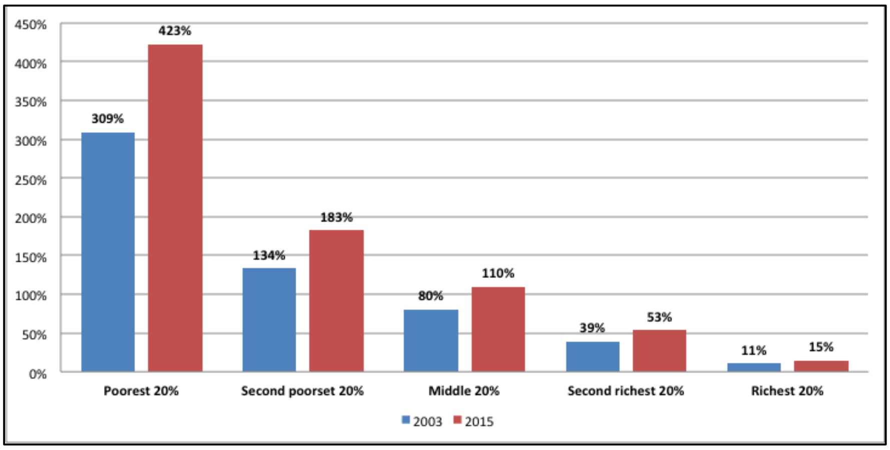
NATIONAL STUDENT FINANCIAL AID SCHEME

1 Introduction

The main purpose of the National Student Financial Aid Scheme (NSFAS) is to enable young people from poor households to obtain a higher education. This is essential for expanding South Africa's skills base and a powerful mechanism for breaking the intergenerational cycle of household poverty and exclusion. Tertiary education is unaffordable for most households (see Figure 1). While the average full cost of study for a single year at university was about R28 000 in 2003, this figure was three times greater than the incomes of households in the poorest 20% of the population. It was also more than 30% greater than the annual incomes of households in the second poorest quintile, and just 20% less than the total income of households in the middle 20%. In 2003, in other words, none of the poorest 50% of households could realistically afford to send a child to university.

Figure 1: Full costs of studies and household income, by quintile, 2003 and 2015



By 2015, the affordability of higher education was even worse: the average full cost of study was close to R80 000, a figure that was 423%, 183% and 110% of average household income in the three poorest quintiles respectively. It was also over 50% of the income of households in the second richest quintile. Only members of the top 25% of households could realistically afford to send a child to university. In effect, not only can the majority of households not afford to send a child to university, but the same is also true of many households in which the breadwinner has a secure, reasonably well-paid job, such as nurses, teachers and police officers.

However, the impact of the above-inflation rise in the full cost of study has been offset to some degree by rapid growth in NSFAS funding. In the case of universities, for example, the share of student fees in all income rose from 24% to 33% between 2000 and 2013. At the same time, however, the portion of those fees paid for by the NSFAS rose from 6% to 40%. Thus the NSFAS has contributed significantly to making tertiary education more affordable.

The rapid rise in spending on the NSFAS, along with growing demands for funding, prompted a performance and expenditure review (PER) to estimate the costs of the system under various policy scenarios. The PER was conducted by Cornerstone Economic Research on behalf of the National Treasury during 2015, and some of its key outputs and recommendations are summarised here. The full report and the costing model are available at www.gtac.gov.za/programmes-and-services/public-expenditure-and-policy-analysis.

2 Institutional context

The NSFAS funds students from poor households, providing loans to eligible university students and grants to TVET colleges on behalf of eligible enrolees. The expectation is that loans will be repaid as new graduates enter the labour market, with a repayment schedule linked to their incomes (although a significant portion of loans are converted into bursaries if borrowers progress through university successfully). TVET grants, on the other hand, are given directly to colleges and are not repayable.

Over time, the NSFAS has become an increasingly important source of funding for the post-school education and training sector, and the funding is analogous to an indirect earmarked grant, since it flows to the institutions via students paying their tuition and accommodation fees.

In addition to its main role, the NSFAS also promotes a set of subordinate goals. These include:

- Providing support to specific categories of students, such as those with disabilities;
- Targeting a prioritised set of courses, such as National Certificate (Vocational) – or NC(V) – and National Accredited Technical Education Diploma (NATED) programmes at TVET colleges, as well as managing bursaries related to specific professions, such as teachers and social workers;
- Incentivising students by converting a part of loans to successful students into bursaries; and
- Achieving a measure of self-financing through the recovery of loans from students after they find employment.

