



University Fees in South Africa: A story from evidence

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SUMMARY

Since late in 2015, the South African government has been under pressure to respond to an unprecedented post-1994 student movement demanding free university tuition. The no fee increase concession has placated university students for the time-being and given government time to reflect and consult on the future funding of South African higher education, and the inevitable trade-offs that will accompany any revised funding framework. The media debate has generally been ill-informed. Often overlooked is the evidence that no fees in an inefficient university system characterised by low participation and high inequality will benefit the country's elite and further dampen the contribution of higher education to development. Nor can universities alone provide the skilled labour needed for economic growth. Structural and funding reform is needed but government does not have infinite reserves. The evidence shows that what is required for equitable and sustainable transformation is a differentiated post-school system, with differentiated funding and fees; an acknowledgement of the trade-offs between participation, public investment and fees in the university system; and a coordinated effort between students and leaders from all sectors to re-establish the university's role in reducing poverty and driving development.



A set of slides containing supporting data and graphics accompanies this brief.

The references to slides in the paragraphs below refer to this slide-deck. [Click here](#) to view the slides online.

- 1 Higher education has a major effect on both economic development and private returns (Slide 3). It is a public and a private good. In terms of economic development, factor-driven (agriculture and mining) economies have relatively high primary school attendance, lower secondary school and very low tertiary participation rates. In contrast, innovation economies have high schooling participation, high economic competitiveness ratings and very high tertiary education participation (Slides 4-5).
- 2 In Sub-Saharan Africa, returns to tertiary education are higher than returns to primary and secondary and South Africa has the highest private returns to higher education in the world (Slides 6-8). In South Africa, HE education brings considerable rewards to post-matric qualifications, both in terms of wages and employment possibilities (Slides 11-13). Access to tertiary education is regarded by the 'haves' as a means to maintain privilege and by the 'have-nots' as a means to escape poverty. While HE offers a ladder out of poverty for a limited few, it is not an efficient mechanism to reduce inequality (Slides 9-10). It is more successful at building a middle class.
- 3 SA has the most diverse and differentiated tertiary system in Africa. SA has three of the top 12 universities in the BRICS and developing countries. The reputation of SA HE is based on the postgraduate system. It is crucial for development in SA, and Africa, that SA maintain and strengthen the new knowledge-producing subsector of HE. The investment in the Square Kilometre Array – so-called 'blue sky research' – has already had considerable payoffs in green energy, low-cost housing materials and the training of black mathematicians and physicists (Slide 14).
- 4 The SA tertiary system was shaped by a factor-driven economy with a traditional (British) elite university-dominated system (inverted pyramid) overlaid by apartheid social policies. SA is now in a more productive, efficiency-driven economy stage with intentions of participating more in the global 'knowledge economy', which requires much higher tertiary participation rates (30-50%). The SA tertiary participation rate at 20% is too low (Slide 15).
- 5 Two key factors preventing growth are the shape of the system and inefficiencies. The shape problem was the inverted pyramid: too large a proportion of students in universities, too small a post-secondary college sector, and too small a private PSE sector. But, since 2010 a major shift has occurred: TVET college enrolments have doubled while university enrolments have stagnated (Slides 16-17).
- 6 Fast expanding education systems all over the world have inefficiencies as capacity constraints cannot cope with demand. In SA, this starts in the school system and runs through the undergraduate system. The university system has very poor graduation rates – 30% graduate in three years and 56% in five years – and the college completion rate is below 50%. This means that SA's 'effective' or 'successful' participation rate is not 20% but actually closer to 10%, which is not that different from the rest of Africa. Also, too many students stay in the undergraduate system for

too long. The 'all or nothing system' (50% drop out and 50% graduate) is hugely inefficient for the system and disastrous for the poor, who are largely in a revolving door situation: a tiny percentage gain entry but then the majority leave – without a qualification and with debt (Slides 18-20).

- 7 SA has high returns to graduate employment and high tax collection – two of three conditions for deferred fees payment (Australia, UK) – but the low graduation rates make this an unfeasible option. The current university undergraduate system is inefficient and unsustainable and needs to be restructured.
- 8 To respond to development, in addition to increased participation, the tertiary system must be more diversified, differentiated and coordinated. The equity *and* development challenge requires a massified system, but there are contradictions and trade-offs because no system can simply have more of everything (Slides 21-22).
- 9 Responding to growth and development challenges demands, firstly, a high percentage of labour with post-matric qualifications for people to work in jobs that require higher than matric-level information-processing and problem-solving skills; secondly, a stratum of the university system that offers solid general and vocational-orientated education – mainly, but not exclusively, at the undergraduate level ('self-programmable labour'); and thirdly, a group of universities that concentrate on high-level professional training and new knowledge production with a high percentage of postgraduate students and staff with doctorates (Slide 23).
- 10 To maintain a competitive edge in a rapidly transforming knowledge economy, countries need to invest more in quality education. But, historically, SA has not invested enough in HE (less than 1% of GDP), nor has it reached its own target of 1% of GDP on R&D, which is well below international targets. Many comparable countries are spending closer to 2% of GDP and some, like China, 3%. The fees crisis, which is a symptom of a bigger problem, was caused by the proportion of government funding to university budgets decreasing from 49% in 2000 to 40%, and in some cases 30%, by 2013. Third-stream income almost doubled in Rands, but remained constant as a percentage of budgets. The shortfall was made up by student fees which increased by 42% from 2010 to 2014 (9% p.a. in contrast to a 5-6% national inflation rate). Treasury officials may say that with the latest injection of funding, SA HE is now well over 1%, but this is 'bailout' money. New targets for investment in HE must be set (Slides 24-30).
- 11 International research is clear: the solution is not just *more* investment, because investments can have different outcomes in different countries. The first choice concerns sectors. Government is faced with 2 million young people in tertiary education and 3 million NEETS. And there are different returns to investing in different sectors. The question is: How much more to whom? When public investment is concentrated on an elite HE system, it will increase private returns, but may not stimulate economic growth – as is the case in SA. Conversely, when governments invest heavily in TVET, the benefits will accrue more towards the

