Understanding

The National Student Financial Aid Scheme

SALDRU information sheet

This factsheet was developed as a compendium to the F(r)ee Higher Education sheet. Recognizing that NSFAS loans are currently the government's key strategy to facilitate higher education access among low-income students, this sheet details the scope, functioning, and plans for the scheme with the aim to provide clear and accessible information.

History of NSFAS

The National Student Financial Aid Scheme (NSFAS) aims to increase fair and equitable access to higher education for academically strong students from poor economic backgrounds by defraying some of the costs of tertiary education. NSFAS was established in 1991 and formally replaced the Tertiary Education Fund of South Africa (TEFSA) in 1999 with the gazetting of the NSFAS Act of 1999. The scheme is supported by government funding and local and international donations.

The amount paid out by NSFAS increased from R733 million in 2002[i] to R6.97 billion in 2014. The number of students supported by NSFAS grew from 86,147 in 2002 to 186,150 in 2014[ii]. This represented about one quarter of all undergraduate university enrolments[iii].

Current funding for NSFAS, however, remains inadequate. The *2014 NSFAS Performance and Expenditure Review* found that 31% of qualified applicants could not receive funding. This amounts to an estimated NSFAS funding shortfall of R2-4 billion[iv].

Figure 1: NSFAS funds and the number of university students that hold NSFAS loans

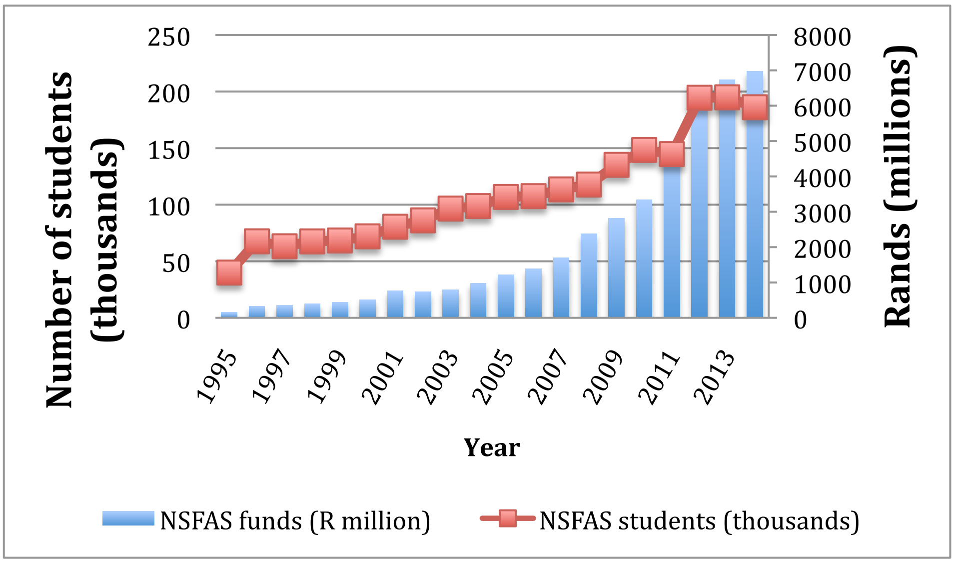


Figure 1 shows that while funds allocated to NSFAS have risen annually at rates above inflation, the number of students funded annually by NSFAS began to decline from 2011. This is attributable to growing individual allocations, driven strongly by the rise in university fees outstripping total NSFAS funding capabilities[v].

Who is eligible for funding?

NSFAS is available to all South African citizens registered at a public South African higher education institution who are able to demonstrate the potential for academic success and financial need. These are predominantly undergraduate students studying toward their first higher education qualification, as well a few postgraduate students whose courses are a requirement for practice in a chosen profession (such as a postgraduate certificate in education).

What is the funding process?

