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STUDENT FINANCIAL AID AT SOUTH AFRICAN UNIVERSITIES AND TECHNIKONS

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ABSTRACT

Given the striking inequality of access to tertiary education in South Africa, a National Student Financial Aid Scheme (NSFAS) is of great importance. Since the present NSFAS has insufficient funds and lacks a long-term plan, the objective of this study is to contribute to the development of proposals for a comprehensive, sustainable NSFAS. More specifically, the aims are to: (1) throw light on the current status of student financial aid at universities and technikons; (2) highlight implications for the NSFAS; and (3) consider the future role of institution-based schemes. The paper begins by drawing lessons from a selection of international literature. The main body of the text is based on responses to a survey questionnaire which included both multiple-choice and open-ended questions. All twenty-one universities and twelve out of fifteen technikons submitted written replies. The paper presents and analyses quantitative and qualitative data describing financial and administrative aspects of institutions' schemes for assisting undergraduate/pre-diplomate, full-time students.

The survey revealed that half of the total resources available for financial aid came from the Tertiary Education Fund of South Africa and a quarter from institutions' general operating budgets. The remaining contributions came from various donors including Provincial Governments, non-governmental organisations, international agencies and South African private sector firms. Bursaries, and to a lessor extent loans, are the main types of financial aid received by needy students. Scholarships and sports awards are allocated according to merit rather than financial need. Differences (such as sources and types of aid) are identified between the financial aid schemes of universities and technikons, and of historically black and historically white institutions. Comparisons of aggregate data with figures presented by the National Commission on Higher Education (NCHE) showed similarities in some instances, but the NCHE's projection of gross student needs in 1996 was

far greater than the resources reportedly available to institutions from all sources. Institution-based schemes do not always comply with the lessons from international experience: the aggregate bursary/loan mix is favourable; the degree of cost recovery is inconclusive; targeting of needy students is sound in theory but difficult in practice; and mortgage-type loans, rather than internationally recommended income-contingent loans, are the norm, and they have substantial hidden subsidies.

Implications for the NSFAS include the following: standardisation of the means test and the definition of "legitimate" study costs is desirable on equity grounds; administrative difficulties experienced by financial aid bureaux impact on the NSFAS and therefore more resources are required in this area. With regard to the future role of institution-based schemes: a levelling of the playing fields with respect to the contributions by institutions themselves to financial aid is suggested; institution-based loan schemes may be viewed as complementary to the NSFAS (in that they target students with different characteristics), which provides a theoretical reason for the creation of a centralised mortgage-type loan scheme to harness private sector capital. Such decisions need to be based on detailed assessments of efficiency which are beyond the scope of this paper.

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I alone am responsible for all views and errors contained in the paper.

LIST OF ABBREVIATIONS

GOB:	General Operating Budget
HBT:	Historically Black Technikon
HBU:	Historically Black University
HWT:	Historically White Technikon
HWU:	Historically White University
IDT:	Independent Development Trust
NCHE:	National Commission on Higher Education
NGO:	Non-Governmental Organisation
NSFAS:	National Student Financial Aid Scheme
TEFSA:	Tertiary Education Scheme of South Africa

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CHAPTER 1

INTRODUCTION

Education is often considered to be of vital importance to a nation's prosperity, and South African sentiment is no exception. Higher education, more specifically, is viewed as the source of skills and knowledge which are necessary to propel the country into the competitive international arena. In addition to this national economic motive for expanding the higher education system, there are strong normative arguments advocating equality of access to what few people doubt is a passport to greater individual well-being. However, in South Africa at present, there is a marked inequality of access to tertiary education, stemming from the radically skew distribution of income and extensive poverty. There are thus compelling reasons for a national programme to assist financially disadvantaged youths and thereby expand access to and participation in the higher education sector. Indeed, such a programme has been the source of much discussion by the Government of National Unity and other interested parties.

Below, the historical development of student financial aid is discussed in order to provide a backdrop for the current study. This leads us to the developing crisis in the financing of needy students, which furnishes the motivation for this investigation of university and technikon-based financial aid schemes. The aims are elucidated in section 1.3, after which the methodology is described.

1.1 HISTORY OF STUDENT FINANCIAL AID IN SOUTH AFRICA

Higher education in South Africa during the 1980s was characterised by simultaneously increasing student enrolments, rising costs and declining real subsidies from Government to tertiary institutions (Pillay, 1995: 1). Together, these factors placed a mounting financial burden on both institutions and students. Due to changes in the political climate as the Apartheid State recognised the unsustainability of its system, access to higher education began to expand for young people from financially disadvantaged backgrounds, who could not afford the costs of tuition and other expenses. Consequently, there was a

growing need for financial support for needy students. However, by the end of the 1980s South Africa still had no national financial aid scheme.

In the absence of a state-sponsored scheme, the onus lay on individual higher education institutions to raise funds to support those students who met the academic requirements for entry, but who could not afford the fees. Universities and technikons thus appealed to donors for assistance, and also had to allocate part of their general operating budgets to student financial aid. However, the squeeze on state expenditure continued into the 1990s, bringing increasing pressure to bear on tertiary education institutions' budgets and causing growing student debts as a result of raised fee levels.

Cognisant of a looming crisis, the Independent Development Trust (IDT) provided R50 million for student financial aid, to be granted in the form of loans during the 1991 and 1992 academic years. The Tertiary Education Fund of South Africa (TEFSA), a non-profit company governed by a board which is representative of all major stakeholders in higher education, was created to administer the scheme. As a consequence of certain restrictions as to which institutions received funds, and because of its small size (in terms of the funds available to it) relative to national needs, TEFSA's scheme could not be termed a truly national one. While the sources of funds in the early years were limited to the IDT and several other donors, it was envisaged that the scheme would grow into a national one through the state becoming the major donor.

Despite these efforts, the financial situation grew steadily more serious, with student fee debts at tertiary institutions rising from R89 million in 1992 to R137 million in 1993 (Carolus, 1995: 4).

On 1 September 1994, soon after South Africa's transition to democracy, the Ministry of Education in the Government of National Unity appointed a committee headed by Cheryl Carolus to advise the Minister on possible problems in higher education. The Committee highlighted, *inter alia*, the urgency and importance of student financing. In particular, assistance was required for academically qualified students who lacked the financial means to participate in higher education (NCHE, 1995b: 7). As Carolus (1995: 6) herself put it, "[t]he feedback from universities and technikons indicated a student financial aid crisis at the beginning of the 1995 academic year that [would] be beyond the ability of tertiary institutions to resolve." Subsequently, the Ministry of Education in January 1995 convened a conference on higher education financing which built on the foundations laid by the Carolus Committee;

student financial aid was once again the central theme.

Soon thereafter, the Cabinet approved the appointment of the National Commission on Higher Education (NCHE) to investigate the restructuring of the higher education system. The Commission in turn set up five task groups to deal with the various issues. One of these, the Finance Task Group, appointed a Technical Committee whose mandate was to submit proposals for a national student financial aid scheme (NSFAS).[1]

In June 1995 the Technical Committee of the Finance Task Group completed a draft report on a student financial aid in South Africa. It identified three outstanding issues which fell under its ambit: "what the present numbers are of financially needy students in the university and technikon sectors"; "how a new national financial aid scheme should be financed"; and "how a new national financial aid scheme should be administered" (NCHE, 1995a: 2). The Technical Committee began its report with a disclaimer, to the effect that they were being asked to operate in a "policy vacuum" because "a student financial aid scheme should form part of an overall policy framework for higher education in South Africa", dealing with such matters as access, size and shape, and the utilisation of government funding (NCHE, 1995a: 4). However, noting the urgency and importance of their brief, the Committee proceeded with the formulation of proposals for a NSFAS.

A questionnaire was sent by the Committee to all universities and technikons, and was returned by all 21 of the former but by only 10 of the 15 technikons. Using institutions' estimates of their numbers of financially needy students, the Committee (employing a significant amount of data manipulation due to perceived unreliability and inconsistency) came up with a figure of 70 000 needy students for the year 1996. Estimates of student costs, including tuition fees, residence fees (or private costs of accommodation) and maintenance expenses (books, local travel, etc.) were derived from information given by the institutions. Combining these figures with the estimates of numbers of financially needy students in several categories (relating to type of accommodation and type of institution, *viz.* contact or distance), the Committee came up with overall gross costs of needy students amounting to R895 million for 1996. From this was subtracted R143 million (or 16 percent of the total),

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[1]In this paper, the term "NSFAS" is used specifically in reference to the current national scheme administered by TEFSA, and also more generally referring to <u>any</u> (e.g. future) national student financial aid scheme.

which was assumed[2] to be the contribution of students and their families. This left R752 million to be funded by the NSFAS. Based on the information provided by institutions, the Committee calculated that institutions could contribute R97 million in bursary funds to the national scheme (NCHE, 1995a).

The Technical Committee admitted that it encountered a number of difficulties while attempting to formulate a financial plan for the NSFAS. The absence of decisions about related higher education policies has already been noted. When it came to the analysis of data, the most obvious deficiency was the lack of response from a third of the technikons. Furthermore, what data there was often appeared unreliable or inconsistent, or was incomplete. For example, the Committee claimed that "certain institutions... overestimated their total of financially needy students" (NCHE, 1995a: 23). Most institutions could not provide reliable enrolment information for 1995, the year of the study. Of particular concern was that some institutions could not distinguish between need-based bursaries and merit-based scholarships, or between full-time and part-time enrolments and needy student numbers. The Committee also admitted that their assumptions about income levels for the means test and about values of financial aid packages were tenuous, and warranted further empirical work to establish their validity. Finally, the sensitivity of the financial model to the many assumptions was acknowledged (NCHE, 1995a: 43-44).

The Technical Committee published its Draft Report for comment by all interested parties. A consultative conference was subsequently arranged in July 1995 for stake-holders to discuss the proposals and present their reactions. A number of problems with the draft report were identified by the participants, some of which are summarised below (see NCHE, 1995b: 28-38). In the first place, the total of financially needy students was considered to be a gross underestimate. Secondly, a number of assumptions were deemed unrealistic, the most important of which was that of a 38 percent default rate, considered by most of the conference participants to be too optimistic. There was, furthermore, widespread agreement that more work was required on means test levels and own-family contributions. With regard to financial issues, participants generally did not believe that institutions would be able to contribute between R100 and R200 million, as donors might withdraw support on account of the national scheme. In addition, there was considerable concern about the abandonment

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[2]The assumption was loosely based on figures supplied by the institutions.

of income-contingent loans, which, it was argued, were more flexible and likely to lead to lower rates of default. In contrast, mortgage-type loans place a heavy burden on the poorest graduates, thus undermining the principal aims of equity and access. (The different types of loans are defined and explained on page 12 below).

The Technical Committee Reported back to the Finance Task Group, which forwarded the suggestions - with some amendments - to the NCHE. A notable change was that the Task Group advocated an income-contingent loan repayment scheme "if at all possible" (NCHE, 1995c: 5). The NCHE in turn reviewed the report of its Finance Task Group and passed on its revised proposals to the Minister of Education on 31 July 1995. The Commission regarded the Task Group's figures as an understatement of the actual need, but was willing to accept them as "reasonable". It also "agrees that loans must form the major component of the financial assistance" and "accepts that a form of income-contingent loans... would be the most equitable mechanism of ensuring high levels of repayment" (NCHE, 1995c: 7). However, it recognises that the "key problem is that a source of capital funding for income-contingent loans has yet to be identified," since Government and donors would not be able to provide R350 million in loan funds and the banking sector "will not support income-contingent loans." Unfortunately, the NCHE had no solution to this dilemma; it thus knowingly submitted infeasible proposals to the Ministry of Education.

The NCHE proposed a phased approach to student financial aid, since it noted that "a comprehensive national student financial aid scheme... cannot be implemented in 1996" (NCHE, 1995c: 8). Phase one would be a NSFAS for universities and technikons only, consisting of bursary and loan components, and, "crucially... would also include the development of a viable financial framework for the comprehensive national student financial aid scheme." According to the NCHE, "[s]ubsequent phases would extend the national student financial aid scheme to other higher education sectors and beyond bursaries and loans [to scholarships and work-study programmes]." To date, none of these aims has been adequately fulfilled.

The Ministry of Education was able to secure R300 million of state funds for the purpose of financial assistance to students for 1996. It was decided, upon the recommendation of the NCHE, to utilise existing capacity to administer the scheme, and thus TEFSA was called upon to distribute the funds amongst the universities and technikons. TEFSA maintained its income-contingent loan scheme, with the available funds (including donor and Government sources) being allocated proportionately to tertiary institutions on the

basis of estimates of numbers of financially needy students per institution (supplied by the latter). In 1997, the same format has been retained, with another once-off contribution (this time R200 million) from the State.

1.2 THE CURRENT CRISIS

It is precisely this *ad hoc* nature (*i.e.* the lack of any long-term plan) of the present scheme, coupled with inadequate resources allocated to financial aid (according to the NCHE's estimates) that provides the motivation for this paper. The current political milieu favours an expanded higher education sector, especially involving increased access for historically disadvantaged South Africans. This implies a growing demand in the medium term for financial aid for needy students. Without a sustainable financial aid scheme, the future of higher education in South Africa is in jeopardy.

The problematical nature of the status quo is in fact recognised by the Government in its latest White Paper on Higher Education:

> "The Department of Education, in co-operation with the Department of Finance, is now focusing its attention on the alternative of a public fund similar in concept to the present scheme, based on planned annual budgetary allocations made in terms of the three-year rolling budget framework. The scale of the annual allocations needs to be computed on the basis of far better data and projections of student needs than are currently available...The Department is currently working on such projections." (Department of Education, 1997: 49)

> A sustainable long-term scheme will include *loans and bursaries, as the present scheme does, and may well include scholarships to reward academic excellence, and student and community self-reliance programmes, such as work-study and community service. The Ministry is actively supporting an investigation into these alternatives...* Not enough is known about the current scale of privately-funded sponsorships and bursary programmes, both domestic and from external sources, or of student loans financed by the commercial banking sector for those who can provide the required security and are prepared to contemplate the terms of repayment." (Department of

Education, 1997: 49-50; italics in original)

Evidently, much work still needs to be done to lay the foundation for a new NSFAS.

1.3 AIMS

The overarching objective of this study is to provide information pertinent to the formulation of a viable, comprehensive, long-term national student financial aid scheme for South Africa. More specifically, it aims to throw some light on the current status of student aid in South Africa by describing and assessing existing financial aid programmes at universities and technikons. A number of questions are posed, including the following:

- What sources and amounts of financial aid are available to universities and technikons?
- According to which criteria is financial aid allocated?
- In what forms is financial aid made available (e.g. bursaries or loans)?

Given resource constraints, any national scheme is likely to be predominantly loan-based. With this in mind, the paper pays particular attention to loan schemes operated by universities and technikons:

- How significant are the schemes in terms of their financial dimensions?
- What are the causes of loan defaulting and how severe is it?
- What mechanisms are used to collect loan repayments?
- Are existing schemes feasible and sustainable?

More generally, the paper aims to discuss the implications of university and technikon experience for the NSFAS:

- What are the problems experienced by financial aid bureaux?
- What are the likely obstacles to a modified, comprehensive NSFAS?

Finally, we consider the future role of university and technikon financial aid schemes in the context of an expanded, comprehensive NSFAS.

A few words are also required to delineate what this paper is not aiming to

accomplish. First, no financial projections are made, as this falls under the ambit of actuarial modelling. Second, this is not the place for a comprehensive analysis of the current NSFAS operated by TEFSA (although references are made and comparisons drawn). Third, this investigation does not cover loans offered independently by commercial banks, or other forms of financial assistance obtained from private sources (e.g. company bursaries). Only financial aid administered by university and technikon financial aid bureaux is considered here.

1.4 METHODOLOGY

The paper begins with a review of some relevant international literature on student financial aid schemes. Lessons from this international experience are drawn and salient issues are identified for investigation in the remaining chapters. The review was intended to be selective rather than comprehensive, since the topic of this study is not a national scheme *per se*, but rather institution-administered financial aid.

