



# Tuition Fees

## Higher Education Institutions in South Africa

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## EXECUTIVE SUMMARY

This report discusses the funding of higher education in South Africa with specific reference to tuition fees. The report has been motivated by recent concerns by the Minister of Education regarding the levels of tuition fees charged by higher education institutions, and the measures being contemplated by the Ministry and Department of Education to control tuition fee increases. The main concern is that tuition fees have increased at a higher rate than government's contribution to the National Student Financial Aid Scheme (NSFAS).

The report is divided into five sections. The first section is the background to the study, which generally discusses the higher education funding conundrum in South Africa. Four major constraints regarding the funding of higher education are identified. These are:

- a) The decline of state subsidies and the concomitant increases in tuition fees;
- b) The importance of a tuition fee model that is appropriate in a context where vast disparities in income and participation in higher education remain;
- c) Inadequate funding for NSFAS; and
- d) Curtailing increasing student debt.

Section Two presents the study's theoretical framework — price theory, which emphasises the importance of efficient prices, i.e. prices which limit wastage and encourage near optimal consumption, and cost sharing. Cost sharing is based on the premise that higher education is both a public good and a private benefit, and therefore the cost of provision should be shared between the state and individual beneficiaries. Financing of higher education by the state and individuals should therefore ensure an appropriate balance between the public and private costs and benefits of investment in higher education.

### **Department of Education's perspective on tuition fees**

The Department of Education's (DoE) perspective on tuition fees is the subject of Section Three of this report. This section is based on a presentation to the Task Team by Professor Ian Bunting on behalf of the Department. While no formal policy position currently exists, the presentation shared several approaches being considered by the Department, aimed at controlling tuition fee increases by higher education institutions. In summary, these include:

- a) Placing upper limits on the levels of tuition fees collected by institutions;
- b) Determining what shares institutions will receive of the joint block grant and tuition fees totals; and
- c) Requiring higher education institutions (HEIs) to keep the sum of their individual tuition charges within the limits of their approved total tuition fee income.

### **Task Team's views on DoE's perspectives**

Based on the analysis undertaken by the HESA-appointed Task Team, the sector's views include the following with regard to the options currently being considered by the DoE :

- a) Ministerial regulation with regard to tuition fee income will negatively impact on the autonomy and flexibility of individual HEIs and the higher education sector as a whole and given the present public funding constraints on the funding of higher education, will impact negatively on the overall quality of educational delivery by higher education institutions;
- b) Capping tuition fees will discourage institutional differentiation and will actively advance institutional homogenisation;

- c) Institutions will as a consequence be encouraged to introduce additional student related charges that are notionally optional (e.g. Internet access fees, notes levies, charges for sports facilities, transport charges); and
- d) Most importantly, capping student fees will have the opposite effect from what was intended and negatively impact on equity and the attainment of the policy goals articulated by the National Plan on Higher Education, particularly those relating to increasing access to higher education (NPHE, 2001).

### **The National Student Financial Aid Scheme (NSFAS)**

The NSFAS is discussed in Section Four. The main argument regarding the NSFAS is that its funding is insufficient to award loans to all intellectually talented and deserving students and also its threshold of eligibility is too low. As such, several universities have to find other financial means to support students who do not receive the NSFAS loans, and yet are needy. Given that the NSFAS is critical in expediting person power formation in South Africa, and also in achieving the public good function of higher education by supporting poor students, it is urged that extra resources be injected into the scheme and in particular that the present mean family income cut-off point which determines participation (or not) in the scheme be increased significantly. The Task Team considers the strengthening of the NSFAS as the key alternative to Ministerial capping of tuition fee income.

### **Concluding Comment and Recommendations**

Section Five concludes the study and makes a number of recommendations. In terms of the regulation of tuition fees, in particular, HESA **recommends** the following:

- a) A model of system-wide tuition fee regulation such as that being contemplated by the DoE should not be implemented.

- b) HEIs, through HESA and DoE, should provide comprehensive information to prospective students, parents or guardians on costs of study programmes, cost of living, and opportunities for financial aid. Such information will assist students (and their parents or guardians) in making proper plans on how to finance their studies.
  
- c) HEIs, through HESA, should be encouraged to move towards a single and inclusive tuition fee that covers both tuition and associated services such as notes, photocopying, and Internet access. An inclusive tuition fee will help control and reduce the cost of these services. Individual HEIs should therefore continue to set their own fees but should adhere to common standards of transparency.
  
- d) That the existing NSFAS be strengthened considerably in order to achieve a robust and well-funded public scheme. The NSFAS is critical in achieving an appropriate balance between the 'public and private good' function of higher education, and in achieving the policy goals articulated in the National Plan for Higher Education.

To conclude, the above recommendations are embedded within the following:

- HESA's recognition of the proactive stance of the Ministry and Department of Education, and appreciation of the opportunity afforded the sector to undertake a study on tuition fees. As a sector we re-assert our commitment to the goals and targets set to achieve equitable access and increased participation, and the role higher education must play in the development of the South African society and the economy.

- HESA’s acknowledgement of the current focus by the DoE on the funding of public higher education, and the affordability of education in general. Also the recognition — by Treasury, the Ministry and the Department of Education — that an important consequence of the decline in state funding has been an increase in tuition fees to enable HEIs to pursue their mandates effectively and responsibly.
- Finally, HESA recognises that a key factor in establishing a viable tuition fee model and approach to cost sharing in South Africa must start with the realities of significant and continuing income inequalities in order to achieve an appropriate balance between public contribution and individual investment in return for future benefit. It is in this context also that the importance of public investment in higher education cannot be overemphasised.

## ACRONYMS AND ABBREVIATIONS

AFCS	Average full cost of study
CPI	Consumer Price Index
DoE	Department of Education
EU	European Union
FTE	Full Time Equivalent
GDP	Gross Domestic Product
HAUs	Historically Advantaged Universities
HDUs	Historically Disadvantaged Universities
HEIs	Higher Education Institutions
HESA	Higher Education South Africa
MoE	Ministry of Education
MTEF	Medium Term Expenditure Framework
NPHE	National Plan for Higher Education
NSFAS	National Student Financial Aid Scheme
SA	South Africa
SASCO	South African Students Council
SAUS	South African Union of Students
UK	United Kingdom
WDS	Weighted number of disadvantaged students



# 1

## Background and introduction

The diminishing state funding of public higher education in South Africa mirrors a global trend. Unfortunately in South Africa's case, the diminishing (in real terms) state financial support for higher education<sup>1</sup> is occurring at a time when the system is in greater need of state financial support, so as to achieve the policy goals articulated in the National Plan for Higher Education (NPHE, 2001). These goals include: more equitable student access, improved quality of teaching and research, increased student progression and graduation rates, and greater responsiveness to social and economic needs. As Steyn and de Villiers (2006: 3) have correctly pointed out, "[f]unding incentives and disincentives of the state will play an important role in achieving the ... goals of the NPHE".

Considering that the state is the main funder of public higher education, budgetary reductions or limited budgetary enhancements often cause institutional vulnerability. In turn, vulnerability threatens the attainment of these institutions' mandates. To continue to prosecute their mandates effectively, even with diminishing state financial support, universities have to generate own income through *inter alia*, tuition and other fees, research, private gifts and grants, and investments.

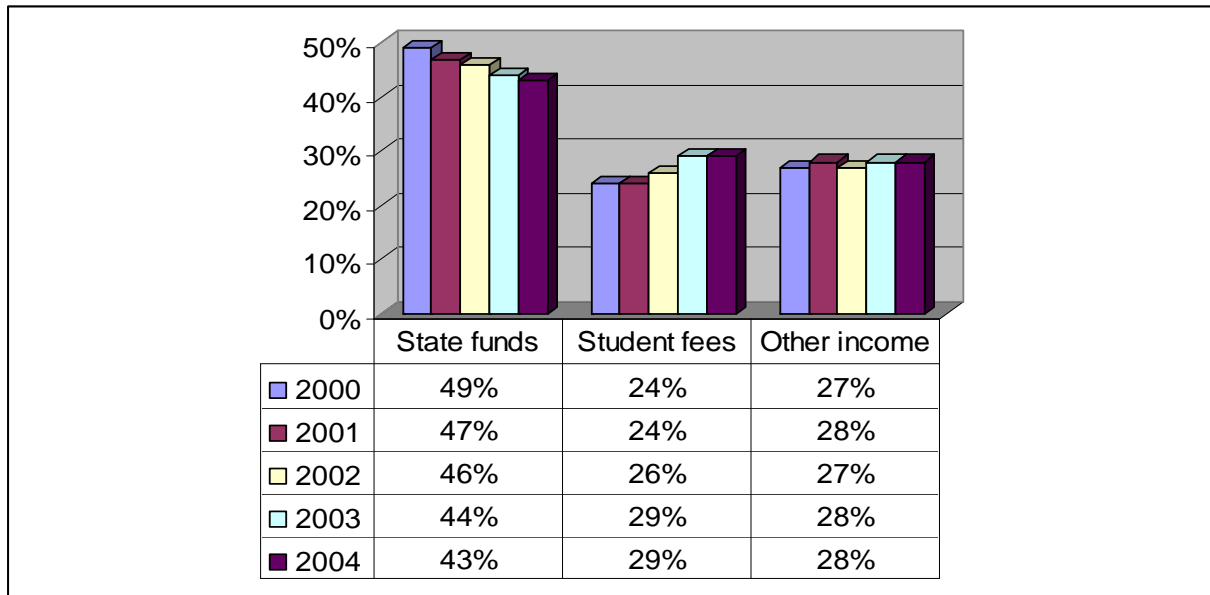
One of the ways South African universities have responded to the diminishing state financial support and the increasing cost of higher education provision is by raising

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<sup>1</sup> A brief perspective on the diminishing state capitation of public higher education in South Africa is provided in Section 1.2.2 (see pp. 18-23).

tuition fees. As a result, the proportion of income from student fees is increasing in relation to other sources of income (Figure 1.1 below).

