution. If an institution is outside a major urban center, it doesn't have the capital leverage to develop some forms of third stream income. She also asked about the space that university leaders have to make strategic choices. Most third stream income is restricted, and in the subsidy component, you have block grants and earmarked funds.

Derrick Swartz (NMMU): There is a differentiated strategic capacity to respond. The strategic and regulatory environment needs attention. We need to set parameters to control the percentage of third stream income. There are ethical questions about strategies to increase third stream income, similar to those from the time of divestment, but also new ones such as environment and labour practices.

Marvin Parnes (U of Michigan): The metrics have plagued US institutions. Big struggles are with how to relate the data to the goals and missions of the institution. You need to look at building that relationship. Otherwise, it is difficult to make improvements and leverage the resources.

Shelagh Gastrow (*Inyathelo*): The paper did not go far enough to explore the "how". We don't have information about the investments that universities have made, including what they do and what organisational structures exist. What mechanisms generate third stream income?

UCT: What does it cost to generate third stream income? We need to problematise the relationship of first, second, and third stream income. What explains the fact that universities of technology have low levels of third stream income, given the expectation that they serve the private sector and should have opportunities for commercialisation.

A university's intellectual property records and the value of that IP is generally not known. We need to talk about cash and non-cash benefits.

Paul Effah (Ghana NCTE): In Ghana, institutions have to declare the source of their income to the NCTE and report expenditures on a monthly basis.

Data requirements:

- Standards for reporting
- Uniform reporting should not set uniform expectations or norms for uniform behaviour
- Information for source of contracts income: Broken down by government source and compared across institutions.

Saleem Badat agreed to take the data issues to the Funding Strategy Group of HESA.

3. Commercialisation session

It was reported that several recent changes in the South African Revenue Service are advantageous for private sector investment in higher education:

- Deduction for science or technological research and development, which is an incentive for the private sector to run research programmes through universities
- Change in venture capital regulations to allow deductions for a venture capital company and to sell shares.

In addition, a new IP Rights Bill and the establishment of a Board for Technology Innovation were mentioned as developments that will support greater third stream income.

Discussion:

- South Africa (indeed most African countries) has no framework for indirect costs.
- In Nigeria, industry is seen as being unwilling to bear research costs. Consequently, the university is subsidising industry research. Ibadan's journey to commercialisation is very long.
- Several comments indicated a reluctance or even distaste for engaging in third stream income. For example, a cost-benefit analysis should be done to make sure that the cost to teaching is known, as assets are more important than income.
- In engaging more with other partners, expect tensions between competing cultures: academic vs. military ethos; academic vs. sports (Stellenbosch).

- Some experienced universities argued for avoiding commercial activities on campus and, instead, to rather have them spin off and go off-campus. Conflicts of interest are very difficult to manage.
- The RSA system provides perverse incentives for research. Therefore, this system should be for social benefits and not private benefits.
- A commercialisation focus is limiting because it puts too much focus on technology instead of on the diffusion of knowledge, skills, technology, and expertise.

4. Role of the Vice-Chancellor in fundraising, advancement and third stream income session

Heather Regenass, Director of Development and Fundraising Office at Wits stepped in for Rob Moore, DVC.

There was a lot of debate over how much time VCs should expect to devote to this work, with the panellists saying 60%, including developing long-term relationships. Most audience members balked and said that South Africa is different and will never move to that model.

Highlights of points made:

- There is a need to build a culture of fundraising, for example among alumni and the board of trustees.
- There is a direct relationship between the size of the office and the professionalism of the team. The biggest challenge in the initial investment to get started.
- The cultivation of relationships is key to success. Greater engagement leads to greater care.
- Several elements are of key importance, namely an internal regulation environment, internal leadership that can mediate skeptical or recalcitrant academics, and VC protection of the advancement operations from impatience, disappointment and hostility
- The head of the development office must identify the VC's talents and strengths to help the VC be a team player or guided missile.
- The head of advancement must report to the VC.
- A tight relationship needs to exist between the advancement office and the faculty, who should be informed about events that need support and can excite funders.
- The VC must champion the advancement office and set priorities.
- An incremental approach is needed that focuses on close family and friends (alumni, board of trustees).
- The VC must get faculty support to ensure that the university delivers on its promise and must work closely with the academic leadership and CFO.
- There is a need to identify what it costs to raise a rand.
- "You need the complexion and the connection to do the protection." (Muhammed Ali, quoted by Michael Lomax).
- Regular communication is needed and donors should not be ignored.
- Be careful with the VC's time and rather save him or her for the big bucks.

