



UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

Office of the Vice-Principal: Institutional Planning

31 May 2016

The Secretary
Commission of Inquiry into Higher Education and Training
Kempton Park

Email: FeesHET@justice.gov.za

Dear Commission Secretary,

Submission from the University of Pretoria

Enclosed please find the University of Pretoria's submission to the Commission of Inquiry into Higher Education and Training (The Fees Commission). The University would welcome the opportunity to make oral submission to the Commission.

Please do not hesitate to contact me should you require any clarification regarding this submission.

Sincerely,

A handwritten signature in black ink, appearing to read 'A. Stroh', written over a horizontal line.

Professor Anton Stroh
Vice-Principal: Institutional Planning



Submission on the feasibility of a fee-free higher education and training in South Africa to the Fees Commission

May 2016

Challenges and Dilemmas

The achievement of expanded higher education access for South Africa's poor is a priority policy imperative – not only as a social justice issue but also to address the skills shortages needed to expedite South Africa's socio-economic advancement. South Africa's unacceptably high levels of inequality, which are linked to the imbalance between the demand and supply of skills, require that concerted efforts be made to address access and retention of students in the higher education system.

Higher education funding and affordability is a complex challenge for South Africa. While public funding of universities continues to be a significant component of university annual income, it has declined in real terms over the past decade, and has not kept up with increases in student enrolments and the rising expenditures involved in running universities. Mainly as a result of this decline in public funding in the form of annual subsidies, tuition fees as a component of overall annual funding of universities have tended to increase at rates in excess of the average rate of increases in household incomes. Furthermore, this challenge has been expounded by the inability of the National Student Financial Aid Scheme (NSFAS) to provide financial support to all deserving students.

As epitomised by the national #feesmustfall student protests, many students, especially students from lower-income households, do not have the resources for the cost of their higher education. For public universities, the challenge is how to provide expanded access in a context of declining state financial support and growing debt due to non-payment of tuition fees. The significant socio-economic disparities in South Africa pose particular challenges for universities: while there are South Africans who cannot afford any level of tuition fees, there are many others to whom the current tuition fee levels are lower than the fees paid to schools. Universities are therefore confronted with the challenge of setting fees at levels that reflect the cost of provision without discouraging students from lower-income households from accessing higher education.

For the government, the challenge is how to support expanded access in a fiscally constrained environment, and for students, especially students from lower-income households, the challenge is to carry the costs of higher education in a context where tuition fees increase annually and student financial aid is insufficient.

It is important to point out that the cost of university education encompasses much more than the tuition fee. It also includes accommodation, food, transport, books and stationary and living costs.

Cost-sharing

South Africa has an established history of cost-sharing in higher education whereby the costs are shared by government (tax payers), parents and students. Cost-sharing is premised on the understanding that higher education has both public and private benefits, implying that costs should be shared between the fiscus, through payment of subsidies, and private beneficiaries, through the payment of tuition fees.

It is incontestable that higher education is critical for developing a nation's welfare and fostering economic growth, and for unlocking the potential of individuals to improve their position in life. For this reason, constraints on access to higher education, especially those resulting from poverty, must be addressed. There is universal acceptance of the belief that persons with the potential for benefiting from higher education should not be prevented from doing so for financial reasons.

Economic development requires the continual expansion and upgrading of the skills of the workforce. Because resources must be devoted to acquiring higher education before returns occur in the form of higher marketable skills and subsequently increased earnings, higher education can be seen as an investment. Numerous studies have shown that countries with higher university participation rates reap significant social and economic benefits. This is true of developing countries too.

Educational attainment has been shown to be an effective lever for a government to increase social capital and social cohesion. Social capital encompasses factors such as employment rates, health indicators, teenage pregnancy and crime rates. Various cross-country studies have revealed that individuals with higher levels of education also have higher levels of entrepreneurial activity and that entrepreneurs who are more educated are more likely to create a greater number of jobs. Research comparing several countries has also found a positive and statistically significant correlation between tertiary education enrolment rates and indices such as the absence of corruption, rule of law and public administration quality.

Private benefits of higher education include, enhancement of career prospects, higher salaries and benefits, professional mobility and increased personal status. When viewed from a life-cycle perspective, it is clear that, once employed, the majority of university graduates earn more than average incomes, even if they were poor as students. Over their life-cycles, they cannot be counted amongst the (permanently) poor. Therefore, from a life-cycle perspective, the problem is not one of poverty, but the mismatch between the timing of expenditure and income. This mismatch can be addressed through a revamped NSFAS. Thus, investment in higher education –private investment in the form of fees and other living costs and public investment in the form of government subsidies and grants - pays dividends in the form of benefits for both the individual and for society as a whole.