The main body of the text is based on responses to a survey questionnaire (see Appendix) sent to all universities and technikons in South Africa. All twenty-one universities and twelve out of fifteen technikons submitted replies. Quantitative and qualitative data describing the general features of financial aid are presented and analyzed in Chapter 3, while Chapter 4 concentrates on loan schemes. The questionnaire and hence the paper deal with financial aid for **undergraduate/pre-diplomate, full-time students** only. This is due to a similar focus by the NSFAS, and because postgraduate financial aid is markedly different - mainly in terms of its sources and amounts of funding.

Analysis of the data aims to establish whether there are any patterns, such as differences between universities and technikons and between historically black and historically white institutions.[3] Universities are hypothesised to differ in the amount of financial aid they administer; this is based on their higher enrolment figures and tuition fees. Another premise is that historically black and white institutions differ in the proportion of

[3] "Historically black" institutions are defined as those which were administered either by so-called "Homelands" or "Independent States", or by the former Department of Education and Training, House of Delegates and House of Representatives. "Historically white" institutions are those which fell under the auspices of the former House of Assembly, and which admitted mostly white students.

their students who are considered financially "needy".[4] The question of whether such factors impact on the type and amount of financial aid is investigated. Where appropriate, the aggregate data is also compared with figures presented by the NCHE in its various reports on student financial aid.

The analysis in this paper is constrained by two factors. Firstly, the extent of the survey questionnaire was limited by a perceived trade-off between the number of questions to be asked on the one hand and the anticipated number and quality of responses on the other. This perception was based in part on a pilot application of the questionnaire undertaken at one institution, and partly on the experience of certain persons directly involved in higher education. Secondly, the survey was conducted with a confidentiality proviso, which means that no references to specific institutions or their characteristics is possible.

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[4]A comprehensive and unequivocal definition of "financially needy" is very elusive. In practice, the definition varies by institution according to factors such as means test parameters and costs of study.

CHAPTER 2

LESSONS FROM INTERNATIONAL EXPERIENCE

2.1 INTRODUCTION

As human capital theory developed during the 1960s, interest in higher education burgeoned worldwide. Viewing education as a social investment towards enhanced economic growth provided a compelling reason for the expansion of education systems. Governments thus sought ways to encourage participation, particularly in higher education. This led to the birth of student financial aid schemes, notably in the United States, but also in Europe and the developing world. Since then, experiments with financial aid schemes have increased, and a variety of funding methods have been tested.

This chapter sets the stage for the analysis of financial aid at South African universities and technikons by examining some theoretical and practical issues emanating from international experience with student aid programmes. The following section lists the major objectives of financial aid schemes. Next, various design options are discussed. In section 2.4, a number of evaluative criteria are developed. These criteria are applied in section 2.5 to the experience of student financial aid programmes in industrialised and developing countries. The concluding section extracts lessons from these experiences and identifies key issues which will require attention in the remainder of the paper.

2.2 OBJECTIVES

Human capital theory postulates that education is a form of investment. The individual invests in education in order to enhance his or her future earning power, and society invests in education to secure higher economic growth. However, an imperfection exists in capital markets because the returns to education are not risk free and cannot be predicted with certainty (for example, a potential lender does not know for certain whether a borrower will successfully complete his/her course of study, or whether the resulting qualification will be valued by the market). This means that not everyone has access to sufficient capital to pay

for the costs of education. Consequently, there is a socially suboptimal level of higher education enrolment. An economic argument has thus been developed for state intervention in order to alleviate this market imperfection by providing capital (in the form of loans) to help students meet the tuition and/or living costs associated with acquiring higher education. In this way, participation in tertiary education is encouraged and the supply of educated manpower increased (see Woodhall, 1983: 1, 4, 8-9).

Aside from this **efficiency** argument, there is also an **equity** argument for state provision of financial assistance to students, which is to widen access to higher education and to promote equality of opportunity by removing financial barriers to entry.

Another reason that governments become involved in financing students is to influence the choice of discipline so as to tailor the education system's output to **national manpower requirements**. In theory, this is achieved by offering targeted support; that is, bursaries or other forms of financial aid are awarded for study in specific fields. However, this approach is currently out of favour due to the impracticality and poor record of attempted human resource need projections.

Student loan schemes are often advocated - especially in developing countries - for a reason quite different from other arguments underpinning state-provided financial aid. The use of student loans - in conjunction with tuition fees - to alleviate higher education's drain on public revenue by shifting part of the cost burden onto students themselves, is known as "**cost recovery**" (Woodhall, 1991: 7). In some cases, financial aid schemes are intended to address the dual goals of expanding access on the one hand and recovering costs on the other. As Woodhall (1990: 9) puts it, there is a desire "to expand participation in higher education without imposing excessive burdens on tax payers and on public expenditure."

There is also an equity side to the above argument (referred to as "**cost-sharing**"), namely that loan-financed higher education fosters a more equitable distribution of costs and benefits between students and the general public. More specifically, private returns to higher education are widely acknowledged to be greater than social returns, which provides a rationale for the "users" of education to bear a (significant) portion of the costs. Otherwise, taxpayers in general, via the government's budgetary allocations, are subsidising the education and thereby higher lifetime earnings of higher education students.

An additional argument specifically related to the use of student loans is that loans

boost efficiency through improving motivation and cost-consciousness amongst students (Woodhall, 1983: 4). However, evidence is rather flimsy due to the difficulty of measuring such qualitative effects.

2.3 DESIGN

Many options are available to education authorities designing a student financial aid scheme. The choice depends partly on the particular objectives at hand, and also on cultural factors and financial constraints.

Perhaps the simplest way of supporting students is to subsidise higher education institutions directly and reduce tuition fees commensurately. However, this has the disadvantage of not allowing targeted support, and in many cases will also be inadequate assistance for those who cannot pay for their living expenses while pursuing higher education qualifications. An alternative approach is to provide bursaries or grants to students, which they can use to pay their tuition fees (if these are levied) and living costs.

Another option is to provide students with loans, which involve an explicit contract between borrower and lender, and are essentially a means of providing students with access to their future incomes (Archer, 1997: 11). There are several types of loan (Albrecht and Ziderman, 1992: 72). First, there are "mortgage-type" loans which require fixed nominal monthly repayments over a set period of time. A variation of the above is the "graduated" mortgage-type loan whereby repayments are made in fixed *real* amounts, so that the burden is not excessive in early years of repayment.[5] A second type is the so-called income-contingent loan[6], with repayments being a certain percentage of the graduate's income. This scheme is usually much more favourable to low-income graduates since they often have longer to repay their loans, with the additional consequence that they benefit more from any interest subsidy. Income floors are set, below which the graduate is exempt from repayments, or there is a "grace period" after graduation which makes allowance for temporary unemployment.

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[5]The real value of equal nominal repayments will be eroded over time by inflation, implying a larger real burden early on.

[6]Strictly speaking, it is the repayment, and not the loan, which is contingent upon the person's income; however, this paper conforms to the standard use of the term "income-contingent loans".

There is considerable scope in the stipulation of repayment terms for student loans. Interest rates charged on loans can vary greatly, but are usually substantially below market rates and sometimes even below the rate of inflation. This implies a significant subsidy to students. Further, the percentage of income to be repaid (in the case of income-contingent loans) or the duration of the repayment period (for mortgage-type loans) are policy variables to be set by administrators. The decision is predicated on considerations such as the manageability of the loanee's debt burden. Eligibility for loans (or rationing of financial aid) is also determined by education authorities.

A variety of options are available when it comes to governance of the financial aid scheme (Albrecht and Ziderman, 1992: 74-5). The first is autonomous public lending bodies administering government-supplied capital. A second model relies on commercial banks to provide the capital for a loan scheme, with the government guaranteeing loan debt repayment. This method is designed to utilise private sector efficiency in administration and collection, and to ease state budget constraints. Thirdly, private banks may operate schemes independently of government. A final option is the use of existing government structures, such as the tax system or a national insurance scheme, to collect loan repayments.

The choice of financial aid scheme involves certain trade-offs (Woodhall, 1983: 93-95). For instance, efficiency and equity goals often conflict. A second is between expanding access for poor students and recovering costs to reduce public expenditure on higher education. A third trade-off exists between administrative complexity and effectiveness on the one hand, and the costs of administration on the other. The final decision depends on factors such as the country's economic and social goals.

2.4 EVALUATIVE CRITERIA

A number of criteria can be used to assess student financial aid schemes, with their relative importance again being partly a function of the mix of desired objectives (Woodhall, 1983: 11, 67-72). First, the effect of the programme on **access** to and **participation** in the higher education system should be determined. Put differently, one wants to ascertain the effect of financial aid on the demand for tertiary education. Second, **equity** is also likely to be an important aspect; here one examines the distribution of costs and benefits of education between students and taxpayers, and the opportunities for poor students. Third, if the country

has certain **human resource** objectives, then the effect of the scheme on field of study choices needs to be evaluated. The effect on **efficiency** can be assessed by the convergence or divergence of social and private rates of return; student motivation and performance; wastage and drop-out rates; and overall cost-effectiveness.

If **cost recovery** is one of the aims of the scheme, then the levels of private and public spending, and in particular the extent of public subsidy, should be estimated. The loan recovery ratio, defined as "the extent to which the loan is repaid in full" (Albrecht and Ziderman, 1991: 7-8), is a useful tool for evaluating the capacity of a loan scheme to generate long term funds for higher education. The ratio depends on, *inter alia*: the degree of interest subsidy; lost repayments due to default; and administration costs resulting from processing and maintaining loans and collecting repayments.

The **flexibility** of the programme's design and its ability to meet the objectives is another criterion for evaluation. One cannot expect all the relevant conditions in the higher education sector (and economy as a whole, for that matter) to remain the same indefinitely, and as priorities and needs shift, the parameters of the financial aid scheme may well need to change.

The **financial feasibility** of the scheme are all-important. Careful attention must be given to estimating all the costs associated with the scheme, and planning how these costs are to be financed on a medium to long term basis (e.g. 15 to 20 years). Key indicators such as the default rate will have to be approximated and used in a modelling process.

A final criterion is **political feasibility**: much depends on how the scheme and its terms are accepted by the student body and by the wider public. For instance, if people are fundamentally opposed to the idea of a loan scheme, demanding instead that higher education be free, it is unlikely that repayments will be sufficient to make the scheme sustainable. An awareness of the purpose of the programme and how it effects various interest groups needs to be fostered before the scheme is implemented.

Unfortunately, quantitative measurement of these criteria is difficult, to say the least; in most cases the best that can be done is qualitative assessment.

2.5 EXPERIENCES

Early experiences with student financial aid, and with student loans in particular, led to the development of various arguments about their effectiveness in meeting the desired objectives (Woodhall, 1983: 1). Common arguments against loans included: the failure to extend opportunities as a result of, *inter alia*, overly onerous selection criteria; the discouragement of low-income students and of females (some of whom are unemployed during periods of child-rearing); prohibitive administration costs; high default rates; and the loss of repayments as a result of "brain drain". On the other hand, some argued that loans had the following positive effects: enhanced equity and equality of opportunity; a reduction of the financial burden on government; and greater efficiency (for example lower drop-out and failure rates resulting from improved motivation). This section examines these contentions in the light of recent experience in industrialised and developing countries. The format follows the criteria developed in the previous section.

As far as access is concerned, Woodhall (1983: 22) states: "research shows that neither grants or loans have had much effect on widening opportunities." Albrecht and Ziderman (1991: 6) concur, claiming that in developing countries "coverage is almost always less than 10 percent of the student population." Woodhall (1990: 14) notes further that "financial aid is only one factor in influencing participation." Other factors include the state of the labour market in terms of job opportunities and salary scales. As one would expect, another discovery is that "[f]or the most needy students, grants, scholarships or bursaries may be more effective... [in] encouraging participation [than loans]" (Woodhall, 1991: 22). On the other hand, Woodhall (1983: 7) argues that student loan schemes are "more equitable than existing patterns of highly subsided tuition." In contrast to her later study cited in the previous paragraph, Woodhall (1983: 72) claimed to find no evidence for the contention that student loans discourage women or low-income families. However, she further states that "the overall impact on equality of opportunity has proved less than was hoped, and it is still true that higher income families receive much greater educational subsidies than poor families."

With regard to the effects of financial aid on the nature and distribution of human resources (*i.e.* numbers of people with different skills), it has been found that "students' career choices are more influenced by wages/salaries, job opportunities and labour market

conditions than by student aid" (Woodhall, 1990: 2).

According to Woodhall (1983: 4), experience suggests that student loans have positive effects on motivation, thereby reducing wastage, drop-out rates and length of study. Having ultimately to pay for their education may also enhance cost consciousness among students. However, concrete evidence for these assertions is hard to come by.

Albrecht and Ziderman (1992: 77) argue that student loan schemes have had little effect on the financing of tertiary education since they have generally supported only a few students. Further, they assert that cost recovery has not been the principal objective in developing countries (1991: 6). However, according to Woodhall (1983: 7), "student loans can provide a significant source of finance for higher education... in the long run," although there will be no quick savings. The extent of self-financing (*i.e.* cost recovery) and of the subsidy involved are two sides of the same coin and are largely policy decisions. However, Woodhall (1991: 16) tells us that in English-speaking Africa "recovery of outstanding student loans has [thus far] been very disappointing, and the idea of a 'revolving fund' impossible to achieve." This sort of experience is due to a number of problems experienced with loan programmes: default and delayed repayments (although these can be addressed); drop-outs; and brain drain (although Woodhall (1983: 5) does not consider this to be severe). According to Albrecht and Ziderman (1991: 8), "it has yet to be demonstrated that default can be minimized effectively in large developing countries, without excessive administration costs," which implies that in some cases grants are better (*i.e.* more cost-effective) than loans. However, through manipulation of their many parameters, loans have proved to be a flexible tool, allowing incentives to be targeted for specific groups.

In respect of the feasibility of financial aid schemes, Woodhall (1990: 3) says that "[e]xperience in industrialised countries shows that student loans do work, but that a *mix* of grants and loans seems desirable" (emphasis in original). The popularity of loans amongst students seems to depend on whether the introduction of loans represents an increase in support or whether they are to replace grants or bursaries. In her extensive review of international literature on student loan schemes, Woodhall (1983: 75) did not find any evidence of a reluctance on the part of students to borrow. While Albrecht and Ziderman (1992: 7) contend that "most student loan programmes possess severe limitations in their present forms" and need to be reformed, Woodhall (1983: 65) is more upbeat, claiming that "student loan schemes can operate successfully in developing countries."

2.6 LESSONS

A number of lessons can be drawn from the international experience with financial aid schemes, and with loan programmes in particular. In the first instance, Woodhall (1983: 7) warns that "student loans should not be regarded as a panacea, but as a method of finance which, when combined with tuition fees and selective scholarships, has many advantages." Goals of cost recovery, efficiency and equity cannot be met by loans alone. On the contrary, there seems to be general agreement that a combination of loans and bursaries is the most effective form of financial aid when it comes to stimulating participation in higher education. Woodhall (1990: 14) advocates a mix of half loans and half grants. If cost recovery is a primary objective, then significant fee levels must be put in place (Albrecht and Ziderman, 1991: 12).

A great deal of planning is required for a financial aid programme to be successful. Woodhall (1983: 6) stresses the importance of appropriate publicity, to "secure widespread recognition of the advantages of a loan scheme." In addition, there are many financial issues which need to be adequately addressed so that the scheme receives sufficient annual financial injections (to be estimated by actuarial modelling); the source of these injections may be a capital fund or recurrent contributions from government and donors. Default rates need to be realistically projected, and all costs inherent in the scheme should be identified in advance. A further element of planning is not to underestimate the cost components of the scheme, including administration costs, subsidies and the servicing of loans (Woodhall, 1983: 19, 26).

With respect to any subsidy implicit in the scheme, Woodhall (1983: 93) advocates that all hidden grants (such as interest subsidies) should be made explicit. Albrecht and Ziderman (1991: 17) argue that the interest rate on loans should be greater than the rate of inflation in order to minimize the interest subsidy, otherwise there will be a large financial burden on the state. Another reason for charging market-related interest rates is that they generate more efficient incentives for students facing decisions about borrowing and repaying (Archer, 1997: 18). Furthermore, subsidies should be targeted to academically deserving and needier students, the latter selected by a means test.

