higher education
& training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

Report of the Ministerial Committee on the Review of the National Student Financial Aid Scheme

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Acronyms and abbreviations

AG	Auditor General
CAO	Central Applications Office
CAP	Central Applications Process
CHE	Council on Higher Education
CHET	Centre for Higher Education Transformation
CPUT	Cape Peninsula University of Technology
CUT	Central University of Technology
DoA	Department of Agriculture, Fisheries and Forestry
DoBE	Department of Basic Education
DoC	Department of Communications
DoE	Department of Education
DoL	Department of Labour
DHET	Department of Higher Education and Training
DUT	Durban University of Technology
DSD	Department of Social Development
ELAF	Electronic loan application form
FAO	Financial aid office
FCS	Full cost of study
FET	Further education and training
FTE	Full-time equivalent
GER	Gross enrolment ratio
HAI	Historically advantaged institution
HDI	Historically disadvantaged institution
HE	Higher education
HEI	Higher education institution
HEMIS	Higher Education Management Information System
HEQC	Higher Education Quality Committee
HESA	Higher Education South Africa
MTEF	Medium term Expenditure Framework
MUT	Mangosuthu University of Technology
NCA	National Credit Act
NCHE	National Commission on Higher Education
NCR	National Credit Regulator
NCV	National Certificate (Vocational)
NEET	Not employed not in education and training
NEHAWU	National Education Health and Allied Workers' Union
NMMU	Nelson Mandela Metropolitan University
NPHE	National Plan for Higher Education
NQF	National Qualifications Framework

NRF	National Research Foundation
NSA	National Skills Authority
NSF	National Skills Fund
NSFAS	National Student Financial Aid Scheme
NWU	Northwest University
PASMA	Pan-Africanist Student Movement of Azania
PHEI	Private higher education institutions
PFMA	Public Finance Management Act
PMS	Performance Management System
RU	Rhodes University
SAQA	South African Qualifications Authority
SARS	South African Revenue Services
SAUS	South African Union of Students
SETA	Sectoral Education and Training Authority
SRC	Students' Representative Council
TEFSA	Tertiary Education Fund of South Africa
TUT	Tshwane University of Technology
UCT	University of Cape Town
UKZN	University of KwaZulu Natal
UFH	University of Fort Hare
UFS	University of the Free State
UJ	University of Johannesburg
UL	University of Limpopo
UNISA	University of South Africa
UP	University of Pretoria
US	University of Stellenbosch
UV	University of Venda
UWC	University of the Western Cape
UZ	University of Zululand
VUT	Vaal University of Technology
WITS	University of the Witwatersrand
WSU	Walter Sisulu University

Foreword

It gives me great pleasure to submit the Report of the Ministerial Committee on the Review of the National Student Financial Aid Scheme (NSFAS) to the Minister of Higher Education and Training, Dr Blade Nzimande.

This is the first ministerial review of NSFAS since its inception in terms of the NSFAS Act in 1999. The establishment of NSFAS as a public entity was a visionary development which enhanced equitable access to higher education. There can be no doubt that NSFAS has made a significant contribution to achieving the access goals in the policy framework for the transformation of higher education in South Africa during the past decade.

The review comes at a time when demands for access to higher education and further education and training outstrip the funds available for student financial aid. Despite the strengths of the scheme, NSFAS faces a range of challenges in meeting its legislative mandate and obligations.

The Review Committee trusts that the findings and recommendations of this committee will contribute to addressing the challenges and building on the strengths of NSFAS. In particular, we hope that our proposals will help to promote the twin goals of equity of access and providing free undergraduate education to students from working class and poor communities who cannot afford higher or further education.

I would like to thank the members of the Review Committee for the intellectual rigour and social activism with which they have undertaken their task and for their generous commitment.

Finally, I would like to take this opportunity to thank the Minister for entrusting us with the task of undertaking this review. I am confident that this comprehensive report provides a basis for moving towards a national student financial aid agency that responds to the complex development needs of South Africa.

Professor M. Balintulo

Chairperson, NSFAS Review Committee

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Acknowledgements

The Ministerial Committee received support and assistance from a number of sources in its review of the National Student Financial Aid Scheme (NSFAS). We wish to express our gratitude to everyone who participated in the review process.

The Committee had the task of gathering information that would enable it to review the activities of NSFAS over the last 10 years. Our task was greatly facilitated by the inputs we received from a wide range of individuals, organisations, public and private sector entities and sources. We appreciate the contributions of all those who gave generously of their time in helping the Committee to assess the strengths and shortcomings of NSFAS.

Firstly, we would like to thank the public higher education institutions and further education and training colleges which prepared and presented institutional submissions that were both detailed and frank. In particular, we would like to express our appreciation to those institutions which hosted Committee hearings in various provinces.

Secondly, we are grateful to the student representatives whose engagement with the Committee, often passionately delivered, gave us an invaluable insight into the impact of the availability of financial aid on the students that the national scheme is designed to help.

Similarly, our interactions with financial aid officers, both at institutions and through their professional association, helped us to understand and evaluate the current scheme.

In addition, we would like to thank the many participants in the six stakeholder focus groups who volunteered information about their personal experiences of NSFAS that helped us understand the benefits and frustrations that different stakeholders encounter.

We also wish to acknowledge the many individuals and organisations whose submissions greatly enriched the quality and range of inputs that the Committee was able to consider. Government departments and state regulatory agencies were among those who enhanced our understanding of the policy, legislative and regulatory environment in which NSFAS operates.

Our work was advanced by research undertaken by universities and non-governmental education policy organisations. We would like to thank each of them for the research that they provided.

NSFAS staff members provided information, reports and records and helped the Committee to gain an understanding of the challenges which NSFAS is facing. We wish to express our thanks to the staff and management who assisted the Committee throughout the course of the review.

Last but not least, we are grateful to the staff members of the Department of Higher Education and Training's Chief Directorate of Academic Planning and Management who provided the secretariat services to the review. We thank them for their unstinting support to the Review Committee at a time when there were many competing calls on their time and resources as the new department was being established.

Executive Summary

1 Introduction

The Review of the National Student Financial Aid Scheme (NSFAS) takes place as South Africa embarks on the process of comprehensively assessing and redirecting its policies on higher education, further education and training and skills development. It represents one component in a complex initiative intended to reconfigure the higher and further education and training landscape, to achieve the objective of enabling "South Africa to produce graduates with the qualifications and skills required to build our developmental state".[1]

NSFAS had been in existence for 10 years at the time of the appointment of the Review Committee in June 2009. During the decade since the inception of NSFAS in terms of the NSFAS Act in 1999, the scheme's operations and procedures remained largely unchanged from those incorporated into NSFAS from its predecessor-in-title, the Tertiary Education Fund of South Africa (Tefsa). In that period, the funds managed by NSFAS had increased substantially, from R441 million in 1999 to R2,375 billion in 2008, providing financial aid to 17 percent of higher education students.

Despite the budget increases, the growth in funds has not kept pace with the ever-increasing demand. Even a fivefold increase in 10 years leaves NSFAS with a massive funding shortfall. It would probably need to triple its budget to meet even current demand.

This demand for increased investment in student financial aid must be seen against a backdrop of growing inequality in South Africa, chronically high unemployment and a shortage of skilled workers. In 2009 South Africa had the dubious distinction of becoming the most unequal society in the world.[2]

In addition, currently available funding for higher and further education and training does not provide for the estimated 2,8 million (41,6 percent) young people between the ages of 18 and 24 who are not in employment, education or training (NEET). Among 23- and 24- year-olds, the percentage rises to above 50 percent. Among the youth who are in the NEET category, more than 60 percent have completed Grades 10, 11 or 12, 98 000 of them with university exemption[3].

Against this background, the new policy framework for higher education and further education and training envisages taking the next step in the progressive realisation of the constitutional right of access to education by providing free higher and further education to students from poor and working class communities. It also seeks to invert the current ratio of the 760 000 students in higher education and the 223 000 (470 000) who are enrolled at further education and training (FET) colleges.[4]

[1] NSFAS Ministerial Review Committee terms of reference, 2009.
[2] Bhorat, Haroon, Van der Westhuizen, Carlene, *Poverty, Inequality and the Nature of Economic Growth in South Africa*, Development Policy Research Unit, University of Cape Town, October 2009. DPRU figures are based on Statistics South Africa Income and Expenditure Survey statistics 1995-2005.
[3] Responding to the *Educational Needs of Post -school Youth* - First Draft Synthesis Report, June 2009, Centre for Higher Education Transformation, p9.
[4] The 2007 total of 470 000 students refers to a head count and not full-time equivalents (FTEs) and is the latest available audited DHET figure. Given the part-time nature of study for most students currently enrolled in the FET sector, the FTE count for the sector would be much lower than 470 000, thus accentuating further the enrolment gap between higher and further education.

It is in this context of an evolving policy framework for higher and further education and training that the review of NSFAS takes place.

1.1 Purpose

The purpose of the review of NSFAS is to assess the strengths and shortcomings of the current scheme and to advise the Minister on the short-, medium- and long-term needs for student financial aid to promote the twin goals of equity of access and providing free undergraduate education to students from working class and poor communities who cannot afford further or higher education.

1.2 Terms of reference

The specific terms of reference mandated the Review Committee to:

- Assess the strengths and shortcomings of the current scheme.
- Conduct a needs analysis of students who will require financial aid in the short, medium and long terms.
- Undertake a review of the means test and provide guidelines to determine the criteria for eligible students.
- Make recommendations on appropriate mechanisms for raising and administering the required funds.
- Investigate the feasibility of student financial aid being linked to priority fields of study and levels of academic performance.
- Assess the viability of extending financial aid to students in not-for-profit private higher education institutions (HEIs).
- Assess the nature and extent of former and current students blacklisted by NSFAS and HEIs and recommend appropriate action to be taken to deal with the problem.
- Recommend changes to the policy, regulations and operational framework of NSFAS, including the distribution formula for the allocation of financial aid to HEIs, the means test, and the respective roles and responsibilities of the HEI financial aid bureaus and NSFAS.
- Recommend changes to the governance, management, operational capacity and systems of the NSFAS to meet the needs of the new policy framework.

In the course of its work, the Review Committee consulted a variety of stakeholders; drew on studies undertaken in South Africa and internationally; and commissioned research in consultation with the Department of Higher Education and Training (DHET). The Committee considered 87 written submissions; held panel hearings for the presentation of submissions; analysed data stored by NSFAS and the DHET; distributed questionnaires and analysed the responses; and conducted interviews with focus groups and interested and affected parties.

The Committee encountered several limitations in carrying out its mandate. Stakeholders agree on the need for a review of NSFAS, but there does not appear to be a common understanding of the purpose of NSFAS and the nature or extent of the challenges it is facing. The Committee soon established that NSFAS was facing serious, systemic, structural, organisational and policy problems, and that these could only be addressed through a thorough investigation of NSFAS policies, practices and procedures. The Committee's efforts were severely hampered by the lack of reliable data from NSFAS, the inability of the NSFAS database to be mined for information and the absence of inputs by the NSFAS board.

Notwithstanding these limitations, the Committee is satisfied that its report provides a realistic and reasonable assessment of NSFAS and that it is sufficiently informed to make a series of recommendations that will contribute to the efficient, effective and cost-effective provision of student financial aid.

1.3 Background

1.3.1 NSFAS policy and legislative framework

NSFAS operates within a constitutional, policy and legislative framework provided by legislative and policy instruments:

- The Constitution: The bill of rights of the **Constitution of the Republic of South Africa Act** (108 Of 1996), which states in Section 29 (1) (a): "Everyone has the right ... to a basic education, including adult basic education; and to further education, which the state, through reasonable measures, must make progressively available and accessible."
- White Paper: The **Education White Paper 3: A Programme for the Transformation of Higher Education** sets out the broad framework for the development and transformation of higher education post-apartheid.
- DoE Framework: The Department of Education **Framework for NSFAS**, a policy framework prepared in 1998 to supplement the White Paper and clarify the objectives and intended operations of NSFAS.
- NSFAS Act: The **National Student Financial Aid Scheme Act** (Act 56 of 1999), NSFAS's enabling legislation, which sets out the objectives, functions, legal rights and powers of NSFAS and its organisational and management structures.
- **National Plan for Higher Education** (NPHE): Issued in 2001, the NPHE elaborates on the White Paper.
- PFMA: **The Public Finance Management Act** (Act 1 of 1999), in terms of which NSFAS is listed as a Schedule 3A entity.

2 Assessing NSFAS

The Review Committee assessed the strengths and shortcomings of NSFAS, measuring its performance against the applicable constitutional, policy, legislative and regulatory targets and considering the views of its major stakeholders.

2.1 Strengths

The central policy objectives to be fulfilled by NSFAS as set out in the White Paper are to:

- Provide poor and historically disadvantaged students with access to higher education.
- Contribute to the skills pool necessary to drive economic growth and

development.

Against the first of these objectives, NSFAS has achieved considerable success, including:

- Providing student financial aid to 659 000 students.
- Distributing more than R12 billion in student financial aid in the past decade.

The main strength of NSFAS is that it provides student financial aid which creates access to higher education for students who would otherwise not be able to afford to attend university. There is universal approval for the role NSFAS has played in broadening access to hundreds of thousands of students in the past decade. In the words of one institution: "NSFAS increases access and provides life-changing hope for students."

All stakeholders applaud the considerable growth in the allocation of funds by government. The means test is seen positively as it helps to identify students who qualify for financial aid; universities regard the ability of NSFAS to provide up to 20 percent of the institutional allocation as an upfront payment to assist institutions with their cash flow as a strength.

The provision of loans at a lower rate of interest than commercial educational loans, coupled with the income contingent nature of the loans, offers students a potentially affordable loan on favourable repayment terms. Linked to this is the incentive that NSFAS can convert up to 40 percent of a loan to a bursary, based on academic performance.

2.2 Shortcomings

Despite these strengths, the shortcomings of NSFAS drew strong reactions from virtually all stakeholders, from higher and further education and training institutions to financial aid officers and students.

2.2.1 Underfunding

The Committee found that NSFAS's major shortcoming is that funding falls far short of demand. Current estimates are that NSFAS has less than half of the funds it needs to meet the demand for financial aid from qualifying applicants, even at current participation rates. The Committee concluded that the main impediment to NSFAS achieving its objectives is chronic underfunding. Underfunding contributes to many of the secondary impediments.

Although NSFAS has received a steadily increasing budgetary allocation, its resources lag significantly behind need. This is compounded by the steady proportional decline in the allocation to higher education over the 15 years of South Africa's democracy. While education as a whole has increased its share of the annual Budget by 15 percent over the 1996-2008 period, higher education's share of the annual Budget has declined by 20 percent.

The Committee's mandate was to 'predicate' its review on a joint report by the DoE and the National Treasury, the *Review of Funding and Resource Requirements of the Public Higher Education System.*

2.2.2 High drop out, low graduation rates

NSFAS performance data also indicate major shortcomings in the current scheme:

Only 19 percent (125 210) students have graduated, while 48 percent (316 320) have dropped out or otherwise not completed their studies. The remaining 33 percent (217 470) of NSFAS students are still studying. Of the 67 percent of NSFAS students who are no longer studying, 28 percent have thus graduated and 72 percent have dropped out or have otherwise not completed their studies.

The 72 percent drop-out rate is precisely the "revolving door" outcome against which the White Paper warned in 1997: poor students being enabled to enter the higher education system, but being unable to complete their studies, so being "revolved" back into poverty.

Despite the paucity of the NSFAS data, the Review Committee gathered substantial anecdotal and circumstantial evidence of the reasons for the relatively low graduation rate, pointing to a systemic flaw in the NSFAS funding model. A comprehensive examination of the reasons for the low completion rate among NSFAS students is, however, beyond the scope of the current review.

2.2.3 Allocation formula

The Review Committee found that the allocation formula to universities, which is based on the Full Cost of Study (FCS) and the demographic profile of the student population at an HEI, is inappropriate. The formula recognises race as a proxy for socio-economic need. The result is that a historically advantaged institution (HAI) with affluent black students who do not need financial aid gets the same NSFAS allocation as a historically disadvantaged institution (HDI) with poor black students who all qualify for financial aid. While recognising that race remains the central determinant in South Africans' access to material resources and to opportunity, and that the legacy of apartheid is that the overlap between race and class remains largely unchanged, the Committee agrees with Higher Education South Africa (HESA) that socio-economic status should serve as the criteria for access to NSFAS support.

The second leg of the allocation formula, the FCS, is similarly flawed and further skews NSFAS allocations in favour of HAIs. The FCS is determined by each institution and ranges from almost R55 000 at the University of Cape Town to just under R26 000 at Water Sisulu University.

The Review Committee found that there was no justification for NSFAS providing the institutionally-determined FCS and that if all institutions were to receive the average FCS per student, which was R43 358 in 2009, the vast majority of institutions would benefit from this allocation mechanism. Only five universities charge more than the average.

2.2.4 Topslicing

University administrations respond to the dilemma of receiving insufficient funding from NSFAS by disregarding means test results and diluting loan amounts to individual students who qualify for NSFAS financial support. This practice, known as "topslicing", enables HEIs to ensure that all qualifying students receive at least a portion of their NSFAS allocation. This happens most at institutions with many students financed by NSFAS, the HDIs. Although topslicing increases the number of entrants into HEIs than would otherwise be the case, the system has major negative consequences for both students and institutions.

The Committee found that as a consequence of underfunding and simultaneous efforts by institutions to increase access by black students, institutional debt has ballooned to R2,7 billion in 2009. Some HDIs have debt burdens amounting to hundred of millions of rands.

2.2.5 The means test

The current structure of the means test and the way it is applied by institutions is inappropriate, inequitable and requires revision. In particular it excludes children from families who earn above the R122 000 per annum qualification threshold, but who still cannot afford to attend university. The fact that the NSFAS means test excludes this "missing middle" is universally condemned by institutions, financial aid offices (FAOs) and students. The Committee learned during its institutional visits that the usefulness of the means test has been undermined by two major factors:

- HEIs stop using the means test altogether when its results mean too few students are granted loans, causing campus unrest by students opposed to financial exclusion.
- The concerted efforts of an apparently large proportion of students at many institutions to provide false information to appear as poor as possible in order to qualify for financial aid. The Committee heard from institutions in all provinces that students claim to be orphans being cared for by grandmothers who receive state pensions, or to have unemployed parents, in order to beat the means test. Students admitted to the Committee that some supply false information in order to qualify for financial aid. FAOs rely on student affidavits but have no way of verifying the information.

2.2.6 Bursary administration

The Review Committee found that NSFAS was established primarily as a loan organisation and is ill-equipped to be a bursary manager, despite having entered into various public and private sector contracts to distribute tens of millions of rands in bursaries to thousands of students. With the exception of the Department of Agriculture, Fisheries and Forestry (DoA), for which NSFAS provides a very limited bursary distribution service, all government departments are dissatisfied with the management of their funds by NSFAS.

The Committee was impressed by conditions in the bursary contracts that let students repay their bursaries through working for a stipulated period in the chosen field of study. Student organisations called for this scheme to be extended to all students receiving financial aid.

In FET bursary administration, the Review Committee found that NSFAS had failed to cope with the additional responsibilities conferred on it by the 2007 Education Laws Amendment Act. FET colleges in every province said that they were generally dissatisfied with the service from NSFAS.

2.2.7 Unutilised funds

NSFAS routinely has unutilised funds of up to R50 million a year in a context where student loan funding is inadequate to meet demand and where R50 million could fund an additional 1 000 students. Unspent funds accumulate as a result of a number of deficiencies in the NSFAS system, including funds not being utilised at one HEI but not being reallocated timeously to another; funds arriving too late in the year to be taken up by students and students being granted loans but then not signing a credit agreement. In 2009, and in response to wide criticism when it became public knowledge that millions of rands for student financial aid remained unspent, NSFAS instituted various measures, including improved liaison with HEIs and faster turnaround times, to prevent the accumulation of unspent funds. These measures will have to be closely monitored to ensure the accumulation of unspent funds is not repeated.

2.2.8 Governance

Both the Review Committee and an independent governance audit commissioned at the initiative of the NSFAS Board Audit Committee, found that the standard of governance was below that expected from a public entity operating in terms of its own legislation and the PFMA.

The Committee found that NSFAS has, from inception, operated in a virtual policy vacuum. The Committee could not find any board policies other than a 2007 investment policy. Despite the fact that NSFAS is a registered credit provider and disburses billions of rands of public funds every year, it has no policies by which it carries out its duties in terms of the Act and its core functions of providing credit and recovering debt.

The NSFAS Board confirmed to the Committee that the organisation operates in the absence of codified policies. The negative effects of the policy vacuum are compounded by an apparent lack of familiarity among some members of the board with the provisions of education policy, the NSFAS Act itself, the PFMA and the Constitution.

In the absence of a policy regime, NSFAS has increasingly relied for policy direction on its external legal adviser, and has come to depend on his interpretation on a range of issues, from interpretation of national policy to strategic and practical operational decisions. The effect of this, combined with poor governance practices at board level, has been to undermine one of the most positive aspects of the NSFAS initiative: the setting of interest on student loans linked to the Reserve Bank Repo Rate[5] as a “hidden subsidy”.

Among the immediate governance consequences of the absence of a comprehensive policy regime is that NSFAS operates with inadequate organisational and systemic checks and balances, which are required by the PFMA and by the King III protocols.

2.2.9 Management

The executive structure is headed by a chief executive officer (CEO), supported by senior management, with a total complement in November 2009 of 97 staff. The

[5] Repo Rate is a contraction of the term Repurchase Rate, a rate set by the Reserve Bank as the rate at which it repurchases government securities from commercial banks (effectively, the rate at which the Reserve Bank lends to the commercial banks).

lack of continuity in the office of the CEO has limited the organisation in its ability to respond strategically to the challenges facing NSFAS. The organisation has had three CEOs and two acting CEOs during its 10-year existence.

This lack of executive leadership continuity has also possibly hindered the board, which has been drawn into many responsibilities more typically associated with the role of senior management, while senior managers and managers are involved in detailed operational processes which detract from their ability to manage.

2.2.10 Operations

2.2.10a Loan administration

Institutions, FAOs and student representatives throughout the country told the Committee that slow processing of loan applications and agreements, coupled with delays in finalising institutional allocations and transferring funds, impacts negatively on both students and institutions. The timing of fund transfers to institutions is compromised by capacity and systems limitations within NSFAS.

The Committee learnt that the processing of NSFAS loan agreements does not meet good governance or audit requirements. In 2009, the NSFAS books were closed in July for the March year-end and final loan management system (LMS) adjustments were made on 9 May. The processing of loan agreement forms was still a challenge when this report was being written. The data capturing process for this year's applications is expected to be completed only in March 2010. NSFAS's problem of an ever-growing number of applications in an inefficient, paper-based LMS underlines the urgent need for a fully electronic system.

2.2.10b Interest

NSFAS charges interest lower than that charged by commercial credit providers. It charges compound interest from the 1 April of the year in which the loan is granted regardless of the actual loan agreement date. NSFAS operates on the basis that the common law *in duplum* rule, which restricts the amount of interest which may accrue to an amount equal to the original loan, does not apply to it. NSFAS does not comply with the statutory *in duplum* rule contained in the National Credit Act (NCA).

Overall, the Committee found that the approach to interest followed by NSFAS is flawed and should not form the basis of activities by a public entity governed by its own legislation, the PFMA and the NCA.

2.2.10c Loan recovery and credit blacklisting

NSFAS's policy framework recognises that various factors – the low-interest "hidden subsidy" built into the scheme, the incentive of 40 percent conversion of loans to bursaries and so on – cannot be self-sustaining from repaid loans and must be annually replenished from parliamentary allocations.[6] However, the Committee found that NSFAS loan recovery policies and practices operate on the basis that NSFAS must operate as "a revolving pool" of funds with each generation of students contributing resources to cover the loans of the next, with

[6] An analysis of 44 student financial aid schemes sets the "repayment ratio" – the maximum recoverable under optimal conditions – at approximately 50 percent.

each borrower repaying more than 100 percent of his or her loan to "offset the ravages of inflation".

To meet this objective NSFAS operates a loan recovery regime whose constitutionality and legality are questionable. The NSFAS Act allows NSFAS to issue extrajudicial garnishee orders[7] to employers of NSFAS borrowers, compelling them to deduct repayments at source.

NSFAS continues to seek repayment from borrowers whose loans have prescribed, that is, where repayment can no longer be legally enforced. If NSFAS were to approach the courts to try to recover these debts, it is possible that the courts would award costs orders against NSFAS.[8] Based on advice from its legal adviser, NSFAS's approach is to avoid entirely having its practices tested in court by immediately dropping claims against debtors who intend to challenge NSFAS in court.

Several NSFAS debt recovery practices are non-compliant with the NCA. The Review Committee asked the National Credit Regulator (NRC), the body responsible for implementing the NCA, for its opinion on NSFAS practices. The NCR contested much of the opinion provided by NSFAS's legal adviser and agreed fully with the Senior Counsel opinion.

The impact of these practices is vividly illustrated by statistics provided by NSFAS regarding predecessor borrowers. NSFAS has collected R54 million from original loans of R143 million. On NSFAS's books predecessor loans retain an outstanding value of R581 million, of which R491 million is accrued interest. The loans remain on NSFAS's books despite the fact that most, if not all, have prescribed and collection is unenforceable through legal action.

NSFAS loans are income contingent: they become repayable once a borrower is employed and earning above a level set by the board. Initially this level matched the minimum level set by National Treasury for employees to begin paying personal income tax. Over the decade of NSFAS operations, the National Treasury raised the minimum personal taxation income level from R26 400 to R54 000, but the NSFAS Board did not follow suit: the current National Treasury minimum is R4 500 a month, while NSFAS borrowers have to begin repaying at R2 500 a month – 45 percent below the 2009 taxation threshold.

The NSFAS Act allows NSFAS to blacklist delinquent borrowers. With the introduction of the NCA in 2007, NSFAS removed all blacklisted borrowers. It resumed blacklisting borrowers shortly thereafter and by 2009, the number of blacklisted NSFAS borrowers had climbed to 10 000; NSFAS statistics show half of these are blacklisted for legally unrecoverable, prescribed predecessor loan debts.

The Committee found that the effect of these interest and debt recovery practices is to erode the benefits for former students of the low interest rate and of the academic incentive 40:60 loan-bursary conversion. It is likely they have also resulted in an overstatement of the value of NSFAS's loan book.

[7] Also called emoluments attachment orders.
[8] NCR submission to the Review Committee.

2.2.10d Revaluation of NSFAS loan book

It is not possible to establish with any precision what the impact would be on the loan book and of future revenue projections if NSFAS changed its practices regarding interest to comply with the NCA, or if policy were based on government objectives. However, compliance is likely to require retrospective adjustment of interest accrued on some categories of loans and would inevitably cut the value of the R10 billion loan book.

2.2.11 Recovery through SARS

For all its focus on recovering the maximum amount by any means, the Committee found that NSFAS has a poor loan recovery record. Though it recovers about R44 million a month now, NSFAS has recovered only R3,2 billion (26 percent) of the total R12 billion in funds it has loaned – the second lowest recovery ratio globally among student financial aid schemes. Compliance with the NCA would probably make NSFAS the lowest in the world by a significant margin.

Arising from its concerns over the present NSFAS debt recovery regime, the Review Committee initiated discussions with the South African Revenue Service (SARS) about the feasibility of collecting student financial aid debt directly through the taxation system. The concept, based upon the Australian Higher Education Contribution Scheme (HECS), proposes to use the collection mechanism of SARS as follows:

- An applicant applying for funding through SARS would immediately register as a taxpayer and receive a tax number.
- If successful, a payment would be made to the university on the student's behalf and the amount would be debited to their tax account as tax to be paid in the future.
- Having completed their studies, the student ideally starts work and begins to pay Pay As You Earn (PAYE) as a taxpayer.
- SARS would issue a tax directive to the employer requiring an additional tax to be charged and paid over as PAYE to settle the student's study debt. The additional tax would represent a surcharge (additional percentage) on tax due.

The SARS Commissioner participated in the initial discussions with the Committee and has agreed to take the initiative forward with the DHET by establishing a joint team to examine the merits of the Australian HECS model and the feasibility of introducing a similar scheme in South Africa.

2.2.12 Financial services

A number of factors are currently impeding the financial controls of NSFAS. This area is under-resourced and in need of additional management capacity.

2.2.12a Internal financial control

The Committee found that urgent attention should be given to independent reconciliations within the finance function. Weaknesses in systems-generated allocations in the LMS have been reported from the external audit sample. Accounts receivable, accounts payable, creditor reconciliations and bank account deficiencies in reconciliations are further examples. So too is the lack of due authorisation of investment reconciliations.

For the 2010 year, processes should be re-calibrated to ensure earlier closure before financial year-end. HEIs will need advance warning of these revisions. Overall, procedural efficiency needs to be achieved in order to process timeously the increasing number of applications. Until systems and processes are revised and improved, a number of measures should be put in place. These are set out in the recommendations.

2.2.12b Internal audit

The internal audit capacity at NSFAS is facing constraints and these should be resolved by expediting the outsourcing of the internal audit of the NSFAS head office. This is in process and is due for completion in the first quarter of 2010.

2.2.13 Marketing and communication

The NSFAS marketing and communication structure is not succeeding in its primary task of informing prospective students of the availability of financial aid. It should work with the Department of Basic Education to get the message out to potential NSFAS applicants, concentrating on learners at Quintile 1 schools.

2.2.14 Academic support

Few NSFAS students receive appropriate academic support. Those who are recruited and mentored by the NGOs through which NSFAS distributes a small amount of funds are supported academically and there is evidence that such support contributes to success. Institutions should be required to provide academic support to all students who receive financial aid, under the auspices of existing DHET programmes.

2.2.15 Physical infrastructure

The present NSFAS premises are inadequate for the administrative, safety, security, office accommodation and other needs of NSFAS.

2.2.16 NSFAS administration budget

The current NSFAS funding mechanism, in terms of which the DHET approves a portion of the recovered funds to finance the organisation's operational budget, is inappropriate. In 2009, R41 million of the R66 million NSFAS administration budget came from recovered funds and R25 million was supplied by the department. The NSFAS Act states that recovered funds should be used to support future students.

2.2.17 Systems

The functionality, effectiveness, appropriateness and efficiency of all NSFAS systems should be comprehensively assessed. The systems identified below are among those which require immediate attention.

2.2.17a Information technology

The Review Committee found that NSFAS has no information technology (IT) governance structures. Many administration problems and delays could be avoided or minimised if a well administered, specified and functioning IT system was in place.

2.2.17b **Document storage system**

During the Committee's visit to NSFAS, it was evident that it has no safe document storage system, with loan agreements and other documents stored in cardboard boxes stacked in offices and passages, vulnerable to fraud, fire and theft.

3 Recommended student financial aid models

Having considered the strengths and shortcomings of the current NSFAS model, the Review Committee proposes two new models for student financial aid, one for higher education and the other for further education and training.

3.1 Higher education student financial aid model

The proposed higher education student financial aid scheme comprises three components aimed at different segments of the higher education student body, summarised as follows:

- Component 1 - Full state subsidisation of poor students and those from working class backgrounds, to be progressively realised over a specific period.
- Component 2 - Income-contingent loan scheme for the children of public sector employees earning salaries up to a maximum of R300 000 per annum.
- Component 3 - Income-contingent loan scheme funded by the state or other agency for students from lower middle-income families.

3.1.1 Component 1

Fully subsidised education for poor students and students from working class backgrounds

The Review Committee **recommends** that the state should provide free higher education for poor students and students from working class backgrounds.

3.1.2 Identifying the poor

An important challenge here is to ensure that there is a clearly-defined mechanism for identifying poor students and those from working class backgrounds. A simpler procedure than the current means test is proposed to determine who qualifies for fully-subsidised education:

- Students with household income below the lowest threshold of the SARS tax tables.

- Students who attended a Quintile 1[9] school and those who received fee waivers at other public schools.
- Students from the poorest municipalities.

3.1.3 The funding challenge

The current higher education funding model should be radically revised to substantially increase the funding for higher education generally, and for higher education student financial aid specifically. If HEIs are to continue to charge tuition and residence fees, substantially increased state funding for student financial aid will be essential.

The funding requirements for the Committee's proposed model are considerable relative to funding for the current NSFAS model. Preliminary costings show that in the most conservative scenario – at the current participation rate of 17 percent and fully subsidising 14 percent of the student population – would require R5,2 billion in 2010, compared to current state funding of NSFAS, approximately R2,2 billion.

However, if we assume that at least 25 percent of the student population is from poor or working class backgrounds, which is a more realistic scenario, then the cost goes up to R9,2 billion in 2010. Both sets of figures provide for the average full cost of study (R43 358 in 2009). The model also assumes that all HEIs should receive this amount for the students who are deemed eligible on the criteria set out above.

In the immediate and short terms, the Review Committee **recommends** that the Department should explore the possibility of utilising funds from the National Skills Fund (NSF) for supplementing funding for both higher and further education.

Given the considerable increase in funding requirements for the proposed scheme and cognisant of the current budgetary constraints, the Review Committee **recommends** a Progressive Realisation Model (PRM), to be implemented in terms of a schedule determined by the Minister in consultation with stakeholders. Details of the PRM are outlined in 3.1.7 below.

3.1.4 Allocation formula to universities

The allocation formula for universities, as discussed in Section 2.2.3 above, should be replaced by a class-based model using solely socio-economic criteria. In addition the Review Committee strongly **recommends** that all eligible students should be fully funded at the institution of their choice.

The primary purpose of this adjustment is to ensure that the allocation formula does not discriminate against poor black students to the advantage of black students from wealthier backgrounds. With the DSI, HAIs with better-off black students get the same allocation as HDIs with poor black students, who have a greater need for financial aid.

The Review Committee found that the institutionally-determined FCS resulted in

[9] Quintile 1 are the poorest schools, determined by the socio-economic status of the school community, based on levels of poverty, unemployment, dependency on social grants. All schools in Quintile 1 are no-fee schools. The proposal assumes that current problems in categorising schools into quintiles will have been resolved.

substantial inequity in NSFAS allocations to institutions. The result of this is to entrench the academic capacity differential inherited from the apartheid era between HAIs and HDIs.

The model therefore proposes that all institutions should receive the average FCS per student, regardless of the institutionally-determined FCS. The Review Committee believes this proposal will achieve two goals:

- It will enable poor students to have access to full funding, thus increasing their chances of academic success. (In the five HEIs where the FCS exceeds the average, the state must ensure that students are not charged for the gap between the average and the FCS.)
- For those institutions whose FCS is below the average, the additional resources should be used for a range of redress purposes.

In light of these proposals, the Review Committee **recommends** that the state must also ensure that all HEIs admit a prescribed minimum of poor and working class students.

3.1.5 Central applications process

The recommended fully-subsidised model implies a fundamental change in the funding model from the prevailing scheme where funding from the state follows institutions; in the model proposed by the Committee funding will follow the student, not the institution. In this circumstance, a more efficient outcome will be generated through a Central Applications Process (CAP) for first-time students. Such a process could assess eligibility for entry and financial need at the same time, eliminating the delays that characterise the current NSFAS-HEI process.

The Committee also **proposes t**hat the DHET should establish a CAP on a regional basis though not in every province; in addition to the current KwaZulu Natal office, offices would be located in Eastern Cape, Gauteng, Western Cape and Free State.

3.1.6 Role of NSFAS in the fully-subsidised model

In the fully-subsidised model, NSFAS could play a key role in the identification of students from poor and working class backgrounds and in the allocation and transfer of funds to HEIs.

3.1.7 Progressive realisation of the fully-subsidised funding model

Budgetary constraints may dictate that full subsidisation of poor and working class students may not be possible in the immediate and short terms. However, if the proposal is accepted in principle, then a PRM should be adopted. The characteristics of such a model are described below.

a) For each financial year in the interim period, the DHET will determine:

(i) the total funding available for student financial aid; and

(ii) the proportion of this total funding that will be allocated respectively to bursaries (full subsidisation) and loans.

b) Institutional allocations: in the PRM, allocations to HEIs will no longer be based on race but on the number of students who need financial aid. An institutional 'Index of Need' would be derived from the most recent data on the number of students eligible for NSFAS. Resources would then be transferred to each HEI on the basis of its proportion in the index.

c) The EFC determined in the application of the means test is a suitable proxy for poverty. NSFAS should use the previous year's data on EFCs, to determine for each HEI what proportion of the DHET allocation should be used respectively for full subsidisation and loans.

The Committee wishes to emphasise that, as with the fully-subsidised model, in the PRM all students should receive full funding, whether they receive full bursaries or loans.

3.1.8 Component 2

Loan scheme for the children of public sector employees

The Review Committee found that in the current NSFAS scheme, students who are the children of lower middle income public sector employees, particularly teachers, nurses, police personnel and lower ranked civil servants, are excluded from qualifying for financial aid because their household income is above the R122 000 per annum qualification threshold, though these parents are often unable to afford higher education for their children.

The Committee proposes that NSFAS should provide income-contingent loans to students who are dependents of public sector employees who belong to the Government Employees Pension Fund (GEPF). Funding for the scheme could be provided by the Public Investment Corporation (PIC), which invests the funds of the GEPF.

In Component 1 of the proposed new model, students whose parents are public sector employees would probably also not qualify. For these reasons, a PIC-funded loan scheme for the children of public servants whose salary range is below R300 000 per annum, including those who do not qualify for the fully-subsidised scheme described in Component 1, is proposed.

The funding for this model would depend on the number of children of public servants in the system. If this were at 10 percent of the student body (at the current participation rate of 17 percent), the initial cost to the PIC in 2009 prices would be about R3,7 billion.

The Review Committee has initiated discussions with both the GEPF and the PIC and **recommends** that the DHET should strongly encourage the PIC to finalise an agreement to invest in the higher education of GEPF members.

3.1.9 The role of NSFAS in Component 2

In Component 2, NSFAS could play the role it is currently playing, except with regard to loan recovery, as discussed elsewhere, on condition the other governance and policy changes the Committee is recommending are put in place. The Committee believes that the means test should be retained and that the EFC be used as a proxy for poverty. NSFAS should ensure that accurate data is obtained in the means test; false information will result in the means test remaining a flawed instrument.

3.1.10 Component 3

A loan scheme for students from lower middle income backgrounds

The Review Committee found that, as with public sector employees, households in the income range of R150 000 to R300 000 per annum are at the mercy of commercial banks, other high-cost student loan credit providers or loan sharks to fund higher education.

The Committee proposes that the DHET should extend the NSFAS income-contingent loan scheme to students from lower middle income households who do not qualify for free education but who nevertheless cannot afford to go to university.

Illustrative costing by the Review Committee suggests that around R5,5 billion would be needed in 2010 (at the 17 percent participation rate) for full loan funding of 15 percent of the student body. Funding for this loan scheme could either be obtained through the government budget or through financing from sources such as pension and investment funds.

3.1.11 The role of NSFAS in Component 3

Again, NSFAS would play a role in identifying eligible students and in transferring funds to the HEIs for such students.

3.1.12 Loan recovery

Currently loans are recovered directly by NSFAS through the employer. As described elsewhere, the Review Committee has uncovered potentially serious legal and constitutional issues relating to this process. The Review Committee therefore **recommends** that student loans should be recovered through the taxation system, as explained in Section 2.2.11.

3.2 Further education and training model

The further education and training (FET) sector has undergone fundamental and far-reaching transformation in the democratic era. This transformation process started with White Paper No. 4 in 1998, followed by the merging of the 150 technical colleges into 50 FET colleges. In 2007 the long-running National Technical Education (Nated) programmes were replaced with the National Certificate (Vocational) (NCV).

In the same year, NSFAS's legislative mandate was expanded[10] to include responsibility for granting and administering bursaries to students at public FET colleges.

The final step in this FET college transformation process is the imminent introduction of a new funding framework.

An outcome of this process will be to upgrade the capacity and resources of FET colleges, making them more appealing as tertiary education destinations for young South Africans. The state has set the enrolment target for colleges to double in the next five years.[11]

Against this background, the Review Committee considered the current funding

[10] Education Laws Amendment Act 2007
[11] MHET Policy Statement, 04 November 2009.

challenges in the FET college sector and examined costing projections to get an idea of the funding challenges the state will face with partial or full subsidisation of students in this sector.

3.2.1 FET funding challenges

In addition to the changes in the sector during the past decade, the Review Committee identified several FET college challenges in relation to funding. These include:

- Developing an appropriate conduit for funding flows from NSFAS to the colleges.
- Ensuring adequate FET college funding in terms of the proposed norms.
- Addressing the relatively poor growth in FET college financial allocations in spite of the growth in provincial education budgets.

The amounts allocated to FET colleges in the provincial budgets remain low in both absolute and relative terms. The proportion of the provincial education budget allocated to FET colleges in 2008-2009 was less than 3 percent. Of the nearly R95 billion allocated to education in the provinces in 2008-2009, only R2,8 billion was for the FET colleges. The FET college allocation rose sharply from 2006-2007 only because of the recapitalisation grant provided by the national DoE. Recapitalisation funding was substantial and actually comprised 23 and 24 percent of total FET college funding in 2006-2007 and 2007-2008 respectively.

The total FET college allocation is inadequate given the sector's many challenges – not least in attracting appropriately-skilled educators. The sector is expected to play a prominent role in the development of scarce skills, but cannot do so at the current low resourcing levels.

Although the provincial budget for education has been increasing substantially, the amount allocated to FET colleges by provinces has increased at a much lower rate.

For the purposes of the review, the Committee assumed the misalignment between national and provincial priorities will be addressed through the relocation of FET colleges as a national competence, although the Review Committee does offer recommendations on possible interim measures in 3.2.4 below.

3.2.2 FET costing scenarios

The Review Committee examined costing projections and developed potential models to obtain a sense of the dimensions of the funding challenges the state will face with regard to partial or full subsidisation of students in this sector.

The modelling included varying participation rates for 2010 – 2020 and two sets of costing scenarios:

- Bursary provision for 50 percent and 70 percent respectively of students at the five chosen participation rates.
- Free fully subsidised education for 50 percent; 70 percent; and 100 percent of the students, at the lowest projected participation rate (2,4 percent) and at what may be considered a more realistic (and much needed) projection, 10 percent by 2020.

The model includes total enrolments projected at each participation rate for 2010-2020 and provides for only NCV students. Given uncertainties over the availability of funding, the Review Committee adopted what it considers a prudent approach, developing a range of scenarios in which participation ranged from 2,4 percent (status quo) to 40 percent. The DHET scenario projects an enrolment increase of 45,8 percent per annum until 2014 and a participation rate increase to 40 percent by 2020.

3.2.2.1 Costing scenario summary

The points below summarise the five detailed costing scenarios that are contained in the Committee's report.

- Considering that FET participation rates are currently at a low 2,4 percent, it is probably unrealistic to expect that this rate will increase to more than 10 percent by 2020 unless some drastic strategies are adopted, such as full subsidisation of the sector.
- Scenarios 1 and 2 show the cost of providing NSFAS bursaries to projected 50 percent and 70 percent of enrolments respectively. At the 50 percent level, if participation increases to 10 percent by 2020, the cost to the state will be R425 million in 2010 and R1,6 billion in 2020. At the 70 percent level, at the same participation rate, the cost to the state will be R595 million in 2010 and R2,3 billion in 2020.
- Scenario 3 shows the cost of fully subsidising 50 percent of students in the FET sector. At the 10 percent participation rate (by 2020) the cost of fully subsidising 50 percent of the students plus 80 percent subsidisation of the rest of the students in 2010 will be R4,4 billion and R15 billion in 2020.
- Scenario 4 shows the cost of fully subsidising 70 percent of students in the FET sector. At the 10 percent participation rate (by 2020) the cost of fully subsidising 50 percent of the students plus 80 percent subsidisation of the rest of the students in 2010 will be R4,6 billion and R15,7 billion in 2020.
- Scenario 5 shows the cost of fully subsidising all students in the FET sector. At the 10 percent participation rate (by 2020) the cost of fully subsidising all students in 2010 will be R4,8 billion and R18,3 billion in 2020.

After an in-depth analysis of the sector, including discussions with leaders of most of the FET colleges, the Review Committee **recommends** that fully-subsidised education should be provided to all students in this sector.

The costs of full subsidisation of this sector are relatively low. In 2008, the provincial departments budgeted R3,1 billion for the FET colleges and a further amount of R600 million was provided for bursaries, a total of R3,7 billion.

Providing full subsidies in 2010 at the current participation rate of 2,4 percent would require R4,2 billion at 2009 prices. If there is an immediate increase in the participation – for example, towards the 10 percent in 2020 scenario – the cost in 2010 is estimated around R4,8 billion, again a manageable sum given current expenditure on the sector.

3.2.5 Interim measures

When the colleges become a national competence, the full subsidy for each student can be transferred directly to the institution. In the interim, the Review Committee **recommends** that NSFAS should continue to administer the transfer of funds to FET colleges as it is currently doing with the bursaries.

