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OFFICE OF THE VICE-CHANCELLOR

TO	:	THE FEES COMMISSION
FROM	:	PROF XA MTOSE – UNIVERSITY OF ZULULAND
DATE	:	30 JUNE 2016
TOPIC	:	# FEES MUST FALL

Concept Paper: Student Fees

Overview

The '#Fees Must Fall' campaign highlighted the plight of students coming from indigent and middle class households in regard to the non-affordability of University tuition fees. The main thrust of this concept paper is that the mentioned students must not pay fees upfront and alternative funding mechanisms have been proposed. The central thesis of this concept document is that education is a public good that has significant positive externalities to society, hence all beneficiaries including government; private sector, students and the tertiary institutions ought to all contribute to meeting the costs of providing higher education on a sustainable basis for the purposes of creating a thriving society based on a knowledge economy. New innovative funding formulae ought to be sought that involves public-private-partnership and social investment bond issues to meet the bulk of the financial needs of tertiary institutions. However, Universities ought to seek commercially oriented generating opportunities emanating from its core functions of teaching, learning and research as well as from core services it provides on campus. Since students are the major beneficiaries of the tertiary education system they ought to pay for their education once they earn high enough incomes. Moreover all graduates ought to pay a special income contingent tax to ensure future generations have access to tertiary education. Government ought to commit to a 3 to 5 year funding plan with tertiary institutions in the interests of forward planning The success of these proposals depends on a sophisticated administrative system being set in place to screen, monitor and counsel students and track graduates once they enter the working world.

1.0 Introduction and Background

The year 2015 marked the first time since the dawn of democracy that students from tertiary institutions unanimously flexed their muscles under the '#Fees Must Fall' banner to steer the wheel of transformation in regard to accessibility to higher education for marginalised communities.

This spontaneous movement across the political spectrum echoes the call of the Freedom Charter "the doors of learning and culture should be opened for all".

According to Chapter 2 sub-section 29 (1) (b) of the Constitution states, "Everyone has a right to higher education which the state, through reasonable measures, must make progressively available and accessible." However, it is not apparent in this provision that the state is compelled to provide free higher education. The National Development Plan's vision for 2030 is a tertiary education system that produces highly skilled graduates to meet the current and future needs of the economy and society. The plan stresses the need for the different components of the education system to function together in a coordinated fashion to produce the desired outcomes.
Since 1994, the state has made strident advances in making higher education available and accessible to historically disadvantaged communities. Student numbers have more than doubled since the ushering in of the democratic era. The state has also made technical vocational education and training (TVET) colleges and universities accessible to thousands of indigent students through the National Student Financial Aid Scheme (NSFAS) which was founded in 2000 to advance the government's commitment to redress past inequities and to address the raising debt burden difficulties that students at tertiary institutions faced.
NSFAS and its predecessors awarded more than R50-billion to over 1.5-million students in the form of loans and bursaries between 1991 and 2014 at 25 public higher education institutions and 50 TVET colleges. However, despite such provisions, it is clear that universities have become less affordable to students coming from poor and middle-income families. Since 1994 per capita spending on tertiary education has dropped by 30%. South Africa spends only 12% of its total education budget on tertiary education while other countries on average spend 20%.
In spite of the progress SA has made to improve access to higher education, many challenges remain.

The Fees Commission must consider the following stylised facts in order to arrive at a final decision (Mtwesi, 2016; Nxasana, 2016):

- The rising cost of tertiary education and lower net government support relative to its peer countries has resulted in higher education fees becoming unaffordable to students from poor and middle-income households;
- Students whose family's mean income is above R122 000 per annum, do not qualify for NSFAS funding but are also financially constrained — the so-called "missing middle";
- The high drop-out rate from tertiary institutions that particularly affects students from poor households;
- High graduate unemployment especially those from historically disadvantaged universities prevents NSFAS debt clearance; and
- NSFAS challenges, including ineffective administration, under-skilled staffing and poor loan recovery.

In light of the above it is becomes essential for the future stability of society and our tertiary institutions in particular, for all those household earning below a certain mean income (say R500 000 per annum, a number proposed by Nxasana (2016)) be fully funded by NSFAS and that other creative avenues be sought for debt recovery.
Globally there is increased demand for tertiary education in developing and developed economies alike. The desire for developing countries to participate in the knowledge economy has led to the need for greater investment in tertiary education.

