The National Student Financial Aid Scheme of South Africa (NSFAS): How and Why it Works

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Background

The international higher education landscape is littered with the wrecks of failed student loan schemes. When South Africa's National Student Financial Aid Scheme (NSFAS) was established in 1991, policy-makers were acutely aware of this fact. Ten years later, South Africa is able to speak proudly of a student loan scheme that has made 587,000 awards to disadvantaged students, 99 per cent of whom are black (African, coloured or Asian), who have collectively passed more than 73 per cent of the courses for which they have been registered during their undergraduate years, and, in keeping with the philosophy which led to the establishment of the national scheme, money recovered from those who received aid in the early and mid-1990s is now being effectively recycled to assist new generations of students in 2001 and 2002. Although NSFAS is still regarded as being in its infancy (the South African government started to capitalize the scheme only in 1996), Rand 175 million of the R657 million which assisted students in 2001 and R190 million of the R732 million which will assist students in 2002 takes the form of loan repayments collected from former recipients of aid.

NSFAS seeks to impact on South Africa's racially skewed student and graduate populations 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. Its mission is unashamedly socio-political. The legacy of apartheid and its education system produced a vast preponderance of white graduates and a disproportionately small number of black graduates. It also spawned a society which showed a clear correlation between being black and being poor. There would be no change in the status quo (gross inequalities of access and racially skewed student and graduate profiles) without serious policy intervention on the part of government, primarily because academically able black students were/are too poor to meet the costs of higher education without substantial assistance. Not only do students have to meet living costs, but all South African higher education institutions charge tuition fees, and there are few private scholarships. A financial instrument needed to be devised urgently, to make it possible for poor yet competent students, previously excluded from tertiary education, to gain access to the higher education system as soon as possible. At the same time South Africa could not afford intervention in the form of a financial assistance scheme relying entirely on bursaries (grants), as it would not be financially sustainable. It was therefore necessary to design a financial assistance scheme that allows deferred cost recovery by providing repayable loans with a bursary/grant element.

Small beginnings – a mere R21 million assisted just 7,400 students in 1991 – saw the birth of TEFSA (the Tertiary Education Fund of South Africa), established in 1991 to develop a conduit for foreign donor funding to help ensure that historically disadvantaged students with academic ability could embark on tertiary study. After the democratic elections in 1994 TEFSA was able to collaborate more closely with government, and in 1996 the National Minister of Education announced the creation of a national financial assistance scheme and gave TEFSA the responsibility of managing it. In 1999 the National Student Financial Aid Scheme Act was passed (Act No. 56 of 1999), converting TEFSA into a statutory body called NSFAS. The change formally occurred in August 2000. In 2002 it will assist over 100,000 students.

Measuring success

The mission statement of NSFAS is:

> The National Student Financial Aid Scheme of South Africa (NSFAS) seeks to impact on South Africa's racially skewed student, diplomate and graduate populations by providing a sustainable financial aid system that enables academically deserving and financially needy students to meet their own and South Africa's development needs. (See *http://www.nsfas.org.za*)

This has been NSFAS's stated mission since 1991, and this article tries to answer the question of how far NSFAS is fulfilling its objectives by asking three questions: (i) is it enabling academically deserving and financially needy students to meet their own and South Africa's development needs; (ii) is it building a sustainable financial aid scheme; and (iii) is it impacting on South Africa's racially skewed student profile?

The 93,402 students supported by NSFAS in the 2001 academic year represent a significant proportion (more than 20 per cent) of South Africa's higher education student population who were enrolled at contact (non-distance) institutions. The criteria developed by NSFAS for allocation of financial assistance ensure that students who receive awards are both financially needy and academically able. NSFAS does not allocate funds directly to students. Instead, its task is to raise funds and allocate them to tertiary institutions such as universities and technikons (the South African equivalent of the former polytechnics in the UK) which, in turn, allocate these funds (using the NSFAS criteria) to individual students in the form of loans, part of which can be converted into a bursary if the student achieves good results in his or her tertiary education course.[1] Financial need is determined by the application of a national means test, and applicants must also demonstrate academic potential to succeed, in terms of their examination results. The students who received NSFAS awards during 2001 passed 74.6 per cent of the courses for which they were registered, and the average pass rate for all NSFAS students since 1995 has been 74.5 per cent. These results confirm not only that NSFAS students are financially needy but that they are also academically able.