4 Recommendations

Recommendations addressing the mandate outlined in the Review Committee's terms of reference are divided into two broad categories: those regarding the establishment of new student financial aid models for both higher and further education; and those to correct shortcomings identified in the current NSFAS operation to improve its activities and performance and facilitate a smooth transition from the current to the proposed new models.

There is some overlap, as the Committee has recommended the progressive realisation of the model and preparation for its phased implementation will have to be undertaken in parallel with the continuing operation of the current model.

4.1 New higher and further education student financial aid models

a. The Review Committee firstly **recommends** the adoption of the new models for financing higher and further education explained in Section 3 above.

b. In brief, the Committee **recommends** a higher education student financial aid model that progressively provides free higher education to undergraduate level for students from poor and working class communities. The model also provides student loans on favourable terms to higher education students from lower middle income families.

c. In addition, the Committee **recommends** the adoption of the proposed further education and training student financial aid model which provides fully-subsidised bursaries for all National Certificate (Vocational) (NC(V)) students at FET colleges.

4.2 Policy development

a. The Review Committee **recommends** that a comprehensive policy framework should be developed to articulate the detail of the national policy imperative of providing free higher and further education.

4.3 Changes to NSFAS

a. The Review Committee's recommendations flowing from its findings on the current operations and activities of NSFAS are broadly directed at rectifying shortcomings identified by the review and at aligning NSFAS's practices and performance with national higher and further education policies.

4.3.1 Legislation

a. The Committee **recommends** that the NSFAS Act should be amended to comply with the Constitution of South Africa (Act 108 of 1996) and the National Credit

Act (Act 34 of 2005).

b. In particular, Section 23 should be excised from the NSFAS Act as it forces employers to collect student loan repayments from employees' salaries and pay these directly to NSFAS without the permission of the employee. The Act should be amended to conform to the Constitution and the NCA.

c. The Committee **recommends** that the Minister and department should and on constitutional, legal and moral grounds, instruct NSFAS to immediately stop all recoveries in terms of Section 23 and to refrain from using the provisions of Section 23 in its debt recovery practices.

d. The Committee further **recommends** investigating the introduction of a constitutionally compliant section of the NSFAS Act to enable NSFAS to recover loan repayments directly through the taxation system. In this regard, attention is drawn to Section 4.3.4.7f of the recommendations.

e. In relation to composition and performance assessment of the NSFAS Board, the Committee **recommends** that the Act should be amended to provide for removal of board members by the Minister.

4.3.1.1 Regulations

a. The Review Committee **recommends** that appropriate use should be made in future of the powers in terms of Section 27 of the NSFAS Act, which provides that: "The Minister may make regulations on any matter which may or must be prescribed by regulation in terms of this Act and any matter which is necessary or expedient to prescribe in order to achieve the objects of this Act."

b. To date very little use has been made of this provision. The Committee therefore **recommends** that regulations should be gazetted to cover the following areas:
   - The relationship between NSFAS and HEIs.
   - The content and application of the means test.
   - The interest rate and the formula for charging interest.
   - The average Full Cost of Study.
   - The minimum provision to be made by universities for residence, travel, books and meals for students who receive financial aid.
   - The relationship between NSFAS and the institutional FAOs.
   - The minimum threshold above which borrowers must begin repaying NSFAS loans to align with the minimum personal taxation threshold set by the National Treasury.

4.3.2 Governance

a. The Review Committee **recommends** that the board should be restructured to ensure that it is able to perform its duties in terms of the NSFAS Act.

b. In conclusion, the Committee **recommends** that the statutory and discretionary sub-committees of the board should be reconstituted so that they are able to perform the fiduciary duties anticipated in the NSFAS Act.

4.3.3 Management

a. The Review Committee strongly **recommends** the appointment of a multidisciplinary turnaround team on a short-term contract to facilitate the transition from the current operational environment to the proposed new NSFAS structure.

b. A capacity and skills audit should be commissioned at the earliest opportunity and that a number of senior management appointments should be made in line with the findings of the recent governance audit and aligned with the outcomes of the capacity and skills audit.

4.3.4 Operations

4.3.4.1 NSFAS policy development, strategic, operational plans

a. The Review Committee **recommends** that a range of policies and strategy and operational plans should be urgently developed by the board in consultation with the turnaround team to provide NSFAS with the direction and operational framework necessary to regularise its activities.

b. Given the organisational, management and operational challenges currently facing NSFAS, preparation of these policies and plans should be outsourced to one or more service providers on short-term contracts.

c. The first order of business should be devising a strategic plan for the organisation.

d. The Committee strongly **recommends** that the NSFAS practice of permitting one or more senior managers to commission the drafting of policies and implementation plans on an ad hoc basis should cease immediately.

4.3.4.2 Central applications process

a. The Review Committee **recommends** the implementation of a Central Applications Process (CAP), as explained more fully in Section 3 above.

4.3.4.3 Allocation formula

The Committee is of the view that the allocation formula to universities should be replaced.

a. The Committee therefore **recommends** that the race-based model should be replaced by a class-based model using solely socio-economic criteria.

b. In addition the Committee strongly **recommends** that all eligible students should be fully funded at the institution of their choice, with full funding having the meaning defined in the NSFAS Act.

c. In a further departure from the current NSFAS model of allocations based on the institutionally-determined FCS, the Review Committee **recommends** that all institutions should receive the average full cost of study per student, regardless of the institutionally-determined FCS.

d. In relation to institutions where the FCS exceeds the average, it is recommended that regulations should be gazetted prohibiting institutions from charging students for the shortfall between the average and the FCS.

e. In light of these proposals on changes to the allocation formula, the Committee **recommends** that the state must also ensure that all institutions admit a prescribed minimum of poor and working class students – that is, those qualifying for NSFAS support.

4.3.4.4 Means test

a. The Review Committee **recommends** that the current structure of the means test and the way it is applied by institutions should be revised. A simpler means test should be used to ascertain eligibility for either free education or a student loan with favourable terms and conditions, as discussed more fully in Section 3.1.2 above. The means test will identify the poorest applicants, who will be eligible for Component 1 funding in the proposed new student financial aid model described above, i.e. fully subsidised higher education. Depending on the availability of funding, other qualifying applicants will be eligible for Component 2 and 3 student financial aid in the new model, i.e. income-contingent full student loans at favourable rates of interest.

4.3.4.5 Respective roles and responsibilities of institutional financial aid offices and NSFAS

a. The Committee **recommends** that the respective roles and responsibilities of the institutional FAOs and NSFAS should be adjusted to take into account the new policy framework and the arrangements during the transitional period leading up to the full implementation of the new model.

b. The respective roles of NSFAS and the FAOs at institutions should be set out in regulation and gazetted in terms of the Act.

4.3.4.6 Loan administration and interest

a. Urgent attention should be paid to accelerating the processing of loan agreements and recalibrating processes in consultation with institutions to ensure closure before the financial year-end.

b. In relation to the interest rate on NSFAS loans, the rate should remain below the Repo Rate, and simple interest should be charged to a maximum of double the capital amount of the loan, in line with the statutory *in duplum* rule contained in the NCA.

c. Interest should be charged from the date the students stops studying, and not from 1 April in the year the student first takes a loan.

d. A credit review committee should be established as a sub-committee of the board and a senior credit manager post should be created to exercise oversight over credit management.

4.3.4.7 Loan recovery and credit blacklisting

a. The NSFAS loan book should be revalued to assess the accuracy of the R10 billion valuation.

b. As NSFAS is a registered credit provider, its loan application, granting, management and recovery operations should be compliant with the NCA.

c. NSFAS should not blacklist students with credit bureaus and should remove the names of students currently blacklisted.

d. NSFAS should invite all predecessor borrowers to negotiate a full and final settlement offer, compliant with the NCA.

e. NSFAS should develop loan settlement and write-off policies as part of its comprehensive policy development process.

f. Going forward, consideration should be given to recovery of loans through the taxation system, specifically through SARS.

4.3.4.8 Bursary administration

a. The Review Committee **recommends** that NSFAS should handle only public funds and should not continue to provide a state-subsidised bursary distribution service to private sector bursary scheme funders.

b. In higher education bursary administration, the Committee **recommends** a rationalisation of current practices in consultation with funding partners.

c. The practice of offering bonded bursaries which can be repaid through, for example, community or national service in the chosen field of study, should be expanded to the recipients of free higher education. DHET should engage further with the Department of Public Service and Administration on the feasibility of introducing bonded bursaries in departments in all three spheres of government.

d. In FET bursary administration, the processing system should be reorganised to ensure the efficient disbursement of funds to FET colleges.

4.3.4.9 Unutilised funds

a. The board and the DHET should closely monitor and evaluate the measures which were put in place in 2009 to prevent NSFAS remaining with tens of millions of rands in unspent funds at the end of the financial year.

4.3.4.10 Financial services

a. Weaknesses in all internal financial controls which have been identified in internal and external audits should be immediately addressed.

b. Matters to do with the internal audit function, including outsourcing the internal audit of the NSFAS head office and appointing a chief audit officer, should be dealt with expeditiously.

4.3.4.11 Marketing and communication

a. The NSFAS marketing and communication function should be comprehensively restructured. A new communications strategy should be devised to communicate the availability of NSFAS financial aid primarily to students at Quintile 1 schools.

b. The Committee also **recommends** that NSFAS should be renamed, rebranded and relaunched in an effort to mark a break with the past and to embark on the next phase of the organisation with a clean slate, able to meet the demands of the new policy framework.

4.3.4.12 Academic support

a. Recognising that the dropout rate of NSFAS loan recipients is high and graduation levels are low, the Committee **recommends** that all institutions which admit students who receive NSFAS funding must include these students in appropriate academic support programmes, in line with DHET programmes.

4.3.4.13 Physical infrastructure

a. The Review Committee **recommends** the establishment of the NSFAS head office in close proximity to the DHET headquarters in Pretoria, supported by four small regional offices in the Western Cape, Eastern Cape, Free State and KwaZulu Natal.

b. Any new infrastructure that is procured should be suitable for the needs of NSFAS during the transitional phase and going forward.

4.3.4.14 NSFAS administration budget

a. The current NSFAS funding mechanism should be revised and recovered funds should not be used to fund the organisation's operations. The policy intention is clearly that the recovered funds are used to support students. The Committee therefore **recommends** that the NSFAS administration budget should be provided by the department.

4.3.5 Systems

a. A full review of the functionality, effectiveness, appropriateness and efficiency of all NSFAS systems should be undertaken as part of the activities of the turnaround initiative referred to in 4.3.3 above. The systems below are among those which require immediate attention.

4.3.5.1 Information technology

a. Appropriate information technology (IT) governance structures should be established immediately and an appropriate IT system should be procured and implemented without further delay.

b. The Electronic Loan Application Form (ELAF) system should be finalised and rolled out immediately.

4.3.5.2 Document storage system

a. Based on its finding that NSFAS has no safe document storage system, and that the electronic system is not yet in operation, the Committee **recommends** that NSFAS should store documents, especially loan agreements and other legal documents, offsite in a secure and fireproof facility from which they may be retrieved when required.

4.3.6 Mechanisms for raising student loan funding

a. The Review Committee **recommends** that the main source of raising the required funds for student financial aid is through government funding on a sustainable basis for the short, medium and long terms.

The concept of the NSFAS project clashes fundamentally with the concept of a for-profit or full-cost-recovery operation, such as a student loan bank. Primary among these is the "hidden subsidy" built into NSFAS through the Repo Rate-linked interest charged on NSFAS loans and the loan-bursary conversion academic performance incentive. These translate into a repayment ratio of slightly over 50 percent. NSFAS was thus conceptualised and is currently structured to recover only half of the funds it disburses. This makes it anathema to any full-cost-recovery or for-profit operation, which must seek to recover more than 100 percent of the funds disbursed.

4.3.4.1 Student financial aid linked to priority fields of study

a. The Committee **recommends** that student financial aid should not be linked to priority fields of study at this stage for two main reasons. The first is that all higher education is valuable and beneficial in the development of students' potential and serves the public good. Secondly, the identification of priority skills areas is currently flawed and needs to be revised before a justifiable and sustainable link could be considered.

b. The Committee nevertheless recognises that there is merit in the idea of more directly linking the two cornerstones of higher education policy: the right of access and contributing to the skills pool necessary for a growing, dynamic economy. The Committee therefore **recommends** that such an investigation be undertaken.

4.3.4.2 Extending financial aid to students in not-for-profit institutions

a. The Committee **recommends** that it would not be viable to extend state funding of bursaries and loans to students in not-for-profit private HEIs. This is based on the rationale that the state's priority should be funding the public higher education system.

PART ONE
INTRODUCTION

Chapter 1

Introduction

1 Introduction

The review of the National Student Financial Aid Scheme (NSFAS) takes place as South Africa embarks on the process of comprehensively assessing and redirecting its policies on higher education, further education and training and skills development.

The Ministerial Review Committee was appointed by the Minister of Higher Education and Training, Dr Blade Nzimande, in June 2009 to conduct a review of NSFAS. The Committee approached its task on the basis that it represents one component in a complex and multi-layered initiative intended to reconfigure the higher and further education and training landscape, to achieve the objective of enabling "South Africa to produce graduates with the qualifications and skills required to build our developmental state".[1]

The Review Committee trusts that this report setting out the findings of its review contributes in some measure to successfully addressing this challenge.

NSFAS had been in existence for 10 years at the time of the appointment of the Committee in June 2009. During the decade since the inception of NSFAS in terms of the NSFAS Act in 1999, the scheme's operations and procedures remained largely unchanged from those incorporated into NSFAS from its predecessor-in-title, the Tertiary Education Fund of South Africa (Tefsa). In that period, the funds managed by NSFAS increased substantially, from R441 million in 1999 to R2,375 billion in 2008, providing funds for 153 795 students.

The exponential growth of the NSFAS budget, which currently provides financial aid to 17 percent of higher education students, gives some indication of the level of need among young South Africans for student financial aid. Notwithstanding steady budget increases, the growth in funds has not kept pace with the ever-increasing demand. Even a five-fold increase in 10 years leaves NSFAS with a massive funding shortfall. It would need three times its budget to meet even current demand.

This demand for increased investment in student financial aid must be seen against a backdrop of growing inequality in South African society, chronically high unemployment and a shortage of skilled workers. In 2009 South Africa had the dubious distinction of becoming the most unequal society in the world, overtaking Brazil, Bolivia and Botswana in the inequality stakes.[2] The country's Gini Coefficient, which measures the gap between the rich and the poor, has worsened from 0,64 in 1994 to 0,679,[3] with growing inequality most marked between African and white citizens, even in a period of economic growth. The situation was exacerbated by job losses in 2009 alone of 900 000 as South Africa faced economic recession for the first time in 17 years.

While the gap between rich and poor widens, currently available funding for higher and further education and training does not provide for the estimated 2,8 million (41,6 percent) young people between the ages of 18 and 24 who are not in employment, education or training (NEET).[4] Among 23- and 24-year-olds, the percentage rises to above 50 percent.

[1] NSFAS Ministerial Review Committee terms of reference, 2009.

[2] Bhorat, Haroon, Van der Westhuizen, Carlene, *Poverty, Inequality and the Nature of Economic Growth in South Africa*, Development Policy Research Unit, University of Cape Town, October 2009. DPRU figures are based on Statistics South Africa Income and Expenditure Survey statistics 1995-2005.

[3] Within the GC index, a value of one reflects complete inequality while a value of zero reflects complete equality. A value above 0.5 is "unacceptably high". In comparison, World Bank figures for 2007-2008 put Brazil at 0.57, Bolivia at 0.601 and Botswana at 0.605.

[4] Responding to the *Educational Needs of Post -school Youth* - First Draft Synthesis Report, June 2009, Centre for Higher Education Transformation, p9.

Among the youth who are in the NEET category, more than 60 percent have completed Grades 10, 11 or 12, 98 000 of them with university exemption.

Against this background, the new policy framework for higher education and further education and training envisages taking the next step in the progressive realisation of the constitutional right of access to education by providing free higher and further education to students from poor and working class communities. It also seeks to invert the current ratio of the 760 000 students in higher education and the 223 000 who are enrolled at further education and training colleges.

It is in this context of an evolving policy framework for higher and further education and training that the review of NSFAS takes place.

1.1 Appointment and purpose of the review

The appointment of the Review Committee was published in Government Notice No. 675, Government Gazette 32317, dated 10 June 2009. A copy of the notice is annexed as Appendix 1.

The overall purpose of the review of NSFAS was to assess the strengths and shortcomings of the current scheme and to advise the Minister on the short-, medium- and long-term needs for student financial aid to promote the twin goals of equity of access and providing free undergraduate education to students from working class and poor communities who cannot afford further or higher education. The review was requested to evaluate different models of student financial aid and "to make recommendations on the policy and operational changes required to ensure the effective and efficient achievement of these goals, which will enable South Africa to produce graduates with the qualifications and skills required to build our developmental state".

This review coincides with the end of the first decade of NSFAS operations, and is the first such comprehensive assessment of NSFAS activities.

1.2 Terms of reference for the review

The scope of the review was to:

- Assess the strengths and shortcomings of the current NSFAS.
- Conduct a needs analysis of students who will require financial aid in the short, medium and long terms, taking into account the government's commitment to providing free undergraduate education to students from poor families who would otherwise not be able to pursue further or higher education.
- Undertake a review of the means test and provide guidelines to determine the criteria for eligible students.
- Make recommendations on appropriate mechanisms for raising and administering the required funds, including the parameters of the recapitalisation of NSFAS and for the possible establishment of a student loan bank.
- Investigate the feasibility of student financial aid being linked to priority fields of study and levels of academic performance.
- Assess the viability of extending financial aid to students in not-for-profit private higher education institutions (HEIs).

- Assess the nature and extent of former and current students blacklisted by NSFAS and universities and recommend appropriate action to deal with the problem.
- Recommend changes to the policy, regulations and operational framework of the NSFAS, including the distribution formula for the allocation of financial aid to institutions, the means test, the respective roles and the responsibilities of the institutional financial aid bureaus and the NSFAS.
- Recommend changes to the governance, management, operational capacity and systems of the NSFAS to meet the needs of the new policy framework.

1.2.1 Review process and committee

In the course of its work, the Committee was required to consult a variety of stakeholders, including HEIs, national student organisations, financial services organisations, the NSFAS and the Council on Higher Education (CHE).

The Committee drew on studies undertaken in South Africa and internationally and commissioned work in consultation with the Department of Higher Education and Training (DHET). The terms of reference state that: “The review should be predicated on work undertaken by the Department of Education and National Treasury, which focused on reviewing the funding and resourcing requirements of higher education.”

The department provided secretariat support through the Chief Directorate of Higher Education Academic Planning and Management. The Committee is accountable to the Minister and was required to provide the Minister with a report within a period of six months from commencing its work. In December 2009, the Committee requested a one-month extension and was granted permission by the Minister to deliver its report in January 2010. A draft executive summary was provided to the Minister on 5 January 2010..

1.2.2 Methodology

The Committee called for, received and considered written submissions; held public hearings for presentation of submissions; commissioned research; analysed data stored by NSFAS and DHET; distributed questionnaires; and conducted interviews with focus groups and other interested and affected parties. It also held a number of planning and strategy meetings during its term.

Data collection and analysis

The Committee gathered data from paper and electronic documents in NSFAS’s database and archives. The Committee also had access to documentation stored by the DHET.

Submissions

The Committee called for written submissions from public entities and institutions, voluntary associations and professional bodies in the higher and further education fields. The call for submissions was also published in two national newspapers and a total of 87 submissions was received, each of which was catalogued by the secretariat. The Committee used these submissions in its deliberations and they played a valuable role in shaping the Committee’s recommendations. Some HEIs that had made written submissions presented their inputs at regional Review Committee hearings. A list of submissions is attached as Appendix 2.

Review Committee hearings

The Committee held panel interviews with all 23 public HEIs and most further education and training (FET) colleges. Hearings were held in Limpopo, KwaZulu Natal, Eastern Cape, Western Cape, Free State and Gauteng. Representatives of institutions in Northern Cape, North West and Mpumalanga joined in sessions in neighbouring provinces. Representatives of three constituencies – HEI management, financial aid offices and student representative councils – attended the interviews. A list of interviews conducted is attached in Appendix 3.

The panel prepared a questionnaire for each constituency and maintained consistency across institutions and regions by soliciting answers to these questions. The proceedings of each hearing were recorded and transcripts were prepared by the secretariat.

Interviews with government departments

The Committee held panel discussions with representatives of the government departments that fund higher education bursaries through NSFAS, including the Departments of Labour, Social Development and Agriculture. Discussions were also held with senior representatives of the National Treasury, the Department of Science and Technology, the Public Service Commission and the Department of Public Service and Administration. In the case of the latter, the Committee wished to find out the potential for a national service scheme in the public sector linked to the provision of loans or grants to higher education students.

Consultations

Between July and November 2009, the Committee as a whole, and various members individually, held detailed discussions with NSFAS on a number of policy and operational issues. In addition, the Committee met with the NSFAS board at one of its scheduled board meetings. Interviews were also held with the outgoing chairperson and outgoing chief executive officer (CEO), heads of departments, senior managers and some staff members. Discussions were also held with two previous CEOs and with the NSFAS legal adviser.

In addition, Committee members interviewed various relevant stakeholders, including the Central Applications Office in KwaZulu Natal, the National Credit Regulator, private sector banks and credit providers, DHET and the South African Revenue Service (SARS). Members of the Committee also interacted with representatives of the Public Investment Corporation (PIC) and the Government Employees Pension Fund (GEPF).

A workshop for national student leaders was organised and hosted by DHET to facilitate the drafting of a joint submission by all members of the South African Union of Students (SAUS). On the basis of this submission, the Committee interviewed the leadership of SAUS.

Focus groups

The Committee assembled six focus groups with which it held discussions to explore experiences and perceptions of NSFAS. Participants were drawn from the NSFAS database of loan recipients, and were requested to attend a focus group session. Questionnaires were prepared for each group and participants were interviewed by a panel of Committee members. Responses were recorded and transcribed.

Research

Research was commissioned from education policy experts and institutions and from HEIs. Additional research was undertaken by Committee members. Research was conducted on higher education and further education and training enrolment and cost projections, not-for-profit HEIs, funding and funding sources, central applications systems and means testing.

Reports

Draft reports collating information gathered in the various forums as well as research and final reports were prepared. These were distributed for comment and discussed in committee meetings.

1.2.3 Limitations

The Committee encountered a number of limitations in carrying out its mandate. While there is consensus among stakeholders on the need for a review of NSFAS, it was apparent that there is not a common understanding of the purpose of NSFAS, its legislative and policy mandates and the nature and extent of the challenges it is facing.

A number of prominent stakeholders expressed the view that NSFAS was on the whole fulfilling its mandate but needed to improve its operations and efficiency. According to Higher Education South Africa (HESA), NSFAS had "tried and tested administrative and accountability procedures" as well as "areas for improvement".[5] In its 2009 Annual Report, the NSFAS board identified its funding allocations formula to universities and the details of its means test as requiring the Review Committee's attention.[6] The National Treasury told the Committee that NSFAS provided "value for money" to the taxpayers who fund its activities.[7]

In contrast, the Review Committee established that NSFAS was facing serious, systemic, structural, organisational and policy challenges. It was clear that these problems were structural and could only be addressed through a comprehensive investigation of NSFAS policies, practices and procedures. The Committee's efforts in this regard were severely hampered by the lack of reliable data from NSFAS and the impossibility of mining the NSFAS database for information, itself a worrying pointer to organisational and systemic problems. Primary among these was the paucity of reliable information from NSFAS itself on aspects of the organisation's performance. The NSFAS information technology system is designed and operates principally as a debt tracking system and not as an information management system. The Committee found that the information which it required to assess the performance of NSFAS against its policy and legislative mandates could not be provided at all, or was difficult and time-consuming to access, or was internally incoherent and contradictory. The Committee spent a considerable amount of time interrogating the data provided by NSFAS to ensure that its assessments of the strengths and shortcomings of NSFAS are as accurate as possible and that its recommendations are supported by reasonable and fair assessments.

Given the limitations of the data available from NSFAS, it was unfortunate that the NSFAS board did not make a submission to the Review Committee. The first interview the Committee conducted when it started its work in July 2009 was with the chairperson of the board at the time. No submission was received from the NSFAS Board. During the course of the review, the chairperson resigned from the NSFAS board with effect from 31 October 2009 because of pressures of work commitments.

The Committee requested an opportunity to engage directly with the NSFAS board. A

[5] HESA presentation to Parliamentary Portfolio Committee on Higher Education and Training, 11 August 2009.
[6] NSFAS 2009 Annual Report, p6.
[7] Committee interview with Deputy Director General Andrew Donaldson.

meeting between the board and the Committee took place during the scheduled NSFAS board meeting on 23 October 2009. .

The Committee raised three issues: governance, policies and free education. Committee members solicited the board's views on the state of governance in NSFAS and the apparent absence of codified policies and in order to give board members an opportunity to engage with the Committee. Interaction with the Board was less than adequate and further engagement will be necessary.

A further limitation in relation to information available from NSFAS was that the 2009 Annual Report became available only in late October 2009, towards the end of the Committee's work, necessitating some reliance on the 2008 Annual Report. Notwithstanding these limitations, the Committee is satisfied that its report provides a realistic and reasonable assessment of NSFAS and that it is sufficiently informed to make a series of recommendations that will contribute to the efficient, effective and cost-effective provision of student financial aid in the future.

Chapter 2

Background, functions and governance

2 Background

This chapter details the background of the National Student Financial Aid Scheme (NSFAS). It describes the policy and legislative framework in which NSFAS was established, gives a brief history of the organisation and outlines the context within which the Review Committee conducted its review. It examines the functions, organisational structure and governance of NSFAS and closes with an overview of the funding of NSFAS and its operations.

2.1 History

Independent Development Trust

During the 1990-1994 period of political transition to democracy, the Independent Development Trust (IDT) took the first steps towards providing financial aid to enable black students to access higher education. The IDT was established by the government in 1991 to address three key areas: housing, health and education. That year, the IDT established the Tertiary Education Fund of South Africa (Tefsa) within its education portfolio to grant loans to black students. The IDT also provided funds to various NGOs to lend to students. Loan agreements were drawn up between students and either the IDT or the NGO. The bulk of the funds distributed through Tefsa and the IDT were provided by the European Union.

Tertiary Education Fund of South Africa

In 1993 Tefsa was registered as a not-for-profit company in terms of Section 21 of the Companies Act and began making loans in its own right, replacing the IDT and NGOs as lenders. The IDT, Tefsa and NGO loans were fully recoverable and Tefsa loans were income contingent. Tefsa continued to operate as the primary public lender to historically disadvantaged students after the election of South Africa’s first democratic government in 1994. In 1995 Tefsa introduced the bursary-conversion system, in terms of which Tefsa converted up to 40 percent of the loans of academically successful students to non-repayable bursaries, allowing the student to repay only 60 percent of the amount borrowed. The Kagiso NGO student loan scheme was later incorporated into the national scheme.

The Constitution

At the same time that the state was providing higher education funding through Tefsa, the new South African Constitution, Act 108 of 1996, was being debated through the Convention for a Democratic South Africa (Codesa). The Constitution was adopted with a Bill of Rights which included a section on education. Section 29(1) (a) of the Constitution of South Africa states:

(1) Everyone has the right –

(a) *to a basic education, including adult basic education; and to further education, which the state, through reasonable measures, must make progressively available and accessible.*

The progressive realisation clauses in the Constitution contemplate that the rights referred to cannot be immediately realised, but that the state must take reasonable and necessary steps to progressively achieve these rights. This requires two things: firstly the state must provide programmatic evidence to show that there is an improvement in conditions towards the realisation of the rights and the state may not backtrack on progress made and, secondly, the state must ensure that such rights are extended to more and more people. There should be a continual improvement in the amount and the quality of what is provided to those who cannot provide for themselves.

This education clause in the Constitution clearly places a long-term commitment on the state to make “progressively available and accessible” higher education, in so far as it is included in the broad definition of “further education”. It also means that the state cannot reverse decisions on assistance to ensure availability and access to higher education until the socio-economic conditions in the country are such that there is affordable access to higher education in one form or another.

National Commission on Higher Education

In the same year, and taking a first step towards fulfilling this constitutional obligation, the democratic government established NSFAS, administered by Tefsa. The government conceptualised NSFAS as a loan and bursary scheme in order to address the rising student debt problem in higher education institutions (HEIs) and to give effect to the government's commitment to redressing the inequities of the past. The establishment of NSFAS and its modus operandi were based on the interim proposals of the National Commission on Higher Education (NCHE), which had been requested by the Minister of Education to investigate the feasibility of establishing a national student financial aid scheme. The NCHE emphasised that its interim proposals should form the basis for the development of a more comprehensive and long-term set of policies for student financial aid.

Education White Paper 3

In July 1997 the government published Education White Paper 3: A Programme for the Transformation of Higher Education[1], which provides the policy framework within which the NSFAS was established and operates.

The White Paper was published in 1997 as the “culmination of a wide-ranging and extensive process of investigation and consultation that was initiated with the establishment of the NCHE in February 1995 by President Mandela, and the subsequent release of the Green Paper on Higher Education in December 1996 and the Draft White Paper on Higher Education in April 1997”.

Section 1.3 of the White Paper sets out the purposes of higher education in the context of post-apartheid South Africa. Those relevant to NSFAS and to its activities broadly identify two overlapping purposes: to provide access to higher education, particularly by individuals from historically disadvantaged and poor communities; and to contribute to the pool of skills and expertise necessary to sustain a modern economy. The paper states the purposes as:

- To meet the learning needs and aspirations of individuals through the development of their intellectual abilities and aptitudes throughout their lives. Higher education equips individuals to make the best use of their talents and of the opportunities offered by society for self-fulfilment. It is thus a key allocator of life chances, an important vehicle for achieving equity in the distribution of opportunity and achievement among South

[1] Government Gazette Notice 1196 of 1997, Education White Paper 3: A programme for the transformation of higher education.

African citizens.

- To address the development needs of society and provide the labour market, in a knowledge-driven and knowledge-dependent society, with the ever-changing high level competencies and expertise necessary for the growth and prosperity of a modern economy. Higher education teaches and trains people to fulfil specialised social functions, enter the learned professions, or pursue vocations in administration, trade, industry, science and technology and the arts. To contribute to the socialisation of enlightened, responsible and constructively critical citizens. Higher education encourages the development of a reflective capacity and willingness to review and renew prevailing ideas, policies and practices based on a commitment to the common good.

The White Paper articulated the government's intentions in providing financial aid for higher education as part of fulfilling its constitutional requirements and effecting a modicum of redress:

"… The Ministry is aware that there are severe limits to the capacity of many students and their families to pay, particularly first generation students from poor families. To ensure that capable students are not excluded from access to higher education because of poverty, it is essential to have in place a well-functioning, comprehensive student financial aid scheme" (p51).

The White Paper proposed that further work should be done to set out a framework within which a sustainable student financial aid scheme could be established.

Framework for a national student financial aid scheme

In August 1998, the Department of Education (DoE) released a report, *Framework for a National Student Financial Aid Scheme.* The report outlined the Ministry's framework for a comprehensive and sustainable student financial aid scheme, recommending the following:

- The establishment of an expanded NSFAS that is affordable and sustainable. The NSFAS should take the form of a national loan and bursary scheme based on the current scheme administered by Tefsa (a company recognised in terms of Section 2 of the Provision of Special Funds for Tertiary Education and Training Act, 1993 (Act No. 121 of 1993)).
- The NSFAS should incorporate all the major elements of the current loan and bursary scheme.
- The expanded loan scheme should be administered by Tefsa on the grounds of its proven and effective management, its ability to keep administrative costs at a minimum, and its excellent symbiotic relationship with HEIs.
- The restructuring of the regulatory framework within which Tefsa operates to take into account the fact that the government, both directly through budget allocations, and indirectly, through mobilising donor funds as part of bilateral and multilateral agreements, is the main source of funds for the NSFAS.
- Tefsa, a Section 21 not-for-profit company, should be converted into a statutory agency that is administratively independent, with a board appointed by the Minister of Education on the basis of nominations from stakeholders. The board will be responsible for advising the Minister on the overall policy and administration of the NSFAS.
- The board should establish a finance committee comprising members from the

Departments of Education and Finance and financial experts from the private sector. The function of the finance committee would revolve around the financial management of the NSFAS, specifically issues of loan recovery, injection of funds and investment of repayments.

- The mobilisation of public opinion in support of the principles of a loan and bursary scheme, in particular as they relate to the responsibilities of recipients with respect to repayment.

NSFAS Act

A year later, NSFAS was established by statute, the National Student Financial Aid Scheme Act (Act 56 of 1999), incorporating Tefsa. Tefsa ceased to operate in July 2000 and all existing loans on the Tefsa books were transferred to NSFAS. The Tefsa, IDT and Kagiso loans are referred to as “predecessor loans”.

Public Finance Management Act

As a public entity, NSFAS is also subject to the Public Finance Management Act (PFMA), Act 1 of 1999, in terms of which NSFAS is listed as a Schedule 3A entity.

National Plan for Higher Education

Issued in 2001, the National Plan for Higher Education elaborates on the White Paper, setting out the strategic objectives as: providing access to higher education to all irrespective of race, gender, age, creed, class or disability and producing graduates with the skills and competencies necessary to meet the human resource needs of the country; promoting equity of access and to redressing past inequalities by ensuring staff and student profiles in higher education progressively reflect South African demographics; and ensuring diversity in the organisational form and institutional landscape of the higher education system through mission and programme differentiation, thus enabling the addressing of regional and national needs in social and economic development.

FET colleges

In 2007, the Education Laws Amendment Act (Act 31 of 2007), expanded NSFAS’s responsibilities to include granting of financial aid to students at further education and training (FET) colleges.

2.2 Higher education and training policy and institutional landscape

Following the elections of April 2009, government was restructured to enable it to respond more effectively to the social and economic development needs of the country. The DoE, which carried responsibility for basic, further and higher education, was restructured into two departments, the Department of Basic Education and the Department of Higher Education and Training (DHET). The DHET also assumed responsibility for the skills-related functions that previously resided in the Department of Labour. The Ministry of Higher Education and Training is also host to the secretariat of the Human Resource Development Strategy for South Africa (HRDS-SA), which is led by the Deputy President.

These changes signal the state’s intention and vision for higher education and training in

South Africa. This vision is for the creation of a coherent and single post-school education and training system that is structured both to meet the aspirations of young people and adults and to ensure that education, training and skills development initiatives respond to the requirements of the economy, rural development challenges, as well as the need to develop an informed and involved citizenry.

Starting in 2010, the Minister of Higher Education and Training has indicated his intention "to work with stakeholders to develop a policy framework for a diverse post-school education and training system which will be responsive to identified challenges and the state's collective aspirations, including transformation imperatives" (Minister's Policy Statement, November 2009).

2.2.1 Universities

As mentioned above, the foundational policy framework for higher education is informed by Education White Paper 3 (1997) and the National Plan for Higher Education (2001). Subsequent policy and legislation is built on the first principles articulated through these seminal policy pieces. The purpose of the policy agenda is to reconfigure the higher education landscape.

While the system in the main responded positively to meeting the policy goals, including implementation of the programme and qualifications mix (PQM), enrolment planning, and the Higher Education Qualifications Framework (HEQF), many challenges remain, including, but not limited to, those associated with institutional cultures – as became evident through the report of the Ministerial Committee that investigated racism and other forms of discrimination at HEIs in 2008-2009 – student equity, particularly linked to scarce skills areas in the sector education and training fields, and throughput and graduation rates.

One of the challenges will be to improve the number of students who complete their studies and graduate. Table 2.1 shows that the number of graduates from the system in 2007 was 16,6 percent, a marginal improvement on the 16,1 percent achieved in 2000 and considerably below the international norm, which ranges between 25 and 33 percent.

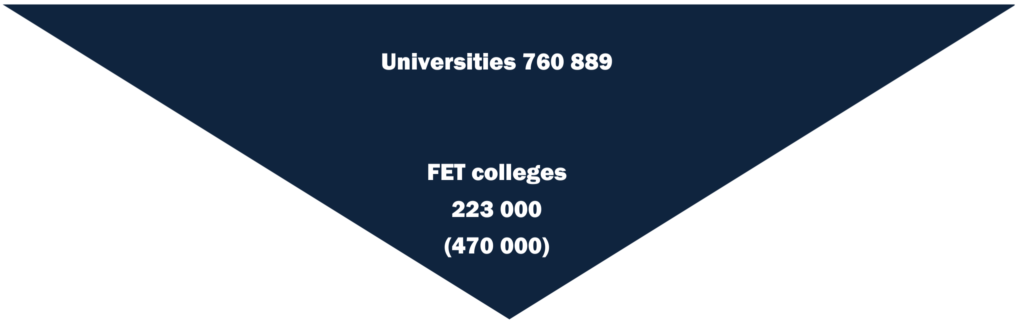
Table 2.1: Headcount enrolments and graduates 2000-2007

	Enrolment	Graduates	% graduates
2000	578 134	92 819	16,1%
2001	627 277	95 940	15,3%
2002	667 182	101 047	15,1%
2003	705 255	108 263	15,4%
2004	744 478	117 240	15,7%
2005	735 073	120 385	16,4%
2006	741 380	124 626	16,8%
2007	760 889	126 618	16,6%

2.2.2 Further education and training college sub-system

Moving the FET colleges to a national function has been accompanied by anticipated expectations of a number of changes that will ensure that the colleges become institutions of choice for many young people and adults. Current enrolments at FET colleges and universities are inappropriately skewed in favour of universities, which have 760 889 students against public FET colleges with only 470 000, a very atypical scenario worldwide.

Figure 2.1: 2007 HEI and FET college enrolment figures



The FET college figure of 470 000 is the total number of courses for which students were enrolled in 2007, not the total number of students at FET colleges. s. But these courses are not full-time equivalent (FTE) courses and may be as short as three months. One student may complete three such courses in one year of full-time study, yet be counted three times in the headcount enrolment figure. A FTE FET college student enrolment figure is not currently available from DHET but would be likely to be considerably lower than the 470 000 (223 000) reflected here, creating an even greater imbalance between universities and FET colleges.

In an attempt to correct the imbalance of the inverted pyramid, the state aims to double the enrolment target in colleges in the next five years, while at the same time improving access to universities. To meet its FET enrolment target, the state intends to:

- Consolidate the institutional base for FET colleges in partnership with the skills development system.
- Improve responsiveness to the needs of the economy.
- Work with the National Board for Further Education and Training to review the impact of some of the recent changes, particularly in management and governance structures.
- Undertake a national audit of individual institutional governance and administration.

2.2.3 Skills sub-system

Migrating the skills development function into the DHET gives the state the opportunity to reconceptualise strategies for skills development within the larger unified higher and post-school education and training system. However, there are also multiple challenges:

- How to build a viable system of education and training that will respond to the needs of adults and youth: the self-employed; the unemployed; those with unrecognised skills; and the employed.
- Improved coordination between the Sectoral Education and Training Authority (SETA) system and education and training institutions, particularly FET colleges and universities of technology.
- Negative perceptions of the SETAs' performance, management and governance.

- The unblocking of funds in the National Skills Fund (NSF), which must include a review of systems, procedures and of decision-making.
- Inadequate alignment of industry needs and provision of training and skills development and in particular the need to increase the supply of artisans and technicians.
- Finalisation of industrial policy action plans to improve the effectiveness of skills development efforts. This is necessary to ensure alignment between the sector skills plans of the 23 SETAs and national labour force skills development strategies.

The Ministerial Policy Statement stipulates that the National Skills Authority (NSA) should be strengthened to perform its expert advisory role. This will include providing the NSA with administrative, policy and research capacity, aligning its work with the HRDS-SA and improving its relationship with other statutory bodies. The Minister committed the DHET to actively pursue collaborative relationships between the NSF, SETAs, universities – especially universities of technology – and FET colleges to seek ways to release funds to grow the skills base. Strategic interventions will focus on the following immediate priorities:

- SETA and FET college partnerships, particularly on training and placement.
- The provision of opportunities for work-based learning to accompany formal learning in colleges and universities of technology.
- Skills for rural development and cooperatives.
- The training layoff scheme.
- Intensified artisan training.

2.2.4 Ministerial Review of NSFAS 1999-2009

The appointment of the Ministerial Committee to review NSFAS took place in the changing policy and institutional environment described briefly above. NSFAS had been in existence for 10 years at the time of the appointment of the committee in June 2009. During the decade, NSFAS operations and procedures had remained largely unchanged from those incorporated into NSFAS from its predecessor-in-title, Tefsa. At the same time, the funds managed by NSFAS had increased substantially throughout the first decade to R2,375 billion in 2008, providing financial aid to 17 percent of higher education students. This growth gives some indication of the level of need among young South Africans for student financial aid. Notwithstanding steady budget increases, the growth in funds has not kept pace with the ever-increasing demand. Even a five-fold increase in 10 years leaves NSFAS with a massive funding shortfall. It would need more than double – and probably three times – its budget to meet even current demand.

Part 3 of this report explores some of the reasons why South Africa needs to invest more in higher and further education, including the provision of student financial aid, to “enable South Africa to produce graduates with the qualifications and skills required to build our developmental state”.[2]

2.3 NSFAS functions, governance and organisational structures

This section describes the legislative framework, functions, governance and organisational structure of NSFAS.

[2] NSFAS Ministerial Review Committee terms of reference.

2.3.1 Legislative framework

NSFAS is governed by the NSFAS Act and the Public Finance Management Act (PFMA) in terms of which it is listed as a public entity. The governance of public entities is regulated by the PFMA and Treasury Regulations. Chapter Six of the PFMA and Part 9 of the Treasury Regulations include *inter alia*, requirements regarding the responsibilities of accounting authorities of public entities, budgets, annual reports, internal controls, strategic planning, cash management, investment policy and audit committees.

NSFAS is also subject to the National Credit Act (NCA) (Act 34 of 2005), which requires all credit providers to register with the National Credit Regulator (NCR). The NCA prevails over all other legislation dealing with the provision of credit. NSFAS is registered as a credit provider under registration number NCRP 2655.

2.3.1.1 NSFAS Act

The NSFAS Act, Act 56 of 1999, establishes NSFAS as a national public entity with the intention[3] to:

- Redress past discrimination and ensure representivity and equal access.
- Respond to human resource development needs of the nation.
- Establish an expanded national student financial aid scheme that is affordable and sustainable.

The Act specifies its purpose[4] as being to:

- Provide for the management, governance and administration of NSFAS.
- Provide for the granting of loans and bursaries to eligible students at public HEIs and for the administration of such loans and bursaries.
- Provide for the recovery of loans.

The Act sets out the functions of NSFAS[5] as being to:

- Allocate funds for loans and bursaries to eligible students.
- Develop criteria and conditions for the granting of loans and bursaries to eligible students in consultation with the Minister.
- Raise funds as contemplated in Section 14(1).
- Recover loans.
- Maintain and analyse a database and undertake research for the better utilisation of financial resources.
- Advise the Minister on matters relating to student financial aid.
- Perform other functions assigned to it by Act or by the Minister.

[3] National Student Financial Aid Scheme Act, Act 56 of 1999, Preamble.
[4] Ibid, Summary.
[5] Ibid, Section 4.

2.3.1.1a **Control and governance**

The Act specifies that the board must manage, govern and administer NSFAS. The Act requires the board to establish a five-member board executive committee and a board finance committee. Members of the board and of board committees are paid travel, subsistence and other allowances only in respect of services rendered, with the exception of the chairperson, who may receive additional remuneration determined by the Minister.

2.3.1.1b **Administration of loans and bursaries**

The Act allows any student to apply for a loan or bursary from NSFAS, but allows the board to "impose such conditions as it may determine, either generally or in respect of a particular loan or bursary".[6] Such conditions include the use of the means test and the loan-conversion of up to 40 percent of any loan as an incentive for academic success.

It provides for payment by NSFAS of the amount of the loan or bursary made in response to an application "to the designated higher education institution concerned by way of allocations" rather than to the borrower or bursar. It also allows NSFAS to enter into what is in effect an agency agreement with HEIs or further education and training (FET) colleges, in terms of which they are authorised to:

- Administer loans and bursaries granted to students of the institution.
- Receive loan and bursary applications from students.
- Consider and assess the applications in the light of the criteria for the granting of loans and bursaries determined by NSFAS.
- Grant loans and bursaries if the criteria are met after ascertaining that funds are available.
- Enter into a written agreement with a borrower or bursar in accordance with the provisions of the Act and on the terms and conditions determined by NSFAS.

The Act's definition of a loan is of significance to the review. The Act defines a loan as "a loan granted to a person by NSFAS in order to enable the person to defray the costs connected with his or her education at a designated higher education institution, and those connected with the board and lodging of that person for purposes of attending the institution".[7] It is thus clear that the Act envisages that NSFAS will provide loans which cover full cost of study, including tuition fees and living expenses, and not only a portion of these.

