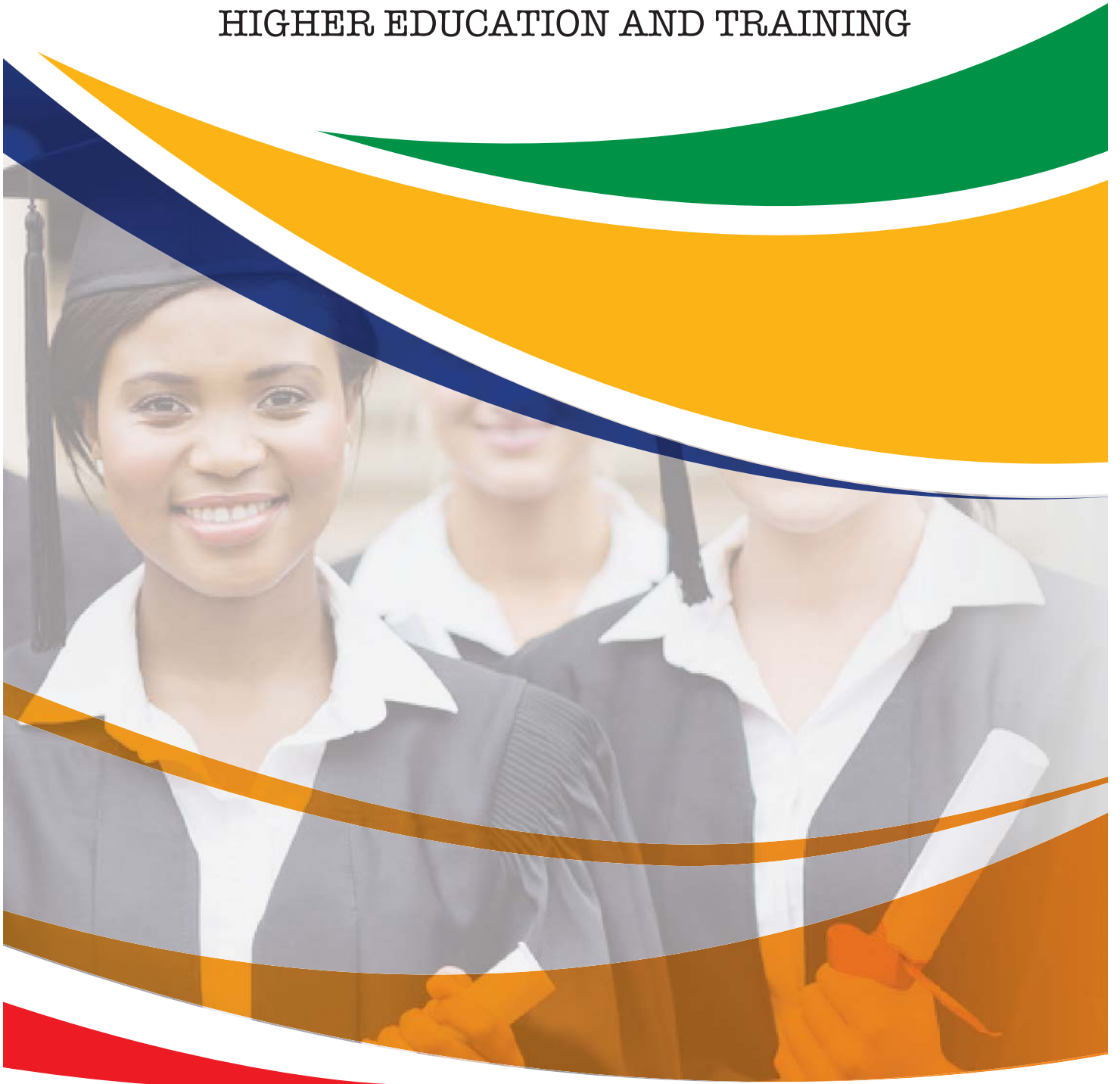




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# COMMISSION OF INQUIRY INTO HIGHER EDUCATION AND TRAINING





# REPORT OF THE COMMISSION OF ENQUIRY INTO HIGHER EDUCATION AND TRAINING TO THE PRESIDENT OF THE REPUBLIC OF SOUTH AFRICA

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# 1 INTRODUCTION<sup>1</sup>

## 1.1 THE START OF THE #FEESMUSTFALL PROTEST: THE DEMANDS AND THE OUTCOME

1. In 2015, the South African higher education sector was shaken by protests across the country. What distinguished the 2015 protests from those experienced periodically over the decade before, was that the hub of these protests was at the historically-white universities. The majority of the protests experienced since 2000 were focused at the historically-black universities, where issues including fees, access to the National Student Financial Aid Scheme (NSFAS), student accommodation needs and other related issues were the cause of frequent, but uncoordinated protest.
2. In 2015, protests began on 9 March at the University of Cape Town. The main concern of these protests was a lack of institutional transformation, and the focal point was the prominent statue of Cecil John Rhodes on campus. The #Rhodesmustfall movement achieved its short-term aim of having the statue removed, but deeper tension remained.<sup>2</sup> At the University of Stellenbosch, a similar movement, called Open Stellenbosch, emerged to counter the lack of transformation at that institution, and one of their focal points was the language issue. The

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<sup>1</sup> There are many accounts of the student protests of 2015-16. In this chapter we provide one version with no pretensions to meticulous accuracy.

<sup>2</sup> <https://www.theguardian.com/uk-news/2016/mar/16/the-real-meaning-of-rhodes-must-fall>.

movement consisted predominantly of black students and academics who resisted the slow rate of transformation.<sup>3</sup>

3. In his testimony to the Commission, the Minister of Higher Education and Training, Dr. Blade Nzimande, explained that tensions on university campuses continued during 2015, even after these initial protests subsided.<sup>4</sup> There was renewed concern regarding university fees, and in September 2015 Universities South Africa (USAf), the forum for university Vice-Chancellors, and the University Council Chairs Forum (UCCF) wrote a letter to President Zuma requesting a meeting to discuss the crisis at universities. Minister Nzimande explained that:

*'USAf and UCCF were particularly concerned about potential violence on campuses at the start of the 2016 academic year, and the large number of NSFAS qualifying students who were un- or underfunded due to the NSFAS shortfall, and who would be financially excluded in the new year unless a solution was found. The Minister was alerted to the letter by the Presidency. It was only after contacting the Chair of USAf that USAf formally informed the Minister of the request.*

*The meeting was held on 6 October 2015 between his Excellency President Jacob Zuma; Minister of Higher Education and Training, Dr. Blade Nzimande MP; various Ministers and Deputy Ministers; and representatives from Universities South Africa (USAf) and University Council Chairs Forum (UCCF). The meeting discussed key issues facing universities, including student financial aid, the politicisation of university campuses and transformation of higher education, brought into sharp*

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<sup>3</sup> <https://www.dailymaverick.co.za/article/2015-04-28-op-ed-open-stellenbosch-tackling-language-and-exclusion-at-stellenbosch-university/#.WRLj4E2wfIU>.

<sup>4</sup> Minister of Higher Education and Training's Input for Presidential Commission, 13 October 2016.



*focus by various new student movements, e.g. Rhodes must fall, Open Stellenbosch.'*

4. Emanating from this meeting, a Presidential Task Team was established to look at measures to mitigate possible student protests and unrest at the start of the 2016 academic year. This meeting took place a week before the second higher education summit on transformation was due to commence on 15 October 2015.
  
5. On the same day (6 October), protest action was initiated at the University of the Witwatersrand under the banner 'Wits Fees Must Fall'. The number of students who gathered at the gates to the University in the early hours of the morning was small, but later as they marched across the campus other sympathetic students and academics joined their ranks. At the height, about 5 000 joined the protest. Shaeera Kalla (2015 Wits SRC President) explained that they were upset after losing the vote on student fees at the Wits council meeting, and rejected the reasons provided for the agreed increase. However, the protests only gained momentum a week later.<sup>5</sup>
  
6. In his testimony, the Minister explained further that,

*'At the summit, it became clear that the climate was ripe for protest when the University of the Witwatersrand (Wits) announced a fee increase of 10.5%, coinciding with the first day of the Summit. The #FeesMustFall campaign took the country by storm, spreading first to other more*

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<sup>5</sup> Malcom Ray, *Free Fall. Why South African universities are in a race against time* (Bookstrom: 2016), pp.362-4.

*privileged institutions (University of Cape Town, Stellenbosch University, Rhodes University) and then on to other institutions across the country. Following the protests over the fee increases announced at Wits, the Minister attempted to broker a solution between universities (represented by the executive committees of Universities South Africa (USAf) and the University Chairs of Council Forum (UCCF), students (represented by the South African Union of Students (SAUS)), and Staff Unions. At the meeting, it was agreed that fees should increase by no more than 6%; this was seen as a reasonable compromise and stakeholders were requested to go back and negotiate at the institutional level to find a solution within that framework.*

*Students immediately rejected this proposal, protests escalated across the system, and students renewed their demand that #Feesmustfall and that there should be a 0% increment across all universities.<sup>6</sup>*

7. On Wednesday 21 October 2015, protests reached a new height as students and workers joined together in protest at Parliament in Cape Town, with protests bringing together demands for free education and the insourcing of workers. Parliament that day was scheduled to hear the Finance Minister, Nhlanhla Nene, deliver his medium-term budget speech. Students were demanding that more money be allocated to higher education. Police, armed with stun grenades and tear gas, gathered to try and block students from accessing the area. Students and workers managed to reach the Parliament precinct, with calls for 'Fees must fall' and 'End outsourcing'. Students demanded that Nzimande address them. The Economic Freedom Front (EFF) delayed Nene's speech inside Parliament, demanding that the issue of fee increases

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<sup>6</sup> Minister of Higher Education and Training's Input for Presidential Commission, 13 October 2016.

should be debated. Students managed to enter Parliament's grounds and police responded with stun grenades and tear gas. After Nene's speech, Nzimande tried to address the angry crowd, but was faced with calls for his resignation. The protest resulted in the arrest of 23 protestors and injury to others. This only led to further protests at campuses across the country.<sup>7</sup>

8. Minister Nzimande explained to the Commission that,

*'On 23 October 2015, the President called a meeting of all student and university leaders, as well as some members of his Cabinet and senior government officials to discuss the situation, try to find some common ground and enable academic programmes and university examinations to go ahead'. At the meeting, SRCs and student formations were represented as well as university Vice-Chancellors and Chairs of Council.*

*Preceding the meeting, the Vice-Chancellors and Chairs of Council met to caucus on their position. Government did not meet prior to the meeting to caucus. At the meeting, the President provided ample time for all students to speak. They had varying positions from a 0% increment, to no fees at all; ending outsourcing; decolonising the curriculum and so on. Following the students' input, the President requested that university leaders respond. The Chair of USAf (Professor Adam Habib) stood up, informed the meeting that UCCF and USAf had caucused before the meeting, and had a proposal to put on the table for discussion. He then proposed specifically:*

*- There should be an agreement on a 0% fee increment for the 2016 academic year, which would give time for longer term issues to be dealt;*

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<sup>7</sup> Ray, *Free Fall*, pp. 368-71; <http://ewn.co.za/2015/10/23/Countdown-to-Union-Buildings-march>.

- *That the President should consider setting up a Presidential Commission to look into the whole issue of effectively funding higher education.'*

*Students agreed to the terms. The President then gave the Minister of Higher Education and Training, and the Minister of Science and Technology an opportunity to comment. Minister Nzimande accepted the decision. Minister Pandor raised a major concern over how this would be funded. The Deputy Chair of USAf (Professor Derek Swartz) indicated that in line with previous discussions with the Minister of Higher Education and Training, universities who had good balance sheets would assist with raising the funds required, and that government would not be expected to cover all the costs themselves.'*<sup>8</sup>

9. On the same day, two days after the protests in Parliament and one day after protests at Luthuli House, thousands of students marched on the Union Buildings. Students came from across Gauteng, and were joined by school learners. Students expected that the President would make an announcement to them on the outcomes of the meeting. This did not happen. Certain students were incensed at the President's silence and tried to push through the barricades. Police responded with tear gas and rubber bullets. Fires were started and a battle between police and students ensued, with a police van being overturned and students being forced out of the grounds of the Union Buildings.<sup>9</sup>

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<sup>8</sup> Minister of Higher Education and Training's Input for Presidential Commission, 13 October 2016.

<sup>9</sup> <http://ewn.co.za/2015/10/23/Countdown-to-Union-Buildings-march>; <http://citizen.co.za/news/news-national/833006/wits-and-uj-students-head-to-union-buildings-for-march/>; <https://mg.co.za/article/2015-10-23-sas-students-take-on-union-buildings>; <https://www.dailymaverick.co.za/article/2015-10-25-well-always-have-paris-south-africas-may-68-moment#.WRLfnk2wflU>.

10. In his testimony to the Commission, Minister Nzimande said that the zero percent increase was not a Government decision, but that it was rather the universities that put forward the proposal and that the collective meeting agreed on it. The President announced the decision.
  
11. The Minister added further that the Presidential Task Team, which was due to report at the end of November 2015, was asked to quantify the cost of the zero per cent increase. The Task Team found that the cost for 2016 was R2.330 billion. Furthermore, the shortfall for unfunded and under-funded NSFAS students in the system for the 2013 to 2015 academic years was R2.543 billion. It was recommended that government find a way to cover these costs in the short-term.<sup>10</sup>
  
12. The start of the 2016 academic year witnessed renewed protest. Demands escalated beyond the call for free education and came to include the scrapping all student debt; an end to the outsourcing of service workers at universities; curriculum transformation; the availability of decent and affordable student accommodation for university students; and an end to rape culture on university campuses.<sup>11</sup> The issue of transformation came to the fore again, and protests about the language of instruction reared at some institutions. By this time, it was clear that student discontent stretched beyond a single-issue, and that even the students had different priorities and aims. Protests led to violence and

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<sup>10</sup> Minister of Higher Education and Training's Input for Presidential Commission, 13 October 2016.

<sup>11</sup> DHET, Presentation and submission to the Commission, 10 August 2016.

the destruction of property on some campuses, and the estimated cost of damage to property between October 2015 and June 2016 stood at R500 million.<sup>12</sup>

13. Calm was restored until 19 September 2016, when Minister Nzimande, announced that fee-increases for 2017 would be decided by university councils, but would not exceed 8%. He also provided for a 0% increase for all those from families with a household income of less than R600 000 per annum.<sup>13</sup> Protests resulted in further damage to university property across the country, with many institutions closing down as a result. Examinations were cancelled or postponed. Some institutions decided to complete the academic year online.

## **1.2 THE STUDENTS' DEMANDS**

14. The South African Union of Students (SAUS) is made up of Student Representative Council (SRC) Presidents from most of the universities in South Africa. In their submission to the Commission, the students from the University of Venda explained that they had decided not to affiliate to SAUS for 2016 as they would rather engage with university management

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<sup>12</sup> Ibid.

<sup>13</sup> <https://mg.co.za/article/2016-09-19-blade-nzimande-says-fees-can-go-up-but-not-beyond-8>; <http://www.enca.com/south-africa/catch-it-live-minister-nzimande-announces-higher-education-fees-adjustments>.

than strike, and they felt that their circumstances differed from the experience of other universities.<sup>14</sup>

15. SAUS made both a submission and presentation to the Commission to clarify their view on the demand for free education.<sup>15</sup> They explained that they believe that free education will help to achieve social justice and transformation. They argued that charging fees is against the spirit of the Freedom Charter of 1955, and that the vast majority of South Africans support the demand for free education and identify with the aspirations of the Freedom Charter. However, SAUS accepts that free education, where finances are no longer a barrier to access, is a long-term vision, and that a phased model is most likely required. Free education for the poor is the first step towards a progressive higher education system. SAUS explained that empowering the poor is the starting step to alleviating class struggles.
  
16. Regarding the 'missing middle', SAUS explained that these are not middle-class students, but rather working-class students who 'are too rich for NSFAS, and too poor to pay fees: too poor to be rich, and too rich to be poor'. They described them as the 'children of teachers, of policemen, of civil servants and others'.

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<sup>14</sup> University of Venda presentation to the Commission, 24 August 2016.

<sup>15</sup> SAUS submission and presentation to the Commission, 10 August 2016.

17. SAUS explained further that the fight is not just for free education, but for ‘decolonized free and quality education ... a total overhaul of the current system that is inherently exploitative and exclusionary’. Exclusion is not only on financial grounds, but also on academic and emotional levels. Thus, a restructuring is needed to ensure student success.
  
18. SAUS was of the opinion that ‘institutions have allowed education and learning to be commodified, meaning that people get the education that they can AFFORD, not the education that they deserve’. It has become a marketable service which the student pays for, rather than an academic project. According to them, the focus has shifted towards accumulating credits at a certain cost, rather than on teaching and learning. SAUS also criticised the TVET system as students cannot find work after completing a course, and described private institutions as the ‘epitome of the commodification of education’.
  
19. In summary, SAUS explained that the demand is for the decolonisation of the education system; the de-commodification of higher education; curriculum review; broader transformation of the sector; the eradication of structural issues and the defeating of institutional autonomy; together with free quality education for the missing middle and the poor.<sup>16</sup>

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<sup>16</sup> Ibid.



20. The South African Student's Congress (SASCO) also made a submission and presentation to the Commission.<sup>17</sup> SASCO commented that 'commercialization of higher education, which essentially advocates for the management and governing of institutions of higher learning in ways identical to the manner in which business corporations are managed, has reversed some of the tactical victories we have made in the post 1994 period'. They also referred to the Freedom Charter and to the missing-middle, explaining that 'capable students from working class and lower middle-class families should also be subsidised with their families providing a household contribution to their studies in proportion to their ability to pay'.
21. SASCO articulated the demand for free education to include 'tuition, accommodation, food, books, other essential study materials or learning resources and travel that are the full cost of study fees'. It referred to the NSFAS review, which stated that "Free university education for the poor can directly assist in tackling the problem of the growing numbers of youth who are not in education, employment or training, and reducing the high levels of dropout from universities, thus strengthening the higher education system as a whole."
22. SASCO re-iterated SAUS's call for the de-commodification of education, explaining that 'Free, accessible and relevant education is a means for social development, personal empowerment and the advancement of

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<sup>17</sup> SASCO submission and presentation to the Commission, 22 August 2016.

well-being, as well as economic development of nations. It provides for teaching, learning, research and community engagement which leads to production and reproduction of knowledge and cultural capital'. As such, SASCO supports the complete eradication of tuition fees as a step towards 'dismantling the market', which would also lead to collaboration between students and institutions, rather than competition. SASCO criticised the ranking of institutions in this regard. SASCO concluded that for fees to be removed, a funding model would be required that gave financial security and autonomy without unhealthy competition for funding.<sup>18</sup>

### **1.3 THE CONSEQUENCES OF THE PROTEST AND DETERMINED INCREASES**

23. The #FeesMustFall protests and the subsequent decisions about funding have had a major impact on the post-school education sector. The effects have varied across the system, but have been felt by all. One of the consequences of the protests was the establishment of a Presidential Commission of Inquiry into higher education and training (higher education) on 14 January 2016. The terms of reference included making recommendations on the feasibility of making higher education and training fee-free in South Africa.

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<sup>18</sup> Ibid.

24. The financial impact of the protests was profound. For students, it meant no fee increase for 2016 and either a reduced or no fee increase for 2017, depending on the student's income bracket. All students, no matter their household income, benefited from the 2016 decision.
25. For the government, R16.2 billion was reprioritised into university baseline funding and NSFAS from across government for the MTEF (to fund unfunded poor students through NSFAS and the effect of the 0% fee increase in 2016 and its carry through effect over 3 years).<sup>19</sup> The NSFAS allocation for historic debt was R2.543bn; and additional funding for students to continue was R2.039bn. This resulted in an additional funding allocation of R9.2bn for NSFAS over the MTEF period.<sup>20</sup> This will be an ongoing cost into the foreseeable future. The cost of the 2017 government funding of zero percent for all those from households with an income of less than R600 000 is yet to be determined, as the number of students falling into this category is unknown. It is expected that about 75% of students will need to be covered.<sup>21</sup> While funding for NSFAS has been increased, there is still a shortage to cover all qualifying students.
26. For the universities, it meant increased financial strain. Many institutions were already under severe financial pressure as a result of costs increasing at above inflation rates and student numbers rising quickly,

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<sup>19</sup> DHET, Presentation and submission to the Commission, 10 August 2016.

<sup>20</sup> NSFAS presentation to the Commission, 15 November 2016.

<sup>21</sup> Minister of Higher Education and Training's Input for Presidential Commission, 13 October 2016.

meaning that subsidy increases were too low. For instance, Rhodes University indicated that it was not bankrupt, but cash-strapped.<sup>22</sup> Furthermore, a number of institutions indicated that they projected a budget deficit as a result of the zero percent increase, which would have deepened with a second zero percent increase in 2017.<sup>23</sup> All historically-disadvantaged institutions and some smaller institutions, such as Rhodes University, declared that they will not contribute to the effect of the zero per cent increase. UCT, Wits, Pretoria, Stellenbosch all contributed on a Rand-to-Rand basis together with the DHET to absorb the effects of the zero percent increase, totaling a R395 million contribution from universities to lessen the impact of the no-fee increase decision.<sup>24</sup> Nelson Mandela Metropolitan University (NMMU) reported to the Commission a loss of R15.6 million after the DHET subsidy for the loss. The 2016 zero percent increase will impact on these institutions for many years to come, as any possible future fee increases, will be on a reduced fee base. Furthermore, institutions faced the further burden of historic student debt and non-payment of fees. Institutions explained to the Commission that debt was a problem for their sustainability, and that in the wake of the protests, fewer students were paying their fees.<sup>25</sup> High levels of debt are also indicative of the fact that many students couldn't afford these fees.

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<sup>22</sup> Rhodes University presentation to the Commission, 2 September 2016.

<sup>23</sup> For example: Walter Sisulu University presentation and submission to the Commission, 1 September 2016; North-West University presentation to the Commission, 12 August; Tshwane University of Technology presentation to the Commission, 21 October 2016; Nelson Mandela Metropolitan University presentation and submission to the Commission, 2 September 2016.

<sup>24</sup> Correspondence with DHET, 11 May 2017.

<sup>25</sup> For example: Walter Sisulu University presentation and submission to the Commission, 1 September 2016; Rhodes University presentation to the Commission, 2 September 2016; North-West University presentation to the Commission, 12 August; Tshwane University of Technology presentation to the Commission, 21 October 2016; Nelson Mandela Metropolitan University presentation and submission to the Commission, 2 September 2016.

NMMU indicated that another challenge for 2016 was debt relief to academically deserving students. A number of institutions indicated that they had created bursaries for deserving poor students, or provided NSFAS top-up money, and that this was a form of cross-subsidisation between students from different economic backgrounds.

27. USAf, in their submission to the Commission stated that 'At the same time, South Africa's higher education system faces some of the most telling challenges in its recent history with widespread concerns about the instability it experiences, in particular in terms of its funding. It has always been assumed that its primary roles are to address the national social justice agenda, on the one hand, and to contribute to the creation of high-level human resources and knowledge for the economy and for the national socio-political project. To make progress in achieving these the sector has to be properly funded.'<sup>26</sup>

28. Added to this, many universities agreed to the insourcing of workers as part of the negotiations to end the protests. USAf explained to the Commission that full insourcing was expected to cost the sector somewhere between an additional R0.5 to R2 billion per annum. This would include salary supplements to meet agreed minimum wages of between R5 000 and R10 000 per month. NMMU indicated that this was an immediate additional cost of R34.5 million.<sup>27</sup> USAf added that it was

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<sup>26</sup> Universities South Africa submission to the Commission.

<sup>27</sup> Nelson Mandela Metropolitan University presentation and submission to the Commission, 2 September 2016.

hoped that there would be efficiency gains in terms of productivity and reducing profiteering; and that some institutions didn't foresee any cost increases.<sup>28</sup>

29. Damages to infrastructure as a result of the first wave of protests (2015 until April 2016) were estimated at between R500 and R600 million.<sup>29</sup> Figures for the second-wave of protests would likely be higher as a number of buildings were burnt, including part of a law library at UKZN.<sup>30</sup>
30. There was also a cost to the academic project as class time was lost and some examinations were postponed or even cancelled. There was considerable concern about how this would impact on final year students and the knock-on effect for hospitals and health care institutions awaiting their new intake of graduate interns. Various institutions indicated austerity measures including a freeze on all administrative posts (with academic posts possibly to follow); a reduction in library budgets and reductions in investment for long term projects or in maintenance budgets. These measures impact further on the academic project.
31. For the TVET sector, there was a perceived negative overall impact. The TVET students were not involved in the protests, despite serious underfunding in that sector. According to the submission by SAFETSA,

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<sup>28</sup> Universities South Africa presentation to the Commission, 20 October 2016.

<sup>29</sup> Minister of Higher Education and Training's Input for Presidential Commission, 13 October 2016; <https://businesstech.co.za/news/government/138169/damage-to-sa-universities-hits-r600-million-and-counting/>.

<sup>30</sup> <https://mg.co.za/article/2016-09-07-ukzns-src-condemns-burning-of-law-library-at-howard-college>.

the TVET sector experienced budget cuts as a result of the protests; this affected the administration of colleges, but also the students directly as bursary allocations were reduced. This problem also related to the fact that NSFAS is under-funded to support all qualifying students. SAFETSA indicated that they strongly believe that the call for free education should be inclusive of poor students in the entire sector, which includes the TVETS, but that free education should only be introduced as far as is viable.<sup>31</sup> Furthermore, they explained that their view is that 'it would not be correct to sacrifice the poor masses of our people in the TVET sector to protect the yet to be found middle. The original context of FMF is aligned to the higher education component of the post-school sector, but decisions taken and policies drawn may have implications for the Technical Vocational Education and Training (TVET) sub-sector'.<sup>32</sup>

32. According to the Technical and Vocational Education Training Colleges Governor's Council (TVETC Governor's Council), the sector was underfunded by almost R4.7 billion in 2016. Underfunding was also noted by the DHET, and will be discussed in more detail later. The Council indicated that the sector was not compensated, like the university sector, for the no-fee increase in 2016. They were also excluded from the R2.6 billion for student debt relief, despite the fact that the sector writes off large sums in bad debt annually. Due to underfunding; bad debt; and no

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<sup>31</sup> SAFETSA presentation to the Commission, 29 September 2016.

<sup>32</sup> Ibid.

compensation for no-fee increases, the TVET sector is under severe financial pressure.<sup>33</sup>

## 2 THE MANDATE OF THE COMMISSION

33. The Commission of Enquiry into Higher Education and Training was appointed by the President on 14 January 2016 with the following terms of reference:

*Whereas the President of the Republic of South Africa Mr. JG Zuma on 23 October 2015 conducted meetings with the vice chancellors, Chairpersons of the Universities' Councils, Presidents of the Student Representative Councils and the representatives of Student Organisations national wide to discuss grave concerns with regard to fee increases and funding of higher learning;*

*And whereas the President agreed that the government would lead a process that will look at broader issues affecting the funding of higher education, cognisant of other endeavours in this regard;*

*Now therefore a commission of enquiry (the commission) is hereby appointed in terms of section 84(2)(f) of the Constitution of the Republic of South Africa 1996.*

*The Commission shall enquire into, make findings, report on and make recommendations on the following:*

*The feasibility of making higher education and training (higher education) fee-free in South Africa, having regard to:*

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<sup>33</sup> TVET Governors' presentation to the Commission, 30 August 2016.



*1.1 the Constitution of the Republic of South Africa, all relevant higher and basic education legislation, all findings and recommendations of the various presidential and ministerial task teams as well as all relevant educational policies, reports and guidelines;*

*1.2 the multiple facets of financial sustainability, analysing and assessing the role of government together with its agencies, students, institutions, business sector and employers in funding higher education and training; and*

*1.3 the institutional independence and autonomy which should occur vis-à-vis the financial funding model.*

34. The initial proclamation required the commission to complete its work within a period of eight months and to submit its final report to the President within two months of completing that work. At the request of the commission the working period was extended by the President until 30 June 2017 with the report due within two months of completion of the work.
35. The delay in the commencement of work led to the request for the extension. There arose, from the outset, logistical problems of finding an appropriate venue for public hearings and appointing evidence leaders and administrative staff, matters in which the commission members were not engaged or consulted. As a result, public representations were called for only in May 2016 and the Commissioners met with the evidence leaders on 19 May 2016 for the first time. In this context, it should be borne in mind that neither the Commissioners nor the evidence leaders professed any prior expertise in the structure and administration of higher

education or its funding. The field to be investigated required in-depth understanding of universities, technical and vocational training institutions, community colleges and the extensive and diverse provision of higher education by and within the private sector. It also included the nature and extent of state funding here and abroad, and an understanding of its challenges and the reasons for its successes and failures. As will also appear hereinafter, numerous attempts had been made at governmental level and by private institutions to investigate all aspects of the provision of higher education and its funding, the product of which was usually a lengthy, complex technical report which may or may not have approved the findings and recommendations in earlier reports. The commission was fortunate in securing the services of Professor Themba Mosia, Chairperson of the Council on Higher Education and Vice-Principal: Student Affairs of the University of Pretoria and Dr. Genevieve Simpson, Senior Manager: Research at the Council on Higher Education. They acted as expert advisers to the evidence leaders and, later, to the commissioners. Their participation was invaluable.

36. The evidence leaders appointed were:

36.1. Advocate Kameshni Pillay SC;

36.2. Advocate Mandla Zulu;

36.3. Advocate Matsileng Lekoane; and

36.4. Advocate Tshefilwe Mabuda.

(Adv. Zulu left the Commission early. In May 2017, he was cruelly killed in a criminal attack.) Our thanks go to all the evidence leaders for their unremitting labours and their contribution to this report. Thanks is also due to all the support staff and particularly to the Secretary of the Commission Ms. Gugu Ncongwane.

37. The Commission, guided by the evidence leaders, thought it necessary to develop a programme for the commission that would serve the following purposes:

37.1. Educating the commission into all matters that would bear on the performance of its mandate.

37.2. Producing views (in writing and by evidence) from the widest range of interested members of the public, students, academics, governmental agencies and private sector

38. Initially about 180 written representations were received. These were afterwards supplemented by witnesses sourced by the evidence leaders or requested by the Commissioners. In all about 160 witnesses appeared in person before the commission, several on repeated occasions. The

Commissioners were at all times interested in innovative proposals that could sensibly contribute to the provision of funds for higher education.

39. The programme of work drawn up for the commission (in the form of working sets) was as follows:

39.1. An overview by stakeholders of the terms of reference of the Commission;

39.2. Post-school education and training in South Africa;

39.3. The funding of institutions of higher education and training and understanding their operational costs;

39.4. The nature, accessibility and effectiveness of student funding by government, the private sector and foreign aid;

39.5. The meaning and content of "fee-free" higher education and training;

39.6. Alternative sources of funding;

39.7. The social, economic and financial implications of fee-free education and training;

- 39.8. The feasibility of providing fee-free higher education and training and the extent of such provisions.
40. Application of the programme gave rise to certain clear advantages and disadvantages. On the positive side, the Commission was presented with the breadth of knowledge, experience and opinion which individual witnesses and investigators and even departmental task teams could not match. The negative aspects were delay (largely attributable to the volume of evidence) and the concomitant irritations of repetition and small relevance to the direct terms of the mandate. It can be mentioned that a number of representors, having encountered the shortcomings of the whole spectrum of the system, offered the commission the opportunity of considering and recommending solutions devised by them. These are only referred to in this report where the commission regards them as bearing on the feasibility of providing fee-free education.
41. We think it would be helpful first to discuss certain elements of the Commission's mandate that do not speak for themselves. Many of these elements will be expanded upon when the context justifies such expansion.

### **3 HIGHER EDUCATION AND TRAINING: PURPOSE, POLICY AND HISTORICAL DEVELOPMENT AND FUNDING**

42. The expression “higher education and training” is not one that occurs in the Constitution. In section 29 a distinction is drawn between “basic education including adult basic education” and “further education”.

#### **3.1 THE PURPOSE OF HIGHER EDUCATION<sup>34</sup>**

43. In different times and places, the purpose of higher education and its impact on society are interpreted differently. In some cases, there is a greater focus on the way higher education develops an individual through scholarship; and in others a greater focus on the skills that higher education provides, which leads to subsequent job opportunities. Similarly, the societal impact can move from a focus on the characteristics of those with a higher education, to the developmental impact of higher education and innovation on the economy. In this chapter, the current (or post-apartheid) South African understanding of the purpose of higher or further education will be explored, together with the impact such an interpretation has on the way in which it should be funded. Particular attention will be given to whether further/ higher education is interpreted as a public good or as a mixture between a public and private good. Various policy documents clearly articulate the

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<sup>34</sup> Throughout this report the expression ‘higher education’ will be used in a sense inclusive of technical training unless the context otherwise indicates.

government's position on the purpose of higher education, and an analysis of these, together with evidence from various presentations and submissions to the Commission, will form the basis of this discussion.

44. The University of Mpumalanga in their presentation to the Commission argued that 'The roles of higher education are numerous and varied. Higher education will contribute to the creation of high-level human resources and knowledge for the economy and for the national social-economic project. Higher education will also promote the achievement of some of the goals of the Constitution including the achievement of equality and the advancement of human rights and freedoms. However, Higher Education must reach far beyond the creation of skilled human resources for the economy and will include the promotion of socially conscious, critically thinking graduates who will find innovative answers to old and new questions.'<sup>35</sup>

45. The Council on Higher Education (CHE) explained that: 'The first consideration is the need to have a shared understanding of the purpose or purposes of higher education. Cognisant of the fact that higher education leads individuals to greater opportunities and that it also contributes to overall national socio-economic development, the CHE views higher education as both a private good and a public good, and not exclusively one or the other. This has a bearing on how it is constituted and how it is funded. The basic questions to ask are who should benefit

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<sup>35</sup> University of Mpumalanga, Submission and presentation to the Commission, 22 August 2016.

from higher education, and who should fund it? These have become acutely difficult questions at this political conjuncture; twenty or more years after the beginning of the democratic dispensation, inequality is still widely evident in terms of access to higher education and in the share of benefits that it brings. These are thus profoundly moral questions, and the answers depend on our vision for the future and what we want to achieve in terms of higher education.’<sup>36</sup>

### **3.2 HIGHER EDUCATION POLICY**

46. The White Paper (1997) began by considering the important question of the purpose of higher education, highlighting its significance in determining policy. It states that the transition to democracy requires that ‘all existing practices, institutions and values are viewed anew and rethought in terms of their fitness for the new era’ and goes on to say that ‘Higher education plays a central role in the social, cultural and economic development of modern societies. In South Africa today, the challenge is to redress past inequalities and to transform the higher education system to serve a new social order, to meet pressing national needs, and to respond to new realities and opportunities. It must lay the foundations for the development of a learning society which can stimulate, direct and mobilise the creative and intellectual energies of all the people towards meeting the challenge of reconstruction and development.’ This section of the White Paper highlighted the role of higher education in developing

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<sup>36</sup> CHE, Presentation to the Commission, 22 August 2016.



a transformed society, both in economic and philosophical terms. This is a public benefit for society as a whole. The following section considered the purposes in more detail, namely to 'meet the learning needs and aspirations of individuals through the development of their intellectual abilities and aptitudes throughout their lives' as a 'vehicle for achieving equity in the distribution of opportunity and achievement among South African citizens', focusing on the private benefit to individual recipients of higher education; secondly to 'address the development needs of society and provide the labour market, in a knowledge-driven and knowledge-dependent society, with the ever-changing high-level competencies and expertise necessary for the growth and prosperity of a modern economy', focusing on the skills required and delivered by higher education. This carries both a public (development of the economy) and private (entry into specialised professions and careers) benefit; as well as a benefit for the private sector; thirdly, the development of critical citizens, with 'a willingness to review and renew prevailing ideas, policies and practices based on a commitment to the common good', focusing on the characteristics of a graduate and how this benefits society as a whole. The final purpose identified is 'academic scholarship and intellectual inquiry in all fields of human understanding, through research, learning and teaching'. The Commission aligns itself with this summary of the purposes of higher education and considers that it applies equally to technical training.

47. In the next section the White Paper highlights that if ‘higher education is to contribute to the reconstruction and development of South Africa’, then ‘inequities, imbalances and distortions that derive from its past and present structure must be addressed, and higher education transformed to meet the challenges of a new non-racial, non-sexist and democratic society committed to equity, justice and a better life for all’. (1.6) As such, there is a focus on the knowledge economy, human resource development, and developing skilled graduates.

### **3.3 THE NATIONAL DEVELOPMENT PLAN (NDP)**

48. The NDP, in its chapter on education, starts by clearly identifying the need for public investment in education, while at the same time recognising that the benefits of education are both to the individual and to society. It states that: ‘The single most important investment any country can make is in its people. Education has intrinsic and instrumental value in creating societies that are better able to respond to the challenges of the 21<sup>st</sup> century. Lifelong learning, continuous professional development and knowledge production alongside innovation are central to building the capabilities of individuals and society as a whole.’<sup>37</sup>

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<sup>37</sup> NDP, p.296

49. In referring to universities, the NDP recognises that they contribute to the whole learning environment as ‘Teachers in schools, ECD centres and colleges are trained in universities’.<sup>38</sup> In considering the purpose of higher education, the NDP notes that ‘higher education is the major driver of information and knowledge systems that contribute to economic development. However, higher education is also important for good citizenship and for enriching and diversifying people’s lives.’<sup>39</sup> It goes on to state that ‘Universities are key to developing a nation. They play three main functions in society: Firstly, they educate and train people with high-level skills for the employment needs of the public and private sectors. Secondly, universities are the dominant producers of new knowledge, and they critique information and find new local and global applications for existing knowledge. South Africa needs knowledge that equips people for a changing society and economy. Thirdly, given the country’s apartheid history, higher education provides opportunities for social mobility. It can strengthen equity, social justice and democracy. In today’s knowledge society, higher education is increasingly important for opening up people’s opportunities.’<sup>40</sup> It is, therefore, clear in the NDP that while highly skilled individuals are key to the economy, higher education also benefits the individual both through developing their social understanding and through providing expanded work opportunities. Public and private benefits to education are described. This interpretation of the purpose of

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<sup>38</sup> NDP, p.316

<sup>39</sup> NDP, p.317

<sup>40</sup> NDP, p.318.

the university was referred to in a number of presentations; and it is key to the way in which higher education should be funded.<sup>41</sup>

### **3.4 THE WHITE PAPER FOR POST-SCHOOL EDUCATION AND TRAINING (PSET) (2013)**

50. Similarly, the PSET White Paper (WP) highlights the role of further and higher education in developing skilled individuals who can contribute to the expansion of the economy, and who can find employment. This is the dual public and private purpose. It states that 'National economic development has been prioritised, and the role of education and training as a contributor to development has begun to receive much attention. The National Development Plan (NDP), the New Growth Path and other key policy documents of government have set out important strategies and priorities for development, with an emphasis on inclusive growth and employment generation. It is essential that the post-school education and training system responds to these, especially with regard to expanding the pool of skills and knowledge available to the country; achievement of this goal will enable the expansion of the key economic focus areas and equip young people to obtain work.'<sup>42</sup> It goes further to explain that this functional purpose of further education does not 'devalue the intrinsic importance of education. Quality education is an important right, which plays a vital role in relation to a person's health, quality of life, self-

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<sup>41</sup> USAf, Submission and presentation to the Commission, 29 August 2016; NMMU, Submission and presentation to the Commission, 2 September 2016.

<sup>42</sup> PSET WP, p.2

esteem, and the ability of citizens to be actively engaged and empowered. This White Paper reasserts these basic values that have informed the Constitution and which will continue to inspire everyone involved in education and training.<sup>43</sup> All these statements are equally valid in 2017.

51. With regard to transforming South African society, the PSET WP notes that 'Education has long been recognised as providing a route out of poverty for individuals, and as a way of promoting equality of opportunity. The achievement of greater social justice is closely dependent on equitable access by all sections of the population to quality education. Just as importantly, widespread and good quality education and training will allow more rapid economic, social and cultural development for society as whole. Education will not guarantee economic growth, but without it economic growth is not possible and society will not fulfil its potential with regard to social and cultural development.'<sup>44</sup> The policy thus focuses on the importance of access to further and higher education, as part of society's transformation.

### **3.5 EARLY POLICY DECISIONS ON UNIVERSITY FUNDING**

52. Higher education policy making has also focused on the issue of who should fund higher education. In 1996, the National Commission on

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<sup>43</sup> PSET WP, p.3.

<sup>44</sup> PSET WP, p.5.

Higher Education (NCHE), appointed by then-President Nelson Mandela, submitted its report: 'A Framework for Transformation'. This extensive report considered all aspects of higher education, as well as policy articulated by the African National Congress (ANC) during the struggle. The chapter on funding starts by considering the issue of public and private benefit. It considered the fact that, on the one hand, higher education colleges (for instance nursing education colleges) were free, based on the understanding that the main benefit derived from such education was public. On the other hand, universities and technikons charged fees (and received state subsidy) as a result of the combined public and private benefit. After consideration of a variety of issues, the NCHE concluded that higher education generated significant benefit for both the student concerned and the public. It found that 'to establish a higher education system characterised by increased and widened access for students, greater responsiveness to societal needs (including the elimination of unacceptable inequalities in higher education) and increased partnership and co-operative governance modes, the Commission believes that the cost ... should be shared by the student and by the public (government)'.<sup>45</sup> It is important to note that the Commission's decision was partly based on the cost of expanding the higher education sector, thus prioritising access. The NCHE also discussed the need to ensure a balance between public and private contributions.

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<sup>45</sup> NCHE, p.220.

53. This view was re-iterated in the 1997 Education White Paper, which explained the need to expand the system, and the costs associated with this, but also noted high levels of government expenditure on the sector.<sup>46</sup> It went on to explain that: 'Fee-free higher education for students is not an affordable or sustainable option ... higher education qualifications generate significant lifetime private benefits ... students from middle-class and wealthy families still tend to be disproportionately well-represented. For *all these reasons*, the costs ... should be shared equitably...'.<sup>47</sup> The White Paper also discussed the need for a national financial aid scheme for poor students and the possibility of a graduate work scheme. The Higher Education Act, 101 of 1997 (as amended) noted 'money payable by students' as one source of institutional funding, adding that '... council may discriminate in a fair manner between students who are not citizens or permanent residents of the Republic and students who are ...'.<sup>48</sup> These policy decisions forged the course of the first decade of student funding; and continue to guide policy.
54. It appears that in the various debates and discussion around the purpose of higher education there was no endeavour to analyse or interpret s29(1)(b) of the Constitution. There was an implicit acceptance that there is no obligation on the State to provide higher education fee-free to all and that a cost-sharing model was the solution,

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<sup>46</sup> Education White Paper 3: A Programme for the Transformation of Higher Education (1997) chapter 4.

<sup>47</sup> *Ibid.*, 4.7.

<sup>48</sup> HE Act, 40(1).

### 3.6 PUBLIC OR PRIVATE BENEFIT

55. As can be seen above, one of the prominent indicators in deciding who should carry the cost of education, is whether it is a public or private benefit. The funding positions in policy articulate a dual public and private benefit, and for this reason argue for a cost-sharing model. During the Commission, the issue of public and private benefit, and how this should impact funding, was a common topic of discussion, and many individuals and institutions explained this in their presentations and submissions. Some of these views will be considered below. Taking the argument further, a number of presentations also highlighted the benefit to the private sector, thus arguing that the private sector contribution to the funding of further and higher education should be expanded. This, in the result, is also the view of the Commission.
56. What is notable is that some supporters of free education, discussed a private benefit to higher education but rejected the notion that it should include a private financial contribution, focusing on it as a pure public benefit. For instance, SAUS, SASCO and the Students for Law and Social Justice, all argued in favour of free higher education, but referred to the private economic benefits. SAUS noted that it 'believes that educated people are having more chances of getting jobs and thereby getting a salary. When free education is introduced, our people will access the system, get education and look after their families'. They also recognised the public benefit of this opportunity in that fewer people



would need social support from the government; and went further to argue that free education would lead to a reduction in crime as they were ‘convinced that most of the people who commit crime are either drop-outs, uneducated or unemployed. When free education is introduced people will access it easily and thereby get separated away [sic] of crime’. They also saw an increase in innovation and research output as more people could study further, leading to the advancement of the country. SAUS also commented on the private sector benefit, arguing that ‘Human Resource capital for the private sector will be intensified. We know that amongst the beneficiaries of the output or products of free education is the private sector that will gain the much-needed human resource [sic].’

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57. SASCO explained that ‘Free, accessible and relevant education is a means for social development, personal empowerment and the advancement of well-being, as well as economic development of nations. It provides for teaching, learning, research and community engagement which leads to production and reproduction of knowledge and cultural capital. It is for these bases [sic] that commodification of education should be criminalised; as it steals the true and correct purpose of the very existence of institutions of learning and undermines our birth right.’ They also claimed that the ‘Higher education summit hosted by DHET in 2015, resolved that Higher Education is a public good, and thus the

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<sup>49</sup> SAUS, Submission and presentation to the Commission, 10 August 2016.

responsibility of providing higher education lies with the state/government.<sup>50</sup>

58. In explaining the need for higher education to be accessible, the Students for Law and Social Justice, explained that ‘education has the ability to alter the lived realities of the historically oppressed, as well as open the doors of opportunity to those whom society has traditionally relegated to subservience and poverty. Thus, universal availability and access to further education is an aspiration all peoples should seek to realise. Education yields the benefit of bearing returns on investments made for the proliferation of this right. Significantly, education edifies the human existence in enabling individuals to pursue lives in which they can maximise their potential.’<sup>51</sup>

59. Professor Makgoba, when discussing the National Development Plan, focused on the public benefit and the need for more public funding to make higher education sustainable. In his presentation, he referred to the NDP saying that ‘The single most important investment a country can make is in its people. Education has intrinsic and instrumental value in creating societies that are better able to respond to the challenges of the 21<sup>st</sup> century. Lifelong learning, continuous professional development and knowledge production alongside innovation are central to building the capabilities of individuals and society as a whole’. As such, he explained

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<sup>50</sup> SASCO, Submission and presentation to the Commission, 22 August.

<sup>51</sup> Legal Resources Commission: Students for Law and Social Justice, Submission and presentation to the Commission, 12 August 2016.

that any 'cost of investment in PSET must also be compared to the potential cost of not investing'. He explained the need for us to 'maintain our competitive advantage in higher learning & knowledge generation' and the critical need to invest in research and teaching staff, especially to encourage better racial representivity. According to him, the main focus was public investment and public benefit.<sup>52</sup>

60. The DHET referred directly to the public and private benefits of higher education, indicating that policy recognises that 'investment in higher education is important for economic development of the country; but knowledge and skills acquired from achieving a university qualification result in significant lifetime private benefits for successful students'. This is the reason for the cost-sharing model adopted in the 1997 White Paper, with the caveat that lack of finances should not prohibit students from accessing higher education.<sup>53</sup> The nationwide student protests in October 2015 demanded fee-free higher education, thereby rejecting the payment of fees by students (cost-sharing model). This issue will be addressed elsewhere in this Report.

61. The Council on Higher Education argued in favour of cost-sharing, based on the public and private benefits of higher education. However, the CHE also stressed that while equitable and increased access are important for transformation and should be central to any funding solution, this should

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<sup>52</sup> Professor M.W. Makgoba, Presentation to the Commission, 3 October 2016.

<sup>53</sup> DHET, Presentation and submission to the Commission, 10 August 2016.

not be done at the expense of quality education. The CHE explained that the public benefits of higher education include economic and cultural development; and that there should be a correlation between the levels of public investment and public benefit. For this reason, state subsidy of higher education is both necessary and desirable. With regard to private benefits, the CHE focused on greater employment opportunity and better earning power. They referred to a 2016 Statistics South Africa Community Survey, which showed that 'graduates on average earn more than non-graduates and that there is only 5% graduate unemployment in South Africa. This contrasts with the UK, for example, where it has been reported that a quarter of all graduates are low earners 10 years after graduating – this after the rapid massification of their higher education system. We have a relatively small system in which only 19% of 19-24 year-olds participate; the fact that graduates do get better jobs accounts in part for the huge demand in South Africa for wider access to university, yet the UK instance indicates that widening participation may reduce the certainty of high level employment for graduates. There is no doubt, however, that graduates derive individual benefits from their education that are not shared by those not receiving higher education.' This was one of a number of submissions that pointed out that increased access, whether free-free or not, carries the inherent risk of producing disappointed graduates.

62. The CHE explained that what is needed is 'a higher education system to which access is not limited by lack of access to good schooling and to

student funding, but which is funded fairly in the context of the spectrum of possibilities for all school-leavers’.

63. The majority of the universities focused on the dual public/ private benefits, thus supporting cost-sharing models of different ratios, with some suggesting increased private sector participation. Universities generally agreed that more state funding was needed to support the basic costs of running institutions (block grant) and that fees should be ‘affordable’.

64. Universities South Africa (USAf) referred to the National Development Plan to explain the purpose of universities to educate and train citizens; to produce new knowledge; and to transform South African society and provide opportunities for social mobility. They went on to explain that it ‘is well established that South Africa’s higher education system is a fundamental ingredient in the development strategy that has been adopted’ and simultaneously universities are ‘key social institutions in addressing the social justice agenda of one of the most unequal societies in the world’ though creating pathways to social mobility.<sup>54</sup> Thus, while there is an important public benefit to higher education, there is also personal gain.

65. Mr. Bikwani, speaking on behalf of the University Council Chairs Forum of South Africa (UCCF-SA) focused on the purposes of higher education,

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<sup>54</sup> USAf, Submission and presentation to the Commission, 29 August 2016.

mentioning both public and private benefits. He referred to their critical role in 'shaping discourse on societal transformation in our fledgling democracy' and the 'imperative to arrest and reverse growing inequality in our country, an inequality that has entrenched itself along racial demographics and an inequality that exacerbates the exclusion of the poor and previously disenfranchised from meaningful participation in society at large and the economy in particular'. He referred to the role higher education can play in reducing unemployment, especially among the youth. He focused on the need to 'deliver world class and quality education to build the requisite skills profile that would ensure the competitiveness of South Africa in a globalised economy' and the related need to transform curricula to meet the needs of our country and continent. As part of the purpose of a higher education institution, he also mentioned enabling all students to participate 'in all academic and campus activities in a dignified manner without fear of exclusion due to financial considerations. Our students should never be hungry or without decent accommodation whilst pursuing studies'.

66. The University of the Witwatersrand (Wits), in their submission, argued that the 'benefits of a vibrant and thriving higher education system are clear. Universities and graduates are direct contributors to South African knowledge and innovation and contribute to economic growth.' They added that 'Graduates are not only more likely to obtain employment, but often enter into well-paying jobs, increasing the number of taxpayers; contribute to a more informed democratic participation; tend to be

healthier individuals, and are less likely to engage in criminal activity, and display higher levels of civic engagement. A vibrant higher education sector is, thus, essential to the creation of a thriving civil society. The project of nation building is also implicated since, without a thriving civil society, such an ideal cannot be realised. When considering the context of South Africa's legacy of apartheid and the institutionalized system of inequality that has been entrenched, higher education plays an important role in transformation. Furthermore, from a social justice perspective, university education in South Africa is also a public good. We all benefit from higher education, whether personally or societally.<sup>55</sup> This is a project for which everyone in South Africa bears responsibility.' They concluded that 'funding higher education is not just a burden that the public purse must bear, but that Government, universities, the Private Sector and Society at large must all contribute to the mammoth task of creating solutions to the higher education funding crisis.'<sup>56</sup> The University argued that 'outside of general taxes and philanthropy, the private sector supports universities through earmarking funds for specific projects and through supporting mostly students who are potential employees. **What is absent, is a systematic mechanism that channels private sector funds to all universities**<sup>57</sup>. This is despite the fact that the private sector

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<sup>55</sup> In this sense, we need a system for funding higher education that treats the private and public benefits not as opposing ideas but as complementary in the social justice project of the country.

<sup>56</sup> Wits University, Submission to the Commission, 10 August 2016.

<sup>57</sup> Our emphasis.

as a whole, is a beneficiary of graduates produced from South African universities.<sup>58</sup>

67. The University of Pretoria argued that a cost-sharing model is best based on the understanding that higher education has both public and private benefits. Public benefits include social capital (better health, lower crime rates, lower teenage pregnancy rates, etc.), social cohesion, and economic development. Private benefits include enhancement of career prospects, higher salaries and benefits, professional mobility and increased personal status. The University explained further that, as a result of the private benefit, '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. From a life-cycle perspective, the problem is not one of poverty, but the mismatch between the timing of expenditure and income.' Thus, they argued that the 'charging students fees is therefore a rational element in the financing of HE, 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.'<sup>59</sup>

68. The University of Zululand also supported shared costs, with more focus on private sector contributions. They explained that 'education is a public

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<sup>58</sup> Wits University, Submission to the Commission, 10 August 2016.

<sup>59</sup> University Pretoria, Submission and presentation to the Commission, 11 August 2016.



good that has significant positive externalities to society, hence all beneficiaries including government, private sector, students and the tertiary institutions ought to all contribute to meeting the costs of providing higher education on a sustainable basis for the purposes of creating a thriving society based on a knowledge economy. New innovative funding formulae ought to be sought that involve public-private-partnership and social investment bond issues to meet the bulk of the financial needs of tertiary institutions. Since students are the major beneficiaries of the tertiary education system they ought to pay for their education once they earn high enough incomes. Moreover, all graduates ought to pay a special income contingent tax to ensure future generations have access to tertiary education.' The University thus gave its support to a deferred fees scenario, where those who have benefited from higher education, and can afford to pay when they are earning, should contribute, together with government and the private sector.

69. The University of Kwa-Zulu Natal argued three basic principles. The first is the need for adequate public funding as higher education is a public good in terms of greater civic participation; increased tax revenue from higher paid graduates; and lower costs for social grants and other support. They explained that 'Public funding has declined, and this has made universities reliant on fees to a greater extent' leading to increased fees and student debt; and problems retaining critical academic staff. The second principle is that the individual should pay for the private benefit or individual gain in terms of better employment opportunities and pay,

better social protection in terms of benefits and pensions, and less chance of retrenchment. The third principle is 'equity and equality' which relates to access and affordability, and the need for a financial support mechanism.<sup>60</sup>

70. The Nelson Mandela Metropolitan University also referred to the National Development Plan and the role of higher education in development, highlighting the public good. It explained that 'Recent reports of the World Bank (2009; 2010) have similarly highlighted the critical role of higher education in stimulating knowledge-intensive socio-economic growth and development'. In the light of South Africa's inequality and Gini coefficient, the important role of higher education in transformation was also mentioned. NMMU also referred to the additional costs of transformation in higher education in South Africa; such as 'adequate food and nutrition, transport and many other hidden costs' highlighting the need for universities to be 'in financially sound positions to meet these additional challenges or [else] students from poor backgrounds will remain marginalised and set up for failure'.<sup>61</sup>

71. The University went on to consider the public and private benefits of higher education as referred to by the Institute for Higher Education Policy. Considering the private benefit, the university explained that 'According to Montenegro and Patrinos (2014, 19 & 33) globally, and

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<sup>60</sup> UKZN, Submission to the Commission, 29 August 2016.

<sup>61</sup> NMMU, Submission and presentation to the Commission, 2 September 2016.

especially in Africa, there are considerable benefits to higher education. In Sub-Saharan Africa, private returns on higher education are higher than returns on primary and secondary education. This research showed that the region with the highest private returns on higher education is Sub-Saharan Africa, and that South Africa specifically has the highest private returns to higher education in the world. This is the result of shortages in high-level skills. South Africa's high returns on higher education coupled with high levels of inequality mean that free higher education will proportionally benefit the privileged more than the poor (Patrinos 2015). This is supported by Langa et al (2016, 1) who asserts that free higher education in highly unequal societies mainly benefits the already-privileged (new political and business elite), who have the social, cultural and economic capital required to access, participate in and succeed at higher education.' They concluded that 'In South Africa, post-school qualifications contribute to enhanced employment opportunities and higher wages. It is thus fair to expect students to contribute to these improved lifelong benefits that they receive from pursuing higher education qualifications. However, the inability to pay student fees should not constitute a barrier to obtaining a higher education qualification and therefore a well-established student financial aid scheme is imperative to ensure equity.' Thus, the NMMU called for increased state funding in line with the intentions of the NDP; and a cost-sharing model with an

expanded loan option, with the possibility of private sector investment in NSFAS.<sup>62</sup>

72. The TVET Governor's Council argued that education is an apex programme of the South African government; as such it is the highest priority and all resources necessary 'should be channeled such that there is no unfunded mandate as far as education is concerned'. They argued that the percentage of the GDP going towards further and higher education is insufficient, and that more government money should be allocated to allow for free education. This was considered to be in line with the public developmental benefits of higher education.<sup>63</sup>

73. The CHET argued that there are a number of public and private benefits to higher education. The public benefits are both economic (increased tax revenues; greater productivity; workforce flexibility) and social (increased quality of civic life; increased charity giving; social cohesion; adaptation to technology). The private benefits are also economic (higher salaries and benefits; enhanced employment opportunities; higher savings levels; professional mobility) and social (improved life expectancy; improved quality of life for family/children; enhanced social status; better consumer decision making). The CHET also referred to research which found that the private returns on higher education in South Africa are higher than in many other countries – double that of

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<sup>62</sup> NMMU, Submission and presentation to the Commission, 2 September 2016.

<sup>63</sup> TVET Governor's Council, Submission and presentation to the Commission, 30 August 2016.

Mexico and Brazil; four times that of Norway. In countries with a high Gini coefficient, like South Africa, free education tends to benefit the rich more than the poor; and private benefit is higher.<sup>64</sup>

74. The National Tertiary Education Union (NTEU) argued that ‘we have to decide whether Higher Education is something we value as a nation’ and that if ‘government is serious about confronting the country’s triple challenge of unemployment, poverty and inequality, then it has to be said that Education in general must be accorded a high priority position and value, if not the highest’. The NTEU accepted both public and private benefits to higher education, and explained that university education is an expensive alternative. As such, ‘university access should [not] be free-for-all, but for all it should be cheaper’ and the ‘alternatives must be made even easier to access, such as TVETs for those who cannot access universities, whether it be for financial or academic reasons... The viability of TVETs as alternative fee-free institutions should be considered’.<sup>65</sup>

75. Having considered the foregoing views, the Commission is persuaded that higher education brings with it substantial private benefits. At the most basic level no student attends university or a TVET college because he or she intends in so doing to benefit the state and increase taxes. He or she does so for the potential increase in personal or family

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<sup>64</sup> CHET, Submission and presentation to the Commission, 11 August 2016.

<sup>65</sup> NTEU, Submission and presentation to the Commission, 1 September 2016.

advancement, status, income, future opportunity or simply, self-gratification. These are lifelong advantages (many transmissible to one's estate) which can be exercised within or without the country that provides education. Insofar as the state receives a return on its education investment, this is very much related to the degree in which the student achieves his personal fulfilment. The less successful the student the smaller is likely to be the return from taxes and indirect economic benefits to the state. Benefits of higher education are shared between public and private goods in a measure that differs widely between individual comparisons. What can be concluded without fear of rational contradiction is that to typefy higher education as exclusively or even essentially a public good is to ignore reality. There can, therefore, be no principled objection to cost sharing of higher education provided the core values of equity and fairness are maintained.<sup>66</sup> There are also beneficiaries from higher education production beyond the state and the individual, most obviously the private business sector. Much of the success of that sector depends on the continuing production of university trained graduates or college educated and workplace skilled technicians. Yet the role of business in providing the cost of higher education has, in South Africa, been largely voluntary or confined to statutory contributions deducted from salaries and wages. It is clear that the distinction between public and private benefit from higher education is often blurred and

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<sup>66</sup> Unless it is argued that the State alone has a constitutional obligation to provide funding for further education, a view to which this Commission does not subscribe.

varies from case to case and that such provision should be shared between the state, the former student and the private sector.

### **3.7 DEFINING HIGHER EDUCATION AND TRAINING FOR THE PURPOSES OF THE COMMISSION**

76. The terms of reference of the Commission refer to 'higher education and training.' Therefore, the Commission spent some time understanding the post-school sector in its entirety. The DHET takes responsibility for four sub-sectors of education: Community Education and Training (CET); Technical and Vocational Education and Training colleges (TVET) and university education; and the Sector Education and Training Authorities (SETAs).

77. Community Education and Training Colleges (CET) are a relatively new type of institution being established to assist youths and adults who never completed or attended school. These are people who cannot enrol in either TVET colleges or universities, and who require a 'second-chance' to attain skills or re-skilling. The colleges are being built off the base of general education and training for adults. There is very limited provision and this is a marginalised sector, which is chronically under-funded. There is very limited funding available for growth; little infrastructure and only part-time educators. Nine CET colleges have recently been established, incorporating approximately 3 200 Community Learning Centres (Adult Learning Centres) from across the Provinces. A Task

Team is currently working on developing a funding model for the CET sector. The potential demand for CET is significant considering the number of NEET (not in employment, education or training) youths (see diagram below). According to the NDP, these colleges are targeted to enrol one million people by 2030. The colleges could also provide for a wide-range of student and community needs.<sup>67</sup> **While the need for additional funding for the CET sector is clear, the training offered at these centres cannot be defined as ‘higher education and training’.** **As such, the Commission is of the view that CET does not fall under its mandate.** Consideration should be given to funding these colleges in the same way as no-fee schools are funded, as they are providing basic education in poor areas. The needs of the CET should be taken into consideration before determining to allocate further funds to universities - approximately R46.210 billion in additional funding is needed for CET over the MTEF.<sup>68</sup>

78. The Minister of HET provided a similar interpretation of CET, explaining that ‘The Department and Government generally, reads the constitution to clearly articulate that basic education, including adult education, is a fundamental/ basic right that must be provided to all who need it; while further education, which can be interpreted as including Higher Education (HE) (also referred to as university education) and Technical and Vocational Education and Training (TVET), are secondary rights that

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<sup>67</sup> DHET, Presentation and submission to the Commission, 10 August 2016 & 4 October 2016.

<sup>68</sup> DHET, Presentation to the Commission on community colleges & funding requirements, 26 October 2016.



must be made progressively available and accessible to those who merit it (meet the academic requirements). Within the remit of the Department of Higher Education and Training (DHET), the provision of Community Education and Training (CET) gives effect to section 29(1)(a), namely that everyone has the right to adult basic education, while the provision of TVET and HE responds to section 29(1)(b). To make further education available is interpreted to mean that the system must grow to provide sufficient spaces (opportunities) for study. To make it accessible means it should be affordable and individuals should not be denied access based on financial need, on the basis of a disability or other form of discrimination.<sup>69</sup>

79. The SETAs are not institutions of learning. They are bodies focused on different skills areas, which were formed to provide information on the skills needed in that specific area, and to support education and training in colleges and workplaces. Prior to 2009, SETA management was under the Department of Labour, hence their focus on workplace training through learnerships. The various SETAs perform at very different levels, but in general they have not reached their goals of providing good information on skills needs and the necessary quality provision. The system is administratively expensive, and revisions are underway. There are also concerns about poor governance.<sup>70</sup> **Given their nature, these institutions fall outside of the mandate of the Commission.** Their role

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<sup>69</sup> Minister of Higher Education and Training, Presentation to the Commission, 13 October 2016.

<sup>70</sup> DHET, Presentation to the Commission, 4 October 2016.

in funding and training however, remains of great importance in the funding of higher education. Most of the training they provide is done through TVET colleges, with funding from the SETAs. SETAs receive money from the National Skills Fund (NSF), which consists of funding from the levies charged to employers based on their number of employees. There were some suggestions that the levy could be expanded or better utilised to fund higher education and training, but this will be considered in a later chapter. Some SETAs do provide financial assistance to selected students studying at universities and TVET colleges. Others channel financial aid through NSFAS.

80. Another way of interpreting 'higher education and training' is to align it to the National Qualifications Framework (NQF). The NQF consists of 10 levels of education divided into three bands. The first band is considered basic education and consist of levels 1 to 4, which equates to high school grades 9 to 12 or to similar vocational training. Levels 5 to 7 are offered at both colleges and universities, especially universities of technology. Qualifications offered on levels 7 to 10 are university degrees.
81. TVETs (discussed in more detail below) straddle the line between basic and higher education and training. The National Certificate-Vocational (NCV), which is offered at the colleges, is equivalent to Grades 10, 11 and 12 (up to NQF level 4). Other courses, such as the National Accredited Technical Education Diploma (NATED) courses, are offered up to NQF level 6. It is possible that the various TVET courses should,

therefore, be funded according to different norms. In dealing with the 'training' aspect of our mandate we have not, however, differentiated between such different levels.

82. University (also discussed below) offerings can begin at NQF level 5 (with a higher certificate), although the majority are at levels 6 and above (diplomas and degrees). As such, universities fall clearly within the definition of 'higher education and training'.
83. Having confined the terms of the Commission to TVET colleges and universities, it is still important to consider the funding for higher education within the funding for the education sector as a whole. It should be remembered that only a relatively small proportion of South Africans benefit from higher education.
84. In terms of the school trajectory, while Early Childhood Development (ECD) and Basic Education (BE) should provide for all youth (compulsory education from Grade R to Grade 9), only a proportion of youth continue into the Further Education and Training band of schooling, and an even smaller proportion continue to study post-school. In fact, in terms of the pyramid of enrolment needs (discussed later, and illustrated in the diagram below) the university sector should be the smallest in terms of the number of students. Currently, about 19% of youth, or about just under one million students, continue to university study (this is called the

participation rate).<sup>71</sup> Furthermore, the representivity of those attending university is not equal. As illustrated by the University of Pretoria in their presentation to the Commission, from a matric class of 100 000 students from deciles 1-5, about 90% do not qualify for university. The majority of those who qualify and attend university come from middle class or affluent families.<sup>72</sup>

85. A section of education which receives too little attention in terms of resource allocation in South Africa is Early Childhood Development (ECD), although it falls under the priority areas of scarce skills in education. Studies have shown that what happens to a child in the first 1000 days impacts critically on their future achievements. This is reference not only to formal education, but also to health and nutrition. In South Africa, there is very little attention given to institutional support before the age of 5 (Grade R), with support up to this age divided between different Departments (mainly DBE and DSD). Even Grade R remains a challenge for many South Africans. While no-fee schools can offer free Grade R, poor people living in areas with schools in quintile 4 and 5 are left to find their own solutions.<sup>73</sup> Research has shown that children without the necessary grounding prior to Grade 1, struggle in Grade 1 and in general perform more poorly throughout their school career. It is clear that all children should be able to benefit from education in these

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<sup>71</sup> CHE (2017), *VitalStats. Public higher education 2015*.

<sup>72</sup> UP, Submission and presentation to the Commission, 11 August 2016.

<sup>73</sup> DBE, presentation to the Commission, 23 September 2016.

early years if we are going to solve the challenges we find in our education system.

86. The Commission heard much testimony on the fact that Basic Education receives the bulk of funding, but that there is, none the less, an articulation gap between what is taught at school and what is needed in higher education. It is clear from studies (such as TIMS), that our Basic Education system is not producing the required outcomes. The Department of Basic Education explained to the Commission that there is solid evidence of improvements in the performance of learners, for instance in international tests, but that overall there is ‘Still a problematically low level of performance’. The reasons for these challenges need to be better understood – and may lie in ECD provision or funding arrangements or a range of other necessary interventions.<sup>74</sup> The number of learners who dropout before they finish Grade 9 (which is the end of compulsory schooling), and even more before they reach Grade 12, is a matter of serious concern.

87. Regarding PSET, the Minister stressed that while cost-sharing is an entrenched principle, ‘finances should not prohibit students from accessing higher education’. As such, the DHET has put in bids to National Treasury to improve the funding to support students at full cost of study. Since 2013, the Department has consistently attempted to get sufficient funds to effectively fund all poor students. Despite insufficient

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<sup>74</sup> DBE, presentation to the Commission, 23 September 2016.

funds, substantial funding has been provided through NSFAS. The Minister explained that ‘since its inception NSFAS has supported 2.6 million students (1.5 million in universities and 1.1 million in TVET colleges) through loans and bursaries amounting to R59.7 billion (according to the 2015/16 NSFAS audited statements). This funding has increased significantly since 2010, and currently supports approximately 205 000 poor undergraduate students to access higher education and 200 000 TVET college students’.<sup>75</sup>

### **3.8 POST-SCHOOL EDUCATION AND TRAINING (PSET): DEVELOPING AND MAINTAINING THE SECTOR**

88. Part of the outcome of the 2009 democratic elections saw the restructuring of the then Department of Education into two distinct Departments of Basic Education and Higher Education and Training. Consequently, the mandate of the new DHET included the TVET and CET sectors, SETAs, universities and private higher education institutions offering qualifications from NQF level 5 and above. In 2013 the DHET published the Post-School Education and Training White Paper, which captured the expanded sector and the desired integration between sub-sectors. This shift in policy had funding implications for the PSET sector, and at the time of publishing the White Paper, there was no costing done to give effect to the implementation of the policy. Additionally, the per capita funding allocated to universities had been

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<sup>75</sup> Minister of Higher Education and Training, Presentation to the Commission, 13 October 2016.

declining in real terms, thereby deepening the funding crisis and leading to an increase in student fees.

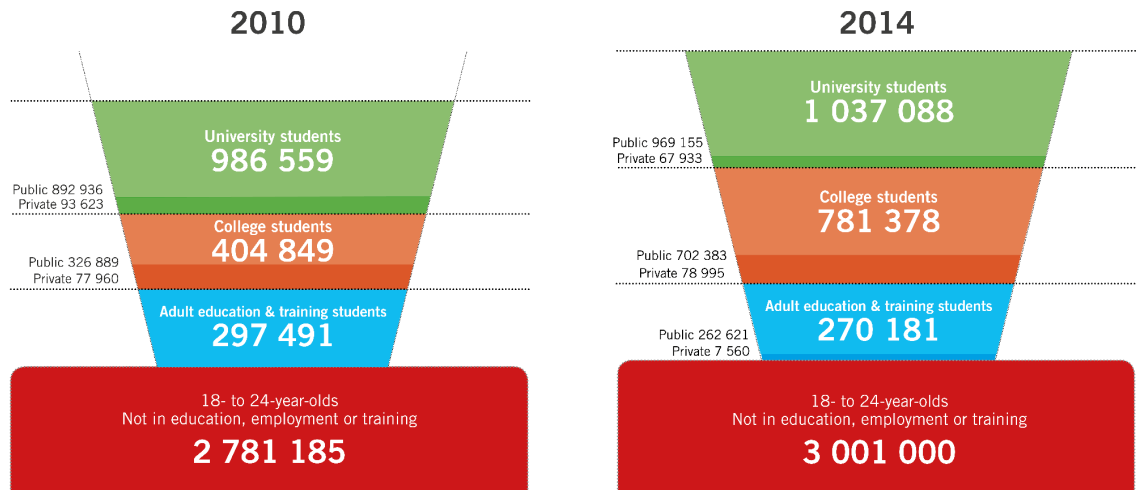
89. The Department of Higher Education and Training (DHET), in their opening presentation to the Commission, stressed the importance of taking into account the entire education context when considering the student's demand for free education. They indicated the various demands on the education budget, including the need to 'fund universities adequately to provide quality higher education and research; expand, improve the quality of and adequately fund TVET colleges and financially support TVET students; develop and expand CET colleges and financially support CET students; fund practical workplace based learning for University students, TVET students and CET students; and provide universal quality basic education and early childhood development more generally.' They also referred to the need to expand the system to provide sufficient spaces for study, but also to ensure that beyond physical and financial access, there is epistemological access.<sup>76</sup> This chapter will briefly consider the mandate of the Commission in terms of 'higher education and training'; the current PSET context and how it has been shaped by the past and how it can be developed; and the various costs facing the TVET and university sector in order to ensure sustainability and the provision of quality education.

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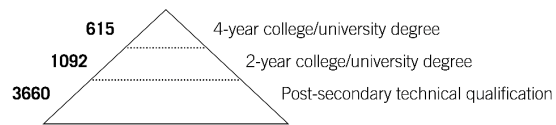
<sup>76</sup> DHET, Presentation and submission to the Commission, 10 August 2016.

### 3.9 THE PSET SYSTEM

The shape of the PSET system in South Africa, 2010 and 2014, compared to the USA pyramid and indicating the NEET challenge<sup>77</sup>



Shape of the US public post-secondary system  
2009, number of institutions



- 2010 NEET = 2.7m - 2014 NEET = 3.0M (CHET) (Not in Employment, Education or Training). It may be simply noted at this stage that this comparison highlights two major weaknesses in our system; the small proportion of college students as against students attending universities and the number of unemployed and uneducated persons.

<sup>77</sup> APPETD reproduced this slide in their presentation to the Commission, 22 September 2016, title added by author, no source provided by APPETD.



### **3.10 THE PSET SECTOR**

90. The post-school education sector, like all other parts of South African society, has been shaped by its apartheid past, and it continues to experience pressures as a result of this. During apartheid, the post-school sector was divided into a number of colleges, technikons and universities. Within each of these sectors, there were institutions with specific foci and for designated races. For instance, within the college sector, there were, among others, teacher education colleges and agricultural colleges. Universities were designated by race, and research was only a focus at the white universities, and even within these to a greater degree at some than at others. Technikons did not have a research focus, but provided technical and vocational training in various fields. In the post-apartheid period, this landscape has changed significantly, but the history of an institution tends to still have a bearing on its current status.

### **3.11 THE COLLEGE SECTOR**

91. The college sector has not developed along as clear a path as the university sector has.<sup>78</sup> Understanding of the best vocational structure has shifted over time, and attempts to ensure sufficient artisans and technically trained workers and to improve the image of this sector

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<sup>78</sup> The section on the college sector is based on a workshop given to the Commission by Volker Wedekind on 28 July 2016. Additions are made (and footnoted) from various presentations to the Commission.

continue to this day. Unfortunately, most people still see college as a less prestigious career option compared to a university education, and this is one of the reasons why South Africa has too few people with vocational skills in comparison to those with more theoretical skills. **It is generally accepted that what is needed to best develop the economy and development in a country, is a pyramid, with those with technical or vocational skills forming the bulk at the bottom (these would be those trained in college or through apprenticeships) and those with theoretical skills (a degree, or university education) filling the smaller space at the top. The structure of such a pyramid is the reverse of what presently exists. The model which is adopted to fund students at TVETS and universities must accordingly reflect the priority of the college system if a meaningful reversal is to be brought about.** South Africa's lack of technical skills problems is compounded by the fact that technikons (as discussed later) have changed into Universities of Technology, and there has been a shift away from diplomas in favour of the more sought-after degree.

92. Aside from the image problem that they face, the colleges have also experienced various challenges over the last couple of decades. In an attempt to create a more integrated education system, changes were made that have not always had the desired outcome. For instance, the number of public colleges was reduced from 153 to 50. Governance structures have changed and so have conditions of service; and challenges to governance and management structures persist at some

institutions, while others are progressing well.<sup>79</sup> The lack of security and clear direction, and the introduction of new lecturer qualification requirements, has led to many lecturers leaving the sector (and a shortage is now faced). There is a need for lecturers with an understanding of theory **and** practice, and for professional development of these lecturers.<sup>80</sup> Another change to the sector was the decision to close down all education colleges in favour of teachers getting a degree through a university. Colleges remained a provincial competency until 2013, meaning that the funding for and standards of different public colleges was very different.<sup>81</sup> Furthermore, some colleges (to this day) remain the competency of a department other than the DHET (for instance agricultural, nursing and police colleges).

93. Added to this, interpretations of what vocational training is, have changed intermittently over this period. At one time, there were Further Education and Training Colleges (FET), and now they are Technical and Vocational (TVET) Colleges. Some offered Adult education, but now this is being moved to community colleges. TVETs offer programmes like the NCV – which is a matric equivalent – but also post-school qualifications (like NATED) and skills development courses and occupational programmes (mainly together with the SETAs) and higher certificates (with universities). These programmes are diverse in terms of level and focus, with more than twenty specialisations in the NCV alone. They offer pre-

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<sup>79</sup> DHET, Presentation to the Commission, 04 October 2016.

<sup>80</sup> DHET, Presentation to the Commission, 04 October 2016.

<sup>81</sup> False Bay College, Submission and presentation to the Commission, 25 October 2016.

service and in-service training. This means they straddle the line between different types of education and different quality assurance bodies, making it hard for them to develop a specific identity. NATED courses were being phased out, and were then brought back at the behest of industry. There has also been a lack of development in the programmes and courses, meaning that there are challenges with curriculum design, relevance, and with some outdated content.<sup>82</sup>

94. One of the big challenges facing these colleges continues to be their relationship with industry or the workplace.<sup>83</sup> First, this impacts in the relevance of the courses they offer, which need to be up-to-date. Second, it leads to a problem that students cannot complete their courses as they cannot access workplace training and work-integrated learning, which are formal requirements of many of the programmes. This results in students having a theoretical training only, for a technical or practical qualification. Articulation, both between the TVETs and industry and between TVETs and higher education, remains a concern, and is most likely one of the disincentives to a TVET education.<sup>84</sup>

95. Despite these challenges affecting the basis of the college sector, there is still a push to grow the sector to meet the needs of the economy and the demand for further education. The number of students in the TVET sector more than doubled, from 345 000 students (headcount enrolment)

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<sup>82</sup> DHET, Presentation to the Commission, 04 October 2016.

<sup>83</sup> DHET, Presentation to the Commission, 04 October 2016.

<sup>84</sup> DHET, Presentation to the Commission, 04 October 2016.

in 2010 to 709 535 in 2015. However, in terms of the fully costed funding norms, the number of headcount enrolments funded in the Ministerial approved programmes is approximately 429 638, as compared to the approximately 664 748 enrolments in the system. This is indicative of the level of underfunding and over enrolment in the colleges.<sup>85</sup> New colleges are planned - one is complete; two are underway and another nine are out for tender (although a lack of funding remains a concern for full functionality).<sup>86</sup> While there are initiatives to correct the problems in the sector, the sector is currently in a situation where student throughput is worse than at universities (although a lack of data means this is hard to analyse); where many students go to colleges as a last resort; where many students enrolled in the college are following the NCV, despite already having done the equivalent in a school; and where funding is a major problem – both at institutional and student level – as these colleges tend to cater for the poorer students.<sup>87</sup>

### **3.12 TVET FUNDING NEEDS**

96. The TVET sector is facing severe financial pressure, which impacts on the quality and innovation of the sector, and on the student experience.
97. False Bay College explained the funding situation from the College's perspective to the Commission.<sup>88</sup> 'College programmes can be grouped

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<sup>85</sup> DHET, Presentation and testimony to the Commission, 10 August 2016.

<sup>86</sup> DHET, Presentation and testimony to the Commission, 10 August 2016.

<sup>87</sup> DHET, Presentation to the Commission, 04 October 2016.

<sup>88</sup> False Bay College, Submission and presentation to the Commission, 25 October 2016.

into 3 categories, namely, Ministerial Programmes, Occupational Programmes and Higher Education Programmes. The Programme Qualification Mix (PQM) of the college is developed taking into account the economy of the region, employment opportunities, past programme performance and job placement performance'. The funding arrangements for these programmes differ.

98. Ministerial Programmes include the 'National Certificate Vocational (NC(V)) as well as Report 191 (NATED) programmes. The DHET funds these programmes out of their allocation from Treasury in the form of formula funding. The DHET is responsible for the costing of these programmes and the current policy is that the DHET funding provides for 80% of the programme costs and the student is responsible for paying the remaining 20% in the form of tuition fees. NSFAS bursaries are available for needy students who are not in a position to pay the 20% class fees. The reality however, is that in 2015 there were 664,748 students in these programmes at colleges countrywide whilst the DHET could only fund 429,638 (64%) students. This underfunding continued in 2016 and indications are that it will remain unchanged in 2017.' The College explained further that both NSFAS and DHET allocations are based on 2013 figures, resulting in a large number of unfunded students. The College had a shortfall of R19 million in 2016.<sup>89</sup> The DHET explained that Colleges are expected to recover fees from students that do not

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<sup>89</sup> Presentation and submission by False Bay College, 25 October 2016

qualify for NSFAS bursaries; however, due to the no fee increase in universities, colleges are finding it difficult to recoup these funds.<sup>90</sup>

99. Occupational Programmes include 'learnerships, apprenticeships and skills programmes. These programmes are not funded by the DHET' but are offered at a cost to the client. Colleges work together with SETAs and the National Skills Fund (NSF) to fund these programmes and provide a stipend for needy students.<sup>91</sup>

100. Higher Education Programmes are offered in partnership with a university, mainly at NQF level 5 (higher certificates). These programmes are 'subsidised by the DHET through the partnering university and the students can access NSFAS loans through the university.'<sup>92</sup>

101. The situation is made worse by fear that the university crisis is diverting attention from TVET sector; and that funding will be directed to universities.<sup>93</sup>

102. The Tshwane South College reported a similar unstable financial position. Since 2013 the college has submitted a negative budget to their Council each year, although it has each time managed to meet its obligations and commitments by making cuts in other areas or from

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<sup>90</sup> DHET, Presentation and submission to the Commission, 10 August 2016.

<sup>91</sup> False Bay College, Submission and presentation to the Commission, 25 October 2016.

<sup>92</sup> Presentation and submission by False Bay College, 25 October 2016

<sup>93</sup> False Bay College, Submission and presentation to the Commission, 25 October 2016.

project funding.<sup>94</sup> The College carries 73 staff members who are not funded through the annual DHET allocation; and this prohibits the college from making critical appointments on all post levels, affecting the quality of teaching and learning. The College feels that there is pressure to increase enrolments from the DHET, despite the fact that there is no additional funding.<sup>95</sup>

103. The South African College Principals Organisation (SACPO) agreed with the College's general assessment, explaining that while the DHET uses the 80:20 ratio for funding, the allocation has been reduced to 62% or less and bursaries have also been cut. Furthermore, DHET keeps a portion of this money (63%) for salaries, without considering the different budget status of each college. Remaining funds are retained by the DHET. Colleges are also not receiving Capital Funding.<sup>96</sup>

104. The TVET Governor's Council went even further, expressing their opinion that 'the funding of Post-Schooling education in South Africa has been distorted in terms of allocation by prioritising universities over the TVET Colleges, the supposed skills machinery for the country.'<sup>97</sup> This had led to under-funding in the sector since at least 2009. In 2016, underfunding reached almost R4.7 billion, and TVET Colleges were excluded when universities were compensated for the no-fee increase; and when relief

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<sup>94</sup> Tshwane South College, Presentation to the Commission, 25 October 2016.

<sup>95</sup> Tshwane South College, Presentation to the Commission, 25 October 2016

<sup>96</sup> South African College Principals Organisation (SACPO), Presentation to the Commission, 24 October 2016

<sup>97</sup> TVET Governor's Council, Presentation & Submission to the Commission, 30 August 2016.



was provided for historic debt. TVETs annually write off bad debts, leading to even more chronic financial strain. The Council explained that they are expected to increase the size of the sector, without the proper levels of funding, or capital budget or sufficient funding for student support, despite the fact that the sector provides for the poorer student population and many under-prepared students. The Governor's Council called for an increase in the allocation from the state.<sup>98</sup>

105. The DHET agreed that there is a crisis of underfunding in the TVETs sector. They explained that in terms of the fully costed funding norms, the number of headcount enrolments funded in the Ministerial approved programmes is approximately 429 638, as compared to the approximately 664 748 enrolments in the system indicating the level of underfunding / over enrolment.<sup>99</sup> They explained that for 2017/18, TVETs were funded at 53% rather than 80% as per policy (where the remaining 20% should be made up through tuition fees). In 2013/14 they were funded at 81%, but since then this has declined to 68% in 2014/15; 60% in 2015/16; and 56% in 2016/17. This underfunding is heading towards a major crisis.<sup>100</sup>

106. The DHET also discussed the underlying principles of fair funding for TVETs. This is not currently the situation as the level of funding is not the same across all provinces. For instance, in the Eastern Cape TVET

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<sup>98</sup> TVET Governor's Council, Presentation & Submission to the Commission, 30 August 2016.

<sup>99</sup> DHET, Presentation and submission to the Commission, 10 August 2016.

<sup>100</sup> DHET, Presentation to the Commission on Funding of TVET & CET Colleges, 24 October 2016.

students are funded at R26 857 per FTE (full-time equivalent) learner, and in Limpopo at R16 050. This is a result of the process of changing to a single national system from the old provincial system. Fair funding would include equal rand values per weighted FTEs; an allowance for whether colleges are urban or rural, small or large; and allocations based on effective throughput levels.<sup>101</sup> Currently, allocations are made based on the funding formula for different programmes, regardless of certification or throughput rates. Once the 'enrolment-based allocation' is determined, TVET colleges only received a percentage of the allocation based on previous provincial allocations and available funding. Actual spending per FTE by Colleges does not differ substantially between different types of courses and, in practice, Colleges do not spend substantially more on higher funded (more practical) courses. This impacts on the quality of practical courses. There is also evidence that Colleges spending more on staff development have significantly higher certification rates. Low throughput rates can also result in small class sizes at higher levels, which increases the cost per student for offering that course. The Ministerial Committee on the Review of the Funding Frameworks of TVET Colleges and CET Colleges, has suggested a greater focus on the cost per graduate, rather than on the more basic measure of cost per enrolment. Even though targets in this sector are mostly focused on enrolment numbers, if students don't complete, then

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<sup>101</sup> DHET, Presentation to the Commission on Funding of TVET & CET Colleges, 24 October 2016.

there is no benefit to society or the economy. The Committee also recommends free tuition in TVET and Community Colleges.<sup>102</sup>

107. The DHET added that NSFAS bursaries (amounting to R2.3 billion in 2015) have been allocated to poor students to fund tuition fees (229 000 beneficiaries), as well as to provide accommodation and or travel allowances to needy students staying 10 km from a TVET college campus.<sup>103</sup> The Minister explained that while significant NSFAS funding is available, and about 50% of students don't pay fees, there simply is insufficient funding to support all poor students adequately.<sup>104</sup> This has led to unrest in colleges.<sup>105</sup> The South African Further Education and Training Students Association (SAFETSA) corroborated the fact that there is insufficient funding of TVETs, and that the poor infrastructure to support their learning and training, as well as a myriad of NSFAS challenges, complicates life for many students. NSFAS will be considered in more detail in a separate chapter. There is also pressure on the examination system which is underfunded.<sup>106</sup>

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<sup>102</sup> DHET, Presentation to the Commission on Funding of TVET & CET Colleges, 24 October 2016.

<sup>103</sup> DHET, Presentation and submission to the Commission, 10 August 2016.

<sup>104</sup> Minister of Higher Education and Training, Presentation to the Commission, 13 October 2016.

<sup>105</sup> DHET, Presentation and submission to the Commission, 10 August 2016.

<sup>106</sup> DHET, Presentation and submission to the Commission, 10 August 2016.

### 3.13 THE UNIVERSITY SECTOR

108. As mentioned above, the technikons (which were diploma awarding institutions focused on technical courses) no longer exist, and have either been converted into universities of technology (UoTs) or have been merged with traditional universities into what are now called comprehensive universities (institutions with both technical qualifications and formative degrees; and some postgraduate offering). A number of traditional universities still exist, and while racial barriers have been removed, a distinction between universities based on their past and language barriers continue. A process of merging institutions was undertaken in the early 2000s in an attempt to transform the university landscape. In some instances, this process has been effective, but not all institutions were merged, and not all mergers were successful. The post-merger landscape consisted of 23 universities – 11 traditional; 6 comprehensive universities (when including the Universities of Zululand and Venda, which were to move towards a comprehensive offering) and 6 universities of technology (UoTs) - reduced from 36 universities and technikons in 1994. Since then, two new universities were established in 2014, and one merger was undone to create two universities, leaving the system with 26 universities currently.
109. The historical disadvantages tend to still impact on the current trajectory of the majority of these institutions. Despite the mergers and other initiatives since 1994, people still refer to institutions as 'historically-black'

(HBIs) or 'historically-white' (HWIs) and the nomenclature is used to denote Historically Disadvantaged Institutions (HDIs) and Historically Advantaged Institutions (HAIs) respectively. HBIs tend to have a higher proportion of black students, less research focus, and greater financial strain. UoTs (whether HBI or HWI) find themselves in a similar situation, with a generally poorer student base. HWIs tend to be institutions of first choice, so they can select students with higher matric averages, who are more likely to succeed. They can also offer better support (academic and financial) and better student life and employment opportunities.

110. Nonetheless, as mentioned earlier in this report, it was at these HWIs that the 2015 protests began, both over a lack of institutional transformation and over financial strain. Furthermore, as indicated to the Commission, a number of these HWIs are currently under severe financial strain. This has resulted in, for instance, cuts to support staff and library collections. **The financial state of the university sector (before considering the demands for more affordable fees or free education) is not healthy and is unsustainable.** This state of affairs poses serious risks to the quality of provisioning and support to both students and staff.

### **3.14 UNIVERSITY FUNDING**

111. A number of submissions were made to the Commission commenting on the lack of funding for universities. A focus of these discussions was on the fact that while the number of students enrolled in the sector has

doubled from 495 356 in 1994 to 983 698 in 2013, there has not been a relative increase in funding. The Report of the Ministerial Committee for the Review of the Funding of Universities (2013) found that 'Meeting the resource needs of the sector will require significant additional funding. An analysis by the Committee found that state funding of higher education (in real terms) has been declining over the years. Between 2000 and 2010, state funding per full-time equivalent (FTE) enrolled student fell by 1.1% annually, in real terms. During the same period, perhaps as a response to declining state funding, tuition fees per FTE student increased by 2.5% annually, in real terms. South Africa's funding of higher education, even though significant, does not compare favourably to other countries'.<sup>107</sup> Testimony was given to the Commission comparing funding of the university sector in South Africa as a percentage of GDP to a number of other countries. While this comparison is indicative of underfunding, such comparisons can be misleading as the size and shape of the sector varies in different countries (for instance, should the whole of the post-school sector be considered or just universities; what about comparative participation rates?). Furthermore, while a country like Cuba spends a greater percentage of their GDP on university education, the private benefits to a graduate are much lower than in a country like South Africa as indicated elsewhere in this report. Whatever the historical or international comparison, testimony from

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<sup>107</sup> Report of the Ministerial Committee for the Review of the Funding of Universities (2013), p.7.

colleges and universities indicated severe financial strain, not only on the students but also on the institutions.

112. The cost of an education goes beyond what is often considered.<sup>108</sup>

During the Commission testimony was heard regarding a number of costs to an institution, as well as the impact of these costs not being sufficiently met. Due to this not being the primary focus of this report, these will only be discussed very briefly. **However, it should be borne in mind that any solution to the financial crisis in the college and university sectors, must also take these into account if the quality of education on offer is not to be negatively affected.** One of the costs highlighted by the University of Johannesburg in their presentation to the Commission was the high cost to 'ensure that underprepared students are successful in their university studies and to ensure that students do not drop out before they have completed their studies. This requires a suite of academic and social assistance programmes which the university has to provide ... In addition to this UJ also has an extensive tutor and mentoring programme to ensure students' success in the classroom. This is funded from the operating budget and the increasing investment ... has resulted in an increased graduation rate over the past 5 years of 10%.' The University of Johannesburg highlighted the need for 'universities to build and to maintain an adequate level of reserves ... [to] allow Councils to invest in strategic initiatives, such as new facilities or the funding of

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<sup>108</sup> Universities were unable to explain clearly why an LLB degree for example would cost more at one institution than another. This question may need to be addressed in finding a solution to fee regulation.

strategic research areas.’ It added that although UJ had ‘modest operational surpluses this was not enough to fund the backlog maintenance’.<sup>109</sup>

113. CHET reported on the DHET analysis of 2015 Reports by universities (2016), which found that six universities had operating deficits in their 2014 council controlled funds (NWU, RU, UKZN, UNISA, CUT, MUT); nine universities had council controlled personnel costs above the DHET norm of 53%-63% (CPUT (67%), TUT (66%), RU (73%), UFS (64%), UCT (65%), WSU (71%), DUT (71%), MUT (65%), VUT (70%)); and that student debt before provision for doubtful debt was R5.451 billion or 28% of expected tuition fee income.<sup>110</sup>

114. Another key issue raised during the Commission, in particular by universities, is that inflation in the education sector is higher than general inflation. This is referred to as the Higher Education Price Index (HEPI), which stands at CPI plus 2%.<sup>111</sup> An expert analysis of the funding framework and the challenges was further provided by Prof Rolf Stumpf, a retired vice chancellor and advisor to a number of universities in South Africa.<sup>112</sup> A number of reasons were discussed for this higher inflation rate. In the first instance, a large proportion of the budget of an institution

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<sup>109</sup> UJ, Presentation & Submission to the Commission, 2 September 2016.

<sup>110</sup> CHET, Submission and presentation to the Commission, 11 August 2016.

<sup>111</sup> USAF, Submission and presentation to the Commission, 29 August 2016; UNISA Bureau of Market Research (2014), ‘Research and development of a higher education price index for South Africa’ (Commissioned by HESA).

<sup>112</sup> Rolf Stumpf, Presentation to the Commission, 18 October 2016.



goes to salaries (in the case of the University of Johannesburg, 61%).<sup>113</sup> Salaries are one of the items that tend to increase beyond CPI, and in households' salaries do not form a large portion of expenditure. The second main reason for higher inflation is the proportion of goods bought internationally, and the additional cost of the depreciating of the Rand. This is particularly the case with research equipment and access to international journals. In 2014 the costs to libraries actually increased by an estimated 40% due to the combined effect of a new e-resource tax and the depreciation in the value of the Rand.<sup>114</sup> Another major cost driver raised by Universities, which has also been increasing at a higher than inflation level rate, is the cost of utilities (water, electricity) and these, together with costs for cleaning and security, account for 10% of the UJ budget.<sup>115</sup> It is further expected that the demand for in-sourcing non-core services and concomitant staff costs will exacerbate the situation at many universities in the near future.

115. **Teaching and academic staff:**<sup>116</sup> While the cost of staff salaries is normally taken into account when measuring the cost of providing an education, this is one of the factors leading to the high rate of inflation in the sector. Lecturing staff (both at college and university level) need specific training and a general shortage of academic staff is experienced by the university sector, especially in some professional fields.

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<sup>113</sup> UJ, Presentation & Submission to the Commission, 2 September 2016.

<sup>114</sup> CHE (2016) *South African higher education reviewed. Two decades of democracy*, p. 214.

<sup>115</sup> UJ, Presentation & Submission to the Commission, 2 September 2016.

<sup>116</sup> This section is partly based on the presentation by USAF to the Commission, 20 October 2016; but also on broader reading, including CHE (2016) *South African higher education reviewed*.

Academics need to have undergone many years of study (undergraduate and postgraduate, preferably up to doctoral level) in order to have the requisite knowledge in their field, and in order to be able to carry out research. Only an academic with a doctorate can supervise a doctoral candidate. Such qualifications are scarce but necessary, and the National Development Plan has set targets for the number of academics with a doctorate by 2030, although this is not the only measure of quality, and in some fields industry experience may be more beneficial.

116. Aside from the necessary qualifications and research ability, teaching skills are required to ensure effective teaching and learning. An additional cost with staffing is the need to transform the academy to be more representative of the country's demographics. There is a particular shortage of black female academics, and most Professors are white men. There is an urgency in transforming the sector, but appropriate strategies and the attendant investment needs to be put in place to accelerate transformation. The challenge is not only as a result of the limited number of students who decide to pursue doctoral studies, but also in making academia attractive. In some fields, professionals will earn considerably higher salaries outside of the university, and those with postgraduate qualifications are in high demand in our economy.
117. The staffing challenge is exacerbated by the fast expansion of the sector over the past twenty years, meaning that more staff are needed. USAf has calculated that the sector will require the recruitment of 3 683

additional academics into newly created posts by 2019, adding an average of 737 per year. This excludes those needed to replace staff who retire or resign from existing posts. Add to this the general problem of the under-preparedness of students, and the demands for and on academic staff increase. Unfortunately, the last twenty years have not witnessed an increase in academic staff concomitant to the increase in student numbers, leading to greater pressure on academics, larger classes, and a less attractive profession. CHET explained that academic staff numbers have increased by about 2% per annum, meaning that the overall student: staff ratio has increased from 20:1 in the early 2000s to 27:1.<sup>117</sup> The system has been employing about 233 (fulltime equivalent) academics into newly-established posts each year between 2000 and 2012.

118. On the other hand, the National Tertiary Education Union raised the issue of 'low cost' higher education without affecting the quality.<sup>118</sup>
119. There has been much written on the state of the academic profession globally, and it is not necessary to dwell on that in detail in this context. The demands on academics are increasing, there is a publish-or-perish culture, and an increasing number of academics are employed on

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<sup>117</sup> CHET, Submission and presentation to the Commission, 11 August 2016.

<sup>118</sup> NTEU, Submission of May 2016.

contract rather than permanently. South African universities are similarly affected.

120. In South Africa, an additional staffing cost which needs to be taken into account, is the cost of insourcing. This was one of the demands of the 2015/16 protests, and a number of universities agreed to the insourcing of certain support staff (including security, catering and cleaning staff). The full cost of insourcing has been estimated by USAf to stand at between R0.5 and 2 billion per annum. This will also see an increase in the salaries and benefits for insourced staff. Some universities have indicated that they expect no additional costs, which has yet to be seen.
121. **Research:**<sup>119</sup> The cost of research is not always taken into account when considering the cost of running a university, and yet research is a core function of the university. Research is not only important for the country in terms of innovation and development, but it is also vital for teaching. The focus of any funding debate should not only be on undergraduate students, simply because intense protest action comes from undergraduates, but also on postgraduate and research students who are at formative stages of knowledge production. The National Research Foundation indicated that they fund 10% of all postgraduate students, and also make allocations to the universities' third-stream funding. Maintaining research is not cheap. It requires, among other things,

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<sup>119</sup> This section is partly based on the presentations and submissions to the Commission by the National Research Foundation (NRF), 5 September 2016 and by Loyiso G. Nongxa, 19 October 2016, but also on broader reading, including CHE (2016) *South African higher education reviewed*.

laboratories, expensive equipment, IT facilities and expensive software licences, and libraries with access to journals. The needs differ by field. Agricultural research will require experimental farms. Medical research requires tertiary hospitals as training platforms. In the case of the Veterinary education and training, which is a scarce skills area, animal hospitals and related facilities are required. All of these are run at a high cost to the university, and in certain instances cross-subsidised by other programmes and fundraising initiatives. In some instances, research can bring in an income, but the experience has been that enthusiasm for new developments decreases quite quickly, and that funds often end up being directed from existing programmes to keep research projects going. Private companies can ask an institution to conduct specific research for which they are willing to pay, or non-profit organisations may be willing to fund research in a specific field. This money is however, ring-fenced only for specific projects and the 'blue skies' research of an institution needs institutional funding. Some of this research funding is also used by undergraduate students, and as such is more directly linked to teaching costs. For instance, students need access to the library and to relevant recent publications, students also need access to laboratories and need to be able to do experiments and use field-specific equipment. For postgraduate students, the difference between teaching and research costs is even less clear. The NRF indicated that 'Any policy, planning or funding decisions that respond to the challenges of HE must enhance research excellence innovation and knowledge production. Any funding decisions for students must include appropriate resourcing for

postgraduate studies (number and value of bursaries and scholarships)'.<sup>120</sup>

122. **Student support services:**<sup>121</sup> Support services have become more extensive and more important in recent years, not only in South Africa, but also internationally. Support services include administrative, financial, psychological, medical, career advice and academic support. The cost of such services depends on the extent and uptake of the services. The main reason for student support is to make the transition to higher education easier for students in the hope of improving throughput rates and lowering dropout levels. There has been extensive research both internationally and nationally on the ways to improve the efficiency of the higher education sector. Career advice is considered an important intervention to ensure that students are studying in the field most suited to them (academically and personally) as this will make them more likely to persevere and succeed. Students also need to receive the assistance they need when they start in higher education, and throughout their studies, to ensure that they can succeed physically and emotionally. Such support includes assistance with the application process and other administrative tasks; assistance in applying for financial support where necessary and available; and medical care and counselling if and when

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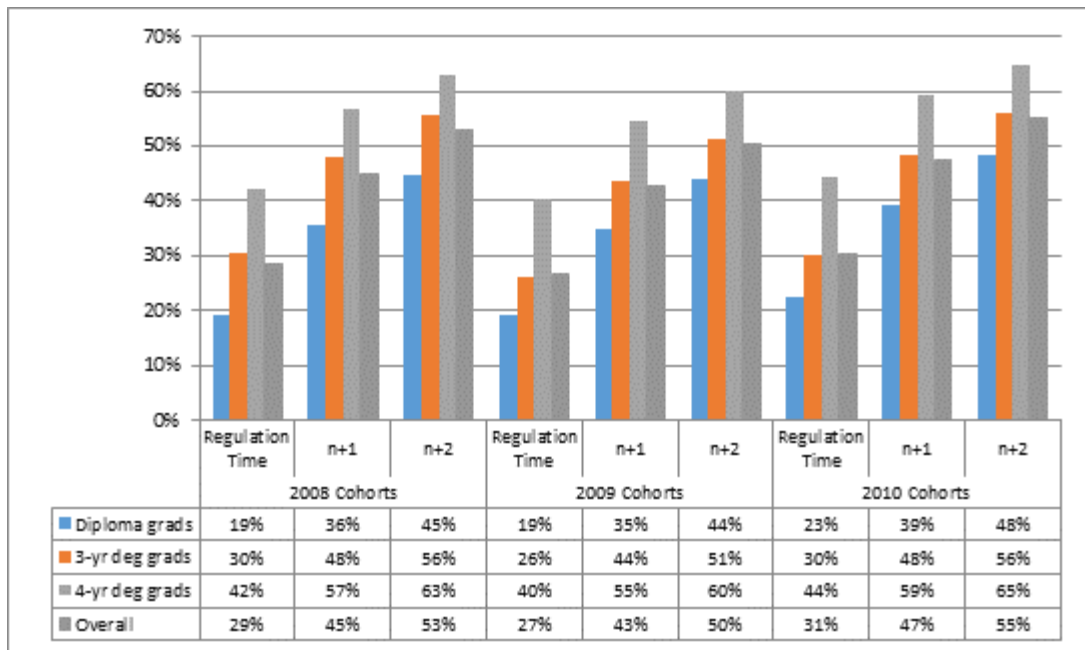
<sup>120</sup> NRF, Presentation to the Commission, 5 September 2016.

<sup>121</sup> This section is partly based on the presentations to the Commission by Emeritus Professor Ian Scott, 19 October and 9 November 2016 (based and updated on a proposal produced by a CHE task team of senior academics submitted to the Minister of HET in December 2014) and by the DHET, 24 March 2017. Also on broader reading, including CHE (2016) *South African higher education reviewed*; CHE (2013), A proposal for undergraduate curriculum reform in South Africa: The case for a flexible curriculum structure.

needed. Some universities have introduced specific programmes for first year students to help them to adapt to university life and to understand what will be expected of them.

123. Another important aspect of support is academic support, which has received a lot of attention over the last couple of decades, especially in South Africa. Academic support can take on different forms, such as an extended programme where an additional year is added to the curriculum to assist with the articulation from school; additional classes in key subjects such as literacy and numeracy; IT innovations (such as clickers/ robot system) which help identify when and where there is a problem; language support; and summer/ winter schools. It is clear that while student support adds a significant additional cost to the provision of education, it is crucial considering the current throughput and dropout levels. Research by the Council on Higher Education (CHE) indicates cohort throughput rates as shown below:

**Accumulative throughput comparison of 2008, 2009 and 2010 cohorts finishing within regulation time up to n+2 years for 3-year diplomas, 3-year degrees, 4-year degrees and weighted national rate (excluding UNISA)<sup>122</sup>**



124. Based on such cohort throughput studies, **the South African university system is generally deemed inefficient as a large number of students are given the opportunity of education without them succeeding.** This is financial burden for the state, the university and the individual, and also comes with psychological consequences. Professor Scott explained to the Commission, drawing on a CHE task team report on a flexible curriculum, that the university sector is a low participation system compared to similar income countries, with a Gross Participation

<sup>122</sup> CHE (2017), *VitalStats. Public higher education 2015*.



Rate of 20% in 2013.<sup>123</sup> This participation is racially skewed. About 12% of African and coloured youth access universities, making it a small, select intake who 'should collectively have strong potential to succeed'. However, this is not the case and 'performance has stayed stubbornly poor over time' with overall throughput rates as shown in the table above, and 'only 7% of African and coloured youth succeeding in higher education'.

125. Scott suggested that one of the reasons for the demand for 'Decolonising the curriculum' could be the need to remove inequalities in epistemological access. He suggested that 'low and skewed performance' could be 'creating disaffection with the higher education sector'. He went on to explain that while no racial group is performing well, there is still 'abundant evidence of racial and class inequalities in successful engagement with the undergraduate educational process'. He added that the 'extent of the under-performance of such a small and select intake clearly indicates systemic obstacles within the universities' educational structures and processes themselves... pointing to a mismatch between the assumptions on which SA's undergraduate education is based and the realities of the educational backgrounds of the majority of the student body'.

126. Scott outlined the history of Academic Support (AS) or Academic Development (AD) programmes in South Africa, and referred to the

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<sup>123</sup> Ian Scott, Presentation to the Commission, 19 October 2016.

articulation gap between school and university. He discussed 'under-preparedness' and how the gap could be closed from either side, but that there is a lack of opportunity to explore subject and curriculum choice. He referred to possible language barriers, and proposed ways to better engage students. Scott also addressed a proposal to extend the standard curriculum for 3-year programmes to 4-years, and showed analysis which indicated that the cost of expanding to 4-years would be less than the cost of admitting more students in an attempt to get the same number of graduates. This analysis was based on the success of foundation programmes, which have been implemented at most institutions, and on the assumption that any additional students given access would be less able to succeed without support than the current, top achieving, intake.

127. The DHET, in their response, described a number of initiatives already underway to improve throughput, and the proposed University Capacity Development Programme. The DHET suggested that the current interventions are bearing fruit, and that there are clear improvements in throughput. The proposal of an extended curriculum, as put forward by Scott, is not the route favoured by the DHET at this time. The Minister explained that the DHET has provided significant funding for 'foundation provisioning and a range of other initiatives, such as the teaching

development grant at universities with the aim to improve the success rates of all students and therefore ensure access with success'.<sup>124</sup>

128. While there are a number of different views on this issue, and various initiatives either proposed or underway to try and improve throughout, there are certain elements of overlap. **There is agreement by all involved that the current throughput levels need to be improved. Treasury agreed with the inefficiency of enrolling more students and allocating more money to a system that is not yielding the desired results.** Throughput in both universities and colleges was of great concern to Treasury.<sup>125</sup> The issue of the best way to improve student throughput falls outside the mandate of the Commission. However, the Commission is focused on university funding, and it is clear that improved throughput is a necessary pre-requisite for broadening opportunity to access higher education (and the funding of such access). The necessary measures must, therefore, be introduced to ensure a higher education system focused not only on access, but also on success. Increased access without success is not in line with the spirit of the Constitution. It will be destructive of the very opportunity that it is intended to provide, viz access to quality education and consequent productive employment through the former student's lifetime. Further

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<sup>124</sup> Minister of Higher Education and Training, Presentation to the Commission, 13 October 2016.

<sup>125</sup> National Treasury, Presentation to the Commission, 7 October 2016.

consideration will be directed to the important issue of student support in chapter 23 of this Report.

129. **Infrastructure (including student accommodation):** One of the larger expenses, which most institutions indicated that they cannot afford without state assistance, is infrastructure development. As mentioned above, the size of the higher education sector has increased significantly over the past two decades – both at colleges and universities. With growing student numbers, there is a need for more infrastructure – be it lecture halls, library space, laboratories and rooms for practical work, or student accommodation. Investment in infrastructure is costly, with slow return. The 2002 university funding formula did not make an allocation for infrastructure development, or even for infrastructure maintenance. As a result, universities found it hard to maintain current infrastructure, and those without reserves could not expand. Lack of maintenance has led to an even greater infrastructure backlog, and institutions under severe financial strain continue to prioritise immediate costs over long-term maintenance. In 2006/07 the DHET realised that the sector was growing without sufficient emphasis on the development of infrastructure; and as a result, the ‘government invested more than R13 billion from 2007/6 to 2014/15 over 3 funding cycles’.<sup>126</sup> The first cycle ran from 2006/07 to 2009/10. It saw R3.6 billion invested in engineering and other SET categories, as well as general infrastructure capacity. The second

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<sup>126</sup> DHET, Presentation to the Commission on Infrastructure initiatives and related costs, 20 October 2016.

cycle, 2010/11 to 2011/12, consisted of funding to the value of R3.3 billion, with an additional R2.5 billion in co-funding from universities (total R5.8 billion). The priority areas were architecture, engineering, health sciences, life sciences, student housing (R660 million) and teacher training. Third cycle, 2012/13 to 2014/15, funding amounted to R8.5 billion (R6 billion from the state and R2.5 billion in university co-funding). The priorities changed for this cycle to include the backlog at historically-disadvantaged institutions (HDIs), infrastructure to support students with disabilities, research equipment, assistance for project management capacity and African languages. Money was also made available for student housing (R1.69 billion and university co-funding of R670 million) to provide 9000 new or refurbished beds. The HDIs received R1.443 billion (85%) of this allocation, and the other campuses R247.3 million (15%).

130. From 2015/16 the DHET changed the process for allocating the grants so as to focus on the system as a whole in a more integrated way. All institutions have developed campus master plans and have carried out maintenance audits, disability audits, and IT audits. The sector has a maintenance backlog of R25 billion. The cycle made allocations of R1.9 billion, R700 million going to maintenance; R850 million to student housing, and R350 million to priority commitments from the third cycle. It is envisaged that the 2016/17 to 2018/19 cycle will make R7.5 billion

available, with about half going to student housing and the other half to infrastructure needs.<sup>127</sup>

131. In 2010 the DHET identified the need for new universities to be created to meet the capacity demands in the sector. A feasibility study and 10-year spatial development plan were completed with an initial grant of R50 million from National Treasury. After a successful bid to Treasury, the process of establishing the new universities began. Separate earmarked grants were put aside for the two new universities (Sol Plaatje University (SPU); University of Mpumalanga (UMP)). Their first intake was in 2014 (124 at SPU and 240 at UMP, mainly in refurbished facilities) and the plan is to grow over the next 10 to 15 years to 7 500 students at SPU and 18 000 at UMP.<sup>128</sup>

132. In 2011 a Ministerial Committee produced a report on the state of student accommodation at universities.<sup>129</sup> The report only considered contact universities, and found that across the sector the provision of accommodation was inadequate. At some institutions, students were staying in private accommodation that wouldn't meet minimum health and safety standards. Official university residences were too few to meet the student demand – with 107 598 beds for the approximate 535 000

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<sup>127</sup> DHET, Presentation to the Commission on Infrastructure initiatives and related costs, 20 October 2016.

<sup>128</sup> DHET, Presentation to the Commission on Infrastructure initiatives and related costs, 20 October 2016.

<sup>129</sup> Report on the Ministerial Committee for the Review of the Provision of Student Housing at South African universities (2011); Iain L'Ange, Submissions and presentation to the Commission, 26 January 2017.

students in contact institutions at that time (20% in residences). The problem of housing was worst at HDIs. Dr. L'Ange explained some of the advantages of university accommodation, including a safe and hygienic living and studying environment; access to nutrition; close proximity to the university and amenities; a living-learning environment; support for first year students; and improved academic success. It is felt that university accommodation is especially important for students on financial aid, given the array of support measures in place, but that it can also be important as an environment for developing social cohesion between students from different races and social classes, and notably creating living and learning spaces.

133. The Committee proposed three options for student accommodation development (i.e. to cater for between 50% and 80% of the student population; or to grow at 5% p.a.) at a cost of about R147 billion over a period of 15 years. This excludes the R2.5 billion backlog in maintenance of student accommodation across the sector. To modernise existing residences so they are 'fit-for-purpose', a further R1.9 billion is required.<sup>130</sup> These costs exclude the cost of developing student accommodation for the TVET sector. In this sector, a lower percentage need to be accommodated as more students are likely to be able to live at home, but the current provision is close to non-existent.

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<sup>130</sup> DHET, Presentation to the Commission on Infrastructure initiatives and related costs, 20 October 2016.

