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30 May 2016

The Secretary
Commission of Inquiry into Higher Education and Training
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To whom it may concern

Nelson Mandela Metropolitan University (NMMU) Submission to the Presidential Commission of Inquiry into Higher Education and Training

(a) The full names and contact details of the person/s or entity making the submission

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(b) An indication of the person and/ or entity on whose behalf the submission is being made:

Nelson Mandela Metropolitan University

(c) A full list of source documents referred to in the submissions:

Cloete, N Sheppard, C & Van Schalkwyk, F (2016). Fees and Sustainable Development. Moving the Higher Education Fees Debate from Ideology to Evidence. Cape Town: CHET.

Department of Higher Education and Training (DHET) (2013). Report on the Ministerial Committee on the Review of the Funding of Universities. Pretoria: DHET.

Department of Higher Education and Training (DHET) (2015). Are we making progress with the systematic structural transformation of resourcing access, success, staffing and researching in higher education: what do the data say? Pretoria: DHET.

Langa P, Wangenge-Ouma G, Jungblut J & Cloete N (2016). South Africa and the illusion of free higher education. View online.
http://www.universityworldnews.com/article.php?story=20160223145336908

Montenegro CE & Patrinos HA (2014) Human Development Reports Comparable Estimates of Returns to Schooling around the World. Washington DC: The World Bank

National Planning Commission (NPC) (2012). National Development Plan 2030. Our Future-make it work. The Presidency of the Republic of South Africa. Cape Town: Shereno Printers.

National Treasury (2015). NSFAS Revenue and expenditure review. Pretoria: National Treasury.

Patrinos H (2015) Higher education: Returns are high but we need to fund it better. Education for Global Development, World Bank. http://blogs.worldbank.org/education/higher-education-returns-are-high-we-need-fund-it-better

The Institute for Higher Education Policy "Reaping the benefits: Defining the Public and Private Value of Going to College": March 1998.

Van den Berg S (2014) Inequality, poverty and prospects for redistribution. Development Southern Africa, 3(2): 197-2018

World Bank (2009). Accelerating Catch-up: Tertiary education for growth in sub-Saharan Africa. Washington DC: The World Bank.

World Bank (2010). Financing Higher Education in Africa. Washington DC: The World Bank.

(d) An indication of the willingness of such person or institution to present oral submission to the Commission, if called upon to do so:

NMMU is willing to present an oral submission to the Commission should this be required.

(e) The language in which such person or institution shall prefer to make oral submission

English

(f) The convenient timeframe and venue on which such person or institution shall be available to present oral evidence.

This can be determined in liaison with the Vice-Chancellor's Office at vc@nmmu.ac.za

NMMU submission to the Presidential Commission:

Role of higher education in development

Through teaching and research, higher education contributes to knowledge generation and can also assist in addressing the challenges arising from population growth, limited arable land, endemic diseases, urbanisation, renewable energy and climate change. The National Development Plan 2030 (2012) makes a case for the importance of a highly skilled workforce as well as innovation for development in which higher education plays a critical role. The critical role of higher education in stimulating knowledge-intensive socio-economic growth and development has been highlighted in recent reports of the World Bank (2009, 2010). Much of the reputation of the South African higher education system is based on its ability to produce high-level skills through the production of Masters and Doctoral graduates, as well as quality research outputs. It is crucial that the South African higher education system maintains and strengthens knowledge generation and innovation for the benefit of accelerated development and to address the triple challenge of poverty, inequality and unemployment. This requires adequate and sufficient government and private sector funding.

Public and private economic and social benefits of higher education

There are both public and private benefits to higher education. According to The Institute for Higher Education Policy (1998) the array of higher education benefits are:

1) Public economic benefits include: Increased tax revenues, greater productivity, increased consumption, increased workforce flexibility, decreased reliance on government financial support. Public social benefits include: Reduced crime rate, increased charitable giving and community service, enhanced quality of civic life, social cohesion and appreciation of diversity, and improved ability to adapt to and use technology.
2) Private economic benefits include: Higher salaries and benefits, higher employment, higher savings levels, improved working conditions, personal and professional mobility. Private social benefits include: improved health and life expectancy, improved quality of life for offspring, better consumer decision making, and increased personal status.