A recent publication by the South African National Departments of Education and Labour (South African Department of Labour, 2001) identifies South Africa's development needs as particularly acute in the fields of science, engineering and technology. A pleasing feature of the subject field breakdown of awards made by NSFAS is that the majority of awards in 2000 and 2001 were made to students in science, information technology, engineering and commerce. In addition, a study by the South African Human Sciences Research Council (2000) places graduate unemployment at only 2.9 per cent, which means that not only are NSFAS students studying in national priority areas but these studies also make them far more competitive in the job market. One of the reasons why South Africa has confirmed its commitment to a loan and bursaries scheme, rather than an unsustainable scheme relying solely on bursaries/grants, is the belief that the private returns, which accrue to a graduate, more often than not outweigh the social returns. This is definitely the case in South Africa where the rate of employment of graduates and their higher than average earnings vindicate the commitment to a deferred cost recovery scheme. The contribution of graduates to the overall development of South Africa should not be understated, however, and it is for this reason that the government subsidizes student loans by converting up to 40 per cent into bursaries.

NSFAS is indeed enabling financially needy yet academically able students to meet their own and South Africa's development needs. Between 1993 and 1999 the proportion of black students in the higher education student population rose from 56 per cent to 73 per cent (South African Department of Labour, 2001) – a significant change in racial profile. In the same period NSFAS made over 400,000 awards to students, 99 per cent of whom were black. NSFAS has clearly been one of the key players in bringing about these significant changes. However, its goals are ongoing and dynamic. Student profiles are still racially skewed, academically able but financially needy students will always be with us and the bulk of the loans still need to be recovered. So, NSFAS still has work to do.

How NSFAS works

The last section of this article considers why NSFAS appears to have worked when few other such examples of success can be found in the developing world. Prior to tackling this important question we look at the basic NSFAS modes of operation. The NSFAS Board, appointed by South Africa's Minister of Education, Professor Kader Asmal, establishes the policy framework for NSFAS. The NSFAS Act states that members of the board must be representative of and knowledgeable about the higher education sector, have financial experience and expertise, be representative of the South African community in terms of race, gender and disability, and should ensure that the functions of NSFAS are carried out in a professional fashion. The board sees its policies transformed into plans of action and modes of operation by its centralised brain centre, the NSFAS head office, based in Cape Town. Each of South Africa's thirty-six public higher education institutions has an administrative unit, known as a financial aid bureau, which functions as the decentralized NSFAS local office, the NSFAS point of contact with South Africa's student population. The head office ensures that policy is implemented by giving clear instructions to the local financial aid officers (the administrators who run the financial aid bureaux) regarding operating requirements for each academic year.

NSFAS receives aid for students from four basic sources: the South African government, which is its primary source; its own pool of recovered loans, which is its second largest source; the international donor community; and the South African private sector. The board applies an allocations formula to available money in order to apportion funding equitably among the thirty-six public institutions of higher learning. The head office then informs the financial aid bureau at each institution of the amount NSFAS will make available for assisting students who are both poor and academically able. This information is received prior to the start of each academic year along with posters, pamphlets, loan agreement forms and operating procedures manuals which are updated annually to accommodate changes in policy and practice.

The financial aid officers then begin the process of administering student financial aid in partnership with the NSFAS head office. First, they disseminate information about the availability of NSFAS financial assistance. This is done by distributing posters, making information booklets available to all interested students, placing advertisements on campus radio stations and by engaging first-year students as they arrive on campuses during the first week of the academic year.