However, the question arises as to where will the significant finance for needed investments come from?

It is the view of this submission that financing a sustainable tertiary system depend upon the effective resolution of key policy issues concerning the shape and the nature of the tertiary system

and who will pay for the various infrastructural and operational costs for attainment of the desired outcomes. Sustainability also requires: predictable government funding; a clear position on private sector participation in higher education; public private partnerships; entrepreneurial interventions; commercialisation; leveraging of regional and international partnerships; and various forms of equity financing together with solutions for student support (IIEP, 2011).

2.1 Financing options: The Principle of Cost Sharing

It is the view of this submission that integral to future financial sustainability is effective cost sharing, diversifying income sources, creating new sources of income, building partnerships at home and abroad, and creating wealth beyond teaching and research.

Education is a public good (a good or service provided by the state)that benefits all stakeholders in society from individual graduates to their family, the sectors who employ them and society in general from human capital appreciation and through economic impact and other positive externalities, hence the principle of cost sharing is reasonable one (Tilak, 2004). Thus the cost sharing principle through fees, philanthropic private sector contributions and taxation are justified. However, the challenge is to determine the amount, the proportion of respective shares, and to develop a framework supportive of a mutually acceptable sharing arrangement. There must be open engagement of the key stakeholders in this regard.

The rest of this submission is structured as follows: The next subsection will present the guiding principle of conditional free education to disadvantaged students will be presented followed by possible partnership and funding models. The National Development Plan calls for an holistic approach to addressing the challenges in the education sector, where linkages between schools, further education and training colleges, universities of technology, universities and other providers of education and training should be clearly acknowledged especially for strategic planning and coordination purposes . A similar approach ought to be extended to the subsidized funding models targeting the mentioned categories of students whereby the interrelationships between government tertiary institutions, and the private sector should be creatively considered in order to produce viable solutions.

2.2 Predictability of Government Contribution

Due to the obvious benefits to society its necessary that the state must make available the larger proportion of the funding. However, in the South African setting, the amount of state funding to the tertiary education sector has been quite variable over the years. Hence it is necessary for the DHET to ensure predictability of funding flows to tertiary institutions. IIEP (2011) suggests an agreement needs to be reached on a funding cycle, for example on a three-year (or five) basis, which would provide a framework for planning, implementation and accountability, both for government and individual tertiary institutions. This would probably involve governments determining the percentage of GDP to be allocated for education as a whole, and then determining the distribution between primary, secondary, vocational, and tertiary institutions.

2.3 Income Generation by Tertiary Institutions

Since it is impossible for the state to meet all the financing needs of tertiary institutions it is necessary for higher education institutions to increase their non-governmental sources of income in a systematic manner to sustain the same or higher levels of expenditure, or find ways of

reducing cost and simultaneously increasing efficiency in the context of definitive arrangements reached with government.

Tertiary institutions through their core business of teaching, learning and research may develop self-generating sources of income as follows:

- Credit bearing or certificate type short courses offered to the public and private sector. Many tertiary institutions are already offering such programmes UNIZULU has to catch up.
- Developing specialised Degree or Diploma programmes that are specifically designed for particular public or private institutions and are fully funded by them, for example a Degree in Cooperatives or a Master's Degree in Rural Integrated Development.
- Harness commercial opportunities in activities associated with the university to generate income such as housing, restaurant; hiring of facilities, bookstores, etc.; for example developing a mini mall inclusive of a petrol station on campus
- Enhance existing (or create new) structures and infrastructure to support fundraising initiatives to engage possible donors and to attract research funding.
- Attempt to generate funds from other entities Law Clinic existing on campus
- Approach alumni to engage in philanthropic and other ventures to raise funds

2.4 Public-Private-Partnerships

South Africa as an middle income emerging economy possesses the requisite resources and capacity to solve the challenges we face in higher education, as long as, there is effective coordination of government education programmes in general, as well as driving better coordination and collaboration between the government on the one hand and the private sector and tertiary institutions on the other. The process to accelerate the building of a sustainable public-private partnership model must be encouraged where sufficient funding must be raised to offer comprehensive financial support to students from poor and middle-income households, as well as academic, psychosocial and life-skills support (Naxasana, 2016). This form of the partnership will draw on the philanthropic inclinations or social corporate responsibility concerns of the private sector; government could build in BEE points or other form of tax incentives to attract firms to engage in such partnerships.