An excessive burden on graduates might lead to a high default rate, which in turn could render a loan scheme unfeasible. An income-contingent loan scheme is preferable on

the grounds that it is likely to result in lower default rates than a mortgage-type scheme. Woodhall (1983: 77) advocates an appropriate "grace period" as another means of reducing default. Moreover, effort should be spent in separating genuine defaulters from those who are unemployed so that repayments can be collected if and only if they are actually due. Finally, Albrecht and Ziderman (1991: 16) argue that "if default or evasion is likely to be greater that say 25 percent, it would be inadvisable to implement a [loan scheme]," since grants would be more cost-effective.

The collection of loan repayments is obviously also crucial to the viability of a loan scheme. This necessitates a credible institution with a strong incentive to collect, together with legally enforceable terms and accurate records (Albrecht and Ziderman, 1991: 16; Woodhall, 1991: 23). Moreover, if an agency is collecting loans, it should be able to do so without political interference (Archer, 1997: 20).

Woodhall (1990: 3) warns that "[c]onditions in industrialised and in developing countries are very different: in particular labour market conditions and the capacity of banks and other financial institutions to organise loans and ensure repayment." There is thus no blueprint for a successful financial aid scheme, but due attention to the details alluded to above and to local conditions may alleviate problems and result in an effective programme.

2.7 SUMMARY

The international literature reviewed above dealt with national financial aid schemes, whereas this paper is fundamentally concerned with the financial aid programmes of individual tertiary education institutions. However, part of the current objective is to explore the interface between institution-based schemes and a national scheme. With this aim in mind, the salient issues relevant to an analysis of university and technikon financial aid schemes (and loan schemes in particular), extracted from the international experience, are presented schematically below.

GENERAL

Criteria for assessment:

- access and participation
- efficiency and cost-effectiveness
- equity (cost sharing) and equality of opportunity
- human resource requirements
- flexibility
- financial feasibility
- political feasibility

Policies:

- enrolment growth and therefore growth in needy student numbers
- cost-recovery
- subject choice patterns
- eligibility (means test parameters, ability requirements, etc.)
- definition of legitimate student costs and therefore size of financial aid package
- bursary/loan mix

Lessons from experience:

- widespread publicity (mobilise public opinion)
- adequate planning for financial sustainability
- combination of loans and bursaries (grants especially to poorest students)
- target support

LOAN SCHEMES

Parameters:

- repayment mechanism (income-contingent or mortgage-type)
- interest rate subsidy
- percentage of income (income-contingent) or repayment period (mortgage-type)

Factors influencing default:

- graduation rates
- unemployment rates (graduates and non-graduates)
- future salary patterns
- debtor mortality rates
- collection mechanism
- brain drain/emigration
- publicity, cultural attitudes and willingness to repay

Lessons from experience:

- income-contingent loans foster a more manageable debt burden and hence lower default rates
- collection agency should be politically independent, credible and face correct incentives
- realistically assess all costs and project default rates in advance
- minimize hidden grants/interest subsidies

CHAPTER 3

FINANCING AND ADMINISTRATION OF FINANCIAL AID

3.1 INTRODUCTION

The purpose of this chapter is to ascertain the current status of student aid at South African universities and technikons, and thereby illuminate the future role of institution-based financial aid and the implications for a comprehensive, long-term NSFAS.

Section 3.2 is concerned with the sources of student financial aid in South Africa. Data summarising institutions' responses to the survey questionnaire are displayed in tabular form. The composition of financial aid - according to several categories - is presented and discussed. Where possible and appropriate, comparisons are made between the figures supplied by universities and technikons; between historically black and historically white institutions; and between English-speaking and Afrikaans-speaking institutions.

Section 3.3 deals with the administration of financial aid. Firstly, the criteria employed by institutions' financial aid bureaux (FABs) in selecting applicants are discussed. Secondly, we consider the manner in which the size of financial aid packages are determined. Thirdly, the various types of financial assistance offered by universities and technikons are defined, and then the data summarising the allocation according to these categories are presented. Any discernable patterns are noted, and comparative analysis is conducted with the data from the previous section.

The final section summarises the main findings.

3.2 SOURCES AND AMOUNTS

The tertiary institutions were asked (Question 7 of the questionnaire) to quantify the amount of student financial aid emanating in 1996 from a number of different possible sources. The first category is the institution's own General Operating Budget (GOB), which is generally comprised of central government subsidies (formula funding), donor funding (for

the institution as a whole and not specifically for student support), fee income and income from investments. Twenty-five of the thirty-three responding institutions (*i.e.* 75%) channel some of this money into student financial aid. Sixteen institutions receive donations directly from international agencies. TEFSA distributes additional funds on behalf of certain international donors, as well as the central government allocation of "earmarked" funds for the NSFAS. Nineteen institutions reported that they received money from firms in South Africa's private sector. Twenty-two universities and technikons benefited from non-governmental organisation (NGO) donations. Eleven institutions received grants from their Provincial Governments specifically for assisting financially needy students. Finally, ten institutions listed amounts that did not fit into any of the other categories; these included income from invested donations, money raised by sports clubs at one technikon, and in the case of one university a combination of funds allocated to its work-study programme (the actual source was not supplied) and from the Kagiso Trust. Tables 3.1, 3.2 and 3.3 below contain the figures aggregated for universities, technikons and all institutions, respectively.

3.2.1 *Universities*

NSFAS funds constitute less than half of the total financial aid resources available to universities. Universities themselves (via GOBs) contribute a substantial proportion (approximately one fifth) of the total amount, while the other sources are comparatively small. (Implications are discussed below in the context of all institutions.)

In 1996, every historically white university (HWU) allocated part of its GOB to student financial aid, but only four out of ten historically black universities (HBUs) did so. This may be explained by the relative wealth of the two categories of institution, which itself is partly a legacy of the Apartheid State's educational expenditure policy. All of the English-speaking HWUs received donations from international agencies, while only a third of Afrikaans-speaking HWUs and less than a third of HBUs received funding from that source. The difference between English and Afrikaans-medium universities may be explained by the links set up with international agencies during Apartheid years, and by the fact that they generally have higher ratios of needy students. Other sources of funding are spread reasonably uniformly amongst the institutions.

TABLE 3.1 : SOURCES OF FINANCIAL AID AT UNIVERSITIES (1996)

	SOURCE OF FUNDING	AGGREGATE (R)	% OF TOTAL
1	Institution's General Operating Budget	91,692,262	20.7
2	Directly from International Donors	18,451,398	4.2
3	TEFSA/NSFAS	215,155,800	48.6
4	S.A. Private Sector Donations	43,949,776	9.9
5	Non-Governmental Organisations	25,494,400	5.8
6	Provincial Government Transfers	28,748,939	6.5
7	Other	19,051,591	4.3
	TOTAL	442,621,166	100

3.2.2 *Technikons*

TABLE 3.2 : SOURCES OF FINANCIAL AID AT TECHNIKONS (1996)

	SOURCE OF FUNDING	AGGREGATE (R)	% OF TOTAL
1	Institution's General Operating Budget	9,661,786	9.4
2	Directly from International Donors	3,052,990	3.0
3	TEFSA/NSFAS	71,504,103	69.8
4	S.A. Private Sector Donations	4,460,185	4.4
5	Non-Governmental Organisations	9,890,499	9.7
6	Provincial Government Transfers	1,781,034	1.7
7	Other	2,000,792	2
	TOTAL	102,351,389	100

The dominance of TEFSA funding is pronounced in the case of technikons, accounting for 70 percent of the total value of financial aid resources. Technikons, through their GOBs, contributed a far smaller proportion (*viz.* less than ten percent) to financial aid than do universities. Only two technikons (both historically black) did not allocate part of their GOBs to student financial aid in 1996. In contrast to universities, there was no concentration of international donor funding amongst technikons in any one historical category. However, only historically black technikons (HBTs) reportedly received funds from

Provincial Governments.

3.2.3 *All Institutions*

Table 3.3 shows that R545 million was available in 1996 for student financial aid at the 33 institutions which responded to this study's questionnaire. TEFSA funding accounted for a little more than half of this total. The fact that institutions themselves contributed nearly one fifth of the resources for student aid suggests that the NSFAS allocation is inadequate (institutions clearly have many other pressing expenditures). Furthermore, the contribution from different institutions' GOBs varied greatly; a sensible approach would seem to be for Government to level the playing fields by stipulating these amounts, otherwise there is an implicit "tax on the generous".

TABLE 3.3 : SOURCES OF FINANCIAL AID AT ALL INSTITUTIONS (1996)

	SOURCE OF FUNDING	AGGREGATE (R)	% OF TOTAL
1	Institution's General Operating Budget	101,431,048	18.6
2	Directly from International Donors	21,504,388	3.9
3	TEFSA/NSFAS	286,659,903	52.6
4	S.A. Private Sector Donations	48,409,961	8.9
5	Non-Governmental Organisations	35,384,899	6.5
6	Provincial Government Transfers	30,529,973	5.6
7	Other	21,052,383	3.9
	TOTAL	544,972,555	100

Based on figures supplied by institutions in 1995, the NCHE (1995a) projected that R97 million would be available from institutions' budgets for financial aid to students in 1996. This figure is not far off the R101 million reported in this survey to have emanated from institutions' GOBs (although the latter figure excludes three technikons which did not respond to the questionnaire).

Another point to notice is that for 1996 the TEFSA/NSFAS figure aggregated from questionnaire responses is considerably lower than the official TEFSA figure of R313

million.[7] It is unclear what the reason for this could be, but nonetheless indicates that the institutions' figures should be treated with caution. Other than using the NCHE's and TEFSA's own figures, there is no means of cross-checking the accuracy of the financial data supplied by the institutions. It should be borne in mind, however, that institutions may perceive an incentive to under-report on their financial aid "income", in the hopes that they will receive favourable allocations in the future.

An important question on the minds of those planning an extended, comprehensive NSFAS is whether other sources of funding will be affected by an increased budgetary allocation by the government. More specifically, is it likely that under those circumstances local and international donors would withdraw (part of) their support and institutions would allocate smaller amounts of their general operating budgets to student financial aid? Table 3.3 shows that donors (including foreign agencies together with local NGOs and private sector firms) together contributed 19.3 percent of financial aid funds in 1996, while 18.6 percent came from institutions' GOBs; these sources are clearly very important. The possibility of waning contributions from these sources has certainly been a concern amongst policy-makers involved in student financing, at least since the NCHE investigated a NSFAS in 1995. The central Government decided for its 1997 financial year to attempt to include international donor funding to the tune of R100 million in its budgetary allocation to the NSFAS. As yet, this total has not been reached. Institutions themselves will in all probability be constrained by Government plans to earmark portions of institutions' central government subsidies for student financial aid. This is unlikely to affect those institutions which currently allocate significant amounts from their GOBs, and in the case of other institutions this requirement will in fact boost financial aid budgets (albeit at the expense of other areas of those institutions' budgets).

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[7]Figure supplied by Executive Director of TEFSA.

3.3 ALLOCATION

3.3.1 *Criteria for eligibility*

All of the institutions have their own application forms which are distributed to those seeking financial assistance. In general, the forms require personal information about the student, the composition of his or her family, and their combined income sources (including financial assistance from sources outside the institution). Supporting documents, such as birth and death certificates and pay slips, are also required. Most institutions' application forms are all-purpose, in the sense that they invite application for all types of financial aid that are available. The collective financial need of students at higher education institutions is usually substantially greater than the resources available to support them. For this reason, financial aid bureaux need to use one or more criteria to ration the funds. The most common ones are described below.

3.3.1.1 **Means Testing**

Because financial aid is by definition targeted at financially disadvantaged students, each institutional financial aid bureau must have in place a mechanism for identifying and assessing the degree of financial need of an applicant. Thus institutions have designed so-called "means tests" in order to assess the financial status of students and their families. The information presented here is derived from a survey of FABs conducted by TEFSA in 1996 (TEFSA, 1996b). Only one institution reported that it did not require all applicants to complete a means test, and 57 percent of respondents said that every applicant was interviewed. Of the balance, some reported that only problem cases were interviewed.

A variety of tests, ranging considerably in complexity, have been developed by different institutions. From its 1996 survey, TEFSA (1997b: 10) identified five predominant types. The first is based on a calculation of the gross annual income accruing to the family, and usually involves a "cut-off" level above which students do not qualify for aid. A second type incorporates family size into the equation. A more sophisticated test includes the circumstances of individual family members, such as the number and status of parents, and the number of dependent siblings and whether they attend school or a tertiary education institution. A fourth variety involves a subjective interview and assessment of the family. The

fifth kind adds to the family's size, composition and gross income a notion of disposable income necessary for a family to survive; only income in excess of this minimum is considered utilisable for contributing to the student's costs. An assessment of all the factors included in the means test determines whether the student is eligible for financial assistance, and may also rank the student in terms of the size of the award - or, alternatively, the amount of money which the family is expected to contribute.

Recognising that "[t]he greatly different circumstances of institutions (size, relative wealth, profile of the student body and administrative capacity) have resulted in the development of a variety of means tests," TEFSA (1995a: 4) has encouraged the formulation of a standardised set of guidelines for a means test. In April 1996 it convened a workshop for FAB officers, at which a national means test was discussed. A document (TEFSA, 1996a) was drawn up by a committee for discussion at another workshop organised in October 1996 specifically to deal with this issue. The guidelines are due to be finalised at a further conference in September 1997. A move toward a standardised means test may be viewed as a positive development, at least from an equity point of view. At present, "needy" students are defined in terms of individual FAB means tests. In the context of a national financial aid scheme, it would seem unfair for students at certain institutions to be relatively better off materially than others. Note that this is a concern only because financial aid is subsidised; pure loans (at market rates of interest) would make the individual responsible for choosing his or her living standard according to a rate of time preference.

As mentioned in Chapter 2, another equity consideration - this time with respect to a country's entire population - is the proportion of costs borne by the "users" of higher education. Predicated on the generally acknowledged high private rates of return to higher education, the majority of institutions require that needy students and/or their families absorb a portion of study costs. In Question 1 of the author's survey, institutions were asked to estimate the average value of the expected family contribution for 1997. Table 3.4 shows that the amount varies considerably amongst the institutions. The mean expected family contribution is R3378 for universities and R1477 for technikons. Values range from nil to R7000. Based on estimates provided by the institutions, the average family contribution represents 19 percent of the average total costs of study for universities and 11 percent for technikons.

TABLE 3.4 : ESTIMATED FAMILY CONTRIBUTIONS (R) (1997)

INSTITUTIONS	MEAN*	MEDIAN	HIGHEST	LOWEST
Universities	3378	3000	7000	1750
Technikons	1477	1000	5300	0

* simple average

In their replies to the TEFSA (1996b) questionnaires, FABs identified a number of problems experienced in the application of means tests. The most common difficulty was the "lie factor" (*i.e.* false information supplied by applicants). Two related problems were incomplete responses and a lack of supporting documents or proof (for instance of family income levels). The latter were apparently even forged in some cases. Less frequently cited concerns were: a lack of understanding amongst students about the information required and how the means test operated; the definition of the "family", especially in the cases of divorce and extended families; and insufficient staff to process the information. The trouble with information asymmetries is that it is very costly in time and money for FABs to certify the veracity of the information supplied to them. The fact that there do not seem to be any easy solutions is problematical for the NSFAS since it relies on FABs to administer means tests.

3.3.1.2 **Academic Potential**

Because of the scarcity of resources for student financial aid, institutions can ill afford to waste funds by supporting students who cannot cope with tertiary education. FABs therefore require some means of identifying the risk of supporting a prospective student who may or may not have the capacity to complete successfully his/her chosen degree or diploma. For those students applying for financial aid who have already written university or technikon examinations, the testing of academic potential is relatively straight-forward. The survey (Question 2) indicated that only one institution does not use a student's previous academic results as a criterion for allocating financial aid.