Questions/comments from the audience:

- Advice on delegating was requested.
- VCs must be empowered by the Council and this work must be part of the VC's performance appraisal. Handing it over to a collector is a bad idea.

- A query was made about the impact of negative publicity, (which affects whole system).
- There is a hierarchy of allegiances in Nigeria: 1. Hall of residence; 2. Faculty; 3. University.

5. Endowment and reserves management session

Discussion:

- It is important to create support within the university for building an endowment by raising consciousness among faculty and students.
- A university foundation yields greater confidence for funders (as attested by Wits, UKZN and Ibadan).
- South Africa may need to restrict endowment payouts, although there is no regulation at present.
- According to the investment experts, good endowments make good colleges rather than the other way around.
- Pooled equity can make great sense, and can be achieved by having different funds with different purposes pooled for investment.
- A common fund allows multiple schools to pool funds for common professional investment management (Maryland).

6. Public-private partnerships session

Max Price discussed five case studies of public-private partnerships. The cons of corporate support are evident. UCT has big support from SASOL, but finds itself limiting its relationships with competitors (self-censoring). The university needs an independent group within the institution to monitor this situation.

7. Short-term and long-Term financing

Rolf Stumpf explained that long-term borrowing in South African universities is limited because of strict legislative constraints that only allow the borrowing of 5% of the average total income minus debt. Debt often includes high student fee debt. Short-term borrowing, for example an overdraft, is usually to ease cash flow, but is costly and sometimes does not function because of the councils. An increase in short-term borrowing is expected due to decline in block grant subsidies and an increase in the percentage that is earmarked for support. Stumpf expects a regulatory framework to cap student fee income but is not sure how it will work. There is a need to increase academic staff salaries and inflation is higher in higher education than the general rate.

Edward Adelman discussed the Massachusetts State College Building Authority facility that uses bonds for facilities crucial to the university's mission, where no other revenue source exists. Maturity is linked to the useful life of the improvement.

Discussion:

- With the idea of bonds secured by future revenue, Saleem Badat calculated that four times the current amount available for infrastructure could be made available.
- The mergers saved some institutions from bankruptcy. Many institutions had non-subsidised loans with balloon payments.
- Debt financing has been a problem for many HE institutions. Instruments are over-rated and institutions find themselves in trouble, with debt they can't service, for example variable rate debt.

- In terms of the role that the DBSA plays in higher education institutions, an increased role foreseen because it offers slightly better rates. However, this situation gives a ministry other than education the right to influence infrastructure priorities without involving the ministry of education. We need a framework between the DoE and the ministry overseeing the DBSA.

8. The next steps session

Nasima Badsha and **Saleem Badat** both offered syntheses of what we have discussed and remarks on the next steps.

Nasima Badsha (CHEC):

- A differentiated approach to third stream income with attention paid to the context and needs of each institution is required.
- The HESA and DoE should pursue the need for frameworks for the indirect costs of research.
- Institutional policies regarding, for example the use of profits or income, or the regulation of contract work by academics, are necessary.
- The DoE needs to improve its monitoring to sharpen data on third stream income.
- The CHEC works on teacher education, doing contract research that supports collaborative work and should explore the clustering of universities, typically geographically.

Saleem Badat (Rhodes)

1. As much third stream income is going to matter more, it is not an end in itself. It must be linked to the mission and goals of the university, as a public good. What are you raising money for?
2. As a whole, institutions are raising 41% of their resources from government, 32% from fees and only 27% from third stream income, which is up in the last three years. However, these percentages are averages and there is great variation across institutions.
3. We must deconstruct third stream income as it is comprised of many types, and each one requires different skills, expertise and units. Also, many specific issues and concerns arise in terms of restricted versus unrestricted funds.
4. Stop using exceptionalism and rather use 'similarity'. Comparisons should not only be made to US and Europe, but also rather to India and other African countries.
5. Think incrementally and not in terms of a big bang, and shape (projects) by, for example, mission, geography and size.
6. Comments on the report: Institutional arrangements need more attention, as they are not included in the report. One or two case studies should be obtained that include information like, for example, policies, governance, staffing and percentage endowment to be used. Tapping the available expertise is important. A question about how to approach forging collaboration, cooperation and partnerships was raised. A suggestion was made to play with the categories in the report, for example, by looking at the research universities, looking at geography (urban/rural), and looking at size. Another suggestion was to think about clusters for cooperation, sharing experience and pooling financial resources.
7. Leadership, especially by the VCs, is crucial to facilitate the work of the advancement staff, and also to protect the advancement staff from accusations of managerialism. Unlike in the US, the VC in South Africa is not a university president. Therefore, the VC will continue to be chosen for academic leadership and not for fund-raising ability. Saleem confirmed that he is active, but could only spend 20% of his time. The group confirmed that this is OK, as VCs cannot do 60%.