Once applications for aid are received, the financial aid officers test applicants' eligibility, based on general NSFAS and donor-specific criteria. The key NSFAS eligibility criteria are academic potential to succeed, ascertained by scrutinizing the applicant's academic record, and financial need, ascertained by administering the NSFAS national financial means test. This ranks applicants according to relative financial need, measured by gross family income, family size and geographic location. Having determined which applicants will receive aid, the financial aid officer calculates the size of each award, using software which forms part of the means test package. The student's costs at the institution, as well as any other bursaries he or she may have received and a family contribution (also determined by the means test and based on financial need) are all taken into consideration for the calculation of the award size. The financial aid officer then helps the student to complete a loan agreement form. The terms and parameters of the award are placed in front of the student, the documents are signed, a copy of the student's identity document (ID) is attached and the loan agreement form is sent to the NSFAS office.

The NSFAS head office checks all forms to ensure that they are legally binding and that the institution has operated within the prescribed parameters for the particular donor. Loan agreement forms are scanned into the NSFAS optical image filing system, data is captured from the forms into the NSFAS data base, a letter of payment is dispatched to the institution, and funds are transferred into the institution's account which in turn credits the students' fee accounts. Statements of account are dispatched to recipients of loans (described below as borrowers or debtors) by the NSFAS head office, which takes responsibility for the collection (loan recovery) process.

Institutions report to NSFAS on 31 March of the following year in a prescribed format, on utilization of funds in the course of the year (this enables NSFAS to confirm that the institution is indeed holding the same information as NSFAS) and on the academic progress of each student, so that NSFAS can calculate the proportion of the loan to be converted to a bursary (up to a maximum of 40 per cent, see note 1). NSFAS in turn reports to each donor on 1 August, giving details, in an audited report, of the number and amount of loans and bursaries awarded, and the institution, year and subjects of study of all students whose awards were financed by that donor's funding in the previous year.

Collection of loan repayments can take several forms. Borrowers are encouraged to repay their loans directly to NSFAS by bank deposits or direct debit, but the 1999 Act gave NSFAS statutory powers to recover outstanding debts by instructing employers to make deductions from borrowers' salaries if they are not repaying their loans. The NSFAS head office sends names and identity numbers of its debtors to the South African Revenue Services which provides NSFAS with details of employers of its debtors. NSFAS can instruct employers to make loan repayment deductions from salaries of NSFAS debtors and pay these to NSFAS. Student borrowers receive an undertaking from NSFAS that 'at no stage will their loan repayments become unduly burdensome'. It is for this reason that NSFAS prefers borrowers to 'initiate monthly repayments of his/her own accord, at a monthly rate that is affordable to him/her' (*http://www.nsfas.org.za/FAQ.htm*). The tracking of debtors via the tax system and recovery of loan repayments via employers, under legislative powers granted by the NSFAS Act, is a last resort.

Reasons for the success of NSFAS

Research on student loans in developing countries has identified several requirements for successful design and operation of student loan schemes, including (i) sound administrative and financial management; (ii) a legal framework that ensures loan recovery is legally enforceable; (iii) effective mechanisms for targeting on the basis of financial need; and (iv) publicity to ensure understanding and acceptance of the terms for borrowing and repayment of loans (Woodhall, 1992: 352); (v) a credible collection institution, with incentives to collect; and (vi) a willingness to charge interest rates on loans equal to or above inflation (Ziderman and Albrecht, 1995: 88). Rather than simply using these criteria as a checklist, this section highlights some of the main features of the South African experience that have contributed to its success.

A 'young' scheme

NSFAS was established in 1991. As such it is a very young scheme, having come into being very recently. This means that a huge body of literature already existed from which policy-makers could learn and record successes and failures (see, for example, Johnstone, 1986; Albrecht and Ziderman, 1991; Woodhall, 1989 and 1991). If a particular approach had failed in several countries this proved reason enough for South Africa to proceed with a great deal of caution. NSFAS has always sought to ensure that it does not operate in an environment devoid of theory, and that it is always informed by good practice, both from the perspective of the international student financial aid literature and from a business perspective.