Assessing the potential to succeed of a first-time entrant into the institution is more complicated. For some institutions, the ordinary university or technikon entrance requirements are sufficient to screen applicants, but others choose to apply additional tests. According the survey, matriculation results of financial aid applicants are scrutinised by two

thirds of all institutions. It is likely that matriculation grades are used only in the evaluation of first year students, since once a student has taken tertiary level examinations, these results will almost certainly be a better measurement of their potential to succeed in higher education. Furthermore, a number of FABs, according to TEFSA's (1996b) survey, believed that matriculation results were sometimes unreliable indicators. Therefore, certain institutions prefer to wait until mid-year tertiary examination results are known before they allocate funds.

Another reason for applying the criterion of academic potential is to create a positive incentive for students to perform well in their studies. Supporting only those students with good examination results is a useful way of promoting good academic standards. Higher academic grades are also likely to translate into higher incomes in later life, since academically successful students have a greater chance of securing higher-paid jobs. This will tend to impact positively on the loan repayments of graduates.

3.3.1.3 **Field of Study**

Amongst the possible goals of student financial aid schemes discussed in Chapter 2 was the influence upon students' choice of discipline so as to tailor the output of the higher education system to perceived national human resource requirements. To investigate whether this practice is taking place, institutions were asked (Question 3) whether the field of study has any bearing on the amount of financial aid received by students. This criterion turned out not to be popular amongst the institutions, with only four out of thirty-two replying in the affirmative. One of the four stipulated that the criterion applied only to entry-level students. Certain donors prescribe which academic discipline their funds should be used for, but blanket application of the criterion is clearly very uncommon. It is possible that the addition of administrative complexity to the system is an inhibiting factor. Probably more important is that, as mentioned in Chapter 2, it amounts to a policy decision about the country's human resource needs which are very difficult to establish. Similarly, TEFSA does not, as a rule, take into consideration national human resource priorities when it allocates NSFAS funds. This is because it has been given no directive to do so by the Ministry of Education. This state of affairs is likely to continue in the foreseeable future.

3.3.1.4 **Other Criteria**

Question 2 in the survey asked institutions whether three additional criteria were taken into consideration in the allocation of student aid. First, twenty-three of the thirty-three institutions replied that **costs of study** (defined by the institutions themselves) are used as a criterion. One might have thought it natural for the amount of money given to students would be related to their costs, but there are several possible explanations for the instances where this is not the case. It could be that at some institutions there is a high degree of uniformity amongst students' total costs of study (or at least those which are considered by the FAB to be legitimately covered by financial aid), so that it would be pointless to use this as a criterion for allocation. Alternatively, it is possible that there is a set maximum amount of support for any individual student, based on the total funds available, which is smaller than students' costs. In this case, even if costs did vary, they would not affect the amount of money received by students. In any event, it should be borne in mind that the definition of costs vary from one institution to another; most include tuition fees and accommodation costs, while only some add books, travel costs and other sundries.

The second additional criterion for allocating student financial aid is much less ambiguous. Only one institution said that it did not restrict awards to **South African citizens**. The rationale behind this is plain: the limited financial aid is aimed at expanding access to higher education for this country's population. Furthermore, unless a foreign student remains in South Africa for her working life, any social benefits derived from her tertiary education and subsidised by local taxpayers, will accrue to another country. What is most surprising about the statistics is that not all institutions applied this criterion. Only South African citizens are eligible for NSFAS awards, not least so that they can be traced for the purpose of extracting loan repayments.

Finally, another way of rationing funds for student support is to give money (in whatever form) only to those studying for a **first degree or diploma**. Twenty institutions chose to limit financial assistance in this way. Some may fund a second qualification where it is required in order for the student to enter a chosen profession. Postgraduate study is usually treated separately, as it is generally easier for these students to obtain funding (e.g. from research organisations). Only undergraduates studying for a first higher education qualification, or a second qualification if this is a precondition for practice in a chosen profession, may receive TEFSA awards. This stipulation is necessary in order to widen

access to higher education (by spreading the available resources), and there is every reason for it to be continued in the future.

3.3.2 *Determining award size*

The size of an award is generally determined according to some formula which gives weight to the student's characteristics, including his/her estimated costs of study, expected family contribution (based on the means test), and any other relevant factors such as awards received from sources outside the institution. TEFSA (at least nominally) requires all of its awards to be calculated according to the formula:

NSFAS award = costs - bursaries (and/or loans) - expected family contribution

In practice, however, the value of an award is fundamentally constrained by the total amount of funds available to the FAB and by the number of needy applicants.

The question of how much assistance students require opens up a pandora's box of issues, both definitional and of a policy nature, including the following:

- how much financial assistance (from sources other than the family) does a student need in order to obtain a higher education qualification?
- how should the family contribution (*i.e.* the means test parameters) be determined?
- what standard of living should a student be entitled to?
- what student costs should be considered "legitimate"?

There is a wide range of costs which students may be expected to incur in their pursuit of higher education qualifications and there is also considerable variance in opinions as to which should be considered legitimate. Every FAB concerned with costs takes account of tuition fees, and the majority also considers accommodation costs (although sometimes only for residence students) and food expenses. Some also provide for books, and some for local travel costs. A host of other "minor" costs are rarely considered by FABs. Another reason for differences in the inclusion or exclusion of costs is administrative tractability. For example, in replying to TEFSA's (1996b) survey, two distance institutions noted that the great diversity in students' living expenses, and the fact that they all lived in private

accommodation, made it too difficult to assess costs other than tuition fees and books. Whatever the reason, the variety of definitions of "legitimate" costs causes a complication since - when these costs are covered by financial aid - it can result in a divergence of students' living standards at different institutions. From a national perspective, this violates the principle and goal of equity.

There is also an efficiency issue, namely the effect of the definition of legitimate costs on the incentives for students to incur various costs. For example, residence fees are typically higher than the costs of private accommodation (especially in a family home). If students are able to acquire financial aid to cover residence fees when they could be living in cheaper private accommodation, this represents a waste of social resources.

In sum, a number of principles should be borne in mind when determining what should qualify as "legitimate" costs:

- sufficient costs should be covered for the student to be able to obtain the qualification.
- where other sources of funds are possible, they should be utilised.
- the more costs are included as "legitimate", the more the student's standard of living is likely to be subsidised; the issue of national equity must be considered.
- the incentive structure faced by the student as a result of the definition and inclusion of legitimate costs must be borne in mind for efficiency reasons.
- administrative tractability should be taken into account.

3.3.3 *Types of financial aid*

Scholarships are defined in the survey questionnaire as awards allocated primarily on the basis of academic merit. Sports awards, as the name implies, are given to those specially gifted at some or other sport (they may be considered as the "physical" equivalent of scholarships). These two categories are thus not directly related to financial need, in the sense that any person who performs sufficiently well is eligible for such awards, irrespective of his/her financial status. As such, they are somewhat peripheral to the theme of this paper, but are included for completeness.

Bursaries are defined in the survey questionnaire as grants awarded primarily on the basis of need and which do not have to be repaid by students. They may be viewed as the

quintessential type of financial aid (at least in this country where equity and access are the principal concerns) as they are awarded to financially disadvantaged students with no strings attached.

A **loan** is defined as an agreement whereby an amount of money is given to the student on the contractual understanding that it will be repaid at a later time. The contract specifies various conditions, such as whether interest is charged and if so, at what rate. Loan schemes operated by tertiary education institutions are discussed in detail in the next chapter.

Finally, every institution is a conduit for NSFAS funds, which are allocated by TEFSA in the form of loans with a possible bursary component (details are discussed in Chapter 4).

3.3.4 *Allocation of financial aid in 1996*

Question 8 of the questionnaire asked the institutions to list the amounts of financial aid that they allocated in 1996, in several categories. Tables 3.5, 3.6 and 3.7 below present the data supplied by universities, technikons and all institutions, respectively. TEFSA awards are contained in a category separate from institution-based loans.

3.3.4.1 **Universities**

As can be seen in Table 3.5 below, NSFAS awards accounted for roughly one half of financial aid distributed by universities in 1996. Otherwise, bursaries were the most significant type of financial aid, both in terms of the amount of money allocated in this way and measured by the proportion of universities which offer them (only one out of twenty-one did not offer bursaries). University-administered loan schemes account for a relatively small proportion of total financial aid allocations, in part because only ten universities offered loans in 1996. All but two universities made scholarships available, while only eight - all of which were historically white - provided sports awards.

Questions 7 ("What sources of funding where available in 1996 for student financial aid at your institution?") and 8 (How did your institutions allocate the above funds in 1996?") in the survey were designed to capture the "income" and "expenditure", respectively, of student financial aid at universities and technikons. Comparing Table 3.5 with Table 3.1, one

notices an aggregate difference of a little more than R2 million (or less than half a percent). A possible explanation is that not all universities had the administrative capacity to dispense all the financial aid resources available to them. However, the aggregated data conceal substantial discrepancies between the responses to Questions 7 and 8 by some universities.

TABLE 3.5 : ALLOCATION OF FINANCIAL AID AT UNIVERSITIES (1996)

	COMPONENT	AGGREGATE (R)	% OF TOTAL
1	Scholarships	38,748,263	8.8
2	Bursaries	130,738,529	29.7
3	Loans	37,303,194	8.5
4	TEFSA awards	223,909,719	50.8
5	Sports awards	2,245,987	0.5
6	Other	7,321,000	1.7
	TOTAL	440,266,692	100

Notes:
(1) "Other" includes a small amount of bursaries for "cultural activities" and a larger sum of various types of aid that were not separated by one respondent.
(2) One university purposefully omitted an amount for scholarships, arguing that they are not based on need (however, the distinction was made clear in the questionnaire).
(3) One institution was not able to differentiate figures for scholarships from bursaries; the combined amount is contained in the bursary category.

The data on loan allocations was particularly problematical. The questionnaire aimed to capture institution-based and TEFSA loans in one category, and where institutions operate their own loan schemes, these amounts were separated from the TEFSA allocations by using information provided in Question 12 of the questionnaire ("What was the number and total value of student loans allocated in the following years?"). However, in some cases there were inconsistencies among the figures supplied in response to Questions 7, 8 and 12. The institutions which did not administer their own loan schemes usually gave the TEFSA figure in the loan category, and were thus easily dealt with; where no figure was given, the corresponding TEFSA allocation from Question 7 (detailing sources of income) was used.

Tables 3.1 and 3.4 together produce the anomalous result that the "income" from TEFSA is smaller by nearly R9 million than the "expenditure" of TEFSA funds by universities. If one were to expect any difference, it would be that the actual disbursement

to students ("expenditure") was less than the TEFSA allocation received by universities (this could be explained by FABs not claiming the full amount offered by TEFSA). Other than incorrect figures supplied by some universities, it is not clear what the reason might be for this discrepancy.

As a consequence of these comments, the figures in all the tables should be viewed with a degree of scepticism.

3.3.4.2 **Technikons**

Table 3.6 shows that student financial aid at technikons is dominated by TEFSA loan/bursary packages. The value of technikon-administered loans was almost insignificant (only half of the respondents operated loan schemes) and even bursaries from non-TEFSA sources comprised a relatively small portion of the total. This pattern mirrors the composition of sources of financial aid at technikons. This state of affairs differs markedly from the case of universities, where only half of the total amount of financial aid is comprised of TEFSA awards. Possible explanations may be that donors are less willing (for whatever reason) to support technikon students than university students or that technikons expend less effort to obtain donations.

TABLE 3.6 : ALLOCATION OF FINANCIAL AID AT TECHNIKONS (1996)

	COMPONENT	AGGREGATE (R)	% OF TOTAL
1	Scholarships	811,058	0.9
2	Bursaries	12,484,730	13.7
3	Loans	1,516,405	1.7
4	TEFSA awards	74,651,356	82
5	Sports awards	1,033,463	1.1
6	Other	556,043	0.6
	TOTAL	91,053,055	100

Note: "Other" refers to Provincial Government "working contracts" at one technikon.

Comparing Tables 3.2 and 3.6, one sees a far larger discrepancy between the "income" and "expenditure" sides of financial aid than in the case of universities, with totals of approximately R102 million and R91 million respectively. This large difference (some ten percent) is not easily explained by a lack of administrative capacity to dispense funds on the part of technikon FABs, and thus the accuracy of the figures is dubious. As with the universities, the loan and TEFSA categories are particularly problematical.

Meaningful comparisons of university and technikon financial allocations can only be made if variation in the number of needy students and their costs of study at different institutions are controlled for. However, the number of needy students was not captured by this survey.

3.3.4.3 **All institutions**

Table 3.7 shows that in 1996 a little more than R530 million was actually allocated by the thirty-three universities and technikons in the sample. Slightly more than half of the total financial aid expenditure came from TEFSA in the form of NSFAS awards. Bursaries comprised about a quarter of the total (only one institution did not offer this type of aid), while independent loan schemes are evidently a rather small component.

TABLE 3.7 : ALLOCATION OF FINANCIAL AID AT ALL INSTITUTIONS (1996)

	COMPONENT	AGGREGATE (R)	% OF TOTAL
1	Scholarships	39,559,321	7.4
2	Bursaries	143,223,259	27
3	Loans	38,819,599	7.3
4	TEFSA awards	298,561,075	56.2
5	Sports awards	3,279,450	0.6
6	Other	7,877,043	1.5
	TOTAL	531,319,747	100

The aggregated figures for TEFSA allocations conceal substantial discrepancies between the numbers supplied by some of the individual institutions and the amount given by TEFSA for those institutions. Some, but not all, of these respondents appear to have

rounded off the amounts (e.g. to the nearest thousand rand). The reason for inconsistencies in other cases is not clear. Because certain other institutions supplied identical figures to those of TEFSA, together with the knowledge that TEFSA accounting systems have been audited regularly and have a good record, leads one to suspect the validity of the data supplied by the institutions with conflicting figures.

One of the lessons distilled in Chapter 2 from the international experience of student financial aid is that there should optimally be a mix of bursaries and loans, with some scholars advocating an approximately equal spread (Woodhall, 1990; Albrecht and Ziderman, 1992). The rationale underpinning this is to strike a balance between subsidy and default; too little subsidy is likely to lead to default rates which render the loan scheme cost-ineffective. A portion of a TEFSA loan is converted into a non-refundable bursary, according to the proportion of courses passed by the student.[8] In 1996 the effective conversion rate for all TEFSA loans collectively was 28.6 percent, which means that the total TEFSA allocation of approximately R298 million was split into roughly R213 in loans and R85 in bursaries. Adding to these figures the aggregate bursary and loan allocations contained in Table 3.7 results in approximate totals of R228 (48%) in bursary funds and R252 (52%) in loans - a remarkably close fit to the international recommendation.

It is interesting to compare the figures contained in the preceding sections with the National Commission on Higher Education's 1995 projections of student need for 1996. Since scholarships and sports awards are not allocated primarily on the basis of financial need (but rather according to merit), they should properly be excluded from calculations pertaining to aid for financially needy students. Subtracting the nearly R43 million in scholarships and sports awards from the total allocation of about R531 million leaves approximately R488 million spent by the thirty-three institutions on financial assistance to needy students in 1996. Extrapolating this figure to account for the missing data from 3 technikons (using the technikons sample mean), we arrive at an estimate of R510 million. The NCHE's Finance Technical Committee (NCHE, 1995a) estimated that the gross costs of needy students would total R895 million in 1996.[9] The net national need after subtracting an assumed family

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[8]The bursary portion is paid out of TEFSA funds.

[9]The calculation of gross costs by the NCHE is based on ambiguous definitions of individual student costs and needy students. They list tuition fees, accommodation costs, books and "other costs" which are not defined, but do not provide the source for these figures; one suspects they were based on information supplied

contribution of 16 percent[10] was forecast to be about R750 million. The discrepancy between this figure and the estimated total actual expenditure on financial aid in 1996 is thus in the region of R240 million (nearly half of the financial aid reportedly allocated in 1996). Considering that the NCHE's estimate of financial need has been considered by many to be too low (see Chapter 1), the shortfall may well have been considerably larger. Unless the NCHE's projections were gross underestimates (which is highly unlikely), these figures confirm many peoples' suspicion that there are insufficient resources available for student financial aid in South Africa.