8. Value and ethical tensions are likely, and reference was made to Marx's *Das Capital*. Five examples were given and the question was raised about the regulatory framework needed to take them into account.
 - a. A pharmaceutical company comes with strings attached about delayed publication.
 - b. Investments in companies with poor practices.
 - c. The admission of those students who can pay.
 - d. What is the South African model of internationalisation? This is not regulated yet and institutions have different practices.
 - e. Will institutions use public funds to subsidise research that has private benefits?

What is to be done? Issues for the future

9. Strengthen the report:
 - a. Improve the data presentation.
 - b. Play with the categories.
 - c. Consider the policy issues, perhaps with two cases such as Rhodes and Fort Hare.
 - d. Consider opportunities and constraints to do with geography, size, history, etc.
10. Areas for research:
 - a. Consider maybe a special issue of SAJHE. Start a discussion about advancement.
 - b. Discuss with the DoE the implications of third stream income and how it can reinforce inequalities.
 - c. Settle the amounts of block grants and the percentage for third stream income.
 - d. Consider what HESA takes out of this? The Funding Strategy Group will take this up. The group is already looking at reporting to the DOEs for greater comparative analysis.
 - e. Suggest advancement staff could consider becoming a HESA Community of Practice.
 - f. Consider formulating a national statement on how knowledge and higher education matter.

The different presentations and discussions during the two days were complex, rich and left much to think about and act on. The point of the concluding session of the two-day conference was to focus all of this information on the tasks ahead – not only for the participating institutions – but crucially also for those who could and will steer policy making and implementation, viz. HESA, the DoE and other relevant government bodies, as well as possible partners from the private sector.

Below, we turn to an outline of the tasks ahead in the words of Nasima Badsha and Saleem Badat.¹⁸

Nasima Badsha:

I think that the first lesson for me out of the discussion is the need for a differentiated approach to third stream income, and that a one-size-fits-all approach is not appropriate at all.

¹⁸ Their inputs, as transcribed verbatim, were slightly edited for the sake of clarity and/or brevity.

Each institution has to make considered decisions about the categories of third stream income that it wishes to pursue and, importantly, why it wishes to pursue a particular stream, and to be informed by the synergies with the mission and strategic priorities of the institution. It has to be realistic and has to take account of context, including the geographical location of an institution and its proximity to business and industry, and also, importantly, the issue of institutional capacity. I think that, in relation to the area of institutional capacity, there clearly needs to be the institutional infrastructure and policy frameworks to support third stream income generation, as well as the capacity to manage contracts, which as we've learned, comes at a cost of its own. The capacity to quantify, and importantly to allocate indirect costs is especially important if an institution wishes to avoid the risk of subsidising contract research through, for example, student or government subsidy income. And in this area, I think there may well be a role for a discussion on a possible national framework for quantifying and allocating these indirect costs along the lines of the US practice that we've heard about. I think this is certainly an area that lends itself to a potential follow-up by HESA and the Department of Education.

Related to the above is the issue of a whole cluster of institutional policies that need to be in place, for example, policies on the use of profits from third stream income. Are profits used for cross-subsidisation of areas in, for example, the arts and humanities? Are they used for seeding new research areas, etcetera? There a clear need for policy and regulation of the short course environment and the importance of the internal implementation of quality assurance mechanisms. And we've seen that if proper attention is not given to that, there are serious reputational threats to institutions. There is the issue of regulation of contract work by academics. And I think here, in this area of policy development and implementation, there may be a role for possibly *Inyathelo*, HESA, or some combination of these to consider further engagements, maybe with specialised groups of individuals from our universities, around the further sharing of experience and best practice in areas of institutional policies. Another matter that came up was the importance of identifying and quantifying the indirect value from contract research, such as research equipment, infrastructure, postgraduate scholarships, etc. There is a cluster of issues in relation to supporting this area of work.