134. **Language:**<sup>131</sup> The issue of the language of our institutions of higher learning remains a sensitive issue, and the 2015 Higher Education Summit noted that the increasing levels of frustration due to the slow pace of transformation in the university sector. One of the major issues highlighted in this regard, was language practices which create barriers to effective teaching and learning. In an attempt to be more inclusive, the majority of institutions have selected English as the main language of teaching and learning. However, the vast majority of those attending higher education institutions do not come from English speaking households. Language can, therefore, act as a barrier to academic success. Many institutions are trying to incorporate an indigenous language into their administrative culture, but this does not tend to carry through to teaching and learning. Another sensitive issue is the use of Afrikaans. A number of the HWIs were historically Afrikaans institutions; and while some have selected to drop the language entirely, and had to go through court battles in order to achieve this, others have attempted various dual language policies with associated costs. The issue of language was one of the matters raised during the protests of 2016, and it is clear that it remains an emotive issue. The view held by the protestors is that it is expensive, favours one race group over others, and leads to a lack of integration. The cost of a bilingual (or multilingual) policy at an institution is high. In order to offer courses in more than one language, an institution needs to ensure sufficient academic staff proficient in such languages, study guides and other support material need to be

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<sup>131</sup> Marlene Verhoef, Presentation to the Commission, 20 October 2016.



developed and produced in these languages, and duplicate classes need to be offered (even when the demand is low). At certain institutions, this emotive issue led to demands for mother tongue instruction, even if it may not be developed as an academic language. This argument was to justify equitable treatment of students on campuses.

135. **Transformation:** South African society cannot shy away from the need to transform the society, with higher education institutions being no exception to this rule. In 2008, a racist incident at the University of the Free State, led to the formation of a Ministerial Committee on Transformation and Social Cohesion and the Elimination of Discrimination in Public Higher Education Institutions. The Committee reported later in the year.<sup>132</sup> Broadly, it found that that discrimination, particularly on the basis of race and gender, is pervasive in the higher education sector. It found a disjuncture between institutional policy and practice, with institutional culture remaining a challenge. Transformation, much like other higher education initiatives, requires funding. Some of the recommendations by the Committee were: the creation of a permanent oversight body to monitor transformation in the sector; earmarked funds for the development of black and female academics; earmarked funds for academic development; attention to the state of student housing and residence cultures characterised by discriminatory practices, especially at previously Afrikaans universities; increased

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<sup>132</sup> Report of the Ministerial Committee on Transformation and Social Cohesion and the Elimination of Discrimination in Public Higher Education Institutions (2008).

funding for NSFAS; and the implementation of language policies that promote African languages. The issue of transformation is one of the prominent issues leading to student dissatisfaction with the higher education experience. The need for curriculum reform (or ‘decolonisation of the curriculum’) is a key demand by the study body. Rhodes University stressed the need for transformation in their presentation to the Commission, and highlighted the costs associated with it.<sup>133</sup> They explained the need for ‘re-curriculation for more inclusive programmes; ... for transformation of staff demographics; ...for better support of students to ensure they are not just provided physical access to the universities but also epistemological access to the knowledge within it’, all of which need additional funding.

### 3.15 PRIVATE HIGHER EDUCATION AND TRAINING

136. Section 29(3) of the Constitution recognises the place of private tertiary education. It provides:

*‘(3) Everyone has the right to establish and maintain at their own expense, independent educational institutions that-*

*(a) do not distinguish on the basis of race;*

*(b) are registered with the state, and*

*(c) maintain standards that are not inferior to standards at comparable public institutions.*

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<sup>133</sup> RU, VC presentation to the Commission, 2 September 2016.

*(4) Subsection (3) does not preclude state subsidies for independent educational institutions.'*

137. While the State has a programme for providing subsidies to independent basic education institutions, as envisaged in the Constitution, it has not yet developed a similar programme for independent tertiary institutions. In many developing or comparable economies (e.g. Brazil) such education assumes a far more important role than is presently the case in South Africa. We have considered that the terms of our mandate extend to the feasibility of providing fee-free tertiary education to students at private institutions of higher learning including those offering technical training.

138. The purpose of this discussion is not to consider the challenges and merits of private institutions. However, it is important to remember that these institutions provide another avenue of access to PSET, often in specialised areas. There are currently 114 private higher education institutions and 627 private colleges in South Africa, offering a range of programmes.<sup>134</sup> It is estimated that about 10 to 15% of enrolments are currently in private institutions. The Commission heard testimony from the Association of Private Providers of Education, Training and Development (APPETD) and the Private Higher Education Interest Group (PHEIG), and also from some individual institutions.

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<sup>134</sup> Minister of Higher Education and Training, Presentation to the Commission, 13 October 2016.

139. APPETD described the private further and higher education sector, pointing out that the sector is regulated through the Higher Education Act, like public institutions. These private institutions receive no subsidies or grants from government, even though low-cost providers address the needs of the poor who cannot access public universities. APPETD argued for support from the Treasury for these institutions. They explained the real cost of an education at a public institution by referring to subsidy contributions from DHET, tuition fees and third-stream income. They then referred to some other countries where the state provides financial aid to students attending private institutions. Finally, they referred to the massive growth targets for higher education as projected in the NDP, and how private institutions could assist with human resources capacity building.

140. APPETD concluded by suggesting a voucher system for poor and missing middle students taking courses in skill-priority disciplines, which could be used to access approved private institutions. In this way, APPETD argued that private institutions could become part of the solution to the higher education crisis.<sup>135</sup> Richfield Graduate Institute of Technology, a higher education provider, put forward a very similar proposal to APPETD's. They indicated that they receive no subsidies, grants or allowances, but argued that they provide low-cost education to the poor, both in relation to TVETs and universities. In the light of this,

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<sup>135</sup> APPETD, Presentation to the Commission, 22 September 2016.

they argued for financial support to be available to students attending these institutions.<sup>136</sup>

141. PHEIG, on the other hand, focused on the crisis in the public higher education sector, and indicated in their testimony that ‘we do not believe that any state funding should be directed in any way to the private sector. We fully support the current structure in that the private sector should be paying for full costs in relation to regulation accreditation and we think it is completely inappropriate to be advocating for redirection of any subsidy towards the private sector. So, our interests are fundamentally different on this matter.’

142. PHEIG noted the current situation where, as a result of not being able to afford fees, ‘higher education [is] inaccessible for many students’. They indicated the growing problem of the so-called ‘missing-middle’ and the need to address this situation, pointing out that fee increases meant ‘fewer students who can afford public higher education and fewer students who existing state support systems can support. If that is taken with the reported low repayment rate on the NSFAS system, the net impact is serious in terms of limiting access.’ The PHEIG also pointed to continued inequity in the public higher education system between historically advantaged and disadvantaged institutions, and ‘increasing costs which have not been offset by subsidy increases or fee increases’.

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<sup>136</sup> Richfield Graduate Institute of Technology, Presentation to the Commission, 30 August 2016.

Finally, the problem of low throughput and graduation rates was referred to, pointing out that ‘more graduates graduating sooner may result in an increase in the repayment of NSFAS funds and therefore more funds for new students and less stress on institutions with repeating students’.<sup>137</sup>

143. While the private higher education sector in South Africa is relatively small, its role in expanding capacity should be given serious thought. Although a number of presenters rejected private education as part of the commodification of education, it seems to the Commission that the private education sector must necessarily play a role in supplementing the lack of capacity in the public sector, the more so if student numbers are materially increased by the provision of universal access. It may be noted that the model proposed by the Commission is one that seeks to treat students at all institutions of higher learning on a basis that is as equal as possible.

### **3.16 CONCLUSION**

144. The discussion above highlights the many funding pressures facing the PSET sector, and most specifically the TVET colleges and universities. There is already a severe funding crisis, which is impacting on capacity, quality, throughput, staff ratios, infrastructure maintenance, research and on basic provision and transformation. It is clear that the sector faces many challenges, and while some of these could be solved through

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<sup>137</sup> PHEIG, Submission and presentation to the Commission, 22 September 2016.

efficiency changes, many require additional funding. The purpose of this chapter is to highlight the need to consider the entire education sector, and the entire range of needs of each sub-sector within the education sector, before determining whether it is feasible or not to provide fee-free higher education to one section of the entire PSET system. That said, the affordability of education is a key concern which needs consideration, especially in a country where the income distribution is so skewed, and the poverty level rises unabated.

#### **4 'FEE-FREE' IN THE CONTEXT OF HIGHER EDUCATION AND TRAINING**

145. The expression 'fee-free' may bear a seemingly obvious meaning on its face. In practice, the position is otherwise. First, the evidence before the commission has been virtually unanimous that although the fee element of higher education and training represents a substantial proportion of the cost of such education or training for the student, it is, on its own, of little practical significance unless regard is also had to other elements of the 'full cost of study'. Thus, it has been emphasised (and persuasively so) that tuition is for the great majority of the student body (and also for the aspirant student population) of little practical value without food, accommodation, transport, books, computers/tools/equipment, internet connectivity, health care and in many instances, family support (i.e. support of the student's family, not a family contribution). It has been urged that one of the contributors to the high dropout and failure rate in higher educational institutions has been the emphasis on tuition fees

while underplaying the full cost of study. The truth of this assertion is not measurable but the Commission has been persuaded of its likelihood and the consequent need to take the full cost of study into account in any assessment of the cost and feasibility of a fee-free higher education and training system.

146. Nor have we regarded the expression 'fee-free' as limiting the commission to higher education which carries no tuition fee at all for the student during the period of his or her studies **and at any time thereafter**. It has become apparent from a consideration of the many reports and published articles on the subject as well as world trends, as also the diverging views expressed in evidence before us that **the real need in relation to higher education in South Africa (in universities, colleges and private institutions) is to make access available to all who qualify academically for it, irrespective of whether they can or cannot afford to pay the tuition fees demanded by such institutions at the time of applying and for the academically acceptable period of their studies**. This does not exclude the obligation to pay the whole or part of such tuition fees at a later date when the former student, now reaping the benefits of free access to an institution of higher learning, is able to pay. We have therefore understood the concept in this sense, i.e. **fee-free at the point of access** and for the academically acceptable duration of study.



## **5 'FEASIBLE'**

147. 'Feasibility' is a word of wide import. It means not merely whether a project is affordable or doable but, according to the Shorter Oxford English Dictionary whether it is 'capable of being done, carried out or dealt with successfully in any way; possible, practicable'. It is in this broad sense that that we have interpreted this concept. Thus, many presenters were motivated by idealism, political or economic philosophy, or a desire to further human rights. While we honour such motives each proposal must, in the end, stand or fall by the degree of its practical application.

## **6 LEGAL CONSIDERATIONS, INCLUDING THE CONSTITUTION**

### **6.1 THE CONSTITUTIONAL OBLIGATION IN RELATION TO HIGHER EDUCATION AND TRAINING**

148. A wide discussion ranged in the Commission between the Commissioners, evidence leaders and experts as to the scope of the Constitutional obligation to provide higher education. The Commission listened to the views of interested persons and weighed them up with deference. What follows reflects the Commission's understanding of the law.<sup>138</sup> We accept that a definitive interpretation lies with the Courts.

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<sup>138</sup> It must fairly be noted that the Commissioners (all legally trained) were not in agreement with the advice of the evidence leaders (also legally trained) in all respects.

149. One of the key foci of the Commission's work has been to better understand the reasons for the demand for free education; the Constitutional obligations; and the government's policy in this regard. When presenting their demands, many stakeholders referred back to the 1955 Freedom Charter. The Freedom Charter was a document drawn up during the struggle against apartheid by the South African Congress Movement (an alliance of the African National Congress (ANC), South African Indian Congress, Coloured People's Congress and South African Congress of Democrats). In historical terms, the Charter was considered to be the blueprint for a democratic, post-apartheid South Africa. The Freedom Charter does not form part of South African law and, while not detracting from its historical and political significance, is not a legal document. The Freedom Charter states that:

*The Doors Of Learning And Of Culture Shall Be Opened!*

*The government shall discover, develop and encourage national talent for the enhancement of our cultural life;*

*All the cultural treasures of mankind shall be open to all, by free exchange of books, ideas and contact with other lands;*

*The aim of education shall be to teach the youth to love their people and their culture, to honour human brotherhood, liberty and peace;*

*Education shall be free, compulsory, universal and equal for all children;*

*Higher education and technical training shall be opened to all by means of state allowances and scholarships awarded on the basis of merit;*

*Adult illiteracy shall be ended by a mass state education plan;*

*Teachers shall have all the rights of other citizens;*

*The colour bar in cultural life, in sport and in education shall be abolished.*

150. The document refers to free, compulsory basic education for all children. However, when referring to higher and technical education it does not refer to free education, but rather to 'state allowances and scholarships', which are awarded based on merit. The Charter does not explain 'merit' in this context. It can be taken to mean that 'state allowances and scholarships' should only be provided to the best performing students. Another interpretation was provided by SAFETSA. They explained that 'our understanding in the association is that they are also saying that there must be a system in place not for us to be given education, whether it is free or not, there must be systems in place ... on the basis of merits. Those merits are [the] means test [to see whether you] are ... from a poor background or not ... but there are discussions and assumptions outside there to say once we achieve free education any person irrespective of merits'<sup>139</sup> should receive free education. In other words, SAFETSA interpreted 'merit' to mean financial need, and that a means test to determine need is within the understanding of the Freedom Charter.

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<sup>139</sup> SAFETSA, Testimony to the Commission, 29 September 2016.

151. The Commissioners are satisfied that the Freedom Charter did not address the question of fee-free higher education. Its emphasis seems rather to have been on access and merit.

## **6.2 THE CONSTITUTION OF THE REPUBLIC OF SOUTH AFRICA, ACT 108 OF 1996**

152. The Commissioners hold differing views as to the scope of the state's obligation to provide higher education. In the view of the Chairperson the state has no legal obligation to provide such education free of charge. Commissioners Ally and Khumalo interpret the United Nations International Covenant on Economic, Social and Cultural Rights as requiring the state to progressively provide free higher education according to the capacity of the state. We shall begin by setting out the Chairperson's reasons for his conclusion.

153. While the Freedom Charter was a document often referred to, it is the Constitution of the Republic of South Africa, Act 108 of 1996 which determines the state's obligations in terms of higher education and training. The Constitution deals with education in section 29:

*(1) Everyone has the right:*

*(a) to a basic education, including adult basic education; and*

*(b) to further education, which the state, through reasonable measures, must make progressively available and accessible.*

*(2) Everyone has the right to receive education in the official language or languages of their choice in public educational institutions where that education is reasonably practicable. In order to ensure the effective access to, and implementation of, this right, the state must consider all reasonable educational alternatives, including single medium institutions, taking into account:*

*(a) equity;*

*(b) practicability; and*

*(c) the need to redress the results of past racially discriminatory laws and practices.*

154. The key point is that everyone has a right to both basic and adult basic education and to further education. However, in the case of further education, the state must take 'reasonable measures ... [in order to make it] progressively available and accessible'. There is, therefore, not a right to free further education<sup>140</sup>; but there is the expectation of progressive steps towards increased access and availability. The right to basic education and adult basic education is not limited in the same way. As such, CET as discussed previously, must be treated in the same way as basic education, and falls outside of this discussion on higher education and training.

155. In discussing their interpretation of the Constitutional obligation, the Minister of HET explained that 'The Department, and Government generally, read the constitution to clearly articulate that basic education,

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<sup>140</sup> Nor is s29(1)(b) reasonably capable of an interpretation that includes such a right (to the extent that s233 of the Constitution may be invoked in interpreting the first-mentioned section).

including adult education, is a fundamental/basic right that must be provided to all who need it; while further education, which can be interpreted as including Higher Education (HE) (also referred to as university education) and Technical and Vocational Education and Training (TVET), are secondary rights that must be made progressively available and accessible to those who merit it (meet the academic requirements). Within the remit of the Department of Higher Education and Training (DHET), the provision of Community Education and Training (CET) gives effect to section 29(1)(a), namely that everyone has the right to adult basic education, while the provision of TVET and HE responds to section 29(1)(b). To make further education available is interpreted to mean that the system must grow to provide sufficient spaces (opportunities) for study. To make it accessible means it should be affordable and individuals should not be denied access based on financial need, on the basis of a disability or other form of discrimination.<sup>141</sup>

156. The Students for Law and Social Justice (SLSJ) explained that 'There are three key features of section 29(1)(b) that must be noted: 1. The right to education, both basic education and further education, is the only socio-economic right contained in the Bill of Rights that is not expressly circumscribed in its wording by the availability of resources. 2. In realising the right to further education, the state is enjoined to take measures that

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<sup>141</sup> Minister of Higher Education and Training's Input for Presidential Commission, 13 October 2016.

are reasonable. 3. The right to further education must be made progressively available and accessible.’ They explained further that ‘On the question of availability of resources, SLSJ submits that it is not appropriate to read the availability of resources into section 29(1)(b) as a justification, in and of itself, that can be relied on by the state for non-fulfilment of the right but it may be a component in assessing the reasonableness of measures taken. It should therefore be incumbent on the state and all relevant stakeholders, including the institutions, involved in realisation of the higher education framework, to work to constantly develop a system that accommodates legitimate concerns, needs and aspirations of students.’<sup>142</sup>

157. ‘Availability’ is a key aspect of the Constitution. In line with DHET’s understanding of the Constitution, they have taken a number of steps to ensure greater (and growing) access to higher education. The National Development Plan (NDP) and the subsequent PSET White Paper (WP), set high targets for growth in the higher education and training sector. The White Paper, taking its lead from the NDP, targets student enrolment in universities of 1.6 million and in TVETs of 2.5 million by 2030. This continues a trajectory of high levels of growth in the sector over the past two decades.

158. Future growth is, however, reliant on increased government subsidy, if the quality of education is not to be negatively affected. As explained

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<sup>142</sup> SLSJ, Submission and presentation to the Commission, 12 August 2016.

previously, per capita funding to both TVETs and universities has not grown in line with expanded enrolment. This has contributed to high increases in university student fees, and a crisis in funding at TVETs. The National Treasury, in their interaction with the Commission, indicated that the targets were not costed prior to the publication of either the NDP or the PSET WP. As a result, when bids were put to Treasury to fund this growth, it was agreed that an in-depth costing should be completed as the first step.<sup>143</sup> **This costing report indicates that, in order to fund all increases in the PSET sector (CET, TVET and university), about R655 billion would be needed by 2030 (or R253.1 billion in 2014 prices), compared with R64 billion expenditure on the sector in 2014.**<sup>144</sup> The costing report indicates that while ‘enrolments are expected to increase by 168% between 2014 and 2030, the total expenditure (in real terms) needed to achieve the aims of the White Paper is expected to increase by 242%. Consequently, expenditure on PSET as a percentage of GDP will rise from 2% in 2014 to 4.4% by 2030, if the policy targets are met’.<sup>145</sup> The report goes on to explain that in the TVET sector, expenditure would need to increase from R8.7 billion (2014) to R292.2 billion (or R112.4 billion in 2014 prices). The cost increase would be as a result of increased enrolments, quality improvements, and changes to the training programme mix. University expenditure was not expected to increase as quickly. The report calculated that expenditure would increase from R52.9 billion

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<sup>143</sup> National Treasury, Testimony to the Commission, 7 October 2016.

<sup>144</sup> Volume 5: Consolidated Report on the Costing and Financing of the White Paper on Post-School Education and Training, p. I.

<sup>145</sup> Ibid.



(2014) to R334.3 billion in 2030 (or R129.8 billion in 2014 prices). The main reason for slower growth is less expenditure on quality changes as the throughput rate is higher in the university sector. Cost increases would be due to increased enrolment, higher staff costs as more would require a PhD, higher post-graduate enrolment, and more students housed in student accommodation.<sup>146</sup>

159. 'Accessibility' refers to both affordability and, as argued before the Commission, epistemological access. Over the past decade, higher education fees have grown at a rate higher than inflation. As a result, higher education has become unaffordable for a large part of the population. The state's financial aid scheme is only available to the poorest section of society, leaving the so-called 'missing middle' to find alternative funding. Failing to do this, higher education becomes inaccessible. This is the key concern for the Commission. Added to this, high failure and dropout levels across the system, indicate a systemic articulation gap. This concern was discussed in more detail earlier in this Report. Failure to address the issue of 'epistemological access', or access with success, will negate any attempts by government to increase the availability of affordable higher education.

160. There was also some debate in the Commission regarding the interpretation of the 'progressive realisation' of the right. In determining this, it is important to consider the primary focus of the right. From the

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<sup>146</sup> Ibid., p. I - II.

above discussion, and the DHET's interpretation, the primary focus is on access and availability. The Constitution states 'through reasonable measures, must make progressively available and accessible'. It does not refer to free education, and does not indicate the progressive realisation of free education. The focus is not on the policy used (such as the preferred financial aid intervention) to ensure the right, but on the right itself. Therefore, if increased access and availability would be ensured through a different or changed funding model, this would be progressive in meeting the Constitutional requirements. As such, policy changes away from free education could be introduced should these meet the Constitutional demand for higher education to be 'progressively [made] available and accessible'. It must, however, be borne in mind that higher education and training must be accessible to individuals from all financial backgrounds.

### **6.3 EXPRESSION OF THE CONSTITUTION IN GOVERNMENT AND ANC POLICY**

161. For the past twenty years, the Constitutional requirements have found expression in government policy. As discussed before, higher education policy has focused on expanded access, a cost-sharing model, and the provision of student aid to ensure that no student is denied access on the basis of financial need. More recently, there have been nuanced changes to the policy position, moving towards a call for 'free education for the poor'. These are expressed in the PSET White Paper (2013), the task

team report on free education for the poor and various ANC manifestos and resolutions. It is necessary to examine more clearly what the shift has entailed, and how the call for free education is defined. These policies and manifestos will be considered below.

162. The government and DHET are not unaware of the challenges posed by fee increases. In the 2013 PSET WP, the general policy position of a shared cost-model was retained, although the focus had now shifted to a significant increase in fees; the problem of poor students receiving inadequate funding from the National Student Financial Aid Scheme (NSFAS); and to students who fell outside of the NSFAS funding allowance, but who couldn't afford university costs. The White Paper explained that 'Education and training must also be affordable for potential students' and that 'government has significantly increased the funds available for student loans and bursaries'.<sup>147</sup> The Policy explained further that, since '2011, poor students in TVET colleges have not had to pay tuition fees, and have been assisted with accommodation or transport costs' and that it was 'committed to progressively extending this to university students as resources become available'.<sup>148</sup> The White Paper went further to recognise the problem of (what later came to be called) 'missing-middle' students, and committed itself to making

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<sup>147</sup> WP 2013, 7-8

<sup>148</sup> WP, 2013, 8

resources available to this group. The option of capping fees was raised.<sup>149</sup>

163. Despite recognising the problem with the fee model, the White Paper remains committed to fees, stating that ‘all universities also charge student fees, which are essential to institutional survival in the current funding environment. Fees have risen substantially over the past two decades, as overall government funding to institutions has not kept up with the financial requirements of the system. Rising student fees continue to pose a major barrier to access for many students. The government will consider ways of controlling fee increases’.<sup>150</sup> The section notes the 2012 report on fee-free education for the poor (discussed below), stating that this would require significant additional funding, but that ‘Everything possible must be done to progressively introduce free education for the poor in South African universities as resources become available’.<sup>151</sup> Thus, while the White Paper continues to support the principle of fees, there is a clear departure from earlier policy in that free education for the poor, fee regulation, and funding for the missing-middle are all proposed concurrently. Despite this, the model of loans is also clearly retained, with the White Paper explaining that ‘Partnerships will be essential to the success of student funding initiatives. These will include intra-governmental partnerships, such as cost-recovery support from the South African Revenue Service (SARS)

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<sup>149</sup> WP, 2013, 8

<sup>150</sup> WP, 2013, 37

<sup>151</sup> WP, 2013, 37

... The principle of cost recovery of loans from students who have benefited from state funding is well-established in South Africa, and is essential to the affordability of continued and growing student funding.<sup>152</sup>

#### **6.4 ANC POLICY DECISIONS, 2007 TO 2012**

164. In order to understand shifting policy positions as well as the students' demands, and only with this in mind, it is necessary to traverse ANC resolutions and policy decisions in the interim years.<sup>153</sup> At the ANC's 52<sup>nd</sup> National Conference in 2007 the ANC accepted a resolution to 'progressively introduce free education for the poor until undergraduate level'. This resolution was reflected in the President's January 8<sup>th</sup> statement in 2011, where he noted that: 'With effect from this year, 2011, students who are registered at a public university in their final year of study and who qualify for funding from the National Student Financial Aid Scheme, will receive a loan equivalent to the full cost of study, which is the full fee and the necessary living expenses. If these students graduate at the end of the year, the loan for the final year will be converted to a full bursary. They will not have to repay the amount. This model will be phased in over the next few years to include students in earlier years of study.'<sup>154</sup> He added that: 'Also from 2011, students in Further Education and Training Colleges who qualify for financial aid will be exempted

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<sup>152</sup> WP, 2013, 37

<sup>153</sup> Ms Naledi Pandor presented to the Commission on 27 March 2017 on behalf of the ANC Health, Education, and Science and Technology sub-committee.

<sup>154</sup> Ibid.

completely from paying fees.<sup>155</sup> The Minister HET, Dr. Blade Nzimande, responded to the 2007 resolution by appointing a working group to consider the feasibility of making university education fee-free for the poor (discussed below). This report of the working group was submitted to the June 2012 ANC Policy Conference, which determined that a policy for free higher education to all undergraduate level students from poor and working-class communities should be finalised for phased implementation from 2013.<sup>156</sup>

165. At the ANC's 53<sup>rd</sup> National Conference, in December 2012 in Mangaung, the ANC noted that significant steps had been taken towards developing a policy on free higher education for students from poor and working-class communities, for phased implementation from 2014. It was explained that 'A draft policy on Free Higher Education has been completed, and the broad consultative process, including the social, economic analysis and impact and consultation with Treasury will ensue'.<sup>157</sup> It was resolved that the policy would be completed and adopted before the end of 2013. At the same conference, it was noted that 'university education is costly' and 'the principle of increased access to higher education is a core transformation goal'. Furthermore, it was noted that students from poor families should not pay up-front fees; that 'academically capable students from working class and lower middle-class families should also be subsidised'; that full cost of study should be

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<sup>155</sup> Ibid.

<sup>156</sup> Report of the Working Group on Fee Free University Education for the Poor in South Africa, 2012.

<sup>157</sup> <http://www.anc.org.za/docs/res/2013/resolutions53r.pdf>. Accessed 20 April 2017.

covered; and that '***The upfront fees that are provided and enable fee-free university education for the poor and subsidised fees for the working class and lower middle strata, should be made available as loans through a strengthened NSFAS system. Part of the loan should be converted to a bursary for successful students.***' As such, the ANC resolved that NSFAS needed to be strengthened and restructured for this fee-free model, that full-costing should be completed; and that a graduate tax should be considered.<sup>158</sup>

166. Before moving on, it is important to analyse these resolutions. The ANC called for free education, and supported the free education report discussed below (which advocated deferred payment – i.e. loans). However, the ANC also noted the high cost of university education and the need for an expanded system. It went further to explain free education as a deferred payment system, where loans are repaid after study, but with a bursary for successful poor students (neither term being defined). This is, in effect, what NSFAS was already doing after the President's announcement in January 2011. The main improvements called for in this resolution are, therefore: full cost of study loans; loans for the missing middle; and an improved NSFAS system.

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<sup>158</sup> Ibid.

## 6.5 FEE-FREE WORKING GROUP

167. In 2012 the Minister of HET appointed a working group to consider the feasibility of making university education fee-free for the poor. This was in reaction to the ANC resolutions discussed above. As part of its terms of reference, the group was expected to determine the actual cost of introducing fee-free education for the poor; suggest a definition of the poor; examine international models and options of fee-free education; and contemplate implications and consequences of fee-free education.
168. In the report, the definition of undergraduate study included all 3- and 4-year degrees and diplomas; fees were taken to mean full-cost of study; and the poor were defined as those earning less than the lowest SARS tax bracket (R54 200 in 2010). In its analysis, the working group considered the arguments in favour of a fully state-subsidised model as opposed to a cost-sharing model, and pointed to a move towards cost-sharing in the face of the increasing cost of higher education; the need for greater participation; and declining government funding. The working group also considered up-front fees (where parents take responsibility) as opposed to deferred fees (where the individual is responsible). Income-contingent loans (ICL) are considered, and compared to the current NSFAS ICL. Various problems with the NSFAS system are identified (including lack of resources to offer full-cost loans; low-recoveries; administrative problems; and top-slicing by institutions). In its analysis, the working group recommends an ICL model, where students



repay loans over a period of 15 years, dependent on whether they ever reach a minimum threshold income. The group also identifies a possible grant for poor students, which is the gap between their full-cost of study and the repayable loan – thus providing free education where a loan is not repayable. They recommended full-cost loans for students from poor households; loans with household contribution for those from middle income households; and no loans for those from affluent households. The working group also suggested reducing current NSFAS rebates for academic performance; limiting the loan amount so as to avoid reckless lending; retaining the current NSFAS system for those students already enrolled in the system; and general increases in government subsidy to universities in order to expand academic support and ensure success.

169. In considering South African policy, ANC resolutions and the inputs of Commissions, task teams and working groups, it is clear that certain principles overlap throughout. The first, is the need for a transformed and expanded higher education system. The second is agreement that higher education is expensive, with both public and private benefits – leading to a cost-sharing principle. The third, is that students should not be denied access on the basis of financial ability (only academic ability). As such, there is support for a financial aid system of deferred payment through an appropriate and affordable loan and bursary mix.

170. The Commissioners, having considered the submissions of the evidence leaders, understand the Constitution to mean that the state must provide

the public institutions, teaching staff and all ancillary measures necessary to offer higher education to citizens and residents of South Africa. Because the ideal of universal access was recognised as not immediately obtainable the state was obligated to take reasonable measures (this being a fact-based value question upon which the state exercises a wide measure of discretion according to its balancing of available means and priorities) to increase the breadth of its provision of education and its accessibility to aspirant higher education students. The section says nothing about the cost of or payment of tuition fees and there is in our view no implication to be read into the state obligation in that regard. It may be that in ensuring access to education such access will remain barred to those who cannot afford it. It is then the duty of the state to ensure that such bar is removed. Fee-free education may then become a necessary means to achieve the primary goal of universal access. The removal of the bar may however take various forms, for example, the provision of scholarships, loans, incentives, grants, tuition fee write-offs, or simply an exemption from paying tuition fees. Tuition free higher education is thus, within the context of the constitution, merely one means of achieving the constitutional right to universal access.

## 7 INTERNATIONAL OBLIGATIONS

171. Evidence leaders, however, argued that the constitutional obligation of the State must be understood<sup>159</sup> by the extension of that obligation involved in South Africa's ratification of the United Nations International Covenant on Economic, Social and Cultural Rights. South Africa signed the Covenant in 1994 and ratified it in 2015<sup>160</sup>. In so doing South Africa added a declaration to its signature, referring to article 13(2)(a) and stating that: "the government of the Republic of South Africa will give progressive effect to the right to education, as provided for in article 13(2)(a) and article 14 within the framework of its national education policy and available resources.". The relevant sections of the Covenant provide as follows

*Article 13(1) The states parties to the present covenant recognise the right of everyone to education. They agree that education shall be directed to the full development of the human personality and the sense of its dignity, and shall strengthen the respect for human rights and fundamental freedoms. They further agree that education shall enable all persons to participate effectively in a free society promote understanding, tolerance and friendship among all nations and all racial ethnic or*

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<sup>159</sup> Section 39 of the Constitution provides:

*'(1) When interpreting the Bill of Rights, a court, tribunal or forum -*

*(a) must promote the values that underlie an open and democratic society based on human dignity, equality and freedom;*

*(b) must consider international law;*

*(c) may consider foreign law.'*

<sup>160</sup> Ratification, of itself, is insufficient to render the Covenant domestic law in South Africa. There has been no enactment into law by national legislation, nor does the Covenant contain a self-executing provision (s231(4) of the Constitution).

*religious groups and further the activities of the United Nations for the maintenance of peace.*

*(2) The State parties to the present covenant recognise that with a view to achieving the full realisation of this right:*

*(a) Primary education shall be compulsory and available free to all;*

*(b) Secondary education in its different forms, including technical and vocational secondary education, shall be made generally available and accessible to all by every appropriate means, and in particular by the progressive introduction of free education;*

*(c) Higher education shall be made equally accessible to all, on the basis of capacity by every appropriate means, and in particular by the progressive introduction of free education;*

*(d) Fundamental education shall be encouraged or intensified as far as possible for those persons who have not received or completed the whole period of the primary education;*

*(e) The development of a system of schools at all levels shall be actively pursued, an adequate fellowship system shall be established, and the material conditions of teaching staff shall be continuously improved.*

*(3) The States parties to the present covenant undertake to have respect for the liberty of parents and, when applicable, legal guardians to choose for their children's schools, other than those established by the public authorities, which conform to such minimum educational standards as may be laid down or approved by the state and to ensure the religious and moral education of their children in conformity with their own convictions.*

*(4) No part of this article shall be construed as to interfere with the liberty of individuals and bodies to establish and direct educational institutions,*

*subject always to the observance of the principles set forth in paragraph 1 of this article and to the requirement that the education given in such institutions shall conform to such minimum standards as may be laid down by the state.*

*Article 14 Each State party to the present covenant which, at the time of becoming a party has not been able to secure in its metropolitan territory or other territories under its jurisdiction compulsory primary education, free of charge, undertakes within two years, to work out and adopt a detailed plan of action for the progressive implementation, within a reasonable number of years, to be fixed in the plan, of the principle of compulsory education free of charge for all.*

172. Testimony referring to the Covenant<sup>161</sup> was provided by Oxfam and the SLSJ. Oxfam referred to the Covenant and to the requirement to move progressively towards free education. They explained their opinion that, while the State always needs to contend with competing obligations, like the right to access water and food and education, these are all subject to the same Bill of Rights and Constitution. However, ‘in the South African case, [we need] to deal with the legacy of apartheid [and] the divided past and how the state was used to systematically marginalise certain population groups... If you are looking at the quantum of the university fees themselves, if we were not to intervene at that level it will mean the majority of the black population will forever be dependent, so the intervention of fee-free tertiary education [is] an attempt to aggressively [deal] with inequality’. They went on to explain that a tertiary education

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<sup>161</sup> The Commission has not treated this evidence as interpretative of South Africa’s obligations (any more than it has done so in referring to policy statements) but rather as providing social commentary on the obligations as the presenters perceived them.

would also help with the situation of 'poverty, alongside the question of unemployment, and the question of very very low wages for the majority of the population'. They indicated that at primary and secondary school level there are interventions like fee-free schools, but that at tertiary levels the fees are much higher. In light of this, Oxfam gave its support to fee-free education for everybody.

173. Oxfam contended that in terms of the Convention, 'South Africa has to put in place all technical and economic apparatus ... towards the full realization of the right of affording the citizens access to tertiary education, and it has to use all appropriate means necessary in doing so.' They argued that 'NSFAS does not comply with this particular article' as while fees have increased, funding has remained stagnant. They concluded that 'it is clearly a question of a violation simply because the state has not been adhering to the obligation of the progressive realization of this right over time ... [and because] the language that is used in the current policies seem to suggest that the objective of the state in South Africa is not full realization of the right rather... The means test is a permanent measure that has been put in place to ensure that we discriminate ... based [on] those who are said to have the means to fund themselves.' In Oxfam's opinion, 'the framing of section 29(1)(b), it speaks to the element of progressive realisation so all that needs to happen is that the government needs to demonstrate commitment to the full realisation of the right and then putting in place reasonable measures

towards the attainment of the right, and then they will have to diagnose progress over time.'

174. The SLSJ explained that: 'Importantly, the language defines the right broadly, setting a framework of ideals for states to fully realise over time based on its available resources. As a state develops, it must take measurable steps to reach the next goal in fully realising the right to education. In the context of education, states have a specific and continuing obligation to move as expeditiously and effectively as possible towards the full realisation of the right to education as laid out by the ICESCR and by national policies. While states must prioritise the provision of free and compulsory primary education, they also have an obligation to take concrete steps towards achieving fee-free secondary and higher education for all.' What can be interpreted from this SLSJ explanation, is that the free basic education is the first priority. The SLSJ did not refer to the declaration South Africa added regarding free basic education. This should be read together with General Comment 13 below, which focuses on free basic education as the first entitlement.

175. The SLSJ explained further that 'General Comment No. 13 on the right to further education as contained in the ICESCR provides that:

*'While the precise and appropriate application of the terms will depend upon the conditions prevailing in a particular State party, education in all its forms and at all levels shall exhibit the following interrelated and essential features:*

*(a) Availability - functioning educational institutions and programmes have to be available in sufficient quantity within the jurisdiction of the State party. What they require to function depends upon numerous factors, including the developmental context within which they operate; for example, all institutions and programmes are likely to require buildings or other protection from the elements, sanitation facilities for both sexes, safe drinking water, trained teachers receiving domestically competitive salaries, teaching materials, and so on; while some will also require facilities such as a library, computer facilities and information technology;*

*(b) Accessibility - educational institutions and programmes have to be accessible to everyone, without discrimination, within the jurisdiction of the State party. Accessibility has three overlapping dimensions:*

*(i) Non-discrimination - education must be accessible to all, especially the most vulnerable groups, in law and fact, without discrimination on any of the prohibited grounds . . . ;*

*(ii) Physical accessibility - education has to be within safe physical reach, either by attendance at some reasonably convenient geographic location (e.g. a neighbourhood school) or via modern technology (e.g. access to a “distance learning” programme);*

*(iii) Economic accessibility - education has to be affordable to all. This dimension of accessibility is subject to the differential wording of article 13(2) in relation to primary, secondary and higher education: whereas primary education shall be available “free to all”, States parties are required to progressively introduce free secondary and higher education;*

*(c) Acceptability - the form and substance of education, including curricula and teaching methods, have to be acceptable (e.g. relevant, culturally appropriate and of good quality) to students and, in appropriate cases, parents; this is subject to the educational objectives required by*



*article 13(1) and such minimum educational standards as may be approved by the State (see article 13(3) and (4));*

*(d) Adaptability - education has to be flexible so it can adapt to the needs of changing societies and communities and respond to the needs of students within their diverse social and cultural settings.'*

176. The SLSJ indicated that, 'section 29(1)(b) of the Constitution makes explicit reference to two of the four factors above: availability and accessibility. The question of affordability of further education is integral when considering the availability and accessibility of the right. This has been suggested by the Department of Higher Education and Training ("DHET"), which has further acknowledged the need for an expanded approach to dismantling the barriers to higher education as erected by financial constraints and the ancillary social constructs.'

177. It is instructive to glance at other countries who are party to the Covenant. For example, the UK ratified the Convention in 1976. Since then, the UK has moved from a free higher education system, towards one where university fees are charged and students are offered income contingent loans. Similarly, Australia ratified the Covenant in 1975, and has a university fee system in place, without a policy to move towards free higher education. There are a number of other countries that have ratified the Covenant, but who are considering moving away from free education to loans or other systems or that have no policy towards free higher education in place (Ireland (1989); Canada (1976); China (2001); Russia (1973)). None of these policies or policy changes is *per se* decisive or

necessarily relevant to the constitutional position of South Africa. They are merely indicative of a recognition that the covenant does not set free higher education as a goal to be striven for by its signatories.

178. The Chairman of the Commission<sup>162</sup> is of the view that the ratification of the Covenant does not extend South Africa's constitutional obligations; rather it affirms the existing obligations in relation to the provision of higher education.

179. It appears to the Chairman that with regard to the terms of article 13(2)(c), the end to be achieved is equal accessibility to all, on the basis of capacity (i.e. the capacity of the signatory state): the means to achieve that end are 'every appropriate means, and in particular by the progressive introduction of fee-free education'. The end of universal accessibility is peremptory but the means to be adopted are discretionary and determined by the signatory according to what is appropriate in the circumstances of that signatory. It is in this context that the progressive introduction of free higher education must be understood. In so far as article 13(2)(c) is concerned that sub-article must be read in the light of the principles enunciated in general comment number 13. Particularly relevant to the present context is the 'dimension' of 'economic accessibility'. It is in relation to that dimension that 'State parties are required to progressively introduce free [secondary and] higher

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<sup>162</sup> The view of Commissioners Ally and Khumalo differs slightly and is expressed in paragraph 183.

education'. This is simply a restatement of the progressive role of free higher education as set out in article 13(2) but drawing attention to its dependence on economic affordability. We are of the opinion that such an interpretation reconciles the principles stated in the General Comment with the intention expressed in Article 13(2)(c).

180. The view of the Chairman therefore is that the Convention is consistent with the Constitution of the Republic and does not extend the obligation of the State to the provision of higher education that is fee-free. In each case fee-free education may be employed as a means to achieving the end of accessibility. It would, in the view of the Chairman, have been extraordinary conduct, if South Africa had materially broadened the terms of its constitutional obligation under s29(1)(b) without an express declaration manifesting that intention.<sup>163</sup>

181. When South Africa added its declaration to its signature it expressly qualified only articles 13(2)(a) and 14 in both of which the virtually immediate availability of compulsory primary education is affirmed (subject to the caveat in article 14) by committing itself to the progressive realisation of that right. That qualification has no bearing on the interpretation of article 13(2)(c). The view of the Chairperson is therefore that the Convention is consistent with the Constitution of the Republic

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<sup>163</sup> The expansion of the clear meaning of s29(1)(b) to create wider rights than are provided in the section would require an amendment as contemplated in s74(2) of the Constitution. No such amendment has been effected. Even a reasonable interpretation of s29(1)(b) does not include an obligation to provide higher education at no cost to the beneficiary. Such an addition must necessarily be burdensome to the State. Section 233 of the Constitution is not of application.

and does not extend the obligation of the state to the provision of fee-free higher education. In each case fee-free education is a means to achieving the end of accessibility.

182. In keeping with the economic and social demands of the country this provides the flexibility to utilise the fee-free element either in an absolute sense or in a modified application (such as fee-free at the point of access, and throughout the duration of the student's tenure, while requiring repayment of the whole or part of the amount spent on the student, after completion of his or her studies).

183. Commissioners Ally and Khumalo agree that s29(1)(b) of the Constitution does not create a right to free further education, but merely a right to further education made progressively available and accessible by measures which are reasonable in the context of the State's capacity. However, they consider that the Covenant broadens the constitutional obligation. In their view article 13(2)(c) means that a state party acknowledges a duty to provide free higher education, a duty that is limited only by its progressive realisation within the capacity of the state.

## **8 STEPS TAKEN TO REALISE THE RIGHT TO ACCESSIBLE / FREE HIGHER EDUCATION**

184. In a submission made to this Commission the Minister of Higher Education and training has submitted that to respect, protect, promote

and fulfill the right to higher education and to ensure that it is made progressively available and accessible, government has taken the following measures:

- 184.1. has supported the system to double its enrollments since 1994;
- 184.2. has ensured a largely transformed student population;
- 184.3. has provided substantial funding through NSFAS to support poor students at universities and TVET colleges;
- 184.4. since inception NSFAS has supported 2.6 million students (1.5 million in universities and 1.1 million in TVET colleges) through loans and bursaries amounting to R59.7 billion (according to the 2015/16 NSFAS audited statements). This funding has increased significantly since 2010, and currently supports approximately 205 000 poor undergraduate students to access higher education and 200 000 TVET college students;
- 184.5. has provided significant investment in foundation provisioning and a range of other initiatives, such as the teaching development grant at universities with the aim to improve the success rate of all students and therefore ensure access with success;

- 184.6. has implemented the Staffing South Africa's Universities' Framework to assist with improving the quality of provisioning and ensuring the development of the academic profession; and
- 184.7. has established three new universities (the University of Mphumalanga, Sol Plaatje University, and Makgatho Health Sciences University) to further increase the number of spaces in higher education and ensure the geographical spread of contact institutions.
185. The Minister did however point out that the transformation of the sector is facing the risk of reaching a plateau in terms of enrolments. It is unlikely that there will be any further growth progressivity with respect to increasing spaces without injection of additional funds.
186. We have no doubt that the government has progressively increased availability of and access to higher education. Whether it now can and should extend such access by the provision of fee-free education is the issue before us. Depending on the correct view of the legal obligation of the state, the answer to that question may be a constitutional imperative or a matter of state choice (policy). On either interpretation of the obligation the capacity of the state remains a key determinant.

187. If free higher education is not a right, questions of regression and its constitutional impermissibility do not arise.<sup>164</sup> Nor are those provisions of the Covenant (e.g. General Comment No. 3) in relation to retrogressive measures relevant to the state's policy on whether or not to provide fee-free higher education and training.

## 9 TESTIMONY ON FREE EDUCATION

188. According to the terms of reference of the Fees Commission, the main focus for the Commission was on the feasibility of free education, in particular for the higher education sector. The Commission took a broad view of feasibility, to include a broad discussion of the points in favour of and those against the introduction of free education for all (or some) in the South African context. These different opinions will be considered below. No attempt is made to bring all the various submissions together. Rather, this section aims to provide a summary of the very different opinions put before the Commission, which all needed to be given consideration and understanding.

189. The parameters of free education were also a point of discussion, but there was general agreement from all parties that whatever form financial aid should take in South Africa, funding should cover the full cost of study.

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<sup>164</sup> See the judgements of the Constitutional Court in the following cases: *Governing Body of the Juma Masjid Primary School and Others v Essay NO and Others* 2011 (8) BCLR 761 (CC) at para 58; *Minister of health and Others v Treatment Action Campaign and Others* 2002 (5) SA 72 (CC) at para 46; *Maphango and Others v Aengus Lifestyle Properties (Pty) Ltd* 2012 (3) SA 531 (CC) at para 32; *Sarrahwitz v Maritz NO* 2015 (4) SA 491 (CC) at paras 45-6

Full cost of study means that funding should take into consideration not only tuition fees, but also the cost of accommodation, transport, learning materials, food and other living expenses. Some also called for funding towards basic access to health care. While there were some different views on the items to be included in full cost of study, it was generally agreed that, given the levels of poverty in South Africa, providing for tuition fees only is not a viable solution. It was noted that full cost of study is not generally the focus in other countries, and in fee-free systems, only tuition is covered with grants or loans to cover living expenses available to those in financial need. Among those supporting free tuition, some support free full cost of study, and others supported free tuition with loans for other expenses.<sup>165</sup>

## **9.1 AN OVERVIEW OF THE TESTIMONY ON FREE EDUCATION**

190. Most participants in the Commission gave some indication of what they recommended in terms of funding arrangements for higher education going forward. Below is a discussion of selected testimony to the Commission. Many of the viewpoints were offered in the first set of the Commission, which did not have a specific topic for consideration, but rather an overview of the relevant issues related to the terms of reference. In the discussion below, testimony will be divided among stakeholders so as to allow the discussion to flow. The first section will consider government's input; followed by students; higher education

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<sup>165</sup> DHET, Presentation and submission to the Commission, 10 August 2016.



institutions; and finally, civil society and research groups and individual participants.

191. There were certain overlapping viewpoints which most, if not all, participants agreed on. First, the issue of a decline (per capita) in state funding was highlighted as a major problem, which has left not only higher education institutions struggling, but also students, as institutions have raised tuition fees in an attempt to cover costs without compromising the provision of quality higher education academic programmes. Related to this, many stakeholders discussed funding of higher education as a percentage of GDP, and compared this to funding in other countries to highlight the need for greater state funding. Second, there was general agreement that NSFAS is underfunded, and that this has led to some of the problems experienced by students. There was not always agreement in identifying what the problems with NSFAS are – with some rejecting NSFAS completely and others suggesting reform of the existing financial aid policies. NSFAS will be considered later in a separate section of this report, and not as part of the testimony on free education. Finally, there was agreement that, given South Africa's inequality and socio-economic situation, financial support needs to be provided for academically deserving but financially needy students. It was agreed that students should not be excluded from higher education for financial reasons. The form and extent of support was the topic of much debate in the context of the economic climate and the competing priorities outlined in the National Development Plan.

## 9.2 GOVERNMENT AND STATUTORY BODIES' TESTIMONIES

192. The first perspective on free higher education to be considered is the one provided to the Commission by government departments and statutory bodies working in the higher education sector. The DHET explained that 'Any funding considerations relating to university education cannot be isolated from those of the whole education system - as a country we have to balance the importance of a strong university sector with the serious need for growth in other parts of the education system, and therefore funding 'free higher education' should not be contemplated outside considerations for adequately funding institutions, including TVET, CET, Basic Education Schools and Early Childhood Development'.<sup>166</sup>
193. The DHET explained their view in reference to the general state of underfunding of the sector. This report has already considered how DHET described underfunding in terms of the PSET sector as a whole. However, they also described the state of university funding in the context of the demand for free education. They explained that block grant allocation to universities have increased by 139.7% between 2004/05 and 2015/16 in nominal terms, but that due to the eroding effect of inflation, this was only a 29.8% increase in real terms, not taking into consideration the higher rate of inflation at universities. If the impact of substantial increase in student enrolments is taken into consideration, there was actually a decrease in the per capita full-time equivalent (FTE)

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<sup>166</sup> DHET Presentation, 04 October 2016

student allocation of -3.4% over these eleven years. The DHET explained that 'Growth in student numbers without matching growth in subsidy funding, has resulted in general underfunding of higher education, putting pressure on institutions to raise funds through fees and third-stream income. The net result is that university fees have become increasingly unaffordable to the working and lower middle classes.' In order to counter this, the DHET proposed that block grant funding to universities should increase to a level of 50% of the cost to run an institution; but that fees should be retained as one of the three funding streams.<sup>167</sup> It should be noted, however, that enrolment growth is a planned process in three year cycles at universities. The huge demand for university places at the different types of universities, and the commitment to increase access, compounded the funding difficulties for the higher education sector.

194. The DHET also explained that, in its view, 'NSFAS is already implementing fee-free higher education for the poor'. A student entering the university receives fees (and living expenses) up-front through an interest free loan. Interest is only charged one year after he or she has successfully completed their studies, and is below the commercial lending rate. Furthermore, up to 60% of the loan is converted into a bursary for students completing in regulation time. **However, if a student never graduates, and never earns above a certain salary threshold, and therefore the 'student never benefits from the goods of university education, i.e. they never find productive employment**

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<sup>167</sup> DHET, Presentation and submission to the Commission, 10 August 2016.

**and remain poor, they never pay back their loan and in effect receive their entire university education free (paid for by the state)'. The DHET explained that calculations have been made regarding extending NSFAS loans to 25.5% of undergraduate university students (full cost of study). This would require an additional R29 billion over the 2016/17 to 2018/19 MTEF period, and would cover most poor students at universities (family income below R120 000 per annum). However, more money would be required to assist financially needy students in the 'missing middle' category.<sup>168</sup>**

195. Similarly, the Minister of HET in his testimony explained that the approach has been to increasingly improve and widen access to higher education and TVET by ensuring that NSFAS qualifying students (the poor) are effectively funded for their studies. He explained that DHET has put bids to the National Treasury to improve the funding of NSFAS to cover students at full cost of study, but that these have not been successful. He explained that he 'acknowledges the current fiscal constraints of Government, but must also acknowledge that this in itself creates numerous challenges for the Department and has a serious impact on service delivery'. The Minister explained that the principle of cost-sharing in universities has been entrenched, but that lack of finances should not prohibit students from accessing higher education. He added that in response to the demand for fee-free higher education and training, the government has made significant new funding available. Free TVET

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<sup>168</sup> DHET, Presentation and submission to the Commission, 10 August 2016.

college education for poor students has been introduced, but there are insufficient funds to support all students who require full cost of study support. 'Government is committed to ensuring that all financially needy, academically deserving, university and TVET students, whether poor, working class or middle class, are able to access loans and bursaries so that they are able to access higher education TVET and are not expected to pay fees (FCS) at point of entry. The loan portion of the financial aid for university students should be recovered once the individual is working productively and earning an income through improved systems'. The Minister also discussed the ANC resolutions regarding free education, and that the Ministerial Review of the NSFAS (2010) proposed that 'full state subsidization of poor students should be progressively realized' and it 'proposed an income-contingent loan scheme for students from lower middle-income families, the so-called "missing middle"'. In summary, the Minister explained that 'NSFAS provides eligible students with the means to obtain a tertiary qualification by offering loans at a low interest rate and a reasonable repayment plan. These loans are repayable as soon as the student begins to work and earns at least R30 000 or more per year. Up to 60 % of the award may be converted into a bursary dependent on the student's year-end results. Final year students at higher education institutions who qualify for NSFAS funding are offered an incentive of having their total loan for the final year converted into a 100 % bursary if they complete their studies in the same year'.<sup>169</sup>

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<sup>169</sup> Minister HET, 13 October 2016.

196. The National Treasury focused their attention on the financial situation of the state, rather than providing a theoretical position on free education. They referred to the lack of growth in GDP and as a result in government revenue, while spending on social support has increased. This had led to an increasing debt burden, leaving the state with a debt to GDP ratio of 50%. As a result, there is pressure to cut spending; and we have entered a period of consolidating the budget. They indicated that aside from the budget given to PSET, additional money is allocated through other Departments, and Provincial and Local government, and through earmarked taxes (like the NSF). In 2014/15, 71% of the PSET budget was allocated to universities (R5.9 billion), 12% to TVETs and 2% to CET, while an additional R13.8 billion was collected through the national skills levy. NSFAS for universities has increased from R510 million in 2000 to almost R7 billion 2014/15. NSFAS for TVETs has increased from R300 million (2010/11) to R2 billion (2014/15). The National Treasury indicated that should the position be taken to fund free education, money would have to be cut from other social priorities.<sup>170</sup> National Treasury highlighted that budget allocation is guided by Constitutional imperatives. They indicated that Basic Education receives the highest percentage of the allocation, with the PSET allocation among the top five together with housing, health and social protection. Treasury argued that in their understanding of 'progressive realisation within available resources', there is an 'obligation for fiscal sustainability'. They explained again that

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<sup>170</sup> National Treasury, 12 August 2016.

the relationship between taxation and economic growth is complex, and that resources are ultimately determined by the size of the economy.<sup>171</sup>

197. The CHE explained that 'A central objective of transformation in higher education is equitable access with success', but not at the expense of quality. It discussed the private and public benefits of higher education, and the need for state subsidisation. However, it pointed to the growing number of poor students, and the limited tax base. Other funding pressures in the sector were mentioned, and in the education pipeline as a whole. The CHE discussed some funding options, together with their challenges. First, fully state subsidised education, which could lead to a reduction in quality within public institutions; exacerbated wealth inequalities; and increased moonlighting. Second, an income contingent loan, which could lead to a high debt burden. Third, the capping of fees, which could lead to rapid fee increases at institutions with traditionally lower fees. Finally, a sliding scale of fees, which would require a broad enough tax base to raise sufficient funds, and would not be feasible in poorer institutions where there are few or no wealthy students.<sup>172</sup>

198. The NRF began by discussing the public and private benefits of higher education, and stressed their focus on the importance of innovation for the knowledge economy. The NRF explained that 'The funding of Higher Education is more than just about funding undergraduate students...

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<sup>171</sup> National Treasury, 07 October 2016.

<sup>172</sup> Council on Higher Education, 22 August.

There is need to provide adequate funding for postgraduate students, researchers, research infrastructure as enablers for generating new knowledge and enhancing our research and innovation'. In this regard, the NRF acts as an agency of the Department of Science and Technology in the same way as NSFAS is an agency of the DHET. The NRF 'funds 10% of all postgraduate students in the country while NSFAS funds 25% of all undergraduate students in the country. The funding of researchers at universities comes in the form of NRF research grants, student bursaries and scholarships, large infrastructure equipment grants which cannot be based at one single university'. Funding is on a competitive basis. The NRF discussed the pressure that their funding is under, especially as fees increase above inflation and the NDP has set targets for increasing the number of doctorates, as well as the performance of NRF funded students, which is above the set benchmark. The NRF concluded that any 'policy, planning or funding decisions that respond to the challenges of [higher education] must enhance research excellence innovation and knowledge production' and that 'funding decisions for students must include appropriate resourcing for postgraduate studies (number and value of bursaries and scholarships)'. In addition, funding must take into account socio-economic circumstances and must be 'scalable and support [the] sustainable growth of' higher education. It added that, in its view, 'primary and secondary education is a constitutional right of all South Africans, free higher education is not enshrined in the same manner. The affordability of free higher education for all admitted students is questionable under the current economic



climate in South Africa.’ For this reason, the NRF would support an ‘affordable and sustainable solution ... that funds students on the basis of cost of study but that is selective and differentiates on the basis ... focus/priority areas and transformation imperatives and targets ... [and] ... full, partial or no funding depending on income levels and access to other funding such as bursaries’.<sup>173</sup>

199. The Department of Basic Education focused their presentation on the performance of Basic Education in preparing students for higher education study. Regarding the university crisis, they suggested that their pro-poor policy with regards to free schools has been a success; and recommended making funding systems as simple as possible.<sup>174</sup>

200. In summary, the government’s interpretation of the Constitution does not support a free higher education system. Rather, the focus is on access and support for the poor. The various government presentations highlighted the severe financial constraints under which it is operating, with various priorities struggling for better funding. Lack of funding to fund new initiatives was highlighted more than once. Among these priorities is education, which receives a substantial percentage of overall funding (when considering the sector as whole). The need to focus on the national perspective was highlighted by all. The achievements in improving and increasing funding possibilities for higher education were

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<sup>173</sup> National Research Foundation Presentation & Submission, 05 September 2016.

<sup>174</sup> DBE Presentation, 23 September 2016.

mentioned. Despite this, there is a clear recognition of the need for better funding for NSFAS with a concomitant increase in the recovery of loans. It was agreed that no poor student should be denied access based on his or her financial situation. Further important points were the need for quality, and for a mixed focus on under-graduates and post-graduates.

### **9.3 STUDENTS AND STUDENT ORGANISATIONS**

201. In their submission to the Commission, SAUS complained about increasing student debts 'which in our struggle we call it the black debt'. They explained that the main problem is a lack of funding. First, universities are underfunded, and as a result they have been 'increasing tuition fees to mitigate shortfalls and related vulnerabilities'. Second, many students rely on NSFAS, but 'NSFAS is unable to provide financial support to all the deserving poor – families with an income below R130, 000'. Added to this, poor students in the missing-middle cannot access NSFAS. As a result, universities face high levels of student debt, and students either drop-out as they cannot afford to complete their studies, and continue to struggle and are harassed by institutions to pay huge debts. SAUS recommended: 'Increasing Government's spending from 0.75% of GDP to 2.5 % of GDP [which] will relieve the burden on students to fund their own education. This will go a long way in assisting in our call for free education.'<sup>175</sup>

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<sup>175</sup> SAUS, 10 August 2016.

202. In light of this dire situation, SAUS gave its support to a free education model. They argued that 'charging fees is against the spirit of the Freedom Charter of 1955', and that free education would lead to various public benefits, including reduced unemployment. However, in light of financial constraints, SAUS accepted that 'the realization of free education is likely to be a phased in model, thus free education for the poor is the first step towards a progressive higher education system. We need to ensure that we particularly empower and advantage the poor in order for us to start alleviating class struggles, especially in the capitalist scheme.' They explained that the 'missing middle are not middle-class students, these are students from the working class who are too rich for NSFAS, and too poor to pay fees: too poor to be rich, and too rich to be poor. They are the children of teachers, of police men, of civil servants and others'. SAUS believe that the problem began with the commodification of education, 'meaning that people get the education that they can AFFORD, not the education that they deserve... The focus is no longer on the academic project. The focus is not on learning, or on developing but on ensuring that we pay the institution for the service rendered without proper academic support and holistic learning.'<sup>176</sup>

203. Regarding funding for free education, SAUS outlined a number of possible initiatives: (1) Cutting the government wage bill, as one third of government spending is on wages. SAUS believes 7% can be cut to raise R26 billion. (2) Introduction of an education tax of 3%, to raise over R30

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<sup>176</sup> SAUS, 10 August 2016.

billion from all the tax payers. (3) As a developing country, South Africa should be able to rely on 'fully developed countries to finance some of its aspirations. Mozambique for example introduced free education in the 1990s and the international solidarity helped them to fund part of the free education bill. The country will create a model that developed [countries] can be able to release funding and assist in funding free education.' (4) Adjust government spending to meet priorities, for instance SAUS suggested that sport is not a high priority. (5) Access private sector funding 'For example if all companies listed at the JSE can contribute 4% of the required funding for free education, only 25 companies can pay the full amount towards free education' (6) By dealing with corruption and other leakages, such as 'Government Ministers who live a lavish lifestyle', money could be diverted to higher education. For instance, 'When one minister goes out of the country and spent R300 000 just for one holiday, such money would have funded three students to receive free education.' (7) 'Private individuals and the general public wishing to contribute to free education can be mobilised through government systems to fund free education. This will be added by making them understand the benefits accrued by the existence of graduates from free education.'<sup>177</sup>

204. The Students for Law and Social Justice stressed the importance of making higher education available and accessible due to its 'ability to alter the lived realities of the historically oppressed, as well as open the doors of opportunity to those whom society has traditionally relegated to

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<sup>177</sup> SAUS, 10 August 2016

subservience and poverty'. Their submission focused on the 'constitutional imperative and obligation under international law', and considered access more broadly than only financial access. The SLSJ called for admission policies to 'be reviewed as a space in which to effect redress of past and present injustices' and for 'a progressive sliding-scale model of governmental subsidisation directly to students, not as a collective but as individuals, [to] ensure that personal circumstances of a student (including the best interests of the student, any forms of disadvantage, socio-economic disparities, and historic or continuing social systems or structures) [are] accurately accounted for'.<sup>178</sup>

205. Regarding free higher education, SLSJ believed that the 'immediate realisation of fee-free further education for all would serve to benefit the advantaged in society to the detriment of the overburdened poor'. It supported a 'model based on substantive equality where those most in need are assisted at the justifiable expense of those wholly able to pay, but that no retrogressive measures should be implemented in the pursuit of realising the right to further education, save for measures designed to redress the injustices of the past'. This proposal would see 'greater subsidisation of those with an inability to pay, and lesser and subsequently no subsidy to those able to pay, depending on personal circumstances. The system would entail fee-free education to those wholly unable to pay; using increased governmental expenditure on higher education coupled with reducing or removing subsidisation of

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<sup>178</sup> Students for Law and Social Justice, 12 August 2016.

those wholly able to pay. The sliding element of this proposal is realised in students paying varying fees contingent on their available resources'.<sup>179</sup>

206. The SLSJ also indicated that an 'alternative to the sliding-scale model of subsidisation ... the implementation of a system of income-contingent loans ("ICLs") by the state... It is a common occurrence that prospective students are in need of credit facilities, but fail to meet the surety requirements of private financial institutions. ICLs would be beneficial to the student making use thereof and would, due to its income contingency, prevent financial overburdening, particularly for students with less financial means. The onset of repayment would trigger upon sufficient income being earned exceeding a determined reasonable threshold. This prevents a situation where students are forced to pay more than they can afford at a given time.'<sup>180</sup>

207. SASCO criticised the 'commercialization of higher education, which essentially advocates for the management and governing of institutions of higher learning in ways identical to the manner in which business corporations are managed'. They referred to the aspirations of the Freedom Charter and Constitution, and gave their support to the 2012 ANC resolution that 'academically capable students from poor families should not be expected to pay up-front fees in order to access higher

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<sup>179</sup> Students for Law and Social Justice, 12 August 2016.

<sup>180</sup> Students for Law and Social Justice, 12 August 2016.

education. Academically capable students from working class and lower middle-class families should also be subsidised with their families providing a household contribution to their studies in proportion to their ability to pay. The fees that must be covered include tuition, accommodation, food, books, other essential study materials or learning resources and travel that are the full cost of study fees.’ They also referred to the Report of the Working Group on Free University Education for the Poor in South Africa (2012), which indicated that ‘Free university education for the poor, in principle, can be considered to be a materially-significant additional step in government’s ongoing efforts to both address some of the legacies of the past and deepen the scope and quality of democratic life in South African society’.<sup>181</sup>

208. SASCO explained their opinion further: ‘Free, accessible and relevant education is a means for social development, personal empowerment and the advancement of well-being, as well as [the] economic development of nations.’ As such, ‘We believe that tuition fees should be completely removed from education in order to begin dismantling the market. Fees are used purely as a way of creating a sticker price for a degree, constructing the fantasy of a market transaction to turn students into consumers and force universities into competition’. SASCO called for

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<sup>181</sup> SASCO 22 August.

a 'funding system that provides universities with financial security and autonomy without generating unhealthy competition for funding'.<sup>182</sup>

209. Regarding the funding of free education, SASCO accepted that it 'might be implemented in phases, for the poor, and missing middle, and later for all'. Identified sources of funding include using unclaimed pension fund money; a wealth tax; an education fund where all working people contribute R20; and increased business investment. They explained that this did not need to be only in the form of additional taxes, but that companies could be given incentives, like BEE points, to invest their corporate social responsibility budget in higher education. Furthermore, even 'a modest 1% increase [in the] skills levy, ... channeled into higher education could take a huge burden off of government and, ultimately the individual taxpayer, and go a long way in making business pay a fair share towards generating the skilled workforce that they tap in to, rather than continuing to free ride'. SASCO also called for central control of all money from 'local government, district government, provincial government, national government, state owned companies, as well as international government/bodies' for 'loans, bursaries, scholarships, grants' so as to 'ensure maximum use, consistent rule application and meeting our educational and skill needs'.<sup>183</sup>

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<sup>182</sup> SASCO 22 August.

<sup>183</sup> SASCO 22 August.



210. Finally, SASCO called for application fees to be abolished and for no funding to go towards private providers. They said the question should not be 'whether the country can afford the cost of free quality education, the question we ought to ask, is whether can the country afford having youth that is not educated, skilled and empowered?'.<sup>184</sup>
211. Representatives of the UKZN SRC presented to the Commission, explaining that the SRC was busy dealing with the problem of poor students without NSFAS funding, and that this 'reemphasize the urgency in relation to the need for free, compulsory, quality education. The current system is not assisting anyone; in fact, it is excluding the poorest of the poor. It doesn't even fund half of the students that, based on their previously disadvantaged background, are not able to be funded because of they are saying that there is shortage of money'. The SRC described inequality between previously advantaged and disadvantaged institutions, and said that a Commission was not needed as no Commission is set up when state owned enterprises need more funding or bailouts. They went on to argue that free education is possible, but that too much money is lost through corrupt practices. The SRC clarified that they only support free education for the poor. They argued that too much of a university budget goes towards executive salaries, and that this is part of the commodification of education. They described their problems with NSFAS, focusing on the fact that there was not sufficient money for all qualifying students, and that the missing-middle also

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<sup>184</sup> SASCO 22 August.

needed assistance. They added that S-Bux (the NSFAS student card) limits where they can shop; the means test is very problematic; and there was some concern that NSFAS is a loan. However, another participant did argue that 'I'm saying maybe there should be a level at which, [sic] once your tax contribution and there's a certain level in which you earn, you are then asked to pay a particular portion. I don't particularly believe that we should just give NSFAS money for free, because when you look at NSFAS, what NSFAS is meant to do is give you a chance at changing your individual circumstances. What NSFAS does, is it makes you swim against the stream in the sense that if the natural evolution of your life is that you're from a shack and you are destined to become a domestic worker, through the intervention of NSFAS you become a doctor and immediately you earn R37 000. Now, these are realities [sic] what NSFAS can do, so we must not close that gap, we must allow that gap for people that can to contribute'.<sup>185</sup>

212. The UWC students also made a submission. They indicated that higher education needed to be freed from, among others, exclusion on the basis of being poor; high dropout rates; lack of student support; negative labelling of students; and mismanagement of NSFAS and other funding. The students criticised the continued policy focus on free education for the poor, not allowing scope for wider consideration of free education and in the context of no clear definition of the poor. The students added that despite a focus on access, this remains limited and access is not

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<sup>185</sup> UKZN SRC, 29 August 2016.

translated into success. This leaves students with large debts which they cannot pay as they have no qualification supporting their employment. The SRC recommended that institutional autonomy be reviewed to develop a hybrid system with a focus on academic freedom and transformation simultaneously; that fee capping be introduced to allow for better management of funding; and that NSFAS be restructured to ensure better management and monitoring of funds and students, to ensure better throughput and to ensure better tracking of students during study and post-graduation. In relation to this, the SRC called for a better tracking system for re-payment of NSFAS loans, and called for no interest on loans. Finally, the SRC concluded that free education could be funded through existing means (grants, SETAs, donor funding) and that a National Education Redress Fund be established and linked to a reparations process, with additional funds through CSI with tax rebates.<sup>186</sup>

213. After commenting on the extension granted to the Commission, the DASO moved to discussing the financial position of universities. They noted that 'South African Universities are inadequately funded which leaves them in a precarious financial position', that both teaching and research are important activities that should be adequately funded; and that fees have been increasing quickly due to subsidies decreasing in real terms, especially when considering the growth in enrolments and research output. DASO noted that increases in allocations to NSFAS

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<sup>186</sup> UWC SRC Submission.

have largely been negated by fee increases, and that 'adequate levels of NSFAS funding are vital to ensure that no student is excluded from higher education on the basis of its affordability'. DASO highlighted the dire financial position of the HDIs, where most students rely on NSFAS. They recommended that these institutions need to be considered in any solution. DASO commented that access to higher education 'is a fundamental basis for economic empowerment', and that fees need to be affordable to ensure access for students from poor and working-class families. DASO argued that 'By cutting corruption and reprioritising the existing budget, free higher education for the poor with support for the missing middle can be made a reality'. They called for a focus on graduates, rather than enrolments; for an increase in government subsidy 'towards the level of 50% of costs so quality education and support to poor students and the "missing middle" can be provided for'; and for improved student support. DASO's position regarding free education is that the 'poorest students need the most comprehensive financial support possible'; "missing middle" students should also receive financial support, proportional to their financial standing'; and 'Better-off students should not receive financial support for fees'. They explained that NSFAS could still be used as the body to manage this support, but that more funding should be directed towards the entity. They argued that poor students should receive full-cost of study funding, converted into a bursary on completion; that missing-middle should be 'progressively

supported proportionate to their family incomes'; and that 'academically competent' students should be funded for post-graduate study.<sup>187</sup>

214. SAFETSA is the student body for the TVET sector, and provided the viewpoint of TVET students. They began their discussions by contextualising the 2015 protests, and explained that 'current debates seem to be dominated by the emergent notion of 'the missing middle'. While care is needed to search for ways of finding those that are deemed to be missing. It should not be the case that their discovery occurs by hiding those in lower social stratum'. SAFETSA explained further that students in the TVET sector tend to represent the poorest segment of the population, and 'it would not be correct to sacrifice the poor masses of our people in the TVET sector to protect the yet to be found middle'. They reminded the Commission that while the fees protests had originated in the university sector, any decisions made could also impact on the TVETs. They added that NSFAS provides TVET students with bursaries rather than loans, due to the policy objective of increasing TVET enrolment and because TVETs attract the poorest students. Despite the assistance offered by NSFAS, SAFETSA pointed out that insufficient funding is a serious challenge, which results in dropout and protests.<sup>188</sup>

215. Regarding free education, SAFETSA discussed some of the pros and pitfalls of such a system, but argued in general for free education for the

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<sup>187</sup> DASO Presentation, 23 September 2016.

<sup>188</sup> SAFETSA Presentations & Submission, 29 September & 22 November 2016.

poor. They explained that, in their interpretation, 'free fees appears as a measure reasonable enough for making post-school education available and accessible' in line with the Constitution. They added that 'At stake on this issue is the participation in education, by significant members of this society despite their creed and economic status. In this light free-fee can also be seen as longterm strategy to reduce the number of ... 'NEETs'... Fees have implication[s] for meaningful participation in post-school education. Education is not a place for making money, but provides [a] context to build a country.' They explained further that there are 'critics who have raised concerns about monetary value', but that the other view of 'sympathisers who place the people at the centre then end with structure that could best serve them'. SAFETSA also pointed to a South African Institute for Race Relations (SAIRR) study which noted that 'only 5% of the households could actually afford paying for university education fees'. In conclusion, SAFETSA noted that 'study loans impose an extra burden on students to start life on a deficit'; and recommended that 'South Africa makes undergraduate and all college studies to be free for all those who cannot afford to pay'; that government and business 'commit to [a] mechanism that would raise necessary revenue'; and that those that have been helped should contribute to their alma mater once they are employed.<sup>189</sup>

216. The Young Communist League of South Africa (YCLSA) was clear in their support for free education, although they did accept that there would

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<sup>189</sup> SAFETSA Presentation & Submission, 29 September 2016.

need to be steps in the interim until it could be attained. The YCLSA indicated that its vision 'is to see free quality compulsory education in institutions of higher learning. We seek to strive for the creation of access and success in all institutions of higher learning without students having to pay. We further seek for transformation of curricula content and a reconfiguration of institutional autonomy. In general, we want a transformed education system and the product thereof. In preparing to usher in free education, we want the government to evaluate the cost of education and introduce control over fees in the meantime. The demand for free education can only fail if it is reduced to cancellation of fees alone, it should be a demand for quality education too with necessary implications for the transformation of the curricula. The transformation of the curriculum and its content is a necessary pillar for the demand for free education'. YCLSA explained further that 'Tuition fees must be abolished and a grant be introduced for students. We call for more state funding for higher education to complement the loss of revenue from tuition fees and living costs for students. The responsibility to take a student to an institution of higher learning must belong to the nation and society as a whole and not a family'. The YCLSA drew a distinction between free and fee-free education, explaining that 'Free education is meant to speak to free quality compulsory education and addresses the question of quality, the content of education, transformation and fees while the loosely coined word of fee-free is used to divert attention away from all issues of the education and emphasizes the question of fees in exclusion from other important issues. Therefore, the debate must be on the provision of free

quality compulsory transformed education and not on fee-free education.<sup>190</sup>

217. In addition, YCLSA noted the need to ‘address the existing difference between historically white and black Universities and colleges... We need to recognise and redress the historical burdens of institutional inequities among higher education institutions, which resulted in financial, educational and geographical disadvantages’. They also indicated the need for increased access, but acknowledged that many universities are at full capacity and new universities have been opened. YCL noted that ‘Lack of free quality education is amongst the major social injustices in contemporary South Africa’. They also called on people to ‘fight against the running of institutions of higher learning like businesses’ and transform ‘ivory towers into people’s centres for people’s education’. They noted that the ‘commodification and commercialisation of education remains the biggest challenge’ and that ‘we need to develop systems and opportunities that allow the poorest of the poor to attain education without the burden of the cost’. In this regard, YCLSA also called for government to ‘interrogate private institutions of higher learning’.<sup>191</sup>

218. Regarding NSFAS and loans, YCLSA noted that ‘NSFAS has led to many black graduates being in debt after completing school. The students fall victim to unpaid loans which go on for years given the unemployment

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<sup>190</sup> YCLSA Presentation & Submission, 29 September 2016.

<sup>191</sup> YCLSA Presentation & Submission, 29 September 2016.



rate'. In addition, 'NSFAS does not cover all the costs and needs of poor and working-class students'. In the short term, the YCLSA called for review of the NSFAS family income threshold, no fee increase, the capping of fees, the removal of application and registration fees so that 'students be allowed to pay as and when they can pay during the academic year'. They called for government, universities, business and 'Finance capital through institutions and big monopolies' to contribute and find a funding solution.<sup>192</sup>

219. In summary, all students highlighted the problems with the current system, and with NSFAS being insufficient. While most student groups gave their support to free education in some format, the majority also recognised that in the short term this could only be provided to the poor. Definitions of the poor were not provided. Some students called for free education without any re-payment, while others supported re-payment when a certain income level has been reached so that other needy students can be funded. Application fees and upfront registration fees were highlighted as limiting access to financially needy students.

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<sup>192</sup> YCLSA Presentation & Submission, 29 September 2016.

## **9.4 HIGHER EDUCATION INSTITUTIONS**

### **9.4.1 UNIVERSITIES**

220. Universities South Africa (USAf) referred to the growth in the higher education sector, without the concomitant growth in public spending, as well as improvements which have been made in throughput and in African and women enrolment numbers. According to USAf, important principles to maintain include institutional autonomy; accountability; high levels of quality; and a contribution to the national social justice agenda. USAf did not give its support to free education, which in its opinion would benefit the wealthy. It recommended one of two models. The first model, would give grants to poor students accepted at a university and loans to students in the 'missing middle'; with other students paying upfront fees. Fee increases would be controlled through a national fee regulatory framework; and DHET and universities would work closely together in planning. This model could lead to high student debt. The second model proposed is a graduate tax in a fee-free regime. In this model, no student would be excluded on financial grounds, and no student would pay upfront fees. A percentage would be added to their tax when employed, collected by SARS, and which would be ring-fenced for higher education. The problems with this system are that the tax burden increases; emigrating students would not pay; and its success is dependent on the state of the economy. USAf recommended further that whatever model is adopted, additional measures should include improved tax incentives

to encourage individual and corporate donations to higher education; business contributions through a levy or tax; and the use of skills levies in a consistent and direct way. USAf referred to the current system of cross-subsidisation (both of poor students, expensive courses, and post-graduate study) and warned that this should be borne in mind in any future model.<sup>193</sup>

221. The University of the Witwatersrand prepared their submission after engaging with a number of stakeholders within the university. They found that ‘none of our respondents supported a free-for-all system in which even those who could afford to pay were fully funded. This led to various proposals for means testing and/or a sliding scale based on family income’. There was general agreement regarding the need for South Africa to increase the amount it spends on education as a percentage of GDP. The University argued that the public and private benefits of a thriving education system are clear, especially given the need for transformation in South Africa. For this reason, Wits argued for the burden of funding to be shared between the government, the private sector and individuals. They went on to explain that private sector contributions to the university were normally earmarked; and that in the case of Wits, funding has decreased over the past five years.<sup>194</sup>

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<sup>193</sup> USAF Presentation & Submission, 29 August 2016.

<sup>194</sup> Wits University, 10 August 2016.

222. Regarding individual contributions, it was agreed that those who can afford to contribute should. For others, there should be assistance and Wits considered options including a means test, involving SARS in determining household income, or leaving parental income out and contracting students into a pay-back or work-back model. However, the University also pointed out that according to 'Stiglitz: "Student debt is not benign and economically insignificant. It affects capital formation – the increase in per capita output, or net additions of capital stock such as equipment, buildings and roads – all of which go to create goods and services and have a direct negative effect on our productivity as a country. People will not start new businesses, invest in capital equipment, manufacture goods and innovate"'.<sup>195</sup>
223. The University of Pretoria started by pointing to both the public and private benefits of higher education; and to the stagnating government investment which led to higher than expected tuition fee increases. The University highlighted how 'access and affordability in SA is a complex challenge' pointing to the unequal society and unequal participation in higher education. The problem of insufficient NSFAS funding to support all deserving poor students was recognised as one of the major problems leading to the current funding crisis. The University described the tuition fee dilemma within a life-cycle approach – explaining that students from poor households would not remain poor after they graduated and that, from 'a life-cycle perspective, the problem is not one of poverty, but the

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<sup>195</sup> Wits University, 10 August 2016.

mismatch between the timing of expenditure and income. This mismatch can be addressed through a revamped NSFAS'. The University of Pretoria views fees as 'a rational element in the financing of HE, 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'. The University also suggested a 'sliding-scale tuition fee model, in which tuition fees [are] charged according to a student's household income... [and] 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.' The University explained that such a model would require that all students are means tested. The University was not in favour of a regulated set fee model, as different universities have different costs, and some have instituted a cross-subsidisation policy (either to subsidise expensive programmes or to subsidise poorer students).<sup>196</sup>

224. Tshwane University of Technology (TUT) explained that they increasingly rely on student fees as a source of income, due to a decline in direct subsidy from the government. This has affected the institution negatively as they cater for poor students, and as a result student debt (and debt written off) has been increasing, especially since the protests in 2015. TUT projected a deficit budget from 2017. The problem is compounded by insufficient NSFAS funding for all qualifying students, even though

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<sup>196</sup> University Pretoria 11 August 2016.

TUT does not provide full-cost of study allocations to students, and has rather developed its own model to cater for more students. TUT recommended that universities should not expand to meet the enrolment targets set in the 2013 White Paper on PSET education, unless the necessary funding is available. Furthermore, expanded access should focus on the college sector to turn around the skills pyramid. TUT did not give its support to free education for all, as this is unaffordable, but suggested a sliding scale of fees to accommodate all students. They suggest that students who can afford fees continue to pay upfront, and that other students pay after they have studied either through community service or through a tax (administered by SARS) on their earnings when a minimum income threshold is reached.<sup>197</sup>

225. The University of Mpumalanga argued that the 'provision of high quality higher education is expensive' and that in order to make higher education 'progressively more available and accessible, then the issue of the funding must be addressed'. The University went on to discuss public and private benefits, and the need for a cost-sharing model. They explained that the 'key questions that must be answered are the proportions of the private and public contributions and when and how these funds are collected'. This problem is compounded through by the fact that 'South Africa remains one of the most consistently unequal societies', meaning that some can afford upfront fees, and others require assistance. Pressure on institutions and students has increased as a result of

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<sup>197</sup> TUT, 22 August 2016.

government funding not keeping pace with inflation and growing enrolment. The UMP supported a loan and bursary system, where loans are repaid through the tax system over a number of years, with no interest charged; and an increase in government subsidy in light of the public benefits.<sup>198</sup>

226. Like many of the other universities, the University of Limpopo (UL) began by referring to a decline in government subsidies which has led to higher tuition fees; a high reliance on (insufficient) NSFAS funding for students; growing student debt; and the public and private benefits of higher education. The UL explained that even with fees levied, the higher education system is currently underfunded by about R90 billion, making fee-free education unaffordable, although poor students should be helped. UL recommended that the State should provide more direct funding; that business and civil society contributions should expand; and that expansion targets for the university and TVET sectors should be moderated. Together with this, NSFAS recoveries need to grow; institutional autonomy should be protected; and HDIs should be given dedicated support to address the backlog as a result of the historical legacy.<sup>199</sup>

227. The University of Venda referred to the rising costs facing institutions, together with increasing student debt. They indicated that a minimum of

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<sup>198</sup> University of Mpumalanga, 22 August 2016.

<sup>199</sup> University of Limpopo Presentation & Submission, 24 August 2016.

an 8% increase was needed by the institution to remain sustainable. Univen recommended that municipalities should give universities a rebate on their utilities; that the HDI Development Fund should be implemented urgently; that provincial governments should provide more bursaries in skills shortage areas; and that there could be engagement with the National Lottery to devise a new category of assisting universities. The Univen also said that rather than a student-centred NSFAS model, universities should be given more latitude to allocate funds according to the needs of their students; and SARS should assist with collections and household data.<sup>200</sup>

228. The University of KwaZulu-Natal (UKZN) began by referring to the principles of adequate public funding; public and private benefits; and equity and equality. They indicated that the decline in public funding was putting pressure on institutions and on student fees; but that free education was not the solution as this would benefit the rich. They recommended a system of grants for the very poor for undergraduate study only, with a means test linked to SARS and social security data. They also recommended income contingent loans for those from households with an income between R150 000 to R500 000.<sup>201</sup>

229. The Durban University of Technology (DUT) accepted that there is a 'compelling transformative rationale for fee-free education', but also

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<sup>200</sup> University of Venda Presentation, 24 August 2016.

<sup>201</sup> UKZN Submission, 29 August 2016.



recognised high private returns and limited resources. As a result, they did not give their support to a 'total fee-free education [system] for all undergraduate university students' but rather a 'formula based notion of 'fee-free' undergraduate higher education for the poor and indigent based on family income', which should be 'extended to accommodate the 'missing middle'. The DUT supported full cost of study allocations, and recovery through 'some form of additional tax once recipients graduate and begin working'.<sup>202</sup>

230. The University of Zululand (UZ) argued that the central problem is the inability of students to pay upfront fees. The University argued that due to the public benefits, a 'public-private-partnership and social investment bond [solution should be found] to meet the bulk of the financial needs of tertiary institutions' and 'Since students are the major beneficiaries of the tertiary education system they ought to pay for their education once they earn high enough incomes. Moreover, all graduates ought to pay a special income contingent tax to ensure future generations have access to tertiary education'. As such, the submission argued that 'integral to future financial sustainability is effective cost sharing, diversifying income sources, creating new sources of income, building partnerships at home and abroad, and creating wealth beyond teaching and research'.<sup>203</sup>

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<sup>202</sup> DUT Presentation & Submission, 30 August 2016.

<sup>203</sup> University of Zululand Presentation & Submission, 30 August 2016.

231. Based, on this, UZ proposed 'a loan repayment system or taxation mechanism after the student enters the job market on the basis that it shifts the burden of payment from the point of consumption to after graduation when the graduate is able to earn'. Loan re-payments would end once the loan is paid off, while a graduate tax would be ongoing. UZ proposed that such loans be available to students from poor and middle-income families, and that the size of the loan would be on a sliding scale based on household income. Furthermore, students from more affluent homes should be charged higher fees on a sliding scale. The University also proposed that tuition fees should be responsive to employer preferences, i.e. 'lower fees for courses and programmes that are in high demand in the market place relative to those which are not'.<sup>204</sup>
232. The University of Fort Hare (UFH) began by explaining that, as an historically disadvantaged institution, they experienced serious underfunding, which in turn led to backlogs in infrastructure and equipment for teaching and learning, research, staff and student accommodation, transport etc. In this way, the university highlighted how a lack of money was affecting the quality of the education the institution could provide. The UFH referred to and critiqued the post-apartheid funding formula and the recent funding review. They also indicated that 'There is no national decision to fund higher education in an amount related to a percentage of the Gross Domestic Product. As a result of this there are varied unplanned proportions of funding compared to GDP over

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<sup>204</sup> University of Zululand Presentation & Submission, 30 August 2016.

years. As a result of the decline in funding the institutions have been increasing fees to match the requisite need for quality higher education. For HDIs, whose majority of students come from poor families, this has led to high demands for the National Student Financial Aid Scheme (NSFAS) to provide more funding. The lack of matching increases in NSFAS funding has led to increased student debt'. The UFH went into some more detail regarding underfunding for both university quality development and students.<sup>205</sup>

233. UFH indicated that, in their view, 'Fees should be a component of higher education funding but the poor should access higher education without having to pay at the point of service. The students supported by the state should pay back after qualifying, either in kind or in cash. Public service in various spheres of government is one option. This needs proper HR planning so that the public service is not bloated in the end.'<sup>206</sup>

234. The Walter Sisulu University (WSU) focused on their financial position. They indicated that 90% of their students applied for NSFAS, and about 73% qualified. The rest of the students were part of the 'missing middle' and cannot afford fees. As such, the university is very reliant on state funding, and bad debt is a growing problem, leaving the University in a dire financial situation. It can hardly cover the costs of basic educational services, and has no money for maintenance or for improving the student

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<sup>205</sup> UFH Presentation, 01 September 2016.

<sup>206</sup> UFH Presentation, 01 September 2016.

accommodation situation. WSU suggested a differentiated fee system, with a three-year rolling plan model for fee setting.<sup>207</sup>

235. The NMMU discussed the public and private benefits of higher education in some detail, and indicated that the transformation of the sector carries additional costs to cater to the needs of students from working class and poor backgrounds. The University indicated that ‘Universities must be in financially sound positions to meet these additional challenges or students from poor backgrounds will remain marginalised and set up for failure.’ As in the submissions of other universities, NMMU discussed the decline in university funding and funding as a percentage of GDP. Regarding NSFAS, the NMMU argued that loan recovery is a major issue, and that if ‘recoveries had continued to grow along a normal [upward] trajectory, it is estimated that, in 2014, they should have brought in R1.7 billion, instead of just R2.48 million... [and] NSFAS would have been in a position to fund 51 000 ... students’. Another concern is ‘defining and including the “missing middle”’, where NMMU has their own model to cover students coming from households with an income up to R300 000. NMMU concluded that for them, the ‘question is: “Who must pay and when?”’. Their argument was that ‘Firstly, government needs to prioritise the funding of higher education in line with the policy intentions of the National Development Plan. Secondly, since there are public and private benefits to higher education, both the state and students need to contribute to the cost of higher education on condition that those who are

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<sup>207</sup> WSU Presentation & Submission, 01 September 2016.

unable to pay are supported adequately through a strengthened NSFAS with loan options for the middle-class. Furthermore, the role of the private sector in strengthening NSFAS through loans and investments in scholarships needs to be investigated and incentivised by the State.<sup>208</sup>

236. Similarly, Rhodes University (RU) began by discussing the public and private benefits of higher education, and social justice in terms of access. They indicated that broad access is a moral obligation, and that it is already skewed by the uneven school system. While the rich can afford fees, the upper-middle can access bank loans and the poor can access NSFAS, 'the majority of South Africans sit between these categories and are denied access to higher education by the crushing fees'. The RU also referred to the costs of transformation, including the need for re-circulation, and to South Africa's low investment in terms of GDP and per-capita decline in subsidies. RU discussed its serious financial position, and why relying on third stream income is not a viable option, partly due to the impact this would have on quality. Rhodes University discussed NSFAS, and some of their achievements and challenges. They explained how 'the real concern about NSFAS is that it is only available to the lower end of the socio-economic spectrum and thus potential students who have perhaps got a better chance of success are denied access on financial grounds.' RU is one of the Universities which supplement NSFAS, but 'access remains limited given the high cost of university education and the difficulty many experience in obtaining bank

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<sup>208</sup> NMMU, 02 September 2016.

loans'. RU went on to support some aspects of the proposed new NSFAS model, but expressed concern at the centralised nature of the proposal.<sup>209</sup>

237. Finally, RU agreed with Nico Cloete of CHET, indicating that 'it needs to be very clearly acknowledged that if free education is uniformly provided to all, it will be a regressive subsidy of the upper middle class and the rich by the rest of the population.' It added that 'While the idea of 'free' higher education is popular, it privileges the elite in a mockery of a 'pro-poor' policy.'<sup>210</sup>

238. The University of Johannesburg (UJ) began its presentation by referring to the history of its merger as a comprehensive university, the size of the institution as well as its programme and qualification mix. It highlighted the importance of institutional autonomy, and how university councils, together with executive management, bear fiduciary responsibility and ensure effective universities with the highest levels of quality. 'To achieve high quality teaching/learning and research, they have to be funded at appropriate levels'. Like other universities, the UJ went on to describe the importance of financial sustainability, the cost of quality education, declines in government subsidy and the resulting fee increases. UJ described their internal student assistance programme, funded through fees, which includes a food assistance programme. UJ pointed out that there is no subsidy for operational expenses for student accommodation,

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<sup>209</sup> RU Presentation, VC Presentation & Submission, 2 September 2016.

<sup>210</sup> RU Presentation, VC Presentation & Submission, 2 September 2016.

and that residence fees charged are not at a level where institutions could finance new residence developments. The University discussed various costs, including the increased cost of supporting underprepared students.<sup>211</sup>

239. UJ recommended that the cost-sharing model between the state and the student continue due to mixed public and private benefits. However, UJ argued that a 'necessary element of social justice is that the funding model should include mechanisms to ensure that academically deserving and academically achieving students should be not excluded from university because they cannot afford it'. UJ suggested 'assistance will be a combination of grants and loans, depending on the student and his family's ability to contribute to the education costs'. In addition, UJ suggested that government subsidy be increased to 1% of GDP, and that a graduate tax be considered.<sup>212</sup>

240. The University of the Western Cape (UWC) began their presentation by referring to their history. In 1995, the Minister of Education called for no fee increases to allow indigent students to register. The UWC heeded this call, which resulted in severe financial pressure, students who could not afford to pay their debt, and eventually by 1998 the University was insolvent and had to retrench 41 academic and 300 non-academic staff. UWC warned that we should learn lessons from the past. Only after an

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<sup>211</sup> UJ Presentation & Submission, 02 September 2016

<sup>212</sup> UJ Presentation & Submission, 02 September 2016.

injection of money from the state, was UWC able to recover. Since then, they have slowly regained financial security, and increased student numbers with gradual fee increases (above inflation). Nonetheless, a large percentage of UWC students rely on NSFAS, and over the last twenty years there has been an increased focus on fee income as government subsidies have not kept pace with growth. In conclusion, the University indicated that they support free education for the poor and missing middle. However, if increases in state subsidy are to continue along the current trajectory, there will be financial loss in real terms. If funded at the correct level, free education for the poor could result in better support for the HDIs due to better cash flow and lower levels of student debt.<sup>213</sup>

241. Stellenbosch University (SU) began by arguing that 'chronic underfunding of the sector over close to two decades has given rise to a plethora of consequences affecting much more than the financial situation at our universities. These sectoral challenges necessitate a sectoral approach to find lasting solutions'. They referred to an academic study on education funding, which argued in favour of cost-sharing, despite this not being the most politically favourable policy, as this was the best way to ensure not only the 'financial health and sustainability of higher education institutions, but it can also bring about enhanced efficiency, equity and responsiveness'. Despite favouring cost-sharing, the authors stressed the importance of government funding, with fees to

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<sup>213</sup> UWC Presentation, 05 September 2016.



supplement this funding. The University went on to discuss the current underfunding of the sector, higher education inflation, and funding as a percentage of GDP. Having highlighted the need for more funding and a differentiated higher education landscape, SU acknowledged that South Africa 'has an unequal society comprising of an affluent and upper middle class that can afford university education and a large component of lower middle class and poor students who cannot pay their way. We realise that student fees are a major concern for many of our students and their families. However, we do not believe that fee-free higher education is currently feasible'. They indicated that they currently assist students is the missing-middle who do not qualify for NSFAS and described their bursary system, funded out of the fees of those students who can afford to pay, and their general financial situation.<sup>214</sup>

242. In their recommendations, Stellenbosch indicated that they think free higher education is not feasible in the current economic situation, and that 'Studies have also shown that in the developing world fee-free higher education has tended to benefit the upper middle class and very affluent sectors of the population rather than the poor'. They added that, given the public and private benefits, they support a cost-sharing model, but due to the socio-economic context a differentiated approach of 'fee increases that are mitigated through financial support to academically deserving poor students related to the combined annual household income'. They clarified that they do 'not support differentiated student

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<sup>214</sup> Stellenbosch University Presentation & Submission, 06 September 2016.

tuition fees based on household income, but we do support the provision of bursaries and/or loans to academically deserving, needy students according to a sliding scale linked to the combined annual household income of the student's family'. Examples of three income scenarios were provided.<sup>215</sup>

243. The University of Cape Town (UCT) referred to the success of higher education in South Africa over the last twenty years, but highlighted various pressures, including financial pressure, low throughput and increases to student fees. The University explained that the ideal position would be if 'South Africa was a rich country with little inequality and if it was already providing universal fee-free quality primary and secondary schooling, universal access to early childhood development centres, healthcare, social welfare support for all elderly and unemployed, we would support a system of no-fee higher education'. However, given 'significant inequality and rationed public resources and low to middle income; in the next 30 years, higher education will not be the highest priority such that it commands the resources from public funding needed to cover its full costs'. Therefore, a cost-sharing model is needed. UCT went on to discuss funding streams, public and private benefits, and the need for increased government subsidy. They explained that 'Tax based public funding should benefit all, and not just a small proportion of the population who are likely to be the most privileged. Higher education is only accessible to about 20% of the population and a much smaller

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<sup>215</sup> Stellenbosch University Presentation & Submission, 06 September 2016.

percent of households, and even though this should increase to about 25% over the next 20 years, this is still a small minority of the population. Furthermore, this 20% is already relatively privileged as evidenced by the fact that they have been to better schools and come from family backgrounds that have enabled them to succeed academically. They will also become even more privileged relative to the rest of the population as a result of their university education. This is unlike public funding for schooling or health, which will benefit 100% of the population if everyone chose to use the public schooling and health systems. Thus, everyone is paying tax (e.g. through VAT, duties, and for many, income tax) while only a small proportion who are already relatively privileged, benefit'.<sup>216</sup>

244. UCT discussed different options to support students in financial need, but pointed out that poverty is a continuum, and having cut off points could therefore affect some negatively. As such, UCT suggested that two levels of fees could be unfair to those near the cut-off; and sliding scale fees are administratively challenging. Therefore, they recommended one tuition fee with bursary and loan support on a sliding scale for those in need. UCT discussed the benefits of loans (and good and bad loans), including the replenishing of financial resources and the possibility of banks becoming involved, but also the possibility of the poor being over-indebted.<sup>217</sup>

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<sup>216</sup> UCT Presentation & Submission, 06 September 2016.

<sup>217</sup> UCT Presentation & Submission, 06 September 2016.

245. Like other universities, the UFS started by focusing on government subsidy as a proportion of GDP; low throughput; and the role of universities within the entire PSET sector. The University suggested that government subsidy should be increased to 1% of GDP. The UFS gave its support to free education for the poor, and discussed their bursaries for poor students and their feeding scheme, as well as access to a number of other bursaries and scholarships. They explained that another 0% fee increase was not possible, and would impact severely as many cuts had already been made.<sup>218</sup>

246. UNISA discussed the financial position of the University and higher education in general. They explained that substantial additional investment is required to move UNISA from a correspondence to an Open Distance Learning institution. They added that 'Online interactive teaching and learning is not inexpensive and therefore does not meet the economies of scale often attributed to distance education'. They explained that, in their opinion, in the 'Long-term fee-free education is unsustainable' and 'puts most South African universities at risk unless Treasury is able and willing to make up the shortfall'. UNISA explained that a 'fee-free higher education system without additional sources of funding will impact negatively on the quality of [their] offerings', for instance, they explained that academic talent would be lost if salaries were not competitive. However, UNISA believes that 'Free education in South Africa is an inspirational goal worth pursuing, especially for

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<sup>218</sup> UFS Submission, 22 September 2016.

students who are poor and who qualify for access to higher education institutions'. In the current context, free education for all would benefit the wealthy who can afford fees; would remove the current cross-subsidisation of the poor by the rich through fees and of certain fields by others; could cause distortions in funding through an extended formula; and may affect postgraduate and part-time students negatively.<sup>219</sup>

247. The Cape Peninsula University of Technology (CPUT) began their submission with a discussion of the role of the university and the public and private benefits, then moved to consider the historical context of universities and argued that inequality continues between institutions and not only between students. The CPUT suggested that any funding changes need to take into account the different needs of universities and students in order to overcome these inequalities at both levels. CPUT went on to consider free education, and noted that 'The risks associated with a free-fee structure are considered high. While the model is followed in other countries, there is sufficient evidence that shows it is difficult to sustain. Nigeria is an example of a fee-free system which struggles from underfunding and lack of competitive infrastructure. It is also considered that not paying for a service has a psychological impact on society with respect to the value of the service provided, which in turn affects the sustainability of that service'. In addition, CPUT noted that a centrally

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<sup>219</sup> UNISA Presentation & Submission, 22 September 2016.

controlled loan or graduate tax system would need to ensure that fee money filtered back to institutions.<sup>220</sup>

248. CPUT went on to consider the impact of a number of factors on the financial state of various institutions, including the impact of mergers and very different fee structures. CPUT argued that these perpetuate the inequality between advantaged and disadvantaged institutions, and between traditional universities and universities of technology. Returning to funding, CPUT argued that 'Diversification of funding sources is considered essential, as is the need to maximize the potential value of investment and research in terms of both finance and infrastructure. Public investment in universities is now paramount if South Africa is to continue to address redress and inequality amongst its citizens. It is suggested that the scope for formal partnership between government, industry and the higher education sector should be explored further with the aim of increasing the public sector investment in higher education'. Furthermore, CPUT argued that 'that there is a basis to consider a funding model that provides for the differentiation of funding based on past inequalities', together with 'consideration for those institutions that cater mainly for the financially impoverished and who have a very low fee base'. As such, CPUT concluded that 'erosion of the financial grants in real terms indicates that if a fee-free scenario were to be considered by the State, universities would require a commensurate increase in the block grants provided by the State. It is therefore considered unlikely and

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<sup>220</sup> CPUT, Presentation & Submission, 23 September 2016.

irresponsible by CPUT to suggest that a fee-free scenario for higher education can be considered'. CPUT added that 'the Commission should be mindful of perpetuating a system of differential fees amongst the student population, as this could be considered unconstitutional'. In conclusion, CPUT indicated that 'that beneficiaries of the education sector should pay for the services received. Individuals as beneficiaries should pay fees. Those who cannot should then be subsidised by the state. Business as a beneficiary of the skills should also contribute directly to the sector and not only through current tax but perhaps an additional education tax'.<sup>221</sup>

249. The Central University of Technology (CUT) focused on the size and shape of the institution, and their financial challenges. They noted that fees have become an increasingly important part of the budget, but that student debt as a proportion of fees is also increasing dramatically. CUT pointed out that a large percentage of their students rely on NSFAS or other funding, but that NSFAS does not cover all students or all costs. In conclusion, CUT gave their view that 'fees ... cannot be taken out of the equation [as] they represent the commitment of students, their families and communities to their own development'; that 'legislation providing tax benefits to private enterprise and individuals providing bursaries must be examined' that 'benefits like a BEE credits system should also be considered'; and that 'NSFAS ... should be further strengthened, [in] ...

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<sup>221</sup> CPUT, Presentation & Submission, 23 September 2016.

helping needy students who should not be exonerated from paying back’.

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250. In brief, all the universities highlighted the financial pressure on the sector, and explained that a decline in funding per capita had impacted on student fees and university sustainability. Many institutions referred to the public and private benefit of higher education, which justifies private contributions through fees. Autonomy and quality were raised by some institutions. All institutions called for some support for poor students – through a loan system; free education; a loan/ bursary mix; a graduate tax; fee regulation or differential fees. Challenges with these various systems were also raised. HDIs highlighted the additional problems they face as the majority of their students are poor and rely on NSFAS. HWI institutions referred to the bursaries they offer poor students and cross-subsidisation between students. It should be noted that not much focus was placed on whether international students should pay their full fees, or whether some form of subsidy will be paid to cover their cost of study in lieu of the benefits universities derive from international student participation, e.g. international ranking of universities.

#### **9.4.2 TVETS**

251. The TVET Governors Council started by discussing the severe underfunding of the TVET sector, and how universities often received

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<sup>222</sup> CUT Presentation, 23 September 2016.



preferential treatment. They discussed the cost-sharing model of post-school education, but that within this government subsidy was declining, putting pressure on students and institutions. The Council suggested that, given skills shortages and the need for transformation, South Africa should consider free education for students in TVETS, colleges and universities. It argued that this is affordable, and that government should consider a possible education tax through increasing income tax (1%), capital gains tax (5%) and PAYE (0.5%). In addition, it called for the skills levy to increase to up to 5% on a sliding scale.<sup>223</sup>

252. The TVET Governors also indicated that NSFAS capacity should be strengthened as a matter of urgency, it should improve its debt collection systems to ensure more available funds for redistribution, and that the funding and distribution model by NSFAS for the universities, TVETs and Community Colleges should be the same. In conclusion, it recommended that 'a sustainable free education model be phased in on [an] incremental basis with effect from 2017'.<sup>224</sup>

253. The Buffalo City TVET College explained that, in their view, no South African learner, who meets the minimum entry requirements for a chosen programme, should be excluded from his or her studies for financial reasons. The TVET management felt that those who can afford fees should pay, while the college SRC was of the view that 'higher education

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<sup>223</sup> TVET Presentation & Submission, 30 August 2016.

<sup>224</sup> TVET Presentation & Submission, 30 August 2016.

should be free for all regardless of the financial status of students'. The College explained that, when referring to fees, they understand this as full-cost of study. They argued for an interest-free loan with repayments to begin when the graduate starts earning. This would assist in the sustainability of the funding model. They added that graduates wishing to 'emigrate within a period of five years need to pay back the value of benefits received'. They added that there should be an 'emphasis ... on academic performance. A learner who fails to meet an acceptable level of academic performance should be immediately excluded from the programme and replaced with another deserving learner. The excluded learner will be responsible to pay back the costs'. However, they also called for more emphasis on academic support. Finally, there should be 'Continuous evaluation of the relevancy of vocational education and training provided by TVET colleges in order to meet the needs of the country and the National Development Plan'.<sup>225</sup>

254. The College of Cape Town discussed the benefits of expanding the TVET system, and called for government funding for all TVET programmes and students. They recommended that the poor be given bursaries for tuition and living expenses, and that the missing middle be given loans, while those who can afford to pay should continue to do so. In conclusion, the college reported that their SRC had indicated that if the government is serious about expanding the TVET colleges sector, then it should review

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<sup>225</sup> Buffalo City TVET College, 02 September 2016.

the allocation to TVETs, review which programmes qualify for student financial support; and expand the group with access to financial aid.<sup>226</sup>

255. False Bay College explained the system of funding for different TVET programmes, and indicated that if all programmes and students were funded according to the regulations, then it would be a system very close to free higher education as TVET students get bursaries from NSFAS. However, the College does not support a fully free system, but rather differentiated support through a strengthened NSFAS. The differentiation would be between poor (family income below R175 000 pa), missing-middle (family income between R175 000 and R300 000) and wealthier students (called category 3 with income above R300 000 pa). Category 1 students would qualify for a NSFAS bursary covering tuition, training material, transport, accommodation and R4000 for food pa. Category 2 students should qualify for a NSFAS bursary for tuition and training material and a loan for other expenses. Category 3 students could apply for a loan for tuition only, but only if their family income is below R500 000 pa. The College concluded that the 'university fee crisis is diverting all attention to universities and it could be at the cost of TVET Colleges. There is a real fear that funding that would have been committed to support the growth of TVET Colleges could be recommitted to solve the university crisis'.<sup>227</sup>

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<sup>226</sup> College of Cape Town Presentation, 06 September 2016.

<sup>227</sup> False Bay College Presentation, 06 September 2016.

256. In summary, TVET providers focused on the levels of poverty in the sector and the need for financial support for students as a result. While a free-for-all system was supported by some and not by others, the need for more funding if enrolment is to expand (as per policy) was highlighted by all. It should further be noted that a significant number of the fifty public TVET colleges have serious infrastructure backlogs which need to be funded in order to improve the quality of education and realise economic growth with rising employment levels. The estimated costs of such developments have been discussed earlier in this submission.

#### **9.4.3 PRIVATE PROVIDERS**

257. APPETD highlighted the role that private institutions play in providing access to higher education. They explained how many students rely on bank loans, but that not all students are approved as they don't have the necessary collateral. APPETD explained that they do not support free higher education for all, as this would mainly benefit the rich and the middle class, but that they would support free higher education for the poor. They recommended that NSFAS support for the poor continue, but that private providers be included in the same process (i.e. student applies and is approved). Regarding the missing middle, they suggested a voucher system for priority skills areas, which could also be used in the

private sector. In conclusion, they recommended that private providers be seen as part of the solution in providing access to higher education.<sup>228</sup>

258. The PHEIG outlined the current funding crisis in the public higher education sector, and highlighted the fact of a growing missing-middle who could not afford fees and were not able to access NSFAS funding. Given inequality in South Africa, the PHEIG suggested that a means of ensuring financial access should be found. Regarding free education, the PHEIG argued that those who can afford to pay should pay, and that through their fees there could be some 'subsidisation of the poorer students by the wealthier ones ... and the reality is that it is morally and socially correct and necessary. Fees from fee paying students is however, not an endless source of income for institutions and it is skewed by institution with several of the more financially stable institutions already having more access to fee paying students'. The PHEIG also did not give support to some institutions being designated "fee-free"; or to a tiered solution which would be administratively onerous. Instead, it recommended that institutions continue to charge fees; that the NSFAS ceiling be lifted, and increased in line with CPIX; that NSFAS manage repayment more tightly, possibly with SARS; possible gap funding for the missing middle; NSFAS student repayments could be based on performance 'with less being due by students who succeed academically'; and that universities 'are subsidised differently for residential accommodation and meals and meal support for students who

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<sup>228</sup> APPETD Presentation, 22 September 2016.

are receiving fee assistance so that basic needs for food and shelter are met for all registered students'. Finally, the PHEIG noted that many in the missing middle access bank loans, and that a bank tax could be introduced in this regard; and that a graduate tax 'should be handled with care as many in the missing middle and just above, incur significant debt (including interest) to pay for higher education and there would be a disproportionate burden on these people if a graduate tax and bank interest were both to be paid from starting salaries'.<sup>229</sup>

259. The Centre for Creative Education (an independent, not-for-profit, educational institution) indicated that 'creating free Higher Education would not be a fair solution if free education would only apply to studying at public institutions'. The Centre referred to the Constitutional right to private education, and indicated that 'Free public education and cost-based expenses for independent education we would regard as unfair competition'.<sup>230</sup>

260. The Richfield Graduate Institute, a private institution, argued for funding for students enrolled at low-cost private institutions. They argued that they fill the gap in terms of access, and students should be able to select their institution of choice. As such, they recommended that all students have access to higher education funding, which they can use where they

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<sup>229</sup> PHEIG Presentation & Submission, 22 September 2016.

<sup>230</sup> Centre for Creative Education, 5 September 2016.

prefer. This could also reduce the cost of expanding the public higher education sector.<sup>231</sup>

#### **9.4.4 CIVIL SOCIETY GROUPS, RESEARCH BODIES AND INDIVIDUALS**

261. The CHET, after referring to both public and private benefits, explained that in countries with high Gini coefficients (like South Africa) ‘free HET privileges the already privileged’, and as such CHET does not support free university education for everybody. The CHET Director, Mr. Cloete, went on to discuss how the current crisis was brought about through a decrease in the public funding of higher education, leading to a great dependency on fees and third-stream income. He also referred to the comparatively low percentage of GDP spent on higher education in South Africa. Cloete pointed to the so-called ‘trilemma of trade-offs’ between the size of the system, government subsidy, and tuition fees. He referred to a number of possible (some inter-related) solutions including increased government subsidy to 1% of GDP; either the retention of tuition fees, except for the poor, or a sliding scale of fees; a more standardised process in determining tuition fees; improving on NSFAS’ recovery of loans and possible loan for the missing-middle; the introduction of greater tax breaks for corporates contributing to universities; institutional

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<sup>231</sup> Richfield Graduate Institute, 30 August 2016.

differentiation models; introducing social impact bonds; or a graduate tax model.<sup>232</sup>

262. The National Tertiary Education Union (NTEU) highlighted the public benefit of education, but did not give its support to a free-for-all system. It argued that higher education should be more affordable and accessible, and suggested that ways should be found to reduce the cost of a university education, and that TVETs should be utilised as a cheaper alternative. NTEU also called for government to 're-prioritise its spending habits and construct a more equitable funding model for higher education, balancing institutional and student needs'. NTEU explained in their presentation to the Commission that they do not support an increase in taxes; a graduate tax; increased tax on business (which could affect graduate employment); an indirect tax like VAT; or the privatisation of universities. They suggested that university staff costs could be shifted to the 'civil service structure and budget'.<sup>233</sup>

263. Mr. Likhona Mnguni, a PhD student at UKZN presenting in his personal capacity, argued that 'progressively acquired fee-free higher education and training is attainable'. He suggested that this should start with the most needy students, and explained how this term was difficult to define. He said that the feasibility test should go beyond finances, to consider issues including high attrition rates, over saturation of students in some

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<sup>232</sup> CHET, 11 August 2016.

<sup>233</sup> NTEU Presentation, 01 September 2016.



institutions, students' living conditions and the working conditions of academic staff. He argued further that a 'feasibility study must envisage a need for increased participation and thus propose a funding model that is futuristic and sustainable precisely for the achievement of increased participation'.<sup>234</sup>

264. Mr. Mnguni discussed the current ways of defining the poor, but argued that the test should be as to whether 'people [could] objectively afford University fees and related costs'. Due to the difficulty in determining the threshold, he gave his support to fee-free higher education for all. He explained further than 'Many black young people choose to not participate in higher education, though capable, because of exorbitant fees and related costs; many others are financially excluded'. However, he also argued that 'Fee-free higher education will be unsustainable for our context because of poorly endowed institutions of higher learning'. Mnguni suggested ways in which education could be better funded, and referred to the government's declining subsidy. He suggested that universities should pay more attention to growing endowments; that unused money could be sourced from the National Skills Fund (NSF); that government should increase their spending on higher education to 1.5% of GDP; that 10% of the budget for all mega infrastructure projects be directed to human resource development; and that all successful BEE and B-BBEE beneficiaries must give 10% of their shares as endowments to universities, particularly to HDIs. Furthermore, a percentage of the

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<sup>234</sup> Mr Likhona Mnguni Presentation & Submission, 29 August 2016.