According to Montenegro and Patrinos (2014) globally and especially in Africa there are considerable benefits to higher education. In Sub-Saharan Africa, private returns to higher education are higher then returns to primary and secondary education. This research showed that the region with the highest private returns to higher education is Sub-Saharan Africa, and that South Africa specifically has the highest private returns to higher education in the world. This is the result of the high level of shortages in high-level skills. South Africa's high returns on higher education coupled with high levels of inequality (Gini coefficient 0.70) mean that free higher education will proportionally benefit the privileged more than the poor (Patrinos, 2015). This is supported by Langa et al (2016) who asserts that free higher education in highly unequal societies mainly benefits the already-privileged (new political and business elite), who have the social, cultural and economic capital required to access, participate in and succeed at higher education.

Van den Berg (2014) notes in this regard that: *'The large differentials in earnings and access to jobs between the highly educated and the less educated lies at the heart of income inequality. The high wage premium to educated workers derives from a combination of a skills shortage at the top end of the educational spectrum, driving up wages of the educated, and a surfeit of poorly-educated* *workers competing for scarce unskilled jobs, thus dampening unskilled wages.'* In South Africa, post-school qualifications contribute to enhanced employment opportunities and higher wages. It is thus fair to expect students to contribute to these improved lifelong benefits that they receive from pursuing higher education qualifications. However, the inability to pay student fees should not constitute a barrier to obtaining a higher education qualification and therefore a well-established student financial aid scheme is imperative to ensure equity.

When giving consideration to "free higher education", the Government must be mindful that there are currently approximately 3 million youth between the ages of 18 to 24 that are not in employment, education or training (referred to as the NEETs), for which opportunities need to be created. If Government goes the route of "free higher education" for all it will severely restrict government resources to be able to attend to the NEETs. Higher education cannot be free; somebody has to pay. The question is: "Who must pay and when?" Our argument is that since there are public and private benefits to higher education, both the state and students need to contribute to the cost of higher education on condition that those who are unable to pay are supported adequately through a strengthened NSFAS with loan options for the middle-class. Furthermore, the role of the private sector in strengthening NSFAS through loans and investments in scholarships needs to be investigated and incentivised by the State.

NSFAS

It is of concern that NSFAS recoveries have basically collapsed. In the NSFAS revenue and expenditure review (National Treasury, 2015) the following important points are made with regard to NSFAS recoveries: NSFAS debtors repaying their loans declined from 275 429 (35%) in 2011 to 100 419 (12%) in 2014. In short, NSFAS loan recoveries have collapsed, falling by 61% between 2008 and 2014. The cost to NSFAS and the government of this collapse in loan recoveries is estimated to be about R4.3 billion for the period between 2009 and 2014.

If loan recoveries had continued to grow along a normal trajectory, it is estimated that, in 2014, they should have brought in R1.7 billion, instead of just R2.48 million – a difference of R1.46 billion. This loss in recoveries revenue has had a significant negative impact on the ability of NSFAS to extend further. It is estimated that, in 2014, NSFAS would have been in position to fund 51 000 loan awards to students if recoveries continued along the projected growth rate. It is further estimated that NSFAS has been unable to fund about 142 000 students between 2009 and 2014, due to the decline in recoveries.

Government spending on higher education

South Africa, like other developing countries, is faced with financial constraints and backlogs in higher education as a result of extraordinary growth and wider participation over recent years (World Bank, 2010). In its report *Financing Higher Education in Africa*, the World Bank (2010) concludes that in most Sub-Saharan African countries, enrolment in higher education has grown faster than financing capabilities, reaching a critical stage where the lack of resources has led to a severe decline in the quality of instruction and in the capacity to innovate.

The South African Government has been spending on average less than 1% of GDP on higher education, which is much lower than comparable countries which have been spending closer to 2% of GDP on higher education, with China spending 3% of GDP on higher education (Cloete, Sheppard & Van Schalkwyk, 2016). Over the period 2000 to 2013, the government contribution to university income as a percentage of the budget decreased from 49% to 40% (and at some universities close to 30%). Third-stream income remained at the same proportion (27%) of budget. Student fees compensated for the decrease in the government contribution.