**Figure 1.1: Proportions of income of public higher education institutions from main sources<sup>2</sup>**



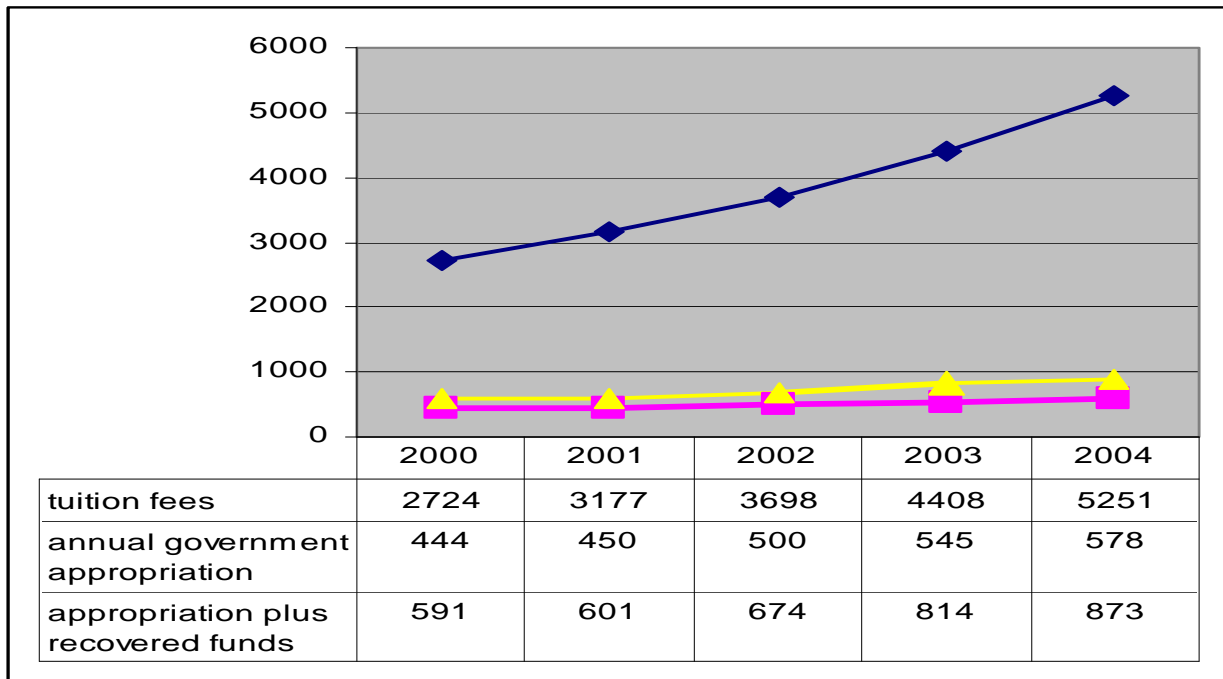
Source: DoE (2007a) Student fees and the resourcing of Public higher education

The annual increase of tuition fees and the increasing proportion which tuition fees income is of the total income of HEIs has understandably been a matter of public concern. For instance, the Minister of Education indicated in her budget speech to the National Assembly on 19 May 2006 that she was considering the introduction of a policy on tuition fees that would place upper limits on the total tuition fee collections for each public HEI. This followed on an earlier media interview in 2005 where she queried the extent of annual tuition fee increases at public higher education institutions (HEIs) in South Africa. The main concern of the Ministry is that tuition fees increased at a higher rate than government’s contribution to the National Student Financial Aid Scheme

<sup>2</sup> The information in figures 1.1 to 1.3 is based on the DoE 2000-2004 figures. More recent data (2005-2007) may well alter this scenario.

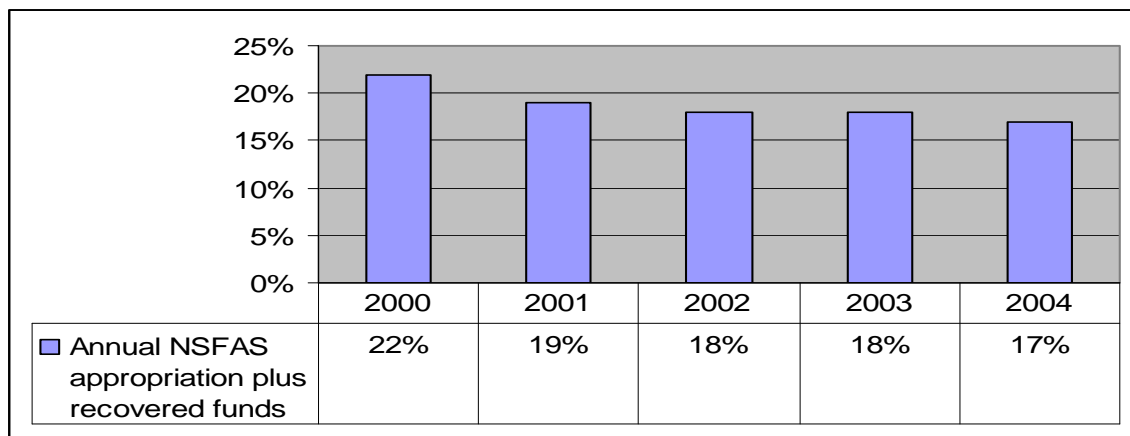
(NSFAS) did (see figures 1.2 and 1.3 below). On the other hand, student unions<sup>3</sup> have been advocating a 'no-tuition fee' policy and a number of institutions have had some form of student protest over tuition fee increases in the past few years.

**Figure 1.2: Tuition fees and NSFAS allocations: Rands millions, 2000 - 2004**



Source: DoE (2007a) Student fees and the resourcing of Public higher education

**Figure 1.3: Annual NSFAS allocations plus recovered funds, 2000 - 2004**



<sup>3</sup> The South African Union of Students (SAUS) was invited to nominate a representative to the Task Team as an observer. The SAUS representative attended only one meeting.

Source: DoE (2007a) Student fees and the resourcing of Public higher education

It is in this context, and following engagement with the Minister of Education, that HESA's Executive Committee mandated a study on tuition fees so as to develop a higher education sector perspective on the various facets relating to this matter.

## **1.1 Statement of the problem and objective of the study**

Government's support for higher education is significant. Unfortunately, it has not been sufficient for public HEIs to meet their mandates effectively, especially with regard to the policy goals articulated by the NPHE<sup>4</sup>. Consequently, faced with the shortfalls in state funding, public universities have had to adapt or compensate for reduced state funding by seeking alternative or non-government revenue, mainly by raising tuition fees above the general rate of inflation. Although the tuition fee increases implemented by universities are far below what would be necessary to compensate for the loss of state support<sup>5</sup>, such increases cause concern for students<sup>6</sup> and parents as to whether they will be able to afford university education. In addition, tuition fee increases put pressure on government to increase funding for NSFAS above the current levels of provision.

In sum, there are four major areas of challenges or constraints in terms of the funding of public higher education in South Africa. These are:

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<sup>3</sup> The NPHE identified five key policy goals; i.e.: 1) producing the graduates needed for social and economic development in South Africa; 2) achieving equity in the south African higher education system; 3) achieving diversity in the South African higher education system; 4) sustaining and promoting research; and 5) restructuring the institutional landscape of the higher education system.

<sup>4</sup> A survey by the Task Team showed that the setting of tuition fees and tuition fee increases by most South African universities is usually below the actual cost of provision.

<sup>5</sup> Recent student disturbances at the Durban and Tshwane Universities of Technology illustrate this point.

- The decline of state subsidies and the concomitant increases in tuition fees to make it possible for HEIs to keep up with inflation, promote equity and enhance efficiency, protect and maintain academic quality and, simultaneously, remain competitive in a global knowledge economy.
- The need to develop a tuition fee model that is relevant to the cost structure of HEIs and is appropriate in a context where significant disparities in income and participation in higher education remain, and a context where the national focus is on human capital and high-level skills development needed for accelerated and shared economic growth.
- In terms of NSFAS, the view is that the current demand exceeds supply by far; the focus thus needs to shift to ways in which this essential support can be sustained over time, in order to make possible increased participation in higher education in order to meet both equity and growth targets.
- Student debt is yet another funding constraint facing many of South Africa's public universities. In a recent analysis, Steyn & de Villiers (2006) show that the problem of student debt is a major obstacle to the attainment of financial stability by many universities in South Africa. They point out that at six Historically Disadvantaged Universities (HDUs), student debt increased dramatically from just over R148 million in 2001 to almost R463 million in 2003, and at Historically Advantaged Universities (HAUs), student debt rose from just over R35 million in 2001 to about R 58.5 million in 2003. Debt management has thus become an onerous task for most HEIs. Although HEIs have developed rigorous credit policies to manage debt, many are forced in many instances to write off student debt. Steyn & de Villiers (2006) estimate that about 21% of annual tuition fees across the system as a whole is currently written off as bad debt.

Related to the debt problem are the different approaches HEIs have to fee payment. These approaches range from a grace period allowed for fee payment, to the minimum amount students are permitted to pay before they are allowed to register or write exams. Several universities, for example, allow students who owe not more than 20% of fees to write exams. Overall, many HEIs are as humane and as flexible as possible in credit management, and go to great lengths to accommodate deserving students. HEIs usually provide a reasonable balance between the need of the institution to recover outstanding debt from students and the interest of students in continuing with their studies.