At the time of the PER, the NSFAS planned to restructure its business model in order to address some of the challenges it confronts (see below). Under the existing model, the NSFAS allocates its funds to individual universities and TVET colleges based on the racial profile of their students and an estimate of the full cost of study at each institution. The institutions manage the funds, including the process of applying for and awarding loans and grants, based on NSFAS guidelines. Using these institutions as its agents reduces the administrative burden on the NSFAS, but introduces a range of widely recognised challenges, such as:

- A reduction in the capacity of the NSFAS to target its funds selectively;
- Inconsistencies in the management of these processes across institutions;
- First-year students having to apply for funding at multiple institutions and students having to reapply for funding each year;
- Poor data management; and
- A failure to use other government databases to verify means test and qualification-related information, increasing the risk of fraud and corruption.

In addition, some institutions have chosen to divide their NSFAS allocations among all eligible students. This results in individual awards that are too small to for recipients to finance their studies and accommodation fully, creating difficulties for both the students and the institutions.

The new student-centred model centralises the application process. It creates a single queue based on an automated means test, and accesses other government databases to verify eligibility. It also allows the NSFAS to make loans and provide grants. The new model includes several innovations to improve administration, such as:

- Students apply only once for funding, and their funding is sustained as long as they meet academic requirements for promotion.
- Loans cover the full cost of study of some eligible students rather than a portion of the costs for a larger group. Students are prioritised based on their field of study and their academic results.
- Allowances for books, food, private accommodation, transport, and the like are paid directly to students using the SBux voucher system, which allows spending to be monitored.

3 Expenditure and performance

In 2014, the NSFAS disbursed R9 billion, nearly three times as much as the R3.7 billion in 2010 (see Table 1). These loans and grants were made to about 425 000 recipients, twice as many as in 2010 (see Table 2 below). Over that period, the number of grant recipients – most of whom attend TVET colleges – grew much faster (54% a year) than the number of university students who obtain loans (2.6% a year), resulting in considerable changes to the profile of the pool of recipients.

Table 1: Expenditure on grants and loans by the NSFAS, 2010 to 2014

Expenditure item	2010	2011	2012	2013	2014	Growth rate	Total
NSFAS loans	R2 212 514	R3 379 182	R3 732 880	R4 292 911	R4 150 146	23,3%	R17 767 633
TVET grants	R317 998	R1 116 591	R1 806 419	R1 933 998	R1 989 711	84,3%	R7 164 717
Managed bursaries	R1 147 917	R1 417 303	R2 171 572	R2 474 497	R2 822 614	35,0%	R10 033 903
Total	**R3 678 429**	**R5 913 076**	**R7 710 871**	**R8 701 406**	**R8 962 471**	**34,6%**	**R34 966 253**

Although the NSFAS has expanded access to higher education for students from poor households, the PER identified critical challenges to be addressed if it is to continue to play this role effectively, efficiently and sustainably.

3.1 Beneficiary numbers

The number of students eligible for NSFAS support depends on policy choices that are only partly under the control of the NSFAS itself. The DHET, for example, aims to increase participation rates in the post-school education sector – particularly in TVET colleges – dramatically. To some extent, this has already been achieved (see Table 2), but the absolute number of students is expected to rise further, assuming schools can produce sufficient numbers of school-leavers eligible for tertiary education.

Table 2: Number of recipients of grants and loans by the NSFAS, 2010 to 2014

Expenditure item	2010	2011	2012	2013	2014	Growth rate	Total
NSFAS loans	114 471	160 120	133 339	136 745	123 531	2,6%	668 206
TVET grants	61 703	165 274	186 903	219 974	228 495	54,7%	862 349
Managed bursaries	34 403	89 792	82 689	78 181	73 331	28,7%	358 396
Total	**210 577**	**415 186**	**402 931**	**434 900**	**425 357**	**26,4%**	**1 888 951**

An increase in the number of students entering the tertiary sector will create a disproportional increase in the number of students eligible for NSFAS support, because many of them will come from poorer households (who are underrepresented in the student body). Unless the eligibility requirements are changed, the demand for NSFAS funds will rise as a growing number of students will meet its requirements.

In addition, there is an argument for raising the maximum household income threshold beyond which students are ineligible for NSFAS support. This is currently set at R122 000 per year, a level that is restrictive and results in the exclusion of many potential students from households that cannot afford to finance tertiary education themselves.