3.3.5 *Changes over time*

The institutions were asked in Question 9 of the survey how the relative sizes of the above financial aid allocations (*i.e.* bursaries, loans, etc.) changed over the past few years. The question attempted to capture whether institutions were reallocating their financial aid resources from one type of aid to another (e.g. from bursaries to loans). The hypothesis was that over time institutions would be forced, owing to increasing demands for financial assistance in the face of continued budget constraints, to adopt a type of financial aid with a recoverable element, suitable to long-term "recycling" of funds. However, it was clear from their responses that certain institutions misinterpreted the question as asking which categories of financial aid had increased in absolute terms from year to year (this was gleaned from the fact that some responses listed all increases or all decreases). If there is any noteworthy feature of the responses, it is that while only half of the institutions reported that bursary allocations had increased, 84 percent said that the amount of loan money increased. While superficially this result may seem to indicate some validity in the hypothesis of a trend shift from bursaries to loans, due to the uncertainty of the meaning of the information supplied no conclusive inferences can be drawn.

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by individual institutions, as were needy student number estimates. As discussed in section 3.3.2, there is considerable variation among institutions' definitions of student costs, and this applies to the definition of "needy" students as well.

[10]It is interesting to note in comparison that the mean estimated family contribution for all institutions in the current survey constituted 16 percent of the mean student costs in 1997.

3.3.6 *Work-study programmes*

In a work-study programme (WSP), an institution employs students in order to help them meet their costs. Where these students are financially needy, a WSP may be considered a form of financial aid. Replying to Question 6 of the survey, only three universities and two technikons reported that they did not offer any form of WSP.

A variety of jobs are available on campuses; at some institutions only a few students are supported in this way, while others have the resources available for larger schemes. The questionnaire requested the average annual salaries of the jobs that were available, but only some of the respondents were able to provide this information. At the technikons which did supply the requested information, the range of annual salary was R2400 to R12000, while salaries at universities ranged from R720 to R24000. Some institutions supplied the number of jobs available in various categories of employment; the numbers were generally small. In a variation on the theme of WSPs, a few institutions reported that they had "student employment offices" or "job shops" which try to assist students to find part-time employment in surrounding towns.

WSPs are generally financed directly from an institution's general operating budget and are thus not distinguished as a form of financial aid to be allocated by the FAB. Since job descriptions within a WSP range considerably and are handled by different departments within an institution, overall financial data are not readily available. This precluded a thorough analysis of WSPs. However, from the information collected in the survey, the total WSP allocations could be calculated for a few of the institutions. One university allocated R3.5 million (this constituted seven percent of its total financial aid budget), while another university and a technikon each set aside approximately R1.7 million for their WSPs. In general, though, it is difficult to judge the significance of WSPs as a form of financial aid on the basis of the limited information institutions were able to provide.

3.4 SUMMARY

The survey revealed that approximately R545 million was available in 1996 for student financial aid at the 33 sampled institutions. Half of this total came from TEFSA, a quarter from institutions' general operating budgets, and the remaining quarter was spread

in diminishing proportions among the S.A. private sector, Provincial Governments, NGOs, international donors and "other" amounts. Universities on the whole relied less on TEFSA funding but more on their own resources than technikons did. The aggregate figure for GOB funding was similar to the NCHE's 1995 projection, but the veracity of the TEFSA data supplied by institutions differed significantly from official TEFSA figures. There seemed to be a pattern in the various sources of funds obtained by historically black, Afrikaans-speaking HBUs and English-speaking HBUs respectively: the latter group allocated significant amounts from their GOBs and received funding from international donors. No similar pattern was apparent in the case of technikons. It is difficult to forecast with any confidence the effect an expanded, Government-funded NSFAS would have on donor funding, but recent indications that part of institutions' government subsidies will in the future be earmarked for student financial aid may be viewed as an important mechanism for levelling the playing fields for tertiary institutions who at present allocated differing amounts of their own resources to student financial aid.[1]

The types of financial aid dealt with in this chapter included bursaries and loans, and two other forms of support not restricted to financially needy students, *viz.* scholarships and sports awards. All but one institution made bursaries available in 1996, which makes this the most common form of financial aid. In contrast, only half of the institutions offer loans (in addition to administering TEFSA loans). Possible reasons for this are discussed in Chapter 4. Work-study programmes were also discussed briefly, but a lack of information on total financial allocations severely constrained attempts at useful analysis.

Several criteria are used to ration financial aid amongst applicants, the most important of which is the means test. Other criteria commonly applied are that the applicant should demonstrate an ability to succeed academically and that he or she be a South African citizen. Only 13 percent of institutions specify the field of study when allocating financial aid, probably because there are no clear policy guidelines. Finally, more than half of FABs allow awards for a first degree only. Clearly, there is considerable variation amongst the eligibility requirements stipulated by different institutions and in comparison with TEFSA criteria. If there is to be a truly national financial aid programme, it would appear logical for the requirements to be standardised. At least for equity reasons, the same means test should be applied across the country, so as to eliminate what otherwise amounts to continued financial discrimination. However, parameters in the test should also take account of geographical

differences in living costs. Positive steps have been taken by TEFSA through the organisation of a number of workshops aimed at establishing a national means test and criteria for academic potential to succeed.

The size of the final award (which may include various forms of financial aid) is normally calculated according to a formula including costs, an expected family contribution, and any external awards. The definition of costs varies considerably amongst the institutions, which is likely to cause problems for a comprehensive, equitable NSFAS. However, a common practice currently is for costs and the size of the award to be determined primarily on the basis of the funds available and the number of applicants.

The financial aid allocation figures supplied by the institutions (section 3.3.4) are distinguished by their unreliability. This is plainly evident when they are compared with the sources of financial aid (section 3.2). Both aggregate and individual institution-level discrepancies are the norm rather than the exception. Particularly worrisome are the loan and TEFSA figures.

It is notable that the aggregate bursary-loan mix in 1996 compared favourably with international experience of the optimal combination. The financial aid allocation figures were also compared with projections of student needs made by the NCHE; if both sets of figures are to be trusted (or at least are incorrect in the same direction), then the availability of resources falls short of the collective need by a substantial margin.

The information supplied regarding the patterns of change in financial aid allocations is ambiguous due to differing interpretations of the question, namely whether it referred to relative (as intended) or absolute changes. If anything, the information tends to indicate a shift from bursaries to loans, that is a trend toward more sustainable use of financial aid resources.

Finally, TEFSA's (1996b) survey of financial aid bureaux revealed the following general problems: too few (especially permanent) staff who were overworked; limited storage space for documentation; confined office space which hampered work; and inadequate computer resources (including software). Furthermore, means tests were beset by false and incomplete information and supporting documents. Because the NSFAS is now, and will continue, to be administered by FABs, these issues will continue to be important. In fact, as numbers of needy students swell over the next ten or so years, increasing pressure will be brought to bear on FAB staff and their limited resources. It seems likely that a substantial

portion of institutions' "earmarked" funds for student financial aid will in the future have to be spent on administration. Otherwise, there is a considerable danger of NSFAS funds being wasted. This will be the more so to the extent that NSFAS funds are disbursed in the form of loans, which are administratively more complex. It is to the issue of loan schemes that we turn in the next chapter.

CHAPTER 4

LOAN SCHEMES

4.1 INTRODUCTION

South Africa's resource constraints imply there is a need for a substantial "re-cyclable" element in any national financial aid scheme. Indeed, this is borne out in the present NSFAS, which is largely a loan-based programme. Hence this chapter focuses on the current status of student loan schemes operated by universities and technikons. Section 4.2 examines the type of loans offered by institutions, and their eligibility requirements and repayment conditions. These features of independent loan schemes are compared with TEFSA/NSFAS loans. The next section presents data describing the dimensions of the loan schemes since 1992. Patterns evident in the figures are analyzed, and possible reasons for these are offered. The relationship with TEFSA loans is also discussed. The fourth section explores the default on loan repayments and its causes, how it is addressed by the institutions, and whether the loan schemes are considered by the institutions to be sustainable. Again, contrasts are drawn with TEFSA's operation. The final section summarises the important findings and analyses them in terms of the lessons drawn (in Chapter 2) from international experience of student loan programmes. The ramifications for the formulation of a comprehensive NSFAS, and the future role of institution-based schemes, are discussed in Chapter 5.

4.2 TERMS AND ADMINISTRATION

4.2.1 *Types of loans*

In Chapter 2, two main varieties of loans were identified: mortgage-type loans, which entail a fixed number of repayments over a set period; and income-contingent loans, where a fixed percentage of income is repaid, usually above a set minimum level of income. Question 15 in the survey questionnaire asked institutions to specify which of these two types

of loan repayment mechanism they employed. Most of the institutions (14 out of 17) replied that they offer mortgage-type loans only. Two others make loans with income-contingent repayments, while the remaining institution said that its loans were made "by arrangement" and did not fit clearly into either category.

Why do the majority of institutions use mortgage-type loan repayments? One answer lies in the fact that some loan schemes are operated in conjunction with commercial banks.[11] The banks provide the initial capital for the loans and generally insist on mortgage-type loans in order to secure an adequate return on their capital outlay (income-contingent loans generally are paid off over a longer period, and any interest subsidy is therefore increased). However, income-contingent loan repayments are not necessarily softer on loanees; there is considerable flexibility in the interest rate and the percentage of income to be repaid. Another possible reason for the clear preference for mortgage-type loans is that they are administratively simpler, as they do not require information regarding the employment status and the salary of graduated loanees.

In contrast to the above trend of mortgage-type loans, TEFSA's loans are of the income-contingent variety (that is, repayments vary according to the loanee's ability to pay). The rationale behind this is not to allow loans to be too heavy a burden on graduates.

4.2.2 *Surety requirements and risk*

Criteria determining eligibility for loans on the part of students were discussed in Chapter 2, and they apply generally to all forms of financial aid. However, there is in some cases an additional requirement, namely that the loanee provide surety (*i.e.* someone related to the loanee agrees to stand guarantor and repay the loan if the student is unable to). Question 19 in the survey questionnaire, which investigated the incidence of this criterion, revealed that 12 of the 17 institutions required the provision of surety before awarding loans. For many financially disadvantaged students, this is an onerous task. The reason that certain institutions require surety is simply that they cannot afford to sustain the losses when loanees without surety fail to repay their loans; in other words, it is a safeguard against default. Four of the six institutions which work in partnership with commercial banks require surety

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[11]Six institutions (all universities) stated explicitly in their questionnaire responses that commercial banks are involved in their loan schemes. The remaining institutions gave no indication of financial backing.

(presumably in order to insure against default and thereby make the loan scheme financially viable). Another one of the six itself provides the guarantee on behalf of loanees (it has an endowment fund to cover the loan exposure and risk of default). For the most part, the effective result is that many needy students are unable to obtain loans owing to their inability to provide surety.

The present NSFAS operated by TEFSA takes this into account by not requiring surety. This obviously increases access, but involves the considerable risk of a drain of funds from the scheme as a result of default. It is likely that the future NSFAS will, for political reasons, have to continue this policy. As for the future of the independent loan schemes, financial constraints make it unlikely that the requirement of surety will be relaxed.

Given that students will differ in their risk profiles, the institutions were asked in Question 11 whether non-TEFSA loans are allocated to lower-risk students while higher-risk students are awarded TEFSA loans (the financial aid bureaux are responsible for allocating TEFSA's loan money in addition to their own loans). If this were the case, the default rate on non-TEFSA loans would tend to be lower than that on TEFSA loans. However, the majority of institutions (11 out of 14 which answered the question) replied in the negative. The fact remains, however, that TEFSA rules stipulate that NSFAS funds should be allocated to those who are not able to obtain other loans (directly from banks or from institutions), which effectively means those whose financial risk is higher. On the other hand, TEFSA requires that students' "academic risk" be assessed - that is, their academic potential to succeed at the chosen degree or diploma and thereby gain higher-paying employment. In some cases, students not able to meet the academic requirements for NSFAS awards are given non-TEFSA loans. It may thus be deduced that independent loans schemes are - at least in respect of the riskiness of students - complementary to the NSFAS, in that they cater for different students.

4.2.3 *Repayment conditions*

4.2.3.1 **Interest rates**

Turning now to the conditions attached to the loans, there are two key factors: the interest rate and the length of the repayment period. Institutions were asked how the interest rate charged on loans is determined (see Question 16 in the questionnaire). Only one

institution reported that it did not require interest to be repaid. In all other cases, the rate is below the prime market rate of interest, although at five institutions the rate was only marginally lower (1 to 1.5 percentage points below the prime rate). Other institutions reported varying degrees of interest subsidy, three of whose rate was at or below the rate of inflation. In general, one can say that all institution-based loans include an interest subsidy, although the degree of subsidy varies substantially. In four of the six cases where a commercial bank is directly involved in the loan scheme and the institution negotiates an interest rate with the bank, the rate is substantially higher than the sample average.

One would expect the degree of interest subsidy to have a significant effect on the sustainability of the scheme, since it implies a leakage of funds each year. However, the survey showed no clear relationship. Of the six institutions which claim to have sustainable[12] loan schemes, four charge interest rates substantially below the market rate, while at only two institutions is the rate close to the prime rate of interest.

As far as TEFSA loans are concerned, the interest rate on outstanding debt was initially set equal to the average annual inflation rate of the preceding year (measured in terms of the Consumer Price Index), *i.e.* a zero real rate of interest. As of this year, an additional 1 percent has been levied in order to defray administration costs. According to this formula, the interest rate in 1997 is 8.9 percent (TEFSA, 1997a). In only three cases is the interest rate on non-TEFSA loans lower than TEFSA's rate (implying a negative real rate). It is doubtful whether institutions - or indeed TEFSA itself - will be able to sustain such low rates in the future, given increasing demands for financial assistance. In any event, one of the lessons drawn in Chapter 2 from the international experience of student loan schemes is that subsidies should not be hidden, as is the case with interest subsidies (the rationale underpinning this is that some students will not perceive this benefit if it is hidden). All loan schemes in South Africa (including the NSFAS) violate this principle.

In order to ascertain whether interest rates are used as an incentive tool with respect to students' choices, the institutions were asked (Question 17) whether interest rates vary according to certain student characteristics. It turns out that neither the year nor the field of study has any effect on the interest rate. In only two cases does good academic performance result in lower rates (indicating a positive incentive). On the whole, therefore, the possibility

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[12]Sustainability was defined in the questionnaire simply as whether the institution believed it would be able to continue the scheme in the foreseeable future.

of utilising the interest rate to improve student motivation is not exploited. This could be considered for the NSFAS (TEFSA does not vary interest rates either), although it may add too much to the administrative complexity of the loan scheme.

4.2.3.2 **Duration and value of repayments**

The other major parameters of loan repayments are their duration and monthly values. Question 18 was designed to capture this information. Amongst the 14 institutions which operate mortgage-type loans, there is considerable variation in the repayment period and hence the value of repayments. Six institutions allow one year for repayment for each year of loan (e.g. if a student receives four loans - one for each year of study - he/she gets four years after completion of studies to repay). Two others allow a longer period of repayment per year of loan (18 and 24 months respectively). In each of these cases, monthly repayments are equal in value. Several other repayment conditions are specified by each of the remaining institutions:

(1) monthly repayments equal to 10 percent of the original capital amount borrowed;
(2) a minimum of R150 per loan to be repaid monthly in under 5 years;
(3) 24 equal payments;
(4) a maximum of 4 years for repayment;
(5) the repayment of the capital amount spread evenly over 5 years, with interest added afterwards so that monthly repayments are not equal.

Some repayment conditions are thus more onerous than others, but all require full repayment within about 5 years.

The income-contingent loan schemes (operated by two institutions) require repayments to be a portion of graduates' (or drop-outs') earnings. The percentages of income to be repaid were not supplied by the institutions.[13] One institution allows a six month grace period before repayments are due. The remaining institution whose repayment mechanism did not fit into either category, stipulates that between 2 and 5 percent of the capital amount be repaid each month, depending on the loanee's income. In a sense, then, it is an income-

[13]The reason is not clear.

contingent scheme since repayments are linked to income level, although not in the usual way with a fixed percentage of the annual salary being repaid.