Other financial challenges include the expense of restructuring the higher education sector. The recently concluded mergers and incorporations are yet to yield cost efficiency gains. It will take some time before these gains are attained. Also, many merged institutions are still grappling with equalising service delivery across their various merged campuses and the related challenge of equalising the wide discrepancies in the tuition fees charged. Another challenge is the misalignment between university financial years and the financial year of the state. Whereas the financial and academic years of HEIs run from January to December, the financial year of the state runs from April to 31 March. Consequently, from January to March, before state capitation is disbursed, HEIs almost entirely depend on upfront tuition fee payments and / or reserves to operate, which is a big challenge, considering the existing poor fee paying culture among students.

It is therefore necessary to re-think the financing of higher education in South Africa. To this end, this study seeks to provide a higher education sector perspective on tuition fees, and the funding of higher education in general.

## **1.2 Sources of university income: An analysis of trends**

Broadly, universities, especially public institutions, have three sources of revenue: first stream, second stream and third stream income. First stream income refers to state funding, which constitutes mainly yearly budgetary allocations, in South Africa's case, as block grants and earmarked funding. Second stream income accrues from tuition fees, and third stream from sources such as private gifts and grants, and investments or income from purely entrepreneurial entities such as spin off companies and research centres attempting to generate 'profits' by developing patents and products from research. As the subsequent discussion will show, universities — both within and between countries — have made use of various sources of revenue to various degrees of success.

### **1.2.1 A brief international perspective**

Revenue diversification, which entails distributed dependence on various sources of revenue, is the main way universities across the world have sought to maintain financial stability. In Australia, other than state funding, public universities also generate revenue from royalties, trademarks and licences, consultancy and contract research, investments, tuition fees (continuing education fees, overseas students fees, and local students fees), among other sources (de Zilwa, 2005). In 2001, the total independent revenue (revenue from non-government sources) of Australian public universities as a percentage of total operating revenue ranged from 16% to 55%. Tuition and other fees made the greatest contribution (41% to 68%) to these institutions' independent income (*ibid.*).

Although public universities in the United States generate large sums of revenue from private sources, Johnstone (2006) reports that the percentage of full undergraduate

instructional costs borne by taxpayers still remains high in most states, and ranges from 60% to 70%.

Universities in the United Kingdom receive funding from various sources. Approximately 55% of university income in 2003-04 was from public sector sources. In the same year, revenue from tuition fees (including fees from non-EU students and part time and fulltime UK and EU students) accounted for approximately 24% of the total universities' income; research grants and contracts 16%; and endowment and investment income 2% (Higher Education Statistics Agency, 2005).

In Africa, public universities in various countries have also to some extent diversified their sources of revenue. For instance, public universities in Kenya, Uganda and Tanzania have attempted to compensate for reduced state financial support mainly by implementing 'dual-track' tuition fee policies. Public universities in these countries admit students over and above those who are admitted with government subsidy. These 'extra' students are charged full cost recovery fees. Mainly because of the 'dual-track' tuition fee policy, several public universities in Kenya now generate more than 30% of their total income from tuition fees (Ouma, 2007), and over 40% for Makerere University in Uganda (Carrol, 2006).

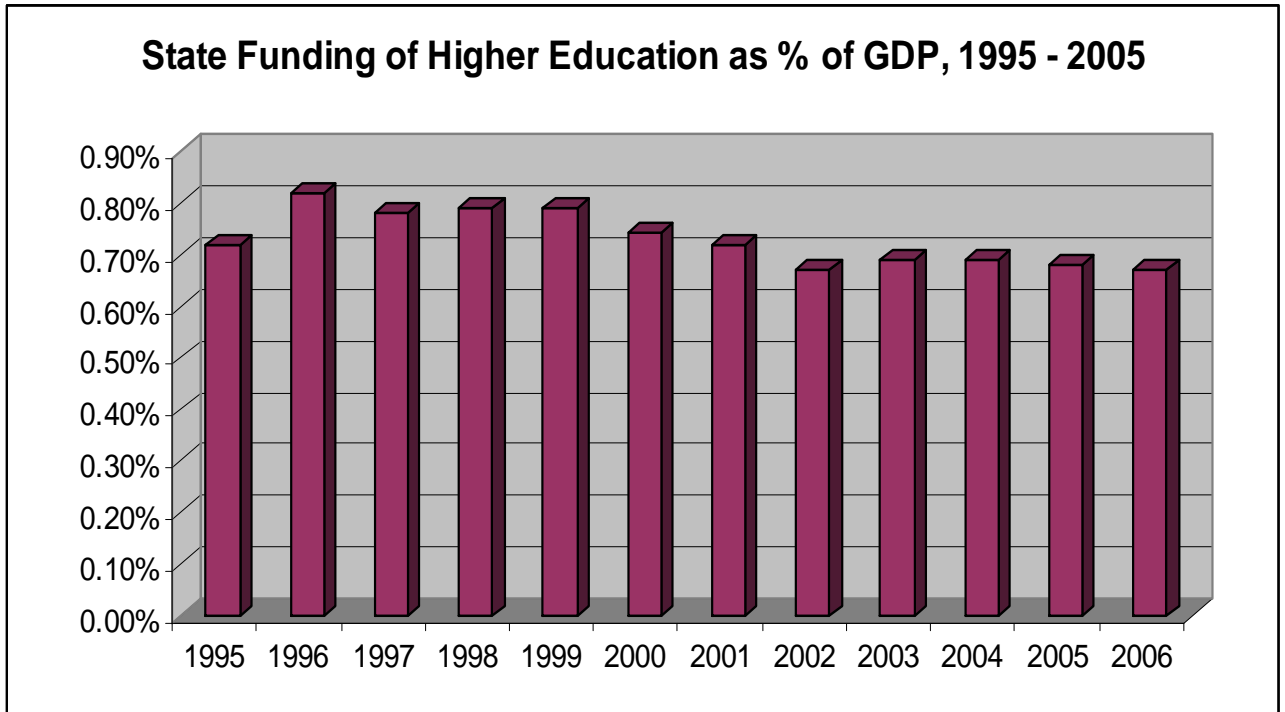
### **1.2.2 A South African perspective**

As has already been pointed out, state funding of higher education in South Africa has not been sufficient for universities to fulfil their mandates effectively. Several higher education funding indicators show that in the recent past, state funding of higher education has actually declined.

As a percentage of GDP, state funding of higher education shows a declining trend in the twelve year period 1995 – 2006. Figure 1.4 below shows that after the share of GDP spent on higher education peaked in 1996 (0.82%) it gradually declined to a low of 0.67% in 2006 (DoE, 1997: A6).



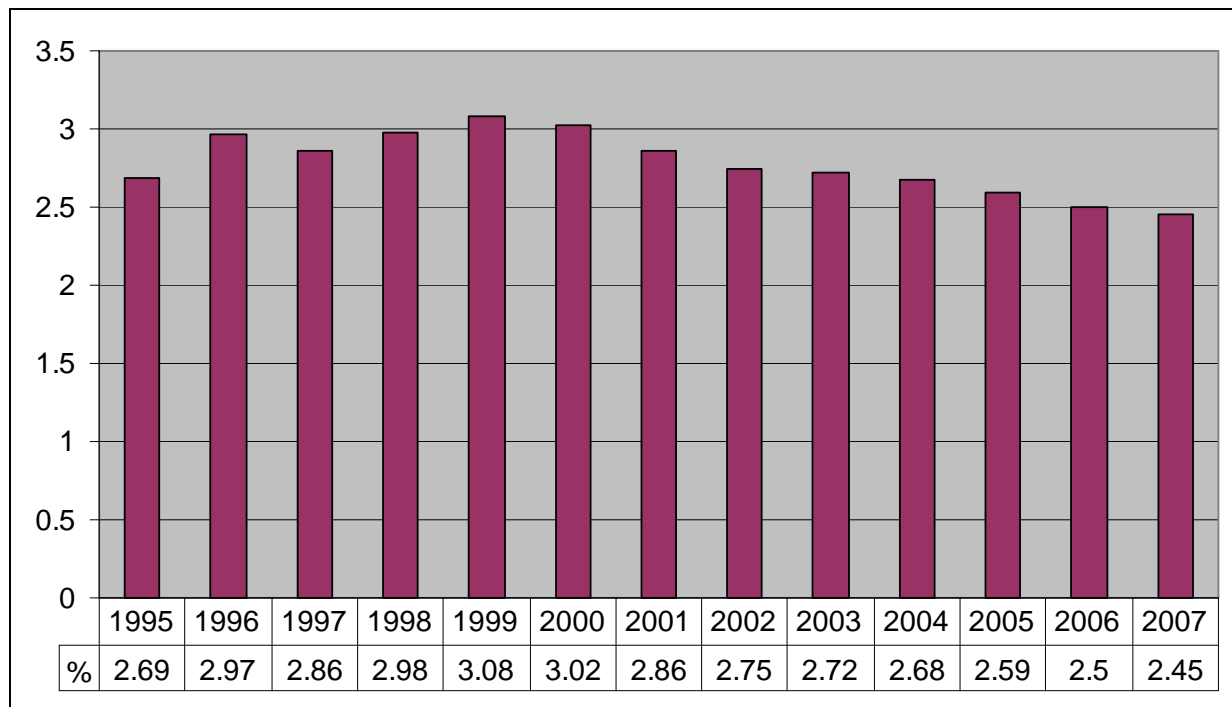
Figure 1.4: State Funding of Higher Education as a % of GDP, 1995 – 2005.



Source: Figure generated from the data in DoE (2007b: A6)

State funding of higher education as a percentage of total state finance (Figure 1.5) also shows a declining trend. As shown in figure 1.5, state funding of higher education as a percentage of total state finance has consistently declined from 1999 through 2007 (3.08% in 1999 to 2.45% in 2007).