Corporate Social Investment (CSI) budgets of companies with an annual turnover of R50 million or more should be directed to higher education; the Skills Development Levy should be increased by 1%; and a 'five year-long 1% annual tax on wealthy individuals and corporates' should be introduced and managed through the Public Investment Corporation (PIC). Finally, he suggested that government should reconsider the 'once off tax proposed by the Truth and Reconciliation Commission' and must improve its supply chain management processes to stop illegal and corrupt transactions.<sup>235</sup>

265. Mr. Nzuzwa also made a submission to the Commission, in his personal capacity, and argued that fees perpetuate inequality in post-apartheid South Africa. They make the disadvantaged rely on NSFAS and bursaries, and if they cannot access these, they are excluded. He argued that continued fees will lead to greater disparity between individuals, and will limit economic growth. He also argued that this went against our Constitution, which is focused on 'the right to equality [which] is a right and a value that strengthened and acts as a foundation to our constitution'. This is made worse by the lack of NSFAS funds to support all poor students and increasing tuition fees, which together impact on achieving equality. Mr. Nzuzwa suggested that, in the first instance, only

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<sup>235</sup> Mr Likhona Mnguni Presentation & Submission, 29 August 2016.

the very poor should receive free education, while those who can afford continue to pay.<sup>236</sup>

266. Mr. Clive Honman, a training and development manager presenting in his own capacity, suggested that, considering the expense of a university education, students leaving school should be required to go to a TVET college first. Here they could become better prepared for university, and this would cover the first year of the curriculum and reduce the time spent at university. Considering the lower cost of TVET education, this could be offered free. Furthermore, the government could provide free university education in skills shortage areas, or other areas in line with its development plan. 'Students who benefit from the above pay back via an education tax which only kicks in when the individual earns over a specific threshold and for a defined time period thus re-filling the coffers for future generations'. He also suggested that costs could be reduced by better utilising universities for the full-day and over vacations.<sup>237</sup>

267. A parent, Ms. Ntabeni, gave testimony regarding her situation. She is a teacher, and as such her son did not qualify for NSFAS, so she needed to pay fees. She indicated that she has insufficient money, and has borrowed money, used her investments and still owes the university. She indicated that she does not support free education, as this is not affordable. However, she recommended that the NSFAS means test be

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<sup>236</sup> Mr S.G Nzuza Presentation, 29 August 2016.

<sup>237</sup> Mr C Honman Presentation & Submission, 30 August 2016.

reviewed to include those with a higher household income, and civil servants. Ms. Ntabeni supported a loan, with repayment starting soon after graduation or getting work. She said that black tax was not a reason not to pay, as this was something most people had to assist with, and that if somebody was supported, they should pay back. Free education would not be sustainable.<sup>238</sup>

268. Equal Education began by referring to the still unequal school and university education landscapes. They indicated that the differences between historically white and black institutions have not been overcome, and that participation by different race groups is not yet equal. As such, when it comes to free education, EE indicated that ‘as a historically unequal society, immediate fee-free university for all students in South Africa is not socially desirable, even if economically feasible. Free higher education for all undergraduate students (irrespective of socio-economic background) presents consequences: slashing the cost for the affluent, while narrowing the pool of lecture theatre seats available to impoverished learners.’ However, EE pointed out that while university fees are low for some sectors of the population (sometimes lower than school fees), for others, even the low fees of the HDIs are unaffordable, and NSFAS cannot provide for all who need support. EE went on to consider the percentage of GDP allocated to higher education, and how this is lower than international averages. They argued that free education could be afforded with a few simple changes, such as reducing the

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<sup>238</sup> Ms Ntabeni, 1 September 2016.

defence bill, cutting the state wages bill, and using the money allocated to SETAs. EE argued that 'The financial strain of university expenses, as well as the lack of return on investment due to future loan repayment, demotivates students who are already struggling in their courses. Funds need to be injected into NSFAS, or a new institution ... should be created to provide bursary for low-income students, not based solely on meritocracy. More funds must also be allocated to development programmes that provide the proper tools and resources for students who are struggling.' EE concluded that state funding to higher education should increase; student support at universities must be extended; no student should be denied access on financial grounds; free education should be focused on the poor initially; additional taxes on the most wealthy should be considered; corruption and payments to state owned enterprises should be investigated; and university spending needs to be better understood.<sup>239</sup>

269. In their second presentation to the Commission, EE submitted that the second series of protests highlighted the depth of the problem, and how government was not taking it seriously. They also explained that when government funding declines, HWIs can increase fees and find third stream funding, but HBIs have few choices. Additional funding for these institutions is required. Furthermore, NSFAS cannot continue as a loan. When students leave university, they already have to struggle to find a job and 'pull their families out of poverty'. The burden of debt is too much

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<sup>239</sup> Equal Education, Presentation and submission to the Commission, 5 September 2016.

to carry. NSFAS should rather be a grant for the poor – which is those coming from no-fee schools. This should cover TVETs as well. EE also called for businesses to contribute towards the grant scheme, with any additional funding going towards the missing-middle.<sup>240</sup>

270. The Someleze Give Us Strength Women & Girl Education Right's Movement presented to the Commission. They explained that while they have compassion for the problems the students are facing, a sustainable solution needs to be found that won't affect the quality and availability of higher education. Someleze suggested that the instability in the higher education sector would affect the universities negatively, and called on students to look to other African countries where fees were removed. Someleze recommended an income-contingent loan which would give access to poor students but also show the student the value of the investment, and ensure that they take responsibility for their studies. Improving support programmes and success are key to sustainability. Someleze stressed the importance of quality and inclusivity, with bursaries and scholarships awarded on merit.<sup>241</sup>

271. Mr. Chikane was due to present to the Commission as an individual, giving his own perspective as a student leader who had just completed his studies at UCT, and was involved in the #Rhodes Must Fall, and later the #Fees Must Fall Movements. While he couldn't make his presentation

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<sup>240</sup> Equal Education, Presentation to the Commission, 15 March 2017.

<sup>241</sup> Someleze Presentation, 05 September 2016.

due to disruptions to the work of the Commission, his submission was made available to the Commission.-He explained that his focus on fees began when an academically deserving friend was financially excluded, and added that free education should be ‘the gateway to opportunity. A chance to better yourself, but more importantly your family’. He explained that too often, the solution is sought ‘within the realm of economics rather than that of sociology or politics. For whatever reason, when one speaks of fees there is an automatic assumption that the solution lies in the economics of the problem’. He asked that rather than consider the best economic solution, ‘look for a solution that makes the most humane sense for our country’. He went on to explain that what needed to be avoided was taking away money from other social priorities; excluding international students due to increasing their fees; and maintaining privileged access despite free education. He concluded that while he was not going to try and answer the question of feasibility, he was of the view that ‘Free Higher Education, in the context of South Africa’s socio-economic positioning, is a must. South Africa desperately requires skills, young people don’t have these skills, but universities can provide them. It’s the logic that drives the provision of free basic education in South Africa. So why endanger their ability to access the skills made available by these institutions?’<sup>242</sup>

272. Dr. Cosser is employed by the HSRC, but he presented in his personal capacity. He emphasised how careful attention must be paid to the

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<sup>242</sup> Mr Chikane Presentation, 06 September 2016.

education sector as a whole, and the need for funding at the lower levels (early childhood development). He argued for a long-term sustainable solution, and suggested payment according to the student's ability to pay. This would require the calculation of each student's household income according to decile. This would still lead to a shortfall in fees, but would be more equitable. He concluded that the size of the university sector in relation to the education sector as whole, should be given attention.<sup>243</sup>

273. A group of academics, with Professor Vally presenting, gave their support to free education for all.<sup>244</sup> They explained that 'we are faced with ... a deep-rooted condition of unsustainable inequality, a government which has prioritized education as a vehicle for expanding access to employment and opportunity, but which has not funded Higher Education sufficiently to allow for that priority to be effective'. Vally stressed that, given the student's role in demanding free education, students must be consulted before a final decision is made. Furthermore, the decision should not be left to "experts,' 'advisors' 'consultants' and the agents of institutions that represent a narrow fiscal driven approach to the provision of public goods like higher education'. Vally went on to describe higher education as primarily a public good, which is 'essential to democratic citizenry, social cohesion and the fight against socio-economic, political and other forms of inequality'. He rejected 'Treating higher education as

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<sup>243</sup> Dr MC Cosser, 10 November 2016.

<sup>244</sup> Mondli Hlatshwayo (University of Johannesburg), Rasigan Maharajh (Tshwane University of Technology), Zolisa Marawu (Nelson Mandela Metropolitan University), Enver Motala (University of Fort Hare), Leigh-Ann Naidoo (University of the Witwatersrand), and Salim Vally (University of Johannesburg), 08 November 2016.



a commodity [as this would] ... perpetuate inequalities and divisions, impoverish our society and the potential of our citizens'.<sup>245</sup>

274. Regarding funding for higher education, Vally argued that the 'costs of education are not easily reconcilable with narrow economic goals alone or to the rates of return to individuals since the remit of education is simultaneously individual, social and global and has qualitative attributes which are not measurable in conventional ways'. He stressed the importance of access for those previously marginalised, and argued for comprehensive funding for universities. Vally spoke in favour of full public funding, rather than a user-pays model, but in relation to this he favoured 'the idea of responsible 'public service and citizen work' by the recipients of its benefits'. Vally argued that a system that does not differentiate between rich and poor students would assist in building social cohesion. However, he mentioned that 'individuals will not be equal when education is made free, [but that] the spirit of such a policy must also have as its priority the goal of ending the culture of individualism, corporatisation and unnecessary managerialism that is pervasive in the university system'. The importance of quality higher education was highlighted. Vally went on to discuss the underfunding of higher education compared to other countries and the unequal nature of institutions in terms of size, donations and grants received and student fees. In conclusion, Vally recommended that the state should fund all study fees for all students, and that other

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<sup>245</sup> Mondli Hlatshwayo (University of Johannesburg), Rasigan Maharajh (Tshwane University of Technology), Zolisa Marawu (Nelson Mandela Metropolitan University), Enver Motala (University of Fort Hare), Leigh-Ann Naidoo (University of the Witwatersrand), and Salim Vally (University of Johannesburg), 08 November 2016.

costs could be covered for those in need by NSFAS and the Skills Levy. Free education could be funded through freezing tax brackets rather than adjusting these for inflation; additional taxation on high-net-worth individuals; and by taxing the illicit financial flows of corporations.<sup>246</sup>

275. Oxfam argued for free education based on the Constitution and the International Convention on Economic, Social and Cultural Rights (ICESCR). They submitted that the current system violates the Constitution in that 'working class families in order to send a family member through education, need to sacrifice retirement savings, the right to food, health care and an appropriate standard of living'. They added that the means test was faulty in that it was applied to the parent, not the student. Therefore, they argued that 'transfers from the wealth and incomes of working age individuals are the most effective and efficient mechanism to finance higher education', and supported the introduction of an education tax for all earning over a certain amount, to spread the burden on fees across society. They suggested a system where the debt would be rolled over from one generation to the next, but that this generation would need to bear the initial cost. This could be done through using the Unemployment Insurance Fund's (UIF) surplus; increasing the skills development levy (to 3%); increasing corporate tax (to 30%); closing loopholes in the tax regime for companies; introducing a '0.001% Financial Transactions Tax or 'Tobin Tax' (FTT)'; adjusting the top

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<sup>246</sup> Mondli Hlatshwayo (University of Johannesburg), Rasigan Maharajh (Tshwane University of Technology), Zolisa Marawu (Nelson Mandela Metropolitan University), Enver Motala (University of Fort Hare), Leigh-Ann Naidoo (University of the Witwatersrand), and Salim Vally (University of Johannesburg), 08 November 2016.

marginal tax rate by 2%, and all other bands by a corresponding amount to ensure a progressive structure; and by dealing with corruption in the public service.<sup>247</sup> In their second presentation, Oxfam highlighted that the state must introduce measures to realise free education. They highlighted the full cost of study, and discussed different deciles in South Africa, concluding that 90% of households cannot afford higher education. They concluded that the issue is financing (not funding) higher education, and that the fiscal space is available.<sup>248</sup>

276. Mr. Xhanti Payi in his presentation highlighted the need for government to make decisions based on the scarcity of resources. He added that there are many myths in the discussion about higher education funding, and that government's funding for tertiary education as a whole is actually about 5% of GDP. He also pointed to state expenditure, which is consistently above revenue, and the effect this would have on South Africa in the future. He pointed out that about 50% of the government's spending is on redistribution, and that the number of people depending on that state is large. In brief, he highlighted the need to consider the budget and its limits when discussing free education.<sup>249</sup>

277. As would be expected, the views of civil society groups, researchers and various individuals differ substantially. There are some who support free education for all, others for the poor, and others who agree with deferred

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<sup>247</sup> Oxfam, 9 November 2016.

<sup>248</sup> Oxfam, 16 March, 2017.

<sup>249</sup> Mr Xhanti Payi, 20 February 2017.

payment. The issue of whether free higher education for all would benefit the rich was raised by more than one presenter. There was no agreement among these participants regarding whether higher education is a public or private benefit, or both. Suggestions on how funds could be raised are made, and the issue of corruption and wasteful expenditure was mentioned (as with students). Sustainability and quality were highlighted by many.

## **10 THE COST OF EDUCATION: THE RESEARCH REPORT ON THE COSTING AND FINANCING OF THE WHITE PAPER ON POST-SCHOOL EDUCATION AND TRAINING: SEPTEMBER 2016**

278. This comprehensive report, the product of several years in the making, provides a reality check for any assessment of the State's ability to provide fee-free higher education. The Commission heard no evidence that lessened its effect or the force of its conclusions. We cite here those Main Points<sup>250</sup> which, on a conspectus of all the evidence we have heard seem to be incontrovertible.

*‘• The Post School Education and Training (PSET) system makes a major contribution to South Africa's social and economic development. In 2014, they were about 1.9 million enrolments in public universities, TVET and community colleges. Government spent R54.9 billion, which represents about 70% of total expenditure on the PSET system.*

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<sup>250</sup> Research Report pages (i)-(iii). Some of the detail has previously been referred to in paragraph 158 above.

- *The White Paper for PSET seeks to increase enrolment to 5.1 million by 2030 within universities, TVET and community colleges while at the same time improving the quality of education and training programs.*
- *This project models the cost of implementing the White Paper and the funding available under three cost scenarios: Status quo (where all inputs remain unchanged but enrolments expand to meet the policy targets), full policy (where the enrolments increased rapidly and the quality of education and training programs is improved substantially), mixed scenario (which assumes moderate growth in enrolments with some improvement in quality).*
- *Under the full policy scenario, about R655 billion will be needed for the public PSET system in 2030 (or R253.1 billion in real 2014 prices) compared to a total expenditure of R64 billion on public PSET in 2014.*
- *Whereas enrolments are expected to increase by 168% between 2014 and 2030, the total expenditure (in real terms) needed to achieve the aims of the White Paper is expected to increase by 242%. Consequently, expenditure on PSET as a percentage of GDP will rise from 2% in 2014 to 4.4% by 2030, if the policy targets are met.*
- *The rapid expansion of the PSET system will result in expenditure exceeding the funding available, if tax revenues grow in line with the National Treasury's long-term fiscal projections. Under the full policy scenario, a nominal shortfall of R370 billion in 2030 is expected. This represents about 2.46% of GDP in 2030. Given the size of this shortfall, there is an urgent need to determine whether the enrolment and policy targets set out in the White Paper can be reasonably accomplished.*
- *Fundamentally, the White Paper's targets change the structure of the PSET system; growing the share of enrolments in lower and mid-level qualifications compared to university level qualifications. Therefore, the share of enrolments in TVET colleges will account for about half of all*

enrolments in PSET by 2030 whereas the proportion of university enrolments will decline from 50% in 2014 to 31% in 2030.

- *The factors that influence expenditure estimates tend to differ by sector:*

- *In the TVET sector, expenditure will rise from R8.7 billion to R292.2 billion (or R112.4 billion in real 2014 prices) between 2014 and 2030. This increase is fueled by the rapid increase in enrolments, improvements to the quality of current programs and substantial changes to the mix of training programs offered at colleges; effectively shifting from a predominantly part-year or part-time to full qualifications.*

- *The expenditure on the university sector does not grow as quickly as the TVET sector. Expenditure will increase from R52.9 billion in 2014 to R334.3 billion in 2030 (or R129.8 billion in real terms). Slower growth in expenditure reflects the fact that the per-student increase in costs due to quality improvements in the University system is smaller; as universities throughput rates are much higher and more stable than those in TVET colleges. The factors that drive modeled expenditure in the university system in the future are mostly policy-related, and include, amongst others, the increase in the number of enrolments, the higher number of lecturers with a PhD (as articulated in the NDP), increases in the number of PhD enrolments as a proportion of total enrolments (to increase the number of PhD graduates to the PhD graduate target as per the NDP) and a higher percentage of students housed in university residences. In addition to these policy-related drivers of costs, there are other potential drivers not explicitly targeted that could potentially improve performance in the university sector. These include but are not limited to:*

- *greater levels of student support (financial, academic and psych –social)*

- *the introduction of bridging course and/or time–extended programs*
  - *improvement of living conditions.*
- *The White Paper creates a new type of institution – the community college – to deliver a range of adult, vocational and skills training programs. Estimating the cost of training in the community college sector is difficult as there is much uncertainty around the types of programs that will be delivered through these colleges. Nevertheless, we estimate that by 2030 R26.8 billion will be needed by the sector to achieve the target of 1 million enrolments.*
- *The rapid expansion in visits by the White Paper cannot happen without additional investment in infrastructure. Under the full policy scenario, another R771.5 will be needed for infrastructure investment in the PSET system between 2014 and 2030.*
- *The low levels of debt collection by the NSFAS continues to threaten the sustainability of the university sector’s funding framework. When Cabinet took the decision to make additional funding available for fees through the NSFAS, the policy intent was for university students to bear part of the cost of their education. Increasing the collection rates on the NSFAS should be a key priority for government, though it is recognised that this is dependent on increasing the proportion of NSFAS-funded students who pass and obtain employment after graduating.*
- *This report sheds light on the amount of resources needed to meet the policy targets set out in the White Paper. The large estimated funding shortfalls will pose a major challenge for government, and require some hard decisions from policymakers. The options available to policymakers are to:*
- *Reduce planned increases in expenditure: by reducing inefficiencies, reducing enrolment targets (or extending the*

*timeframe for achieving the targets), changing the mode of delivery and decreasing spending per capita.*

- *Increase funding to PSET: by increasing the amount of state funding available through higher taxes, increasing non—state sources (primarily fees) or accessing funding from alternative sources.*

- *It is likely that a combination of the above mentioned options will be needed by government. There is however a strong case to be made for revisiting the policy targets, particularly as the modelling work shows that there are trade-offs between access and quality. If the levels of quality and throughput remain low, particularly in the college sector, the benefits of rapidly increased enrolments to either students or the economy will be minimal.'*

## **11 NATIONAL STUDENT FINANCIAL AID SCHEME (NSFAS)**

### **11.1 NSFAS LEGISLATIVE AND REGULATORY FRAMEWORK**

279. The NSFAS succeeded the Tertiary Education Fund of South Africa (TEFSA), which was established as an NGO to provide financial aid to university students.<sup>251</sup> TEFSA was taken over by the state in 1999 through the promulgation of the National Student Financial Aid Scheme Act (the NSFAS Act).<sup>252</sup>

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<sup>251</sup> TEFSA was set up in 1991 as an NGO funded through private funding, mainly donations from international donors, to provide financial aid to university students in the form of loans and bursaries. See transcript of the hearing held of 14 November 2016, p4 last paragraph – p5.

<sup>252</sup> 56 of 1999. See transitional arrangements set out in section 28.



280. The NSFAS scheme is established as a public entity under section 3 of the NSFAS Act. It is a broader scheme than its predecessor in that it extends financial aid to students at both public universities and TVET colleges.<sup>253</sup> The aim of the scheme is to provide financial aid to eligible students who meet the criteria for admission to a further education and training programme or to a higher education programme.<sup>254</sup>

281. Its broader objects are set out in the preamble as being to –

281.1. redress past discrimination and ensure representivity and equal access;

281.2. respond to human resource development needs of the nation; and

281.3. establish an expanded national student financial aid scheme that is affordable and sustainable.

282. Its functions are set out at section 4, and include to:

282.1. allocate funds for loans and bursaries to eligible students;

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<sup>253</sup> Section 2(1).

<sup>254</sup> Section 2(2).

- 282.2. develop criteria and conditions for the granting of loans and bursaries to eligible students in consultation with the Minister;
- 282.3. raise funds as contemplated in section 14 (1); and
- 282.4. recover loans.
283. The NSFAS is largely funded by public funds made up of:<sup>255</sup>
- 283.1. Monies appropriated by parliament for the DHET and transferred to NSFAS; and
- 283.2. Ring-fenced and/or levy-funded grants from other organs of state, including the Department of Basic Education (DBE),<sup>256</sup> Department of Social Development (DSD),<sup>257</sup> and the Sector Education and Training Authorities (SETAs).
284. The balance of NSFAS funds are from universities, private donors and recoveries from loans made to students.
285. Each benefactor prescribes rules and conditions to the funds allocated to NSFAS.

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<sup>255</sup> NSFAS presentation dated 14 November 2016, slide (unnumbered)

<sup>256</sup> The Fundza Lushaka grant for teacher training.

<sup>257</sup> E.g. funds early childhood development programmes.

286. The NSFAS has made significant strides since its inception to meet its mandate. In 2013, African students made up 70.1% of students in universities from about 5% in 2000. NSFAS funded 24% of student in 2015. As at 2016, African students accounted for 87% of NSFAS funding.<sup>258</sup>

287. According to the Department of Higher Education and Training, NSFAS-managed funds have supported a total of 23% of all undergraduate enrolments.<sup>259</sup>

## 11.2 RULES

### 11.3 RULES APPLICABLE TO UNIVERSITIES

288. The DHET establishes the rules applicable to NSFAS funds allocated by parliament.<sup>260</sup>

289. In terms of the rules applied to universities, NSFAS funds<sup>261</sup>:

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<sup>258</sup> NSFAS presentation dated 14 November 2016, 35<sup>th</sup> page.

<sup>259</sup> Department of Higher Education and Training submission dated June 2016, p25, fourth paragraph.

<sup>260</sup> Handbook

<sup>261</sup> NSFAS presentation dated 24 August 2016, slides 5 & 6; presentation dated 14 November 2016, 29<sup>th</sup> page (slides unnumbered)

- 289.1. eligible students, being those with a mix of both academic excellence and financial need.
- 289.2. first undergraduate degrees (including extended programmes);<sup>262</sup> diplomas, (B-Tech programmes that lead to a professional registration and employment in a professional field) and postgraduate qualifications; for the entire period of the study programme plus two years (N+2);<sup>263</sup>
290. NSFAS funds the full cost of study (i.e. covering tuition fees, accommodation fees, meals and learning support materials costs; including allowances for students with disabilities):
- 290.1. there is no obligation to repay a loan during the course of study;
- 290.2. the obligation to repay the loans arises only after the beneficiary is gainfully employed<sup>264</sup> and earning R30 000.00 per annum;<sup>265</sup>

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<sup>262</sup> Transcript of the hearing dated 16 November 2016, p46.

<sup>263</sup> Transcript of the hearing dated 24 August 2016, p105 L5 – 11.

<sup>264</sup> NSFAS presentation; Transcript of the hearing held on 24 August 2016, p94 L8 – 10. [poor transcription]

<sup>265</sup> NSFAS presentation; Transcript of the hearing held on 24 August 2016, p94 L20 – 21.

- 290.3. NSFAS converts up to 40% of the loan to a bursary on condition that the student passes all the modules they registered for in a particular academic year;<sup>266</sup>
- 290.4. should a student pass all the modules registered for in the final year of study, the final-year loan is converted to a 100% grant;<sup>267</sup>
- 290.5. the loan is interest free during the course of study, plus one year. Thereafter, interest on the loan is levied at 80% of the repo rate.<sup>268</sup>
291. According to NSFAS, almost 70 per cent of NSFAS funding is in the form of bursaries, thus “free”.<sup>269</sup>

#### **11.4 MEANS TEST TO ASSESS FINANCIAL ELIGIBILITY**

292. The NSFAS means test is used in two ways:

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<sup>266</sup> NSFAS presentation; Transcript of the hearing held on 24 August 2016, p108 L16 – 18.

<sup>267</sup> NSFAS presentation; Transcript of the hearing held on 24 August 2016, p108 L19 – 23.

<sup>268</sup> NSFAS presentation; Transcript of the hearing held on 24 August 2016, p108 L4 – 10; transcript of the hearing held on 16 November 2016, p12.

<sup>269</sup> NSFAS presentation dated 14 August 2016, slide 6; presentation dated 14 November 2016, 30<sup>th</sup> page first bullet point; transcript of the hearing held on 16 November 2016, p12 - 13.

292.1. as a tool to identify which of the students applying for a NSFAS award are most deserving of financial aid;<sup>270</sup> and

292.2. to determine the size of the award.<sup>271</sup>

293. In rejecting the proposition that the NSFAS means test excludes students falling within the missing middle category, NSFAS submitted that this exclusion is the function of limited available resources with the result that this category of students come second in terms of prioritisation to the most needy students. In those circumstances, some universities have introduced a threshold in order to curtail the number of applicants from households that are better able to contribute to their children's costs of study.<sup>272</sup>

294. While in terms of its rules, NSFAS ought to fund the full costs of study, in reality, it does not do so in respect of some students. That is because of two main reasons:

294.1. NSFAS loans are capped.<sup>273</sup> As at 2016, the NSFAS cap stood at R71 800.<sup>274</sup>

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<sup>270</sup> NSFAS submission dated 30 June 2016, p19 para 2.26.

<sup>271</sup> NSFAS submission dated 30 June 2016, p20 para 2.27.

<sup>272</sup> NSFAS submission dated 30 June 2016, p20 para 2.28.

<sup>273</sup> NSFAS submission dated 30 June 2016, p13 para 2.9.

<sup>274</sup> NSFAS presentation dated 14 November 2016, 29<sup>th</sup> page. The cap has increased R20 000 to R67 200 between 2003–2015, representing an annual average growth above CPI of 11 per cent.

294.2. some universities have adopted the practice referred to as “topslicing”.

## **11.5 IMPLICATIONS OF THE NSFAS CAP**

295. The cap on NSFAS loans has resulted primarily in the underfunding of students. By extension, it has contributed to historical and prevailing student debt.

296. That is because different universities have responded to the NSFAS cap, and the limited allocations in general, in various ways, including:

296.1. by “topslicing” and

296.2. by increasing the costs of study. This has enabled some universities to cross-subsidise its poorer student population who would otherwise be unfunded and excluded from studying; or alternatively;

296.3. admitting fewer “poor” students.

## **11.6 TOPSLICING**

297. As alluded to earlier, the practice of top-slicing was introduced by some universities in the light of the insufficient NSFAS funding to increasing

numbers of qualifying students. Consequently, these universities opt to thinly redistribute the NSFAS allocation across all qualifying students, with the result that while all students receive some funding, they receive a lower amount than that originally recommended for them by NSFAS through the means test.

298. It follows, therefore, that the combination of top-slicing the NSFAS award, which is already capped and sometimes below an institution's average FCS for a specific qualification, serves only to dilute the already limited NSFAS allocation, which is being outpaced by the increasing NSFAS qualifying student enrolments.<sup>275</sup>

299. The primary consequence for the affected students is debt.<sup>276</sup>

300. Some institutions, rather than top-slice, thus leaving future debt for students, have opted to allocate the entire NSFAS grant to NSFAS beneficiaries, with the consequence that other qualifying students do not receive the limited grant.

301. We deal with the issue of student historic debt later herein. Before doing so, we address two issues:

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<sup>275</sup> NSFAS presentation dated 14 August 2016, slide 7.

<sup>276</sup> NSFAS presentation dated 14 August 2016, slide 7.



301.1. the first relates to concerns raised regarding the appropriateness of the means test and measures taken by the NSFAS to deal therewith. The crux of the challenge, mainly from students, to the means test is that it violates the constitutionally enshrined right to dignity to the extent that they are required to demonstrate poverty. Other criticisms are that it is not context specific and is open to fraud;

301.2. the second relates to the contribution to NSFAS from other sources.

## **11.7 SHORTCOMINGS OF NSFAS**

302. All stakeholders accept that the current NSFAS model (and specifically the means test employed) is out-dated and requires urgent review. This is all the more urgent so as to enable students who belong to 'the missing middle' to qualify for funding.

303. Accordingly, we do not intend rehashing the evidence which deals with the shortcomings of the NSFAS. Instead, we focus on measures introduced by NSFAS in response to those structural deficiencies.

## 11.8 THE NSFAS STUDENT CENTRED MODEL

304. Historically, universities have been acting as agents of NSFAS, in terms of agreements contemplated under section 20(1) of the NSFAS Act, for purposes of administering loans and bursaries to students of the respective institution on behalf of NSFAS.<sup>277</sup> The functions of the institutions are set out in section 20(2) of the NSFAS Act and involve the following process –<sup>278</sup>

- 304.1. to receive loan and bursary applications from students;
- 304.2. to consider and assess the applications in the light of the criteria for the granting of loans and bursaries determined by the NSFAS;
- 304.3. to grant loans and bursaries, if the criteria are met, after ascertaining that funds are available;
- 304.4. to administer loans and bursaries granted to students of the institution; and

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<sup>277</sup> Transcript of the hearing held on 14 November 2016, p13.

<sup>278</sup> NSFAS, Transcript of hearing held on 24 August 2016, p91 L12 – p94 L18; transcript of the hearing held on 14 November 2016, p13; presentation dated 14 November 2016, 30<sup>th</sup> page, fourth bullet point.

- 304.5. to enter into a written agreement with a borrower or bursar in accordance with the provisions of the Act, and on the terms and conditions determined by the NSFAS.
305. The institution must also apprise the NSFAS on the progress made by a borrower or a bursar with regard to the course of study followed by him or her; and immediately notify the board if a borrower or bursar discontinues his or her studies.<sup>279</sup>
306. On receipt of the agreement between a student and the institution, NSFAS pays the institutions the NSFAS award in respect of that student.<sup>280</sup>
307. Evidence was presented which demonstrates the administrative challenges faced by institutions in carrying out these functions. In certain circumstances, there has been fraud committed at some universities in respect of the allocations; there have been communication challenges between NSFAS and university financial aid offices on one hand and NSFAS and students on the other; there have also been disputes on allocations for tuition and other costs (accommodation, food etc.). All of these have led to a re-think of the model.

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<sup>279</sup> Section 2(3).

<sup>280</sup> Transcript of hearing held on 24 August 2016, p93 L1 – 11.

308. In 2014, NSFAS introduced the student-centred model.<sup>281</sup> The model primarily shifts the administrative functions of the award away from the institutions to NSFAS itself. It does so in the following principal respects:<sup>282</sup>

308.1. NSFAS allocations are managed by NSFAS itself from the application stage through to the funding decision;

308.2. recipients of funding are informed of the allocation prior to registration;<sup>283</sup>

308.3. applicants apply online and only once, in respect of their selected course of study;<sup>284</sup>

308.4. allowances for applicants are paid within 48 hours of approval;

308.5. returning students are not required to apply again, but are rather ranked and confirmed after their results are received. Thereafter, they are provisionally funded and the allowance is again paid promptly and within 48 hours.

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<sup>281</sup> NSFAS presentation dated 14 November 2016, 16<sup>th</sup> page; transcript of the hearing held on 14 November 2016, p12, second last line – p13 first line.

<sup>282</sup> NSFAS presentation dated 14 November 2016, 31<sup>st</sup> – 33<sup>rd</sup> page; transcript of the hearing held on 14 November 2016.

<sup>283</sup> Successful recipients must register at the relevant university before they can access the NSFAS loan. See NSFAS presentation dated 14 November 2016, 31<sup>st</sup> – 34<sup>th</sup> page.

<sup>284</sup> On award, the student signs an online Loan Agreement.

309. The model was developed further in 2016 to give effect to the finding by the Ministerial Committee on the Review of NSFAS,<sup>285</sup> which found that the means test and the way it was being applied by institutions was inappropriate, inequitable and required revision, specifically to the extent that it excluded prospective students from families that earn above the R122 000 per annum qualification threshold, but who still cannot afford to attend university (the “missing middle”).<sup>286</sup>
310. Significantly, the student-centred model represents a significant deviation from the traditional means test by introducing proxies to determine a student’s ability to afford costs of study.
311. The 2009 Report of the Ministerial Committee on the Review of the National Student Financial Aid Scheme recommended three alternatives (proxies) to the means test to determine who qualifies for fully-subsidised higher education and training:<sup>287</sup>
- 311.1. students with a household income below the lowest threshold of the SARS tax tables;
- 311.2. students who attended a Quintile 1 school and those who received fee waivers at other public schools; and

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<sup>285</sup> 2009 Report; NSFAS transcript of hearing held on 14 November 2016, p13.

<sup>286</sup> page xv, para 2.2.5.

<sup>287</sup> pages xxi - xxii, para 3.1.2.

- 311.3. students from the poorest municipalities.
312. The 2013 Report of the Working Group on Free University Education for the Poor in South Africa recommended the following additional proxies to identify student financial need:<sup>288</sup>
- 312.1. household income below the lowest SARS tax threshold; and
- 312.2. school or municipal poverty quintiles.
313. It proposes other considerations that could be easily used to characterise poor students who require financial aid, which factors include:<sup>289</sup>
- 313.1. students who are first generation university students in their families;
- 313.2. students from under-resourced and poorly performing schools (which include quintile 1 – 3 schools); and
- 313.3. students from rural areas and from poor urban areas with limited access to basic facilities.

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<sup>288</sup> p6 second last paragraph.

<sup>289</sup> p31, middle of the page.

314. Accordingly, under the student-centred model, and in response to the recommendations of the above-mentioned reports,<sup>290</sup> students may be means-test waived. The following will be used as proxies:<sup>291</sup>

314.1. the quintile system; and

314.2. the SASSA grant.

## **11.9 RULES FOR NSFAS FUNDING TO TVET STUDENTS**

315. In 2007, NSFAS began funding students in FET/ TVET colleges.<sup>292</sup>

316. NSFAS funding at TVET colleges relates to the 20% of the total programme cost payable in students' fees and only for students enrolled in ministerially approved programmes. This means that the rest of TVET college students must fund their studies by other means, failing which, they are denied access to training.

317. Rules relating to NSFAS funding in TVET colleges are similar to those applied at universities, with some minor deviations. As is the case with universities:

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<sup>290</sup> NSFAS submission p21 para 2.32 – p24 para 2.39.

<sup>291</sup> NSFAS presentation dated 14 November 2016, 33<sup>rd</sup> page.

<sup>292</sup> NSFAS presentation dated 14 November 2016.

317.1. qualifying TVET students are those that meet the criteria for merit and financial need;

317.2. financial need is assessed using the means test;

317.3. in terms of funding norms for TVET colleges,<sup>293</sup> NSFAS should fund students at full costs of study. Programme costs are determined by the department.<sup>294</sup>

318. Unlike the case with universities students, NSFAS funding at TVET colleges takes the form of full bursaries and not loans. As such, those students receive fee-free education. There are, however, a large number of unfunded NSFAS qualifying students, as well as underfunded students, despite the obligation to fund at full costs of study.<sup>295</sup>

#### **11.10 RULES REGULATING OTHER NSFAS SOURCES OF FUNDING**

319. Different terms and conditions attach to funds managed by NSFAS on behalf of various funders. To demonstrate, NSFAS manages funds on behalf of the DBE. Those funds, under the Fundza Lushaka bursary

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<sup>293</sup> National Norms and Standards for Funding Technical and Vocational Education and Training Colleges, 15 May 2015; DHET presentation dated 24 October 2016; slide 18.

<sup>294</sup> NSFAS covers accommodation or travel costs for students who live 10 kilometres from the institution they attend.

<sup>295</sup> DHET submission dated June 2016, p32.



scheme, are meant to provide financial aid exclusively to students pursuing a teaching degree, and the award takes the form of a bursary.<sup>296</sup>

### **11.11 VIEWS REGARDING THE NSFAS SYSTEM**

320. Criticism of the NSFAS system is not new. In 2009 Minister Nzimande appointed Professor Marcus Balintulo to lead a Ministerial Committee to review the NSFAS system. The Committee reported in 2010 and identified a number of achievements by the NSFAS, but also highlighted challenges and made proposals for improving the scheme. Similarly, the Report of the Working Group on Fee Free University Education for the Poor in South Africa (2012) mentioned underfunding of NSFAS and some inefficiencies with the system. Nonetheless, the achievements of the scheme should not go unrecognised. Over 25 years, NSFAS has assisted more than 17 million students to attend a university or TVET college. Many of these individuals would not have had the opportunity of further study without such a financial aid scheme. NSFAS numbers also indicated the impact the scheme has had on transforming the student body. The problems experienced with NSFAS, should not lead to a complete rejection of the NSFAS model, although serious consideration should be given as to whether the NSFAS structure is the appropriate structure to minimise or eliminate the prevailing inefficiencies in the future of student financial aid in this country.

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<sup>296</sup> DHET transcript of the hearing held on 12 August 2016, p83 L17 – 84 L6.

321. While it is not necessary to consider the **Report of the Ministerial Committee on the Review of the National Student Financial Aid Scheme** in detail, as it is in the public domain, a few points made by the Committee should be highlighted. As heard by the Commission on many occasions, despite budget increases, 'the growth in funds has not kept pace with the ever-increasing demand. Even a fivefold increase in 10 years leaves NSFAS with a massive funding shortfall. It would probably need to triple its budget to meet even current demand'.<sup>297</sup> The Committee considered the state of the country in terms of unemployment, poverty and NEETs, and suggested that 'the new policy framework for higher education and further education and training envisages taking the next step in the progressive realisation of the constitutional right of access to education by providing free higher and further education to students from poor and working-class communities. It also seeks to invert the current ratio of the 760 000 students in higher education and the 223 000 (470 000) who are enrolled at further education and training (FET) colleges'.<sup>298</sup>

322. In highlighting the strengths of NSFAS, the Committee noted that NSFAS has assisted in broadening access; the funds have grown considerably; the means test has helped to ensure that the most needy are supported; institutions are assisted with a 20% upfront fee payment; and 'The provision of loans at a lower rate of interest than commercial educational

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<sup>297</sup> Report of the Ministerial Committee on the Review of the National Student Financial Aid Scheme (2010), p. x.

<sup>298</sup> Ibid.

loans, coupled with the income contingent nature of the loans, offers students a potentially affordable loan on favourable repayment terms. Linked to this is the incentive that NSFAS can convert up to 40 percent of a loan to a bursary, based on academic performance.<sup>299</sup>

323. In terms of the shortcomings of NSFAS, the Committee highlighted the fact that ‘funding falls far short of demand’.<sup>300</sup> The Committee found that NSFAS had less than half of what it needed to properly fund all qualifying students. It also found that this shortcoming led to most of the other challenges faced by NSFAS. The Committee also commented on low throughput rates, especially for NSFAS students. The Committee discussed the allocation formula and top-slicing, and the resultant historical debt at institutions; problems with the administration (and fraud) of the means test; and the exclusion of the missing middle. The Committee also found that the scheme was not equipped to act as a bursary manager; that there was dissatisfaction with the way NSFAS was managing external monies; and that TVETS were generally dissatisfied. Major concerns were raised regarding how NSFAS managed loan administration; both in terms of processing and paying applications and low recovery of loans; and also highlighted irregularities in terms of interest charged. The Committee also commented on challenges with management and governance, and the issue of unused funds.<sup>301</sup>

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<sup>299</sup> Ibid., xiii.

<sup>300</sup> Ibid.

<sup>301</sup> Ibid., p. xiii – xix.

324. In their recommendations, the Committee suggested three components to financial aid for higher education, including 'Full state subsidisation of poor students and those from working class backgrounds, to be progressively realised over a specific period' and income-contingent loans for the children of public sector employees (earning less than R300 000 per annum) and for students from lower middle-income families.<sup>302</sup> The Committee noted that free higher education for the poor and working class would require substantial additional funding, and that 'Budgetary constraints may dictate that full subsidisation of poor and working class students may not be possible in the immediate and short term' but suggested that if it is an accepted principle, then a progressive realisation model could be adopted with a loan/ bursary mix in the interim.<sup>303</sup> Regarding the TVET sector, the Committee recommended fully-subsidised education to all students registered for the NCV.<sup>304</sup>
325. In summarising their recommendations, the Committee suggested loan repayment directly through the tax system; a simpler means test; bonded bursaries which can be repaid through community or national service; academic support; and the use of recovered funds to cover future students. The committee did not support funding linked to priority fields or funding for not-for-profit private institutions, and called for

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<sup>302</sup> Ibid., p. xxi.

<sup>303</sup> Ibid., p. xxiv.

<sup>304</sup> Ibid., xxvii.

acknowledgement that NSFAS cannot re-claim 100% of disbursements due to the loan/ bursary mix and the low interest rate charged.

326. Similarly, the *Report of the Working Group on Fee Free University Education for the Poor in South Africa* (2012) noted the escalating costs of higher education and the need for interventions to ensure access for academically deserving students who cannot afford it. The working group discussed measures introduced thus far, as well as the proposals of the NSFAS review Committee, the ANC resolutions, the NDP and the White Paper. They recognised higher education as a public and private benefit, and discussed cost-sharing models. In their recommendations, they suggested a loan bursary mix for students from poor and missing-middle households, where students ‘repay their loans on an income-contingent basis for 15 years. Only if and when a graduate (or a dropout) reaches a minimum specified threshold of income, will they be required to start paying back.’ The working group supported the notion of collection of loans through SARS, but noted that ‘current academic performance rebates are very costly, representing 20% of gross loan advances in terms of current NSFAS practice. This could be reduced to 10% under radically pruned assumptions which would release funds to support a universal system.’<sup>305</sup>

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<sup>305</sup> Report of the Working Group on Fee Free University Education for the Poor in South Africa (2012), p. xii-xiii.

## 11.12 TESTIMONY BY NSFAS

327. The Commission heard from NSFAS regarding their mission, vision, strategic plans and similar developments. As these are all in the public domain, they will not be elaborated on in detail in this report. NSFAS explained that at its inception in 1991 (as TEFSA) it supported 7 220 students with an average loan of R2 977 and a total budget of R21 million. By 2003, when the first task team was appointed to assess the impact of what was by then NSFAS, it supported 96 552 students with an allocation of R893 million. In 2007, new bursary funding was introduced, such as that for TVETs, Fundza Lushaka bursaries and for Social Work (funded by DSD). At this point, the allocation totaled R1.76 billion and 125 897 students were supported in that year. In 2014, 414 802 students were funded (at both universities and TVETs) with R8.96 billion in funding. The average loan was R21 906, and in this year the student centred model was piloted at 6 universities and 11 TVET colleges. Allocations to NSFAS have, clearly, increased substantially over the years, as has the number of students funded each year. Despite this, as indicated previously, the funding need still outweighs the available funding. As a result of the students' protests, NSFAS allocations increased considerably. In their testimony to the Commission, NSFAS indicated that in 2016 they would fund more than 405 000 students with a grant budget of R14.6 billion. It must be remembered that this budget includes allocations from other Departments, SETAs etc. and includes

students in both TVETs and universities.<sup>306</sup> Some of the achievements highlighted by NSFAS were that by 2015, they funded 24% of students; and that the total university population had been transformed from 5% African to 70% African (2013), with African students constituting 87% of NSFAS students.<sup>307</sup>

328. The NSFAS also explained the differences between the old model of application (paper-based and through the university Financial Aid Offices), and the new student-centered model (online applications where students apply directly to NSFAS, and not the FAO). It hoped that some of the problems identified by the students (as was recommended by the 2010 review of Balintulo) would be resolved through this new model (including applying once for all years of study, and knowing the outcome of the application prior to registration), to be fully implemented in 2017.<sup>308</sup> We have been advised that the experience of the 2017 registrations has shown that it did not go as smoothly as hoped, but this advice requires confirmation.

329. NSFAS also explained the eligibility criteria, the means test and the calculation of the NSFAS allocation. An important element of this is determining the expected family contribution (EFC). NSFAS focuses on both financial need and academic merit, but does not fund short courses, BTech qualifications or anything for non-degree purposes, nor students

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<sup>306</sup> NSFAS presentation to the Commission, 14 November 2016.

<sup>307</sup> NSFAS presentation to the Commission, 14 November 2016.

<sup>308</sup> NSFAS presentation to the Commission, 14 November 2016.

in receipt of other bursaries or loans covering the full cost of study. For the purpose of application (and means test), applicants must submit proof of income of their parents/ guardian; copies of ID documents (own, parents and all members of household); and copies of registration of a sibling at another tertiary institution. The online system waives the need for a means test for those receiving a social grant or from a quintile 1 or 2 school. For this purpose, NSFAS checks with the systems of Umalusi and SASSA.<sup>309</sup>

330. NSFAS also explained that interest on loans is charged at 80% of the repo rate, and is not charged during the period of study or for 12 months after graduation or dropout. This is a hidden subsidy. Furthermore, depending on performance, up to 40% can be converted to a bursary at the end of the academic year, and 100% of the final year can be converted to a bursary on completion in regulation time.<sup>310</sup> NSFAS also discussed the problems with recouping loans. They explained that ‘the student will start paying once they earn above thirty thousand rand per annum. That is the condition, it is incumbent upon the debtor to notify NSFAS when they are no longer employed. So they get employed the first month; they start paying; for unforeseen reason they lose employment; it is incumbent upon them to notify us and tell us that they are no longer employed’. They explained further that, as tax is not charged at this level of income, SARS cannot assist in this regard and

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<sup>309</sup> NSFAS presentation to the Commission, 15 November 2016.

<sup>310</sup> NSFAS presentation to the Commission, 15 November 2016.



students are expected to inform NSFAS. 'The sliding scale of deduction based on your salary is 3-8 %'. NSFAS explained that 'for the scheme to begin to make a material impact on the funding of students [and to be sustainable] we'll have to collect 70 times more'.<sup>311</sup>

331. The funding of those with historical debt was discussed. It should be noted that historical debt was as a result of over-claims on NSFAS by universities, arising from the pressure of high demand for financial aid by qualifying students on the one hand, and rising fees, as subsidies declined on the other hand. After the Presidential Task Team in December 2015, universities submitted lists of NSFAS-eligible students with outstanding debt from 2013 to 2015 to the DHET. This was a total of 71 753 students owing R2.543 billion. This money was made available through NSFAS after the re-allocations were done within the government in order to circumvent possible disruptions at the beginning of 2016.<sup>312</sup>

### **11.13 TESTIMONY TO THE COMMISSION ON NSFAS**

332. Concerns relating to the NSFAS system were raised by a number of stakeholders – including government, PSET institutions and PSET students. In many cases the issues overlapped, and for this reason this section will focus on the challenges with NSFAS, rather than on the individual or organisation holding a particular opinion. It must also be

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<sup>311</sup> NSFAS presentation to the Commission, 16 November 2016.

<sup>312</sup> NSFAS presentation to the Commission, 15 November 2016.

remembered that NSFAS has introduced changes over the years to improve its service.

#### **11.14 GOVERNANCE AND ADMINISTRATION OF NSFAS**

333. Concerns about the way that NSFAS functions originated from a number of stakeholders. Students complained about not being able to contact NSFAS easily, about the slow outcome of applications for funding, about being declined for a loan without being given a reason, and about receiving money late into the year. Students also commented on the need to re-apply for NSFAS annually, which left them in a state of uncertainty and insecurity every year. This is made worse when students need to sit supplementary or late examinations, as their results are delayed and so is their communication from NSFAS. A student also raised a concern about unused money being returned to NSFAS at the end of the year, without the loan agreement recognising this amount as returned. While this indicates the need for better communication with the student, it also highlights the levels of distrust.

334. The timing of payments was also an issue raised, and many students commented on the difficulty of paying registration fees before NSFAS had released their grant or loan. This leads to some students missing the start of the academic year, and important interventions like first-year orientation.

335. Students also raised the issue of NSFAS needing to be more proactive in its communication with high school learners: many are not aware of what needs to be done and do not meet time limits for applications.
336. Universities commented on the formula for allocation to universities (prior to the student-centred model), about late payments from NSFAS, and about lack of communication regarding student applications.
337. Government commented on a lack of data from NSFAS, governance challenges, poor recovery of student loans, and lamentable throughput of NSFAS students.

#### **11.15 UNIVERSITY FINANCIAL AID OFFICES**

338. There was conflicting opinion regarding these support offices. Some students complained that the staff at the offices were not willing to help, that they were under-staffed and that there was corruption. Other students complained that with the student-centred model they could no longer get the assistance of these offices and that it was now harder to find out about the approval of an application.
339. Students also complained about the long queues when applying, and the many forms and agreements that need to be signed, often without clear explanation.

340. There appears to be some tension between these offices and NSFAS, especially in the new student centred model, with lack of clarity regarding roles. According to FAPSA, communication was much better prior to 2010. After 2010, there has also been a rapid increase in applications and protests, changes have been made to the bursary/loan mix, and a number of additional donors have been added to the NSFAS bundle. FAPSA also complained about needing to complete additional forms, often with short deadlines, high turnover at the NSFAS office, and changing policies without sufficient notification.

#### **11.16 MEANS TESTING**

341. The means test is very unpopular with students. It was characterised as a humiliating exercise where students are required to plead poverty or commit fraud in order to access a loan. It was explained how the requirements are personal, and that some students don't apply as they cannot prove where their father is or that they are part of a family (as they were never formally adopted). As one student testified 'The system operates on a process of mistrust: one implicitly premised on the humiliation of Black students.'<sup>313</sup>

342. There were also various claims about fraud at this level, resulting in richer students receiving money and poorer ones being denied.

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<sup>313</sup> Lerato Motaung, Testimony to the Fees Commission, 17 November 2016.

343. The means test is also a costly exercise, which is hard to implement fairly in a country like South Africa where data and administrative ICT systems are not well-integrated. The evidence suggested to the Commission that the ability and desire to confirm information provided by students is lacking.
344. Suggestions were made to simplify the test and NSFAS commented on making use of school quintile and grant recipients as proxies.

### **11.17 INSUFFICIENT FUNDING**

345. This was another general complaint, with different permutations.
346. First, students complained that the size of a loan was insufficient to cover the full-cost of study (especially at HWIs), leaving them without accommodation or food, and with large debts. Students mentioned that private accommodation is not funded or not funded sufficiently. Students also complained about the S-Bux card, and the limit it places on where students can shop. Some complained that it doesn't cover photocopies and similar academic expense: others complained that they have to buy from supermarkets and cannot purchase from a person selling food on the side of the road. Still others referred to fraud with students buying goods on their cards and re-selling to raise money for other items. Institutions also mentioned problems with the S-Bux and late payments.

Students also highlighted the need for access to academic study material and ICTs and lack of funding in this regard.

347. Secondly, universities complained about not receiving the amount of money requested, resulting in the practice of the top-slicing of loans. Other universities rejected top-slicing, but then could only fund a smaller number of students. All universities tried to find other bursaries or loans to support students due to a lack of NSFAS resources – but this is especially hard at HDIs where a large percentage of students are NSFAS funded. Universities complained about large debts owed to institutions, making them financially unhealthy. Many of these loans are due to NSFAS students not receiving enough to cover tuition and residence fees, hence the accumulation of historic debt.

348. Thirdly, is the situation of the 'missing-middle', that has been brewing over a number of years at universities. With insufficient money to support poor students, NSFAS has not been able to increase the limit imposed by the means test (based on expected family contribution), meaning that in practice only students with household incomes of below approximately R122 000 are funded. This means that a large group of students are excluded from financial aid, but cannot access bank loans and other funding due to a lack of capital and low salaries. The missing-middle have also placed a huge burden of debt on universities, as they register students who later cannot pay their fees. This situation is unsustainable

for both students and universities. Ensuring access to funding for the missing-middle is a key concern for the Commission.

349. Finally, and linked to the above points, is concern about the total funding to NSFAS. Despite substantial growth in NSFAS allocations as discussed above, there are annually a number of qualifying students who do not receive NSFAS funding (even with the current low means test). This is a major problem for returning students.

### **11.18 STUDENT SUCCESS**

350. The problems of student success were raised by all stakeholders. It was highlighted how inefficient it is to fund large numbers of students who do not complete their studies. Students indicated the need for academic support, but also argued that full funding would reduce financial strain and allow students to focus on their studies. Some students asked for a longer period of funding to allow for completion. Treasury argued that a more efficient system was needed before more money could be allocated to the sector. Preliminary data suggest that NSFAS students' throughput is lower than that of the student body as a whole. It is worth noting that this situation has an adverse impact on the second eligibility criterion (academic merit) in order to qualify for further funding. This is not the same as the situation reported by the NRF with regards to the students they fund, where the performance of the funded students is better. This may indicate the need for better monitoring of NSFAS

students, and stricter academic requirements for continued funding. This would include internal monitoring of students by higher education institutions, in order to intervene and provide support as soon as challenges are identified. The process of introducing such monitoring and early-intervention mechanisms is underway, with funding from the teaching development grants allocated by the DHET. It should also be noted that lack of success also means that students are less likely to earn an income of the level required to repay their loan, and this impacts on the sustainability of the loan system.

#### **11.19 COLLECTION OF LOANS**

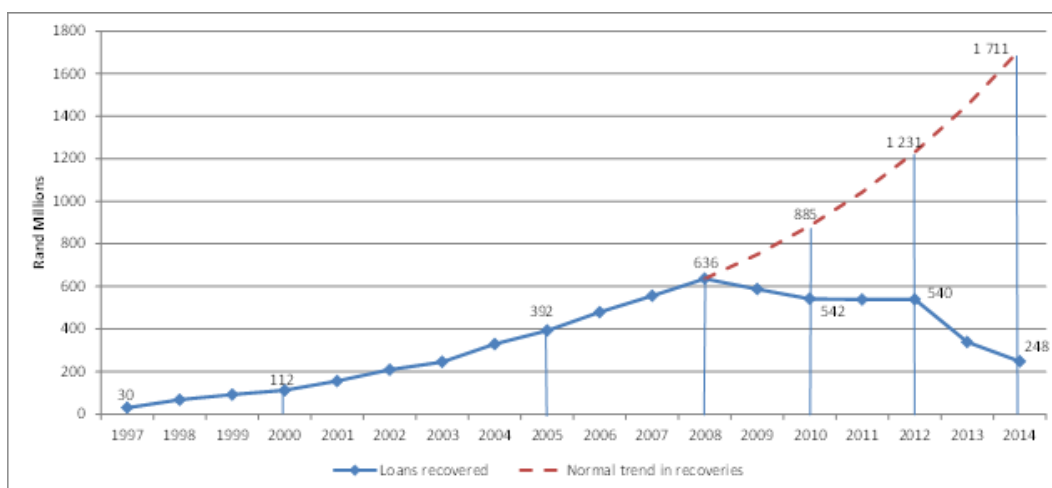
351. There is widespread criticism of the system in place to recover loans from students who have graduated and are now working. The graph below highlights the decline in recoveries after 2009, although there has been some improvement more recently as new systems have been put in place. It has been suggested that any loan system would need to work with SARS for the purpose of recovery.

NSFAS loan recoveries versus a normal growth trajectory<sup>314</sup>

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<sup>314</sup> CHE (2016) *Kagisano 10: Student Funding*, p.21.





352. Furthermore, research submitted to the Commission also highlighted how the growing bursary component of NSFAS is affecting the long-term sustainability of the fund.<sup>315</sup> Obviously, as a larger portion is allocated as bursaries, the benefit of recovering money reduces. In 1991, all money was allocated as a loan, in 2000 the bursary component was 25%, while in 2012 the bursary component amounted to 53%. The research indicated that ‘This is not a sustainable situation in a context of increasing pressure on NSFAS funds.’<sup>316</sup> Additionally, the recovery of loans was compounded by the repeal of section 21 of the NSFAS Act which meant that garnishee orders could not be issued; secondly, the promulgation of the National Credit Act required positive consent from debtors. These two developments, together with NSFAS’s lack of administrative capacity to intensify the collection of loans resulted in the failure to collect loans as projected.

<sup>315</sup> Ibid., pp. 39-114.

<sup>316</sup> Ibid., p. 63.

## 11.20 LOANS AND BLACK TAX

353. Students complained about the burden placed on them with a loan system. It was argued that 'black tax' already places a greater burden on the previously disadvantaged, as they are expected to support their families as soon as they are earning an income. The added pressure of loan repayments means that these newly employed graduates cannot maintain the same standard of living as their peers, with no loan and no black tax. As such, the loan repayment adds to the pressure of generational poverty.
354. A counter argument to this was the suggestion that it would be more efficient for government to focus on poverty alleviation measures for all the population, than for it to fund free education for the few in the hope of them alienating the poverty of their family. This would also be more equitable. Related to this, is the argument that black tax affects the majority of the working population of South Africa, and not only university graduates. In fact, as a result of their higher earning power, the overall financial impact is more bearable than that on, for instance, a domestic worker who is also expected to support her parents and siblings on a much smaller salary. This again highlights the importance of universal poverty alleviation measures, rather than for a small section of the population.

## 11.21 CONCLUSION

355. While there has been much criticism of NSFAS, their achievement in terms of broadening access and changing the demographics of universities should not be forgotten. That said if it is considered that NSFAS should be retained in any form, there are a number of ways in which the financial aid system could be made more efficient, more sustainable, more user-friendly, and more equitable.
356. In determining a future financial aid system, it should also be remembered that two of the major criticisms of the current model are underfunding and ease of use. In terms of the second, major issues include speed of pay out; difficulty with application and communication; the means test; and difficulty for first time users. Another issue which needs careful consideration is student success, as the sustainability of the sector as a whole is impacted by low throughput and high dropout levels. The fundamental question is whether pouring money into the problem alone, is sufficient to improve the performance of the system without giving consideration to the broader picture of rising poverty levels, unemployment, early childhood development and other societal challenges.
357. As will be seen, the Commission recommends that NSFAS be retained but only as the conduit for the funding of TVET students.

## 12 PRIORITISATION OF HIGHER EDUCATION AND TRAINING

358. It will be recalled that one of the principal aims of the budget is to ensure that public resources are allocated to meet government priorities.<sup>317</sup> The question of the extent to which higher education and training was prioritised in the preparation of budgets featured prominently in the Commission.

359. Although the MTSF and NDP do not in their terms refer to higher education and training as being an apex priority, the evidence demonstrates that it is.

359.1. Professor Makgoba testified that education is apex number one in the country.<sup>318</sup>

359.2. Both the Minister of Higher Education and Training and National Treasury acknowledged that the higher education and training sector as a whole is an apex priority for government.<sup>319</sup>

359.3. Mr. Michael Sachs from National Treasury also testified that there was a decision taken at the Cabinet Lekgotla of July

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<sup>317</sup> National Treasury presentation dated 12 August 2016 slide 33.

<sup>318</sup> Transcript of the hearing held on 3 October 2016, p21.

<sup>319</sup> Minister of Higher Education and Training, transcript of hearing held on 13 October 2016, p53 & 74 – 77; National Treasury, transcript of hearing held on 7 October 2016 p35.

2016 recognising higher education and training as an apex priority.<sup>320</sup>

359.4. The erstwhile Minister of Finance, Mr. Gordhan, testified that education as a whole is an apex priority of government as reflected in both the NDP and the MTSF.<sup>321</sup> He suggested that the demand in universities fragments the value chain that is education. This speaks to the evidence that PSET should be approached as a sector. The government allocated the bulk of funding to universities and this is projected to continue over the MTEF. The DHET by the manner in which it has dealt with the 0% increase in university fees at the expense of TVETs has not dealt with the issues in a sectoral context but continually elevated the universities over TVETs.

360. The evidence clearly points to higher education and training being an apex priority<sup>322</sup>. but not the only one. To the extent that this is correct, the question that arises is how the elevation of higher education and training to being an apex government priority translates in the process of budgetary allocation and in the ultimate allocation to the DHET and NSFAS.

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<sup>320</sup> National Treasury, transcript of hearing held on 7 October 2016, p36.

<sup>321</sup> National Treasury, transcript of hearing held on 7 October 2016 p35.

<sup>321</sup> National Treasury, transcript of hearing held on 3 March 2017, p43.

<sup>322</sup> Understanding of students along these line, see Nelspruit transcript of 22 Aug p 45; 52.

## 13 THE BALANCING PROCESS

361. In his testimony, Mr. Gordhan, testified to the realities while drawing a link between accelerated transformation and inclusive economic growth. The essence of his testimony is that the budget plays a central role in transformation by promoting redistribution and directing scarce resources towards catalytic investments in human and physical capital.<sup>323</sup>
362. A large part of the testimony of the National Treasury emphasised that where the revenue does not meet demand, the issue becomes one of balancing various competing interests.

## 14 THE HISTORICAL NATIONAL BUDGET AND FUTURE FINANCIAL OUTLOOK

363. A significant portion of the evidence presented by the National Treasury is dedicated towards articulating the direct relationship between economic growth, revenue growth and expenditure.
364. In its simplest form, the correlation between the three components is represented by the equation:<sup>324</sup>

*“Expenditure = Revenue + Borrowing”.*

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<sup>323</sup> National Treasury, transcript of the hearing held on 3 March 2017, p34 – 37.

<sup>324</sup> Presentation by Minister Pravin Gordhan dated 3 March 2017, slide 9.

365. The mainstay of that evidence is that the South African economy reached its lowest growth level in 2016, at 0.9 per cent as a percentage of GDP since 2000,<sup>325</sup> having recorded its highest growth level of 5.6 per cent in 2007.<sup>326</sup> The evidence indicates that the economy has been consistently contracting since 2008 (registering a GDP growth level of 3.6 per cent), registering negative growth in 2009 of -1.5 per cent in 2009. The likelihood of significant increase in the short to medium term is small.
366. The plain consequence of this downward trend is that there is less available government revenue, in the face of an increasing budget deficit or government debt over the current METF,<sup>327</sup> at the cost of desired government expenditure.<sup>328</sup> Willy-nilly, priorities become ranked with also-rans in the allocation of reduced resources.
367. The main source of government revenue is taxation in all its manifestations.<sup>329</sup>
368. Borrowing, as further source of revenue, is itself dependent on various factors including economic growth complemented by stability, interest rates, credibility and the ability and willingness to pay debt.<sup>330</sup>

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<sup>325</sup> When the economy recorded a percentage growth of 4.2 per cent.

<sup>326</sup> National Treasury presentation dated 12 August 2016, slide 9.

<sup>327</sup> National Treasury presentation dated 12 August 2016, slide 8.

<sup>328</sup> National Treasury presentation dated 12 August 2016, slide 11.

<sup>329</sup> Such as personal income, corporate and wealth tax.

<sup>330</sup> Above.

369. During his evidence, Mr. Michael Sachs<sup>331</sup>, testifying on behalf the National Treasury, spoke to this relationship. What appears from his evidence is the following:

**369.1.** From 1999 to about 2000, there was a reduction in public spending as a percentage of the Gross Domestic Product (GDP).<sup>332</sup>

**369.2.** The period between 2003 – 2008 saw improved growth in the economy, at a rate of 5 per cent of GDP, against the back of a buoyant tax revenue.<sup>333</sup> The average growth rate between 2000 – 2007/2008 is recorded at 4.3 per cent.<sup>334</sup>

**369.3.** Strong revenue collection allowed government in 2008/1009 to increase its public spending per capita on social programmes, such as education, which increased from about R3 000.00 per South African in 2000 to about R5 000.00 per South African in the 2012/2013 financial year.<sup>335</sup>

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<sup>331</sup> In his capacity as the Deputy Director General for the Budget Office.

<sup>332</sup> National Treasury presentation dated 12 August 2016, slides 4 and 6; transcript of hearing held on 12 August 2016, p12 L5 – 6.

<sup>333</sup> National Treasury, transcript of hearing held on 12 August 2016, p12 L20 – 25.

<sup>334</sup> National Treasury presentation dated 12 August 2016, slides 9; transcript of hearing held on 12 August 2016, p17 L24.

<sup>335</sup> National Treasury presentation dated 12 August 2016, slide 4 & 6; transcript of hearing held on 12 August 2016, p4 – 5; 12 L5 – 6.



369.4. Between 2002 to 2014/2015, this translated to an almost doubling in government's real non-interest spending per capita from R12 000.00 in 2000 to R21 000.00 in 2014/2015.<sup>336</sup>

369.5. Spending as a percentage of GDP also saw an increase in government non-interest public spending from about 22% in 1996/1997 to about 27% in 2010/2011.<sup>337</sup> During this period, National Treasury was reducing some tax rates against the increasing revenue.<sup>338</sup>

369.6. The increase in social spending can be attributed to two identifiable factors:

369.6.1. an expanded public purse through the increased employment of civil servants such as teachers, nurses and police officers significantly expanded recipients of social grants;<sup>339</sup> and

369.6.2. prioritisation resulting in the shifting of allocations from one department to another, as was the case with as

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<sup>336</sup> National Treasury presentation dated 12 August 2016, slide 5; transcript of hearing held on 12 August 2016, p6 L3 – 18. These figures are based on the consolidated budget as opposed to the main budget. Based on the main budget, social spending per capita increased from about R11 000.00 in 2000 to about R20 000.00 in 2014/2015.

<sup>337</sup> National Treasury presentation dated 12 August 2016, slide 6; transcript of hearing held on 12 August 2016, p12 - 11 L23 – p 13 L1.

<sup>338</sup> National Treasury, transcript of hearing held on 12 August 2016, p13 L2 – 3.

<sup>339</sup> National Treasury, transcript of hearing held on 12 August 2016, p10 L15 – p 11 L 2.

the Department of Defence, which enabled government to expand social spending and specifically social grants.<sup>340</sup>

369.7. The gap between revenue and spending was forecast to converge during 2016/2017.<sup>341</sup> This, however, did not materialise partly as a result of the 2008 global financial crisis.

369.8. The consequence of that crisis was a negative growth rate of -1.5 per cent in 2009.<sup>342</sup> Pointedly, the impact on the national budget presented in the form of reduced revenue (which fell from a high point of about 26% of GDP in 2007 to a low of about 23% of GDP in 2009, once again opening the revenue/expenditure gap).<sup>343</sup>

369.9. Because of the disparity between revenue and expenditure South Africa found itself unable to continue to raise sufficient revenue to maintain the level of government spending on social programmes.<sup>344</sup> In these circumstances, it had to resort

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<sup>340</sup> National Treasury, transcript of hearing held on 12 August 2016, p11 L4 – 15.

<sup>341</sup> National Treasury presentation dated 12 August 2016, slide 6.

<sup>342</sup> National Treasury presentation dated 12 August 2016, slides 9; transcript of hearing held on 12 August 2016, p18 L1 – 3.

<sup>343</sup> National Treasury presentation dated 12 August 2016, slide 6; transcript of hearing held on 12 August 2016, p13 L3 – 7.

<sup>344</sup> National Treasury, transcript of hearing held on 12 August 2016, p31 L6 – 10.

to other sources of revenue, namely borrowing and increased taxation.<sup>345</sup>

370. In response to the deteriorating economic outlook, National Treasury introduced fiscal consolidation measures in an attempt to balance the debt-to-GDP ratio over the MTEF. This entailed three main steps:<sup>346</sup>

370.1. lowering the expenditure ceiling;<sup>347</sup>

370.2. increasing tax revenue;<sup>348</sup> and

370.3. reprioritisation.<sup>349</sup>

371. The National Treasury opted to increase revenue through increased taxation as the main source of increasing revenue, as opposed to borrowing. Consequently, National Treasury has steadily increased personal taxation from 23 per cent in 2009 to about 26 per cent in 2015/2016.<sup>350</sup>

371.1. Despite the fiscal consolidation measures, the evidence shows that South Africa is nevertheless spending more than

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<sup>345</sup> National Treasury, transcript of hearing held on 12 August 2016, p13 L7 – 14.

<sup>346</sup> National Treasury, written submission dated 30 June 2016, p2.

<sup>347</sup> By R10 billion in 2017.2018 and a further R15 billion in 2018/2019.

<sup>348</sup> By raising an additional R18.1 billion in 2016/2017 and a further R15 billion in the balance of the MTEF.

<sup>349</sup> In the amount of R31.8 million over the 2017 MTEF.

<sup>350</sup> National Treasury, transcript of hearing held on 12 August 2016, p13 L10 – p 14 L1.

its income. Barring 2006/2007 and 2007/2008,<sup>351</sup> South Africa has been experiencing a budget deficit (since 2002/2003). The deficit, which at worst is structural,<sup>352</sup> is projected to continue through the 2016 – 2019 medium term, measured between 3.5 to 4 per cent.<sup>353</sup>

371.2. Government debt increased from about 22.3% of GDP in 2007/2008, to about 44.3% of GDP in 2015/2016. This translates from a debt of about R483 billion in 2007/2008 to about R1.8 trillion in 2015/2016.<sup>354</sup>

371.3. As at 2016/2017, South Africa's debt stands at over R2 trillion, which is about 50% of the current GDP, which sits at about R4 trillion.<sup>355</sup> The current debt is projected to increase to about R2.3 trillion in 2018/2019, being 46.2 per cent of GDP.<sup>356</sup>

371.4. Although the economy has taken steps to recover from the 2009 deficit,<sup>357</sup> the evidence shows that the economy grew by

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<sup>351</sup> During which period there was sufficient revenue surplus which had to be spent. See National Treasury presentation dated 12 August 2016, slide 7; transcript of hearing held on 12 August 2016, p14 L9 – 14.

<sup>352</sup> Indicative of a permanent state of economic stagnation/deficit and borrowing. See transcript of the hearing held on 15 August 2016, p14 L14 – p15 L8; p19 L1 – 9; p25 L12 – 20.

<sup>353</sup> National Treasury presentation dated 12 August 2016, slide 7; transcript of hearing held on 12 August 2016, p14 L9 – p15 L8.

<sup>354</sup> National Treasury presentation dated 12 August 2016, slide 8; transcript of hearing held on 12 August 2016, p16 L14 – 24.

<sup>355</sup> National Treasury, transcript of hearing held on 12 August 2016, p16 L18 – 19.

<sup>356</sup> Above note 53.

<sup>357</sup> Recovering in 2011 to the 2008 level at 3.6 per cent. See National Treasury presentation dated 12 August 2016, slides 9; transcript of hearing held on 12 August 2016, p18 L3 – 4.

an average rate of 2.1 per cent between 2010 – 2016 (from 4.3% in 2007), and growth thereafter, year on year, has been slow.<sup>358</sup> This is against a growth target of 5 per cent in the NDP.

371.5. The economy is projected to grow by only 2.4 per cent in 2019.<sup>359</sup> The IMF projects growth at 1 per cent for 2017/2018.<sup>360</sup> National Treasury projections for the same period place growth at double the rate of the IMF, at around 2 per cent.

371.6. The main response of National Treasury to this situation has been to introduce fiscal consolidation measures, which entails stabilising of debt as a means to control the budget deficit whilst maintaining social spending in a progressively weakening economic environment.<sup>361</sup>

371.7. While the National Treasury intends to maintain the current levels of public social spending, it estimates that the current

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<sup>358</sup> National Treasury presentation dated 12 August 2016, slides 9; transcript of hearing held on 12 August 2016, p17 L25 – p18 L5.

<sup>359</sup> National Treasury presentation dated 12 August 2016, slides 9; transcript of hearing held on 12 August 2016, p18 L6 – 19.

<sup>360</sup> National Treasury representation dated 15 August 2016, slide 10. The IMF's forecast is a forecast for global growth. See transcript of 15 August 2016, p22 L7 – 9.

<sup>361</sup> National Treasury, transcript of the hearing held on 15 August 2016, p16 L 19 – p17 L2; p26 L5 – 10. According to National Treasury, a country's ability to contain debt is a factor considered by lenders when deciding whether or not to advance loans. See *transcript* of 12 August 2016, p17 L3 – 8.

levels of spending can only be maintained “if economic growth returns to its historic average” being three and a half per cent.<sup>362</sup> Given the projected growth of two per cent, revenue will be in line with that low growth.

372. This situation will undoubtedly impact on government expenditure on the PSET sector. Furthermore, an analysis of National Treasury testimony reveals that there is no extra money available to be used for PSET. Thus, if there needs to be an increase in the PSET budget, such funding would have to come from re-prioritising.

373. We turn at this point to interrogate how the national budget has historically dealt specifically with the function of higher education and training.

374. **PUBLIC FINANCING OF HIGHER EDUCATION AND TRAINING**

375. It will be recalled that South Africa has adopted a three-stream model of funding higher education and training.

375.1. The first stream represents government funding in the form of block and earmarked grant. Historically, government subsidies

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<sup>362</sup> National Treasury, transcript of hearing held on 12 August 2016, p26 L11 – 19.

have represented the largest single component of the total income of institutions and universities in particular.<sup>363</sup>

375.2. The second stream consists of tuition fees paid by students (and of NSFAS on behalf of qualifying students), and has been increasing, partly as a result of the declining state subsidy.<sup>364</sup>

375.3. The third stream represents “own funding”, that is funding raised by the institutions from various sources such as donations and research activities. Universities are finding it increasingly difficult to raise these stream funds given the financial situation.<sup>365</sup>

376. Government spending on higher education and training can be measured either as a percentage of gross domestic product (GDP) or as a percentage of the State budget.

377. GDP represents the total income or value, in the case of South Africa, the Rand value, of all goods and services produced in the country over a specific period of time, normally annually. In simple terms, it represents

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<sup>363</sup> DHET submission dated June 2016, p19.

<sup>364</sup> DHET submission dated June 2016, p16.

<sup>365</sup> DHET submission dated June 2016, p16.

the size of the economy and is one of the primary indicators to assess the health of a country's economy.<sup>366</sup>

378. Government revenue is linked to a percentage of GDP (which is then translated into State budget), and other sources such as borrowing. That revenue is collected by government in the form of taxation.

379. The 2016 budget amounted to around R1.3 trillion.<sup>367</sup>

380. There is little before the Commission to suggest that the budget amount as a share of GDP is inappropriate. In those circumstances, we proceed on the basis that the revenue for social spending represented by the budget is appropriate.

381. In 2016/2017, the total State finance for universities was nearly 30% of GDP.<sup>368</sup>

382. In what follows, we first deal with government funding of higher education and training as a percentage of GDP. We then address government funding of higher education and training as a percentage of the State budget.

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<sup>366</sup> National Treasury, hearing held on 12 August 2016, p11 L22 – 25; Xhanti Payi, transcript of the hearing held on 20 February 2017, p5 L16 – 24.

<sup>367</sup> National Treasury presentation dated 7 October 2016, slide 4.

<sup>368</sup> DHET: University State Budgets, March 2016, Table 1.2.



## 15 GOVERNMENT FUNDING ON HIGHER EDUCATION AND TRAINING AS A PERCENTAGE OF GDP

383. A significant amount of evidence before the Commission was dedicated to government allocations to universities to demonstrate the historical underfunding and constant decline of funding in the higher education sector.<sup>369</sup> Departmental funding to universities in 2014 accounted for 38.4% of total university income, having fallen from 49% in 2000.<sup>370</sup>
384. Relying on 2014/2015 figures, the evidence presented by the Department of Higher Education and Training shows a disparity in funding within the sector itself.<sup>371</sup>
385. The government contribution (DHET transfers) to universities was 59 per cent, while the transfer to TVET Colleges was 14 per cent, despite this sector experiencing significant enrolments, in pursuit of the NDP targets.<sup>372</sup>

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<sup>369</sup> Vital Stats 2013, p91, figure 148. The figure shows that universities funding allocated to universities as a percentage of GDP has been increasing since 2008/2009, falling slightly in 2013/2014 to 0.75 per cent of GDP from 0.76 per cent in 2012/2013. Funding as a percentage of State budget has also been increasing during the same period, decreasing slightly in 2013/2014 to 2.49 per cent from 2.5 per cent in the previous financial year.

<sup>370</sup> DHET submission dated June 2016, p16, figure 2; CHET presentation dated 11 August 2016, slide 4.

<sup>371</sup> DHET notes that the current funding in the TVET sector is not only insufficient, but also inequitable because State grants are based on historical provincial allocation. See DHET presentation on the funding of TVET and CET Colleges dated 24 October 2016, slide 30.

<sup>372</sup> DHET presentation on the funding of TVET and CET Colleges dated 24 October 2016, slide 5.

386. Moreover, the estimated shortfall in budget allocations to TVET Colleges has been increasing. In 2013/2014, the shortfall stood at 19% of the allocated budget. The shortfall has increased to a high of 44 per cent in 2016/2017 and is projected to increase to 47 per cent in 2017/2018.<sup>373</sup> Staff compensation takes up a significant portion.<sup>374</sup>
387. An issue which emerged strongly in evidence is that when considering the question of fee-free higher education and training, the post school education and training sector must be considered holistically.
388. Evidence was presented which indicated that South Africa's expenditure on higher education and training as a percentage of GDP is well below what other countries spend on the sector. CHET demonstrated this point by reference to OECD 2012 data which shows that South Africa was spending 0.71 per cent of GDP on higher education and training. The only other countries that spend less than 1 per cent of their GDP on higher education and training were Chile and Brazil, both spending around 0.9 per cent. The majority of other comparators contributed over 1% of GDP on the sector. Cuba spent the highest, at 4.50% of GDP.<sup>375</sup> The Commission is advised that the selection of countries for this purpose is subject to various interpretations since there were, at the time

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<sup>373</sup> DHET presentation on the funding of TVET and CET Colleges dated 24 October 2016, slides 7 and 31.

<sup>374</sup> See also DHET presentation on the funding of TVET and CET Colleges dated 24 October 2016, slide 11 which indicates that of the total 85% government allocation to TVET Colleges, DHET transfers 60%; while the balance is made up on NSFAS bursary funding (20%), and that too is underfunded and 5% from the NRF for project funding.

<sup>375</sup> CHET presentation dated 11 August 2016, slide 12.

of this comparison, other countries whose spending as a percentage of GDP was less than South Africa. The United Kingdom is one such example. It is therefore prudent to take into account the size of the system, socio-political and economic circumstances etc. Nevertheless, an increase from current levels is justified for South Africa as a result of the systematic decline in spending over time.

389. According to National Treasury, government spending per student relative to GDP per capita sits at 38.3 per cent, well above the world average of 30.5 per cent.<sup>376</sup> Once again, Cuba is the higher at 63.0 per cent, followed closely by India, Denmark, Norway and Vietnam.<sup>377</sup>

390. National Treasury testified further that as at 2016/2017, South Africa spends about 1.5% of GDP on higher education and training, up from just over 1% in 2008.<sup>378</sup> This is made up of all sources of funding, namely university subsidies, NSFAS allocations to universities, other sources of NSFAS, TVET and ABET, SDL and other sources.<sup>379</sup>

391. Of the 1.5% of GDP spent on higher education and training, just over 0.6% represents state subsidies to universities in 2016/2017.

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<sup>376</sup> National Treasury, presentation dated 7 October 2016, slide 11.

<sup>377</sup> Above.

<sup>378</sup> National Treasury, presentation dated 3 March 2017, slide 19; presentation dated 7 October 2016 slide 10; Xhanti Payi, transcript of the hearing held on 20 February 2017, p8 L6 – p9 L18; p16 L7 – 20. See also DHET presentation on the funding of TVET and CET Colleges dated 24 October 2016, slide 4 which indicates that the total expenditure on the PSET sector for financial year 2414/2015 was at 1.7% of GDP.

<sup>379</sup> National Treasury presentation dated 7 October 2016, slide 10.

392. There are two main factors which have attributed to the decline in the state subsidy. The first relates to linking the subsidy to the consumer price index. The second factor is that the subsidy has failed to keep pace with the growing student enrolments.

## **16 STATE SUBSIDY IN LINE WITH CONSUMER PRICE INDEX (CPI) V THE HIGHER EDUCATION PRICE INDEX (HEPI)**

393. The evidence shows that HEPI is applicable to the sector and is on average 2 per cent higher than the CPI.<sup>380</sup> The result is the erosion of the subsidy through inflation.

394. It has been noted that the current subsidy, including the NSFAS allocation, is growing at CPI. Institutions have indicated that the applicable inflation in the sector is the HEPI, which was 9,2% (in 2014) when CPI was 6%.<sup>381</sup> On average, the HEPI is, at any given time, 2% higher than CPI. This in itself makes inroads to the subsidy.<sup>382</sup> It has thus been proposed that the budget allocation to higher education institutions should match the HEPI.

395. On the other hand, evidence was presented challenging the appropriateness of applying the HEPI uniformly across the cost items of

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<sup>380</sup> DHET submission dated June 2016, p17 – 18.

<sup>381</sup> PBO presentation (**undated**), slide 25 which places HEPI at 9.8 per cent.

<sup>382</sup> This phenomenon extends to the NSFAS allocation in that it widens the gap between FCS and the NSFAS cap. See NSFAS presentation, Set 4, Day 3, dated 16 November 2016, p18 – 19.

the institutions (e.g. from equipment to operational and fixed costs such as staff salaries), and without further interrogation as to which services or products it applies. For example, there may be questions about applying the HEPI to staff salaries.

## **17 ENROLMENTS OUTPACE THE SUBSIDY**

396. While enrolments have increased (as per enrolments plans determined with the DHET), government allocations have not in turn swelled to meet those numbers, resulting in lower funding per capita. The FFC notes that the State's current MTEF projections only provide for a standstill student enrolment growth.<sup>383</sup>

## **18 THE APPROPRIATENESS OF USING GDP AS A MEASURE TO ASSESS THE LEVEL OF GOVERNMENT FUNDING**

397. Concerns were raised that the current amount allocated to higher education and training as a percentage of GDP is not a true reflection of what government actually dedicates to higher education and training. That is because the current 1.5 per cent of GDP allocated to higher education and training includes 2016 "bailout"<sup>384</sup>, being the once-off R2,

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<sup>383</sup> FFC presentation dated 2 March 2017, slide 37.

<sup>384</sup> CHET presentation dated 11 August 2016, slide 11 para 3.

543 billion injected by government in 2016 to address historic student debt relief.<sup>385</sup>

398. Several stakeholders testified that in the light of what other countries spend on the sector as a percentage of GDP, South Africa is essentially under-spending on the sector. There are proposals that South Africa ought to raise the share of government funding to at least 1 per cent.

399. The appropriateness of utilising GDP as a beacon against which to assess the sufficiency or not of public funding of higher education and training arose in evidence.

400. Mr. Xhanti Payi testified before the Commission in his capacity as an expert witness and economist.<sup>386</sup>

401. His evidence is in line with that of National Treasury, indicating that South Africa's expenditure is above its revenue and has to borrow in order to supplement its revenue.<sup>387</sup>

402. It also pointedly highlights the fact that benchmarking what South Africa spends on higher education and training and a percentage of GDP to that

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<sup>385</sup> DHET Universities' Budgets March 2016, Table 2.13 para 1.

<sup>386</sup> On 20 February 2017.

<sup>387</sup> Xhanti Payi, transcript of hearing held on 20 February 2017, p6 L12 – p7 L13; National Treasury

of other listed countries, particularly the OECD countries,<sup>388</sup> is not appropriate. That is principally because South Africa is being benchmarked against incomparable countries since these countries are at different levels of economic development (and demonstrating a higher level of GDP) and yield higher revenue due to higher taxation.<sup>389</sup>

## **19 GOVERNMENT SPENDING ON HIGHER EDUCATION AND TRAINING AS A PERCENTAGE OF STATE BUDGET**

403. In general and in spite of the decline in GDP growth, government social spending has been increasing year-on-year, save for the defence function.<sup>390</sup> Evidence presented showed that South Africa spends about 50 per cent of its budget on social spending.<sup>391</sup> National Treasury indicated that about two-thirds of the 2017 budget is allocated to functions dedicated to realising constitutionally mandated social rights, including<sup>392</sup> education.

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<sup>388</sup> The Organisation of Economic Cooperation and Development (OECD) is comprised of 35 countries and is established as a forum within which governments of member states discuss and develop economic policies.

<sup>389</sup> Xhanti Payi, transcript of hearing held on 20 February 2017, p8 L3 – 7; p9 L20 – P10 L24.

<sup>390</sup> National Treasury presentation dated 12 August 2016, slide 4.

<sup>391</sup> Xhanti Payi, transcript of hearing held on 20 February 2017, p7 L14 – p19.

<sup>392</sup> National Treasury presentation dated 3 March 2017, slide 16.

404. Historically, education as a whole accounted for the majority of allocations from the State budget.<sup>393</sup> The largest portion of the education allocation is dedicated to basic education.<sup>394</sup>
405. The 2016 budget was estimated at R1.3 trillion. This represents the resources available for government expenditure on various programmes. Post-school education and training was allocated 5.2 per cent of that budget, amounting to an estimated R64.2 billion.<sup>395</sup> The sector experienced the largest nominal expenditure growth by function between the relevant MTEF periods,<sup>396</sup> second only to debt-servicing costs.<sup>397</sup>
406. The current budget allocation to the sector must be understood in its historical context.
407. The Department of Higher Education and Training was established in May 2009 and became operational in April 2010. It came about as a result of splitting the higher education, further education and training (TVETS) and Adult Education functions from the erstwhile Department of Education.<sup>398</sup> The TVET and Community Education and Training (CET)

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<sup>393</sup> National Treasury presentation dated 7 October 2016, slide 5.

<sup>394</sup> National Treasury presentation dated 3 March 2017, slide 16. As at 2017/2018, education accounts for 21% of the budget. Basic education receives 16% of the budget, while 5% is allocated to post-school higher education and training.

<sup>395</sup> National Treasury presentation dated 7 October 2016, slide 4.; presentation dated 3 March 2017, slide 16.

<sup>396</sup> 2013-2016 & 2016-2019 per National Treasury presentation dated 12 August 2016, slide 18.

<sup>397</sup> National Treasury presentation dated 12 August 2016, slide 18.

<sup>398</sup> The Skills Development functions were simultaneously moved from the Department of Labour to the newly formed Department of Higher Education and Training.



functions remained a provincial competence until they were moved in April 2015 to the Department of Higher Education and Training.

408. The first budget allocation for the newly formed Department of Higher Education and Training was for the financial year 2010/2011. According to the evidence of the Department of Higher Education and Training, this shift in functions has had an adverse impact on the Department's baseline allocation from National Treasury.<sup>399</sup> This has had the result that the Department's allocation reflected an annual growth of 7.9% between the financial years 2012/13 and 2015/16.<sup>400</sup>

409. It was only during the 2016 MTEF that the National Treasury adjusted the Department's baseline allocation with an amount of about R17.4 billion to support the 2016 zero per cent fee increase at universities. The majority of this additional amount, in the sum of about R16.2 billion, was directed at resolving the historic NSFAS student debt challenge and to offer financial support to continuing and new NSFAS students.

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<sup>399</sup> DHET submission dated June 2016, p10 para 4.1. according to the Department of Higher Education and Training, since the 2012/2013 financial year, National Treasury adjusted its original allocation to reflect the data inherited from the TVET and CET sectors in order to ensure comparison between the years.

<sup>400</sup> Excluding direct charges from the skills levy from the Sector Education and Training Authorities (SETAs) and the National Skills Fund (NSF). See DHET submission dated June 2016, p10 para 4.1. – 11 Table 1.

410. That being said, evidence presented by National Treasury shows that allocations for the higher education and training sector have, at least over the past 6 years, grown faster than budgets for other functions.<sup>401</sup>

## **20 IMPROVEMENTS IN THE BUDGET**

411. Given the recent student demands, the question arises as to whether increases in NSFAS allocations are a natural progression in line with the commitment to prioritise the sector, or whether they are a response to pressure.

412. National Treasury indicated that in the context of the present fiscal framework which introduced consolidation measures aimed at controlling spending and debt, expenditure per capita has stabilised since the 2008 recession. Spending appears to have tapered off since 2011/12 and is projected to decline over the 2017/19 METF.<sup>402</sup>

413. This suggests that any growth in the PSET allocation will probably be the result of reprioritisation as opposed to national budget expansion. In the light of the evidence by the National Treasury to the effect that the expansion of the sector to meet NDP targets and providing fee-free education to the poor would mean an addition of 2 – 3 per cent of GDP

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<sup>401</sup> National Treasury presentations dated 7 October 2016 and 3 March 2017, slides 9 and 18 respectively.

<sup>402</sup> National Treasury presentation dated 12 August 2016, slide 4.

to public spending, South Africa would have to resort to borrowing in order to meet the NDP targets.<sup>403</sup>

414. National Treasury estimates that non-interest expenditure will grow at an average of 7.1 per cent on average over the medium term. Of this:<sup>404</sup>

414.1. subsidies to universities are set to grow at 10.9 per cent annually; and

414.2. transfers to the NSFAS are set to increase at 16.1 per cent.

415. In total, the PSET allocation is set to grow to just over 1.6 per cent of GDP by 2019/2020,<sup>405</sup> which is a total spend of R89.8 billion.<sup>406</sup>

416. The largest improvement in the recent 2016 budget appears to be as a result of additional funds injected to address the zero per cent increase in university fees for the 2016 academic year. In this regard, a total of R21.1 billion is added to allocations to the sector over the MTEF, to include –<sup>407</sup>

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<sup>403</sup> National Treasury presentation dated 12 August 2016, slide 12; transcript of the hearing held on 12 August 2016, p26 L23 – p28 L1.

<sup>404</sup> National Treasury presentation dated 3 March 2016, slide 18.

<sup>405</sup> Amounting to an annual growth rate of 9.2 per cent over the medium term. See National Treasury presentation dated 3 March 2016, slide 19 – 20.

<sup>406</sup> National Treasury presentation dated 3 March 2016, slide 20.

<sup>407</sup> National Treasury presentation dated 3 March 2016, slide 20.

- 416.1. R5 billion provisional allocation in 2019/20;
- 416.2. R7.3 billion towards compensating institutions for the shortfall resulting from the 2016 no fee increase for missing middle students;
- 416.3. an additional R7.7 billion to NSFAS over the MTEF to assist unfunded qualifying students from 2016 academic year to continue their studies;<sup>408</sup>
- 416.4. NSFAS allocations are projected to increase by about R2.5 billion in 2019/2020; while
- 416.5. Government has allocated R4.2 billion over the medium term to cater for capital and operational costs at the two newly established universities.<sup>409</sup>
417. The above shows that the NSFAS allocation started to increase prior to the demands from students. This is supported by evidence to the effect that NSFAS more than tripled in funds per learner from 2005 to 2014.<sup>410</sup>

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<sup>408</sup> National Treasury presentation dated 3 March 2016, slide 20.

<sup>409</sup> National Treasury presentation dated 3 March 2016, slide 21.

<sup>410</sup> TIPS presentation dated March 2017, slide 21.

## 21 FUNDING OF INSTITUTIONS IN THE POST SCHOOL EDUCATION AND TRAINING SECTOR (PSET)

### 21.1 INTRODUCTION

418. This Chapter deals with the funding of institutions in the Post School Education and Training Sector, specifically Universities, TVET Colleges and Community Colleges.

419. This subject will be dealt with in the context of the income streams of these institutions such as government grants, student fees, donations and funding that these institutions generate by themselves. The chapter will further look at the real cost of running a PSET institution.

420. The Commission in its investigations considered the competing demands on institutions including *inter alia* the day to day operational costs; research-focused prerogatives; staffing (academic and support staff appropriations); transformation imperatives, including factors affecting “historically disadvantaged institutions”; curriculum reform; staff development (including career progression); student accommodation; access and throughput.<sup>411</sup>

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<sup>411</sup> Structure of Oral Hearings, Pg. 3

## 21.2 REGULATORY FRAMEWORK<sup>412</sup>

421. The *Higher Education Act (No. 101 of 1997)*<sup>413</sup> makes provision for the funding of higher education. The Act outlines that the intentions of government with regard to higher education, include the following:

421.1. the redress of past discrimination;

421.2. ensuring representativeness and equal access;

421.3. providing optimal opportunities for learning and the creation of knowledge;

421.4. promoting the values that underpin an open and democratic society based on: dignity; equality; freedom; respect for academic freedom; the pursuit of excellence; the promotion of the potential of every student; and appreciation for diversity.

422. The Higher Education Act further specifically addresses the funding of higher education when it states that the Minister must, after consulting the CHE and with the concurrence of the Minister of Finance, determine the policy on the funding of public higher education, which must include

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<sup>413</sup> Chapter 5

appropriate measures for the redress of past inequalities, and publish such policy by notice in the Government Gazette.<sup>414</sup>

423. From broad policy perspective, the following documents also address the issue of institutional funding: -

423.1. Education White Paper 3 (DoE 1997);

423.2. *National Plan for Higher Education*, or NPHE (MoE 2001);

423.3. Green Paper for Post-School Education and Training (DHET 2012d);

423.4. *National Development Plan 2030* (NPC 2012);

423.5. 2013 White Paper.

424. The transformational goals for higher education articulated in Education White Paper 3 and the National Plan in Higher Education, and whose realisation is steered through the funding framework and other steering mechanisms, are as follows:

424.1. improving access opportunities;

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<sup>414</sup> Section 39 (1)

- 424.2. increasing participation of disadvantaged students and of women;
- 424.3. ensuring that enrolments increase in academic programmes linked to economic development and in postgraduate programmes at masters and doctorate level;
- 424.4. improving the quality of teaching and research through enhancing the qualifications of academic staff;
- 424.5. increasing the numbers of graduates produced by the university system.<sup>415</sup>
425. The current funding framework<sup>416</sup> for Universities was introduced by the then Ministry of Education in 2003.
426. The framework came into effect in the 2004/05 financial year and was fully implemented in the 2007/08 financial year and replaced the SAPSE funding framework which was implemented from 1983–2003<sup>417</sup>

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<sup>415</sup> Report of the Ministerial Committee for the Review of the Funding of Universities, 2013, Page 95

<sup>416</sup> Funding of Public Higher Education, November 2003

<sup>417</sup> Report of the Ministerial Committee for the Review of the Funding of Universities, 2013, Page 57



### 21.3 THE MINISTERIAL COMMITTEE FOR THE REVIEW OF THE FUNDING OF UNIVERSITIES

427. The *Ministerial Committee for the Review of the Funding of Universities, 2013* reviewed the funding framework since it was important to determine if the framework's implementation had met the transformation requirements set out the 1997 Education White Paper.

428. The Committee made wide ranging recommendations. We summarise those that we consider that remain pertinent to the investigation of the viability of fee-free education:

428.1. The funding for higher education should be increased to levels of comparable international expenditure.

428.2. Enrolment planning should remain a key steering instrument for determining the size and shape of the higher education sector with negotiated targets linked to the funding of universities.

428.3. In instances of poor success and throughput rates more attention should be devoted to improvement than to growth.

- 428.4. Where growth is appropriate it should be aligned with institutional capacity, human resources, fiscal availability, infrastructure and student accommodation.
- 428.5. The monitoring and evaluation capacity of the DHET in regard to funding efficiency and effectiveness and the financial health of universities requires enhancement.
- 428.6. The Minister of Higher Education should establish a funding committee to oversee annually the funding allocations to universities.
- 428.7. The formula-based approach to funding and the system of block grants and earmarked grants should be retained.
- 428.8. All universities must offer quality undergraduate education.
- 428.9. The university sector is an integral part of the post-school system. Inter-institutional and inter-system mobility for students and staff is also integral to the system.
- 428.10. There is a need to reward equally the different roles of higher education vis teaching and learning, research, and community engagement.

- 428.11. Each university should develop and participate in research and innovation, adequately funded. The resources of the DHET, NRF and donors should be employed to establish centres of excellence (niche areas) at under-developed universities.
429. The Committee made specific recommendations in relation to Historically Disadvantaged Institutions. These included:
- 429.1. The introduction of an institutional factor grant amounting to 2% of the black grant allocation;
- 429.2. Prioritising the provision of infrastructure development grants to eliminate backlogs so as to place all universities on a par in offering quality teaching and learning for undergraduates;
- 429.3. Increasing funding allocations for foundation programmes, implementing the recommendations of the NSFAS review committee, and strengthening the institutional grant component for disadvantage.
430. The Committee made itemised recommendations in relation to funding of veterinary sciences, the developing of African languages, access for students with disabilities, research and innovation, work-integrated learning, and foundation programmes (until the inadequacy of basic

education has been overcome). All of these involved increased and ongoing funding.

431. To provide in part financial resources for the implementation of its recommendations the Committee advised that an earmarked university development grant be allocated to include funding for development of teaching, research, and the new generation of academics. It laid out the proposed scope and implementation of development funds in details.
  
432. The Committee considered that the funding of universities should be predicated on State subsidies and tuition fees, with provision for financially needy students. [Much reduced provision will be needed if the Commission's advice hereunder is accepted.]
  
433. The Committee was opposed to fee-capping fearing that the quality of higher education might suffer and universities would be unable to cross-subsidise financially needy students through university funded student bursaries. [Fee-regulation as opposed to fee-capping has been fully reported on by the CHE.]
  
434. The Committee recommended steep increases in NSFAS funding and greater academic support for NSFAS recipients. [The Commission has a vision of NSFAS limited to the TVET sector with a substantially reduced funding function.]

435. The Committee appears to have focused almost entirely on public (state) funding for universities and sought its remedies only in the public sphere. It is the advice of this Commission that a much broader view of the social responsibility of the private sector to assist financially and otherwise in the funding and support of students is justified. Such an approach will in the view of the Commission free the state from the primary burden of student funding. Instead such funds as would have been expended for that purpose may be redirected to the fulfilment of the funding goals in the wider education sector identified by the Commission in its recommendations.

#### **21.4 INCOME SOURCES OF PUBLIC HIGHER EDUCATION INSTITUTIONS**

436. The income sources of public universities are divided into three “streams”, which are government funding, student fees and private income.<sup>418</sup>

#### **21.5 FIRST STREAM**

437. This stream consists of the total of block grants as well as earmarked grants that are paid by DHET in the form of subsidies.<sup>419</sup>

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<sup>418</sup> Rolf Stumpf Presentation

<sup>419</sup> DHET Presentation, 4 October 2016, Pg. 8

438. Block grants are meant to cover expenses relating to the institutions' day-to-day operations, which are linked to the provision of activities related to the institutions' core activities:

438.1. Teaching and learning;

438.2. research; and

438.3. community engagement.<sup>420</sup>

439. The block grant may be spent at the discretion of the council of each institution and reporting on the use of the block grant is mainly through the university's annual report, submitted to the DHET.<sup>421</sup>

440. The Higher Education Act gives the Minister the power to determine what proportions of the higher education budget are to be allocated to block and earmarked grants respectively.<sup>422</sup>

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<sup>420</sup> Report of the Ministerial Committee for the Review of the Funding of Universities, 2013, Page 58

<sup>421</sup> This reporting must be done in terms of the Regulations for Reporting by the Public Higher Education Institutions (Government Gazette No. 37726, Notice 9 June 2014).

<sup>422</sup> Report of the Ministerial Committee for the Review of the Funding of Universities, 2013, Page 58

441. The Minister of HET divides, on a three-year rolling basis, the higher education budget into its various components. The block grant components of the funding framework are as follows:

441.1. *Teaching input funding*, which funds universities for delivering teaching services and the supervision of postgraduate masters and doctoral students.<sup>423</sup>

441.2. *Teaching output funding*, based on the number of graduates (excluding research masters and doctoral graduations), thereby encouraging increased success and throughput rates as a result of universities ensuring that students complete their studies.

441.3. *Research output funding*, based on the number of publications in accredited journals and in approved, peer-reviewed books and published conference proceedings, as well as the graduation of research masters and doctoral students.<sup>424</sup>

441.4. The *institutional factor grant*, which consists of two components, the *institutional factor for size*, and the

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<sup>423</sup> The teaching input grant uses a funding grid for the distribution of grants to universities. The funding grid is based on the relative cost of offering teaching and research supervision in various fields of study.

<sup>424</sup> The category of doctoral graduates receives the highest funding weight, as an incentive to produce much-needed graduates for research and innovation as well as the next generation of academic staff.

*institutional factor for disadvantage*. The institutional factor for size allocates additional funding to universities with a FTE enrolment of less than 25 000, due to the fact that it is more expensive to provide the full range of services at a small university than at a larger university that has the benefits of economies of scale. The *institutional factor for disadvantage* was introduced to provide an incentive for universities to enrol more Black South African students as part of the redress drive.

442. Earmarked grants are funds that may only be used for specific purposes designated by the Minister. Earmarked Grants are intended to steer the sector in line with policy goals and priority areas, and broadly consist of, NSFAS, Teaching Development, Foundation Provisioning, Veterinary Science Grant, Infrastructure and efficiency, Research Development, HDI Development Grant, Clinical Training Grant.<sup>425</sup>

443. The accountability for the use of earmarked funds is through the provision of progress reports and audit certificates, which are provided on an annual basis by the universities. The types of earmarked grants can be summarised as follows:

443.1. *NSFAS funding* provides assistance to students with academic potential who cannot afford university education.

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<sup>425</sup> Report of the Ministerial Committee for the Review of the Funding of Universities, 2013, Page 58



NSFAS is a statutory body that receives an annual allocation of funding from the National Treasury through the Ministry of Education. NSFAS also raises funds from South African and international donors.

443.2. The *infrastructure and output efficiencies funding* is intended to increase the capacity of the university system to cope with the growth in student numbers, to provide the necessary infrastructure and equipment for improving the quality of teaching and learning and student success and completion rates. It is also aimed at equipping universities to give effect to national goals and priorities by providing incentives to universities to deliver on the PME targets of the Minister.

443.3. The *clinical training earmarked grant* provides funding to universities to fund the clinical component of health professional students, which is also a national priority area.

443.4. The *foundation programme grant* provides funding for extended programmes aimed at addressing the under-preparedness of students and improving their chances of success at university.

443.5. *Teaching development and research development grants* provide financial assistance to universities to develop support

programmes that enhance their ability to increase student success and completion rates, as well as to enhance their capacity to produce research outputs.

443.6. The *merger multi-campus grant* provides funding to merged universities in support of the cost of running additional campuses as a result of the mergers.

443.7. The *veterinary sciences earmarked grant* provides funding for the clinical training component of veterinary sciences programmes and to support the cost of running an animal hospital at the University of Pretoria.

443.8. *The 'other' examples of earmarked grants* are as follows:

443.8.1. National Institutes in Mpumalanga and the Northern Cape, which receive funding for the co-ordination of university education in these provinces;

443.8.2. establishment of universities in Mpumalanga and the Northern Cape, which provides seed funding for the establishment of two new universities in these provinces;

443.8.3. interest and redemption on loans that fund former agreements made for government contributions for the

establishment of university infrastructure by means of government-guaranteed loans; and

443.8.4. The African Institute for Mathematical Sciences, which funds a special project aimed at producing postgraduate students in mathematics from formerly disadvantaged groups.

## **21.6 SECOND STREAM**

444. This is reference to student fees, which includes all tuition and residence fees paid by (or on behalf of) students to the universities. NSFAS funding to institutions forms part of its second stream income.

445. The current approach to student fees is in terms of the cost sharing model expressed in White Paper 3. Currently university students do pay fees. Student fee income in 2014 made up 32.9% of the university system's income.

446. The reliance on fee income differs across the sector, as is affected by the ability of the university to attract third stream funding and by the fees charged. Student fees differ substantially across the sector.

447. The #FeesMustFall campaign highlighted the cost of university education saying that it was unaffordable and very expensive for individuals and

their families. The constitutional principle suggests that fees need to be affordable and that academically deserving financially needy students should not be denied access on the basis of their inability to pay.<sup>426</sup>

448. USAf shares this view and stated that the annual real increases in fees are placing the possibility of higher education outside the means of the majority of the students and their parents. It is evident that financially needy students are not able to afford these rapidly increasing tuition fees.<sup>427</sup>

449. USAf further submits that another reason for fees increasing at double digit percentages is the unrecoverable debt, which in turn is financed from higher fees. This fuels the upward spiral in tuition fees

## **21.7 CONSIDERATIONS WHEN SETTING FEES.**

450. One of the central issues considered by the Commission was how Universities determine their fee structures as well as annual fee increases.

451. In order to shed light on this issue, a questionnaire was distributed to several universities.

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<sup>426</sup> DHET Presentation, 10 August 2016, Slide 29

<sup>427</sup> Paper by the Funding Strategy Group on the Review of the Funding of, Universities USAf Board of Directors Workshop – July 2015, Pg. 3

452. From the responses to this questionnaire, it became clear that the main factors affecting fees are the costs for salaries, services, academic and technical material, and utilities. For most of these, the rate of increases cannot be negotiated by the University, the items are essential, and annual increases are further affected by factors such as exchange rates and not only CPI.

453. The cost base of universities has been increasing well in excess of CPI due to various reasons, some of which universities have very little control of. Below is the list of some of these costs:

453.1. electricity costs,

453.2. municipal rates and taxes,

453.3. building costs which rise at a rate higher than inflation,

453.4. depreciation in the Rand which affects, amongst others, the following resources and expenses:

453.4.1. library resources in the form of journals, books etc.  
(both printed and electronic forms);

453.4.2. research equipment;

453.4.3. research and laboratory consumables;

453.4.4. computer software and peripherals; and

453.4.5. computer hardware.<sup>428</sup>

454. In parallel with the expenditure base, it is also important to consider the taxes the universities are paying in national, provincial and municipal taxes, which, at a macro level have to be considered in any subsidy paid from the national tax income. These taxes include:

454.1. Employment Tax (PAYE) on the remuneration of all employees;

454.2. Value Added Tax (VAT) paid on all transactions performed by the universities, which cannot be claimed back as per the VAT Act;

454.3. import and excise duties on certain imports which is necessary for the functioning of the university;

454.4. municipal rates and taxes.

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<sup>428</sup> Paper by the Funding Strategy Group on the Review of the Funding of, Universities USAf Board of Directors Workshop – July 2015, Pg. 3

455. The Commission has heard evidence that another consideration in attempting to ease the burden on University Budgets is to make them exempt from taxation.
456. It is also said that cross-subsidisation between programmes varies annually and it not at a set rate.
457. Institutional budgets are determined rather than individual programme costs. An Illustration of this would be that in most of these institutions, BCom programmes tend to bring in money to support other programmes. The allocation to Departments is on a different formula and takes into account research output and other academic activities, which the institution wants to encourage.
458. Comparing the BEd Foundation Phase programme at 2016 prices across three institutions:
- 458.1. at the University of Venda, the cost increased from first, to second and to third year;
- 458.2. at NMMU it decreases as one progresses;
- 458.3. at Stellenbosch University, it remains the same.

458.4. the first-year costs only R19 790 at UV, compared to R25 700 at NMMU and R31 704 at SU. However, when adding the costs for the full three years, it costs R90 410 at UV; R73 810 at NMMU; and R95 112 at SU. Fourth year changes and it is charged as Honours by some institutions.

459. The aforesaid indicates that comparing fees across institutions is not as simple as it may initially appear; and high fee differentials may at times be over-estimated when the full programme is taken into consideration.

## **21.8 THIRD STREAM**

460. Third stream income refers to university income from sources external to the DHET and student fees. These include:

460.1. research funds from various sources, including the Department of Science and Technology (DST) and the National Research Foundation (NRF);

460.2. other Government Departments;

460.3. private entities and the private sector;

460.4. contracts;



460.5. rendering of services;

460.6. private gifts; and

460.7. donations.

461. Some analysis of third stream funding includes income from interest.<sup>429</sup>

## **21.9 AVAILABILITY OF THIRD STREAM FUNDING ACROSS ALL INSTITUTIONS**

462. There is severe competition between universities for third stream income.<sup>430</sup> For instance, the University of Venda has established a third-stream income generating entity in 2010 in order to have a practical and sustainable means of generating extra income.<sup>431</sup>

463. There is however a large discrepancy between the third-stream income received by HDI institutions and the more affluent HA institutions. This is on account of a number of factors such as their research capacity, their more affluent alumni and being located in metropolitan areas.

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<sup>429</sup> Presidential Task Team on Short Term Student Challenges at Universities, Page 7

<sup>430</sup> Presentation by Prof Stumpf, 18 October 2016, Page 13

<sup>431</sup> Univen Presentation, 21 October, Slide 21

464. An illustration of this would be that in 2015, third stream income as a total of institutional expenditure in institutions was as follows:<sup>432</sup>

464.1. UCT – 41%

464.2. Stellenbosch University – 44%

464.3. Wits – 39%

464.4. University of Fort Hare – 15%

464.5. University of Venda – 14%

464.6. University of Zululand – 17%

## **22 FUNDING FRAMEWORK FOR GOVERNMENT**

### **22.1 ANALYSIS**

465. A funding formula provides financial stability in so far as its elements are fixed and institutions are able to rely on these in their planning.

466. By contrast, the current South African subsidy system is based on a 'funding framework'. Although in many respects the framework shares

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<sup>432</sup> VitalStats 2015, pp. 95

the characteristics of a formula (and the terms are generally used interchangeably), the framework's parameters may be altered by the Minister through publishing a 'Ministerial statement' (subject to the criteria of the Higher Education Act).

467. The funding framework therefore does not offer institutions the longer-term stability of a formula.<sup>433</sup>

468. As stated above, the current funding framework was introduced in 2003 and came into effect in 2004/05 and was a response to the limitations of the SAPSE funding framework which was implemented from 1983–2003. It is under revision.

469. The key features of the current funding framework are as follows:

469.1. *Affordability*: Government first decides how much it can afford to spend on higher education and then allocates funds to institutions, according to the formula and according to national needs and priorities.

469.2. *Distributive mechanism*: The funding framework becomes a distributive mechanism to allocate government funds to individual institutions, in accordance with the budget made

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<sup>433</sup> Report of the Ministerial Committee for the Review of the Funding of Universities, 2013,

available by government, government's policy priorities and approved national higher education plans.

469.3. *Cost sharing*: The principle of cost sharing of higher education by government, students and families has been retained in the current funding framework.

470. The current funding framework, therefore, links government higher education funding to national and institutional planning, priorities and performance.

## **22.2 CRITIQUE OF THE FUNDING FORMULA**

471. There are some views that this formula should have been given more time to mature before a review was undertaken.<sup>434</sup>

472. USAf has indicated its concern in relation to the HDI grant in that it is important that the HDI grant does not erode the already thin block grant allocated to the sector, but that "new money" should rather be found to finance the grant. At the current inadequate funding levels such a drastic shift in resources without "new money" will negatively influence non-HDIs.

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<sup>434</sup> Paper by the Funding Strategy Group on the Review of the Funding of, Universities USAf Board of Directors Workshop – July 2015, pp. 8

473. The Commission has heard testimony from different institutions that the current funding formula favours HAI in that they receive more due to their research capacity. The Commission also heard evidence regarding the cost of supporting and conducting research, and that the current funding allocation to research does not sufficiently support this function.
474. The funding model also incentivises increased enrolment due to a heavier teaching input grant, which can compromise quality and student support. This problem is recognised in the Review of the funding framework, and enrolment planning limits the negative impact of this element. Discussions have suggested that the sector is not yet ready for a more output focused formula, as this could negatively affect HDIs, and could incentivise the lowering of standards to increase graduation rates.

### **22.3 STEERING MECHANISMS**

475. Government steers the higher education system, mainly through three instruments, as follows:
- 475.1. The *funding framework*, which provides financial incentives to achieve the goals set for higher education. Accordingly, the current funding framework has been designed to give the Minister the ability to reprioritise funding allocations in line with priority areas and policy incentives.

475.2. *Quality assurance and the programme approval process.* The programme approval process gives the Minister the leverage to phase out inefficient and expensive duplications, improve the quality of programme offerings, align programme offerings with institutional capacity and ensure that programme offerings are aligned to economic needs. The Minister has to approve the Programme Qualification Mix (PQM) of each university for subsidy purposes, while the CHE has to accredit programmes to ensure that both the programme content and the university resources will ensure a quality programme offering.

475.3. *The enrolment planning process (linked to the funding framework),* which aims to ensure that student enrolment growth in the system is aligned with broader social and economic needs, the capacity of the system in terms of human and capital resources, and the fiscal resources available.

## **22.4 PROCESSES UNDERWAY**

476. The annual Ministerial Statement by the Minister of Higher Education and Training outlines the funding instruments to steer the university sector, and is issued in accordance with the requirements of the Higher Education Act, 1997 (Act 101 of 1997 as amended) and the funding

framework for universities (Government Gazette, No 25824 of 9 December 2003).

477. Universities are required to put in place efficiency measures to ensure that available funding is effectively utilised. These measures could include:

477.1. reducing overheads relative to the core functions of universities;

477.2. collaboration amongst universities in order to save on spending;

477.3. improving debt collection; and

477.4. putting in place processes to generate additional third-stream income (including sourcing additional donor funding).

478. Phasing out of research grant and teaching infrastructure grant

479. One outcome from the funding review process as set out in the Report of the Ministerial Committee for the Review of the Funding of Universities, 2013, is a proposal that the Teaching Development Grant (TDG) and the Research Development Grant (RDG) are consolidated and replaced by

a University Development Grant (UDG) as a result of overlap between the TDG and the RDG.