3.2 Dropout, throughput and graduation rates

A critical variable in the costliness and sustainability of the NSFAS's support is the rate at which students advance to graduation. The longer it takes typical students to graduate and the more who drop out, the more the NSFAS must invest to achieve a given number of graduates. Although data is sparse – especially for TVET colleges – existing performance is variable and leaves much room for improvement. While the rate at which university students graduate appears to have improved, there is considerable variation among universities. Over 60% of students enrolled at the research universities in 2005 had graduated by 2009, but the figure was under 40% at a number of universities, particularly those established to serve black students before 1994.

Raising throughput and graduation rates could mean savings for the NSFAS, as students would pass through the system more quickly. However, policies that seek to widen access to tertiary education to people from increasingly disadvantaged educational backgrounds could make it more difficult for universities and TVET colleges to raise the throughput rate. That said, an increase in the number and proportion of poorly prepared students would not necessarily lead to declining throughput rates if greater access to finance allowed students from poor families to devote more time to their studies. In this regard, however, the evidence is mixed, with one cohort study purporting to show that students with financial support from the NSFAS are more likely to pass than those without such support, while a more recent study – completed as part of the PER – found the opposite.

3.3 The value of NSFAS awards

There is a substantial difference in the average value of NSFAS loans for a year's study at university (R32 000) and its grants to a TVET college (R8 700). There is also a considerable difference between the average value of the award and the average full cost of study, which in the case of universities ranged between about R48 700 at Cape Peninsula University of Technology and R114 000 at the University of Cape Town in 2013. (These figuresexclude UNISA, whose distance-learning model involves lower costs to students.)

The maximum value of an NSFAS award is less than the full cost of study of a year's study at some universities. As noted, an important reason for this gap is that some universities divide their NSFAS budgets among all students who qualify for assistance, so that more students get some assistance. While this is equitable, smaller awards mean that the recipients are then often unable to finance their studies fully. A key policy choice for the future is whether the NSFAS should make larger awards to a smaller number of students, so that these cover the full cost of their studies.

Estimating the trajectory for the full cost of study is difficult, as costs have tended to rise faster than inflation, but there is considerable political pressure to contain the rate of cost increases. However, not all of the costs of studying (e.g. transport) can be controlled by universities, while inflation among those that can be controlled (e.g. tuition and on-campus accommodation) can only be controlled at the expense of other parts of the universities' budgets.

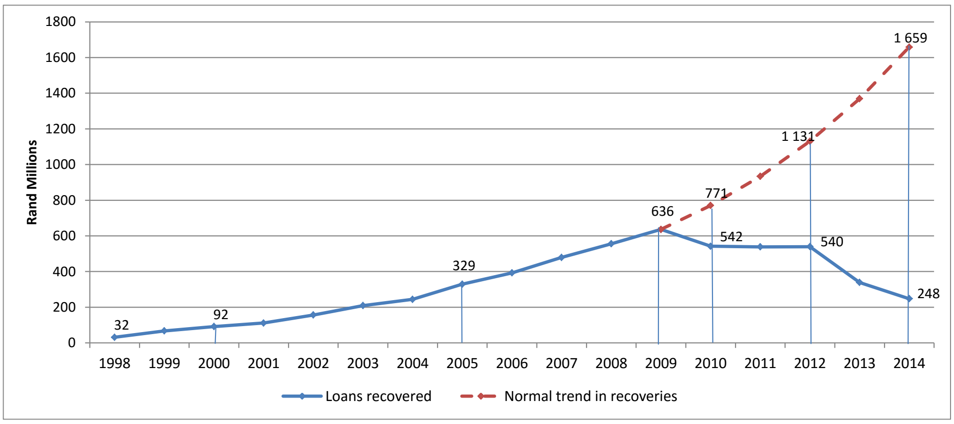
3.4 Loan-to-bursary conversions

The NSFAS encourages its beneficiaries to graduate in part by converting a portion of their loans to bursaries if they meet certain educational goals. Incentivising student success is desirable, but the cost to the NSFAS is a reduction in outstanding student debt and, therefore, in the income derived from repayment. The 2011 commitment to convert the full value of final-year loans on graduation has increased the share of NSFAS loans being converted into bursaries from 28.5% to around 45%. In 2014, an estimated R1.8 billion of the R4.2 billion awarded was converted to bursaries.

3.5 Loan repayment rates

Since its establishment, the intention of the NSFAS has been to recover a substantial proportion of loans from recipients. Until 2009, repayment rates were around 28% of annual outlays (see Figure 2). Recovery rates have fallen substantially since then, however, to under 4% in 2014.