**Figure 1.5: State Funding of Higher Education as a Percentage of total state Finance, 1995 – 2007**



Source: Figure generated from the data in DoE (2007b: A6)

Capital development is perhaps one area that has been affected the most by reduced state capitation. Expenditure on capital projects declined following the government’s decision to terminate allocations for purposes of erecting new buildings at institutions as from the 1997/98 financial year (Steyn & de Villiers, 2006; SAUVCA, 2004). As Steyn & de Villiers (2006) point out, the general decline in earmarked funding is not in accordance with the Education White Paper No. 3 (DoE, 1997), which stated that earmarked funding as a percentage of total state funding of universities and technikons should increase to the level of almost 16 percent. The total earmarked funding for higher education as a percentage of total state funding of universities and technikons decreased from 15.6 percent in 1996 to 10 percent in 1997. In 2003, it declined to 10.3%. The inadequate funding for capital expenses has forced many HEIs to fund capital development from their operating budget or take loans. This has implications for tuition fees.

Although funding for capital development has plummeted over the years as shown above, it is important to acknowledge the recent allocation of R3.5 billion by the Minister of Education to universities for improving institutional infrastructure and student outputs (MoE, 2007). This welcome allocation will assist HEIs to address urgent capital development needs. Not all institutions, however, have benefited to the same extent from these allocations.

South African universities have different mixes of income. In a recent study on the impact of HEIs on the South African economy, Van Heerden, et al. (2007) report the following (Table 1.1) average revenue contribution of various sources of income for 16 HEIs in 2004.

**TABLE 1.1: Sources of income for sixteen HEIs in South Africa, 2004**

Source	Lowest %	Highest %	Average %
Student fees	21.0	37.8	28.1
Government subsidy income	32.1	57.0	43.1
Investment income	1.2	27.6	7.7
International donations	0	9.1	1.2
South African donations	0	9.6	3.3
Contract research	0	27.6	5.6
Sales of goods & services	0	14.2	3.9
Research grants	0	6.0	1.9
Other			5.2
TOTAL			100

**Source:** Van Heerden, et al. (2007) Higher Education Impact: Universities in the South African Economy. Pretoria: HESA (p.12)

As Table 1.1 shows, student fees is the highest source of non-government revenue for the 16 universities included in this study, with international donations and research contributing the least. The high contribution of tuition fees should not be surprising since tuition fee income is directly linked to the core business of HEIs. It should be pointed out that although all the revenues generated from the various sources play a role in ensuring that universities meet their mandates, some of these revenues do not necessarily contribute to the financial health of HEIs. Such revenues include research grants, over which HEIs only play a fiduciary responsibility. They have no discretion over the spending of these funds. As such universities cannot use these funds to offset shortage, for example, shortage of funding for teaching.

Various reasons can be given for the poor earnings from the various sources of income (other than tuition fees and government subsidy). These reasons include (Stumpf, 2006):

- Generally weak university/business relations;
- Limited industrial/business base in South Africa;
- Limited tax breaks for individuals and companies;
- Limited research capacity for some universities;
- Lack of developed alumni and fundraising structures and absence of the culture of 'giving'; and
- Impoverished geographic and economic environments of many higher education institutions.

### **1.3 Tuition fee models and processes of setting tuition fees**

Several tuition fee models can be identified, *viz.* flat rate or uniform tuition fee model, differentiated model, redistributive model, dual track tuition fee model and free market model.

The *flat rate or uniform tuition fee model* is where students make a flat rate nationally-set contribution to the costs of their study. There are several variants to this model: the flat fees could apply to all study programmes across the higher education system or similar programmes across the higher education system. Tuition fees in this model are

usually set by government and, in most cases, ignore the actual costs of higher education provision. It is also a model that ignores institutional differences and inhibits competition.

Closely related to the uniform fee model is the fixed fee model. A *fixed fee model* guarantees that total tuition fees are locked in and remain unchanged for the entire duration of study. Fee changes only affect incoming students. Like the uniform tuition fee model, a fixed fee model ignores the actual costs of higher education provision.

In the *differentiated or variable fee model* fees are different for different programmes of study or for different institutions. The variable fee for programmes, in part, reflects the cost of the courses attended such that for expensive courses, the tuition fees are higher and vice versa. In this system, institutions set their own fees, at times leading to considerable variation.

A *redistributive tuition fee model* refers to differential pricing of tuition according to the available disposable income of the prospective student or the student's family. In such a system, once tuition fees are set, students from low income families only pay what they can afford while wealthier students pay the entire amount. As such, poor students will pay lower fees while students from well-off families will pay higher fees. In this model, financial aid would be used to keep the price of tuition relatively consistent and at a level of affordability for the more indigent students and their families. In such a system tuition fee increases and the number of students that can be accommodated would be linked to the provision of financial aid.

A redistributive tuition fee model is, however, difficult to apply directly since it requires means testing for all students and their families. This would be very expensive to administer and open to abuse. Reliance is therefore generally placed on students'

presenting themselves for means-testing through the financial aid system. This could be referred to as a “*modified redistributive tuition fee model*”.

The dual track tuition fee model is usually characterized by a highly restricted, “merit-based” entry to free, low cost or government subsidised higher education, with other applicants not so admitted permitted entry on a full fee-paying basis. Therefore, in this model, institutions are allowed to enrol ‘extra’ students, over and above those whose fees is subsidised by government. The ‘extra’ students are usually charged full cost recovery fees.

In a *free market tuition fee model*, fees are set depending on the market demand for study programmes, the cost of providing these programmes and also the potential earnings capacity of programme graduates. Fees are also allowed to vary by subject since a free market depends on prices determined only by competitive pressures, which of necessity will be related to ‘true’ costs.

South African universities use various combinations of the differentiated tuition fee model, some aspects of the free market tuition fee model, and the modified redistributive tuition fee model. The latter is implemented through the provision of student financial aid, with some universities having amounts equal to one third of their total fee income available in various forms of student financial aid.

Due, in part, to the recent increases in fees, questions have been raised about the processes of setting tuition fees. A survey by the Task Team showed that the setting of tuition fees by South African public HEIs is generally characterised by the following:

- There is no single and system-level model to guide institutional practices regarding the setting of tuition fees. While some institutions have a single fee that includes tuition and all associated services, other institutions set a ‘tuition

fee' and then add extra charges (such as notes levies or Internet connection charges).

- Processes for determining tuition fee increases also vary widely within the higher education system. In some cases these processes provide for active and ongoing involvement of Student Representative Councils while in other cases such involvement appears to be somewhat sporadic.
- Several institutions set tuition fee levels in relation to changes in the general consumer inflation. Institutions recognise that their costs rise at a greater rate than general consumer inflation, and calibrate their tuition fee increases against an estimate of this higher rate. Some institutions (and particularly those that are still regularising fees after mergers) are seeking to raise the base level of their fees by accelerated increases.
- Most institutions set their tuition fees with regard to fee levels at competitor institutions.
- A limited number of institutions set tuition fees based on the total direct and indirect cost of study programmes.

A concern often raised regarding the increases in tuition fees is that they are often over and above the general rate of inflation. This argument suggests that the increases in tuition fees are usually above the average increase in the cost of living, as suggested by the consumer price index (CPIX). Such increases, it has been argued, are indefensible. However, education economists have shown that the internal inflation of universities is considerably higher than the national inflation rate. This is explained by the phenomenon of the 'cost-disease' also known as Baumol's cost-disease, where costs

and prices of services such as education, tend generally to outpace the national rate of inflation (Baumol & Bowen, 1966; Johnstone, 1999; Johnstone, 2001).

Higher educational inputs, such as journals, laboratory consumables, and specialised research equipment, tend to experience a higher than inflation growth in prices. This also applies to higher education's most important input, academic staff. In order to attract good staff, academics' remuneration must keep pace with the remuneration of comparable occupations in the economy, which are largely determined by productivity changes in those sectors. However, teaching and research are 'labour intensive' and not easily 'mechanised' to increase productivity (other than possibly through distance education delivery modes).

As a result of the higher than inflation rise in the prices of higher education inputs, higher education inflation usually exceeds the national average. What this means for higher education is that — due to significant growth in higher education's 'market basket' — for universities to be able to continue to generate sufficient revenue (in real terms) from tuition fees, and be able to prosecute their mandates effectively, they have to raise tuition fees over and above the national inflation rate.<sup>7</sup>

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<sup>7</sup> An example is the University of Cape Town, which raises tuition fees depending on the institution's internal rate of inflation. An internal inflation computation by the institution's executive director of finance shows an internal inflation of 7.70% for 2007. The raising of tuition fees by several other HEIs is also inflation correlated.



# 2

## Tuition Fees: A Theoretical Framework

Tuition fees play an important role in the economics of public higher education. Almost all of South Africa's public universities are dependent on tuition revenues as the second most important source of income after state allocations. In the recent past, tuition fees have become a moot issue in the South African higher education discourse. Concerns about tuition fees mainly relate to equity of access, which is also given emphasis in the Constitution, which provides for making education, including post-basic education, progressively more available and accessible (*cf.* the Freedom Charter, and White Paper, 1997; the NPHE, 2001).

This section provides a theoretical framework for understanding the setting and levying of tuition fees (i.e. the 'pricing' in education) and cost sharing. It also addresses the question of equity of access.

### 2.1 Higher education tuition fees

Tuition fees are essentially education prices. Prices are indicators of scarcity, and are used to allocate resources. Economists have shown that when prices are 'too cheap', it leads to wastage, while prices that are 'too high' lead to suboptimal usage or consumption. To avoid both wastage and suboptimal consumption, economists look for 'equilibrium' prices, i.e. 'efficient' prices. Efficient prices limit wastage and lead to near optimal or optimal consumption.

