



## ***EXPANDING OPPORTUNITIES TO ALL***

***Proposals for the reorganisation of the National Student Financial Aid Scheme:***

***A DA Youth discussion document***

**MAY 2011**

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## **INTRODUCTION**

All South Africans deserve to be able to take their basic education further, and obtain a tertiary education. The DA Youth believes that the doors of higher learning need to be open to all South Africans that have the talent and commitment to qualify for admission to university, regardless of their circumstances, and that no individual, deserving and capable of attending a tertiary institution should be unable to do so on the basis of finance.

The National Student Financial Aid Scheme (NSFAS) was originally setup to assist with the realisation of this ideal by offering financial aid via loans and bursaries to deserving students. However, it has become clear after the publishing of the Report of the Ministerial Committee on the Review of the National Student Financial Aid Scheme that the NSFAS has failed unequivocally to deliver on its mandate in its 12 years of existence.

Whilst the DA Youth welcomes the government's R150 million cash injection into the NSFAS and the January 2011 announcement that final year students' loans will be converted into bursaries pending a pass mark, the DA Youth believes that these moves will yield very little benefit to end users in the long term if the NSFAS system itself is not fundamentally overhauled.

Driven by the frustrations of students, for whom violence has become a way of life as they resort to protesting the failings of NSFAS in desperation, the DA Youth has developed this document which sets out proposals for key reforms to NSFAS that we believe, if seriously addressed, would enable NSFAS to provide access to a successful tertiary education to significantly more South Africans.

At the heart of the document is the principle that NSFAS cannot simply be a vehicle for supplying aid, but needs to shift its focus to encouraging and fostering academic excellence and ultimately graduating skilled students successfully into the market.

## **1. ACCESS TO LOANS**

### **1.1 Allocation formula**

At present, NSFAS uses race as a proxy for financial need. This allocation formula results in historically advantaged institutions with affluent black students receiving the same NSFAS allocations as historically disadvantaged institutions with poor students\*. The DA Youth believes that the allocation formula should be adjusted to focus on financial need so that resources are allocated to the students who need them the most, where they are needed the most.

### **1.2 Qualifying threshold**

The DA Youth has run numerous campaigns in the past around the qualifying income threshold for NSFAS loans. The current qualifying family income threshold of R122 000 per annum results in deserving students being disqualified for support, despite their family being unable to afford tertiary education fees. In addition to this NSFAS has an approximate annual under spend of R50 million – an amount that could fund an additional 1000 students in full per year\*. The DA Youth therefore believes that the qualifying family income threshold could be increased to R240 000 and work on a sliding scale so that more students can qualify for support. Students whose annual family income is between R122 000 and R240 000 could qualify for varying degrees of support. E.g. a student whose parents earn less than R122 000 would qualify for a 100% loan, between R122 000 and R160 000, an 80 % loan, R160 001 and R180 000 a 70% loan, R180 001 and R200 000 a 60% loan and R200 001 – R240 000 a 50% loan.

### **1.3 Funding model**

At present, NSFAS funds are allocated to each higher education institution, which then splits up the amount allocated to them between their qualifying students. The DA Youth proposes an investigation of a system in which students are funded individually and that funding follow them to the institution of their choice. Not only would this encourage competition between universities for excellent students, but would also eliminate some of the massive higher education institution-side delays associated with the current funding model.

### **1.4 Academic criteria**

At present there is a significant drop out rate, with 72% of NSFAS beneficiaries no longer studying having dropped out.\* If the key aim of NSFAS is open opportunity to higher education so that ultimately the country feeds more skilled graduates into the market, then it is clearly failing in its mandate. Although the reasons for this drop-out rate are complex and are dealt with further in section 2.2, the DA Youth believes that the academic performance of school leavers being assisted by NSFAS needs to be more closely scrutinised to ensure that state money is funding students who show academic promise and who have a higher chance of exiting the system successfully. We propose that matriculants be carefully academically screened and that beneficiaries must meet certain academic standards in order to qualify for assistance. The current quality of basic education may reduce the pool of NSFAS candidates if academic

screening is applied, however this needs to be dealt with from a basic education side. Students who do not academically qualify for assistance to attend universities should be directed to FET colleges. Mechanisms should also be developed to assist aspirant university students to attain the academic standard required for university entrance and to reach their full potential at university.