lower half of the skills distribution. From international evidence, to get the poor out of poverty and stimulate economic growth, **free** TVET would be a more progressive investment. Can government spend more on both or does it need to make a difficult trade-off?

- 12 In terms of private returns, there is broad agreement among economists of HE funding that government subsidies in unequal countries are ‘regressive’, i.e. subsidies favour the rich. Data from a number of SA household surveys show that those who qualify and attend university come mainly from deciles 8-10, meaning the affluent middle class and the rich. A prominent economist argues that blanket university fee reduction will benefit the wealthy, slow down change and increase inequality in a country that already has the highest Gini-coefficient in the world (Slides 31-33).
- 13 There is no free HE in the world. The policy choices concern **who pays what when?** The higher education studies literature frames this as a ‘trilemma of trade-offs’: public (government) investment–enrolment–private costs (fees). The US and Australia have low government investment–mass enrolment–high private cost (fees), which are ameliorated by bank and direct loans (US) or deferred payments (pay if you work) (Australia). Finland and Norway have high public investment–mass enrolment–low private costs (subsidised from high tax and high employment). Germany has high public investment–declining enrolment–low/no fees (due to rising costs, the proportion of students enrolling is declining) (Slides 34-35).
- 14 England, with an almost 50% participation rate, has what appears to be medium private cost, but it is actually high (around £9 000). However, with a very good deferred payments scheme, HE is almost free for UK students but very expensive for foreigners. In Africa, universities with free public HE have tried to introduce fees, but politicians are scared of a political backlash and have not supported it, leading to disastrous ‘free by day’ and ‘pay by night’ schemes. Cuba used HE as an instrument to reduce inequality and has very high government investment–medium enrolment (25%)–low private costs. But the system is very low in terms of postgraduate enrolment and new knowledge production. China, in sharp contrast, has high government investment–medium but fast growing participation (30%) – high private costs (but with high loans availability). With this, China has driven the fastest expansion of HE in human history, and has six of the top 12 universities in BRICS and developing countries. Along with the highest economic growth rate in the world over the past decade, they have driven HE expansion, with selected excellence and the building of a middle class, although accompanied by an increase in inequality (Slides 36-38).
- 15 SA has a system that could be characterised as low government investment–low participation (very low in terms of effective participation)–very high costs. In SA, fees are a huge bargain for the elite, only affordable for the relatively affluent middle class with loans and debt, and totally unaffordable for the actual middle class and the poor (Slides 39-40).

- 16 For SA to drive development and growth, government needs to invest more in tertiary education, increased participation with improved completion rates, and a differentiated fees regime.
- 17 The government's proposed 'free' HE for the poor should be implemented. Poor students should not get loans since paying back loans keeps them in a disadvantaged position. But neither should HE be totally free as this would lower the incentive to complete. Poor students must be better selected and, when admitted, better supported – not only financially and academically, but socially too (Slide 41).
- 18 The missing middle class actually consists of different groups: those between R120 000 (NSFAS) and R300 000, *and* the affluent middle class (R300 000- R500 000). Often with more than one parent in employment, affluent middle-class students have a better success rate, better labour market opportunities, and should contribute to HE through paying back loans or deferred payments. While commercial banks are better at collecting debt, they are more expensive. Thus, in many countries, including the US, there is a return to national direct loan institutions such as NSFAS. But NSFAS, whose uncollected recoveries ballooned to R3.7 billion between 2010 and 2014, will need to undergo radical reform (Slides 41-44).
- 19 For the elite (4% of the population who earn over R500 000 p.a.), HE is much cheaper than private schools and a bargain that contributes to their privilege and to inequality (Slide 45).
- 20 The question to be determined is: What proportion of the budgets of the government, business and different income groups in society should contribute to HE? To negotiate this will require much greater coordination between different role-players involved in responding to the crisis. This will require a pact between government, business, HE leadership and students that will have to include greater agreement on the different roles and functions of HE, and that certain reforms are required in the current tertiary education system. The structure most strategically placed for this key role could be the National Planning Commission in the Presidency (Slides 46-47).