4.2.3.4 **Implications of the repayment conditions**

A question which arises from this comparison is whether the goal of equity is compromised by the fact that some students get the benefit of income-contingent TEFSA loans with comparatively easy repayment conditions, whereas others receive institution-administered loans with tough conditions. Ideally (from an equity point of view), the most financially needy and academically deserving students should be awarded NSFAS loans (indeed, a principle of the NSFAS is that loans be allocated to students who - through no fault of their own - would otherwise be unable to obtain financial assistance and who are particularly deserving in terms of the two criteria mentioned). Whether this obtains in practice depends on the accuracy and effectiveness of means testing and assessment of academic potential (*i.e.* the measurement of how deserving the candidate is). As long as they successfully target different groups of students (distinguished according to the criteria discussed above), NSFAS and institution-based loans may be viewed as complementary, and institutions should be encouraged to continue operating their loan schemes wherever possible.

An interesting feature of the survey results is that only three historically black institutions operate loan schemes, and all of them use income-contingent repayment mechanisms. Furthermore, the interest rate charged on loans at all three institutions is heavily subsidised (at one institution zero interest is charged). All of the remaining 14 loan schemes - operated by historically white institutions - have mortgage-type repayments, many with only small interest subsidies. It is thus clear that loan conditions are much tougher at historically white than at historically black institutions. It would be interesting to know why institutions act in this manner (e.g. whether students at the latter group of institutions are relatively poorer than those attending historically white universities and technikons, and thus require a greater degree of financial assistance). However, this kind of information was beyond the scope of the present survey.

4.2.4 *Bursary components*

NSFAS loans include a bursary component which is contingent upon the student's academic performance: 10 percent of the NSFAS award is converted into a non-refundable bursary for every 25 percent of courses passed by a student carrying a normal course load. Thus a maximum of 40 percent of the loan can be converted, and if the student fails all his/her courses, the entire award will have to be repaid. For the purpose of comparison, institutions were asked (Question 13) if proportions of their loans are converted into a bursaries if certain academic criteria are met by the student. Only three replied in the affirmative. Interestingly, in each case the conversion rate in 1996 was within three percentage points of TEFSA's collective conversion rate of loans to bursaries, *viz.* 28.6 percent (TEFSA, 1997b). It is not all that surprising that so few schemes included this clause, considering that all of the tertiary institutions offer bursaries in addition to loans to needy students, often in combination. Under these circumstances, it may be seen as an unnecessary administrative duplication to convert part of the loan. However, it can be a useful way of encouraging good academic performance.

4.3 DIMENSIONS

Question 12 of the questionnaire requested the number and total value of student loans allocated by the institutions from 1992 to 1996. The data for universities, technikons and all institutions is summarised in Tables 4.1, 4.2 and 4.3 respectively. The number of loans allocated in each year is not listed because not all of the institutions supplied this figure, and the total is thus incompatible with the total value of loans allocated by all seventeen institutions. (The university which did not provide the number of loans happened to be that which had by far the largest loan scheme.) The average loan size was calculated using the data from the sixteen institutions which supplied both the number and value of loans awarded in each year (it seems reasonable to assume that the average size at the missing university would not be significantly dissimilar to the norm). All figures were deflated using the Consumer Price Index and are in constant 1992 prices.

TABLE 4.1 : LOAN ALLOCATIONS - UNIVERSITIES

YEAR	TOTAL VALUE (R)	MEAN REAL LOAN SIZE (R)
1992	12,712,568	1,882
1993	17,976,184	3,031
1994	28,896,919	3,298
1995	29,697,298	3,358
1996	26,111,210	3,201

As noted in the previous chapter, universities' loan schemes are generally small in comparison to other forms of financial aid offered by them. The total value of loan allocations at universities grew rapidly from 1992 to 1993, but have declined in real terms since 1995. This survey lacks the data necessary to test the hypothesis that this real decrease indicates that the schemes are becoming unsustainable (in the sense that they require larger annual injections than universities are capable of).

The figures in the right hand column of Table 4.1 show that there have been annual fluctuations in the real value of loans. In 1994 and 1995, the average loan size amounted to 30 percent of the mean estimated student costs at residential universities. In 1996, the proportion dropped slightly to 27 percent. Clearly, then, loans on the whole form only part of the financial aid package for needy students, even after allowing for a family contribution towards students' costs.

TABLE 4.2 : LOAN ALLOCATIONS - TECHNIKONS

YEAR	TOTAL VALUE (R)	MEAN REAL LOAN SIZE (R)
1992	165,000	2,063
1993	306,849	2,256
1994	349,127	2,103
1995	1,302,154	2,110
1996	1,042,221	1,649

By far the majority of universities (nine out of eleven) which administer loan schemes are historically white, and these are evenly split between Afrikaans-speaking and English-speaking institutions. All predominantly English-speaking universities operate loan schemes. This pattern may be explained by the fact that many HWUs (and especially the English-speaking ones) have over the past few years experienced rapid growth in non-white student numbers, many of whom are from financially disadvantaged backgrounds. It seems likely that in order to assist these students financially with the same or declining real level of resources from year to year, universities have sought recourse to loan schemes. Two of the Afrikaans HWUs started their loans schemes only in 1994. The question remains as to why only two HBUs have initiated loan schemes (one of them has not made loans available since 1993). It could be that these institutions did not, on the whole, have the capacity to administer loan schemes, or that they were unable to arrange partnerships with commercial banks.

Many of the individual technikon schemes are practically insignificant in terms of the number of students they support. Two of the technikons only began awarding loans in 1995, and one did not allocate loans in 1996. As in the case of universities, the real average loan size did not follow a trend between 1992 and 1996. The average loan size has been considerably smaller at technikons than at universities from 1993 to 1996, which is not surprising considering the differential in total student costs between the two types of institution. The mean loan size at technikons was 26, 21 and 19 percent of the average estimated total cost of study for an individual in the years 1994 to 1996, respectively. These proportions are slightly less than the comparative figures for universities cited earlier. Any further comparisons of university and technikon figures (e.g. comparing average allocations per institution) would only be meaningful if the number of needy students were taken account of; however, needy student numbers are not known.

A similar pattern to that of universities emerged from the survey regarding the incidence of loan schemes among historically black and historically white technikons. Only one of the six schemes is operated by a HBT. The reasons are probably much the same as in the case of universities.

TABLE 4.3 : LOAN ALLOCATIONS - ALL INSTITUTIONS

YEAR	TOTAL VALUE (R)	AVERAGE LOAN SIZE (R)	AVERAGE NSFAS AWARD SIZE (R)
1992	12,877,568	1,885	2,966
1993	18,283,034	2,998	2,589
1994	29,246,046	3,259	2,559
1995	30,999,452	3,237	2,625
1996	27,153,431	3,034	2,156

Notes: (1) All figures are in 1992 prices.
(2) The middle two columns contain data from institutions, while the right hand column contains TEFSA data.

As mentioned in Chapter 3, independently-administered loan schemes, even aggregated, were dwarfed by the NSFAS in 1996 (in terms of both number of loans and total value, although not in terms of the mean loan award size). The total number of loans awarded by the sixteen institutions which supplied the requisite figures was 5,902 in 1996, which is a drop in the ocean in comparison with the 72,553 loans awarded by TEFSA in the same year. However, before the large contributions from the Central Government since 1995, university and technikon-based loan schemes in aggregate were about half the value of the funds allocated by TEFSA. A question which arises is whether independent loan schemes have become obsolete since the advent of the government-sponsored NSFAS. As pointed out in Chapter 1, the NCHE clearly warned that a NSFAS should not lead to a decrease in financial aid allocated by tertiary institutions. Table 4.3 shows that the aggregate value of loans administered by institutions (excluding NSFAS funds) declined even in nominal terms from 1995 to 1996. The issue of the future role of university and technikon-based loan schemes is considered in more detail in the concluding chapter.

4.4 DEFAULT AND DEBT COLLECTION

4.4.1 *Default rates*

As noted in Chapter 2, the default rate is one of the key statistics in the evaluation of loan schemes. Question 20 of the survey questionnaire asked loan-awarding institutions what the default rate on student loans was in the years 1992 to 1996. The default rate in any one year was defined as the percentage of students who owed money but failed to make repayments. Unfortunately, the low response rate from institutions limit the conclusions that can be based on the data.

TABLE 4.4 : DEFAULT RATES

YEAR	AVERAGE	LOWEST	HIGHEST	RESPONSES
1992	20.3	0	59.3	6
1993	17.4	0	43.2	6
1994	16	0	32	10
1995	14.4	0	35	11
1996	21.5	0	69	12

Notes: (1) Default rates are in percentage terms.
(2) The first column gives simple averages.
(3) "Lowest" refers to the smallest individual default rate in the sample; similarly for "highest".
(4) "Responses" refers to the number of institutions which supplied default rate data.

A number of points are worth noting:

1. The low response rate is a concern given the importance of the default rate in assessing the viability of a loan scheme. In some cases it was not clear whether the information was simply not available to the respondents or whether the default rate was zero (presumably in most cases because no repayments were due in a particular year).
2. There is considerable variability in the default rates - from zero to 69 percent.
3. The average default rate declined each year from 1992 to 1995, but thereafter rose to its highest level yet. However, because of the large variation in sample size over

the period, no solid comments can be made about a trend. This variability is partially explained by the fact that not every institution offered loans in every year.

4. Two institutions reported default rates much higher than the rest. One was a historically black and the other a historically white university.
5. Only technikons reported zero default rates, and as noted in the previous section, their schemes are small in comparison with university schemes.
6. The correlation coefficient between the type of loan and the default rate ranged from 0.05 to 0.49 in absolute value (*i.e.* they are uncorrelated). Unexpectedly, the coefficient was usually negative, meaning that to the extent they were related, mortgage-type loans were associated with lower default rates. However, the sample size was too small for any reliable results to be generated.
7. There was no correlation between default rates and loan repayment terms.

Unfortunately, the case of TEFSA confirms the problematical nature of acquiring information on default. According to the rules governing TEFSA loans, a defaulter is someone who has either graduated or dropped out of the institution, and who is earning an annual salary of at least R26300 but who is not making repayments. TEFSA is not able to provide the number of defaulters, and therefore not the default rate (percentage of those owing money who default) either. The fact of the matter is that TEFSA does not know the status of every one of its loan recipients who are no longer enrolled at an institution. Specifically, it is not known whether a person who is not repaying is unemployed (and thus implicitly exempt from repayment), is earning a salary below R26300, or is genuinely defaulting. Another difficulty at present is that the TEFSA scheme is still in its infancy, and thus it is not possible at this stage to comment with any degree of certainty on the success (or otherwise) of debt collection.

4.4.2 *Profile of defaulters*

In order to gain some idea of the profile of defaulters (or, equivalently, the reasons for default), the institutions were asked (Question 21) whether several characteristics are typically exhibited by loan defaulters. Thirteen of the seventeen institutions indicated that many defaulters are drop-outs or failures. Only one said that emigration was a common

reason for default, while ten believed that unemployment was a typical cause of default. Question 22 tested the hypothesis that arts, social science and humanities graduates are more likely to default than science, engineering, commerce, medicine, or law graduates. (The rationale behind this is that graduates in the latter fields are more likely to obtain employment and be paid higher salaries.) Eight institutions (47%) replied in the affirmative, five (29%) in the negative, and the remaining four did not (or could not) answer the question. At least in some cases, according to the questionnaire, the responses are subjective since records are not kept of the characteristics of defaulters. This lack of accurate data on the profile of defaulters means that it is difficult to suggest ways to combat default.

4.4.3 *Debt collection*

The survey attempted to shed light on what mechanisms institutions have found to be most effective in collecting loan repayments and minimizing default. Question 24 posed the question of who pursues loan defaulters. Nine pursue defaulters themselves, ten appoint an independent debt-collecting agency, and one said that the bank pursues defaulters. Some institutions hand over defaulters to their attorneys once a certain period has elapsed. Three respondents reported that both the institution and an independent agency pursue defaulters.

Question 23 inquired as to the stage at which loan defaulters are pursued. The responses ranged from after one missed payment to six consecutive non-repayments, with the majority (nine institutions) only allowing two non-repayments before taking action. The institutions were also asked (Question 25) whether a defaulter's debt is written off after a certain period has elapsed. Eight replied in the negative, while the nine that do write off debt wait for between two and five years before doing so.

The fact is that if the defaulter cannot be located or is genuinely unable to repay the loan, most institutions have recourse to the person who stood surety for the loan (as mentioned earlier, thirteen of the seventeen institutions require surety before awarding loans). Because loan agreements are legally enforceable, those institutions which are able to maintain contact with loanees or their guarantors should not have a problem retrieving the debt, unless neither party has the means to repay. Aside from this, the main problem is simply keeping track of loanees and/or their guarantors.

TEFSA took a different route by pioneering legislation to enable it to enforce loan

repayment. The Provision of Special Funds for Tertiary Education Act of June 1993 "provides for the Minister of National Education to identify, on application, *Recognised Companies* whose sole business it is to obtain and receive funds for the purpose of making loans to individuals for tertiary education. The Act further provides for the recovery of loans at remuneration source" (TEFSA, 1995b: 5). TEFSA has been confirmed by the Minister as the being the only *Recognised Company* in South Africa. The Act means that employers are liable to pay the debts of TEFSA loanees whom they employ and who default on loan repayments. Employers thus have the incentive to ensure that their employees pay back their loans. Many companies either deduct the amounts from the loanees' salaries, or in some cases choose to pay off the loan in full themselves. This legal mechanism is potentially effective in loan recovery, but it does not help when the loanee is unemployed, or is employed outside of the formal sector (or is self-employed). Keeping track of loanees and their employment status is a major problem.

In conclusion, there is no fool-proof mechanism of debt collection. Much depends on the attitudes of loanees to repayment, which is why - as mentioned in Chapter 2 - adequate publicity and understanding of the loan scheme and the need for repayment is crucial to its viability.

4.4.4 *Sustainability*

As a final assessment, institutions were asked whether they consider their loan schemes to be sustainable; that is, whether they would be able to continue their schemes in the foreseeable future (Question 26). Only six (35%) of the seventeen respondents believe their schemes are sustainable. Three of these are technikons which reported defaults rates mostly of zero. One of the universities which claimed to have a sustainable scheme in fact discontinued its scheme after 1993, so their answer is invalid. Another apparently sustainable scheme, however, has consistently been amongst the largest in terms of the number of students supported. The third is still in its infancy, and it is probably too early to tell for sure. One suspects that the majority of schemes are considered unsustainable due to two factors: the repayment terms (specifically the degree of interest subsidy) and the default rate. However, the correlation coefficient between sustainability and the type of loan repayment mechanism is 0.02, *i.e.* there is effectively no relationship. Counterintuitively, the three

universities which claimed to have sustainable schemes had the lowest interest rates in the sample, although there was no similar trend amongst the technikons. The small sample of default rates does not reveal any consistent association with sustainability, aside from the three technikons mentioned above. In the final analysis, the data do not generate conclusive results.

4.5 SUMMARY

The survey revealed that seventeen of the thirty-three institutions in the sample administer their own loan schemes. Eleven of these are universities (out of twenty-one) and six are technikons (out of twelve). This apparently even distribution of institutions with and without their own loan schemes conceals the fact that the vast majority (fourteen) of those administering loans are historically white. It is likely that this pattern is related to the historical and political development of higher education, *viz.* rapidly increasing enrolments of disadvantaged, black students at historically white institutions, who were forced to come up with a financing solution. The other main factor is probably a lack of institutional capacity on the part of many historically black universities and technikons for administering loan schemes, together will limited access to private sector involvement.

All of the historically white institutions operate mortgage-type loans with generally more onerous repayment conditions, while all of the historically black institutions award loans with some form of income-contingent repayment scheme with relatively easier conditions. It should be noted that the authors reviewed in Chapter 2 favoured income-contingent loans, primarily because their easier repayment conditions generally lead to lower default rates. All loan schemes include an interest subsidy, although the degree of subsidy varies considerably. This at odds with another lesson from international experience, namely that subsidies should not be hidden. With regard to explicit grants, at only two institutions is there a bursary component in the loan package. However, as seen in the previous chapter, all institutions allocate bursaries, most likely in combination with loans (given the small average size of loan awards).