2.3.1.1c **Loan recovery**

The Act requires NSFAS to "recover loans" as one of its core functions[8] and provides instruments not typically available to public or private entities to enable it to do so. These include:

- Access to the databases of the South African Revenue Service (SARS) to establish the employment status and income level of borrowers and to trace borrowers.[9]
- An effective right by NSFAS to issue extra-judicial garnishee orders to the employers of

[6] Ibid, Section 19.
[7] Ibid, Section 1 (xiii). The phrase "to defray" means "to discharge by paying, to meet, to settle" – *Shorter Oxford Dictionary.*
[8] Ibid, Section 4(d).
[9] Ibid, Section 23.

borrowers to enforce deduction at source of repayment installments.[10]

It requires borrowers who are no longer studying to inform NSFAS periodically of their employment status, income level and residential addresses and of other contact details and creates penalties for debtors who fail to adhere to these requirements.

2.3.1.1d Regulations issued under the NSFAS Act

The NSFAS Act provides that: "The Minister may make regulations on any matter which may or must be prescribed by regulation in terms of this Act and any matter which is necessary or expedient to prescribe in order to achieve the objects of this Act." (Section 27)

During the past decade, only one regulation has been published in terms of the Act. In July 2001 Regulation No. 676 made regulations on income contingent loan repayment as required by Section 23(2) of the Act. The regulation provided for deductions by employers from the remuneration payable to NSFAS debtors to begin at 3 percent of salary at R26 300 rising linearly to 8 percent of salary at R593 000 according to the scales contained in a schedule to the regulation. No amendments to the regulation or additional regulations have been made since 2001.

The Committee found that in the eight years since publication of the regulation, only one adjustment had been made to the threshold of R26 300. In 2008, NSFAS increased the repayment threshold to R30 000.

2.3.1.2 Public Finance Management Act

The PFMA gives effect to Section 216(1) of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996). This requires national legislation to establish a national treasury and prescribes measures to ensure transparency and expenditure control in each sphere of government. The Minister of Finance must list and classify public entities, by notice in the national Government Gazette as required in terms of Sections 47 and 48 of the PFMA. The current listing and classification of public entities is set out in Schedules 2 and 3 of the PFMA.

NSFAS is listed as a Schedule 3A national public entity in terms of the PFMA. These entities are extensions of a department with the mandate to fulfil a specific economic or social responsibility of government. Boards of public entities have considerable fiduciary responsibility including the "reasonable protection of the assets and records of the public entity" and prevention of "any prejudice to the financial interests of the state".

2.3.1.3 Extension of NSFAS to FET colleges

In 2007 the legislative mandate of NSFAS was extended through the Education Laws Amendment Act (Act No. 31 of 2007) to include responsibility for granting and administering financial aid to students at public FET colleges.[11] The annual budget of NSFAS was increased substantially to provide the resources for the additional activities required by the inclusion of FET college bursaries and loans in its mandate.

[10] Ibid, Section 23.
[11] NSFAS's enabling legislation was amended by the Education Laws Amendment Act, No. 31 of 2007.

2.3.1.4 Parliamentary oversight

NSFAS has to account to Parliament and makes several appearances before the Portfolio Committee on Higher Education and Training each year to make presentations on the NSFAS budget and operations. NSFAS can also be called to account by the Standing Committee on Public Accounts (SCOPA) although up until now the scheme has only received occasional written queries from SCOPA.

2.4 Governance

The terms of reference required the Review Committee to: "Recommend changes to the governance, management, operational capacity and systems of the NSFAS to meet the needs of the new policy framework."

In pursuit of this mandate, the Committee reviewed the governance of NSFAS and found that the standard of governance in general was below that expected from a public entity operating in terms of its own legislation and the PFMA.

The Committee found that while the transition from Tefsa to NSFAS in 2000, as required with the promulgation of the NSFAS Act, brought continuity and stability, the apparent seamlessness of the transition meant that the opportunity to establish NSFAS de novo based on the statutory requirements of the Act was lost. All Tefsa resources, including infrastructure, systems and personnel, were incorporated into NSFAS. One consequence is that NSFAS has been operating since inception in a virtual policy vacuum. The Committee was unable to locate any board policies other than a 2007 investment policy, a human resources policy and a procurement policy. Despite the fact that NSFAS is a registered credit provider and disburses billions of rands of public funds every year, it has no policies in terms of which it carries out its core functions of providing credit and recovering debt.

The NSFAS board confirmed that it had few codified policies and that the organisation operates in the absence of such policies. It was established that there was no risk management committee, governance structures in the information technology environment and a credit policy. All are matters that require urgent attention.

The Committee received reports that matters raised in the 2008-2009 external audit, which were flagged as urgent at the time and as central to the previous audit findings by the Auditor General, had either still not been completed or were not in operation by financial year end. These issues included a business continuity plan, fraud prevention plan and the performance management system (PMS). The PMS will be an area of special focus for the next external audit and non-compliant public entities can expect to receive a qualified audit opinion. It must however be noted that despite the issues raised, NSFAS received an unqualified audit for the 2008-2009 period.

The NSFAS Audit Committee had recommended a full governance review in 2008. More than a year later, this recommendation had not been implemented. However, in November 2009, towards the end of the Review Committee's work, the organisation initiated its own governance review, conducted by independent service provider Deloitte. The results of this independent governance audit, while not as extensive or detailed as the Committee had hoped, confirmed the Committee's findings and identified a number of governance shortcomings in NSFAS which require immediate remedial action.

2.5 Organisational structure

The NSFAS Act provided for the incorporation of Tefsa and all of its assets, including human resources, into NSFAS. This provision, while facilitating the establishment of NSFAS, had the disadvantage of allowing the NSFAS organisational structure to develop organically in the transition from Tefsa to NSFAS. As a result, NSFAS did not benefit from the strategic or organisational planning that would have been expected if the organisation had been established from inception as a statutory body in terms of its own legislation.

The organisational structure consists of a board of directors and an executive. The executive structure is headed by a chief executive officer (CEO), supported by senior management and management staff. The lack of continuity in the office of the CEO, dating back to 2007, has limited the organisation in its ability to respond strategically to the challenges facing NSFAS. The organisation has had three CEOs and two acting CEOs during its 10-year existence. The immediate past CEO was appointed in 2008 and resigned in July 2009. An acting CEO was appointed whose term ended in December 2009.

The Review Committee heard that senior managers and managers are involved in detailed operational processes which detract from their ability to manage. There appeared to be a lack of managerial depth within the organisational structure, resulting in competent managers being over-stretched. Inappropriate appointments to senior management positions, the absence of a PMS, poorly defined job descriptions, senior management vacancies, temporary appointments and poor management of the internal information flow have all contributed to the current management problems in NSFAS.

The Committee found an overlap of responsibilities across functions and insufficient specialised skills at senior management and management levels to effectively manage work performance. In order to operate effectively in the immediate and short terms, NSFAS requires more depth of senior leadership with a balance of skills, including information technology, operational and human resources management skills. A capacity and skills audit needs to be commissioned to assess current capacity and to identify the senior management and management skills that NSFAS requires in order to carry out its functions.

2.6 Sources of income

NSFAS receives funds for disbursement as higher and further education loans and bursaries from a number of government and non-government sources. NSFAS also funds students from its recovered funds pool that is made up of loans that are being repaid by former students.

The primary source of NSFAS funding is the Department of Higher Education and Training (DHET). In 2008, the department[12] provided NSFAS funds through its general fund, ring-fenced teacher education funds, accounting bursaries and bursaries for students with disabilities. In addition to general funding from the DHET, NSFAS enters into individual contracts with each of the other entities from which it receives funds for student financial aid. In terms specified in each contract, NSFAS disburses the funds, usually in the form of bursaries for scarce skills areas of study, to qualifying applicants.

[12] At the time the Department of Education (DoE), as reflected in the tables below.

2.6.1 Department of Higher Education and Training

The DHET provides NSFAS with funding for the following bursaries and loans:

- General fund.
- Teacher education (ring-fenced funding).
- Funza Lushaka bursaries for teaching.
- Bursaries for disabled students.
- Accounting students in partnership with the South African Institute of Chartered Accountants (SAICA).

The amount that has been allocated by the department to NSFAS has grown from R500 million in 2002 to R2,71 billion in 2011-2012 (including Funza Lushaka and further education and training (FET) college bursaries since 2007).

During 2008 an additional R39 million as inflation adjustments was allocated to NSFAS. The Minister of Education advised that the additional funds should be allocated to institutions where NSFAS awards were spread thinly over many students to assist poorer students.

Table 2.2: Sources of income

	DHET	FET colleges	Funza Lushaka	Total
	R millions	R millions	R millions	R millions
2005-6	864	-	-	864
2006-7	926	-	-	926
2007-8	1 113	100	120	1 333
2008-9	1 322	200	180	1 702
2009-10	1 445	300	400	2 145
2010-11	1 591	318	424	2 333
2011-12	1 924	337	449	2 710

2.6.2 Other funding partners

In addition to its main function of distributing funds on behalf of DHET, NSFAS also disburses funds, usually in the form of bursaries for scarce skills areas of study, on behalf of a number of government and non-government partners. NSFAS enters into contracts with each funding partner, in terms of which it undertakes to distribute funds and report as specified in each contract.

This arrangement is designed to satisfy the different needs of individual funding partners, both government and non-government entities, and allows each partner to set the terms, conditions and reporting requirements. The approach would work well if NSFAS had the structures, systems and procedures to deliver at acceptable service levels in terms of a variety of contractual agreements. However, NSFAS does not have sufficient capacity to service its various contracts and experiences difficulties in administering loans and bursaries with a wide range of terms, conditions and reporting requirements.

2.6.3 Other government departments

In addition to funds from the education budget, NSFAS receives funding from a number of other national government departments and from one provincial government:

- Department of Agriculture, Fisheries and Forestry (DoA).
- Department of Labour (DoL).
- Department of Social Development (DSD).
- Eastern Cape Provincial Government.

Table 2.3: Other sources of funds

	2007	2008
Department of Education		
Teacher Education	66,0	84,7
Disability Bursaries	-	18,6
Accounting (SAICA partnership)	14,0	18,5
Funza Lushaka	120,0	181,1
Department of Agriculture	10,7	12,3
Department of Labour		
Ntabankula 100% bursaries	-	1,5
National Skills Fund Bursaries	-	26,2
Disability bursaries	29,6	24,3
Department of Social Development	90,3	132,0
Eastern Cape Provincial Govt	14,7	15,9
Nedbank	-	14,7
Irish Aid	1,9	1,8
Other	1,6	0,5
Institutional loan administration	88,3	92,7

2.6.3.1 Department of Agriculture, Fisheries and Forestry

The Committee met with the DoA to discuss its bursary scheme, which is administered by NSFAS. The DoA provides bursaries to students for study in what the department identifies as scarce skills areas, including food science, bio-resource engineering and viticulture. The DoA advertises its bursaries and selects the candidates through its own National Bursary Committee on which all provinces, the Land Bank and the Agricultural Council are represented. The selection criteria combine financial need and academic potential.

Full cost bursaries with amounts determined by the DoA are provided to approximately 50 students a year. In addition to the full cost of study, the DoA also grants each student an allowance of 20 percent of the bursary amount.

NSFAS plays a very limited role in terms of its contract with the DoA. It receives funds from DoA and transfers them to the HEIs, with the DoA doing everything else, including identifying and selecting bursary recipients and maintaining contact with them throughout their studies, even helping to place them in part-time and permanent employment.

The DoA is very satisfied with the service it receives from NSFAS and wants to continue the partnership, noting that the main advantage in maintaining the contract is that it allows interest to be earned while its money is in the NSFAS bank account, whereas this would not be the case if the funds remained in the departmental account. However, the department is not aware whether this interest accrues to itself or to NSFAS.

The conditions attached to the DoA bursaries are atypical. They require graduates to work for the same number of years that they received the bursary. However, in a departure from the norm in relation to such bonded bursaries, the department does not require this employment to be in government. There are two conditions: graduates must remain in South Africa and must work in the agricultural sector.

This model obviously works well with between 85 and 90 percent of students completing their studies, graduating and fulfilling their bursary obligations. It could provide a blueprint for other NSFAS contracts with government departments.

2.6.3.2 Department of Labour

The Committee met with a senior manager and a manager from the National Skills Fund as representatives of the DoL to discuss their allocation of funds to NSFAS for bursaries to students identified in terms of its National Skills Development Strategy.

The funding allocated by the DoL is for students wishing to study in scarce skills areas and includes bursaries for people with disabilities. The department is not involved in the selection of students. NSFAS is required to select suitable bursary recipients based on DoL's National Master Scarce Skills List. The DoL reported two serious shortcomings with regard to the administration of this scheme. Firstly, DoL is dissatisfied with under-spending by NSFAS of the amounts allocated for scarce skills education. According to the officials, in 2008, only R17,5 million of the R26,2 million allocated was utilised. Secondly, NSFAS reporting is inadequate and does not comply with the quarterly reporting requirements of the contract with DoL. The Committee noted that the DoL's figures differed from those provided by NSFAS, which showed it disbursed R25, 578 million of DoL funds.[13]

The department's dissatisfaction with NSFAS over the past several years resulted in the DoL withdrawing funds from NSFAS in 2007 and using a private sector entity to undertake some of its bursary allocation functions. In 2008 DoL resumed partial funding through NSFAS and made R25 million available, with a further amount of R51 million in 2009. However, the representatives told the Review Committee they were still dissatisfied with NSFAS performance and reporting..

The DoL confirmed there were also problems with the disbursement of bursaries to students with disabilities, as reported to the Review Committee by several institutions. Delays in DoL bursaries reaching students with disabilities are responsible for many of these students dropping out. The department acknowledged the impact of delays on students with disabilities and indicated that NSFAS's administration and reporting deficiencies could be responsible for the problem, stating that funds transfers could not be made without appropriate and timeous documentation from NSFAS.

NSFAS management acknowledged to the Committee that it had failed to perform to the standards required in the DoL contract and had failed to report quarterly as required. Non-performance by middle management and a failure in oversight by senior management were

[13] NSFAS 2009 Annual Report.

cited as the reasons for the problems. According to NSFAS, these problems with the DoL are being addressed and at the time of writing, new contract terms were being finalised.

2.6.3.3 Department of Social Development

The DSD provides NSFAS with substantial bursary funding to address its skills shortage challenge with regard to the development of social workers. In 2009, this amount reached R210 million, funding 6 500 students. South Africa has a severe shortage of qualified social workers in both the public and private sectors. The DSD has identified the need for thousands more qualified social workers to implement existing and planned social development legislation. According to the DSD, there is a total of 12 500 registered social workers, while the number of social workers needed to fully implement the recently promulgated Children's Act alone is 16 000.

NSFAS administers applications for social work bursaries in the same way as its general applications for loans. The allocation to the student starts as a loan but is converted to a bonded scholarship on graduation, with graduates taking up posts in the public service for a specified period. While efforts are made to recruit students who are in financial need, this is not the objective of the scheme, so applicants do not have to take a means test in order to qualify for a loan. The objective is to alleviate the chronic shortage of qualified social workers by offering financial assistance to students willing to study social work and fulfil the bursary conditions.

In its meeting with the Committee, the DSD expressed its dissatisfaction with the service it receives from NSFAS, citing unacceptable and escalating levels of inefficiency. The slow turnaround times for processing applications and grants as well as administrative inefficiencies such as lost documentation and inaccurate information relayed to institutions and students, impact negatively on the department as well as the students.

The DSD reported that it was requested by the National Treasury to route its scarce skills funding through NSFAS and was informed that its education funding from the National Treasury was contingent on agreeing to use the NSFAS channel. Prior to this instruction, the DSD managed its scarce skills bursary funding scheme within the department itself. It would prefer to revert to this arrangement, which apparently worked smoothly and efficiently. The National Treasury advised the Review Committee that it was not aware of having placed such conditions on the DSD funding.

2.6.3.4 Eastern Cape Provincial Government

NSFAS administers both loans and bursaries on behalf of the Eastern Cape provincial government with total funding in 2007 of R14,7 million and in 2008 of R15,9 million. Loan candidates are selected by the Eastern Cape Premier's Office, and receive a once-off loan of up to R43 000, subject to a means test. Bursaries of R50 000 are provided to top academic achievers and are not subject to a means test. According to NSFAS, recipients of both loans and bursaries are encouraged to return to the Eastern Cape upon graduation.

2.6.4 Higher education institutions

NSFAS currently receives funds from some HEIs and administers student loans on behalf of them. NSFAS has contracted with a number of universities to disburse student loan funds and collect debt on behalf of the institution. The Committee heard from NSFAS management that in order to legalise use of the provisions of the NSFAS Act, primarily with regard to loan recovery, NSFAS enters into loan agreements with students who borrow institutional funds. As explained in more detail in Chapter 6, NSFAS consolidates all loans to an individual student, both those from NSFAS funds and those from institutional funds, into one student account. In 2009, the amounts received from the 12 institutions which send funds to NSFAS are reflected in the table below:

Table 2.4: HEI funding of NSFAS

R millions	2009	2008
CUT	-	2 572
DUT	5 073	17 045
NMMU	3 000	-
RU	12 384	8 704
TUT	1 165	6 457
UCT	260	2 948
UFS	872	-
UJ	9 545	-
UKZN	15 181	34 553
Unisa	17 828	8 004
UP	5 300	4 987
UWC	-	42
Total	70 608	75 312

2.6.5 Private sector funders

It appears that a focus area of the board has been to attract private sector donors to NSFAS. Apparently the board's strategy was to supplement its state funding shortfall by trying to attract private sector funders to augment the NSFAS coffers. A significant effort has been put into implementing the strategy, with NSFAS hosting functions to showcase itself and engaging with a number of potential corporate investors, mainly from the banking and financial services sectors. To date, this strategy has failed and does not present a solution to the NSFAS funding shortfall. In 2009 only one private sector company used NSFAS to distribute bursary funds.

2.6.5.1 Nedbank bursaries

NSFAS managed R14,7 million in Nedbank bursaries in 2009 in terms of a contract which requires NSFAS to distribute bursaries for the scarce skills area of accounting and related courses in line with criteria set by the bank. The funding is for bursaries and not loans.

NSFAS is primarily established as a student loan organisation and does not have the specialised infrastructure and systems needed to provide a competitive bursary management and administration service. NSFAS charges Nedbank two percent of the R14,7 million in administration fees, representing a significant saving on comparative commercial bursary management services, whose fees for a similar service would be anything up to 20 percent. NSFAS management estimates that the contract operates at a loss, although in the absence of any loan recovery cost analysis by NSFAS, it is not possible to verify this claim. It appears that NSFAS is in effect subsidising the bank in distributing its bursaries.

According to NSFAS, the contract requires NSFAS to appoint a dedicated administrator who reports to the bank in terms of a unique format. The agreement also requires NSFAS to set aside from its two percent administration fee the costs associated with reporting to Nedbank, including travel costs for the NSFAS officer to travel at agreed intervals from Cape Town to report to the bank's head office in Johannesburg.

The advantages to the bank of the arrangement are apparent but the benefits to NSFAS are less clear. The provision of an additional R14,7 million in bursary funding, administered at a probable loss to the organisation, when it faces significant challenges in administering more than R2 billion in loans from public sector funders, cannot be a solution, even a partial one, to the organisation's funding shortfall. The apparent outcome of this initiative is that NSFAS is subsidising the private sector. The advantage for students is questionable, given NSFAS's limited communications and administration capacity.

In the NSFAS 2009 Annual Report, the CEO at the time says: "Owing to the exponential growth in funds administered by the NSFAS in recent years, our people and systems capacity are being stretched to the limit. We are seeing a new trend with increased funding for scarce skills; each bursary carries its own conditions and reporting requirements, and these demands add significantly to the NSFAS's workload."

The notion of NSFAS attracting private sector funding for student financial aid is fundamentally flawed. The private sector, and in particular, commercial banks, lend to students to make a profit. They may have additional motives, such as signing up students in the belief that this will instil customer loyalty and they will gain a client for life, but all of these are minor subsidiary motives to the main motive of making a profit on student loans. Banks do not lend where they cannot make a profit to return to their shareholders. Even in the case of Nedbank, it gives only its bursary funding to NSFAS to administer and does not fund student loans through NSFAS. Nedbank conducts its business like all other commercial banks and gives student loans through its banking channels, charging interest of prime plus a percentage, depending on the borrower's financial profile, and requiring surety and repayment within a specified term, in order to make a profit for shareholders.

If the NSFAS strategy had been to attract private sector funders to fund NSFAS activities on equivalent terms to those that apply to NSFAS loans, this could have gone some way towards helping NSFAS meet the increasing demand for student financial aid. However, such a strategy would be unlikely to succeed. As the Review Committee discovered in its enquiries into non-state providers of student financial aid in South Africa, no private sector provider offers terms comparable to NSFAS with its lower rate of interest and income-contingent provisions. To do so would contradict their primary profit motive.

2.6.6 International funders

NSFAS has only one international donor and currently generates less than 0,1 percent of its income from this source.

2.6.6.1 Irish Aid

Irish Aid is the sole international donor of NSFAS funds and the relationship between the two organisations has developed over a number of years. Irish Aid provided R1 776 000 in funds in 2008.

While appreciating the contribution from international donors made in the past, it is clear that this is not a sustainable or substantial source of funding for NSFAS at present and is unlikely to become so in the future.

The Committee was surprised at the view expressed by Higher Education South Africa (HESA) that NSFAS was "becoming a recognised and respected disburser of financial aid for public as well as private funds. The NSFAS's capacity to act as distribution agent and as administrative agent for loan and bursary funds of a number of public sector bodies such as government departments other than the DHET, private sector trusts and companies, and donor agencies has become nationally recognised."

The Committee concluded that, with the exception of the DoA for which NSFAS provides the very limited service of transferring funds to designated institutions, there was no evidence to support these views. On balance, the opposite appears to be true.

2.6.7 Funding of NSFAS operations

The NSFAS administration budget of R64,998 million for 2009 was approved by the Minister in December 2008. Funding of the administration budget is made up of two components:

- The departmental administration grant of R25 million.
- An amount of R41 million from NSFAS recovered monies approved by the department for funding of the administration budget.

The amount of R25 million emanates from the gradual increase in the administration portion that the department has been supporting since inception. The other R41 million of the administration budget is funded from the recovered funds pool on the basis of a decision taken between the DoE and NSFAS a few years ago. The portion of the administration budget that is unused at the end of the financial year is returned to the recovered funds pool; hence NSFAS has no mechanism through which it can accumulate surpluses for once-off capital projects.

As indicated in Table 2.5 below, the administration budget over the Medium Term Expenditure Framework (MTEF) includes major increases in the areas of communication, consultants, capital expenditure for computers and furniture, debt tracking, temporary staff, printing and stationery. In terms of rand value, the highest increases are for computer equipment in 2011-2012, and from 2009-2010 onwards for communications, debt tracking and internal audit fees. The largest increase for information technology is in 2011-2012 when hardware will need to be replaced.

The administration budget has already increased substantially by 37,3 percent in 2009-2010. Even though NSFAS did not receive additional funding through the MTEF process, the current funding mechanism allows NSFAS to use recovered funds as long as the percentage of the administration budget is less than 5 percent of the total budget.

Table 2.5: Income-expenditure

	2008-09 R million	2009-10	%	2010-11 R million	%	2011-12 R million	%

Income						
DHET	1295	1382	7	1490	8	1580	6
Other transfer	512	910	78	965	6	1 022	6
Reinjection of recoveries and interest	473	616	30	731	19	872	19
Other funding	80	84	5	89	7	96	7
Private sector	15	15	0	15	0	0	-100
Total	2 375	3 007	27	3 291	9	3 571	9
Expenditure							
Awards	2 327	2 940	26	3 219	10	3 488	8
Admin	48	66	37	72	9	82	15
Total	2 375	3 007	27	3 291	9	3 571	9

2.6.8 Conclusions

Firstly, the Committee found that there is a need for DHET to undertake an evaluation of scarce skills funds generally and National Skills Fund (NSF) funds specifically to determine whether the stated objectives are being achieved. Consideration should be given to whether the NSF funding could not be used more beneficially for poor students from both the higher education and FET sectors.

Secondly, considering the multiple organisational and governance challenges that NSFAS is currently facing, the Committee is of the view that the organisation should, wherever possible, rationalise its loan administration role and limit its activities to administering loans and bursaries for students receiving funding from public sector sources.

In order to provide an efficient and cost-effective service to all government departments and not just DHET, NSFAS should immediately develop and implement a strategy to resolve any deficiencies in delivering on its contractual obligations to all departments. Going forward, NSFAS should put in place a comprehensive performance management system to ensure it performs well in terms of all its contracts. The proposed capacity and skills audit should take the above objectives into account.

The Committee concluded that NSFAS should continue to manage student loan funds on behalf of public HEIs, on the condition that recovered funds from such students go into the general loans pool rather than to institution-specific students.

NSFAS should not actively seek to administer funds on behalf of private sector organisations. While it may continue to manage funds offered by private sector and international donors, it should do so on condition that both distribution and reporting may be done in terms of a standard contract applicable to all such funding. In light of the failure of its efforts to date, to continue to pursue efforts to attract private sector funders would distract NSFAS from addressing the challenges it currently faces and could result in fruitless and wasteful expenditure.

The Committee proposes that the funding mechanism for NSFAS operations should be revised, as the policy intention is to ensure that recovered funds are used to support students, not to fund NSFAS administration expenses. The NSFAS administration budget should be a source of income provided by the department.

PART TWO
ASSESSING NSFAS

Chapter 3

Allocations

3 NSFAS fund allocation

This chapter describes the allocation formulas and procedures used by NSFAS to allocate funds to higher education institutions (HEIs), and used by HEIs to allocate funds to students.

3.1 Allocations to universities

NSFAS has developed an allocations formula to determine how its funds are distributed to universities. The objective is to ensure funds are allocated to institutions in proportion to the likely relative population of students in need of financial aid, and to the extent of that need. At the time of development of the formula for the original Tertiary Education Fund of South Africa (Tefsa) model – carried into NSFAS when it was established – so-called 'needy students' were defined in terms of race, which was assumed to provide a reasonable proxy measure of relative economic need. It was also a form of redress, ensuring that historically disadvantaged institutions (HDIs), which served predominantly historically disadvantaged communities with higher levels of need, would receive a greater proportion of NSFAS funds.

The direct correlation between race and poverty has become less straightforward over time. While recognising that race remains the central determinant in South Africans' access to material resources and to opportunity, and that the legacy of apartheid is that the overlap between race and class remains largely unchanged, both the access and skills-pool imperatives in education policy and in the NSFAS Act would be better served by prioritising class-based socio-economic criteria over those of race to determine levels of need.

3.1.2 Determining need

NSFAS funds are currently divided between the 23 public HEIs on the basis of the two key variables used to calculate an apportionment factor (AF) per institution:

- The disadvantaged student index (DSI) – actual student numbers from 2007 (HEMIS).
- The full cost of study (FCS), using for example, HEI cost tables for 2009.

The distribution of funds to the HEIs is based on the number of disadvantaged students and the FCS at each institution.

3.1.2a The DSI

An index of the number of disadvantaged students is determined by the following formula:

DSI = (number of African students x 3) + (number of coloured students x 2) + (number of Indian students x 1).

The rationale behind the DSI was that all black students were assumed to be disadvantaged but that the degree of disadvantage varied. The 3:2:1 differential weighting was meant to reflect this. White students are not weighted but are not excluded from eligibility and qualification. Foreign students are excluded as only South Africans are eligible for NSFAS funding. With differential weighting by race, the model still uses race as a proxy for poverty.

3.1.2b Average FCS

Each institution provides its own FCS to NSFAS. This institutionally-determined figure reflects the average annual fee for residence accommodation including meals, plus the annual tuition fee averaged over all courses of study.

FCS = Tuition + Compulsory levies + Residence fees + Meals (as applicable).

3.1.2c Disadvantaged Students' Cost Index

The product of the DSI and the FCS is the Disadvantaged Students' Cost Index:

DSCI = DSI x FCS.

3.1.2d The apportionment factor (AF)

The AF, expressed as a percentage for each institution, is calculated as follows:

AF (%) = DSCI/sum of all DSCI x 100.

The allocation in rands for each institution is the AF percentage for that institution of the total sum available.

3.1.3 Applying the formula

3.1.3a Determining the FCS

In November each year, NSFAS requests all HEIs to submit data which give a breakdown of costs for each course, including registration fees, course fees and residence fees, which are averaged and weighted based on the number of students per course and in residence.

For example, Mangosuthu University of Technology (MUT) submitted figures per course showing actual student numbers in 2008 and actual fees, and projected enrolment and fees per course for 2009. To calculate the weighted cost of study, the number of students projected for each course is multiplied by the course's cost. This sum is then divided by the projected number of students to obtain the weighted average. The FCS is then calculated:

Weighted average (tuition) + weighted average (residence) + meals (if applicable) + registration fees/levies.

All FCS calculations per institution are ranked from highest to lowest cost and grouped into five bands. The average for each band is then used as the weighted FCS and this figure is used to calculate the DSCI. Variations in the FCS stem mainly from differences in tuition fees and residence costs. In 2008, these ranged from R54 610 at the University of Cape Town (UCT) to R29 784 at Walter Sisulu University (WSU) as shown in Table 3.1 below.

Table 3.1: Average FCS (Rand)

	2006	2007	2008	Increase 2006/07 (%)	Increase 2007/08 (%)
UCT	46 841	49 253	54 610	5,0	10,9
WSU	16 106	27 343	29 784	70,0	8,9
Average	31 809	35 112	37 898	10,4	7,9

3.1.3b Calculating the DSI

The Department of Higher Education and Training (DHET) submits actual full-time enrolment (FTE) figures per population group for all HEIs, and uses this to calculate a DSI per institution, using the formula in 3.1.2a above.

3.1.3c Calculating the DSCI

The two parameters above are combined to determine a DSCI, by multiplying the DSI by the FCS, which then translates into an AF for all institutions.

Again using MUT as an example:

- MUT had a **FCS** of R33 278,58 a year. Having grouped these into five bands, MUT's **FCS** translated to the fifth band, which averaged out at R32 703,81 (**FCS-C**).
- MUT had 6 770 African students and four coloured students. This translates into a **DSI** of 20 318 (i.e. (6770 x 3) + (4 x 2)).
- Multiplying the **FCS-C** by the **DSI** (i.e. 32 703,81 x 20 318) produces the **DSCI** of 664 476 012.
- Totalling the **DSCI** for all HEIs amounts to 24 934 737 339. Therefore, for MUT, the **AF** is calculated by dividing 24 934 737 339 by 664 476 012, giving an **AF** of 2,66.

Changes in the DSCI over consecutive funding periods are largely explained by changes in enrolments and costs rather than by actual changes in the population profiles of HEIs.

3.1.4 Views on the allocation formula

The Review Committee received a number of proposals for amendments to the allocation formula. The submission from Higher Education South Africa (HESA) states:

"The existing allocation formula governing institutional allocations uses race as a proxy for level of need within institutions but eligible students from all races do qualify to receive NSFAS loans. Such loans also take account of the cost of study at the various universities. The application of this formula in its current form gives rise to serious anomalies as shown below – either, the formula and its application has to be amended or a new formula has to be developed… (T)he formula takes cost of study at institutions into account as well. While this may be appropriate, the manner in which it is done needs to be refined as it once again tends to benefit HAIs relative to HDIs. This arises since HAIs can usually levy higher tuition fees as, on average, the affluent students (of all races) at HAIs who can pay these higher fees, cross-subsidise those students who cannot pay these fees. The student composition of HDIs does not allow for such forms of cross-subsidisation and hence their lower tuition fee levels which then influence their institutional allocation from NSFAS negatively."[1]

3.2 Allocation within universities

Current NSFAS funding is limited to students whose family income is less than R122 000 per annum, which represents the upper limit of the lowest band of the South African Revenue Services (SARS) tax tables. This limit is not a NSFAS policy guideline but appears to be used by most institutions as a cut-off point for eligibility, given the limited funds available relative to demand. Two criteria are paramount in determining allocation within the HEI:

- NSFAS funding is dependent on the student being granted and retaining an academic place at a public HEI (as determined by the HEI).
- NSFAS funding is dependent on determining the degree of financial need of the family of the student who has been granted an academic place at a public HEI.
- To determine the extent of financial need, the HEIs should use the NSFAS means test to determine eligibility in terms of financial need, the ceiling amount of the loan and the recommended award as per NSFAS guidelines. Several institutions use the means test only to define eligibility and then allocate resources to students on an equitable basis, giving many students some funding rather than substantial funding to a few.

[1] HESA submission to the Ministerial Review Committee, August 2009.

Currently the allocations formula is the key driver determining the actual award size to the student through the means test. In fact, if NSFAS's mandate is to provide funding to students, then it should be the actual award size (based on financial need as determined by the means test) that drives the allocations formula to the institutions, i.e. funding following the student, and not the institution.

NSFAS award sizes vary from R6 600 at WSU (Butterworth) to nearly R30 000 at the University of the Witwatersrand (Wits), as Table 3.2 shows; it also allows comparison between average award size and FCS. In no institution is the average award size equal to the FCS. However, the average FCS at WSU (Butterworth) is almost four times the average award size, while at Rhodes it is 1,3 times as great.

Table 3.2: Average award–FCS ratio

	NSFAS average award	FCS	Ratio
CPUT (Bellville)	9 646,88	32 699	3,4
CPUT (CT)	12 522,69	32 699	2,6
CUT	14 551,82	32 305	2,2
DUT	12 169,63	40 136	3,3
MUT	8 205,31	31 006	3,8
NMMU	16 266,42	37 649	2,3
NWU	16 331,33	34 336	2,1
RU	35 275,94	45 781	1,3
TUT	15 691,05	30 827	2,0
UCT	21 369,59	54 610	2,6
UFH	10 858,60	32 340	3,0
UFS	24 487,81	40 793	1,7
UJ	15 400,17	39 904	2,6
UKZN	15 694,11	39 043	2,5
UL (Medunsa)	26 939,65	41 069	1,5
UL (Turfloop)	16 935,42	41 069	2,4
Unisa	7 297,45		
UP	22 657,28	47 645	2,1
US	27 592,21	43 990	1,6
UWC	13 563,83	41 482	3,1
UZ	13 531,73	31 320	2,3
VUT	13 754,92	32 698	2,4
Wits	29 853,57	54 345	1,8
WSU (Berlin)	7 172,87	25 983	3,6
WSU (Butterworth)	6 615,92	25 983	3,9
WSU (Mthatha)	9 282,24	25 983	2,8

The calculations of NSFAS loan amounts by institution are attached in Appendix 4.

3.2.1 The means test

The NSFAS means test uses the size of the Expected Family Contribution (EFC) as a measure of a student's financial need. The family EFC is calculated as follows:

- EFC = 0,33 x disposable income (for a family supporting one university student).
- EFC = 0,20 x disposable income (for a family supporting more than one university student).

Disposable income is defined as total net annual income less a number of allowances for the household and its members. Once the EFC has been established, students can be ranked from smallest to largest EFC, listing those most and least in need of financial aid.

3.2.2 Determining the size of the award

The formula for determining the size of an award is:

NSFAS Award = Costs – Bursaries – EFC

Costs include registration and tuition fees, academic levies, 'essential' books, accommodation (on-campus fees set by the HEI; off-campus fees set by NSFAS).

3.2.3 Evaluating the means test

Between 1998 and 2003, HEIs were required to use the NSFAS means test but this was not enforced. Consequently, most institutions used their own tests; some, such as the University of Fort Hare (UFH), did no means testing at all on the assumption that all students would qualify for financial aid. From January 2003, NSFAS made its test compulsory. Standardisation was necessary as at least five different tests were in use at that time.

The NSFAS means test is inevitably subjective but given data constraints, including data on income and poverty levels, it was considered an adequate instrument that could be refined over time. However, as the Committee learned during its institutional visits, the usefulness of the means test has been undermined by a number of factors, including:

- HEIs stop using the means test altogether when it results in too few students being granted loans, causing campus unrest by students opposed to financial exclusion.
- The concerted efforts of an apparently large proportion of students at many HEIs to provide inaccurate and/or false information to appear as poor as possible in order to qualify for financial aid. The Committee heard from institutions in all provinces that students claim to be orphans being cared for by grandmothers who receive state pensions, or to have unemployed parents, in order to beat the means test.

3.2.4 Views on the allocation within universities

The Committee received a large number of submissions in relation to the means test. All three constituencies at HEIs – students, management and financial aid offices – expressed dissatisfaction with the current NSFAS means test and support a thorough revision.

In its submission, the South African Union of Students (SAUS) stated that "NSFAS has not been able to extend its reach to the increasing numbers of students whose family income is above the current NSFAS eligibility threshold but who cannot afford to access higher education without financial aid".

SAUS complained about a lack of uniformity across institutions in the administration of the means test and in the granting of financial aid, which they claimed leads to "huge imbalances across institutions in how NSFAS is accessed and experienced by different students in different institutions".[2] SAUS pointed out that the current allocation within institutions gives "insufficient consideration to the true meaning and quantum of a family's disposable income, negating that in most African families the number of dependants is usually larger than the LSM 5 average of 3,5 dependants".

Institutions also commented on the shortcomings of the means test. HESA said the present way of compiling the means test and the way in which it is applied is "no longer adequate and should be fundamentally reviewed or overhauled". Reflecting stakeholder consensus on the inadequacy of the means test threshold of R122 000 per annum, HESA's view is that "compared to average tuition fee levels at most of our institutions, and when taking the cost of accommodation, meals, books etc into account, this threshold value is simply too low".

HESA points out that "the real sufferers are students who have a mean family income a little higher than the threshold value. It is inconceivable that a family with a family income of, say, R140 000 per annum can support a student at a university, in view of the high cost of a higher education. This problem is aggravated if such a family would consist of a number of potential HE students – at the moment NSFAS provides for supporting at most two students per family." HESA also articulated a widely-held view that EFC calculations are too high: "The present method of calculating EFCs seems to yield unrealistically high EFC values compared to income levels – e.g. a gross income of R80 000 can yield an EFC of R8 000 which seems too high given the increased cost of living in South Africa during recent years. This could be the result of unrealistically low subsistence levels provided for in the means test."

In the Committee's panel hearings and institutional visits in all provinces, of the many participants who expressed views on the qualification threshold and the EFCs produced by the means test, none supported the current threshold or the unrealistically high EFCs.

Unisa expressed the view that the present means test formula is mainly informed by conditions pertaining to residential universities and does not take into account matters specific to distance education institutions. Among these are its urban bias and the increasing number of students who, although enrolled for distance education programmes, study full-time at regional centres. These students, many from rural areas, want Unisa to provide student accommodation but Unisa's present allocation from NSFAS does not cover accommodation costs as it assumes that no distance learners require accommodation.

3.3 Is the current model appropriate?

A key issue is whether the current criterion for determining institutional allocations, i.e. the 3:2:1 weighting in the DSI formula, is still appropriate. Evidence suggests that it is not.

An institution with a large proportion of black students (both affluent and poor) receives its allocation on the basis of racial criteria rather than socio-economic criteria. However, the socio-economic status of black students varies considerably across institutions. It is likely that many black students at the HAIs do not in fact qualify for NSFAS loans because they are not in need of financial aid. For instance, African students at UCT, are on average more affluent (or come from more affluent backgrounds) than African students at UFH. This can be seen in the respective proportions of students with negative EFCs, which is much higher at HDIs such as UFH, the University of Limpopo (UL) and WSU.

Given the close correlation between income status and academic success/high entry

[2] SAUS submission to the Ministerial Review Committee, August 2009.

(matric) qualifications, a large number of relatively affluent students are at HAIs where they have access to other sources of funding from their institutions and the private sector. The challenge is thus to obtain a more accurate volume of financially disadvantaged students.

At the hearings, the senior management of some universities expressed concern that they could not raise fees in the same way that some other institutions could. The current model assumes that HEIs will compete for the best academic students who can also pay the most in fees. In Committee interviews, we heard a vice chancellor say that even though his institution has among the highest fees, the rich are still being subsidised because they could afford to pay more.

If a racial target is imposed within this model as a proxy for past social inequity, we can expect institutions to fill that target by again seeking the best academic students with the ability to pay. If the supply of paying black students dwindles, alternative sources of funding are brought into the selection decision to make up the numbers prescribed in the equity targets Additional funding mechanisms, such as private donors or cross-subsidisation across the institution's student body, are also used. However, given institutions' differing capacity to self-fund the cross-subsidy, it is very difficult from a policy perspective to accurately determine what constitutes sufficient funding so that the ability to pay does not become one of the selection criteria for admission. The result is that academically eligible yet financially disadvantaged students are doubly prejudiced: firstly, when trying to access well-resourced institutions, if the NSFAS allocation model awards funding based upon the institution rather than upon the student's financial disadvantage; secondly, when the funding obtained is only partial and does not cover the full costs of studying. In the current system, both of these factors are present.

Table 3.3 shows the percentage of NSFAS students as a proportion of total enrolment by institution, at 12 HEIs. This could provide a broad proxy of need. The table shows that the figure is 48 percent at WSU and 44 percent at the University of Venda but 3 percent at US.

Table 3.3: NSFAS students in student population (%)

	2005	2006	2007
MUT	36	38	40
NWU	9	8	7
RU	9	9	10
UCT	9	9	10
UFS	7	8	9
UL	30	31	33
Unisa	5	5	5
UP	7	7	7
US	2	2	3
UV	49	48	44
UZ	32	33	37
WSU	44	44	48
Total	14	14	15

3.4 Topslicing: some for all or all for some?

As described above, the NSFAS award size is equal to the FCS minus the EFC. In determining the actual size of student loans, institutions fall into two categories. Some institutions, such as UCT and US, have adequate NSFAS funds for the relatively few students in need of financial assistance. They also have resources of their own to supplement NSFAS funds to ensure an award closer to the FCS to academically deserving students who need financial aid. Other institutions, such as UFH, WSU and UL, where demand far outstrips supply, spread the NSFAS allocation to as many students as possible by granting smaller awards to a larger number of students, in a practice known as 'topslicing'.[3] The current system, where NSFAS advises HEIs in advance of their allocation, instead of advising students of their successful loan applications, encourages topslicing.

This "some for all" rather than "all for some" approach at HDIs enables them to achieve the objective of creating access for black students who would otherwise not be able to study at university. But it raises the question of NSFAS's ability to enforce its own rules and regulations. Solutions to student funding problems, which have short-term benefits but negative long-term consequences, are negotiated between students and management. Historically, NSFAS has left these matters to be resolved at the individual institution level.

While there are advantages in allowing each institution to negotiate a solution that takes into account its own prevailing circumstances, there are a number of dangers in NSFAS operating without clear and enforceable rules and regulations. First among these is that in negotiating campus peace and temporarily solving the dilemma of financial exclusion, students and management may not take into account sufficiently that allocating funds on a "some for all" instead of an "all for some" basis results in all students being substantially underfunded. Underfunding does not enable students to succeed. Some students can overcome the impediment of underfunding by, for example, taking on part-time jobs. Others, especially students at rural institutions, cannot supplement their loans with part-time work as there are few part-time jobs available in rural areas. It is a cruel irony that in this use of NSFAS loans to inadequately fund many students, NSFAS contributes to a high dropout and failure rate among the very group for whom the scheme was set up to provide access to higher education – precisely the "revolving door" outcome against which the White Paper warned in 1997: poor students gaining access to the higher education system, but being unable to complete their studies, so being "revolved" back into poverty – in this case with the additional burden of a student loan debt - including unfunded institutional debt - they are unable to repay because they lack the qualifications to secure formal employment.

3.4.1 Views on the some-for-all formula

Institutions addressed this question in panel hearings and in the consolidated HESA submission, which stated that HESA was aware that "a solution to this conundrum is obviously not simple. While a significant boost in NSFAS funds from government and higher rates of loan recovery, would go a long way in resolving this issue, more systemic and structural solutions have to be found as well. HESA is of the firm view each individual institution should use its own discretion (within the ambit of the NSFAS eligibility criteria) to determine if there is a case for higher support levels for fewer students or lower support levels for more students."

The consensus among student leaders was that while the issue is a complex one, the only

[3] 'Top slicing' in this context is the mechanism used by HEIs to spread the institution's NSFAS allocation among as many students as possible.

viable solution is for government to substantially increase higher education funding and to provide sufficient funds to meet the increasing demand for student financial aid.

Chapter 4

Operations

4 NSFAS operations

This chapter describes the operations of NSFAS. These include its loan applications and loan agreement processing and management operations; debt repayment and collections operations; and the systems and procedures which support these core activities of the student loan scheme.

Three departments are involved in the operation of processing loan agreements, disbursement of loans through higher education institutions (HEIs) and debt collection: awards administration, financial services and customer care.

- The awards administration department has two functions: liaising with institutions and data capturing.
- The financial services department oversees financial compliance, accounts administration, debtor administration and procurement.
- The customer care department administers debt collections and runs the NSFAS call centre.

4.1 Awards administration

The awards[1] administration department receives and processes loan agreements from students who make applications for NSFAS assistance through the financial aid offices (FAOs) at HEIs at which they have registered to study. HEIs act as agents of NSFAS in terms of the NSFAS Act. However, this agency relationship is not governed by regulations in terms of the Act, which results in some institutions ignoring NSFAS requests in relation to the administration of awards.