Moreover, the model should also include the post-graduation process where through proper co-ordination and recruitment strategies graduates can be placed into appropriate private sector programmes. Such a model could include the world of work induction programmes, in-service training, and obligatory service for a negotiated period at firms, government departments or community service in return for subsidized funding. A number of South African firms already offer bursary programmes and require graduate recipients to pay back in the form of time served at the institution. Nxasana (2016) asserts that coordinated bursary aligned work related approaches will both provide affordable fees funding and improve employment placement of poor and "missing middle" graduates when they enter the world of work.

According to the world Development Report (2004) and World Bank (2003) increasing the private sector's role in tertiary education may have various significant potential advantages over traditional education. Whether these benefits are actually realized depends greatly on how well designed the partnerships between the higher education institution, government and private sector are, on the effectiveness regulatory framework of the country, and on the capacity of the state to oversee and enforce its contracts and partnerships with the tertiary institutions and the

private sector. When implemented properly, synergies between tertiary institutions, government and the private sector can be optimised and will benefit all the students involved maximally.
Both the tertiary institutions and the private sector can increase efficiency and choice, and expand access to education services, particularly for disadvantaged students that tend to be poorly served by traditional higher education practices.
The main rationale for developing public-private partnerships (PPPs) in education is to maximize the potential for expanding equitable access to higher education and for improving education and vocational outcomes, especially for marginalized groups.

2.5 Social Investment: Bond and Security Issues

The term social investment means the use of repayable finance to achieve a social and a financial return. This type of investment can be harnessed to fund primarily the critical infrastructural (and other) needs of a tertiary institution. Social Impact Bonds (SIBs) are an innovative approach to financing social service programs that combines outcome-based payments and market discipline. They are designed to raise private capital to address areas of pressing social need. In this public-private partnership, investors are only repaid if and when improved social outcomes are achieved. The first SIB was introduced in the United Kingdom in 2010 and since then has gained popularity in a number of countries, United states, Australia, Columbia, Canada, India, Ireland, Israel have used the SIB instrument to raise funds for social projects ranging from employment creation to early childhood education (Azemati et al, 2015)

Patton (2016) argued that government is in a commanding position as a regulator and standard setter, co-investor, risk mitigator, major buyer of goods and services, and as a market maker to exert significant influence on where and how investors place their funds. Hence the state possesses the power to influence the private sector to invest in education that will result in mutually beneficial outcomes. South Africa has already started to develop a social investment approach through the revisions to Regulation 28 of the Pension Funds Act with the requirement that pension funds devote a fraction of their portfolio holdings in investment towards social outcomes.
In this regard Patton (2016) suggests that government improves the enforcement and transparency of Regulation 28, for example, to encourage the pension funds of state-owned enterprises to seek out socially and environmentally effective deals and investments and to publish the results of those investments so that the public can hold them to account. Moreover, another option would be to expand the sustainable investment tenets of Regulation 28 into existing regulatory frameworks for banks, insurers and investment funds. Added incentives could be provided through tax breaks.
The challenges of sustainable funding can be effectively addressed by involving the private sector as part of the solution. Many Universities in the United Kingdom issue social investment bonds which a country like South Africa can easily adopt since it possesses sophisticated financial markets that attract significant interest from both national and foreign investors.

Hahn (2007) argues that tertiary institutions can issue Bonds, securities (underwritten by government) to access private capital, in anticipation of future profits. There is no reason why bonds or security instruments to raise private capital cannot work in the South African context. The challenge would be to find a workable format for repayment of the debt, but the value would be in the financial freedom and flexibility it would provide and the predictable commitments to debt servicing and payments upon redemption. Additionally, government can institute attractive tax incentives to lure investors to invest in SIBs.

2.6 Cost sharing: Student Contribution on a sliding scale

As noted earlier education is a public good and must be supported by the state and private sector interests. However, since a graduate is the primary beneficiary of the tertiary education system apportioning some of the cost burden to him/her is justified. Effective loan repayment systems and tax regimes can ensure that at least some of the financing of tuition fees for continuing waves of students can be met from an identifiable, even if not entirely predictable, source (IIEP, 2011; OECD, 2008).