Applicants undergo a means test that assesses how financially needy they are. The formula accounts for household income, the number of dependents in the household, and the family's cost of living. It also determines the amount the family is required to contribute toward study costs, known as the Expected Family Contribution (EFC). This measure is used with academic merit to calculate a score on which to rank students and allocate NSFAS funds. See Box 1 for more on calculating disposable income and EFC.

Box 1: Expected Family Contribution

- Since 2003, it has been compulsory for all institutions to use the NSFAS means test to calculate EFC.
- EFC for a family with **1** tertiary student:
  EFC = 0.33 x disposable income
- EFC for a family with **2+** tertiary students:
  EFC = 0.2 x disposable income

Disposable income

- A family's disposable income is calculated as:
  Disposable income = Total net income – Allowances
- Allowances are calculated according to region and household size and intend to cover:
  - **General household subsistence allowances** for the family's general operational costs (food, rent, etc.)
  - **Personal allowances** for the basic personal needs of each member of the household (school fees, transportation costs, etc.)

Table 1: Average allowance allocations for households of different sizes

Region	<5	5	6	7	More than 7
Western Cape	R67,345	R79,910	R90,533	R103,521	R109,008
National	R73,648	R86,245	R96,930	R109,941	R115,768

How much is awarded?

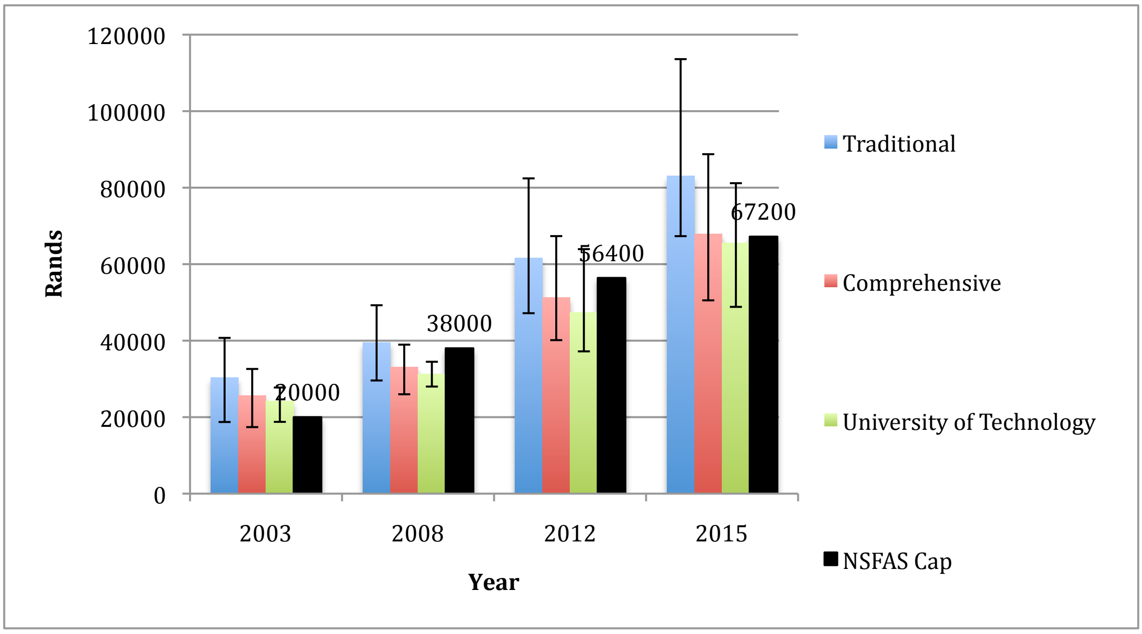
NSFAS is intended to cover the full cost of study (FCS), including tuition fees, accommodation, meals, books, and travel. A student's loan amount is calculated as:

Student Loan =

Average FCS at their university - less bursaries and loans awarded – EFC

Box 2: Full cost of study and the NSFAS allocations

Figure 2: Average FCS and NSFAS cap by university type over time



Notes: **Traditional universities** = UCT, UP, WITS, RHODES, SU, UKZN, NWU, UFH, SMU, UL, UFS, UWC, **Comprehensive universities** = UJ, NMMU, ELU, Univen, WSU, UniZulu, **Universities of Technology** = DUT, MUT, VUT, CUT, TUT and CPUT. The University of South Africa was excluded due to no data in 2003 and 2008.
The bars represent the maximum and minimum average FCS within each type. Average FCS at a university hides the range of fees charged within an institution across courses.