Financial aid offices

FAOs which administer NSFAS loans are staffed by university personnel and not by NSFAS employees. The processing of NSFAS loan applications by financial aid officers employed by, and therefore accountable to, institutions has some advantages in that FAOs act as a one-stop shop to which students may apply for all types of financial aid and not just NSFAS loans. However, the disadvantage is that NSFAS does not have a direct relationship with the students to whom it lends money and students do not have direct contact with the entity from which they borrow tens, or even hundreds of thousands of rands. NSFAS also does not have a direct employer relationship with the financial aid officers who disburse its funds and it therefore cannot hold them to account.

The existing arrangement gives rise to tensions at some institutions as students object to having institutions as intermediaries between themselves and NSFAS. According to the South African Union of Students (SAUS), this arrangement allows institutions to determine policy on student financial aid from NSFAS, resulting in a lack of uniformity across institutions, with each institution deciding which students will get funds and to what extent they will be funded. “These offices must account directly to NSFAS and not institutions,” according to SAUS.

[1] Awards is the term used by NSFAS to describe loans and bursaries awarded to student applicants.

Borrower education

The arms-length relationship between NSFAS and its borrowers in the awards administration process also means that the opportunity to educate students on their rights and responsibilities as recipients of student financial aid is lost. As a NSFAS loan is probably the first access to credit that students have, there is an opportunity to educate them on the benefits and potential pitfalls of accessing credit and managing debt.

Registration fees

In addition, while students can now use their NSFAS loans to pay their registration fees – meaning that they can register without having to find the money themselves to pay the fees – the way this process is handled by institutions is neither consistent nor uniform.

The Committee heard that a number of institutions still insist that students pay registration fees, either in part or in full and amounting to several thousand rands, despite the NSFAS provision. The inability of NSFAS to regulate or monitor this behaviour by institutions contributes to student dissatisfaction with the scheme and must be addressed.

Annual applications

Lastly, the NSFAS system requires all students, including returning students, to apply each year for new loans. This appears to place an unnecessary burden on a system that is already creaking under the weight of the administrative challenges it faces.

4.1.1 Loan management

Loan management by NSFAS is criticised by the overwhelming majority of stakeholders as slow, cumbersome and inefficient. Institutions, FAOs and student representatives throughout the country told the Committee that the slow processing of loan applications and agreements, and delays in finalising institutional allocations and in transferring funds, has a negative impact on both students and institutions. Capacity and systems limitations within NSFAS are behind the length of time it takes for funds to be transferred to institutions.

These problems are exacerbated by the very long period which elapses between the beginning of an academic year (which is also the financial year for universities) and the payment of annual NSFAS allocations to universities, which creates serious difficulties for universities and students alike.

Universities told the Committee that they "only receive their first subsidy payments in April (presumably linked to the NSFAS financial year commencement date) and must operate on their own during the first three months of a year. The late transfer of NSFAS allocations to universities compounds this problem, especially for students and particularly as far as registration, accommodation, meal and book costs are concerned."[2]

The recent undertaking by NSFAS to make available up to 30 percent of an institution's allocation upfront will go a long way in resolving the problem for both institutions and students. In its submission to the Committee, Higher Education South Africa (HESA) recommended that this new approach should be formally embedded in the normal NSFAS processes and that consideration should be given to awarding an institution an upfront allocation of up to 50 percent of its average final allocation during the past five years. HESA

[2] HESA submission to Review Committee, August 2009.

advised that such upfront allocations should be accompanied by a minimum of paperwork required from institutions.

While the proposal has merit, NSFAS would have to make suitable arrangements to ensure the organisation was not exposed to undue risk by giving funds to institutions before loan agreements are finalised.

The different conditions attached to different funders, both public and private, which NSFAS has to process, also delay the transfers of funds to institutions, which is discussed in more detail in Chapter 2.

4.1.2 Processing of loan agreements

The Committee heard with some concern that NSFAS's processing of loan agreements does not meet good governance or audit requirements. In 2009, the NSFAS books were only closed in July for the March year end and the last Loan Management System (LMS) adjustments were made on 9 May. This is evidence of the impact that operations is having on the finance function and is one of the causes of the errors occurring in the finance function due to last minute and hurried adjustments. Reconciliations are compromised as a consequence and dual control might also be compromised, according to the chairperson of the NSFAS Audit Committee.

The processing of the loan agreement forms was a continuing challenge at the time of writing the review report, especially as the majority of institutions have met the target set for submitting 80 percent of their application forms for 2010 loans in 2009.

As at 16 October 2009, about 161 000 of the expected 200 000 forms had been received. Of these 74 percent had been processed, largely thanks to management's decision to transfer staff from the customer care and the data capture divisions to assist, including doing overtime and weekend work. However, this meant that data capturing and scanning did not keep pace with the processing and reconciliation of the forms, with only 52 percent of the processed forms captured and 26 percent scanned.

During the course of the Review Committee's inquiries, the NSFAS Audit Committee discussed the matter with management and extra scanners and temporary staff were brought in to address the backlog. However, this temporary measure provided only an emergency stopgap to the major problem NSFAS faces in processing an ever-increasing number of applications in an inefficient, paper-based LMS. The situation underlines the urgency of switching to an electronic system.

In the current data capturing cycle, the development of an electronic process by the information technology (IT) division has facilitated the reconciliation process and at the time of writing the report at the end of October 2009, 76 percent of the captured forms had been reconciled. In order to fast-track the data capturing process, it was agreed to capture electronically the basic student data, excluding addresses, where this was possible – currently 63 percent of the capturing backlog. This innovation speeded up the capturing and reconciliation process, with a completion target of end January 2010, thus enabling the financial statements to be finalised to coincide with the end of the financial year.

However, the capturing of the addresses and the document scanning process will be delayed and will only be completed in March 2010. This creates a potential risk as the forms will have to be kept in the head office building where storage is inadequate and there is no fireproof storage facility. Institutions in the Electronic Loan Application Form (ELAF) pilot programme are currently submitting electronic forms. However, because the system does not as yet have the required advanced electronic signature, forms are also being submitted in hard copy for checking, which adds to the workload and storage problems.

These inefficiencies have serious consequences for students who need financial aid. SRC representatives told the Committee that some students whose families were not able to contribute any money for their studies go without food for days at a time waiting for NSFAS loans to be processed. Other students end up living for periods in university libraries or other campus facilities because they cannot pay for accommodation, either in student residences or in private student accommodation, while they wait for their NSFAS loans. Staff members said they gave students money for food out of their own pockets. Meal schemes, some run by students themselves and supported through fundraising, exist on some campuses to feed hungry students.

This is an edited version of a letter sent by a student to the financial aid office of his institution in July 2009 and copied to the Review Committee. He pleads to be allowed into residential accommodation while NSFAS processes his application for a student loan....

> I am studying towards my National Diploma in Industrial Engineering in Johannesburg. Last semester I applied for NSFAS and was told the results of my application would be released at the start of 2nd semester on 13 July.
>
> On 13th, when I went to verify if my application was successful but I was told the Government had not yet granted the funds. I am pleading with you that in the meantime, while you are waiting for the funds from the Government, can you please write me a correspondence that I will forward to the student accommodation that I will be residing in informing them that you are still waiting for the funds and that you will pay my deposit and the monthly fee?
>
> I reside in Balfour, Mpumalanga and my major problem is transport expenses because it costs me R80 to travel to and from school. I could not be given my first semester marks because of the money that I still owe the varsity and now there is a high probability for me to drop our from school because my parents can no longer afford to give me the travelling fare as my mother is unemployed. I could not even attend tutorials and was regularly late for lectures and was forced to leave early before the taxis get finished. At one point I had to sleep at the taxi rank at Heidelberg because the taxis were finished. That meant that I have to sacrifice some of my lectures so that it does not come about again.
>
> This situation frustrates me because since the start of this semester I only came once at school, hopeful that the results of my NSFAS application would be out, but they were not. And the lectures are going on. I am left behind and can't afford to miss additional classes. I am in desperate need so please can you do that for me so I can move in and start with my classes while you wait for the funds?

4.2 Financial services

The financial services department at NSFAS includes the procurement, financial compliance and accounts functions. In turn, the accounts function includes accounts administration and debtors' administration. According to NSFAS data, since inception NSFAS has granted some R12,2 billion in loan finance. Even though the monthly cash flow on recovery of loans has grown to R45 million in 2009, the debtors' book is growing disproportionately with the acceleration of funding. The financial statements for the period ending March 2009 indicate loan recoveries since inception of R3,2 billion. This recovery equates to 26,2 percent of the book, including the 40 percent grant conversion.

4.2.1 Conversion of loans to bursaries

One of the most successful aspects of the NSFAS model is the provision that students may convert a portion, up to 40 percent, of their loan, on condition that they achieve certain academic milestones. These include obtaining minimum pass marks and completing studies within a stipulated period. The incentive to convert part of the loan was universally commended by all stakeholders as one of the most successful aspects of the scheme. However, submissions from institutions, financial aid officers and students complained that the benefits of the conversion were nullified by the high interest charges on NSFAS loans. Several proposed that the current conversion formula of 40:60 should be revised by gradually increasing the bursary component.

4.2.2 Credit management

The Committee found that growth in the NSFAS debtors' book requires specialised management and the drafting of an appropriate credit policy, supported by a credit committee under the jurisdiction of the board. It is questionable whether this function can remain in the financial services department under the chief financial officer. Credit management is a specialist function and NSFAS requires the appointment of a senior credit manager to head up such a function.

The current practice in relation to the recognition of interest accrued in the financials should be reviewed. The practice recognises accrual of all interest since the inception of a loan at the date of commencement of repayment of the loan. This resulted in a recognition of R590 million of interest income on student loans in 2008-2009, of which 67 percent was accrued and not received for the financial year.

4.2.3 Internal financial control

The Committee found that a number of factors are currently impeding the financial controls of NSFAS. This area is under-resourced and in need of additional management capacity. Urgent attention should be given in general to independent reconciliations within the finance function. Weaknesses in systems-generated allocations in the LMS have been reported from the external audit sample. Accounts receivable, accounts payable, creditor reconciliations and bank account deficiencies in reconciliations are further examples thereof. So too is the lack of due authorisation of investment reconciliations.

Many of the management responses to these problems cited lack of capacity and time at year end. It would be naïve to assume that quality assurance is not being compromised. In the medium term, better accounting integration between the LMS system and that of institutions will ensure better financial integrity and control and improved timing and reconciliation of loans and unutilised cash. A greater time buffer would go a long way towards assisting the finance team until the ELAF system is in place. So too, would the splitting out of the loan recovery process.

For the 2010 year, processes should be recalibrated to ensure earlier closure before financial year end. HEIs will require advance warning of these revisions. Overall procedural efficiency needs to be achieved in order to process timeously the increasing number of applications.

The Review Committee found there was a general blurring between what should be the discrete areas of governance and financial services at NSFAS. Contracting of a service provider resulted in unauthorised expenditure of over R1 million in 2008-2009 but disciplinary procedures in this regard had not been instituted at the time of writing the report. The Committee recognises that current staff are overstretched and that in order to handle the volume of loans being handled within the financial services function, at least until a new model is in place, a number of measures should be implemented, including:

- Reviewing all internal financial controls.
- Appointing a management accountant.
- Putting in place appropriate policies and strategies on the debtor's book.
- Setting up a specialised credit management unit.
- Integrating the LMS at institutions.
- Moving the final institutional claims date to the end of October from the current practice of closing claims in February of the following year.

4.2.4 Internal audit

The Committee heard that the internal audit capacity at NSFAS is facing constraints and that the audit committee has proposed that these should be resolved by outsourcing the internal audit of the NSFAS head office, in addition to the institutional audit, which is currently performed by a private service provider. In November 2008 recommendations were made for the outsourcing, and terms of reference for comprehensive audit services were advertised for tender. A year later, in October 2009, 17 prospective firms were briefed and shortlisted service providers were due to be interviewed in January 2010.

Consideration should be given to the appointment of a chief audit officer. King II (2002) dispensed with the notion of compliance-based, cyclical auditing and introduced risk-based auditing. The tone at the top of the organisation should include senior representation on the audit function, where matters relating to organisational risk and sustainability can be addressed with the CEO and other senior managers.

4.3 Customer care

The debt collection function falls under what NSFAS calls its customer care department. Currently the department has posts for 10 debt collections administrators and 10 call centre staff members who account to the customer care manager. This department tracks debtors and collects repayments from former students in terms of the special debt collection provisions of the NSFAS Act.

In 2008, the average amount collected per month was R41 million and in 2009 the monthly average is expected to rise to about R44 million. The concerns that the Review Committee had with the practices of the collections administration division of the customer care department are discussed in detail in the section on interest and debt recovery.

4.4 Information technology

The Review Committee found that governance of the IT environment at NSFAS is severely compromised and requires immediate remediation.

The IT infrastructure and systems are inadequate and despite various plans being in place to upgrade these, the plans have either not been implemented or have not been completed. The IT strategy developed in 2007 was not approved by the board and had not been updated at the time of the Review Committee's enquiries, in addition to which there is no tactical plan. NSFAS operates in the absence of documented information architecture and a technology infrastructure plan. The organisation does not have an IT steering committee, architecture review board or technology council.

The Auditor General's (AG's) most recent external audit drew attention to the inadequacies of governance of the IT environment; the absence of governance structures is highlighted in the AG's report.

The Committee found that the LMS is a proprietary system to NSFAS and the lack of change management protocols means that NSFAS is not only exposed to business and continuity risk, but also to fraud. A major shortcoming of the current IT system is that it is primarily a debt tracking system and not an information management system. Even though a large amount of data is collected in the system, it cannot be efficiently accessed or analysed.

The planned ELAF has not been fully implemented as planned, despite some success in the pilot phase at a limited number of institutions in 2008 and 2009. NSFAS management told the Committee that in terms of the Electronic Communications and Transactions Act (Act 25 of 2002), the ELAF system cannot be rolled out to all institutions and fully implemented (without having to duplicate the electronic signature with a paper form) until the advanced electronic signature registration process is finalised. The delay in this is reportedly due to the fact that a specialist committee has yet to be established by the Department of Communications (DoC) to verify and approve such applications for registration. In addition to the delays in finalising the electronic signature issues, direct consultation with the heads of institutions about the implications of this system had not taken place at the time of compiling the review report. This must be planned, and the necessary budget provided, for the full roll-out of the system. NSFAS recognises that a project plan indicating timeframes, budget and other aspects of implementation needs to be developed in collaboration with the HEI management and not only with FAOs.

The Committee found that the departure of key staff members had exacerbated the situation in the IT department. The committee noted that management has taken some steps to address these problems, and in 2009 NSFAS implemented a contract with the State Information Technology Agency (SITA) to improve its IT capacity and operations. It is apparent that urgent attention is needed in this area, including, but not limited to, a review of the robustness and scalability of the LMS to support long-term architectural development and expansion.

4.5 Resources management

The resources management department includes the human resources management and office administration functions. It is headed by the human resources manager. The NSFAS staff complement has expanded significantly since the inception of NSFAS in 1999. The number of staff members has increased to 97 in the past few years as a result of the growth of the scheme and the incorporation of bursary administration for further education and training (FET) colleges in 2008.

4.5.1 Physical infrastructure

NSFAS has a national head office in Cape Town but no provincial or regional offices. The head office is a converted residential house on five stands at 18 Court Road in the suburb of Wynberg. The house was purchased by NSFAS in July 2003 for R4 million and renovated to accommodate additional office space for an additional R472 000.

Initially the premises were considered adequate to meet the organisation's need to accommodate fewer than 30 staff members. The premises now accommodate 97 or more full- and part-time staff members in conditions that are unsuitable for a large staff., The office accommodation is cramped and inappropriately configured for an organisation of the size and nature of NSFAS.

During the Committee's visit, cardboard boxes containing loan agreements and other documents were stacked in passages, offices and common areas. It came as no surprise to hear from HEIs, colleges, FAOs and students that batches of loan forms go missing or simply cannot be found at the NSFAS head office, causing hardship to students who are waiting for approval of their loans in order to pay for tuition fees, board and lodging and books.

According to the NSFAS Audit Committee, the premises are inadequate for the organisation's needs and do not meet the minimum safety, security, storage or accommodation requirements of NSFAS.[3] The building does not have storage facilities for the documents generated by the paper-based, manual system NSFAS uses for its loan administration, and loss of documents by fire or theft poses a risk. This has been recognised as an urgent priority by NSFAS. In the 2009 Annual Report, the outgoing CEO refers to the increased volume of work being undertaken by NSFAS and states: "While the need to expand the NSFAS operations is clear, the opportunity to do so is restricted by the physical conditions under which we work. Far larger premises are crucial to allow for this expansion."[4]

While there is merit in the argument that NSFAS should move to larger premises, due consideration should be given to the other far-reaching changes which are recommended in this report before premises are acquired to meet the current accommodation needs of the organisation. It would be unwise to move to new premises based on the current operational needs when these could change if new policies and systems are put in place.

One consideration is whether NSFAS should continue to operate only on a centralised basis from a head office or whether it should establish regional or even local offices. The Committee received proposals from a number of sources proposing decentralisation of the NSFAS infrastructure. Some submissions proposed the establishment of NSFAS offices on all campuses, while others wanted NSFAS regional or provincial offices to be established to facilitate contact between NSFAS staff members, students and FAOs at institutions. The advantages and disadvantages of each of these proposed structures were weighed against

[3] Information provided by Audit Committee chairperson.
[4] 2009 Annual Report, p5.

practical considerations relating to legislative amendments, budgets, human resource requirements and infrastructure.

In terms of the NSFAS Act, financial aid officers who handle NSFAS loan applications are currently on the payrolls of colleges and universities. They administer all student financial aid, including NSFAS loans, from campus offices. Student organisations called for NSFAS personnel to be deployed on campuses and for a direct relationship to exist between student borrowers and NSFAS as the lender of public funds, without the intermediation of university-employed financial aid officers. Students said they did not want institutional management to be involved in their financial affairs.

The Committee does not support the establishment of NSFAS offices on every campus at this time. The challenges of expanding NSFAS to include campus offices and staff would outweigh the benefits in the short-term. Once the proposed new models have been implemented, the matter could be reconsidered if necessary.

The Committee's proposed new model is explained in Part 3 and proposes the establishment of a NSFAS head office in close proximity to the DHET head office in Pretoria, supported by four regional offices in the Western Cape, Eastern Cape, Free State, and KwaZulu Natal. In addition, the model proposes the establishment of a Central Applications Process, phased in on a regional basis, which could incorporate financial aid applications.

4.6 Research and policy

The research and policy department was established in August 2008 and incorporates the information services function. It is staffed by a research and policy officer and two information analysts, with the post of assistant information analyst vacant at present. The department had been in existence for 10 months at the start of the review and had focused its resources during that period on research and not policy development.

The NSFAS information system is primarily a loan and debt tracking system and is not designed to be a comprehensive information management system. The Committee found it difficult to access data and experienced numerous difficulties in obtaining reliable information from the NSFAS system. NSFAS collects a large amount of data that could be useful to education policymakers and planners if used in conjunction with HEMIS and other data generated in the department and elsewhere.

4.7 Communications

The Review Committee heard from institutions, FAOs and students throughout the country that few prospective students know of NSFAS before they arrive on campus. Many students who qualify for financial aid only learn about NSFAS from fellow students when they stand in line for registration at the beginning of the academic year, not knowing how they will finance their studies. The common view is that the NSFAS message is not communicated effectively and that a concerted effort should be made to inform prospective students before they arrive at university that funding is available through NSFAS for qualifying applicants.

In an effort to meet the challenge of informing students, a communications and development department was established in mid-2008. It is staffed by a manager, an administrator and two communications officers, one of whom has been appointed. The communications officer is responsible for visiting schools, non-governmental and community organisations, career guidance shows, university open days and the like to disseminate information about NSFAS and the availability of student financial aid. NSFAS produces brochures and posters to distribute through these channels. It also sends boxes of brochures to high schools but staff complained that schools often do not distribute the brochures to learners, leaving the boxes unopened. A focus of this department's work is liaising with the NGO partners who recruit students who qualify for NSFAS loans.

While the recent effort to improve NSFAS communications must be commended, the Committee questioned the strategy of establishing a small department within NSFAS to deal with the organisation's major challenge of communicating effectively to prospective students the availability of student financial aid. These prospective NSFAS students are in approximately 6 000 public high schools located in every province. Designing an effective communications strategy targeting teachers and learners in public high schools would be a more efficient, effective and cost-effective intervention. A more targeted approach should be planned and implemented in collaboration with the DHET, Department of Basic Education (DoBE) and other stakeholders.

While the issue of the preparedness of school leavers to enter higher and further education falls outside the terms of reference of the NSFAS Review Committee, it is necessary to record in the examination of the effectiveness of NSFAS's marketing and communications, that a number of submissions identified the absence of career guidance at high schools as contributing to the problems faced by entrants. Many school leavers have not had the benefit of career guidance or testing and arrive at universities and colleges requiring not only financial aid but also guidance as to which academic course might best suit their interests, abilities and ambitions. NSFAS provides financial aid but is not involved in assessing whether students have prospects of academic success. Admission and registration are the sole prerogatives of HEIs. The Committee was of the view that education authorities should address the provision of career guidance at high schools as a matter of some urgency to ensure that all school leavers are equipped to make informed decisions about opportunities for higher and further education and training.

The involvement of this department in what NSFAS calls "development", and the participation of its staff in the board's newly established development committee, raised questions about the advisability of spreading the department's meagre resources even more thinly. The development label appears to be a euphemism for fundraising from the private sector, an area of focus favoured by the current board. This initiative has apparently had little or no success. According to the 2009 Annual Report, the development committee failed to meet even once during the year and raised no funds.[5]

4.8 Academic support

Many students' dreams of attaining a university education are shattered when they drop out for any of a number of reasons. NSFAS statistics show that up to 72 percent of students who have received NSFAS loans and are no longer studying left without completing their qualification/ programme. Students who receive NSFAS come from the poorest families and are likely to have attended the poorest schools. . The reasons for the high dropout rate are multiple and complex and relate both to the provision of financial aid and to other factors.

[5] ibid, p48.

The Committee heard from institutions, financial aid officers, students and NGO support organisations that one of the factors that contributes to the high dropout rate among students receiving financial aid is a lack of academic support. Many students in this group are likely to be the first in their families to study at university and may need other forms of support in addition to financial aid. NSFAS does not offer support other than financial assistance, despite evidence from student support organisations that financial aid students who receive academic support are able to achieve better success rates than other students drawn from the same cohort.

A number of NGOs involved in promoting access to education in South Africa, such as the Association for Educational Transformation (ASSET), StudyTrust, Rural Education Access Programme (REAP), Ziphakamisa and Ubuntu Education Fund, have proved that offering academic assistance and mentoring to the students they support improves academic performance. NSFAS contributes small amounts of funding to such organisations. In 2008, NSFAS funded 22 NGOs and through this initiative 434 students received financial aid.

The Committee conducted a focus group with students who are part of the REAP programme and was impressed by the support given to students from rural areas who are studying in Cape Town. The students came from public rural schools in Limpopo, KwaZulu Natal, Eastern Cape and Northern Cape and were studying a variety of courses, ranging from law to chemical engineering and environmental management. None would have been able to afford to attend university, much less in faraway Cape Town, without NSFAS support. The students themselves identified the academic and other support that they receive from REAP as a major factor in their academic progress and success. They regard mentoring by senior REAP students as playing a vital role in academic support.

There are various ways in which more support could reasonably be provided to NSFAS students in order to improve success and graduation rates. For instance, all first- and second-year NSFAS students could be allocated to a successful senior NSFAS student, probably someone at third- or fourth-year level, for the purpose of coaching and mentoring. In return the senior student could get a discount on her or his commitment to NSFAS. On a practical level, the only way that this could be implemented on the scale required to have a positive impact on the overall performance of NSFAS students would be through institutions. There is a strong argument to suggest that NSFAS funding should be linked to compulsory provision of support and mentoring of financial aid recipients by institutions.

4.9 Unutilised funds

A vexing question for both students and NSFAS oversight structures in recent years has been the issue of unspent or unutilised funds. To many observers there appears to be no reason for NSFAS having unspent funds at the end of the year when it is well known that demand for student financial aid far exceeds supply. At the time the Committee commenced its work, the matter of unspent NSFAS funds was being examined in Parliamentary Portfolio Committee on Higher Education and Training hearings. During this process, it became public knowledge that R38 million in NSFAS funds had been unutilised in 2008.

There are a number of reasons for the apparent inability of NSFAS to spend all of its funds and these have been factored into the Committee's considerations and recommendations.

One of the causes for NSFAS having unspent funds is that it is often too late to reallocate funds at the time when a loan is not taken up. Students may decide not to accept a loan which has been granted to them for any number of reasons. For instance, a student may apply for, qualify for and be granted a loan by NSFAS, but then decline to sign the credit agreement to accept the loan because since making the application, he or she has been granted a bursary which pays for all tuition, living, books and other study costs. In this case, the institution may reallocate the loan if the student has not signed the credit agreement. But if the student has signed the agreement, the HEI has no choice but to cancel the agreement and return the funds to NSFAS. Returned funds may reach NSFAS too late in the year for reallocation to other institutions, leaving NSFAS with unspent funds. In some cases, loan processing may take so long that students drop out before receiving the loan.

Demand for free education, not loans

The Committee also heard reports that on some campuses in 2009, students refused to accept NSFAS loans because of national general election campaign promises of free higher education. In the words of one HEI manager: “Our students are very politicised, so whatever government says is taken very seriously. What happened was that as soon as there was noise of free education, they refused to take up NSFAS. Why take a loan if there are promises of free education? We had to meet with them in January to say that they had no other option to get into the university. You had to go and beg them to apply for NSFAS.”

Late government allocation of additional funds

In other cases, unspent funds may be the result of late allocation of funds to institutions. In the latter half of 2008, Government made an additional grant of R39 million to NSFAS. This was admirable in that it was an attempt to assist students at institutions that had ‘top sliced’ loans at the beginning of the year in an effort to stretch inadequate funds to as many recipients as possible. However, by the time the additional R39 million was distributed few students wanted to take out loans, so the money had to be returned as “unspent funds”.

Return of unspent funds in student accounts

NSFAS also requires institutions to return any funds that students have not spent. As one financial aid officer told the review: “NSFAS does not want us to put cash in students’ hands. If there is a credit, the money has to go back.”

Conclusion

While NSFAS does not allow universities to freely reallocate funds from one student to another, even if the second student qualifies for a loan and is in dire need of financial aid, it is unlikely that the drafters of the Act intended for funds to be returned unspent each year. NSFAS stakeholders expressed frustration that they are bound either by NSFAS rules or by inefficiency that does not allow for optimum use of the funds.

In order to minimise the unspent allocations that institutions have to return to NSFAS, it is necessary to be able to identify unutilised funds at an early stage so they can be redirected to other institutions which need them. The solution to this problem is not just a new IT platform, but also the strategic relationship between NSFAS and institutions. In an effort to remedy the problem, in 2009 NSFAS put in place a number of measures to improve liaison and turnaround times and prevent the accumulation of unspent funds. The NSFAS management and board need to monitor the utilisation of funds more closely to ensure that funds can be timeously reallocated and spent.

4.10 Loan regime

The term 'loan regime' is used to describe the principles and policies, structures and processes which inform NSFAS's loan granting, administration and recovery practices.

4.10.1 Performance

NSFAS's primary performance assessment must necessarily be on the basis of the two main objectives set out in the Act and the White Paper: achieving access to higher education by poor and historically disadvantaged students; and contributing to the skills needs of a modern economy. Loan recovery activity is a subsidiary, contributory function. Performance in this area must therefore be assessed in the context of the primary objectives.

NSFAS currently has 256 258 NSFAS borrowers on its books in addition to the 153 596 borrowers still studying and therefore ineligible to begin repayment. According to the 2008 Annual Report, it has collected R1,8 billion in loan principals and interest from R9 billion in loans granted (approximately 20 percent). The 2009 collections estimates provided by NSFAS put the collections at R3,2 billion (or 26 percent) of the loans total of R12 billion.

These proportions indicate a loan recovery broadly aligned with expectations. Hidden subsidies limit the total potential recovery which under optimal conditions is approximately 50 percent. Combined with a dropout or termination rate of about 70 percent, this creates an expectation of approximately 20-25 percent. The reported recovery range of between 20 and 26 percent is thus broadly in line with expectations. The dropout and non-completion rate is, however, a cause for concern and indicative of a systemic problem elsewhere in the NSFAS operation.

There are, in addition, issues of major concern in NSFAS's loan regime which need to be addressed as a matter of urgency. The Review Committee has identified a number of practices in NSFAS's interest calculation and loan recovery processes which are questionable and which appear to artificially inflate the recovery ratio, and which indicate that the actual recovery ratio in circumstances of full legal and regulatory compliance would be below 20 percent. These practices could materially affect the reported value of NSFAS assets, notably the value of its loan book, which is R10 billion.

The problems have partially arisen from a long-term failure of governance in NSFAS, in terms of which the board has not provided a coherent and comprehensive policy framework. In the absence of this framework, a *de facto* body of policies and practices have evolved, drawing largely on outsourced legal interpretations and memorandums. Aspects of NSFAS's loan recovery practices do not flow from the Act or, in the absence of direction from the Act, from the White Paper and the DoE Framework which sets out the government's policy direction and intentions as the framework within which the Act is set. Instead, they are based on a flawed concept of maximising returns to create a "revolving pool" of funds with a recovery target that would "offset the ravages of inflation". The effect of this has been to distort many of the operational practices of NSFAS.

4.10.2 Interest

NSFAS's interest regime impacts significantly and directly on its loan recovery regime in several ways, among them:

- Increasing the total debt (the principal loan plus interest accumulated over the term of the loan until its repayment) to the extent that the value of NSFAS's loan book is inflated.
- Extracting from those who repay more in accrued interest than NSFAS is entitled to demand.
- Encouraging "recovery" from predecessor borrowers and others whose debts are unenforceable.

Among the few actual policy interventions by the board has been the annual setting of the interest rate. Even this has not been without contention. The setting of interest levels for NSFAS loans at rates of interest based on the Repurchase Rate of the Reserve Bank and usually 3 percent below the rate charged by commercial banks was widely lauded in submissions to the review as one of the strengths of NSFAS. However, the claim by NSFAS that its rate is 80 percent of the Repurchase Rate is incorrect. During the review, the Repurchase Rate was 7 percent but the NSFAS rate was 7,6 percent. The practice of setting its interest at 80 percent of the Repurchase Rate, introduced only in 2008, was abandoned in early 2009 due to the disruptions for NSFAS's internal data system of frequent rate fluctuations.

Beyond the annual rate setting by the board, NSFAS's *de facto* policies on interest and on other aspects of its loan recovery regime are drawn primarily from legal interpretations, memorandums and two operating manuals, namely the *Debt Recovery Manual* and the *Financial Aid Office Manual*. The interpretations are in some instances based on selected court judgments, despite the fact that some of these have been overturned on appeal. These interpretations and selective use of legal precedents has resulted in contentious practices in general use by NSFAS:

- Some borrowers have paid interest accrued in breach of the *in duplum* rule, or have been otherwise disadvantaged by its imposition – through blacklisting with credit bureaus and so on.
- Similarly, borrowers whose loans have prescribed have been charged and invoiced for interest on money they do not owe.
- Key aspects of NSFAS's interest-rate policy can be interpreted as conflicting with the affordability imperative in the NSFAS Act:
- The practice of running interest from 1 April of the year in which a loan is granted, rather than the date on which the funds are transferred to the relevant HEI (a significant cause of tension among NSFAS students) derives from the de facto policy imperative to maximise return to create an unachievable "revolving pool".
- The practice of charging and compounding interest monthly throughout the period during which students are studying.
- The contention that the common-law *in duplum* rule does not apply to NSFAS loans and that the statutory rule, forming part of the NCA, does so only in limited circumstances.

A consequence of this approach to the *in duplum* rule, is illustrated by the impact it has had on predecessor borrowers. According to NSFAS statistics, predecessor debtors have collectively paid off R54 million (38 percent) of their combined principal loan amount of R143 million, but they still owe R581 million, or more than four times their original loan total.

NSFAS asserts that it is performing a public good, and by its very nature, cannot exploit. This argument is based in part on the Durban High Court judgment in the case of *Verulam Medicentre (Pty) Limited v Ethekweni Municipality*. The Committee established that the judgment was overturned by the Supreme Court of Appeal and thus the NSFAS practice is based on a finding with no standing in South African law. Overall, the Committee found that the approach to interest followed by NSFAS is flawed and should not form the basis of activities by a public entity.

4.10.3 Loan recovery

NSFAS's loan recovery regime has been similarly affected by the absence of a codified and comprehensive policy-and-practice framework.

The NSFAS Act allows it to issue extrajudicial garnishee orders[6] to employers of NSFAS borrowers, compelling them to deduct repayments on behalf of NSFAS. On the advice of its legal adviser, NSFAS continues to make use of this power in terms of Section 23 of the NSFAS Act, despite having obtained Senior Counsel legal opinion as far back as 2001 that it "offends against the Constitution". Counsel had "little doubt that the provision would be held to be unconstitutional" if tested in the Constitutional Court. The continuing use of the Act's extra-judicial garnishee orders, even though NSFAS has been aware since 2001 that this is probably unconstitutional, puts the fund at risk.

NSFAS also continues to seek repayment from borrowers whose loans have prescribed, that is, where repayment can no longer be legally enforced. If NSFAS were to approach the courts to try to recover these debts, it is possible that the courts would award costs orders against NSFAS.[7] Based on advice from its legal adviser, NSFAS's approach is to avoid entirely having its practices tested in court by immediately dropping claims against debtors who intend to challenge NSFAS in court..

The National Credit Regulator (NCR), the body responsible for implementing the NCA, made submissions to the Review Committee dealing with National Credit Act compliance by NSFAS. In interviews with the Committee, the NCR was unequivocal in contesting NSFAS's interpretation of its rights and responsibilities as a credit provider. All NSFAS loan application, granting, management and recovery operations should be compliant with the NCA and NSFAS should operate in terms of NCA-compliant policies and procedures. The NCR agreed fully with the Senior Counsel opinion provided to NSFAS in 2001 that parts of the NSFAS Act are probably unconstitutional. The NCR advised the Committee that NSFAS could face prosecution if it was found not to be compliant with the NCA. See Appendix 5 for the NCR submission.

NSFAS loans are income contingent: they become repayable once a borrower is employed and earning above a level set by the board. Initially this level matched the minimum level set by National Treasury for employees to begin paying personal income tax. Over the decade of NSFAS operations, the National Treasury raised the minimum personal taxation income level from R26 400 to R54 000, but the NSFAS Board did not follow suit: the current National Treasury minimum is R4 500 a month, while NSFAS borrowers have to begin repaying at R2 500 a month – 45 percent below the 2009 taxation threshold.

[6] Also called emoluments attachment orders.
[7] NCR submission to the Review Committee.

The NSFAS Act allows NSFAS to blacklist delinquent borrowers. With the introduction of the NCA in 2007, NSFAS removed all blacklisted borrowers. It resumed blacklisting borrowers shortly thereafter and by 2009, the number of blacklisted NSFAS borrowers had climbed to 10 000; NSFAS statistics show half of these are blacklisted for legally unrecoverable, prescribed predecessor loan debts.

The Committee found that the combined effect of these interest and debt recovery practices is to erode the benefits for many former students of the low interest rate and of the academic incentive 40:60 loan-bursary conversion. It is likely they have also resulted in an overstatement of the value of NSFAS's loan book.

4.10.4 Revaluation of NSFAS loan book

It is not possible to establish with any precision what the impact would be on the loan book and of future revenue projections if NSFAS were to change its practices regarding interest to comply with the NCA, or if policy were based on government objectives instead of being in conflict with them. However, compliance is likely to require retrospective adjustment of interest accrued on some categories of loans and would inevitably cut the value of the R10 billion loan book. The loan book should be revalued in the current financial year to ensure that, if necessary, an accurate valuation is included in reports to oversight authorities.

Chapter 5

Experiences

5 Experiences of the National Student Financial Aid Scheme

The Review Committee held panel interviews with most of the 23 universities and 50 further education and training (FET) colleges. Hearings were held in Limpopo, KwaZulu Natal, Eastern Cape, Western Cape, Free State and Gauteng. Representatives of institutions in the Northern Cape, North West and Mpumalanga participated in sessions in Western Cape and Gauteng respectively. The Committee heard the views of representatives of three constituencies: higher education institution (HEI) management, financial aid offices (FAOs), and student representative councils (SRCs).

While both HEIs and students value NSFAS and recognise that NSFAS financial aid creates access for students who would otherwise not be able to afford higher education, its operations do not meet the needs or expectations of those it is designed to serve. This sentiment was expressed repeatedly in written submissions to the Committee and in interviews with a wide variety of interested and affected parties in all parts of the country.

The Committee found that in some cases, representatives of the same constituency within an institution had widely divergent views on the same issue. For example, we found that in the same university, student leaders from one campus, a historically disadvantaged institution (HDI), had diametrically opposed views on issues of access, equity and free education and the role that NSFAS should play, to students from another campus, a former historically advantaged institution (HAI). This divergence of views within a single institution was most marked at HEIs where resources at different campuses within one institution vary significantly, as is often the case at merged institutions where a well-resourced HAI campus exists alongside a HDI campus with poor infrastructure and limited resources.

In this chapter, the Committee has drawn out the general themes in relation to each constituency's experience of NSFAS. For the purposes of this report, the variances within the same institution, or within the same constituency, are not amplified.

5.1 Higher education institutions

The Committee received submissions from 22 of the 23 universities in the country and wishes to express its gratitude and appreciation to the institutions for their participation in the review process. Despite the short time period within which submissions had to be prepared, most were the product of internal consultation processes within the institutions between management, FAOs and SRCs. The Committee also engaged with several vice chancellors and other members of senior management during its regional hearings.

In addition to individual institutional submissions, the Committee received a detailed submission from Higher Education South Africa (HESA), which represents the management of the 23 HEIs in South Africa. The committee also considered the HESA submission to the Parliamentary Portfolio Committee on Higher Education and Training, presented during the course of the review.

HESA commended the government for its foresight in establishing NSFAS in 1996 and for its commitment to the financial strengthening of NSFAS thereafter. According to HESA, through NSFAS, "Government has made an inestimable contribution to the high level development of our country's human potential, and specifically to those students coming from economically impoverished backgrounds who otherwise would have been denied these development opportunities."

HESA said: "Despite the challenges facing NSFAS, HESA firmly believes that it represents an undoubted policy and implementation success of the post-1994 Government."

HESA recognised that the NSFAS Review was taking place in "arguably the most severe worldwide financial downturn for the past 40 to 50 years, which is not leaving South Africa, including our HE students, untouched". HESA also recognised that the review "forms part of Government's commitment to a renewed emphasis on socio-economic development in our country - particularly aimed at improving the prospects of the poor in South Africa - as shown through its five-fold set of policy priorities for the next five years".

HESA stated that: "Universities in South Africa, within the framework of their mandates as high level educational institutions, pledge their support for Government's developmental objectives. They also commit themselves to do whatever they can to lessen the effects of the negative financial climate, particularly for students and more specifically for poor students, in which we find ourselves at the moment."

HESA acknowledged that the NSFAS Review was informed by recent higher education funding trends and more specifically by institutional income trends: "While special earmarked allocations for specific higher education (HE) initiatives such as Government's programme of restructuring the institutional landscape through HE institutional mergers and incorporations, and grants mainly for infrastructural improvements aimed at enhancing the quality of teaching and learning at our universities have been made during the past number of years, universities have found it increasingly difficult to cover their normal running costs. This has mainly arisen due to the fact that the allocations by Government for running costs (the so called 'block grant' in the HE funding framework) have not been able to keep pace with inflation and have, in fact, decreased in real terms since 2000.

"This has pressurised universities to increase income from other sources such as student tuition fees and income from contract research, endowments, commercialisation of intellectual property, sales of goods and services (such as short courses), etc. At present roughly 40% of all income for universities is from Government subsidies (down from 49% in 2000), about 29% from student tuition fees (up from 24% in 2000), and about 31% from private income (up from 27% in 2000).

"Clearly these figures show that, in order to survive financially, universities increased their share of income arising from student fees and from private income. Both these strategies have potentially negative consequences: Increased tuition fee levels have contributed to placing HE out of reach for academically deserving, but poor students; and pursuing increased private income can sometimes jeopardise the core functions of learning/teaching, research and community service of universities."

5.1.1 Fee regulation and free undergraduate education

HESA told the Committee that in response to these funding developments, it had published a report in 2008, which found that "the development of nationally regulated tuition fees would not be advisable. Neither would it be advisable to move towards a system of free undergraduate education."

According to the HESA report: "Free HE is available in a rapidly diminishing number of countries as most governments (even in developed countries which previously offered free undergraduate education, such as Germany, but do so no longer) grapple with the increasing costs of other competing social services. Obviously South Africa, as a developing country, in any event could not afford such a system which in a country with highly unequal income patterns, would benefit the wealthy as much (and possibly more) than the poor."

HESA advised the Committee that payment of tuition fees had to be seen against the background of the private benefits that individual students derived from their studies. These usually enable a student to earn more than a person who does not have a higher education. "Clearly, society at large also benefits from the higher education studies of an individual - the so-called public benefits. Tuition fees represent an attempt to quantify the value of these two types of benefits in financial terms during the course of a student's studies."

In HESA's view, "the problem of the poor student in paying tuition fees is in essence a 'cash flow' problem which they experience during their undergraduate study years as they will, on the average, enter the higher income earning groupings once they have completed their studies. At the risk of over simplification, the present poor student is also the future more affluent citizen. One of the most effective ways of solving such a cash flow problem is not by centrally regulating tuition fees and driving them to lower levels, but by instituting a loan scheme linked to incentives in order to reduce loan amounts and linked to a system of recovery of loans - exactly what Government has done with the establishment of NSFAS."

HESA commented on other issues raised in the Committee's terms of reference as follows:

- Loan recovery and replenishment of NSFAS funds – NSFAS has built up a good basis for at least partial sustainability, through its loan repayment systems. Better use can probably be made of agencies specialising in the tracing of student debtors and the collection of student debt.
- Tried and tested administrative and accountability procedures – HESA suggests some improvements on "NSFAS's already high levels of administrative efficiency, the establishment of tried and tested administrative processes and procedures is an important factor in the public and private sector's confidence in NSFAS as a fund allocating body".
- Some weaknesses of NSFAS:
  - Delays in finalising institutional allocations.
  - Very long period elapsing between the beginning of an academic year and payment of annual NSFAS allocations to universities.
  - Finalisation of loan agreements between students and NSFAS as facilitated by the institutions is too time-consuming and the process is too cumbersome.
  - Inadequacies in existing institutional allocation formula.
  - Means test should be fundamentally reviewed or overhauled, including threshold and EFC values.
- Each HEI should use its own discretion (within the ambit of the NSFAS eligibility criteria) to determine if there is a case for higher support levels for fewer students or lower support levels for more students.
- HESA strongly supports the present incentive based approach whereby students can convert up to 40% of their loan into a bursary and wishes to see this aspect strengthened, phased in over a period of 3 to 5 years. HESA does not support the outright giving of bursaries by NSFAS to undergraduate students.

- HESA believes that considerable additional funding for assisting poor students could be drawn down from the private sector on the basis of NSFAS's impressive track record as an agent of such funds.
- The considerable amount of funding held by SETAs through the National Skills Fund could be used very effectively in addressing our country's skills shortages, if a portion of this funding could be channelled to NSFAS or at least, set aside for administration by NSFAS, for FET College and HE students.
- HESA does not advocate linking NSFAS loans to specific priority fields of study to any greater extent than is the case at present.
- HESA does not, in general, support any extension of NSFAS services to not-for-profit private HE providers.
- HESA believes the current practice of blacklisting of non-loan repaying students is appropriately conducted and would not support a drastic step such as doing away with it altogether.
- HESA advocates a significant speeding up of processes aimed at establishing a greater e-based administrative platform by NSFAS.
- NSFAS - HEI interactions should be significantly strengthened as many HEIs feel that NSFAS staff members do not really have a grasp of what financial aid offices have to go through in compiling loan agreements that will pass muster, or how psychologically taxing it is to deal with students day after day who are in financial straits.
- HEIs and NSFAS should explore ways of providing more effective training for staff in financial aid offices.
- NSFAS media and public communication needs to communicate its services more effectively to prospective students.
- On NSFAS's governance and management arrangements, HESA recommends that:
  - The composition of NSFAS's board should reflect expertise and experience in the complex fields of university funding, student financial aid, broader student issues, and administrative and financial management.
  - Preferably all staff, but at least senior NSFAS staff, should be subject to regular and formal performance appraisal linked to appropriate incentives and disincentives.