Political will

Political will has proved to be a key ingredient in the NSFAS success story. Without the South African government's backing of the notion that a deferred cost recovery scheme could make a difference in the lives of indigent students, expressed in the creation of a legislative framework in which the scheme could operate, the chances of success would have been minimal. Much of the international literature seems to overlook or neglect a point which is obvious in the developing world, namely, the need to capitalize any financial aid scheme. A clear indication of the political will that exists in South Africa is the extent to which the National Ministry of Education was and is prepared to inject funding into NSFAS.

Funding to capitalize NSFAS

While the apartheid government was in power during TEFSA's first four years of operation the Independent Development Trust (a South African development agency) and the international donor community, notably the European Union, kept the initiative alive by providing funding to capitalize the scheme on an annual basis. In 1995 the South African government injected capital into the national scheme for the first time, and henceforth assumed financial responsibility for its success. Developing countries regard the capitalization of a loan scheme as a major hurdle. The securing of capital has played a crucial role in the success of NSFAS.

Legislation

Sound legislation has proved to be absolutely vital, first, in creating NSFAS as a legal entity, second, in creating the necessary legal framework in which it can operate and, third, in providing the scheme with the teeth to recover loans from debtors. Success, for NSFAS, should not be measured simply in terms of the extent to which it has impacted on South Africa's racially skewed student and graduate populations. As a loan scheme it must also be measured in terms of how far it has been able, and will in the future be able, to recover money from those who have benefited from its extremely generous assistance.

Loan scheme legislation must go beyond good intentions, and the NSFAS Act of 1999 does this by granting access to state information systems for the purpose of tracking debtors and by empowering NSFAS to recover loan repayments by obliging employers to make deductions from salaries of debtors and pay these to NSFAS. So, another reason for the success of NSFAS has been the enacting of sound legislation which gives teeth to NSFAS, making loan recovery legally enforceable.

Macro design of the scheme

Wisdom in designing the student financial aid scheme has been pivotal. Each higher education institution has a financial aid bureau or administrative unit which operates as the local arm of NSFAS, but the costs associated with the financial aid bureau are borne entirely by the institution rather than the scheme itself. Over 250 financial aid officers, operating at the thirty-six institutions, have their salaries paid not from NSFAS head office coffers, but by the universities and technikons at which they are employed, and the office space, furniture and general office equipment, including computer hardware and software, are financed and provided by the institution. An interesting and deliberate mix of central control with decentralized operating functions has seen financial aid bureaux take ownership of and pride in the National Student Financial Aid Scheme.

The simplicity of the overall programme design, including a 'one size fits all' approach (one set of operating requirements is employed countrywide), has seen all those involved in administering NSFAS funding acquire a quick and easy grasp of basic operating procedures for determining eligibility for loans, loan repayment schedules, reporting formats, operational deadlines, etc. A vital feature of the overall design is a user-friendly means test which can be used by financial aid officers to establish the relative financial need of applicants. This tool removes the subjectivity of selecting students, which has proven to be extremely important in the volatile arena of student politics in South Africa. Included in the overall design are matters like the rate at which loans accrue interest, the type of loan and the information technology (IT) infrastructure used by NSFAS. These design issues are sufficiently significant to require separate mention below.

A positive real rate of interest

NSFAS has embraced the philosophy that grants should be as explicit as possible. It believes that, even though interest on loans is subsidized, it is absolutely imperative to have a real rate of interest (that is above the rate of inflation) in order to maintain the purchasing power of the money, as well as to cover some of the administrative costs associated with the scheme. NSFAS loans charge a 2 per cent real rate of interest, which means that the actual rate of interest charged each year varies with the rate of inflation (it has ranged from 15.5 per cent in 1992 to 7.6 per cent in 2002), but is always 2 per cent above the average consumer price index in the previous year.

