



**MINISTRY  
HIGHER EDUCATION AND TRAINING  
REPUBLIC OF SOUTH AFRICA**

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09 November 2015

**Setting the record straight: the National Student Financial Aid Scheme**

The Department of Higher Education and Training welcomes the groundswell of popular support for the position that we have been arguing for some years: that our post-school system (university, TVET, and community college) is seriously underfunded. We are doing everything in our power to reprioritize our own budget as well as to seek for additional funds from Treasury. As such it is important to set the record straight with regard to serious allegations about mismanagement of the National Student Financial Aid Scheme (NSFAS). This piece presents in some of the detail the facts of the matter. This makes for a long read, but when we debate the important issues of post-school funding, it is important that the facts are available in the public domains.

Two sets of false allegations have been made recently, one by the Director of the Centre for Higher Education Transformation (*The Ideology of Free Higher Education in South Africa: The Poor, the Rich and the Missing Middle*, Nico Cloete, 2<sup>nd</sup> November 2015) and one by a former board member of the National Student Financial Aid Scheme, Floyd Shibamvu (*University funding: What I saw on the inside*, Floyd Shivambu, politicsweb, 22<sup>nd</sup> October 2015).

The general picture painted by both authors is that NSFAS was a well-functioning entity until the appointment of the current Minister of Higher Education and Training, Dr Blade Nzimande, after which point serious problems developed. This narrative is entirely false. NSFAS, and in its previous form TEFSA (the Tertiary Education Fund for South Africa), has experienced various problems over the course of its history, many of which were becoming extremely serious prior to the creation of the Department of Higher Education and Training in 2009. NSFAS is not yet a perfect system, but substantial progress has been made in addressing inherited crises as well as improving its general functioning.

The most serious allegation made by Cloete is that Minister Nzimande reduced the powers of NSFAS to collect debt, resulting in a dramatic drop in loan recovery, at the same time as increasing funding available to NSFAS.

It is true that after 2010 NSFAS loan recovery declined from R638 million in 2010/11 to only R248 million in 2014/15. But the reasons given by Cloete for this decline are completely false. The real reason was NSFAS being brought in line with the law. Prior to 2010 NSFAS was deducting repayments through garnishee orders that became illegal with the passing of the National Credit Act of 2005; NSFAS was not in compliance with the laws of the country. Section 23 of the NSFAS Act had to be excised as it forced employers to collect student loan repayments from employees' salaries and pay these directly to NSFAS without the permission of the employee. Changing the NSFAS Act resulted in NSFAS having to get positive consent from all debtors to continue with the deductions in line with the requirement of the National Credit Act. Not doing this would have left a public entity acting outside of the law, and losing its accreditation with the National Credit Regulator. As a registered credit provider, NSFAS is compelled to abide by the provisions and regulations set out by the National Credit Regulator.

A review constituted by the Minister, discussed further below, recommended that the Minister and department should (based 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. The act was amended accordingly. Subsequent to this various alternatives have been explored to improve repayment collections. The Board has put in place a recovery strategy to collaborate with other government departments, public entities, and the private sector to recover money from debtors who are gainfully employed and give positive consent for deductions from their payroll. A Policy Dialogue that has been constituted will also investigate the introduction of a constitutionally compliant section of the NSFAS Act to enable NSFAS to recover loan repayments directly through the taxation system.

Another change to the Act empowered the Minister to intervene in the case of non-performance of the board and provide for the appointment of an administrator; the absence of this possibility in the Act left the Minister with very little power in the event of a non-performing board.

As Cloete argues, the board was indeed substantially changed. But the reasons for reconstituting it are completely different to those alleged in his article.

Cloete argues that in its early days NSFAS was much admired and many people visited it. What is true is that there was much interest in it terms of the broad idea that it represented. What is not true NSFAS that it was set up in the best possible way. There were in fact many problems with how it was initially created, as can be testified by any one involved in its early implementation. As Cloete points out, many administrative problems at universities and head office started to emerge by 2008. One of the early acts of the Department of Higher Education was the establishment of a Ministerial Review on the 8<sup>th</sup> June 2009 to understand exactly what the problems were. The committee submitted their report in January 2010.