- Maximum NSFAS loans have increased at a rate higher than inflation, but have not kept pace with the FCS at the majority of South African universities;[vi]
- While the average FCS of 16 universities were below the NSFAS max in 2008 and 2012, only 6 remained so in 2015;
- The figure shows that all traditional university FCS were above the NSFAS max in 2015;
- In addition, given the demand for funds, at least 6 universities are known to engage in 'top-slicing' where all applicants split total funds equally with students receiving well below the FCS.

However, NSFAS sets maximum loan amounts for each year. In 2015, this cap was **R67,200**. The Figure 2 shows that this is below the average FCS at traditional universities such as UCT, Wits, or University of Forte Hare. Recent increases in fees have led to FCS at traditional universities outstripping the NSFAS cap. While some universities such as UCT have funds in place to cover the shortfall[1], NSFAS-funded students at other institutions have found loan amounts insufficient to cover their full costs[vii].

Is it a loan or a bursary?

NSFAS primarily provides loans. A portion of the loan is converted to a bursary each year, depending on academic success:

100% pass rate for the year ➔ **40%** of the year's loan converted to a bursary

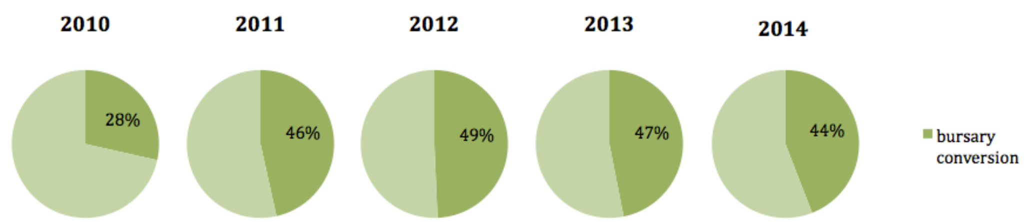
75% pass rate the year ➔ **30%** of the year's loan converted to a bursary

50% pass rate the year ➔ **20%** of the year's loan converted to a bursary

Students who pass 50% or more of their registered courses automatically have their funding renewed[2]. In addition, funding is only available for the prescribed length of the course plus two additional years. Students who fail to complete within this allocated time are not eligible for continued funding.

The *Final Year Programme* was launched in 2011. For qualifying students, the full amount of their final year loan is converted to a bursary. Students may only benefit from this programme once.

Box 3: NSFAS loan-to-bursary conversions from total loans allocated[viii]



In addition to NSFAS loans, NSFAS provides targeted bursaries to specific programs, such as the Funza Lushaka Bursary for students pursuing a teaching qualification and bursaries for students studying Social Work, and has partnerships with several NGOs to increase post-secondary learning for students from rural and/or poor communities.

[1] UCT provides top up 'administrative bursaries' to cover the shortfall between the maximum NSFAS loan amount and the FCS. In addition, students with family incomes below R500,000 are eligible to apply for financial assistance in the form of gap cover.
[2] Automatic funding renewal was first introduced in 2014. Before then, students were required to reapply for funding each year.

