F(r)ee Higher Education

A School of Economics engagement

In October 2016, students' request for free higher education again dominated South Africa's political and public agenda. In an attempt to facilitate and contribute to the much-needed conversations on the topic, students and staff of University of Cape Town's (UCT) School of Economics initiated a series of seminars on [F(r)ee Reform](www.facebook.com/FreeReform) (www.facebook.com/FreeReform) and the accessibility of higher education.

This document is a result of the initiative and aims to present some of the topics that were discussed during the seminar series including information on the legal context to education in South Africa, government's current approach to funding higher education and the response of students in the engagement to this approach, as well as a discussion of an alternative funding model for higher education.

Constitutional Rights

Section 29(1) of the South African Constitution[i] states that:

> ***Everyone has the right –***
>
> ***(a) To basic education, including adult basic education; and***
> ***(b) To further education, which the state, through reasonable measures, must make progressively available and accessible.***

This has been generally interpreted to mean that **basic education is a fundamental[ii], absolute right**, one that "can be asserted regardless of the State's other budgetary imperatives"[iii].

Note that, according to *White Paper 3: A Programme for the Transformation of Higher Education*[iv]:

- "Basic education" is up to, and including, **Grade 9**;
- "**Further education**", defined in the *White Paper* as "post-compulsory education", is tenth grade and beyond and **is not an absolute right**. The state does, however, have the obligation to "move towards ensuring that **further education is accessible to everyone within available resources**"; "accessible" is understood to mean "individuals should not be denied access on the basis of financial need"[v].

Government's strategy on higher education

Government policy

Government policy, as articulated in the National Development Plan[viii] and the above-mentioned higher education *White Paper*, aims to expand the number of places available in post-school institutions and progressively increase access to these places for academically able students from poor backgrounds. The *White Paper* sets out head-count enrolment targets of 1.6 million in public universities, 2.5 million in technical and vocational education and training (TVET) colleges, and 1 million in community colleges by 2030.

In terms of improving access for poor students, government has significantly increased the funds available for student loans and bursaries, with the amount paid out by the National Student Financial Aid Scheme (NSFAS) increasing from R733 million in 2002 to R5.4 billion in 2015. More information on NSFAS can be found below and in a supplementary information sheet.

In line with these expansions, the share of GDP spent on post-school education and training has risen from under 1% in 2000 to over 1.5% with most of this additional funding going to vocational colleges and sector education training authorities. The percentage of university funding from government subsidies has however fallen from 49% to 39.8% over this period. This has only been partially offset by earmarked NSFAS allocations increasing from 3.4% to 7% of university funding sources[xii]. Taking inflation and the rapid increase in student numbers into account, this translates into a 1.35% net decrease in per capita student allocation in real terms over the past ten years[xiii].

Box 1: Budget allocations

Higher Education was allocated an additional R16 billion in February 2016, and a further R17.6 billion in the Medium Term Expenditure Framework (MTEF)

2016 Budget:

- R5.6 billion addition to university subsidies to fund the zero percent fee increase for the 2016 academic year.
- R10.6 billion additional funding to NSFAS, of which:
  - R2.5 billion was allocated in the current year for short-term debt relief for 71,753 unfunded or inadequately funded students who were at universities in the 2013, 2014, and 2015 academic years.
  - The remaining R8 billion was for unfunded new and continuing students for the 2016 academic year and beyond. The allocation was intended to ensure that students were better funded, and that the full cost of study was covered for those on the scheme .