The final report of this review commissioned by the Minister highlighted the organisational, structural, and policy challenges in the NSFAS. It was clear that the weak staff capacity as well as flawed systems and policies were placing NSFAS at risk. The review committee argued for the need to urgently strengthen the governance and administration of NSFAS, as well as to bring it into compliance with the laws of the country, as discussed above. The report made it absolutely clear that NSFAS as a public entity was failing to execute the mandate of the state as envisaged through legislation or policy, and the Minister has a duty and an obligation to intervene. The crises picked up by the Review Committee were corroborated when NSFAS received a disclaimer from the Auditor-General in 2010.

There were 5 reasons for the disclaimer:

- NSFAS did not value the loan book at “Fair value at initial recognition” in terms of International Accounting Standard 39, which led to problems with the loan book;
- NSFAS did not correctly account for interest over the life of the loan in terms of GRAP 9 and only started accruing for interest on repayment;
- NSFAS was unable to justify on verifiable scientific grounds how we impaired the debtors. NSFAS wrote off R589m of interest and could not properly justify this.
- Interest was incorrectly calculated on the system by R181m due to adjustments made without proper control;
- There was a reconciling difference of R42m which could not be explained.

For these reasons the auditors had doubts about the accuracy of student loan balances in loan management system of NSFAS. They had sufficient doubt about the valuation of the loan book for them to disclaim an audit opinion. Service providers were appointed late, technical problems were not addressed timeously, resulted in actuarial errors that needed to be corrected (misstatements), and supply chain management failure resulted in irregular expenditure.

In short, a Ministerial Review and the Auditor General decreed that the board which Cloete sees as professional and highly skilled had exercised inadequate oversight. The Department, under the leadership of Minister Nzimande, intervened decisively. The first step was to remove non-performing board members, not the entire board as Cloete alleges. Cloete cites one of the non-performing board members, Mr Floyd Shibambu who was asked to resign. There is a lot that can be said about the conduct of Mr Shivambu who would often fly to Cape Town on the pretext of attending a Board meeting, but would end up not showing up for some of the meetings and would often fall asleep when he did show up for some meetings. In December 2010 five board members resigned and six remained. The DHET immediately commenced with a process to fill the vacancies.

As discussed above, NSFAS had to be brought in line with the legal framework of the country. On top of other problems uncovered it was discovered that R78 million had to be returned to debtors as NSFAS had not applied the legal principle of *in duplum* to accrued interest on student loans in compliance with the National Credit Act. In other words, the loan management system used by NSFAS led to students being charged for more than they owed. This was addressed immediately by the Minister, and the Board was requested to discontinue the blacklisting of NSFAS student debtors; to revalue the NSFAS loan book; and to implement the recommendations originating from the Auditor-General’s Report for the 2009/10 audit which resulted in a disclaimer. NSFAS has subsequently been actively tracing the affected debtors in order to repay the credit balances.

The Minister asked for a re-evaluation of the loan book and a turnaround strategy to ensure that NSFAS complies with the National Credit Act, Public Finances Management Act and Treasury Regulations. When no clear and credible plans were produced by the CEO, the Board first suspended and later dismissed him. This is not ‘deprofessionalization’ as alleged by Cloete or a witchhunt as alleged by Shibambu. Following the removal of some board members and the CEO, NSFAS received an unqualified opinion from the Auditor General and has been able to maintain this unqualified opinion for the past 4 years.

There is much evidence that contradicts the allegations by both authors of cronyism in appointments to the board. The two board members that Shibambu alleges are close to the Minister, were not re-appointed after their term expired. The Minister has

appointed to chair the board Sizwe Nxasana, the outgoing FirstRand Chief Executive, to continue to improve financial management, address some of the challenges that have not been effectively resolved by the previous board, and to bring on board new ideas about improving and strengthening NSFAS.