480. The UDG, to be implemented in 2017/18, will take forward the purposes of the TDG and RDG in a more streamlined and systematic fashion. The UDG will be designed to address the developmental needs of the higher education sector in relation to its core functions of teaching, research and innovation, and social responsiveness related to these functions.
481. A clear distinction will be drawn between core, recurrent activities and developmental initiatives, with the development grant clearly focused on developmental activities.
482. Importantly, the UDG is envisaged to become the main vehicle through which the 'Staffing South Africa's Universities' Framework (SSAUF) is implemented. This will mean that a proportion of the UDG will be allocated for SSAUF activities. From early 2016, the Department will work with the sector to develop policy guidelines for the management and utilization of the University Development Grant.<sup>435</sup>
483. The grants for merger multi-campus have been phased out and have been absorbed into the block grant. The multi-campus grant was introduced following the merger of universities and has served its purpose, which was to make up for the loss of some universities following

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<sup>435</sup> Ministerial Statement, June 2016, Page 3



the mergers. Detailed reasons about this decision were provided in the 2011 Ministerial Statement on University Funding and the sector has been kept updated about the phasing out of this grant in the various ministerial statements since then.

## **23 STUDENT HOUSING**

### **23.1 INTRODUCTION**

484. This Chapter will deal with Student Housing in the PSET sector. This refers to accommodation used by students during the duration of their studies.

### **23.2 OVERVIEW OF STUDENT ACCOMMODATION IN THE PSET SECTOR**

#### **23.2.1 UNIVERSITIES**

485. In 2010, a Ministerial Committee was appointed to investigate student accommodation at contact Universities in South Africa. The Ministerial Committee's findings culminated in the *Report of The Ministerial Committee for the Review of the Provision of Student Housing at SA Universities, 2011*.

485.1. The Report showed that in 2010, 20% or 107 598 students were accommodated in on-campus accommodation and that

only 5.3% of first year entrants were accommodated. A target had been set that in 10 years (i.e. 2020/21) at least 30% of the total residence capacity must consist of first year entrants.<sup>436</sup>

485.2. Bed shortage in 2010 was estimated at 195 815 and this was projected to increase to a shortage of 207 800 beds by 2013. These numbers were based on the recommended coverage of 50% of enrolments for urban campuses and 80% for rural campuses.

485.3. The cost (in 2010 prices) of providing the recommended residence spaces over a period of 10 years was estimated at R82.4 billion or R109.6 billion over 15 years.

485.4. The estimates are based on the cost of R240 000 per bed. The 10-year estimate translates to R147 billion when inflation escalations are included.

485.5. To deal with the backlogs in student housing and university infrastructure in general, the Earmarked Infrastructure Grant ("EIG") was introduced in 2006/07 when there was a realisation that the university sector was growing without sufficient emphasis on the development of infrastructure.

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<sup>436</sup> DHET Presentation, 20 October 2016

- 485.6. From 2006/07 to 2014/15, Government invested more than R13 billion over three funding cycles.
- 485.7. Of the R13 billion investment by government, R1.69 billion was allocated to student accommodation of which (R 1.443 billion (85%) was allocated to Historically Disadvantaged Institutions (HDIs) and R247.3 million (15%) was allocated to Historically Advantaged Institutions, together with co-funding from universities in the sum of R670 million.
- 485.8. This investment into student accommodation enabled 9000 new beds and the refurbishment of old residences.
- 485.9. Some universities such as the University of Stellenbosch have also experimented with Innovative Building Technology (IBT's) for residences, which are not funded by the IEG.
- 485.10. A decision by DHET has been taken to focus on the provision of university owned student accommodation.<sup>437</sup>
- 485.11. For 2015/16, an amount of R850 million was allocated to student accommodation.

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<sup>437</sup> Impacts on suggestion that UIF help build residences.

- 485.12. In the current cycle 2016/17 to 2018/19, R7.5 billion is available for infrastructure development. It is envisaged that 50% of the R7.5 billion will be invested in student accommodation while the other 50% will go towards addressing other infrastructure needs.<sup>438</sup>
- 485.13. From 2015/16, there has been a change in the process of allocating the EIG. The need for an integrated planning approach was identified by means of a macro infrastructure plan for the system to help steer infrastructure development.
- 485.14. All institutions are required to have campus master plans; maintenance audits; disability audits and IT audits.
- 485.15. As a whole, the university system has an estimated maintenance backlog of R25 billion.
- 485.16. Of the R25 billion, universities estimate the value of the current national maintenance and refurbishment backlogs on student accommodation at R2.5 billion.
- 485.17. Further to the R2.5 billion, an additional R1.9 billion is required to modernise existing residences so that they are “*fit for purpose*”, meaning that the residences must comply with *The*

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<sup>438</sup> DHET Presentation, 20 October 2016, Page 6.

*Policy on the Minimum Norms and Standards for Student Housing at Public Universities, September 2015*, the contents of which will be dealt with later in this Chapter.

### **23.2.2 TVETS**

486. There is limited data relating to TVET student accommodation.
487. The Report on the Ministerial Committee for the Review of the Provision of Student Housing at SA Universities focused entirely on universities.
488. The Commission has heard evidence to the effect that it may have been an oversight not to conduct a study on student housing for TVETs. The likelihood is that the housing deficit in relation to TVETs is worse than the deficit in the university sector.<sup>439</sup>
489. The housing shortage in TVET institutions was confirmed by the Minister when he stated that DHET carried out a survey of the 50 public TVET Colleges in 2015. The survey showed that for the 710 000 college students, there were only 10 120 beds.

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<sup>439</sup> 26 January 2017 transcript, Page 6

490. TVET Colleges can provide accommodation for only 1.4% of students; that is 1 in 70 students. Many of those students travel hundreds of kilometres from their homes in rural areas to the nearest college.

491. DHET estimates that there is a need for at least 100 000 student beds in TVET Colleges to meet the immediate demand.<sup>440</sup>

### 23.2.3 FINDINGS OF THE COMMITTEE

492. After analysing all the data available, the Ministerial Committee concluded that none of the critical issues for the provision of student housing were currently being adequately addressed, being: -<sup>441</sup>

492.1. Access/equity/redress:

**The Committee found that throwing open the doors of learning without providing the minimum support required to ensure a reasonable chance of success is not only irresponsible but also dehumanising, and is negating the very intention of increasing access to higher education.**

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<sup>440</sup>[http://www.lmip.org.za/sites/default/files/documentfiles/CollegeTimesVol46%20%282%29\\_0.pdf](http://www.lmip.org.za/sites/default/files/documentfiles/CollegeTimesVol46%20%282%29_0.pdf)

<sup>441</sup> *Report on The Ministerial Committee for The Review of The Provision of Student Housing at SA Universities, 2011. Pg. 129*

492.2. Learning/success:

**Academic learning and success are being severely constrained and hampered by the overcrowding caused by the shortage of student housing.**

492.3. Inclusion/integration:

**The current state of student housing provision hampers and prevents students from inclusion and integration into the workplace and thereby constrains participation in the economy of the country.**

492.4. Quality/standards:

**Basic health and safety norms and standards are being violated every day by the current poor quality of student housing provision.**

492.5. Governance/management:

**Due to sheer pressure of numbers and the strain on infrastructure, facilities and amenities, student housing management structures and mechanisms are being sorely**

**tested on all campuses; in some instances, management structures and mechanisms have entirely failed.**

492.6. Cost/financing:

**The administrative failings of NSFAS funding for student accommodation are imposing severe hardships on precisely those students who are most vulnerable, and the poor housing conditions are undoubtedly a factor in students' poor academic performance and high dropout rates.**

493. The Committee made recommendations on:

493.1. Policies for residents, admissions and allocations;

493.2. Minimum standards for students housing and accommodation;

493.3. Private student housing and accommodation;

493.4. Residence management and administration;

493.5. The role of residences in the academic project;

493.6. Financing of student housing and student accommodation;



- 493.7. Residence infrastructure;
- 493.8. Future planning.
494. The evidence before the Commission established that important improvements flowed from the recommendations. These include:
- 494.1. The development and implementation and of a policy on the Minimum Norms and Standards for Student Housing at Public Universities. This was published in Government Gazette 39238 of 2015 and came in effect of 29 September of that year.
- 494.2. It has encouraged the development of dormitory projects financed by the private sector and NGOs that conform to such standards.
495. There is a complex relationship between student housing and academic success, but compelling preliminary evidence suggests that being housed in a safe, well-managed residence does advantage students, particularly those from poor, working class background.
496. Student Housing should be able to provide support to first year students, who are the most vulnerable cohort of students which is likely to contribution to academic success (throughput).

497. Rhodes University has the highest throughput and success rate in South Africa, which is attributed partly to its residence system.<sup>442</sup>
498. It is also clear that adequate provision of accommodation and support is still in its infancy, the more so in relation to TVET students. As pointed out earlier in the Research Report on the Costing and Financing of the White Paper on Post-School Education and Training, the cost of providing infrastructure at institutions of higher learning between 2014 and 2030 could amount to as much as R771.5 billion. But the problem is broader than money can buy. We agree with the views of the CHE (expressed in its comments on the Draft Policy on student housing) that "the role of student housing as an extension of the intellectual project of the university cannot be overemphasised and should inform the manner in which a university approaches the management and structure of residences". This view of the Commission holds good for TVET colleges.

### **23.3 EXPERIENCES OF STUDENTS**

499. Evidence given at the commission presents a bleak picture of the experiences of students regarding Student Housing.
500. SAFETSA gave evidence that as a result of late payments for allowances such as accommodation and travel has complicated the day to day life of students in the TVET space. Many are not able to attend classes

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<sup>442</sup> Presentation D'lange, January 2017, Pg. 17

regularly precisely because of late payments and many of our students are evicted by the landlords because of late accommodation payments.<sup>443</sup>

501. Sikho Qwatekane from Mangosuthu University of Technology gave an account of his experiences with student accommodation:

*"NSFAS' restrictions when it comes to pay for accommodation of about a 20 kilometre radius which makes our life difficult since accommodation closer to campus is expensive."*

502. Mr. Y Twani from SAFETSA gave evidence in relation to experiences at TVET colleges when he stated that:

*"And students are given up to a maximum of [R]20 970 per annum for accommodation. And travel is [R] 7 864 and that accommodation amount it's inclusive of meals. It's not [enough] cause if you divide it for an example that 20 000 it's 20 970 divided by 10 months - it gives you an amount of 2 point something per month. Those students that are situated ... in fact campuses or colleges in rural communities, those students they manage to afford but the predicament is within urban areas - where you go to Buffalo City College in East London. Accommodation rates there, if you are in need of a decent space ... not luxury but a decent space for a student to be able to study, charges they vary from 3 000 to 4 000 to 5 000. So in a nut shell, that 20 something it's not enough for students."<sup>444</sup>*

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<sup>443</sup> Presentation, 22 November 2016, Pg 3

<sup>444</sup> Transcript, 22 November 2016, Pg 12

503. In relation to the conditions of the available student accommodation for TVET students, Mr. Twani state the following:

*“If for an example you can visit some of our student residences ... not college residences but these private accommodations. Students are living in extreme conditions and we once asked some of our students to say but why have you chosen this type of an arrangement in terms of accommodation? And students will tell you that the financial assistance that we are getting form our institutions is not sufficient to cover for proper accommodation. But because our students they value education, they have decided to live under those extreme conditions for as long as they will acquire a qualification.”*

504. When asked to elaborate on what he refers to as “extreme conditions”, Mr. Twani stated the following:

*“It’s simply a bad space of an arrangement for accommodation. I’ll make an example of East London. There are very old houses in a street called St Georges East London, where you find many of our black people; some doing prostitution around those areas, some selling drugs.*

*Some of our students they live around those areas and it’s not as if there are no better accommodations or the private accommodations but accommodations with proper facilities are expensive. So when I’m speaking on to the issue of extreme conditions, I speak of a very bad environment for a student to live under or to live in - a one room you cook here, you sleep here, you are 3 or 2 paying 1 200 to 1 500 each. Imagine that environment where there are no proper facilities to allow students to study.”*

505. Mr. Twani stated further that:

*“If you don’t have means to provide accommodation, then as much as we are addressing the issue of teaching and learning in terms of funding tuition, but also it’s a predicament for one not to have a safe space to live while he/she is in that process of acquiring that skill.*

*So it’s a crisis in the TVET space. Some students they’ve resorted to prostitution, some students they’ve resorted to this thing what’s this thing, to have Blessers, so that the Blesser can afford to pay your accommodation because the institution does not have insufficient funding to cover all needy students for accommodation. And it’s on those basis as to why I’m saying we really to discuss and resolve that issue because you don’t want to send your kid to institution of higher learning but because of he/she is frustrated in terms of accommodation arrangements, that student ends up dating an older person just for him/her to get accommodation.”*

506. Ms. Tukela Mbolani gave evidence that:

*“I remember when I first came to the college at Buffalo City TVET College, I was coming from a place that’s 60km far from East London. And coming from that place not knowing anyone in East London because there is no college in Streatham or anything; so I had to come to the college expecting that I would receive accommodation but only to find out that if you are NCV level 2, you cannot be accommodated – you have to be accommodated from level 3 and 4. So I face a challenge like that, so I used to ask for a place to sleep from friends throughout that year. And then following year when I was doing the level 3 - 2015, that’s when I applied for accommodation. And when I applied for accommodation I was rejected, because I was told that it was full - the accommodation was full.”<sup>445</sup>*

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<sup>445</sup> Transcript, 22 November 2016

507. Once Ms. Mbolani eventually got accepted into the Hostel, she said the following about the living conditions:

*“It’s not what I expected at all. It’s not even in good condition to live in because we live in a small room and there are two of us living in the room and imagine we have to cook and to do everything in the room.”*

#### **23.4 PROCESSES UNDERWAY**

508. In addition to the aforesaid, various processes have taken place in order to address the issue of student housing:

508.1. A Student Housing Task Team was established in 2015 to develop a plan to accelerate the development of student housing with private sector investment.

508.2. A symposium was held in July 2016 to engage different stakeholders and to attract other sources of funding from the private sector based on bankable funding solutions/projects.

508.3. A declaration of co-operation was signed with the Gauteng Provincial Government and Department of Public Works to transfer properties to universities and TVET colleges.

- 508.4. A Department of Public Works and DHET task team has been established to identify vacant properties and land for possible development.
- 508.5. IIPSA donor funded programme (European Union) of R30m to undertake feasibility studies at 5 universities and 1 TVET college – UL, VUT, UWC, NWU, UniZulu & King Hintsa.
- 508.6. A Task Team also undertaking feasibility studies at six other institutions – NMU, TUT, SMU, UFS, UJ & Motheo.
- 508.7. A ten-year plan developed to enable the development of 300 000 beds to enable sufficient university and TVET owned affordable student housing (social housing) by 2026. First phase of the plan (15 000 beds) expected to be implemented by middle of 2018.
- 508.8. An Infrastructure Development Support Unit (IDSU) is to be set up to assist the DHET to manage and ensure effective oversight of accelerated infrastructure programme going forward.

## 24 OUTSOURCING

509. Outsourcing has been a contentious issue of discussion in the investigations by the Commission. In addition to the demands for free education, the students have demanded that universities insource support services such as cleaners and security.
510. It is the students' view that these employees are being exploited by the companies that employ them and are being denied benefits due to the contract nature of their employment.
511. At present, the debate on insourcing does not appear to have been properly articulated. The process of dealing with the demands of the students and workers for insources is being dealt with differently by the institutions.
512. USAf appeared before the Commission and gave evidence to the effect that in 2014 numbers, there were approximately 4456 permanent staff, inclusive cleaners, gardeners, security guards and messengers on university payrolls.
513. The service work force remained overwhelmingly black, 98% of the total. Women constitute 43% of the service staff in universities.



514. Should the universities concede to the demand for insourcing, an estimated 18756 additional staff in the above services would be insourced as follows:

514.1. 8100 cleaning staff;

514.2. 7300 security staff;

514.3. 1790 gardening staff; and

514.4. 1566 catering staff.<sup>446</sup>

515. The estimated costs of insourcing using R5 000 as a minimum wage over the sector is estimated at around R400 to R450 million per annum. The estimated costs of insourcing using R10 000 as a minimum wage over the sector is estimated at around R1.6 billion per annum.

516. USAf made further submissions that can be summarised as follows: -

516.1. the international trend seems to be towards higher wages, greater productivity and integrated services. Outsourcing for labour arbitrage seems to be a South African phenomenon;

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<sup>446</sup> USAf presentation, 20 October 2016, Page 7

- 516.2. the supplementing of salaries and/or insourcing of labour intensive activity could cost the sector between 1- 4% of total expenditure. The USAf Finance Executives Forum and Human Resources Directors forums acknowledge that this could be offset by upside potential of efficiency. The benefit of outsourcing was mainly labour arbitrage not the promised efficiency;
- 516.3. profiteering has been noted to be a motivation for outsourcing even at “better universities”;
- 516.4. universities are unable to pass on full VAT costs;
- 516.5. some universities are looking to implement insourcing at 0% net increase. Cost of salary supplement and “full insourcing” ranges from R0.5bn to R2bn.
517. Submissions by different stakeholders seem to confirm the lack of conformity in dealing with this demand. Further submissions by different stakeholders can be set out as follows: -
- 517.1. Professor Loyiso Nongxa has viewed outsourcing by institutions as a way to reduce administration and support costs. He confirms that the debate has not been properly framed. There is a likelihood that the outsourcing of

specialised functions such as legal; IT; internal audit function; payroll may create a perception of false savings?<sup>447</sup>

517.2. The University of Venda submitted that it is taking a cautious approach in the 2017 salary negotiations as well as the insourcing debate. DHET has set guidelines indicating that expenditure on salaries and wages should be between 58% and 62% of turnover (minus 3rd Stream Income and Research Income). Insourcing would only be done under the Univen Innovative Growth Company and at sectoral rates plus medical and provident fund contributions<sup>448</sup> Univen decided that as far as insourcing is concerned, that it be dealt with under the Univen wholly-owned subsidiary UIGC on the following terms: negotiations would be done at sectoral rates; UIGC would assist to cover costs of overheads such as staff and systems; and at Sector related Conditions of Service<sup>449</sup>

517.3. The Nelson Mandela Metropolitan University has indicated that its financial sustainability is at stake due to costs associated with the debt/down payment relief measures and the reintegration of outsourced services.<sup>450</sup>

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<sup>447</sup> Presentation Loyiso Nongxa, 19 October 2016. Slide 43

<sup>448</sup> Univen Presentation, 21 October 2016, Slide 29 and 30

<sup>449</sup> Univen Presentation, 24 August 2016, Slide 16

<sup>450</sup> NMMU Presentation, 21 October 2016, Slide 22

- 517.4. The University of Pretoria has disclosed its costs of Insourcing as follows: 2016 cost - R56,5m; and 2017 cost -R97,9m<sup>451</sup>
- 517.5. SASCO in its submission to the Commission has stated that in its view changes in the South African higher education landscape since the advent of the democratic dispensation such as mergers and incorporations, changes in state funding formula for higher education, a reconfiguration of relations and rules of engagement between the state and institutions of higher learning as well what it described as "the neoliberal delineation between 'core' and 'noncore'" academic activities has resulted in widespread outsourcing and privatisation in higher learning.<sup>452</sup>
- 517.6. Walter Sisulu University has identified the insourcing debate as a political risk, which could result in further protests.<sup>453</sup>
- 517.7. Prof M Jahed was of the view that, at the moment, the debate seems to be whether insourcing will distract universities from focusing on their core objectives which are teaching and learning.<sup>454</sup>

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<sup>451</sup> University of Pretoria presentation, 11 August, Slide 18

<sup>452</sup> Sasco Submission, Page 3, 22 August

<sup>453</sup> Walter Sisulu University Presentation, Slide 10

<sup>454</sup> Set 8 Day 12 Transcript

518. From the above it is clear that there is no clear consensus in the sector on how to deal with outsourcing.<sup>455</sup>

519. There should be sector wide debate on how outsourcing should be approached since it clearly has grave financial repercussions.

## 25 LIBRARIES

520. The Commission has heard in evidence that libraries are an increasing cost at Universities. However, the view seems to be that not enough focus is given to funding and sustaining this part of the institutions.

521. In a presentation by the Commission South African National Library and Information Consortium (SANLiC)<sup>456</sup>, SANLiC made the following submissions:

521.1. Working Access to high-quality scholarly electronic information is the lifeblood of research, teaching and learning in a higher education institution.

521.2. High-quality scholarly electronic information is costly.

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<sup>455</sup> <https://www.businesslive.co.za/bd/national/education/2017-07-06-wits-cuts-operation-budget-to-hire-more-workers/> Wits instituted wide-ranging cuts in its operational budget (8% for professional and administrative units; 6% for facilities). The Wits SRC president claimed many students did not have tutors because of the cuts and that cuts were simply being used to justify opposition to #Feesmustfall.

<sup>456</sup> Set 3

- 521.3. Library collections and budgets are declining in real terms leading to cancellations of resource subscriptions.
- 521.4. Currency depreciation in the past five years has had a serious impact. If financial support is not increased urgently institutions will decline.
522. Further evidence by the Committee of Higher Education Libraries of South Africa (CHELSA) indicated that: -
- 522.1. there is a need to ensure that the higher education sector is provided with optimal access to information for the purpose of learning, teaching, research and community development;
- 522.2. library collections must be developed and better managed through migration to digital information services where possible and available;
- 522.3. a comprehensive and core foundational collections must be created for subjects such as economics, education, politics, law, etc.;
- 522.4. the size of a library collection is no longer the key matter, since there is now a movement from ownership to access;

- 522.5. there has been active engagement with academics to support the teaching curricula by identifying supplementary and complementary material in all formats;
- 522.6. CHELSA has concerns in relation to factors which place Library budgets under severe constraints, which are: -
- 522.6.1. access to information resources, print and online;
  - 522.6.2. library systems and discovery tools;
  - 522.6.3. wired and wireless connectivity;
  - 522.6.4. the lifespan of computers;
  - 522.6.5. software upgrades; and
  - 522.6.6. access to PCs, Laptops and tablets;
- 522.7. there is also the issue of extended opening hours, in some cases 24 hours, which has cost implications for staffing;
- 522.8. the current funding is inadequate. There is also no prescribed formula in higher education for academic libraries. The amounts received differ from university to university;

523. CHELSA went on to make the following recommendations :
- 523.1. Funding of libraries should be regulated and funded from the annual Teaching Input Grant based on FTEs for Science and Humanities.
  - 523.2. Libraries should not be relegated to non-essential services and subjected to less and less funding for areas that cannot be sustained by fundraising.
  - 523.3. Funding for libraries, according to international standards, can vary between 1% and 6% of the total income of a university; CHELSA supports funding at the higher level for South African universities if quality is to be the criterion.
524. The rising cost of acquiring the resources necessary to support teaching and research has far outstripped increases in library acquisition budgets. The exorbitant cost of access to electronic resources are a challenge, with double-digit inflation the norm in the online database industry. This is particularly evident in the scientific, technical and medical journals. There is decreasing financial support from institutions, and libraries struggle to keep up with the seemingly relentless advances in computer and information technology.



## 26 TVET COLLEGES

### 26.1 REGULATORY FRAMEWORK

525. The Regulatory Framework for funding TVET Colleges is set out in the *Norms and Standards for Funding Technical and Vocational Training Colleges* which came into effect when published in Government Gazette 38796 on 15 May 2015.
526. The policy governs all funding and expenditure by the Department of Higher Education and Training (DHET) of programs listed in the register of nationally approved programmes offered by public TVET colleges.
527. The policy emanates from section 23 of the *Continuing Education and Training (CET) Act 2006*, which requires the Minister of Higher Education and Training to determine norms and standards for the funding of public colleges.
528. The funding policy is intended to address the following challenges that persist in the TVET college system:<sup>457</sup>
- 528.1. To ensure that TVET colleges are accessible to economically active youth and adults outside of the school system, who wish

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<sup>457</sup> Norms and Standard, Pg. 10

to improve their skills, gain access to better jobs or to progress to higher education.

528.2. It aims to reverse the low enrolments in colleges as compared to universities so that a pyramid shaped education system is gradually established in which the TVET college sector serves more students.

528.3. The NATED Report 191 and NC(V) policy are designed to ensure that TVET colleges offer high quality priority skills programmes that are relevant and responsive to the needs of a growing economy. This funding policy will help ensure that more youth are enrolled in high priority skills programmes. There is some concern, however, that NATED, in particular, is outdated.

528.4. Effective lecturers at TVET colleges are key to bringing about the transformation of these institutions. The development of the lecturer corps to deal with new challenges needs to go hand in hand with greater flexibility in terms of the timing, mode and location of the service offered. Physical facilities at the institutions should be more extensively utilised.

529. By international standards, the size of the Technical and Vocational Education and Training (TVET) college sector is too small for the size and level of development of our economy.

530. The 15 to 19 year-old age cohort, which should comprise an important target for this sector, has a mere 2% enrolment rate in technical and vocational education and training. Industrialised countries have over 6% of the youth cohort in vocational education and so **it can be argued that the TVET college sector should increase threefold.**

## 26.2 FUNDING MODEL

531. The funding formula has three key components: -

531.1. the government subsidy which covers 80% of the programme costs;

531.2. a cap on college level fees;

531.3. the establishment of a national bursary system to ensure that students who are academically capable but poor are assisted to pay college fees.

532. The intention is that the State should fund 80% of the needs of the system (for ministerial approved programmes) with 20% provided through

student fees. However, as explained early the funding is stagnant at 54% and likely to decline further.

533. Currently students who are financially needy and academically capable may receive bursaries to cover such fees through NSFAS, therefore TVET students who qualify for NSFAS funding are already receiving free higher education.<sup>458</sup>

534. The funding norms for TVET colleges cover three categories:

534.1. personnel;

534.2. operational costs; and

534.3. capital replacement

535. Personnel costs are allocated at 63% of the 80% grant of DHET, operational costs at 27%, and capital replacement at 10%. The concerns expressed to the Commission included complaints of shortfalls in payment, insufficiency of the 63% allocations, a departmental requirement that allocations not spent have the effect of reducing the 63%, and restrictions on the making of new appointments where additional staff have been employed.

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<sup>458</sup> First DHET presentation

536. Other college funding needs such as new infrastructure or expansion have to be funded either through conditional grants from National Treasury and/or other sources of funding.
537. Currently there is no additional infrastructure grant from National Treasury and the expansion of the new TVET campuses is being funded through the National Skills Fund.

### **26.3 MINISTERIAL COMMITTEE ON THE REVIEW OF THE FUNDING FRAMEWORKS OF TVET COLLEGES AND CET COLLEGES**

538. The Commission has been informed that a Ministerial Committee on the review of the funding frameworks of TVET Colleges and CET colleges has been appointed.
539. The Committee has been established and is yet to table its final report. The Committee has been briefed to look into the following factors: -
- 539.1. do the current funding frameworks work?
- 539.2. what is the most suitable and preferable funding framework(s)?
- 539.3. should the funding approach be more diversified?

- 539.4. do we need funding legislation amendments? Can we expand and yet not underfund?
- 539.5. efficiency and dealing with poor performance;
- 539.6. relevance of current adult learning centre funding;
- 539.7. determine the typical characteristics of the proposed Community Colleges: performance, accountability, growth potential, viable size, etc.,
- 539.8. types of vocational qualifications and costs;
- 539.9. where should new Community Colleges be established or merged?<sup>459</sup>

540. We understood from the evidence of Dr Charles Sheppard that the Ministerial Committee is planning to recommend free education for the TVET sector. This would accord with the advice of this Commission.

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<sup>459</sup> DHET Presentation, 24 October 2016

## 26.4 CHALLENGES IN THE TVET SECTOR

541. Evidence has been given at the Commission that while it is university students who have brought the issues to a head, supporting TVET colleges and TVET students is equally (if not more) important.
542. The system is currently skewed towards university education, and will not self-correct.
543. **A massive focus on TVET colleges is required to develop the system, change perceptions and culture and make TVET colleges attractive institutions of choice as envisaged in the White Paper on Post-School Education and Training.**
544. Enrolments in TVETs have increased from 345 000 students (headcount enrolment) in 2010 to 709 535 in 2015.
545. In terms of the fully costed funding norms, the number of headcount enrolments funded in the Ministerial approved programmes is approximately 429 638, as compared to the approximately 664 748 enrolments in the system indicating the level of underfunding/over enrolment.
546. Lack of funding has placed pressure on the personnel budgets of the colleges, drastically affecting the goods and services budgets of colleges,

intended to cater for the college operations, students' textbooks, protective clothing and other related teaching and learning material thereby undermining the quality of provision.

547. NSFAS bursaries (amounting to R2.3 billion in 2015) have been allocated to poor students to fund tuition fees (229 000 beneficiaries), as well as to provide accommodation and or travel allowances to needy students staying 10 km or more from a TVET college campus. While significant NSFAS funding is available, there simply is insufficient funding to support all poor students, leading to unrest in colleges.
548. Colleges are expected to recover fees from students that do not qualify for NSFAS bursaries; however due to the no fee increase decision for universities in 2016, colleges are finding it difficult to recoup these funds.
549. There is also pressure on the examination system which is underfunded.
550. It is resource intensive to provide good quality and highly responsive vocational education to young people. A poorly resourced TVET system often leads to disjuncture with the labour market.
551. A costing exercise has been performed to quantify the additional funds that are required to achieve the White Paper and NDP targets for Ministerial approved programmes. The costing exercise took into account the current funding (baseline) for the TVET college system for both the



80% programme funding by the state and the 20% funding to cover student fees. The costing has been developed to cover the following two scenarios: –

551.1. funding of the system linked to the NDP and White Paper Targets for 2030;

551.2. maintaining the 2015/16 reported enrolment of 709 535 over the MTEF period<sup>460</sup>

552. Further challenges relate to Qualifications and the following issues:

552.1. which qualifications to offer?

552.2. the responsiveness and relevance of the qualifications;

552.3. coherence;

552.4. articulation problems;

552.5. foundational learning;

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<sup>460</sup> DHET Presentation, 10 August, Slide 38 -41

552.6. higher level opportunities and the need for stability (enrolment and PQM planning) need to be addressed.

553. Further issues:

553.1. differentiation; who offers what and where (regional and national responsiveness);

553.2. curriculum relevance and design;

553.3. staffing, teaching and learning and professional development;

553.4. strengthening management and governance;

553.5. workplace linkages;

553.6. addressing student success and throughput;

553.7. articulation in relation to workplace and higher levels;

553.8. expanded provision and access;

553.9. re-designing certification and examination system which is currently expensive and unwieldy;

- 553.10. adequate financial support for delivery of qualifications and supporting level of improvement required.<sup>461</sup>
554. Expenditure increased from R1.22 billion in 2010/11 to R1.73 billion in 2014/15. Despite the 45.5% increase in overall funding, the simultaneous increase in enrolments means that revenue (from direct government transfers) per learner decreased from R6 714 in 2014/15 to R6 071 in 2015/16.
555. As discussed above, the funding formula is based on enrolments in each programme, regardless of certification or throughput rates. Once 'enrolment-based allocation' of funding was determined, TVET colleges only received a percentage of the allocation as based on previous provincial allocations and available funding.
556. There is serious underfunding of TVET colleges in some provinces and gross inequalities between provinces. Expenditure analysis of 14 TVET colleges revealed substantial differences between average spending per Full Time Equivalent (FTE) student in the analysed colleges; with average college spending ranging from approximately R20,063 to R39,925 per FTE for NC(V) and from R15,462 to R36,763 for NATED.<sup>462</sup>

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<sup>461</sup> DHET Presentation, 4 October, Pg. 9

<sup>462</sup> DHET Presentation 24 October 2016

557. Actual spending per FTE doesn't differ substantially between different types of courses within the same college. Colleges do not in practice spend substantially more on higher funded courses (more practical) than lower funded ones. In practice, this means that practical courses are not being taught in the appropriate way.
558. Approximately 6% of average college spending on NC(V) programmes is on direct programme costs; i.e. textbooks, programme consumables, toolkits, etc. Substantially less than what was assumed in the funding norms.
559. Given the low throughput rates, the cost per graduate is exceedingly large in many colleges as expenditure is apportioned to very few graduates. A positive relationship was observed between certification rates and each of: -
- 559.1. funding; and
  - 559.2. expenditure per FTE student; and
  - 559.3. staff development spending.

## 27 DECREASE IN SUBSIDIES AND INCREASE IN NSFAS ALLOCATION

560. A fundamental issue raised by various stakeholders before the Commission was the contention that the State subsidy to universities has been declining over the past few years. This relates specifically to the decline of government funding as a percentage of university income, which decreased to 38.4 per cent in 2014 from 49 per cent in 2000.<sup>463</sup>
561. Universities, among other witnesses, pointed specifically to the decline in the block grant allocation and attributed it to the financial and operational challenges faced by students and institutions respectively.
562. As regards the TVET colleges, the evidence clearly demonstrates the historical and continuing underfunding of that sector.
563. An analysis of the evidence as a whole supports the conclusion we reach herein, and that is that the evident trend of the declining subsidy in the form of the block grant cannot be divorced from the state's obligations and policy to provide progressive universal access, which is to a large extent expressed through the corresponding growth in the earmarked grant, and the NSFAS allocation in particular.

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<sup>463</sup> Department of Higher Education and Training submission dated June 2016, p16, Figure 2.

## 27.1 THE FACTUAL POSITION

### 27.1.1 THE DECLINING STATE SUBSIDY TO UNIVERSITIES

564. The starting point in interrogating the question of the asserted decline in the State subsidy to universities must therefore be assessed in its proper constitutional, policy and macro financial context.

565. The evidence shows that the State subsidy to universities has been growing nominally financial year – on – year.<sup>464</sup> It grew almost three-fold between 2004/2005 to 2016/2017.<sup>465</sup> The State subsidy allocated to universities has also been increasing in real terms.<sup>466</sup>

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<sup>464</sup> Increasing from R9 878 704 billion in 2004/2005 to R36 858 629 in 2016/2017. This excludes NSFAS funds recovered from previous beneficiaries for FY 2004/2005 – 2011/2013 (recovered amounts increased from 223 298 in 2004/2005 to R750 500 million in 2011/2012). See *also* Vital Stats 2013 and 2014, p91, Figure 147 which data collectively shows an increase from R15 119 788 000 in 2008/2009 to R28,069,986,000 in 2014/2015.

<sup>465</sup> Department of Higher Education and Training: University State Budgets, Public Report, March 2016, Section 2: Detailed State Budget According to Institutions from FY 2004/2005 – 2016/2017, Tables 2.1 – 2.13 respectively. See *also* USAf submission dated 30 June 2016, p4 which deals with the increase in the State subsidy between 2012/2013 and 2015/2016.

<sup>466</sup> Growing from R12,246,779,950 to R15,276,588,896 between 2008/2009 to 2014/2015. See *also* Vital Stats 2013 and 2014, p91, Figure 147; [Using 04/05 as the base year]; National Treasury, transcript of the hearing held on 7 October 2016, p23; Department of Higher Education and Training submission dated June 2016, p16, 2<sup>nd</sup> paragraph. See *also* National treasury presentation dated 3 March 2017, slide 18, which indicates that subsidies to universities grow at 10.9 per cent each year.

### 27.1.2 THE BLOCK GRANT

566. The evidence shows that the block grant,<sup>467</sup> utilising the national inflation rate of CPI, grew both in nominal and real terms between 2004/2005 – 2015/2016.<sup>468</sup>

567. During this period, the block grant increased significantly in nominal terms by 139.7 per cent.<sup>469</sup>

### 27.1.3 ERODING FACTORS

568. The crisp issue appears to be that in spite of the increasing state subsidy to universities, it has declined per Full Time Equivalent (FTE) student allocation.<sup>470</sup>

569. Four principal factors emerge from the evidence which contribute to the decline in the subsidy per FTE student allocation.

570. The first is inflation. The Department of Higher Education and Training shows that the nominal growth in the block grant of 139.7 per cent was

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<sup>467</sup> Historically, the block grant has been the largest component of the subsidy, making up 70% of the government allocation to university *vis a vis* 30% of the earmarked grant allocations.

<sup>468</sup> Department of Higher Education and Training submission dated June 2016, p17, Table 2, Column 3 & 7.

<sup>469</sup> Increasing from R8 568 million in 2004/05 to R20 538 million in 2015/16.

<sup>470</sup> Department of Higher Education and Training submission dated June 2016, p16, 2<sup>nd</sup> paragraph; National Treasury, transcript of the hearing held on 12 August 2016, p164 L4 – p165 L15 – 20.

eroded by inflation (at CPI) to 29.8 per cent in real terms between 2004/05 – 2015/16.<sup>471</sup>

571. The evidence provided by USAf indicates that although the State allocation to the Department of Higher Education and Training has been growing and on average above CPI,<sup>472</sup> it has been eroded by at least 3 factors, namely:<sup>473</sup>

571.1. the top slicing of the total allocation for various kinds of earmarked grants;<sup>474</sup>

571.2. the annual increase in the number of students in the system;<sup>475</sup>  
and

571.3. the higher education inflation rate (HEPI) is approximately 1.7% higher than CPI.<sup>476</sup>

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<sup>471</sup> Department of Higher Education and Training submission dated June 2016, p17, Table 2, Columns 3 & 7, and second bullet point.

<sup>472</sup> USAf uses the years 2012/2013 to 2015/2016.

<sup>473</sup> USAf submission dated 30 June 2016, p4.

<sup>474</sup> Which has grown at about 10% annually. The earmarked allocations includes the NSFAS allocation.

<sup>475</sup> See also Department of Higher Education and Training submission dated June 2016, p17 last bullet point; National Treasury, transcript of hearing held on 12 August 2016, p164 L10 – 11.

<sup>476</sup> See also Department of Higher Education and Training submission dated June 2016, p18, 1<sup>st</sup> paragraph.



#### 27.1.4 THE DISPARITY BETWEEN THE SUBSIDY (LESS NSFAS) AND STUDENT GROWTH

572. The State subsidy, and the block grant in particular, is, in part, linked to enrolments.<sup>477</sup>
573. Universities have been experiencing cumulative growth in the number of student enrolled year on year since the 2005 National Plan for Higher Education growth targets were fixed, and the recent planning phase for both the NDP and 2013 White Paper has set the bar even higher as part of the transformation agenda of the State<sup>478</sup>.
574. The subsidy has not kept up with the rising enrolments, which in fact has contributed to the decline in the subsidy per FTE student allocation.<sup>479</sup>
575. University student enrolments increased by 80 per cent between 2000 and 2013.<sup>480</sup>

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<sup>477</sup> The block grant is made up of 4 components: the teaching input (based on enrolment), the teaching output (based on graduations), the research output (based on approved publications and the research masters and doctoral graduations) and institutional factors (based on institutional size and proportion of historically disadvantaged students). See Vital Stats, Public Higher Education 2014, Definitions page ii, and Department of Higher Education and Training submission dated June 2016, p14 para 4.3.2.

<sup>478</sup> Save for academic year 2014 when the headcount enrolments fell from 983 698 in 2013 to 969 154 in 2014. See Vital Stats, Public Higher Education 2013 and 2014, p3, Figure1. See also Department of Higher Education and Training submission dated June 2016, p5, 2<sup>nd</sup> paragraph.

<sup>479</sup> Department of Higher Education and Training submission dated June 2016, p17, last bullet point; National Treasury, transcript of hearing held on 12 August 2016, p164 L4 – 22.

<sup>480</sup> National Treasury submission dated 30 June 2016, p3 para 5.

576. Currently, the 26 universities offer higher education to an estimated 970 000 students.<sup>481</sup>
577. The NDP envisages enrolment growth to 1.62 million by 2030.<sup>482</sup>
578. This is a 70 per cent increase from 2010 to 2030.<sup>483</sup>
579. The plain result of the disparity has been the increasing reliance by universities on student fees to make up for the difference in the lower state contribution,<sup>484</sup> which stood at 32.9 per cent in 2014,<sup>485</sup> against a state contribution of 38.4 per cent in the same year.<sup>486</sup>
580. The subsidy is incompatible with the Higher Education Price Inflation (HEPI).

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<sup>481</sup> Department of Higher Education and Training submission dated June 2016, p5, 4<sup>th</sup> paragraph; and presentation dated 10 August 2016, slides 7 and 8.

<sup>482</sup> NDP p319, third bullet point; Department of Higher Education and Training presentation dated 10 August 2016, slide 7.

<sup>483</sup> *Above*. It is estimated that approximately 3 million youth between the ages of 16 to 24 are not in education, employment or training, and would have to be accommodated in the PSET system. See Department of Higher Education and Training submission dated June 2016, p6 third paragraph.

<sup>484</sup> Department of Higher Education and Training submission dated June 2016, p16, second paragraph.

<sup>485</sup> From 24 per cent in 2000.

<sup>486</sup> From 49 per cent in 2000.

581. According to the Department of Higher Education and Training, the day-to-day operational costs of universities, which are by nature fixed,<sup>487</sup> are defrayed from the block grant.<sup>488</sup>
582. In addition to the increasing enrolments,<sup>489</sup> rising costs and expenditure by universities have contributed to the erosion of the subsidy.<sup>490</sup>
583. The majority of subsidy (60%) is directed to staff remuneration.<sup>491</sup>
584. The evidence presented before the Commission shows that the subsidy has at best been growing at CPI, and thus far below the inflation rate generated by institutions, which is on average 2 per cent higher than the national inflation rate.<sup>492</sup>

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<sup>487</sup> These costs primarily include staff salaries; utilities; municipal rates and taxes and electricity. See Department of Higher Education and Training presentation dated 10 August 2016, slide 24, 2<sup>nd</sup> bullet point, and 27 bullet points 1 & 2.

<sup>488</sup> Department of Higher Education and Training: University State Budgets, Public Report, March 2016, Section 2.2, General Notes.

<sup>489</sup> Department of Higher Education and Training presentation dated 10 August 2016, slide 25, 1<sup>st</sup> bullet point.

<sup>490</sup> See Department of Higher Education and Training presentation dated 10 August 2016, slide 27.

<sup>491</sup> In 2014, personnel costs made up 53 per cent of expenditure. This amount stood at 60 per cent in 2016. See Department of Higher Education and Training presentation dated 10 August 2016, slide 7.

<sup>492</sup> Department of Higher Education and Training submission dated June 2016, p18.

585. This is corroborated by USAf, which submitted that for the period 2010/11 – 2012/13, the higher education price index (HEPI) was 1.7% above CPI.<sup>493</sup>
586. Professor Rolf Stumpf gave expert evidence on public funding of Higher Education and Training. That evidence showed a cost differential of approximately 1.4 per cent between CPI and HEPI in 2014.<sup>494</sup> This means that, during that period, universities experienced a shortfall of 1.4 per cent and could not break even.
587. The effect of the HEPI on the block grant allocation is an increase in real terms of 5.6 per cent and a negative per capita growth in real terms of – 21.4 per cent, from 139.7 per cent nominal growth experienced between 2004/05 – 2015/16.<sup>495</sup>

#### **27.1.5 THE EFFECT OF THE DECLINING SUBSIDY**

588. Having regard to the above, it is plain that the subsidy to universities has not kept pace with inflation, be it CPI or HEPI. It has also been outpaced by the increasing student enrolment numbers<sup>496</sup> The apparent consequence is a decline in the government contribution (to the block

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<sup>493</sup> USAf submission dated 30 June 2016, p3, second paragraph and p4 para (e).

<sup>494</sup> Prof. Rolf Stumpf presentation dated, slide headed “Higher Education Price Inflation (3); transcript of the hearing held on 18 October 2016, p94, third paragraph.

<sup>495</sup> Department of Higher Education and Training submission dated June 2016, p18, Table 3; presentation dated 10 August 2016, slide 24.

<sup>496</sup> Department of Higher Education and Training submission dated June 2016, p17, Table 2, and p18 Table 3.

grant and earmarked allocations, less NSFAS) as a proportion of total university income.

589. The response of universities in these circumstances has been to increase student fees.

#### **27.1.6 ARE SUBSIDIES REGRESSIVE?**

590. Arguments have been put up in justification of the declining subsidy, namely that subsidies are regressive in as far as they accrue also to higher income groups alongside students from lower income households.<sup>497</sup> To ensure that funding is directed where it is needed, there has been an intentional and focused shift of funding allocations from the block to the earmarked grant, and NSFAS in particular.

591. This is particularly having regard to the indiscriminate nature of the block grant which, unlike earmarked grants, is applied to all university students irrespective of their ability to pay tuition.

592. TIPS warned of the unintended consequences that may result from the decline of the direct subsidies to universities and the increase in NSFAS

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<sup>497</sup> CHET presentation dated 11 August 2016, slide 17.

allocations, which is that it may incentivise universities to increase fees because NSFAS will cover it.<sup>498</sup>

## **28 RATIONALE FOR THE INCREASE IN THE NSFAS ALLOCATION**

593. The decline in the block grant must be viewed in the light of the policy decision to reduce the block grant in favour of redirecting those funds to the NSFAS allocation.<sup>499</sup>

594. National Treasury characterises the change from a general subsidy to a targeted subsidy to benefit for the poor.<sup>500</sup>

595. The underlying basis of this shift in funds from the block to the earmarked grant is the government's interpretations of its obligation to realise the right expressed under section 29 (1) (b) of the Constitution to make to further education, progressively available and accessible through reasonable measures.

596. The Minister of Higher Education and Training articulated the current position as government having an obligation to make higher education and training fee-free to the poor.<sup>501</sup> The NSFAS scheme is considered by

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<sup>498</sup> TIPS presentation dated March 2017, slide 21, transcript p27 L3 – 12.

<sup>499</sup> National Treasury, transcript of the hearing held on 7 October 2016, p8; TIPS presentation dated March 2016, slide 17.

<sup>500</sup> National Treasury, transcript of the hearing held on 7 October 2016, p22.

<sup>501</sup> Defined as students coming from households earning no more than R120 000.

government to be the primary vehicle through which that obligation would be met.<sup>502</sup>

597. The National Treasury explained that the policy decision informs current budget allocations.

598. It explained that the rationale for the policy decision is that university subsidies are regressive to the extent that they also benefit the top percentile of the affluent parts of society,<sup>503</sup> whereas NSFAS allocations are targeted at the poorest sections in society.<sup>504</sup>

599. In addressing the effects of this policy decision on the block grant, the National Treasury submitted that the increased reliance by universities on student fees does not translate to the full burden being passed on to households.<sup>505</sup>

600. That is because there has been a significant growth over the years in government's contribution to student fees through NSFAS.<sup>506</sup>

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<sup>502</sup> DHET; Minister, See also National Treasury, transcript of the hearing held on 7 October 2016, p8.

<sup>503</sup> National Treasury, transcript of the hearing held on 3 March 2017, p68 L21 – 22.

<sup>504</sup> National Treasury, transcript of the hearing held on 7 October 2016, p54 L25 – p56 L4.

<sup>505</sup> National Treasury submission dated June 2016, p4 para 6.

<sup>506</sup> National Treasury presentation dated 7 October 2016, slides 10 and 13; National Treasury, transcript of the hearing held on 7 October 2016, p8; TIPS presentation dated March 2017, slide 21.

601. NSFAS awards now accounts for 40 per cent of student fees.<sup>507</sup> At the same time, NSFAS has enabled a growing number of TVET students to gain access to fee-free education (the sector with the largest enrolments).
602. The evidence presented by CHET shows that while the student fee contribution increased from 24% in 2000 to 33% in 2013, the proportion of students on NSFAS increased from 2% to 13% over the same period.<sup>508</sup>
603. In addition, NSFAS allocations to university students have been increasing per fulltime student since 2010<sup>509</sup>. However, it should be noted that this increase does not offset the underfunding of the higher education sector for a decade or so.
604. There has also been a notable shift in the ratio of allocations within NSFAS itself, which sees allocations being converted from loans (universities) to bursaries. This aligns with the government's understanding of its obligations, and has made NSFAS increasingly unsustainable and unable to recover loans.
605. National Treasury estimates that about 50% of the NSFAS allocation is utilised to award bursaries (including the conversion element for

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<sup>507</sup> National Treasury submission dated June 2016, p4 para 8.

<sup>508</sup> CHET presentation (undated) titled 'Fees and Sustainable Development', slide 28, para 3.

See also National Treasury transcript 2 October 2016, p.22

<sup>509</sup> Ibid. p.23



university students and Fundza Lushaka and other bursaries managed by NSFAS for third parties) rather than loans.<sup>510</sup> NSFAS allocations to TVETS increased seven-fold in five years for this purpose.<sup>511</sup>

606. NSFAS allocations are projected to increase at 16.1 per cent over the medium term,<sup>512</sup> as transfers rise from R11.4 billion in 2016/2017 to R13.9 billion in 2019/2020.<sup>513</sup> Subsidies on the other hand will increase a lower annual rate of 10.9 per cent.<sup>514</sup>

607. In the view of the commission any perception that there has not been a period of sustained underfunding of universities and TVET colleges is incorrect; nor has funding remained stable or increased with a more progressive allocation.

608. First, this assumes that the amount allocated in 2010 (40 000 per FTE according to Treasury's graph on slide 14) was sufficient. There have been claims that even this was insufficient, and that underfunding starts earlier. However, for the purpose of this argument, we will compare the 2010 allocation for ease of reference.

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<sup>510</sup> National Treasury, transcript of the hearing held on 7 October 2016, p8.

<sup>511</sup> Between 2010/2011 and 2014/2015 from R300 million to R2 billion. See National Treasury submission dated June 2016, p4 para 10; transcript of the hearing held on 7 October 2016, p8.

<sup>512</sup> Having said that, however, NSFAS receives additional allocations of R7.7 billion over the MTEF period to assist unfunded NSFAS university students from the 2016 academic year to continue with their studies. See National Treasury presentation dated 3 March 2017, slide 20.

<sup>513</sup> National Treasury presentation dated 3 March 2017, slide 20.

<sup>514</sup> National Treasury presentation dated 3 March 2017, slide 18.

609. Secondly, the argument of a stable FTE allocation when NSFAS is added, only applies after 2010/11. The period before this is a period of sustained underfunding (see Treasury slide 14). It is clear that from 2010 the subsidy per FTE, even including the NSFAS allocation, is below 40 000. The effect of 10-years of underfunding cannot be wiped-out with a few years of funding at the same (in real terms) funding per FTE as in 2010.
610. Thirdly, the entire FTE calculation in real terms does not take into account the HEPI. It is clear that spending in HE is different from household spending, and the same inflation cannot be assumed.
611. The calculation also ignores Rand depreciation, and added e-resource taxes, which have had an extremely detrimental impact on the HE sector.
612. In addition, the entire comparison of total state allocation per FTE, fails to consider the internal allocation of subsidy between institutions.
613. The subsidy amount has declined, even when CPI is used (when NSFAS is excluded).
614. By using FTE, the perception assumes that all else (except enrolment numbers) has remained equal. This is not the case.

615. First, the effect of the increase in Earmarked funds as a proportion of total subsidy. Earmarking funds is to help ensure that the system grows in line with priorities. In effect, it increases allocations to HDIs in line with the developmental need at these institutions. This has a negative effect on HAs, as there is no new money for these allocations.
616. Second, in a previous section we spoke about how the infrastructure grant has stepped in to assist with building developments, student accommodation etc. However, this is an earmarked allocation coming from the overall subsidy amount. Therefore, all these calculations include the amount allocated (with a focus on HDIs) to allow for infrastructure development. This is a massive shift in funds from block allocation to earmarked allocation, and affects all institutions in terms of the money they can use for day-to-day activities. Even though HDIs have benefited from the grant, they have still been negatively affected in terms of block allocations, which they could allocate as per their own requirements.
617. Finally, this does not take into account the development of new universities. This is considered 'new money', but in the Treasury allocation this is added to the total government allocation. In 2010, DHET appointed a Task Team to consider the new universities. (See the website <http://www.newuniversities.ac.za/about-us.html> for allocations for these universities.) This amount should be removed when discussing allocations comparing 2000 to the present.

## 29 STUDENT SUCCESS

### 29.1 INTRODUCTION

618. The question of student success looms large in the whole debate about funding for HE institutions and their students, and likewise in relation to the feasibility of providing fee-free higher education. The NDP notes that massive investments in the higher education system have not produced better outcomes in the level of academic performance or graduation rates. It states that: *“While enrolment and attainment gaps have narrowed across different race groups, the quality of education for the vast majority has remained poor at all levels. The higher education sector therefore tends to be a low participation, high attrition system”*<sup>515</sup>.

### 29.2 THE NDP

619. The NDP recognises that even if there were greater investment of funds into higher education, this does not necessarily have any meaningful impact because of high dropout rates and low throughput rates. It notes that 80% (approximately 20 000) of our schools are underperforming.<sup>516</sup> This needs to be addressed urgently.

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<sup>515</sup> p273

<sup>516</sup> p282

620. Regarding the FET sector, the NDP notes that ‘The college sector needs to be expanded, but this must be preceded by clarity about its vision and role. The priority is to strengthen colleges, address quality teaching and learning, and improve performance’. It also recognised that the ‘*FET system is not effective.*’ The NDP emphasised that this system is ‘*too small and output quality is poor*’. It states that “*continuous quality improvement is needed as the system expands*”. According to the NDP the quality and relevance of courses offered in the FET system need urgent attention. It notes that ‘*simply growing the sector without focussing on quality is likely to be expensive and demoralising for young people*’.<sup>517</sup>

### **29.3 THE 2012 GREEN PAPER**

621. The 2012 Green Paper on Post School Education and Training also noted the risks associated with expanding the PSET system without addressing low throughput and high drop-out rates. It notes the need to ensure quality in all education and training.<sup>518</sup>

### **29.4 THE MEDIUM TERM STRATEGIC FRAMEWORK (MTSF)**

622. The government’s Medium Term Strategic Framework, 2014 – 2019 states that the poor quality of education available to many black students has limited their opportunities to obtain employment and thus impeded

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<sup>517</sup> p50

<sup>518</sup> p5

progress in creating sufficient skills and transforming the economy. The MTSF states further that:

*“There are problems with the quality and reputation of many post-school institutions. If these problems are not addressed, options for improving human capital will remain limited and this will adversely affect the competitiveness of the county’s economy, while increasing the premium for skilled labour. One of the goals is therefore to improve the quality of TVET colleges by ensuring that the number of qualified lecturers is increased and administration is improved. To support the quality of lecturing, 10 universities will offer TVET lecturing qualifications by 2017 (currently only one offers such qualifications), and 30% of TVET college lecturers should have work-place exposure every year by 2019. For the university sector, the focus is on increasing the number of lecturers with PhDs while reducing the student dropout rate. An additional area of focus is on producing the next generation of lecturers by increasing the pool of post-graduate students and by increasing research output. The number of entry level academic staff receiving teaching and research development opportunities from the Teaching and Research Development Grant will increase from 50 academics in 2012 to 400 academics by 2019. To transform the historical and social composition of the academic work force, by 2019, the number of new black entrants will have to increase by at least 100 per annum by 2019, The number of postgraduate students awarded bursaries and fellowships by the National Research Foundation will increase to 27 411 cumulatively over the five-year period for masters’ students (3 704 in 2012), and 15 209 cumulatively over the five-year period for doctoral students (2 265 in 2012). Work placements will be increased by encouraging closer relations between industry and institutions of learning.”<sup>519</sup>*

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<sup>519</sup> p23

### **30 THE WORKING GROUP ON THE FEASIBILITY OF PROVIDING FEE FREE HIGHER EDUCATION TO THE POOR**

623. The Report of the Working Group on the Feasibility of Providing Fee Free Higher Education to the Poor noted that the academic factors limiting poor student success at university include:

623.1. substandard basic education;

623.2. inadequate academic support at university;

623.3. receiving tuition in a second or third language; and

623.4. being first generation students.<sup>520</sup>

#### **30.1 THE 2013 WHITE PAPER**

624. The 2013 White Paper deals with the high levels of student dropout. The main causes listed in the White Paper for the lack of student success include:

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<sup>520</sup> Report of the working group on the feasibility of providing fee free higher education to the poor; page viii

- 624.1. the weakness of much of the schooling system, especially those schools catering to poor and rural communities;
  - 624.2. high student-to-staff ratios at undergraduate level and especially for first-year students;
  - 624.3. inadequate systems for recognising students who need support;
  - 624.4. insufficient student support for academic and social adjustment to university life;
  - 624.5. weak support for professional development and recognition of academic staff in the area of undergraduate teaching.
625. There has been overwhelming evidence before this Commission of the need to focus on student and academic support with a view to improving student success ratios.

## **30.2 STUDENT SUPPORT**

626. Professor Ian Scott testified before the Commission on a proposed 'Flexible Curriculum' structure for undergraduate education in South Africa. He submitted that a flexible curriculum would go a long way towards addressing high drop-out rates and low throughput rates.



According to Professor Scott, the minimum requirements for an effective alternative curriculum framework are:

626.1. to allow additional time for the developmental provision that many students need in order to overcome the systemic obstacles they encounter as a result of educational inequalities; and

626.2. to establish entry levels that allow for curriculum assumptions that accord with the realities of these students' backgrounds.

### **30.3 THE UNIVERSITY CAPACITY DEVELOPMENT PROGRAMME (UCDP)**

627. DHET provided evidence before the Commission on the steps it has taken to address the question of student success.

628. Dr Green testified that:

628.1. DHET has over the last few years increased its focus on student success in the system;

628.2. One of the structural things that has been done is the establishment of a directorate within the Department called Teaching and Learning Development within the Universities

Branch. This directorate has a specific focus on students and staff success.

629. The DHET also referred to the Ministerial Statement on the Implementation of the University Capacity Development Programme through Effective Management and Utilisation of the University Capacity Development Grant 2018 – 2020 (UCDP). This states that, overall, the first-year drop-out rate in undergraduate programmes is decreasing, and the ability of students to graduate in regulation time or close thereto is increasing. However, drop-out rates and throughput rates still need much improvement and still reflect apartheid era patterns with respect to race.<sup>521</sup>

630. The UCDP is an integrated and holistic approach to staff development, programme development and curriculum development in the university sector. It will partly be supported by the University Capacity Development Grant (a new earmarked grant which brings together the teaching development grant and the research development grant) forms part of the funding mechanism that the state uses to allocate funding to public universities) as well as other DHET and institutional resources.

631. The UCDP will be introduced in 2018-2020 and will be aligned with the academic year. It will require universities to develop a three-year

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<sup>521</sup> p2

University Capacity Development Plan addressing the issues identified in the UCDP Ministerial Statement.

632. There are questions raised as to whether or not the UCDP goes far enough to adequately address the problem of lack of student success. Prof Scott is of the view that the UCDP does not set out structural curriculum reform that goes beyond the existing interventions. In his view reform along the lines of the Flexible Curriculum proposal put forward by him is a valid, viable and necessary approach.<sup>522</sup>

633. Although the differences between the DHET and Prof Scott cannot be reconciled in this Commission, it is clear to your Commissioners that Prof Scott's proposals warrant more thorough consideration than they appear to have received from the Department. It seems to us (to quote Prof Scot) that 'the balance has not yet been achieved in the DHET's suite of interventions, with additional development in the area of structural curriculum reform being necessary to meet the need of students who are adversely affected by systemic obstacles'.

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<sup>522</sup> Referred to in Prof Scott's response to the testimony of DHET.

## 30.4 OTHER INTERVENTIONS

634. According to Prof Vally et al<sup>523</sup>, poor student success can be addressed by introducing the following measures:

634.1. Increasing the quantity and quality of contact time between lecturers and students. Lecturer-student ratios need to be adjusted so as to make it possible for lecturers to provide the necessary support, especially to underprepared students and specifically in first-year classes.

634.2. There have to be increased numbers of sufficiently qualified and appropriately remunerated staff (both academic and administrative). Renewed efforts must be made to provide, and properly fund academic and language support.

634.3. Official university output targets and indicators need to be cautiously managed, to ensure that too narrow a focus on outcomes does not negatively affect teaching quality.

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<sup>523</sup> Submission to the Commission by Salim Vally, Mondli Hlatshwayo (University of Johannesburg), Rasigan Maharajh (Tshwane University of Technology), Zolisa Marawu (Nelson Mandela Metropolitan University), Enver Motala (University of Fort Hare), Leigh-Ann Naidoo (University of the Witwatersrand) and Salim Vally (University of Johannesburg). 26 May 2016.

## 31 ALTERNATIVES TO ADDRESS ACCESSIBILITY

### 31.1 INTRODUCTION

635. The Green Paper for Post-School Education and Training (DHET 2012) sets targets for the expansion of the university sector to reach 1.5 million students by 2030.

636. In order to meet this challenge, the Report of Ministerial Committee for the review of the Funding of Universities states that South Africa will need to move away from reliance on traditional models of provision with heavy requirements of 'bricks and mortar' to a learning system based on open learning principles, where quality educational environments are designed to achieve the educational purpose using the most appropriate and cost-effective technologies available.<sup>524</sup>

637. This Chapter gives a broad overview of the options available within the context of open learning in order to address accessibility to Higher Education and Training.

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<sup>524</sup> Report of Ministerial Committee for the review of the Funding of Universities, Pg. 228

## 31.2 DEFINITION OF OPEN LEARNING

638. The Education White Paper 1 (DoE 1995) defines open learning as an approach that combines the following principles.<sup>525</sup>

638.1. learner centredness;

638.2. lifelong learning;

638.3. flexibility of learning provision;

638.4. the removal of barriers to accessing learning;

638.5. the recognition for credit purposes of prior learning experience;

638.6. the provision of learner support;

638.7. the construction of learning programmes in the expectation that learners can succeed, and

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<sup>525</sup> DoE (1995), White Paper on Education & Training: Education and training in a democratic South Africa. First steps to develop a new system.

- 638.8. the maintenance of rigorous quality assurance over the design of learning materials and support.
639. DHET has approached open learning firstly by trying to counter a tendency internationally and in South Africa, to conflate or equate open learning with distance education, e-learning, online learning or blended learning and other terminology.
640. While these learning modalities (distance education, resource-based learning, e-learning, online learning and blended learning) are important *vehicles* for open learning, none of them should be *equated* with open learning. Open learning has no conceptual value as a synonym for any of them.<sup>526</sup>
641. DHET defines open learning as a general approach to education and training based on a set of open learning principles. When the term ‘open learning’ is used, it refers to any education and training (mode) which follows open learning principles, and is not specific to any particular mode of delivery.<sup>527</sup>
642. DHET goes on to state that open learning should not be considered as an add-on to existing education and training offerings, or seen as a

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<sup>526</sup> Open Learning Policy Framework for Post-School Education and Training, 8 March 2017, Pg. 6

<sup>527</sup> Open Learning Policy Framework for Post-School Education and Training, 8 March 2017, Pg. 7

second-best option, but should be recognised as a principled approach to learning which has the capacity to transform teaching, learning and access to education and training in quite radical ways, whatever mode is used.<sup>528</sup>

643. Crucially, in developing countries like South Africa, open learning can contribute substantially to cost-efficient provision to the benefit of both the education fiscus and learners.

### **31.3 INTERNATIONAL TRENDS<sup>529</sup>**

644. In its study of open learning, DHET has recognised certain international trends. A proviso is given that these trends should be read against the complex background of the poverty and exclusion from resources and facilities experienced by many in the townships, informal settlements and rural villages of South Africa, as well as the relative privilege, cultural capital and access to facilities experienced by the middle class.

645. The trends should furthermore be read in the context of fundamental rights and transformational issues of access, non-discrimination, redress of inequalities, equality and equity.

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<sup>528</sup> Open Learning Policy Framework for Post-School Education and Training, 8 March 2017, Pg. 7

<sup>529</sup> Open Learning Policy Framework for Post-School Education and Training, 8 March 2017, Pg. 8 - 12



646. The trends are as follows :

### **31.3.1 EXPANDED ACCESS THROUGH OPEN LEARNING**

647. Throughout the developing world populations are increasing, and globally (including in more developed countries) rising unemployment and changes in employment patterns and the organisation of work, as well as an increasing trend towards lifelong learning, are driving up the demand for affordable post-school education and training.

648. Knowledge- and service-based economies, today highly dependent on ICTs and automation, and accompanied by high rates of de-skilling and re-skilling, are increasingly dominant in both developed and developing countries.

649. All of these factors tend to increase the social demand for qualification upgrades, re-skilling and other forms of lifelong re-education and training, over and above the demand pressures resulting from population growth and an inability on the part of many young school-leavers to find employment.

### **31.3.2 DEVELOPMENTS IN INFORMATION AND COMMUNICATION TECHNOLOGIES**

650. The rapid pace of development in ICT opens up new ways to make learning more flexible, accessible and in many cases, more effective and more satisfying.

### **31.3.3 LEARNING CONTENT MANAGEMENT SYSTEMS**

651. Educational and training institutions, and many national governments, have established learning management systems (LMSs) to manage the large volumes of student data resulting from massive enrolments, and to track learners' progress, allow student-to-lecturer and student-to-student communication

### **31.3.4 USE OF OPEN EDUCATIONAL RESOURCES**

652. Open education licensing policies and Open Education Resources repositories in both school and post-school education and training, often driven by public policy and facilitated by the extensive use of ICT in materials development and becoming more popular.

### **31.3.5 BLENDED LEARNING<sup>530</sup>**

653. Blended learning is becoming increasingly common in contact and distance modes, drawing on best practices in both online and face-to-face methods. Online education and ICTs are used together with contact education in order to enhance learning and incorporate different learning styles. The extent of online or contact education can differ considerably from course to course, and so also its effectiveness as a teaching method depends on factors relating to both students and course design.

### **31.3.6 MASSIVE OPEN ONLINE COURSES**

654. Massive Open Online Courses (MOOCs) provide access to a vast array of free courses available on the internet, in many cases by reputable international institutions. It is, however, necessary to point out the very high dropout rates in such courses despite the participants being mainly well-educated and employed individuals.

### **31.3.7 NEW TYPES OF OPEN INSTITUTIONS**

655. To overcome financial barriers to access, new types of open institutions are emerging which make extensive use of digital technologies.

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<sup>530</sup> The integration of online with traditional face to face class activities in a planned, pedagogically valuable manner.

### **31.3.8 CROSS-INSTITUTIONAL COLLABORATION**

656. Networks of institutions are formed, sharing courses and freely offering them online for learners worldwide.

### **31.3.9 EMPHASIS ON ACTIVE LEARNING APPROACHES**

657. There is a growing emphasis in higher education on deeper learning approaches, engaging students in critical thinking, problem-solving, collaboration, and self-directed learning.

658. The advent of open learning with its emphasis on extending access, and new learning opportunities such as MOOCs, are generating renewed interest in recognition of prior learning and credit accumulation and transfer as a means of achieving admission to, or advanced standing in, academic programmes through the assessment of prior learning, or learning by means other than conventional courses.

### **31.3.10 DIGITAL BADGES**

659. These are a form of online recognition of a skill achieved, or a project, course or programme element successfully completed, even if a full qualification is never pursued.

### **31.3.11 POPULARITY OF NON-FORMAL AND INFORMAL LEARNING**

660. Non-formal learning refers to a type of learning offered by institutions that does not have a formal credential or certification as an outcome. Learning Content Management System (LCMSs) are increasingly being used to produce 'curated content' for informal learning – information that is sorted, verified and presented as learning that is accessible, meaningful, engaging and relevant to learners' needs.

### **31.3.12 MOBILE TECHNOLOGIES**

661. The most significant technological advance is the widespread use of smartphones and other mobile devices that place enormous computing power in the user's hands

## **31.4 LEGISLATIVE FRAMEWORK**

662. This section gives a brief synopsis of the current legislative and policy environment in place to regulate and direct open learning in South Africa.

663. The *White Paper on Education and Training* (1995), which laid the foundation for the new Education and Training System in South Africa, affirmed the Government's commitment to opening up learning and

removing barriers to education for those who had been disadvantaged by South Africa's past.<sup>531</sup>

664. The *White Paper for Post-School Education and Training* (2014) supports the development of a PSET system based on open learning principles, where quality learning environments are constructed which take account of student context and use the most appropriate and cost-effective methods and technologies.<sup>532</sup>

665. Section 38.1 of the Higher Education Act (Act No 101 of 1997) supports collaboration and partnerships in higher education between public universities. In alignment with the Act, the *Policy for the Provision of Distance Education in South African Universities in South African Universities in the Context of an Integrated Post-School System* signals the intent of the DHET to draft a policy on partnerships and collaboration that will likely also formalise opportunities for institutions to collaborate on the offering of programmes, that in itself will open up learning.<sup>533</sup>

666. As in the *White Paper for Post-School Education and Training* (2014), the *Policy for the Provision of Distance Education in South African Universities in the Context of an Integrated Post-School System* (2014)

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<sup>531</sup> Open Learning Policy Framework for Post-School Education and Training, 8 March 2017, Pg. 12

<sup>532</sup> Open Learning Policy Framework for Post-School Education and Training, 8 March 2017, Pg. 12

<sup>533</sup> Open Learning Policy Framework for Post-School Education and Training, 8 March 2017, Pg. 13

recognises the impact of ICT on the provision of education in the higher education sector, and supports the creation of an enabling environment for appropriate integration of ICT, and the expansion of distance education provision in an orderly manner in which access and quality issues are at the forefront.

667. In the wider national policy context, the Council on Higher Education (CHE) published in 2014 the *Distance Higher Education Programmes in a Digital Era: Programme Accreditation Criteria and Good Practice Guide*, which makes a significant contribution to our understanding of the implications of using ICT in support of both distance and classroom-based education, and provides clear and detailed guidance in the carefully thought-out choices that course and materials designers must make when employing ICT in support of learning.
668. In relation to TVETs, the Continuing Education and Training Act (Act No 16 of 2006) commits to ‘ensure access to basic adult education, further education and training and the workplace through continuing education and training by persons who have been marginalised in the past such as women, the disabled, and the disadvantaged’.
669. The CET Act further commits to ‘provide optimal opportunities for learning, the creation of knowledge and the development of intermediate to high-level skills, in keeping with international standards of academic and technical quality.

670. The act furthermore emphasises the provision of opportunities for life-long learning.
671. *White Paper 4: A Programme for the Transformation of Further Education and Training* (1998) commits to the development and expansion of high-quality, flexible, innovative Further Education and Training (FET) (now TVET) institutions, based on the principles of open learning and responsiveness to the needs and demands of all learners of 15 or over.
672. The Skills Development Act (Act No 97 of 1998) requires that learners have access to high quality and appropriate education and training, and to skills development opportunities accessible in a work-integrated approach. It emphasises the relevance of education in the workplace and learning 'on the job'.
673. Open learning approaches, and specifically technology-enhanced learning, open a world of simulations and real-world applications to support and reinforce theoretical training.
674. The Act also provides clear directives to the Sector Education and Training Authorities (SETAs) regarding their function of providing education and training opportunities.



675. With the promulgation of the National Qualifications Framework Act (Act No 67 of 2008), three Quality Councils (QCs) were established to ensure the accreditation of qualifications within their respective sub-frameworks.
676. Any qualification, regardless of mode of provision, has to be registered on the NQF through the standard established processes. The QCs are also responsible for the quality assurance processes relevant to their respective sub- frameworks and the institutions which deliver their qualifications.
677. One of the obligations of the DHET is to increase access to educational opportunities for those who experience barriers to learning and for young people who are not in education, training or employment (NEET). Such barriers include:
- 677.1. geographic isolation from campuses or learning centres within reasonable proximity;
  - 677.2. lack of reliable access to digital infrastructure, adequate bandwidth, the internet and ICT;
  - 677.3. inability to take time off from work or family obligations for structured learning;

- 677.4. discrimination on the basis of physical disability, gender, age, social class or race;
- 677.5. a lack of qualifications considered necessary as requirements for admission to particular programmes;
- 677.6. financial constraints and an inability to meet the cost of studies; and
- 677.7. past experience of content-based, transmission-type pedagogy and assessment that restrict accessibility, alienate the learner or contribute to a loss of confidence.<sup>534</sup>
678. In line with the policy directives presented in the *White Paper for Post-School Education and Training*, DHET is developing a policy framework which sets out its strategic intent in steering the PSET system towards increasing access and improving quality cost-effectively through open learning.
679. The scope of the policy is national and it is aimed at the entire PSET system, including universities, technical and vocational education and

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<sup>534</sup> Open Learning Policy Framework for Post-School Education and Training, 8 March 2017

training (TVET) colleges and community education and training (CET) colleges, as well as skills providers.

680. Before drafting the policy framework, DHET initiated a consultative process to elaborate on the understanding of open learning and related terms. Participants included, among others, representatives of non-governmental organisations, academic institutions, the Department of Basic Education (DBE) and DHET, and Sector Education and Training Authorities (SETAs).
681. A University sector seminar and two TVET college seminars were convened to discuss key challenges in these sectors, and to identify critical success factors and elements to be included in open learning in South Africa.<sup>535</sup>

### **31.5 IMPLEMENTATION**

682. The DHET, in collaboration with other entities and organisations such as SAQA, QCs and SAIVCET, will provide guidelines for, and engage with institutions on, the development of particular programmes in appropriate modalities reflecting open learning, as well as enrolment planning

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<sup>535</sup> Open Learning Policy Framework for Post-School Education and Training, 8 March 2017

processes that address national and student needs on the one hand, and institutions' capacity to deliver on the other.

683. The guidelines, together with historical data on student success and throughput rates, will influence decisions about the desirability and hence recognition of programmes of particular types, designations and modes of provision.
684. Public institutions' PQMs. and enrolment plans must be approved by the DHET prior to applications for programme accreditation through the relevant quality assurer.
685. Institutions may enter into partnerships to facilitate the provision of support for open learning. The obligations of such partners must be clearly spelled out.
686. DHET will draft guidelines on partnerships and collaborations in open learning. It is imperative that institutions meet all the quality assurance requirements of the relevant QC, and thereby take full responsibility for the quality of the learning programmes in question.
687. Provision of open learning will also necessitate appropriate staffing arrangements and the professional development of managerial and administrative as well as academic staff.

## 32 FUNDING OF OPEN LEARNING

688. The implementation of the proposed policy framework will be part of the core activities of the DHET and institutions, and therefore be incorporated in the funding allocation for institutions.
689. The DHET will determine funding norms and provide guidelines for funding open learning and will ensure that the funding of open learning, and of education provision in specific, is based on empirical evidence of the relative costs of different modes of provision.
690. Open learning initiatives driven by the DHET such as the NOLS will be funded initially through the European Union Sectoral Support Programmes Budget. Funding has been secured for the implementation of the initial and second phases of the Open Learning initiative, up to 2025.
691. Measures will be taken early in implementation of the policy framework to ensure that open learning policies and practices gain a firm foothold in a number of TVET and CET colleges and universities, that initially limited open learning programmes and other initiatives are well-managed and sustained, and that the momentum toward further development and innovation is maintained.
692. Some of the DHET's strategic funding priorities will be to:

- 692.1. modify the relevant budgetary frameworks and funding norms to recognise the importance and status of open learning, including the development of quality OER;
- 692.2. raise awareness of key open learning and OER issues;
- 692.3. review the funding formula which assumes a neat and obvious division between contact and distance education;
- 692.4. fund continued technical infrastructure development in order to allow for increased and enhanced access to programmes;
- 692.5. support the sustainable development and sharing of quality learning materials as OER; and
- 692.6. review National Student Financial Aid Scheme (NSFAS) funding in order to facilitate the appropriate support of learners availing themselves of open and distance learning opportunities.

**693. DHET accepts that although open learning and distance education may be accompanied in the long term by financial advantages accruing from expanded enrolments and relatively low expenditure on new physical infrastructure, the initial costs of establishing the**

necessary ICT networks, software and other infrastructure, in addition to the heavy cost of course and materials development for quality self-directed learning, tend to outweigh any shorter-term cost benefits. Integrated budget planning and carefully monitored and reviewed expenditure will therefore be needed.

### 32.1 SUBMISSIONS TO THE COMMISSION

694. The Commission received several submissions relating in some form or the other to open learning and online education.

695. Mr. Ntokozo Mahlangu in his submission to the Commission submitted that:

695.1. technology is a well-known catalyst for growth and efficiency;

695.2. Khan Academy, and other learning institutions show the possibility of a future where education can be given without the need to lay a single brick;

695.3. government should allocate a budget to increase peoples access to the Internet;

695.4. free access should be allowed to online universities where courses are developed to cater to South Africans;

695.5. technology can be used to implement standardised tests in basic education. With this approach, Government will have enough data to determine whether schools require intervention at an early stage. This will ensure that more children are ready and equipped for higher education.

696. Mr. Ian McDonald made a proposal to the Commission relating to what he refers to as Dream Catcher (DC). The crux of the proposal is that :

696.1. Higher Education must evolve, integrate and supplement its product offering with completely free, accredited, '*mother-tongue*' supported *Online Distance Learning* (ODL) diplomas and degrees.

696.2. Dream Catcher and the University of Everywhere (UoE) would provide a micro-franchised '*Community Centre*', a free internet '*education platform*' with 44 free work-stations, free devices and free data in every settlement and village in South Africa. The workstations would be leased to the DHET at an estimated total cost of about R8 billion annually. The online study material and lecturer support would be provided by the existing universities.

696.3. The proposed free internet access made available by the DC UoE's free '*education platform*', would allow *Anyone* to learn



*Anything, Anywhere, Anytime* to 'bridge the digital divide' and resolve completely the #FMF challenge.

696.4. This entity would result in youth job creation and economic stimulation through establishing thousands of 'fail-safe' SMME's.

696.5. Dream Catcher would resolve the fee-free challenge, establish 20,000 new, 'fail-safe', youth owned micro-franchises, create over 100 000 new youth jobs, stimulate the economy and reduce youth unemployment.

696.6. This would save taxpayers billions in future tertiary education costs and help meet the NDP 2030 targets.

697. In the view of the Commission, Mr. McDonald's proposal is ahead of its time in four particular respects:

697.1. the UNISA experience and results worldwide have shown very low success rates in distance education: UNISA students comprise a higher proportion of older, better-off participants than maybe expected from the beneficiaries of universal access to higher education.

- 697.2. the average South African student entering tertiary education is insufficiently mature to maintain the level of dedication that unsupported distance education requires (even online) without interaction with his peers and teachers;
- 697.3. the security of freestanding facilities and the computer hardware housed in them (as well as their users) must be regarded as suspect in areas frequently disturbed by unrest or criminality;
- 697.4. the existing universities are neither staffed nor equipped to service multiple online facilities; while the Dream Catcher scheme provides the infrastructure to house and run the project, it does not purport to contribute to the educational input to which the 'dream' depends for its success;
- 697.5. a further practical objection, though not in itself against the viability of the proposal, lies in the firm disinclination of the DHET to lend its support to the implementation of the proposal;
- 697.6. The role of TVET training and workplace integration in the proposal is uncertain.

698. Questions were directed to DHET regarding the plausibility of these models. As discussed previously, DHET has developed a policy on open learning, the implementation of which involves financial and policy considerations that Government has yet to assess.<sup>536</sup>
699. A detailed analysis of DHET's implementation plan for Open learning is contained in the Report on the Implementation of the Strategy on Open Learning and Distance Education in Post School Education and Training System, 9 March 2017 and includes:
- 699.1. finalising the Open Learning Policy Framework for Post-School Education and Training;
  - 699.2. building an enabling environment for open learning in the PSET;
  - 699.3. further developing the NOLS and materials;
  - 699.4. building capacity of institutions in open learning;
  - 699.5. developing of a model for sustained ICT infrastructure for TVET and CET colleges;

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<sup>536</sup> Transcript, 24-03-2017, Pg. 28

699.6. advocating and communicating open learning and building an understanding of open learning across the PSET system; and

699.7. securing sustainable funding and building institutional mechanisms for open learning in order to sustain open learning.

## **32.2 STUDENT FUNDING**

### **32.2.1 THE HISTORICAL POSITION**

700. The current framework for funding higher education and training is based on the cost sharing approach, in terms of which the costs of higher education are shared equitably between the state; institutions and private beneficiaries (students).

701. This approach is based on the premise that higher education yields both private and public benefits,<sup>537</sup> such that these benefits are reflected in the way the sector is funded.

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<sup>537</sup> White Paper 3 – A Programme for Higher Education Transformation (1997), p51 para 4.39; Ministerial Committee Report of Review of University Funding (2013), p121 – 122 para (c). On the global private/public returns to higher education, see CHET presentation dated 11 August 2016, slides 18 – 19.

702. The state remains the largest funder of higher education and training. It funds both institutions and students in various forms and to varying degrees. It funds students through two channels (for different purposes), namely:

702.1. indirectly through the block grant component of the subsidy;  
and

702.2. directly, by providing financial aid through to cover tuition fees.  
The mechanism chosen by government for this purpose is the NSFAS scheme.<sup>538</sup>

703. A fundamental driver of the student demand for fee-free higher education is the high fee increases, which have resulted in higher education costs which the majority of students cannot afford.

704. Although the demand originates from the university student population, it is plain from the evidence that TVET college students face similar issues of affordability, albeit attributed to different factors which fall beyond the scope of this section. The common factor shared, however, by both universities and TVET colleges is the issue of underfunding. The evidence presented demonstrates plainly that the PSET sector has been historically underfunded, and this condition persists. Although this issue

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<sup>538</sup> National Student Financial Aid Scheme Act 56 of 1999; Ministerial Committee Report of Review of University Funding (2013), p380.

falls beyond the scope of this section, it must be noted here that the 2015 decision relating to the no university fee increase for the 2016 academic year in particular, has only exacerbated the financial challenges existing in the sector.

### **32.2.2 TUITION FEES AS A PERCENTAGE OF UNIVERSITY INCOME**

705. Tuition fee income has been steadily increasing as a percentage of total university income across all institutions since 2000.<sup>539</sup> The evidence presented points to the student fee component of total university income edging closer to the percentage received in the form of state subsidy. The increase in student fees is largely attributed to the decline in the subsidy, although the higher rate of inflation in the sector has also had an effect on the increase.

706. According to the evidence presented, student fees increased as a percentage of total university income, from 24 per cent in 2000 to 33 per cent in 2013. During the same period, the proportion of income from state subsidy declined from 49% in 2000 to 40% in 2013.<sup>540</sup>

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<sup>539</sup> Student fees increased nationally from 24 per cent in 2000 to 33 per cent in 2014. See DHET submission dated June 2016, p16.

<sup>540</sup> National Treasury presentation, 12 August 2016, slide 13.

707. The reflected increase in student fees, as a percentage of total university income, does not take into account the percentage paid by NSFAS. This has increased from 3.4% in 2000 to 7% in 2013.<sup>541</sup>

708. The import of this is that fewer students have been contributing to tuition fees due to the increasing government contribution through the NSFAS allocations. While the majority of NSFAS allocations to university students are in the form of loans, an increasing percentage are provided as bursaries, thus slightly increasing the state's allocation to higher education.

### **32.2.3 DIFFERENT INCREASES IN STUDENT FUNDING ACROSS INSTITUTIONS**

709. It is significant to note also that although student fee contributions have increased on average as a proportion of the total universities revenue,<sup>542</sup> the levels of appreciation differ between the various types of universities.

710. To demonstrate, the evidence shows that in 2014, the average student fee contribution for traditional universities was 29.1 per cent (subsidy of 34.7%); followed by universities of technology at 34.7 per cent (subsidy

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<sup>541</sup> Ibid.

<sup>542</sup> From R15.411 billion in 2012 to R19.589 billion in 2014, representing an average increase of 9.03 per cent. See DHET submission dated June 2016, p20 second paragraph.

of 51.2 %). Comprehensive universities had the largest student fee contributions at 41.5 per cent (subsidy of 40.5%).<sup>543</sup>

711. The evidence shows that the prevailing funding model translates differently among the different types of institutions.

712. CHET demonstrated these differences across the various types of institutions, showing that –<sup>544</sup>

712.1. the average student fee increase across the university sector during the period 2010 to 2014 was 9.2% per annum

712.2. tuition fees at some universities, such as the University of Cape Town (UCT), increased above the national average over the same period, at 9.5 per cent per annum.<sup>545</sup> In 4 years, the student fees charged by UCT increased from just over R45 000 to over R65 000<sup>546</sup>

713. Over this same period, the percentage received in third stream income has not changed significantly, although there was a period of increased third-stream income (2005 to 2009), which has since tapered off again. The proportion of third stream income varies significantly from institution

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<sup>543</sup> DHET submission dated June 2016, p20.

<sup>544</sup> CHET presentation dated 11 August 2016, slide 15.

<sup>545</sup> Which is a 44 per cent increase in 4 years versus 42 per cent for all universities.

<sup>546</sup> Versus an increase across all universities from about R19 000 in 2000 to about R25 000 in 2014.



to institution, depending on the institution's ability to attract additional funding. In general, HDIs are less able to attract third stream income and as such, are more dependent on subsidies and tuition fees. Evidence was also provided indicating that third stream income is not a stable source of income, and that much of the funding is earmarked in line with the donor's wishes.<sup>547</sup>

#### **32.2.4 FURTHER SOURCES OF STUDENT FUNDING**

714. Other than NSFAS, students are funded through other sources which include:

714.1. internal bursaries;

714.2. external bursaries;

714.3. CSI funding;

714.4. Eduloan (Fundi);

714.5. commercial loans; and

714.6. own funding.

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<sup>547</sup> DHET submission p21.

715. In 2016, the University of Witwatersrand generated R1 023 479 billion from various sources from which to make disbursements to both undergraduate and postgraduate students providing assistance to more than 20 000 students<sup>548</sup>. Proportionally, undergraduates receive a bigger allocation, accounting for over 70% of the total available amounts in 2015 and 2016.<sup>549</sup>

716. Disbursements include internal and external bursaries; government bursaries and NSFAS awards.

716.1. NSFAS income accounts for the largest share of the amount available for disbursements to students. It is, however, limited in relation to funding postgraduate students, funding only (policy), honours students.<sup>550</sup>

716.2. Most of the disbursements are directed to fund undergraduate students. Wits does, however, disburse a significant amount to fund postgraduate students. In 2016, it awarded more internal bursaries (faculty) to postgraduates than to undergraduates.<sup>551</sup> This is in line with its strategic plan the

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<sup>548</sup> Presentation dated 24 November 2016, slide 3; transcript of the hearing held on 24 November 2016, p30 L1 – 7.

<sup>549</sup> Presentation dated 24 November 2016, slide 4; transcript of the hearing held on 24 November 2016, p30 L8 – 13; last paragraph – p31 first paragraph.

<sup>550</sup> Presentation dated 24 November 2016, slide 6.

<sup>551</sup> Presentation dated 24 November 2016, slides 3 & 6.

Wits Vision 2022, and with a view of meeting the NDP 2030 targets for postgraduates.

716.3. In 2016, the number of postgraduate students enrolled at Wits was 12 644, an increase from 9 766 in 2012.<sup>552</sup> Almost half of these students received disbursements.<sup>553</sup> Wits contributed R233 177 million towards those students.<sup>554</sup>

717. The NRF supported 858 postgraduate students to the value of R56 456 325 in 2016.<sup>555</sup>

718. The University of Johannesburg (UJ) gave a presentation in which it demonstrated how its student population has been funded over a 5-year period.<sup>556</sup>

718.1. NSFAS funded 24 per cent of the total student population, up from 22 per cent in 2012.<sup>557</sup>

718.2. NSFAS funded 95 per cent of the NSFAS qualifying students in 2016, up from 75 per cent in 2013.

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<sup>552</sup> Presentation dated 24 November 2016, slide 5.

<sup>553</sup> Presentation dated 24 November 2016, slide 7.

<sup>554</sup> Presentation dated 24 November 2016, slide 6. This is a significant increase from R61 080 million in 2012.

<sup>555</sup> The student numbers increased from 485 in 2012. See presentation slide 8.

<sup>556</sup> UJ presentation dated 24 November 2016, slide 2; transcript of hearing held on 24 November 2016, p40.

<sup>557</sup> UJ presentation dated 24 November 2016, slide 3.

- 718.3. That left 5 per cent unfunded NSFAS qualifying students in 2016, compared to 25 per cent in 2013.
- 718.4. Internal bursaries are funded from the university's operation budget and from third stream income.<sup>558</sup> UJ awards undergraduate and postgraduate students, partially full tuition costs, based on academic merits. It also rewards students based on financial need and academic merit.<sup>559</sup> Beneficiaries of internal bursaries decreased to 17 per cent in 2016 (total spend of R156 million) from 24 per cent in 2012.
- 718.5. The number of students funded through external bursaries also decreased from 25 per cent in 2012 to 22 per cent in 2016.<sup>560</sup> The NRF funds postgraduate students only (about 8% of the student population).
- 718.6. The largest category of students are self-funded, comprising 37 per cent of the total student population in 2016.

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<sup>558</sup> UJ presentation dated 24 November 2016, slide 4.

<sup>559</sup> Other awards are for sports achievement, staff concessions (which covers tuition fees of staff members, their spouses and children).

<sup>560</sup> *See also* UJ presentation dated 24 November 2016, slide 5. Sources of external funds include CSI, NRF, SETAs and other public entities, funding from provincial governments and municipalities, and donations from individuals and Trusts.

719. The University of Fort Hare is classified as a HDI.<sup>561</sup> Its evidence in the main demonstrates the differences in funding HDI's and HAI's.
720. For example, external donors funded 1 394 students in 2016, to the value of R77 336 715 million,<sup>562</sup> compared to the R189 303 million that was received by the University of the Witwatersrand for external bursaries in the same year. It must be born in mind that the student population of UFH was about 13 500, whilst students attending the University of the Witwatersrand numbered about 34 000.
721. Most of the students at Fort Hare are supported by NSFAS.<sup>563</sup> NSFAS allocated R864 050 562 million to Fort Hare to fund 9 059 students in 2016.<sup>564</sup> The NSFAS allocation for Wits for the same year was almost half that, at R463 586 million.<sup>565</sup>
722. We note that these NSFAS allocations for both Fort Hare and Wits distort the actual NSFAS allocation because they include the amounts allocated for historic debt and the Kgodisano allocations.<sup>566</sup>

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<sup>561</sup> Presentation dated 25 November 2016, slide 5.

<sup>562</sup> Fort Hare presentation dated 25 November 2016, slides 5 & 8; Wits presentation dated 24 November 2016, slide 3.

<sup>563</sup> Fort Hare presentation dated 25 November 2016, slide 7.

<sup>564</sup> Fort Hare presentation slide 8.

<sup>565</sup> Wits presentation slide 3 column 4.

<sup>566</sup> Fort Hare presentation dated 25 November 2016, slides 13; transcript p4 fifth paragraph; Wits presentation dated 24 November 2016, slide 3.

723. NSFAS funding also makes up the majority of student funding at the University of KwaZulu-Natal (UKZN), constituting 67.78% of student funding income.<sup>567</sup> External bursaries amounted to R158 988 462. UKZN's internal funding sources amounted to R168 285 480,<sup>568</sup> while Wits had R262 277 000 of internal funds for disbursement (a difference of about R94 million).<sup>569</sup>

724. As the evidence suggests, HDIs are less able to raise third stream income with the result that they have limited funding from this income stream to support students.<sup>570</sup> Their capacity to top up any NSFAS grants or to fund postgraduate students is therefore equally constrained. Cross-subsidisation within an institution is not possible when the student population is largely within or below the missing middle.

### **32.2.5 NATIONAL RESEARCH FOUNDATION (NRF)**

725. The NRF is established under the National Research Foundation Act (the NRF Act),<sup>571</sup> with the object of supporting and promoting research through funding, human resource development and the provision of the necessary research facilities in order to facilitate the creation of

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<sup>567</sup> UKZN submission dated 23 November 2016, para 5.

<sup>568</sup> UKZN submission dated 23 November 2016, para 6.

<sup>569</sup> Wits presentation slide 3. This amount comprises internal bursaries, internal bursaries (faculty) and internal scholarships & Council funded scholarships.

<sup>570</sup> Fort Hare transcript p3 – 4.

<sup>571</sup> 23 of 1998.

knowledge, innovation and development in all fields of science and technology, including indigenous knowledge.<sup>572</sup>

726. The NRF gives effect to its mandate by, *inter alia*, giving financial support to researchers and to postgraduate students (at Masters and PhD levels) in all disciplines.<sup>573</sup> The NRF also allocates grants for large infrastructure equipment (which cannot be based on a single university).

727. The NDP targets envisage a significant increase in the postgraduate system and envisage that over 25 per cent of enrolments should be at postgraduate level by 2030.<sup>574</sup> It sets targets in the numbers of:

727.1. masters and PhD students;

727.2. doctoral graduates both for teaching, research and innovation purposes;<sup>575</sup> and

727.3. staff with a PhD.

728. It expressly mentions that there has to be an increase in the number of African and women postgraduates.

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<sup>572</sup> Sections 3 & 4.

<sup>573</sup> Section 4(2); NRF presentation slide 2.

<sup>574</sup> This translates to at least 5000 doctoral graduates per year.

<sup>575</sup> NDP p319.

729. The NRF currently funds 10 per cent of all postgraduate students in the country.<sup>576</sup>

730. In 2015, the NRF funded a total of 12 719 postgraduate student bursaries and scholarships amounting to R732.70 million.<sup>577</sup>

### **32.2.6 SOURCES OF NRF FUNDS**

731. The NRF is funded principally from –

731.1. a parliamentary grant (transferred from the DST);

731.2. ring-fenced income (from the DST); and

731.3. designated income.

732. The total NRF income from these sources for 2015/2016 was R4 163 000 000.<sup>578</sup>

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<sup>576</sup> NRF presentation slide 3.

<sup>577</sup> NRF presentation slide 3.

<sup>578</sup> NRF presentation, slide 7.



### 32.2.7 INHERENT LIMITATIONS TO NRF FUNDS

733. The NRF's income is broadly divided into discretionary and committed funds.<sup>579</sup>

733.1. Parliamentary and other income fall within the discretionary category. They comprise 25 per cent of the total NRF income. It is from these funds that the NRF disburses grants and bursaries and funds its operations.

733.2. A total sum of R2 556 million was allocated to grants, bursaries and other research funding in 2015/2016, from a total income of R4 163 million.

733.3. Operational costs took up R1 243 million of the total income of R4 163 million. Employee remuneration accounted for R345 million of the total expenditure.

733.4. The balance of the funds comprise ring-fenced or contract funding which are earmarked for other DST purposes.

734. The evidence of the NRF demonstrates historical underfunding, which is projected to continue into the 2020 MTEF.

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<sup>579</sup> NRF presentation slide 10.

- 734.1. The NRF indicated that in order to scale up its research enterprise and to be consistent with government policy choices with regard to assisting needy postgraduate students,<sup>580</sup> it requires funding growth of about R6.3 billion by 2020.<sup>581</sup>
- 734.2. Since 2009, the NRF baseline allocation from the DST has been below both national inflation (CPI) and NRF inflation.<sup>582</sup> On average, the allocation from DST has been registering a negative growth in real and nominal terms. The result is a current funding shortfall of R331 million.
- 734.3. Furthermore, the allocation by the DST to the NRF has shown minimal growth since 2009, with the exception of 2012 and 2014. During these years, the parliamentary grant exceeded inflation. This growth distorts the actual growth of the allocation since it attributable to once-off additions to the baseline allocation,<sup>583</sup> which funds are earmarked for specific CAPEX projects of the DST.<sup>584</sup>

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<sup>580</sup> NRF presentation slide 12.

<sup>581</sup> NRF presentation slides 13 – 14.

<sup>582</sup> NRF presentation slides 4 – 6.

<sup>583</sup> NRF presentation, slide 6.

<sup>584</sup> As appears from the two main cash injections to the baseline relate to the SKA project and the SARChI project.

734.4. It is of great concern that since 2006/2007 up to 2015/16, NRF expenditure has, on average, been near or above income.<sup>585</sup>

735. Thus the NRF has few resources to provide funding to the current pool of students and none to expand its support or increase its targets.

### **32.2.8 EDULOAN/FUNDI**

736. Eduloan was established in 1996 as a credit provider specialising in educational loans and bursary management at universities and TVET colleges, at all levels of study.<sup>586</sup> It was rebranded to FUNDI in 2016.<sup>587</sup>

737. Its funders include the:

737.1. UIF;

737.2. PIC;

737.3. Compensation Commission;

737.4. Standard Bank; and;

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<sup>585</sup> NRF presentation, slides 6 – 7.

<sup>586</sup> FUNDI also extends loans and bursaries to private institutions, schools and

<sup>587</sup> FUNDI presentation (undated) slide 2.

737.5. Mergence.

738. Its largest shareholder is the PIC, having a 40 per cent stake therein.<sup>588</sup>

### **32.2.9 LOANS**

739. FUNDI offers loans primarily to civil guardians to defray their childrens' student fees. Loans can cover either tuition only, or can be for other costs of study such as study material and accommodation.

740. FUNDI is affiliated to a majority of the 26 universities and some TVET colleges. It deals directly with the institution. Once a loan is approved, FUNDI pays the relevant institution directly, as opposed to the individual student.

741. It has to date advanced about 830 000 loans.<sup>589</sup>

742. Loan repayments are collected through salary deductions and by debit order. These modes of collection facilitate the high rate of collection, which is estimated at 98% from salary deductions and 95% from debit order payments.<sup>590</sup>

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<sup>588</sup> Other shareholders are the Open Learning Holdings (20.93%); Standard Bank (16.5%); Kopane Investment (17.63%). Its management & staff hold the smallest share at 4.94%. See FUNDI presentation.

<sup>589</sup> FUNDI presentation, slide 5.

<sup>590</sup> FUNDI presentation, slide 5.

743. Interests rates for FUNDI loans are high, ranging from 19% – 30%, depending on whether or not the loan is secured or unsecured.<sup>591</sup>
744. FUNDI accepts that its loan funding scheme excludes students from the poor and missing middle categories as they often cannot provide security for the loan. To offset the risk attendant upon these classes of students, FUNDI levies higher interest rates which can be as higher as 23%.<sup>592</sup>
745. The Commission is of the view that, should the recommendations made by it in relation to funding by means of income contingent loans, be accepted:
- 745.1. FUNDI support will become unnecessary;
  - 745.2. the resources FUNDI provides can be reprioritised for the benefit of the broader education sector;
  - 745.3. students will receive unsecured funding on far more manageable terms.

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<sup>591</sup> FUNDI, transcript of the hearing held on 29 November 2016, p22 – 23.

<sup>592</sup> Slide 6 and transcript.

### 32.2.10 FUNDI BURSARIES

746. FUNDI also manages funds for institutions and other private and public donors,<sup>593</sup> These are used to award bursaries to students.<sup>594</sup> Currently, about 128 437 students receive bursaries from this fund.<sup>595</sup>

747. Recipients of the funds can use the funds at the numerous FUNDI affiliated merchants.<sup>596</sup>

### 32.2.11 OTHER COMMERCIAL STUDENT LOANS

748. The Banking Association of South Africa (BASA) appeared before the Commission as a representative of the South African banking sector.<sup>597</sup>

749. In its presentation, BASA indicated that:<sup>598</sup>

749.1. the 5 largest banks control more than 90 per cent of total assets of the 17 registered banks;

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<sup>593</sup> Stakeholders include provincial governments and entities; universities, vendors and corporates. See FUNDI presentation, slide 12.

<sup>594</sup> FUNDI currently manages funds on behalf of 40 funders, including universities. See FUNDI presentation, slide 8.

<sup>595</sup> FUNDI presentation, slide 8.

<sup>596</sup> FUNDI presentation, slide 9. These merchants include Shoprite/Checkers, 107 book stores, 300 accommodation providers and 508 food merchants.

<sup>597</sup> BASA represents 3 mutual banks, 15 local branches of foreign banks and 17 registered banks. See BASA presentation dated 8 February 2017, slides 3 & 4.

<sup>598</sup> BASA presentation dated 8 February 2017, slide 5.

- 749.2. the 4 largest banks have student loan products;
- 749.3. the balance of the banks do not have student targeted loans, and extend generic (personal) loan products which may be used to fund education.
750. BASA highlighted the involvement of banks at various levels of education.<sup>599</sup> It would appear that the majority of the initiatives are supported through CSI programmes.
751. BASA reports that most recently, banks have been involved in the Ikusasa Student Financial Aid Programme and provided funding for the pilot project, which commenced in 2017.
752. With specific regard to the banks' financing of students, the testimony of BASA shows that between 2013 – 2016, banks provided:<sup>600</sup>
- 752.1. a sum of R417 296 795 in bursaries;<sup>601</sup>
- 752.2. an amount of R5 357 619 345 in student loans; and
- 752.3. R172 976 583 in research and other funding.

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<sup>599</sup> BASA presentation dated 8 February 2017, slides 9 – 11.

<sup>600</sup> BASA presentation dated 8 February 2017, slide 13.

<sup>601</sup> BASA notes that banks spend roughly R500 million per annum on education.

### 32.2.12 BASA BURSARIES

753. Students applying for bursaries must meet the BASA criteria, which include:

753.1. whether or not they fall into the missing-middle category;

753.2. academic performance;

753.3. whether they are previously disadvantaged individuals; and

753.4. whether their qualification will yield critical skills for the sector.

754. The data presented by BASA shows that the number of students funded by banks through bursaries has hardly grown over 3 years, averaging of 5 000 per annum. The average bursary amount awarded between 2014 and 2015 is around R21 000. While it is up from about R14 000 in 2013,<sup>602</sup> it is significant to note that it does not cover the average costs of study of the cheapest university, and falls far below the NSFAS cap.

755. The banks contributed to the Ikusasa Student Financial Aid Programme to the extent of R272 272 592.

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<sup>602</sup> BASA presentation dated 8 February 2017, slide 16.



### 32.2.13 BASA LOANS

756. The student loan products referred to above, include personal loans.<sup>603</sup>

As such, we can assume that the funding provided by banks specifically for student loans is less than the amount provided.

757. While loan criteria and applicable terms and conditions of the loan differ from one bank to another, BASA set out common considerations for eligibility for a personal loan -<sup>604</sup>

757.1. credit score and ability to service the loan;

757.2. employment (of the principal debtor/surety);

757.3. minimum income (ranging between R3000 – R6000 per month);

757.4. registration with a South African university; and

757.5. if applicants are part-time students, they must be employed and prove their ability to service the loan.

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<sup>603</sup> BASA presentation dated 8 February 2017, slide 13.

<sup>604</sup> BASA presentation dated 8 February 2017, slides 19 & 21.

758. BASA estimates that about R1 billion worth of students' loans, including personal loans, are provided by banks annually. A total of 103 665 students were funded through student loans provided by banks over 2013 – 2015. It indicates that when personal loans are factored in, the number of students funded through bank loans doubles.<sup>605</sup>

759. The terms and conditions of the loan, while differing between banks, are underpinned by the competitive nature of the business of banking. The following are among the list of terms and conditions –

759.1. Interests and fees attached to the loan (be it a student or personal loan) are payable monthly and during the student's course of study;

759.2. the student capital loan amount is payable upon completion of studies, subject to a grace period of between 6 – 12 months to allow a student the opportunity to gain employment.<sup>606</sup> The student is responsible for informing the bank once he/she is employed<sup>607</sup> (as is the case with NSFAS loan debtor);

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<sup>605</sup> BASA presentation dated 8 February 2017, slide 18.

<sup>606</sup> Repayment can be deferred in certain limited circumstances. See BASA presentation dated 8 February 2017, slide 21.

<sup>607</sup> BASA presentation dated 8 February 2017, slide 24.

- 759.3. students have up to 18 months for every year of study to repay the loan.<sup>608</sup>
760. The interest rates levied on the loans range from prime to prime plus 6%.
761. The applicable interest rates are informed by various factors, including:
- 761.1. the risk profile of the borrower; and
- 761.2. the years of study completed.<sup>609</sup>
762. Banks apply default reducing measures ranging from “soft” collection measures such as general follow-ups as in the case of loan default at the early stage, to stricter measures which include litigation action in respect of accounts that are over 6 months in arrears.
763. Where a loan recipient remains unemployed after completion of his/her studies, up to six months grace period is given before the obligation to pay the capital amount arises.
764. During this period, the parent, guardian or surety is liable to pay the interest rate which runs throughout the subsistence of the loan. The

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<sup>608</sup> BASA presentation dated 8 February 2017, slide 21.

<sup>609</sup> Some institutions offer between interest rates for each year completed.

parent, guardian or surety remains liable for the repayment of the loan until it is paid up.

765. As is the case with FUNDI, the banks' ability to extend more student loans is constrained by the likelihood of the debtor's ability to repay the loan, which in turn, turns on the income of the parent, guardian or surety of the student. [If the scheme proposed by the Commission is implemented, the income of any person other than the (employed) ex-student will be irrelevant.]

766. In this regard also, the recommendations in this Report in relation to ICLs will provide all required student funding without provision of security on more equitable terms.

### **32.3 HISTORIC DEBT**

767. The nature of the student debt discussed here relates to both self-funded students and those that receive NSFAS loans, with specific emphasis being placed on all NSFAS qualifying students.

768. The gross student debt of half of the total 26 universities as a percentage of student fees is said to be above the sector average of 27.8 per cent.<sup>610</sup>

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<sup>610</sup> DHET submission dated June 2016, p22.

HDIs and universities of technology account for the largest portion of that debt.

769. A PTT to assess the extent of historic debt was appointed in 2015. Its work was detailed earlier in this Report. According to NSFAS, a further amount of R9.2 billion has been added to the NSFAS allocation during the October 2016 medium-term budget for student funding over the MTEF period.<sup>611</sup>

770. The Department of Higher Education and Training costed the NSFAS shortfall for the 2016 MTEF period, based on the NDP enrolment targets, at R10 328 058.<sup>612</sup> The NSFAS shortfall, should the current (2015/2016) enrolment levels be maintained, amounts to R8 483 466.<sup>613</sup>

771. It is noted that this debt relief was exclusively for university students, thus excluding TVET colleges in spite of the apparent and significant underfunding and unfunded students in the increasingly expanding sector.

## **32.4 FUNDING MODELS**

772. The Commission was favoured with various models to fund students in higher education and training. These models range from greater levels of

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<sup>611</sup> NSFAS presentation dated 14 November 2016, slide 16.

<sup>612</sup> Submission DTED June 2016, p32, Scenario 1.

<sup>613</sup> Submission dated June 2016, p33, Scenario 2.

government contributions to reduced subsidies in favour of targeted funding; a combination of sources of funding, while some propose little to no government student funding. They will be discussed in detail in a subsequent Chapter.

## **32.5 ALTERNATIVE SOURCES OF FUNDING**

773. In this section, we look at the viability of the various proposed alternative sources of funding higher education and training. The following are some of these sources:

773.1. Public Investment Corporation (PIC);

773.2. Unemployment Insurance Fund (UIF);

773.3. the Skills Development Levy (SDL);

773.4. tax increases;

773.5. Broad-Based Black Economic Empowerment (BBBEE);

773.6. unclaimed benefits in various pension funds;

773.7. social impact bonds;

773.8. Thuto ke lesedi;

773.9. corruption and other inefficiencies.

### **32.5.1 PUBLIC INVESTMENT CORPORATION**

774. The Public Investment Corporation SOC Limited (PIC) is established under section 2 of the Public Investment Corporation Act as a juristic person outside of the public service.<sup>614</sup>

775. The PIC is wholly owned by the government.<sup>615</sup>

776. Section 4 of the PIC Act sets out the main object of the PIC, and that is to be a financial services provider contemplated under the Financial Advisory and Intermediary Services Act (FAIS Act).<sup>616</sup>

777. Section 5 confers upon the PIC broad powers. The PIC has all the powers necessary to realise its objects, unless expressly excluded or qualified by the PIC Act.

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<sup>614</sup> Transcript of the hearing held on 21 February 2017, p9 L19 – 20.

<sup>615</sup> Section 3. The Minister of Finance represents the shareholder, the state.

<sup>616</sup> 37 of 2002.

778. In particular, the PIC invests monies received or held by, for or on behalf of the government and other bodies, councils, funds and accounts.<sup>617</sup>

779. In terms of section 10(2) of the PIC Act, the PIC, through its board,<sup>618</sup> must adopt an investment strategy with guidelines to regulate the investment of monies it receives.

780. In its presentation before the Commission, the PIC broadly outlined its investment strategy and specifically as it relates to education.<sup>619</sup>

### **32.5.2 FUNDS HELD BY THE PIC**

781. It is appropriate at the outset to emphasise that the monies held by the PIC are held on behalf of third parties for purposes of investment.<sup>620</sup>

782. There are limitations imposed by the funders relating to the use of those funds by the PIC. We address these limitations shortly. We first identify the sources of funds managed by the PIC.

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<sup>617</sup> See preamble/introduction read together with sections 10 and 11, transcript of the hearing held on 21 February 2017, p5 L20 – 25.

<sup>618</sup> Under section 8, the board is responsible for the management of the business of the PIC.

<sup>619</sup> PIC presentation made on 21 February 2017.

<sup>620</sup> Transcript of the hearing held on 21 February 2017, p3 L22 – p4 L7.



### 32.5.3 PIC FUNDING SOURCES

783. The PIC manages and invests funds of behalf of various public-sector funds, including the.<sup>621</sup>

783.1. Government Employment Pension Fund (GEPF);

783.2. Unemployment Insurance Fund (UIF);

783.3. Compensation Commission (CC).

784. The largest contributor to the PIC is the GEPF, which has contributed an estimated 88% of the PIC funds.<sup>622</sup>

785. PICs investments are divided into a number of investment classes,<sup>623</sup> which the PIC manages in terms of mandates given by the respective clients who advance the funds for each asset class.<sup>624</sup>

785.1. The PIC acts in accordance with investment management agreements concluded between itself and the client in terms of which the client, in broad terms, prescribes the relevant investment asset class and how much of its assets must be

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<sup>621</sup> PIC, transcript of the hearing held on 21 February 2017, p5 L20 – 25.

<sup>622</sup> PIC, transcript of the hearing held on 21 February 2017, p5 L21 – 23.

<sup>623</sup> Namely, listed and unlisted domestic investments; and offshore investments.

<sup>624</sup> PIC, transcript of the hearing held on 21 February 2017, p6 L1 – 9.

invested in that class; and the returns it expects from such investments.<sup>625</sup>

785.2. The PIC has the discretion as to where to invest those funds, with the view of giving effect to the client's broad mandate.<sup>626</sup>

786. As indicated, education falls within the broader development investment asset class.<sup>627</sup>

787. In particular, it is allocated within the social infrastructure component of that class<sup>628</sup> in two forms, namely:<sup>629</sup>

787.1. education and skills development; and

787.2. student accommodation.

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<sup>625</sup> PIC, transcript of the hearing held on 21 February 2017, p6 L13 – p8 L16.

<sup>626</sup> PIC, transcript of the hearing held on 21 February 2017, p9 L4 – 14.

<sup>627</sup> The developmental investment class makes provision for the following sub-classes: economic infrastructure; social infrastructure; sustainable investments and priority sectors. See transcript of the hearing held on 21 February 2017, p17 L17 – p18 L9. Higher education and training is located within the social infrastructure sub component. See PIC presentation, slide 4, column 2.

<sup>628</sup> PIC presentation slide 4, slide 4 column 2.

<sup>629</sup> PIC presentation slide 4.

788. Education falls under the development investment asset class.<sup>630</sup> The developmental investment portfolio accounts for approximately 20 per cent of the total investment asset portfolio.<sup>631</sup>

789. Of its clients, only 3 have mandated the PIC to invest their assets in the developmental portfolio. Those are the.<sup>632</sup>

789.1. GEPF;

789.2. UIF; and

789.3. CC fund.

790. The PIC has a mandate from these clients to invest a collective 30 per cent of their developmental asset allocations in higher education,<sup>633</sup> as part of the broader education portfolio.<sup>634</sup>

791. PICs investments take multiple forms. For example, it has the option of investing in different investment vehicles, including equities, or the bond and debt market in any given focus area.<sup>635</sup>

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<sup>630</sup> PIC presentation slide 3, column 2; transcript of the hearing held on 21 February 2017, p18 L14 – 21.

<sup>631</sup> PIC presentation slide 3, column 2.

<sup>632</sup> PIC, transcript of the hearing held on 21 February 2017, p18 L11 – 13.

<sup>633</sup> PIC, transcript of the hearing held on 21 February 2017, p18 L14 – 19.

<sup>634</sup> PIC, transcript of the hearing held on 21 February 2017, p18 L14 – 19.

<sup>635</sup> PIC, transcript of the hearing held on 21 February 2017, p19 L18 – p20 L16.

792. The UIF's investments are informed by its Social Responsibility Investment (SRI) policy which stipulates the broad focus area of investment, which is currently job creation. The policy also determines the type of returns on investment expected.<sup>636</sup> The PIC finds areas in which to invest which can yield the developmental impact sought by the UIF. The PIC carries out the UIF's mandate by investing in skills development and education with a view of creating a skilled workforce.<sup>637</sup>
793. The PIC testified that, unlike the UIF, which is willing to trade-off a lower return on investment in favour of developmental impact, the GEPF's investment policy, the Developmental Investment Policy Statement, is geared towards marked related returns on investment while at the same time meeting the desired social impact.<sup>638</sup>
794. The PIC invests broadly in education, from primary to higher education and training, including the area of skills development.<sup>639</sup> It can be a direct investment such as in infrastructure, or indirect by buying into existing platforms, as with student accommodation or student loans.<sup>640</sup>

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<sup>636</sup> PIC, transcript of the hearing held on 21 February 2017, p21 L19 – p22 L11.