5.2 Institutional managements

In addition to HESA's points, institutional managements elaborated on their individual submissions during the Committee's panel hearings. All expressed appreciation for NSFAS funds which one university described as providing "life-changing hope" for thousands of students, but all equally expressed concern at NSFAS's operational inefficiencies.

A clear pattern emerged during these interactions: HAIs, while not totally satisfied, are relatively happier with the performance of NSFAS than HDIs. There appear to be two reasons: firstly, HAIs are better resourced and therefore rely less on NSFAS. With their better-equipped and resourced financial aid and institutional offices, they can make greater allowances for NSFAS's inefficiencies without compromising the institution or its students. For example, HAIs in the Western Cape and Gauteng have many more resources of their own to fall back on, even temporarily, when NSFAS turnaround times for processing loans stretch from 30 to 60 days or even longer. HDIs in the Eastern Cape or Limpopo do not have this luxury. These institutions have limited first and second stream income, little or no third stream income,[1] and are more dependent on NSFAS. Their capacity, and that of their students, to accommodate slow turnaround times from NSFAS, or for all 200 applicants in a NSFAS applications batch to have to wait while NSFAS rejects the whole batch because there is a minor mistake on one form in one application, is understandably limited.

The institutional submissions covered the following points about the NSFAS shortcomings:

5.2.1 Inadequate funding

Every institution experiences significant shortfalls in the amount of funding that they need from NSFAS to meet the current demand for student financial aid. Overall the funding shortfall amounted to an estimated R2 billion in 2009, with individual institutions reporting shortfalls of up to R45 million a year.

5.2.2 Ring-fenced funding for teacher education depletes general NSFAS funds

HEIs reported that the ring-fencing of teacher education funding is problematic as the allocation model results in consistent underfunding. For example, at one HEI in 2009, 675 students registered for the Bachelor of Education degree. Funding these students at the 100 percent level (as assessed by NSFAS) would have required more than R20 million; funding at the 86 percent level required R17,278 million. The total ring-fenced funding provided by NSFAS was R13,636 million. The R3,6 million shortfall had to be funded from general NSFAS funding, further diluting funds available for other students.

5.2.3 Income threshold

The current NSFAS income qualification threshold of R122 000 per annum leaves a large cohort of students excluded from access to NSFAS financial aid even though their families cannot afford to fund their studies. These unfunded students are not from the poorest families but are typically children of civil servants, teachers, police officers, municipal workers and self-employed small business owners.

5.2.4 Misrepresentation of financial status by students and parents

Institutions do not have the legal capacity to verify information on family income provided by students and their parents. They do not have access to the government data on family size and income status that is available to NSFAS, which can access South African Revenue Services (SARS) and other government data.

5.2.5 Residential accommodation

Many students opt to live in residences, especially those from rural areas or those who have to travel long distances to attend classes. All universities and colleges have a shortage of residential accommodation and students are forced to live in private accommodation off campus. Some institutions can accommodate only 10 percent of students requesting accommodation on campus. There is pressure at all HEIs to expand residential accommodation but there are inadequate funds. In this context, it is anomalous that the NSFAS means test allocates less money for off campus accommodation, even though it is generally more expensive to live off campus than to live in fully catered student residences.

[1] For an explanation of first, second and third stream income see Section 7.3, Chapter 7 in this report.

5.2.6 NSFAS administration

The NSFAS administrative overload, and the prolonged delay in implementing the use of electronic loan agreement forms (ELAFs) and online financial aid applications impacts negatively on the administration of financial aid at universities. Institutions also experience an increase in administrative overheads with the increased funding from the NSFAS special bursary funding e.g. for social work and the Funza Lushaka teaching bursary schemes.

5.3 Financial aid offices

Financial Aid Practitioners of South Africa (FAPSA), the professional association of financial aid officers, made a submission to the Committee. The association was formed to promote best practice in student financial aid administration and has members in FAOs at HEIs and FET colleges. FAPSA is represented on the board of NSFAS.

In addition to the FAPSA submission, many financial aid officers participated in panel hearings; often, several colleagues accompanied the FAO head making submissions. The Committee benefited considerably from the wide range of views presented by FAOs from different HEIs, helping it to build a comprehensive picture of the relationship between NSFAS and the FAOs and of the problems and challenges across institutions.

The experiences recorded below summarise the views of financial aid officers and FAPSA.

- All financial aid officers experience delays in the administration of loan agreement forms, which impacts negatively on the smooth running of the FAOs and on students.
- FAPSA proposed that NSFAS should apply for exemption from the National Credit Act (NCA) as their members find the processing of forms required by the National Credit Regulator a strain on their limited resources, especially at peak registration periods.
- Many financial aid officers expressed concern at the lack of support from NSFAS for campus offices. They would like NSFAS to give better support to FAOs in relation to compliance with application and loan agreement processing. This would minimise the delays that disrupt students' ability to concentrate on their studies.
- All financial aid officers called for the full implementation of the ELAF system as this would reduce the pressure on them, particularly at the start of each year when manual processing leads to students in queues sometimes for days, and long processing times. The full rollout of the system was awaited eagerly, while there was dismay at the delays.
- All financial aid officers had problems with the NSFAS means test, having to turn away a large number of applicants because their family income disqualified them, even though the family could not afford to pay for the student to attend university. Financial aid officers recommended that NSFAS loans should be immediately extended to students from households with incomes above the current R122 000 threshold but which could still not afford to pay for higher education, especially if more than one child wanted to study at the same time, which is often the case.
- Financial aid officers recommended better planning of NSFAS audits of institutions to allow FAOs to prepare for audit visits. They would also appreciate NSFAS feedback on audit findings and recommendations to institutions on an individual basis.
- FAPSA recommended that NSFAS should consider developing a regional administration system. Except for FAOs in the Western Cape, where the NSFAS head office is based, all

financial aid officers felt that having a NSFAS office in the province or region would result in better communication.

In addition, financial aid officers reported that they are short-staffed and under-resourced on most campuses and found it difficult to process NSFAS applications at peak times such as the beginning of the academic year. FAPSA proposed that capacity be improved at FAOs, and that NSFAS provide training to all financial aid officers so that they could offer a better service to NSFAS students on all campuses.

5.4 Students

Students at several HEIs made submissions while others contributed to institutional submissions. In addition, a consolidated South African Union of Students (SAUS) submission was compiled during a national colloquium facilitated by the Department of Higher Education and Training (DHET) in August 2009 for this purpose. SAUS represents students in the higher education and further education and training sector through their SRCs.

The SAUS submission included the following points:

- SAUS recognised that the formation of a single DHET should mean a more streamlined and uniform application of services across all institutions of higher and further education, including how NSFAS is accessed and experienced by all students across all these institutions.
- The student body further recognised that the current review of NSFAS should be about the determination that higher and further education should meet the twin goals of equity; of access and providing free undergraduate education to students from working class and poor communities who cannot afford further or higher education.
- SAUS noted that NSFAS seeks to impact on South Africa's racially skewed diploma and graduate student population by providing a sustainable financial aid scheme that enables academically deserving and financially needy students to meet their own and South Africa's development needs; to improve access to higher education, particularly for students from poor and previously marginalised communities; ensuring that higher and further education remains responsive to the economic and social development priorities of the country, while redressing historical inequalities.
- Since its inception, the NSFAS has grown considerably in terms of the amount of money available for annual disbursement, and the diversification of the scheme. Its scope has also been extended to the administration of bursaries in the FET college sector.
- Despite the significant increase in government funding allocated to the NSFAS, the demands on the scheme continue to exceed available resources. The scheme is also not able to fund all current awardees at the levels required to fully meet their tuition and living expenses. In the light of this, the NSFAS has not been able to extend its reach to the increasing numbers of students whose family income is above the current NSFAS eligibility threshold but who cannot afford to access higher education without financial aid.
- There is a lack of uniformity across institutions of higher and further education on the administration of the NSFAS function, leading to huge imbalances across institutions in how NSFAS is accessed and experienced by different students in different institutions.

- Further, the application process for NSFAS continues to place an additional burden on individual students in the following ways:
  - The bureaucratic process of compiling an application form is repeated annually by each applicant, creating discouragement and lethargy on the part of applicants and thus blocking access to the needy.
  - The current academic prerequisites for the NSFAS application negate the different socio-economic and educational backgrounds of students from previously marginalised communities, comparing students with different backgrounds on an equal footing thus preventing really deserving students from access to funding.
  - There is insufficient consideration given to the true meaning and quantum of a family's disposable income, negating that in most African families the number of dependants is usually larger than the LSM5 average of 3,5 dependants.
  - The decision taken by the previous Department of Education for institutions to allow students with NSFAS allocations to use these allocations for registration purposes, taking away the strain from individual families to raise the money required for registration, is not implemented in all institutions.
  - The late capture of student data for submission to NSFAS results in extreme under-expenditure thus leading to funds being refunded to National Treasury.
- While the decision to extend NSFAS to FET colleges is welcome, it has brought with it a myriad of new and unique challenges including the following:
  - Bursary administration in FET colleges is little understood and administered to a large extent without the participation by student leadership.
  - Whereas bursaries are advertised in some colleges, there have been instances where no allocations are made.
  - The quantum of funds available is far exceeded by the number of deserving students. This means although students receive a 100 percent bursary, fewer students are able to access funding.
  - In most of these FET colleges, there is an absence of financial aid bureaus, thus making it difficult for students to have day-to-day access to administrative assistance regarding bursaries.
- The tendency for NSFAS to blacklist unemployed past recipients of NSFAS who are unable to repay loans is viewed as highly unsavoury. This is further exacerbated by the imposition of high interest rates on these expected repayments, making it not only difficult to repay the loans, but also very costly.

Based on their common experiences of NSFAS, SAUS members made the following recommendations for consideration by the Review Committee:

- In line with the commitment and resolution by the ruling party (ANC) to gradually introduce free education until undergraduate level, the loan/bursary format of the NSFAS must wither into the provision of free education within the next five years. This free education ought to cover all undergraduate students and deserving postgraduate students from disadvantaged backgrounds.
- In order for government to generate funds to fund this free education an education levy/tax ought to be introduced to all taxable South Africans, moderated by the income levels of the different income groups. A NSFAS loan must be made available for

academically deserving postgraduates who do not fall within the income bracket/category of disadvantaged individuals.

- Mindful of the exorbitant application fees for institutional entry, we call for the creation of a national Central Applications Office. That will administer and work together with all institutions to conclude the application process. The process of applying for NSFAS funding must be tied with the process of applying for academic entry into higher and further education.
- Institutional financial aid bureaus must function as service centres and not as policy determinants ensuring that there is uniformity across all institutions on the policy implementation of NSFAS. These offices must account directly to NSFAS and not institutions.
- The application process of NSFAS must be designed to ensure that it is not experienced as cumbersome by “returning students”, ensuring that the necessary administrative student data is captured timeously with the first application, and that students do not have to engage in a repetitive process of submitting applications.
- Apart from existing within institutions of higher learning and FETs, financial aid bureaus must also exist in towns particularly those without institutions so as to act as access and information points.
- NSFAS must introduce a general amnesty to all those that owe it and have been placed on credit bureaus. The charging of interest for NSFAS must equally be scrapped.

5.5 Focus groups

The Committee also conducted interviews with focus groups to assess their experiences of NSFAS. The following focus groups were interviewed:

- Applicants who had qualified for and received NSFAS loans.
- Non-qualifying applicants.
- Rural student borrowers supported by the Rural Education Access Programme (REAP).
- Former students currently repaying loans.
- Blacklisted debtors.
- Parents of students with NSFAS loans.
- Facebook group which encourages students to repay NSFAS loans.

The Committee considered the views and experiences of participants in the focus groups – in relation to access for students from rural areas, linking academic support programmes to financial aid, debt recovery and blacklisting – and these informed its recommendations.

5.6 Students with disabilities

The Committee received a substantive submission from Higher Education Disability Services Association (HEDSA), an organisation that represents the interests and rights of students and staff with disabilities at public HEIs.

HEDSA acknowledged the role of NSFAS in broadening access for students with disabilities who would not otherwise have been able to enter higher education. Not only has funding increased access, but many students with disabilities also need assistive devices, and the component of the funding that enables students to acquire these has helped them to succeed in the higher education environment.

There are specific challenges for students with disabilities in relation to NSFAS though. The Department of Labour bursary for students with disabilities, administered by NSFAS, has changed its criteria to only fund students studying towards qualifications in the scarce skills fields. This does not take into account the fact that students with disabilities do not have a broad range of subjects to choose from at school, given the limitations they face there.

Many students with disabilities have no choice but to study through distance learning, mainly through Unisa, as access to transport, accommodation and other services is difficult.

The Committee recommends that all students with disabilities who meet the academic requirements for higher study and who are in need of financial aid should qualify for NSFAS funding. Furthermore, the criteria for determining eligibility should take into account the additional cost borne by the family that is related to the student's disability. Finally, students with disabilities should not be subjected to annual medical confirmation or certification of their permanent disability status. One medical examination at the initial application should be adequate for the duration of the study period.

Chapter 6

NSFAS: Review Committee findings

6 NSFAS: Review Committee findings

In assessing the strengths and shortcomings of NSFAS, the Review Committee measured its performance against the applicable constitutional, policy, legislative and regulatory targets and considered the views of its major stakeholders.

The central policy objectives to be fulfilled by NSFAS as set out in the White Paper are to:

- Provide poor and historically disadvantaged students with access to higher education.
- Contribute to the skills pool necessary to drive economic growth and development.

Against the first of these objectives, NSFAS has achieved considerable success, including:

- Providing student financial aid to 659 000 students.
- Distributing more than R12 billion in student financial aid in the past decade.

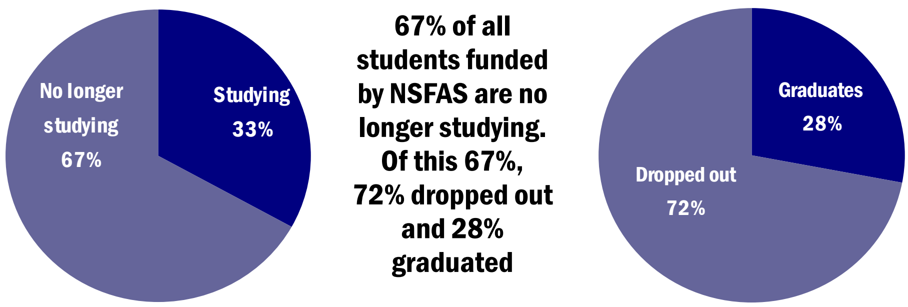
However, NSFAS's performance data also indicates major shortcomings in the current scheme in relation to the high number of students who drop out and the low number of students who complete their studies and graduate.

6.1 High dropout, low graduation rates

Statistics provided to the Review Committee by NSFAS in November 2009 indicate that:

- Only 19 percent (125 210) of students have graduated, while 48 percent (316 320) have dropped out or have otherwise not completed their studies.
- The remaining 33 percent (217 470) of NSFAS students are still studying.
- Of the 67 percent of NSFAS students who are no longer studying, 28 percent have thus graduated and 72 percent have either dropped out or have not completed their studies.
- The 72 percent dropout rate is precisely the "revolving door" outcome against which the White Paper warned in 1997: poor students being enabled to enter the higher education system, but being unable to complete their studies, so being "revolved" back into poverty – in this case with the additional burden of a student loan debt they are unable to repay because they lack the qualifications to secure formal employment.

Figure 6A: NSFAS student dropout rate



NSFAS reports have focussed on courses passed rather than the drop out rate.following the practice of Tertiary Education Fund of South Africa (Tefsa). NSFAS reporting is set out in Table 6.1.

Table 6.1: NSFAS claims

Results	2008	2007
New grants*	R 1,389,482,000	R 1,036,387,000
New grant – FET colleges	R 100,000,000	
Student loan recovery re-injected	R 294,860,000	R 296,917,000
Total awards	R 1,742,651,000	R 1,381,782,000
Administration expenses	R 26,530,000	R 24,157,000
Administration expenses to awards ratio	1.52%	1.75%
Bursary awards**	R 612,414,960	R 407,764,000
Pass rate (number of courses passed)	75,1%	73,8%

** During the year under review grants were received from the South African government via the Department of Agriculture, the Department of Education, the Department of Labour, the Eastern Cape Provincial Government, Department of Social Development and various other donors.*
*** Up to 40% of a loan may be converted into a bursary, except for 100% bursary awards.*
**** FET college 100% bursary awards.*

In 2008, NSFAS reported that its students successfully completed 75 percent of the courses for which they are registered.[1]

Throughout its enquiry, the Committee was repeatedly told that graduation data could not be provided as the NSFAS IT system could not generate it. The best estimate NSFAS could provide was that a third of NSFAS students graduated, a third dropped out and the other third were still studying. However, NSFAS was able to provide the above graduation and dropout figures at a later meeting. This data was used to discuss the possibility of recovery of NSFAS loans through the taxation system.

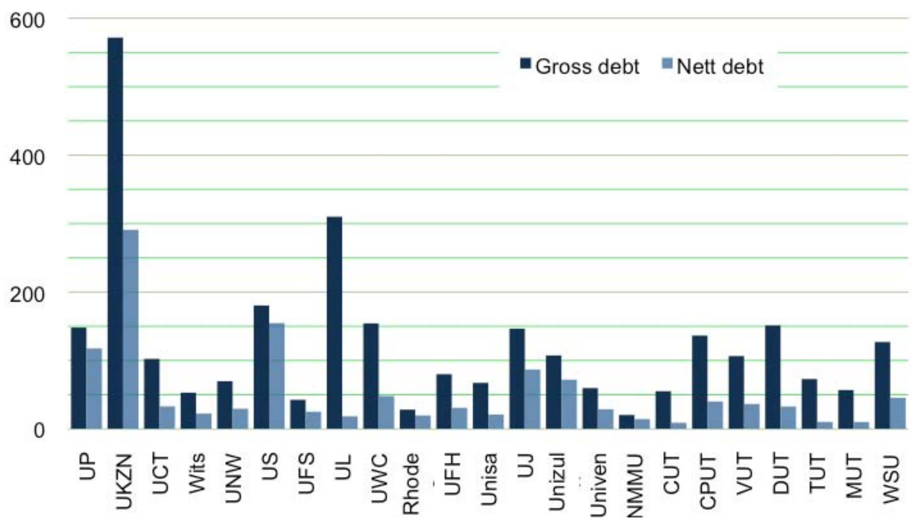


Figure 6B: Student debt 2008

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Further investigation is warranted to establish the extent to which underfunding, as explained elsewhere in this report, contributes to the low success rate resulting in a vicious cycle of student debt, as illustrated above in Figure 6B.

Tthe low completion rate appears to be the consequence of a combination of complex factors, both those related to student financial aid and those that are not. These factors

[1] Report of the board for the year ended 31 March 2008, NSFAS 2008 Annual Report, p27.

include underfunding of higher and further education and of students, NSFAS's relatively low loan recovery rate, the effects of HIV/Aids on both students and their families, the lack of career guidance and academic support, the suitability of students for the courses for which they register and their preparedness for university study.

NSFAS must be strengthened in order is to make a significant contribution to its twin objectives of ensuring access and contributing to the national economic skills pool, It has failed to perform well for a complex combination of reasons – some beyond and some within its control. The balance of this chapter sets out the Committee's conclusions on NSFAS's activities and identifies the main strengths and shortcomings of the scheme.

6.2 Strengths

6.2.1 Creating access: 'life-changing hope'

The main strength of NSFAS is that it provides student financial aid which creates access to higher education for students who would otherwise not be able to afford to attend university. There is universal approval for the role NSFAS has played in broadening access to hundreds of thousands of students in the past decade. In the words of one institution: "NSFAS increases access and provides life-changing hope for students."

6.2.2 Annual funding increases

Another major strength is the steadily increasing budget made available by government for student financial aid. NSFAS funding was R441 million in 1999 and R2,375 billion in 2008, providing financial aid to 17 percent of higher education students. Both institutions and students expressed appreciation that the allocation of funds increased considerably throughout the first decade.

6.2.3 Income contingent loans

The third major strength identified by the Committee and endorsed by the majority of stakeholders is the income contingent nature of the loans, which enable students to start repaying only when they are employed and receiving a prescribed level of income.

6.2.4 Low interest rate

Provision of loans at a lower rate of interest than commercial student loans and without the requirement to provide any form of surety is a major benefit to NSFAS students.

6.2.5 Conversion to bursary

Widely applauded as well is the feature that NSFAS can convert up to 40 percent of a loan to a bursary, based on a student's academic performance.

6.2.6 Means test

The means test is a strength because it enables the scheme and institutions to identify students who qualify for financial aid and within that category, to identify the students who have the greatest need.

6.2.7 Advance payments to institutions

The ability of NSFAS to provide up to 30 percent of the institutional allocation as an advance payment to institutions helps their cash flow, especially at the start of the academic year.

6.2.8 Five-year completion term

The allowance of up to (*n* + 2) years to complete an undergraduate degree is also regarded as a strength of the existing scheme, and one which to some extent compensates for the difficulties that some NSFAS students experience when entering university for the first time.

6.3 Shortcomings

The shortcomings of NSFAS drew strong reactions from virtually all stakeholders, from funders and institutions to financial aid officers and students.

6.3.1 Legislative framework

NSFAS Act

Chapter 4 of the report deals extensively with some of the provisions in the Act that may require reviewing to ensure that it is in line with the Constitution.

Regulations

With a single exception, the absence of regulations in terms of the NSFAS Act, which could, for example, govern the relationship between NSFAS and institutions, is a serious shortcoming of the current scheme.

Regulatory compliance

NSFAS is a registered credit provider but its loan recovery operations are not compliant with the National Credit Act (NCA).

6.3.2 Governance

Governance is weak and the NSFAS board is ineffective in a number of areas. Whilst NSFAS has consistently received unqualified audits, the latest report by the Auditor General identified a number of governance shortcomings that require immediate intervention. An independent governance audit reported similar findings in December 2006. A serious governance shortcoming is the absence of codified policies in relation to NSFAS's core functions of providing credit and recovering debt.

6.3.3 Management

The NSFAS management team is contending with a number of challenges as the workload of the organisation and the funds under management have increased substantially in recent years without a concomitant strengthening of management and systems. A capacity and skills audit is required to accurately determine the capacity of the current management team and to recommend how it could be strengthened.

6.3.4 High dropout, low graduation rate

The dropout rate of NSFAS loan recipients is high and graduation levels are low. Since inception, of the NSFAS recipients who are not still studying, 72 percent dropped out and only 28 percent graduated.

6.3.5 Operations

Underfunding

NSFAS's major shortcoming is that the amount of funding available, despite steady annual increases, falls far short of demand. Current estimates are that NSFAS has only half of the funds it would need to meet the demand for student financial aid from qualifying applicants. As explained in Chapter 3, some institutions choose to enhance the principle of access by awarding some NSFAS funding to all qualifying students resulting in students having to settle the difference between the award and the actual cost of studying.

Allocation formula to universities

Another weakness is the allocation formula to universities, which is based on full cost of study (FCS) and the demographic profile of the student population at an institution. All stakeholders called for NSFAS to abandon race as a proxy for poverty and to use a more scientific assessment to determine institutional allocation.

Full cost of study

The NSFAS practice of paying the FCS is seen as a weakness that disadvantages institutions that have low fees and poor students in favour of historically advantaged institutions (HAIs).

Thus, the higher education institution (HEI) allocations of NSFAS funds based on the existing allocations formula is regarded as a major shortcoming of the scheme.

Means test

While the existence of means testing is a strength, the current structure of the NSFAS means test and the way it is applied by HEIs is inappropriate and undermines the strengths of the scheme. One weakness is the calculation formula for Expected Family Contributions (EFCs), which are beyond the means of most families. In particular the exclusion of children from families who earn above the R122 000 qualification threshold, but who still cannot afford to attend university, is seen as unfair in that families above this threshold cannot afford the costs of higher education.. A solution has to be found to the challenge of the 'missing middle'.

Loan awards and administration

Loan administration is criticised by the overwhelming majority of stakeholders as slow, cumbersome and inefficient. The failure to properly implement an electronic loan system is a major weakness.

The processing of NSFAS loan applications by financial aid officers employed by and therefore accountable to institutions has some advantages in that financial aid offices act as a one-stop shop to which students may apply for all types of financial aid and not just NSFAS loans. However, the disadvantage is that NSFAS does not have a direct relationship with the students to whom it lends money and students do not have direct contact with the entity from which they borrow tens, or even hundreds, of thousands of rands. NSFAS also has no control over financial aid officers as they are employed by HEIs and not NSFAS.

The arms-length relationship between NSFAS and its borrowers in the awards administration process also means that the opportunity for NSFAS to educate students on their rights and responsibilities as recipients of student financial aid is lost. For most students, access to credit is a new experience. The opportunity to educate 150 000 young people a year would vastly swell the numbers of consumers who are educated about the benefits and pitfalls of credit and debt.

Another shortcoming of the existing loan application and administration system of NSFAS is the requirement that all students, including returning students, have to apply for new loans each year. This is an unnecessary burden on a system already creaking under the weight of its administrative challenges. The system should accommodate students throughout the course of their studies on the basis of an initial application that can be updated if needed.

Lastly, while the new feature that enables students to pay registration fees from their NSFAS loan is commendable in that it lets students register without having to find the money to pay the upfront registration fee, the implementation of this measure by HEIs is neither consistent nor uniform. The Committee heard that a number of institutions still insist on students paying registration fees, some amounting to several thousand rands, despite the NSFAS provision. The inability of NSFAS to regulate or monitor this behaviour by institutions contributes to student dissatisfaction with the scheme and must be addressed.

Unspent funds

The practices that previously have resulted in NSFAS having unspent funds at the end of the year are regarded as another serious shortcoming. Holding millions in unutilised funds is particularly unacceptable in circumstances where funding for student financial aid is inadequate to meet the needs of disadvantaged students.

Interest charges

Despite the advantage to students that NSFAS charges a lower interest rate than other credit providers, the practice of calculating interest from 1 April of the year in which the loan is granted, coupled with the compounding of interest monthly throughout the life of the loan, results in students leaving university with huge debts, some amounting to hundreds of thousands of rands. This applies to students who graduate as well as to those who drop out.

The NSFAS interest regime does not comply with the provisions of the National Credit Act (NCA), which governs the granting of credit and recovery of debt by all credit providers, including NSFAS. These provisions include the statutory *in duplum* rule, which limits the amount of interest that may be charged.

Debt recovery

The NSFAS debt recovery regime also does not comply with the NCA. Some NSFAS debt recovery practices may be unconstitutional because the debt collection provisions of the NSFAS Act allow NSFAS to collect student debt without debtors having recourse to the courts.

Credit blacklisting

The manner in which NSFAS blacklists students with credit bureaus may not be compliant with the NCA. Blacklisting debtors through credit bureaus, especially where former students are unemployed, and where debts are up to 18 years old, generates considerable resentment against NSFAS.

Debt recovery rate

The debt recovery rate is approximately 26 percent, the second lowest recovery rate among student financial aid schemes in the world. However, it is not possible to accurately determine the recovery rate, given the manner in which the 26 percent recovery is accomplished. The effect of normalising the debt recovery regime would be likely to reduce the recovery rate appreciably.

40:60 bursary conversion rate

The 40:60 conversion rate, seen as a strength, is also regarded as a weakness as it has been static since 1999 and its benefits are eroded by the practice of compounding interest.

Bursary administration

Bursary administration is generally slow and inefficient, alienating important funding partners, especially from government departments that fund scarce skills bursaries.

FET financial aid administration

NSFAS administration of bursaries to FET colleges is very weak and is regarded as adding no value to the already strained administration of financial aid at colleges countrywide.

Bonded bursaries

In the area of priority skills, there is limited opportunity for bonded bursaries, through which loans could be repaid through, for example, community service.

Academic support

Academic support is a function that most HEIs in South Africa make available to students. It is recommended that NSFAS students be included in the institutional support structures as evidence suggests that academic support improves performance and completion rates.

Physical infrastructure

NSFAS physical infrastructure can be seen as contributing to its shortcomings as the premises in which NSFAS is housed are inadequate, insecure and unsuitable. The premises have insufficient work and storage space and do not assist NSFAS to operate efficiently.

PART THREE

FINANCING HIGHER EDUCATION
STUDENT FINANCIAL AID

Chapter7

Financing higher education: international, African and South African perspectives

7 Financing higher education and student financial aid: global, African and South African perspectives

This chapter examines the potential contribution of higher and further education and training to South African economic development;[1] it evaluates various international models of student financial aid; analyses the funding of higher education in South Africa and examines current trends and funding mechanisms.

Education White Paper 3 and the Department of Education (DoE) Framework identify the central policy objectives of tertiary education as both facilitating individual South Africans' right of access and contributing to the skills pool necessary for a growing and dynamic economy. The Review Committee has interpreted its mandate as requiring that it address these twin objectives simultaneously in assessing the strengths and shortcomings of NSFAS and in making recommendations for the provision of student financial aid.

Much of this report properly focuses on identifying shortcomings in NSFAS and making recommendations to correct and refine the scheme to optimise its effectiveness and efficiency in contributing to tertiary throughput rates as the immediate priority. This chapter is concerned with the financing of student financial aid as one component of financing higher and further education. The Committee identified three overlapping policy trends and perspectives that suggest it would be useful to address and, as far as possible, quantify the benefit of public investment in tertiary education in contributing to economic growth. These are:

- The continuing influence of the World Bank approach which prevailed in the 1990s but which has since been superseded, advocating the phasing in of education investment, giving absolute priority to primary education, and then to secondary education rather than to tertiary education, because of their apparently higher rate of return on investment and relatively higher contribution to GDP growth.
- The higher education funding policy deviation triggered by the erroneous claims by academics and politicians that South Africa had in excess of 100 000 unemployed graduates when the actual figure was 6 061.
- The inconclusive status of the 2008 joint report by the DoE and the National Treasury, *Review of Funding and Resource Requirements of the Public Higher Education System.*

Combined, these trends and perspectives indicate that there remains a lack of clarity, particularly within state planning and budgeting circles, on the public and economic value of investment in tertiary education, that is, the return on investment of public funds into tertiary education. It is thus necessary to address the issues of private and public benefits of investment and to establish the extent of a causal contribution by tertiary education to economic growth. The review mandate to make recommendations on the provision of free education to specific categories of students adds impetus to the necessity of demonstrating the extent of public benefit – social and economic – flowing from such investment and, as far as possible, to quantifying their contribution to economic development.

[1] For convenience in comparing South Africa with other countries, we refer to higher and further education and training collectively as tertiary education in some instances.

7.1 Development and tertiary education

The Committee recognises that it is significantly beyond the scope of its remit to attempt to address public funding of tertiary education beyond the relatively narrow confines of the fee component of tertiary education funding mechanisms. It has nevertheless reviewed a body of international research, and given particular attention to studies on Africa, and is satisfied that this provides a compelling case for public investment in tertiary education as a central contributor to economic growth and development.

In the past decade researchers have developed increasingly sophisticated models to demonstrate and quantify the role of tertiary education in driving economic growth and development. Possibly the most useful of these is that developed in assessing economic development in Africa by David Bloom, David Canning and Kevin Chan, *Higher Education and Economic Development in Africa*.[2] This work draws together and summarises much of the recent literature that demonstrates a direct link between tertiary education investment and economic growth and development; it is useful in tracing the evolution of the recognition by multinational agencies on the issue of investment in tertiary education; and is useful because it takes further the development of a model able to assess the public economic benefit of tertiary education.

7.1.1 Participation rates and development

The enrolment rate in tertiary education in Sub-Saharan Africa (SSA) has been the lowest in the world for the past four decades – it was just 1 percent in 1965 and still stands at only 5 percent for the continent as a whole. Africa's tertiary education enrolment (South African convention refers to **participation rates**) continues to lag ever further behind other regions of the world. Africa's present enrolment ratio is approximately that of other developing regions 40 years ago. Even South Africa's 16,4 percent participation rate remains significantly below those of all regions other than South Asia.[3]

The international development community and the World Bank in particular have played a central role in bringing about this relative decline in investment in tertiary education – arguing instead for prioritising investment in primary and secondary education as more direct contributors to economic development, based largely on studies which appeared to demonstrate a higher return on investment, and "that equity considerations favoured a strong emphasis on widespread access to basic education". In the mid- to late 1990s (at precisely the time that South Africa was developing its education policy framework and establishing its currently prevailing public spending patterns on education), the World Bank slashed its global spending on tertiary education to just 7 percent of the total, down from 17 percent in 1985-1989, as the focus shifted to primary education.

For Africa as a whole this approach saw tertiary participation rates decline to 5 percent continentally – and to 1 percent in several countries. Obtaining a measure of access and equity in Africa is difficult partly because definitions of higher and tertiary education differ across the continent. In many countries, for example in Egypt and Botswana, higher or tertiary education is defined as all post-school or post-secondary education. In South Africa, on the other hand, higher education refers only to university education. Taking these

[2] David Bloom, David Canning, and Kevin Chan (2005): *Higher education and economic development in Africa*: Harvard. The study was commissioned by the World Bank.
[3] Source: Unesco and World Bank data.

differences into account, comparing gross enrolment ratios might be inappropriate. For example, South Africa's Gross Enrolment Ratio (GER) for higher education is 15 percent while Egypt's (for more broadly defined tertiary education) is around 30 percent and Mauritius (also broadly defined) is at 34 percent.

Notwithstanding this definitional problem, it is evident that participation in higher education in SSA is low in both absolute and relative terms. Participation rates in SSA are substantially lower than the average for both developing countries and industrialised or developed countries (Table 7.1). In addition, the median participation rate for SSA is 2,5 percent, compared to the developing country median of 13 percent and the industrialised country median of 58 percent.[4] Moreover, three key determinants – gender, socio-economic status, and region – act to skew the already low participation rates in favour of males, richer families and urban households.

Table 7.1: Participation rates in tertiary education: GER (%), weighted average

	1999 (total)	1999 (female)	2005 (total)	2005 (female)
Developed countries	55	60	66	74
Developing countries	11	10	17	16
Sub-Saharan Africa	4	3	5	4

Source: Unesco, 2008

Access and equity in higher education are fundamentally determined by access to and the quality of secondary education. In most African countries, access to secondary schooling is extremely limited and often of poor quality.

Public spending on higher education as a proportion of the education budget varies substantially amongst countries. As shown in Table 7.2, in the case of Lesotho, Mozambique, Namibia, South Africa and Swaziland, for example, higher education spending is relatively high as a percentage of the education budget. However, these remain more the exceptions than the rule. Furthermore, there is substantial evidence in all of these countries that 'higher expenditure' does not necessarily mean 'more efficient expenditure'.

Table 7.2: Public expenditure on education, 1999-2004, East & Southern Africa

	% of GNI		% of GNI
Angola	2,8	Namibia	7,9
Botswana	3,3	South Africa	5,7
DRC	4,6	Swaziland	5,5
Kenya	6,2	Tanzania	2,2
Lesotho	10,0	Uganda	2,5
Malawi	4,0	Zambia	1,9
Mauritius	3,3	Zimbabwe	4,7
Mozambique	2,4		
Africa	4,8		
Developing countries	4,5		
Industrialised countries	5,5		

Sources: OECD, African Outlook, 2005-2006, Unesco, 2008

Low expenditure on higher education can be the result of a number of factors, ranging from inadequate expenditure on education generally, as a percentage of the government's budget, to political pressures, to ensuring that schools get the lion's share of the education

[4] UNESCO (2008) *Education for All Global Monitoring Report 2007*, Paris.

budget, to competition for financial resources from health, housing, social welfare and other government functions.

In *Higher education and economic development in Africa*, Bloom et al have collated substantial recent research to challenge both the conventional wisdom that the emphasis on primary and secondary education produces higher rates of return than investment in tertiary education, and the traditional view that investment in tertiary education results in greater private benefit (that is, the improvement in the material condition and social status of individual students) than in broader social and public benefit. Instead they have demonstrated substantial public benefit from investment in tertiary education, and a potential for direct contribution to economic growth, particularly in economies which have lagged behind technologically and need to catch up rapidly to increase their global competitiveness – as is the case in Africa, and even in South Africa where tertiary education participation rates are well ahead of the continental norm.

The study concludes: "Recent evidence suggests higher education is both a result and a determinant of income, and can produce public and private benefits … may create greater tax revenue, increase savings and investment, and lead to a more entrepreneurial and civic society. It can also improve a nation's health, contribute to reduced population growth, improve technology, and strengthen governance … many observers attribute India's leap on to the world economic stage as stemming from its decades-long successful efforts to provide high-quality, technically oriented tertiary education to a significant number of its citizens."

7.1.2 Recognition of the contribution of tertiary education

A joint Unesco-World Bank Task Force on Higher Education and Society, to examine the future of tertiary education in developing countries, reported that higher education is essential to developing countries if they are to prosper in a world economy where knowledge has become a vital area of advantage. "The quality of knowledge generated within higher education institutions and its availability to the wider economy," the report stressed, "is becoming increasingly critical to national competitiveness."

Bloom et al use a range of factors to calculate the economic potential of six global regions and then to calculate the extent to which these regions are realising this potential – they describe economic potential as the "productivity potential frontier" and the difference between this and actual performance as the "productivity potential frontier gap" (PPFG). The smaller the PPFG, the better the performance. Unsurprisingly, North America's PPFG is smallest, at 12 percent and Africa's the largest at 22,8 percent.

From this Bloom et al assessed the increase in African productivity triggered by higher levels of investment in tertiary education and consequent increases in throughput. Importantly, they also tested the results flowing from increased investment in primary and secondary education against an equivalent increase in tertiary education investment. The results demonstrate the value of investing in tertiary education, and the public benefit, through increased productivity, flowing from such investment. The study concludes that if Africa were to raise its tertiary education level to that of Egypt, which has the highest on the continent, it would increase Africa's annual economic output by 0,17 percent. If it were to invest this in tertiary education only, it would increase annual economic output by 0,28 percent, an appreciation of nearly 65 percent.

A simpler but equally compelling case for greater funding of tertiary education is made by Australia's Melbourne Institute of Applied Economic and Social Research, in its *Returns to Investment in Higher Education*, *The Melbourne Economics of Higher Education Research Program Report No. 1*[5] in 2000. The institute calculated that the Australian government spent A$5,3 billion in 1997-1998 and projected that government receipts from that cohort of students would be A$8 billion – a net profit of A$2,7 billion. **The report concludes that** "investment in higher education yield high returns to individuals, society and the government" and that there thus appears to be a case for "government implementing policies to increase the investment in higher education in Australia". The report put the actual ROI at 11 percent.

7.2 International trends in higher education financing

Advocating increased expenditure on tertiary education must be seen in the context of the dramatic changes in the financing of higher education throughout the world in the last decades of the 20th and the first decade of the 21st centuries. In the main, these changes in financing are responses to an international phenomenon of higher education costs rising at rates considerably in excess of the corresponding rates of increase of available revenues, especially revenues that depend on taxation.

The consequence in most of the world has been a shortage of revenue to accommodate, first, the increasing costs of instruction and research, and, second, the increasing revenue needs of rising enrolments. These trajectories diverge: resource needs are increasing very rapidly while state budgets are static or even faltering. Solutions must be implemented on the cost and/or the revenue sides. The cost-revenue squeeze itself, as well as some of the solutions employed to meet it, can have a deleterious impact on both the quality and capacity of universities and other institutions of post-secondary education and thus on the goal in virtually all countries to expand higher education participation and access.

Six recent trends, each with economic, political and social roots and consequences, are noteworthy for their impacts on the financing of higher education and in turn on higher educational participation and accessibility. These trends, while varying both among countries and within each country, form the context for higher education's currently widespread financial austerity as well as for the emerging policy solutions which exhibit some very similar patterns despite local variations. These trends are:

- Increasing unit, or per-student, costs of instruction.
- Increasing enrolments.
- The increasingly knowledge-based economies and the consequent additional expectations heaped on higher education to serve as a major engine of economic development and individual betterment.
- The failure of governmental, or public, revenues to maintain their share of the cost increases resulting from these pressures on higher educational expenditures.
- The trend toward increased globalisation, which contributes both to the increasing cost trajectories and to the faltering governmental revenues.
- The pattern of increasing liberalisation of economies and the resulting

[5] Jeff Borland, Peter Dawkins, David Johnson and Ross Williams (2000), *Returns to Investment in Higher Education, The Melbourne Economics of Higher Education Research Program Report No. 1*, Melbourne Institute of Applied Economic and Social Research, University of Melbourne.

decentralisation, and privatisation of public and private systems, including institutions of higher education.[6]

The immediate effect of these trends on the financing of higher education has been increasing austerity in universities, in other institutions of post-secondary education, and in national systems of higher education, and a range of policy responses to this austerity.

7.3 Funding higher education in South Africa

The most important source of funding for South Africa's public universities is the state. It is important to point out that the inequities of our institutional landscape have a direct bearing on the dependency of institutions on state funding as opposed to other income streams. However, the degree of dependence varies. Some universities receive slightly more than 30 percent of their total income from government while others receive 65 percent of total revenues from this source.[7] The average university in South Africa gets just over 25 percent from third-stream sources with the average historically advantaged institution (HAI) receiving about 40 percent and the average university of technology about 12 percent.[8]

A recent study at Rhodes University[9] has shown that the proportion of institutional revenue received from the state (the so-called first stream of income) has declined, on average, from 62 percent in 1986 to 41 percent in 2007. Second-stream income, in the form of tuition fees, increased from 15 percent to 32 percent, and third-stream income, from other sources including research, consultancies, investment income, etc., increased from 23 percent to 27 percent during the same period.

As Table 7.3 shows, state expenditure on higher education increased substantially in nominal terms between 1996 and 2008. As a percentage of the education budget, higher education spending increased from 4 percent to 14,5 percent in the same period. However, in both real and student per capita terms, funding has declined.

A recent analysis shows that between 2000 and 2004, government funding of higher education declined by 3,1 percent in real terms (DoE 2007b). From 1995 to 1999, total state spending per full-time equivalent (FTE) student in higher education increased annually by R352 in real terms (in 2000 rand) but declined annually by R515 between 2000 and 2004. This decreasing pattern continued up to 2009 and is unlikely to be reversed in the light of the Medium Term Expenditure Framework (MTEF) projections to 2012 (Table 7.7).

Table 7.3: Higher education spending in South Africa (R billions)

	1996	2000	2005	2008
Total education	42,1	51,1	83,3	111,2
Higher education excl NSFAS	4,1	7,1	11,8	14,5
NSFAS	0,30	0,44	0,86	1,18

[6] Johnstone, D Bruce (2009) "Worldwide Trends in Financing Higher Education", in Knight, Jane (ed.) *Financing Access and Equity in Higher Education*, Sense Publishers, Rotterdam.
[7] Wangenge-Ouma, G and Cloete, N (2008) "Financing higher education in South Africa: Public funding, non-government revenue and tuition fees", in *South African Journal of Higher Education*, 22 (4), pp. 906-919.
[8] Duncan, John (March 2009) *Third Stream Income at South African Universities*, Centre for Higher Education Research, Teaching, and Learning, Rhodes University.
[9] Ibid.

Table 7.4: Spending as % of GDP				
	1996	2000	2005	2008
Total education	6,62	5,36	5,27	5,14
Higher education	0,82	0,74	0,68	0,68

Table 7.5: Spending as % of government budget				
	1996	2000	2005	2008
Total education	23,97	21,82	26,38	27,74
Higher education	3,0	3,0	2,6	2,4

Source: Department of Education, South Africa, 2007, NSFAS

7.3.1 Decline

As a percentage of GDP, state funding of higher education has also declined from a high of 0,82 percent in 1996 to a low of 0,68 percent in 2008. As a percentage of the government budget, after peaking at 3,0 percent in 2000, it has consistently declined, reaching 2,4 percent in 2008.

Table 7.6: Average annual increase in state funding of HE per FTE student (in 2000 rand)			
	1995-1999	2000-2004	2005-2009
HE (formula funding)	173	-655	-142
HE (Total)	352	-515	-5

Importantly, discretionary funds per FTE student (as per the funding formula) have declined more rapidly than earmarked funding, subsidies not directly contributing to operational costs such as NSFAS.[10] For instance, whereas the state's total funding for higher education per FTE student increased by an annual average of R352 (in 2000 rand) between 1995 and 1999, discretionary funding in the same period increased by an annual average of R173. In the period 2000-2004, discretionary funding per FTE equivalent declined by an annual average of R655 in real terms compared to a decrease of R515 for total state expenditure on higher education per FTE student. In practice, this decline in state funding led to pressures on institutions, which responded by increasing student fees with the poorest students experiencing the pressure most severely.

Expenditure on higher education comprises only about 2,5 percent of total government expenditure. Table 7.7 shows that for 2008-2009 and 2009-2010 this proportion stood at 2,4 percent and is projected to rise only marginally to 2,5 percent for the next two years of the current MTEF.

Table 7.7: Higher education expenditure as a proportion of total government expenditure				
	2008/2009	2009/2010	2010/2011	2011/2012
HE (R,bn)	15,5	17,1	19,5	21,6
Total (R, bn)	633	739	792	849
HE/Total %	2,4	2,4	2,5	2,5

[10] Wangenge-Ouma, G and Cloete, N (2008).