Various other key interventions were implemented, including changing from 3 year to 1 year compliance, actuarial valuation of loan book, completion of loan book amortisation, independent data verification of loan book, and procurement review. There has been substantial progress on a number of issues. Besides those discussed above, a system has been introduced whereby loans are converted to 100% bursaries for final year NSFAS students who graduate. Students are now provided with a grace year whereby interest on their loan kicks in only 1 calendar year after the student either graduated or dropped out. A new student centred model is being designed and implemented incrementally from 2014, which will bring together data from a range of government sources, to improve loan recovery as well as support for students and communication with them.

As has been stated in various forums, there has been a substantial growth in NSFAS funds. Allocations to students at universities from the fiscus have increased from R578.2 million to R4.095 billion from 2004/5 to 2015/6—a 602% increase.

Another particularly significant achievement has been the allocation of NSFAS support to TVET College students for the first time in 2007. Allocations to students in the form of bursaries increased from R100 million in 2007/2008 to R2.205 billion in 2015/16 – a 2.104.6% increase. Since 2009, we have increased the total number of students supported at universities and TVET colleges from 191 040 to 414 802 in 2014/15, an increase of 117.1%.

For the 2015/16 financial year the budget of the NSFAS to allocate loans and bursaries to eligible students amounts to R9.5 billion comprising R6.297 billion from the fiscus for loans and bursaries, R453 million from NSFAS re-injected funds and allocations of R2.750 billion from other notable donor allocations such as bursaries from the Department of Basic Education through the Funza Lushaka Bursary Fund, bursaries for social work through the Department of Social Development, bursaries from the provincial governments of KwaZulu-Natal and the Eastern Cape and bursaries for scarce skills through the SETAs and the National Skills Fund.

Where Cloete and Shibamvu part ways is in their broader views about the funding of university education. Cloete argues that what we need is *affordable* higher education for all, with a clear understanding that affordable means different costs for different groups in society. Shimabvu argues for free higher education for *all*.

The Department has always supported the notion of free higher education for the poor, and not free higher education in general. Recent events have brought to light a wealth of evidence to support the fact that free higher education systems tend to be regressive as they redistribute wealth from the poor to the rich. Our position has always been that government subsidizes a portion of the cost of all students, regardless of their ability to pay, but on top of this, those that can pay then make an additional contribution, and government subsidizes those who cannot pay, as well as giving them additional funds to support them in the process of studying. This is enabled through a fee-based system. Cloete correctly argues that our universities are relatively cheap for high income families. In a highly unequal society the most progressive system is one in which the rich pay more, and not the completely free system that Shibamvu argues for.

Cloete criticizes government for the declining proportion of its contribution and the increased portion of student fees. But this is contradictory to his later argument that

the rich do not pay enough. The logical conclusion of his position is that the state subsidy for all students does not need to be higher, because rich students can and should pay more. This is the direction that our current policy has been moving in: we have been dramatically increasing funding available through NSFAS, increasing its capacity to administer and recover funds, and supporting poor students with additional funds, in order to support poor students to access higher education, while at the same time increasing the upfront contribution required from rich students. Of course the cut-off points between rich and poor will always be the subject of dispute, and the Department is, in line with Cloete's argument, extremely concerned about the so-called 'missing middle' of families which currently are above the NSFAS threshold but cannot in fact afford the current high fees. We are exploring various options to address this serious problem.

Finally, we must note that the need to increase funding for higher education takes place in a context of serious fiscal constraints. In 2012, all government departments were requested to reduce their budgets over three years by 1%, 2% and 3%. Following a motivation from the Ministry, the University and TVET Colleges budget was not reduced. This was communicated to universities and if the public are interested in what the Ministry has done the Ministerial Statement on Funding is a public document prepared annually and available on the DHET website.

### **Issued by Ministry**

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