<sup>637</sup> PIC, transcript of the hearing held on 21 February 2017, p18 L22 – p19 L22.

<sup>638</sup> PIC, transcript of the hearing held on 21 February 2017, p22 L12 – 22.

<sup>639</sup> PIC, transcript of the hearing held on 21 February 2017, p22 L24 – p23 L22; presentation slide 5.

<sup>640</sup> PIC, transcript of the hearing held on 21 February 2017, p23 L10 – p24 L5.

#### 32.5.4 PIC INVESTMENT IN STUDENT ACCOMMODATION

795. The PIC is heavily invested in student accommodation. One of the major investments was the purchase of South Point,<sup>641</sup> which was a private company that had established the largest student accommodation market, servicing a total of 12 universities.<sup>642</sup> The current South Point portfolio has gross assets worth about R2 billion.<sup>643</sup>

796. PIC invests in both greenfield and brownfield opportunities. As at 2016, the PIC had invested in 10 000 student beds, and it aims to increase that number to 50 000 by 2020, and to 80 000 by 2025.<sup>644</sup>

797. The PIC proposes that student accommodation be funded through multiple investments. It is premised on key assumptions set out in their presentation. They include:

797.1. The funders will include including itself, the DFIs (who will contribute a senior note worth R10 billion, backed by a government guarantee) and from the private sector;

797.2. National Treasury will guarantee the senior note;

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<sup>641</sup> PIC, transcript of the hearing held on 21 February 2017, p27 L21 – p28 L6; presentation slide 9.

<sup>642</sup> PIC, transcript of the hearing held on 21 February 2017, p23 L25 – p25 L23.

<sup>643</sup> PIC presentation slide 9.

<sup>644</sup> PIC presentation slide 8; PIC, transcript of the hearing held on 21 February 2017, p24 – p25.

797.3. the Department of Public works will purchase the property.

798. The PIC have made these investments with the view that the it will build, own and operate the model. Government will, in the long term, be the custodian of the student accommodation.<sup>645</sup> The PIC proposes that the Department of Public Works purchase the student accommodation developments after 25 years.<sup>646</sup>

### **32.5.5 PIC CONTRIBUTION TO LOAN FINANCING**

799. The PIC also contributes to student funding through its investments in Eduloan (FUNDI).<sup>647</sup>

800. FUNDI loans have already been discussed in this Report, and the onerous nature of these loans was emphasised.

801. The PIC is exploring an alternative student finance model which will make loan repayments contingent upon the student's employment.<sup>648</sup>

802. Its proposed student funding model entails:<sup>649</sup>

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<sup>645</sup> PIC presentation slide 8; PIC, transcript of the hearing held on 21 February 2017, p24 – p25 L23.

<sup>646</sup> PIC presentation slide 10.

<sup>647</sup> PIC presentation slide 13, second main bullet point; slide 17. An estimated R244,3 million of government employee funds under PIC management are invested in Eduloan. Eduloan has issued an estimated 47 533 loans as at 30 September 2016.

<sup>648</sup> PIC presentation slide 13, fourth bullet point.

<sup>649</sup> PIC presentation, slides 14 – 16.

- 802.1. creating a special purpose vehicle (SPV) financed by multiple funders (PPP approach), with NSFAS providing first loss facility;
  - 802.2. appointing a management company, for a fee, to manage the SPV;
  - 802.3. only interest will be levied during course of study;
  - 802.4. SARS to facilitate repayments through payroll deductions;
  - 802.5. collections over 24 – 36 months;
  - 802.6. parents to guarantee loan repayments.
803. If the proposals of the Commission are accepted the PIC's proposed funding model will become unnecessary.

## **32.6 GOVERNMENT EMPLOYEES PENSION FUND**

804. The Government Employees Pension Fund (GEPF) is established under section 2 of the Government Employees Pension Law (GEPL),<sup>650</sup> with

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<sup>650</sup> 1996.

the object of providing pensions and related benefits to members, pensioners and their beneficiaries.<sup>651</sup>

805. The fund is funded through contributions made by its members.<sup>652</sup>

806. Unclaimed benefits mean:<sup>653</sup>

806.1. a benefit which has, within a period of 24 months from the date on which it became legally due and payable, not been paid by the fund in respect of a member or beneficiary, other than an unpaid benefit or a benefit payable in the form of a pension or an annuity.<sup>654</sup>

807. The GEPF reported a total sum of an estimated R450 million in unclaimed benefits over the period 2006/17 – 2015/16.

808. This amount excludes cases classified as unpaid for a number of reasons,<sup>655</sup> and excludes interest.<sup>656</sup> Of these cases,<sup>657</sup> a total of 6 200, valued at an estimated R100 million, have been allocated tracing agents

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<sup>651</sup> Section 3; GEPF presentation slide 2.

<sup>652</sup> Section 17(1).

<sup>653</sup> 2007 FSB Circular PF NO. 126, section 1; transcript of the hearing held on 21 February 2017, p60 L6 – p64 L4.

<sup>654</sup> The circular defines “unpaid benefit” at section 1 thereof; transcript p78 L13 – p85 L16. The remaining parts of the definition are not relevant to our consideration.

<sup>655</sup> Such as disputed cases and those with incomplete documentation. This amounts to R46 157 198.59. See “Unclaimed benefits age analysis – March 2016”.

<sup>656</sup> Interest amounts to R155 601 744.01. See “Unclaimed benefits age analysis – March 2016”; 2007 FSB Circular PF NO. 126, section 1; transcript of the hearing held on 21 February 2017, p64 L12 – L22.

<sup>657</sup> See “Notes” to “Unclaimed benefits age analysis – March 2016”.



in order to trace beneficiaries. Since November 2016, nearly 300 cases have been successfully traced.

809. The GEPF testified that the balance (R369 million) is in the early stages of the tracing process and is considered by the GEPF to be traceable.

810. These amounts make up the total estimated amount of R653 million reported in unclaimed benefits in the GEPF 2016 Annual Financial Statements.<sup>658</sup>

### **32.6.1 LIMITATIONS ON THE USE OF UNCLAIMED FUNDS**

811. The GEPF, in its presentation before the Commission, highlighted the legislative constraints attendant upon the use of unclaimed GEPF funds.

812. Section 21 of the GEPL prohibits cession and attachment of benefits payable thereunder. Subsection (1) provides:

*“Subject to section 24A, no benefit or right in respect of a benefit payable under this Act shall be capable of being assigned or transferred or otherwise ceded or of being pledged or hypothecated or, save as is provided in section 26 or 40 of the Maintenance Act, 1998 and section 7 (8) of the Divorce Act, 1979 (Act No. 70 of 1979), be liable to be attached*

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<sup>658</sup> GEPF presentation slide 7; “Unclaimed benefits age analysis – March 2016”; transcript of the hearing held on 21 February 2017, p68 L21 – p70 L3.

*or subjected to any form of execution under a judgment or order of a court of law.”*

813. It indicated that the primary responsibility of all pension funds, including the GEPF, with regard to unclaimed benefits, is to trace the rightful beneficiaries of the benefits. Those benefits cannot in those circumstances be used for any other purpose than to be paid out to the rightful beneficiary.
814. It is only after the GEPF is satisfied that the beneficiaries will never be traced that it may consider using the funds for other public interest related uses, such as funding higher education and training.<sup>659</sup>
815. The GEPF referred the Commission to FSB Circular PF NO. 126 of 1007 which prohibits reverting benefits back to the fund. In terms of that circular, pension funds are required to amend their rules to ensure that unclaimed benefits remain in the fund until the beneficiary has been traced.<sup>660</sup>
816. The rationale behind the circular is to protect the beneficiary’s right to claim the benefit.<sup>661</sup>

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<sup>659</sup> See transcript p90 L24 – p91 L14 for measures being taken to trace beneficiaries.

<sup>660</sup> FSB Circular PF NO. 126 para 2.

<sup>661</sup> Transcript of the hearing held on 21 February 2017, p67 L2 – p68 L24.

817. Mr. Abel Sithole, principal officer of the GEPF, highlighted a further constraint to using GEPF unclaimed benefits for purposes other than those provided for by the legislative scheme. He noted that there is no empowering provision which prescribes a period by when the benefits can be considered “unclaimable”, and thus available for other uses. As such, legislative amendments to use unclaimed funds and to empower the funds to change their respective rules for that purpose are required before unclaimed benefits can be transferred to non-beneficiaries.<sup>662</sup>

818. The GEPF made a further significant point, namely that even if such funds were to be made available for funding higher education and training, they we as a matter of fact finite. This assumes that they could only make a limited contribution to the funding crisis in the PSET sector, where challenges are by nature on-going, requiring a long-term source of funding.<sup>663</sup>

### **32.6.2 FUNDS UNDER MANAGEMENT**

819. The GEPF has invested an estimated R1.7 trillion with the PIC.<sup>664</sup> The PIC, in turn, and as already indicated earlier, has invested the GEPF assets in Eduloan to provide student funding. Most of the returns, which

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<sup>662</sup> 2007 FSB Circular PF NO. 126, section 1; transcript of the hearing held on 21 February 2017, p60 L6 – p64 L4; p69 L14 – 17; p85 L21 – p88 L3.

<sup>663</sup> See note prepared by Mr Abel Sithole dated 12 February 2017, para 7.

<sup>664</sup> Transcript of the hearing held on 21 February 2017, p74 L25 – p75 L6.

seek to strike a balance between market related returns and developmental impact, go to service fees such as management fees.<sup>665</sup>

### **32.7 UNEMPLOYMENT INSURANCE FUND**

820. The Unemployment Insurance Fund (UIF) is established by section 4 of the Unemployment Insurance Fund Act (UIF Act),<sup>666</sup> as a fund into which employers and employees contribute and from which employees who become unemployed or their beneficiaries are entitled to benefits, with the purpose to alleviate the harmful economic and social effects of unemployment.<sup>667</sup>

821. The UIF seeks to align its service delivery outcomes and strategic goals with that of government and the Department of Labour to create and inclusive and responsive social protection system.<sup>668</sup>

822. To this end, its priorities include.<sup>669</sup>

822.1. improving the processing of claims; and

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<sup>665</sup> Transcript of the hearing held on 21 February 2017, p75 L7 – p77 L18.

<sup>666</sup> 63 of 2001, as recently amended by the Unemployment Insurance Amendment Act 10 of 2016.

<sup>667</sup> Section 2; UIF presentation slide 3; and slide 9 “VISION”.

<sup>668</sup> UIF presentation slide 8.

<sup>669</sup> UIF presentation slide 8.

822.2. contributing to various schemes designed to alleviate the harmful effects of unemployment. This includes investing mandated funds in Social Responsibility Investments (SRIs).

823. The UIF is funded by various sources, including:<sup>670</sup>

823.1. contributions made by employers and employees and collected by the Commissioner of the South African Revenue Service in terms of the Unemployment Insurance Contributions Act;

823.2. monies appropriated by Parliament; and

823.3. interest and returns on investments made by the Fund.

824. The UIF must be used, among other uses, for payment of benefits under the UIF Act.<sup>671</sup>

825. The Unemployment Contributions Act (UIC Act) provides for the payment of contributions for the benefit of the UIF and prescribes the applicable collections procedures.<sup>672</sup> Currently, the Act empowers the

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<sup>670</sup> Section 4(2).

<sup>671</sup> Section 5; UIF presentation slide 5.

<sup>672</sup> 4 of 2002; UIF presentation slide 6.

Commissioner of the South Africa Revenue Service (SARS) to collect monthly contributions from employers and employees.<sup>673</sup>

### **32.7.1 UIF'S FINANCIAL POSITION**

826. The UIF's funds are managed by the PIC amounting to net assets of R120.12 billion, which amount is inclusive of an accumulated surplus of R98.5 billion and technical reserves valued at R21.62 billion.<sup>674</sup>

827. In terms of its Annual Financial Statement for 2016, the UIF has accumulated a surplus of around R10 billion.

828. By 31 December 2017, the UIF estimates a return on investment of about 10 per cent.

829. The evidence presented by the UIF shows that for 2016, it expended over R10 billion against a revenue of around R17 billion.<sup>675</sup> Expenditure includes benefit payments, and administration and operating costs.

829.1. Administration and operating expenditure includes employee costs and technical reserve provisions for benefit payments

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<sup>673</sup> UIF presentation slide 4.

<sup>674</sup> Presentation slide 4.

<sup>675</sup> UIF presentation slide 16.

(excludes payments towards unemployment alleviation schemes).

829.2. The technical reserve relates to unpaid claims. These amounts are placed into government bonds in order to preserve the capital (i.e. for future benefit payments).

830. The UIF currently contributes to three unemployment alleviation schemes, namely Training Layoff; Labour Activation Programme; and Turnaround Solutions via Productivity SA:<sup>676</sup>

830.1. in 2016, the UIFs contribution to these schemes was an estimated R81 million; and

830.2. committed an estimated R510 million thereto.

### **32.7.2 UIF'S INVESTMENT PORTFOLIO**

831. The UIF invests its accumulated surplus. As at 31 March 2016, it had the following assets under management with the PIC:<sup>677</sup>

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<sup>676</sup> UIF presentation slide 17; & slide 33.

<sup>677</sup> UIF presentation slide 19.

- 831.1. bonds, which are long term investments, accounting for 62 per cent of its total assets;<sup>678</sup>
  - 831.2. followed by listed equities, at 20 per cent;
  - 831.3. cash investments at 8 per cent of the total invested assets;
  - 831.4. cash assets (trading account) amounting to 8 per cent;
  - 831.5. money market instruments accounting for 3 per cent of the invested assets; and
  - 831.6. Development Instruments, which account for the smallest proportion of the investment assets, at 2 per cent.
832. It will be recalled that education falls under the development asset class of the PIC. This means that the UIF contributes 2 per cent to the PIC investment portfolio which includes education in general.
833. Its liquidity depends on the duration of the investment, i.e. whether it is a short or long-term investment. The majority of the UIF's investments are long-term, non-current assets,<sup>679</sup> which account for 63 per cent of the

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<sup>678</sup> Bonds comprise capital market instruments. UIF bonds are split as follows: 79% in government bonds; 18% in other bonds and 3% in parastatal bonds (41% with Eskom). In total, they account for R74 495 790 000. UIF presentation slide 20.

<sup>679</sup> More than 12 months.



investment portfolio.<sup>680</sup> Current assets make up the balance.<sup>681</sup> The total assets under management exceeded R120 billion at the date of presentation.<sup>682</sup>

### **32.7.3 UIF'S INVESTMENT IN EDUCATION**

834. Education in general makes up 18 per cent (R1 812 000 of a total of R9 943 912 committed to developmental instruments) of the 2 per cent which the UIF invests in the various developmental instruments, while the rest is directed to job creation initiatives.<sup>683</sup>

### **32.7.4 CONSTRAINTS TO USING UIF FUNDS**

835. Much like the GEPF, the UIF pointed to certain legislative constraints relating to the use of UIF benefits for purposes other than paying out beneficiaries.<sup>684</sup>

835.1. in the first instance, the legislative scheme reserves the use of the funds exclusively in the interest of its contributors, employers and employees to protect an employee in the case of unemployment;

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<sup>680</sup> Reflected as R76 420 399 000.

<sup>681</sup> Less than 12 months.

<sup>682</sup> UIF presentation slide 19.

<sup>683</sup> UIF presentation slide 22.

<sup>684</sup> UIF presentation slides 27 – 30.

835.2. the Funds' outstanding benefits provision increased to R4.4 billion in 2016, from 3.8 billion in 2015;

835.3. furthermore, the Funds' technical reserves increased from R19.1 billion in 2015 to R21.6 billion in 2016. These reserves are required to sustain the Fund's financial position;<sup>685</sup>

835.4. the Funds' surplus funds are invested in the PIC.<sup>686</sup> An estimated 90 per cent of those invested funds are in long-term investment instruments.<sup>687</sup>

836. Irrespective of these constraints, the UIF sees scope for using its funds in the PSET sector, mainly through:<sup>688</sup>

836.1. using 5 per cent of its total Portfolio, which is allocated to its unlisted property mandate, towards infrastructure, in the form of student accommodation. Practically, the Fund will carry the project and building costs, and the PSET institutions will rent the properties from the Fund; and

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<sup>685</sup> UIF presentation slide 28.

<sup>686</sup> UIF presentation slide 29.

<sup>687</sup> UIF presentation slide 30.

<sup>688</sup> UIF presentation slide 32 (last slide).

836.2. the PSET will issue a private bond, which will be bought by the UIF via the JSE. The UIF will trade off return of investment on the bond for social impact generated by the PSET.

837. When the CEO of the UIF testified before the Commission, it became apparent that the Fund had for many years operated as a moneylender, accumulating huge annual surpluses which it merely reinvested resulting in greater surpluses. The Commission gained a strong impression that the fund controlled such large resources that it had very little idea of how best to spend them. The CEO explained that all this had changed since the amendment of the Act in 2016 to provide wider and increased benefits: there was now no surplus which could seriously be considered available for the purpose of student funding. In addition, the Fund proposed to put further amending legislation before Parliament providing *inter alia* for paternity leave benefits and repayment of contributions to a contributor who resigned his or her employment. The Commission requested the actuarial report on the costing of the 2016 amendments and the new proposals.<sup>689</sup> A very different picture emerged from that report<sup>690</sup>: according to the projections, the implementation of the 2016 amendments will leave the Fund with an accumulated surplus of R297 billion after ten years with a solvency ratio of 945%; if all the additional proposed benefits are introduced and implemented, the surplus after the

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<sup>689</sup> A copy of the actuarial report is annexed to this Report.

<sup>690</sup> Attached to this Report as annexure "C" is a copy of the report: Unemployment Insurance Fund: Assessment of the Financial Impact of the Amendment Bill of 2015, QED Actuaries and Consultants (Pty) Ltd 31 March 2016. The copy of the report presented to the Commission was marked as 'draft'.

same period will be R124.8 billion with a solvency ratio of 380% (the actuaries recommended the implementation of an alternative proposal resulting in a projected accumulated surplus of R136.1 billion after 10 years and a solvency ratio of 414%, described as 'a high position' in para 10 of the Executive Summary to the Assessment).

838. The Commission requested the Fund to provide, through its actuaries, a supplementary report explaining the effect on the Fund of the transfer out of it of an amount of R50 billion. Despite the passing of several months no meaningful response has been received other than that the Fund hopes to have a further actuarial assessment by the end of July 2017. This Report cannot await the Fund's response. It seems clear from the actuarial report that the utilisation of R50 billion for the benefit of education would hardly scratch the surface of the Fund's resources.

839. **The Commission accordingly strongly recommends that any necessary amendment of the legislation be considered to permit surplus funds of the UIF to be transferred to the National Treasury and earmarked for the upgrading of the TVET sector as contemplated in this Report. In such a way, funds initially collected to relieve the hardship of unemployment could instead be used to reduce its incidence by increasing the productivity of the TVET college system as a whole.**

## 32.8 THE SKILLS DEVELOPMENT LEVY

840. A number of stakeholders before the Commission have suggested an increase in the skills levy, which revenue will be used to fund higher education and training.<sup>691</sup>
841. When considering how the youth (aged 14 to 34) are engaged, it emerges that 14% are in school; 6% are in universities; 4% are in TVET colleges; 1% are in community colleges; 2% are involved in workplace-based learning; and 31% are employed. Of the remaining youth, 29% are unemployed and 13% are not economically active. .<sup>692</sup>
842. The largest growth in the PSET sector is anticipated in the TVET and CET sub-systems, with a strong link to the workplace.<sup>693</sup>
843. The SETAs and NSF play a critical role in linking the PSET institutions of learning to the workplace. Their main contribution is through funding.
844. The “skills development system” comprises the SETAs, the NSF and the NSA. These entities were transferred from the Department of Labour to the newly established Department of Higher Education and Training in

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<sup>691</sup> See proposal of Professor P Hirschohn dated 10 November 2016 who proposes an increase in the skills levy incrementally from 1% to 3% over 4 years.

<sup>692</sup> DHET presentation dated 10 February 2017, slides 6 & 8.

<sup>693</sup> DHET presentation dated 10 February 2017, slide 10.

2009 with a view of creating articulation between the world of work and that of education.<sup>694</sup>

845. The Skills Development Act was adopted in order to facilitate the development of skills in the South African workforce by, *inter alia*, encouraging partnerships between the public and private sectors of the economy to provide education and training in and for the workplace. Institutional and financial measures have been introduced under the Skills Development Act for this purpose.<sup>695</sup> In particular, the SETAs, NSF and NSA are the primary vehicles chosen to pursue that objective.

846. The SETAs are established under section 9 of the Skills Development Act.<sup>696</sup> There are currently 21 SETAs.<sup>697</sup>

847. The NSF is established in terms of section 27 of the Skills Development Act.<sup>698</sup>

848. Workplace-based learning includes learnerships, apprenticeship and internships.<sup>699</sup>

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<sup>694</sup> DHET presentation dated 10 February 2017, slides 17 & 18.

<sup>695</sup> Section 2.

<sup>696</sup> 97 of 1998.

<sup>697</sup> Down from 25 and then 23 in 2005.

<sup>698</sup> 97 of 1998.

<sup>699</sup> DHET presentation dated 10 February 2017, slides 26 – 28.

849. Despite the recognition of the importance of TVET colleges, CET colleges and workplace-based learning, the majority of the funding for the PSET sector is directed towards higher education institutions. The SETAs and the NSF receive 26 per cent of the total PSET allocation.<sup>700</sup>
850. The SETAs and NSF are funded through a compulsory skills development levy. The levy is determined by an employer's salary bill.<sup>701</sup> Public service employees in the National or Provincial spheres of government and exempted Municipalities are exempt but these employers must budget for an amount equal to the levies payable for the education and training of their employees.
851. Once the levy is received by the DHET from SARS, the DHET will allocate 80 per cent to the SETA and 20 per cent to the NSF.
852. We are satisfied by the Treasury response that an increase in the Skills Development Levy (to fund education) presents a real threat to the cost of doing business and corporate sustainability despite the advantages it may bring. For this reason, we have not recommended its utilisation as a long-term solution.

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<sup>700</sup> DHET presentation dated 10 February 2017, slide 11.

<sup>701</sup> The levy is collected on a monthly basis by SARS and distributed to the SETAs and the NSF.

### 32.8.1 FINANCIAL POSITION

853. The skills development levy has grown significantly since its introduction. It stood at over R15 billion in 2015/16 from less than R2 billion in 2001/01.<sup>702</sup> An estimated R12 billion of the 2016 collection was transferred to the SETAs in 2015/16.<sup>703</sup>
854. The evidence presented by the DHET shows that as the levy and transfers to the SETAs grew, so has the SETAs expenditure.<sup>704</sup>
855. The majority of the expenditure has been for administration and in relation to the mandatory and discretionary grants.<sup>705</sup> The bulk of the grants have been increasingly expended on skills programmes, followed by learnership programmes.<sup>706</sup> Most of the expenditure is funded from the discretionary component of the grant.<sup>707</sup>
856. The data presented by the DHET shows an improvement over the last 5 years in the provisioning of workplace based learning, with internships improving by over 200%; apprenticeships by almost 150% and learnerships by 63%. Completions grew by 65% over the same period.<sup>708</sup>

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<sup>702</sup> DHET presentation dated 10 February 2017, slide 41.

<sup>703</sup> DHET presentation dated 10 February 2017, slide 44.

<sup>704</sup> Expenditure increased from 8% in 2013/14 to 26% in 2014/15. See DHET presentation dated 10 February 2017, slide 46.

<sup>705</sup> See DHET presentation dated 10 February 2017, slide 47 for the programmes on which the grants were expended.

<sup>706</sup> DHET presentation dated 10 February 2017, slide 48.

<sup>707</sup> DHET presentation dated 10 February 2017, slides 49 – 50.

<sup>708</sup> DHET presentation dated 10 February 2017, slide 75.



Job placements for persons that underwent apprenticeships also improved between 2010 and 2016.<sup>709</sup>

857. While the SETAs have recorded reserves as at 31 March 2016 nearing R10.5 billion, over R9 billion of this sum is already committed. This leaves a surplus of just over R1 billion in uncommitted discretionary funds.<sup>710</sup>

### **32.9 THE NATIONAL SKILLS FUND**

858. The object of the National Skills Fund (NSF) is to fund programmes aimed at skills development, especially in scarce and critical skills,<sup>711</sup> in line with national priorities. The NDP identifies the NSF as a key vehicle for such purposes.<sup>712</sup> In addition to funding research and innovation, the NDP requires that the NSF and the SETAs use their discretionary grants to fund skills development capacity in public education and training institutions.

859. The evidence presented by the DHET indicates that since 2013/14, the NSF's expenditure of its skills development grant allocations has been on par or exceeded revenue. Investments in skills development increased by over 800% from 200/01 to 2015/16.<sup>713</sup> Its revenues increased significantly during 2015/16. This was however the result of

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<sup>709</sup> DHET presentation dated 10 February 2017, slide 77.

<sup>710</sup> DHET presentation dated 10 February 2017, slide 53.

<sup>711</sup> DHET presentation dated 10 February 2017, slide 84.

<sup>712</sup> DHET presentation dated 10 February 2017, slide 82.

<sup>713</sup> DHET presentation dated 10 February 2017, slides 85 & 88.

receipt of funds from the SETAs uncommitted funds, amounting to R364 million.<sup>714</sup>

860. The additional injection of funds especially over 2014/15 – 2015/16 from the SETAs for TVET college infrastructure and in uncommitted surplus accounts for the increase in the NSF's accumulated reserves, which stood at around R10.7 billion in 2015/16<sup>715</sup>

### **32.9.1 FUNDING OF THE NO FEE INCREASE**

861. The NSF funded the shortfall (of R300 000 000) of the total amount (R2 330 312 000) resulting from the no fee increase decision for the 2016 academic year.<sup>716</sup>

862. The NSF has committed to fund the no fee increase for the 2017 academic year, totalling a sum of R5 288 000 000.<sup>717</sup>

863. The effect on the NSF reserves of R10 609 401 billion is an over-commitment of R366 323 million.<sup>718</sup>

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<sup>714</sup> DHET presentation dated 10 February 2017, slide 86 – 87.

<sup>715</sup> DHET presentation dated 10 February 2017, slide 88.

<sup>716</sup> DHET presentation dated 10 February 2017, slide 126.

<sup>717</sup> DHET presentation dated 10 February 2017, slide 127.

<sup>718</sup> DHET presentation dated 10 February 2017, slide 128 – 129.

864. This means that the NSF has no further revenue to fund additional skills development initiatives.
865. The DHET drew the Commission's attention to the Ministerial Task Team Report on SETA Performance. Some of the key recommendations are that:<sup>719</sup>
- 865.1. SETAs should receive a reduced allocation of 70%;
  - 865.2. the NSF allocation should be increased to 30% to enable it to meet national priorities; and
  - 865.3. the skills development levy should not be increased. It proposed that research based evidence ought to be done before any adjustment to the levy could be made.<sup>720</sup>
866. In the circumstances, neither an increase in the skills development levy nor the use of existing NSF reserves, appears to be a viable alternative source of funding for the higher education and training sector.
867. The National Treasury confirms that there is no legal basis to use the funds from the skills levy, the UIF or unclaimed pension funds. It indicated

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<sup>719</sup> DHET presentation dated 10 February 2017, slides 61 – 63.

<sup>720</sup> DHET presentation dated 10 February 2017, slide 63.

that using this money constitute an expropriation, in violation of section 25 of the Constitution.

868. Regarding pension funds in particular, National Treasury indicated that the funds are not held by the state,<sup>721</sup> but are rather under the control of the private sector as an investment made by the member.<sup>722</sup> Furthermore, it is unlikely that the amounts that could be raised would be sufficient for the purposes of funding higher education and training given the significant amounts required in that sector.<sup>723</sup> It concluded that the only appropriate use of the funds is to increase efforts to trace their rightful beneficiaries. It is the Commission's view that unless there are realistic prospects of tracing the beneficiaries - without exhausting the benefits in the cost of so doing - it makes no economic sense to leave the funds unutilised provided that, with utilisation, a guarantee is provided that in the event of a valid claim being received in respect of any such fund the benefits will be restored to the fund.

### **32.10 INCREASED TAXATION**

869. The fee-free higher education and training model proposed by students proposes that it be funded through increased taxation. This relates to both direct and indirect taxes.

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<sup>721</sup> Response dated 25 April 2017; p13 para 10.

<sup>722</sup> Response dated 25 April 2017; p15 para 9.

<sup>723</sup> Response dated 25 April 2017; p13 para 10.

870. Although the National Treasury had advised on its general view on this subject, the Commission solicited the further comment of the National Treasury on the plausibility of this funding proposal.

871. We deal hereunder mainly with the responses from the National Treasury to the proposals.

### **32.10.1 PROPOSED INCREASE IN DIRECT TAXES**

872. We deal herein with 3 categories of direct tax, namely personal income tax (PIT); corporate income tax and graduate tax.

873. On the proposal for PIT imposed on “high income earners” (top 10% of income earners) and “high net worth individuals” to be increased, National Treasury records that:

873.1. this tax bracket has been under pressure as a result of the deteriorating economic climate, which conditions have negatively impacted upon individual earnings and purchasing power. This has led in the previous two budgets, to a downward revision to expected revenue collection.

873.2. It states further that PIT was increased by 1% in 2015 across all marginal tax brackets (save the lowest). PIT was again increased in the 2017 budget, introducing a new top bracket

taxed at 45% (from 40%) The new tax bracket will add an additional R16.5 billion to revenue. The National treasury noted however, that these recent tax increases were targeted at covering the shortfall to fund existing expenditure programmes.

873.3. The National Treasury cautions against further increases in this tax bracket as it may lead to negative results for economic growth and investment.

873.4. In the alternative, the National Treasury considers VAT to have the least economically damaging consequences, to the extent that potential negative effect on poor households can be mitigated through, for example, targeted public expenditure. For the reasons set out below the Treasury regards the imposition of increased VAT as undesirable.

874. On raising the corporate tax rate (CIT) by 2% from 28% to 30%, National Treasury's response is as follows:

874.1. an increase in the CIT is not the only way to increase revenue. According to the Davies Commission, it is the least economically efficient tax as it, among other factors, moves with the business cycle;

874.2. the likely behavioural response to an increase in the CIT is to negate most of the assumed revenue increases;

874.3. that is because an efficient CIT regime is one that is conducive to or encourages growth, or at least one which does not affect growth negatively and protects the base against erosion and profit shifting to tax havens;

874.4. adopting measures to broaden the tax base is a more effective option than increasing CIT to raise revenue.<sup>724</sup> This is the current CIT focus area.

875. National Treasury also notes that South Africa's CIT rate is already high, being at 3 per cent higher than the OECD rate and 8 per cent higher than the United Kingdom.

### **32.10.2 INCREASING INDIRECT TAX**

876. In relation to a reliance on an increase in VAT, the National Treasury referred to the finding of the Davis Tax Committee on the macroeconomic impact of VAT. That found that increases in the current VAT rate would be inflationary in the short-term and since prices for standard rated consumer goods would rise immediately. This would in turn exacerbate

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<sup>724</sup> These measures include reducing tax incentives and introducing measures to curb avoidance.

inequality. The Committee recommended that any further increases in the VAT rate only be considered with a view of raising pro-poor expenditure such as social grants or increasing school nutrition programmes.

877. National Treasury does not support the establishment of an Education Fund by reason of its inconsistency with the prevailing arrangement of appropriating funds by parliament from the NRF.

### **32.11 SOCIAL IMPACT BONDS**

878. A few proposals recommend using Social Impact Bonds as a further source of funding higher education and training.

879. The evidence presented before the Commission relating to Social Impact Bonds (SIBs) shows them to be relatively untested funding instruments, not only in South Africa, but across the world.

880. National treasury, through its Government Technical Advisory Centre, is in the process of evaluating the viability of SIBs. There is as such no concrete evidence for or against such a funding instrument.

881. Regarding ICLs, while the National Treasury points to the ISFAP model and the feasibility study which it is currently conducting, it notes that although it cannot comment on that proposal at this time, the ICL model



proposed by Professor Fioramonti, which is appears to be a variation of the ISFAP model, can be accommodated through a restructured NSFAS.

### **32.12 BBBEE**

882. The ISFAP model proposes using companies' BBBEE contributions as a further source from which to fund higher education and training.<sup>725</sup> It specifically proposes using the Broad-Based Black Economic Empowerment Act, 2003 (BBBEE Act) to actively use the Skills Development Expenditure (6% compliance target) of companies to invest in bursaries for students.<sup>726</sup>

883. The MTT report indicates that the Commissioner of BBBEE in the Department of Trade and Industry (DTI) has advised that up to 25% of the 6% compliance target could be used by private institutions by donating funds to ISFAP.<sup>727</sup>

884. The implementation of this proposal would also require a legislative amendment to allow those funds to be used for reasons other than intended. Having said that, however, we reference the views of the National Treasury regarding the use of funds intended for skills development, which of itself, already flows through to the TVET sector.

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<sup>725</sup> MTT Report p13; ISFAP presentation dated May 2017, slide 7.

<sup>726</sup> MTT Report p13.

<sup>727</sup> MTT Report p56.

885. **The Commission supports the use of BBBEE contributions in line with the proposals of the MTT.**

### **32.13 THUTO KE LESEDI**

886. The next proposal is for the establishment of a central fund, the Lesedi Education Endowment Fund (Lesedi Fund) to facilitate a multi-pronged solution to funding education involving state, community and corporate participation.<sup>728</sup>

887. The model anticipates that funding would be rolled out in a phased manner, prioritising the most financially needy students.<sup>729</sup>

888. It estimates a funding shortfall of R27 billion, although the calculation of this amount was not adequately explained.<sup>730</sup>

889. Sources of funding include:<sup>731</sup>

889.1. corporate funding (entails the creation of a Capital Infrastructure Fund funded by the private sector in exchange for tax rebates). This it estimates will inject an additional R10

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<sup>728</sup> Mr Khaya Sithole withdrew his initial model (Lesedi 1) in the favour of the one under discussion. Transcript of the hearing held on 9 March 2017, page unnumbered.

<sup>729</sup> Lesedi Fund presentation (undated) slide 2.

<sup>730</sup> Lesedi Fund presentation slide 37.

<sup>731</sup> Lesedi Fund presentation slide 8 – 9.

billion to the current third stream university income of R8 billion.

889.2. NSFAS (representing government funding. The model proposes restoring the state subsidy to the 2000 level of 50% (phase in), thus adding R12 billion per annum);

889.3. the Skills levy; and

889.4. an education levy.

890. The proposed Lesedi Fund would be capitalised by existing funds of the NSFAS (R12 billion) and the skills levy (R15 billion). Thereafter, it would be self-sustaining by contributions by graduates through an education levy.

891. The fund raised would be consolidated into the newly created Lesedi Fund which, under the auspices of the DHET, would distribute the funds as follows:<sup>732</sup>

891.1. Class 1 & 2 students at full costs of study. These are students with a family income contribution of less than R300 000.

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<sup>732</sup> Lesedi Fund presentation slide 8.

- 891.2. Class 3 & 4 students, being those with a family income contribution of between R300 000 to R600 000 would receive a partial grant, and the balance would be funded by the students.
- 891.3. Class 5 student, being those with a family income contribution above R600 000, would be completely self-funded.
892. The Lesedi fund would also fund historic debt.
893. This model is similar to the ISFAP. It does however extend the grant portion to students with a family income contribution that is higher than ISFAP, meaning that more students will receive grants. In other words, it widens the scope of the 'poor'. Whilst ISFAP places the expected family income at less than R75 000, the Lesedi model places the figure at R300 000 or less.
894. The other key difference to ISFAP is that it does not have a loan component, which means that students who do not qualify for a full grant would have to pay for themselves without the support of a loan. For that reason, it may limit access to some students, depending on the individual circumstances such as students from household earning R300 000 but having more than one child who want to enter the sector.

## 32.14 CORRUPTION AND OTHER INEFFICIENCIES

895. Various stakeholders pointed to the inefficiencies such as under-spending in the system and within government which, if curbed, would ensure further revenue is available to fund, among other things, higher education and training.
896. The former Minister of Finance indicated that “recovered” monies would not automatically be allocated towards funding higher education and training.<sup>733</sup> In fact, most of these funds have already been allocated, and they would, therefore, remain with that sector.
897. The Democratic Alliance Student Organisation expressed the view that by cutting corruption and inefficiencies in institutions, free higher education for the poor with support for the missing middle was feasible.<sup>734</sup>
898. We agree with the view that curbing such wastage and corruption would indeed create a larger public purse from which allocations to all social programmes, including higher education and training, could be supported.

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<sup>733</sup> Transcript of the hearing held on 3 March 2017, p62 L19 - p66 L7.

<sup>734</sup> Presentation undated slide 12; transcript of the hearing held on 23 September 2016 p160 – 162.

## 33 FEE REGULATION

### 33.1 INTRODUCTION

899. This Chapter deals with the regulation of fees in the PSET sector.
900. Fee regulation is not presently being implemented in the South African PSET sector (although it could be argued that it is being applied at TVET and CET colleges through DHET's capping of fees). It is an issue that has been discussed within the sector for several years.
901. The report of the *Presidential Task Team on Short-Term Funding Challenges at Universities, 2015* ("PTT") stated that the current cost-sharing model for the funding of public higher education institutions would likely continue into the foreseeable future.
902. The PTT recommended that student fees needed to be kept affordable and that a regulatory framework for managing future university fee structures and increases be developed through a broad consultative process, and that this should be implemented in the 2017 academic year.<sup>735</sup>
903. The Minister met with USAf and the CHE in January 2016. At the meeting, it was agreed that the CHE was best placed, as an independent

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<sup>735</sup> Presentation Minister Nzimande, PG 30

body that had the statutory remit to advise the Minister on higher education matters, to develop a regulatory framework for the regulation of fees in the university system.<sup>736</sup>

904. In early March 2016, after agreement with USAf, the Minister requested advice from the CHE on the development of a regulatory framework for managing future university fee structures and increases.<sup>737</sup>

905. The Commission was alive to this process during its span.

### **33.2 WHAT IS FEE REGULATION?**

906. In broad terms, fee-regulation can be conceptualised as a decision by the State, or some other agency of the State, to place limitations on the fees charged.

907. There are different methods adopted in different jurisdictions for the regulating of fees.

908. Governments can either set fees at particular levels to be applied across the system, set differentiated fees according to disciplines and types of

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<sup>736</sup> Presentation Minister Nzimande, PG 31

<sup>737</sup> Presentation Minister Nzimande, PG 31

study, or allow universities to set their own fees in relation to their costs, but regulate how they may or may not be increased.<sup>738</sup>

909. These methods will be discussed more substantively hereunder.

### **33.3 PROCESSES UNDERWAY**

910. As stated above, the Report of the PTT recommended that a regulatory framework for managing future university fee structures and increases should be developed and agreed upon through a broad consultative process. The framework should be applied as part of an integrated planning process built on the current process for negotiated enrolment planning implemented by the DHET.

#### **33.3.1 MINISTER'S REQUEST FOR ADVICE**

911. Subsequent to the recommendations of the PTT and in March 2016, the Minister requested that the CHE provide “advice on a framework for the regulation of fees in Higher Education”.<sup>739</sup>

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<sup>738</sup> Phase 2 advice to the Minister, Page 28

<sup>739</sup> Letter to Minister Nzimande from CHE, 10 April 2017



### 33.3.2 THE WORK OF THE COUNCIL ON HIGHER EDUCATION

912. In doing its work, the Council on Higher Education (CHE) was mindful of the two major national processes related to Higher Education funding, being:

912.1. this Commission, which has been mandated and funded to conduct consultative processes on the broader issue of the feasibility of fee-free higher education; and

912.2. the Ministerial Task Team on financial aid reform and the funding of the “missing middle”.

913. The CHE concluded that to have suggested a framework for the future regulation of fees at the time would likely have led to the charge that the findings of the Presidential Commission were being prejudged, and to preclude a possible finding that fee-free higher education was possible.

914. The CHE therefore divided its task into two phases.<sup>740</sup>

914.1. the First Phase, which would look only at the implications of different levels of fee increase (including the possibility of no fee increase) for 2017 to inform immediate advice, on the assumption that this Commission’s report would not be

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<sup>740</sup> Phase 2 Advice to the Minister, Pg 9

available in time for institutions to make budgetary plans for 2017 informed by its recommendations; and

914.2. the Second Phase, which would explore fee regulatory models more broadly to inform the requested advice on a framework for the regulation of fees, should student fees, following the recommendations of the Presidential Commission, still form part of the overall funding regime in the future.

### **33.3.3 THE CHE'S ADVICE**

915. The CHE completed Phase 1 of its work and presented its advice to the Minister of Higher Education and Training on fee increases at public universities for 2017 in July 2016.

916. The advice together with consultations with various stakeholders within the sector resulted in the announcement by the Minister on 19 September 2016 which recommended amongst other issues, an 8% ceiling for fee increases in 2017.<sup>741</sup>

917. The advice on Phase 2 was provided to the Minister by the CHE on 10 April 2017 and it is referred to as *The CHE's Advice to the Minister of Higher Education and Training on A Framework for the Regulation of*

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<sup>741</sup> Phase 2 Advice to the Minister, Pg 10

*Fees in Higher Education*. This advice was furnished to the Commission after the completion of the Commissions public hearings.

918. The Phase 2 advice was developed by taking a broader and longer-term approach than the first, and the Task Team arrived at recommendations on the basis of an argument that explores different means of regulating fees in general, the South African context in particular, and a consideration of the advantages and disadvantages of different models of effecting regulation.

919. In its deliberations, the CHE considered the following models and their various implications:

919.1. capped tuition fees<sup>742</sup> which entails the government, or the agency with the responsibility for setting university tuition fees, determining the percentage by which universities are allowed to increase their fees, or permits institutions to set their own tuition fee increases within a range specified by the government;

919.2. a shares approach to regulating fees,<sup>743</sup> which is a manner of regulating fees to determine the maximum share of total university operating revenue that can comprise fees. This

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<sup>742</sup> Phase 2 Advice to the Minister, Pg 29

<sup>743</sup> Phase 2 Advice to the Minister, Pg 30

means that if the share of revenue from tuition fees is below the determined proportion, tuition fee increases would be greater than subsidy increases for a time, although there could be a specified ceiling on the rate of increase each year;<sup>744</sup>

919.3. fixed tuition fees,<sup>745</sup> which applies where different institutions charge different fees and regulation refers to determining the parameters within which they may vary or be increased. Fixed tuition fee models apply where students pay the same annual tuition fees across the system. There are two main types:

919.3.1. the universal tuition fee model wherein a uniform fee is charged, based on the notion that equity would be best served if everyone paid the same fee, regardless of programme, level of study, or university attended; and

919.3.2. a fixed fee model based on a locked-in average cost of study.

919.4. Sliding scale models in which differentiated fees apply.<sup>746</sup> The sliding-scale tuition fee model is applied in mainly two kinds of contexts, namely :

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<sup>744</sup> Phase 2 Advice to the Minister, Pg 29

<sup>745</sup> Phase 2 Advice to the Minister, Pg 31

<sup>746</sup> Phase 2 Advice to the Minister, Pg 33

919.4.1. within a context of state controlled tuition fees with the aim of easing the financial burden on students. This model is not designed for redistributive purposes; and

919.4.2. where institutions determine fees, students from wealthier backgrounds pay significantly higher fees, part of which is utilised to subsidise poor students. In this system, fee increases are linked to the provision of financial aid.

920. In considering the applicability of fee regulation models, the CHE found that the financing of higher education, including models for regulating tuition fees, in any single country, is deeply influenced by particular histories, cultures, and often by the dominant political and ideological currents of the moment.

921. Models range from those that rely on market forces to regulate fees, to those that are more strictly controlled to advance certain policy objectives.<sup>747</sup>

922. The CHE further found that as a highly unequal society, South Africa faces challenges of access and success, and the post-apartheid

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<sup>747</sup> Phase 2 Advice to the Minister, Pg 34

imperative of transformation, which is underpinned by equity and social justice considerations.

923. The determination of an 'appropriate' model for regulating tuition fees must consider a broad range of factors, for example: -

923.1. access and affordability by students from marginalised communities;

923.2. public policy goals; and

923.3. levels of state funding and the financial sustainability of universities.

924. The CHE then examined the various models for regulating tuition fees and their applicability to the South African context and made the following recommendations:

924.1. the establishment of a new independent regulatory structure which will set fees for all universities. This is ordinarily in contexts where there is a high level of centralisation of higher education;<sup>748</sup>

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<sup>748</sup> Phase 2 Advice to the Minister, Pg 46

924.2. alternatively, instead of creating a new structure to regulate fees, the regulation would be performed by an existing body through a specialist committee. The CHE proposed that a specialist committee of an independent body such as the CHE could be formed to act as a neutral facilitator of annual fee negotiations between the Department of Higher Education and Training and universities, each of which would need to present their particular case for any changes in fee levels;

924.3. the third recommendation is making the regulatory framework part of the enrolment planning process of the DHET. Enrolment planning is an already existing process within the DHET in which institutions negotiate their overall annual enrolment targets with the DHET, which is responsible for allocating subsidy to institutions based on their enrolment figures. It could be extended to include negotiations on fees and fee increases, and give the Minister the power to control fee increases, based on the application of a regulatory framework and its provisions.

925. The CHE further recommended that the proposed framework must be embedded in the overarching vision and goals for a transformed and

socially just higher education system and be guided by a number of principles, which are:<sup>749</sup>

925.1. the achievement of the best possible balance of priorities of the main stakeholders in determining the price of university study;

925.2. the principles of transparency and inclusion;

925.3. credibility;

925.4. stability (which is linked to affordability) and quality

926. The CHE found that none of the frameworks that were considered fully comply with the principles set out above. A decision was made that certain characteristics would have to be extracted due to the fact that:

926.1. South African higher education is not centralised like many European countries, China etc. Each university has its own cost structure, histories and levels of advantage and disadvantage;

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<sup>749</sup> Phase 2 Advice to the Minister, Pg 2



- 926.2. The frameworks that are studied are based on homogenous systems;
- 926.3. Fee regulation should be undertaken as a consultative process;
- 926.4. Fee regulation needs to be supported by the relevant parties first before the more technical work of developing guidelines and criteria can be undertaken.

### **33.4 IMPLICATIONS FOR INSTITUTIONAL AUTONOMY**

927. Institutional autonomy will be discussed in this chapter in the context of fee-regulation.
928. In the immediate post-1994 phase there was a deliberate and pronounced shift from a 'state control' model of the apartheid government to a 'state supervision' model "because of a belief that higher education would perform better with the state in a supervisory rather than controlling role. Participation was to be driven by stakeholder participation under the auspices of a supervising state."<sup>750</sup>
929. By the time of the 1997 White Paper, the implementation process was increasingly perceived to be one that required more direct government

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<sup>750</sup> Presentation, Professor du Toit, 17 October 2016

steering with the corollary of less consultation; by 2001 with the publication of the NPHE the trend was definitely in the opposite direction. The NPHE appeared to some to be a sign of intensified state steering of the system.<sup>751</sup>

930. Cumulatively, the shifts and changes in the process of restructuring higher education in the decade following 1994 are viewed by some as on-going undermining of co-operative governance and a reversal to a more interventionist approach on the part of the State although the general view supports autonomy and accountability in the use of public funds.
931. There are also differing views regarding fee regulation, both for and against its implementation. It appears that DHET has up to this point approached the subject on a consultative basis as per the recommendations of the PTT.
932. In 2016, the Ministerial Commission on fee increases invited all stakeholders to deliver presentations to the Commission on the matter of institutional autonomy in relation to the determination of fees by Government as well as a zero per cent fee increase proposal.
933. Various Stakeholders' viewed the intervention of Government in agreeing to a zero per cent increase (although the proposal was made by USAf)

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<sup>751</sup> Presentation, Professor du Toit, 17 October 2016

as a takeover of the role and responsibility of higher education institutions in the setting of fee increases for future academic years.

934. The Minister of Higher Education and Training had frequently made reference during speeches to higher education institutions remaining autonomous while being socially responsible. Some vice-chancellors had expressed concerns over the possibility of Government intervention in the setting of fee increases seeing it to be erosion of the institutional autonomy.

935. Evidence before the Commission suggested that the capping of fee increases or benchmarking was conducted in many universities internationally without necessarily eroding institutional autonomy.

936. It was further suggested that institutions should take cognisance of the political phase that South Africa finds itself in and the limitations of the current higher education landscape in that the setting of fees by Government could bring certainty and support to university sector provided that it does not lead to a position of under-funding.

937. There is a recognition that a danger exists though that a fee-free environment within the current subsidy structuring would prioritise teaching over research. Therefore, government determining the subsidy as it pertains to the fee setting process would necessitate a certain level

of oversight by Government which could have implications for institutional strategic choices.

938. An obvious issue that would have to be debated in a fee-free environment would be that of admissions. It was submitted at the Commission that Government should not be allowed to control the admission process of the University simply for the reason that they were in control of the subsidy allocation.

939. A possible zero fee sector would impact enormously on the admission process as it would prove impossible to admit all students who qualified for admission and therefore students from quintile one and two schools who achieved grades that other students could not compete with would be admitted resulting in poor students being unfairly disadvantaged. This is already the case. Many students qualify for HE study but cannot get access due to capacity constraints, individual course requirements and university admission scales. However, most institutions have introduced admission criteria which take account of more than just the mark, so as to give admission to students with potential but from poor school backgrounds.

940. It was proposed that going forward, the university would need to identify ways and means of substituting fees through possible 'business models' and should explore the processes of progressive institutions internationally in this regard.

941. Another viewpoint is that the capping of fees will affect institutional autonomy and will advance institutional homogenisation. Universities that rely to a greater extent on fee income will suffer, research missions will be jeopardised, capping fees will result in making higher education more affordable for the wealthy but not necessarily improve access<sup>752</sup>
942. In relation to TVET colleges, the view of the TVET Governors Council seems to be that the Continuing Education and Training Act 16 of 2006 makes provision for a college council to govern a public TVET college. The DHET appears to interpret the legislation differently. As a result, there is misunderstanding as to what governance means in relation to certain administrative processes of the colleges.
943. DHET presently determines tuition fees, accommodation fees and any other fees payable by students as well as accommodation fees payable by employees.<sup>753</sup>
944. The TVETGC further indicated that it believes that the TVET sector and TVET colleges can thrive and respond to the needs of the country if the governing councils are allowed undertake their legally imposed mandate to operate within the prescriptions of the CET Act.

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<sup>752</sup> (HESA, 2008).

<sup>753</sup> Presentation, TVET Governors Council, 24 October 2016

## 34 STUDENT FUNDING SYSTEMS

945. The focal issue of the Commission is to find a sustainable funding solution for higher education. As such, wide-ranging testimony was given recommending a variety of funding models. Research was also done into international examples, and the advantages and disadvantages of some of such systems. In this section, these different models will be considered briefly, together with their pros and cons in the South African context.

### 34.1 ONLINE UNIVERSITY

946. Before moving to compare the different funding models represented, it is necessary to briefly consider the recommendation presented to the Commission of an online university. More than one person gave testimony to the Commission advising that a free, online university would be the best solution.<sup>754</sup> Mr. McDonald's presentation has already been considered. Mr. Mahlangu also spoke about the benefits of an online education system, which he argued would have much lower running costs after the initial setup, and could be accredited to ensure quality. He also suggested that data charges for the site be eliminated, and that courses be compatible with hand-held devices.

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<sup>754</sup> Mr I MacDonald, Submission and presentation to the Commission, 29 September 2016; Mr N. Mahlangu, Submission and presentation to the Commission, 10 August 2016.

947. Ms. Glennie from SAIDE also gave a presentation to the Commission on blended and online learning techniques.<sup>755</sup> She discussed the benefits of incorporating online learning into traditional learning methods, and innovative blended learning strategies to support traditional correspondence instruction. She also highlighted the growing costs of traditional contact education, and the opportunity created by online and blended options. However, she also warned of the need for careful pedagogic consideration in the development of such courses, and pointed to the time and cost involved in establishing quality programmes. Furthermore, Glennie highlighted the extreme throughput challenges currently experienced by UNISA, and the difficulty most students have in adjusting to a distance learning model without traditional support mechanisms. She also discussed the development of Massive Open Online Courses (MOOCs) internationally, and the high dropouts experienced with these courses, with very low completion rates, despite the fact that the target market was generally well-educated. She suggested greater use of Open Educational Resources (OER) to reduce costs, but highlighted the need to take our context into careful consideration when making decisions of this kind.

948. In brief, while an online model was considered by the Commission, it was determined that such a model could not provide the whole solution to the problem. Traditional contact universities remain the most popular form of institutions, and as such a proposal for funding those attending these

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<sup>755</sup> Ms J Glennie, Submission and presentation to the Commission, 27 October 2016.

universities is required. Nonetheless, the development of blended and online courses continues, and many traditional universities are increasingly using technology in the provision of their courses, supported by contact teaching and tutoring.

## 34.2 PRINCIPLES, PRIORITIES AND CHALLENGES

949. In order to compare the models in our context, we have decided to highlight some principles and challenges in our current system, so as to ascertain how the different models assist with each of these and whether they meet the basic aims of our higher education sector. These will be outlined briefly, before moving to consider the various proposed models.

950. Dr. Hull, in his presentation and research article submitted to the Commission, highlighted the principles of Access, Efficiency, Fairness and Equality, and considered these in relation to various funding models. His research will be drawn on extensively in this discussion, and is included as annexure "A" to the Report.<sup>756</sup> The principles identified by Hull, are closely related to the Constitutional imperative of access and availability.

951. Hull described **Access** as the exclusion of barriers to higher education based on race, class, gender, socio-economic status etc. He explained

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<sup>756</sup> Dr G. Hull, Presentation to the Commission, 7 February 2017; G. Hull, 'Reconciling Efficiency, Access, Fairness and Equality: The case for income-contingent student loans with universal eligibility' in CHE (2016) *Kagisano 10: Student Funding*, pp. 187-217.



that on the one hand is the formal denying of access (i.e. laws or rules which prohibit someone access), which has been removed through legislation. On the other hand, is substantial opportunity, which refers to the removal of social barriers denying access. This would include exclusion due to socio-economic status – or financial exclusion, which is the main topic of discussion in this context. For the purposes of this analysis, the expansion of access as a constitutional imperative is added as another dimension of access, despite Hull's discussion regarding expansion of spaces as not necessarily solving formal or substantial Access, a reservation also shared by the Commission.

952. With regard to **Efficiency**, Hull discussed how the sector needs to make good use of funding, and not waste limited resources. Hull further described three types of efficiency (allocative, intra-sectoral and inter-sectoral). The first relates to student preferences and labour and labour-market demand. The second relates to realising the broader aims or purposes of higher education. The last is concerned with the broader allocation of government funds in the pursuit of certain functions. Hull explains that 'Inter-sectoral Efficiency is achieved if the values realised through spending on higher education could not be realised more cost-effectively through spending on other sectors, and do not crowd out more important values that could have been realised through spending on other sectors'.<sup>757</sup> In his presentation to the Commission, Hull referred to this element of Efficiency when discussing 'black tax'. He explained that

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<sup>757</sup> CHE (2016), *Kagisano 10*, p. 191.

it would be more efficient (and fair) to spend money on interventions to deal with poverty for all citizens, than to spend on free education in a round-about attempt to alleviate poverty (only in the families of certain graduates) through giving them the necessary resources to pay black tax.

953. An element of efficiency highlighted during the Commission was the problem of **dropout and throughput** in the PSET sector, and how this is putting a strain on limited resources, and is wasteful (both financially, psychologically (for the student), and in terms of human resources). Efficiency, both in Hull's terms and in terms of throughput and dropout, need to be considered when comparing different funding options.

954. **Fairness** relates to equity, in considering 'how the benefits and costs of higher education are allocated among members of society'.<sup>758</sup> This discussion relates also to the benefits of higher education, and as discussed previously in this report, there are both public and private benefits to higher education. Furthermore, in the South Africa context especially, only a small number of individuals benefit from higher education.

955. Finally, **Equality** is considered, which refers to the treatment of individuals in society as though they are equal, and is based on the removal of hierarchy, stigma, domination and exclusion. In Hull's article, he connects the issue of Equality to another key challenge highlighted in

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<sup>758</sup> Ibid., p. 194.

the Commission, and that is the **Means Test**. The Commission repeatedly heard how humiliating the means test is, and how it stigmatises the poor and makes them 'beg poverty'. Hull argued that the means test goes against Equality as it creates stigma by throwing suspicion on the applicants; makes applicants reveal aspects which they find shameful; and humiliates them or makes them feel inferior.

956. Aside from the above principles highlighted by Hull and the two challenges already discussed above, there were other challenges or priorities highlighted during the Commission. First, **quality** higher education. While it is hard to define what quality higher education is, it is important for the higher education system to be sufficiently funded to ensure that there is quality in order to demonstrate excellence, consistency, the return on investment (value for money) and transformation imperatives.

957. **Sustainability** was also highlighted by many participants, and it is important that any funding system introduced will be sustainable in the foreseeable future. A system which will lead to economic decline and collapse is not sustainable. There are many examples world-wide of higher education systems that have either collapsed, or are not coping as a result of poor funding decisions that were made in the past.

958. It was also highlighted frequently that the system should not be administratively burdensome, either on students, institutions or on

government departments. This is in some ways linked to efficiency, as it is inefficient to spend money on an expensive bureaucracy to manage a funding system. There is, therefore, the need for **administrative ease** without too many additional expenses to manage a complex system.

959. Related to the Constitutional imperative, is the **size and shape** of the sector. Any funding model needs to be able to support the transformation and gradual expansion and of the sector, but also the development of the desired type of PSET sector. This relates to a university/ TVET balance (the 'pyramid'), a research and teaching mix; a higher education system responsive to the needs of our economy and society; and international competitiveness.

960. Finally, and also in line with the Constitution and higher education legislation, is the need for the protection of **Academic freedom and institutional autonomy**, within a framework of accountability and transformation. Professor Du Toit presented to the Commission on autonomy in its various forms, and the value of autonomy for the sector, within a framework of public accountability.<sup>759</sup> One of the issues of discussion related to the issue of autonomy, has been around the topic of the regulation of fees. In this regard, the Council on Higher Education (CHE) prepared advice for the Minister of HET, which was shared with the Commission. This advice is attached as an annexure and should be given careful attention. It is important to remember that in any funding

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<sup>759</sup> Professor A. Du Toit, Submission and presentation to the Commission, 17 October 2016.

system, there is still the need to determine a proxy for payment per student – whether this is funded by the state or the student. As such, the issue of regulation of fees needs attention in any funding model.

961. Each of the funding systems considered below will take into account how they relate to each of these principles, priorities and challenges. The section below will give a very brief outline of the model and its characteristics. For this purpose, the model will be discussed in terms of international examples of where it is in place, and how it is structured. Thereafter, the pros and cons in relation to these points and to any other pertinent matter will be outlined. The international examples discussed below are generally based on the presentation to the Commission by Dr. Ouma, unless otherwise indicated.<sup>760</sup> The discussion on pros and cons is partly drawn from Hull's research, and is partly our analysis, often based on a number of points of view put before the Commission through submissions and throughout its hearings.

### **34.3 DIFFERENTIAL FEE**

962. Dr. Ouma explained that upfront fees are 'based on the belief that parents have a responsibility to cover some portion of their children's higher education costs'. These fees can be differential (as in Colombia, the Philippines, and Italy) and based on the parent's income; or they can be the same fee for all. In these instances (for instance Chile, China, India,

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<sup>760</sup> Dr G. Ouma, Presentation to the Commission, 24 February 2017.

Indonesia, Italy, Japan, South Africa, Kenya, USA) 'tuition fee levels do not change with a family's income level, but eligibility for aid does change and tuition fee costs are off-set by means-tested grants and/or government subsidized loans'.

963. Differential tuition fees vary according to the socio-economic background of each student. Accordingly, students from lower-income families pay lower fees while students from well-off families pay the full fee rate. These sliding fees could be within a context of state controlled tuition fees or institutionally determined fees. In the first instance (Indonesia, Colombia and Italy), the state decides differential fees with the 'aim of easing the financial burden on students' and 'Universities in this context do not generate extra income that could be utilised to provide financial aid'. In the second model (California), students pay higher fees to the university to allow for cross-subsidisation without financial means. Some South African universities testified to such a system at university level.

964. With regard to implementing such a system, Ouma indicated that: 'Number one you have to means test all your students and determine which socio-economic group they belong to; once you have done that then you determine what fees they are going to pay, either you can have a uniform fee where you say this is what everyone is going to pay knowing very well that 20 percent, 30 percent, 40 percent of your students will not be able to pay. Then you know those who pay the full rate have paid to subsidise the others. Or decide, as the Indonesian case or even the

Columbian case or even the Italian case, where you decide to determine particular fee levels for particular students from particular socio-economic categories.’

965. Dr. Ouma explained further than ‘when the Department of Higher Education [and Training] said that students from the so called ... missing middle and the working-class backgrounds ..., the state is going to pay the increased fees for them, this was exactly the challenge the Universities were experiencing because they do not have data ...where they can determine who exactly is missing middle and who exactly is working class. That data is not systematically captured across all the Universities, but they are trying to capture that, so my view is Commissioner, it is doable’.

966. Despite the fact that Dr. Ouma said this can be done, it is clear that it would require means testing of all students, which would be both cumbersome and may stigmatise specific students. Having said this, it was also brought to the attention of the Commission that some students misrepresent their socio-economic status and end up benefitting from a system designed to assist the poorest students. Furthermore, in the South African context, there is unlikely to be a sufficient number of students able to pay fees at a high enough level to subsidise all other students sufficiently.

967. Secondly, Dr. Ouma discussed a **dual track system** where ‘a certain number of free (or very low cost) university places are awarded by the government based on academic merit, while other places are available to qualified, but lower performing students on a tuition fee paying basis’. In this system ‘Students in the “parallel” streams pay very high, sometimes full cost fees’. This is in practice in Russia, Hungary, Ukraine, Kenya, Uganda, and Egypt.
968. He explained that ‘it is practiced in quite a number of countries you know, a lot of countries in Eastern Europe, Russia, the Russian Federation, Estonia, Latvia, in Africa as well, Kenya, Uganda, Tanzania, Egypt; Pakistan practices this as well. India, as I have demonstrated in my presentation, it creates two classes of students for want of a better word, the one group are those who are considered to be high performers who have passed their matriculation examinations and the state either over subsidises them or in certain instances they actually go in for free. Then they create another class of students who are told, look here, we have got some capacity, if you want to come in you are welcome but you are going to pay either the full rate or a substantial amount of fees. So then you have got two streams of students, you have got one stream of students who are subsidised by the state, in certain cases they pay nominal fees like in the Indian case, in the Russian Federation as well and then you have got another stream of students who pay the full rate, at times even more, so that is how the dual track system works.’



969. With regard to the dual track model, it is clear that those with the best school marks will be prioritised, and given South Africa's unequal school system, this will not be in line with the Constitutional imperative to access.
970. In the context of the Commission's mandate, the current system is a mix of a differential fee model and an ICL model (to be discussed later). For the purpose of this discussion, it is included under differential fees. Maintaining the *status quo* would require maintaining the basic principles of the current system, with improvements to efficiency. The characteristics of such a system include:
- 970.1. A cost sharing model as higher education and training is interpreted as both a public and a private good.
  - 970.2. A scheme which determines who can receive a loan/ bursary and who cannot, based on household income. The current determination of R122 000 could be shifted (up or down) as funds allow.
  - 970.3. A means test would be required to determine who qualifies.
  - 970.4. A determination of incentive bursaries for university students.
  - 970.5. Bursaries for TVET students within the qualifying household income band.

970.6. Fees would be retained, with or without some form of regulation.

971. The pros and cons of such a model:

971.1. Students have rejected this model, and it is unlikely that they would come to accept it without substantial change.

971.2. If implemented effectively, it can ensure **Access**.

971.3. The **means test** is retained (goes against the wish of students and Hull's **Equality** argument).

971.4. A working and acceptable definition for 'poor' would need to be developed, and this together with the means test, results in this model not meeting the criteria for **administrative ease**.

971.5. Unless funds are substantially increased, university debt will remain a growing problem, which could impact on both **sustainability and quality** in the short term (until additional funds are made available).

971.6. Cost sharing means that the state would not need to shoulder the full burden of cost, and the **Fairness** test would be met, depending on the bursary/ loan mix.

- 971.7. As the state does not need to provide all the funds, the **size and shape** of institutions is unlikely to be affected negatively in the longer term.
- 971.8. The NSFAS model is developed, and may be continued with radical improvements to efficiency.
- 971.9. Without additional academic support, it is **unlikely that throughput will improve.**
- 971.10. Black tax remains an issue of tension and it may be difficult to enforce repayment without a completely overhauled collection method.
- 971.11. **Autonomy and academic freedom** are retained.
972. Alternatively, a more traditional varying or differential fee model should also be considered.
973. The characteristics of such a system include:
- 973.1. A cost sharing model, as higher education and training is interpreted as both a public and a private good.

- 973.2. A system which determines categories for different fee-levels based on household income/ affordability.
  - 973.3. A means test (for all) would be required to determine who qualifies for which level of fee.
  - 973.4. Different levels of fees would need to be set for each and every course at each institution.
  - 973.5. Fees would be retained, with or without some form of regulation.
974. The pros and cons of such a model:
- 974.1. The **means test** is retained, and even extended (no **equality**).
  - 974.2. A working and acceptable definition of categories of household income would be required (no **administrative ease**).
  - 974.3. The effect of 'jumping bands' would need careful consideration.
  - 974.4. University debt could remain a growing problem (no **sustainability**, possible impact on **quality**).

- 974.5. More students may find themselves unable to pay the expected fees, considering the small number of households in to the top tax brackets (no **Access**).
- 974.6. Universities which cater predominantly for poor students would not be able to have a system of cross-subsidisation with sufficient income to sustain the university. Even those with the largest proportion of wealthy students, may find insufficient opportunity for full subsidisation (**Size and shape** may be impacted).
- 974.7. Cost sharing (**Fairness**) means that the state would not need to shoulder the full burden.
- 974.8. Without additional academic support, it is unlikely that **throughput** will improve.

#### **34.4 ISFAP PROPOSAL (IKUSASA STUDENT FINANCIAL AID PROGRAMME)**

975. The new proposed ISFAP system is in many ways a continuation of the current system, with some additions and variations to ensure support for a wider number of students, and free education for the poor. The ISFAP proposal provides for a complex system of loans and grants for students from families who are deemed poor or part of the 'missing-middle'. As

such, it manages to increase the amount of money available for students through an elaborate PPP which includes money from the government, banks and other providers of financial services, corporate social investment, BBBEE and Social Impact Bonds. By increasing the pool of money available, it can reach more students, and offer them an amount equal to (or at least closer to) the real, full cost of study (i.e. tuition and other expenses). If implemented, the ISFAP model should result in broader access for the financially needy, a reduction in debt owed to the universities, and possible improved throughput. The assumption of improved throughput is based on effective wrap-around support being provided to students, and an expectation that currently some dropout and high failure rate is caused by financial stress. The latter assumption does not take into consideration the complexity surrounding dropping out and the high failure rate. There are numerous challenges as expressed in some of the testimonies presented to the Commission. The envisaged “wrap-around” support places more emphasis on the student and plays down the support needed for teaching staff; infrastructure and instructional technology needs in an uneven higher education system; poor career choices that often lead to extended study periods, etc. Academic freedom and institutional autonomy do not compel institutions collectively to develop strategies that will make them accountable and significantly improve the high failure rate, or improve their throughput. As a result, this problem will persist for some time, and it will remain costly to the system.

976. However, on a deeper level, a few key concerns regarding the proposal come to the fore:

#### **34.4.1 THE MEANS TEST**

977. The means test is retained as an important element in the ISFAP model, and in fact becomes even more central than it has been to NSFAS. While ISFAP plans to include databases from SARS, Home Affairs and other entities, problems remain and using quintile school divisions and social grants as proxies for a means-test, hold their own risk and may result in exclusion of other poor students (for instance, non-fee paying students at quintile 5 schools).

978. Thus far, the means test has only needed to determine whether or not a student's family income/ affordability falls within the affordability range set by NSFAS, and if so, the student has received a loan/bursary from NSFAS, subject to the availability of funds.

979. Regarding the current situation, we have heard testimony viewing the means test as one of the central problems of NSFAS. First, students have indicated that they are humiliated when forced to prove and plead poverty; they feel frustrated by the inefficiency of the system which delays their approval for funding; and they had to in the past re-apply and go through the means test on an annual basis, leading to insecurity (this aspect has changed). Secondly, students and anecdotal evidence

indicate that the means test has led to fraud with students providing false information in order to access loans. There are reports of ineligible students accessing NSFAS loans, while the poor cannot access these loans. The DHET has instituted an external audit of the extent of fraud at selected institutions, and is yet to release the report.

980. The complexities of a means test in the South African context cannot be ignored. Without going into detail – records on births and deaths are not always accurate, some people have more than one ID book, and in general our information management systems need to be better integrated across government. Furthermore, the nature of families is not traditional nor nuclear: single-parent household without either proof of divorce or any provision of maintenance are the norm; families take in extended family members when needed, without any official documentation (like adoption); grandparents raise children for a variety of reasons; and incomes come from extended family members. Finally, those part of the informal economy have little proof of income. In such an environment, proving family income and the number of dependents is extremely complex. So also, is the capacity to verify information even if the will to do so exists, which, in itself, doubtful. The upper limit for the means test may well admit some who can afford to pay while excluding others who cannot.

981. While means testing is a necessary tool to guide who qualifies, and who does not, such a model, if it is adopted, needs significant revision to take



into account a number of variables identified in the above paragraph. An algorithm would have to be developed to determine which categories of students/applicants would apply and have a reasonable probability of success. It should apply across the races in order for it to be sustainable. It should take into account the status of the family and/or other income or not, since economic circumstances change and some families become poorer over time even when they were not at the preferred quintile schools.

#### **34.4.2 THE MIX OF LOANS AND GRANTS (GAP YEAR)**

982. As mentioned above, the means test becomes even more central in ISFAP. No longer is it only required to assess whether or not income is below a certain threshold for the purposes of a loan, but it introduces multiple steps where different allocations are made and where either grants or loans can be accessed. In addition, the interest rates to be charged on loans will be different depending on the outcome of the mean-test and the field of study.

983. With this system of loans and grants, the value of falling just under a certain income threshold holds much more benefit than was the case with NSFAS. Now, proving a certain income will determine whether you get a grant or a loan, increasing the stakes substantially and increasing the chances of fraud in the system. This is exacerbated by the fact that the cut-off amounts for each band are simple numbers. This is different from

a graduate system (like our income tax brackets) which reduces the chances of jumping brackets the detriment of the system.

984. Another concern with the ISFAP system is that grants are provided for the initial years, with loans taking over later in studies. This means that the greatest risk of failure and dropout is in fact carried by the government (rather than the student or private funders in the PPP agreements) and it removes the current incentive provided by NSFAS in the later years of study. It may lead to students who are unsure about further study just 'trying it out', as they have very little to lose. On the positive side, it makes the loans provided less risky and more likely to be repaid (an advantage for the providers of loans).

#### **34.4.3 THE INCLUSION OF PRIVATE SECTOR MONEY**

985. On the positive side, the inclusion of private sector money materially increases the amount of funding available for students. ISFAP has been successful in raising private money for the (limited) 2017 pilot where NSFAS has not been able to so in the recent past. SARS is also to become involved in recovering loans, which should lead to better recoveries. However, the majority of private money is for the provision of loans. In order to get the private sector involved, it needs to be sure that the risk is limited. This leads, in the first instance, to a complex bureaucracy where NSFAS is retained but side-lined in order for a new body to manage the funds. The costs and efficiency of running the

complex system are not explored in the model, and alignment with the PFMA needs to be considered. This PFMA accountability mechanism is masterfully circumvented in the ISFAP blueprint. There are numerous legislative changes recommended, but the PFMA is not on the list of those, yet the retention of NSFAS in a diminished role is sought to be a conduit to transfer funds to ISFAP to manage through its MANCO.

986. Secondly, it leads to the system discussed above, where loans only begin when the student has a better chance of succeeding. ISFAP has explained that it is a model where the risk is shared, but it appears as if this is not balanced share of risk and benefit. The state also carries more risk in the first years of the scheme, until a track record is established and the private sector feels secure in lending.

#### **34.4.4 CSI MONEY**

987. Part of the risk-sharing, is through the fact that private money is also used for the grants. This is expected to be provided partly through CSI donations. However, it is unclear what quantum such donations could reach. Testimony has been heard indicating that companies would usually prefer small education projects where they can see and perhaps benefit from the impact of their relatively small CSI activities.

#### **34.4.5 SOCIAL IMPACT BONDS**

988. Another stream of funds, directed mainly at the provision of wrap-around support to improve student success, is through SIBs. These have not been proven to be a successful tool in the developing world, and it is unclear how much they would raise, particularly in struggling economy. Also, it is unclear whether the same companies are going to be willing to make both CSI donations and buy into SIBs. It is unclear what direct benefits SIB investors would get if the project is successful. Finally, it is unclear whether the wrap-around support is dependent on SIB investment, or whether it will go ahead anyway, and where the money would come from in such an instance.

#### **34.4.6 BBBEE**

989. The accessing of these funds seems to be possible and without much risk. Even without the ISFAP model, this is a source of funding which should be utilised to supplement any funding model which is adopted.

#### **34.4.7 THE FULL COSTING OF THE ISFAP MODEL AND THE ASSUMPTIONS / MODELLING UNDERTAKEN**

990. Despite the above pros and cons of the ISFAP system, the crux of fits feasibility lies in the calculations made regarding the amount of money

needed and the amount available. A key element here is the costing done by National Treasury, which is yet to be completed.

991. In modelling, various scenarios certain assumptions have been made. Unfortunately, these are not clear in the report and the modelling has not provided to the Commission, making it hard to fully understand the final numbers. There are some specific concerns.

992. On page 81 a table is provided showing the number of students who would need to be funded should ISFAP be introduced in 2018:

**FUNDING COST IMPLICATIONS – 2018**

<b>Income band</b>	<b>&lt; 150k</b>	<b>&lt; 300k</b>	<b>&lt; 450k</b>	<b>&lt; 600k</b>
<b>Number of students funded (cumulative)</b>	209,907	334,761	397,187	501,232
<b>% university population (cumulative)</b>	30%	45%	52.5%	65%
<b>Funding cost (R'bn) (cumulative)</b>	19	28,9	33,8	42

993. The concerns with the above table are that:

993.1. The calculation of 65% falling below R600 000 p.a. is hard to verify but lower than expected. Such numbers are not collected by universities currently.

993.2. The number of 501 232 students and 65% of the student population do not tally when current headcounts stands at almost 1 million.

993.3. These numbers only include university students and no calculation is made for TVET students, where an even greater number should fall within this income bracket.

993.4. The full cost of study mentioned when the ISFAP team presented was R135 000, but this would require more than R42 billion annually, an amount much larger than ISFAP's projected income.

993.5. It is unclear what level of growth in student numbers is factored into the calculations. Even if overall numbers do not increase dramatically, it can be expected that the proportion of students from the missing-middle will increase once funding is available to them.

994. On page 82 is a table showing the income which can be expected:

#### **PROJECTED INCOME**

	<b>Short Term (2017/18)</b>	<b>Medium Term (2018/19)</b>	<b>Long Term (2019/20)</b>
<b>Government Funding</b>	R17,5bn	R18,5bn	R19,7bn
<b>B-BBEE Skills Development Levy</b>	R8bn	R10bn	R15bn

<b>Private Capital Markets</b>			
- Bonds	R0,5bn	R0,5bn	R5bn
- 20% Credit Enhancement	R1,5bn	R2bn	R5bn
DFIs, Foundations, CSI	R1bn	R1bn	R5bn
<b>Total</b>	<b>R28,5bn</b>	<b>R32bn</b>	<b>R49,7bn</b>

995. The concerns with the above table are that:

995.1. The amount of R42 billion calculated in the first table to support only university students, is not actually available in the year 2018/19, leaving a funding gap that is not explained.

995.2. The amount calculated in the proposal as government money is based on what is currently given to NSFAS. However, there are a few things to consider. First, this means that money originally planned for loans, now automatically become grants. While NSFAS collections have been poor recently, this would preclude any option for sustainability in the future, and rather makes allocations to NSFAS of this size an indefinite line item in the budget. Second, the amount allocated to NSFAS has increased substantially in recent years as a result of the student protests. This calculation is based on an expectation that allocations should remain at this level indefinitely, and grow further. It is unclear if this is sustainable given the current economic context, and it may lead to direct subsidies to universities declining even further. Finally, the amount also includes money currently allocated by NSFAS for specific

programmes. For instance, Fundza Lushaka money would now be allocated as part of the broad ISFAP plan. This could have repercussions for such targeted bursaries in scarce-skills areas. The same applies for SETA money, with the added complication of imminent changes to the SETA structure and a possible planned reallocation of this funding.

995.3. It is unclear whether the NSFAS money for TVETs has been similarly lumped together for the calculations discussed above. This could have dire consequences for this sector, as many of the calculations on the ISFAP model are based purely on the numbers and costs for university students. The general lack of inclusion of the TVET sector (apparently due to data problems) is a major concern.

995.4. The growth in expected private contributions is unclear. Consequently, the duration it may take to produce a track record before private contributions are made, leads to further uncertainty.

996. Based on the above, the question arises of whether the ISFAP model is currently affordable. In the report, it is indicated that should there be insufficient funds, possibilities would include lowering the top threshold of R600 000; declining students based on academic performance (presumably students whom the universities have already accepted);



giving preference to scarce skills; offering lower amounts in certain cases and adjusting the loan/ grant matrix. The R600 000 threshold remains a serious challenge in that it has been conceived under exceptional circumstances characterised by pressure to address the missing-middle category without a study to consider all the variables. It was a quantitative exercise (yet to be verified with further work to be done), without much credence to the qualitative circumstances and elimination of discrimination. The recent negative economic situation in South Africa could have an adverse effect on the financial planning, and the willingness and/or capability of other private funders to commit themselves in the wake of economic uncertainty needs consideration.

997. In his presentation to the Commission, the Mr. Nxasana indicated that decisions would be made based on funding available and any funding gap. However, any of these changes to the funding allocation would impact students immediately. If students accept the ISFAP proposal, they would expect it to be implemented as explained, and such changes could lead to further altercations. Any solution needs to be sustainable for the foreseeable future. The Commission further noted that there was no universal acceptance of this model by students since other groupings declined to participate in the consultative forums arranged in order to refine the various stakeholder inputs.

998. In brief, the characteristics of the proposal are:

- 998.1. A **cost sharing** model as higher education and training is interpreted as both a public and a private good; but free education for the poor (full cost of study)
- 998.2. A scheme which determines who can receive a loan/ bursary and who cannot, based on household income. This is a complex system where based on (still undefined) income levels, the bursary/ loan mix changes.
- 998.3. A **means test** would be required to determine who qualifies, and many more students would be subject to the means test.
- 998.4. Unclear on the level of support for TVET students, most likely treated the same as university students.
- 998.5. Fees would be retained, with or without some form of regulation.
999. The pros and cons of such a model:
- 999.1. No financial exclusion (**Access**). Assuming that the family income level of R600 000 can be maintained and that there is no student whose family income exceeds that level who cannot afford to pay the fees and ancillary support (which is doubtful).

- 999.2. The **means test** is retained (no **Equality**).
- 999.3. A working and acceptable definition for 'poor' and 'missing middle' (in 4 steps) would need to be developed (no **administrative ease**).
- 999.4. If all the proposed funds are forthcoming, students should receive full cost funding and university debt would be reduced (yes to **sustainability and quality**).
- 999.5. The public-private relationship could prove problematic – if the banks are unhappy with the progress and withdraw, the state will be left to shoulder the full costs (in this case, sustainability is a problem).
- 999.6. Cost sharing means that the state would not need to shoulder the full burden (yes to **Fairness**), making this model more sustainable (no impact on **size and shape**); however, there is insufficient detail regarding the free first year, and how the cost of this would be carried. It could prove more costly than expected.
- 999.7. Wrap around support could improve **throughput and reduce dropout**.

999.8. Black tax remains an issue of tension, but working with SARS could improve collection.

999.9. No relief of the present burden on the state would result and the scheme would therefore not facilitate diversion of the present contribution of the state to the wider education sector.

### **34.5 FEE-FREE FOR ALL**

1000. A free higher education model means that there is no payment of fees by any students. The whole cost of education is covered by the state through direct transfers to institutions (universities and TVETs). While the issue of fees is covered by the state, it should be remembered that even in such a context, a 'tuition fee' needs to be determined to calculate to amount to be paid by the state to each institution, based on the number of students, the courses enrolled for, and any other identified costs.

1001. Dr. Ouma<sup>761</sup> made the following observations concerning fee-free higher education:

1001.1. It was first introduced in many African countries (eg. Uganda, Ghana and Nigeria) as a legacy of the colonising power. The experience has been that fee-free education is unsustainable.

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<sup>761</sup> G Ouma, Evidence to the Commission, 24 February 2017

- 1001.2. The worldwide trend is for countries that previously provided higher education at no cost to the student to move towards cost-sharing. This primarily due to lack of financial means from the side of the state.
- 1001.3. Payment of tuition fees created capacity for a system to expand and provides more spaces for students.
- 1001.4. Where the massification of higher education is a necessity (as in South Africa), charging tuition fees is more advantageous to the maintenance of the higher education system than fee-free education. Dr. Ouma testified that he knew of no country that had massified on a fee-free model.
1002. In his testimony to the Commission, Dr. Ouma spoke about three free higher education examples – Brazil, Norway and Chile. He described how the Brazilian model is an ‘elite public / mass private’ model of free higher education. As such, the public system has remained small and relatively well-funded, and is academically selective. The free public system caters for the top performers academically who, given the schooling system and the unequal nature of their society, tends to be the socially elite. The private sector, is much larger, depends on tuition fees and is of varying quality. This sector caters for the majority of the growth in demand for higher education, and less well-performing and poorer students tend to be catered for by these private institutions. Ouma explained that nearly

'60% of students in the public higher education system come from the top income quintile' while about '70% of [total] enrolments are in private universities'. While public universities are tuition free, students pay registration fees and cover their own living costs.

1003. In an attempt to deal with the unequal nature of the higher education system, the Brazilian government introduced a programme in 2002 where private (for-profit) institutions are encouraged to offer free education to low-income students in exchange for exemption from tax payments. Furthermore, non-profit institutions are required to allocate 20% of their revenue towards funding free places (this is necessary in order to maintain their existing status of exemption from taxes). There are, however, abuses in the system, with institutions offering these places to relatives of staff members, rather than to needy students. Other interventions by the state include the introduction of a student loan scheme, FIES, in 1999, which covers 70% of the fees and is paid directly to the institution; the introduction of affirmative action policies in both the public and private higher education institutions to address racial inequalities; and a 2012 law which requires that half of the places at undergraduate level at federal universities are reserved for candidates from the public basic education system and minorities.

1004. The free higher education system in Norway, as explained by Dr. Ouma, is very different from that in Brazil. In Norway, education is free at public institutions, although there may be fees for selected specialised

programmes (particularly Masters programmes). Students pay a registration fee each semester (approximately US\$35 to \$70) to cover campus health services, access to sports facilities, etc. Students cover all their own living costs, often through student loans. The provision of fee-free higher education is aligned with Norway's (and other Nordic countries) social welfare system, which is sustained through high personal income tax, which is paid by the vast majority of the population (low unemployment). The country is also characterised by a high participation rate in higher education, meaning that the benefit of free education is shared among much of the population, thereby leading to stable economic growth, characterised by high employment.

1005. Dr. Ouma discussed Chile where a law was passed toward the end of 2015 granting tuition free higher education to students from poor families. The law defined the poor as those from the poorest three income quintiles, with a per capita family income of US\$221 per month or less. 'Students without access to fee-free higher education can apply for bursaries or loans. Chile has a standard reference fee for each degree programme that is used to determine the amount to be disbursed in student loans. The Ministry of Education sets this amount annually [and] participating universities are required to pay from their own resources the difference between the reference tuition set by the Ministry of Education and their actual fee.' This requirement to pay the difference between actual fees and government determined fees has meant that some institutions have selected not to participate, even though they have

students who qualify. In order to cover the costs of free education, Chile increased company tax to 27%, but this is insufficient to meet the demand, and due to economic constraints, only 50% of the country's poorest students benefit from fee-free higher education.

1006. As discussed earlier Mr. Kaya Sithole presented the free-education model developed by the University of the Witwatersrand research group – the Lesedi Education Empowerment Fund.<sup>762</sup> This model is a combination of a traditional fee model (introduced over time) and a graduate tax. This is a model towards free education 'drawing on state, community and corporate participation'. He explained that it would fund more students over time through a 'self-sustaining Endowment Fund [which] ultimately shifts the burden of funding higher education away from society to the primary beneficiaries'. The model was based on the assumption of a R27 billion funding gap; however, when this was interrogated it was found to under-estimate the required funds. However, Sithole suggested that the same model could still be retained. The Lesedi Education Empowerment Fund would be made up through current NSFAS allocations; a Corporate Infrastructure Fund (with private sector contribution in lieu of tax rebates); the Skills Development Levy; and an Education Levy – collected on all graduates regardless of their funding status. Initially, those from households with less than R300 000 family income p.a would be fully funded, those between R300 000 and R600 000 would only have tuition funded; and the rest would pay full cost. In

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<sup>762</sup> Mr K. Sithole, Submission and presentation to the Commission, 7 March 2017.



the model, even those paying for their education, would still be expected to pay the Education Levy once employed.

1007. The three presentations on free higher education system raise a number of concerns with such a model. First, as in Brazil, free education tends to benefit the wealthy or upper middle class in an unequal society. This relates to the need to restrict the growth of the sector in line with available resources, and the academic competitiveness of those coming from better resourced secondary schools. Second, free education tends to reduce access, based again on the need to restrict the size of the public higher education sector. Third, free higher education works well in a system of high taxes and widespread tax payment, where the majority of adults pay taxes and the majority of youth attend higher education. In such systems, the benefit of free education is not restricted to a small number of individuals, who are in general the future elite. In the South African context, the number of individuals attending university is very small as a portion of the population, and spending such a large percentage of the state budget on a few people, distorts tax expenditure in their favour. Furthermore, in systems with low participation and high income inequality, the private benefits of higher education are much greater. Finally, the need to fully compensate universities for lack of tuition fees is highlighted by the Chilean example. Offering higher education is expensive, and universities do not have their own extensive sources of income to subsidise free education. Third stream income is neither stable nor without restrictions regarding how it can be used. The

Chilean example highlights the need to fully assess the financial situation first, before introducing a funding system which is not sustainable, and which cannot be provided as envisioned. There are a number of countries across the world who have moved away from free models as these have proved unsustainable in the long term.

1008. In brief, the characteristics of such a system include:

1008.1. The state would carry the full cost of funding higher education and training as this is seen as a public benefit.

1008.2. Access based on merit would be retained.

1008.3. Limits would be placed on admissions in line with available funding.

1009. The pros and cons of such a model:

1009.1. There would be **access** for all and no **means test**.

1009.2. However, access could be severely restricted by available income, limiting the size of institutions and the number of students, especially in particular fields. Increases in participation rates could become stagnant, or participation could even decrease.

- 1009.3. This system would be **administratively simple**.
- 1009.4. Institutions would turn to the state for all funding needs, although some third-stream income may be retained (may affect **autonomy, sustainability and quality**).
- 1009.5. Collection of student debt owed to universities would no longer be a problem.
- 1009.6. All students would be treated **equally**; but Hull argues against **Fairness** as students who gain the benefits of higher education (the future wealthy) have received a benefit paid for by all of society. In effect, those not attending higher education institutions are subsidising those who are as there is a balancing of spending priorities in favour of higher education. This relates to the public/ private benefit discussion – the state should fund the private benefit as this benefits society, but if it funds this private benefit this only benefits those individuals. In a low-participation; high private-benefit scenario (like South Africa) this is particularly unjust.
- 1009.7. Unless new sources of revenue are found, the state would have to borrow sufficient money to support institutions as there is currently insufficient money to fund this model.

1009.8. Institutions may continue to face declining subsidy, as has been the case in the past (**impact on size and shape**). The size of institutions would need to adjust to the funding available, which could lead to fewer university places (a decline in **availability**). Research and quality may be impacted negatively.

1009.9. There may be a growth in private higher education institutions to cater for the lack of available places in the public sector.

1009.10. Without additional academic support, it is unlikely that **throughput** will improve.

### **34.6 GRADUATE TAX**

1010. On the proposed imposition of a graduate tax, the National Treasury testified that it will result in unintended consequences. For example:

1010.1. there is no correlation between the cost of study and the revenue collected from an individual graduate;

1010.2. there is a risk of graduate flight in order to avoid paying the graduate tax;

- 1010.3. it raises issues of fairness among graduates who must pay higher tax rates compared to similar employees without degrees who would be exempt from paying the tax;
- 1010.4. in considering a graduate tax model, one would have to consider whether the tax would apply retrospectively, such that it is levied on graduates who did not benefit from fee-free education or would be forward looking. The former raises issues of fairness, while the latter would create a funding gap if the graduate tax was not levied immediately. That gap would have to be filled through the general revenue fund or by other means;
- 1010.5. National Treasury notes further that in the light of the prevailing poor throughput rates and immediate earning capacity, applying the tax from a particular future date will likely result in a low revenue base, leaving a significant funding gap which would have to be funded through other means.
1011. Dr. Ouma described the graduate tax alternative as another deferred payment option. He explained that 'once you have graduated there is a surtax which you pay until you [retire] ... Of course there can be variations where you can start paying that surtax [only] after you start earning a certain salary threshold. The surtax actually is a fraction of your salary irrespective of [what you would have paid, as you] ... are not getting any

loan at this point. So the system technically, when you get in it is for free, once you have graduated then the state imposes a surtax on your income ... Some people argue that it is equitable in the sense that if you are earning R100 000 you pay more than the guy who is earning R20 000, for example, per month. If you become a business mogul then you earn a lot of money of course, and the percentage that you pay from your earnings is bigger [than]... a teacher... but the idea here is you pay until you stop working'. Dr. Ouma explained further that 'the idea is not for them to pay exactly what the state would have spent on them'. He added that the philosophical underpinning is that education is largely a public good, and for this reason the state supports you to enrol. However, 'you must also support the others who are coming after you to gain access to education. Secondly it is the equity element so there are those who are going to pay beyond what the state spent on them but ... also those who are earning far less who are going to pay probably considerably less than what the state spent on them, so it is almost an equalisation mechanism... but in the final analysis, the expectation is, when you put the two together, then there is still enough to fund students who are going to university'.

1012. Dr. Ouma testified that there is currently no country that applies the graduate tax, and for this reason it is hard to ascertain what its implementation would look like. He also suggested that certain permutations would need to be considered before implementation – like

the policy regarding those that dropout of university before graduation, but nonetheless go on to earn well.

1013. In summary, the graduate tax could be applied as a deferred payment model, but it would need careful planning to ensure that it does not become burdensome on tax collectors or tax payers. Issues would need to be resolved regarding the payment of the surtax by certain individuals such as those who received a qualification outside of the country and now earn in South Africa; those who attended university and dropout without a qualification; and those who emigrate on graduation. It may become burdensome for the tax system to ascertain the exact qualification status of all tax payers. The graduate tax does not differentiate between those who spend ten years at university and those who spend three years obtaining the same qualification. The more speedily a student qualifies the more unfair will be his or her obligation compared to that of his or her slower counterparts.

1014. The characteristics of such a system include:

1014.1. A cost sharing model as higher education and training is interpreted as both a public and a private good.

1014.2. There would be no upfront payment.

- 1014.3. This takes a lifecycle approach meaning that it interprets the funding problem within a life cycle – at the moment the student may not have financial means, but with their qualification they will earn enough to repay.
  - 1014.4. It puts the control and onus on the student (not the parent) – to decide when, where and what to study, and student's responsibility to pay.
  - 1014.5. Graduates would pay an additional tax on top of their income tax, which would be used to fund universities.
  - 1014.6. Payment would be for the students' entire work life.
  - 1014.7. Access based on merit would be retained.
1015. The pros and cons of such a model:
- 1015.1. This allows for Access; sustainability; size and shape; and quality. However, the growth of the system could be affected by the fact that the graduate tax will be collected based on the number of current graduates who are employed. The effect of higher education inflation would also need to be considered.



- 1015.2. Treasury suggested that this model would not raise sufficient taxes to cover higher education costs, unless it was a relatively high tax, which would become burdensome.
- 1015.3. It would be hard to determine who would pay – what about those who graduated prior to the introduction of the deferred payment model? What about those with an international qualification? According to Hull, this meets some of the Fairness criteria, but not all, considering these points and the fact that some pay more than their private benefit, and others less.
- 1015.4. Students emigrating on graduation would have received free education, and others would bear this cost (unless a solution is found to this challenge).
- 1015.5. Ring-fenced taxes are unpopular and it is possible that money destined for higher education would be diverted elsewhere.
- 1015.6. Autonomy could be impacted as all funding will, in effect, come from the state.
- 1015.7. Graduate tax does not meet Efficiency criteria as money all comes from the state.

### 34.7 INCOME-CONTINGENT LOANS

1016. An income contingent loan system allows for a student to take out a loan at the start of their study, with all payment being deferred until such a time when he/ she can repay the loan without it being a burden (low repayment rate). Some key points about such a loan are that: repayment only begins when the student reaches a certain threshold income; payments only continue until such a time as the loan is paid off; the repayment period could be set to a maximum period so as ensure that payment does not impact on retirement accumulation; students could be allowed to settle the loan more quickly should they be able to; those who emigrate could be required to pay off the loan before leaving; and the size of the loan could be large enough to cover full cost of study. Various other permutations could be factored in to tailor the model to the South African context. Such models work well in countries like Australia and the United Kingdom<sup>763</sup>, provided effective fee-regulation is employed which limits the potential extent of the loans and there is effective collection of debts (through the tax system). The system is flexible and can be adapted to the social and economic needs of a country.

1017. The ICL model was presented to the Commission by a number of presenters as the best possible funding option in our context.<sup>764</sup> Rather than consider each of these presentations individually, the general

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<sup>763</sup> Evidence of Dr. G. Ouma, 24 February 2017.

<sup>764</sup> For instance: Dr G. Hull (7 February 2017); Dr D. Blackmur (7 March 2017); Professor L. Fioramonti (9 March 2017).

reasons for advocating an ICL will be summarised. Of particular relevance are the presentations and research by Dr. George Hull and Professor Lorenzo Fioramonti. Both reports warrant closer attention and are attached to this Report as annexures. The report of Professor Fioramonti entitled "Governance innovation for funding tertiary education in South Africa: The case for a public private partnership in the management of income contingent loans" is annexed hereto as Annexure "B".

1018. The characteristics of such a system include:

1018.1. A cost sharing model as higher education and training is interpreted as both a public and a private good.

1018.2. There would be a choice in terms of upfront payment or deferred payment. This takes a lifecycle approach and puts the control on the student (not the parent).

1018.3. Former students would repay their loan indebtedness in annual installments in addition to their income tax, for a period to be determined or until they have repaid their initial loan.

1018.4. Payment only starts when a certain minimum income threshold has been met.

- 1018.5. The pay-back period could be limited.
- 1018.6. Access based on merit would be retained.
- 1018.7. Ideally, such loans would be available to all, thus cutting out the need for a means test, while improving sustainability of the scheme.
- 1018.8. Fees would be retained, with or without a regulation model.
- 1018.9. Those wishing to emigrate on graduation would be required to pay immediately, and a surcharge could be levied.
  
- 1019. The pros and cons of such a model:
  - 1019.1. It meets **Access** criteria.
  - 1019.2. Students have rejected the concept of loans but have almost without dissent espoused the principle that those who can afford to pay should do so.
  - 1019.3. The **means test** is eliminated. As such, it meets **equality** criteria. Furthermore, it also leaves the choice of study to the student (no parental domination in terms of career, favouring of one gender etc.).

- 1019.4. However, should sufficient funding not be available immediately, a phased-in approach could be used in the short term with income thresholds.
- 1019.5. Such loans could, in the longer term, be offered to students attending private higher education institutions too (availability expanded).
- 1019.6. University debt would no longer be a problem, and loans could be offered to all those with historic debt too (**sustainable, quality, size and shape**).
- 1019.7. Cost sharing (**Fairness**) means that the state would not need to shoulder the full burden, making this model **sustainable**.
- 1019.8. In the short term, a large amount of money would be needed to fund the system for 3 to 5 years until students have graduated and start making repayments (could involve private money and banks).
- 1019.9. This is true 'free education for the poor' as the student who never earns above the minimum income threshold, never repays.

1019.10. The ICL can be linked with a bursary database, and state priorities could be expressed through a bursary mix. Bursaries could be provided based on any state priorities (could affect **Fairness**).

1019.11. Without additional academic support, it is unlikely that **throughput** will improve.

1019.12. Black tax remains an issue of tension, but the pressure will be lessened by implementation of the scheme proposed by Prof Fioramonti<sup>765</sup>.

1019.13. **Autonomy** could be impacted as all funding will, in effect, come from the state.

1019.14. It is essential to ensure that higher education charges do not spiral out of the range of fair and equitable repayment.

### **35 THE ICL SCHEME PROPOSED BY PROFESSOR FIORAMONTI**

1020. The evidence before the Commission points to an international shift from both free education and upfront payment for education to income contingent loans. In Australia, New Zealand and England this model has

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<sup>765</sup> See para 1022.6 below

worked with success for between 10 and 20 years. The scheme proposed by Professor Fioramonti has the following characteristics:

1020.1. All students who wish to attend university must subscribe to it irrespective of their means at the time of application. In this way its viability is assured since the wealthiest students are most likely to be able to repay. Any applicant for university who does not wish to participate in the scheme should be entitled to opt out. Because all students will have a common interest in the viability of the scheme<sup>766</sup>, any person who so elects should, in addition to the tuition fees payable to the University, be obliged to pay a substantial equalisation premium to the state. Such payments should be held in a special account dedicated to making up any shortfall resulting from any student failing to meet his or her loan repayment obligation. The same requirement should be applied to any student who voluntarily ceases to participate in the scheme prior to completing a degree for which he or she has enrolled; to a student or former student who permanently leaves South Africa prior to fully honouring his or her loan obligations; and to any student who having completed his or her university education (whether having graduated or not) elects to accelerate repayment of his or her loan. The precise

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<sup>766</sup> The benefits of which as will be explained below far exceed mere funding of student fees.

obligations arising in relation to such premiums will require clear definition and explanation in the formulation of the scheme.

1020.2. The scheme provides universal access to all academically qualified students. In this regard it satisfies the limit of the State's obligation under the Constitution.

1020.3. The financing of every university student is achieved through a bank loan at a rate favourable to the student. Whether such financing should extend to the full cost of education will depend solely on the choice of the borrower and his need for such an extension.

1020.4. The state can either guarantee the loan or, better still, purchase the loan, so that the student becomes a debtor in its books.

1020.5. Collection and recovery of the loan will be undertaken by SARS through its normal processes.

1020.6. No student is obliged to repay a loan unless and until his income reaches a specified level. At the lowest specified level the interest rate is at its lowest but will increase in accordance with specified increases in income growth.



- 1020.7. Repayment can be so structured that highly successful earners repay more than the loan costs thus contributing to the stability of the scheme.
- 1020.8. If the loan is not repaid within a specified number of years the balance can be written off.
- 1020.9. The State will repay each student loan to the bank at a given date (say five years from the first advance).
- 1020.10. The precise terms of the scheme are subject to negotiation in a public/private partnership between say the state (representing the SARS, the DHE and the Treasury), the banks, universities, and perhaps a student representative.
1021. The disadvantages of scheme as presented are the following:
- 1021.1. It has not been designed with TVET colleges in mind but could be extended to that sector depending on a policy decision as to whether the whole or any part of the full cost of education at TVET should be subjected to the scheme.
- 1021.2. Although the Banking Association of South Africa has expressed the interest of its members in participating in such a scheme it has remained essentially uncommitted. That is

understandable and is a matter that can and should be resolved in proactive negotiation between the state, BASA and its members. We quote the response of BASA:

*"We appreciate the importance as well urgency of the matter and we would like to continue playing a role in finding a lasting solution to the complex challenge of higher education funding. We would like to engage further with the Commission to develop a financial model that would enable an assessment of viability and feasibility of the proposed scheme."*<sup>767</sup>

1021.3. Universities, at no risk of default in payment of tuition fees, may increase such fees to make up shortfalls in subsidies, third stream income and other expenditure. This can be met by implementation of the proposals of the CHE on fee regulation. The added availability of subsidy income in consequence of the decrease in the state's students-fee obligations will mean that universities will have less justification for such increases.

1022. The advantages of an income contingent loan scheme such as that proposed by Professor Fioramonti are many and varied:

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<sup>767</sup> A copy of BASA's full response (dated 26 May 2017) to an enquiry from the Commission is annexed to this report as annexure "E".

- 1022.1. The scheme is flexible and capable of easy tweaking, as the experience of a country such as Australia shows.
- 1022.2. The scheme provides universal accessibility. Nobody will be refused a loan on grounds other than normal admission criteria.
- 1022.3. It complies with the principle enunciated by many witnesses before the commission: that those who can pay should do so.
- 1022.4. The income contingent element is fairer than one which determines ability to pay at the time of applying for university admission since it is tested by the receipt of an income that derives from the benefit of the education which enables the former student to pay and does not depend upon parental or family income at the time of application.
- 1022.5. The obligation to repay never attaches to a borrower who does not earn sufficient income to enable reasonable compliance.
- 1022.6. The scheme negates the moral responsibility for "black tax" insofar as that extends to supporting the university education and maintenance of siblings and other family members.

- 1022.7. The scheme is simple in implementation, generates low administration costs and does not require application of a means test.
- 1022.8. The scheme will eliminate the hard cases that may arise under the sliding means test proposed by the MTT with its multiplicity of degrees of entitlement and arbitrary cut-off level of R600 000 per annum.
- 1022.9. The scheme can and should be easily extended to students who apply to private higher education institutions. This principle is not only sanctioned by section 29(3) and (4) of the constitution but will be a very important advantage in the early years of the scheme when the universities will lack the capacity to admit all qualifying applicants.
- 1022.10. The scheme affords the state an initial period of freedom from any obligation to fund student education at universities for an initial period of perhaps five years or more. During this period, the state will have the freedom to use the funds that would otherwise be devoted to such tuition fees on the improvement of infrastructure, teaching curricula, etc. for the strengthening of the education sector as a whole. In this respect, the ICL proposal represents an important advance on the ISFAP

scheme. After the initial period the scheme will quickly stabilise through effective collection measures.

1023. The question which arises is how the state is to fund that proportion of student debt that is not recoverable by reason of default and insufficient earning levels to generate the repayment obligation. The Commission has heard evidence which in its view provides at least three ready sources. They are:

1023.1. the BBEEE contributions proposed by the MTT;

1023.2. the amendment of the UIF Act to provide for the release of R50 billion of its accumulated surpluses (both these have been considered earlier in this report);

1023.3. the use of the long unclaimed pension benefits amounting to more than R42 billion in funds overseen by the Registrar of Pension Funds - these funds do not include R500 million in unclaimed benefits in the GEPF - subject to an undertaking by the State to make good any valid claim made on such funds.

1024. It was highlighted that NSFAS is in fact an ICL, but that repayment starts at too low an income threshold (R30 000 p/a); repayment is not linked to the tax system; and the loans are not offered to all students (only the very poor).

1025. Dependent on the decision made regarding the interest rate, the impact of the loan on the individual and the state would be marked. Such loans would have the advantage to the lender of being risk-free and carrying no collection costs. It may therefore be expected that favourable rates will be negotiated. The state may however, in the student interest, consider bearing some portion of the interest obligation. The size of the loan should not exceed what an individual could be expected to pay off within the set period. Bursaries could be factored into the loan system for scarce skills or in line with other policy priorities. The loan should be reflected in the government budget as a loan so as not to impact on the financial status of the government.

1026. The introduction of the ICL would require substantial funding in the short term, until graduates could be expected to start repaying. However, depending on the decisions regarding interest rates, years to repay etc. the system will become largely self-sustaining within a reasonable time. Prof Fioramonti, in his model has proposed the inclusion of the banks as lenders to students, with a government guarantee, so as to cover the cost for the initial years. He also argued that this public-private partnership (PPP) would give the banks an interest in the success of the economy and the future employment of graduates, which could assist in general economic development. The pros and cons of involving the private sector need careful consideration, as was discussed when considering the ISFAP model. However, the ICL provides a more balanced sharing of responsibility for student funding than does the ISFAP model, that is more

consistent with recognition of the benefits that accrue to the private sector from higher education. Prof Fioramonti also suggested that extending the ICL to all students is essential as this would greatly improve its overall return on investment and hence its viability. Another alternative, not suggested by him, would be to add a surcharge for those wishing to opt out or pay early or emigrate. Conversely, the Australian system originally offered incentives for upfront payment or quick re-payment of an ICL, but this has subsequently been phased out.

1027. Dr. Ouma explained that the ICL has been introduced in Australia and the UK, and he spent some time explaining the issue of regulating fees in the context of an ICL. He also explained how the ICL in both these countries is the student's choice, and that a student can decide to take a portion of the loan or the whole loan. He also described changes made to ICL policies over the years. What his discussion highlighted is that should an ICL be introduced, careful consideration would need to be paid to the nature of the ICL in the South African context. This is supported by a preliminary look at the ICL in Australia and Britain and other countries, which highlights a few concerns.

1028. In the British system, it is expected that the vast majority of students will not be able to repay the full loan amount. In an article in *The Guardian*, it was argued that 'students are borrowing more than they will be able to pay in the 30-year period [the maximum period for repayment established in the UK], making the system unsustainable in the long term.' It

explained that those who started university after September 2012 will not start repaying their loan until they are earning more than £21 000 a year, adding that ‘Unless you start off with a graduate salary of higher than £30 000, it’s unlikely you will pay off your full loan and interest before it’s wiped after 30 years anyway.’ The article explained that the fee problem is thought to be partially caused by the capping of fees – as most institutions set fees at the highest possible level. It has been suggested that fee regulation is key, as an ICL cannot function in a high fee system, without a strict cap. The article suggested that the other key concern is that there has not been sufficient control of student intake numbers, which has resulted in higher loan risk. Universities, in an attempt to maximise income from fees in the face of a reduction in state subsidies, increased student numbers. This meant that more students enrolled for degrees where options of employment/ salary were lower, or students were enrolled who never completed. *The Guardian* also criticised the fact that in the UK the interest rate of the ICL was linked to inflation rather than repo, which has put an extra burden on students as currency volatility has affected inflation (6.1% vs repo at less than 1%). The burden of the ICL is, therefore, being felt by new graduates.<sup>768</sup>

1029. In Australia, the issue of repayment is also of concern. An article in *The Australian* explains that ‘The rapid escalation in the total debts owed to government — and the amount that will never be repaid — was triggered

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<sup>768</sup> <https://www.theguardian.com/money/2017/apr/11/student-loan-interest-rate-rise-uk-inflation-brexit>.



by a series of policies instituted by recent governments'. The first was 'the Rudd government's 2009 decision to remove limits on the number of students universities could enrol'. This was followed by extending the loan scheme to students in private institutions, adding millions to the loan scheme. The article explained further that: 'The situation is likely be exacerbated, the PBO modelling shows, if planned but unimplemented deregulation reforms proposed by the Abbott government are legislated. Those would cut subsidies to universities by one-fifth, but allow universities to charge whatever fees they like. In effect, that would give universities the freedom to enrol as many students as they wanted and charge them as much money as they liked, all backed by buy-now, pay-later arrangements, totally guaranteed by the taxpayer'. In an attempt to reduce outstanding loans, there has been a suggestion to lower the income threshold for repayment to begin.<sup>769</sup>

1030. The experience of these two countries needs further investigation, but **it is clear that an ICL system requires some form of fee regulation and enrolment planning**. Without these in place, debt is likely to spiral out of control. In addition, calculation of the amount likely to be repaid over the selected period is required, and loans should not exceed this amount. It is also important for throughput to be improved and dropouts to be reduced if the system is going to be sustainable over the long-term, as students who never graduate are less likely to be able to repay their

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<sup>769</sup> <http://www.theaustralian.com.au/news/inquirer/higher-education-higher-costs-in-student-loan-scheme-nightmare/news-story/554e6761397f301657fd6d1a55ae2ce8>.

loans. Finally, it is important for government block subsidies, in line with the public benefit portion of higher education, to remain in place so that universities don't rely on student fees to too great an extent. In his research report to the Commission, Prof Fioramonti raises many of the key considerations in developing and appropriate ICL for the South African context.

1031. The repayment challenges in Australia are deepened by the fact that TVET students are also given ICLs. The problem with this is that only a few graduates from these institutions earn salaries of the level that enables them to fully repay their loans. For the same reason, the Commission inclines to excluding TVET students from an ICL model. However, on the positive side, it should be remembered that in South Africa, given the lack of skilled persons and low participation rates in higher education, the private return on higher education is higher than in developed economies, and as such repayment should be less burdensome and more sustainable. It should also be recognised that the ICL is free education for the poor, as the student who is never employed or well-employed and never reaps the benefit of their higher education, will not need to repay the loan. The system is based on the student and his or her future income, rather than on the income and socio-economic status of the parents at the time the student embarks on tertiary education.

## 35.1 CONCLUSION

1032. During the course of its work, the Fees Commission heard testimony in support of various different student funding models, most of which have been implemented somewhere across the world. It is the work of the Commission to take into account the South African context, and economic situation, to assess which of these models is most likely to meet the criteria of a funding model for South Africa that will be sustainable into the foreseeable future. Some principles for consideration were raised by Hull; he found that the ICL model is the only one to meet all his principles. Other priorities and challenges have been raised in the course of this discussion, and the various models have been analysed in relation to these.

1033. In our opinion, the ICL model is the one which most closely meets the needs of South Africa, as a developing economy, with high levels of inequality. It is the one which will allow for access and accessibility in terms of the Constitution, as money will not be tied to covering tuition fees for all students indefinitely. It is also the one that takes into consideration the public and private benefits of higher education, especially in a developing economy where private benefit is higher. Furthermore, it will not deny anybody access based on their socio-economic standing, as all registered students could access an ICL if they wish. The ICL is sustainable (if managed appropriately) and will not take money from other national priorities or from core/ block university funding. It is in fact, free

education for the poor (i.e. the student who never reaps the benefit of higher education post-graduation or as a result of not graduating). If structured appropriately, the ICL should not be a burden to pay off, and should not deter individuals from entering higher education. However, the ICL is still a loan, and black tax remains a reality. In this regard, it was suggested to the Commission that focused national spending on poverty alleviation is the most fair and effective way to reduce the burden of the black tax. The ICL will mean that government spending will not be channeled towards tuition fees for university students, and as a result more progressive use of taxes can be made, including mechanisms to support the poor. In brief, as long as the ICL is well structured and implemented, it can provide a lasting solution to the funding of higher education tuition fees.

## **36 SELECTION OF A MODEL THAT BEST ANSWERS THE TEST OF FEASIBILITY**

### **36.1 INTRODUCTION**

1034. The extensive overview that the Commission has undertaken of the higher education sector (which is partially reflected in this Report) demonstrated to us its immense complexity and the multiplicity of challenges faced by those responsible for making it work effectively and efficiently.