In competitive markets, prices are determined by supply and demand. Demand is determined by the utility of a product and is assumed to fall as price increases. On the other hand, supply is determined by costs, and is assumed to increase as the price increases. The theory of supply and demand usually assumes that markets are perfectly

competitive. This is not always the case, hence the phenomenon of 'market failures'. Market failures may occur when:

- Demand is 'too low' because consumers undervalue a product (merit goods);
- Public benefits (externalities) are ignored by individual consumers;
- Distribution of income may be such that some consumers cannot afford merit goods; and
- There is a mismatch between a student's life-stage income and expenditure.

There are several ways of correcting market failures. These include:

- Enforcing use of merit goods (e.g. compulsory schooling);
- Compensating for public benefits through subsidies (e.g. higher education);
- Using means-testing in the allocation of student financial aid (e.g. NSFAS); and
- Providing mechanisms to match individuals' income and expenditures over time (e.g. the NSFAS and other forms of student financial aid).

Like other market failures, market failures in higher education can be corrected, either through subsidies to institutions (i.e. on the supply side) or vouchers, bursary and loan schemes to students (i.e. on the demand side).

Subsidies on the supply side, through state capitation, enable HEIs to lower the costs of provision and supply more. Subsidies on the demand side ensure that students attain greater purchasing power and are empowered to choose between institutions, which increases competition and thus also the efficiency of the supplying institutions.

Means-tested loans and bursaries can be used to address problems arising from the skewed distribution of income. In addition, loans and bursaries help to bridge the mismatch of income and expenditure arising from the point in their life cycle, at which students are. The student life stage entails, in most cases, low income and high expenditures, but after graduating, most students earn relatively well and are therefore,

over their life cycles, able to pay for their education. However, poor persons lack the funds to get to university in the first place, and also often the collateral security necessary to get private loans to do so, hence the need for a well-functioning and comprehensive, publicly funded, loans and subsidies scheme for poor students.

The alternative to the market approach is the system of administered prices, which has a negative history and perverse consequences (Seligman, 1990). In a system of administered prices, efficient pricing is hardly possible. If the administered prices are too high, in this case, high tuition fees, only a few students will be able to 'purchase' higher education. Low prices could starve HEIs of critical resources and may lead to wastage (internal inefficiency), as students may take too long to graduate. It leads to the phenomenon described by Johnstone (2006: 8) as 'academic malingering', whereby students take more than the stipulated period for completion of study programmes, or more courses than are necessary or even useful, or both, largely because the courses (and sometimes the living expenses) are priced too low or are paid for by the state. Many examples of this phenomenon are to be found in Europe.

Administered prices are unlikely to be successful and would have deleterious effects on government's objectives for higher education. Further, there is a global trend away from administered pricing.

## **2.2 Cost sharing**

Cost sharing is based on the observation that higher education is both a public good and a private benefit, and therefore the cost of provision should be shared between the state and the individual beneficiary. Generally, cost sharing refers to the sharing of higher education costs by various stakeholders in society, *viz.* government, students and their parents, industry, etc. As described by Johnstone (2006), cost sharing may take the form of tuition fees, either being introduced where they did not hitherto exist or being

rapidly increased where they already do. It may take the form of public institutions charging nearly break even or full-cost fees for accommodation, books and other costs of student living that may formerly have been covered mainly by government.

A shift of the cost burden from government to student and family may also come in the form of a reduction or sometimes a freezing (especially in inflationary times) of student grants. Similarly, it may come in the reduction of the effective grants represented by student loan subsidies as interest rates are increased closer to market rates. Finally, the shift may come about through public policies that shift enrolments, particularly in rapidly expanding systems, from a heavily subsidised public sector to a much less subsidised, tuition-dependent private sector (Johnstone, 2006: 3).

The practice of cost sharing in higher education could be said to be as old as higher education in South Africa. Unlike in many African and some European countries, and in former communist countries, where until recently higher education was 'free', South Africa has for a long time charged tuition fees at post-secondary institutions. As the state's funding of higher education has declined in real terms, individual institutions, exercising autonomous rights to set fees, have steadily increased student fee income as a proportion of their revenue.

### **2.2.1 Rationale for cost sharing**

One of the most important reasons for cost sharing in higher education is that education accrues enormous benefits to both the society and individual consumers. Due to the enormous benefits society gets from education, the dominance of state subsidies remains an outstanding feature of most education systems. Such a unique position is shared only by a very limited range of 'public' goods and services such as national defence, internal security, courts, police, etc.

There are several arguments that justify society's investment in higher education. Education has many public good properties, making higher education at least a quasi-public good, producing a wide variety and huge magnitude of externalities, besides benefits to individual graduates. The social benefits of having a large higher educated population go beyond the increase in national wealth. They include:

- Expansion of the frontiers of knowledge;
- Contribution of skilled workforce for economic growth and international competitiveness (ASGISA & JIPSA);
- Better performing public service and private enterprises;
- Increased capacity for innovation and technological advancements;
- Reduction in crime and poverty;
- Fostering of cultural tolerance and social justice;
- Strengthening of democracy and ensuring civil liberties;
- Better informed decisions by citizens regarding health and social matters;
- and
- Improvement in income distribution patterns.

The Education White Paper No. 3 (DoE, 1997) stresses the value of higher education in SA. Equally, a recent ministerial statement on higher education funding re-emphasises the vanguard role of higher education in the country. Higher education is required

“to make major contributions to the social transformation of South African society and, at the same time, to national economic growth and development. Higher education is expected to deliver the high level professional skills, the new research, and the innovative ideas which are needed in a growing economy. Higher education is also expected ... to assist with the creation of a fairer, more just, society in South Africa.” (MoE, 2007: 2)

As has been pointed out, the benefits of higher education to society underlie the public good function of higher education. Public or societal benefits of higher education depend on public investment in higher education. In summary, government's fiscal

effort for higher education is justified because of higher education's critical role in the social, economic, political, cultural and technological advancement of society. For a country like South Africa that is seeking to expedite person power formation to address the acute skills shortage being experienced, and to minimise the unacceptably high inequalities, public investment in higher education cannot be overemphasised.

The merit good<sup>8</sup> function of higher education is yet another reason why society must promote its consumption. As Tilak (2004: 6) points out, people could be ignorant of the benefits of higher education, or may not be appreciative of the value of higher education, or may not be able to foresee the implications of their investment decisions in higher education, and may be unwilling to invest in education. But governments are expected to have better information than individuals or families, and should be wiser and more able to look into the future and accordingly take wise decisions regarding investment in higher education. Thus, by investing in higher education, the state would be helping to correct possible market failures.

For students (individuals), the benefits that accrue from higher education include, *inter alia*:

- Employment opportunities. University education is known to improve one's career prospects. Because of high skill levels, university graduates usually stand a better chance of securing meaningful employment than graduates from lower education levels;
- Higher life time earnings. Education is known to be an important determinant of earnings in market economies. The higher an individual's educational attainment, the higher that individual's expected starting salary and the steeper the rise in earning capacity over time. University

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<sup>8</sup> A merit good (or service) is a good that is desirable yet under-consumed; it creates positive externalities which make it desirable.

graduates stand to earn substantially more over their working lifetime than people who end their education at secondary level;

- Broadening of intellectual scope; and
- Higher social prestige, improved health and life expectancy, and improved quality of life for self and offspring.

Higher education is, therefore, also a provider of individual opportunity and prosperity. Although it has repeatedly been claimed that graduate unemployment in South Africa is very high, recent research has shown that few of the said unemployed graduates are from universities, most being from other post-secondary education providers (Pauw *et al*, 2006).

Another rationale for cost sharing is what Johnstone (2006) describes as the sheer need for other-than-governmental revenue. The need for non-governmental revenue is made necessary by the increasing social demand for higher education (Johnstone, 2006; Melck, 1990) not only by school leavers but also adults formerly by-passed by the system. The need for extra revenue is thus made necessary by the ongoing massification of higher education. The massification imperative vis-à-vis the increasing per student costs makes it necessary that higher educational costs be shared. The need for non-governmental revenue has also been made necessary by the decrease in levels of state financial support for higher education. The problem of insufficient state funding of higher education in South Africa has already been discussed. In the context of insufficient state budgetary support, tuition and other fees from students and families have the potential for substantially augmenting universities' resources.

A third rationale for cost sharing is that it enhances efficiency and responsiveness by higher education institutions (Barr, 2004; Johnstone, 2006; Melck, 1990). It is assumed that the payment of some tuition fees will make students and their families more discerning consumers and the universities more cost-conscious providers. Further, cost

sharing makes institutions more responsive to individual and societal needs. It is common knowledge that students in many South African universities have been making 'value for money' demands. These welcome demands could result in ensuring that universities are both efficient and responsive to the needs of students.

Equity is yet another important rationale for cost sharing. The equity rationale for cost sharing is predicated on the following premises:

- There is nothing like 'free' higher education. 'Free' higher education is actually paid for by all citizens, including the permanently poor through indirect taxes, whether or not they know that they have been taxed.
- A big percentage of the beneficiaries of higher education are from the richer segments of society who are able to pay a portion of the costs of instruction. Thus, a policy of 'free' higher education would in effect benefit this category of students. Such a policy would have negative equity implications. Simply put, resources would be transferred from the fiscus to affluent families. Through taxation, the poor would be made to pay for the education of the rich.
- A portion of the tuition fees collected could be used to fund grants and loans for students likely to be excluded from higher education. Several South African universities are already doing this.
- Even if students are poor while at university, they are likely to earn higher than average incomes after graduating (as explained above). This imbalance in life-time earnings and expenditures can be corrected by a loan scheme without providing 'free' education to those who will be able to pay later (at the expense of services to the permanently poor, e.g. health services and primary education).