In the higher education budget, the two main items are transfer payments to the higher education institutions (HEIs) and NSFAS. Table 7.8 shows that the transfer payments to NSFAS ranged between 8 and 11 percent for the fiscal period 2005-2006 to 2007-2008, but is expected to stabilise around 12 to 12,5 percent for the next four fiscal years.

Table 7.8: Higher education budget – 2005/2006 – 2011/2012 (R, bn)

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
NSFAS	0,864	0,926	1,333	1,702	2,145	2,333	2,711
HEIs	9,616	11,895	11,864	13,737	15,229	17,449	18,935
Total HE	11,633	11,940	13,304	15,537	17,374	19,782	21,645
NSFAS/HE (%)	8,1	7,8	7.3..0	12,4	12,3	11,8	12,5

Note: HEI allocation here excludes capital allocations

The transfer payments to the HEIs increased at an average annual rate of 12,3 percent between 2005-2006 and 2008-2009 (this was significantly above the average inflation for this period, and thus represents a 'real' increase of between 3-5 percent). This expenditure is projected to continue to increase at an average rate of 11,2 percent over the medium term, again significantly above the projected inflation rate for the period (6-7 percent).

Transfers to NSFAS are expected to rise at an average annual rate of 16,6 percent over the medium term "mainly due to additional allocations for specific bursaries such as the initial supply of teachers' bursary and for students at FET colleges".[11]

7.3.2 South African funding system

In the African context, the South African higher education funding system has some interesting, innovative and rare features.

- The system has always had a fee-paying component; in fact, tuition fees comprise a significant component of institutional revenue.
- HEIs are free to generate 'third-stream' income through, *inter alia*, research and entrepreneurial activities. In 2004, such third-stream income constituted 23 percent and 27 percent of total revenue in 2004 and 2007 respectively.
- Unlike in some other African countries, HEIs are not penalised through receiving lower state funding if they raise third-stream income.
- There is a close link between planning (at both the institutional and system levels) and funding. HEIs are required to submit three-year enrolment plans to the government as part of the state's planning and MTEF budgeting process. Institutions are required to propose institutional targets in relation to national overview and institutions' planned projections and targets. In developing the targets, institutions must take into account: areas of growth, capacity and efficiency; racial and gender equity imperatives; quality aspects such as institutional audits and programme review.
- A key component of the higher education financing framework is that it is underpinned by a funding formula. The funding framework proposed in the 1997

[11] National Treasury (2009) *MTEF 2009/10 – 2011/12*, Pretoria.

White Paper reconceptualised the relationship between institutional costs and government expenditure on higher education. This new funding framework is seen as a distributive mechanism, that is, a way of allocating government funds to individual institutions in accordance both with the budget made available by government and with government's policy priorities. The new framework, in effect, recognises that institutional costs tend to be functions of income; of what is available to be spent. Government funds for HEIs are not therefore designed to meet specific kinds or levels of institutional cost, but are intended rather to pay institutions for delivering the teaching-related and research-related services specified by government-approved plans. In terms of the higher education funding framework, HEIs receive the following:

- Block funds, which are undesignated amounts made available to each institution and which consist of:
  - Research funds generated by approved outputs.
  - Teaching funds generated (a) by planned full-time equivalent (FTE) student enrolments and (b) by approved teaching outputs.
  - Institutional factor funds to address equity.
- Earmarked funds, which are designated for specific purposes such as capital expenditure.

The funding framework developed for higher education in South Africa has a number of important implications for equity and efficiency:

- Predictability: implementing a formula-driven approach ensures a level of predictability, particularly with regard to 'certainty of revenue'. Institutions are aware of the factors driving the formula and will know within certain parameters the magnitude of resources that will flow to them over a certain period. Such certainty undoubtedly enhances institutional planning.
- Recognition of a hard budget constraint: the new funding framework is driven by the availability of public resources for higher education rather than by the costs of provision. The various mechanisms in the framework come into operation only after government has determined (a) the total of public funds that should be spent in a given year on higher education and (b) what services should be delivered by the higher education system.
- Promoting institutional autonomy and equity: by using a mixture of block and earmarked grants the formula achieves both these goals. Block grants confer a degree of freedom of use of funds by institutions while earmarked grants by definition are directed towards the attainment of specific goals such as equity – for example, in research development, and through foundation programmes for the historically disadvantaged.
- Efficiency incentives: the formula-driven framework provides for this in a number of ways.
  - The block grant component rewards efficiency of outcomes in research. Grants are based on the output of publications and of master's and doctoral graduates. Research grants are moreover not based on a pre-determined monetary amount but against benchmarks based on academic capacity.
  - Inadequate research performance by the system as a whole will result in surpluses of funds allocated for research. These funds provide a further

incentive to stimulate output in that they are distributed on a pro-rata (output) determined basis.

- Outputs and inputs: the formula is designed in such a way that it rewards the output of certain categories of graduates more than it does others (for example, professional bachelors' degrees as opposed to bachelors' degrees). Such a funding mechanism enables the government to stimulate the development of skills that are in short supply. As with research, teaching output funds are determined not by pre-set amounts of funding but developed through a set of benchmark graduation rates, based on the NPHE. In line with this, the formula promotes differential funding in line with the country's human development needs (for example, agriculture and health sciences as against librarianship and psychology).
- Through institutional factor funding, the framework promotes economies of scale and thus lower institutional unit costs.

- Equity is enhanced in a number of ways:
  - Earmarked funding, *inter alia*, for capacity building, research development and foundation programmes for the historically disadvantaged.
  - Institutional factoring for students from historically disadvantaged backgrounds.
  - Institutional factoring for small institutions, especially those in rural areas.

In summary, South Africa has reached a relatively high level of sophistication in the development of its higher education funding mechanisms particularly with the close link between its planning and budgeting processes, and its implementation of a relatively simple funding formula. The system has also benefited from always having had a fee-paying system so no new cost-sharing mechanisms had to be developed.

Finally, there is also a strong systemic thrust towards greater equity exemplified in both the funding formula and the student loan scheme. For rural-based universities such as University of Venda and the University of Fort Hare, earmarked funding would, for example, open opportunities for these institutions to procure better teaching and learning capacity which in turn would lead to better success rates.

However, the South African system does face enormous challenges with respect to quality and efficiency. The apartheid legacy of differentiated systemic quality and efficiency continues, except that the main determinant is no longer only race but also socio-economic status and region.

Recently, serious questions are being raised about the adequacy of the instruments within the funding formula to promote inter-institutional equity. It is being argued that the funding mechanism currently in place may be serving to entrench and even accentuate inequalities between historically-advantaged institutions (HAIs) and historically-disadvantaged institutions (HDIs). This occurs in at least three ways:

- The formula rewards research outputs but most universities of technology or former HDIs do not have research capacity and, in the light of heavy teaching burdens, are not likely to develop this capacity in the short to medium terms.
- Capital expenditure, while increasing substantially in the past few years, falls far short of requirements in the light of increased access.
- Earmarked grants provided for in the funding formula have not been adequate to

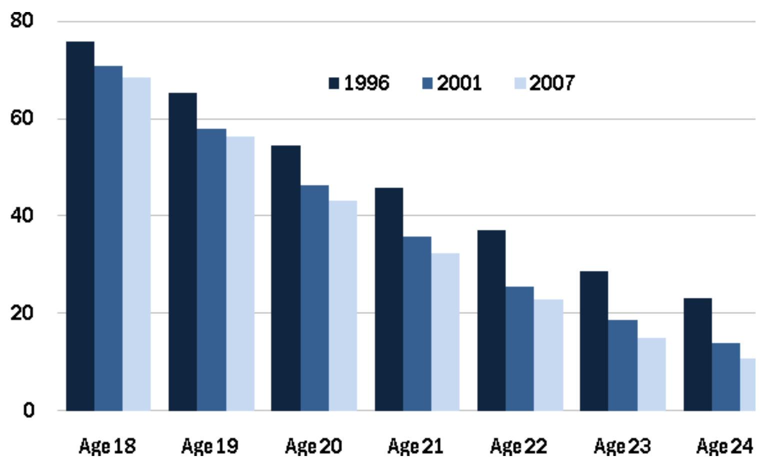
address the equity challenge.

7.4 Funding tertiary education for development in South Africa

As described above, among the consequences of National Treasury restricting the expansion of tertiary education[12] is that tertiary education spend hovers uncertainly between 14 and 15 percent, well below even the World Bank target of 20 percent.

At the same time, the general trend in attendance at educational institutions in the core tertiary education 18-24 age cohort has been downward since 1996, as demonstrated in Figure 7A,[13] and increasing numbers of 18- to 24-year-olds effectively are outside employment and education entirely. These figures include attendance at schools, FET colleges and HEIs.

Figure 7A: South African attendance at an educational institution by age 1996-2007 (%)



The absolute decline in attendance by this core age cohort, and the apparent decline in attendance at tertiary institutions, comes against a background of a growing proportion of young people in the 18-24 age cohort sliding into the NEET category – NEET is an acronym for the "not employed, not in education and training". It excludes the estimated 5 percent who are severely physically or mentally disabled.[14]

South Africa currently has 5 756 003 people in the age cohort, of whom an estimated 41,6 percent are in the NEET category. The proportion of NEET youths increases with age – presumably as individuals complete their schooling – topping 50 percent among 23- and 24-year-olds. Yet 770 000, or just over 27 percent, of the NEET-category youth have the requisite academic qualifications to attend tertiary education institutions – assuming FET college entrance requires a Grade 12 pass. If, as has been the case to date, FET college

[12] Centre for Higher Education Transformation and the Further Education and Training Institute: *Responding to the Educational Needs of Post-school Youth; Determining the Scope of the Problem and Developing a Capacity-Building Model*, (June 2008) Draft Report.
[13] *Responding to the educational needs of post-school youth* (first draft synthesis report), Centre for Higher Education Transformation and the Further Education And Training Institute (June 2009).
[14] Ibid. Statistics in this section are from the CHET study. Although CHET gave permission to the Review Committee to quote from its draft report, it did so with the disclaimer that statistics were still under review. The statistics and conclusions should thus be viewed as indicative.

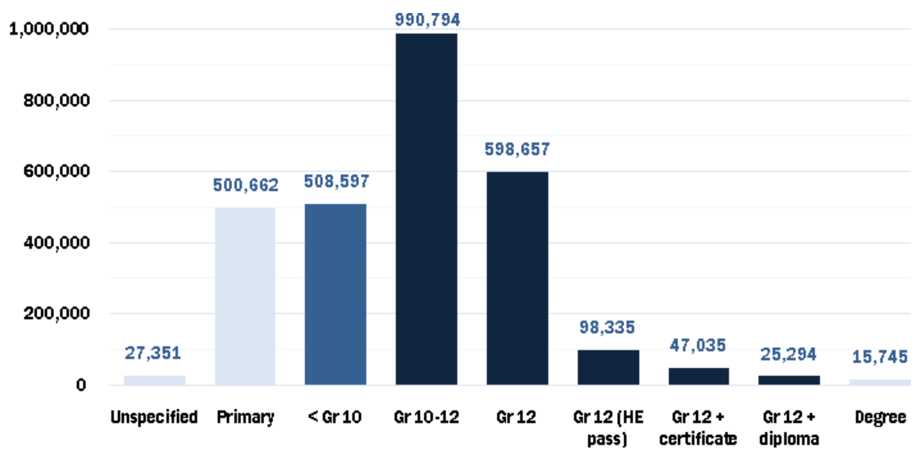
entrance requires only a Grade 10, the pool of sufficiently qualified NEET youth rises to 80,7 percent (2 268 712). More than 170 000 NEET youth have university-entrance Grade 12 passes or higher – more than enough to fill all NSFAS-funded HEI places for one year.

Even if we assume that NEET youths with the necessary Grade 12 pass have entered tertiary education institutions, but have dropped out at the rate at which NSFAS students have dropped out, 89 percent of those qualified to do so have not participated in tertiary education and are instead unemployed and dependant, directly or indirectly, on the state or on family networks to sustain them.

This translates into 11 percent of the total national 18-24 age cohort not having realised their constitutional right of access to tertiary education, becoming instead a passive and permanent drain on their immediate social network and on the broader society, and unable in consequence to either improve their personal material circumstances or to contribute to the greater public good by contributing to economic development and growth. But if this indicates that the constitutional right of access is being only selectively realised, it has even greater implications for the skills-pool imperative of education policy and for the critical mass of "knowledge" in South African society essential for economic development.

In practice, this means that in an economy critically short of skills, the system is abandoning 41,6 percent of the reservoir of young people of tertiary education age to unemployment – even though a quarter of them have the necessary academic qualifications to attend HEIs, and up to 80 percent the qualifications to attend FET colleges.

Figure 7B: Academic qualifications of NEET youth in the 18-24 age cohort



On the face of it this appears to conflict both with the central plank of national policy, achievement of a "better life for all", and, in terms of economic development, to be unnecessarily turning a potentially valuable contributor to collective material improvement into a real and permanent drain on the country's material resources.

There is a self-evident need to address this wasting of the country's human resources, to increase the skills pool available to the economy and to ease the burden it adds to both formal and informal social security networks.

The 2009 tertiary policy imperative to right the inverted educational pyramid – in which, according to DoE enrolment statistics for 2007, 761 000 students attend HEIs but only 470

000[15] attend FET colleges – and to reinvigorate the FET college system, must necessarily play a key role in addressing this challenge. And because the vast majority of the young people in the NEET category are from poor and working class families, appropriate funding arrangements will play a crucial role in doing so.

One reason for the decline in attendance at both schools and tertiary institutions appears to be financial – an assumption derived from the reality that tertiary education funding has, in real and student per capita terms, declined. Transfers to NSFAS are projected to rise at an average annual rate of 16,6 percent over the medium term, mainly for FET colleges as explained above. This represents a marginal improvement on the status quo, but is not sufficient either to address the challenge posed by the growing pool of NEET youth, or to sharply increase the skills output required by the economy, especially as a significant proportion of the increase in NSFAS's annual allocations are directed at correcting the shortage of teachers for the primary and secondary education tiers caused by past policy aberrations such as the closure of teacher training colleges.

If the tertiary education budget is not significantly increased in the MTEF and beyond, including that available for student financial aid, to similarly correct the consequences of past policy distortions, the policy objectives outlined at the inauguration of the current administration – both those dealing with education and with economic development – will not be met. Commitments to progressive realisation of the right of access to tertiary education will not only fail to be met but will, as has been the case since 1996, continue to reverse.

The possibility of providing free undergraduate education for specific socio-economic categories of students is, under the current MTEF projections, unachievable. This is despite indications that such investment of public funds will generate a positive return on investment through contributions flowing from the private benefits (increased contribution to the fiscus through tax, etc.) and through the public benefit flowing from economic growth and development.

Similarly, inadequate funding of tertiary education – both first-stream institutional funding and student financial aid which contributes to second-stream funding – will contribute to lower throughput rates at HEIs and FET colleges, restricting the flow of additional skills and qualifications into the economy. Crucially, it will almost certainly ensure the permanent marginalisation of half the current generation which has not yet acquired the skills to enter the formal economy and which, under current circumstances, will never do so.

To conclude, it is evident from the above analysis that current state expenditure on higher education, including that projected for the next MTEF cycle, is inadequate to address the needs of a system that must expand urgently if it is to address both the equity (access) and developmental objectives (economic and broader development) of higher education.

This makes it all the more urgent that the recommendations relating to student fees and NSFAS allocations contained in the 2008 joint DoE and National Treasury draft report, *Review of Funding and Resource Requirements of the Public Higher Education System*, should be finalised and implemented. These recommendations state that:

- The fee structures in the public higher education system should be subject to

[15] Headcount enrolment figures could represent an artificial inflation of FET college attendance figures. FET programmes may last for only three months, allowing one student to enrol for three courses in one academic year, with each course being counted as one enrolment. Full time equivalent FET enrolment would be significantly lower than headcount figures.

government regulation. The regulatory process should involve HEIs submitting reports on their proposed annual increases in student fees to the Minister for approval.

- Government financial aid funds should be increased to enable institutions to admit their Ministerially-approved totals of financially disadvantaged students, and to ensure that these students have reasonable chances of succeeding in their studies.
- The NSFAS allocation should be sufficient to support both the academic and living costs of financially disadvantaged students.
- NSFAS funds should be allocated in lump sums to institutions under a revised allocation formula. The distribution of funds to individual students should be administered by institutions in accordance with the rules, including a means test, as laid down by NSFAS.

The higher education funding landscape in South Africa may be summarised as follows:

- Higher education expenditure in general represents a relatively small proportion of the government's total budget, and NSFAS funding represents a miniscule proportion.
- The MTEF to 2011-2012 provides for a doubling of the higher education budget in 2011-2012 from 2005-2006, but as a proportion of total expenditure there is little change.
- Higher education expenditure is declining alarmingly in both real and student per capita terms. It is also declining as a percentage of the government's budget and of GDP.
- The allocation to NSFAS in 2011-2012 is expected to be around R2,7 billion from the R2,1 billion in the current fiscal year. As this report shows, this amount is woefully inadequate to address the needs of students in need of financial aid currently in the system.
- If government objectives to increase access to higher education for the socio-economically disadvantaged are to be achieved, it is clear that higher education funding will have to increase substantially.
- Unless adequate funding is provided by the state, access to higher education cannot be increased.
- Government's commitment not only to improve access but also to provide free higher and further education, cannot be achieved unless adequate funding is provided by the state.

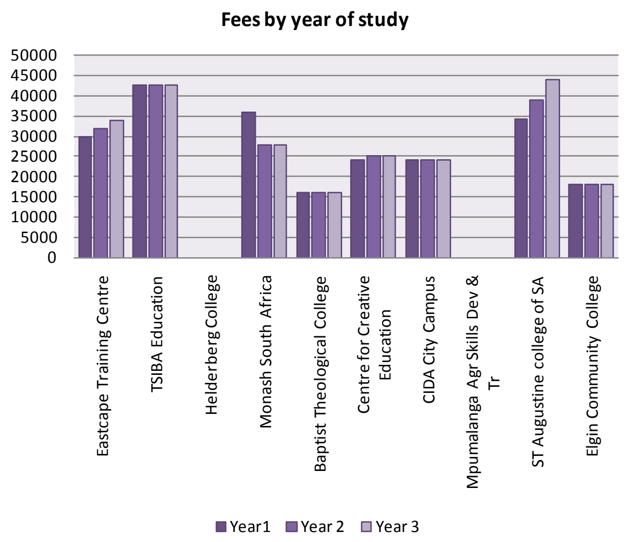
7.5 Funding students at private, non-profit higher education institutions

One of the terms of reference of the Review Committee was to "assess the viability of extending financial aid to students in not-for-profit private higher education institutions (PHEIs)". The Committee commissioned research to examine the feasibility of extending financial aid to students in not-for-profit HEIs in the private sector. Data on PHEIs was captured from DHET returns and interviews were conducted with 10 not-for-profit PHEIs. The main findings were as follows:

- There are more than 127 PHEIs operating in South Africa at present, with 29 of these registered as not-for-profit entities. In addition, there are 238 registered private further education and training (FET) institutions, with three registered as not-for-profit.
- There are approximately 50 000 students in the PHEI sector, and about 42 000 FTEs in 2009, in 104 institutions.
- African students comprise 57 percent; whites 31 percent, and coloured and Indian students 6 percent each.
- Eighty percent of the students are registered in certificate (27 percent) and diploma (53 percent) courses; undergraduate degrees (15 percent); advanced certificates and diplomas 1 percent; Honours 0,4 percent; Master's 3,5 percent; and PhD 0,1 percent.
- A number of courses are offered at different levels on the NQF and success rates are relatively high.
- These institutions charge average to high tuition fees; they also charge registration and user fees for equipment and specialised resources. PHEIs and private FET colleges record lucrative earnings with high rates of profit taking.
- The teaching staff consists of persons employed at public HEIs working part-time at these institutions; retired persons from public HEIs; persons that have taken early retirement from public HEIs; and under-qualified persons and unqualified persons. Most institutions are understaffed in terms of administrative and support personnel.
- The majority of students enrol for courses in theology, ICT, business and administration. Some institutions offer courses that are not offered at public HEIs, for example, performing arts (dance); music; ICT; reflexology; food preparation; homeopathy; acupuncture and courses in tourism.
- In 2009, there were 29 not-for-profit HEIs, with 7 317 students. The racial composition was follows: Africans and whites 45 percent each; coloureds 6 percent; and Indians 4 percent. Note the large percentage of white students compared to PHEIs as a whole.
- Not-for-profits can be classified into fee-free (mainly, but not only, theological) and fee-paying institutions. In the former type, institutions are dependent on local and foreign donor agencies/organisations. The three not-for-profit FET institutions do not charge fees. They receive subsidies from provincial governments.
- There is an enormous need for bursaries, scholarships and subsidies. Large numbers of students drop out or terminate their studies due to a lack of funds
- Religious-based PHEIs receive large sums of donor funding; funding from industry and business owned by foreigners in SA; and donations from South African companies as well as congregants in South Africa.
- Interviews conducted at 10 not-for-profit PHEIs and student focus group interviews conducted at two not-for-profit PHEIs revealed that at least 40 percent of students at

these institutions experience financial hardship. The financial circumstances of students cover a broad spectrum: parents in dire circumstances expect students to contribute to the family income; large numbers of students leave because they are unable to pay fees; students from rural areas where no higher education facilities exist have a further burden of accommodation. These conditions have an adverse impact on performance.

Figure 7C: Private not-for-profit higher education institution fees



Source: Interviews

The research concluded that financial aid should not be extended to students in not-for-profit PHEIs.

7.6 Mechanisms for raising student loan funding

The Review Committee was tasked in its terms of reference to "make recommendations on appropriate mechanisms for raising ... the required funds, including the parameters for the recapitalisation of NSFAS and for the possible establishment of a student loan bank". The concept of a student loan bank has been raised as a possible conduit for private sector funding of a national student loan scheme.

7.6.1 Provision of student loan credit in the South African market

The Committee assessed the gap between the demand for and the supply of credit available to students in the South African market.

7.6.1.1 Banks

The assessment of the banking sector involvement in this type of lending is summarised in Table 7.9 below, which shows that there is very little to differentiate the student loans offered by the major banks. They require surety and lend only to students or their parents who can provide proof of employment and can afford to start paying back the loan immediately. Commercial banks charge interest on student loans of between prime plus 5 percent and prime plus 8 percent.

Table 7.9: Comparison of student funding between NSFAS and commercial banks[16]

	NSFAS	Banks
Annual income (parent)	R120 000 (household maximum)	R60 000 – R144 000 (minimum)
Affordability	Means test	Affordability assessment on parent or surety
Repayment		
While studying	Interest nor capital serviced	Full time students service interest, part time students service capital and interest
After studying	Income contingent at R30 000 p.a. Term agreed with NSFAS subject to affordability.	Repayment expected to commence after study. Initial grace period and affordability assessment may be used to decide term, may range from 1.5 yrs per year of study or 5 yrs max. Part time students usually expected to repay while studying.
Interest rate	80% of Repo rate	Prime +5% to Prime – 8%
Collection method	Payroll	Debit order / stop order
Courses financed	SAQA accredited	SAQA accredited. Duration from two months to 1 year minimum.
Admin fees	None	None –R75 once off to R25 pm
Loan size range	Annually determined maximum based on average full cost of study across all institutions	No minimum – R200 000/R500 000
Category of costs funded	Tuition, books, residence, food	Tuition, books, residence, food, equipment
Average loan size	R18 008 (2008)	R33 000 – R 41 000
Total student loans	153 795 granted per annum (2008)	64 656 (4 largest banks)
Loan book size	R10 billion	R2,4bn (4 largest banks)

The difference between the NSFAS means test threshold, currently at R122 000 household income per annum, or just more than R10 000 per month, and the income criteria for banks (equivalent of R120 000 – R150 000) seems small. However, bank approval rates are low for applicants in this income segment as borne out by the low number of student loans granted across the industry (65 000 of which an estimated 65-70 percent are for students still studying). Based upon the current participation rate (17 percent) for the 18- to 24-year-old cohort in the higher education system, the matching of the demand for and supply of credit is illustrated as follows for 2009:[17]

Students eligible for NSFAS loans in 2008	153 795
Capital funding required	R6,7 billion
NSFAS funding	R2,5 billion
Shortfall	**R4,2 billion**

If we assume that the average bank-sponsored course of study is a three-year degree,

[16] ABSA, First National Bank, Nedbank and Standard Bank.
[17] Assuming full cost of attendance at R43 358.

then the provision of commercial credit per year can be deduced approximately as:

Total student loan finance	R2,4 billion
Students still studying (70%)	R1,68 billion
Average credit provision per year	R0,6 billion

Assuming that 40 percent of students need some kind of financial assistance and that NSFAS fully funds those currently eligible for NSFAS loans, then the shortfall of credit supply is as follows:

Capital required to assist 40% of cohort	R14,5 billion
18% of cohort fully funded by NSFAS	R 6,7 billion
Shortfall	**R 7,8 billion**

The above illustrates the extent of the shortfall, assuming that NSFAS increases its current funding from R2,5 billion per year to R6,7 billion, and funds the poorest 18 percent of students who currently qualify in terms of its means test. The illustration excludes the fact that commercial banks also use personal loans to assist parents of students. Even if the banking sector raised its credit provision to R1 billion per year in new loans, there would still be a significant shortfall of at least R8 billion.

7.6.1.2 Microloan market

The microloan market typically does not focus specifically on student loans as a category of lending, but rather on products defined by loan term structure, with most loan repayment terms over 12 months to salaried people. It is therefore more difficult to assess the extent of credit provision through this category of lending.

There are two specialist lenders in this market that focus on providing educational loans. One advanced R350 million to some 60 000 clients in 2008; the other has a total loan book size of R700 million, of which 19 percent represents educational loans. Eduloan is probably the best known of the lenders active in the microfinance education field with offices on the campuses of most institutions. Eduloan provides study loans mainly to employed adults who study part-time. It does not offer loans to students but does provide loans to those of their parents, including government employees, who meet the company's lending criteria, to fund their children's studies. Most government employees' children do not qualify for NSFAS loans as their family incomes are higher than the R122 000 per annum NSFAS threshold. The government allows Eduloan to collect repayments through its Persal salary system. According to Eduloan, its loans are charged at a "market-related interest rate, similar to that charged by the commercial banks" and have to be paid back within two years, starting the month after the loan is approved.[18]

In summary, the supply of credit available through banks and other commercial educational loan credit providers shows that the supply is clearly insufficient to meet market demand.

7.6.2 Providing student financial aid to students in 'the missing middle'

The Committee also assessed the availability of credit to students from households whose

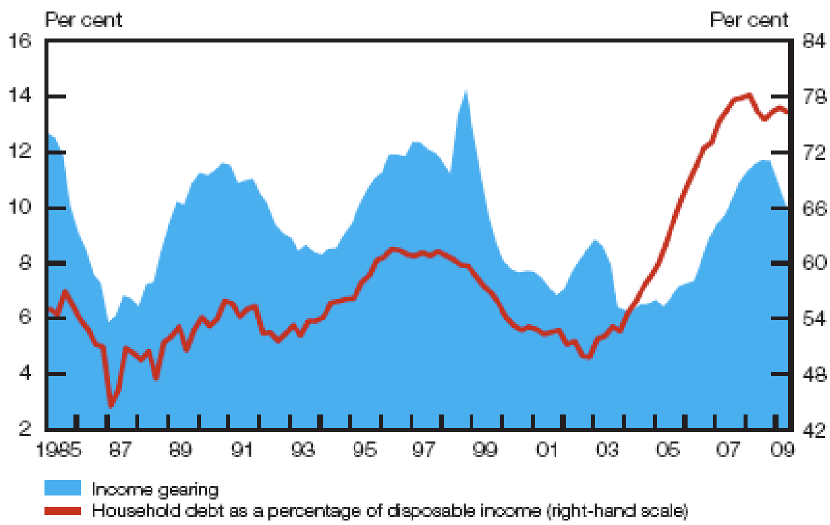
[18] Eduloan submission, August 2007.

income is above the current NSFAS income threshold. NSFAS currently assists about 17 percent of higher education students, although it does not provide adequate levels of funding to all of them. However, there are many households above the R122 000 per annum joint income threshold that require financial assistance, given the high cost of study, the so-called 'missing middle' in the current student financing arrangement. Despite being disqualified from NSFAS funding because their incomes are too high, these families cannot afford to fund their children's higher education themselves, especially if more than one child wants to study at the same time. In our discussions with commercial banks, we were told that many such families are credit-constrained.

In the Growth Commission's report last year, the justification for public intervention was poignantly referred to: "Education makes a legitimate claim on public money for at least two reasons. First, the social return probably exceeds the private return. (The research literature is full of controversy and disagreement on this point — debates that were aired during the Commission's workshops.) In other words, educated people contribute more to society than they get back in higher pay, although the social return is notoriously difficult to measure. Second, some families are credit-constrained and cannot borrow as much as they would like to spend on schooling, even if the higher wages a diploma or degree would fetch could more than repay the loan. Thus public spending on education is justified on the grounds of efficiency and equality of opportunity. It corrects the failure of the market to allocate enough resources to education, and it also widens access to education beyond those who can pay for it upfront."[19]

In South Africa the percentage of household debt to income has increased dramatically to almost 80 percent as Figure 7D demonstrates.

Figure 7D: Ratio of household debt to disposable income and income gearing



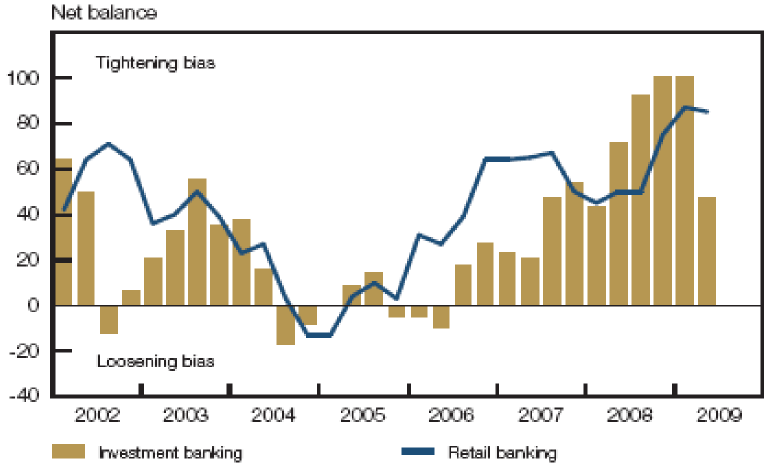
Source: South African Reserve Bank

Some applicants may not be eligible for credit because of impaired credit records. Since December 2008, the difficult economic climate, coupled with the over-exposure of households to credit, has resulted in impaired advances rising by 37,5 percent to a level of

[19] See Commission on Growth and Development, 2008, *The Growth Report*, International Bank for Growth and Development, p37-38. The Commission comprised 19 leaders from mostly developing nations who received input from some 300 academics.

R124,9 billion in June 2007. In an environment of deteriorating asset quality and falling asset prices (houses), banks have been reluctant to relax lending standards, thereby reinforcing acute procyclical behaviour, as has been observed internationally. These factors exact a high social cost from prospective students where access to credit is severely limited.

Figure 7E: Lending standards applied by banks for loan applications



[1] The 'net balance' statistic is used to interpret the survey results and is the difference between the percentage of bank survey respondents who tightened lending standards and those who eased them during a specific quarter

Sources: Bureau for Economic Research and Ernst & Young

7.6.3 State-funded student financial aid

The NSFAS project included, from conception, several inherent concepts that clash fundamentally with a for-profit or full-cost-recovery operation, such as a student loan bank. Primary among these is the "hidden subsidy" built into NSFAS through the Repurchase Rate-linked interest charged on NSFAS loans, the 40:60 loan-bursary conversion academic performance incentive and the income-contingent repayment provisions. These translate into a repayment ratio – the total recoverable by the scheme under optimal conditions – of slightly over 50 percent of total loans made by NSFAS. NSFAS's own administrative and operational costs are included in the calculation of the "hidden subsidy". NSFAS was thus conceptualised and is currently structured, operating optimally, to recover only half the funds it disburses. This makes it anathema to any full-cost-recovery or for-profit operation, which, by their nature and in order to return a profit to shareholders, must seek to recover more than 100 percent of the funds disbursed.

We can conclude that the market has failed to supply the required level of credit for university and college education purposes, either through banks and other educational loan providers. This market failure is not likely to be corrected in future. To meet the current policy and legislative requirements, the major viable source of raising the required funds for student financial aid in the short, medium and long terms is through government funding.

Chapter 8

Higher education costings and proposed student financial aid model

8 Higher education costings and proposed new model

This chapter of the report determines indicative costings of various scenarios for the higher education sector and sets out the proposed new model for higher education student financial aid.

8.1 Higher education costings

One of the Committee's key terms of reference is to "conduct a needs analysis of students who will require financial aid in the short, medium and long terms, taking into account the Government's commitment to providing free undergraduate education to students from poor families who would otherwise not be able to pursue further or higher education".

Clearly, the more funds that are made available, the more students who can be provided with free higher and further education. However, in reality the funds NSFAS has at its disposal are far less than the minimum required to meet even current demand. While state funding to NSFAS has increased in real terms in virtually every year since the inception of the scheme a decade ago, there has been a relatively weak relationship between the demand for funding and the supply of funding by NSFAS. Some institutions have argued that it is only possible for the state to increase funding to NSFAS by 'topslicing' funding off the block grant made to each institution, in effect robbing Peter to pay Paul.

Chapter 7 on higher education financing highlighted the following issues:

- State expenditure on higher education has been declining since 2000 in real and student per capita terms.
- Government expenditure on higher education as a proportion of total expenditure is projected to remain constant at around 2,5 percent for the next Medium Term Expenditure Framework (MTEF) period to 2011/2012.
- The amount allocated for NSFAS funding is projected to increase at an annual average rate of 16,6 percent until 2011/2012, from R2,1 billion in the current fiscal year to around R2'7 billion in 2011/2012. However, as will be illustrated here, this amount is inadequate with respect to ensuring full cost of study provision for the currently eligible students in the system.

Table 8.1 shows for 22 HEIs the average NSFAS award granted as a proportion of the institutional full cost of study (FCS). The average for all institutions was 42 percent with many institutions, namely Mangosuthu University of Technology (MUT), Cape Peninsular University of Technology (CPUT), Walter Sisulu University (WSU), Durban University of Technology (DUT), University of Fort Hare (UFH), University of the Western Cape (UWC), and University of Venda (UV), being able to provide only about a quarter to a third of the funds that students actually needed. The data provide an alarming picture of the extent of student need despite recent, relatively large increases in the state allocation to NSFAS.

Table 8.1: Average NSFAS Award as % of FCS, 2008

CPUT (Bellville)	30
CPUT (Cape Town)	38
CUT	45
DUT	30
MUT	26
NMMU	43
NWU	48
Rhodes	77
TUT	51
UCT	39
UFH	34
UJ	39
UKZN	40
UL (Medunsa)	66
UL (Turfloop)	45
UP	48
US	63
UV	28
UWC	33
UZ	43
VUT	42
Wits	55
WSU (Butterworth)	25
WSU (Mthatha)	36

This demonstrates that only the five institutions listed below were able to provide more than 50 percent of what was needed.

Institution	% FCS provided
Rhodes University	77%
Stellenbosch University	63%
Tshwane University of Technology	51%
University of Limpopo (Medunsa)	66%
Wits University	55%

As the following section shows, the magnitude of need will increase substantially in the light of the government's stated intention to provide free or at least highly subsidised higher education to students from poor and working class backgrounds.

Moreover, as illustrated earlier, state expenditure on higher education, both its institutional and student financial aid components, is inadequate to address the needs of a system that needs to expand urgently to address both the equity (access and success) and developmental objectives (economic and social development) of higher education.

8.1.1 Higher education costing scenarios

This section provides a set of indicative costings for three scenarios in the higher education sector, varying according to the participation rate. These costing scenarios assisted the Committee to determine its recommendations for this sector particularly in pointing out what was feasible in the short, medium and long terms. The Committee examined the costing projections to obtain a better sense of the dimensions of the funding challenges the state will face with regard to partial or full subsidisation of students in this sector.

The costing scenarios are based on the following factors:

- The projected participation rate in higher education.
- The number of students who are poor or in need of financial aid and students from working class backgrounds as a proportion of total enrolment.
- The extent to which students will be given loans and bursaries.

Three participation rates are used:

- A 'worst case' scenario: 17 percent (the current higher education participation rate) of the age cohort (18-24 years) usually taken as the most appropriate for participation in higher education – in this scenario the participation rate remains at 17 percent for the period 2009-2020.
- A 'modest but realistic' scenario: 20 percent of the 18-24 year cohort in 2020 – the participation rate increases constantly each year to reach 20 percent in 2020. The Department of Education (DoE) projected a 20 percent participation rate for 2010 but this is unlikely to be achieved.
- A 'best case' scenario: 24 percent of the 18-24 year cohort in 2020 – the participation rate increases constantly each year to reach 24 percent in 2020.

Table 8.2 shows the number of students that would be in the higher education system at each of the three participation rates for the period 2010-2020.

Table 8.2: Projected enrolment in HE with varying participation rates

	Participation rate remains 17%	Participation rate to 20% by 2020	Participation rate to 24% by 2020
2009	834 768	847 970	860 952
2010	852 472	877 762	904 844
2011	861 625	899 120	941 221
2012	870 511	920 451	978 652
2013	879 026	941 630	1 017 035
2014	887 251	962 730	1 056 479
2015	893 938	982 367	1 095 473
2016	899 138	1 000 536	1 133 969
2017	905 341	1 019 978	1 175 078
2018	911 603	1 039 659	1 217 700
2019	917 925	1 059 585	1 261 893
2020	924 309	1 079 756	1 307 714

If the participation rate remains at the current 17 percent, total enrolment is projected to increase from 834 768 in 2009 to 924 309 in 2020.

If the participation rate increases constantly to 20 percent by 2020, total enrolment will increase from 847 970 in 2009 to 1 079 756 in 2020.

If the participation rate increases constantly to reach 24 percent by 2020, total enrolment will increase from 860 952 in 2009 to 1 307 714 in 2020.

Table 8.3 shows the cost to provide full-cost loans to poor and working class students in the system. This scenario assumes that the proportion of poor and working class students would remain at the current estimated 14 percent (the proportion of 'NSFAS-eligible' students in the system, an imperfect proxy for poverty, but useful for indicative purposes).

Table 8.3: HE costing scenario 1 at different participation rates (14% qualifying students)

	Participation rate remains 17%	Participation rate to 20% by 2020	Participation rate to 24% by 2020
2009	R 5 067 143 814	R 5 147 282 041	R 5 226 084 203
2010	R 5 174 610 104	R 5 328 121 547	R 5 492 511 791
2011	R 5 230 164 799	R 5 457 767 440	R 5 713 325 041
2012	R 5 284 109 034	R 5 587 249 461	R 5 940 534 506
2013	R 5 335 795 124	R 5 715 806 879	R 6 173 523 301
2014	R 5 385 721 446	R 5 843 886 635	R 6 412 952 552
2015	R 5 426 308 336	R 5 963 086 149	R 6 649 650 199
2016	R 5 457 878 090	R 6 073 375 983	R 6 883 326 286
2017	R 5 495 525 542	R 6 191 387 640	R 7 132 864 104
2018	R 5 533 537 324	R 6 310 857 717	R 7 391 588 074
2019	R 5 571 917 010	R 6 431 805 479	R 7 659 840 827
2020	R 5 610 668 224	R 6 554 250 446	R 7 937 977 940

Assumption: 14% of students are poor and working class –the current proportion applying for and eligible for NSFAS loans

Costing is in 2009 prices and uses NSFAS average full cost of study of R43 358

Scenario 1 (14 percent of the students are poor or working class) shows:

- If the participation rate stays at 17 percent, the total cost of the proposed financial aid scheme goes from R5,1 billion in 2009 to R5,6 billion in 2020.
- If the participation rate increases to 20 percent (by 2020), total cost goes from R5,2 billion in 2009 to R6,6 billion in 2020.
- If the participation rate increases to 24 percent (by 2020), total cost goes from R5,2 billion in 2009 to R7,9 billion in 2020.

These are the three sets of costings that emerge from this scenario. Ideally, the participation rate should be close to 24 percent by 2020. In this scenario, the total cost of providing full funding for 14 percent of the students is R7,9 billion. How feasible would this be is a question that has to be considered by the DHET.

The amount projected for NSFAS in the MTEF for 2011-2012 is of the order of R2,7 billion including funds for FET. If the above scenario were proposed it would require at the very least an immediate more than doubling of the NSFAS subsidy from the DHET. Alternatively, this model could be phased in over a period of between three and five years.

Table 8.4 shows a second scenario in which the proportion of qualifying students increases from 14 percent to 25 percent. This is a more realistic scenario in that it is likely that at least a quarter of the student body is from poor and working class backgrounds.

Table 8.4: HE costing scenario 2 at different participation rates (25% qualifying students)

	Participation rate remains 17%	Participation rate to 20% by 2020	Participation rate to 24% by 2020
2009	R 9 048 471 097	R 9 191 575 074	R 9 332 293 220
2010	R 9 240 375 187	R 9 514 502 763	R 9 808 056 769
2011	R 9 339 579 999	R 9 746 013 286	R 10 202 366 144
2012	R 9 435 908 990	R 9 977 231 181	R 10 608 097 332
2013	R 9 528 205 579	R 10 206 797 998	R 11 024 148 752
2014	R 9 617 359 726	R 10 435 511 848	R 11 451 700 985
2015	R 9 689 836 314	R 10 648 368 123	R 11 874 375 356
2016	R 9 746 210 876	R 10 845 314 256	R 12 291 654 083
2017	R 9 813 438 468	R 11 056 049 357	R 12 737 257 329
2018	R 9 881 316 650	R 11 269 388 780	R 13 199 264 418
2019	R 9 949 851 803	R 11 485 366 926	R 13 678 287 191
2020	R 10 019 050 400	R 11 704 018 654	R 14 174 960 607

Assumption: 25% of students are poor and working class –the current proportion applying for NSFAS loans. Costing is in 2009 prices and uses NSFAS average FCS of R43 358

Scenario 2 (25 percent of the students are poor or working class) shows:

- If the participation rate remains at 17 percent, total cost goes from R9,0 billion in 2009 to R10,0 billion in 2020.
- If the participation rate increases to 20 percent (by 2020), total cost goes from R9,2 billion in 2009 to R11,7 billion in 2020.
- If the participation increases to 24 percent (by 2020), total cost goes from R9,3 billion in 2009 to R14,2 billion in 2020.

Finally, in this sub-set of scenarios, Table 8.5 shows a scenario in which 40 percent of the higher education student body is regarded as poor or in need of financial aid and/or from a working class background. The figure of 40 percent assumes that the bottom two income quintiles represent the poor and working class – a reasonable assumption.

Table 8.5: HE costing scenario 3 at different participation rates (40% qualifying students)

	Participation rate remains 17%	Participation rate to 20% by 2020	Participation rate to 24% by 2020
2009	R 14 477 553 754	R 14 706 520 118	R 14 931 669 151
2010	R 14 784 600 298	R 15 223 204 421	R 15 692 890 831
2011	R 14 943 327 998	R 15 593 621 258	R 16 323 785 831
2012	R 15 097 454 384	R 15 963 569 890	R 16 972 955 731
2013	R 15 245 128 926	R 16 330 876 797	R 17 638 638 003
2014	R 15 387 775 561	R 16 696 818 956	R 18 322 721 576
2015	R 15 503 738 103	R 17 037 388 996	R 18 999 000 569
2016	R 15 593 937 401	R 17 352 502 810	R 19 666 646 532

2017	R 15 701 501 548	R 17 689 678 971	R 20 379 611 727
2018	R 15 810 106 640	R 18 031 022 049	R 21 118 823 068
2019	R 15 919 762 885	R 18 376 587 081	R 21 885 259 506
2020	R 16 030 480 640	R 18 726 429 846	R 22 679 936 971

Assumption: 40% of students are poor and working class –the current proportion applying for and eligible for NSFAS loans. Costing is in 2009 prices and uses NSFAS average FCS of R43 358

Scenario 3 (40 percent of the students are poor or in need of financial aid) shows the following:

- If the participation rate remains at 17 percent, total cost goes from R14,5 billion in 2009 to R16,0 billion in 2020.
- If the participation rate increases to 20 percent (by 2020), total cost goes from R14,7 billion in 2009 to R18,7 billion in 2020.
- If the participation rate increases to 24 percent (by 2020), total cost goes from R14,9 billion in 2009 to R22,7 billion in 2020.

8.1.2 Summary of the costing projections

Providing full cost loans (as currently defined by NSFAS) to all current eligible students (according to NSFAS criteria) requires an immediate more-than-doubling of the total NSFAS allocation – approximately R5 billion (Table 8.3). These costs rise substantially as the proportion of projected students who are poor or in need of financial aid rises. Total costs will depend on the participation rate, the proportion of students who are poor or in need of financial aid, and the full cost of study. Tables 8.3 to 8.5 show how total costs for higher education can vary when the first two of these factors are changing.