1035. There are ongoing interventions in almost every area of higher education intended to improve its presentation and performance. Most impact to a greater or lesser extent on funding and mean that fewer resources are available to finance student tuition.
1036. It is neither our task nor our intention to present a critique of these interventions. We have accordingly identified them as part of an environment in which the question of the feasibility of providing fee-free higher education must be answered.
1037. The report of the Ministerial Task Team occupies a different place. It promotes its recommendations as a long – term solution for the funding of the poor and missing middle. Its representatives who presented the report to the Commission emphasised that its eventual implementation would be subject to the acceptance of the advice of the Commission. However, by the time of the presentation, the MTT report had been approved by the Minister. We understand that pilot schemes and Treasury costings are well underway.
1038. If we had not reached the conclusion that there is a better and more feasible solution we would have supported the MTT proposals, although with the reservations expressed earlier in this report. Before setting out our conclusions and our reasons we wish, respectfully, to make (or reiterate) the following considerations:

- 1038.1. The MTT report accepts as its premise that free higher education (without an obligation to repay) should be available to those who cannot afford it. It finds itself presently unable to devise a model that satisfies that premise in full.
- 1038.2. Without a survey of the wider implications it commits itself to a path that will lead to that end. The state, once committed to the principle, will be hard-pressed to reverse it when scarce resources are needed elsewhere and/or can be better spent otherwise (as they are and can now, in the opinion of the Commission).
- 1038.3. Moreover, pressure to achieve fee-free education for all will not go away. Most likely it will increase and lead to further dissatisfaction and protest. The Commission respectfully advises the President that a stand taken at the outset that university students should accept the common sense and inevitability of paying for what they receive if and when they can afford to do so would be politic and responsible and very much in favour of future generations who enter the higher education system.
- 1038.4. It may be that the same considerations apply to students at TVET colleges. There are however substantial reasons for differentiating their position from that of university students

which go beyond the private interest of the student or his or her family. Such reasons are dealt with elsewhere in this Report.

1039. From the overview to which we have referred certain general conclusions and principles become apparent. These must necessarily inform the question of who should be funded and to what extent.

1039.1. Much the larger proportion of the student population today and in the foreseeable future, is and will be, through family circumstances, wholly or substantially unable to pay its way to an undergraduate degree or technical education. Many of those are and will be unable to support themselves and their "dependents" while studying, even if they can scrape together the tuition costs. In order to provide meaningful access, whether to university or college, higher education must be provided free—free at the point of access for the academically acceptable duration of an undergraduate degree or market-acceptable technical qualification.

1039.2. The goal must be universal access to quality education which is productive of successful outcomes in the academic sphere and the workplace.

- 1039.3. Everything possible must be done to improve the status, attractiveness, capacity and productivity of TVET colleges with the goal of rendering such institutions a first resort for the technically inclined student.
- 1039.4. The Commission accepts that the state's ability to fund those who require higher education is limited by an infinite number of factors that include a tottering economy, competing policy priorities, public waste and corruption and a disinclination to fund education through increased taxes.
- 1039.5. The needs of the broader higher education system (excluding student tuition fees) are more financially demanding than public finances can cater for, particularly in a developing economy such as South Africa. Many of these needs must be addressed if student funding is to be productive of success and not a costly or futile adventure in idealism. Therefore, any student funding solution that materially relieves the state of the burden (but not the responsibility) of student funding and contributes to meeting the broader needs must be favoured.
- 1039.6. Any student funding solution must be one that can move towards self-sustainability (even if that end is not fully attainable). Thus the (NSFAS) practice of converting loans into bursaries should be stopped. The Commission does not



recommend that the provision of scholarships or bursaries by the private sector be discouraged but scholarships and bursaries rather be encouraged. Payments so made should be credited by SARS to the student concerned and such payments should not attract a premium.

1039.7. There is good reason for greater involvement of the private economy, particularly South Africa's strong and well-regarded banking sector in the funding of student tuition. (This was recognised by the MTT task team. The Commission favours a model that upgrades the extent of such participation.)

1039.8. Any workable solution to the funding problem will require:

1039.8.1. Limitation of the expansion of university tuition fees with due regard to the genuine costs of supplying higher education at each particular university. Each university should be required to justify the structure to a regulatory body of experts in the education and finance spheres. The fees charged by each university may then be subject to capping as contemplated in the CHE report on the subject;<sup>770</sup>

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<sup>770</sup> See also the evidence of Dr. Ouma, 24 February 2017 to the same effect.

1039.8.2. That enrolments be controlled (within resources, capacity, academic merit, transformational goals etc.) by the universities and the overflow be directed to private institutions or TVET colleges as appropriate;

1039.8.3. That university enrolment favour suitable applicants for study in scarce skills.

1040. For the reasons which we have set out at length it is the advice of the Commission that the Income Contingent Loan model is best suited to the achievement of the goals of the NDP, will not be hampered by the restricted public resources, will provide a huge step towards the attainment of universal access to higher education that the Constitution guarantees, is equal and fair in its operation; is cost efficient, doing away with substantial administration costs; is easily collected and recovered; will be the most likely model to provide long-term sustainability; and is feasible subject only to willing, serious and informed negotiations between the public and private sectors.

1041. The ICL model that should be created in the best interests of all should be designed by a committee of experts that will pay due regard to models used in Australia, New Zealand, the United Kingdom and elsewhere.

1042. The Commission is of the opinion that higher education and training can feasibly be funded along the following lines:

- 1042.1. The full cost of education can and should be provided free of cost to all TVET College students. The present system of NSFAS effectively means that about 80% of such funding takes place (and is not repaid). The cost of extending the full cost of education (where required) to all students is within the state's capability and means.
- 1042.2. Such funding will be consistent with and promote the idea of a much-expanded TVET sector with increased success and increased status. The building of such a sector is crucial to the creation of jobs, reduction of unemployment, the encouragement of entrepreneurs, and the general welfare of the economy of South Africa.
1043. Higher education at universities can feasibly be provided fee-free at the point of access on the basis of income contingent (deferred) loans. The model favoured by the Commission, when in full operation, will eventually relieve the state (and the private sector) of all contributions to the funding of the full cost of university education for students. The resources that would have been devoted to that funding (in the form of NSFAS grants and bursaries and private sector bursaries and scholarships) can and should be devoted to the ongoing improvements that are essential to ensure student success in the widest sense. The fundamental pillars of the scheme are:

- 1043.1. The involvement of the private financial sector in the provision of the full cost of education (to the extent that such is required) by granting student loans on favourable terms without a means test or provision of security.<sup>771</sup> The engagement of the banking sector in constructive negotiation to develop a public/private partnership to design and implement a workable ICL scheme is an urgent necessity.
- 1043.2. The purchase by the state of any such loan indebtedness.
- 1043.3. The loan shall only be payable when the (former) student earns a specific income, with repayments increasing as income increases. The income levels shall be fixed so as to avoid oppression of the debtor.
- 1043.4. The collection and recovery of the loan debt by SARS.
- 1043.5. The repayment of the amount of each loan (plus interest) to the lender by the state on a date not earlier than five years from advance of each loan.

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<sup>771</sup> When reference is made to the private financial sector, we refer only to accredited financial institutions.

1043.6. Every student, irrespective of his personal or family means, shall be required to participate in the scheme but will have a right to opt out in advance or subsequent to taking out a loan.

1043.7. Any student who opts out, and any student or former student who wishes to accelerate repayment or to leave the country permanently before full repayment has been made shall pay an equalisation premium. Such an obligation is justified by the transformational goals inherent in the general improvement of the university sector and the common interest of students in making university education accessible to all in the interest of social advancement and cohesion.<sup>772</sup> Fulfilment of the obligations will also contribute to the viability of the scheme. For these reasons, all amounts so received should be deposited in a fund dedicated to making good the repayment of student loans that SARS is unable to recover from loan debtors.

1044. The Commission further proposes that the ICL scheme arrived at and duly incorporated in legislation, to the extent required, should be extended to students who attend private institutions of higher learning

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<sup>772</sup> A participant in the scheme effectively receives a discount on the real cost of education through fee regulation, deferred payment and low interest rates. The premium should represent the discount.

whether universities or institutions that provide technical training.<sup>773</sup> The reason for so recommending is not only fairness in recognising the student's right of choice, but, more important, the probability that, at least until the envisaged systemic improvements are affected at public universities and TVET colleges, the capacity of such institutions to provide access to quality education to the additional number of students who will seek to take advantage of the opportunity, will necessarily be limited.

### **36.2 THE COST OF PROVIDING ICL FUNDING TO UNIVERSITY AND COLLEGE STUDENTS**

1045. We refer to the well-researched and comprehensive content of the Research Report of September 2016 which has been cited in section 10 of this Report.

1046. At the request of the Commission, the Actuarial Society of South Africa assessed the cost of twenty different scenarios for the funding of public higher education universities and TVET colleges. Their extensive work was undertaken voluntarily, at no cost to the Commission and in the interests of the country. The Commission expresses its thanks and

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<sup>773</sup>The Commission's recommendation in respect of the public TVET sector differs from that which it attaches to those who choose private technical education. The former should receive free-higher education with no loan obligation; the latter, fee-free education at the point of access with an ICL. This distinction assumes that there will be no lack of capacity in the TVET sector. If the practice proves otherwise the issue can be reconsidered.

appreciation to the Society and those who contributed to the report 'Cost of Different Scenarios for the Funding of Higher Education and Training' a copy of which is attached to this Report as annexure "D" together with a copy of the brief from the evidence leaders.

1047. Attention is drawn to the section of the actuarial report which deals with loan funding and in particular to the following:

*"Loan based funding for some or part of the liability would be effective only if there is an effective collection method of recovering loans after students have graduated or dropped out. Small changes in loan collections would over time have a significant effect on annual cash flows and the sustainability of the loan book.*

*Without the benefit of further economic analysis it appears that a system of loans only and grants for students from poorer backgrounds would be more sustainable than the system providing support to all students"*

1048. The Commissioners respectfully point out with regard to the reservations of the actuaries that loans under the ICL scheme proposed will:

1048.1. be collected and recovered by SARS in the ordinary course of its duties;

1048.2. be collected from tax payers who generate an income realistically related to the loan obligation to repay of each tax payer;

1048.3. will ensure that the involvement in the loan scheme of all students must necessarily increase the viability of the scheme since those who would ordinarily have paid student fees upfront would mostly likely be the well-to-do and a stable element in the workforce or, those most readily capable of satisfying the obligation when due. As pointed out elsewhere, all those who choose not to participate in the scheme will be relieved of the obligation subject to a liability to pay an equalisation premium for the privilege of not participating which will in itself enhance the viability of the scheme.

1049. In an ICL scheme in the form proposed in this Report:

1049.1. the primary responsibility for funding the scheme will lie with the lenders i.e. the commercial banks. They will no doubt undertake that liability on the foundation of sound business considerations.

1049.2. the secondary or ancillary liability rests on the state as purchaser or guarantor of student debt. Essentially the measure of this liability depends on:

1049.3. the amount of debt that SARS is unable to recover;



- 1049.4. the numbers of ex-students who fail to attain the minimum income levels that are a pre-condition to repayment;
- 1049.5. the interest burden that is either unable to be recovered or which is deemed by the state as not appropriate to lay to the student's account (in terms of the scheme's conditions).
- 1049.6. The ultimate amounts of ex-student indebtedness for which the state must stand good are, as the actuaries acknowledge, imponderable. Mindful of this, the Commission has recommended that long unclaimed pension benefits (amounting to in excess of R42 billion) should be utilised as a backup for the State's liability to pay the banks for such loan debt as it cannot recover through SARS. Such appropriation should only take place subject to an undertaking by the State to repay any valid claim made on a pension fund. (It should be repeated that the Commission remains wholly unpersuaded that the tracking and reliable identification of beneficiaries in small pension funds, as suggested by the Registrar of Pension Funds, will be either financially efficient or practicable.)
1050. The evidence suggests that the generation of work opportunities by and in relation to students who graduate will be sufficient to support the stability of the scheme.

## **37 RECOMMENDATIONS**

1051. The Commission recommends that fee-free education for all students is feasible within the terms of the implementation of the principles and practices set out in the following sections.

1051.1. Any implementation must have regard to the rights of those students already in the system.

### **37.1 FUNDING THE SECTOR**

1051.2. Any financial decisions made must take into account the education sector as a whole.

1051.3. The Early Childhood Development sector is in dire need of development. It should cater for all youth (not just a segment) and has been recognised as key in the future success of a child.

1051.4. School education remains unequal, with pockets of excellence, but it is not clear that more money will necessarily improve the outcomes in this sector as the lion's share of the state budget is allocated to basic education already.

- 1051.5. Regarding the PSET sector – the priorities in CET, TVET and universities need to be balanced – money cannot be diverted to universities just because this is where the focus of the protests was. This will only lead to neglect of other equally deserving sectors, which can contribute to economic development.
- 1051.6. It is also clear that all funding decisions are political in nature, and the government must weigh the competing demands for education with those for basic services, social services, housing etc. This was testified to the Commission by both the parliamentary Portfolio Committees on Finance and Appropriations.
- 1051.7. Funding for higher education cannot be considered in isolation, as was clearly presented by the National Treasury and (former) Minister of Finance, as well as the Statistician General.
1052. Block funding to PSET institutions needs to increase in line with increased costs for providing quality education and infrastructure needs:
- 1052.1. The Commission was apprised of the dire funding situation in the TVET and CET sectors, as well as the financial pressure which a number of universities are under, considering the

Higher Education Price Index (HEPI) in this sector in particular.

- 1052.2. Subject to the reservations expressed earlier over the last 20 years, block funding has declined per capita; partly as a result of the high increase in enrolment numbers resulting from strategic priorities to increase access in the sector.
- 1052.3. This situation is unsustainable and has disastrous consequences for the sustainability of institutions.
- 1052.4. Despite pressure on the National Treasury to consolidate the budget, it is necessary for all three arms of the PSET sector to be funded at an appropriate level to ensure quality education and training.
- 1052.5. The CET and TVET sectors particularly need attention as they are severely underfunded, and cannot perform at their current funding levels.
- 1052.6. A process should also be undertaken to reduce inefficiencies in all three types of institutions.
- 1052.7. In the short term, steps to contain enrolment numbers should be taken, until the necessary money to fully fund these

enrolments is in place. The targets as per the NDP are not realistic given the economic downturn. Revised figures, based on actual GDP growth, should be developed for CET, TVET colleges and universities.

1052.8. In the short term, policies and plans for new institutions or new developments should be assessed to ascertain whether they can be delayed until the necessary funding is available.

1052.9. We recommend that, in the short-term, the government work towards funding universities with 1% of GDP (excluding the funding required to establish the recommended student funding model). This should not be a fixed figure, but can be reconsidered in the medium-term expenditure framework.

## **37.2 QUALITY**

1052.10. Financial pressures are likely to impact on the quality of teaching, research and learning at all PSET institutions. However, all necessary steps must be taken to ensure that quality is maintained and improved across the sector, including appropriately funded institutions and Quality Councils that should oversee this function.

- 1052.11. Throughput and drop out levels in TVET Colleges and Universities need serious and urgent attention, with appropriate intervention in the case of underperformance.
- 1052.12. Interventions to improve throughput need additional and urgent funding, and this must be recognised as a priority before expanding the sector further.
- 1052.13. This is a major inefficiency, which impacts on the psyche of the student and on the sustainability of the PSET sector and of any student funding model.

### **37.3 SIZE AND SHAPE**

- 1052.14. The purpose of institutions in the PSET sector is not solely student education. It is important to develop a holistic view of the PSET sector, and to realistically determine the desired size and shape of such a sector.
- 1052.15. There is a need for curriculum reform in all parts of the PSET sector, to ensure that the curriculum meets the needs of the economy and society. The transformation of the curriculum needs to be given urgent attention by both institutions and the state (through appropriate funding), in order to increase the

relevance of our societal demands and the emerging technologies that have revolutionized learning and teaching.

1052.16. The TVET sector needs to be expanded to meet the demands of the economy, and should grow to invert the pyramid. However, this cannot be the case while programmes are outdated and not in line with the needs of industry. Expansion should be dependent on the necessary improvements and on the needed funding.

1052.17. Universities must retain their triple mandate of teaching, research and community engagement. The research mandate should not be subsumed by teaching, and requires better support than is currently the case in order to address the challenges of the knowledge economy.

1052.18. Academic staff development is required across the sector. At the TVET level, lecturers with the required skills and industry experienced need to be trained and encouraged to enter the sector. At the university level, academic staff with qualifications up to the doctoral level need to be trained and encouraged to remain in the sector. This is a long-term process, and must be done bearing in mind future enrolment targets. This kind of investment will yield positive results not only in a learning society, but in our standing globally.

1052.19. The importance of libraries and journal collections is clear, and DHET should find ways to better share resources and costs between institutions, possibly through a national licence, at a reduced cost, negotiated to benefit the sector in the medium to long term.

1052.20. The benefit of multi-lingual education has been recognised, but the costs associated with it must also be borne in mind when considering dual/multi-lingual instruction. This will require better planning by all stakeholders involved in order to secure buy-in by all and avoid pitfalls.

#### **37.4 STUDENT ACCOMMODATION**

1052.21. The dire state of student accommodation was highlighted to the Commission. While the proposals for expansion and improvement require billions of Rands, an affordable plan over the medium-term should be developed, focusing on the most needy institutions and students.

1052.22. Workable partnerships should be worked out between the government; other state agencies such as the PIC and municipalities; private student housing providers; parents/guardian; and sponsors to determine affordable



housing for students, including transportation arrangement for facilities that are away from campuses.

1052.23. Accommodation for TVET students should also be considered in the same manner as it is provided for universities, but the Department should further explore infrastructure injection for this in close proximity to the campuses, where possible.

1052.24. The option of PPPs in this regard should be given serious consideration.

### **37.5 ONLINE AND BLENDED LEARNING AS A FORM OF COST REDUCTION IN EDUCATION**

1052.25. The benefits of blended learning were highlighted to the Commission.

1052.26. Institutions are encouraged, where possible, to make efficiency savings and academic support improvements through the use of ICTs. This should mainly be supplementary support, rather than a massive shift towards online education which could be detrimental to the South African education system.

1052.27. The DHET should provide support to TVET colleges in this regard and be active in eliciting the support of other government departments and the industry to make the learning experiences of students meaningful and pleasant with high placement opportunities into the world of work upon completion.

### **37.6 FUNDING FOR CET STUDENTS**

1052.28. Funding for CET students falls under the part of the Constitution dealing with school education, and that CETs should, therefore, be funded in the same way as basic education.

1052.29. Although this is not the focus of the Commission, it is recommended that the most appropriate location for the CET division (between DBE and DHET) be given careful consideration, as it is not clear that this should form part of higher education and training.

### **37.7 COSTING THE PROPOSALS FOR FUNDING UNIVERSITY AND TVET STUDENTS**

**1052.30. With regard to recommendation on funding of both TVET students and university students which follows. we**

**recommend that a careful costing and actuarial analysis of the various recommendations in this report be carried out. In this regard, the tendency to develop policy without costing it prior to publishing should be avoided.**

### **37.8 FUNDING FOR TVET STUDENTS**

1052.31. Similarly, the Commission is of the opinion that the NCV also falls under basic education, and their funding norms.

1052.32. We note the dire need for TVET graduates in order to invert the skills pyramid and recommend that urgent attention be given to the development of a skills matrix in collaboration with employers, with time lines within which to realize the improvement.

1052.33. TVET colleges tend to attract the poorer students who need financial support and academic support. It is thus recommended that students be given the necessary support that should serve as a catalyst for the transformation of the TVET sector. This could develop these colleges as institutions of first choice.

1052.34. The Commission noted the lower earning power of TVET graduates and the challenges associated with their

employability after graduation (often due to lack of workplace experience during training). If this desperate situation is left unattended, the quality of the lives these graduates will not improve, and inverting the pyramid will not materialize in the foreseeable future.

1052.35. **As such, we recommend that public TVET education be fee-free. Currently, the DHET is meant to fund TVET students at an 80:20 ratio. This has fallen behind. We recommend that this should move to 100% funding directly from the DHET.** We further recommend that the current handling of the TVET colleges funding arrangements (over centralisation) be revised in a manner that the persisting misunderstanding of the allocations model of full time equivalents (FTEs) be clarified to all college governing councils, student structures and college principals.

1052.36. **Furthermore, we recommend that stipends be made available through TVET colleges for needy students to cover full cost of study. Should this not be possible, ICLs (as discussed earlier) should be made available to such students.**

### 37.9 FUNDING FOR UNIVERSITY STUDENTS

1052.37. While we recognise the public benefits of higher education, we also acknowledge substantial private benefit, especially in the South African context of a low-participation university environment with very low graduate unemployment. **We recommend a cost sharing model.**

1052.38. In such a model, the government should aim to fund with at least 1% of GDP (as discussed above) towards the cost of running a university. This is in the form of subsidy to universities. It must be acknowledged that despite financial pressure, government does subsidise higher education.

1052.39. Student tuition fees should be regulated according to the advice of the CHE, so as to ensure that they are fair and affordable, and to ensure that universities are able to access the funds they require to carry out quality teaching. Cross-subsidisation of courses and students should be factored into this to ensure the balance of university education.

1052.40. **We propose an income-contingent loan system available to all students along the lines proposed earlier in the Report.** We believe that such a model takes the student's circumstances into account, and ensures the sustainability of

the system in the long-term. As explained, an ICL model will result in totally free education for some students who do not, in the course of their careers, reach an income threshold appropriate to a repayment obligation.

1052.41. Application and registration fees should be scrapped across the board. This has implications for the Central Applications Service that is being planned to streamline the placement of students into universities according to their career choices, subject to admission by universities. Proof of application for the ICL can be required as proof of financial ability.

**1052.42. ICLs should be for any necessary amount up to full cost of study. Full cost should include reasonable accommodation expenses (private or university); tuition material (including computers where needed); stipend for food and daily expenses; travel; etc.**

1052.43. Loans should not exceed what it is reasonably expected that the student will be able to repay in their repayment period. For this reason, cross-subsidisation of fees may need to take into account lower-earning degrees with a higher public benefit, such as teacher education and social work.

- 1052.44. Money should be paid upfront, monthly, into a debit card similar to S-Bux, or any equivalent method of payment where restrictions are placed on what can be purchased. Money should be available in tranches from the date of registration at the beginning of the year until the last day of examinations.
- 1052.45. Tuition fees (and residence if applicable) should be paid directly to the institution at the start of the academic year, or in the manner in which the government allocations cycle works but not to the detriment of universities to handle cash flow and other contractual obligations.
- 1052.46. Where possible, the provision of meals at reasonable prices on campus or in residence catering facilities should be considered. This would be a cheaper option, and could assist in solving the hunger crisis at many institutions.
- 1052.47. Students who are awarded a scholarship or bursary from other sources should be credited with the amount by SARS against cession of the benefits.
- 1052.48. The parameters of such an ICL need careful research and actuarial modelling in order to set appropriate limits.

- 1052.49. Government can make interventions into the ICL structure when additional funding is available, based on then-current priorities. For instance, bursaries could be allocated based on scarce skills; Fundza Lushaka bursaries with the work component can be maintained etc.
- 1052.50. The current incentive bursaries from NSFAS should be discontinued (at least until the loan system is sustainable).
- 1052.51. Strict academic requirements for continued access to an ICL should be introduced. This should be monitored from as early as the first module or semester of the first year. This could work together in a wrap-around support model as envisaged by ISFAP.
- 1052.52. **The collection of loans should be through SARS, and on approval of an ICL the student should also register as a taxpayer.**
- 1052.53. Enrolment planning must form a key part of the ICL process to ensure that there will not be excessive bad debt.
- 1052.54. The ICL should be reflected in the government books as a loan and not an expense.



1052.55. The extension of ICLs to students studying at private institutions is recommended, based on the same criteria as for public institutions. The rationale for this is that they are citizens and residents with full constitutional entitlement, and by entering these institutions they contribute to the advancement of the access imperative and the economic growth of the country. As they will be required to repay like any other students, they should be treated fairly in this manner.

1052.56. Foreign students should still be charged fees, and should not be given access to ICLs. These fees should not be subject to capping in cases where the real cost of the course or qualification exceeds the regulated limit.

### **37.10 POSTGRADUATE STUDENTS**

1052.57. The value of postgraduate qualifications for the research and academic sectors is recognised and it is recommended that postgraduate students be supported financially.

1052.58. NRF bursaries (based on merit, or other criteria as developed by the NRF) for postgraduate students should be retained and expanded when possible.

1052.59. Postgraduate students should have access to an ICL just as undergraduates do.

1052.60. The R&D budget should be increased to 1% of GDP as soon as possible.

### **37.11 HISTORIC DEBT**

1052.61. Universities reported on the dire situation with regards historic debt, which has increased beyond the acceptable ratio to expected fee income. This dire situation was partially ameliorated with the 2016 injection of R2 543 billion from 2013 to 2015. Students who were still in the system in 2016 were further assisted with an additional allocation of R2 039 billion. It is expected that debt has decreased substantially, but it is possible that some students may face problems if they do not comply with the criterion of satisfactory academic performance.

1052.62. Annually, a large amount of student debt is written off by some universities making it difficult for them to operate without bailouts from the DHET. The cost sharing model recommended will ease this burden on the balance sheet of universities.

1052.63. The TVET sector raised the same concern, but found that they wrote off an even larger percentage as bad debt as a result of a significant number of poorer students who cannot afford the cost of tuition, combined with the perennial decline in the funding of TVET students by the DHET.

1052.64. Various reasons for this debt have been found, including the underfunding of NSFAS students and missing-middle students who cannot afford to pay.

1052.65. It is recommended that students with debt, who have since graduated, be offered income-contingent loans as well.

### **37.12 NSFAS**

1052.66. We recommend that the participation of NSFAS in the funding of university students be replaced by the provision of ICLs.

1052.67. NSFAS should be retained for the provision of the funding of all TVET students and TVET student support if such retention is considered necessary.

### 37.13 FUNDING FOR THE TVET SECTOR

- 1052.68. We recognise the dire need for an injection of funds to develop the TVET sector and its infrastructure. It is recommended that an amount of R50 billion from the surplus in the Unemployment Insurance Fund be ring-fenced for infrastructure funding of the TVET colleges' facilities.
- 1052.69. We advise that money from the NSF be prioritised towards the TVET sector for infrastructure development to augment the UIF portion.
- 1052.70. We advise that the SETA sector be restructured to reduce costs and inefficiency, and that this saving be used for curriculum development, lecturer training or other costs related to improving teaching and learning in the TVET sector and the facilitation of job placement for graduates.
- 1052.71. It is also recommended that SETA allocations be used to fund occupation programmes not currently funded in the TVET colleges.

### **37.14 FUNDING FOR THE UNIVERSITY SECTOR**

1052.72. Subsidy should increase to 1% of GDP (excluding allocations to establish the ICL system).

1052.73. It is important for funding to be channelled to HDIs to allow them to develop to the same level as HWIs, but without failing to maintain the current status of the top institutions.

1052.74. Additional money for infrastructure development, throughput intervention, and student accommodation should be invested in the sector.

1052.75. Consideration should be given to take the HEPI into account in funding universities.

### **37.15 OTHER SOURCES OF FUNDING FOR THE PSET SECTOR AS A WHOLE**

1052.76. **We support the proposal of making use of BBBEE points for higher education purposes.**

1052.77. **We support the use of excess UIF reserves towards infrastructure development.**

- 1052.78. **We recommend that long unclaimed pension benefits be used to provide stability to the ICL system subject to the provision of state guarantees for their repayment.**
- 1052.79. We supported a more concerted effort by universities to form alumni relations and raise money through such channels, as is the case in the USA, UK and other parts of the world.
- 1052.80. We recommend the development of an Education Fund where companies, individuals and international aid agencies can be encouraged to donate money towards higher education development, bursaries etc. Companies could be encouraged to donate from their CSI budget. It is also clear that current calls by universities for funding for the missing middle have proven a success, and this could be maintained and strengthened through such a coordinated fund. A Fund administration process should be considered which will allow for public confidence in the fair and useful allocation of funds.
- 1052.81. Alumni and donor funding recommended above should be accompanied by aggressive strategies to eliminate violent student protests and the destruction of property at campuses. This approach could encourage generous funding from these sources, as is proven in other countries.

### **37.16 ISFAP AS AN ALTERNATIVE**

1053. As previously stated in this Report, should the government be opposed to the recommendations we have made, the most viable alternative solutions would seem to be along lines similar to the ISFAP proposal developed by the Ministerial Task Team. We emphasise our reservations in this regard which are set out in Chapter 27 above.

# Reconciling Efficiency, Access, Fairness and Equality: The case for income-contingent student loans with universal eligibility

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The harmful legacy of colonial and apartheid social engineering means South Africa's tertiary-education sector faces a number of distinctive challenges, and deep-rooted disagreement persists about how best to manage university curricula and research in a democratic South Africa.<sup>1</sup> When, though, our focus is on the specific issue of how university tuition is to be funded, the challenges faced by South Africa have many points of similarity with those faced by its African neighbours, other middle-income countries, and indeed most of the industrialised world.

South Africa needs to continue to expand its higher education sector so as to attain an informed civil society and the skilled workforce which will enable it to compete in a knowledge-driven global economy; but it must also break down barriers to access in order ultimately to realise equality of opportunity for all its citizens. The South African Government should aim

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1 For particularly helpful discussions of these issues, see T. Reddy (2004) 'Higher education and social transformation: South Africa case study' (report); A. Bawa (2012) 'South African higher education: At the center of a cauldron of national imaginations' in *Social Research: An International Quarterly*, 79(3), pp. 669-694; P. Tabensky & S. Matthews (2015) *Being at home: Race, institutional culture and transformation at South African higher education institutions*.



to achieve its higher-education goals cost-effectively, at a time when there are compelling demands for increased spending in other sectors (e.g. health, basic education); but it must also ensure the costs of university tuition are spread fairly, preventing a middle-class capture of state funds. Finally, South African higher-education funding policy must be shaped in ways that foster cohesive egalitarian relations among its citizenry, and avoid entrenching stigma, social divisions and hierarchical relations of domination.

This paper identifies four principal values which a funding model for higher education should aim to realise, and by which it should be constrained: Efficiency, Access, Fairness and Equality.<sup>2</sup> Though potentially these values conflict, the aim in South Africa – as in other countries – must be to select a funding model which reconciles all four values as far as possible. It is fruitful to separate out these four values analytically, as this enables us to compare different potential funding models along four separate dimensions. A funding model which is superior to others along one or some of these dimensions is not necessarily the best funding model overall. In its deliberation about which higher education funding model reconciles the four guiding values most satisfactorily, South Africa can draw on the experiences of other countries, avoiding common mistakes and incorporating successful features. Clarity about the different values which inform a choice of higher education funding model enables policy-makers not only to choose the right policy, but also to communicate the justification for that policy effectively – something which will be crucial in the Government’s on-going dialogue with the articulate, and sporadically well-organised, interest group constituted by South Africa’s students.

Sections 1 to 3 of the paper argue that a funding model combining public subsidy and fees, accompanied by income-contingent student loans, is the model which best enables Efficiency, Access and Fairness to be realised together. Section 4 presents reasons of Equality, Access and Efficiency for extending eligibility for substantial student loans to all South African first-time undergraduate students. Section 5 then outlines six concrete measures which will enable the proposed higher-education funding reform to be introduced affordably in South Africa.

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2 I capitalise these terms since I am attaching a specific, well-defined meaning to each, rather than using them in a colloquial way. I introduce these well-defined meanings in the course of the text.

# 1. Efficiency

It is uncontroversial that a higher-education funding model should avoid waste, and instead should foster Efficiency. There are at least three types of Efficiency a funding model should embody.

## 1.1 Allocative Efficiency

There is, in the first place, a relatively narrow, clear-cut type of allocative Efficiency which society needs its higher-education sector to achieve in a cost-effective way. Students entering higher education have preferences for various courses and degree programmes. An individual student's preferences can be assumed to be a function of their areas of interest and curiosity, their estimation of their own skills and determination, and their aspirations in life (e.g. career path, public service). At the output end, there is demand from employers for graduates with various qualifications. This demand can be assumed to be a function of broader demand in the economy and the needs of public administration. Other things equal, it is desirable that the higher education sector satisfy both student preferences and labour-market demand as far as possible.

As student numbers grow, and both the labour market and degree and course offerings become more differentiated, this allocative goal becomes too complex for central planning. Assuming a minimum level of informedness among students, both about their own preferences and skills and about the labour market, it becomes helpful for universities competing for students to set fees autonomously (possibly within set limits).<sup>3</sup> Price then operates as a market mechanism, signalling cost and quality, and matching supply to demand better than a central planner ever could.<sup>4</sup> Competition between universities for students will encourage institutions to use resources ever more cost-effectively to meet demand.<sup>5</sup>

This is the Efficiency argument for making universities fee-charging institutions which compete with one another for fee-paying students. In

3 For some considerations in favour of a cap on university fees, see: N. Barr (2009) 'Financing higher education: Lessons from economic theory and reform in England' in *Higher Education in Europe*, 34(2), pp. 204-205.

4 N. Barr (1998) 'Higher education in Australia and Britain: What lessons?' in *Australian Economic Review*, 31(2), pp. 180-182; P. Pillay (2008) 'Higher education funding frameworks in SADC' in *Towards a common future: Higher education in the SADC region*, p. 191.

5 Barr (2009) 'Financing higher education: Lessons from economic theory and reform in England' in *Higher Education in Europe*, 34(2), p. 202.

contrast to many other African countries, South African universities have an established history of charging fees,<sup>6</sup> and there exists a healthy range in the fees charged by different institutions and for different degree programmes.<sup>7</sup> From the point of view of allocative Efficiency, this is a virtue of the current South African funding model.

## 1.2 Intra-sectoral Efficiency

But the higher-education sector needs to achieve a broader set of goals than only the narrow, clear-cut goals which a price mechanism is particularly helpful in realising. Here we can usefully distinguish between the *public goods* and the *private goods* which the higher education sector should aim to achieve in a cost-effective manner:

### 1.2.1 Public goods

- Services delivered by well-trained professionals (e.g. doctors, civil servants);
- Technological innovations by excellent graduates (e.g. smartphones, computers), which can improve everybody's lives;
- Critical reasoning skills cultivated by humanities subjects (e.g. economics, African studies), which enhance civil society's ability to hold government to account;
- Works of intrinsic cultural value created by excellent graduates, which can be appreciated by others and can form the basis of a national identity, fostering social cohesion;<sup>8</sup> and
- A socially responsive governing and managerial class.<sup>9</sup>

It would be unrealistic to expect a market in higher education to achieve this broad set of goals in a balanced way of its own accord. So there is good reason for government to intervene with subsidies, regulation and earmarked funds, to ensure that the higher education sector is achieving this broad set of goals in a cost-effective manner.

6 G. Wangenge-Ouma (2012) 'Tuition fees and the challenge of making higher education a popular commodity in South Africa' in *Higher Education: The International Journal of Higher Education Research*, 64(6), p. 832.

7 N. Dirk (2015) 'Activists forcibly removed as protest spreads to CPUT campus' in *Cape Times*, 21 October.

8 A. Bawa (2000) 'A social contract between the public higher education sector and the people of South Africa' (research paper).

9 A. Cudd (2015) 'What is equality in higher education?' in G. Hull (ed.) *The equal society: Essays on equality in theory and practice*, p. 272.

### **1.2.2 Private goods**

- Intrinsic interest and value;<sup>10</sup> and
- Competitive advantage over non-graduates in seeking highly skilled and paid work.

It is much harder to quantify the public goods generated by higher education than the private financial benefit to graduates of earning a substantially higher salary than they would have done without a degree. This can lead to governments underestimating how important investment in higher education is for national development.<sup>11</sup>

### **1.3 Inter-sectoral Efficiency**

There is a further type of Efficiency which must constrain higher-education funding due to the fact that, “in a situation of serious resource constraints, there is often keen inter-sectoral competition for financial resources from health, housing, social welfare and other government functions”.<sup>12</sup>

The higher-education sector must compete with other sectors (e.g. basic education, national security) for public funds. Sometimes a given value could be achieved more cost-effectively through allocation of funds to a sector other than higher education (e.g. basic education) than through allocating funds to higher education. In other cases there will be a different type of value, which higher education is incapable of or inept at realising, which justifies diverting funds away from the higher education sector to a sector which is capable of realising it (e.g. national security).

Inter-sectoral Efficiency is achieved if the values realised through spending on higher education could not be realised more cost-effectively through spending on other sectors, and do not crowd out more important values that could have been realised through spending on other sectors.

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10 G. Brown (2010) *Why the right is wrong: The progressive case for Britain's future*, p. 60.

11 Pillay (2008) ‘Higher education funding frameworks in SADC’ in *Towards a common future*, p. 139.

12 *Ibid.*, p. 137.

## 2. Access

There is a broad consensus that it is unacceptable for individuals to be effectively barred from pursuing higher education, or realising their career aspirations, due to their gender, racial group or socio-economic background. In other words, there is broad agreement that a quite demanding form of equality of opportunity ought to guide policy-making in South Africa. Most relevantly for us here, society-members should have equal opportunities to receive both a university education and to secure employment.

It is useful to distinguish between *formal* and *substantial* equality of opportunity.<sup>13</sup>

### 2.1 Formal Equality of opportunity

Formal equality of opportunity is the principle that there must be no legal or conventional barriers preventing the most qualified applicant for a university place or job from taking it up.

This principle forms the basis for anti-discrimination legislation in South Africa as elsewhere.<sup>14</sup>

### 2.2 Substantial Equality of opportunity

Substantial equality of opportunity is far more demanding than formal equality of opportunity. It is the principle that there must be no social barriers preventing individuals from becoming equally qualified for a university place or job for which they have equal natural aptitude.

An individual's socio-economic background can prove a barrier to the realisation of their aspirations just as surely as discriminatory laws and conventions can. But whether one is born into a rich family or a poor family is just as "arbitrary from a moral point of view" as what caste or bloodline one

13 For more detail, see G. Hull (2014) 'Affirmative action' in J. Winfield, G. Hull & G. Fried, *Business ethics & other paradoxes*, pp. 200-201.

14 The formal equality of opportunity principle can be overridden by the need for affirmative action programmes in countries, such as South Africa, with a history of racist discrimination and exclusion. Such programmes can be justified on intra-sectoral Efficiency grounds, if they can be expected to make society more just in the future (R. Dworkin (1976) 'DeFunis v. Sweatt' in M. Cohen, T. Nagel & T. Scanlon (eds.) *Equality and preferential treatment*, pp. 63-83). They may also be justifiable on Equality grounds (see section 4; and see T. Hill (1991) 'The message of affirmative action' in *Social Philosophy and Policy*, 8(2), pp. 108-129) or because they provide redress for past wrongs (G. Hull (2015) 'Affirmative action and the choice of amends' in *Philosophia*, 43(1), pp. 113-134).

happens to be born into.<sup>15</sup> None of these morally irrelevant factors should be allowed to determine whether somebody realises their educational and career aspirations or not. This is the philosophical rationale for embracing not just formal but also substantial equality of opportunity.<sup>16</sup>

I use the term 'Access' to refer to the requirement that, other things equal, both formal and substantial equality of opportunity should be realised as far as possible. It is important to be aware of a potential ambiguity here, though. Sometimes the word 'access' is used to mean simply the number of undergraduate places in the higher education system. Used in this different sense, widening access to higher education is not necessarily the same thing as increasing equality of opportunity. It would be possible to increase the number of undergraduate places at universities while reducing equality of opportunity in how they were assigned; and, conversely, it would be possible to equalise opportunities to study at university while shrinking the size of the student cohort year on year.

The greatest impediment to Access is the variable level of basic and secondary education received by different groups in society.<sup>17</sup> There is thus a powerful inter-sectoral Efficiency argument against diverting public funds away from basic and secondary education to fund higher education. Indeed, if Access was all that mattered, it would make sense to reduce the funding of higher education and instead dedicate resources to ensuring an equally high-quality school education for all South Africans. But doing this would be likely to reduce the extent to which the public and private goods outlined above in 1.2 were realised, in which case there would be inter-sectoral Efficiency reasons for not pursuing this strategy.

### 3. Fairness

For the value of Access – as discussed above in Section 2 – what matters is what determines whether a given individual will receive a university education.

15 J. Rawls (1999) *A theory of justice*, p. 63.

16 Versions of this argument are set out in B. Williams (1973) 'The idea of equality' in B. Williams, *Problems of the self: Philosophical papers 1956-1972* and Rawls (1999) *A theory of justice*, section 12.

17 N. Barr (2012) 'The Higher Education White Paper: The good, the bad, the unspeakable – and the next White Paper' in *Social Policy & Administration*, 46(5), pp. 487-488; P. Pillay (2010) 'Good practices, possible lessons and remaining challenges' in P. Pillay (ed.) *Higher education financing in east and southern Africa*, p. 224.

For the value of Fairness, by contrast, what matters is how the benefits and costs of higher education are allocated among members of society. The term 'equity' is often used to cover both values. This is understandable since philosophically they are both grounded in an acknowledgement of the equal moral worth of all society-members. Nonetheless, the two values are distinct, and realisation of one of them does not entail realisation of the other.

The on-going life of a society is a co-operative enterprise, in which all its members participate to some degree, and from which all its members benefit in ways they could not have done in isolation. There is, consequently, a strong presumption in favour of an equal distribution of the benefits of social co-operation, and against an allocation which entails benefits to one societal group being paid for by a different societal group which does not receive equivalent benefits.

The presumption in favour of distributive equality is not inviolable, however. If (a) some individuals have sacrificed more and worked harder than others, or if (b) an equal share of the social product does not translate into as much well-being for some individuals as it does for others, then it is fair that those individuals receive a larger share of the social product than others.<sup>18</sup> In addition, if (c) an improvement in the condition of the least well-off members of society is impossible without a material incentive to the most enterprising in society, then the resulting inequality would arguably not be unfair.<sup>19</sup> Considerations of type (c), among other factors, will be relevant to the complex issue of how large the publicly subsidised higher education sector should be. Considerations of type (b) mean that students with special needs (e.g. disabled students) should not have to pay extra for university facilities which meet those needs (e.g. wheelchair ramps). I assume here that considerations of type (a) do not justify significant departures from distributive equality within a higher-education funding model, but rather explain – in conjunction with considerations of type (c) – why it is not necessarily unfair that some graduates in employment earn significantly more than others.

University tuition can be fully publicly funded, or it can be fully funded by

18 For more detail, see W. Kymlicka (2002) *Contemporary political philosophy: An introduction*, pp. 73-74; A. Sen (1999) *Development as freedom*, pp. 72-74; G. Hull (2015) 'From well-faring to well-being: Prospects for a metric of liberal egalitarian justice' in Hull (ed.) *The equal society*, pp. 153-154.

19 For a statement of this position and argumentative support for it, see Rawls (1999) *A theory of justice*, section 13.

student fees, or it can be funded by a mixture of the two.<sup>20</sup> If higher education generated only public goods, then all society-members could be expected to benefit equally from it, and it would consequently be fair for higher education to be fully publicly funded. But, as was discussed above in 1.2, in fact university education generates a mixture of public goods and substantial private goods. If everybody attended university, so that the substantial private goods of higher education accrued to everyone, then – again – all society-members could be expected to benefit equally from it, and it would be fair for higher education to be fully publicly funded.

But it is only a minority of society-members who receive a university education. Fairness therefore tells us it would be wrong for university tuition to be fully publicly funded, as this would amount to intrinsic benefits and a considerable competitive advantage in the employment market for one group in society (those who complete a university degree) being funded by another group (those who don't complete a university degree) which does not receive equivalent benefits.

This is true despite the fact that university graduates generally pay more tax over their lifetime than non-graduates. This can be seen most clearly by comparing a graduate and a non-graduate with the same lifetime earnings, who as a result pay the same amount of tax over their lifetimes – say R1 000 000. If the cost of the private benefits of the graduate's university tuition was R200 000, and this was paid for from the public purse, then over their lifetime the graduate contributes R800 000 to public services (e.g. infrastructure, healthcare) via taxation, once they have repaid the cost of the private benefits to them of higher education. This is 20% less than the R1 000 000 contributed by the non-graduate with identical lifetime earnings, which is "horizontally inequitable".<sup>21</sup> However much tax they pay, graduates contribute

20 Some South African universities have succeeded in attracting voluntary funding from corporations to cover a proportion of tuition costs (G. Wangenge-Ouma & N. Cloete (2008) 'Financing higher education in South Africa: Public funding, non-governmental revenue and tuition fees' in *South African Journal of Higher Education*, 22(4), p. 912), and the idea of increased taxation of the corporate sector to fund higher education is often floated (B. Wolhuter & S. Mlambo (2015) 'Tax to help poor students mooted' in *Cape Argus*, 19 October). Taxation of corporate income raises complex theoretical issues (R. Reich (2009) *Supercapitalism: The battle for democracy in an age of big business*, pp. 216-218). Voluntary funding from non-governmental sources (apart from student fees) tends 'to fluctuate, at times significantly, from year to year'. This 'revenue volatility' (Wangenge-Ouma & Cloete (2008) 'Financing higher education in South Africa: Public funding, non-governmental revenue and tuition fees' in *South African Journal of Higher Education*, 22(4), p. 913) means it would be unwise for a higher-education funding model to depend on voluntary corporate contributions. So in the text I concentrate on student fees and government subsidies as the principal sources of funding for higher education.

21 N. Barr (2004) 'Higher education funding' in *Oxford Review of Economic Policy*, 20(2), p. 267.



proportionally less in taxation to public services than non-graduates when university tuition is fully publicly funded. Fairness tells us this is unacceptable.

On the other hand, there is no Fairness objection to the public goods produced by higher education being publicly financed, since these benefit all of society. Thus from a Fairness perspective, a mixed model of higher-education funding is desirable. To the extent that higher education generates private benefits, the recipients of those benefits should pay for it. To the extent that higher education generates public goods, it should be paid for from the public purse. The public funding of higher education can come partly in the form of incentives and earmarked subsidies designed to promote the balanced pursuit of the broad set of goals outlined above in 1.2.

As noted above in 1.2, it is difficult to quantify the external benefits generated by university education. Though it is very important for government not to discount these less tangible public goods generated by higher education, we can justifiably conclude that since its private benefits are both very substantial and more certain than its public benefits, higher education should be financed somewhat more from student contributions than from public money.

In South Africa, the split between public funding and fees varies from institution to institution.<sup>22</sup> In the sector as a whole, the proportion of university income from Government subsidy has steadily declined in recent years;<sup>23</sup> however, it remains larger than the proportion of income from student fees.<sup>24</sup> The argument of this section indicates that it would be fair for student fees to rise until they contribute somewhat more than Government subsidies to the costs of university tuition.

If Fairness was all that mattered, students could be required to pay these higher fees before or during their programme of undergraduate study. However, many qualified students would not be able to access the necessary funds at that time – from their family or other sources. This would make socio-economic background a determinant of who was able to study at university: a clear violation of Access. On top of that, upfront fees to be paid before or during study would undermine intra-sectoral Efficiency, since society would

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22 Wangenge-Ouma & Cloete (2008) 'Financing higher education in South Africa: Public funding, non-governmental revenue and tuition fees' in *South African Journal of Higher Education*, 22(4), p. 911.

23 Wangenge-Ouma (2012) 'Tuition fees and the challenge of making higher education a popular commodity in South Africa' in *Higher Education: The International Journal of Higher Education Research*, 64(5), p. 835.

24 N. Cloete (2015) 'The flawed ideology of 'Free Higher Education'' in *University World News*, 6 November.

not benefit from the contribution which its gifted young people from less advantaged socio-economic backgrounds could have made.

Can Fairness, Access and Efficiency be combined in a higher-education funding model? In the remainder of this section, four different funding models are compared with special attention to their ability to realise Fairness, Access and Efficiency simultaneously.

*Free Higher Education (FHE)*. FHE is the funding model whereby university tuition is fully publicly funded. In South Africa this model has attracted a lot of support from student organisations and movements,<sup>25</sup> and it appears to have some support from within the ANC-led Government as well.<sup>26</sup> FHE removes the Access problem created by upfront fees. However, it is highly objectionable from a Fairness point of view, as has been argued earlier in this section. Though its violation of Fairness is the main problem with FHE, it can also be expected to lead to shortfalls in allocative Efficiency, since with FHE price can no longer serve as a signalling mechanism and the sector must resort entirely to the potentially much less efficient method of central planning.<sup>27</sup>

*Differential Fees (DF)*. DF is the funding model on which different students pay different levels of fees for the same programme at the same university, depending on their household assets and income.<sup>28</sup> Some of those campaigning with the slogan 'Free education in our lifetime' in South Africa in 2015 actually supported free higher education only for the poor – i.e. a version of DF. If well designed, DF can – like FHE – remove the Access problem caused by upfront fees. However, DF relies on a means test to determine households' ability to pay. Means tests are known to be expensive to administer, often unreliable

25 See, for example, L. Mantashe (2015) 'Give the masses free education' in *Cape Times*, 21 October; B. Kamanzi (2015) 'Open the gates once and for all' in *Cape Argus*, 23 October; Wangenge-Ouma (2012) 'Tuition fees and the challenge of making higher education a popular commodity in South Africa' in *Higher Education: The International Journal of Higher Education Research*, 64(6), p. 838; E. Redden (2015) '#FeesMustFall' in *Inside Higher Ed*, 18 November.

26 Minister of Higher Education and Training Blade Nzimande 'said in a radio interview on Monday 19 October 2015 that "no fee" universities, like those in Germany, were the ideal' (Q. Mtyala (2015) 'Students reject deal' in *Cape Times*, 21 October).

27 The absence of pricing in itself arguably leads to a Fairness shortfall. Barr writes: 'Counter-intuitively, variable fees are also fairer than other approaches; why should fees at a local institution be the same as one at an internationally renowned university?' (Barr (2009) 'Financing higher education: Lessons from economic theory and reform in England' in *Higher Education in Europe*, 34(2), p. 205).

28 For example, Democratic Alliance Shadow Minister of Higher Education and Training, Belinda Bozzoli, has suggested that '[u]niversities could urgently adopt a sliding fees scale approach, as in Italy, where students' family income levels dictate the fees charged' and Pillay also advocates 'a differentiated fee structure in universities based on socio-economic status' (B. Bozzoli (2015) 'University funding: There are budget-neutral options' in *Financial Mail*, 29 October - 4 November, pp. 16-17; P. Pillay (2015) 'Financing of universities: Promoting equity or reinforcing inequality' (unpublished colloquium paper)).

and open to corruption.<sup>29</sup> The value of Equality provides a further reason for objecting to means-testing, which will be introduced below in Section 4. But just as in the case of FHE, the strongest objection to DF is a Fairness objection. If a student from a poor household completes a degree and goes on to become a middle- or high-earner, accumulating assets over the course of their adult life, it is surely unfair that the university education which gave this student a competitive advantage in the labour market should be funded entirely by other society-members (including the unemployed and the very poorest, through their consumption taxes), and not at all by the recipient of the private benefits of higher education themselves. The Access gains of FHE and DF come at the cost of significant Fairness losses.

*Graduate Tax (GT).* GT is a special tax which only graduates of public university degree programmes have to pay. A standard model is for every income-tax-paying graduate to pay one percentage point more income tax than a non-graduate income-tax-payer within the same income bracket. GT enables students to pay for the private benefits of university education (potentially realising Fairness), but not to do so until, and unless, that education has resulted in a substantial income, thus making payment manageable (realising Access). Though this reconciliation of Fairness and Access is a positive achievement as far as it goes, there are two important downsides to GT. First, since the special tax serves as a substitute for fees, price cannot serve as a signalling mechanism in the higher education sector, which would tend to undermine allocative Efficiency. Second, the amount of GT paid by a given graduate is likely to correspond at best only very roughly with the cost of the private benefits they received from higher education. While the Fairness objection to DF is that many students will pay less for the private benefits of higher education than they should, the Fairness objection to GT is that high-earners in particular will pay more for the private benefits of higher education than they should, since they will continue to pay an extra percentage point of income tax throughout their income-tax-paying lives.

*Income-contingent Loans (ICL).* ICL is a loan whose rate of repayment is determined neither by its size nor by the interest rate on the loan, but by the

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29 Pillay (2010) 'Good practices, possible lessons and remaining challenges' in Pillay (ed.) *Higher education financing in east and southern Africa*; p. 229; J. Kruger (2015) 'Perspectives on student funding: Credit market, social protection and pyramid inversion' (unpublished colloquium paper); E. Garwe (2015) 'Responsive and sustainable higher education funding: Lessons from Zimbabwe' (unpublished colloquium paper).

level of income of the individual who takes out the loan.<sup>30</sup> Income-contingent student loans are loans provided to students by the government to help with the costs of university study, for which no security need be provided by either the student or their household-members. Once a student has graduated and achieved a set threshold level of earnings, they begin to repay the loan at a rate which is a specified percentage of their income. This percentage may increase as their income increases. How much of the loan the graduate pays back, and how quickly, is determined entirely by the level of income they achieve.

ICL makes Fairness compatible with Access in precisely the same way as GT: by ensuring that payment for the private benefits of higher education occurs at a time, and at a rate, which is manageable for the recipient of those benefits. But ICL avoids both of the downsides of GT. First, providing students with loans from which to pay fees enables price to continue to play a signalling role in the higher education sector, fostering allocative Efficiency. Second, on the ICL model, the amount ultimately paid by each graduate tracks much more closely the extent of private benefit they received from higher education than happens on the GT model. Once they have repaid their loan, graduates make no further payments. Thus ICL is superior to GT from the point of view of Fairness as well as from that of Efficiency.

By allowing the retention of fees – thus fostering Fairness and Efficiency – but using the consumption-smoothing device of income-contingent student loans to ensure manageable payment – thus fostering Access – ICL reconciles the three values of Efficiency, Access and Fairness more successfully than FHE, DF or GT.

The virtues of ICL have been visible to policy-makers for some time. Versions of ICL have been successfully introduced on a large scale in Australia and the United Kingdom.<sup>31</sup> South Africa's National Student Financial Aid Scheme (NSFAS) already embodies it to a limited degree.<sup>32</sup> In recent years other African countries have increasingly turned away from FHE and DF funding models and towards ICL models.<sup>33</sup>

30 Barr (2009) 'Financing higher education: Lessons from economic theory and reform in England' in *Higher Education in Europe*, 34(2).

31 Barr (1998) 'Higher education in Australia and Britain: What lessons?' in *Australian Economic Review*, 31(2), pp. 179-188; Barr (2012) 'The Higher Education White Paper: The good, the Bad, the unspeakable - and the next White Paper' in *Social Policy & Administration*, 46(5), pp. 483-508.

32 Pillay (2008) 'Higher education funding frameworks in SADC' in *Towards a Common Future*, p. 169.

33 Pillay (2010) 'Good practices, possible lessons and remaining challenges' in Pillay (ed.) *Higher education financing in east and southern Africa*, p. 230.

In order fully to realise the value of Access, an ICL scheme must enable prospective students from even the poorest backgrounds to pursue higher education without fear of running into serious financial difficulties either during their course of study (which could lead to them failing or dropping out) or afterwards (which could lead to bankruptcy and personal disaster). Thus Access provides us with a strong reason for increasing the size of NSFAS loans in South Africa so that they cover not only full tuition costs, but also the costs of transport, books, food and accommodation, and other reasonable living costs.<sup>34</sup> For the same reason, the earnings threshold at which repayment of a NSFAS loan kicks in should be raised from the current very low level of R30 000 per year,<sup>35</sup> to at least the earnings threshold at which income tax payment begins.<sup>36</sup> Access also dictates that the coverage of NSFAS loans should be extended to include the “missing middle” – households with a total annual income of between R122 000 and R500 000, which do not qualify for NSFAS loans but struggle to fund university tuition.<sup>37</sup> These households frequently take out expensive and risky private loans in order to cover university fees.<sup>38</sup> The Government should use its ability to borrow money more cheaply than private individuals can to convert bad debt into good.<sup>39</sup>

It might be thought that, owing to human psychology, the presence of fees – even when accompanied by a comprehensive loan scheme – must always constitute a substantial disincentive to go on to university study, particularly for those from less advantaged socio-economic backgrounds, so that from an Access point of view FHE and GT would always have the edge on DF and ICL. However, empirical findings indicate otherwise. Data collected by the Organisation for Economic Co-operation and Development (OECD) “show absolutely no cross-country relationship between the level of tuition countries charge and the participation of disadvantaged youth in tertiary education”. On the contrary, “social mobility is worse in Germany which pays

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34 The Department of Higher Education and Training and other stakeholders agreed that such an expansion of NSFAS was a priority at the Higher Education Transformation Summit in Durban in October 2015, as recorded in the summit’s press release ([www.dhet.gov.za](http://www.dhet.gov.za)); see also Wolhuter & Mlambo (2015) ‘Tax to help poor students mooted’ in *Cape Argus*, 19 October.

35 This is the earnings threshold quoted on the NSFAS website: [www.nsfas.org.za](http://www.nsfas.org.za).

36 I give a further reason for this reform to NSFAS loans below in section 5.1.

37 Cloete (2015) ‘The flawed ideology of ‘Free Higher Education’ in *University World News*, 6 November.

38 Z. Dano (2015) ‘Not poor enough for student financial aid’ in *Cape Argus*, 2 November.

39 Kruger (2015) ‘Perspectives on student funding’ (unpublished colloquium paper).

for all university education through the public purse than it is in the UK".<sup>40</sup> In the UK, university fees were allowed to rise to up to £9 000 per year in 2011, in conjunction with an expanded ICL scheme. Yet the Universities and Colleges Admissions Service (UCAS) reported that in 2014, disadvantaged young people were over 10% more likely to enter higher education than in 2013, and over 30% more likely to than in 2009.<sup>41</sup>

In the South African context a different argument against ICL is sometimes made. This argument claims it is unfair for graduates from less advantaged socio-economic backgrounds to have to repay their NSFAS loans, because they are often expected to support members of an extended family or other members of their home communities.

It is certainly true that many South African students with NSFAS loans pay the 'black tax'. But this is not a good argument against ICL, and in favour of FHE or DF. South Africans who suffer due to sickness, old age, poverty or unemployment should not be helped by the clumsy and uncertain method of writing off their relatives' student debt. Instead, help should come to them directly through targeted policies: public pensions, measures to end child poverty, a comprehensive unemployment insurance scheme and adequate public healthcare. The country will have more funds for these vital purposes if NSFAS loans to cover university fees are paid back in full by all middle- and high-income graduates.

## 4. Equality

So far this paper has made the case for a mixed higher-education funding model, combining public subsidy and student fees. In Section 3 it was argued that it would be justifiable for fees at South African public universities to rise until they contributed somewhat more to tuition costs than government subsidy. But rising fees are only acceptable when accompanied by the consumption-smoothing device of income-contingent government loans to

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40 A. Schleicher (2015) 'The sustainability of the UK's higher education system' in *OECD Education & Skills Today*, 6th January.

41 N. Hillman (2015) *Keeping up with the Germans? A comparison of student funding, internationalisation and research in UK and German universities*, pp. 17-18.

students. If the value of Access is to be realised simultaneously with the values of Fairness and Efficiency, NSFAS must increase the size of its loans, broaden its coverage, and raise the threshold earnings level at which repayment of student loans kicks in.

The present section goes further, arguing that eligibility for expanded NSFAS student loans needs ultimately to be extended to all South African first-time undergraduate students. An expansion of NSFAS on this scale would clearly require a large capital investment to begin with, and many would object that it is simply unaffordable. I explain below in Section 5 why this is not necessarily the case. The primary basis for expanding NSFAS into a loan scheme with universal eligibility is – the present section argues – the value of Equality.

There is a growing consensus among egalitarian political philosophers that acknowledgement of the equal moral worth of all society-members entails more than just instating equal legal status, fostering equality of opportunity, and achieving a fair distribution of goods – crucial and challenging as these goals are. How equal a society is depends also on the nature of the relations which exist between its members.<sup>42</sup> This development in philosophical theory complements an increasing interest from governments and international bodies in the texture of social relations, and especially in identifying measures which foster social cohesion.<sup>43</sup>

Of course, many societies in the past achieved cohesion through systems of violent coercion, practices of habitual deference and myths of natural superiority and inferiority, all of which are anathema to a country – like present-day South Africa – which acknowledges each citizen’s equal moral worth. So the goal of policy must be, not cohesion of any sort whatever, but a cohesive society of equals.

I use the term ‘Equality’ to refer to the social or relational value realised by a society whose cohesion depends, not on deference, obedience or mythical natural hierarchies, but rather on the solidarity of individuals who treat each other as, and feel that they are, equals.<sup>44</sup> Moving a society towards Equality will involve

42 C. Fourie, F. Schuppert & I. Wallimann-Helmer (2015) ‘The nature and distinctiveness of social equality: An introduction’ in C. Fourie, F. Schuppert & I. Wallimann-Helmer (eds.) *Social equality: On what it means to be equals*, pp. 1-17.

43 M. Healy (2013) *Philosophical perspectives on social cohesion: New directions for education policy*.

44 D. Miller (1997) ‘Equality and justice’ in *Ratio* (new series) 10(3), pp. 222-237; E. Anderson (1999) ‘What is the point of equality?’ in *Ethics*, 109(2), pp. 287-337; C. Fourie (2012) ‘What is social equality? An analysis of status equality as a strongly egalitarian ideal’ in *Res Publica*, 18(2), pp. 107-126.

dismantling and minimising relations of inequality between society-members, including relations marked by exclusion, stigma, hierarchy and domination.<sup>45</sup>

The current South African higher education funding model makes use of a means test to determine eligibility for a NSFAS loan, and relies on household contribution to fund some or all of the tuition fees students are charged by universities. These features of the current model tend to undermine Equality in two principal ways.

#### 4.1 Stigma

Egalitarian political philosophers have for some time warned that extensive, invasive means tests tend to undermine efforts to create a cohesive society of equals. There is potential for conflict between the values of Equality and Fairness here. Fine-tuning the distribution of the social product to accord with Fairness is likely to require continuous data collection and comprehensive means-testing; but these can give “the impression that one is not trusted, that one is an object of suspicion and hence is not being respected”,<sup>46</sup> and often require people “to do things, or reveal things about themselves, that they find shameful”, leading to a reduction in “their respect-standing”.<sup>47</sup>

Means-testing is objectionable from the perspective of Equality insofar as it causes people to be “made to feel inferior”,<sup>48</sup> and makes government support into “humiliating aid”, stigmatising its recipients.<sup>49</sup> Means-testing should be avoided when possible, due to “the disrespect communicated by subjecting the poor to a level of scrutiny and control not experienced by the better off” and “the harmful effects on respect-standing and self-respect caused by shameful revelation”.<sup>50</sup>

Consequently, advocates of social equality tend to support universal benefits over conditional benefits, other things equal.<sup>51</sup> It can even be worth tolerating some Fairness losses for the sake of the Equality gains which accrue from doing away with means-testing.<sup>52</sup>

Issues raised by students during the campus protests in South Africa in

45 J. Wolff (2015) ‘Social equality, relative poverty and marginalised groups’ in Hull (ed.) *The equal society*, Section 1.

46 J. Wolff (1998) ‘Fairness, respect, and the egalitarian ethos’ in *Philosophy & Public Affairs*, 27(2), p. 108.

47 *Ibid.*, p. 109.

48 T. Scanlon (2002) ‘The diversity of objections to inequality’ in M. Clayton & A. Williams (eds.) *The ideal of equality*, p. 43.

49 Anderson (1999) ‘What is the point of equality?’ in *Ethics*, 109(2), p. 308.

50 Wolff (1998) ‘Fairness, respect, and the egalitarian ethos’ in *Philosophy & Public Affairs*, 27(2), pp. 121-122.

51 *Ibid.*, p. 121; G. Hull (2014) ‘Creating a society of equals’ in *Cape Times*, 12 August.

52 Wolff (1998) ‘Fairness, respect, and the egalitarian ethos’ in *Philosophy & Public Affairs*, 27(2), p. 117.



October 2015 resonate with these political philosophers' warnings about means-testing. University of the Witwatersrand student Phaphama Dulwana wrote of "the humiliation of standing in a National Student Financial Aid Scheme line, of being treated like a number while your entire future hangs on how someone's day is going, being told you have to prove the degree of your impoverishment".<sup>53</sup> A member of the University of the Western Cape Fees Must Fall movement, Thozama Nozuko, wrote, "[W]e are calling for the Student Credit Management office, which expects students to prove their poverty before every registration, to fall".<sup>54</sup>

If Equality was all that mattered, it would be justifiable to introduce universal free higher education for the sake of fostering a cohesive society of equals. The campaign for free higher education in South Africa last year itself frequently achieved an impressive degree of solidarity among students, with a reduction of the familiar divisions along class and racial lines on South African university campuses. But our goal must be to realise Equality simultaneously with the distinct values of Efficiency, Fairness and Access as far as is possible. This points us towards an alternative universal solution: not universal free higher education, but universal eligibility for income-contingent student loans.

## 4.2 Domination

A higher-education funding model, like South Africa's, which relies on a household contribution to a student's costs of study (up to full tuition and living costs) preserves the power of household-members to interfere with students' decision-making about which university to apply to, which subject to study, and even whether to go to university at all. This discretionary power undermines Equality, since it establishes asymmetrical relations of domination between adult society-members with regard to important life decisions.

The financial leverage that heads of households currently have over prospective students' decision-making is also likely to undermine Access and Efficiency.

Household-heads may decide to fund the university costs of one but not all of their dependent household-members, or else may fund their costs

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53 P. Dulwana (2015) '#WitsonFire: Student factionalism must fall' in *Mail & Guardian Thought Leader*, 28 October.

54 T. Nozuko (2015) 'Institutional racism quietly thrives at UWC' in *Cape Argus*, 23 October.

differentially, due to prejudices of various kinds. In the UK context, Barr & Crawford found that both “unpaid parental/spouse contributions and pressure to conform with parental/spouse wishes” were “likely to affect women more strongly than men, particularly women from certain cultural and ethnic backgrounds”.<sup>55</sup> Though in the Southern African Development Community region there is a general trend for fewer women than men to attend university,<sup>56</sup> this is not true in South Africa, where the reverse is the case.<sup>57</sup> But household-heads’ financial leverage can undermine Access without doing so along gender lines – indeed it can do so without resulting in any statistical trend likely to be detected. The larger point is that when a higher-education funding model relies on household contribution, it effectively makes Access a hostage to the beliefs and attitudes of household-heads.

Reliance on household contribution can also be expected to impede allocative Efficiency. Due to the rapid pace of technological change, parents and grandparents are likely to be less well-informed about the current demands of the labour market than their adult children or grandchildren. They are also sure to be less well-informed about the true aspirations, interests and – to an important degree – skills and talents of their adult children or grandchildren than those adult children or grandchildren themselves. To the extent that household-heads use their financial leverage to influence prospective university students’ choices regarding university study, we can legitimately fear they will track the nature of the labour market twenty or more years ago rather than the nature of the labour market today. These problems with the information on which decisions influenced by household-heads are based will likely lead to the supply of graduates not matching demand in the labour market, to students dropping out or underperforming, and to graduates being unmotivated in their jobs or opting to return to university for reskilling.

But most fundamentally, the arbitrary power which a funding model’s reliance on household contribution puts into the hands of household-heads generates asymmetrical relations of domination and dependence between

55 Barr & Crawford (1997) ‘The Dearing Report, the government’s response and a view ahead’ in *The Dearing Report*, paragraph 115.

56 P. Pillay (2008) ‘Higher education funding frameworks in SADC’ in *Towards a common future*, pp. 130-135.

57 Wangenge-Ouma (2012) ‘Tuition fees and the challenge of making higher education a popular commodity in South Africa’ in *Higher Education: The International Journal of Higher Education Research*, 64(6), p.833.

adult society-members which undermine Equality.<sup>58</sup> This is an objection to the funding model even in cases in which Access and Efficiency are not undermined.

## 5. Reconciling Efficiency, Access, Fairness and Equality

Sections 1 to 4 of this paper together amount to an argument for a very substantial expansion of NSFAS. I have made the case that reconciling the values of Efficiency, Access, Fairness and Equality requires that all South African first-time undergraduate students be eligible for income-contingent government loans covering university tuition fees, accommodation, books, food, transport, and other reasonable living costs.

Implementing this proposal would, in the first few years, require a very large outlay of funds. DHET officials quote just shy of R40 billion as the extra annual outlay which would be required to extend NSFAS loan coverage to students from the ‘missing middle’.<sup>59</sup> Implementing universal eligibility for NSFAS loans could require the same amount again, bringing annual outlay on loans up to a total of close to R90 billion (since annual transfers to NSFAS are – at the time of writing – a little less than R10 billion).

It might seem that this proposal is patently unaffordable. In terms of the conceptual apparatus introduced above in 1.3, wouldn’t this inevitably constitute a violation of inter-sectoral Efficiency?

A full answer to this question would require us to determine what proportion of the total national budget should be allocated to higher education. There is currently deep disagreement on this issue, with some advocating a large increase in government spending on higher education as a percentage of gross domestic product (GDP),<sup>60</sup> and others arguing that, even if government revenue could be increased, the extra funds should be allocated to sectors

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58 M. Garrau & C. Laborde (2015) ‘Relational equality, non-domination, and vulnerability’ in Fourie, Schuppert & Wallimann-Helmer (eds.) *Social equality*, pp. 45-64.

59 D. Parker (2015) ‘Higher education funding challenges and the call for free education’ (unpublished colloquium presentation).

60 Cloete (2015) ‘The flawed ideology of ‘Free Higher Education’’ in *University World News*, 6 November.

other than higher education.<sup>61</sup> I cannot resolve this complex debate here.

This section outlines six concrete steps which, if taken, could make universal student loans an affordable policy even without any substantial increase in the proportion of GDP spent on higher education. Some of these are measures needed to confirm NSFAS' identity as a loan, not a bursary, scheme. Others are levers which policy-makers can use to ensure the shape of the loan scheme is in line with government spending decisions and liquidity.

### **5.1 Collection of NSFAS debt via the South African Revenue Service (SARS)**

Efficient debt collection is indispensable to any large-scale student loan scheme. In South Africa, student loan debt collection has recently become less efficient.<sup>62</sup> This state of affairs must be rectified, by making student loan debt collection a responsibility of SARS, to be carried out in the course of income tax collection. Each NSFAS loan should be a direct contractual arrangement between a student and NSFAS, with SARS collecting payments due on the basis of a graduate's declared earnings. Debt collection by SARS can be facilitated by bringing thresholds for NSFAS loan repayment into line with the income tax thresholds.

### **5.2 No conversion of loan into bursary**

Currently up to 60% of a NSFAS loan is converted into bursary in order to incentivise performance and timely completion of a degree.<sup>63</sup> It is uncertain to what extent these incentives have an effect upon student behaviour, and to what extent they simply reward students who attended higher-quality secondary schools. What is certain is that converting so much loan into bursary makes the current student loan scheme far more expensive than it would otherwise be. Eliminating the conversion of NSFAS loans into bursaries would make the scheme both hugely more affordable and – for the reasons given above in Section 3 – ultimately more fair.

61 Pillay (2015) 'Financing of universities' (unpublished colloquium paper).

62 Cloete (2015) 'The flawed ideology of "Free Higher Education"' in *University World News*, 6 November.

63 The figure quoted on the NSFAS website is 40 per cent: [www.nsfas.org.za](http://www.nsfas.org.za). However with the introduction of the Final Year Programme this figure must be revised up to 60 per cent (Parker (2015) 'Higher education funding challenges and the call for free education' (unpublished colloquium presentation)).

### 5.3 An interest rate above the Government's cost of borrowing

In South Africa, as previously in other countries, the error has been committed of both setting the rate of repayment of a student loan at a percentage of a graduate's income, and subsidising the interest rate on the loan. The interest rate on NSFAS loans currently stands at 80% of the repo rate.<sup>64</sup>

How much of their NSFAS loan a graduate pays back per month is determined, not by the size of their loan or the interest rate on their loan, but solely by how much they are earning. Consequently, lending to students at a subsidised interest rate does not break down barriers to Access by making repayment more manageable; all it does is reduce the total amount of money repaid by loan-recipients to NSFAS. Due to the relatively long time it can take for graduates to repay their loans, a subsidised interest rate greatly increases the ultimate cost to the taxpayer of a student loan scheme.<sup>65</sup> This extra expense, rather than fostering Access, just undermines Fairness, since it in effect takes the form of an extravagant gift from the state to middle-income graduates.<sup>66</sup> Thus the interest rate on NSFAS loans should on no account be lower than the Government's cost of borrowing.

There are two good reasons for raising the interest rate on NSFAS loans even further, to above the Government's cost of borrowing – though still below the rate charged in the commercial credit markets.<sup>67</sup> Firstly, it disincentivises the practice of arbitrage, whereby students with access to other funds nonetheless take out a NSFAS loan, place the money in a high-interest savings account, and reap the profit.<sup>68</sup> Arbitrage undermines Fairness, so it is desirable for an end to be put to this practice. Secondly, when the rate of interest stands at above the Government's cost of borrowing, this means that not all of the loss on the loans portfolio must be borne by the taxpayer. Adding a 'risk premium'<sup>69</sup> to the interest rate introduces a social insurance element into the higher-education

64 This is the rate quoted on the NSFAS website: [www.nsfas.org.za](http://www.nsfas.org.za). The repo rate is the rate at which the South African Reserve Bank lends to commercial banks.

65 In a previous incarnation of the UK's student loan scheme, one third of all money lent to students was not repaid purely because of the interest rate subsidy (Barr (2004) 'Higher education funding' in *Oxford Review of Economic Policy*, 20(2), p. 271).

66 *Ibid.*, p. 271.

67 I am no longer of the view that government loans to students should be 'low-interest', if that is taken to mean an interest rate at or below the government's cost of borrowing (G. Hull (2015) 'Free university education is not the route to social justice' in *The Conversation* (Africa), 27 October).

68 Barr (2004) 'Higher education funding' in *Oxford Review of Economic Policy*, 20(2), p. 271.

69 Barr (2012) 'The Higher Education White Paper: The good, the bad, the unspeakable - and the next White Paper' in *Social Policy & Administration*, 46(5), p. 503.

funding model, and can make a loan scheme substantially more affordable. This feature has already been successfully introduced in New Zealand and the UK.<sup>70</sup>

Once a risk premium is added to the interest rate, a loan scheme with universal eligibility has a progressive fiscal incidence across those who attend university. In South Africa, the non-completion rate is far higher for students from poorer households currently eligible for a NSFAS loan than for students from richer households.<sup>71</sup> When they pay back their loan at the higher interest rate, graduates from the latter group will also cover the cost of irrecoverable loans to non-graduates from the former group to a substantial degree.

#### 5.4 Recoverable loans recognised as an asset in the public accounts

When a government introduces a large-scale student loan scheme, it is crucial for it to represent perspicuously in its national accounts the distinction between (a) money invested which will ultimately be recovered and (b) monetary outflows which will not be recovered. Only outflows of type (b) – i.e. that portion of outlay on loans which is not expected to be recovered – should be marked as expenditure in the public accounts. Finance Minister Pravin Gordhan has recently reaffirmed that South Africa’s “expenditure ceiling is sacrosanct”.<sup>72</sup> This is a welcome move. However, it should not be allowed to disable the Government from turning bad student debt into good, which it will do for as long as “the repayable part of loans” is treated “in the same way as grants to students” in the national accounts.<sup>73</sup>

Of course, until a reliable method of debt collection has been put in place, it is impossible to make an accurate prediction of how much outlay on loans will ultimately be recovered. And, even with a reliable method of debt collection in place, if overly large chunks of student debt are routinely written off, and the interest rate on loans is too generously subsidised, then outflows of type (a) – i.e. the investment in loans which will ultimately make its way back into the public coffers – will amount to nil, or close to nil.

But if the reforms outlined above in 5.1 to 5.3 are implemented, the situation changes considerably. Let us assume that, with debt collection by

70 Ibid., p. 497; Barr (2004) ‘Higher education funding’ in *Oxford Review of Economic Policy*, 20(2), p. 271.

71 S. Nxasana (2015) ‘Education is part of the real world’ in *News 24*, 30 November.

72 C. Bisseker & L. Ensor (2015) ‘One blow too many: SA heads for recession and an earlier junk rating after the Finance Minister’s axing’ in *Financial Mail*, 17-23 December, p. 28.

73 National Committee of Inquiry into Higher Education (1997) *Higher education in the learning society: Report of the National Committee*, p. 327.

SARS, an end to the conversion of loan into bursary, and an interest rate equal to the government's cost of borrowing, 80% of outlay on loans can ultimately be recouped once borrowers have achieved healthy earnings.<sup>74</sup> That means that, of R90 billion total outlay, only R18 billion should be recognised as expenditure in the public accounts. Then let us assume that, with the interest rate on loans raised somewhat above the government's cost of borrowing, as recommended above in 5.3, half of the loss on the loans portfolio can ultimately be borne by repaying graduates. That brings the total expenditure on NSFAS loans down to R9 billion – a much less daunting figure.

NSFAS counts its outflows on student loans – adjusted for an impairment due to anticipated non-repayments – as an asset on its financial statement.<sup>75</sup> This is as it should be, and is in accord with the Standards of Generally Recognised Accounting Practice.<sup>76</sup> But the repayable part of loans should be recognised as an asset not just of NSFAS, but of the State. To effect this, an amount equal to the loans asset on NSFAS' balance sheet should be recognised as owed by NSFAS to DHET,<sup>77</sup> and the same amount should be recognised as owed in its turn by DHET to the National Treasury. This would be a simple and perspicuous way of marking the difference between loans (refundable) and bursary payments (expenditure) in the public accounts.

Currently, the South African Government's accounts treat student loans in the same way as bursaries, a practice which “misleads rather than informs”.<sup>78</sup> For as long as it persists in this accounting practice, Government expenditure targets will irrationally constrain South Africa's ability to empower its young people to invest in their future.<sup>79</sup>

74 I don't think this is an unrealistic assumption, given that South African university fees are cheap by international standards (see Cloete (2015) 'The flawed ideology of 'Free Higher Education' in *University World News*, 6 November), and graduate unemployment in South Africa is low.

75 NSFAS (2015) *2014/2015 annual report: Toward a student-centred approach*, p. 79 & 87.

76 Thanks to Ilse Lubbe for guidance on this point.

77 Currently DHET recognises all outflows to NSFAS as grants.

78 National Committee of Inquiry into Higher Education (1997) *Higher Education in the Learning Society*, p. 327; Nicholas Barr and Iain Crawford write: 'Since not all lending to students is repaid, it would be wrong to deduct all student loans from public expenditure. But it makes equally little sense to present the public accounts as though no student loans are repaid. This approach implicitly assumes that there will be a plague which wipes out all graduates on the day they graduate, thus preventing any repayments at all' (Barr & Crawford (1997) 'The Dearing Report, the government's response and a view ahead' in *The Dearing Report*, paragraph 93).

79 Barr comments: 'It is true that loans will bring in significant additional resources in 20 years' time – but (as one Vice-Chancellor put it on the day the Dearing Report was published) you cannot revive a corpse' (Barr (1998) 'Higher education in Australia and Britain: What lessons?' in *Australian Economic Review*, 31(2), p. 183).

### **5.5 A temporary graduate tax**

Needless to say, the change in accounting practice outlined above in 5.4 does not conjure money out of thin air. There remains the cash-flow issue of how to raise the capital required for the substantial expansion of NSFAS argued for in this paper. It might be possible to raise sufficient capital through the issue of Government bonds and by restructuring the higher-education budget so that less is spent on subsidies to universities and more on student financial aid.<sup>80</sup> If not, a temporary graduate tax is one device which could help achieve the necessary liquidity without redirecting funds from other Government priorities.

Above in Section 3 it was explained why an income-contingent student loan scheme is a better form for the student contribution to the costs of higher education to take than a graduate tax. But there would be a clear Fairness rationale for temporarily levying a tax on current graduates who studied and paid fees in the past. Current graduates paid proportionally less towards the costs of their higher education than today's students, which is an intergenerational inequity. A temporary graduate tax on current graduates – taking the shape outlined above in Section 3 – would enable that inequity to be rebalanced, albeit in a rough and ready manner.

### **5.6 Universal eligibility to be phased-in gradually**

Another way of ensuring sufficient liquidity for the proposed reforms to NSFAS would be to introduce these reforms not all at once, but gradually. The changes outlined above in Section 3 – increasing the size of loans and bringing the 'missing middle' inside the NSFAS tent – need to be prioritised and ideally implemented within the next two to three years. On the other hand, the introduction of universal eligibility for NSFAS loans – though important (as argued above in Section 4) – is not quite so urgent. This further expansion of NSFAS could be implemented five to ten years from now, once the trickle of NSFAS loan repayments has increased to a steady stream.

The measures outlined in 5.1–5.6 above indicate that the policy of income-contingent student loans with universal eligibility can reconcile the values of Efficiency, Access, Fairness and Equality not only in theory but also in practice.

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<sup>80</sup> Above in section 5 I explained why such a restructuring would be fair.



Once it is decided how much funding should be allocated to higher education, and what a fair split between university subsidies and student financial aid would be, (a) a temporary graduate tax, (b) adjustment to the interest rate on loans, and (c) the gradual introduction of universal eligibility can all be used to tailor the loan scheme to fit budgetary and cash-flow constraints.

To achieve the liquidity required for the expansion of the loan scheme in the short term, the Government should issue special Government bonds marked as 'Student Financial Aid Scheme Government Bonds', which will attract socially responsive investors both in South Africa and abroad. Investing in these specially marked Government bonds would be a more constructive way for business corporations to contribute to the funding of university tuition than the current somewhat piecemeal approach. Investment in Student Financial Aid Scheme Government Bonds would be an attractive form of 'corporate social responsibility' for many business corporations.

In the closing months of 2015, the South African Government was confronted with an articulate, attractive and well-coordinated student pressure group which demanded lower university fees and ultimately free higher education. As argued in this paper, neither of these policies would lead to a more just society for South Africa. If it is to engage successfully with this pressure group, and maintain its legitimacy in the eyes of its broader citizenry, the Government must not only choose the right higher education funding policy, but also communicate persistently and persuasively why the values behind that policy make it the right one. The route to social justice is for South Africa to empower its young people from all socio-economic backgrounds to invest in their shared future.<sup>81</sup>

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81 I acknowledge gratefully the helpful comments on earlier drafts of this paper which I received from Dean Chapman, Greg Fried, Rob Hull, Catherine Kannemeyer, John Kruger, Ilse Lubbe, Sean Muller, Lungisile Ntsebeza, Ian Scott, Bernhard Weiss, Jimmy Winfield and Jonathan Wolff.

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# **Governance innovation for funding tertiary education in South Africa: The case for a public private partnership in the management of income contingent loans**

*Report to the Commission of Inquiry  
into Higher Education and Training  
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## Background

There is growing consensus that the future of development is heavily dependent on the quality of human capital. Societies that do not put education at the core of their economic policy planning are doomed. Wealth and progress indeed depend on how we treat young and future generations as well as the resource base upon which they thrive. This is why the issue of financing education is so important. In many regards, education is the essential driver of economic transformation, technological progress, social emancipation and conflict resolution.

State support for universities in South Africa has been declining over time, with levels of public investment far below other 'developing' and 'middle-income' countries like Cuba, Senegal, Ghana and Malaysia.<sup>1</sup> Often third-stream income is presented as a substitute for public funds, but it is unlikely to fill the gap for a number of reasons: 1) universities compete with one another for national funds; 2) international funds have been shrinking due to the global economic crisis as well as the exclusion of South Africa from more traditional development aid in line with its 'upper middle-income' status; 3) private sector funding is less likely to be available for disciplines and sectors that have no immediate application and relevance to industry's priorities; 4) project-based research can interfere with academic freedom and may ultimately skew accountability relations, with priorities being dictated by external preferences rather than lecturers and students.

Currently the National Student Financial Aid Scheme (NSFAS) is under a lot of pressure because of insufficient resources and because of the so-called 'missing middle': a growing number of students who cannot afford the rising costs of tertiary education, yet does not qualify for aid or preferential loans. At the same time, government has been decreasing its overall investment in universities, which forces management to increase fees. It is a vicious circle that makes everybody tense and can easily trigger conflict.

Against this backdrop, students and most academics have called for free tertiary education, arguing that public resources can be diverted from other sectors and additional taxes can be introduced, especially on top income earners. This is certainly a legitimate demand, which points to the need to redistribute resources in what remains one of the most unequal societies in the world. At the same time it begs the question of whether allocating such additional revenues to tertiary education would be the most 'socially just' decision, in a country in which public healthcare as well as public primary/secondary education are extremely under-resourced. In fact, achieving free tertiary education through public revenues may not be a very equitable decision. Indeed, university graduates tend to enjoy higher incomes than average citizens. As result, funding their studies by diverting ordinary taxation, which could instead be used to support the achievement of more basic needs, would be tantamount to asking the current poor to subsidize the future rich through forfeited benefits. While additional and more innovative taxation systems would be needed in the country, the revenues should be channelled towards fulfilling more basic needs than tertiary education.

To break out of this impasse we may benefit from some governance innovation capable of reducing the frictions between students, universities and government while involving the rest of society to take responsibility for ensuring a more equitable and affordable education system. In this regard, it is an encouraging sign that the Ikusasa Student Financial Aid Programme (ISFAP) was launched in 2017 with a pilot in a selection of universities. ISFAP adopts a hybrid model

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<sup>1</sup> Universities South Africa, *University Funding in South Africa; A Fact Sheet*. Available online: [http://www.uct.ac.za/usr/news/downloads/2016/UniversitiesFundingSouthAfrica\\_FactSheet.pdf](http://www.uct.ac.za/usr/news/downloads/2016/UniversitiesFundingSouthAfrica_FactSheet.pdf)

involving public grants, bank loans and a series of other funding mechanisms, including donations and social impact bonds with a view to providing support particularly for the 'missing middle'. Key private sector organizations in the country, including the Banking Association of South Africa (BASA), Business Leadership South Africa and the Association for Savings and Investment South Africa have supported the ISFAP pilot, with private institutions donating over ZAR 138 million and ZAR 20 million in operating costs to ensure the pilot is implemented despite the short notice.

This report recommends building on the current ISFAP public-private partnership with a view to streamlining and simplifying the approach. In particular, it is recommended that one unified funding structure be managed by a single private partnership providing funding to all students, not only to the poorest segments of the population and a selection of missing-middle households. To achieve such a universal approach, South Africa can learn from the experience of Australia and other countries, which have introduced a financial mechanism allowing students to defer the costs of tuition until they get employment and making repayments proportional not to the amount due but to their future salary scales. In technical terms, this system is called 'income contingent loans' (ICL). Unlike conventional loans, which fuel a debt trap among millions of students, also in South Africa, a repayment method proportional to future earnings guarantees fairness and a better distribution of risk, given that some students will end up paying more than they have loaned, thus subsidizing those whose jobs are not remunerated well enough, who may enjoy lower premiums. Students who do not find a job or fall beneath a minimum 'salary threshold' will be exonerated from repayment for as long as they remain in that condition, provided that the government may require them to perform functions of collective benefit in return for the public investment that allowed them to study at no cost.

Such a system has numerous advantages. First of all, it provides an immediate relief to students who want to pursue an education but have no means to do so. By using future earnings rather than current economic conditions as the repayment parameter, it breaks the vicious cycle of debt and the anxiety that comes with the uncertainty surrounding the capacity to repay. Moreover, this system is more efficient than conventional public funding and more democratic than private loans: anybody can access it, poor and rich, without expensive screening processes that delay applications and sap already limited financial resources. Indeed, diverse participation in the funding scheme is crucial, because the financial sustainability of the system depends on the possibility of future cross-subsidies between students accessing higher-paid professions and those who get less lucrative jobs. The more diverse are the applicants, the more likely it is that high-income earners' contributions will offset the lower repayments of those earning less.

Given the specific circumstances of the South African economy and in line with the ISFAP approach, the report recommends a 'hybrid' adaptation of the ICLs, with the establishment of a public-private partnership involving government, revenue service and private banks. The revenue office would be in charge of collection, given that the simplest and most effective repayment process is through conventional employer withholding in the payslip (similar to social security withholdings). The banks would make funding available and the government may act as a payer of last resort, either as a guarantor that public money would be injected into the system in case of unexpected losses or by committing to buy off the banks any debt exceeding a mutually agreed margin. This proposal has been discussed with South Africa's banking associations and representatives of commercial banks, with a generally positive feedback and interest to engage in developing it further.

The crucial positive aspect of this hybrid approach is that it shifts the responsibility for equitable education from individual students and their families to society as a whole. It also produces an

important alignment of interests between the public and the private sectors. Why? Because both government and the business community will be able to profit from the proper management of the economy and the creation of decent and well-remunerated work. On the one hand, government would indeed save previous resources for as long as the positive cycle of repayments is maintained: resources that could be invested in other critical areas of social development, thus reinforcing the positive cycle. On the other hand, banks could profit directly from job creation, which would give them an additional incentive to provide credit particularly to companies that create good jobs, thus reducing their appetite for financial market operations. This alignment of interests has the potential to turn the current lose-lose economic situation into a win-win, saving government a lot of money and creating good investment opportunities for the private sector. This system would be not only an innovative way to deal with the funding crisis in tertiary education, but could also be a trigger of transformation and social justice. It is exactly what we need to turn the economy around.

#### **Income contingent mechanisms: a brief technical overview**

We all understand how conventional mortgage style loans work. To begin with, they involve a nominal repayment of \$X per month for n years. Moreover they have the following characteristics: 1) an increase in the interest rates raises monthly nominal repayments; 2) the duration of the loan is fixed but the fraction of a person's income absorbed by repayments (referred to as the repayment burden) can vary; 2) the repayment burden increases if income falls, because repayments stay the same (in the absence of interest rates changes) regardless of the borrower's salary fluctuations.

An income-contingent loan (ICL) challenges most of these aspects. For starter, repayments depend on the borrower's income at the time of repayment (not on the amount loaned). In virtually all ICL systems, payments are taken only after income reaches a threshold, with a view to eliminating (or at least minimizing) financial stress and risks. In an ICL system the variable component is the duration of the loan and the repayment rate applied, which can be longer or shorter, higher or lower depending on the levels of income.

As a consequence, income-contingency turns many standard understandings about student loans upside down:

- Repayment rates do not change unless income changes, so as to keep the repayment burden constant.
- Duration of the loan is flexible to allow for more sustainable repayments (and higher returns for the banks, given that graduate students tend to earn a higher salary as their career progresses).
- No repayment is expected until and unless the borrower is in the financial conditions to pay.

The repayment burden is a crucial aspect of student loan design because it reflects the difficulty or ease of meeting contractual obligations. With non-ICL systems, a borrower is required to repay its debt each month for the duration of the loan (usually 10 years), irrespective of his/her financial capacity to do so. As a result, borrowers experiencing unemployment or low earnings through non-graduation (a particularly likely outcome for borrowers who did not complete their degree), may end up facing proportionally higher repayment burdens, causing hardship and in many cases leading to default. As a consequence, the fixed character of conventional loans can seriously distort both labour market decisions (whether to work in the public or private sector, do

volunteering, look after family members) and decisions about family formation (partnership and when to have children) in ways that are neither efficient nor equitable.

The distinction between past and current income would be immaterial with stable and predictable incomes, but that is not the way the world works for borrowers. For instance, the incomes of young people are least stable, and depend significantly on the state of the labour market when first seeking full-time employment.

Thanks to its adaptability and flexibility, an income contingent design is always to be preferred to a conventional loan as a means to finance human capital. Indeed, financing education is very different from financing conventional built capital (Friedman 1955). Why?

- There is a lack of collateral. In contrast to home loans, for instance, there is no tangible property a borrower can offer to the lender in case of default.
- There is asymmetric information. Students are better informed than lenders about whether they aspire to careers in say financial markets or the arts, with implications in terms of ability to repay.

The first problem implies excessive risk for borrowers; both problems imply excessive risk for lenders. As a result, with conventional mortgage-type loans, investment in human capital is too low, because lenders impose tough conditions to guarantee repayment, which make the repayment burden excessive and often leads to default: a negative outcome for both borrower and lender. Mortgage-type loans are also discriminatory, because they tend to offer more favourable conditions to well-off students, who are more likely to repay, than to students coming from more disadvantaged backgrounds. In turn, this reinforces inequality and marginalization.

These market failures imply that to achieve an efficient level of investment in human capital a loan system needs two elements:

- Consumption smoothing: the loan needs to be large enough to provide full support over the course of the loan.
- Insurance: if consumption smoothing is to be effective (that is, people borrow enough to finance the efficient amount of investment in human capital), the loan needs to provide an element of insurance against low earnings.

In many ways, student loans are analogous to social security and should operate on the same principles. Pensions redistribute from a person's younger to her older self; student loans redistribute from middle years to earlier years, and across individuals with different earning capabilities.

An income contingent mechanism has two generic forms: a graduate tax and a loan.

- In the case of a graduate tax, graduates pay a fraction of their earnings for life or (say) till retirement. This is equity finance: repayments are contingent on lifetime income; thus people with higher lifetime earnings repay more in present-value terms.
- In the case of loans, repayment continues until the borrower has repaid some specified amount, for example, 100% of the amount borrowed in present value terms (thus including an interest rate). In this design, contingency affects both the rate and the timeline of repayments, which vary according to the ability to repay and the income of the borrower.

The report will deal at length with the strengths and weaknesses of the second approach, which is based on income contingent loans. As regards the graduate tax (which this report does not discuss in detail), the strengths include: low administrative costs and perceived fairness; the weaknesses include: negative social perceptions of additional taxation, life-time duration of the tax and cyclical tendencies in times of low economic growth.

Repayments can be organised in different ways:

- They can be based on current income at the time of repayment, which adjusts automatically to current earnings (this is the case in Australia and New Zealand).
- They can be based on past income (which is the case in Hungary).
- Or they can be developed through a combined arrangement, like in the Netherlands, where the system follows a traditional mortgage-like approach, but if a person's earnings are low, he/she can contact the student loans administration and request a lower repayment rate.

For a number of reasons, including automaticity and low administrative transactions costs, the first model is the most desirable.

Stiglitz (2014) has labelled these advantages 'transactional efficiencies' and promotes this aspect as one of the most important benefits of ICL. The resulting benefits take two forms:

- The marginal cost of collection is small because the system builds on an existing administrative income-contingent collection apparatus<sup>2</sup>.
- The benefit for the borrower is that repayments automatically adjust to financial circumstances.

In general, ICL systems are designed so that higher-earning borrowers will generally be in a position to repay their loans (plus interest) over a shorter period of time than low-earning graduates. However, it is important to point out that there is good economic argument for having a relatively long-term repayment term for these loans (say 20-30 years). It would be efficient to set a short repayment period if the lifetime of a loan were somehow related to the lifetime of the asset: for instance, a 3-year car loans and 25-year home loans. But given that the benefits of higher education last throughout a person's working life, the option of longer repayment duration should be seen as efficient, with the advantage that it reduces the risk of default. Moreover, as already indicated, graduate students tend to earn more as their career progresses, which means that longer loan terms are likely to generate higher returns for the lenders.

Important: it is always possible to design an ICL system that is cost neutral to the state and, by association, to tax payers. In this regard, key variables include a combination of low loans, real interest rates above the government cost of borrowing, loan surcharges, lower thresholds, higher repayment rates, longer loan terms, and a healthy labour market with good earnings growth. Some of these variables can be controlled, others cannot. A good ICL system should be transparent, easy to understand, with universal take-up (essential to spread the risk and guarantee smooth repayment), easy to access, easy to administer, placing low burden on borrowers once they enter the labour market, and basing repayments on current earnings.

To summarize, the core elements of an ICL are:

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<sup>2</sup> Administrative costs in the Australian system is about 3% of the annual revenue collected (Chapman, 2014).

- The repayment rate(s), that is, the percentage of a person's income after graduation that is directed towards repaying the loan, which also includes the interest rate;
- The repayment threshold, that is, the level of income at which repayments start;
- A cap on total and/or annual borrowing from the student loan system;
- The maximum number of years of repayment, that is, forgiveness after  $n$  years;
- Conditions for early repayment;
- A robust collection mechanism.

#### **A practical example: Australia**

Universities in Australia operate in the public sector with tuition charges set by government. Fee levels have changed considerably over the last 20 years and are currently between about AUD 6,000 (ZAR 60,000) and AUD 9,000 (ZAR 90,000) per full-time student per year depending on the course studied, there being three tiers (for example, law and medicine are in the top and arts and humanities are in the bottom tiers).

Upon enrolment, domestic students choose between paying tuition upfront or deferring their obligation through an ICL system. Over 85% choose to defer, because of the financial advantages integrated into the ICL, and a student's debt is recorded and linked to his/her unique social security/tax file number. When a borrower starts work, employers withhold loan repayments based on the borrower's current income in the same way that they withhold social security payments and income tax. Outstanding debt is recorded and reconciled within a government agency. In other countries, this process is managed by a public private partnership (in the case of the UK, for instance, it a separate a separate loans administration, the UK Student Loans Company).

Like in most countries adopting the ICLs, borrowers have no repayment obligation unless their incomes exceed a certain amount. In Australia, this is set at AUD 57,000 (ZAR 570,000) per annum. Above these thresholds loan repayments increase proportionally with income up to a maximum of 8% of the monthly salary (repayment burden). When the loan (plus interest) has been fully repaid, employers are informed and repayment collections cease; the median duration is about 8 years (in the UK, where average debts are much higher due to the high-cost of tertiary education, the median is over 20 years). Although in Australia there is no maximum repayment period, in other countries all outstanding debt is forgiven after about 30 years. ICL repayments in Australia reflect a borrower's *current* capacity to repay, since repayments are collected on the basis of the borrower's current weekly, fortnightly or monthly income.

Between 1994 and 2004, the Australian government introduced a Student Financial Supplement Scheme that operated in part as a hybrid model, with funding sourced from the Commonwealth Bank of Australia.<sup>3</sup> In line with the conventional ICL design, repayments would not commence until five years after the loan was taken out and only if the minimum threshold was exceeded. In the meantime, voluntary repayments made during the contract period and before the repayment terms attracted a 15% bonus. When the contract period expired, the Government paid the bank the amount the student still owed and collected the debt through a HECS style arrangement administered by the Tax Office.

The Australian experience points to the following conclusions.

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<sup>3</sup> See: [http://www.apf.gov.au/Parliamentary\\_Business/Bills\\_Legislation/bd/bd0304/04bd027](http://www.apf.gov.au/Parliamentary_Business/Bills_Legislation/bd/bd0304/04bd027).

- ICLs deliver major benefits in terms of consumption smoothing and insurance, because they eliminate concerns with high repayment burdens and hence largely eliminate defaults;
- A system of repayments through employer withholding based on current income is the simplest and cheapest approach for both lenders and borrowers;
- Avoiding the complications of reapplication has significant administrative and financial benefits both for government and borrowers; and
- The parameters of an ICL must be developed and agreed upon by all parties involved, especially if a hybrid model involving public and private institutions is chosen.

### Designing an ICL system

As discussed, the ICL approach has multiple objectives, including consumption smoothing and social mobility (hence avoiding high repayment burdens), as well as fiscal parsimony (thus limiting the financial burden on governments/tax payers while allowing loans to be large enough to provide full support for students, and sufficiently widely available to bring about the efficient level of investment in skills).

In designing an ICL, the choice of parameter values will depend on:

- The relative weights given to these different objectives;
- The choice of the other parameters, i.e. the parameters interact with each other;
- The size of the loan;
- The level, distribution and projected rate of change of graduate earnings;
- The tax and benefit regime operating in a country and the tax base;
- Political sensitivity connected with taxation, real interest rates and surcharges.

### *Repayment rate*

Let us start with the choice of a repayment rate. In the UK, the 9% repayment rate applies only to earnings above the threshold of GBP 21,000 per year; thus the repayment for someone earning GBP 22,000 per year is GBP 90, i.e. 9% of GBP 1,000. In Australia, once a borrower's earnings cross the threshold of AUD 54,000, a 4% repayment rate applies to *all* earnings; thus the repayment for someone earning AUD 55,000 is AUD 2,200, i.e. 4% of AUD 55,000. Other things equal, the Australian system can have a lower starting repayment rate, but at the expense of a 'cliff edge' as earnings cross the threshold. Australian evidence suggests that this has behavioural tax reporting effects in the short run (a bunching of earnings just below the threshold), which however quickly disappears (after about one year).

In cases where income inequality is particularly pronounced, as in South Africa, it would be advisable to consider a number of brackets with different repayment rates, so as smoothen the burden more efficiently and ensure that top income earners offset lower repayment rates among less well-off borrowers.

### *Repayment thresholds*

This is the point at which a borrower's income activates repayments. In societies in which salary gaps are wider, the risk of a 'cliff edge' can be reduced by having more thresholds with smaller changes in the repayment rates. Other things being equal, a lower repayment threshold increases repayments, making it possible, for example, to have a lower repayment rate. At the same time, the case for a higher threshold is to avoid the proportionally higher marginal tax rates faced by many low earning recipients and to reduce financial stress on low earners. In sum, a higher

threshold disentangles student loan repayments from other welfare considerations, with both efficiency and equity gains, but it reduces revenue.

The choice of threshold depends on the balance between repayment flows and social concerns, and will depend crucially on the median level of income in a country, the extent of income inequality, its tax and benefit systems and the efficiency of the tax collection/employer withholding system.

#### *Interest rate*

If government is in charge of the ICL system, then the interest rate can be tweaked according to political preferences, but if banks are involved, then the interest rate must take into account the cost of borrowing and must be set at prime or above prime to generate a level of profit for the private investors.

As a general rule, an interest rate below the cost of borrowing means that taxpayers or private investors will have to fill the gap, given that *no* borrower is expected to repay in full in present value terms. In the case of government loans, the outcome can be expensive in fiscal terms (especially if the government's cost of borrowing is high). However, a lower interest rate may be politically more palatable, reduce adverse selection and is also more progressive in terms of the proportion of the loan paid by the cohort of borrowers in present value terms across the earnings distribution.<sup>4</sup>

If the interest rate is set above the cost of borrowing, borrowers who repay their loan in full repay more than the cost of their loan in present value terms. However a note of caution is necessary here, given that the interest rate and repayment rate may interact in ways that affect the progressivity of the monetary contribution made by borrowers. For instance, if the richest graduates repay their loan faster, they contribute less proportionately in present value terms. An alternative to a positive real interest rate, or an option alongside a real interest rate, is a loan surcharge. A surcharge has the advantage of transparency (unlike compound real interest rates) and can help maintain progressivity within the cohort of borrowers by allowing real interest rates in a revenue neutral way (due to the increased revenue from the surcharge). A disadvantage is that the surcharge, particularly a large surcharge, invites adverse selection.

#### *Capping loans*

Loans should be capped for two reasons: 1) to prevent people from borrowing more than the fees and associated costs will require; 2) to help to contain fee inflation, a relevant consideration in most countries, where tertiary education is becoming extremely expensive. In the UK, where fees were allowed to rise up to a maximum of GBP 9,000 in 2012 and ICL loans were allowed to rise commensurately, virtually all fees went up to GBP 9,000.<sup>5</sup> This was repeated in 2016 when fees for 2017 were allowed to rise to GBP 9,250 and all but a handful of universities raised fees to the maximum level.<sup>6</sup> In order to avoid a sudden increase in tuition fees, the cap should not be set to a general threshold across all universities, but pegged to the inflation rate and proportional to the cost of tuition applied before the entry into force of the ICL mechanism. This would avoid

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<sup>4</sup> In Australia, the interest rate is 0% real, in New Zealand is 0% nominal – so below the government cost of borrowing. Conversely in the UK the interest rate is 3% real and above the government cost of borrowing.

<sup>5</sup> See Haroon Chowdry *et al.* (2012b) and Lorraine Dearden *et al.* (2014).

<sup>6</sup> See <https://www.offa.org.uk/access-agreements/>.



that 'cheaper' universities resort to increasing their fees instrumentally to reach the cap, as was the case in the UK.

#### *Time horizon: early repayment and maximum duration*

In a system with positive real interest rate, a lower maximum repayment duration is more progressive (since lower earners are increasingly protected), but at the expense of less revenue. As discussed, the UK has a maximum repayment duration of 30 years, i.e. any outstanding loan balance after 30 years is forgiven. In Australia, by contrast, there is no maximum period of repayment but implicitly is set to be the death of a debtor.

A well designed system should have no incentives to repay early and/or ensure that there is no loss of revenue if there is early repayment.

#### *Collection mechanism*

As discussed earlier, employer withholding on the basis of current earnings is cheap, robust (also in South Africa, where tax authorities are well resourced and skilled) and essential if the insurance element in the loan is to be effective. A system in which employer-withholding is done in the same way as is done for social security contributions is ideal (Dynarski 2016).

In sum, a good loan scheme has the characteristics summarized below:

- Income-contingent repayments based on future earnings.
- A write-off after  $n$  years, or at retirement or death.
- Repayment threshold and rate so that:
  - A graduate with 'good' earnings repays (in PV terms) 100% and for high-earners more than 100%.
  - Distortions like large cliff edges or wedges are avoided.
- Low administrative costs and fiscal efficiency, because a streamlined loan approach reduces bureaucratic costs and increases investment in human capital. By contrast, complex administration processes restrict one or more of:
  - The number of loans that are made available;
  - The size of loans;
  - Student numbers;
  - The breadth of the loan system, e.g. not covering living costs, or excluding part-time students, postgraduate students and students in sub-degree tertiary education.

All these problems are particularly detrimental to students from disadvantaged backgrounds, who enjoy limited family financial support.

- A fair and sustainable approach to offsetting losses and spreading risk. Here the critical question is where the loss on low-earning borrowers should fall: (a) on the taxpayer, or on the cohort of borrowers through (b) a cohort risk premium or (c) a surcharge. A large fiscal cost creates downward pressure on the number and/or size of loans, and crowds out other beneficial activities (like spending on other areas of welfare). A large loss requires a substantial risk premium, that is, an interest rate significantly above the cost of borrowing, risking adverse selection and creating potential political and social problems. A large loss requires a substantial surcharge, again raising the prospect of adverse selection.

#### **A hybrid ICL approach to the case of South Africa**

The key virtue of the ICL approach is its flexibility: it can be adapted in many different ways, with a view to responding to specific economic factors and cultural/social dimensions. South Africa is a

highly unequal country, which means that the income capacity of one sector of the population can be used to rebalance low levels of repayment in other sectors. The country also needs to prioritize public spending in the provision of basic services, notably healthcare and primary/secondary education, which means that additional public taxation or different budgetary decisions should target these critical areas first, rather than funding tertiary education.

For all these reasons, a hybrid ICL approach is preferable. Involving the private sector will indeed unleash new capabilities and financial resources, potentially addressing the problem at no cost to government. Moreover, it would guarantee a reasonable spreading of risk by making the funding approach universally applicable to everyone. Finally, it creates an opportunity for a public-private partnership aimed at shifting the responsibility to fund tertiary education from government, universities and families to society as a whole.

The desirability of a hybrid approach has also been stressed by a number of universities. For instance, a report by the University of the Witwatersrand states:

*to surpass the current crisis a new “hybrid model” is required. This envisages a multi-faceted approach in which Government (as the main custodian of higher education), the Private Sector and university revenues (fees, donor funds and endowments) all contribute in various ways to the general well-being and sustainability of the higher education sector<sup>7</sup>.*

In the next sections, the report outlines various options for a hybrid ICL model to tackle the tertiary education crisis in South Africa.

#### *A public-private partnership*

For the ICL approach to work effectively in the South African context, where state resources should prioritize other basic needs, it is essential to involve the private sector in the lending process. In particular, South African banks appear well positioned and resourced to provide a leading role. Many commercial banks in the country are already providing conventional loans to students, parents and guardians, whose investment could be more usefully directed towards funding the ICL approach. In addition, banks also fund an increasing number of scholarships, whose administration comes with a cost, which could be better streamlined by investing directly in the ICL funding scheme. According to BASA’s report to the Commission, South African banks already spend roughly ZAR 500 million per annum through grants and bursaries, with roughly 5000 bursaries dispensed across the country each year and ZAR 1 billion worth of student loans annually. Most of these loans already include flexibility in repayment, with only interest and fees charged during the period of study, some support in case of unemployment and a grace period after graduation, when full repayment begins. It’s clear that the ICL approach would make this process much more streamlined for both borrowers and lenders, limiting administrative burdens and spreading the risk across a more diverse population.

In preparing this report, a series of conversations were held with South African commercial banks, namely, Standard Bank, ABSA, Nedbank and First National Bank, as well as with BASA. All parties involved confirmed their interest in engaging in conversation with all parties involved to discuss how a hybrid ICL approach could be implemented as a response to the current funding crisis.

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<sup>7</sup> Report of the University of the Witwatersrand Panel on Funding Model(s) for Higher Education in South Africa. Available online: <https://www.wits.ac.za/news/latest-news/general-news/2016/2016-08/wits-submits-report-on-higher-education-funding.html#sthash.WdfCDHPr.dpuf>

In order to guarantee 'neutrality', such partnership should be managed by an independent institution similar to the several bodies already identified by the Chapter 9 of the Constitution. It should be accountable to Parliament, but guided by a board involving also the Banking Association of South Africa and the South African Revenue Service (SARS). The role of SARS is crucial to ensure that repayments are processed automatically as part of tax returns through direct employer withholdings.

Why such a partnership? First of all, because the private sector needs to take more responsibility in ensuring that tertiary education is made accessible to everyone. Second, because it would be a good investment for many banks seeking a decent return on investment, especially against the backdrop of widespread unsecure lending in the economy at large. Third, because it would save government money (at a time of shrinking public budgets), which should rather be invested in other critical areas of social development, from primary and secondary education to healthcare.

More importantly, perhaps, this partnership helps align the short-term interests of government and business with those of society at large. How? By making government revenues and banks' profits directly dependent on the creation of good jobs. By investing in the future careers of students, banks will have a stake in the real economy rather than in the financial markets, thus redirecting most of their capital towards lending rather than speculation. Indeed, the likelihood of steady repayment will be proportional to the creation of good and dignified jobs across society, not in one sector but in as many sectors as possible. As the profitability of the loans will depend upon the diversification of such job creation, banks will be more inclined to provide credit to small and medium enterprises (SMEs), which are the real job creators vis-à-vis some traditional corporate giants, which have become structurally unable to generate good jobs and are actually downsizing the workforce across the board. The ICL partnership would be a further incentive to upgrade existing efforts by the banking industry, including their activities under auspices of the CEO Initiative, such as the creation of an SME fund to invest in black enterprises and the Youth Employment Service.

Government will have a similar interest, because if the repayment cycle sustains itself thanks to the steady creation of good jobs, it will not need to use its own resources to back up the loans. As a consequence, we should expect policymakers to focus on policies that promote diversification, job creation, good governance, and broad-based economic empowerment. This will contribute to levelling the regulatory playing field between large corporations, which have thus far been supported by cheap labour and direct/indirect subsidies without a direct impact on the creation of dignified and sustainable jobs, and the many small and medium enterprises, which are the real job creators, yet struggle to access credit and operate in a legislative environment that is not enabling to their success.

#### *How much funding is needed?*

It is difficult to gauge exactly the amount of financial resources necessary to cover the costs of tertiary education for all students, also because the elimination of fees may increase enrolments. A generic estimate is however possible. According to the Centre for Higher Education and Trust, which collects data from the South African Department of Higher Education and Training's Higher Education Management Information System and universities' annual financial statements, there are about 1 million students enrolled nationally, with a success rate of about 77%.<sup>8</sup> A rough estimate of yearly tuition fees plus basic additional costs (including a small stipend for

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<sup>8</sup> See: <https://chet.org.za/data/sahe-open-data>.

accommodation and transport) hovers around ZAR 50,000 per year (with a Bachelor of Medicine at the University of Cape Town, which is the most expensive degree in the country, costing about ZAR 65,000 per annum and a Bachelor of Science at UNISA set at about ZAR 13,000 per annum).<sup>9</sup> This would amount to about ZAR 150,000 ZAR for bachelor degree and roughly 200,000 ZAR for a full degree including honours. Such an admittedly generic and rough calculation sets the overall need of funding at about 50 billion ZAR per annum, with a total of about 200 billion ZAR for all completed degrees nationally.

Ideally, a good system of funding and incentives should minimize failure and drop-out, which is why we assume a 100% success rate. Should the success rate only improve marginally from current trends (say from 77% to 85%), the overall cost of education would obviously decrease as compared to the assumed trajectory. In comparison, NSFAS has a budget of about 15 billion ZAR in 2017, which has been disbursed through grants and loans to assist over 400,000 students. At the national level, South African banks possess assets for about 4 trillion ZAR, with a significant (albeit decreasing) amount invested in unsecured credit, which could be more profitably directed to support socially beneficial activities, including tertiary education.<sup>10</sup> Moreover, private companies already make significant funds available in terms of bursaries and fellowships to a number of universities, faculties and departments. All this funding, which is possibly quite significant in terms of scale, could be absorbed by the ICL mechanism, thus reducing the actual amount of money loaned directly from the banks.