Table 2.1 below provides a summary of the major costs and benefits of higher education for the individual student and to society as a whole.



**Table 2.1 The private and social costs and benefits of higher education**

	<b>Private</b>	<b>Social</b>
<b>Costs</b>	<ul style="list-style-type: none"> <li>• Tuition, fees and study materials</li> <li>• Forgone earnings</li> </ul>	<ul style="list-style-type: none"> <li>• Operating costs of programs</li> <li>• Student support</li> <li>• Forgone national production related to students</li> </ul>
<b>Monetary benefits</b>	<ul style="list-style-type: none"> <li>• Higher productivity and thus higher net earnings</li> <li>• Better job opportunities</li> <li>• Higher savings</li> <li>• Personal and professional mobility</li> </ul>	<ul style="list-style-type: none"> <li>• Higher national productivity</li> <li>• Higher tax revenues</li> <li>• Greater flexibility in labor force</li> <li>• Higher consumption</li> <li>• Less dependency on government</li> </ul>
<b>Non-monetary benefits</b>	<ul style="list-style-type: none"> <li>• Educational enrichment</li> <li>• Better labor conditions</li> <li>• Higher personal status</li> <li>• Higher job satisfaction</li> <li>• Better health and life expectancies</li> <li>• Improved spending decisions</li> <li>• More hobbies and value of leisure activities</li> <li>• Personal development</li> </ul>	<ul style="list-style-type: none"> <li>• Social cohesion, appreciation of social diversity and cultural heritage</li> <li>• Higher social mobility</li> <li>• Lower crime rates</li> <li>• More donations and charity work</li> <li>• Increased capacity to adapt to new technologies</li> <li>• Higher social/political</li> </ul>

Source: Vossensteyn (2007) challenges in student financing: state financial support to students – a worldwide perspective

### **2.3 The case against cost sharing/tuition fees**

Even though there are many premises in favour of cost sharing as shown above, the concept remains an anathema to several stakeholders in higher education. Various arguments have been advanced against cost sharing. In some societies resistance to cost sharing is motivated by the treatment of higher education as a public good, and therefore, a social entitlement, a basic necessity, which should be offered at no cost to students and their families. This argument is further enhanced by the view that society is the major beneficiary of higher education, a benefit which, apparently, ought to override the demonstrably high private benefits received by the graduates and their families (Johnstone, 2006).

In many countries, students, regardless of ideology, have been at the forefront of resisting the imposition of, or increase in, tuition fees. In a country with unacceptably high inequalities like South Africa, resistance to tuition fees by especially poor students would be understandable in the absence of measures to address the various serious market failures discussed above. High tuition fees without a properly administered means-tested financial assistance and other financial aid schemes could inhibit access to higher education by the poor segments of society. Although it is also claimed that children of the poor may not understand that the high tuition can be offset with grants, and hence may not aspire to a university education during the middle and secondary years, when the absence of such aspiration may effectively preclude the option of any higher education (Johnstone, 2006), these very real and complex problems are multi-dimensional and not solely related to fees.

Resistance to cost sharing may also be based on a recognition that scarce revenues from taxpayers are allocated by political authorities not necessarily on a rational assessment of costs and benefits of all competing claims, but on the basis of which claims can muster the greatest political pressure (Johnstone, 2006: 10). In South Africa some of

those against cost sharing in higher education hold the view that government has enough resources to provide free higher education. This notion has further been encouraged by government's ongoing large-scale expenditures on various projects.

Overall, the key argument regarding cost sharing is that since higher education is an investment with tangible benefits to both society and individual consumers, the appropriate funding model is one where costs are shared by both society and the individual consumers (students).

## **2.4 Cost sharing in South Africa: some issues**

The foregoing debate for and against tuition fees indicates how complex the subject is. For South Africa, the solution to the current tuition fees conundrum seems to lie in a cost sharing model that enhances affordability of higher education and the responsiveness of public higher education institutions to the urgent priorities of a new democracy, social justice, and the demands of a developmental state.

The challenge for higher education institutions is to deliver on access in a context of great disparities in family and personal income, and where large numbers of students from poor families have yet to participate in higher education as 'first generation' students. In order to achieve equity in access and success, the pressure at the levels of both institutions and the higher education system is simultaneously to keep fees low in order to provide access to students from low income families, and to increase expenditure on financial aid (student loans, bursaries and scholarships), academic development and new forms of curriculum interventions required to achieve the desired equity of outcomes.

In the South African context, however, the achievement of equity and access for the *majority* will remain a priority for some time to come, given the legacy of socio-economic class and racially skewed access to quality educational opportunities. Even

though there have been remarkable changes in student profiles over the past decade, the reality remains that who gains access (particularly in terms of gender and race/class) — and to which fields and levels of higher education study — will remain an important policy and institutional focus.

Thus, a key factor in establishing a viable approach to cost sharing in South Africa must start with the realities of income inequality. Discussions on cost sharing tend to refer to high income countries where the differentiation between the top and bottom deciles of household income tends to be in the order of 1:10. In South Africa, this differentiation is greater than 1:100 (Seekings & Nattrass, 2005). If learners from all South African families had the educational qualifications to enter university, then more than 90% of South African families would qualify for financial aid. In these circumstances, there is need to test the applicability of all education (financing) models to South African circumstances.

With our levels of poverty, is it rational to give 'free' higher education to the rich and/or the 'future rich'? On the other hand, the US model, in which students are explicitly encouraged to take on debt as an investment against future earnings, assumes future employment opportunities. Do these exist in adequate numbers in South Africa? What changes need to be made to the education system to address our high levels of unemployment?

Returning to the underlying principle of cost sharing — that there should be an appropriate balance between education provision for the public good and individual investment in return for private benefit — it is difficult to see how there can be an equitable cost sharing model for South Africa that does not incorporate means testing (need assessment). If for present purposes we assume that tuition fees are R15 000 per annum and residence fees are also R15 000 per annum, attaining a four year qualification requires a private contribution of R120 000. For a family in the top income

deciles with capital assets, this is a reasonable proposition that can easily be financed and an investment that will give rapid returns after employment. But for some 90% of families in South Africa, finding R30 000 per annum will be impossible, and participation in higher education would remain impossible even if tuition fees were to be halved. These realities make further support by government for the NSFAS imperative, including a possible revision of the ratio of bursary to loan in individual awards and the criteria for means-testing.

# 3

## Department of Education's Perspective on Tuition Fees

The Department of Education (DoE), in conjunction with Treasury, has recently prepared a report focusing on the resource requirements of the higher education system. Although this report has not been made public (the Task Team formally requested the report to no avail), a presentation by Professor Ian Bunting to the Task Team on behalf of DoE, offered some important insights from the report. Professor Bunting's presentation offered an analysis of tuition fee income and identified possible approaches to how the fee burden on students and their families could be moderated. While these options are not formal Department policy proposals, they provide a useful point of engagement for the purposes of this report.

In the Bunting presentation, the notable pattern in the proportions of income of HEIs in the period 2000–2004 is a decrease in state funding and increase in tuition fees. Government allocations to HEIs declined in real income by 3.1% whilst fee income per Full Time Equivalent (FTE) student grew by 4.8% per annum. The percentage income from student fees in relation to other sources of income seems to be relatively high (29% in 2004, cf. Figure 1.1). Further, tuition fees increased at a faster rate than NSFAS allocations which impacts on the effectiveness of the scheme for poorer students and their access to higher education. The presentation also identified several possible approaches to controlling tuition fee increases by HEIs. These include:

- A review of the current policy on tuition fees whereby individual institutions are free to set their own fees with no ministerial oversight or approval, and that the policy needs to be amended by placing upper limits on the levels of income collected by institutions from tuition fee payments;

- Government block grants and tuition fees should be treated as a joint income stream and the Minister of Finance should determine, for rolling Medium Term Expenditure Framework (MTEF) periods, the proportion of joint income to be raised from student fees;
- The Minister of Education should determine what shares individual institutions will receive of the joint block grant and tuition fees totals; and
- Institutions should be required to keep the sum of their individual tuition charges within the limits of their approved tuition fee total.

The main policy trajectory seems to be that caps be placed on the tuition fee totals raised by HEIs, on the condition that new funds be made available by government to lessen the burden on the loss of institutional income in order to improve equity in the system and make NSFAS allocations more effective.

### **3.1 A response to DoE's perspectives**

The Task Team carefully reviewed the options presented by Professor Bunting. Below are the Task Team's views on these:

- If the suggestions are developed into formal policy proposals and implemented, it would perpetuate a trend of centralising control of higher education and will negatively impact on the autonomy and flexibility of the higher education sub-sector.
- No definition of tuition fees is provided. It is therefore not clear whether the suggestions refer to all inclusive fees (including charges for associated services such as Internet use, notes, sports and games, excursions, etc.), or fees payable

in respect of a programme of study, excluding charges for associated services. It was noted in Section 1.3 that some HEIs have a single fee that includes tuition and all associated services, while other institutions set a 'tuition fee' and then add charges for associated services.