The analysis of default rates was severely hampered by the poor response rate. No clear inferences could be drawn about the relationship between defaulting and the type of loan or conditions attached to it. Similarly, TEFSA does not have adequate records of the

status of loanees, and is therefore unable to calculate default rates. The lack of accurate data describing the profile of defaulters means that it is difficult to suggest ways to combat default. Probably based on speculation, the majority of institutions cited unemployment and failure as common reasons for default. As far as debt collection mechanisms are concerned, the major problem facing both individual institutions and TEFSA is keeping track of loanees (and their guarantors, where applicable). To a large extent, institutions are dependent on loanees' attitudes to repayment, which implies that - as mentioned in Chapter 2 - adequate publicity and understanding of a national loan scheme and the need for repayment is crucial to its viability. Most institutions insist on the provision of surety by a loan applicant, which is an onerous condition for many needy students. However, TEFSA does not require surety for NSFAS loans, although this obviously tends to impact negatively on the default rate. It therefore demonstrates a tradeoff between equity and financial viability. Neither institution-based loan schemes nor the NSFAS can address the problem of unemployment. However, incentives can be structured in such a way as to influence drop-out rates, for example if interest subsidies or bursary conversions are linked to academic performance.

Attempts to draw conclusions about the sustainability or otherwise of university and technikon loan schemes were thwarted by insufficient data and the absence of statistical correlation between key variables. The discouraging response from the institutions was that only six of the seventeen believed their schemes to be sustainable in the foreseeable future. This is probably due to substantial interest subsidies and default rates. This problem is double-edged, because raising interest rates is likely to cause higher default rates. Any national scheme is going to suffer similar difficulties. Ultimately, a political decision must be made as to where to strike the balance between access and cost recovery.

CHAPTER 5

CONCLUSIONS

An overview of South Africa's history of student financial aid led to the conclusion that the current situation is inadequate, mainly because there is no long-term plan and because there is insufficient funding. These considerations provide the rationale for developing a long-term, viable, national financial aid scheme. The current paper contributes to this development by surveying existing student financial aid programmes at universities and technikons. The first section of this chapter presents a truncated summary of the findings, which are assessed in the second section. Next, the implications for the NSFAS are discussed, after which the future role of institution-based financial aid is considered. The final section highlights the key challenge.

5.1 SUMMARY OF FINDINGS

According to the survey, approximately R545 million was available in 1996 for student financial aid at the 33 responding institutions. Half of this total came from TEFSA, a quarter from institutions' general operating budgets, and the remaining quarter was spread in diminishing proportions among the South African private sector, Provincial Governments, NGOs and international donors.

Chapter 3 identified bursaries and loans as the main types of financial aid (in terms of their value and incidence among the institutions). Two other forms of support not restricted to financially needy students are scholarships and sports awards. In addition, all institutions act as intermediaries between TEFSA and needy students. A lack of useable financial information about work-study programmes precluded analysis of this form of financial aid's significance.

The financial aid allocation figures (Table 3.7) show that in 1996 a little more than R530 million was actually allocated by the thirty-three universities and technikons in the sample. NSFAS awards accounted for a little over half of the aggregate. Approximately one quarter of the total was allocated in the form of bursaries, while institution-administered

loans were small in aggregate value. Perhaps the main limitation of the data is their uncertain reliability, given the lack of independent means of checking. This is clearly evident when the data are compared with the sources of financial aid (Table 3.3). Both aggregate and individual institution-level discrepancies are the norm rather than the exception. Loan allocations and TEFSA figures supplied by institutions are especially problematical.

Eleven universities and six technikons administered their own loan schemes during the period 1992 to 1996. The schemes varied greatly in size, both in terms of the total value of loans and the number of loans awarded. At least some of the schemes were operated in conjunction with commercial banks, which provide the capital outlay.

Data supplied by universities and technikons were contrasted to find out whether the two groups' financial aid statistics differed. In every case, average figures per university (be they financial aid resources, estimated family contributions, average loan sizes) were substantially higher than the technikon sample mean. This relates to the fact (established from Question 5 of the questionnaire) that university costs of study are substantially higher than technikon costs. However, the absence of needy student number data precluded more meaningful comparisons of universities' and technikons' *per capita* spending on financial aid (relative to costs). In terms of the composition of financial aid resources, universities on the whole relied less on TEFSA funding but more on their own resources (GOBs) than did technikons. The allocation of resources according to the various types of financial aid differed: the ratio of bursaries to loans was higher for technikons, while the proportion of the total comprised of scholarships was greater for universities. The most notable difference was simply a carry-through of the dominance of TEFSA funding in technikon financial aid.

A second major theme investigated were the differences between historically black and historically white institutions, the latter in some instances divided between Afrikaans and English-speaking institutions. First, there seemed to be a pattern in the various sources of funds obtained by the groups of universities: more English-speaking HBUs allocated (larger) amounts from their GOBs and more received funding from international donors than the other groups. No similar pattern was apparent amongst the technikons. Second, the vast majority of institutions administering loans were historically white (fourteen out of seventeen). This pattern may be explained by the rapidly growing enrolments of disadvantaged, black students at historically white institutions, who were forced to devise a sustainable financing solution in the face of stringent budgets constraints. Another factor may be a lack of institutional

capacity on the part of some historically black universities and technikons to administer loans. A further interesting feature of loan schemes is that every historically white institution employs mortgage-type repayments with generally more burdensome terms (e.g. interest rate and repayment period), while every loan-awarding historically black institution requires income-contingent repayments with relatively easier conditions. It may be concluded that the financial aid schemes of historically black and historically white institutions differ significantly, although the reasons are not clear.

Finally, the figures derived from the survey were in several instances compared with the results of the NCHE's (1995a, 1995c) earlier survey and projections. First, the aggregate funding of financial aid from institutions' general operating budgets (R101 million) was similar to the NCHE's 1995 projection of the contribution institutions could make (R97 million). Second, the aggregate financial aid allocated by all institutions was approximately R530 million, while the NCHE projected that needy students would require aid to the tune of R750 million. This indicates a significant shortfall in financial aid resources available in 1996. Third, it was noted that the NCHE's assumption that 16 percent of students' costs would be met by families accorded well with the finding of the current survey that the mean estimated expected family contribution accounted for 16 percent of mean student study costs.[14]

5.2 ASSESSMENT

In Chapter 2 it was shown that several different reasons motivate financial aid schemes. In South Africa, a powerful rationale behind financial support for students stems from historical inequality and lack of access to higher education, and thus the chief objective is to promote **equality of opportunity**. Specifically, financial aid is to be given to poor people to allow participation by those whose financial means have until now been a barrier to entry into the tertiary education sector.[15] The original motivation for student financial aid in South Africa was thus not cost-sharing *per se*; as the NCHE's (1995a: 4) Finance

[14]Both means are simple averages for all institutions in the sample (needy student numbers per institution were not available to weight the data).

[15]Without needy student number data, this study was unable to assess the equity effects of financial aid.

Technical Committee put it: "[u]nlike discussions in many other countries, the SA debate has not had its origins in concerns about government moves to force students to share the costs of their higher education. In SA the principle of costs being shared by the state and by higher education students has been in place for many years."

Notwithstanding this, given the limited resources available for financial aid, **cost recovery** has increasingly become a necessary feature of student support, as evidenced by the TEFSA scheme being predominantly loan-based. With this in mind, the survey attempted to gain some idea as to the patterns of change in financial aid allocations over the past few years (principally to establish whether loans have become more significant). Unfortunately, the information supplied by some institutions is ambiguous due to misinterpretation of the question (number 9 in the questionnaire) as referring to absolute (rather than relative) changes. More institutions reported that loans had increased (absolutely or relatively) than those which said bursaries increased, which tends to indicate a shift toward sustainable use of financial aid resources (*i.e.* revolving loan funds). However, this result is not confirmed by the data describing loan allocations (presented in Chapter 4).[16]

Another objective appearing in the international literature on financial aid schemes is the influence upon the **human resource output** of the higher education system - in particular, which fields of study are favoured. However, the survey revealed that very few institutions (13 percent) stipulated course of study as a determinant of financial aid allocations, probably because no clear national policy guidelines exist.

With regard to **financial feasibility**, only six of the seventeen institutions administering loans considered their schemes to be sustainable in the foreseeable future. Unfortunately, inadequate data and a lack of statistical correlation between key variables prevented the drawing of conclusions about the sustainability of university and technikon loan schemes. Logic says that the most likely reasons for unsustainability are substantial interest subsidies and high default rates. The problem is double-edged, because higher interest rates will probably lead to more frequent default. This difficulty will be faced by any future NSFAS and the balance between access and cost recovery involves a tough political decision about the budgetary allocation of resources more generally.

We turn now to university and technikon financial aid schemes' compliance with the

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[16]For example, the real value of all loan allocations decreased in 1996.

lessons drawn from international experience (see Chapter 2). On the positive side, it is encouraging to note that the aggregate bursary-loan mix in 1996 coincided almost exactly with the recommendation of half loans and half bursaries. A second lesson was that financial aid should be targeted to the most deserving students. In theory, means tests and the other criteria discussed in Chapter 3 select the correct applicants, but in practice there are many problems (some of these are considered in ensuing sections). Considering loan schemes more specifically, the authors reviewed in Chapter 2 favoured income-contingent loans (primarily because their easier repayment conditions generally lead to lower default rates) while the majority of South African institutions operate mortgage-type loans. It seems that institutions are constrained by the requirements of commercial banks, and by administrative capacity. The future national scheme will in all likelihood continue to use the income-contingent variety of loan currently employed by TEFSA. International experience further suggests that subsidies should not be hidden (e.g. in the form of interest rates below the prevailing market level).[17] However, all institution-based loan schemes include interest subsidies to varying degrees. Lastly, loan collection agencies ideally should have credibility and the correct incentives. The problem experienced by university and technikon loan schemes is with the ultimate causes of default rather than with the collection mechanism (the relevant issues are discussed in the following section).

5.3 IMPLICATIONS FOR THE NSFAS

Numerous implications for the development of a comprehensive, sustainable NSFAS are implicit in the foregoing discussion, in that the lessons from international experience are even more applicable to a national scheme than to institution-based financial aid. Another issue is the choice of policy goals and their bearing upon financial aid scheme design. In the remainder of this section, we focus on two further issues: criteria used in the allocation of financial aid; and the administrative problems encountered by FABs in the operation of their schemes.

The most important criterion used to ration financial aid amongst applicants is the means test, which was shown in Chapter 3 to vary considerably amongst the institutions. To

[17]The rationale has to do with the incentives faced by loanees and cost recovery objectives.

satisfy the goal of equity and eliminate what amounts to financial discrimination, the same means test should be applied across the country. However, parameters in the test should take account of regional differences, for example in living costs. The positive steps taken by TEFSA to coordinate the formulation of a national means test should be encouraged.

Standardisation of the criterion (commonly applied by institutions) that financial aid applicants demonstrate the ability to succeed academically is difficult, given that institutions vary considerably in academic standards. The final policy adopted must be linked to more general education policies such as size, quality and distributional characteristics of the higher education sector.

The requirement that financial aid recipients be South African citizens has solid grounds. The economic rationale for state subsidisation of education is that external benefits of an individual's education accrue to society, and South African taxpayers do not wish to support foreigners. In addition, loan recovery is likely to be far more difficult if the loanee is living abroad. There seems little cause for debate about the need for this requirement in any NSFAS.

Another issue arising from the survey is the size of the financial aid award. The usual practice is to base the allocated amount on the student's costs, an expected family contribution (determined by the means test) and any other sources of financial assistance available to the student. The definition of costs varies considerably amongst the institutions, which again raises the issue of equity in the context of a NSFAS. If one institution provides financial support for a wider definition of "legitimate" costs than another, then effectively differing standards of living are being subsidised by the state.

We consider now the second general question, namely administrative difficulties experienced by financial aid bureaux. On the capacity side, typical FAB problems include insufficient staff, a lack of office space and inadequate computer resources. Administration of means tests is often hampered by false and incomplete information. Because the NSFAS is likely to continue to be administered by FABs, these issues will remain important. In fact, as numbers of needy students swell over the next ten or so years, increasing pressure will be brought to bear on FAB staff and their limited resources. In order for FABs (and, by extension, the NSFAS) to be effective, they will need additional resources in the future. Moreover, a loan scheme involves a greater administrative burden than other forms of financial aid.

The survey disclosed a general dearth of information about default - both rates and causes - which makes the task of designing a viable NSFAS all the more difficult. What we do know is that academic failure and unemployment (even amongst graduates) are two common reasons for default. Neither institution-based loan schemes nor the NSFAS can deal with the problem of unemployment. However, incentives can be structured in such a way as to influence drop-out rates, for example if interest subsidies or bursary conversions are linked to academic performance. A major administrative problem faced by individual institutions which will also beset a NSFAS is maintaining contact with loanees. Much is dependent on loanees' attitudes to repayment, which is why - given the general culture of non-payment which is a legacy of political resistance during the Apartheid era - extensive propaganda about the need for repayment is crucial to the viability of the NSFAS. Two final factors likely to inhibit the loan collection process are a large number of graduates in the informal sector and the threat of spiralling mortality rates due to AIDS.[18]

5.4 FUTURE ROLE OF UNIVERSITY AND TECHNIKON-BASED FINANCIAL AID

It was mentioned above that the financial aid bureaux at universities and technikons are presently the interface between students and TEFSA when it comes to the disbursement of NSFAS funds. Institutions have access to information which the administration of a NSFAS requires (such as students' academic characteristics and study costs), and either duplication or replacement of the present function of FABs would be inefficient. This is recognised in the Government's White Paper on Higher Education (Department of Education, 1997: 49): "The financial aid offices of higher education institutions, rather than a central funding agency, are best placed to identify those students who most need assistance and will benefit most from it, in terms of publicly known and reasonably uniform criteria." Thus there is little debate over the role of FABs in the future. The concern of this section is rather with the **financial resources** handled by universities and technikons.

We begin by considering the possible effect of an enlarged NSFAS on student funding sources at universities and technikons, and whether these resources should be incorporated into the national scheme. Firstly, recent indications are that a portion of Central Government

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[18]Life insurance on loanees could mitigate this effect but, in the absence of other sources of money to pay for them, insurance premiums will be an added drain on the national financial aid scheme.

budgetary allocations to higher education institutions will in the future be earmarked for student financial aid. This is unlikely to affect significantly those institutions which currently allocate substantial amounts from their GOBs to student financial aid, whereas such a stipulation will boost financial aid budgets of certain other institutions (although it will involve a reallocation of funds within these institutions' budgets). This policy is viewed as an important mechanism for levelling the playing fields for tertiary institutions.

Secondly, the likely role of international donors has already been indicated by Government's attempts to incorporate these sources into the central NSFAS budget. It seems that TEFSA is able to deal with most criteria (e.g. type of institution or type of student) specified by donors. However, this is not to say that international agencies will actually continue to contribute similar amounts to those they have in the past. By and large, this survey did not attempt to collect time series data on financial aid flows and thus the effect an expanded, Government-funded NSFAS would have on donor funding cannot be forecast. These comments apply also to local donors (both private sector companies and NGOs). It seems plausible that the amount of money flowing from these sources will be linked to the credibility and efficiency of the administrating body, in that donors do not wish to see their resources wasted. An efficiently managed central agency (such as the present TEFSA) would seem to be a better prospect in this regard (*i.e.* management efficiency and consequently donor support) than individual institutions.

A related question concerns the future role of university and technikon-based loan schemes. Will they become obsolete if there is an expanded, comprehensive NSFAS? The best indication that the survey data is able to provide is that the aggregate value of loans allocated by institutions declined in real terms from 1995 to 1996. This may be attributable to the substantial increase in NSFAS funds over the same period, or it may be because the independent schemes are unsustainable given current resources and default rates. This survey is not able to provide a conclusive answer.

Chapter 4 identified a number of complementarities between independently administered loan schemes and TEFSA's system which may provide a rationale for the continuation of the independent ones. In the first place, the criteria for eligibility are not always the same. TEFSA loans are aimed at the most needy of students who have demonstrated a capacity to succeed academically. Other loans can be and are awarded to those who do not meet both these requirements. Secondly, most universities and technikons

insist upon surety, while TEFSA does not. Thirdly, the repayment conditions of university and technikon loans are in general considerably more severe than TEFSA loan conditions. In these ways the two types of loan (namely mortgage and income-contingent) may be viewed as targeting different students and therefore complementary.