Table 8.6: Estimates for fully subsidised HE with varying participation rates

Participation Rate (%)	% of poor or working class students	Estimated Cost in 2010 (R, bn)	Estimated Cost in 2020 (R, bn)
17	14	5,2	5,6
	25	9,2	10,0
	40	14,8	16,0
20	14	5,3	6,6
	25	9,5	11,7
	40	15,2	18,7
24	14	5,5	7,9
	25	9,8	14,2
	40	15,7	22,7

8.2 Proposed education student financial aid

The Review Committee proposes the adoption of two new models for student financial aid, the first for higher education and the second for further education and training. This chapter describes the model for funding higher education.

8.2.1 Higher education student financial aid model

The proposed higher education student financial aid model comprises three components aimed at different segments of the higher education student body:

- Component 1 – Full state subsidisation of poor students and those from working class backgrounds, to be progressively realised over a specific period.
- Component 2 – Income-contingent loan scheme for the children of public sector employees earning salaries up to a maximum of R300 000 per annum.
- Component 3 – Income-contingent loan scheme funded by the state or other agency for students from lower middle-income families.

8.2.2 Component 1

Fully subsidised education for poor students and students from working class backgrounds

The Review Committee **recommends** that the state should provide free higher education for poor students and students from working class backgrounds. Its investigations show that insufficient finance represents a formidable barrier to academic success for poor students. It is therefore essential to ensure their higher education studies are fully subsidised. Currently a large number of institutions, especially historically disadvantaged institutions (HDIs), are unable to provide adequate levels of financial aid because of inadequate funding from NSFAS to meet the demand from the overwhelmingly large proportions of poor students at such institutions.

8.2.3 Identifying the poor

An important challenge in this model is to ensure that there is a clearly-defined mechanism for identifying poor students and those from working class backgrounds. The current NSFAS system uses a means test to determine household income and an associated Expected Family Contribution (EFC). The EFC provides a reasonable proxy for poverty, with results for the poorest applicants showing that no contribution is expected from a student's family. However the validity of means test data is widely regarded as unreliable because many students are said to provide false information about family income in order to qualify for loans. HEIs do not have the capacity to verify information provided in students' affidavits.

The provision of fully-subsidised education will increase the challenges of verifying qualification information. In the absence of adequate information from the South African Revenue Services (SARS) for low-income socio-economic groups, the Review Committee proposes a simpler procedure to determine who qualifies for fully-subsidised education, using one or more of the following criteria in combination to determine whether a student is poor or from a working class background:

- Household income below the lowest threshold of the SARS tax tables.
- Students who attended a Quintile 1[1] school and those who received fee waivers at other public schools.
- Students from the poorest municipalities – the exact number and location of these

[1] Quintile 1 are the poorest schools, determined by the socio-economic status of the school community, based on levels of poverty, unemployment, dependency on social grants. All schools in Quintile 1 are no-fee schools. The proposal assumes that the current problems with categorisation of schools into different quintiles will have been resolved.

municipalities can be determined by the DHET in consultation with the Department of Co-operative Governance and Traditional Leadership and Statistics SA to devise a system that will ensure children from poor families in more affluent municipalities are not unfairly discriminated against.

For an interim period, where the state may be unable to fully fund students as proposed here, the above information should be collected by higher education institutions (HEIs) when they are implementing the means test. As with the current NSFAS model, only South African and undergraduate students would be eligible for funding.

8.2.4 The funding challenge

The Review Committee **recommends** that the current higher education funding model be radically revised to substantially increase the funding for higher education generally, and for higher education student financial aid specifically. If public institutions are to continue to charge tuition and residence fees, substantially increased state funding for student financial aid will be essential if the policy goals of improving access and contributing to the pool of skilled labour are to be achieved. Unless the level of state funding for higher education increases to more appropriate levels for a middle-income country, the hope of increasing access to higher education and creating a skilled and economically active workforce that can contribute to economic development will not be realised.

The funding requirements for the proposed model are considerable relative to funding for the current NSFAS model. Preliminary costings show that the most conservative scenario – at the current participation rate of 17 percent and fully subsidising 14 percent of the student population – would require R5,2 billion in 2010, compared to current state funding of NSFAS, approximately R2,2 billion.

However, if we assume that at least 25 percent of the student population is from poor or working class backgrounds, which is a more realistic scenario, then the cost goes up to R9,2 billion in 2010. Both sets of figures provide for the average full cost of study (R43 358 in 2009). The model also assumes that all HEIs should receive this amount for the students who are deemed eligible on the criteria set out above.

In the immediate and short terms, the Review Committee **recommends** that the department should explore the possibility of utilising funds from the National Skills Fund (NSF) for supplementing funding for both higher and further education. In the longer term, the DHET should explore broader options for funding higher education, such as a social security tax or the payroll tax that currently funds the sector education and training authorities (SETAs).

Given the considerable increase in funding requirements for the proposed scheme and cognisant of budgetary constraints, the Review Committee **recommends** a Progressive Realisation Model (PRM), to be implemented in terms of a schedule determined by the Minister in consultation with stakeholders. Details of the PRM are outlined in 8.1.7 below.

8.2.5 Allocation formula to universities

The Committee found that the allocation formula to universities, which is based on each institution's self-determined FCS and the demographic profile of the student population, the so-called Disadvantaged Student Index (DSI) at an institution, should be replaced. The race-based model should be replaced by a class-based model using solely socio-economic criteria. The Committee strongly **recommends** that all eligible students should be fully funded at the institution of their choice.

The Committee found that the institutionally-determined FCS resulted in substantial inequity in NSFAS allocations to institutions, varying between the lowest of R6 615 at Walter Sisulu University (Butterworth campus) and the highest of R35 275 at Rhodes University. The result of this resource inequity is to entrench the academic capacity differential inherited from the apartheid era between historically advantaged universities (HAIs) and HDIs, thus undermining the capacity of the system as a whole to contribute to mitigating the national skills shortage. It also contributes to the revolving door syndrome, in which students gain access to higher education but receive insufficient financial support to ensure success, and are revolved out again into poverty as university dropouts burdened with student debt.

The model therefore proposes that all institutions should receive the average FCS per student, regardless of the institutionally-determined FCS. The average FCS was R43 358 in 2009 and, with the exception of five universities, all institutions would benefit from this allocation mechanism. The Committee believes that this proposal will achieve two goals:

- It will enable poor students to have access to full funding, thus increasing their chances of academic success. In those institutions, currently five, where the FCS exceeds the average, the state will have to make it clear that such students will not be charged for the gap between the average and the institutional FCS. DHET must specify the necessary provision to be made by HEIs for residence, travel, books and meals.
- For those institutions whose FCS is below the average, the additional resources should be used for a range of redress purposes, among them employment of more academics, leading to a more favourable lecturer-student ratio; improving infrastructure; funding foundation programmes and academic development support to enhance academic success; or increasing enrolment – in effect enhancing the HEI's capacity to produce greater numbers of competent, qualified graduates to join the national workforce.

Regulations should be gazetted prohibiting institutions from charging students for the shortfall between the average and the institutional FCS. The regulations should specify that the FCS must include tuition, accommodation, study material and aids and travel expenses.

In light of these recommendations on changes to the allocation formula, the Committee **recommends** that the state must also ensure that all institutions admit a prescribed minimum of poor and working class students. To this end, DHET should determine the minimum shares for each institution, while limits on the maximum numbers will be determined by the budgetary allocation for the model.

8.2.6 Central Applications Process

The recommended fully subsidised model implies a fundamental change in the funding model from the prevailing scheme. In the current NSFAS model, funding from the state follows institutions; in the model proposed by the Review Committee funding will follow the student. In this circumstance, a more efficient outcome will be generated through a Central Applications Process (CAP) for first-time students. Such a process could assess eligibility for entry and financial need at the same time, eliminating many of the delays that characterise the current NSFAS-HEI process.

In KwaZulu Natal, a successful Central Applications Office (CAO) exists through which students apply for admission to any of the four HEIs in that province. The Review

Committee's analysis of the model confirms that the centralised process leads to significant efficiency gains especially in terms of student certainty around placement and results in savings for poor students who do not have to find upfront application fees. These gains could be further enhanced if a centralised applications process were coupled to the determination of financial need. If the proposed model for determining need described above were to be adopted, the required information could be obtained in the first stage of the application process. The CAP office could collect all the student information including financial need, and NSFAS could analyse the financial need data.

However, the Review Committee is cognisant that its proposal for a CAP may be resisted by HEIs, for which application fees are a useful source of revenue. A phased approach to the introduction of the CAP, taking into account the concerns of the HEIs, is advised. The Committee also **proposes t**hat the DHET should establish a CAP on a regional basis. It is not necessary to have a CAP office in every province; in addition to the KwaZulu Natal office, four offices located in Eastern Cape, Gauteng, Western Cape and Free State would be able to provide a comprehensive service, with applicants from Limpopo, Mpumalanga, North West and Northern Cape being served by the nearest regional office.

8.2.7 The role of NSFAS in the fully-subsidised model

In the fully-subsidised model, NSFAS could play a key role in identifying students from poor and working class backgrounds and in the allocation and transfer of funds to HEIs.

8.2.8 Progressive realisation of the fully-subsidised funding model

The Committee is aware that budgetary constraints may dictate that full subsidisation of poor and working class students may not be possible in the immediate and short terms. However, if the proposal is accepted in principle, then a PRM should be adopted. The characteristics of such a model are described below.

a) For each financial year in the interim period, the DHET will determine:
   - (i) the total funding available for student financial aid; and
   - (ii) the proportion of this total funding that will be allocated respectively to bursaries (full subsidisation) and loans.

b) Institutional allocations: in the PRM, allocations to HEIs will no longer be based on race but on the number of students who need financial aid. An institutional 'Index of Need' would be derived from the most recent data on the number of students eligible for NSFAS funding. Resources would then be transferred to each HEI on the basis of its proportion in the index. Adjustments would be made annually on the basis of new data about the numbers of students needing financial aid.

c) The EFC determined by the means test is a suitable proxy for poverty. NSFAS should use the previous year's data on EFCs, to determine for each HEI what proportion of the DHET allocation should be used respectively for full subsidisation and loans.

The Committee wishes to emphasise that, as with the fully subsidised model, in the PRM all students should receive full funding, irrespective of whether they receive full bursaries or loans.

8.2.9 Component 2

Loan scheme for the children of public sector employees

The Review Committee found that in the current NSFAS scheme, students who are the children of lower middle income public sector employees are excluded from qualifying for financial aid as their household income is above the R122 000 per annum qualification threshold. However, a large group of public servants, particularly teachers, nurses, police personnel and lower ranked civil servants, cannot afford the costs of higher education for their children, especially if there is more than one child aspiring to study at university. These students, often referred to as the “missing middle”, would probably also not qualify for the fully-subsidised higher education in Component 1 of the proposed new model.

The Committee therefore proposes that NSFAS should provide income-contingent loans to students who are dependents of public sector employees whose salary range is below R300 000 per annum and who belong to the Government Employees Pension Fund (GEPF). Funding for the scheme could be provided by the Public Investment Corporation (PIC), which is responsible for investing the funds of the GEPF. Such funding falls within the terms of the PIC mandate. The funding required for this model would depend on the number of children of public servants in the system. If this proportion were at 10 percent of the student body (at the current participation rate of 17 percent), the initial cost to the PIC in 2009 prices would be of the order of about R3,7 billion.

The Committee has initiated discussions with both the GEPF and the PIC and **recommends** that the DHET should strongly encourage the PIC to finalise an agreement to invest in the higher education of GEPF members. If the PIC fails to make this investment, the possibility of finding alternative sources to finance the education of public sector employees’ dependents is virtually non-existent.

8.2.10 The role of NSFAS in Component 2

In Component 2, NSFAS could continue to play its current role, except with regard to loan recovery, on condition the governance and policy changes the Committee is recommending are put in place. The current means test should be retained and the EFC should be used as a proxy for poverty. However, a major flaw with the implementation of the means test, as pointed out earlier, is the inaccurate and false information that is provided especially in relation to household income. NSFAS should take steps to ensure that more accurate information is obtained and verified; if this is not done, the means test will continue to be a flawed instrument. The Committee has strongly recommended that all successful applicants be given loans to cover the FCS. NSFAS should determine all non-tuition costs, including the cost of providing accommodation, travel and study materials and aids.

8.2.11 Component 3

A loan scheme for students from lower middle income backgrounds

As is the case with public sector employees, households in the income range up to R300 000 per annum are at the mercy of commercial banks which charge interest up to prime plus 5 percent, student loan companies with similar interest rates, and both registered and illegal moneylenders, to fund higher education.

The Committee proposes that the DHET should extend the NSFAS income-contingent loan scheme to students from lower middle income households who do not qualify for free education but who nevertheless cannot afford to go to university. The rationale for including this group is that they present a limited credit risk, can provide collateral and can make repayments. The terms of the loans should be more generous than those from commercial banks and student loan companies with lower rates of interest than commercial loans, thus achieving the goals of access and affordability as well as sustainability of the loan scheme.

Illustrative costing suggests that around R5,5 billion would be needed in 2010 (at a 17 percent participation rate) for full loan funding of 15 percent of the student body. Funding for this loan scheme could either be obtained through the government budget or through financing arrangements with sources such as pension and investment funds, in partnership with government, similar to the arrangement proposed with the GEPF and PIC in Component 2. As with Component 1, this component of the model requires more state funding if alternative funding sources cannot be found.

8.2.12 The role of NSFAS in Component 3

In this component, NSFAS could identify eligible students and transfer funds to the HEIs for qualifying students. In this regard, it would have to pay particular attention to how the various deficiencies relating to the means test would be addressed.

PART FOUR
FURTHER EDUCATION AND TRAINING

Chapter 9

Further education and training

9 Further education and training

The further education and training (FET) sector has undergone fundamental and far-reaching transformation in the democratic era.

This transformation process started with White Paper No. 4 in 1998, followed by the merging of the 150 technical colleges into 50 FET colleges, almost all of which have more than one campus. In 2006, the FET College Act[1] was passed which provided, *inter alia*, for increased autonomy for the colleges including governance by their councils and, importantly, employment of their entire academic and support staff.

Other major features of the FET college landscape included the replacement in 2007 of the long-running National Technical Education (Nated) programmes with the National Certificate (Vocational) (NCV), which introduced a comprehensive vocational education programme comprising both theoretical and practical components to prepare young South Africans with the required skills for the world of work.

Thirteen NCV programmes were introduced, presenting immense challenges for both policy makers at national and provincial levels, and policy implementers at college level. Among the college-level challenges were the degree of preparedness of the college educators, the relatively young student population enrolling for the NCV – with most students between 16 and 18 years old – and the inadequacy of infrastructure and capital equipment.

In addition, to address the infrastructure and human resource challenges posed by the NCV, the then Department of Education (DoE) provided a conditional grant, termed the "recapitalisation grant" to the colleges for a three-year period beginning in fiscal 2006-2007. These funds were urgently needed at the college level but they brought with them a new set of challenges associated with the need for rapid and effective expenditure. There is, nevertheless, little doubt that recapitalisation funding helped immensely to ensure a relatively smooth transition to the successful implementation of the NCV.

The role of NSFAS in relation to FET colleges was also affected by the changes in the institutional landscape. In 2007, the NSFAS legislative mandate was expanded[2] to include responsibility for granting and administering bursaries to students at public FET colleges. The annual budget of NSFAS was increased to provide resources for the additional activities involved in the disbursement and administration of FET bursaries.

The final step in this transformation process is the imminent introduction of a new funding framework based on a set of norms that provide, *inter alia*, a menu of NCV programme costs, define the roles of the national and provincial departments as regards enrolments and funding, and outline the scope of potential capital and other forms of funding.

One of the outcomes of this process will be to upgrade the capacity and resources of the FET colleges, making them more appealing as tertiary education destinations for young South Africans – many of whom currently opt, inappropriately, for university rather than an FET college. The current balance between FET colleges and universities is inappropriately skewed in favour of universities with 761 000 students at universities and only 470 000

[1] FET College Act, Act 16 of 2006.
[2] Education Laws Amendment Act 2007.

enrolled in colleges.[3] To correct this imbalance, the state has set the enrolment target for colleges to double in the next five years.[4]

The November 2009 Ministerial Policy Statement signals that in meeting this target, the state intends to achieve the following goals:

- To consolidate the institutional base for FET colleges in partnership with the skills development system.
- To improve responsiveness to the needs of the economy.
- To work closely with the National Board for Further Education and Training to review the impact of the some of the recent changes, particularly in the management and governance structures.
- To undertake an urgent national audit of individual institutional governance and administration.

Table 9.1: Provincial expenditure on FET colleges (R m)

	2003-4	2006-7	2006-7 (less recap)	2007-8	2007-8 (less recap)
Eastern Cape	140	246	185	302	223
Free State	116	158	128	187	151
Gauteng	302	486	380	600	459
KwaZulu-Natal	199	392	302	401	286
Limpopo	93	218	175	332	265
Mpumalanga	81	169	137	184	144
Northern Cape	29	33	23	34	26
North West	54	106	78	136	107
Western Cape	145	265	195	310	230
Total	1 159	2 073	1 603	2 486	1 891

Source: National Treasury; 'recap' refers to recapitalisation.

Against this background, the Review Committee considered the current funding challenges in the FET college sector and examined some costing projections to obtain a sense of the dimensions of the funding challenges the state will face with regard to partial or full subsidisation of FET students. It also considered the role of NSFAS in providing student financial aid in this sector.

9.1 FET funding challenges

In addition to the changes in the sector during the past decade, the Review Committee identified a number of FET college challenges in relation to funding. These include:

- Developing an appropriate conduit for funding flows from NSFAS to the colleges.
- Ensuring adequate FET college funding in terms of the proposed norms.
- Addressing the relatively poor growth in FET college financial allocations in spite of the

[3] DoE enrolment figures 2007. The total of 470 000 students refers to a headcount and not full-time equivalents (FTEs). Given the part-time nature of study for most Nated students, the FTE count for the sector would be much lower than 470 000, thus accentuating further the enrolment gap between higher education and further education.
[4] MHET Policy Statement, 4 November 2009.

growth in provincial education budgets.

- Recapitalisation funding – which has been of great value to provinces, but unfortunately in a few instances it replaced provincial capital funding, whereas the intention was to supplement provincial funds.

As Table 9.1 shows, the amounts allocated to FET colleges in the provincial budgets remain low in both absolute and relative terms. The proportion of the provincial education budget allocated to FET colleges in 2008-2009 is less than 3 percent (see also Table 9.3). Of the nearly R95 billion allocated to education in the provinces in 2008-2009, only R2,8 billion was for the FET colleges. The FET college allocation rose dramatically from 2006-2007 only because of the recapitalisation grant provided by the national DoE. Table 9.1 also shows that recapitalisation funding was substantial and actually comprised 23-24 percent of total FET college funding in 2006-2007 and 2007-2008 respectively.

The total FET college allocation is inadequate given the sector's many challenges – not least in attracting appropriately-skilled educators. The FET college sector is expected to play a prominent role in the development of scarce skills, but cannot do so at the current low resourcing levels.

Although the total provincial budget for education has been increasing substantially in nominal and real terms, the amount allocated to FET colleges by provinces has increased at a much lower rate, as demonstrated in Table 9.2. The funding trend line for Northern Cape province is particularly worrying – while all provincial allocations to FET colleges are low, the Northern Cape is the only province where the proportion of FET college funding is declining in spite of recapitalisation funding.

Table 9.2: Provincial FET spend - total education

	2003-4	2006-7	2007-8
Eastern Cape	1,4%	1,9%	2,1%
Free State	2,9%	3%	3,3%
Gauteng	3,2%	3,9%	4,1%
KwaZulu-Natal	1,7%	2,4%	2,2%
Limpopo	1,1%	1,9%	2,8%
Mpumalanga	1,8%	2,7%	2,3%
Northern Cape	2,2%	2%	1,5%
North West	1,1%	1,6%	2,6%
Western Cape	2,7%	3,7%	4%
Total	2%	2,6%	2,8%

Moreover, there is a serious concern in the college sector about future funding for capital expenditure with the end of the recapitalisation grant in fiscal year 2008-2009. Several provincial education departments removed from their budgets all capital expenditure with the arrival of the recapitalisation grant. This was against both the spirit and letter of the funding provided by the national department.

The Department of Higher Education and Training (DHET) has developed a set of funding norms for the FET colleges. However, with FET colleges remaining an exclusive provincial competence for at least another fiscal year – and with provincial education departments exercising absolute autonomy in the allocation of funds earmarked nationally for FET colleges – there is a real possibility that provincial administrations could continue to ignore DHET's funding norms. This policy disjuncture is a major obstacle, at least in the short term, to the prospects of giving effect to the high priority set at national level for FET colleges.

For the purposes of the review, the Committee assumed the misalignment between national and provincial priorities would be addressed through the relocation of FET colleges as a national competence, although recommendations on possible interim measures are also offered.

9.2 FET costing scenarios

The Review Committee has examined costing projections and developed potential models to obtain a better sense of the dimensions of the funding challenges the state will face with regard to partial or full subsidisation of students in this sector. The costing projections are based only on projections of NCV students as the official policy of the department at this stage is to phase out Nated courses, a process which should be completed by 2016. The modelling included:

- Varying participation rates are for 2010 – 2020.
- Two sets of costing scenarios:
  - Bursary provision for 50 percent and 70 percent respectively of students at the five chosen participation rates.
  - Free fully subsidised education for 50 percent; 70 percent; and 100 percent of the students, at the lowest projected participation rate (2,4 percent) and at what may be considered a more realistic (and much needed) projection, 10 percent by 2020.

The model includes total enrolments projected at each participation rate for 2010 – 2020. Determining the participation rate in this sector presented a set of challenges. These arise from the fact that the NCV programmes are relatively new and thus little data is available from which to project. Moreover, it was not clear what the appropriate age cohort was. Theoretically, it should be the 15-19 year group. However, education department data show that in the current student population, 47 percent are in this age group, 44 percent in the 20-24 year group, and the rest are older. The following formula was used:

(0,52 x the projected population 15-19 years + 0,48 x the projected population 20-24 years).

In other words, 52 percent of the 15-19 year group, and 48 percent of the 20-24 year group.

Deciding on the participation rate was also challenging given the department's rather optimistic projections, as shown in the last column of Table 9.3. Four participation rates were chosen:

- Participation remains at the current 2,4 percent until 2020 (worst case scenario).
- Participation increases to reach 10 percent in 2020 (realistic).
- Participation increases to 20 percent in 2020 (moderately optimistic).
- Participation increases to 40 percent (most optimistic).

Table 9.3 shows the department's enrolment projections for this sector.

The results are as follows:

- If the participation rate remains at the current 2,4 percent, total enrolment is projected to increase from 124 530 in 2010 to 130 662 in 2020.
- If the participation rate increases consistently to 10 percent by 2020, total enrolment will increase from 141 660 in 2010 to 539 332 in 2020.
- If the participation rate increases consistently to reach 20 percent by 2020, total enrolment will increase from 150 874 in 2010 to 1 078 665 in 2020.
- If the participation rate increases consistently to reach 40 percent by 2020, total enrolment will increase from 160 687 in 2010 to 2 157 330 in 2020.
- If enrolment increases at 45,8 percent per annum to 2014 and the participation rate increases to 40 percent by 2020 (DoE scenario), total enrolment will increase from 177 000 in 2010 to 2 157 330 in 2020.

Table 9.3: Projected FET enrolment rates

	Participation rate				
	Remains 2,4%	Rises to 10%	Rises to 20%	Rises to 40%	DHET scenario
2010	124530	141660	150874	160687	177000
2011	125415	162292	184090	208816	256000
2012	126110	185639	224269	270937	371000
2013	126607	212007	272782	350979	538000
2014	126874	241680	331186	453841	800000
2015	126932	275050	401429	585878	938731
2016	127099	313295	486988	756978	1103748
2017	127977	358854	594084	983511	1305026
2018	128863	411045	724747	1277861	1543039
2019	129759	470835	884163	1660336	1824495
2020	130662	539332	1078665	2157330	2157330

DHET scenario: Growth rate of 45,8% p.a. to 2014, thereafter participation rate increases gradually from 15% to 40%.

Five costing scenarios are provided here:

1. The cost of bursary provision for 50 percent of students.
2. The cost of bursary provision for 70 percent of students.
3. The cost of a full subsidy for 50 percent of students.
4. The cost of a full subsidy for 70 percent of students.
5. The cost of a full subsidy for 100 percent of students.

Scenario 1: Bursary provision for 50 percent of student enrolment

If the participation rate remains at the current 2,4 percent, the cost of bursaries increases from R374 million in 2010 to R392 million in 2020.

If the participation rate increases consistently to 10 percent by 2020, the cost of bursaries increases from R425 million in 2010 to R1,6 billion in 2020.

If the participation rate increases consistently to reach 20 percent by 2020, the cost of bursaries increases from R453 million in 2010 to R3,2 billion in 2020.

If the participation rate increases consistently to reach 40 percent by 2020, the cost of bursaries increases from R482 million in 2010 to R6,5 billion in 2020.

If enrolment increases at 45,8 percent per annum to 2014 and the participation rate increases to 40 percent by 2020 (DoE scenario), the cost of bursaries increases from R531 million in 2010 to R6,5 billion in 2020.

Scenario 1 table

	R millions				
	Participation rate				
	Remains 2,4%	Rises to 10%	Rises to 20%	Rises to 40%	DHET scenario
2010	374	425	453	482	531
2011	376	487	552	626	768
2012	378	557	673	813	1 113
2013	380	636	818	1 053	1 614
2014	381	725	994	1 362	2 400
2015	381	825	1 204	1 758	2 816
2016	381	940	1 461	2 271	3 311
2017	384	1 077	1 782	2 951	3 915
2018	387	1 233	2 174	3 834	4 629
2019	389	1 413	2 652	4 981	5 473
2020	392	1 618	3 236	6 472	6 472

DHET scenario: Growth rate of 45,8% pa to 2014, thereafter participation rate increases gradually from 15% to 40%.

Assumptions

- 50 percent of students need bursaries.
- Value of bursary: R6 000 per annum.
- Costing is in 2009 prices.

Scenario 2: Bursary provision for 70 percent of student enrolment

If the participation rate remains at the current 2,4 percent, the cost of bursaries increases from R523 million in 2010 to R549 million in 2020.

If the participation rate increases consistently to 10 percent by 2020, the cost of bursaries increases from R595 million in 2010 to R2,3 billion in 2020.

If the participation rate increases consistently to reach 20 percent by 2020, the cost of bursaries increases from R634 million in 2010 to R4,5 billion in 2020.

If the participation rate increases consistently to reach 40 percent by 2020, the cost of bursaries increases from R675 million in 2010 to R9,1 billion in 2020.

If enrolment increases at 45,8 percent per annum to 2014 and the participation rate increases to 40 percent by 2020 (DoE scenario), the cost of bursaries increases from R743 million in 2010 to R9,1 billion in 2020.

Scenario 2 table

R millions					
	Participation rate				
	Remains 2,4%	Rises to 10%	Rises to 20%	Rises to 40%	DHET scenario
2010	523	595	634	675	743
2011	527	682	773	877	1075
2012	530	780	942	1138	1558
2013	532	890	1146	1474	2260
2014	533	1015	1391	1906	3360
2015	533	1155	1686	2461	3943
2016	534	1316	2045	3179	4636
2017	538	1507	2495	4131	5481
2018	541	1726	3044	5367	6481
2019	545	1978	3713	6973	7663
2020	549	2265	4530	9061	9061

DHET scenario: Growth rate of 45,8% pa to 2014, thereafter participation rate increases gradually from 15% to 40%

Assumptions

- 70 percent of students need bursaries.
- Value of bursary: R6 000 per annum.
- Costing is in 2009 prices.

Scenario 3: Free education for 50 percent of student enrolment

If the participation rate remains at 2,4 percent, the total cost increases from R2,1 billion in 2010 to R2,2 billion in 2020.

If the participation rate increases to 10 percent by 2020, the total cost increases from R2,4 billion to R9,1 billion.

Inclusion of the 80 percent state subsidy for the other 50 percent of the student population produces the following total costs to the state for FET:

2,4 percent participation rate: 2010 – R3,84 billion; 2020 - R4,16 billion.

Scenario 3 table

	R millions	
	Participation rate	
	Remains 2,4%	Rises to 10%
2010	2117	2408
2011	2132	2758
2012	2143	3155
2013	2152	3604
2014	2156	4108
2015	2157	4675
2016	2160	5326
2017	2175	6100
2018	2190	6987
2019	2205	8004
2020	2221	9168

Assumptions

- 50 percent of students receive full subsidy/free education.
- Average full cost of study: R34 000 per annum.
- Does not include 80 percent subsidy (current allocation) for the remaining 50 percent.
- Costing in 2009 prices.

Scenario 4: Free education for 70 percent of student enrolment

If the participation rate remains at 2,4 percent, total cost increases from R3 billion in 2010 to R3,1 billion in 2020.

If the participation rate increases to 10 percent by 2020, the total cost increases from R3,4 billion to R12,8 billion.

Inclusion of the 80 percent state subsidy for the other 30 percent of the student population produces the following total costs to the state for FET:

- 2,4 percent participation rate: 2010 – R4,00 billion; 2020 – R4,54 billion.
- 10 percent participation rate: 2020 – R4,55 billion; 2020 – R15,70 billion.

Scenario 4 table

	R millions	
	Participation rate	
	Remains 2,4%	Rises to 10%
2010	2 964	3 372
2011	2 985	3 863
2012	3 001	4 418
2013	3 013	5 046
2014	3 020	5 752
2015	3 021	6 546
2016	3 025	7 456
2017	3 046	8 541
2018	3 067	9 783
2019	3 088	11 206
2020	3 110	12 836

Assumptions

- 50 percent of students receive full subsidy/free education.
- Average full cost of study: R34 000 per annum.
- Does not include 80 percent subsidy (current allocation) for the remaining 30 percent.
- Costing in 2009 prices.

Scenario 5: Full state subsidies for FET sector

If the participation rate remains at 2,4 percent, total cost increases from R4,2 billion in 2010 to R4,4 billion in 2020.

If the participation rate increases to 10 percent by 2020: total cost increases from R4,8 billion to R18,3 billion.

Scenario 5 table

R millions		
	Participation rate	
	Remains 2,4%	**Rises to 10%**
2010	4 234	4 816
2011	4 264	5 517
2012	4 288	6 311
2013	4 305	7 208
2014	4 314	8 217
2015	4 316	9 351
2016	4 321	10 652
2017	4 351	12 201
2018	4 381	13 975
2019	4 412	16 008
2020	4 443	18 337

Assumptions

- All students receive full subsidy/free education.
- Average full cost of study: R34 000 per annum.
- Costing in 2009 prices.

9.2.1 Costing scenario summary

- FET participation rates are currently low. It is probably unrealistic to expect that this rate will increase to more than 10 percent by 2020 unless some drastic strategies are adopted (such as full subsidisation of the sector).
- Scenario 1 and Scenario 2 show the cost of providing NSFAS bursaries to a projected 50 percent and 70 percent of enrolments respectively. At the 50 percent level, if participation increases to 10 percent by 2020, the cost to the state will be R425 million in 2010 and R1,6 billion in 2020. At the 70 percent level, at the same participation rate, the cost to the state will be R595 million in 2010 and R2,3 billion in 2020.
- Scenario 3 shows the cost of fully subsidising 50 percent of students in the FET sector. At the 10 percent participation rate (by 2020) the cost of fully subsidising 50 percent of the students plus 80 percent subsidisation of the rest of the students in 2010 will be R4,4 billion and R15 billion in 2020.
- Scenario 4 shows the cost of fully subsidising 70 percent of students in the FET sector. At the 10 percent participation rate (by 2020) the cost of fully subsidising 50 percent of the students plus 80 percent subsidisation of the rest of the students in 2010 will be R4,6 billion and R15,7 billion in 2020.
- Scenario 5 shows the cost of fully subsidising all students in the FET sector. At the 10 percent participation rate (by 2020) the cost of fully subsidising all students in 2010 will be R4,8 billion and R18,3 billion in 2020.

9.3 Conclusions

The FET sector currently comprises both secondary and post-secondary components. The NCV introduced in 2007 was designed for students at the equivalent Grades 10-12 or NQF 2-4 levels.

Funding for the NCV courses is provided as follows: in theory, the state funds 80 percent of the cost of providing the NCV courses at FET colleges. DHET bursaries are provided through NSFAS to poor students, making up the 20 percent gap in funding. Although a funding model was developed by the former DoE to ensure 80 percent funding of these courses, the provincial education departments, which were responsible for FET until the advent of the new administration in May 2009, without exception did not provide adequate funding to colleges primarily because they all regard schooling as the major (and often only) priority.

The transformation of the FET colleges from the technical colleges of the apartheid era represented a huge challenge for the government. Nevertheless the 150 racially-defined technical colleges were transformed into 50 regional FET colleges. In addition, there was a radical transformation of the curriculum to bring it more in line with the vocational education needs of a globalising economy. Among the challenges still facing the sector are:

- A low participation rate, which is related partly to negative perceptions about vocational education (VE) generally, and partly to the fact that until recently, South Africa has not had a developed VE system that was able to produce high-quality middle-level technicians. The NCV curriculum has the potential to reverse this trend.
- Inadequate public funding.
- The challenges of rural colleges relate in particular to issues of distance, poverty and

economies of scale. Most rural colleges are small and the current funding norms appear to be inappropriate. The Review Committee believes it may be appropriate to give consideration to consolidating existing rural FET colleges into fewer but larger and more sustainable colleges. If so, the system will necessarily need to provide for fully subsidised student accommodation.

- The majority of students in this sector are socio-economically disadvantaged, unlike the more diverse socio-economic mix in higher education. This calls for expansion of the state subsidy for this sector taking into account student needs particularly with regard to transport, meals and accommodation, particularly in peri-urban and rural areas.

9.4 Recommendations

For convenience, the Review Committee's recommendations regarding funding of FET colleges are included with the model and, separately, as part of the full schedule of recommendations provided in Part 5 of this report. After an in-depth analysis of the sector, including discussions with leaders of most of the FET colleges, the Review Committee **recommends** that fully-subsidised education should be provided to all students in this sector. The rationale for this recommendation stems from at least three related reasons:

- The need to substantially increase access.
- The increasing scarcity of middle-level technicians.
- The need to diversify the post-secondary education sector to ensure flexibility in responding to the needs of a changing economy and labour market.

Although the NCV courses are targeted at 16-18 year olds, more than 50 percent of current students are older, suggesting that students who have already been through matric are enrolling in these institutions.

The costs of full subsidisation of this sector are relatively low. In 2008, the provincial departments budgeted R3,1 billion for the FET colleges and a further amount of R600 million was provided for bursaries, a total of R3,7 billion. Providing full subsidies in 2010 at the current participation rate of 2,4 percent would require R4,2 billion at 2009 prices. If there is an immediate increase in the participation – for example, towards the 10 percent in 2020 scenario – the cost in 2010 is estimated around R4,8 billion, again a manageable sum given current expenditure on the sector.

Interim measures

When the colleges become a national competence, the full subsidy for each student can be transferred directly to the institution. However, as stated earlier, this situation is unlikely to be reached before one or two years from now.

In the interim, the Committee **recommends** that NSFAS should continue to administer the transfer of funds to FET colleges as it is currently doing with bursaries. However, no means testing will be necessary as all students will be fully subsidised, assuming that the required level of funding is made available. The recommendation also assumes that NSFAS will resolve the current administrative and management problems that impact negatively on FET colleges and will provide an efficient service. The Committee wishes to emphasise that full subsidisation implies that all students should receive adequate funding for books, meals, transport and residence. NSFAS should determine the full cost of these items.

PART FIVE
RECOMMENDATIONS

Chapter 10

Recommendations

10 Recommendations

This chapter details the recommendations of the Review Committee.

The Committee's terms of reference included a mandate to make recommendations on:

- The short-, medium- and long-term needs for student financial aid to promote the twin goals of equity of access and providing free undergraduate education to students from working class and poor communities who cannot afford further or higher education.
- Changes to the policy, regulations and operational framework of the NSFAS, including the distribution formula for the allocation of financial aid to institutions, the means test, the respective roles and the responsibilities of the institutional financial aid bureaus and the NSFAS.
- Changes to the governance, management, operational capacity and systems of the NSFAS to meet the needs of the new policy framework.
- The feasibility of student financial aid being linked to priority fields of study and levels of academic performance.
- The viability of extending financial aid to students in not-for-profit private higher education institutions (HEIs).
- Appropriate mechanisms for raising and administering the required funds, including the parameters of the recapitalisation of NSFAS, and for the possible establishment of a student loan bank.

The recommendations addressing the mandate outlined above are divided for convenience into two broad categories:

- those regarding the establishment of new student financial aid models for both higher and further education; and
- those to correct shortcomings identified by the Review Committee in the current NSFAS operation to improve and enhance its activities and performance and facilitate a smooth transition from the current to the proposed new models.

There is inevitably some overlap between these two broad categories, not least because the Committee has recommended the progressive realisation of the model and preparation for its phased implementation will of necessity have to be undertaken in parallel with the continuing operation of the current model.

10.1 New higher and further education student financial aid models

a. The Review Committee firstly **recommends** the adoption of the new models for financing higher and further education explained in Parts 3 and 4 of this report.

b. In brief, the Committee **recommends** a higher education student financial aid model that progressively provides free higher education to undergraduate level for students from poor and working class communities. The model also provides student loans on favourable terms to higher education students from lower middle-income families.

c. In addition, the Committee **recommends** the adoption of the proposed further education and training (FET) student financial aid model, which provides fully-subsidised bursaries for all National Certificate (Vocational) (NCV) students at FET colleges.

10.2 Policy development

a. The Review Committee **recommends** that a comprehensive policy framework should be developed to articulate the detail of the national policy imperative of providing free higher and further education.

10.3 Changes to NSFAS

a. This sub-section sets out the recommendations flowing from the Committee's findings on the current operations and activities of NSFAS. They are broadly directed at rectifying shortcomings identified by the review and at aligning NSFAS's practices and performance with national higher and further education policies.

10.3.1 Legislation

a. The Committee **recommends** that the NSFAS Act should be amended to comply with the Constitution of South Africa (Act 108 of 1996) and the National Credit Act (NCA) (Act 34 of 2005).

b. In particular, Section 23 should be repealed from the NSFAS Act as it forces employers to collect student loan repayments from employees' salaries and pay these directly to NSFAS without the permission of the employee. The Committee concurs with the opinion provided to NSFAS by its Senior Counsel (and subsequently supported by the National Credit Regulator) that Section 23 of the Act offends against Section 34 of the Constitution, which guarantees the right of access to the courts. Counsel's advice was that the Constitutional Court would be likely to strike down this section of the NSFAS Act if it were to be considered by the Court. Counsel also advised that this offence against Section 34 is incapable of being justified in terms of Section 36 of the Constitution, which deals with the limitation of rights.

c. In the meantime, the Minister and the Department should on constitutional, legal and moral grounds, instruct NSFAS to immediately stop all loan recoveries in terms of Section 23 and to refrain from using the provisions of Section 23 in its debt recovery practices. The Committee found that borrowers against whom Section 23 is used constitute a relatively small minority of 10 percent from whom NSFAS is currently recovering loans. The majority of those repaying do so voluntarily.

d. The Committee further **recommends** investigating the introduction of a constitutionally compliant section of the NSFAS Act to enable NSFAS to recover loan repayments directly through the taxation system. In this regard, attention is drawn to Section 10.3.4.7f of the recommendations.

e. In relation to composition and performance assessment of the NSFAS Board, the Act should be amended to provide for removal of board members by the Minister. The NSFAS Act currently provides no mechanisms for removal of board members, even in cases in which there are compelling grounds, such as non-performance.

10.3.1.1 Regulations

a. The Review Committee **recommends** that appropriate use should be made in future of the powers in terms of Section 27 of the NSFAS Act, which provides that: "The Minister may make regulations on any matter which may or must be prescribed by regulation in terms of this Act and any matter which is necessary or expedient to prescribe in order to achieve the objects of this Act."

b. To date very little use has been made of this provision with the consequence that matters which should be regulated in terms of the NSFAS legislation have not been codified and have been left to convention and practice. The regulations should be gazetted at the earliest opportunity in respect of the following NSFAS activities and operations:

- Regulating the relationship between NSFAS and HEIs, setting out clearly the rights and responsibilities of each party.
- Regulating the content and application of the means test.
- Regulating the interest rate and the formula for charging interest.
- Regulating the average Full Cost of Study (FCS).
- Regulating the minimum provision to be made by universities for residence, travel, books and meals for students who receive financial aid.
- Regulating the relationship between NSFAS and the institutional financial aid offices (FAOs), setting out clearly the rights and responsibilities of each party.
- Regulating the minimum threshold above which borrowers are required to begin repaying NSFAS loans to align with the minimum personal taxation threshold set from time to time by the National Treasury.

10.3.2 Governance

a. The Review Committee **recommends** that the board should be restructured and strengthened to ensure that it is able to perform its duties in terms of the NSFAS Act. In recommending this course of action, the Committee has taken into account its findings of the board's responsibility in relation to policy development and oversight, and the governance weaknesses identified in the independent governance audit contained in the Committee's report.

The legal advice to the Committee from the legal adviser in the Department of Higher Education and Training (DHET), confirmed by the chief state law adviser, is that the Minister does not have the power to remove the board and appoint a new board. The NSFAS Act provides only for the appointment of board members by the Minister and is silent on the powers of the Minister to remove appointed members. According to the DHET's legal adviser, the only power the Minister can exercise is the power of persuading individual board members to vacate their positions.

b. The Committee therefore **recommends** that the Minister should call a special meeting of the board in terms of Section 13(1) of the NSFAS Act to discuss the board's performance. In addition, the remaining members may make use of the provisions of the Act to co-opt additional members who would contribute to the effective governance of NSFAS for the remainder of the board's term.

c. In conclusion, the statutory and discretionary subcommittees of the board should be reconstituted so that they are able to perform the fiduciary duties anticipated in the NSFAS Act. In particular, the board executive committee should be strengthened to function as contemplated in the Act, taking on much of the responsibility for ensuring good corporate governance and operational efficiency.

d. Given that the board has fiduciary responsibility for substantial amounts of funds, it should ensure that the scheme is fully compliant with the provisions of the King reports, with specific emphasis on the Code of Corporate Practices and Conduct. In this process, due attention should however be paid to the non-commercial nature of NSFAS and the need to appropriately adapt the King recommendations to suit the manner in which NSFAS should operate.

10.3.3 Management

a. The Review Committee **recommends** that a capacity and skills audit should be commissioned at the earliest opportunity. The audit should assess the capacity of existing NSFAS senior managers and managers to supervise the current NSFAS operations, to manage the transitional arrangements and to oversee implementation of the new policy framework. Recommendations should be made to strengthen capacity.

b. A multidisciplinary turnaround team should be appointed on a short-term contract to facilitate the transition from the current operational environment to the proposed new NSFAS structure. This team, probably consisting of three or four members, would work with the restructured board and board executive committee to implement the immediate and short-term recommendations identified in the review report.

c. The Committee also **recommends** that a number of senior management appointments should be made in line with the findings of the recent Governance Audit and aligned with the anticipated outcomes of the capacity and skills audit. These include, but are not limited to, a senior credit manager..

10.3.4 Operations

10.3.4.1 NSFAS policy development, strategic, operational plans

a. A range of policies and strategy and operational plans should be urgently developed by the board to provide NSFAS with the direction and operational framework necessary to regularise its activities. These include:

- NSFAS strategic plan.
- Risk management policy and plan.
- Credit policy and plan.
- Loan recovery policy and plan.
- Business continuity plan.
- Fraud prevention plan.
- Audit strategic plan.
- Performance management system.

b. Given the organisational, management and operational challenges currently facing NSFAS, preparation of these policies and plans cannot be undertaken by existing personnel. The work should therefore be outsourced to one or more service providers on short-term contracts. It may be appropriate for the turnaround team referred to in 10.3.3 above, working under the direction of a reconstituted board and board executive committee, to prepare drafts of these policies and plans. Alternatively, preparation of new policies and plans should be undertaken by service providers on a contract basis.

c. The first order of business should be devising a strategic plan for the organisation, taking into account the immediate transitional imperatives and the medium- and long-term proposals for restructuring and reorienting NSFAS. Board subcommittees should be restructured in line with the strategic plan.

d. The Committee strongly **recommends** that the NSFAS practice of permitting one or more senior managers to commission the drafting of policies and implementation plans on an ad hoc basis directly from the present NSFAS legal adviser should cease immediately.