- No provision for institutional differentiation is made, viz. predominantly teaching institutions versus research orientated institutions; and humanities based and science, engineering and technology based institutions, and institutions with large postgraduate/undergraduate enrolment.
- Universities in South Africa are also increasingly differentiated in terms of the proportions of overall income that are derived from student fees and state allocations, with some universities deriving more than 80%, and others less than 50% of income from state allocations. Limiting fee revenues by regulation (administered prices) will have, in the main, perverse effects for the different kinds of institutions. For instance, HEIs that are heavily dependent on tuition fee revenue will experience resource difficulties if tuition fee income is capped.
- Capping tuition fee income will result in diminished income which will jeopardise HEIs' research mission. Institutions will be starved of resources to conduct research, which will lead to a loss of high valued researchers to the corporate sector, and diminished research output. Thus, HEIs vanguard role of creating new knowledge, scientific and technological innovation will be severely compromised.
- Capping tuition fee income will encourage institutions to introduce additional charges that are notionally optional (for example, Internet access, notes levies, charges for sports facilities, transport charges). For HEIs that subsidise student housing with tuition fee revenue, the sustainability of student housing would



have to rely entirely on residence fee income, which means that student housing charges will be increased.

- Only undergraduate fees are addressed, but not other core functions such as research and community engagement. HEIs' other core functions are, therefore, likely to suffer due to loss of revenue.
- Such interventions are likely to lead to a situation of more students but lower revenue. This would negatively impact on quality and/or the discontinuation of academic support services needed most by disadvantaged students which, in turn, could lead to higher drop-out levels. Deterioration of quality will not only undermine the competitiveness of South Africa's HEIs globally but also the institutions' vanguard role of training highly competent person power that the country so urgently needs.
- Such interventions will negatively impact on equity. Some universities have self-financed financial aid (bursaries and scholarships) schemes. These schemes operate through means-linked financial aid that is funded from general operating budgets (and therefore from fee and subsidy income). As has been pointed out in the next section (Section Four) several HEIs make significant contributions to the NSFAS for their own poor students. Several other universities also offer financial support to their students in cases where NSFAS awards are insufficient to cover study costs, and also to students who do not qualify for NSFAS, but require funding. These contributions are obtained from tuition revenue and other internally generated funds. Capping tuition fees will make this kind of support unaffordable.
- It is not clear how access for the poor will be improved. In essence, implementation of such interventions will favour middle and higher income families (the rich). In different terms, capping tuition fees will not necessarily improve access for the poor; instead, it will result in making higher education

cheaper for the rich. The Task team acknowledges that current fee levels may obviate currently poor students from accessing higher education. The inability by some consumers to afford merit goods, in this case, higher education, is an aspect of the phenomenon of 'market failure', which as pointed out in Section Two, can be corrected in ways other than capping tuition fees. These include:

- a) Improving state funding of public higher education. The presentation by Bunting and also data presented in Section One acknowledges that state funding of higher education has declined over the years, hence the need for enhanced fiscal effort for the sector.
  - b) Using means-testing, not in a restrictive way, but in ways that acknowledge broad manifestations of need. The current NSFAS threshold of eligibility is low.
  - c) Providing student loans and bursaries, in our case, by increasing allocations to the NSFAS. An improvement in the allocations to the NSFAS will significantly assist poor students' access higher education. Overall, to improve increased and widened participation, there is need for reforms in the student financial support system.
- It is not clear how individual institutions will be assessed; and given the realities of a differentiated system, the suggested interventions will be difficult to implement. Further, they will contribute to an increasingly non-differentiated higher education system.
  - The increase of tuition revenue at a faster rate than state capitation shows a direct correlation: student fees increased in response to declining state funds. It has been shown in Section One that state funding of higher education has been on the downward trend. For example state funding of higher education as a percentage of GDP has declined from a high of 0.82% in 1996 to a low of 0.67% in 2006 (Cf. Figure 1.2). In the presentation by Professor Bunting, state funding

of higher education is reported to have declined by 3.1% in real terms between 2000 – 2004 (DoE 2007a). Since the DoE report acknowledges the problem of falling subsidies and insufficient NSFAS funding, the solution should be to rectify these two areas of financing public higher education rather than capping fees.

It is thus concluded that capping tuition fees or even income derived from tuition fee payments is undesirable and will obviate the attainment of the national policy goals of higher education.

# 4

## National Student Financial Aid Scheme (NSFAS)

The NSFAS is an income contingent loan and bursary scheme. Its mission is to impact on South Africa's racially skewed student, diplomate and graduate populations by providing a sustainable financial aid system which enables poor but academically able students to meet their own and South Africa's development needs. Given the importance of the NSFAS in 'resolving' the current tuition fees conundrum, this section reviews how the scheme works and discusses how it may be strengthened.

### 4.1 Mode of Operation

As an income contingent loan and bursary scheme, the NSFAS functions on the basic principle that loan recipients only start repayments once they are in employment and earn above a threshold level of income. This threshold income level is currently R26 300 per annum (Steyn & de Villiers, 2006).

The NSFAS allocates funding to institutions based on an annual allocation assessment and formula. The allocation formula is informed by the number of disadvantaged students, demographic profile and the average full cost of study (AFCS) at the respective institutions (Steyn & de Villiers, 2006; Taylor, 2007).

The average full cost of study for all academic programmes at an institution includes both tuition fee and residential fee. The weighted number of disadvantaged students (WDS) at each HEI is determined by means of the following formula (Steyn & de Villiers, 2006: 66):

$$\text{WDS} = (\text{FTE enrolled African students} \times 3) + (\text{FTE enrolled Coloured students} \times 2) + (\text{FTE enrolled Indian students} \times 1)$$

Finally, the WDS and AFCS measures for each institution are then used to apportion the total NSFAS allocation for specific financial year for individual HEIs. Given the specific history and evolution of the NSFAS, it is understandable that the above formula is racially based. However, this excludes poor white students, an anomaly that needs to be corrected, given the increasing number of this category of students.

In determining the size of the award to qualifying students, HEIs are supposed to use the following formula (Steyn & de Villiers, 2006: 66):

$$\text{NSFAS award} = \text{costs} - \text{bursaries} - \text{expected family contribution}$$

Initial NSFAS awards are 100% loans; afterwards up to 40% of the loan is converted into a bursary depending on the student's academic results. Currently, interest on NSFAS loans accrues at a 2% real rate of interest (Steyn & de Villiers, 2006; Taylor, 2007).

The NSFAS means test is administered with the help of financial aid offices in the HEIs. The financial aid offices also help to assess the academic potential of applicants. Ideally, NSFAS loans should be given to poor but academically able students. Levels of financial need are determined by means testing, which is a long, costly and complex process, and does not always guarantee that only deserving students will receive loans. Cases of deserving students missing loans while less deserving ones receiving them have been reported.

NSFAS loans are income contingent and recoverable at salary source once a loanee is employed. Debtors are tracked to their places of employment via the South African Revenue Service. Recovered money is re-injected into the Scheme. It is, however,

virtually impossible to recover loans from drop outs and those who do not enter formal employment.

## 4.2 NSFAS Awards

This part of the report presents several time series data on NSFAS awards, viz. minimum and maximum size of awards to students, total amount disbursed on awards, and the number of awards granted.

**Table 4.1: NSFAS Maximum and Minimum Size of Awards (in nominal rands)  
Per student, 1998 – 2007**

Year	Maximum	Minimum
1998	R12,100	R 990
1999	R13,300	R1,100
2000	R14,600	R1,200
2001	R16,000	R1,300
2002	R17,600	R1,400
2003	R20,000	R1,500
2004	R25,000	R2,000
2005	R30,000	R2,000
2006	R32,500	R2,000
2007	R35,000	R2,000

**Source:** Taylor (2007) The National Student Financial Aid Scheme: An Overview of Operations

An obvious reading of data in Table 4.1 is that whereas the maximum size of NSFAS awards have been increasing annually (in nominal rands); minimum awards only increased marginally, between 1998 and 2003, and have not increased since 2004. The

size of the award has several implications for students, especially poorer students attending high fee institutions. Steyn and de Villiers (2006) and Le Roux and Breier (2007) point out that the maximum amount available through NSFAS is not enough to cover all study costs, and neither are the minimum allocations. This observation is shared by the Task Team. The general observation is that NSFAS funding is insufficient to award loans to all applicants that potentially qualify for NSFAS, and that both the maximum and minimum sizes of awards are not sufficient to meet the study costs of students.

**Table 4.2: Total DoE allocations to NSFAS in real terms, 1996 - 2006**

Year	DoE allocation in real terms (R million)	% growth in real terms
1996	380	
1997	247	-35.0
1998	344	39.4
1999	416	21.0
2000	434	4.3
2001	409	-5.6
2002	415	1.4
2003	433	4.2
2004	435	0.6
2005	617	41.7
2006	625	1.2

**Source:** DoE (2007: D3, D5) Information on the state budget of higher education

Table 4.2 shows a fluctuating trend in terms of the real growth in DoE allocations to NSFAS. The huge increase in 1998 (39.4%), was in actual sense not significant considering that it was less than the allocation for 1996 (R 380 million) by 9.5%. In two years, 1997 and 2001, DoE's allocations to the NSFAS registered negative growth, and in several years (2002, 2004, 2006) the allocations grew only marginally. It is therefore

important that allocations to NSFAS be increased significantly, not only to meet increasing demand (see Table 4.3) but also the actual cost of study programmes. Both the minimum and maximum size of awards need to be increased.

**Table 4.3: Numbers of NSFAS awards granted, 1996 – 2006**

Year	Number of Awards	% Increase
1996	72 788	
1997	70 574	-3.0
1998	75 764	7.4
1999	75 344	-0.6
2000	83 251	10.5
2001	93 532	12.3
2002	99 873	6.8
2003	112 264	12.4
2004	113 691	1.3
2005	122 696	8.0
2006	124 708	1.6

**Source:** Taylor (2007) The National Student Financial Aid Scheme: An Overview of Operations

Table 4.3 also shows a fluctuating increase in the number of students receiving NSFAS awards: In the eleven year period, 1996 – 2006, the number of NSFAS awards declined in two years (1997 and 1999), and only increased marginally, 1.3% and 1.6% in 2004 and 2006, respectively. Generally, the annual increase in NSFAS awards cannot be described as tremendous as unmet demand remains big. Data from various HEIs show that many students who qualify for NSFAS funding fail to secure loans from the scheme due to inadequate resources. The unmet demand for NSFAS funding means that the scheme needs more resources if it is to attain its objectives.