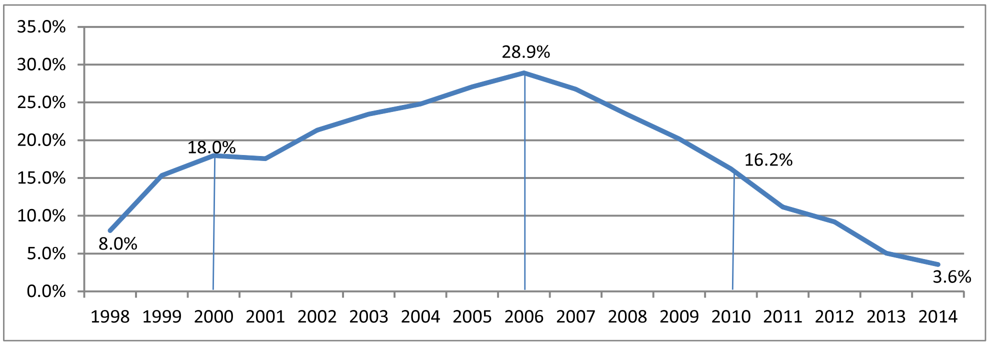
Loan recoveries

NSFAS provides favourable loan repayment terms. Interest is not paid while the student studies, and is not paid for up to 12 months after the student leaves the institution. Thereafter, interest is charged at 80% of the repo rate (the rate charged by the reserve bank for loans to banks). For example, if the repo rate is 7%, a student will pay 5.6% interest. Interest is charged on the capital amount only, and accrues to a maximum of the initial capital amount. This means the most the student can owe is double the amount of their initial loan.

Repayment begins once the student has found employment and is earning R30,000 or more annually. If the student is unemployed, he/she makes no repayments. The repayment amount is calculated based on earnings, starting at 3% of the annual salary and increasing to a maximum or 8% when the salary reaches R63,100 or more per year[ix]. This translates to R900 per year on a salary of R30,000, or R75 per month, and R5,120 per year on a salary of R64,000, or R427 per month.

Ideally, the NSFAS loan scheme would have a large self-sustaining component, with monies recovered enabling the financing of new loans. The figure in Box 4 shows that until 2006, progress was being made towards sustainability, with loan recovery amounts reaching a maximum of 28.9% of disbursements. Since then this has plummeted due to increased government conversion of NSFAS loans to bursaries, poor administration, and reduced debt collection powers[x].

Box 4: NSFAS loan recoveries as a percentage of NSFAS loan disbursements



Factors affecting loan recovery:

- 2007: In accordance with the National Credit Act 34, all blacklisted borrowers listed with credit bureaus were removed;
- 2008: NSFAS recommenced blacklisting 2008 but from a zero base. With the rapid growth, administration of the scheme became difficult. Cloete (2015) notes that "Following the establishment of the new Department of Higher Education and Training (DHET) Minister, Blade Nzimande instructed all Board Members, who were in the middle of a NSFAS Review process and implementation of a Turnaround strategy to resign [...] de- capacitating the organization[xi]";
- 2011: Minister of Higher Education instructed NSFAS to stop all blacklisting.