NSFAS's ultimate aim must be to successfully graduate students, and the academic screening and performance of beneficiaries is central to achieving this aim.

## **2. REPAYMENT OF LOANS**

### **2.1 Interest**

The DA Youth believes that interest should be charged only from the date on which the student stops studying and not from April 1 of the year in which the loan is granted, as currently happens. This practice, as well as the National Credit Act contraventions of the NSFAS with respect to debt collection and interest levels, as identified by the Ministerial Review Committee report, results in students being charged compound interest that far exceeds the amount of the original loan and walking away from university with unmanageable debt burdens.

### **2.2 Dropout rate**

Only 19% of NSFAS beneficiaries to date have graduated, while 48% have dropped out. The remaining 33% are still studying. Of the 67% of NSFAS students that are no longer studying, 28% have graduated and 72% have either dropped out or have not completed their studies\*.

If this trend continues it would ultimately make NSFAS redundant as it will be failing to provide any skills to the market whilst operating at a huge cost to the state.

In addition to this, the drop out trend sees more students leaving the system, thus remaining in poverty without an education and a high debt burden, than students successfully receiving a tertiary education and entering the job market.

Whilst the reasons for this dropout rate are numerous and complex, the DA Youth believes that there are two key ways in which it can be addressed. Firstly, many students are not funded for the full cost of their course's tuition. This means that whilst NSFAS will pay, for example, 60% of the student's course fees for any given year, the student must fund the other 40%. If they cannot pay this, they are not allowed to register for the following year and are forced to drop out. The DA Youth therefore believes that NSFAS must move towards a model of offering full course funding for certain categories of student as a means to reduce the rate of drop outs due to financial exclusions. Whilst this may result in fewer students being assisted in the short term, it should ultimately result in a greater number of students successfully graduating into the market.

The second concern area relates to academic support. The DA Youth believes that in addition to the academic screening of potential beneficiaries, there should be formal academic monitoring and support systems put in place for every qualifying NSFAS recipient. This system should identify recipients with sub standard results and require them to attend academic support classes in order to continue to receive aid. The result would be to reduce the number of student dropouts due to academic exclusion.

### **2.3 Service to state**

The DA Youth believes that a radical departure needs to be made from the concept of cash-only repayment for loans. Rather, the DA Youth proposes a model whereby willing graduates can repay their loans through service to the state in a field related to the area of study on a year-for-

year basis. Thus a doctor would, for example, be able to pay off most of his or her study fees over six years by working for the state for a period of six years after completing their community service. Should he or she fail to complete the six year stint, the remaining balance, plus a penalty fee, would become payable.

Not only would this provide relief to cash-strapped new entrants to the labour market, but so too would it be both a means for graduates to obtain on the job experience and encourage a massive flow of talent and skill into the ailing public sector.

## **2.4 Loan recovery**

The NSFAS has the second lowest recovery ratio globally among student financial aid schemes\*. The DA Youth believes that the NSFAS should work with other government institutions such as SARS to recover loan amounts. In line with the suggestion of the Ministerial Review Committee report, loan recipients could automatically be registered as taxpayers and issued with a tax number. As soon as they graduate and enter employment, SARS could issue a directive requiring an additional deduction to be transacted in order to settle the student's study debt. This would go a long way to boosting the debt recovery rate of the NSFAS and ensure that greater resources are available to assist needy future students.

## **2.5 Loan to Bursary conversion**

At present, students who pass the year's subjects qualify for up to 40% of their loans to be converted to bursaries. The DA Youth sees this as an opportunity to further incentivise academic performance by offering loan to bursary conversions at a rate linked to the aggregate obtained by a student. For example, a 35% loan to bursary conversion can be granted for 50 – 60% aggregates, a 40% conversion for 61-70% aggregates, a 50% conversion for 71 – 80% aggregates and a 60% conversion for aggregates of 81% or above.

This initiative would once again strive to make excellent academic performance central to NSFAS and place the focus on graduating students successfully rather than simply the process of supplying aid.

*\* Report of the Ministerial Committee on the Review of the National Student Financial Aid Scheme, 2010*