I'd now like to look at some system-wide considerations. And I think what is clearly needed and what has to be taken forward is a discussion with the Department of Education, and I think the HESA finance sub-committee would be the right vehicle for that, to expand and

elaborate on the DoE reporting framework to allow for a much sharper monitoring and evaluation of third stream income in the system. So it is going back to the issues that we raised yesterday around making sure that we are comparing apples with apples, and whether we have a management information system that allows us to do the necessary monitoring and evaluation of third stream income, especially in a period where we are seeing an increasing activity in this area.

But I think we also need to acknowledge the limitations of such frameworks and that this needs to be complemented with other data, for example, on the social value of research and community engagement.

Now I'd like to raise a matter that is not directly linked to third stream income, but that arose from the input this morning from Rolf. He reminded us that earmarked funding has increased over the past period. And I think that going into the future, if this should happen at the expense of the block grant, the unencumbered portion of university income, it could pose some serious difficulties for institutions. And I think a discussion again needs to take place between HESA and the DoE on the balance between the block grant and the earmarked funding, with the possibilities of looking at limits to the percentage of total government funding in the form of earmarked grants. But one caution there – I would remove the National Student Financial Aid Scheme from that discussion. At the moment, it's counted into the earmarked portion, but I think it plays a particularly important and a special role, and I don't think we must confuse that role.

Then I'd like to touch briefly on the issue of endowments. I think a very important comment was made that the depressed market is a good time to begin. Now I think that is particularly important for universities that are only beginning to build endowments to look at how we use this window of opportunity, and how best to take advantage of this period. And, in particular, I think there is a place for collaborative approaches. There are numerous possibilities on what these clusters of institutions might be, and we have to look very seriously at the kind of models that have been used so successfully by, for example, the United Negro College Fund. We heard a little bit about the common fund, but I think we need to learn much more about initiatives like those in the US and elsewhere. However, for institutions that are starting up in this area, I emphasise again that the sharing of high-level investment expertise is an area that we must look at. In the area of sharing international fundraising capacities, is there a role for

South Africa's foreign missions to provide supporting infrastructure for international fundraising? Is there a particular discussion around this area that needs to happen, maybe by clusters of institutions? And I just want to suggest some groupings: the UOTs share a particular mission, so is there room for the UOTs to collaborate in this area? Rural institutions have particular challenges, so is there a role for them to think together in this area of endowments?

Then, the next area I'd like to comment on is in relation to partnerships. I think that we all at some level acknowledge that there is value in partnerships between universities and with other external role players, be they the private sector, provincial or local government, or other parties. I have in mind here the kind of experience that we are beginning to build up in the Cape Higher Education Consortium. The work is about the mutual benefits that it brings to the partners. It has stimulated a lot more inter-university co-operation, and it has also informed our planning processes. So, most recently, we undertook a teacher supply and demand study for the Western Cape. And this work is very important for our own enrolment planning in the area of teacher education. So the modest income we earn from it is by incidental, but it does help to support other collaborative work that we may want to do. In relation to our partnership with the City of Cape Town, for example, we've begun to look at the issue of both graduate and undergraduate internships – professional, tailor-made professional development courses for City staff and, again, joint research projects.

Earlier in the discussion, I already touched on the advocacy role for higher education in the region. I think that highlighting the role of higher education as an important economic sector in its own right has been extremely useful, in that higher education is a major employer in the Western Cape and it contributes significantly to the economy of the Western Cape, not just in terms of rates and taxes, but through procurement, etcetera. And this discussion has led, albeit slowly, to a better acknowledgement of the role of higher education in the economic and social development of the region.

A few last words on the whole discussion around commercialisation, and I think this discussion is extremely timeous in the context of the work that is starting to happen in the system around the issue, for example, of science parks. There's a lot of hype in this area, and I think that yesterday's discussion was important because it reminded us of the need to have very realistic expectations in this area and to ensure that those expectations are linked to

context and the opportunities that are provided. I think that it also reminded us of problems related to the level of influence from industry on research and teaching priorities in higher education. Further, the issue of spin-off companies and their location and the idea that they are better located outside of the university to avoid issues of conflict of interest, is also a very timeous discussion.