2017 MTEF:

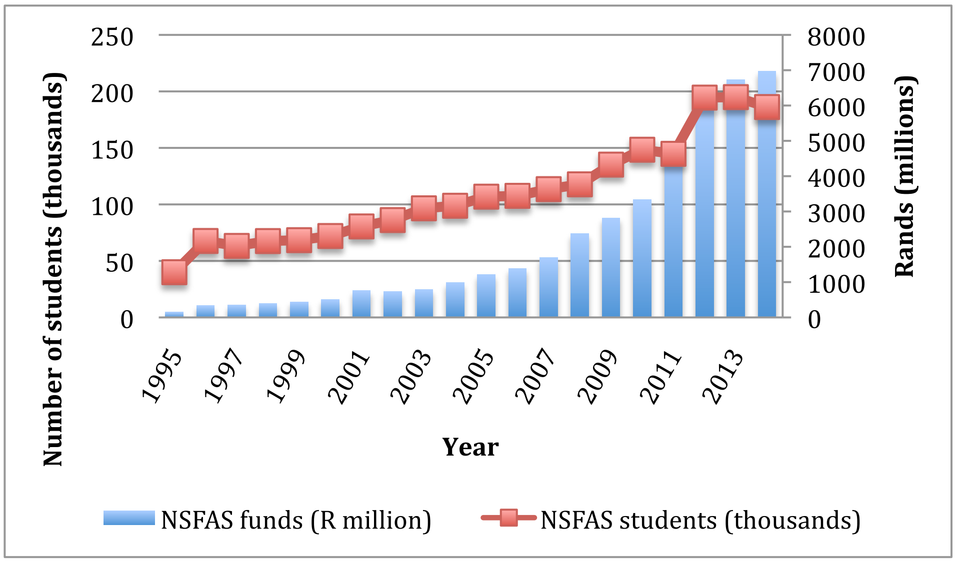
- R7.8 billion to fund the increase in fees at higher learning institutions for the 2017 academic year, up to a maximum of 8 percent, for students from households earning up to R600,000 per year.
- R9.2 billion further top-up to NSFAS.

NSFAS

The National Student Financial Aid Scheme (NSFAS) aims to increase fair and equitable access to higher education for academically strong students from poor economic backgrounds by defraying some of the costs of tertiary education. NSFAS provides favourable loan repayment terms and incentivises academic success through a loan-to-bursary conversion programme.

Box 2: NSFAS coverage

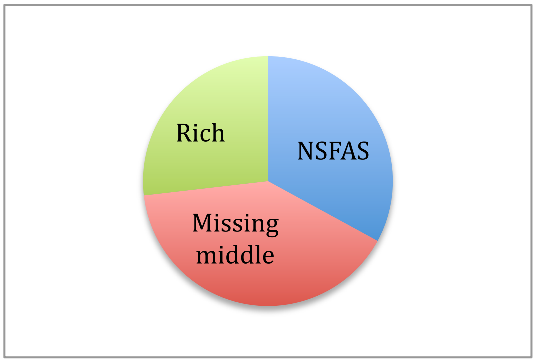
Figure 1: NSFAS funds and the number of university students that hold NSFAS loans



Current funding for NSFAS, however, remains inadequate. In 2014, 31% of qualified applicants could not receive funding. This amounts to an estimated NSFAS funding shortfall of R2-4 billion[xiv]. Figure 1 shows that while funds allocated to NSFAS have risen annually at rates above inflation, the number of students funded annually by NSFAS began to decline from 2011. This is attributable to growing individual allocations, driven strongly by the rise in university fees outstripping total NSFAS funding capabilities[xv].

Box 3: NSFAS and the missing middle

Figure 2: Distribution across income categories of 18-24 year olds attending university nationally



- Although NSFAS does not use an income threshold, it is recognized that those families with incomes below R122,000 are likely to be eligible for NSFAS funding while those above are not.
- Figure 2 shows the share of current students by income category. 32% of students fall into the NSFAS range, with an additional 40% of students currently from families in the '**missing middle**' group. Students from families of annual incomes between R122,000 and R600,000 are not poor enough for NSFAS but not necessarily affluent enough to afford higher education fees or gain access to bank loans.

Source: Income and Expenditure Survey (IES) 2010/2011
Notes: Income inflated to 2016 rands. NSFAS group defined as students from families with income below R122,000, rich group >R600,000, missing middle those in between.

#FeesMustFall- shortfalls of the current system

The F(r)ee Reform seminar series provided a space for students to discuss various models to fund higher education, voice concerns and present alternative strategies. Summarised here are some key concerns raised around using NSFAS loans to facilitate access to higher education among poor students.