Income-contingent loan repayments

The decision to make repayment schedules income-contingent rather than 'mortgage type' has also been instrumental in the success of NSFAS. It is always politically sensitive to give loans to poor people. The non-punitive nature of NSFAS income-contingent repayment terms has made the receipt of a loan – rather than a grant – somewhat more palatable to students and the public. NSFAS requires 3 per cent of salary once a debtor's salary reaches a trigger of R26,300 per annum, rising linearly to 8 per cent of salary, and remaining at 8 per cent of salary once it reaches R59,600 per annum.

State-of-the art IT systems

Another reason for NSFAS success is the fact that it has chosen to walk a hi-tech operating system path, rather than a labour-intensive one. State-of-the art information technology (IT) systems allow NSFAS to:

- receive loan repayments transferred electronically from the banking sector into the NSFAS loan management system;
- make all payments to institutions electronically, thus eliminating the need for hard cash;
- transfer data files via the internet to institutions and other stakeholder organizations;
- store loan agreement forms in electronic rather than paper form;
- allow borrowers to access information about their NSFAS accounts on the web (for example in February 2002 anyone who had received a loan from NSFAS could view the status of his or her account on 31 January 2002, obtain information about repayment options and calculate minimum monthly payments).

The NSFAS management decided early in the 1990s that it would be wise to utilize any and every technological advance at its disposal to enhance its operational performance. Time has shown this decision to be both operationally sound and financially prudent. Democratic South Africa also inherited a sound banking system from apartheid South Africa which NSFAS has also fully exploited.

Best business practice

NSFAS is run on business principles with head office staff and financial aid bureau staff receiving regular and thorough training. Like any business in the private sector, NSFAS has designed and committed itself to vision, mission and values statements which give the operation focus. Each member of staff has a job description, coupled with key performance areas and regular performance appraisals. Each department sets its own goals and objectives – congruent with the entity's overall vision and mission – and then celebrates its victories. Tough financial management and tried and tested financial controls ensure prudent use of resources. NSFAS seeks to remain agile. It encourages initiative and rewards innovation. NSFAS unashamedly wishes to be known, as its vision statement declares, as 'the finest loan and bursary scheme of its kind in the world'.

Effective and broad communication strategies

A committee of the NSFAS board is responsible for ensuring that a strategy is in place for communicating with target audiences, the most important of which are the students and the higher education institutions. Others include those in their final years of high school, parents and the general public, the private sector, the donor community and political bodies. Even though NSFAS takes a 'one size fits all' approach, it has been necessary to ensure effective communication of the basic features of the scheme with both higher education institution administrators and staff and their student populations. This is done by placing enormous posters on campuses; ensuring that every applicant for aid and other interested parties receive simple, easy to understand pamphlets. Other key audiences have been reached by way of written press and radio advertisements and appearances on various television shows. A telephone 'helpline' currently fields as many as 15,000 calls a week, allowing the general public to receive information quickly and easily.

Skilled customer care and repayment collection

NSFAS chose not to outsource the recovery of loans to either the banking sector or some other agency or third party (including the tax collection system). This decision, combined with powerful legislation to track debtors, has proved to be a significant contributor to its success. This legislation is unique in South Africa, so that if another entity had been commissioned to recover NSFAS loan repayments it would have had to establish itself afresh. NSFAS management decided that it would be poor business practice to outsource a core function. A motivated and well-focused NSFAS customer care and collections department now recovers money with commitment and zeal.

Passion and visionary leadership

Finally, it would be true to say that sound and visionary leadership by the NSFAS board, coupled with the efforts of a small but highly focused and motivated staff, with a very low turnover and who are on the whole passionate about their work, have been equally important.

Conclusion

NSFAS must become sustainable so that future generations of students can gain the same benefits from the scheme as current and previous borrowers. There are three keys to this sustainability: firstly, the ongoing capitalization of the scheme; secondly, innovative, efficient and resilient administrative systems; and, thirdly, the recovery of the loan portion of the award from students and the recycling of these funds back into the scheme in order to assist future generations of students.