In short, the partnership would work as follows:

- An independent institution is created as a joint initiative by the Department of Higher Education and Training, SARS and the Banking Association of South Africa, accountable directly to Parliament. This institution will manage an annual funding portfolio of roughly 150-200 billion ZAR, made available by South African private banks and other investors.
- The NSFAS's annual budget (currently 15 billion ZAR) is set aside as a guarantee fund in case of insufficient repayments. If the system is in balance after four years, the NSFAS budget can be redirected to finance other areas of social welfare. Two alternatives are possible: 1) these funds could be used to start repaying banks at a low interest rate after the first two years of contract; 2) these funds are used to cover most of the costs of first-year enrolments, where drop-out rates tend to be higher (about 12% on average according to recent studies of the cost implication of the White Paper), thus absorbing much of the risk upfront while leaving banks to cover the students during the remaining years, in line with the current approach adopted by ISFAP.
- Private businesses interested in providing bursaries and fellowships would contribute directly to the ICL public-private partnership, either by making donations or purchasing interest-free bonds or equivalent financial obligations, in exchange for the right to indicate the sector of learning to which they would like their funds to be allocated.

#### *Flexible design*

This hybrid ICL partnership must be designed in a flexible fashion so as to achieve social mobility, redistribution and drive the economy in a more sustainable direction, ultimately becoming a countercyclical process to spur economic development, especially in times of stagnation. To achieve such multiple objectives, the following is recommended:

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<sup>9</sup> See: <https://africacheck.org/reports/how-much-will-it-cost-to-go-to-a-south-african-university-in-2016/>

<sup>10</sup> See: <http://www.banking.org.za/docs/default-source/publication/banking-sector-overview.pdf?sfvrsn=6>

- Time horizon

Preference should be given to a long-term repayment horizon in order to minimize risks of default. There should be a possibility for early repayment, but with a premium (or loan surcharge) in order to discourage a surge of repayments in the early stages of a professional career, when income is lower and risks are higher.

The long-term repayment is also likely to ease the burden on graduates facing the so-called 'black tax', a customary tradition among many black communities in the country, according to which young professionals are expected to support their families mostly through covering the cost of their siblings' education. It must be noted that, in a fully-functional ICL system, it is likely that education expenses will massively decrease or disappear altogether, thus reducing the burden associated with customary practices.

- Thresholds and caps

As discussed, the choice of threshold depends on the balance between repayment flows and social concerns. It will need to take into account the level of inequality in South Africa and the median income, ultimately exonerating all post-graduation poor households (and potentially some of those belonging to the so-called 'missing middle') from any repayment obligation.

It is important that loans are capped to avoid an increase in university fees. However, given the vast disparity in costs among the various South African universities, the cap must be introduced in ways that do not generate a perverse incentive for 'cheaper' universities to increase their charges instrumentally to reach the cap.

- Rates

Unlike conventional ICLs, in which government manages loans directly and can decide to set interest rates below the cost of borrowing (thus requiring an injection of revenues from taxpayers), a hybrid model involving private banks will require a higher, although incremental, approach to interest rates. In practice, it is recommended that a minimum entry level be equivalent to prime plus inflation, with progressive marginal increments proportional to the income of the borrower. Due to South Africa's massive inequality, it is advisable to introduce a relatively large number of repayment scales (thus smoothing repayment obligations) with an exponential increase for top income earners.

It is paramount that interest rates are chosen carefully so as to ensure that repayments exceed the amounts loaned, with a view to offset the forfeited debt owed by those falling below the threshold.

- Universality

For the ICL approach to work optimally, the pool of students signing up to the facility should be as large and diverse as possible. Ideally, it should be universal, with all students subscribing to it upon successful registration. As discussed, uptake rates around the world are quite high, because ICL systems are designed in a way that comes with virtually no risk to the students and repayments are proportional to the financial means of the graduate after finding employment. In a country like South Africa, which suffers from high levels of income and wealth inequality, it is paramount that students from all socioeconomic backgrounds participate in the process. Otherwise, there would be a significant risk of adverse selection, with low levels of repayment, which is currently a major problem for both NSFAS and ISFAP. An optimal level of uptake can be achieved in two ways:

- Making it mandatory for all students to subscribe to the ICL funding mechanism upon registration;
- Attaching a 'fee discount' to students that sign up for the ICL approach.

In the first case, the legislator would need to introduce a universal requirement for students in public universities, adapting it to Constitutional requirements of equal treatment and non-discrimination. In the second case, it would be a process agreed upon directly between the ICL partnership and universities. For instance, it could be agreed that universities will only receive government subsidies in proportion to the number of students enrolled through the ICL process. As a consequence, universities may need to increase tuition fees to supplement the forfeited public funds, which however would not apply to students funded through ICLs. For ICL students fees would only increase proportionally to the rate of inflation, while non-ICL students would be charged according to other financial considerations. Not only is such an approach a powerful alternative to the obligatory adoption of ICLs, but it can easily result in an indirect subsidy from opt-out students to ICL students, thus maintaining the sustainability of the partnership.

- Incentives and sanctions

Last but not least, there is a clear need for better incentives and stricter sanctions for students. Good performance is indeed essential for this hybrid mechanism to work effectively. Being a loan, the ICL is less likely than other types of funding (e.g. a graduate tax) to generate perverse incentives, whereby students with no real interest to pursue graduation or no particular professional aspirations attend university simply because it is free, thus posing an excessive burden on public funds. In any case, stricter performance assessment mechanisms will need to be implemented by universities to minimize such risk and to ensure that as many students as possible graduate in time and with distinction.

## **Conclusion**

No funding system is perfect, but the hybrid ICL approach described in this report is possibly the least imperfect of all. It avoids the debt trap in which many students are currently falling, which feeds suspicious financial schemes, often with the tacit consent of university administrators. It avoids sapping important public funds, which should rather be spent to support other areas of social welfare.

In some ways, this hybrid model is a better option than any other income contingent forms of funding, including a 'graduate tax'. The latter, too, has a number of advantages, but it is unlikely to alter the current economic status quo, which points towards a shrinking labour market going forward. A tax risks undermining its sustainability even in the short term, because the graduates expected to pay it may never find the good jobs they want. Moreover, it is more likely to cause an inflation of enrolments, also by students who may not be particularly motivated or interested to achieve graduation but would welcome the idea of attending university with no strings attached.

Above all, what makes the hybrid approach more promising is its capacity to align different interests in society. Unlike a tax, this hybrid system may activate countercyclical dynamics, thus helping turn the economy around: something unlikely to happen for as long as government, business and the rest of society pull in different directions. Unlike a tax, which becomes a bilateral relationship between students and government, the hybrid model turns the private sector into a direct stakeholder in the tertiary education process. Achieving accessible quality education is not just a responsibility of public departments, universities and students: as a public good at the basis of a healthy society, it is everybody's moral duty and in everybody's best interest.

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## Unemployment Insurance Fund

Assessment of the financial impact of the Amendment Bill of 2015

31 March 2016

QED Actuaries & Consultants (Pty) Ltd  
*Confidential*

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## Executive Summary

1. QED Actuaries & Consultants (Pty) Ltd ("QED") has been appointed by the management of the Unemployment Insurance Fund ("UIF" or "the Fund") to assess the financial impact of proposals in the Unemployment Insurance Amendment Bill of 2015. Management have requested that additional scenarios, which are currently under discussion in the National Economic Development and Labour Council ("NEDLAC"), be considered, the financial impact of which is also assessed in this report.
2. This report focuses on the adjustments that will have an impact on the future financial performance of the Fund.
3. Benefit changes proposed in the 2013 Amendment Bill, which also appear in the 2015 Amendment Bill, are considered in the following Parts of the report:
  - Part 1: Extension of benefits to 365 days with a flat rate of 20% after 238 days, and adjustment of benefit accrual at rate of 1 day for every 5 days worked
  - Part 2: Maternity and illness benefit changes
  - Part 3: Unemployment benefit cycle changes
  - Part 4: Extension of Death claims submission period from 6 to 18 months
  - Part 5: Extension of Unemployment claims submission period from 6 to 12 months
  - Part 6: Death claims to allow for nominated beneficiary
  - Part 7: Inclusion of persons on learnership contracts and migrant workers
4. Benefit changes proposed in the 2015 Amendment Bill, which were not proposed in the 2013 Amendment Bill, are considered in the following Parts of the report:
  - Part 8: Payment of benefits in the case of reduced salary
  - Part 9: Extension of Maternity claims submission period from 8 weeks prior to birth to 12 months after child birth
5. Benefit changes as under discussion in NEDLAC are considered in the following parts of the report:
  - Part 10: Inclusion of persons employed in the informal sector
  - Part 11: Payment of 12 days of paternity leave to fathers
  - Part 12: Payment of benefits to persons who have resigned
6. As an alternative option for Part 12, which we have referred to as Part 12A, we recommend that the IRR used to calculate resignation benefits be 60% of the actual IRR for the first 238 days, and the proposed fixed 20% IRR thereafter.
7. The cumulative PAYG rate following the respective proposed benefit changes that lead to a deterioration in the claims experience of the Fund is estimated as follows:

	PAYG Rate					Total	Change
	Death	Illness	M&A	Unemployment	Expenses		
Current	0.041%	0.038%	0.117%	0.892%	0.235%	1.322%	
Part 1	0.047%	0.038%	0.120%	1.044%	0.235%	1.483%	0.161%
Part 2	0.047%	0.043%	0.183%	1.044%	0.235%	1.552%	0.069%
Part 3	0.047%	0.043%	0.183%	1.200%	0.235%	1.708%	0.157%
Part 4	0.047%	0.043%	0.183%	1.200%	0.235%	1.708%	0.000%
Part 5							
Part 6	0.070%	0.043%	0.183%	1.200%	0.235%	1.732%	0.023%
Part 7	0.072%	0.045%	0.189%	1.239%	0.235%	1.780%	0.048%
Part 8							
<b>Part 9</b>	<b>0.072%</b>	<b>0.045%</b>	<b>0.208%</b>	<b>1.239%</b>	<b>0.235%</b>	<b>1.799%</b>	<b>0.019%</b>
Part 10	0.078%	0.048%	0.223%	1.327%	0.235%	1.911%	0.112%
Part 11	0.078%	0.048%	0.351%	1.327%	0.235%	2.038%	0.128%
<b>Part 12</b>	<b>0.078%</b>	<b>0.048%</b>	<b>0.351%</b>	<b>2.081%</b>	<b>0.235%</b>	<b>2.792%</b>	<b>0.754%</b>
<b>Part 12A</b>	<b>0.078%</b>	<b>0.048%</b>	<b>0.351%</b>	<b>1.779%</b>	<b>0.235%</b>	<b>2.490%</b>	<b>0.452%</b>

8. Benefit changes that lead to no anticipated deterioration in claims experience to the Fund are reflected as blank lines in the above table. The revision in PAYG rate for each line reflects the cumulative impact of all benefit changes considered up to that Part.
9. Part 9, highlighted in light grey and bolded in the table above, shows the cumulative impact on the PAYG rate, should the changes proposed in the Amendment Bill be implemented. Part 12, highlighted in dark grey and bolded, shows the impact on the Fund, should the changes proposed in the Amendment Bill, as well as those under discussion in NEDLAC be implemented. Part 12A, at the bottom of the table, shows the impact in the Fund, should Part 12A be implemented instead of Part 12.
10. The cumulative impact of benefit changes proposed in the Amendment Bill that lead to a deterioration in claims experience of the Fund is a revision of the PAYG rate for the Fund from 1.322% in the base financial projection to 1.799%. This means that all changes proposed in the Amendment Bill are affordable at the current contribution rate of the Fund of 2.00%.
11. The cumulative impact of benefit changes proposed in the Amendment Bill and those under discussion in NEDLAC result in the PAYG rate of the Fund increasing from 1.322% to 2.792%. This means that all benefit changes under discussion in NEDLAC cannot be fully funded by the current contributions to the Fund. However, the high level of accumulated funds results in the investment income being able to fund the difference. As a result, the Fund is able to afford the changes under discussion in NEDLAC as well as those proposed in the Amendment Bill. However, the operating shortfall under this scenario is significant. As most of this is due to Part 12, we recommend that the Fund consider implementing Part 12A initially, rather than Part 12.
12. Details of the base financial projection (per the 2016 Actuarial Review Report), and a 10-year financial projection conducted using the revised PAYG rate of 1.799% and 2.792% are shown in the report. The surplus and Solvency Ratio of the Fund continue to grow in the long term under a PAYG rate of 1.799%, although there is an initial decrease in the year in which the changes are implemented. The once-off, initial decrease in surplus and solvency ratio is due to an increase in the Unexpired Risk Reserve ("URR"), which is dependent on the PAYG rate of the Fund. An increase in the PAYG rate results in an increase in the URR.

13. Under a PAYG rate of 2.792% the accumulated surplus continues to grow, however the solvency ratio decreases due to the increase in contributions.
14. The Fund continues to earn substantial investment returns under a scenario of a PAYG rate of 2.792%, and this leads to ongoing growth in the surplus position of the Fund, in the long term. The projected surplus of the Fund, after 10 years, allowing for the changes proposed by the Amendment Bill is R297.0 billion, with a solvency ratio of 945%. Should the changes proposed by NEDLAC discussions also be implemented the surplus is projected to be R124.8 billion in 10 years with a solvency level of 380%. Based on Part 12A the solvency in 10 years is projected to be 414% and the accumulated surplus is projected to be R136.1 billion.
15. We conclude that we are comfortable that the proposed benefit changes in the 2015 Amendment Bill as well as those proposed by NEDLAC are affordable by the Fund. However, we recommend that the IRR used to calculate the resignation benefit be set at 60% of the actual IRR for the first 238 days, rather than 100%. The key measure in making this conclusion is that the accumulated funds continue to increase after the benefit changes are made, although there is an initial sharp decrease initially. Furthermore, the solvency position, though decreasing slowly, remains at a high position.

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**1 June 2016**



## 1. Introduction

- 1.1 QED Actuaries & Consultants (Pty) Ltd ("QED"), has been appointed by the management of the Unemployment Insurance Fund ("UIF" or "the Fund") to assess the financial impact of proposals in the Unemployment Insurance Amendment Bill of 2015.
- 1.2 This report is produced in our capacity as employees of QED.
- 1.3 This report is addressed to the directors and management of the Fund.
- 1.4 In Notice 738 of 2013 ("2013 Amendment Bill"), the Minister of Labour published proposed amendments to the Unemployment Insurance Act of 2001 ("the Act"). In Government Gazette No. 39273 of 8 October 2015 ("2015 Amendment Bill"), the Minister of Labour has published proposed revised amendments to the Act. Furthermore, proposed additional scenarios, which are currently under discussion in NEDLAC have been considered.
- 1.5 The purpose of the Act is to establish a Fund to which employers and employees contribute and from which employees who become unemployed, or their beneficiaries as the case may be, can benefit. In that regard, the harmful economic and social effects of unemployment can be alleviated.
- 1.6 In order to improve service delivery by the Fund, the Unemployment Insurance Board decided to recommend to the Minister that the Act should be amended so as to meet these demands.
- 1.7 The Minister for Labour has introduced in the National Assembly and gazetted a number of proposed amendments to the Unemployment Insurance Act (Act 63 of 2001).
- 1.8 The financial impact of previous proposed amendments to the Act has been assessed in a report by QED, previously known as Aon Hewitt (Actuarial).
- 1.9 This report focuses on the adjustments that will have an impact on the future financial performance of the Fund. Further detail of the latest proposed benefit adjustments proposed in the 2015 Amendment Bill as well as additional scenarios being discussed by NEDLAC is described in the report. An attempt is made in the results section of this report to quantify the impact of the respective proposed benefit changes on:
  - the claims ratio (expressed as a pay-as-you-go rate); and,
  - the projected financial position of the Fund.
- 1.10 Appendix Q details the benefits which the Fund currently provides, as well as the proposed amendments.
- 1.11 The contents of this report are confidential. Further, the report should not be considered as appropriate for any purpose other than that for which it was intended. The written approval of the signing actuary must be obtained before this report is disclosed, whole or in part, to any party other than those mentioned in paragraph 1.3 above.
- 1.12 This report should be read as a whole, as sections taken on their own could be misleading.
- 1.13 This report assumes knowledge of certain financial and actuarial concepts and principles.

## 2 Reliances and Limitations

- 2.1 This report and the estimates of value and opinions contained herein are subject to the following primary reliances and limitations, amongst others.
- 2.2 This exercise relies on our interpretation of the intended purpose of the assessment; specifically: to provide Management with insight into the expected impact of the 2015 Amendment Bill as well as additional scenarios proposed by NEDLAC on the financial performance of the Fund.
- 2.3 Reliance is placed on the 10-year financial projection conducted as part of the Actuarial Review Report as at 31 March 2016.
- 2.4 The results are based on internal data of the Fund as provided by Management.
- 2.5 The responsibility for maintaining accurate data files in respect of the Fund's business lies with Management. Certain reasonability checks are undertaken and no material errors are noted. This comment notwithstanding, these checks do not guarantee the integrity of the data used.
- 2.6 The accuracy of the values in this report and the conclusions based thereon are limited to the accuracy of the data.
- 2.7 More specific reliances and assumptions are documented, where relevant, in the remaining sections of the report.

### 3 Data

3.1 This review relies on data provided by the Fund.

3.2 The following data and information were considered in order to perform the assessments in the report:

- claims information tables for the 2016 financial year, split by the type of claim into Unemployment, Adoption, Death, Illness and Maternity;
- payment information tables for the 2016 financial year, split into the same claim types;
- QED's Actuarial Review Report as at 31 March 2016; and
- QED's Report on the expected impact of the Proposed Unemployment Insurance Amendment Bill of 2013.

3.3 The claim and payment data tables each contain multiple dimensions which can be used to assess the impact of a proposed change in benefits. These include:

- date of the event giving rise to the claim;
- date of the claim application;
- date of approval or rejection;
- date the claim was captured in the system;
- average salary;
- benefit amount;
- number of credit days entitled, claimed and available;
- date of payment;
- amount of payment; and
- any over- or underpayments.

3.4 The following table shows a summary of the financial year 2016 claims data by benefit type in terms of the total benefits that claimants had accrued.

<b>Benefit category</b>	<b>Number of claims</b>	<b>Data</b>
Death	16,470	R 314,086,226
Illness	17,342	R 336,209,031
Maternity	97,006	R 975,149,228
Unemployment	589,740	R 7,608,100,043
<b>Total</b>	<b>720,558</b>	<b>R 9,233,544,527</b>

3.5 The Adoption benefit is ignored for the purpose of quantifying the impact of benefit changes as there are very few claims for this benefit type (70 claims in 2016).



- 3.6 The claims data captured over the year ending 31 March 2016 is based on an Income Replacement Ratio ("IRR") of 38%-60% and an earning threshold of R14,872.
- 3.7 The table below shows the average salary, average IRR and average credits available at the claim stage for the 2016 claims data.

<b>Benefit category</b>	<b>Average salary</b>	<b>Average IRR</b>	<b>Average credits available</b>
Death	R 6,670.30	44.37%	178.86
Illness	R 6,905.48	45.16%	195.84
Maternity	R 6,458.32	45.74%	108.09
Unemployment	R 5,798.32	46.51%	138.33
<b>Average</b>	<b>R 5,933.75</b>	<b>46.33%</b>	<b>136.57</b>

## 4 Changes Since the Previous Review

- 4.1 The financial impact of previous proposed amendments to the Act has been assessed by QED.
- 4.2 The following changes proposed in the 2013 Amendment Bill, and assessed in QED's previous report, are not being considered in the 2015 Amendment Bill:
  - 4.2.1 Changes in unemployment start date, from the date of unemployment to the date of application for a benefit.
  - 4.2.2 Adjustment of benefit accrual at a rate of 1 day for every 4 days worked and 1 day for every 5 days worked were previously considered. We now only consider accrual at a rate of 1 in every 5 days worked.
  - 4.2.3 Inclusion of public servants.
- 4.3 The following changes were not included in the 2013 Amendment Bill, but have been proposed in the 2015 Amendment Bill:
  - 4.3.1 Payment of benefits to contributors, in the case of a salary reduction following a reduction in their working hours.
  - 4.3.2 Extension of the Maternity claims submission period from before 8 weeks prior to birth, to up to 6 months after birth.
- 4.4 The items below are changes which are currently under discussion in NEDLAC:
  - 4.4.1 Inclusion of persons employed in the informal sector.
  - 4.4.2 Payment of 12 days of paternity leave to fathers.
  - 4.4.3 Payment of unemployment benefits to persons who have resigned from employment.
- 4.5 We recommend an alternative to the resignation benefits, where the benefit is based on 60% of the contributors' IRR, rather than 100%.
- 4.6 The methodologies that are applied in this report to estimate the impact of proposed benefit changes per the 2015 Amendment Bill are consistent with that applied in the previous report. Further detail is contained in the following sections of the report.

## 5 Benefit amendments and proposed methodology

- 5.1 A description of the proposed benefit adjustments included in the 2015 Amendment Bill and proposed by NEDLAC, together with the methodology used to assess the financial impact, is given in this section.
- 5.2 In all cases, the financial impact is first assessed in terms of the impact on the pay-as-you-go rate ("PAYG rate") and then the impact on the projected financial position is assessed.
- 5.3 The financial impact of the respective areas of benefit change is reported in the Results Section 6. Part 0 of the Results Section shows the 10-year financial projection of the Fund from the QED 2016 Actuarial Review. The subsequent parts of the Results Section progressively assess the impact of the benefit adjustment being considered. In the projections we have assumed that all benefit changes will apply from 31 March 2017.
- 5.4 The benefit changes impact the Unexpired Risk Reserve ("URR") from 31 March 2017, due to the URR being linked to the PAYG rate. In the following year (i.e. from 1 April 2018 onwards) the claims ratio is projected to increase, based on the change in the PAYG rate.
- 5.5 Text in *italic* in the below sections describes the proposed benefit changes per the 2013 and 2015 Amendment Bills or as under discussion in NEDLAC.

### Part 0: Base Financial Projection

- 5.6 A 10-year financial projection of the Fund, on a best-estimate basis, is included in this section (per QED's 2016 Actuarial Review). This is used as a base from which to project the impact of the respective areas of proposed benefit change per the 2015 Amendment Bill.
- 5.7 The Solvency Ratio as at each year-end is included in the projection. This is quantified as the ratio of the accumulated surplus at the financial year-end to the contributions received in the last 12 months. The Solvency Ratio is a key measure of the financial strength of the Fund, and changes in this ratio will indicate a change in financial strength of the Fund.
- 5.8 Part 0 of Section 6 sets out the assumptions underlying this projection.

### Part 1: Extension of benefits to 365 days with a flat rate of 20% after 238 days, and adjustment of benefit accrual at rate of 1 day for every 5 days worked

#### Description

- 5.9 Currently, the benefits that an eligible contributor is entitled to, accrue at a rate of 1 day's benefit for every completed 6 days of employment as a contributor. This is subject to a maximum of 238 days' benefit in the four-year period preceding the date of application for benefits less any days received by the contributor (excluding maternity benefits) during this period.

- 5.10 The benefit level is based on the current Income Replacement Rate ("IRR") formula. The IRR is at its maximum when income equals zero, and it reaches its minimum where income is equal to the benefit transition level (currently R14,872 per month). The maximum IRR is currently set at 60%. The minimum IRR is currently set at 38%.
- 5.11 *The 2015 Amendment Bill seeks to extend the benefits to 365 days. The first 238 days are paid at the IRR rate, and at a flat rate of 20% after the 238 days will apply. Benefits will accrue at a rate of one day's benefit for every completed 5 days of employment as a contributor.*
- 5.12 **Methodology**
- 5.13 The methodology used to quantify the impact of this benefit change is described as follows.
- 5.14 All benefit types are impacted by the benefit change being considered in Part 1. The revised benefit that each beneficiary will be eligible for after the proposed benefit change is calculated from the 2016 claims data. A ratio of the revised eligible benefits to the actual 2016 eligible benefits is calculated per benefit type. A revised PAYG rate for each benefit type is calculated by applying this ratio to the current PAYG rate per benefit type.
- 5.15 The maximum number of days that an individual can accumulate, based on benefits accruing at a rate of one day's benefit for 5 days of employment, is 292 days. Thus, the benefit change which has been modelled is effectively that the first 238 days are paid at the IRR rate and a flat rate of 20% is applied to the following 54 days (292 days less 238 days)
- 5.16 It is assumed the change in benefit will apply from 31 March 2017. The revised benefit will apply immediately from this date according to the number of days worked in the last four years.

## Part 2: Maternity and Illness benefit changes

### Description

- 5.17 For Maternity claims the maximum accrual period is currently 121 days (17.32 weeks) for normal births and 6 weeks for a miscarriage or still birth. The benefit level is based on the IRR formula. The days of benefits that a contributor is entitled to is reduced by the payment of Unemployment benefits.
- 5.18 *The Amendment Bill looks to improve the IRR on Maternity benefits to a flat rate of 66%. Further, the payment of Unemployment benefits may not affect the payment of Maternity benefits.*
- 5.19 *A contributor who has a miscarriage during the third trimester or bears a still-born child will be entitled to a full maternity benefit (of 17.32 weeks).*
- 5.20 *In addition, the Amendment Bill looks to decrease the waiting period on Illness benefits from 14 days to 7 days.*

## Methodology

- 5.21 The impact of all benefit changes described in this section is quantified in one step.
- 5.22 For each claimant in the 2016 Maternity claims data, we calculate the revised Maternity benefit assuming that the claimant did not have their benefits reduced by prior Unemployment claims. We also adjust the maternity benefit to a flat rate IRR of 66%.
- 5.23 It is possible to identify miscarriage/ still born maternity cases from the 2016 claims data. A lower usage of eligible benefits was indicated for these cases compared other Maternity claimants. Benefit levels for these cases were increased to the usage level indicated for normal Maternity cases.
- 5.24 Four times the eligible benefits in respect of claims that were rejected due to the period of illness being less than 14 days were included in the eligible benefit total. These have been multiplied by four to allow for claimants who have not applied due to the knowledge that their claim would be rejected due to a period of illness of less than 14 days.

## Part 3: Unemployment benefit cycle changes

### Description

- 5.25 *Unemployment benefits must be paid to the Unemployed contributor regardless of whether the contributor has received benefits within that four-year cycle or not provided the contributor has credits.*

### Methodology

- 5.26 Discussions with Management have revealed that this benefit change may have a material impact on the claims experience of the Fund. Data on potential additional claimants that can arise from this benefit change is not readily available to the Fund, as in many cases 'repeat' claimants may not have been registered by the Fund.
- 5.27 The method relies on the usage of credit days observed in the claims data. For each claim, it is possible to determine the percentage of available credit days used, which comes to 86.1%. To make an allowance for repeated claims, the benefit has been recalculated 'as if' the credit days' usage was instead 100%. This leads to an approximate 15% increase in the amount paid for unemployment benefits.

## Part 4: Extension of Death claims submission period from 6 to 18 months

### Description

- 5.28 *The UIF looks to extend the application for Death benefits from 6 months to within 18 months of the date of termination of employment.*



### Methodology

- 5.29 The distribution of claim application delays by month since Death is graphed in respect of the 2016 claims data. A Poisson Statistical Distribution is fitted to the empirical distribution to project the additional claims that are expected to will be submitted after six months under this new condition.

### Part 5: Extension of Unemployment claims submission period from 6 to 12 months

#### Description

- 5.30 *The UIF looks to extend the application for Unemployment benefits from 6 months to within 12 months of the date of termination of employment.*

#### Methodology

- 5.31 The distribution of claim application delays by month since Unemployment is graphed to assess the potential impact of extending the claim submission period.

### Part 6: Death claims to allow for nominated beneficiary

#### Description

- 5.32 Currently, the surviving spouse or a life partner of a deceased contributor is entitled to the dependant's benefits.
- 5.33 *Any nominated beneficiary of the deceased contributor may claim dependant's benefits. A nominated beneficiary will qualify for benefits if there is no surviving spouse, life partner or dependent children of the deceased.*

#### Methodology

- 5.34 For the purpose of this draft report, the impact of this benefit change is illustrated by assuming that Death claims will increase by 50%. This is considered a prudent estimate of the potential impact of this benefit change.
- 5.35 NBC, a previous actuarial service provider to the Fund, estimated that the number of such Deaths were almost equal to the actual Death claims submitted to the Fund in the period. A potential under-utilisation of this benefit is indicated from the data. It was agreed in discussions with management in prior years that this change should not have a significant impact on claims experience, as in the majority of cases there should be either a surviving spouse, life partner or a dependent child of the deceased contributor. Some work will need to be done to control the process of submitting evidence of the existence of nominated beneficiary.

## Part 7: Inclusion of persons on learnership contracts and migrant workers

### Description

- 5.36 The Act currently excludes employees under a contract of employment contemplated in section 18(2) of the Skills Development Act, 1988 (Act No. 97 of 1998), and their employers.
- 5.37 *The Amendment Bill looks to delete this section so that the benefits of the Fund will apply to such persons.*

### Methodology

- 5.38 The impact of allowing migrant workers to claim is estimated from data on migrant workers obtained from the 2011 census. The overall proportion of non-SA citizens in the country (3.2%) is used to ratio up the total expected claims experience of the Fund.
- 5.39 Workers on Government learnership and internship programs will be more significant than those on such programmes in the private sector. Such learners classify as public servants and any benefit payments will be reimbursed by the Government.
- 5.40 Per the above point, learnerships in the private sector will not be many, salaries will be low and the contract term will be one year. For this reason, the impact of inclusion of learnerships on claims experience of the Fund is not considered to be significant and is not quantified in this report.

## Part 8: Payment of benefits in the case of reduced salary

### Description

- 5.41 The Act currently does not provide for benefits to be paid should a contributor's salary reduce due to reduced working hours.
- 5.42 *The Amendment Bill seeks to provide benefits to contributors, whose salary has reduced, due to a reduction in working hours, provided the total income is below the benefit level that the contributor would have received should they have become unemployed.*

### Method

- 5.43 We have considered the total benefits that would be payable to contributors, based on various levels of salary and reductions in working time, should their salary reduce due to reduced working hours. This is compared to the benefit which they would have been eligible to receive if they had become unemployed. We assume that all employees have the full number of credit days available for use, thus we consider this to be the upper limit of the claims that could occur.
- 5.44 The difference between the benefit following unemployment, and the reduced salary is the resulting benefit.

**Part 9: Extension of Maternity claims submission period from 8 weeks prior to birth to 12 months after child birth**

**Description**

5.45 Currently the Amendment Bill states that all applications for maternity benefits must be made at least 8 weeks before childbirth, while the Commissioner may on good cause shown accept an application made after the 8 weeks.

5.46 *The Amendment Bill seeks to include allow persons 12 months after the birth of a child to claim for maternity benefits.*

**Method**

5.47 We have considered the average time in months between the birth of a child and application for maternity benefits, as presented in the current data. This, combined with research of the UIF maternity benefits, indicates that many of the claims which are paid are in respect of applications made after 8 weeks prior to birth up to 6 months after the birth of the child. The claims data further indicates that most of the applications made for maternity benefits occur after childbirth.

5.48 We have thus allowed for a 10% increase to the claims, which may result if employees are made more aware of the extended timeframe for submission of applications.

**Summary of Impact of amendments proposed In the Amendment Bill**

**Description**

5.49 This section shows a summary of the impact of all proposed amendments to the 2015 Amendment Bill as assessed in the respective Parts of Section 6.

**Part 10: Inclusion of the Informal sector**

**Description**

5.50 The Act currently does not include the informal sector.

5.51 *NEDLAC seeks to include workers in the informal sector.*

**Methodology**

5.52 The 2011 census report indicates that the informal sector is 14.3% of those who are formally employed and employed in private households. We have assumed that the claim experience of these individuals will be 50% higher than the average claim experience. We consider this to be a prudent assumption.



5.53 Although this 50% increase would slowly phase into the Fund, as those in the informal sector build up credit days, we have allowed for the full impact from 31 March 2017. This allows for the additional administration expenses which the Fund may occur, due to additional contribution collection as well as an increase in the number of claim applications.

5.54 We have also allowed for a 2% increase in the contributions received by the Fund.

#### Part 11: Payment of 12 days of paternity leave to fathers

##### Description

5.55 The Act currently does not provide any benefits with respect to paternity.

5.56 *NEDLAC seeks to include 12 days of paternity leave for fathers.*

##### Method

5.57 The average age of women claiming maternity benefits is 31.0 years. We have assumed that on average males will be three years older than the females, thus the average age of males claiming paternity benefits is assumed to be 34.0 years.

5.58 To assess the financial impact which this change will have on the Fund we have assumed that there will be twice as many paternity claims as maternity claims. This allows for the high level of maternity benefits which are offered by most companies, compared to a lower level of paternity benefits. Thus many females may not claim from the Fund, while their partners may submit a claim, as they do not receive paternity benefits from their company. It also allows for the higher number of employed males compared to employed females. For example, the Unemployment Insurance Fund Statistics Report as at 31 March 2015, as prepared by QED, shows that there are 57% more male unemployment claims than female unemployment claims in the 2015 financial year.

5.59 We have further assumed that each father will have all 12 days available to claim. The average salary for fathers at age 34 was found for male claimants in the Unemployment claims data. The ratio of the average salary for females age 34 in the maternity claims data over the average salary for 34-year-old females in unemployment data was derived. This ratio was applied to the average 34-year-old male salary for unemployment claims, to derive the expected salary for paternity claims. We have assumed a flat IRR of 66% for paternity benefits, in line with the proposed change to the maternity benefits.

#### Part 12: Payment of benefits to persons who have resigned

##### Description

5.60 The Act currently pays unemployment benefits provided the reason for unemployment is termination of the employees' contract, or the ending of a fixed term contract, the dismissal of the contributor, insolvency or, in the case of a domestic worker, termination of a contract due to the death of the employee.

- 5.61 *NEDLAC considers extending benefits to include paying benefits to contributors who have resigned from their employment and not taken up employment elsewhere.*
- 5.62 We have assumed that employees who retire may also claim this benefit.
- 5.63 We have not allowed for abuse of this benefit and the Fund should ensure that this benefit cannot be manipulated. For instance, an unintended consequence may be that individuals resign from their job for a few months to take a vacation, while relying on benefits from the Fund to support them. Then once the benefits are depleted they may seek employment again.
- 5.64 Furthermore, should an individual resign to become a housewife for example, it is unlikely that they are in financial difficulty. This person has contributed to the Fund and hence an argument can be made that they should receive some benefit. However, the Fund should also consider whether this is the best use of the available funds.

#### Method

- 5.65 The Fund currently does not receive any data which can be used to quantify the impact of this benefit, as contributors are not currently able to claim if they resign. Furthermore, awareness is likely to be created about the benefit, should it be added to the Amendment Bill. We have thus made use of conservative assumptions in calculating the impact. Furthermore, we have assumed that all contributors retiring from employment will be able to claim.
- 5.66 Research has shown that the annual turnover rate of staff is approximately 10%. We have applied a 2.5% loading to this, to allow for additional staff turnover which this change may cause. We have assumed that 20% of this turnover is in respect of individuals who are leaving the workforce (as opposed to changing jobs etc.).
- 5.67 The December 2015 Quarterly employment statistics report, prepared by Statistics South Africa, indicates that there were 9 million people employed in South Africa as at December 2015: This excludes private households, agriculture and the informal sector. If these are included the number of people employed in South Africa is approximately 13 million, excluding the public sector.
- 5.68 We have applied the assumed rates of turnover and exit from the workforce to the number of employed individuals, and assumed that they will claim 20% more than the average amount experienced for unemployment.
- 5.69 Given the large impact which this is likely to have on the Fund, as well as the difficulty in quantifying the impact to the Fund, we recommend that the Fund consider basing the benefit on 60% of the contributor's IRR rather than 100% for the first 238 days and using the fixed 20% IRR thereafter. This can be revised later on, should the impact be less than expected.

## Summary of impact of all proposed amendments

### Description

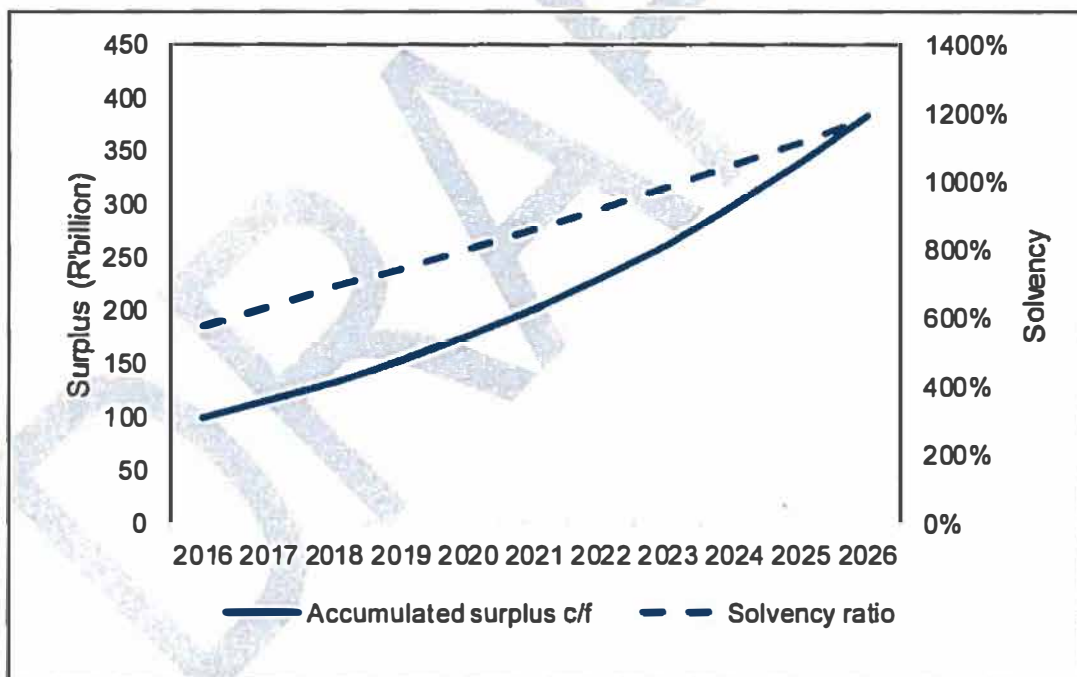
5.70 This section shows a summary of the impact of all proposed amendments to the 2015 Amendment Bill and changes under discussion in NEDLAC as assessed in the respective Parts of Section 6.

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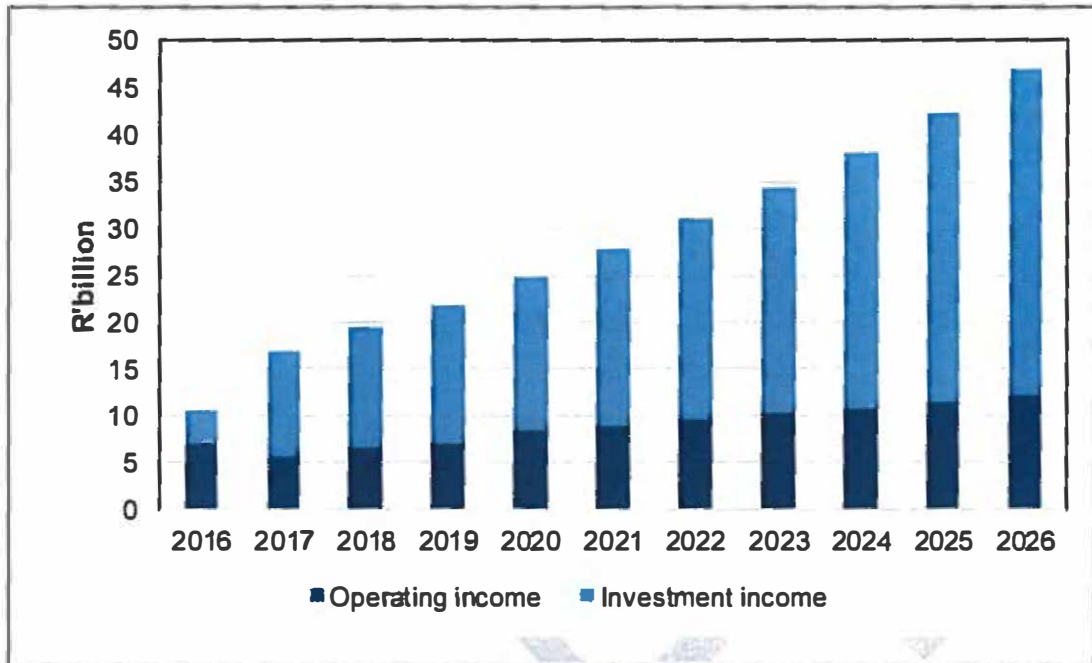
## 6 Results

### Part 0: Base Financial Projection

- 6.1 A 10-year financial projection of the Fund, on a best-estimate basis, is graphed in this section (per QED's 2016 Actuarial Review). Detailed figures underlying the projection are shown in the Appendix A. This is used as a base from which to project the impact of the respective areas of proposed benefit changes. This projection is made on the basis of the current benefit structure of the Fund.
- 6.2 The Solvency Ratio as at each financial year end is included in the projection. This is the ratio of the accumulated surplus divided by contributions received in the last 12 months.
- 6.3 The Fund is in a very strong financial position as at 31 March 2016 (the starting point of the financial projection). Per the 2016 Actuarial Review Report, the surplus of the Fund at this date was R98.5 billion with a Solvency Ratio of 575%. As can be seen in the below graph, the surplus and Solvency Ratio is projected to grow substantially over the next 10 years.



- 6.4 The graph below shows the operating surplus and investment income over the next 10 years. The top of the bar indicates the combined income for each of the next 10 years.



6.5 The key assumptions underlying this projection are as follows:

- The salary contribution rate will remain constant over the period of the projection;
- Fund contributions are projected using the 2016 revenue indicator model combined with a projection of economic variables;
- The unexpired risk reserve is projected allowing for a 48 month earning period of contributions;
- The Fund's incurred PAYG rates for benefits (1.09%) and expenses (0.23%) will remain constant;
- Expenses arising from Unemployment Alleviation Schemes are budgeted figures for the next three years, and thereafter the Lay-off schemes and Social Plan funding portion is projected forward at the inflation rate assumed below. The Training of the Unemployed portion is as per the three-year budget.
- The following balance sheet asset items remain constant:
  - Property, plant and equipment
  - Intangibles
  - Trade and other receivables
  - Financial derivatives
- The following balance sheet liability items remain constant:
  - Trade and other payables
  - Financial derivatives
  - Overdraft
  - Non-current provisions

- The following asset return assumptions are made:
  - Inflation of 6% per annum
  - Equity real return of 4.9% , i.e. 10.9% nominal
  - Government bond real return of 2.5%, i.e. 8.5% nominal
  - Corporate bond real return of 3.5%, i.e. 9.5% nominal
  - Property real return of 3.7%, i.e. 9.7% nominal
  - Money market real return of 1%, i.e. 7% nominal
  - Cash real return of 0.5%, i.e. 6.5% nominal
- Assuming that the Fund's asset split remains constant over the period, the portfolio total return is 9.01% per annum.

6.6 A breakdown of the PAYG rate, showing detail by benefit type and expenses, is given in the table below.

<b>Benefit category</b>	<b>PAYG Rate</b>
Death	0.041%
Illness	0.038%
Maternity	0.117%
Unemployment	0.892%
Expenses	0.235%
<b>Total</b>	<b>1.322%</b>

**Part 1: Extension of benefits to 365 days with a flat rate of 20% after 238 days, and adjustment of benefit accrual at rate of 1 day for every 5 days worked**

6.7 Actual eligible benefits per the 2016 claims data, and revised eligible benefits allowing for this change in benefit, are shown in the table below.

**Amount eligible to be claimed**

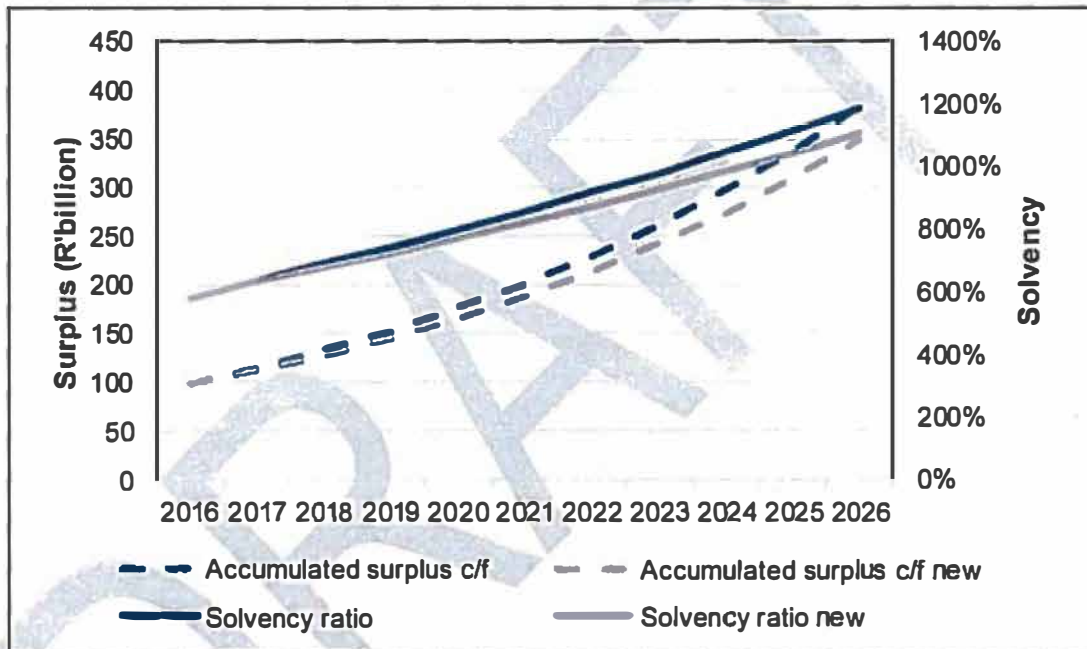
<b>Benefit category</b>	<b>Number of claims</b>	<b>Original Data</b>	<b>Revised Part 1</b>	<b>Ratio</b>
Death	16,470	R 314,086,226	R 359,295,598	1.144
Illness	17,342	R 336,209,031	R 336,213,115	1.000
Maternity	97,006	R 975,149,228	R 1,001,002,064	1.027
Unemployment	589,740	R 7,608,100,043	R 8,904,645,408	1.170
<b>Total</b>	<b>720,558</b>	<b>R 9,233,544,527</b>	<b>R 10,601,156,185</b>	<b>1.148</b>



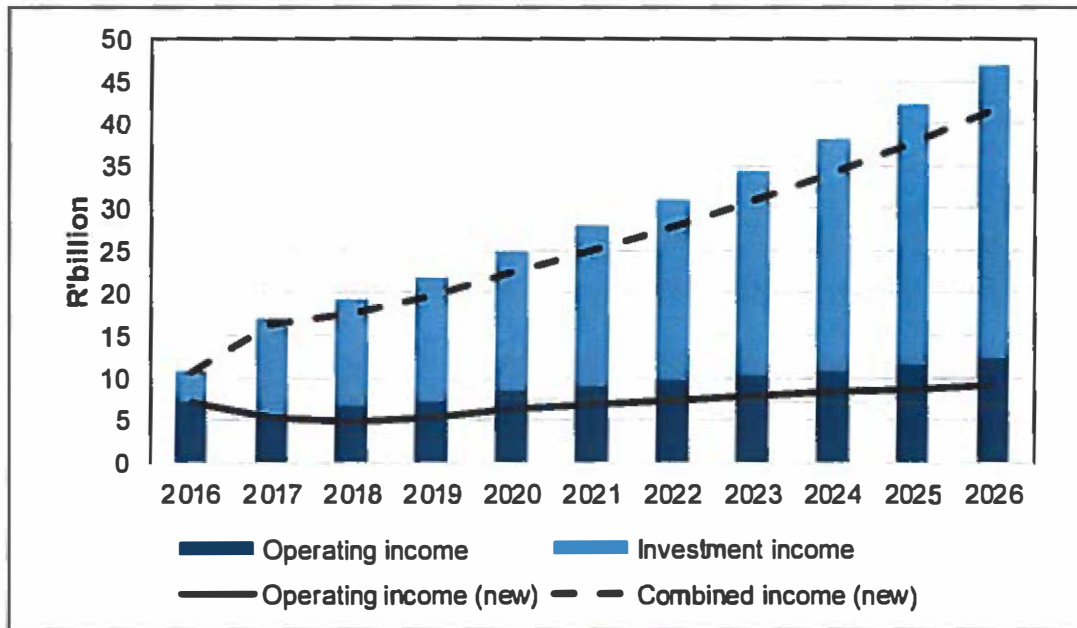
6.8 The revision in PAYG rate taking into account this benefit change is as follows:

<b>Benefit category</b>	<b>PAYG Rate</b>	<b>Ratio</b>	<b>New PAYG Rate</b>
Death	0.041%	1.144	0.047%
Sickness	0.038%	1.000	0.038%
Maternity	0.117%	1.027	0.120%
Unemployment	0.892%	1.170	1.044%
Expenses	0.235%	1.000	0.235%
<b>Total</b>	<b>1.322%</b>	<b>1.122</b>	<b>1.483%</b>

6.9 A 10-year financial projection is conducted using this revised PAYG rate. The graph of projected accumulated surplus allowing for this benefit change is shown below.



6.10 The graph below shows the impact which this change has on the income of the Fund over the next 10 years. The solid black line indicates the new operating income, based on the changes to the benefits. The increase to the dotted line indicates the new investment income. The level of the dotted line indicates the combined income, based on the revised benefits, over the next 10 years.



6.11 Detailed figures underlying the financial projection are shown in Appendix B.

#### Part 2: Maternity and Illness benefit changes

6.12 Eligible benefits per the 2016 claims data post the benefit change considered in Part 1, and revised eligible benefits further adjusted allowing for the benefit change considered in this Part 2, are shown in the below table:

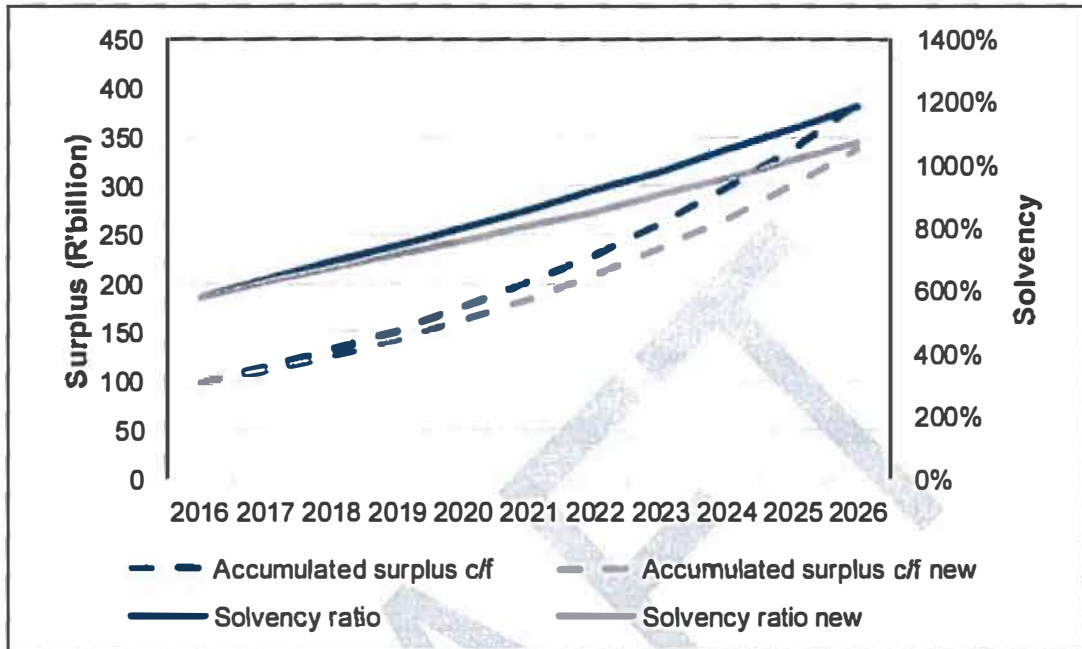
Benefit category	Number of claims	Amount eligible to be claimed		Ratio
		Revised Part 1	Revised Part 2	
Death	16,470	R 359,295,598	R 359,295,598	1.000
Illness	17,342	R 336,213,115	R 385,088,701	1.145
Maternity	97,006	R 1,001,002,064	R 1,533,263,840	1.532
Unemployment	589,740	R 8,904,645,408	R 8,904,645,408	1.000
<b>Total</b>	<b>720,558</b>	<b>R 10,601,156,185</b>	<b>R 11,182,293,548</b>	<b>1.055</b>

6.13 The revision in PAYG rate taking into account this benefit change is as follows:

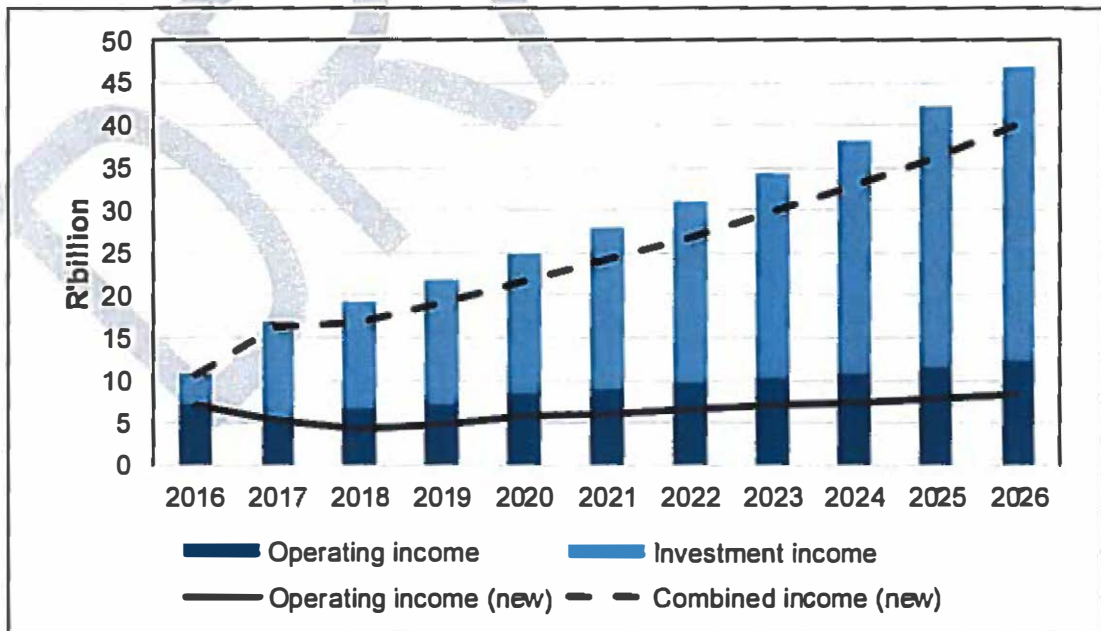
Benefit category	PAYG Rate	Ratio	New PAYG Rate
Death	0.047%	1.000	0.047%
Illness	0.038%	1.145	0.043%
Maternity	0.120%	1.532	0.183%
Unemployment	1.044%	1.000	1.044%
Expenses	0.235%	1.000	0.235%
<b>Total</b>	<b>1.483%</b>	<b>1.047</b>	<b>1.552%</b>



6.14 The base financial projection, and a 10-year financial projection conducted using this revised PAYG rate is graphed as follows:



6.15 The graph below shows the impact which this change has on the income of the Fund over the next 10 years.



6.16 Detailed figures underlying the financial projection are included in Appendix C.

### Part 3: Unemployment benefit cycle changes

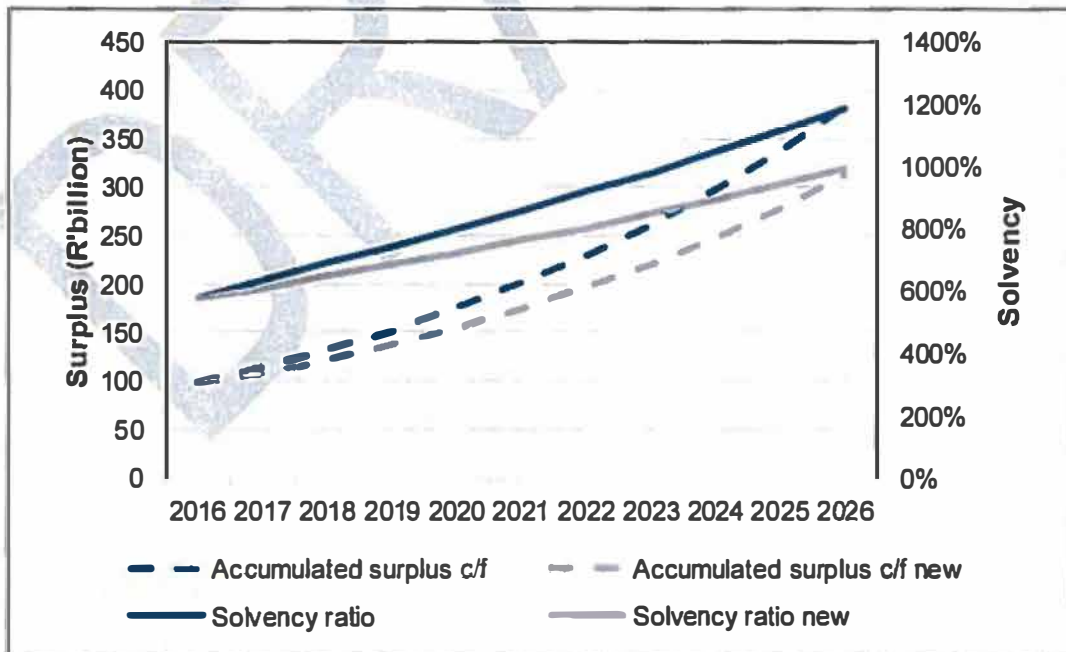
6.17 Eligible benefits per the 2016 claims data post the benefit change considered in Part 2, and revised eligible benefits further adjusted allowing for the benefit change considered in this Part 3, are shown in the table below.

Benefit category	Number of claims	Amount eligible to be claimed		Ratio
		Revised Part 2	Revised Part 3	
Death	16,470	R 359,295,598	R 359,295,598	1.000
Illness	17,342	R 385,088,701	R 385,088,701	1.000
Maternity	97,006	R 1,533,263,840	R 1,533,263,840	1.000
Unemployment	589,740	R 8,904,645,408	R 10,240,342,219	1.150
<b>Total</b>	<b>720,568</b>	<b>R 11,182,293,548</b>	<b>R 12,617,990,359</b>	<b>1.119</b>

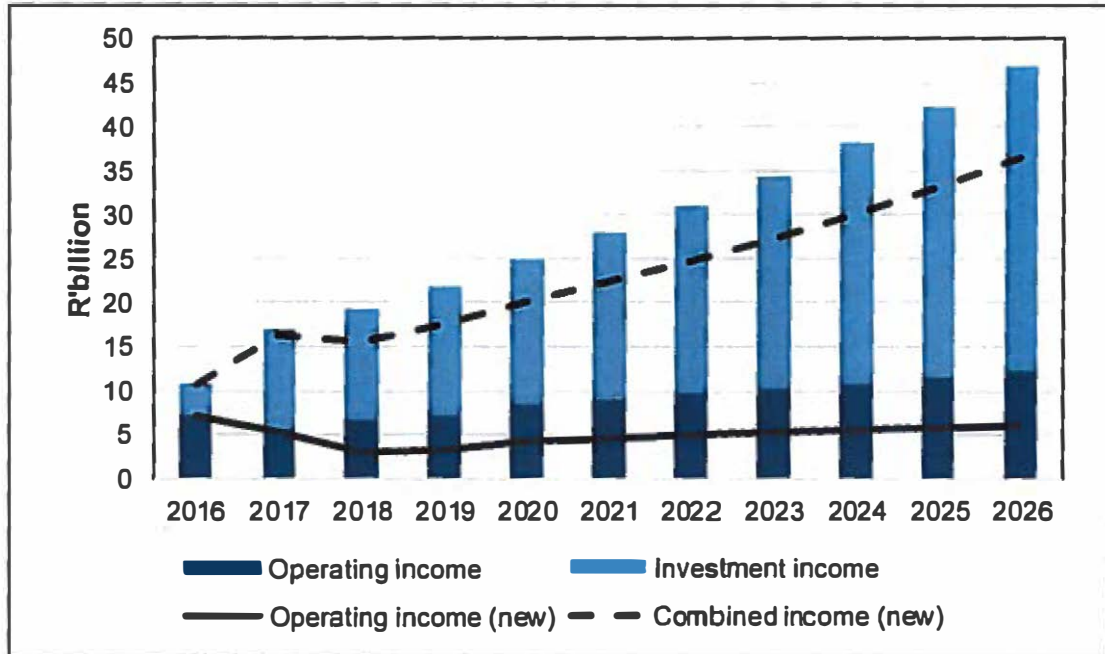
6.18 The revision in PAYG rate taking this benefit change into account is as follows:

Benefit category	PAYG Rate	Ratio	New PAYG Rate
Death	0.047%	1.000	0.047%
Illness	0.043%	1.000	0.043%
Maternity	0.183%	1.000	0.183%
Unemployment	1.044%	1.150	1.200%
Expenses	0.235%	1.000	0.235%
<b>Total</b>	<b>1.552%</b>	<b>1.101</b>	<b>1.708%</b>

6.19 The base financial projection, and a 10-year financial projection conducted using this revised PAYG rate is graphed as follows:



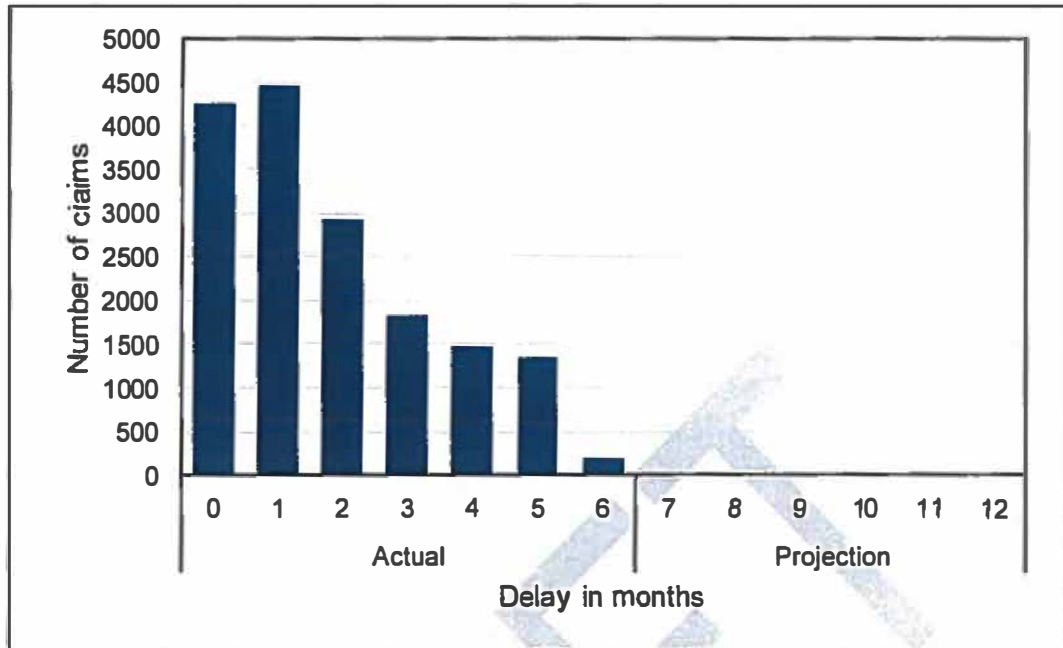
6.20 The graph below shows the impact which this change has on the income of the Fund over the next 10 years.



6.21 Detailed figures underlying the financial projection are included in Appendix D.

#### Part 4: Extension of Death claims submission period from 6 to 18 months

6.22 The below graph shows the number of Death claims by application delay from the 2016 claims data (in blue). A statistical function is fitted to the graph of actual Deaths to project the additional claims that are expected to arise (in grey) if the claims submission period is extended to 18 months.



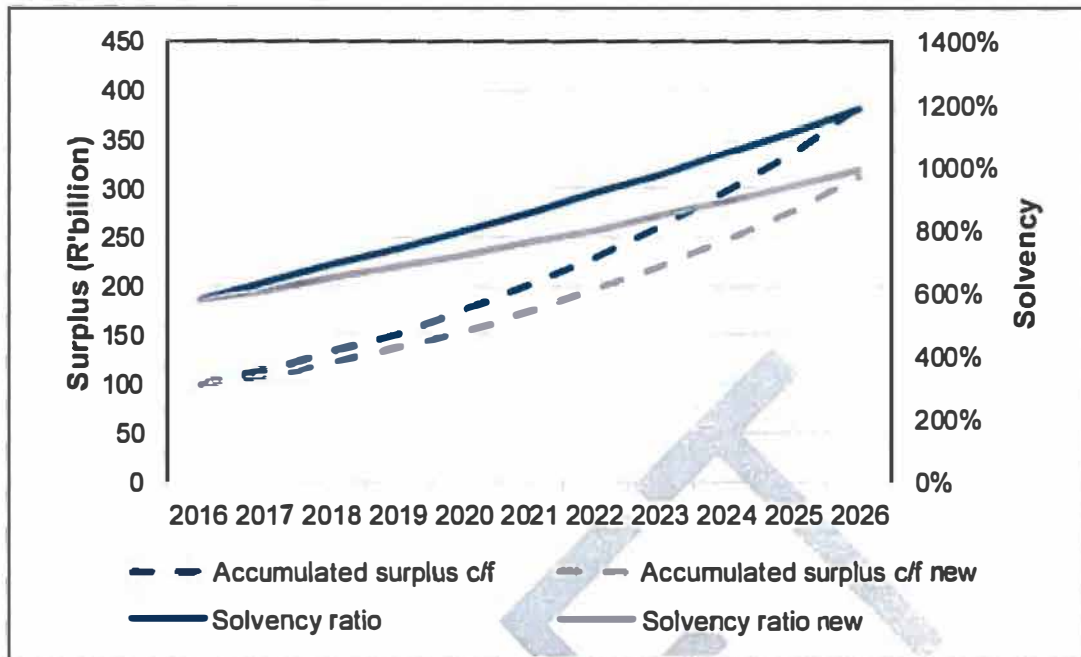
6.23 Eligible benefits per the 2016 claims data post the benefit change considered in Part 3, and revised eligible benefits further adjusted allowing for the expected increase in number of Death claims considered in this Part 4, are shown in the below table:

Benefit category	Number of claims	Amount eligible to be claimed		Ratio
		Revised Part 3	Revised Part 4	
Death	16,470	R 359,295,598	R 360,758,708	1.004
Illness	17,342	R 385,088,701	R 385,088,701	1.000
Maternity	97,006	R 1,533,263,840	R 1,533,263,840	1.000
Unemployment	589,740	R 10,240,342,219	R 10,240,342,219	1.000
<b>Total</b>	<b>720,558</b>	<b>R 12,517,990,359</b>	<b>R 12,519,453,469</b>	<b>1.000</b>

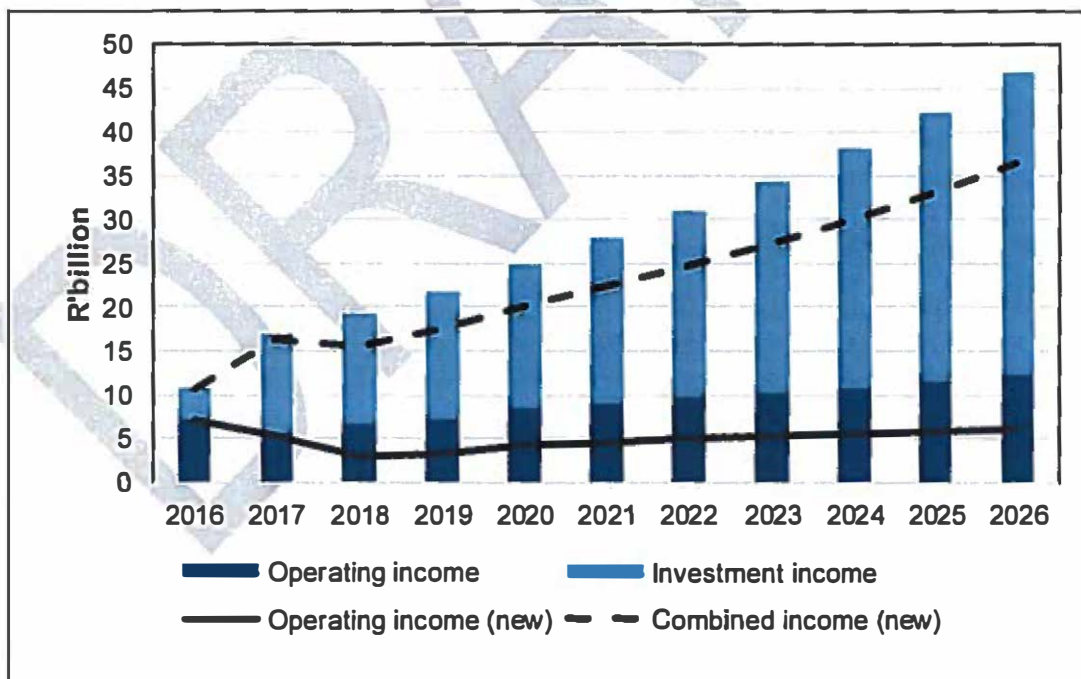
6.24 The revision in PAYG rate taking this benefit change into account is as follows:

Benefit category	PAYG Rate	Ratio	New PAYG Rate
Death	0.047%	1.004	0.047%
Illness	0.043%	1.000	0.043%
Maternity	0.183%	1.000	0.183%
Unemployment	1.200%	1.000	1.200%
Expenses	0.235%	1.000	0.235%
<b>Total</b>	<b>1.708%</b>	<b>1.000</b>	<b>1.708%</b>

6.25 The base financial projection, and a 10-year financial projection conducted using this revised PAYG rate is graphed as follows:



6.26 The graph below shows the impact which this change has on the income of the Fund over the next 10 years.

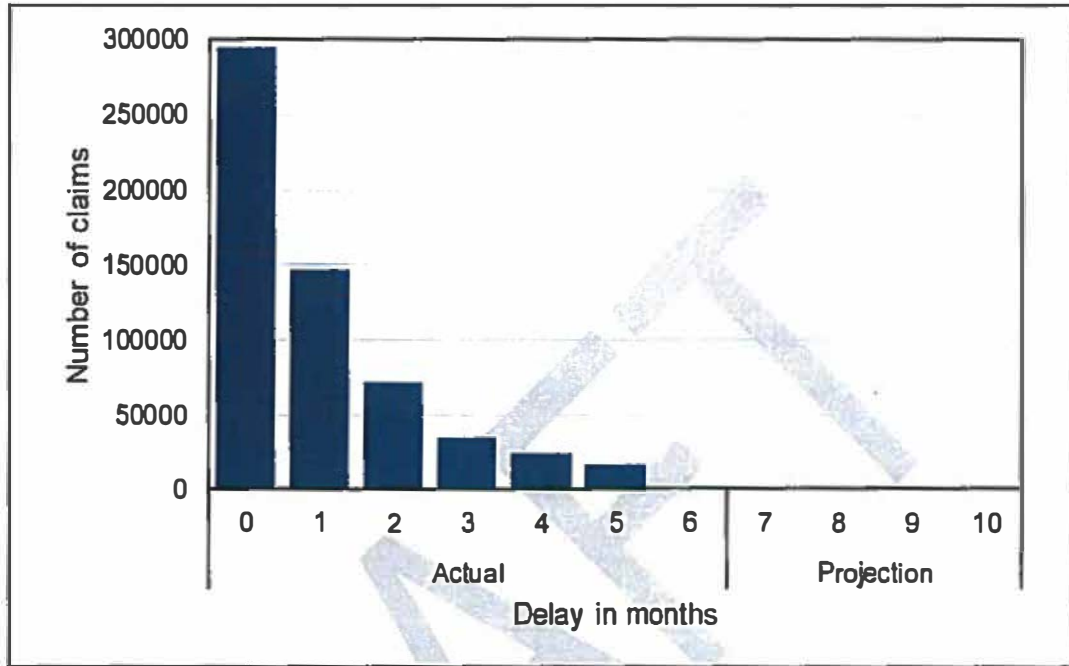


6.27 Detailed figures underlying the financial projection are shown in Appendix E.



**Part 5: Extension of Unemployment claims submission period from 6 to 12 months**

6.28 The below graph shows the number of Unemployment claims by application delay from the 2016 claims data.



6.29 The graph shows that the reporting of Unemployment claims has already tailed off by month 6. The extension of the claim submission period for this benefit to 12 months is not considered to have a material financial impact on the Fund.

**Part 6: Death claims to allow for nominated beneficiary**

6.30 For the purpose of this draft report, the impact of this benefit change is illustrated by assuming that Death claims will increase by 50%. This is considered to be a conservative estimate of the impact of this benefit change. The additional take-up rate of the Death benefit is expected to be less than modelled here.

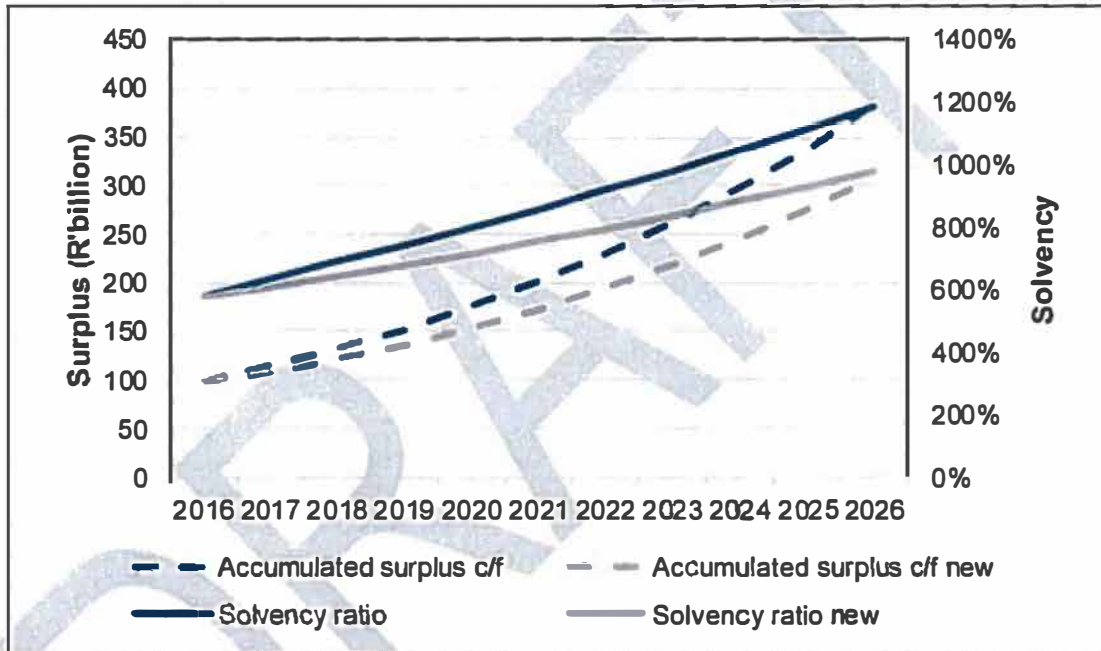
6.31 Eligible benefits per the 2016 claims data post the benefit change considered in Part 4, and revised eligible benefits further adjusted allowing for the expected increase in number of Death claims considered in this Part 6, are shown in the below table:

Benefit category	Number of claims	Amount eligible to be claimed		Ratio
		Revised Part 4	Revised Part 6	
Death	16,470	R 360,758,708	R 541,138,062	1.500
Illness	17,342	R 385,088,701	R 385,088,701	1.000
Maternity	97,006	R 1,533,263,840	R 1,533,263,840	1.000
Unemployment	589,740	R 10,240,342,219	R 10,240,342,219	1.000
<b>Total</b>	<b>720,558</b>	<b>R 12,519,453,469</b>	<b>R 12,599,832,823</b>	<b>1.014</b>

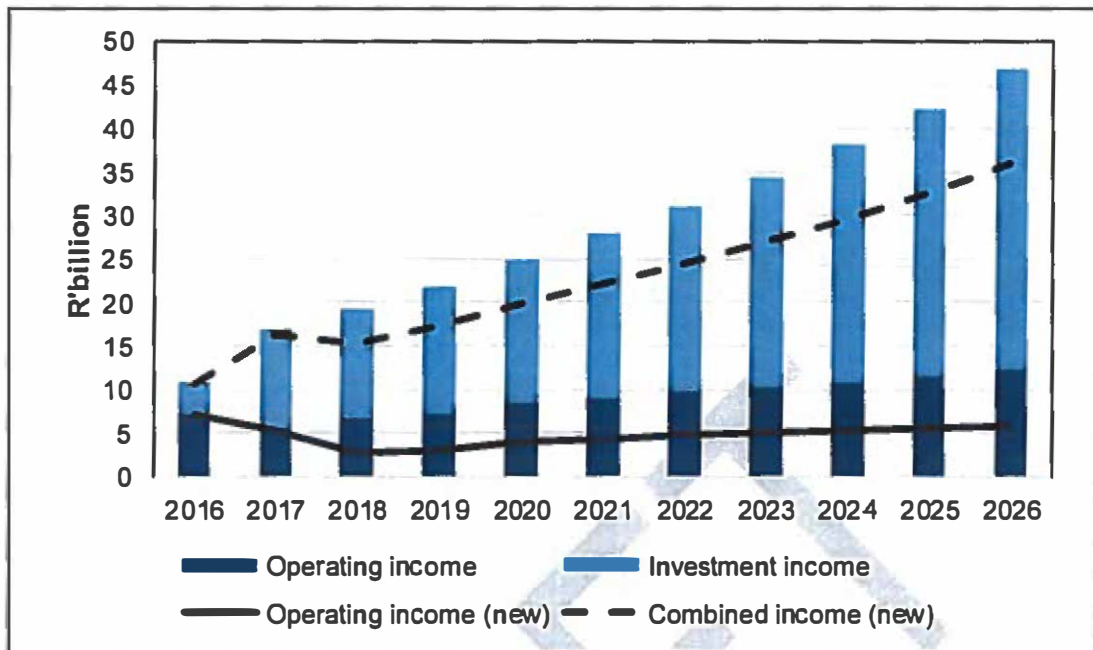
6.32 The revision in PAYG rate taking this benefit change into account is as follows:

Benefit category	PAYG Rate	Ratio	New PAYG Rate
Death	0.047%	1.500	0.070%
Illness	0.043%	1.000	0.043%
Maternity	0.183%	1.000	0.183%
Unemployment	1.200%	1.000	1.200%
Expenses	0.235%	1.000	0.235%
<b>Total</b>	<b>1.708%</b>	<b>1.014</b>	<b>1.732%</b>

6.33 The base financial projection, and a 10-year financial projection conducted using this revised PAYG rate is graphed as follows:



6.34 The graph below shows the impact which this change has on the income of the Fund over the next 10 years.



6.35 Detailed figures underlying the financial projection are included in Appendix F.

**Part 7: Inclusion of persons on learnership contracts and migrant workers**

6.36 The impact of allowing migrant workers to claim is estimated by factoring up the total expected claims experience of the Fund by 3.2%.

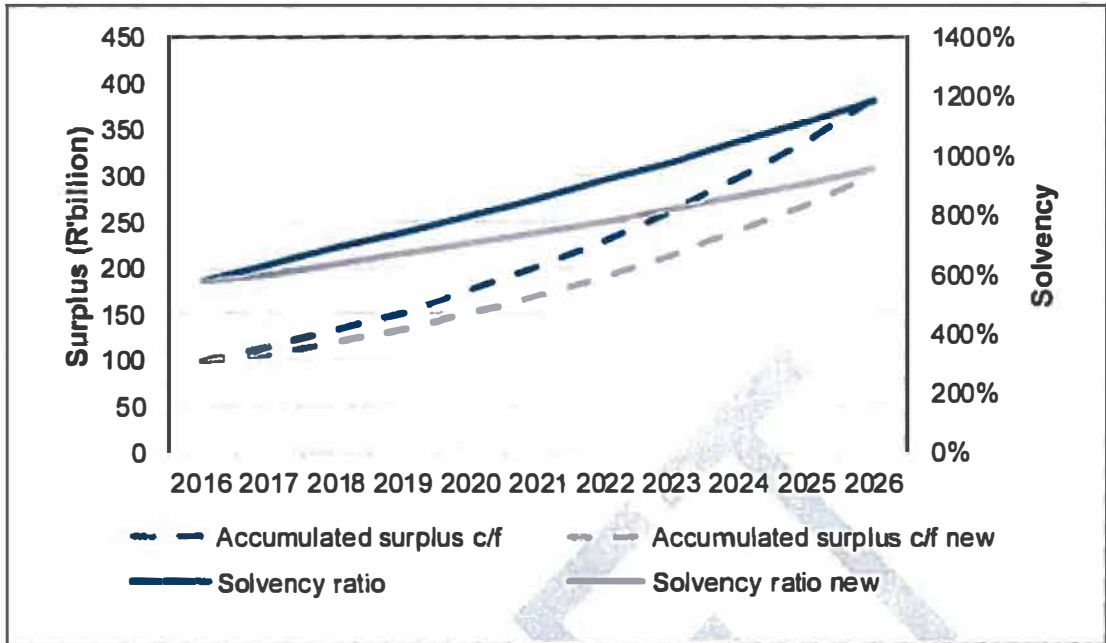
Benefit category	Number of claims	Amount eligible to be claimed		Ratio
		Revised Part 6	Revised Part 7	
Death	16,470	R 541,138,062	R 558,454,480	1.032
Illness	17,342	R 385,088,701	R 397,411,540	1.032
Maternity	97,006	R 1,533,263,840	R 1,582,328,283	1.032
Unemployment	589,740	R 10,240,342,219	R 10,568,033,170	1.032
<b>Total</b>	<b>720,558</b>	<b>R 12,699,832,823</b>	<b>R 13,106,227,473</b>	<b>1.032</b>

6.37 The revision in PAYG rate taking this benefit change into account is as follows:

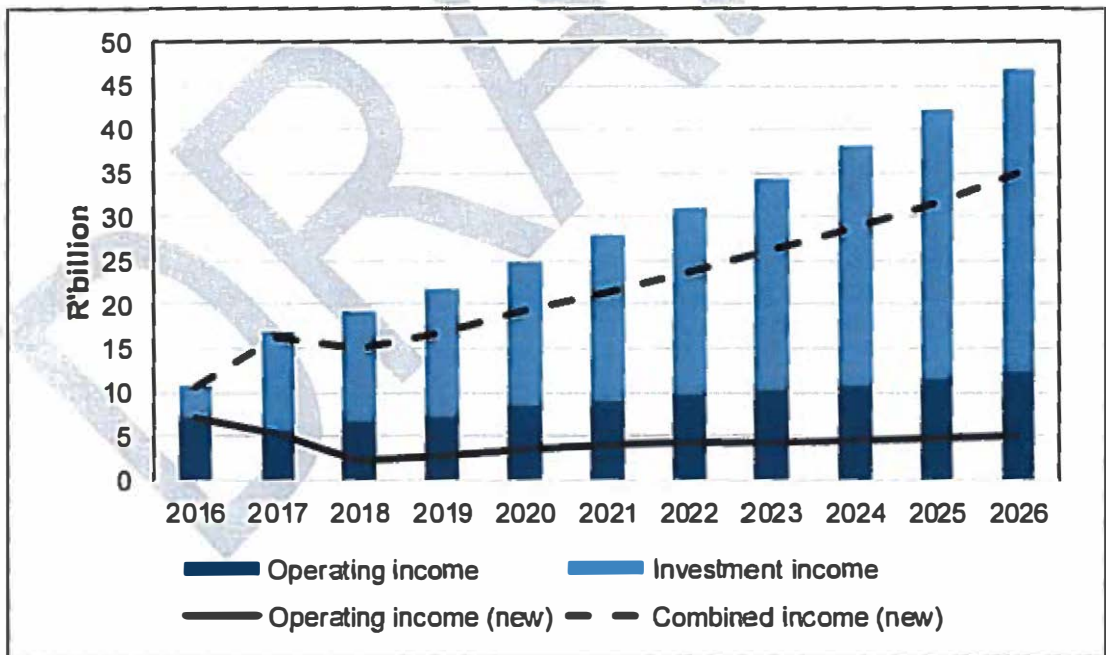
Benefit category	PAYG Rate	Ratio	New PAYG Rate
Death	0.070%	1.032	0.072%
Illness	0.043%	1.032	0.045%
Maternity	0.183%	1.032	0.189%
Unemployment	1.200%	1.032	1.239%
Expenses	0.235%	1.000	0.235%
<b>Total</b>	<b>1.732%</b>	<b>1.028</b>	<b>1.780%</b>

6.38 The base financial projection, and a 10-year financial projection conducted using this revised PAYG rate is graphed as follows:





6.39 The graph below shows the impact which this change has on the income of the Fund over the next 10 years.



6.40 Detailed figures underlying the financial projection are included in Appendix G.

### Part 8: Payment of benefits In the case of reduced salary

6.41 The impact on the Fund of the total benefit payable, should the salary be reduced, for various levels of salary, and for differing levels of reduced hours, is shown in the table below.

Monthly salary	Reduction in working time						
	40%	50%	60%	70%	80%	90%	100%
R 2,000	-	R 352	R 1,917	R 3,482	R 5,047	R 6,967	R 8,887
R 3,000	-	-	R 2,271	R 4,618	R 6,966	R 9,846	R 12,726
R 4,000	-	-	R 2,384	R 5,514	R 8,644	R 12,484	R 16,324
R 5,000	-	-	R 2,322	R 6,234	R 10,146	R 14,946	R 19,746
R 6,000	-	-	R 2,129	R 6,823	R 11,518	R 17,278	R 23,038
R 7,000	-	-	R 1,835	R 7,312	R 12,789	R 19,509	R 26,229
R 8,000	-	-	R 1,462	R 7,722	R 13,981	R 21,661	R 29,341
R 10,000	-	-	R 538	R 8,363	R 16,188	R 25,788	R 35,388
R 12,000	-	-	-	R 8,834	R 18,223	R 29,743	R 41,263
R 14,000	-	-	-	R 9,185	R 20,140	R 33,580	R 47,020
R 14,872	-	-	-	R 9,309	R 20,946	R 35,223	R 49,501

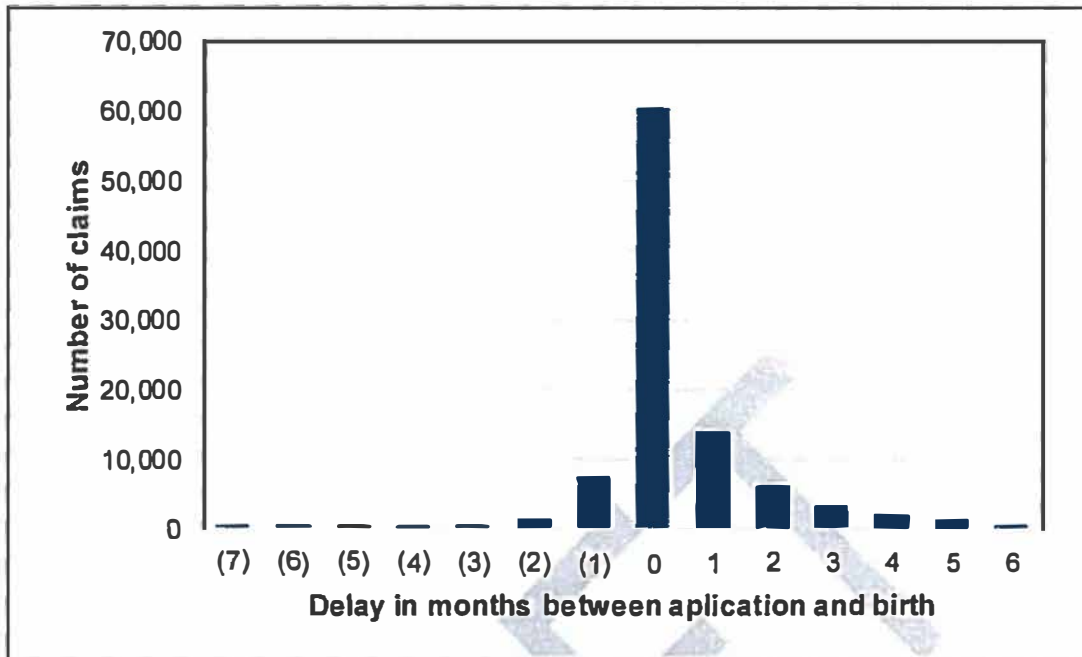
6.42 The 100% reduction shows the total unemployment benefit payable, should the contributor become unemployed.

6.43 Only in cases where the reduction in hours exceeds 50% is a benefit payable to the individual. Furthermore, the benefits remain small, in the lower salary bands and lower reductions in working time. While the benefits under a 90% reduction in time become larger it is unlikely that any individual will retain 10% of their working hours, rather they are more likely to become fully unemployed and already be covered by the Fund.

6.44 Given the low level of benefits, on a conservative assumption that the full number of credit days are available, it is unlikely that this benefit change will have a material impact on the Fund.

### Part 9: Extension of Maternity claims submission period from 8 weeks prior to birth to 12 months after child birth

6.45 The graph below shows the difference, in months, between the application date for maternity benefits and the date of birth of the child, rounded down. Thus, to interpret the graph below, claims in the zero band represent all claims where the application date was either the same as the date on which the child was born, or in the month following birth.



6.46 Given the sharp decline in the number of claims following the birth of a child, we do not expect the applications to increase significantly due to the extended application period. However, there may have been some mothers who did not submit a claim eight weeks prior to birth and decided not to apply later due to reading the Amendment Bill, and thinking that their claim would not be accepted. We have thus allowed for a 10% increase in maternity claims.

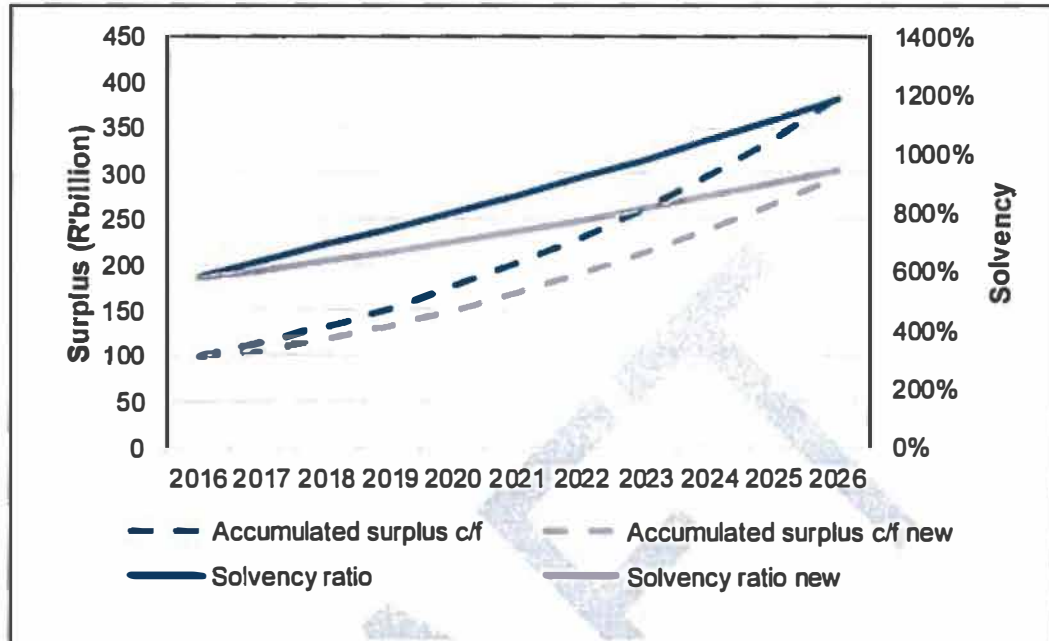
6.47 The impact on the Fund of extending the application for maternity claims is shown in the table below.

Benefit category	Number of claims	Amount eligible to be claimed		Ratio
		Revised Part 7	Revised Part 9	
Death	16,470	R 558,454,480	R 558,454,480	1.000
Illness	17,342	R 397,411,540	R 397,411,540	1.000
Maternity	97,006	R 1,582,328,283	R 1,740,561,111	1.100
Unemployment	589,740	R 10,568,033,170	R 10,568,033,170	1.000
<b>Total</b>	<b>720,558</b>	<b>R 13,106,227,473</b>	<b>R 13,264,460,302</b>	<b>1.012</b>

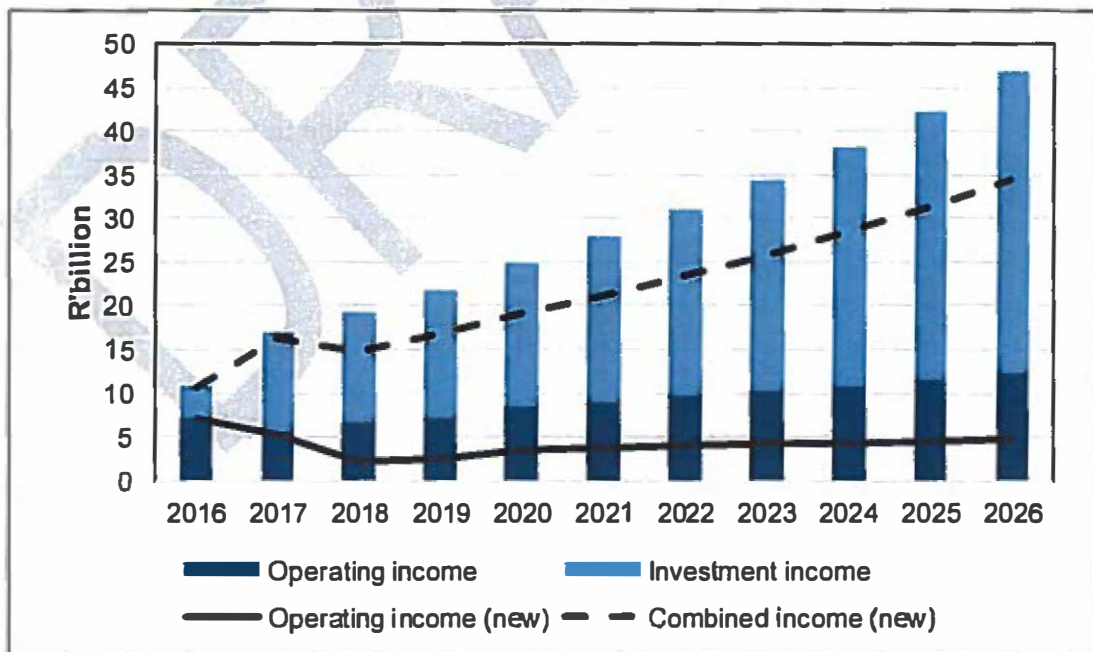
6.48 The revision in PAYG rate taking this benefit change into account is as follows:

Benefit category	PAYG Rate	Ratio	New PAYG Rate
Death	0.072%	1.000	0.072%
Illness	0.045%	1.000	0.045%
Maternity	0.189%	1.100	0.208%
Unemployment	1.239%	1.000	1.239%
Expenses	0.235%	1.000	0.235%
<b>Total</b>	<b>1.780%</b>	<b>1.011</b>	<b>1.799%</b>

6.49 The base financial projection, and a 10-year financial projection conducted using this revised PAYG rate is graphed below.



6.50 The graph below shows the impact which this change has on the income of the Fund over the next 10 years.



## Summary of impact of amendments proposed in the Amendment Bill

6.51 This section shows a summary of the impact of the amendments to the 2016 Amendment Bill proposed in the Amendment Bill, as assessed in the respective Parts of Section 6.

6.52 The revision in PAYG rate taking the proposed benefit changes into account is as follows:

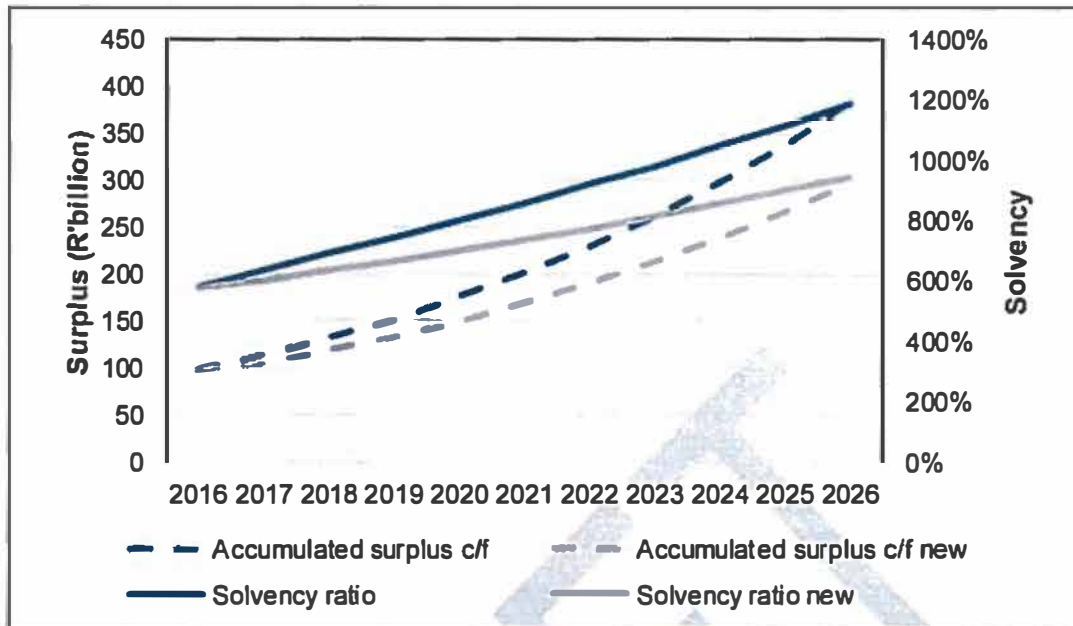
	PAYG Rate					
	Death	Illness	M&A	Unemployment	Expenses	Total
Current	0.041%	0.038%	0.117%	0.892%	0.235%	1.322%
Part 1	0.047%	0.038%	0.120%	1.044%	0.235%	1.483%
Part 2	0.047%	0.043%	0.183%	1.044%	0.235%	1.552%
Part 3	0.047%	0.043%	0.183%	1.200%	0.235%	1.708%
Part 4	0.047%	0.043%	0.183%	1.200%	0.235%	1.708%
Part 5						
Part 6	0.070%	0.043%	0.183%	1.200%	0.235%	1.732%
Part 7	0.072%	0.045%	0.189%	1.239%	0.235%	1.780%
Part 8						
Part 9	0.072%	0.045%	0.208%	1.239%	0.235%	1.799%

6.53 Benefit changes that lead to no anticipated deterioration in claims experience to the Fund are reflected as blank lines in the above table. The revision in PAYG rate for each line reflects the cumulative impact of all benefit changes considered up to that Part.

6.54 The cumulative impact of all benefit changes that lead to a deterioration in claims experience of the Fund is a revision of the PAYG rate for claims and expenses from 1.322% in the base financial projection to 1.799% considering all changes proposed in the Amendment Bill. This means that all benefit changes proposed in the 2015 Amendment Bill result in the claims and expenses being below the current contribution rate of the Fund of 2.00%.

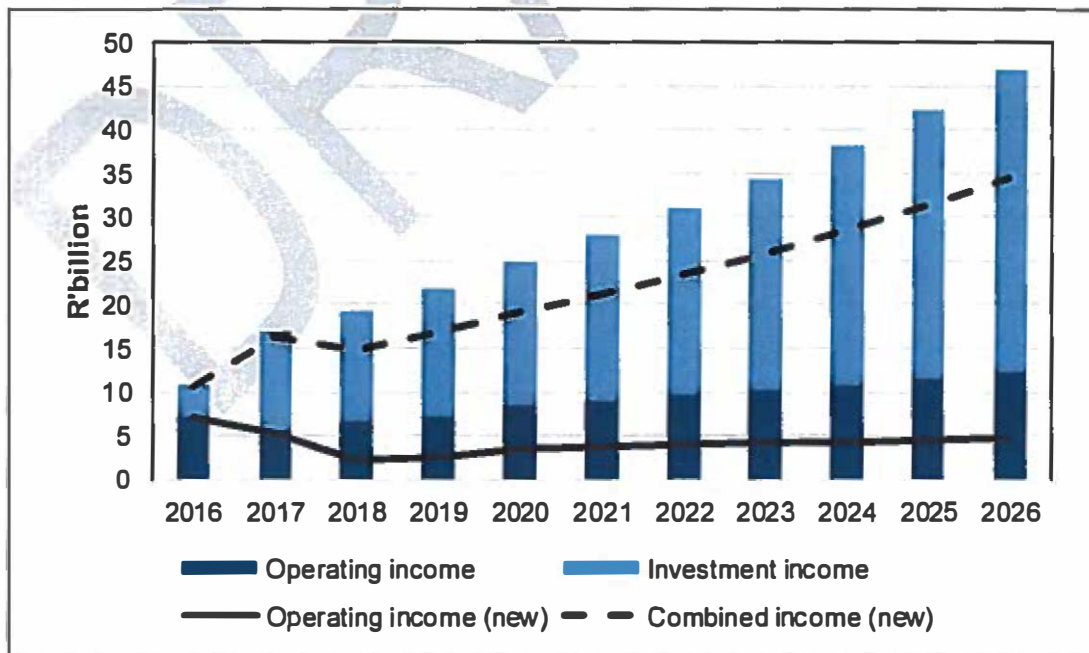
6.55 The base financial projection, and a 10-year financial projection conducted using the revised PAYG rate of 1.799% is graphed as follows and is the same as that presented in Part 9 of this Section:





6.56 Should the changes proposed in the Amendment Bill be implemented, the solvency and accumulated surplus continue to increase. By implementing the changes proposed in the Amendment Bill the growth of the solvency is slower, but continues to increase at a steady rate and is projected to be 945% in 10 years' time.

6.57 The graph below shows the impact which this change has on the income of the Fund over the next 10 years, based on the changes in the Amendment Bill.



6.58 Should the changes proposed in the Amendment Bill be implemented, the operating surplus becomes remains positive and continues to increase. This, combined with the increasing investment income, results in a steady increase in the combined income, even after the change proposed in the Amendment Bill have been implemented.

6.59 We thus conclude that the Fund can afford the all the benefit changes proposed in the Amendment Bill.

**Part 10: inclusion of persons employed in the informal sector**

6.60 The impact on the Fund of including persons employed in the informal sector is shown in the table below.

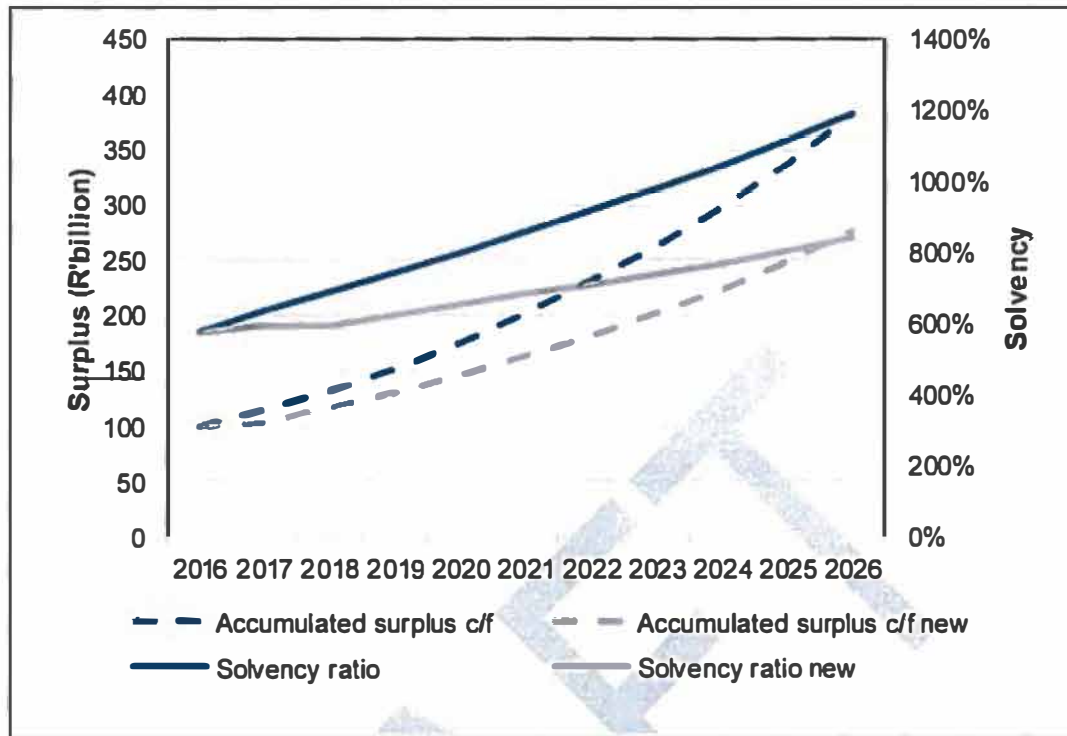
Benefit category	Number of claims	Amount eligible to be claimed		Ratio
		Revised Part 9	Revised Part 10	
Death	16,470	R 558,454,480	R 598,470,283	1.072
Illness	17,342	R 397,411,540	R 425,887,884	1.072
Maternity	97,006	R 1,740,561,111	R 1,865,280,230	1.072
Unemployment	589,740	R 10,568,033,170	R 11,325,280,804	1.072
<b>Total</b>	<b>720,558</b>	<b>R 13,264,460,302</b>	<b>R 14,214,919,202</b>	<b>1.072</b>

6.61 The revision in PAYG rate taking this benefit change into account is as follows:

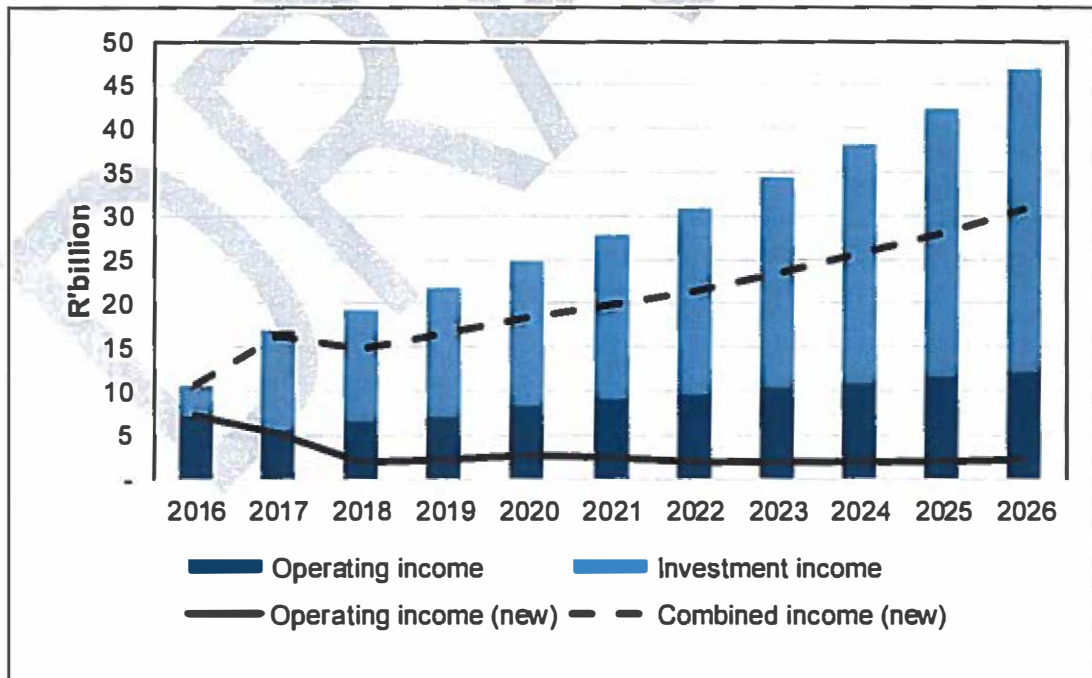
Benefit category	PAYG Rate	Ratio	New PAYG Rate
Death	0.072%	1.072	0.078%
Illness	0.045%	1.072	0.048%
Maternity	0.208%	1.072	0.223%
Unemployment	1.239%	1.072	1.327%
Expenses	0.235%	1.000	0.235%
<b>Total</b>	<b>1.799%</b>	<b>1.062</b>	<b>1.911%</b>

6.62 An allowance is made for a 2% increase in contributions under this scenario.

6.63 The base financial projection, and a 10-year financial projection conducted using this revised PAYG rate and contribution rate is graphed as follows:



6.64 The graph below shows the impact which this change has on the income of the Fund over the next 10 years.





**Part 11: Payment of 12 days of paternity leave to fathers**

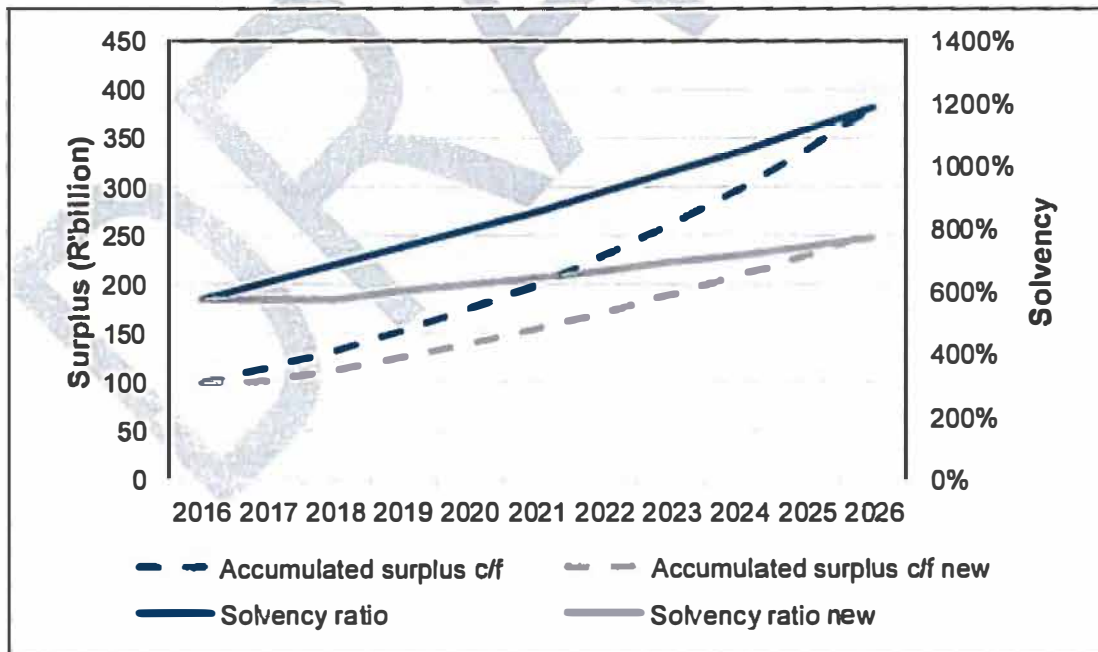
6.65 The impact on the Fund of paying 12 days of paternity leave to fathers is shown in the table below.