Saleem Badat:

The first point I would like to make is that inasmuch as the mobilisation and the generation of perks from income is going to be increasingly important to the development of our universities, I think we must be quite clear that this is not an end in itself. Although this is a trite point, it needs to be said. It must be related to the fundamental social purposes of our universities, to our missions, our goals, and what we want to achieve in the public good. The important point is what you are raising this money for. How does it relate to advancing the public good function of your university? Because there are certain perversities and distortions that can creep in if you do not keep this objective in mind, and if you do not frame third stream income within this wider conception of the purposes and role of the university.

The second point that I would like to make is simply to remind us that, at the moment, we are raising 41% of our income on average from what we call first stream income (from state subsidies), 32% from fees and 27% from third stream income, which in the last three years, as John Duncan showed, has gone up from 24% to 27%. Now, on a three-year basis, you can't start speaking of trends, but it may well be that this is the beginning of a trend, and this will depend very much on the extent to which, as Nasima has said, we can get a compact between ourselves and government about block funding and state subsidy. This will be a crucial issue in terms of the extent to which we will have to pursue third stream income and at what levels, and so on.

The third point that I want to make, and again it draws on John's paper, is that we can't speak of third stream income in a kind of generalised way. We have got to deconstruct this notion of third stream income and look at its dimensions. John mentioned some of those dimension. We can talk about contract and sponsored research income, and we can speak about income that comes from entrepreneurial and commercial activities, as well as philanthropic income, including endowments. We can speak about internal income that may come from interest and how we manage and invest our funds. And we can talk about long-term and short-term

financing. There are a few points to mention about these five different categories and there may well be more. The first point is that each of these categories is distinct from one another. They are different activities and they can't all be pursued in the same way. You need different levels of specialisation and different kinds of expertise to pursue, for example, contract research income and philanthropic income that may come from endowments. The second point is that these categories contribute different proportions to each of our institutions. And the third point is that we must make a distinction within this kind of income between what is restricted income and what is unrestricted income. Because, by and large, the income that comes from contract research gets used up. Sometimes, you may be very smart and the donor lets you keep the money. I want to come back to that.

The fourth point I want to speak about is a very interesting term that was used by our colleague from the United Negro College Fund. While briefly chatting with him outside during one of the breaks, he used this word 'exceptionalism'¹⁹ and I wondered if he had used it deliberately because it's an appropriate term to use. We, as South Africans, are exceptional. And why do we say that? We say it because of the political experience of apartheid. Now I want to suggest, as Mahmood Mamdani has done, that we must get away from this notion of exceptionalism. We are actually not exceptional. The apartheid period was a continuation of a particular period that most other African countries and all countries that were colonised experience. So Mamdani in *Citizen and Subject* makes a very important point, namely that there is nothing particularly exceptional about South Africa. Because the danger is that this notion of exceptionalism can paralyse us. And so instead of a notion of exceptionalism, whether in general or whether in this area of the abilities and opportunities around third stream income, I want to suggest that instead of exceptionalism, we think of a similarness. And that similarness is about us in relation to other African countries, other Asian countries,

¹⁹ In Michael Lomax's own words: "Our institutions have suffered from a notion of exceptionalism that has reinforced the status quo. Because they are historically disadvantaged and have been discriminated against, because their alumni were not perceived as wealthy, they devalued fundraising as a source of meaningful, unrestricted support and believed that they couldn't do it, that that is that they were different from everyone else." He offered an alternative approach to getting ahead – not an antonym of exceptionalism – as follows: 'I think, in one sense, one of the things that you need is, you need to have a little bit of success, and success will be a great tonic to exceptionalism. So, what I would recommend is substituting incrementalism for exceptionalism. I wouldn't set a multi-million dollar goal initially, I'd set some small goals. And I think particularly and to the historically black institutions here in South Africa, while your circumstances are in some ways akin to what we've experienced in the US, in other ways they're quite different. Our countries are very different, the economic status of African Americans, the longevity of our institutions, the amount of education we've had, and the amount of integration we've had and within the economy, are quite different. So there are similarities, but there are also differences, so I would say I'd look and then I'd ask to what extent is that similar or different, and how do I adopt and then adapt that to work in my circumstances?' Visit <http://www.gseis.ucla.edu/courses/ed253a/american-exceptionalism.htm> for the history behind this notion.

and so on. And I think it was quite right for Pundy Pillay to point that perhaps our comparisons must not only be to the US and Europe, but that they should also be to places like India and other developing countries – because maybe those conditions are more informative for us in some senses – which is not to say that we should not learn the state of the art and good practices wherever they come from, and if it is from the United States and Europe, then so be it.