It is important to point out that several HEIs make significant contributions to NSFAS for their own poor students. These contributions are obtained from tuition revenue and other internally generated funds. Several other universities also offer financial support to their students in cases where NSFAS awards are insufficient to cover study costs, and



also to students who do not qualify for NSFAS, but require funding. For instance, in 2006, the University of Pretoria funded bursaries amounting to R63.5 million besides disbursing additional student aid from endowment funds, the University of Cape Town, R41 million; and the Nelson Mandela Metropolitan University R20 million.

Overall, NSFAS funding at almost all universities is insufficient to award loans to all applicants who potentially qualify for NSFAS. As such, several universities have had to find other financial means to support students who do not receive NSFAS loans. Given that the NSFAS is critical in expediting person power formation in SA, and also in achieving the public good function of higher education by supporting students from the lower family income deciles, extra resources need to be injected into the scheme. It is strongly in the public interest that such students are able to study because, apart from individual benefit, there is clear public benefit in reducing poverty, improving social cohesiveness and narrowing income inequality.

# 5

## Conclusion and Recommendations

The increase in tuition fees within the context of declining state subsidies to public HEIs has understandably been a matter of concern, not only for students, parents and the public, but indeed for the Minister of Education and the leadership of public higher education. The purpose of this study on tuition fees was to develop an informed higher education perspective, located within a broader framework of the affordability and financing of higher education.

The challenges for higher education institutions in South Africa are formidable. They must provide high quality education to increasing numbers of students, deliver highly skilled person power to the economy, produce internationally competitive research, and engage with their communities and deliver certain services to them. HEIs also have to deliver on access in a context of great disparities in family and personal income, and where large numbers of students from poor families have yet to participate in higher education as “first generation” students. In order to achieve equity in access and success, the pressure at the levels of both institutions and the higher education system is simultaneously to provide access to students from low income families, and to increase expenditure on financial aid, academic development and new forms of curriculum interventions required to achieve the desired equity in outcomes. All of this must be achieved despite falling real subsidies per student and a reluctance and inability to pay fees by some students.

The central argument in this study is that the South African higher education system needs cost sharing systems that balance the public good against private benefits in ways that are appropriate to national socio-economic circumstances, national skills

requirement imperatives and the policy goals and mandates of individual HEIs and the public higher education system as a whole.

The recommendations which follow are briefly contextualised, drawing on key premises advanced in this document, as well as on a review of international and South African perspectives on revenue diversification and tuition fee models.

**Recommendation 1—**

**A model of tuition fee regulation should not be adopted.**

The considered view of HESA is that capping tuition fee income in the suggested manner will be undesirable for reasons spelled out in some detail in Section 3 of this report. Most importantly, capping student fees will have the opposite effect from what was intended and negatively impact on equity and the attainment of the policy goals articulated by the National Plan on Higher Education (NPHE, 2001). For example, it is not clear how access for the poor will be improved. Generally, tuition fee caps will not necessarily make higher education more affordable for the vast majority of South Africans. Rather, they will make it even cheaper for the rich, and will have enormous implications for quality, institutional differentiation, and the global competitiveness of SA's HEIs.

In sum, the increase of tuition revenue at a faster rate than state capitation shows a direct correlation: student fees increased in response to declining state funds. Since the DoE acknowledges the problem of falling subsidies and insufficient NSFAS funding, the solution should be to rectify these two areas of financing higher education, rather than capping fees. These issues should be the substance of urgent high-level engagement between HESA and the Minister and Department of Education.

**Recommendation 2—**

**Higher education institutions should provide comprehensive information to prospective students (their parents and guardians) on costs of study programmes, cost of living, and opportunities for financial aid. As part of the students' registration process, students should be expected to provide some account of how they plan to pay for their studies.**

The Task Team established that many students and parents or guardians often failed to make adequate prior arrangements on how to finance their studies often leading to the existing poor fee paying culture. The students' inability to make these arrangements could partly be blamed on HEIs failure to provide students and parents or guardians with the necessary information in good time. Such information will assist students and parents or guardians in making informed decisions on, among others, where to study, and also make prior arrangements on how to finance their studies.

Also, many students fail to apply for university admission but then turn up for admission during the registration period. Oftentimes, HEIs, where possible, try to absorb these students. Many of these students often have not made arrangements to pay fees. Overall, through HESA or DoE, higher education institutions should provide prospective students with sufficient information to assist them to apply for university admission in time and also make adequate financial arrangements for their studies. Also, student guidance in schools should be rejuvenated to avoid the phenomenon of students showing up for registration without having applied for admission. HESA should, as a matter of priority, take up with the Department of Education practical ways in which this information could be provided.

**Recommendation 3 —**

**HESA should develop a broad set of factors that can be used by institutions in determining tuition fees and tuition fee increases as well as guidelines for establishing satisfactory processes (involving students) in determining tuition fee increases.**

As has been shown in this analysis, there are wide varieties with regard to factors considered by HEIs to determine tuition fees, and tuition fee increases. These include cost analyses for different academic programmes, historical trends, competitor behaviour, CPIX, etc.

HESA should therefore develop a set of factors that will guide HEIs to determine fees. Such factors could be disaggregated into national, regional and institutional factors, to reflect changes in the main revenue and cost categories applicable to HEIs, e.g. government subsidies, tuition fees, staffing costs, internal bursary funds, and library costs, equipment costs, building costs, and costs of supplies and services, all of which should be inflation correlated.

These factors should form part of the sector's public accountability and reporting responsibility so that future adjustments to fees can be evaluated against objective criteria and with consistent data.

Further, HEIs should develop a more comprehensive and streamlined process of determining tuition fees. It is advisable that HEIs should determine tuition fees after some consultation with students, their parents or guardians. Some institutions are already doing this. The process of determining tuition fees should also be expedited so that students are informed in good time about any changes in tuition fees for the next academic year.

**Recommendation 4 —**

**HEIs (through HESA) should be encouraged to move towards a single and inclusive tuition fee that covers both tuition and associated services**

HEIs should be encouraged to move towards a single and inclusive tuition fee that covers tuition and associated services, viz. notes, photocopying, Internet access, etc. The Task Team noted that several HEIs separately charge additional fees for various services often with wide disparities between departments and faculties in the same institution. These services are notionally optional. An inclusive tuition fee will help control and reduce the cost of these services. It should be emphasised that inclusive tuition fee does not refer to a uniform fee across all HEIs. HEIs should therefore continue to set their own fees but should adhere to common standards of transparency. A proposal to this effect should be considered by HESA's Board.

The NSFAS is critical to the attainment of the higher education policy goals articulated in the National Plan for Higher Education, and is an important public policy instrument for resolving the current tuition fees conundrum. Thus, the following recommendations are made with regard to NSFAS:

**Recommendation 5—**

**The existing NSFAS should be strengthened and expanded.**

The key argument underpinning the recommended strengthening and expansion of the NSFAS relates to the recognised constraints of (a) vast income inequalities and the challenges of providing equitable access; and (b) the non-sustainability of HEIs' own contributions to student financial aid (bursaries and scholarships) over the long term. Section Four<sup>9</sup> of the report points to the reality of insufficient funding allocation to NSFAS to meet the current demand, that both the maximum and minimum size of awards are not sufficient to meet the study costs of poor students, and the considerable contributions individual HEIs make either to 'top-up' insufficient loans, or alternatively, to provide financial assistance to those who were unsuccessful in securing the NSFAS loan.

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<sup>9</sup> See pages 52-54.

Therefore, given that the NSFAS is critical in expediting person power formation in SA, and also in achieving the public good function of higher education by supporting students from the lower family income deciles, Government should inject extra resources into the scheme. It is strongly in the public interest that such students are able to study because, apart from individual benefit, there is clear public benefit in reducing poverty, improving social cohesiveness and narrowing income inequality. Overall, the NSFAS is critical in achieving the policy goals articulated in the National Plan for Higher Education. HESA should support all efforts to improve the funding of NSFAS, including via discussions with the Minister and Department of Education.

**Recommendation 6—**

**The private sector should be mobilised and incentivised to provide funding to the NSFAS.**

The private sector, including private student financial aid schemes, should be utilized more strongly to finance higher education. Government should thus provide incentives to encourage private sector contributions to the NSFAS. Since there is already a tax incentive for donations to HEIs, the same could be extended to institutions that provide student financial aid schemes. Further, to encourage private/public partnerships, e.g. the NSFAS and blue cycles, where blue cycles give donations to the NSFAS to administer, Government should consider underwriting part of the cost of administration. The same should be considered with regard to the administrative costs of contributions by individual HEIs to the NSFAS. HESA should discuss these issues further with NSFAS and support its endeavours in this regard.

**The NSFAS allocation formula should be reviewed.**

The NSFAS formula for the distribution of funds to HEIs should be reviewed (see p. 43) to provide for poor white students. The present formula does not provide for this category of students. Given the specific history and evolution of the NSFAS, it is understandable that the above formula is racially based. However, given the increasing number of poor white students, the present formula needs to be changed so as to provide for these students. In addition the family income threshold value above which students do not qualify for financial aid, is too low and excludes too many prospective students. This issue should be tabled with the NSFAS Board and included in HESA's discussions with the Minister and Department of Education.



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