10.3.4.2 Central Applications Process

a. The Review Committee **recommends** the implementation of a Central Applications Process (CAP). The CAP would facilitate the integration of student applications for financial aid with applications for admission to institutions and should be phased in on a regional basis, modelled on the successful CAP already in operation in KwaZulu Natal. Additional regional offices should be based in Western Cape, Eastern Cape, Gauteng and Limpopo. Properly implemented, this will resolve many of the problems of delays in transferring NSFAS funds to HEIs. A key requirement of a CAP would, necessarily, be to sharply cut the transfer cycle.

10.3.4.3 Allocation formula

The allocation formula to universities, which is based on each institution’s self-determined Full Cost of Study (FCS) and the demographic profile of the student population, the so-called Disadvantaged Student Index (DSI) at an institution, should be replaced.

a. The Committee **recommends** that the race-based model should be replaced by a class-based model using solely socio-economic criteria, while acknowledging the continuing overlap between race and class in post-apartheid South Africa.

b. In addition the Committee strongly **recommends** that all eligible students should be fully funded at the institution of their choice, with full funding having the meaning defined in the NSFAS Act.

c. In a further departure from the current NSFAS model of calculating allocations based on the institutionally-determined FCS, and noting that in 2008 this formula resulted in NSFAS allocations varying between the lowest of R6 615 at Walter Sisulu University (Butterworth campus) and the highest of R35 275 at Rhodes University, the Committee **recommends** that all institutions should receive the average FCS per student, regardless of the institutionally-determined FCS. The average FCS was R43 358 in 2009 and, with the exception of five universities, all institutions would benefit from this allocation mechanism.

d. In relation to the institutions where the FCS exceeds the average, regulations should be gazetted prohibiting institutions from charging students for the shortfall between the average and the FCS. The regulations should specify that the FCS must include tuition, accommodation, study material and aids and travel expenses.

e. In light of these proposals on changes to the allocation formula, the Committee **recommends** that the state must also ensure that all institutions admit a prescribed minimum of poor and working class students – that is, those qualifying for NSFAS support. To this end, the Committee rec**ommends** that the DHET should determine the minimum shares for each institution, while limits on the maximum numbers will be determined by the budgetary allocation for the model.

10.3.4.4 Means test

a. The current structure of the means test and the way it is applied by institutions should be revised. A simpler means test, which requires only three pieces of information, should be used to ascertain eligibility for either free education or a student loan with favourable terms and conditions. The three pieces of information ascertain: whether the applicants matriculated at a school where they were exempt from paying fees (i.e. from Quintile 1 schools and at fee-paying schools where applicants' fees were waived); where their family home is situated; household income below the lowest threshold of the South African Revenue Services (SARS) tax tables. The means test will identify the poorest applicants, who will be eligible for Component 1 funding in the proposed new student financial aid model described above, i.e. fully subsidised higher education, achieving the policy objective of progressively providing free education to students from poor and working class families. Depending on the availability of funding, other qualifying applicants will be eligible for Component 2 and 3 student financial aid in the new model, i.e. income-contingent full student loans at favourable rates of interest.

b. Students with disabilities who qualify for NSFAS funding either in the form of loans or bursaries should be fully funded and should be required to provide proof of disability only once at the commencement of the financial aid agreement.

10.3.4.5 Respective roles and responsibilities of institutional financial aid offices and NSFAS

a. The Review Committee **recommends** that the respective roles and responsibilities of the institutional FAOs and NSFAS should be adjusted to take into account the existing inefficiencies in the system, new policy framework and the arrangements during the transitional period leading up to the full implementation of the new model.

b. The respective roles of NSFAS and the FAOs at institutions should be set out in regulations and gazetted in terms of the Act. These should specify the compulsory training and ongoing professional development of financial aid officers to be provided by NSFAS and accountability between NSFAS, institutions and financial aid officers.

10.3.4.6 Loan administration and interest

a. Urgent attention should be paid to accelerating the processing of loan agreements and recalibrating processes in consultation with institutions to ensure closure before the financial year end.

b. In relation to the interest rate on NSFAS loans, the Committee **recommends** that the rate should remain below the Repurchase Rate, and that simple interest should be charged to a maximum of double the capital amount of the loan, calculated in line with the statutory *in duplum* rule contained in the NCA.

c. Interest should be charged from the date a student stops studying, and not from 1 April in the year the student first takes the loan, as is presently the case.

d. In addition, the Committee proposes that a credit review committee should be established as a subcommittee of the board and a senior credit manager post should be created to exercise oversight over credit management.

10.3.4.7 Loan recovery and credit blacklisting

a. The Review Committee **recommends** that the NSFAS loan book should be revalued to assess the accuracy of the R10 billion valuation; that the revaluation should be conducted by an appropriately qualified independent service provider; and that the revaluation should be undertaken timeously to enable the Minister, if necessary, to report any adjustment to Parliament prior to the financial year end. This revaluation should be based on a reassessment of the validity of all loans currently on NSFAS's books and on the calculation of the interest accruing on these loans. The Committee recognises that the revaluation should ideally follow an NCA-compliance audit and the development of NCA-compliant policies and practices, but has been advised that a materially accurate revaluation can be undertaken in parallel with these compliance processes to ensure that it is completed in the current financial year.

b. As NSFAS is a registered credit provider, its loan application, granting, management and recovery operations should be compliant with the NCA. As a first step, an independent service provider should be appointed to assess compliance with the NCA and to advise on changes required to the current policies, systems and practices. Following the NCA compliance audit, NSFAS should draft NCA-compliant policies on: credit, interest and loan recovery. The Committee believes that NCA compliance will remedy many of the questionable NSFAS practices identified in the review.

c. The Committee **recommends** that NSFAS should not blacklist students with credit bureaus and should remove the names of all students currently blacklisted with the TransUnion ITC credit bureau and/or any other credit bureaus. To initiate the process, the Committee **recommends** the immediate removal of the approximately 5 000 debtors who have been blacklisted for predecessor loans, which are up to 18 years old and are probably not legally recoverable.

d. The Committee also **recommends** that NSFAS should invite all predecessor borrowers to negotiate a full and final settlement offer. In line with the common law *in duplum* rule applicable to predecessor loans, NSFAS should accept final offers of up to a maximum of twice the amount loaned, regardless of the length of time repayment has been outstanding.

e. NSFAS should develop loan settlement and write-off policies as part of its comprehensive policy development process.

f. Going forward, consideration should be given to recovery of loans through the taxation system, specifically through SARS. Following its preliminary investigations into the Australian and other recovery schemes, the Committee has initiated negotiations with SARS in this regard. The SARS Commissioner has indicated a willingness to participate in a process with NSFAS and the DHET to investigate similar schemes internationally and to determine the feasibility of the proposal.

10.3.4.8 Bursary administration

a. The Review Committee **recommends** that NSFAS should handle only public funds and should not continue to provide a state-subsidised bursary distribution service to private sector bursary scheme funders.

b. In higher education bursary administration, the Committee **recommends** a rationalisation of current practices in consultation with funding partners. Standard form contracts and service level agreements (SLA) should be used for all future agreements. Designated administration staff should be appointed to each bursary funder; funders' complaints should be dealt with in terms of the SLA or escalated for the attention of the CEO and board executive committee.

c. The current practice of offering bonded bursaries which can be repaid through, for example, community or national service in the chosen field of study, should be expanded to cover the obligations of the recipients of free higher education. Students should be offered the opportunity to repay bursaries and loans through service either in government or private sector employment in the relevant field. NSFAS should establish the terms and conditions of repayment through service in consultation with the DHET, affected government departments and other stakeholders.

d. In FET bursary administration, the current processing system should be reorganised. Designated bursary administration staff should be appointed to each FET college and in the interim, while the proposed new model is put in place, management oversight and departmental monitoring should be strictly enforced to ensure processing efficiency.

10.3.4.9 Unutilised funds

a. The Review Committee **recommends** that the board and the DHET should closely monitor and evaluate the measures which were put in place in 2009 to prevent NSFAS remaining with tens of millions of rands in unspent funds at the end of the financial year in a context where student loan funding is inadequate to meet demand. Where necessary, the DHET should intervene timeously to ensure that there is no repetition of the situation in which NSFAS remains with significant amounts in unspent funds.

10.3.4.10 Financial services

a. Weaknesses in all internal financial controls which have been identified in internal and external audits should be immediately addressed, including:
   - Reviewing all internal financial controls.
   - Urgently attending to independent reconciliations within the finance function.
   - Appointing a management accountant.
   - Putting in place appropriate policies and strategies on the debtor's book.
   - Setting up a specialised credit management unit.
   - Establishing an integrated loan management system (LMS) at institutions.
   - Moving the final institutional claims date to the end of October from the current practice of closing claims in February of the following year.

b. Matters pertaining to the internal audit function, including outsourcing the internal audit of the NSFAS head office and appointing a chief audit officer, should be dealt with expeditiously.

10.3.4.11 Marketing and communication

a. The Review Committee **recommends** that the NSFAS marketing and communication function should be comprehensively restructured. A new communications strategy should be devised to communicate the availability of NSFAS financial aid primarily to students at Quintile 1 schools in collaboration with the Department of Basic Education and should integrate career guidance and testing.

b. Depending on the success of the initiative to extend financial aid to students in Component 2 and 3 of the proposed new model, additional communication channels in conjunction with partners such as the Government Employees Pension Fund (GEPF), the Public Investment Corporation (PIC) and other parties, should be planned.

c. The Committee also **recommends** that NSFAS should be renamed, rebranded and relaunched in an effort to mark a break with the past and to embark on the next phase of the organisation with a clean slate, able to meet the demands of the new policy framework.

10.3.4.12 Academic support

a. Recognising that the dropout rate of NSFAS loan recipients is high and graduation levels are low, the Committee **recommends** that all institutions which admit students who receive NSFAS funding should be required to provide appropriate academic support programmes that include NSFAS students.

10.3.4.13 Physical infrastructure

a. The Review Committee **recommends** the establishment of the NSFAS head office in close proximity to the DHET headquarters in Pretoria, supported by four regional offices in the Western Cape, Eastern Cape, Free State and KwaZulu Natal. The limitations of the existing physical infrastructure impact negatively on the ability of NSFAS to perform efficiently and cost-effectively.

b. Any new infrastructure which is procured should be suitable for the needs of NSFAS during the transitional phase and going forward, taking account of the likely scale of its activities once its operations are realigned to meet the needs of the proposed new policy framework.

10.3.4.14 NSFAS administration budget

a. The current NSFAS funding mechanism should be revised and recovered funds should not be used to fund the organisation's operations. The policy intention is clearly that the recovered funds should be used to support students and NSFAS should plan its activities to comply with this directive. The Committee therefore **recommends** that the NSFAS administration budget should be provided by the department.

10.3.5 Systems

a. A full review of the functionality, effectiveness, appropriateness and efficiency of all NSFAS systems should be undertaken as part of the activities of the turnaround initiative referred to in 10.3.3 above. The systems identified below are among those which require immediate attention.

10.3.5.1 Information technology

a. Appropriate information technology (IT) governance structures should be established immediately and an appropriate IT system should be procured and implemented without further delay. Many of the administration problems and delays currently being experienced could be minimised or resolved if a properly administered, specified and functioning IT system were in place.

b. The Committee also **recommends** that the Electronic Loan Application Form (ELAF) system should be finalised and rolled out immediately. As an interim measure, an IT expert should be appointed to the proposed turnaround team and tasked with resolving issues which have prevented the full implementation of the electronic loan processing system.

c. NSFAS should make a significant investment in developing its own systems to distribute loan and bursary funds and to communicate with students using the latest smart card, cellphone and other technologies.

10.3.5.2 Document storage system

a. Based on its finding that NSFAS does not have a safe document storage system, and that the electronic system is not yet fully in operation, the Committee **recommends** that NSFAS should store documents, especially loan agreements, off-site in a secure and fireproof facility from which they may be retrieved when required.

10.3.6 Mechanisms for raising student loan funding

a. The Review Committee **recommends** that the only viable source of raising the required funds for student financial aid is through government funding on a sustainable basis for the short-, medium- and long-term future. This recommendation is based on investigations into the parameters of the recapitalisation of NSFAS and into the possible establishment of a student loan bank.

The idea of a student loan bank has been raised as a possible conduit for private sector funding of a national student loan scheme. The NSFAS project included, from the beginning, several inherent concepts that clash fundamentally with the concept of a for-profit or full-cost-recovery operation such as a student loan bank. Primary among these is the "hidden subsidy" built into NSFAS through the Repurchase Rate-linked interest charged on NSFAS loans and the loan-bursary conversion academic incentive. These translate into a repayment ratio – the total recoverable by the scheme under optimal conditions – of slightly over 50 percent of total loans made by NSFAS. NSFAS was thus conceptualised and is currently structured to recover only half the funds it disburses. This makes it anathema to a full-cost-recovery or for-profit operation which, by its nature, must seek to recover more than 100 percent of the funds disbursed.

10.3.6.1 Student financial aid linked to priority fields of study

a. The Review Committee **recommends** that student financial aid should not be linked to priority fields of study at this stage for two main reasons. The first is premised on the fact that all higher education is valuable and beneficial in the development of students' potential and serves the public good. The second reason is that currently, the identification of priority skills areas is flawed and needs to be comprehensively revised before a justifiable and sustainable link could be considered.

b. The Committee nevertheless recognises that there is merit in the idea of more directly linking the two cornerstones of higher education policy: the right of access and contributing to the skills pool necessary for a growing, dynamic economy.

c. Further investigation is necessary to align these two imperatives, and such an investigation should be undertaken, possibly as part of the current process of developing a more integrated and collaborative relationship between the skills-based entities such as the

National Skills Fund (NSF) and the Sector Education and Training Authorities (SETAs), and the HEIs, which was announced by the Minister in his November 2009 policy statement.

10.3.6.2 Extending financial aid to students in not-for-profit institutions

a. The Review Committee **recommends** that it would not be viable to extend state funding of bursaries and loans to students in private not-for-profit HEIs. This recommendation is based on the rationale that the state's first priority should be funding the public higher education system. There is a significant shortfall in funds to meet even the current demand for student financial aid in public institutions. Substantial state funding is required to address the funding needs of poor students and those from working class and lower middle income households who attend public HEIs. The Committee therefore **recommends** that meeting these needs should be a priority, making the extension of financial aid to students at private not-for-profit HEIs unviable.

APPENDICES

APPENDIX 1: GOVERNMENT GAZETTE: MINISTERIAL REVIEW COMMITTEE

No. 32317

GOVERNMENT GAZETTE, 10 JUNE 2009

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DEPARTMENT OF EDUCATION

10 June 2009

MINISTRY OF HIGHER EDUCATION AND TRAINING

MINISTERIAL COMMITTEE FOR THE REVIEW OF THE NATIONAL STUDENT FINANCIAL AID SCHEME

I, Bonginkosi Emmanuel Nzimande MP, Minister of Higher Education and Training, in accordance with Treasury Regulation 20 [issued in terms of the Public Finance Management Act, 1999 (Act No 1 of 1999], hereby establish the committee set out in the schedule hereto to review the efficacy of the National Student Financial Aid Scheme.

Dr BE Nzimande, MP
Minister of Higher Education and Training
08 June 2009

Ministry of Higher Education and Training

Terms of Reference for the Review of the National Student Financial Aid Scheme

Background
Education White Paper 3: A Programme for the Transformation of Higher Education (1997) has provided the policy framework for the transformation of higher education over the past decade. The policies have been informed by the need to ensure:

- Improved access to higher education, particularly for students from poor and previously marginalised communities; Responsiveness of higher education to the economic and social development priorities of the country;
- Capacity in the higher education system for high level research and innovation;
- Enhanced quality of academic programme provision and the quality of student life; and
- Redress of historical inequalities.

Government established the National Student Financial Aid Scheme (NSFAS) in 1996 as the primary instrument for providing financial support for poor students and thus enhancing access to higher education for citizens from previously marginalized communities.

Since its inception, the NSFAS has grown considerably in terms of the amount of money available for annual disbursement, the number of awards to qualifying students and the diversification of the Scheme through, among others, the administration of special purpose national and provincial government funds such as Funza Lushaka teacher education bursaries; loan recovery on behalf of individual universities; and the management of private sector and donor funds in terms of specified criteria. Its scope has also been extended to the administration of bursaries in the Further Education and Training (FET) college sector.

Despite the significant increase in government funding allocated to the NSFAS, which is further augmented by loan repayments, the demands on the Scheme continue to exceed available resources. The Scheme is also not able to fund all current awardees at the levels required to fully meet their tuition and living expenses. In the light of this, the NSFAS has not been able to extend its reach to the increasing numbers of students whose family income is above the current NSFAS eligibility threshold but who cannot afford to access higher education without financial aid.

The policy framework informing the functioning of the NSFAS has largely remained the same since its inception despite the changing demands on the Scheme and changes to the overall context within which the Scheme functions. A major review of the Scheme is therefore necessary in order to consider the range of options that could be implemented to realise Government's policy goal of ensuring that a lack of financial means is not a barrier to accessing higher education. The review should be predicated on work undertaken by the Department of Education and National Treasury which focused on reviewing the funding and resourcing requirements of higher education.

The overall purpose of the review is to assess the strengths and shortcomings of the current Scheme and to advise the Minister of Higher Education and Training on the short, medium and long term needs for student financial aid in order to promote the twin goals of equity of access and providing free undergraduate education to students from working class and poor communities who cannot afford further or higher education. The review will evaluate different models of student financial aid and make recommendations on the policy and operational changes required to ensure the effective and efficient achievement of these goals, which will enable South Africa to produce graduates with the qualifications and skills required to build our developmental state.

Specific Terms of Reference

The scope of the review is to:

- Assess the strengths and shortcomings of the current National Student Financial Aid Scheme (NSFAS).
- Conduct a needs analysis of students who will require financial aid in the short, medium and long terms, taking into account the Government's commitment to providing free undergraduate education to students from poor families who would otherwise not be able to pursue further or higher education.
- Undertake a review of the Means Test and provide guidelines to determine the criteria for eligible students. Make recommendations on appropriate mechanisms for raising and administering the required funds, including the parameters of the recapitalisation of NSFAS and for the possible establishment of a student loan bank.
- Investigate the feasibility of student financial aid being linked to priority fields of study and levels of academic performance.
- Assess the viability of extending financial aid to students in not-for-profit private higher education institutions.
- Assess the nature and extent of former and current students blacklisted by NSFAS and universities, and recommend appropriate action to be taken to deal with the problem.
- Recommend changes to the policy, regulations and operational framework of the NSFAS, including the distribution formula for the allocation of financial aid to institutions, the Means Test, the respective

roles and the responsibilities of the institutional financial aid bureaus and the NSFAS.
- Recommend changes to the governance, management, operational capacity and systems of the NSFAS to meet the needs of the new policy framework.

Review Process and Committee

In the course of its work, the Committee is expected to consult key stakeholders, including higher education institutions, national student organisations, financial services organisations, the National Student Financial Aid Scheme and the Council on Higher Education.

The Committee should draw on studies undertaken in South Africa and on international best practice and may commission work in consultation with the Department of Higher Education and Training.

The Department will provide Secretariat support for the Ministerial Committee.

The Committee is accountable to the Minister. The Committee will provide the Minister of Higher Education and Training with a report within a period of six months from commencing its work. The Minister will, on receipt of the Committee's report, consult the Council on Higher Education, the Board of the NSFAS and other key constituencies before finalising changes to the policy and operation framework of the NSFAS.

The Members of the Ministerial Committee are:

- Prof Marcus Balintulo (Chairperson)
- Ms Collette Caine
- Dr Pundy Pillay
- Prof Sipho Seepe
- Dr David Monyae
- Ms Mahlengi Bhengu
- Dr Loveness Kaunda
- Mr Steven Smith
- Mr Itumeleng Malebye
- Ms Linda Vilakazi-Tselane
- Dr M Qhobela

APPENDIX 2: LIST OF SUBMISSIONS

HIGHER EDUCATION INSTITUTIONS	1. Cape Peninsula University of Technology
2. Central University of Technology	3. Durban University of Technology
4. Mangosuthu University of Technology	5. Northwest University
6. Stellenbosch University	7. Tshwane University of Technology
8. University of Cape Town	9. University of Fort Hare
10. University of the Free State	11. University of Johannesburg
12. University of KwaZulu Natal	13. University of Limpopo
14. University of Pretoria	15. University of South Africa
16. University of Venda	17. University of the Western Cape
18. University of the Witwatersrand	19. University of Zululand
20. Vaal University of Technology	21. Walter Sisulu University
22. National Institute for Higher Education: Northern Cape	
FURTHER EDUCATION AND TRAINING COLLEGES	23. Elangeni FET College
24. Esayidi FET College	25. False Bay College
26. Lephalele FET College	27. Lovedale Public FET College
28. Maluti FET College	29. Mopani South East FET College
30. Northern Cape Urban FET College	31. Orbit FET College
32. Port Elizabeth FET College	33. Seskhukhune FET College
34. Tshwane South FET College	35. Umgungundlovu FET College
36. Vhembe FET College	37. Waterberg FET College
38. West Coast FET College	
STUDENT ORGANISATIONS	39. Pan Africanist Student Movement of Azania
40. South African Student Congress	41. South African Union of Students
42. University of South Africa, Student Representative Council	43. Tshwane University of Technology, Student Representative Council
TRADE UNIONS	44. The National Education, Health and Allied Workers Union
INDIVIDUALS	45. Beukes, P
46. Bushwana, BS	47. Citeko, P

48. Gasa, N	49. Khorombi, M
50. Kubayi, D	51. Lagadien F
52. Lepele, N	53. Legoete, T
54. Linders, P	55. Mabote, TP
56. Magale, P	57. Mahasha, D
58. Makhita, KM	59. Marawgula, P
60. Morrison, R	61. Motsete TI
62. Namate, J	63. Nthoba, PC
64. Pawar, M	65. Pekeur, J
66. Pons, D	67. Ramogale, MR
68. Rantsimele, D	69. Sishuba, A
70. Situkaza, L (Facebook group)	71. Taylor, A
72. Tshabalala, D	73. Xipu, MD
OTHER	74. Association for Savings and Investments South Africa
75. Association of Private Providers of Education, Training & Development	76. Central Applications Office
77. Centre for Creative Education	78. Council on Higher Education
79. Eduloan	80. Financial Aid Practitioners of South Africa
81. Higher Education South Africa	82. Higher Education Disability Services Association
83. Learning Strategies	84. Mining Qualifications Authority
85. National Credit Regulator	86. Neilersdrift Intermediate School
87. South African Qualifications Authority	

APPENDIX 3: LIST OF INTERVIEWS

HIGHER EDUCATION INSTITUTIONS (HEI management, financial aid officers, student representative councils)	
1. Cape Peninsula University of Technology	2. Central University of Technology
3. Durban University of Technology	4. Mangosuthu University of Technology

5. Nelson Mandela Metropolitan University	6. Northwest University
7. Rhodes University	8. Stellenbosch University
9. Tshwane University of Technology	10. University of Cape Town
11. University of Fort Hare	12. University of the Free State
13. University of Johannesburg	14. University of KwaZulu Natal
15. University of Limpopo	16. University of Pretoria
17. University of South Africa	18. University of Venda
19. University of the Western Cape	20. University of the Witwatersrand
21. University of Zululand	22. Vaal University of Technology
23. Walter Sisulu University	24. National Institute for Higher Education: Northern Cape
FURTHER EDUCATION AND TRAINING COLLEGES	
25. Boland FET College	26. Buffalo City FET College
27. Capricorn FET College	28. Central Johannesburg FET College
29. College of Cape Town FET College	30. Coastal FET College
31. East Cape Midlands FET College	32. Ehlanzeni FET College
33. Ekurhuleni East FET College	34. Ekurhuleni West FET College
35. Elangeni FET College	36. Esayidi FET College
37. False Bay College	38. Flavius Mareka FET College
39. Gert Sibande FET College	40. Goldfields FET College
41. Ikhala FET College	42. Ingwe FET College
43. King Sabata Dalindyebo FET College	44. King HIntsa FET College
45. Lephalele FET College	46. Lethabe FET College
47. Lovedale Public FET College	48. Majuba FET College
49. Maluti FET College	50. Mnambithi FET College
51. Mopani South East FET College	52. Motheo FET College
53. Mthashana FET College	54. Nkangala FET College
55. Northern Cape Rural FET College	56. Northern Cape Urban FET College
57. Northlink FET College	58. Orbit FET College
59. Port Elizabeth FET College	60. Sedibeng FET College

61. Sekhukhune FET College	62. South Cape FET College
63. South West FET College	64. Taletso FET College
65. Thekwini FET College	66. Tshwane South FET College
67. Tshwane North FET College	68. Umfolozi FET College
69. Umgungundlovu FET College	70. Vhembe FET College
71. Vusulela FET College	72. Waterberg FET College
73. West Coast FET College	74. Western College FET
STUDENT ORGANISATIONS	75. South African Union of Students
OTHER	76. ABSA
77. Badsha, N	78. Banking Association South Africa
79. Central Application Office	80. Council on Higher Education
81. Eduloan	82. Financial Aid Practitioners of South Africa
83. First National Bank	84. Government Employees Pension Fund
85. Jackson, R	86. Nedbank
87. NSFAS board	88. NSFAS focus groups
89. National Credit Regulator	90. NSFAS management
91. Pityana, S	92. Public Investment Corporation
93. Rural Education Access Programme	94. South African Revenue Services
95. Standard Bank	96. Taylor, A
97. Walton, M	GOVERNMENT DEPARTMENTS
98.Department, Agriculture, Forestry, Fisheries	99. Department, Higher Education and Training
10D. Department, Labour	101. Department, Public Service, Administration
102. Department, Science and Technology	103. Department, Social Development
104. National Treasury	105. Public Service Commission

APPENDIX 4: CALCULATION OF NSFAS LOAN AMOUNTS BY INSTITUTION

Cape Peninsula University of Technology (Bellville)

The institution uses the NSFAS means test to determine the eligibility of students. The final NSFAS loan amount is determined by the outstanding amount per the student fee account. When granting the actual loan, the NSFAS recommended amount is used as a maximum loan amount the student may receive.

Cape Peninsula University of Technology (Cape Town)

The institution uses the NSFAS means test to determine the eligibility of students. The final NSFAS loan amount is determined by the outstanding amount per the student fee account. When granting the actual loan, the NSFAS recommended amount is used as a maximum loan amount the student may receive.

Central University of Technology

The NSFAS means test is completed for all students and the following amounts are taken into consideration in determining the total cost of studying:

- Tuition As per fee account
- Book allowance R1 720
- Residence R9 675
- Private accommodation R5 160
- Living allowance R2 420
- All students, irrespective of their EFC, are expected to pay R455 for registration.

Durban University of Technology

The NSFAS means test is done for all applicants to determine eligibility and establish a ceiling amount.

Actual loan amounts are then calculated as follows: Costs minus any payments received as the ITS system automatically reduces the NSFAS award.

The following costs are taken into consideration:

- Full tuition cost, excluding supplementary exams and damages by students.
- For recurring students, accommodation allowance.
- For first -year students, based on the FAO's discretion, an accommodation allowance may be granted.

Mangosuthu University of Technology

The NSFAS means test is used to determine a ceiling amount.

Loan amounts cover the following costs:

- Tuition fee (as per the student fee account).
- Accommodation costs (as per the student fee account).
- Book allowance of R6 000.
- Meal allowance .

- Regardless of EFC, all students are required to pay R1 000 initial deposit.

Nelson Mandela Metropolitan University

NSFAS loan amounts are strictly calculated according to the NSFAS formula of Costs – Bursaries – EFC.

The following costs are included:

- Tuition fees as per fee accounts.
- Book allowance of R2 000 per student.

The means test is calculated for all applicants and loans cannot exceed the outstanding balance on students' fee accounts.

North West University (Potchefstroom)

The means test is incorporated into the student system which is used to determine the students needs and eligibility for funding, i.e. Recommended Award = Cost – Bursaries – EFC.

After they run the means test, every account is scrutinised to determine the NSFAS award. The university tries to assist as many students as possible, therefore the maximum award according to the means test is only awarded when the outstanding student fee balance exceeds this amount.

The outstanding student fee balances are taken into account when NSFAS awards are allocated. The awards will not exceed the permissible amounts as calculated by the means test.

With the number of applications received in the past and limited funding, the university could not provide students with meal allowances as recommended by NSFAS although allowances are provided for in the means test calculation. In 2008 it was the first year that they were able to provide meal allowances but only after June since additional funding was received from NSFAS. Meal allowances were given to some students from university funding.

North West University (Mafikeng)

The NSFAS means test 2008 is used to determine an applicant's recommended loan amount, i.e. Recommended Award = Cost – Bursaries – EFC (if any).

However, it was noted that the NSFAS loan awards were captured as bursaries which reduced the institution's recommended amount.

Rhodes University

NSFAS Award = Housing/Residential Allowance + Tuition costs + Book allowance – Own contribution – Bursaries or other funding.

Own contribution refers to the EFC generated from the means test. The institution calculates a percentage of the EFC for "own contribution".

Stellenbosch University

The NSFAS awards are calculated using the means test which is incorporated into their system, i.e. Recommended award = actual tuition fees + books (R4 400) + academic levies (R1 592) – other bursaries – EFC (if any).

It is the practice of the FAB to inspect the student fee accounts before allocating the NSFAS award. If applicable, the NSFAS awards will be reduced when funding is received via another bursary, scholarship or direct deposits.

Tshwane University of Technology

The following costs are taken into account by the institution to calculate the NSFAS loan amounts:

- Tuition
- Residence
- Books (R1 000 allocated to the students).

The means test is used to test eligibility.

Unisa (Florida)

The standard NSFAS means test is used when determining the students loan amounts, i.e. Recommended award = Costs (Actual tuition cost + R500 book allowance per enrolled subject) – EFC – Bursaries.

Unisa (Pretoria)

The method that is currently used by the institution to calculate the students' NSFAS loan amounts is as follows:

Tuition fees are funded.

Books – R450 per module extra for all the students.

The above-mentioned amounts are the NSFAS loans which the students qualify for.

The institution takes the EFC as well as external bursaries into account when calculating the NSFAS loan amounts. They also take the outstanding balance according their student fee account into consideration.

The NSFAS means test is used to determine what the permissible amounts are.

University of Cape Town

The NSFAS means test 2007 is used by the institution to calculate students' NSFAS loan amounts for the 2008 allocation. The outstanding balances on their student fee accounts are also taken into account when NSFAS awards are allocated, i.e. if the permissible amount is more than the outstanding balance on the fee account, the latter will be funded.

University of Fort Hare

Discussion with the financial aid officers revealed that NSFAS loan amounts are calculated as 80 percent of the student fee account.

University of Free State

The NSFAS means test is performed for all students to determine the Expected Family Contribution ("EFC").

The following costs are included in the means test:

Tuition	As per student fee account
Books	R3 100

Meals	R4 006
Accommodation	R4 584

University of Johannesburg

The standard NSFAS formula, NSFAS loan = actual cost – EFC – bursaries, are applied for all students to determine the loan amounts.

University of KwaZulu Natal

The NSFAS means test is performed for all students to determine the recommended amount. 80 percent of this amount is awarded as a NSFAS loans, and students can then apply for GAP funding for the remaining 20 percent. These additional amounts are funded by the university and does not allow for a bursary component.

The following costs are included in the means test:

Tuition	As per student fee account
Books	R1 000
Meals	As calculated by the means test
Accommodation	Actual costs per student fee accounts

University of Limpopo (Medunsa)

The institution uses the NSFAS means test to calculate the ceiling amount and the student's fee account is inspected to determine what their outstanding balances are.

If there is money available after their tuition and book fees have been paid (which the student qualified for), they will contribute money to the student's meals. The money is loaded on their student card which they use to buy food at the cafeteria.

University of Limpopo (Turfloop)

NSFAS awards are based on the outstanding balance on the student fee account. However, the means test and EFC is still used to determine the eligibility and permissible amount of the award – limited to the balance on the student fee account.

Actual amounts are not used in the means test, only estimates.

The following amounts for meals and accommodation are allocated to students depending on where they stay:

- Students who stay at the residence receive an amount of R9 400 (R6 420 – accommodation and R2 980 – meals).
- Students staying at their homes receive R5 300 for meals.

Based on the total NSFAS allocation to the university, an initial decision was taken in February to limit loan amounts to R15 000 per student in order to accommodate more needy students.

However, subsequently additional funding was received from NSFAS and the maximum loan amount was increased to R20 000 per student.

University of Pretoria

The NSFAS loan amount = Costs – Bursaries – Expected Family Contribution ("EFC").

The NSFAS means test is utilised to determine the EFC.

Costs include actual tuition fees, actual accommodation costs and a book allowance of R6 500 per student.

Loan amounts are limited to outstanding balances on student fee accounts.

University of Venda for Science and Technology

Loan amounts are based on 80 percent of tuition costs.

University of Western Cape

NSFAS awards are based on the outstanding balance on the student fee account. However, the means test and EFC is still used to determine the eligibility and permissible amount of the award – limited to the balance on the student fee account.

University of Witwatersrand

Total cost – Bursaries – Expected Family Contribution ("EFC") as calculated through the NSFAS means test, limited to outstanding amounts on students' fee account.

The university also obtained approval from NSFAS to increase the maximum amount to R43 000.

The following costs are however excluded and are for students' own accounts:

- Miscellaneous charges.
- Computer facilities.
- Notes pack.
- Copyright fees.
- Club and society fees.
- Student cards.

From our sample, we noted one exception where a positive EFC was not taken into consideration in determining the size of the loan.

University of Zululand

The NSFAS electronic means test has been incorporated into the institution's ITS system. However, they do not allocate the amounts calculated by the means test but rather use this amount to determine the student's eligibility for NSFAS loan.

The Loan Screening Committee decided on 15 January 2008 to allocate NSFAS loans as follows:

- Residence students: R18 000
- Non – residence students: R14 000

The above amounts are, however, limited to the outstanding amounts on the students' fee accounts.

Vaal University of Technology

Loan amounts are calculated through the NSFAS means test. The following costs are taken into consideration:

- Full tuition fees.
- Book allowance.
- Meal and accommodation allowances.

In addition, inspection revealed that funeral levies amounting to R40 per student per year is covered by the NSFAS loan amounts.

Amounts for allowances as approved by the Financial Aid Committee, are as follows:

Description	Year applicants	Semester applicants
Books	R 4 000	R 2 000
Meals and Accommodation		
Residents	R 4 000	R 2 000 (per semester)
(Non-residents	R8 000	R4 000 (per semester)

Walter Sisulu University (Berlin Campus)

The NSFAS means test is performed for all applicants to determine the maximum amount. This amount is then adjusted as follows:

- 75 percent for non-resident students.
- 80 percent for resident students.

The above amounts are however limited to the outstanding balance on the students' fee account.

Walter Sisulu University (Butterworth Campus)

The NSFAS means test is completed to determine students' eligibility for NSFAS loans and calculate a maximum amount. Actual loan amounts are then based on the outstanding balances on students' fee accounts.

Walter Sisulu University (Mthatha Campus)

The NSFAS means test is performed for all applicants and loans are then calculated as 70 percent of the recommended amount per the means test.

Costs included in means test include tuition, registration fees and accommodation fees (where applicable).

APPENDIX 5" NATIONAL CREDIT REGULATOR SUBMISSION TO THE REVIEW, OCTOBER 2009

We appreciate the opportunity given to the NCR to make further input on NSFAS's compliance with the NCA.

1. NSFAS and the common law *in duplum* rule

1.1. The common law *in duplum* rule applies to money lending transactions and other contracts in terms of which a capital sum is due. The rule is based on public policy and is meant to protect debtors from exploitation by creditors.

It cannot be waived in advance or during the term of the loan – Standard Bank of SA Ltd v Oneante Investments (Pty) Ltd (In Liquidation) 1998 (1) SA 811 (SCA).

1.2. It is settled law that the common law *in duplum* rule is confined to arrear interest – Sanlam Life Insurance Ltd v South African Breweries Ltd 2000 (2) SA 647 (W). This principle has been accepted by the Supreme Court of Appeal in Ethekwini Municipality v Verulam Medicentre (Pty) Ltd.

1.3. It is correct that the Durban High Court in Verulam Medicentre (Pty) Ltd v Ethekwini Municipality 2005 (2) SA 451 (D) held that the *in duplum* rule did not apply because the respondent in that case did not require the protection for which the rule was designed. On appeal, the SCA held that this finding is based on an incorrect premise.

2. NSFAS and the NCA statutory *in duplum* rule

2.1. In the matter of the National Credit Regulator v Nedbank & others case number 19638/8/200 delivered by the North Gauteng High Court on 21 August 2008, it was argued on behalf of the respondents that section 103(5) operates similar to the common law *in duplum* rule. It was further argued that the effect of the *in duplum* rule is that interest stops running when the unpaid interest equals the outstanding capital amount. When the debtor repays a part of the interest, the quantum of the outstanding interest reduces to below the amount of the outstanding capital.

According to the respondents, if section 103(5) is interpreted in conformity with the common law, then the effect of section 103(5) is only to create a moratorium on the payment of the cost of credit while the consumer is in default. Once the consumer purges the default, all the cost of credit may be levied again.

2.2. The court rejected all of the above arguments and held that the consumer's indebtedness in respect of the cost of credit cannot grow by more than the stated maximum.

2.3. It is our view that the purpose of section 103(5) would be undermined if credit providers build up interest greater than the total of the outstanding capital sum by combining the interest generated in the non-default and default periods.

3. Extending the prescription period

3.1. Prescription starts to run as soon as a debt is due. The date the debt is due is usually determined in the agreement. Where the agreement does not specify the date on which the debt is due, the creditor must send a letter of demand to the debtor in which the due date is fixed.

3.2. Where individual instalments are due, prescription will run in respect of the individual instalments from the dates that they are due. It will not run in respect of instalments that are not due.

3.3. It is stated that NSFAS loan agreements do not set out the date on which the monthly repayments must commence. The borrower must start repaying the loan when he/she is earning above the prescribed minimum level.

Furthermore, the loan agreements do not contain an acceleration clause in terms of which the whole loan amount becomes due and payable if the borrower misses one payment. The loan agreement states that the whole debt becomes due only if and when makes written demand for payment of the whole.

The loan agreements also states that prescription does not run while the borrower is earning less than the prescribed minimum level, or if the borrower is earning more than the prescribed minimum level, but does not inform NSFAS, or unless NSFAS sends a written demand for payment of the whole outstanding debt and interest.

The loan agreements also state that if prescription starts to run on an instalment owed to NSFAS, and not the whole outstanding balance of the debt.

3.4. Prescription will not run against NSFAS until the borrower start earning above the prescribed minimum level. NSFAS must then send a written demand for payment to the borrower stating the date on which the payment is due and payable. If the payment has been divided into instalments, the written demand must state the dates when the instalments become due and payable.

Prescription will start to run in respect of the individual instalments from the dates on which the instalments are due.

If NSFAS demand the repayment of the whole loan amount on a specified date, prescription will start running from that date in respect of the whole amount.

In all instances mentioned above, the prescription period will be calculated from the dates on which the repayments are due up to a period of three years from such dates. If a period of three years has expired from such dates, the debts have become prescribed. However, the running of prescription can be interrupted by institution of legal proceedings to collect the loans.

3.5. There is also a problem with regards to predecessor loans. These are loans made by the IDT, Kagiso Trust and Tefsa. It is stated that most of the predecessor loan agreements contain an automatic acceleration clause which stipulates that if the borrower misses one payment, the whole outstanding balance of the capital and accrued interest becomes due and payable immediately.

In respect of the IDT and Kagiso Trust loan agreements, borrowers are obliged to repay the loans in instalments immediately upon completion of studies.

3.6. In our assessment, it appears that all predecessor loan agreements had dates on which repayments were due and payable, which in most cases is more than ten years ago. In our view, these loans appear to have prescribed.

3.7. We advise that NSFAS must negotiate settlements with the affected borrowers given that the loans cannot be recovered through the institution of legal action because of prescription. We further advise that NSFAS must negotiate settlement of the outstanding capital amount and interest charges which should not be more than the outstanding capital amount.

3.8. It is better not to institute legal action against the predecessor borrowers whose loans have become prescribed because of the risk of costs orders being granted against NSFAS. NSFAS must approach the predecessor borrowers and negotiate settlements.

4. NSFAS interest regime

4.1. The NSFAS manual states that interest on NSFAS loans accrue from 01 April of the year in which the loans are granted irrespective of the dates on which the loans are paid into the student account at the institution. Where 40% of the loan is converted into a bursary, interest on this portion is written off at a date determined by NSFAS.

4.2. The manual further states that one of the reasons for interest to accrue from 01 April is that the interest rate charged by NSFAS is lower than the interest of other institutions. The interest paid by the borrower between 1 April and the actual date of disbursement is negligible and far less than the interest that would have been paid to another institution.

4.3. The manual does not provide reasons for the delay in payment of the loans to the institution immediately upon approval of the loans. Interest is therefore levied on an amount of money that has not been disbursed to the borrower.

4.4. Section 103(2) of the NCA provides that a credit agreement may provide for an interest charge to become payable or be debited at any time after the day to which it applies. Despite this section, it is ideal that once a loan has been approved, the funds must be disbursed as soon a possible.

4.5. The writing off of 40% of the capital amount and all interest thereon treated as a bursary is to the benefit of the borrower and is welcome.

5. NSFAS debt recovery system

5.1. The debt recovery procedure used by NSFAS is regulated by Section 23 of the NSFAS Act which states that NSFAS may notify the employer of the borrower that the borrower is indebted to NSFAS and of the deductions that the employer must make from the remuneration of the borrower.

5.2. Section 23 of the NSFAS Act conflicts with the debt enforcement procedures set out in Chapter 6 Part C of the NCA. In particular, section 129 of the NCA requires that where the consumer is in default under a credit agreement, the credit provider must notify the consumer about the default and propose that the consumer refer the agreement to a debt counsellor, alternative dispute resolution agent, consumer court or ombud with jurisdiction so that the parties can agree on a plan to bring the payments under the agreement up to date.

5.3. It appears that section 23 of the NSFAS Act permits NSFAS to deduct the repayments that are due in terms of the loan agreements without following due process, including the debt enforcement procedures set out in Chapter 6 Part C of the NCA.

5.4. We also agree with Adv Gauntlett SC that section 23 of the NSFAS Act could be found to be in conflict with section 34 of the Constitution (the right of access to court) and not a justifiable limitation of this right.

5.5. Section 130(3) provides "despite any provision of law or contract to the contrary, in any proceedings commenced in a court in respect of a credit agreement to which this Act applies, the court may determine the matter only if the court is satisfied that- (a) in the case of proceedings to which section 127,129 or 131 apply, the procedures required by those sections have been complied with" 5.5. It is our view that given the prescripts of section 130(3), NSFAS must comply with section 129 before commencing with enforcement action.

6. Registration as a credit provider

6.1. NSFAS is registered as a credit provider with the NCR.

7. Application for exemptions

7.1. NSFAS may apply for approval to deviate from certain requirements of the NCA as student loans are developmental credit in terms of the NCA. The purpose of this exemption is to relieve the credit provider of the stringent requirements and to allow some flexibility.

7.2. Some of the requirements from which NSFAS may seek exemption are:

(a) form of advertising to be used (s76(6));

(b) different documents and procedures to be used for meeting the requirement of a statement of account (s107(4));

(c) form of documents to be used for plain language in documents (s64(4));

(d) procedures for delivery of documents (s65(6)); (e) a different approach for variation of the interest rate (s103(7)).

7.3. NSFAS has not applied for any of the exemptions mentioned in 7.2 above.

8. Pre-agreement disclosure

8.1. Section 92(1) of the NCA provides that a credit provider must not enter into a small credit agreement unless the credit provider has provided the consumer with a pre-agreement statement and quotation in the prescribed form. This section applies to loans of less than R15 000.

8.2. Section 92(2) states that the credit provider must not enter into an intermediate or large credit agreement unless the credit provider has provided the consumer with a pre-agreement statement in the form of the proposed agreement and a quotation in the prescribed form. This section applies to loans of more than R15 000.

8.3. The quotations in both instances are valid for five business days. The quotation for intermediate and large agreements may be in the format of a 5 quotation for small agreements if the credit provider provides both small and intermediate agreements with similar features. Furthermore, the quotation for intermediate or large agreements may be contained in the same document as the pre-agreement statement, or in a separate document. If the quotation is included in the same document as the pre-agreement statement, the quotation must be on the first page of that document.

8.4. NSFAS must provide students with the quotations as described above before the conclusion of the loan agreements. Failure to do so is a contravention of section 92 of the NCA and applicable regulations.

9. Agents

9.1. Where NSFAS uses agents for the completion or conclusion of credit agreements, the agents must be issued with identification cards which the agents must show to the borrowers. Furthermore, NSFAS must maintain a register of all its agents. This might be applicable to NSFAS where it uses the employees of the institutions to complement or conclude the student loan agreements. We do not information on the exact nature of this relationship to advice on the applicability of section 163 of the NCA.

10. Conclusion

10.1. We would welcome an opportunity to make a full presentation to the Committee on the application of the NCA to NSFAS.

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