Therefore, it can be concluded that charging students fees is a rational element in the financing of higher education, provided that, on the one hand, these fees are adjusted by subsidies to account for public benefits, and on the other, students from lower-income households have access to financial aid. This conclusion is not altered by the fact that many students are unable to pay fees while studying, as this problem arises from the differences in the life cycle flows of costs and benefits and can be overcome by providing bridging finance in the form of student financial aid (loans and bursaries).

In the current context of declining state financial support *vis à vis* expanding enrolments and increasing costs of higher education provision, the most important justification of cost sharing is probably the sheer need for other-than-governmental revenue. Tuition fees are a means to supplement resources obtained through state funding and other sources, so as to meet the costs of providing higher education. Tuition fees should thus be seen as contributing a proportionate share of the effort to provide higher education and not designed to exclude anyone from participating in higher education. While it might be possible to fund higher education entirely from the fiscus, given the record on public funding over the last decade and rising enrolments, it is unlikely that this option is realistic. It should be emphasised that underfunding of higher education will lead to decline in quality of teaching and research, and inability by institutions to meet the increasing demand for higher education.

Cost-sharing in higher education should therefore be maintained. We believe that modifications to the current cost-sharing model – as opposed to a fee-free regime – and a robust NSFAS, can address some of the challenges regarding tuition fees. NSFAS is very important for any intervention targeted at students in need of financial aid (loans and bursaries) to succeed. Unfortunately, as reported in the Ministerial Review of NSFAS (2010)¹, NSFAS and its resources have not been governed optimally since the inception of the scheme. The greatest challenge regarding tuition fees in South Africa is that lower income students and the so-called missing middle² face a significant amount of unmet need, that is, the difference between the cost of going to university and the amount of funds available from their families' resources.

Is fee-free higher education and training in South Africa feasible?

The report of the Ministerial Working Group on Fee Free University Education for the Poor in South Africa³ (2012) provides a detailed analysis - on the basis of various scenarios - of estimated costs of providing fee-free higher education to South Africa's poor. The report concludes that "free university education for the poor in South Africa is feasible, but will require significant additional funding of both NSFAS and the university system" (p.xii).

The greatest challenge for the realisation of fee-free higher education is affordability. The above report acknowledges that "the feasibility of providing free university education for the poor ultimately depends on a marked and generalised improvement in the social-

¹ DHET (2010) *Report of the Ministerial Committee on the Review of the National Student Financial Aid Scheme*. Pretoria: Department of Higher Education and Training.

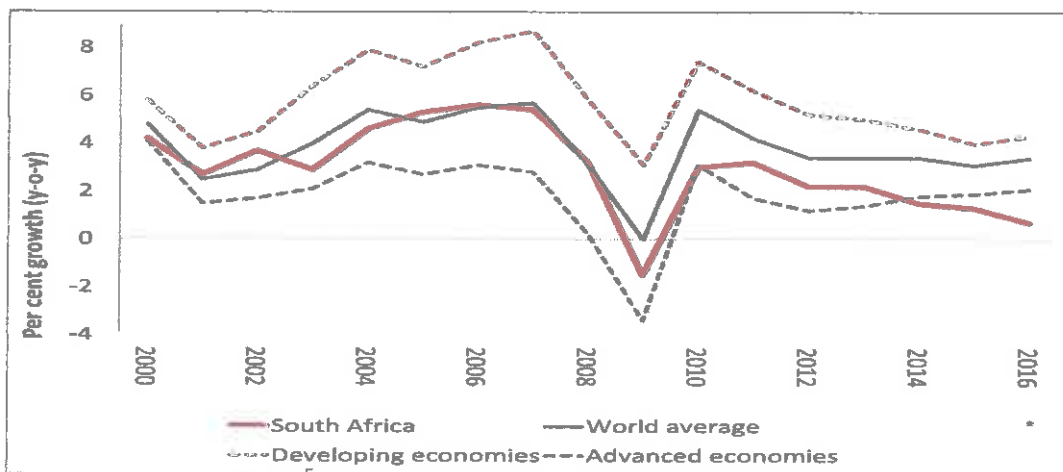
² Students whose family income is above the NSFAS threshold but too low to qualify for bank loans.