I think we must talk about the idea that if we are going to be engaging in third stream income, and especially those of us who are still neophytes in this area, then the message is, in a sense, don't assume a big bang approach when we are going to start pursuing income on five different fronts, and to start setting up structures for endowment, for contract research, for philanthropic activities, short courses, and so on. Rather, we need to ask where is the best place to start in relation to our particular strengths and niche, and so on? So, for example, it would be silly for Rhodes University to set a target of wanting to raise short-course income of R100 million in the next five years because Pretoria is raising R120 or R150 million. You see, the difference is, Pretoria is in Pretoria, and it's got 800 000 public servants, which are a captive market. The entire population of Rhodes University is 100 000. Be careful of setting benchmarks and pursuing strategies that are going to blow up in your face by an assumption that because someone else is doing it, you can do it. Your benchmarks and strategies must be shaped by missions, context, location, geography, size, and so on.

The fifth point is about institutional arrangements. And I think Shelagh Gastrow was quite right to say that one of the weaknesses of the Duncan report was that there wasn't enough attention paid to the particular institutional arrangements that exist at the different universities at the moment that allow, facilitate, or hinder the generation of third stream income. And it would be very good to have one or two case studies of how these things are pursued at particular institutions. And, by institutional arrangements, I'm speaking about what people were saying – the policies around the use of these funds, the policies for costing and governance arrangements, and the policies around what investment income will be used and how it will be used. What proportion, is it 4%, or is it 5% – including the structures and the advancement officers, staff, etc. that have to be put into place for these kinds of things to be possible? And so if we are talking institutional arrangements and creating and embedding this within our institution, then again, to repeat, it must be related to what our missions are, what

our context is, what our location is, and so on. And we have to craft and approach the advancement that speaks to those realities, which are distinct for each university.

Then, too, we must not start out in this area assuming that no one else has done it. There's an enormous amount of intellectual, organisational and institutional expertise in these areas, and we should not be shy to call on that support and expertise, and make use of it.

We should also be thinking about how we may approach this in a way that forges co-operation, collaboration and partnerships. And your clusters could be any number of different ones. So, specifically regarding the Duncan report, it would be good to play with different categorisations. I suspect you may still get the same results, but instead of those five categories that we use, maybe look at the seven research universities that produce 75% of the research income and produce 80% of the postgraduates. You may find that these institutions are the more successful in third stream income. And if you group them by geography, you may find that the urban institutions by and large are the most successful. Group them by size, and you may find that the biggest institutions are the ones that are the most successful, and so on. So I think there are different ways of playing with these categories. But, at the same time, I think that, as Nasima says, you can think of clusters that can co-operate, given particular missions. And by co-operation, I mean not just in terms of sharing of expertise, but perhaps pooling of financial resources. For example, I think we should be very cautious that because Wits has an office in London and New York, we're all rushing to set up offices in London, New York, Paris and places like that. If there is a need for these offices, perhaps co-operating to set them up may have a better effect than each of us rushing to do it on our own.

I want to pick up and re-emphasise the points made by our colleagues from Wits. I think leadership in this area is crucial and Vice Chancellors are absolutely important in terms of providing leadership around advancement and development. I want to reaffirm what the colleague from Wits said. Although it is about facilitating the work of advancement and development people, it is also about protecting and defending our advancement and development staff. In addition, I think the difference between South African universities and American universities is that the Vice Chancellor is not the equivalent of the American president. Our Vice Chancellors, and I think for years to come, are going to be appointed on the basis of academic leadership credentials. They're not going to be appointed on the basis of fundraising credentials. So, no Vice Chancellor should feel bad about the 60% that we talk

about. I consider myself to be in that group of very active Vice Chancellors in terms of advancement and development, but I can't see myself having spent more than say a maximum of 20% of my time on fundraising in a year. And so I think we must also shape the role of Vice Chancellors in accordance with the value and desire of our institutions and also how they function.