Figure 2: Actual loan recoveries versus a normal growth trajectory



There are a number of reasons for this, but an important one is that various policy, legal and managerial decisions have greatly weakened the NSFAS's debt recovery capabilities. These include:

- The National Credit Act, which led to the removal of all the NSFAS's blacklisted borrowers from the databases of credit bureaus in 2007;
- The discontinuation of the (unlawful) authority granted to the NSFAS to compel borrowers' employers to deduct repayments from wages without following due legal process, and the subsequent decision to refrain from using the courts to obtain emolument orders against defaulters; and
- The instruction of the Minister of Higher Education that the NSFAS desist from blacklisting its borrowers.

3.6 The loan repayment schedule

The NSFAS uses a set of income tables to calculate how much student debtors must repay once they are employed. As soon as they earn more than R30 000 per year, they are expected to repay the equivalent of 3% of their gross annual income until all capital and accrued interest have been repaid. Higher earners pay a larger share of their incomes, but the rate tops out at 8% of income at R65 000. As these figures suggest, the NSFAS's salary deduction table is dated, having not been updated since its introduction in 2001. This has led to 'bracket creep', imposing repayment obligations on people lower and lower on the earnings distribution.

4 Costing the National Development Plan's goals

The PER developed a costing model based on the NSFAS's existing cost and performance data, in order to assist policymakers in estimating the financial implications of alternative policy choices. For example, the model allows users to estimate the implications of forgiving all debt repayment obligations and how this would affect the number of awards that the NSFAS could allocate every year. It also allows users to estimate the effects of revising the salary deduction table on the value of repayments, as well as the implications of different rates of enrolment, dropout and graduation.

Using this model, the PER estimates what achieving the National Development Plan's main goals for higher education would mean for the resource needs of the NSFAS. The plan's goals are to:

- Increase the participation of young people in higher education to 25%.
- Raise the number of higher education graduates from 167 000 to 425 000 by 2030.
- Raise the throughput rate for degree programmes to more than 75%.

Achieving these goals would first require much better performance from South Africa's schools, but if that were to happen, the model suggests it would have the following implications for the NSFAS:

- The number of students allocated loans would double from 130 000 in 2015 to 262 000 in 2030.
- The real value of an average loan would increase from R45 000 in 2015 to R81 500 in 2030. This figure is based on two assumptions: (i) The annual average increase in the full cost of study is less than inflation, at only 4.3%; this is premised on the commitment of policymakers to contain the cost of studies. (ii) The NSFAS pays only 80% of the average full cost of study. Given these assumptions, the NSFAS would be expected to disburse R21.4 billion in loans in 2030, up from R5.8 billion in 2015. This represents a nominal increase of just over 7% a year, but given the expected doubling of recipients, implies a significant fall in the real value of the average loan.
- If the NSFAS debt recovery capacities were improved, up to 20% of annual disbursements might be recovered, reducing its financing requirement by R4.3 billion to R17 billion in 2030.

These findings are based on the pivotal assumption that throughput rates rise from the current 50% to 75% in 2030. Should this not be achieved, many more students would have to be enrolled each year to achieve a similar number of graduates, with significant cost implications for the NSFAS.

Raising throughput rates is critical for reducing the average cost of producing a graduate and is a key measure of the efficiency of the university system. For example, in assessing the financial implications for the NSFAS of achieving the goals of the National Development Plan, the model estimates that the average cost of loans to produce one graduate was R267 000 in 2015. This cost increases to R319 000 in 2019 because throughput rates are assumed to rise slowly; however, the cost begins to fall later as throughput rates rise, reaching a low of R190 000 in 2030.

Note that the model does not attempt to calculate the cost of implementing the interventions needed to achieve significantly higher throughput rates: if these were expensive, they would offset some of the gains in per-graduate costs. More generally, modelling the impact of policy changes on the NSFAS needs to be supplemented with models of the post-school system as a whole.

5 Conclusion

Funding post-school education and training in South Africa is one of the most complex policy challenges facing government. The PER of the NSFAS reinforces the conclusion that while there are important policy arguments for maintaining the principle that users should cover a portion of their cost of study, ensuring that higher education remains accessible for the majority of households creates dilemmas around balancing policy objectives.

Recognising the deficiencies of the model used by the NSFAS at the time of the PER, the Minister of Higher Education and Training has established a Ministerial Task Team to advise on financing and operating models for funding poor and 'missing middle' students. (These are students from working class backgrounds who are deemed to be too rich to receive funding from the NSFAS but cannot afford to pay for their own tuition.)