In 2000, student fees constituted 24% of university budgets, but by 2013 this proportion had increased to 33%. Over the same period, the proportion of students on NSFAS increased from 2% to 13%. It is estimated that student fees increased on average by 9% per annum over the period 2010 to 2014. This is way above the national inflation of 5-6% over the same period. That said, it would be misleading to say that the burden for fees is borne solely by households. Government provided support to households to pay for their student fees through NSFAS, which grew from R3.4 billion to R 9.8 billion between 2011 and 2015 (National Treasury, 2015, p. vi).

The government block grant is a source of discretionary funding to universities. This funding allows universities to cover their operational and salary costs, and arguably is a crucial source of funding in promoting the sustainability of the South African higher education sector. An analysis done by the DHET (2015) of changes in the block grant over the period 2004/05 to 2014/15 reveals that:

- The block grant allocation to universities increased by 128% in nominal terms or 30.5% in real terms between 2004/5 and 2014/15;
- University enrolments grew substantially within the university sector over the same period. When combined, the net effect of inflation and higher enrolments have led to a real decrease of 1.35% in the block grant per FTE; and,
- The university block grants have therefore not kept pace with inflation and enrolment growth and therefore the resources available for the delivery of higher education per student FTE have declined in real terms.

<u>Efficiency of the South African higher education system</u>

Although improvements have been made in student throughput (completion) rates, the South African higher education system remains very inefficient. For the 2008 cohort, 30% of the students enrolled for 3-year Bachelor's degrees completed their qualification in 3 years and 56% in 5 years (if UNISA is included it drops well below 50%). For 3 year national diplomas, it is even worse: below 50% complete in 5 years. This leads to too many students that stay in the undergraduate system for too long resulting in a system that is inefficient, unsustainable and in need of improvement (Cloete, Sheppard & Van Schalkwyk).

<u>Recommendations</u>

1) NMMU supports the view of the Ministerial Committee on the Review of the Funding of Universities (DHET, 2013) that "free higher education" in the current context is neither equitable (i.e. it becomes a state subsidy to the social groups that can afford fees) nor likely to be affordable given other social priorities and the current low economic growth. Free higher education for all will effectively increase the state subsidy to the rich who can afford to pay for higher education. Students can be expected to contribute towards their higher education

because they will be the main beneficiaries of their qualifications in the form of higher salaries and enhanced employability compared to those who did not obtain a higher education qualification. NMMU supports the recommendation of the abovementioned Committee: *'Given that there are public and private benefits, the funding of universities should be predicated on state subsidies and tuition fees, with provision being made for financially needy students'* who are academically deserving.

2) With regard to student financial aid, the "missing middle" needs to be included in either bursary or loan schemes. To qualify for NSFAS (i.e. family income of less than R120 000) means that most of the actual middle class could be classified as 'poor' – and they account for 75% of the population. The "missing middle" also consists of students who are not poor enough to qualify for NSFAS, but not affluent enough to qualify for bank loans (Cloete, Sheppard & Van Schalkwyk, 2016).

3) The recovery of NSFAS loans needs to be improved to ensure that the funds grow adequately to be able to fund academically deserving, financially needy students and to fund them adequately. This could partly be done by requiring those who qualify for NSFAS to sign an agreement that they will repay the NSFAS loan upon commencement of employment after they have completed their qualification.

4) The amount of government funding allocated to universities is not sufficient to meet the needs of the public university system and is lower than desirable. The subsidy base needs to be increased substantially. South Africa spends a considerable amount on education, but its expenditure on higher education is much lower than comparable countries.

5) Universities need to work towards improved student success and throughput (completion) rates which will open up spaces in universities which are currently occupied by repeaters. This will free up resources and lead to cost savings. Universities will have to work towards improved cost-efficiencies in their operations to contain the level of student fee increases.

6) Student tuition fees should remain as a crucial source of income for universities, but reasonable annual increases should be nationally determined to ensure fairness and consistency across the sector. Such sectoral determinations need to be arrived at in a consultative manner drawing on the best wisdom of university and student leadership. In this regard, it must be noted that some universities increase tuition fees at a nominal rate from a low base, because they are mindful of the financial constraints confronting a large proportion of their students. However, this is not the case for all universities. This needs to be factored into the proposed sectoral determination of student fee increases.

We trust that this feedback will be of assistance to the Commission and we look forward to presenting our submission verbally should this be required.

DR SIBONGILE MUTHWA
ACTING VICE-CHANCELLOR