- Obtaining a higher education qualification is the primiary means to climb the socioeconomic ladder in South Africa[xvi]
- Too few low socioeocnomic learners are currently accessing higher education[xvii]
- Poor students who are eligible for higher education on academic grounds can only gain access with financial support (a bursary or loan). Receiving a loan means graduating with debt. This is in addition to starting out disadvantaged compared with wealthier peers. The situation is unfair and perpetuates the cycle of poverty.
- NSFAS loans need to be repaid only when graduates start earning an income of R30,000 per year. This is presented as a reasonable solution by government, but does not take the issue of Black Tax into account.
- Loans cause students unnecessary 'debt stress'.

Black Tax: young black people who graduate are often the first ones to do so in their families, and are then also responsible for contributing to their extended families' needs.

- The combination of high default risk that comes from adverse selection and high interest rates on student loans makes these loans a bad asset.
- Students who fail to complete their studies and drop out are left with a debt to repay without the certainty of finding stable and well-paying employment that will allow them to do so.
- NSFAS is means tested. When applying, students feel they need to expose or perform their poverty to be deemed poor enough to be eligible. This is a demeaning process.
- At the same time, many poor people do not manage to gain access to the loans, hampering the ability of the overall system to reduce the country's deep levels of inequality.

FMF asks for free education for *all* students, paid for by an increase in taxes. Countering the argument that rich users should pay for higher education, the Wits FMF model (see below) argues that those who are wealthy would then only contribute for the three to four years that their child is enrolled, and that contribution generally relates only to tuition fees. The model therefore sees a general "higher education tax" on the wealthy as more appropriate.

The Wits #FMF Pathways to free education model[xviii]

The model estimates that R60 billion is needed to run the higher education system in South Africa, and that such a system should:

- Enable free tertiary education for all at universities and colleges;
- Cover the cost of tuition, books and accommodation.

The Wits #FMF model proposes the following contribution structure for the funding:

- 50% Government subsidies;
- 29% Corporate/private funding;
- 10% "Higher Education Capital Infrastructure Fund";
- 11% Student fees → replace NSFAS with a **Higher Education Endowment Fund.**

Higher Education Endowment Fund

- Increase skills development levy (1% → 3%)
- Increase corporate tax rates (28% → 30%)
- Increase tax rates for rich
    - top 10% earners
    - 45% for >R1mil
    - increase top bracket (41% → 42.5%)
- Apartheid Windfall Tax
- Increase wealth taxes (donation, dividends, estate)

Does the Wits model work? A response by Dennis Davis[xix]

Davis agrees that 'providing free tertiary education for all would cost at least R60 billion' if that were to cover fees, books and accommodation for students at universities and colleges. However, he argues that the Wits proposal is flawed in its calculations on how to raise this amount on a recurrent, annual basis[xx]. His commentary on the model is summarized in Table 1.

In addition to these considerations, Davis points out that:

- South Africa already has a severe debt situation - 12c/R1 is currently lost to interest payments;
- Further funds are needed to support access to quality health care for all (an estimated R70 billion needed), and to improve the quality and outcomes of basic education. There needs to be a broader debate about the ways in which these amounts are allocated or prioritized within the National Budget.

Table 1: Wits model funding proposals and Davis' response

Source of income	Current rate	Proposed rate	Additional funding estimate	Qualitative considerations	Davis response
Skills Development Levy	1%	3%	R13 billion	• Flexibility • Ease of administration	• Slows growth by 1% GDP • Regressive (i.e. workers will end up paying for it)
Corporate Tax	28%	30%	R13 billion	• May affect international competitiveness and FDI attraction • Affects a specific cohort of tax payers	• A further increase by 2% could reduce increases to personal tax. The problem is that neighbouring states are lowering their rates to be more competitive.
Individual Tax	41%	42.5%	At least R3 billion	• In line with the "social justice" imperative of taxing the rich • Affects a limited tax base	• Would have to be increased by 17% to make up shortfall
Windfall Tax*	Nil		R26 billion	• Justice tax • Likely to be once off	• Amount uncertain • Unlikely to be recurrent
Wealth Tax	15-20%	20%	Negligible	• Minor contribution	• Unlikely to produce more than R2 billion

Note: *Apartheid Windfall Tax is a tax on all companies that had excess profits and benefits arising from the Apartheid regime.

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