³ Department of Higher Education and Training (2012). *Report of the Working Group on Fee Free University Education for the Poor in South Africa*.

economic situation of South African society as a whole” (p.x). It further acknowledges that state funding alone cannot guarantee fee-free higher education: “new sources of funding, not discounting the national budget, large financial institutions and international donors, must be found” (xiii). This point is emphasised by the Treasury’s (Makanya, 2016⁴) observation that the expansion of the Post-school Education and Training sector cannot be accommodated by the budget process alone.

Thus, unfortunately, the necessary resource conditions that would make fee-free higher education a reality in South Africa do not exist. As has already been mentioned, state funding of higher education has struggled to cope with increasing enrolments and the increasing costs of higher education provision. State funding of higher education has been on a declining trend. At the same time, the country’s economy has been growing rather sluggishly. A recent analysis by Treasury (Table 1) shows that South Africa’s rate of economic growth has been declining and has been one of the lowest in the world since 2011.

Table 1. South Africa’s economic growth



Source: Treasury (2016)⁵

In conclusion, the country’s economic circumstances suggest that raising the required fiscal effort to implement fee-free higher education would be an enormous challenge. In other words, the requirement of “a marked and generalised improvement in the social-economic situation of South African society as a whole” to make fee-free higher education feasible, as correctly identified by the Ministerial Working Group, is not in place.

The feasibility of fee-free higher education should further be understood in the context of existing policy objectives for higher education. The White Paper for Post-School Education and Training⁶ (2013) identifies expanded access, improved quality and increased diversity of provision as one of the key objectives of the higher education and training system. In this regard, the White Paper has set an enrolment target of 1.6 million students (25% participation rate) by 2030, and lists the following important priorities:

⁴ Makanya, N (2016). Sustainability of the higher education system: fiscal review. Presentation to the workshop on the mid-term review of enrolment planning efficiency targets: 2017/18 – 2019/20

⁵ Makanya, N (2016). Sustainability of the higher education system: fiscal review. Presentation to the workshop on the mid-term review of enrolment planning efficiency targets: 2017/18 – 2019/20

⁶ Department of Higher Education and Training (DHET) (2013). White paper for post-school education and training. Building an expanded, effective and integrated post-school system. Pretoria: DHET.

- Expansion of programmes in specific areas required for national needs,
- Establishment of three new universities,
- More foundation programmes,
- Academic staff development,
- New student housing in terms of improved student housing norms,
- Increase in research capacity.

While the White Paper does not provide a projection of the required resource requirements for realising these policy objectives, it is obvious that their realisation will require significant additional resources. For instance, it is projected that an estimated R82 billion over the next ten years will be required to address shortages in student accommodation⁷.

Overall, as already argued in the section on cost-sharing, given the magnitude of the challenge, the need for supplementing state funding cannot be overemphasised.

A sliding-scale tuition fee model as an alternative?

The unaffordability of fee-free higher education requires that other models of financing higher education should be considered.

South Africa's high levels of socio-economic inequality pose significant challenges for universities with regard to determining an "appropriate" tuition fee model. In this context, an important consideration should be the appropriate flexibility in the setting of tuition fees so as to ensure affordability for working class students and the so-called missing middle, coupled with an efficient and robust financial aid programme (NSFAS). To address this challenge, a sliding-scale tuition fee model, in which tuition fees is charged according to a student's household income, is proposed.

In this model, various tuition fee tiers are determined based on a student's household income. Accordingly, students from lower-income families pay lower fees while students from well-off families pay the full fee rate. Financial aid would be used to keep tuition fees at a level of affordability for the more indigent students and their families, hence the need for a robust NSFAS. Administering a sliding-scale tuition model would however require that all students are means-tested to determine the applicable amount of tuition fees.

Institutional independence and autonomy

Given the importance of tuition fees as a key indicator of affordability, it is understandable that questions are being asked regarding the autonomy of institutions to set tuition fees. However, central regulation of tuition fees is not desirable and will have negative consequences for universities. This is mainly because different universities have different cost structures that are influenced, for example, by subject mix; the balance of activities between teaching, research and engagement; infrastructure, their wage structures and location (for example, rates charged by municipalities differ).

In addition, regulating tuition fees will have potentially negative implications for equity considering that several universities, including UP, have institutional financial aid schemes,

⁷ Makanya, N (2016). Sustainability of the higher education system: fiscal review. Presentation to the workshop on the mid-term review of enrolment planning efficiency targets: 2017/18 – 2019/20

which are financed, inter alia, from tuition fee income. In essence, several universities redistribute fee income as institutional financial aid.