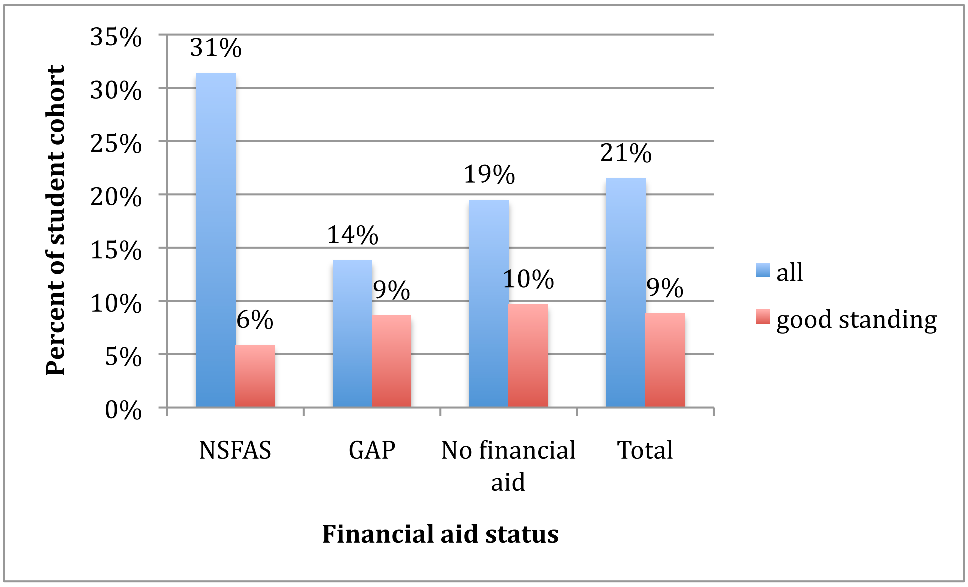
Dropping out

NSFAS loans, like other loans, must be repaid regardless of whether the student completes his or her qualification[3]. University dropout may occur because the student decides he/she cannot or will not continue or because he/she was academically excluded from continuing. In either case the absence of a degree makes finding employment more challenging and is likely to reduce earnings.

A recent study shows[xii] that 30% of students from quintile 1-3 schools (64% of NSFAS recipients[4]) who wrote the matric exam in 2008 and entered university on NSFAS in 2009 had dropped out by 2013. This is the same dropout rate reported for the full 2008-matric cohorts entering in 2009[5].

NSFAS students are only eligible for continued funding if they pass 50% of their courses, a targeting mechanism intended to assist in channeling funds to students with high graduation potential. The figure in Box 5 shows that few UCT NSFAS funded students drop out for reasons other than academic exclusion. The figure presents the 5-year dropout rate for the 2010 UCT entry cohort by financial aid status and shows that 31% of students who received NSFAS funding dropped out by 2015, compared to 14% of UCT funded (GAP) students, and 19% of students without financial aid. The second bar in the figure excludes those who left due to academic exclusion. Here the reverse picture is observed. Students without financial aid and in good academic standing are most likely to drop out (10%), while less than 6% of NSFAS students in good standing drop out.

Box 5: Dropout by 2015 for the UCT 2010 entry cohort



Source: UCT administrative data, calculations by the authors
Notes: GAP refers to UCT financial support. Note that the pass 50% criterion does not accord one-to-one with good academic standing (it is a more stringent criterion) and UCT only applied the rule from 2015.

[3] Repayment of NSFAS loans is conditional on employment at a set salary level.
[4] No dropout information is provided for the full NSFAS cohort in the report.
[5] DHET is currently in the process of doing a comprehensive study on dropout for NSFAS versus all students. The report is due at the end of March 2017.

The New Student Centered Model

In 2014 NSFAS began piloting a new administrative model to manage NSFAS loans, grants and bursaries. In this model, funding applications are centralized in NSFAS, removing the administration from the university and TVET financial aid offices. The model was piloted in a subset of universities and TVETs in 2014-2016 and all institutions are participating from 2017.

The design of the new model hopes to streamline administration and improve accountability and consistency across institutions. Key improvements include:

- Financial means test waiver for students on social grants, who attended fee free schools, or who were given school fee exemptions. These students are automatically given a zero EFC.
- Linkage with the matriculation results database to determine and verify academic eligibility.
- National ranking based on a composite score accounting for financial need, academic merit and a scarce skill factor.
- Automatic funding renewal for those students meeting the academic requirements for continued study.
- Direct payment of tuition and residence costs to the university or TVET college at the beginning of each academic year to facilitate institutional cash flow.
- Utilising the sBux voucher system to pay allowances for books, food, private accommodation, and other costs directly to the student's cell phone. This allows spending to be monitored.

Refeences

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[iii] NSFAS. 2016 Factsheet 1: The impact of NSFAS over time. Cape Town: National Student Financial Aid Scheme.

[iv] Cornerstone Economic Research. 2016. Performance and expenditure review: National Student Financial Aid Scheme (NSFAS). Available: https://www.gtac.gov.za/Working/THEME%203%20HIGHER%20EDUCATION%20AND%20TRAINING/11.%20NSFAS/11.2%20Technical%20report.pdf [2017, February 7].

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