A loan and bursary scheme that subsidizes the interest charged on its loans and gives students substantial rebates by converting up to 40 per cent of a student loan to a bursary/grant requires not only a large initial capital stock but also, once established, capital injections to cover at a minimum, the write-off of 40 per cent of the outstanding loans. The South African government, through the National Department of Education, together with various donors, has demonstrated commitment since 1995 to the capitalization of the scheme. But it is important to remember that NSFAS is building a scheme that is sustainable but not self-sustainable. No scheme which has both loan and grant components could ever be self-sustainable in the sense of becoming a revolving fund, since the bursary/grant portion of a NSFAS award cannot be recovered from the recipient and must therefore be replenished on an annual basis.

The National Department of Education and various international and local donors have ensured that by the end of 2002 NSFAS will have made over 680,000 awards worth in excess of R3.7 billion, since its establishment in

1991. The South African government has produced 78 per cent of this funding, 18 per cent has come from international donors and 3.5 per cent from tertiary institutions themselves. The remaining 0.5 per cent has come from the private sector, an obvious gap in funding which NSFAS plans to bridge within the next two years.

The second key to sustainability is the extremely robust IT and administrative systems that NSFAS has developed, which allow a scheme which will henceforth be administering over 100,000 awards annually to function in a cost-effective and efficient manner. NSFAS operates on an administrative budget of less than 2 per cent of the funds administered in any one year. Costs are kept at a minimum by state-of-the-art information systems and excellent partnerships with financial aid bureaux at institutions, which bear some of the costs themselves: namely determining eligibility, administering means tests for selection of award holders and disbursing NSFAS money to students.

The NSFAS loan management system (LMS) allows NSFAS to manage a student loan, from granting of the award to a student to the final settlement of his or her account; to make all payments to institutions electronically; to receive repayments from borrowers directly from the banking network; to store loan agreement forms electronically; to transfer data files over the internet; and to float debtor accounts on the web. All of this is achieved with as little staff intervention as possible, allowing staff to concentrate on key strategic issues.

Finally, loans must be recovered from debtors so that funds can be re-injected into student financial aid. In 2002 NSFAS will re-inject R190 million of recovered loan money into the scheme. The NSFAS board anticipates a further 20 to 30 per cent growth in collections from this financial year to the next. The reason for the increased recovery is threefold: students are graduating in increasing numbers and gaining employment; new relationships with large employers and ongoing development of the collection systems have ensured that NSFAS has been able to collect repayments more effectively; and NSFAS has made efficient use of legislation to make it a powerful debt collector. Enabling legislation in the form of Act 121 of 1993 and Act 56 of 1999 has given NSFAS powers to deduct loan repayments directly from salary source without requiring an emolument attachment order. The NSFAS Act has provided access to state information systems in order to trace debtors, hence the re-injection of R190 million from recovered funds into the scheme for the 2002 academic year.

NSFAS must continue to build, innovatively and efficiently, on the excellent foundations that are already in place, in order to respond rapidly to changing needs in the tertiary sector. The national scheme must adapt to the changes in society, by using the latest innovations in technology where appropriate, and by enhancing its ability to collect money efficiently, so that no borrower who should be repaying escapes the net. It is our collective dream that no individual who is academically able should be precluded from going to a university or technikon purely because he or she is poor.

Finally, it is important that NSFAS raise its public profile. The NSFAS story is one that deserves to be known; NSFAS debtors need to be reminded that NSFAS is out there; and the private sector should know that putting their money into NSFAS is a very effective way of contributing to their own and South Africa's human resource development needs.

Notes

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[1] The proportion of a loan that is converted into a bursary depends on the student's pass rate; 40 per cent of the loan is converted to a bursary if a student passes all courses (40 per cent is the maximum that can be converted). If he or she passes half the courses, then only 20 per cent of the loan becomes a bursary.

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