The literature has proposed both a loan repayment system or taxation mechanism after the student enters the job market on the basis that it shifts the burden of payment from the point of consumption to after graduation when the graduate is able to earn. However, loans will only become attractive to students if they are income contingent (ie., tied to earnings). Taxes will only become acceptable if incomes are high enough to make taxes bearable. This means that an economy would have to have the buoyancy, diversity, and absorptive capacity to provide attractive incomes. An income contingent loan system in a small economy is likely to support access as well as equity. A graduate tax system will target graduates only when they develop earning capacity, and in that sense it is an equitable tax if only in the context of working citizens who are graduates of tertiary level institutions (IIEP, 2011; OECD 2008). Note that a loan repayment will end once the loan is freed, however a graduate tax could potentially be ongoing to ensure that funding is available for successive waves of students entering institutions of higher learning.

This submission proposes that:

- Students from indigent and middle income households should not pay tuition fees, however loans should be apportioned to them which would become payable once they start earning incomes above a certain threshold level. The loans to grant ratios ought to be disbursed on a sliding scale in direct proportion to household income.
- More affluent students above a certain threshold (say above R500 000 pa) ought to be charged higher fees on a sliding scale.
- Savings from cost-sharing can be used for broadening access to tertiary education through strengthened student support systems.
- Allow institutions to differentiate tuition fees across courses to make systems more responsive to student and employer preferences and generate efficiency gains ie. Charge lower fees for courses and programmes that are in high demand in the market place relative to those which are not.

3.0 Assumptions behind funding proposals

This submission presumes that the financial support of the future would include a combination of grants, bursaries and loans regulated by various criteria, but with the guiding principles of reducing the financial burden on students emanating from poor and middle income households. Since education is a public good that provides benefits to all stakeholders, primarily government and the private sector carry the major burden of funding, while the loans-grants ratio will increase as the household income increases up to a determined middle-income threshold.

World Bank (2003) concluded that services can be provided to poor people most, successfully when citizens, service providers, and governments are accountable to each other. The proposals made in this submission are based on the following assumptions (Nxasana, 2016; IIEP, 2011; OECD, 2008; World Bank 2003,):

- The forging of a robust public-private partnership based on a shared vision as contained in the National Development Plan that requires a higher education system which produces skilled graduates to meet the current and future needs of the economy and society;
- The economic status of first time entrants to University will be thoroughly investigated so that household income is confirmed in order that the appropriate loans to grants ratios are allocated;
- Social contracts with students together with comprehensive psychosocial and life skills support structures are also a priority so that students graduate with the requite graduate attributes that will ensure easy placement in the work environment.
- Comprehensive data structures as well as auditing and monitoring systems in line with key goals.
- The development of innovative funding mechanisms to increase available funds substantially on a sustainable basis.
- Centralised objective control of all granting and disbursement decisions to optimise the production of graduates in occupations in high demand.
- New programmes should be assessed for relevance – e.g. whether they respond to labour market needs, foster innovation or serve communities' aspirations – before approval.
- Government, tertiary Institutions and private sector would be involved strategic planning initiatives to coordinate medium to long term national objectives with funding needs of individual tertiary institution.
- Ensuring relevance to society requires a robust system of quality assurance since low-quality programmes are, for example, unlikely to be relevant to the labour market.
- Make institutional funding for instruction formula-driven, using both input and output indicators and including strategically targeted components:
- Base institutional block grants on transparent formulas with a balanced array of input and output indicators.
- Consider allocating tertiary institutional funding by performance agreements or contracts negotiated between the state and individual institutions. The private sector will be included where funding involves SIBs or other social investment instruments

4.0 Conclusion

The central thesis of this concept document is that education is a public good that has tremendous positive externalities to society, hence all beneficiaries inclusive of government; private sector, students and the tertiary institutions ought to all contribute to meeting the costs of providing higher education on a sustainable basis for the purposes of creating a thriving society based on a knowledge economy. New innovative funding formulae ought to be sought that involves PPPs and SIBs to meet the bulk of the financial needs of tertiary institutions. However, Universities ought to seek commercial generating opportunities emanating from its core opportunities of teaching, learning and research as well as from core services it provides on campus. Since students are the major beneficiaries of the tertiary education system they ought to pay for their education once they earn high enough incomes. Moreover all graduates ought to pay a special income contingent tax to ensure future generations have access to tertiary education. The success of such a proposed funding mix impinges on PPPs engaging in medium to long strategic planning with national objectives in mind and on the financing requirements for individual tertiary institutions and on a sophisticated administrative system being set in place to screen, monitor and counsel students and track graduates once they enter the working world.

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