The second last point that I want to get to is the issue of value and ethics. And various people have raised this point in different ways. Now, and this betrays my own discipline, Marx, in his book *Das Kapital*, in a chapter called 'primitive accumulation', wrote about capital coming into existence dripping in blood and gore. It is in connection with this gore that I want to ask if we can have a more civilised accumulation instead of this primitive accumulation related to blood and gore. And this is to reaffirm the point that if we are going to be pursuing third stream income, and we must – there's not a dispute about that – we cannot bracket out values, ethics, morality, the purposes of higher education and the public good considerations. We must be looking for a civilised approach to third stream income.

That brings me to the last point, the infamous point of *what is to be done?*

The Duncan report: This report can be strengthened. Firstly, Pundy made the point that the percentages that are provided are inadequate and they reveal as much as they hide. We actually need the figures because there is just too big a variation, and those figures are important. Secondly, I think we need to play with the categorisations, and we need to do an analysis using those existing categories and maybe also other clusterings as outlined above. Thirdly, the policy issues that arise need to be considered. And lastly, I think the report needs to consider the opportunities and constraints that are provided by the location, size and histories for leveraging third stream income, which is the point that Cheryl de la Rey made.

Further research: I think that a number of issues have been discussed that are fertile areas for research. We need to explore these issues much more, because I think that such exploration will benefit our thinking as institutions and also perhaps policy making at a national level. And I was tempted to say that perhaps both the paper that John has presented and the papers presented by some of our colleagues may make a very nice, special issue of the *South African Journal of Higher Education* – to start some scholarly research and reflection on issues of development and advancement.

HEIs: we need to note that, firstly, there are significant differences between universities, including in terms of advancement and development. Some are about to start, while others are very strong in this area, and I think we need to recognise that one size does not fit all, as Nasima has said. Secondly, I think we are talking about a very sober and strategic approach – not a big bang, but perhaps an incremental approach, which will be more useful. The point to take away is that a lot of serious thinking about why we are getting into this and where we want to get into this has to happen. Thirdly, I certainly think that there are possibilities, and I think that we must start to identify these possibilities and look at what we can do in co-operation locally and internationally.

HESA: What we can assure you is that the HESA funding strategy group that I will chair will engage with the outcomes of this conference. We have already discussed this, as to some extent we have been part of the planning of this conference, and we will discuss it further as a funding strategy group, as well as take it to the executive committee and to the board. Let me also already say that the Finance Registrar's Forum is already going to be discussing the idea of relooking at how we report to the DoE, and perhaps that's an opportunity for us to see whether we can standardise or make uniform some of the reporting, so that there can be better comparative analysis around third stream income.

Regarding business, as someone raised this issue, let me indicate that, last year, a very productive meeting was held between the HESA Exco and the Captains of Business through the South African Business Leadership, and this is meant to be an ongoing engagement between the sector and business leadership. Some of these issues can certainly be picked up there.

Then, too, for those of you who are involved in advancement and development – this might create a momentum for you to consider whether it's time to become a HESA community of practice – because that puts you in a particular relationship with the HESA Exco. This is not to say that it is not happening already, as I know people in advancement and development meet, but perhaps one can use this to create a real momentum around the initiative started here at Kievits Kroon.

The national DoE: I am certain and confident that the colleagues that are here will take away some of ideas exchanged here. One of the key ideas to take it further is the issue of settling the problem around block grants and earmarked funds, and perhaps getting consensus on what amount these grants and funds should total, and what should come thereafter from third stream income. We will engage with the DoE as necessary around these issues. We have to discuss questions such as: What are the implications for block grant and earmarked funding, etc. given the different capacities of institutions for generating third stream income? Because third stream income and its generation can also reinforce the inequities that already exist within the South African university sector.

And lastly, what I would value from the president of the country and the government of the country, is a simple message like Obama's that knowledge matters.²⁰ Not skills, I'm tired of the word 'skills' for many reasons, I want to be reassured that knowledge matters and higher education matters. If this message is sent out, my job as VC and your jobs will all be much easier when we have to raise third stream income.

Thus Badat concluded the conference on a high note indeed – a two-day conference that had many other notes: key notes, low notes, and also notes from competing melodies and different songs. The task now is to take all this further. And it seems to me that the two engines that will have to get things moving are firstly the HESA funding strategy group, and secondly a working group made up of members from *Inyathelo*, HESA and the DoE.

²⁰ Ed Adelman started his presentation with this quote: "The future belongs to the nation that best educates its citizens" from *President Barack Obama, United States of America, March 10, 2009*.