Thus there is at least one theoretical justification for independently-operated loan schemes to be operated alongside a larger NSFAS. However, the problems experienced by universities and technikons (particularly with respect to the sustainability of the schemes given current resources) may jeopardise the NCHE's intention that a NSFAS should not replace existing financial aid. If they are to continue, ways will have to be sought to reduce the risks involved (such as a high default rate) in order to encourage institutions to continue operating their loan schemes. The maximisation of loan recovery is a difficult task, as there are tradeoffs in the choice of loan terms (e.g. maximising repayments versus minimising administration costs).

Perhaps the authorities should consider the creation of a centralised mortgage-type loan scheme to target a group of students with characteristics different from those supported by the current, income-contingent NSFAS. In other words, the idea would be to replace existing independent loan schemes with a centrally coordinated one with similar terms, to harness private sector capital and minimize administration costs. The key issues here would probably be that of surety and the degree of subsidy in the scheme. The fact of the matter is that banks will issue loans on a commercial basis only, meaning that they will not themselves provide a significant interest subsidy, and will require surety either from individual loanees or from the university or technikon. If there is no direct subsidy in the loan (either in the form of a below-market rate of interest or a partial conversion to bursary), then there is little difference from loans which commercial banks currently offer to students privately (*i.e.* without the involvement of the tertiary institution). If institutions provide a subsidy (or guarantee) so that more students are able to access commercial bank loans, the question is whether this represents the most efficient use of their loan resources. Would it be more advantageous to use such funds in an income-contingent NSFAS similar to the one currently operated by TEFSA? The answer involves a complicated calculation (which is beyond the scope of this paper) including administrative efficiency, loan recovery rates and the total amount of loan funds available in each case.

5.5 FINAL REMARKS

Owing to a variety of factors (such as pressure for expansion of the higher education system to redress historical inequalities in access to higher education, and the highly unequal distribution of income and extensive poverty), South Africa faces a large and growing demand for financial support for tertiary education students. This challenge can be met only through the formulation of a comprehensive, sustainable national student financial aid scheme. Clearly, this must be based on reliable financial modelling, which will require a considerable amount of data not easily obtainable. In addition, Government will have to make tough policy decisions, *inter alia* about the future size and shape of the higher education sector and about budgetary priorities. But before it is able to do so, it needs to be informed as regards the current state of financial aid in the country. This paper is intended to be a contribution to that research process.

APPENDIX A : SURVEY QUESTIONNAIRE

SURVEY OF TERTIARY EDUCATION INSTITUTIONS' FINANCIAL AID SCHEMES

Please answer the following questions as fully as possible, supplying detailed numerical data wherever possible and appropriate. Please enclose with the completed questionnaire a copy of your bureau's financial aid application forms and any associated information pamphlets that you publish, together with your bureau's annual reports since 1992. The survey applies only to students registered for **bachelors degrees and diplomas** (i.e. not to post-graduate students).

1. What is the (average) value of the financial contribution that students are expected to make themselves towards their costs (i.e. over and above any financial aid they receive from your institution)? VALUE: R_____

2. Is the composition of the individual financial aid package affected by any of the following student characteristics? (please tick where appropriate)

1	Estimated total costs of study (including maintenance)	
2	Academic results of the previous year	
3	Matric results	
4	First degree only	
5	South African students only	
6	Security of guarantee provided (in the case of loans)	
7	Other	

Other (please specify):

_____

_____

_____

_____

3. Does the field of study influence the chances of a student being allocated financial aid? YES | NO[1]

4. What percentage of (undergraduate and/or diploma) students at your institution received financial aid in 1996? _____%

[1]Please circle the correct answer.

5. What was/is the estimated average value of a student's costs in the following years?

YEAR	TUITION FEES[2]	RESIDENCE	MAINTENANCE[3]
1994			
1995			
1996			
1997			

6. Does the institution offer employment to students to help them meet their costs?

YES | NO

If yes, please indicate in which of the following areas jobs are available, and the average annual salary in each case.

	AREA OF EMPLOYMENT	AVAILABLE?	SALARY (R)
1	General Administration		
2	Student Advice Offices		
3	Residences		
4	Library		
5	Security		
6	Sports		
7	Other		

Other (please specify):

_____

_____

_____

_____

[2] "Tuition fees" includes academic levies such as photocopying and laboratory charges, etc.

[3] "Maintenance" includes expenditure on food, books, local travel, etc.

7. What sources of funding were available in 1996 for student financial aid at your institution?

	SOURCE OF FUNDING	VALUE (R)
1	General Operating Budget of your institution	
2	Directly from International Donor Agencies	
3	TEFSA	
4	South African Private Sector Donations	
5	Non-Governmental Organisations	
6	Other	

If there are other categories, please specify them:

_____

_____

_____

_____

8. How did your institution allocate the above funds in 1996?

	COMPONENT	VALUE (R)
1	Scholarships[4]	
2	Bursaries[5]	
3	Loans[6]	
4	Sports awards/scholarships	
5	Other	

Other (please specify):

_____

_____

_____

_____

[4]Awarded primarily on the basis of academic merit.

[5]Grants awarded primarily on the basis of need and which do not have to be repaid by the students.

[6]Money which is loaned to the student with set conditions for repayment.

ADDRESS	SALARY p.m	electricity	Parafin	GAS SPENT	Outdoor	ENERGY p.m
	R 800.00	R 50.00	R 0.00	R 0.00	R 1.00	R 851.00
Ezizeni	R 1,800.00	R 70.00	R 0.00	R 0.00	R 2.00	R 1,872.00
Lokishini	R 400.00	R 80.00	R 50.00	R 0.00	R 2.00	R 532.00
Lokishini	R 1,080.00	R 50.00	R 200.00	R 291.00	R 2.00	R 1,623.00
Lokishini	R 1,080.00	R 100.00	R 0.00	R 0.00	R 2.00	R 1,182.00
Lokishini	R 800.00	R 40.00	R 0.00	R 0.00	R 2.00	R 842.00
Emnqumeni	R 800.00	R 48.00	R 0.00	R 0.00	R 2.00	R 850.00
Ezizeni	R 1,000.00	R 40.00	R 0.00	R 0.00	R 3.00	R 1,043.00
Lokishini	R 400.00	R 20.00	R 60.00	R 0.00	R 3.00	R 483.00
Lokishini	R 1,000.00	R 50.00	R 200.00	R 85.00	R 3.00	R 1,338.00
	R 1,200.00	R 150.00	R 100.00	R 50.00	R 3.00	R 1,503.00
Lokishini	R 1,140.00	R 100.00	R 200.00	R 0.00	R 3.00	R 1,443.00
	R 4,000.00	R 150.00	R 200.00	R 50.00	R 3.00	R 4,403.00
Lokishini	R 1,140.00	R 80.00	R 70.00	R 50.00	R 3.00	R 1,343.00
Lokishini	R 1,000.00	R 400.00	R 40.00	R 0.00	R 3.00	R 1,443.00
	R 1,200.00	R 100.00	R 0.00	R 0.00	R 3.00	R 1,303.00
Mnquma	R 800.00	R 0.00	R 0.00	R 0.00	R 3.00	R 803.00
Ezizeni	R 800.00	R 40.00	R 0.00	R 0.00	R 3.00	R 843.00
	R 400.00	R 50.00	R 200.00	R 85.00	R 3.00	R 738.00
Lokishini	R 800.00	R 200.00	R 0.00	R 150.00	R 3.00	R 1,153.00
Lokishini	R 800.00	R 100.00	R 200.00	R 0.00	R 4.00	R 1,104.00
Emadameni	R 800.00	R 40.00	R 0.00	R 0.00	R 4.00	R 844.00
	R 780.00	R 180.00	R 100.00	R 50.00	R 4.00	R 1,114.00
	R 260.00	R 50.00	R 200.00	R 85.00	R 4.00	R 599.00
	R 1,140.00	R 50.00	R 200.00	R 85.00	R 4.00	R 1,479.00
Lokishini	R 1,080.00	R 50.00	R 200.00	R 0.00	R 4.00	R 1,334.00
Lokishini	R 800.00	R 50.00	R 200.00	R 80.00	R 4.00	R 1,134.00
Lokishini	R 650.00	R 30.00	R 50.00	R 200.00	R 4.00	R 934.00
	R 260.00	R 50.00	R 200.00	R 85.00	R 5.00	R 600.00
Lokishini	R 600.00	R 100.00	R 200.00	R 0.00	R 5.00	R 905.00
Lokishini	R 1,200.00	R 100.00	R 0.00	R 0.00	R 5.00	R 1,305.00
Lokishini	R 1,500.00	R 80.00	R 200.00	R 291.00	R 5.00	R 2,076.00
Lokishini	R 1,000.00	R 150.00	R 230.00	R 0.00	R 5.00	R 1,385.00
Efoli	R 800.00	R 0.00	R 0.00	R 0.00	R 5.00	R 805.00
Ezizeni	R 1,400.00	R 120.00	R 200.00	R 0.00	R 6.00	R 1,726.00
	R 1,300.00	R 100.00	R 50.00	R 45.00	R 6.00	R 1,501.00
Lokishini	R 1,140.00	R 50.00	R 80.00	R 0.00	R 6.00	R 1,276.00
Lokishini	R 1,800.00	R 50.00	R 200.00	R 291.00	R 6.00	R 2,347.00
Fandray	R 800.00	R 60.00	R 0.00	R 0.00	R 6.00	R 866.00
Lokishini	R 1,080.00	R 200.00	R 0.00	R 0.00	R 6.00	R 1,286.00
Lokishini	R 900.00	R 50.00	R 0.00	R 0.00	R 6.00	R 956.00
Lokishini	R 900.00	R 50.00	R 0.00	R 0.00	R 7.00	R 957.00
Zizeni	R 500.00	R 20.00	R 200.00	R 0.00	R 7.00	R 727.00
Lokishini	R 1,300.00	R 50.00	R 0.00	R 0.00	R 7.00	R 1,357.00
Lokishini	R 1,080.00	R 80.00	R 200.00	R 85.00	R 7.00	R 1,452.00
Lokishini	R 1,200.00	R 50.00	R 200.00	R 80.00	R 8.00	R 1,538.00

Lokishini	R 700.00	R 100.00	R 200.00	R 0.00	R 8.00	R 1,008.00
	R 1,080.00	R 150.00	R 200.00	R 0.00	R 8.00	R 1,438.00
Lokishini	R 1,120.00	R 100.00	R 200.00	R 0.00	R 9.00	R 1,429.00
Lokishini	R 1,120.00	R 120.00	R 100.00	R 0.00	R 12.00	R 1,352.00

①Note: automatic slurry drain pipe consisting of a ball valve of φ75 and a 110mm PVC pipe of φ75 is used to discharge biogas slurry. Its installation position is decided as per the actual situation, as long as it locates in the bottom of the feed outlet chamber. If the pit used to hold the biogas digester is built on the ground, it's better to take advantage of the fall of landform. Don't have it installed, if the landform is improper. Please use mud pump to remove the slurry.

②Note: access stair is built next to the feed inlet chamber for convenient routine maintenance, which fits for pits underground and it is not necessary to build it, if the pit is built on the ground. The access stair is a rectangle stair of 700mm high, 580mm width and 600mm length, and is interconnected with the main pit. When the pit is built underground, the walls of the pit should protrude about 15-30cm above the surface.

③Note: the water disposal ditch inside the pit is designed to conduct water outside, in case there is accumulated water. It is built on along the axle of the slope, 100mm in width, and extends outside from the wall of the pit next to the feed outlet chamber (It fits for pits built on the ground. If the pits are built underground, and there is no way to conduct possible accumulated water out, please have pits covered).

④Note: the drawings above are designed for places where the temperature is below 0℃ in winter. The expansive pearlite insulation layer is a kind of construction thermal insulation material. It is only for option. If it is not available, it is still ok to build brick walls of 120mm thickness. In cold places, we recommend end users to build pit undergound as per our drawings.

⑤Note: the movable canopy can protect the digester and keep it warm, so we strongly recommend end users to build it. If it is not available, end users can use hassocks, foams, prefab cement plates, wooden plates, etc. as alternative.

⑥Note: the drawings above can be refered to build pits on the ground, pits underground, or semi-buried pits. End users should build pits according to the actual situations.

9. How have the relative sizes of the above allocations changed over the past few years? (please tick the appropriate block)

	COMPONENT	INCREASED	DECREASED
1	Scholarships		
2	Bursaries		
3	Loans		
4	Sports awards/scholarships		
5	Other (as above)		

10. Does your institution administer non-TEFSA (i.e. in-house) loans? YES | NO

IF YOUR INSTITUTION DOES NOT ADMINISTER ITS OWN (NON-TEFSA) LOAN SCHEME, PLEASE PROCEED TO QUESTION NUMBER 27; QUESTIONS 11 THROUGH 26 APPLY TO NON-TEFSA LOANS ONLY).

11. Are non-TEFSA loans allocated to lower-risk students while higher-risk students are awarded TEFSA loans? YES ¦ NO

12. What was the number and total value of student loans allocated in the following years?

YEAR	NUMBER	VALUE
1992		
1993		
1994		
1995		
1996		

13. Is a proportion of the loan component of an individual's financial aid package converted into a bursary if certain academic criteria are met by the student? YES ¦ NO

14. If yes, what percentage of the total loan allocation in 1996 was converted to bursaries (please give an approximation if the exact figure is not known)? _____%

15. What type of loan repayment mechanism is employed? (please tick where appropriate)

1	Mortgage-type (a fixed number of repayments over a set period)	
2	Income-contingent (a fixed percentage of income repaid above a set minimum level of income)	

16. How is the interest rate that is charged on loans determined (e.g. one percent below prime)?

_____

_____

_____

_____

17. Do interest rates on loans vary according to any of the following student characteristics? (please tick where appropriate)

1	Year of study	
2	Field of study	
3	Academic performance	
4	Other	

Other (please specify):

_____

_____

_____

18. How is the duration and value of monthly repayments determined?

_____

_____

_____

_____

_____

19. Does a loanee have to provide surety? YES | NO

20. In each of the following years, what was the default rate on student loans (percentage of students who owed money but failed to make repayments)?

YEAR	DEFAULT RATE (%)
1992	
1993	
1994	
1995	
1996	

21. Which of the following characteristics do loan defaulters typically exhibit? (please tick where appropriate)

1	Dropped out of or failed registered courses	
2	Emigrated/left the country	
3	Unemployed after graduation	

22. Is a graduate from category number 2 below more likely to default than a graduate from category number 1? YES ¦ NO

1	Sciences, engineering, commerce, medicine, law
2	Arts, social sciences and humanities

23. At what stage are loan defaulters pursued? (please tick where appropriate)

1	Never	
2	After 2 consecutive non-payments	
3	After 6 consecutive non-payments	
4	After one year of non-payment	
5	Other	

Other (please specify):

_____

_____

_____

24. Who pursues loan defaulters?

1	Your institution	
2	An independent debt-collecting agency appointed by your institution	
3	Other	

Other (please specify):

_____

_____

_____

25. Is a defaulter's debt written off after a certain period has elapsed? YES ¦ NO
If yes, after how long? _____

26. Do you consider your loan scheme to be sustainable (i.e. will your institution be able to continue the scheme in the foreseeable future)? YES ¦ NO

THE REMAINING QUESTIONS REFER TO HOW MUCH MONEY STUDENTS OWE THE INSTITUTION IN TOTAL (AS A RESULT OF OUTSTANDING FEE PAYMENTS), i.e. OVER AND ABOVE OUTSTANDING LOAN REPAYMENTS.

27. At the end (i.e. 31 December) of each of the following years, how many students out of the total student population (not just those on financial aid) were in debt to your institution, and what was the value of that debt in each case?

YEAR	STUDENTS	VALUE (R)
1992		
1993		
1994		
1995		
1996		

28. At the end (i.e. 31 December) of each of the following years, how many students *on financial aid* were in debt to your institution, and what was the value of that debt in each case?

YEAR	STUDENTS ON F.A.	VALUE (R)
1992		
1993		
1994		
1995		
1996		

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