Benefit category	Number of claims	Amount eligible to be claimed		Ratio
		Revised Part 10	Revised Part 11	
Death	16,470	R 598,470,283	R 598,470,283	1.000
Illness	17,342	R 425,887,884	R 425,887,884	1.000
Maternity	97,006	R 1,865,280,230	R 2,933,356,759	1.573
Unemployment	589,740	R 11,325,280,804	R 11,325,280,804	1.000
<b>Total</b>	<b>720,558</b>	<b>R 14,214,919,202</b>	<b>R 15,282,995,731</b>	<b>1.075</b>

6.66 The revision in PAYG rate taking this benefit change into account is as follows:

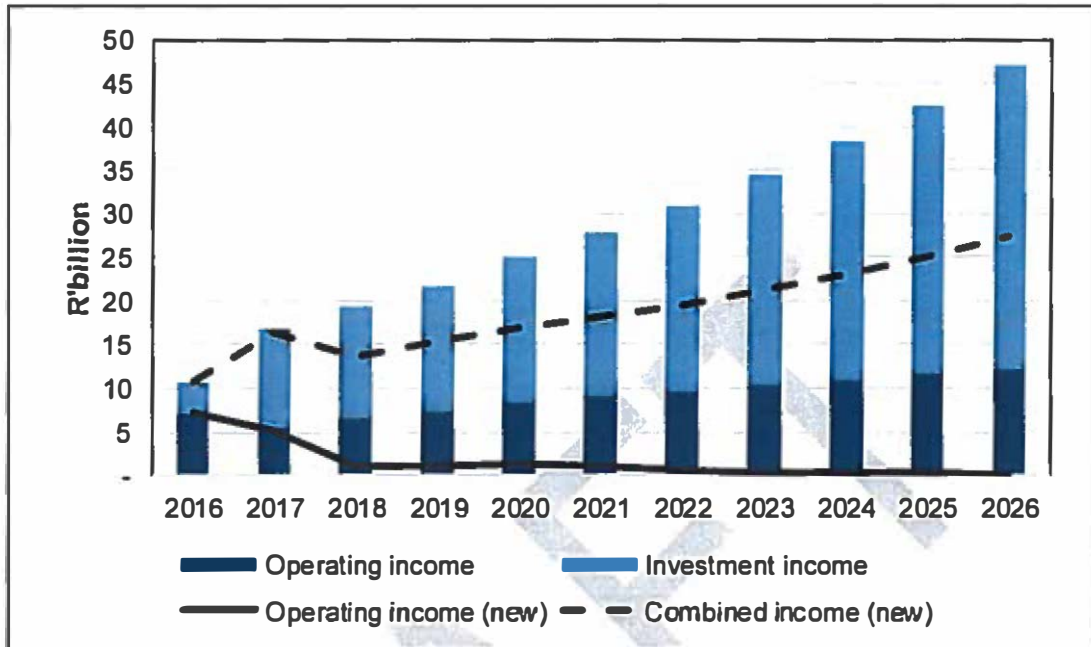
Benefit category	PAYG Rate	Ratio	New PAYG Rate
Death	0.078%	1.000	0.078%
Illness	0.048%	1.000	0.048%
Maternity	0.223%	1.573	0.351%
Unemployment	1.327%	1.000	1.327%
Expenses	0.235%	1.000	0.235%
<b>Total</b>	<b>1.911%</b>	<b>1.067</b>	<b>2.038%</b>

6.67 The base financial projection, and a 10-year financial projection conducted using this revised PAYG rate is graphed as follows:



6.68 The above graph shows that although the PAYG rate is slightly higher than the 2% contribution, the Fund's surplus and solvency ratio continue to grow steadily.

6.69 The graph below shows the impact which this change has on the income of the Fund over the next 10 years.



6.70 The above graph shows that should the first 11 changes be implemented, the operating income will become almost zero, while the investment income will continue to increase, driving the continuous increase in the combined income. This is the cause of the growing solvency ratio, see in the previous graph.

6.71 We have considered two shock scenarios based on Part 11. These include an increase to the assumed change in the PAYG rate based on the amendments, as well as the impact should investment returns decrease due to economic downturn.

6.72 The results of these shocks are shown in Appendix N. Details of the shocks applied can be found in Appendix M.

**Part 12: Payment of benefits to persons who have resigned**

6.73 The table below shows the impact on the Fund, should benefits be paid on resignation.

Benefit category	Number of claims	Amount eligible to be claimed		Ratio
		Revised Part 11	Revised Part 12	
Death	16,470	R 598,470,283	R 598,470,283	1.000
Illness	17,342	R 425,887,884	R 425,887,884	1.000
Maternity	97,006	R 2,933,356,759	R 2,933,356,759	1.000
Unemployment	589,740	R 11,325,280,804	R 17,755,160,128	1.568
<b>Total</b>	<b>720,558</b>	<b>R 16,282,995,731</b>	<b>R 21,712,875,054</b>	<b>1.421</b>

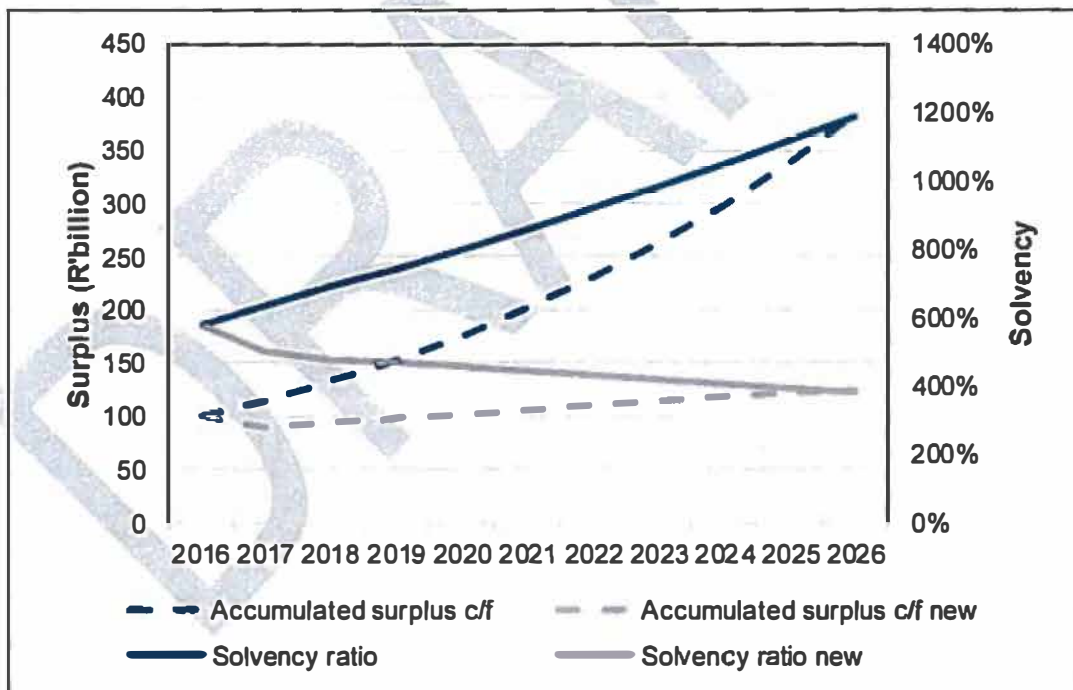
6.74 The addition of resignation benefits leads to a projected 56.8% increase in the unemployment claims, which translates to a 42.1% increase in the Fund's overall claims. Of all the changes considered in this report, the proposed inclusion of resignation benefits is projected to have the biggest impact on the overall PAYG rates.

6.75 The revision in PAYG rate taking this benefit change into account is as follows:

<u>Benefit category</u>	<u>PAYG Rate</u>	<u>Ratio</u>	<u>New PAYG Rate</u>
Death	0.078%	1.000	0.078%
Sickness	0.048%	1.000	0.048%
Maternity	0.351%	1.000	0.351%
Unemployment	1.327%	1.568	2.081%
Expenses	0.235%	1.000	0.235%
<b>Total</b>	<b>2.038%</b>	<b>1.370</b>	<b>2.792%</b>

6.76 The resulting PAYG rate now significantly exceeds the 2% contribution level. This means that value of the benefits provided to contributors exceeds the contribution made.

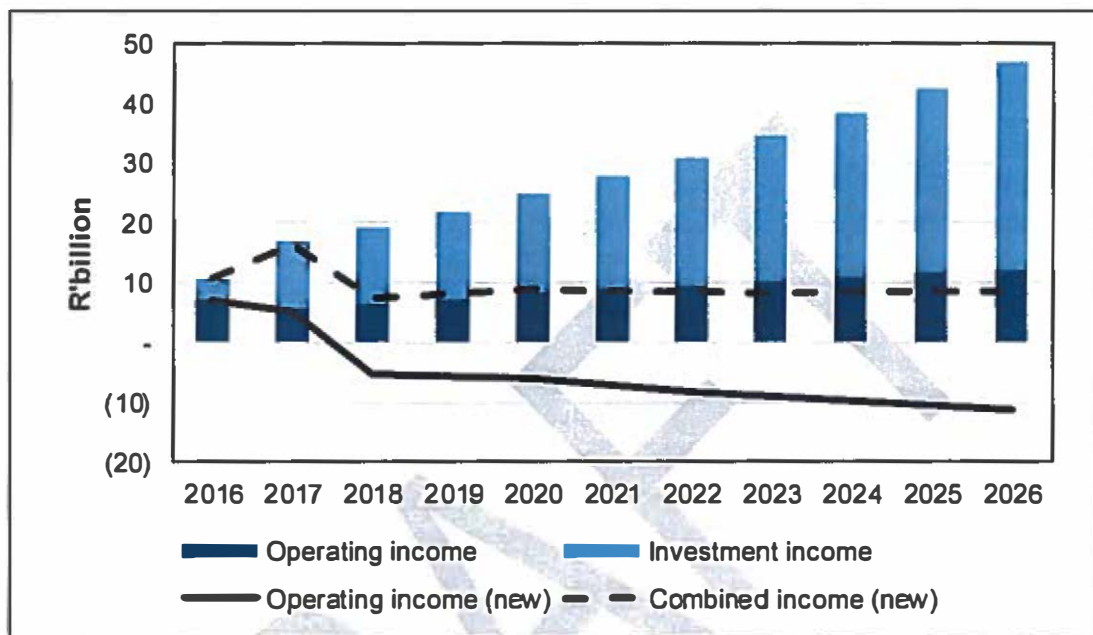
6.77 The base financial projection, and a 10-year financial projection conducted using this revised PAYG rate is graphed as follows:



6.78 The accumulated surplus continues to increase, following the implementation of all the benefit changes. This, as seen in the graph below, is primarily due to the investment returns generated by the significant level of surpluses accumulated to date. The accumulated surplus, should all amendments be made, is projected to be R124.8 billion in 10 years' time.

6.79 Although the accumulated surplus continues to grow the solvency ratio slowly reduces, due to the increase in the contributions received by the Fund.

6.80 The graph below shows the impact which this change has on the income of the Fund over the next 10 years.



6.81 Should the Fund implement the resignation benefit, in addition to the other changes proposed, the Fund will incur an operating loss. The investment income will result in the Fund experiencing a combined surplus.

6.82 The results of the two scenario tests based on Part 12 are detailed in Appendix O.

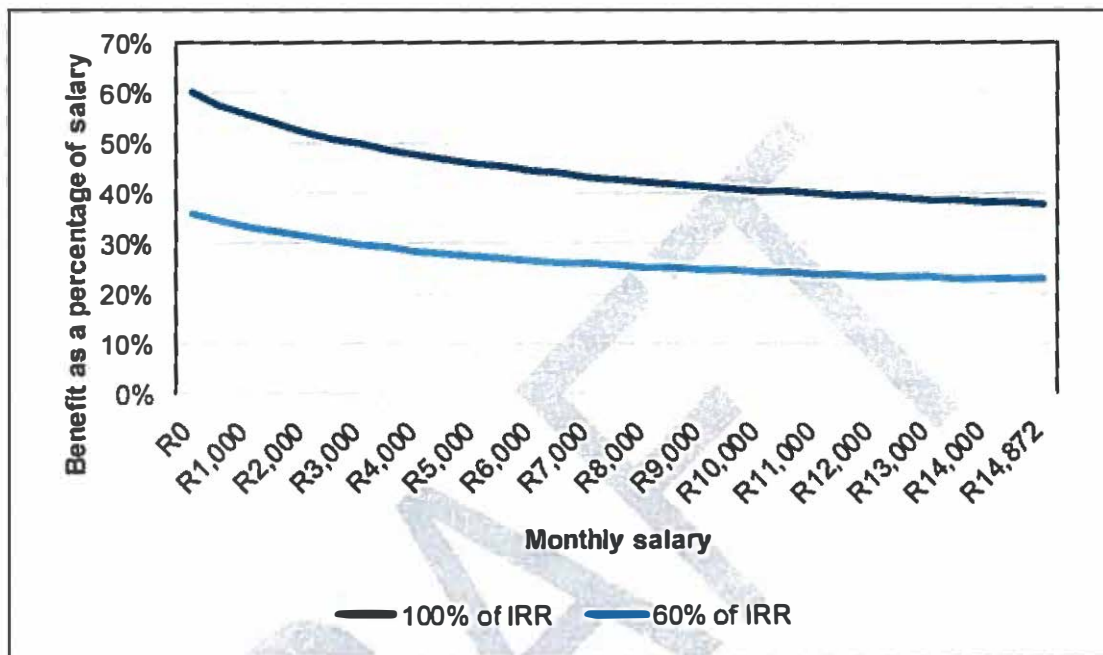
6.83 Given the large impact on the Fund, due to the introduction of the resignation benefit, we recommend that this benefit be gradually implemented. We recommend that the IRR used to determine the benefits on resignation be 60% of actual IRR for the first 238 days, and the fixed 20% IRR thereafter. We have referred to this alternative as Part 12A in the remainder of this report.

6.84 This serves two purposes. Firstly, it reduces the impact to the Fund, allowing the Fund to gradually determine the impact which this amendment will have. Given the level of awareness that is likely to be created, should this benefit be introduced, it is likely that the Fund will experience significant claims, the level of which being difficult to quantify with a high degree of accuracy. Once the impact is better understood, the Fund could consider adjusting the proportion of salary used to determine the resignation benefits.

6.85 Secondly, this will reduce the incentive for contributors to take a vacation, as the benefit which they will receive will be lower compared to the salary levels.

**Part 12A: Payment of benefits to persons who have resigned based on 60% of IRR**

6.86 The graph below shows the benefit, as a proportion of monthly salary, for the first 238 days, where the resignation benefit is based on 100% of IRR (dark blue line) and 60% of IRR (light blue line).

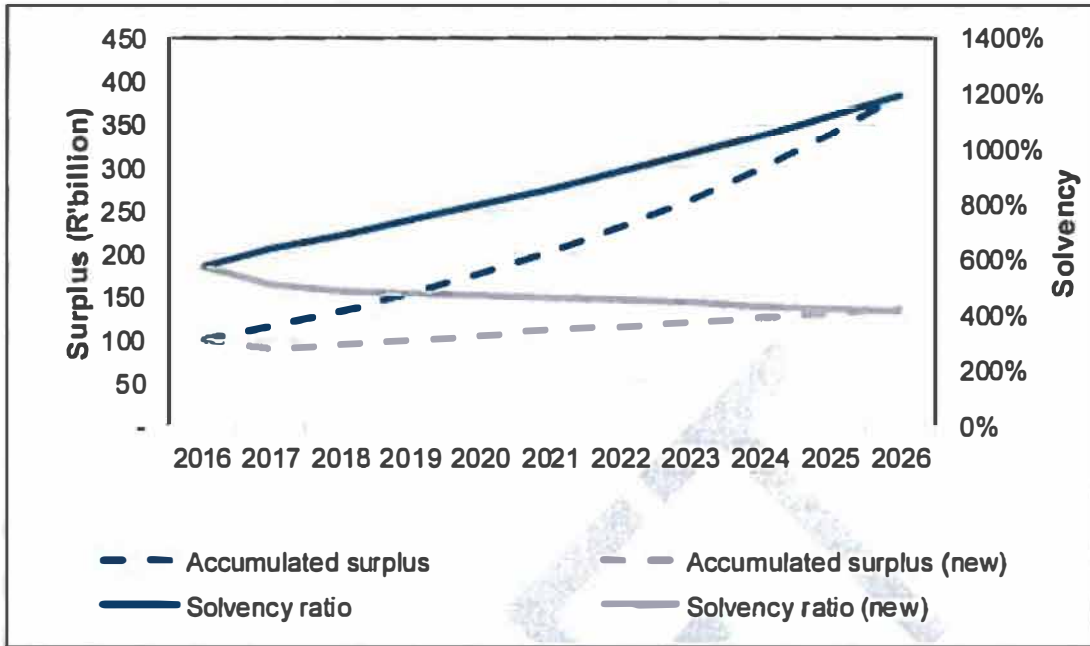


6.87 Should the benefit be based on 60% of the IRR for the first 238 days, the benefit as a proportion of salary at the threshold of R14,872 is 22.8%. This results in a smooth transition for the subsequent days, where the proposed amendment is that a fixed IRR of 20% be used.

6.88 The graph below shows the solvency ratio and accumulated surplus of the Fund, should 60% of IRR be used to determine the resignation benefits.

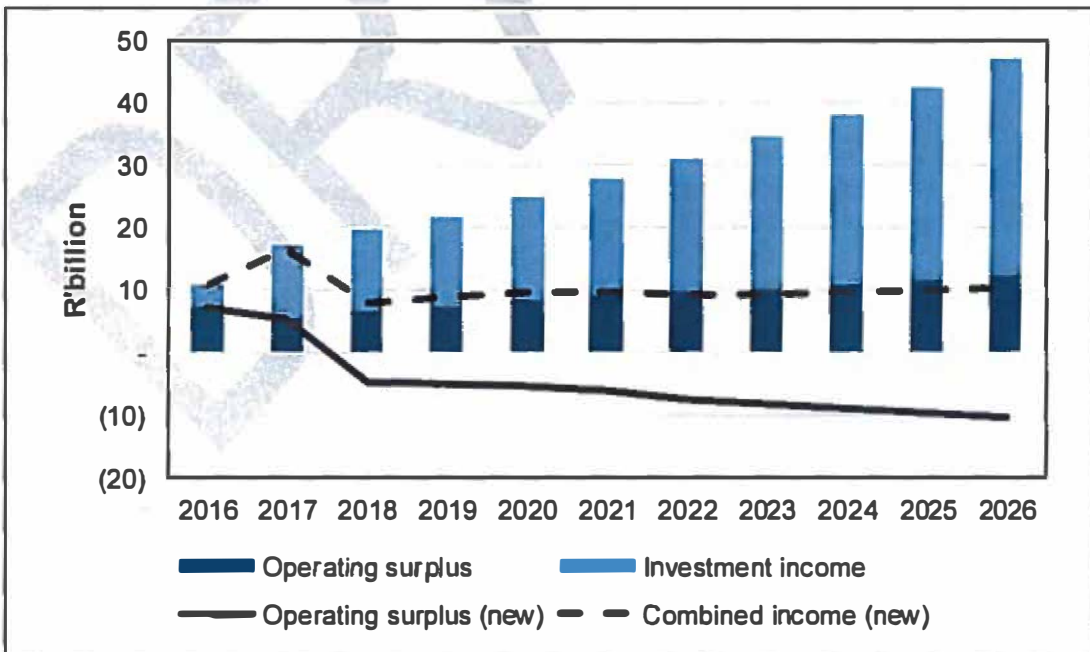
6.89 The base financial projection, and a 10-year financial projection conducted using this revised PAYG rate is graphed as follows:





6.90 The accumulated surplus in 10 years' time is projected to be R136.1 billion, should all amendments be implemented and Part 12A be implemented instead of Part 12.

6.91 The graph below shows the impact which this change has on the income of the Fund over the next 10 years.



6.92 The scenario tests, based on Part 12A, are detailed in Appendix P.

### Summary of impact of all proposed amendments

6.93 This section shows a summary of the impact of all proposed amendments to the 2016 Amendment Bill as assessed in the respective Parts of Section 6.

6.94 The revision in PAYG rate taking the proposed benefit changes into account is as follows:

	PAYG Rate					Total	Change
	Death	Illness	M&A	Unemployment	Expenses		
Current	0.041%	0.038%	0.117%	0.892%	0.235%	1.322%	
Part 1	0.047%	0.038%	0.120%	1.044%	0.235%	1.483%	0.161%
Part 2	0.047%	0.043%	0.183%	1.044%	0.235%	1.552%	0.069%
Part 3	0.047%	0.043%	0.183%	1.200%	0.235%	1.708%	0.157%
Part 4	0.047%	0.043%	0.183%	1.200%	0.235%	1.708%	0.000%
Part 5							
Part 6	0.070%	0.043%	0.183%	1.200%	0.235%	1.732%	0.023%
Part 7	0.072%	0.045%	0.189%	1.239%	0.235%	1.780%	0.048%
Part 8							
Part 9	0.072%	0.046%	0.208%	1.239%	0.235%	1.799%	0.019%
Part 10	0.078%	0.048%	0.223%	1.327%	0.235%	1.911%	0.112%
Part 11	0.078%	0.048%	0.351%	1.327%	0.235%	2.038%	0.128%
Part 12	0.078%	0.048%	0.351%	2.081%	0.235%	2.792%	0.754%
Part 12A	0.078%	0.048%	0.351%	1.779%	0.235%	2.490%	0.452%

6.95 Benefit changes that lead to no anticipated deterioration in claims experience to the Fund are reflected as blank lines in the above table. The revision in PAYG rate for each line reflects the cumulative impact of all benefit changes considered up to that Part.

6.96 The cumulative impact of all benefit changes that lead to a deterioration in claims experience of the Fund is a revision of the PAYG rate for claims and expenses from 1.322% in the base financial projection to 2.792% considering all proposed benefit changes. This means that all benefit changes proposed in the 2015 Amendment Bill result in the claims and expenses being likely to exceed the current contribution rate of the Fund of 2.00%. Should Part 12A be implemented instead of Part 12, the PAYG rate will increase to 2.490%.

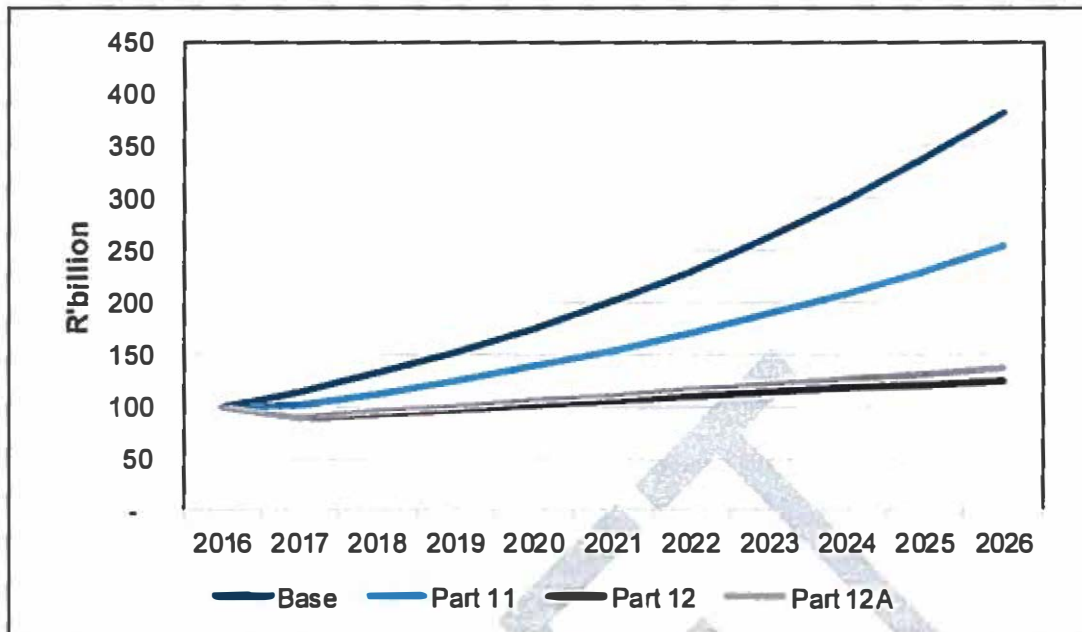
## 7 Conclusion

- 7.1 A summary of the impact of all proposed benefit changes in the 2015 Amendment Bill as well as changes proposed by NEDLAC, in terms of the estimated impact on the PAYG rate, is as follows:

	PAYG Rate					Total	Change
	Death	Illness	M&A	Unemployment	Expenses		
Current	0.041%	0.038%	0.117%	0.892%	0.235%	1.322%	
Part 1	0.047%	0.038%	0.120%	1.044%	0.235%	1.483%	0.161%
Part 2	0.047%	0.043%	0.183%	1.044%	0.235%	1.552%	0.069%
Part 3	0.047%	0.043%	0.183%	1.200%	0.235%	1.708%	0.157%
Part 4	0.047%	0.043%	0.183%	1.200%	0.235%	1.708%	0.000%
Part 5							
Part 6	0.070%	0.043%	0.183%	1.200%	0.235%	1.732%	0.023%
Part 7	0.072%	0.045%	0.189%	1.239%	0.235%	1.780%	0.048%
Part 8							
Part 9	0.072%	0.045%	0.208%	1.239%	0.235%	1.799%	0.019%
Part 10	0.078%	0.048%	0.223%	1.327%	0.235%	1.911%	0.112%
Part 11	0.078%	0.048%	0.351%	1.327%	0.235%	2.038%	0.128%
Part 12	0.078%	0.048%	0.351%	2.081%	0.235%	2.792%	0.754%
Part 12A	0.078%	0.048%	0.351%	1.779%	0.235%	2.490%	0.452%

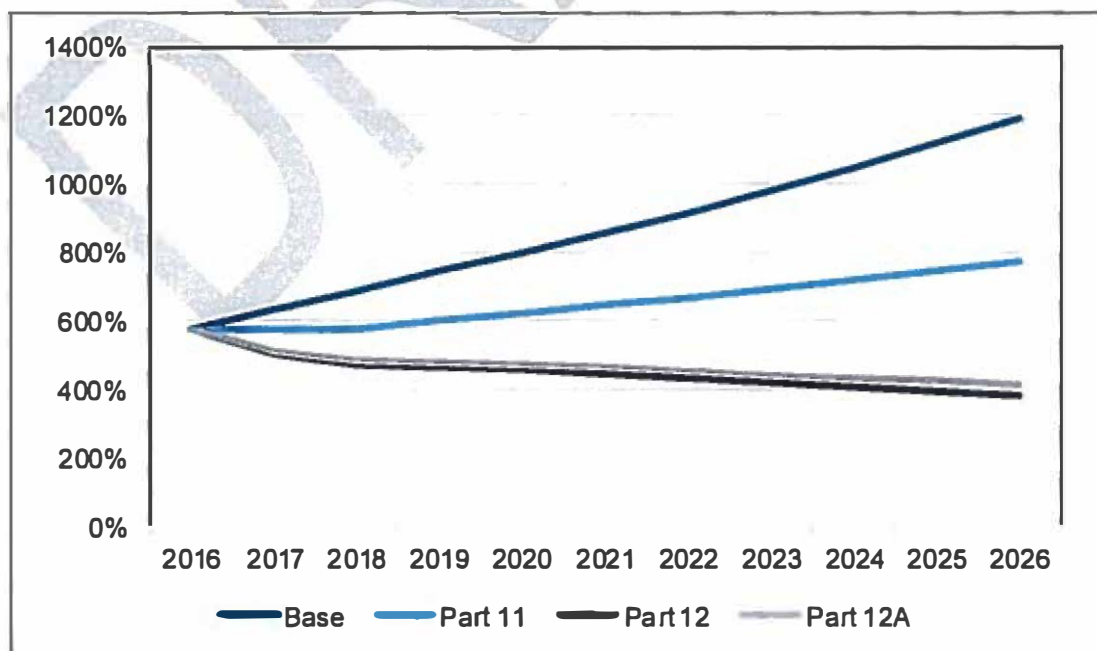
- 7.2 The cumulative impact of benefit changes proposed in the Amendment Bill that lead to a deterioration in claims experience of the Fund is a revision of the PAYG rate for the Fund from 1.322% in the base financial projection to 1.799%. This means that all changes proposed in the Amendment Bill are affordable at the current contribution rate of the Fund of 2.00%.
- 7.3 The cumulative impact of benefit changes proposed in the Amendment Bill and those under discussion by NEDLAC result in the estimated PAYG rate of the Fund increasing from 1.322% to 2.792%. This means that all benefit changes proposed by NEDLAC cannot be fully funded by the current contributions to the Fund. However, the high level of accumulated funds results in the investment income being able to fund the difference. As a result, the Fund is expected to be able to afford the changes proposed by NEDLAC as well as those proposed in the Amendment Bill, although there will be a gradual decrease in the solvency level as a result.
- 7.4 The 10-year projection of accumulated surplus for the base projection, Part 9, Part 12 and Part 12A is shown in the graph below.





7.5 Under a scenario of the PAYG rate of the Fund being 2.792% (above the contribution rate of 2.00%), the surplus of the Fund continues to grow. The reason for the continued projected growth of the Fund, where benefits and expenses exceed contributions, is due to the substantial the surplus of the Fund as at 31 March 2016 of R98.5 billion with a Solvency Ratio of 575%. The Fund continues to earn substantial investment returns under a scenario of a PAYG rate of 2.792%. A surplus of R124.8 billion is projected after 10 years considering all proposed benefit changes.

7.6 The graph below shows the projected solvency for the base case, Part 9, Part 12 and Part 12A.



- 7.7 The solvency ratio continues to increase in Part 9, although for Part 12 and Part 12A it gradually reduces despite the increase in accumulated Funds. The reason for this decrease is the projected increase in the contributions.
- 7.8 In conclusion, we are comfortable that the proposed benefit changes in the 2015 Amendment Bill and the changes proposed by NEDLAC are affordable by the Fund. The key measure in making this conclusion is that the accumulated surplus continues to grow under a scenario of a PAYG rate of 2.792% largely because of a substantial surplus position of the Fund as at 31 March 2016. The Fund is expected to maintain a strong solvency ratio in 10 years' time of 380%.
- 7.9 As seen in the report, the resignation benefit has the biggest impact on the financial position of the Fund. As can be seen in the scenarios shown in the Appendices, by reducing the benefit offered in Part 12, the Fund will have greater resilience against adverse scenarios. We thus recommend that the Fund consider implementing Part 12A (with some reduction to the IRR used to determine the resignation benefit). Based on a 60% reduction to IRR the Fund is expected to have a solvency ratio of 414% in 10 years' time.
- 7.10 We would be pleased to assist with any matters that may arise in respect of the interpretation of the content of this report.
- 7.11 We would like to thank the management of the Fund for their assistance.

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**1 June 2016**

## Appendix A: Part 0:

### Base Financial Projection

	2016/03/31	2017/03/31	2018/03/31	2019/03/31	2020/03/31	2021/03/31	2022/03/31	2023/03/31	2024/03/31	2025/03/31	2026/03/31
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Acc surplus b/f	90,292,812	98,498,097	114,146,241	132,116,436	162,277,238	176,430,067	201,329,422	230,261,417	262,637,676	298,488,441	338,481,227
Revenue received	17,128,778	18,001,003	19,176,185	20,496,327	21,943,668	23,472,199	25,067,867	26,742,998	28,479,878	30,302,881	32,208,420
Benefits paid	(7,691,153)	(8,313,414)	(8,803,089)	(9,322,540)	(9,893,808)	(10,526,774)	(11,234,653)	(12,010,580)	(12,833,838)	(13,697,734)	(14,600,702)
Change in provision	(392,211)	(253,153)	(280,275)	(285,205)	(314,791)	(350,129)	(393,678)	(420,638)	(443,054)	(483,108)	(484,036)
Benefits incurred	(8,083,364)	(8,566,567)	(9,083,363)	(9,607,746)	(10,208,600)	(10,876,903)	(11,628,330)	(12,431,218)	(13,276,892)	(14,160,841)	(15,084,738)
Adjustment to provision											
Training of the Unemployed	(28,799)	(500,000)	(529,000)	(559,682)	-	-	-	-	-	-	-
Lay-off schemes & Social Plan funding	(51,772)	(1,448,400)	(1,056,021)	(1,065,226)	(1,129,140)	(1,196,888)	(1,268,701)	(1,344,823)	(1,425,513)	(1,511,043)	(1,601,706)
Operating expenses	(1,788,089)	(1,852,594)	(1,960,030)	(2,077,758)	(2,207,688)	(2,352,224)	(2,514,727)	(2,688,358)	(2,871,242)	(3,062,404)	(3,262,205)
Operating surplus	7,176,754	6,633,442	6,567,770	7,184,916	8,398,221	9,046,184	9,666,109	10,278,696	10,906,231	11,568,693	12,269,771
Investment income	3,504,047	11,199,691	12,739,749	14,503,472	16,484,040	18,755,151	21,292,555	24,117,566	27,255,743	30,735,369	34,590,136
Net surplus for year	10,680,801	16,833,133	19,307,619	21,688,388	24,882,261	27,801,336	30,948,664	34,396,162	38,161,974	42,303,962	46,849,907
Transfer to LFR	(2,475,516)	(1,184,989)	(1,338,324)	(1,526,585)	(1,729,442)	(1,901,970)	(2,016,670)	(2,120,004)	(2,211,108)	(2,311,177)	(2,415,863)
Acc surplus c/f	98,498,097	114,146,241	132,116,436	162,277,238	176,430,067	201,329,422	230,261,417	262,637,676	298,488,441	338,481,227	382,916,270
Solvency ratio	676%	634%	689%	743%	799%	868%	919%	982%	1048%	1117%	1189%



## Appendix B: Part 1:

Extension of benefits to 365 days with a flat rate of 20% after 238 days, and adjustment of benefit accrual at rate of 1 day for every 5 days worked

	2016/03/31	2017/03/31	2018/03/31	2019/03/31	2020/03/31	2021/03/31	2022/03/31	2023/03/31	2024/03/31	2025/03/31	2026/03/31
	R000	R000	R000	R000	R000	R000	R000	R000	R000	R000	R000
Acc surplus b/f	90,292,812	98,498,097	110,928,870	126,883,838	144,792,099	165,369,685	188,306,592	213,881,255	242,352,376	274,005,280	309,155,179
Revenue received	17,128,778	17,560,306	18,706,717	19,993,564	21,406,437	22,897,657	24,454,160	26,085,279	27,782,639	29,561,012	31,419,899
Benefits paid	(7,891,153)	(8,313,414)	(9,442,052)	(10,703,015)	(11,358,876)	(12,085,571)	(12,898,272)	(13,798,098)	(14,734,263)	(15,726,085)	(16,782,764)
Change in provision	(392,211)	(253,153)	(983,408)	(327,438)	(361,405)	(401,975)	(451,973)	(482,928)	(508,661)	(531,683)	(555,712)
Benefits Incurred	(8,083,364)	(8,566,567)	(10,405,459)	(11,030,453)	(11,720,281)	(12,487,547)	(13,350,246)	(14,272,024)	(15,242,925)	(16,257,768)	(17,318,475)
Adjustment to provision											
Training of the Unemployed	(28,798)	(500,000)	(529,000)	(559,882)							
Lay-off schemes & Social Plan funding	(51,772)	(1,448,400)	(1,056,021)	(1,065,226)	(1,129,140)	(1,186,888)	(1,288,701)	(1,344,823)	(1,425,513)	(1,511,043)	(1,601,706)
Operating expenses	(1,788,089)	(1,852,594)	(1,860,030)	(2,077,758)	(2,207,898)	(2,352,224)	(2,514,727)	(2,688,358)	(2,871,242)	(3,062,404)	(3,262,205)
Operating surplus	7,176,764	5,192,745	4,766,206	5,260,446	6,349,319	6,860,898	7,320,487	7,783,074	8,242,969	8,729,797	9,237,613
Investment income	3,504,047	11,198,891	12,700,027	14,360,263	16,158,269	18,219,543	20,516,375	23,066,161	25,890,254	28,012,665	32,462,466
Net surplus for year	10,680,801	16,392,436	17,466,233	19,620,708	22,607,698	25,080,441	27,836,863	30,849,235	34,133,213	37,742,462	41,699,980
Transfer to URR	(2,475,516)	(3,961,663)	(1,501,285)	(1,712,447)	(1,940,001)	(2,133,534)	(2,262,199)	(2,378,114)	(2,480,310)	(2,592,562)	(2,709,894)
Acc surplus c/f	98,498,097	110,928,870	126,883,838	144,792,099	166,369,685	188,306,692	213,881,255	242,362,376	274,006,280	309,165,179	348,145,165
Solvency ratio	575%	632%	678%	724%	772%	822%	875%	929%	986%	1046%	1108%

## Appendix C: Part 2:

### Maternity and illness benefit changes

	2016/03/31	2017/03/31	2018/03/31	2019/03/31	2020/03/31	2021/03/31	2022/03/31	2023/03/31	2024/03/31	2025/03/31	2026/03/31
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Acc surplus b/f	90,292,812	98,498,097	109,736,507	125,045,180	142,237,956	161,985,583	183,997,062	208,509,175	235,777,275	266,072,589	299,694,051
Revenue received	17,128,778	17,560,306	18,706,717	19,993,564	21,406,437	22,897,557	24,454,160	26,088,279	27,782,639	29,561,012	31,419,899
Benefits paid	(7,661,153)	(8,313,414)	(9,716,438)	(11,295,820)	(11,988,007)	(12,764,952)	(13,812,865)	(14,552,831)	(15,550,346)	(16,597,101)	(17,881,188)
Change in provision	(392,211)	(253,153)	(1,265,348)	(345,574)	(381,422)	(424,240)	(477,008)	(509,674)	(539,834)	(561,131)	(588,491)
Benefits incurred	(8,083,364)	(8,566,587)	(10,981,784)	(11,641,394)	(12,369,430)	(13,179,191)	(14,089,671)	(15,062,505)	(16,087,181)	(17,158,233)	(18,277,689)
Adjustment to provision											
Training of the Unemployed	(28,799)	(500,000)	(528,000)	(559,682)							
Lay-off schemes & Social Plan funding	(51,772)	(1,448,400)	(1,056,021)	(1,065,226)	(1,128,140)	(1,166,888)	(1,268,701)	(1,344,823)	(1,425,513)	(1,511,043)	(1,601,708)
Operating expenses	(1,788,089)	(1,852,594)	(1,980,030)	(2,077,758)	(2,207,988)	(2,352,224)	(2,514,727)	(2,688,358)	(2,871,242)	(3,062,404)	(3,262,205)
Operating surplus	7,176,754	5,192,745	4,179,882	4,649,504	5,700,170	6,169,254	6,591,061	6,992,593	7,398,703	7,829,332	8,278,299
Investment income	3,504,047	11,199,691	12,700,027	14,335,531	16,077,877	18,075,198	20,298,686	22,764,460	25,482,521	28,505,525	31,831,109
Net surplus for year	10,680,801	16,392,436	16,879,909	18,985,036	21,778,047	24,244,452	26,878,747	29,757,052	32,891,224	36,334,858	40,109,408
Transfer to URR	(2,475,516)	(5,154,026)	(1,571,235)	(1,792,260)	(2,030,420)	(2,232,973)	(2,367,634)	(2,488,952)	(2,595,911)	(2,713,395)	(2,838,300)
Acc surplus c/f	98,498,097	109,736,507	125,045,180	142,237,956	161,985,583	183,997,062	208,509,175	235,777,275	266,072,589	299,694,051	336,967,159
Solvency ratio	575%	625%	668%	711%	767%	804%	853%	904%	958%	1014%	1072%



## Appendix D: Part 3:

### Unemployment benefit cycle changes

	2016/03/31	2017/03/31	2018/03/31	2019/03/31	2020/03/31	2021/03/31	2022/03/31	2023/03/31	2024/03/31	2025/03/31	2026/03/31
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Acc surplus b/f	90,292,812	98,498,097	107,035,210	120,879,704	136,451,549	154,341,560	174,233,829	196,338,734	220,881,394	248,101,090	278,259,881
Revenue received	17,128,778	17,560,306	18,706,717	19,993,564	21,406,437	22,897,557	24,454,160	26,088,279	27,782,639	29,561,012	31,419,899
Benefits paid	(7,891,153)	(8,313,414)	(10,338,053)	(12,838,818)	(13,413,303)	(14,271,432)	(15,231,122)	(16,283,067)	(17,399,181)	(18,570,388)	(19,794,566)
Change in provision	(382,211)	(253,153)	(1,949,393)	(388,861)	(428,771)	(474,679)	(533,719)	(570,271)	(600,960)	(627,646)	(656,221)
Benefits incurred	(8,083,364)	(8,566,567)	(12,287,446)	(13,025,480)	(13,840,074)	(14,746,111)	(15,764,841)	(16,853,338)	(17,999,841)	(19,198,234)	(20,450,787)
Adjustment to provision											
Training of the Unemployed	(28,789)	(500,000)	(529,000)	(559,882)							
Lay-off schemes & Social Plan funding	(51,772)	(1,448,400)	(1,056,021)	(1,085,226)	(1,129,140)	(1,186,888)	(1,268,701)	(1,344,823)	(1,425,513)	(1,511,043)	(1,601,706)
Operating expenses	(1,788,089)	(1,852,584)	(1,880,030)	(2,077,758)	(2,207,898)	(2,352,224)	(2,514,727)	(2,688,358)	(2,871,242)	(3,082,404)	(3,262,205)
Operating surplus	7,176,754	5,192,746	2,874,219	3,285,418	4,229,526	4,602,334	4,905,891	5,201,759	5,486,043	5,789,330	6,105,202
Investment income	3,504,047	11,199,691	12,700,027	14,279,503	15,895,748	17,748,186	19,805,512	22,080,958	24,591,457	27,358,603	30,400,768
Net surplus for year	10,680,801	16,392,436	15,574,246	17,544,921	20,125,274	22,350,520	24,711,403	27,282,716	30,077,500	33,146,933	36,505,970
Transfer to UFR	(2,475,516)	(7,855,322)	(1,729,753)	(1,973,076)	(2,235,263)	(2,458,251)	(2,606,498)	(2,740,055)	(2,857,805)	(2,987,142)	(3,122,446)
Acc surplus c/f	98,498,097	107,035,210	120,879,704	136,451,549	154,341,560	174,233,829	196,338,734	220,881,394	248,101,090	278,259,881	311,643,405
Solvency ratio	575%	610%	646%	682%	721%	761%	803%	847%	893%	941%	992%

## Appendix E: Part 4:

### Extension of Death claims submission period from 6 to 18 months

	2016/03/31	2017/03/31	2018/03/31	2019/03/31	2020/03/31	2021/03/31	2022/03/31	2023/03/31	2024/03/31	2025/03/31	2026/03/31
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Acc surplus b/f	90,292,812	98,498,097	107,031,934	120,874,652	136,444,532	154,332,290	174,221,989	196,323,974	220,863,330	248,079,295	278,233,887
Revenue received	17,128,778	17,560,306	18,708,717	19,993,564	21,406,437	22,897,557	24,454,160	26,088,279	27,782,639	29,561,012	31,419,899
Benefits paid	(7,691,153)	(8,313,414)	(10,338,807)	(12,640,448)	(13,415,031)	(14,273,271)	(15,233,085)	(16,285,166)	(17,401,423)	(18,572,781)	(19,797,117)
Change in provision	(392,211)	(253,153)	(1,950,222)	(386,711)	(426,826)	(474,740)	(533,788)	(570,344)	(600,738)	(627,927)	(656,305)
Benefits incurred	(8,083,364)	(8,566,567)	(12,289,030)	(13,027,158)	(13,841,857)	(14,748,011)	(15,766,873)	(16,855,510)	(18,002,161)	(19,200,708)	(20,453,422)
Adjustment to provision											
Training of the Unemployed	(28,799)	(500,000)	(529,000)	(559,682)							
Lay-off schemes & Social Plan funding	(51,772)	(1,448,400)	(1,056,021)	(1,065,226)	(1,129,140)	(1,196,888)	(1,268,701)	(1,344,823)	(1,425,513)	(1,511,043)	(1,601,706)
Operating expenses	(1,788,089)	(1,852,594)	(1,960,030)	(2,077,758)	(2,207,698)	(2,352,224)	(2,514,727)	(2,688,358)	(2,871,242)	(3,062,404)	(3,262,205)
Operating surplus	7,176,754	5,192,745	2,872,636	3,263,740	4,227,742	4,600,434	4,903,860	5,199,588	5,483,723	5,796,856	6,102,566
Investment income	3,504,047	11,199,691	12,700,027	14,279,435	15,895,527	17,747,789	19,804,914	22,080,127	24,590,365	27,355,208	30,398,034
Net surplus for year	10,680,801	16,392,436	15,572,663	17,543,175	20,123,269	22,348,223	24,708,774	27,279,715	30,074,088	33,142,066	36,501,600
Transfer to URR	(2,475,516)	(7,858,598)	(1,729,945)	(1,973,295)	(2,235,512)	(2,458,524)	(2,606,788)	(2,740,360)	(2,858,122)	(2,987,474)	(3,122,793)
Acc surplus c/f	98,498,097	107,031,934	120,874,652	136,444,532	154,332,290	174,221,989	196,323,974	220,863,330	248,079,295	278,233,887	311,612,694
Solvency ratio	575%	610%	646%	682%	721%	761%	803%	847%	893%	941%	992%

## Appendix F: Part 6:

### Death claims to allow for nominated beneficiary

	2016/03/31	2017/03/31	2018/03/31	2019/03/31	2020/03/31	2021/03/31	2022/03/31	2023/03/31	2024/03/31	2025/03/31	2026/03/31
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Acc surplus b/f	90,292,812	98,498,097	106,628,059	120,251,865	135,579,397	153,189,420	172,762,272	194,504,353	218,636,223	245,392,348	275,029,231
Revenue received	17,128,778	17,560,306	18,706,717	19,993,584	21,406,437	22,897,557	24,454,160	26,088,279	27,782,639	29,561,012	31,419,899
Benefits paid	(7,891,153)	(8,313,414)	(10,431,746)	(12,841,242)	(13,628,129)	(14,500,003)	(15,475,063)	(16,543,856)	(17,677,845)	(18,867,811)	(20,111,595)
Change in provision	(392,211)	(253,153)	(2,052,495)	(392,853)	(433,808)	(482,281)	(542,267)	(579,404)	(610,281)	(637,902)	(666,731)
Benefits incurred	(8,083,364)	(8,566,567)	(12,484,241)	(13,234,095)	(14,061,736)	(14,982,284)	(16,017,330)	(17,123,260)	(18,288,126)	(19,505,712)	(20,778,325)
Adjustment to provision											
Training of the Unemployed	(28,789)	(500,000)	(529,000)	(559,682)	-	-	-	-	-	-	-
Lay-off schemes & Social Plan funding	(51,772)	(1,448,400)	(1,056,021)	(1,065,226)	(1,129,140)	(1,196,888)	(1,268,701)	(1,344,823)	(1,425,513)	(1,511,043)	(1,601,706)
Operating expenses	(1,788,089)	(1,852,594)	(1,960,030)	(2,077,758)	(2,207,898)	(2,352,224)	(2,514,727)	(2,688,358)	(2,871,242)	(3,062,404)	(3,262,205)
Operating surplus	7,176,754	5,192,745	2,877,424	3,056,803	4,007,864	4,366,161	4,653,402	4,931,837	5,197,758	5,481,853	5,777,663
Investment income	3,504,047	11,199,891	12,700,027	14,271,058	15,888,297	17,598,897	19,731,179	21,977,936	24,455,645	27,183,432	30,185,181
Net surplus for year	10,680,801	16,392,436	15,377,451	17,327,861	19,876,161	22,065,058	24,384,581	26,909,773	29,653,403	32,665,285	35,962,844
Transfer to UFR	(2,475,516)	(8,262,473)	(1,753,645)	(2,000,329)	(2,286,138)	(2,492,206)	(2,642,501)	(2,777,902)	(2,897,278)	(3,028,402)	(3,165,575)
Acc surplus c/f	98,498,097	106,628,059	120,251,865	135,579,397	153,189,420	172,762,272	194,504,353	218,636,223	245,392,348	275,029,231	307,826,500
Solvency ratio	575%	607%	643%	678%	716%	755%	795%	838%	883%	930%	980%



## Appendix G: Part 7:

### Inclusion of persons on learnership contracts and migrant workers

	2016/03/31	2017/03/31	2018/03/31	2019/03/31	2020/03/31	2021/03/31	2022/03/31	2023/03/31	2024/03/31	2025/03/31	2026/03/31
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Acc surplus b/f	90,292,812	98,498,097	105,801,539	118,977,348	133,808,921	150,850,565	169,774,999	190,780,542	214,078,505	239,893,578	268,470,981
Revenue received	17,128,778	17,560,306	18,706,717	19,993,564	21,406,437	22,897,557	24,454,160	26,088,279	27,782,639	29,561,012	31,419,899
Benefits paid	(7,691,153)	(8,313,414)	(10,621,943)	(13,252,162)	(14,064,230)	(14,964,003)	(15,970,265)	(17,073,260)	(18,243,536)	(19,471,581)	(20,755,166)
Change in provision	(392,211)	(253,153)	(2,261,793)	(405,425)	(447,482)	(497,714)	(559,620)	(597,945)	(629,810)	(658,314)	(688,056)
Benefits incurred	(8,083,364)	(8,566,567)	(12,883,737)	(13,657,586)	(14,511,711)	(15,461,717)	(16,529,885)	(17,671,205)	(18,873,346)	(20,129,895)	(21,443,232)
Adjustment to provision											
Training of the Unemployed	(28,799)	(500,000)	(529,000)	(559,682)							
Lay-off schemes & Social Plan funding	(51,772)	(1,448,400)	(1,058,021)	(1,085,226)	(1,129,140)	(1,196,888)	(1,268,701)	(1,344,823)	(1,425,513)	(1,511,043)	(1,601,706)
Operating expenses	(1,788,089)	(1,952,594)	(1,960,030)	(2,077,758)	(2,207,698)	(2,352,224)	(2,514,727)	(2,688,358)	(2,871,242)	(3,062,404)	(3,262,205)
Operating surplus	7,176,754	5,192,745	2,277,929	2,633,312	3,557,869	3,866,728	4,140,848	4,383,893	4,612,538	4,857,670	5,112,756
Investment income	3,504,047	11,199,891	12,700,027	14,253,915	15,812,570	17,598,841	19,580,282	21,768,803	24,179,945	28,831,894	29,747,538
Net surplus for year	10,680,801	16,392,436	14,977,956	16,887,226	19,370,459	21,485,569	23,721,129	26,152,696	28,792,483	31,689,564	34,860,294
Transfer to URR	(2,475,516)	(9,088,994)	(1,802,147)	(2,055,653)	(2,328,814)	(2,561,135)	(2,715,586)	(2,854,733)	(2,977,411)	(3,112,161)	(3,253,128)
Acc surplus c/f	98,498,097	105,801,539	118,977,348	133,808,921	150,850,565	169,774,999	190,780,542	214,078,505	239,893,578	268,470,981	300,078,148
Solvency ratio	575%	603%	636%	668%	705%	741%	780%	821%	863%	908%	955%

## Appendix H: Part 9:

### Extension of Maternity claims submission period from 8 weeks prior to birth to 12 months after child birth

	2016/03/31	2017/03/31	2018/03/31	2019/03/31	2020/03/31	2021/03/31	2022/03/31	2023/03/31	2024/03/31	2025/03/31	2026/03/31
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Acc surplus b/f	90,292,812	98,498,097	105,475,166	118,474,071	133,109,802	149,927,008	168,595,397	189,310,099	212,278,772	237,722,245	265,881,286
Revenue received	17,128,778	17,560,306	18,706,717	19,993,564	21,406,437	22,897,557	24,454,160	26,088,279	27,782,639	29,561,012	31,419,899
Benefits paid	(7,691,153)	(8,313,414)	(10,697,048)	(13,414,424)	(14,236,435)	(15,147,225)	(16,165,806)	(17,282,308)	(18,466,914)	(19,709,995)	(21,009,297)
Change in provision	(392,211)	(253,153)	(2,344,440)	(410,389)	(452,981)	(503,808)	(566,472)	(605,287)	(637,521)	(666,375)	(698,491)
Benefits Incurred	(8,083,364)	(8,566,567)	(13,041,488)	(13,824,813)	(14,689,396)	(15,651,034)	(16,732,280)	(17,887,575)	(19,104,435)	(20,376,370)	(21,705,787)
Adjustment to provision											
Training of the Unemployed	(28,799)	(500,000)	(529,000)	(559,882)							
Lay-off schemes & Social Plan funding	(51,772)	(1,448,400)	(1,056,021)	(1,065,226)	(1,129,140)	(1,196,888)	(1,268,701)	(1,344,823)	(1,425,513)	(1,511,043)	(1,601,706)
Operating expenses	(1,788,089)	(1,852,594)	(1,860,030)	(2,077,758)	(2,207,698)	(2,352,224)	(2,514,727)	(2,888,358)	(2,871,242)	(3,062,404)	(3,262,205)
Operating surplus	7,176,754	5,192,745	2,120,177	2,466,085	3,380,204	3,697,411	3,938,452	4,167,523	4,381,449	4,611,195	4,850,201
Investment income	3,504,047	11,199,691	12,700,027	14,247,145	15,790,565	17,559,331	19,520,696	21,686,221	24,071,078	26,693,080	29,574,723
Net surplus for year	10,680,801	16,392,436	14,820,204	16,713,231	19,170,769	21,256,742	23,459,148	25,853,744	28,452,527	31,304,275	34,424,924
Transfer to UFR	(2,475,516)	(9,415,367)	(1,821,298)	(2,077,500)	(2,353,564)	(2,588,353)	(2,744,446)	(2,885,071)	(3,009,053)	(3,145,235)	(3,287,700)
Acc surplus c/f	98,498,097	105,475,166	118,474,071	133,109,802	149,927,008	168,595,397	189,310,099	212,278,772	237,722,245	265,881,286	297,048,509
Solvency ratio	575%	601%	633%	666%	700%	736%	774%	814%	856%	899%	945%

## Appendix I: Part 10:

### Inclusion of persons employed in the informal sector

	2016/03/31	2017/03/31	2018/03/31	2019/03/31	2020/03/31	2021/03/31	2022/03/31	2023/03/31	2024/03/31	2025/03/31	2026/03/31
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
<b>Acc surplus b/f</b>	90,292,812	98,498,097	103,541,808	116,345,769	130,257,147	145,902,519	162,888,152	181,328,256	201,510,549	223,789,224	248,354,292
Revenue received	17,128,778	17,560,308	19,559,708	20,905,233	22,382,531	23,941,643	25,569,224	27,277,856	29,049,476	30,908,939	32,852,688
Benefits paid	(7,691,153)	(8,313,414)	(11,141,949)	(14,464,762)	(15,649,507)	(17,072,196)	(18,641,508)	(20,259,483)	(21,769,168)	(23,234,536)	(24,766,179)
Change in provision	(392,211)	(253,153)	(2,834,022)	(537,880)	(711,829)	(782,251)	(866,104)	(827,048)	(751,523)	(785,536)	(821,037)
<b>Benefits incurred</b>	<b>(8,083,364)</b>	<b>(8,566,567)</b>	<b>(13,975,970)</b>	<b>(15,002,642)</b>	<b>(16,361,336)</b>	<b>(17,854,447)</b>	<b>(19,507,613)</b>	<b>(21,086,231)</b>	<b>(22,520,690)</b>	<b>(24,020,072)</b>	<b>(25,587,216)</b>
Adjustment to provision											
Training of the Unemployed	(28,799)	(500,000)	(529,000)	(559,682)							
Lay-off schemes & Social Plan funding	(51,772)	(1,448,400)	(1,056,021)	(1,065,226)	(1,129,140)	(1,196,888)	(1,268,701)	(1,344,823)	(1,425,513)	(1,511,043)	(1,601,706)
Operating expenses	(1,788,089)	(1,852,594)	(1,960,030)	(2,104,014)	(2,294,561)	(2,503,959)	(2,735,804)	(2,957,194)	(3,158,367)	(3,368,644)	(3,588,425)
Operating surplus	7,176,754	5,192,745	2,038,687	2,173,669	2,597,494	2,386,349	2,057,106	1,889,608	1,944,906	2,009,179	2,075,240
Investment income	3,504,047	11,199,691	12,700,027	14,283,928	15,815,798	17,539,622	19,406,137	21,418,770	23,594,193	25,963,872	28,555,998
Net surplus for year	10,680,801	16,392,436	14,738,714	16,457,597	18,413,293	19,925,971	21,463,243	23,308,378	25,539,099	27,973,061	30,631,238
Transfer to URR	(2,475,516)	(11,348,725)	(1,934,753)	(2,546,219)	(2,767,921)	(2,940,338)	(3,023,138)	(3,126,086)	(3,260,424)	(3,407,983)	(3,562,349)
<b>Acc surplus c/f</b>	<b>98,498,097</b>	<b>103,541,808</b>	<b>116,345,769</b>	<b>130,257,147</b>	<b>145,902,519</b>	<b>162,888,152</b>	<b>181,328,266</b>	<b>201,510,549</b>	<b>223,789,224</b>	<b>248,354,292</b>	<b>275,423,181</b>
<b>Solvency ratio</b>	<b>575%</b>	<b>590%</b>	<b>595%</b>	<b>623%</b>	<b>652%</b>	<b>680%</b>	<b>709%</b>	<b>739%</b>	<b>770%</b>	<b>804%</b>	<b>838%</b>

## Appendix J: Part 11:

### Payment of 12 days of paternity leave to fathers

	2016/03/31	2017/03/31	2018/03/31	2019/03/31	2020/03/31	2021/03/31	2022/03/31	2023/03/31	2024/03/31	2025/03/31	2026/03/31
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Acc surplus b/f	90,292,812	98,498,097	101,338,780	112,948,637	125,501,137	139,565,846	154,724,623	171,064,804	188,854,899	208,431,998	229,952,687
Revenue received	17,128,778	17,660,306	19,559,708	20,905,233	22,382,531	23,941,643	25,569,224	27,277,856	29,049,476	30,908,939	32,852,688
Benefits paid	(7,691,153)	(8,313,414)	(11,648,905)	(15,566,829)	(16,841,840)	(18,372,923)	(20,061,801)	(21,802,725)	(23,427,756)	(25,004,770)	(26,653,109)
Change in provision	(392,211)	(253,153)	(3,391,891)	(578,861)	(766,063)	(841,850)	(932,093)	(890,061)	(808,781)	(845,366)	(883,592)
Benefits incurred	(8,083,364)	(8,566,567)	(15,040,796)	(16,146,690)	(17,607,902)	(19,214,774)	(20,993,894)	(22,692,788)	(24,236,537)	(25,850,156)	(27,536,701)
Adjustment to provision											
Training of the Unemployed	(28,799)	(500,000)	(529,000)	(559,682)							
Lay-off schemes & Social Plan funding	(51,772)	(1,448,400)	(1,056,021)	(1,065,226)	(1,129,140)	(1,196,888)	(1,268,701)	(1,344,823)	(1,425,513)	(1,511,043)	(1,601,706)
Operating expenses	(1,788,089)	(1,852,594)	(1,960,030)	(2,104,014)	(2,294,561)	(2,503,959)	(2,735,804)	(2,957,194)	(3,158,367)	(3,368,644)	(3,588,425)
Operating surplus	7,176,764	5,192,745	973,881	1,030,621	1,350,928	1,026,022	570,825	283,052	229,060	179,095	125,756
Investment income	3,504,047	11,199,691	12,700,027	14,238,234	15,666,652	17,269,563	18,994,496	20,842,010	22,826,321	24,977,294	27,320,938
Net surplus for year	10,680,801	16,392,436	13,673,888	15,268,855	17,017,580	18,295,585	19,565,322	21,125,063	23,055,381	25,156,389	27,446,694
Transfer to LRR	(2,475,516)	(13,551,753)	(2,064,031)	(2,716,355)	(2,952,871)	(3,136,808)	(3,225,141)	(3,334,967)	(3,478,282)	(3,635,700)	(3,800,382)
Acc surplus c/f	98,498,097	101,338,780	112,948,637	125,501,137	139,565,846	154,724,623	171,064,804	188,854,899	208,431,998	229,952,687	253,598,999
Solvency ratio	575%	577%	577%	600%	624%	646%	669%	692%	718%	744%	772%



## Appendix K: Part 12:

### Payment of benefits to persons who have resigned

	2016/03/31	2017/03/31	2018/03/31	2019/03/31	2020/03/31	2021/03/31	2022/03/31	2023/03/31	2024/03/31	2025/03/31	2026/03/31
	R000	R000	R000	R000	R000	R000	R000	R000	R000	R000	R000
Acc surplus b/f	90,292,812	98,498,097	88,335,073	92,896,550	97,428,070	102,162,680	106,538,165	110,483,227	114,153,020	117,783,661	121,334,440
Revenue received	17,128,778	17,560,306	19,559,708	20,905,233	22,382,531	23,941,643	25,569,224	27,277,858	29,049,476	30,908,939	32,852,588
Benefits paid	(7,891,153)	(8,313,414)	(14,641,294)	(22,071,946)	(23,879,763)	(26,050,660)	(28,445,292)	(30,913,719)	(33,217,823)	(35,453,845)	(37,790,987)
Change in provision	(392,211)	(253,153)	(6,684,799)	(820,757)	(1,088,187)	(1,193,646)	(1,321,599)	(1,262,003)	(1,146,757)	(1,198,658)	(1,252,830)
Benefits incurred	(8,083,364)	(8,566,567)	(21,326,093)	(22,892,704)	(24,965,950)	(27,244,306)	(29,766,890)	(32,175,722)	(34,364,580)	(36,652,504)	(39,043,827)
Adjustment to provision											
Training of the Unemployed	(28,799)	(500,000)	(529,000)	(559,882)	-	-	-	-	-	-	-
Lay-off schemes & Social Plan funding	(51,772)	(1,448,400)	(1,056,021)	(1,065,228)	(1,128,140)	(1,186,888)	(1,268,701)	(1,344,823)	(1,425,513)	(1,511,043)	(1,601,706)
Operating expenses	(1,786,089)	(1,852,594)	(1,960,030)	(2,104,014)	(2,294,581)	(2,503,959)	(2,735,604)	(2,957,194)	(3,158,367)	(3,368,644)	(3,588,425)
Operating surplus	7,176,754	5,192,745	(5,311,436)	(5,716,392)	(6,007,120)	(7,003,510)	(8,202,171)	(9,199,883)	(9,898,983)	(10,623,252)	(11,381,370)
Investment income	3,504,047	11,199,691	12,700,027	13,968,518	14,786,293	15,675,498	16,564,727	17,437,598	18,293,846	19,153,870	20,030,809
Net surplus for year	10,680,801	16,392,436	7,388,591	8,252,126	8,779,173	8,671,988	8,362,555	8,237,715	8,394,862	8,530,618	8,649,438
Transfer to UFR	(2,475,516)	(26,555,458)	(2,827,114)	(3,720,606)	(4,044,563)	(4,286,503)	(4,417,493)	(4,567,922)	(4,764,222)	(4,978,838)	(5,205,403)
Acc surplus c/f	98,498,097	88,335,073	92,896,550	97,428,070	102,162,680	108,538,185	110,483,227	114,153,020	117,783,661	121,334,440	124,778,475
Solvency ratio	575%	503%	475%	466%	456%	445%	432%	418%	405%	393%	380%

## Appendix L: Part 12A:

### Payment of benefits to persons who have resigned (60% of IRR)

	2016/03/31	2017/03/31	2018/03/31	2019/03/31	2020/03/31	2021/03/31	2022/03/31	2023/03/31	2024/03/31	2025/03/31	2026/03/31
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Acc surplus b/f	90,292,812	98,498,097	89,481,432	94,664,267	99,902,887	105,460,004	110,786,104	115,823,874	120,738,460	125,774,861	130,909,821
Revenue received	17,128,778	17,560,306	19,559,708	20,905,233	22,382,531	23,841,643	25,569,224	27,277,856	29,049,476	30,908,939	32,852,588
Benefits paid	(7,691,153)	(8,313,414)	(14,377,486)	(21,498,479)	(23,259,326)	(25,373,819)	(27,706,234)	(30,110,528)	(32,354,767)	(34,532,894)	(36,808,122)
Change in provision	(392,211)	(253,153)	(6,394,509)	(799,433)	(1,057,886)	(1,162,633)	(1,287,261)	(1,229,214)	(1,116,982)	(1,167,515)	(1,220,279)
Benefits Incurred	(8,083,364)	(8,566,567)	(20,772,005)	(22,297,912)	(24,317,292)	(26,536,452)	(28,993,486)	(31,339,742)	(33,471,729)	(35,700,209)	(38,029,402)
Adjustment to provision											
Training of the Unemployed	(28,789)	(500,000)	(528,000)	(559,682)							
Lay-off schemes & Social Plan funding	(51,772)	(1,448,400)	(1,056,021)	(1,065,226)	(1,129,140)	(1,196,888)	(1,268,701)	(1,344,823)	(1,425,513)	(1,511,043)	(1,601,706)
Operating expenses	(1,788,089)	(1,852,594)	(1,890,030)	(2,104,014)	(2,294,561)	(2,503,859)	(2,735,804)	(2,957,194)	(3,158,367)	(3,368,644)	(3,588,425)
Operating surplus	7,176,754	5,192,745	(4,757,348)	(5,121,601)	(5,358,462)	(6,295,656)	(7,428,776)	(8,363,903)	(9,006,133)	(9,670,958)	(10,366,945)
Investment income	3,504,047	11,198,691	12,700,027	13,992,295	14,863,902	15,818,024	16,778,926	17,737,718	18,693,412	19,667,241	20,673,479
Net surplus for year	10,680,801	16,392,436	7,942,679	8,870,695	9,505,441	9,520,368	9,350,150	9,373,816	9,687,279	9,986,284	10,306,534
Transfer to UFR	(2,475,516)	(25,409,101)	(2,758,843)	(3,632,075)	(3,948,323)	(4,194,266)	(4,312,380)	(4,458,230)	(4,650,858)	(4,861,344)	(5,081,542)
Acc surplus c/f	98,498,097	89,481,432	94,664,267	99,902,887	105,460,004	110,786,104	115,823,874	120,738,460	125,774,861	130,909,821	136,134,813
Solvency ratio	575%	510%	484%	478%	471%	463%	453%	443%	433%	424%	414%

## Appendix M: Shocks applied

M.1 We have considered the impact on the Fund of the following two scenarios:

**Scenario 1:** The impact on the Fund, should the impact of the changes considered in this report be 20% greater than quantified in the report.

**Scenario 2:** The impact on the Fund, should there be an adverse economic experience (a large scale geographical turmoil scenario), which drastically reduces the value of the Fund's assets over the 2017 financial year.

M.2 We consider Scenario 1 and Scenario 2 to be an indication of the worst case scenarios.

M.3 The table below shows the PAYG rates, for amendments proposed in the Amendment Bill and those under consideration in NEDLAC, should the impact be 20% greater than determined in Section 6 of the report. This is used to determine the impact on the Fund, should the changes be significantly greater than determined above.

	PAYG Rate					Total
	Death	Illness	M&A	Unemployment	Expenses	
Current	0.041%	0.038%	0.117%	0.892%	0.235%	1.322%
Part 1	0.048%	0.038%	0.120%	1.074%	0.235%	1.515%
Part 2	0.048%	0.044%	0.197%	1.074%	0.235%	1.598%
Part 3	0.048%	0.044%	0.197%	1.262%	0.235%	1.785%
Part 4	0.048%	0.044%	0.197%	1.262%	0.235%	1.786%
Part 5	0.048%	0.044%	0.197%	1.262%	0.235%	1.786%
Part 6	0.076%	0.044%	0.197%	1.262%	0.235%	1.814%
Part 7	0.079%	0.046%	0.204%	1.308%	0.235%	1.871%
Part 8	0.079%	0.046%	0.204%	1.308%	0.235%	1.871%
Part 9	0.079%	0.046%	0.226%	1.308%	0.235%	1.894%
Part 10	0.085%	0.050%	0.244%	1.414%	0.235%	2.028%
Part 11	0.085%	0.050%	0.397%	1.414%	0.235%	2.182%
Part 12	0.085%	0.050%	0.397%	2.319%	0.235%	3.086%
Part 12A	0.085%	0.050%	0.397%	1.957%	0.235%	2.724%

M.4 The table below shows the real and nominal investment returns assumed, for each asset class, over the projecting period, applied in Scenario 2.

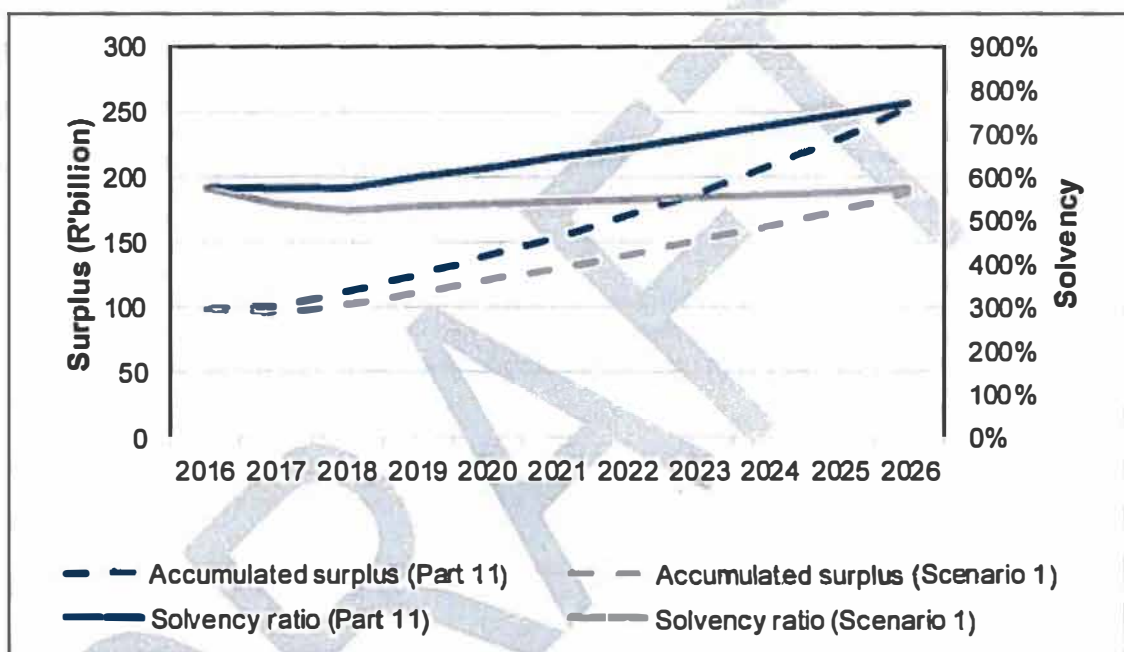
		2017	2018	2019	2020	2021	2022 to 2026
<i>Inflation</i>		6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Equity	Real	(45.80%)	8.40%	8.70%	8.70%	13.20%	4.90%
	Nominal	(39.80%)	14.40%	14.70%	14.70%	19.20%	10.90%
Corporate bonds	Real	(25.80%)	6.70%	5.00%	5.00%	4.00%	3.50%
	Nominal	(19.80%)	12.70%	11.00%	11.00%	10.00%	9.50%
Government bonds	Real	(25.80%)	6.70%	5.00%	5.00%	4.00%	2.50%
	Nominal	(19.80%)	12.70%	11.00%	11.00%	10.00%	8.50%
Property	Real	4.50%	4.50%	4.50%	4.50%	4.50%	3.70%
	Nominal	10.50%	10.50%	10.50%	10.50%	10.50%	9.70%
Money market	Real	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%
	Nominal	6.75%	6.75%	6.75%	6.75%	6.75%	7.00%
Cash	Real	(0.25%)	(0.25%)	(0.25%)	(0.25%)	(0.25%)	0.50%
	Nominal	5.75%	5.75%	5.75%	5.75%	5.75%	6.50%

M.5 We assume that the asset portfolio is rebalanced at the end of each year, such that the proportion of assets held in each class remains constant.

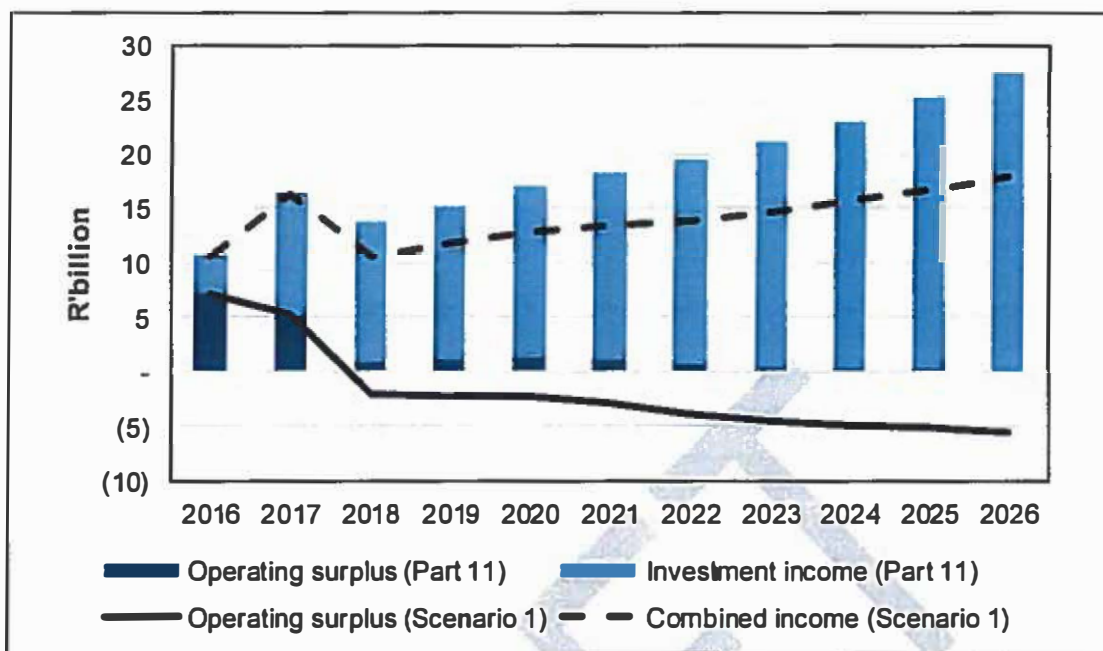


## Appendix N: Shocks to Part 11

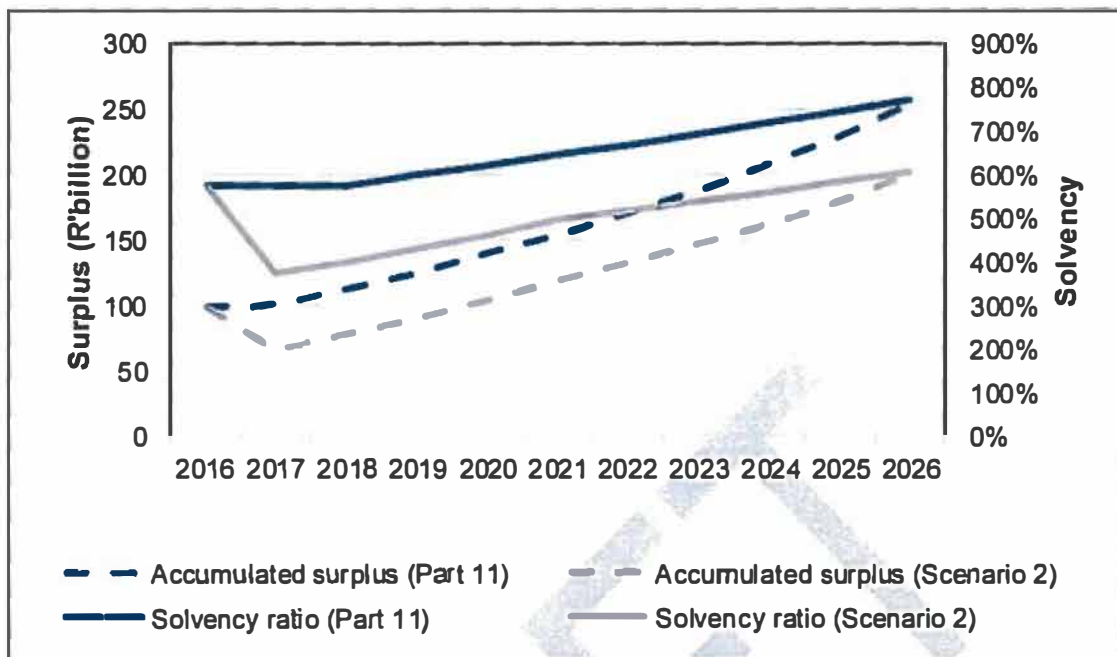
- N.1 Scenario 1: The impact on the Fund, should the impact of each change in the Amendment Bill and under discussion in NEDLAC be 20% higher than estimated in Section 6**
- N.2** The graph below shows the solvency ratio and accumulated surplus of the Fund, should the impact of the changes considered in Parts 1 to 11 be 20% greater than that shown in Section 6.
- N.3** The blue lines indicate the solvency and accumulated surpluses, based on the PAYG rates derived in Section 6, while the grey lines are based on PAYG rates where the impact is 20% greater than that determined in Section 6.



- N.4** The graph below shows the impact which this scenario has on the income of the Fund over the next 10 years. The solid black line indicates the operating income, based on a 20% increase in the changes to the benefits. The increase to the dotted line indicates the investment income of Scenario 1. The level of the dotted line indicates the combined income, based on Scenario 1, over the next 10 years.
- N.5** The bars indicate the operating income and investment income as determined in Part 11 of Section 6.

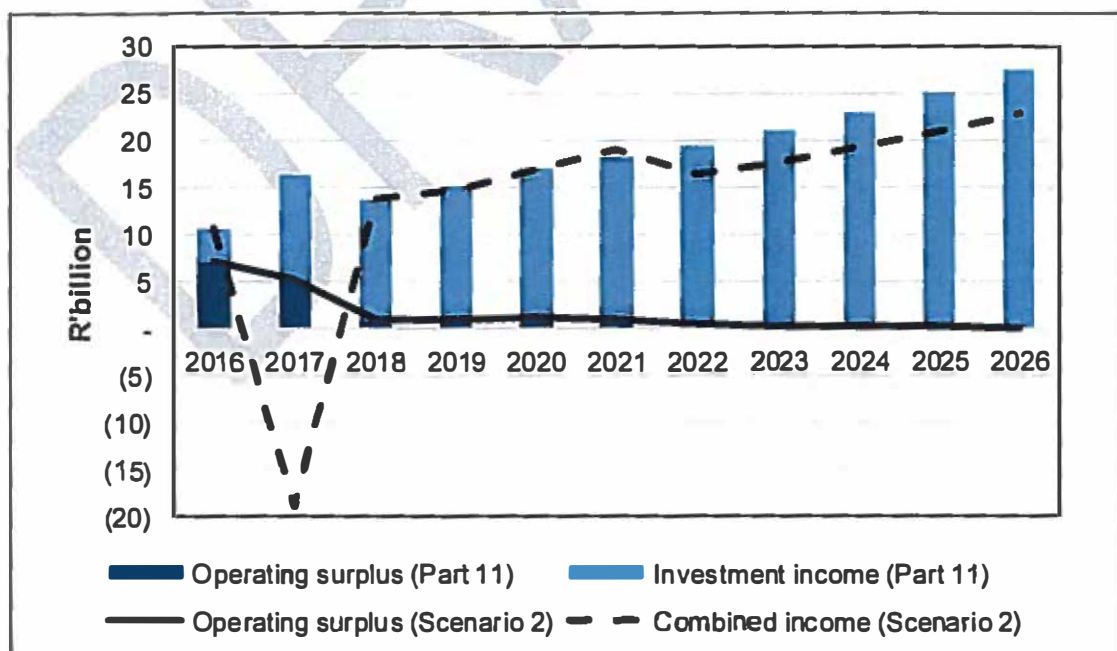


- N.6 Should the impact of the amendments proposed be 20% greater than what has been determined in Section 6, the operating surplus will become negative. However the investment income is projected to be sufficient to match the operating losses for the next 10 years. This will result in a combined surplus.
- N.7 It is important to note that this is a worst case scenario, particularly given that the assumptions used to estimate the impact of the amendments have erred on the side of caution.
- N.8 **Scenario 2: The Impact on the Fund, should there be significant economic turmoil in 2017.**
- N.9 The graph below shows the solvency ratio and accumulated surplus of the Fund, should the investment returns be as shown Appendix M.
- N.10 The blue lines indicate the solvency and accumulated surpluses as per Part 11 in Section 6, while the grey lines are based on the investment returns in Appendix M.



N.11 The graph below shows the impact which this scenario has on the income of the Fund over the next 10 years. The solid black line indicates the operating income, based on the investment returns in Appendix M. The increase, or decrease, to the dotted line indicates the investment income of Scenario 2. The level of the dotted line indicates the combined income, based on Scenario 2, over the next 10 years.

N.12 The bars indicate the operating income and investment income as determined in Part 11 of Section 6.

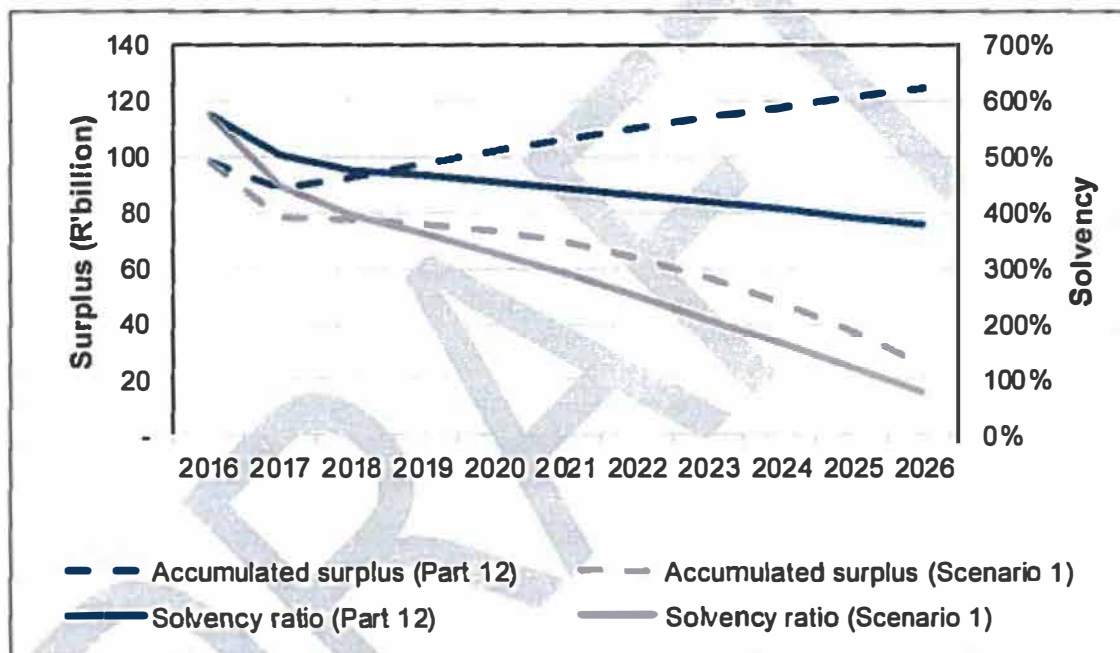


N.13 The large decrease in investments occurs in 2017. Thereafter the investment returns are expected to be higher for the next five years as assets recover from the market shock. This results in the combined income from 2018 to 2021 being similar to the combined income shown in Part 11. However, the shock does result in a reduction in the accumulated surplus. Thus from 2022, when the investment return assumption reverts to 9.01%, the investment income is slightly below that in Part 11, resulting in a slightly lower combined income.

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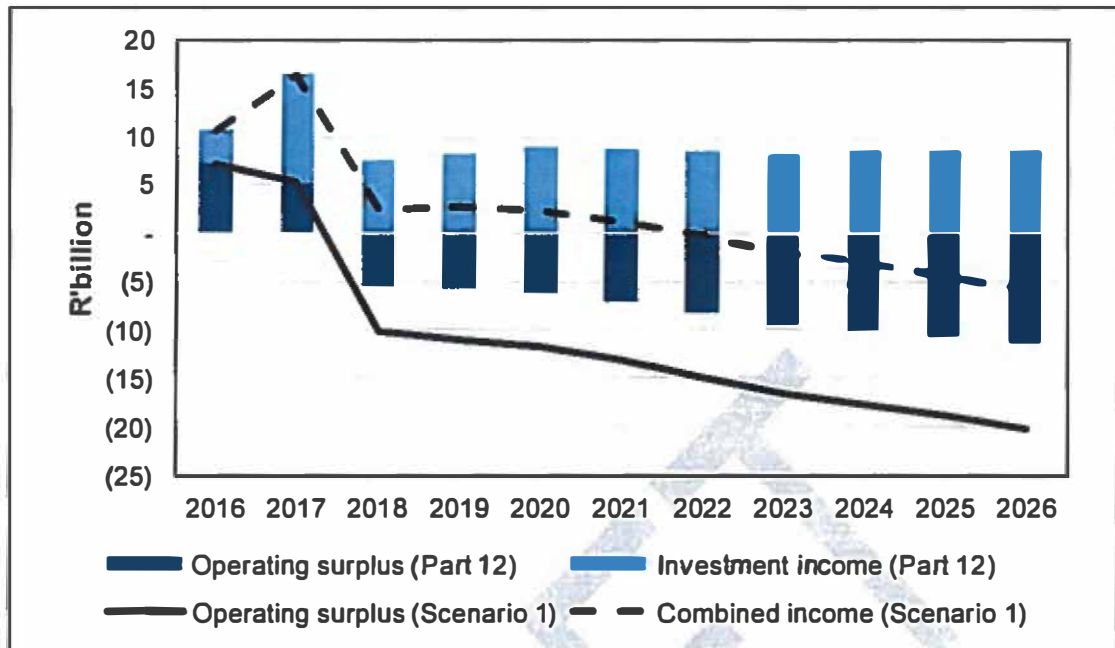
## Appendix O: Shocks to Part 12

- O.1 Scenario 1: The impact on the Fund, should the impact of each change in the Amendment Bill and under discussion in NEDLAC be 20% higher than estimated in Section 6
- O.2 The graph below shows the solvency ratio and accumulated surplus of the Fund, should the impact of the changes considered in Parts 1 to 12 be 20% greater than that shown in Section 6.
- O.3 The blue lines indicate the solvency and accumulated surpluses, based on the PAYG rates derived in Section 6, while the grey lines are based on PAYG rates where the impact is 20% greater than that determined in Section 6.

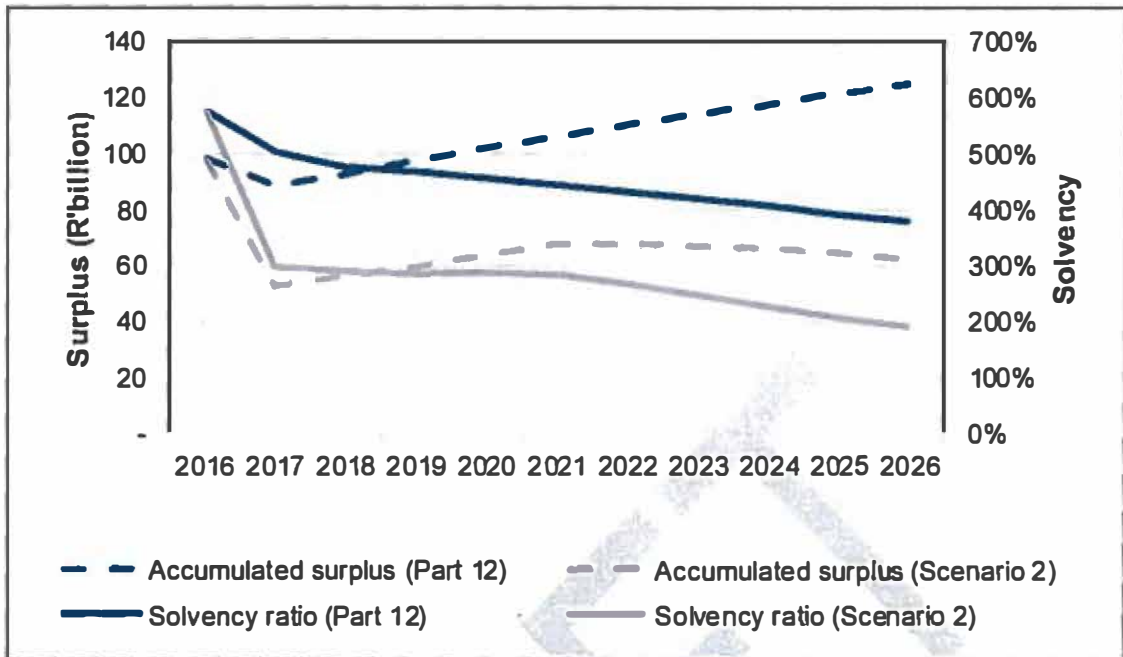


- O.4 Should the impact of the amendments be 20% greater than determined in Section 6, for Parts 1 to 12, the accumulated surplus and solvency ratio will drastically reduce over the next ten years.
- O.5 The graph below shows the impact which this scenario has on the income of the Fund over the next 10 years. The solid black line indicates the operating income, based on the revised PAYG rate. The increase to the dotted line indicates the investment income of Scenario 1. The level of the dotted line indicates the combined income, based on Scenario 1, over the next 10 years.
- O.6 The dark blue bars indicate the operating income as determined in Part 12 of Section 6, while the top of the light blue bar indicates the combined income.



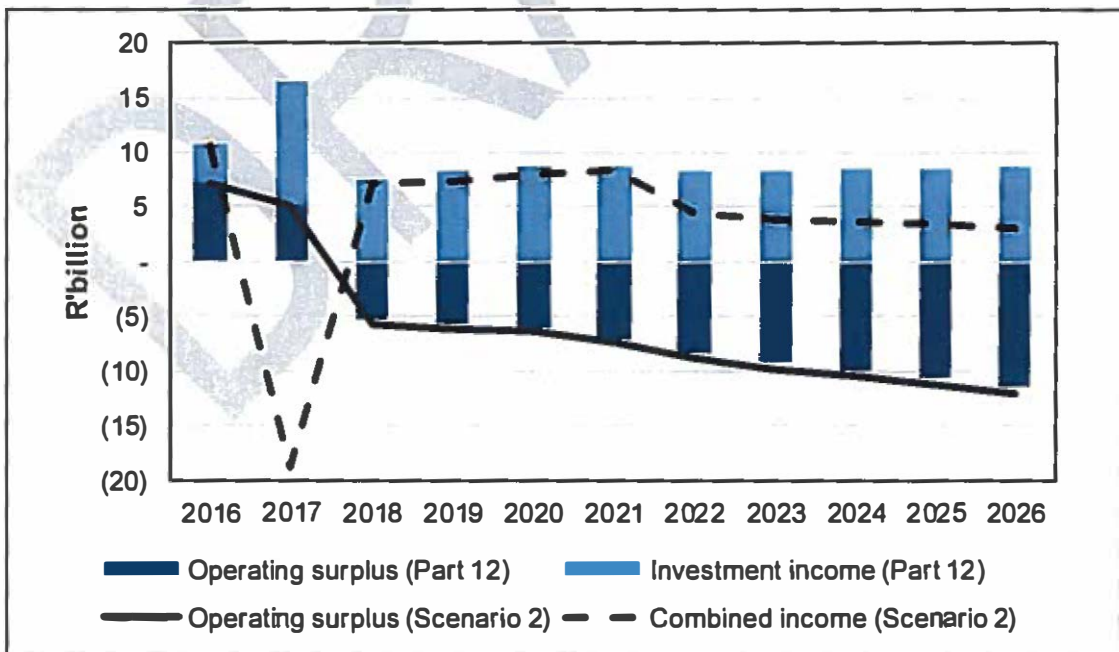


- O.7 The above graph shows that the operating surplus under Scenario 1, including Part 12, drastically decreases during the next 10 years. Furthermore, the combined income is negative from 2022 and decreases over the next 10 years.
- O.8 The combined loss results in the accumulated surpluses being utilised in order to pay the claims to the Fund, thus reducing the accumulated surpluses. Thus the investment income decreases, as shown in the graph by the narrowing gap between the solid and dotted lines.
- O.9 **Scenario 2: The impact on the Fund, should there be significant economic turmoil in 2017.**
- O.10 The graph below shows the solvency ratio and accumulated surplus of the Fund, should the investment returns be as shown in Appendix M and the amendments reviewed in Parts 1 to 12 be implemented.
- O.11 The blue lines indicate the solvency and accumulated surpluses as per Part 12 in Section 6, while the grey lines are based on the investment returns in Appendix M.



O.12 The graph below shows the impact which this scenario has on the income of the Fund over the next 10 years. The solid black line indicates the operating income. The increase to the dotted line indicates the investment income of Scenario 2. The level of the dotted line indicates the combined income, based on Scenario 2, over the next 10 years.

O.13 The dark blue bars indicate the operating income as determined in Part 12 of Section 6, while the top of the light blue bar indicates the combined income.



O.14 Investment losses in 2017 result in a combined loss in 2017, despite an operating surplus.

O.15 From 2018 to 2021 the combined income is similar to that shown in Part 12, while from 2022 to 2026 the combined income is lower, as investment returns return to the original 9.01% level.

O.16 The combined income remains positive over the next 10 years.

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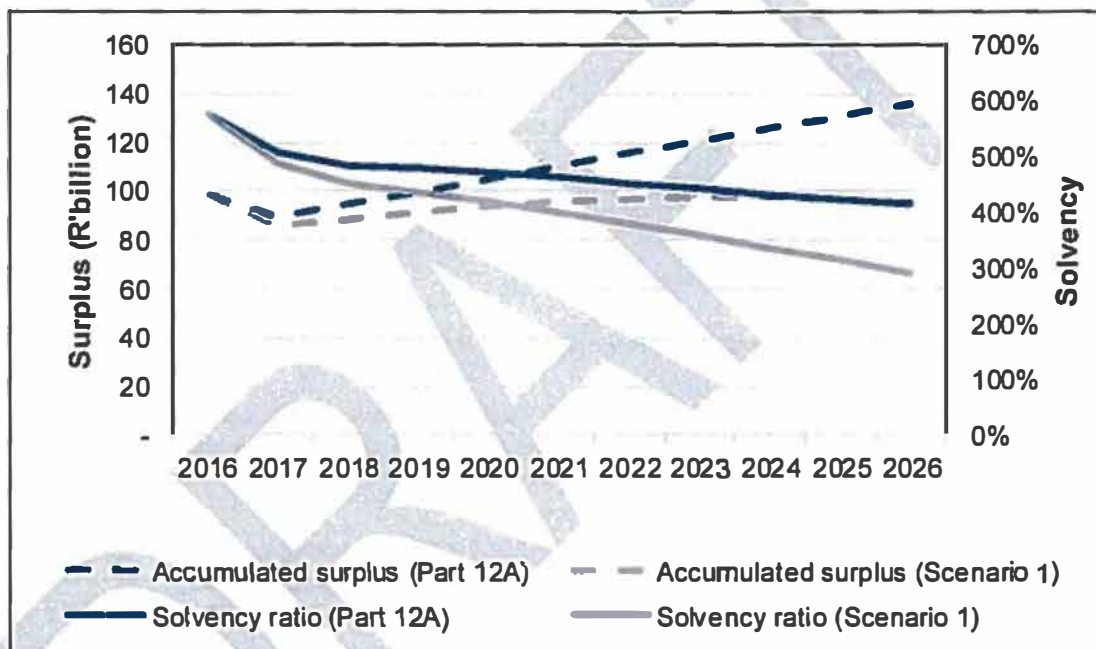


## Appendix P: Shocks to Part 12A

P.1 **Scenario 1: The impact on the Fund, should the impact of each change in the Amendment Bill and under discussion in NEDLAC be 20% higher than estimated in Section 6**

P.2 The graph below shows the solvency ratio and accumulated surplus of the Fund, should the impact of the changes considered in Parts 1 to 11 and Part 12A be 20% greater than that shown in Section 6.

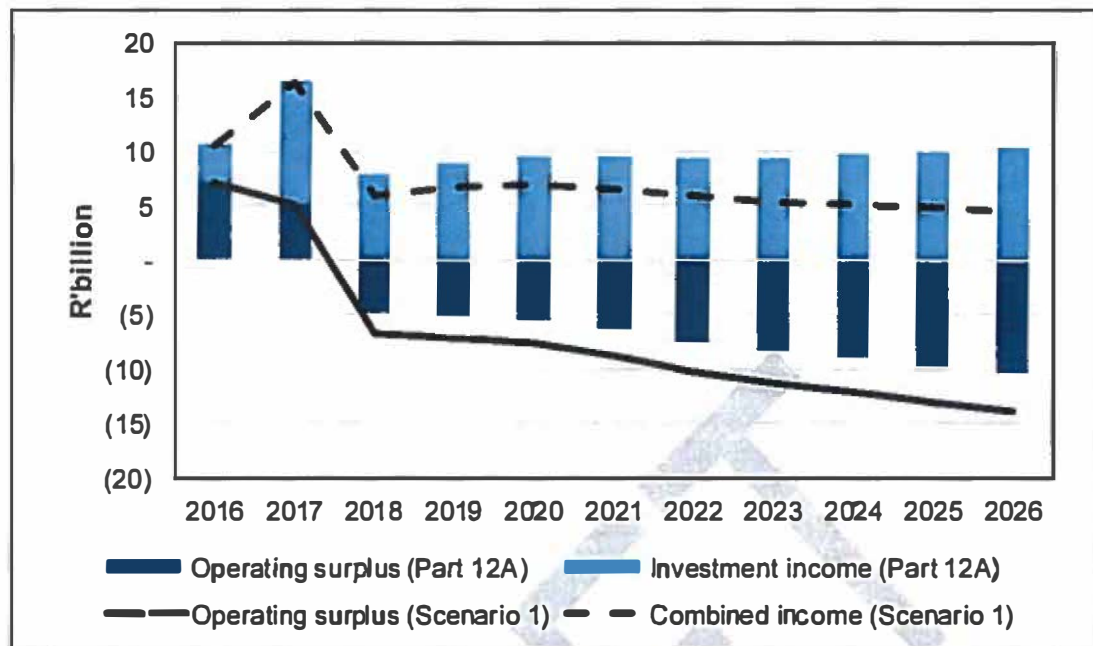
P.3 The blue lines indicate the solvency and accumulated surpluses, based on the PAYG rates derived in Section 6, while the grey lines are based on PAYG rates where the impact is 20% greater than that determined in Section 6.



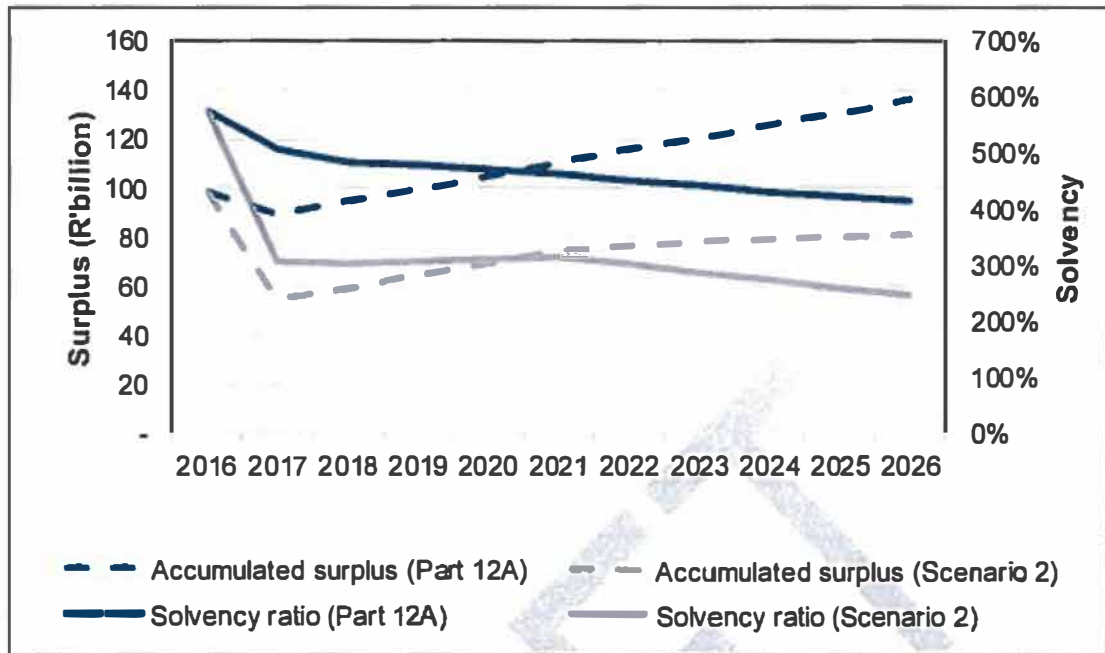
P.4 Should the impact of the amendments be 20% greater than determine in Section 6, for Parts 1 to 11 and Part 12A, the solvency ratio will reduce over the next ten years.

P.5 The graph below shows the impact which this scenario has on the income of the Fund over the next 10 years. The solid black line indicates the operating income, based on the revised PAYG rate. The increase to the dotted line indicates the investment income of Scenario 1. The level of the dotted line indicates the combined income, based on Scenario 1, over the next 10 years.

P.6 The dark blue bars indicate the operating income as determined in Part 12A of Section 6, while the top of the light blue bar indicates the combined income.

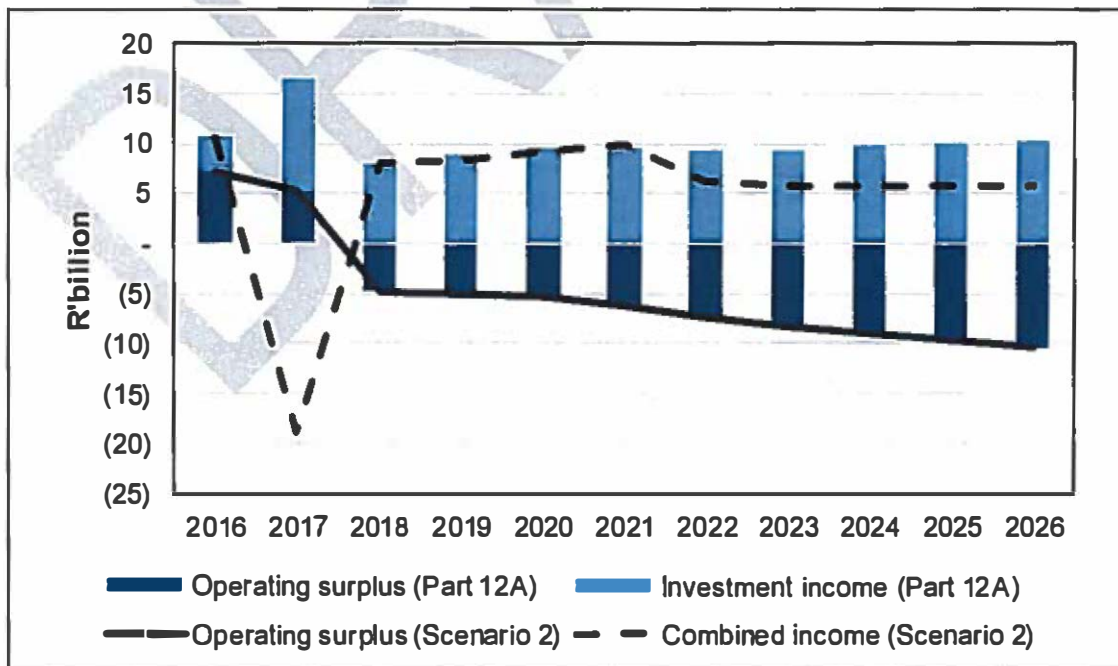


- P.7 The above graph shows that the operating surplus under Scenario 1, including Part 12A, drastically decreases during the next 10 years. The combined income is positive from 2018 and decreases over the next 10 years.
- P.8 Scenario 2: The impact on the Fund, should there be significant economic turmoil in 2017.
- P.9 The graph below shows the solvency ratio and accumulated surplus of the Fund, should the investment returns be as shown in Appendix M and the amendments reviewed in Parts 1 to 11 and Part 12A be implemented.
- P.10 The blue lines indicate the solvency and accumulated surpluses as per Part 12A in Section 6, while the grey lines are based on the investment returns in Appendix M.



P.11 The graph below shows the impact which this scenario has on the income of the Fund over the next 10 years. The solid black line indicates the operating income. The increase to the dotted line indicates the investment income of Scenario 2. The level of the dotted line indicates the combined income, based on Scenario 2, over the next 10 years.

P.12 The dark blue bars indicate the operating income as determined in Part 12A of Section 6, while the top of the light blue bar indicates the combined income.



P.13 Investment losses in 2017 result in a combined loss in 2017, despite an operating surplus.

P.14 From 2018 to 2021 the combined income is similar to that shown in Part 12A, while from 2022 to 2026 the combined income is lower, as investment returns return to the original 9.01% level.

P.15 The combined income remains positive over the next 10 years.

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## Appendix Q: Benefit description

Q.1 The table below summarises the key components which define the benefits which the Fund currently provides to contributors.

	Unemployment	Illness	Maternity & Adoption	Death
Application of the Act	This Act applies to all employers and employees, other than— (a) employees employed for less than 24 hours a month with a particular employer, and their employers; (b) employees under a contract of employment contemplated in section 18(2) of the Skills Development Act, 1998, and their employers; (c) employees in the national and provincial spheres of government who are officers or employees as defined in section 1(1) of the Public Service Act, 1994 (Proclamation No. 103 of 1994), and their employers; (d) persons who enter the Republic for the purpose of carrying out a contract of service, apprenticeship or learnership within the Republic if upon the termination thereof the employer is required by law or by the contract of service, apprenticeship or learnership, as the case may be, or by any other agreement or undertaking, to repatriate that person, or that person is so required to leave the Republic, and their employers; and (e) persons who receive a monthly pension as contemplated in section 14(a)(f) and their employers.			
Contributors not eligible for a benefit if:	A contributor is not entitled to benefits for any period that the contributor was in receipt of— (i) a monthly pension from the State; (ii) any benefit from the Compensation Fund established under the Compensation for Occupational Injuries and Diseases Act, as a result of an occupational injury or disease, which injury or disease caused the total or temporary unemployment; (iii) benefits from any unemployment fund or scheme established by a council under section 28(g) or 43(1)(c) of the Labour Relations Act, 1995;			
Accrual rate	1 day for every 6 days worked			
Period of accrual	4 years			
Application period	Within 6 months	Within 6 months	Maternity: At least 8 weeks before childbirth Adoption: within 6 months of court order	Within 6 months of death
Duration	From date of unemployment, max 238 days	From date that work is ceased due to illness, max 238 days	Maternity max: 17.32 weeks Miscarriage/still born max: 6 weeks Adoption: from date court grants adoption, max 238 days	Unemployment benefit
Right to benefit	The reason for the unemployment is— (i) the termination of contract by the employer or ending of a fixed term contract, (ii) the dismissal of the contributor, (iii) insolvency; or (iv) in the case of a domestic worker, the termination of employment by the death of the employer.	(a) unable to perform work on account of illness; (b) fulfils any prescribed requirements in respect of any specified illness	Only one contributor of the adopting parties is entitled to the adoption benefits in respect of each adopted child and only if— (a) adopted in terms of the Child Care Act; (b) the period was spent caring for the child; (c) the child is below the age of two	The surviving spouse or a life partner of a deceased contributor Any dependent child of a deceased contributor if (a) there is no surviving spouse or life partner; or (b) the surviving spouse or life partner has not made application for the benefits within six months of the contributor's death.
IRR	Min 38%; Max: 60%			
Waiting period	14 days	14 days	N/A	N/A
Benefit cycle	May only claim once in a 4 year cycle	N/A	N/A	N/A



Q.2 The table below summaries the key components which define the benefits as proposed in the Amendment Bill, and under discussion in NEDLAC. bChanges from the current benefits are shown in bold.

	Unemployment	Illness	Maternity & Adoption	Death
Application of the Act	(1) This Act applies to all employers and employees, other than employees employed for less than 24 hours a month with a particular employer, and their employers. (2) This Act does not apply to members of parliament, cabinet ministers, deputy ministers, members of provincial executive councils, members of provincial legislatures and municipal councillors. <b>NEDLAC proposes that the Act also apply to the informal sector.</b>			
Contributors not eligible for a benefit if:	A contributor is not entitled to benefits for any period that the contributor was in receipt of— (i) a monthly pension from the State; (ii) any benefit from the Compensation Fund established under the Compensation for Occupational Injuries and Diseases Act, as a result of an occupational injury or disease, which injury or disease caused the total or temporary unemployment; (iii) benefits from any unemployment fund or scheme established by a council under section 28(g) or 43(1)(c) of the Labour Relations Act, 1995;			
Accrual rate	1 day for every 5 days worked			
Period of accrual	4 years			
Application period	Within 12 months	Within 6 months	Maternity: Within 12 months after childbirth Adoption: within 6 months of court order	Within 18 months of death
Duration	From date of unemployment, max 238 days	From date that work is ceased due to illness, max 238 days	Maternity max: 17.32 weeks Miscarriage/still born max: 17.32 weeks Adoption: from date court grants adoption, max 238 days <b>Paternity leave: 12 days</b>	Unemployment benefit
Right to benefit	The reason for the unemployment is— (i) the termination of contract by the employer or ending of a fixed term contract, (ii) the dismissal of the contributor, (iii) insolvency; or (iv) in the case of a domestic worker, the termination of employment by the death of the employer. <b>If a contributor loses his or her income due to reduced working time; or If a contributor resigns from employment</b>	(a) unable to perform work on account of illness; (b) fulfils any prescribed requirements in respect of any specified illness	Only one contributor of the adopting parties is entitled to adoption benefits for each child and only if— (a) adopted in terms of the Child Care Act; (b) the period was spent caring for the child; (c) the child is below the age of two <b>Fathers are eligible for a paternity benefit</b>	The spouse or a life partner Any dependent child if (a) no spouse/life partner; or (b) spouse/life partner has not made application within six months. <b>A nominated beneficiary if there is no spouse/life partner or dependant child</b>
RR	Min: 38%; Max: 60%; flat rate of 20% after 238 days		Flat rate of 88%	Min: 38%; Max: 60%; flat rate of 20% after 238 days
Waiting period	14 days	7 days	N/A	N/A
Benefit cycle	May claim multiple times in a 4 year cycle, provided there are credits available	N/A	N/A	N/A

## About QED

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**TO** : The Actuarial Society of South Africa

**DATE** : 20 March 2017

**FROM** : Evidence Leaders, The Commission of Inquiry into  
Higher Education and Training

**RE** : Costing of different scenarios for the funding of higher  
education and training

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**BRIEF**

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**1. Introduction**

- 1.1. As indicated in previous correspondence and telephonic discussions between the Evidence Leaders of the Commission of Inquiry into Higher Education and Training (*"the Commission"*) and members of the Actuarial Society of South Africa (*"Actuarial Society"*), the Evidence Leaders request the assistance of the Actuarial Society in the costing of different funding scenarios for the Post School Education and Training (*"PSET"*) sector.
- 1.2. Prior to presenting the different funding scenarios, a brief summary of the composition of the PSET sector is furnished below. The Post school education and training (PSET) system comprises<sup>1</sup>:
  - 1.2.1. Higher Education (*"HE"*), offered by 26 Universities (*"Public Higher Education Institutions (HEIs)"*) and 114 Private HEIs (*"PHEIs"*)
  - 1.2.2. Technical and Vocational Education and Training (*"TVET"*), offered by 50 Public TVET Colleges (*"Public Colleges"*) and 627 Private TVET Colleges (*"Private Colleges"*);

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<sup>1</sup> Presentation by the Department of Higher Education and Training (*"DHET"*), 4 October 2016

- 1.2.3. Community Education and Training (“CET”), offered by 9 public CET Colleges, incorporating 3 276 learning centres;
- 1.2.4. The 2014 enrolment numbers for HEIs were 969 154 and 142 557 for PHEIs;<sup>2</sup> The targets set within the White Paper include, increased enrolments in higher education (public and private) to 1.62 million by 2030.<sup>3</sup>
- 1.2.5. The 2015 enrolment numbers for the 50 Public Colleges were 710 535 and the 2014 enrolment numbers for the Private Colleges were 275 268. The targets set within the White Paper include Increase enrolments in TVET to 2.5 million by 2030.<sup>4</sup>
- 1.2.6. The 2014 enrolment numbers for CET Colleges were 275 268. The targets set within the White Paper include increased enrolments in Community Education and Training colleges to 1 million by 2030.<sup>5</sup>
- 1.3 White Paper 3: A Programme for the Transformation of Higher Education and the promulgation of the Higher Education Act (101 of 1997) laid the basis for the development of the post-apartheid HE sector and for the current funding model for HEIs. The cost sharing model that currently finances HEIs consists of:<sup>6</sup>
- 1.3.1 State Subsidies to finance the indirect costs of HE (first stream income);
- 1.3.2 Student Fees to finance the direct costs of HE (second stream income); and

<sup>2</sup> Presentation by the Department of Higher Education and Training (“DHET”), 4 October 2016

<sup>3</sup> Presentation by the Minister of Higher Education and Training, Hon Bonginkosi Emmanuel “Blade” Nzimande, October 2016

<sup>4</sup> Presentation by the Minister of Higher Education and Training, Hon Bonginkosi Emmanuel “Blade” Nzimande, October 2016

<sup>5</sup> Presentation by the Minister of Higher Education and Training, Hon Bonginkosi Emmanuel “Blade” Nzimande, October 2016

<sup>6</sup> Submission by DHET to the Commission, June 2016

- 1.3.3 Donor/Research/Other income funding from business for scholarships, research programmes, income from the beneficiation of intellectual property, university owned enterprises, etc. (third stream income)
- 1.4 The establishment of the National Student Financial Aid Scheme (“NSFAS”) was based on the principle of cost sharing: to provide funding to support financially needy and academically capable young people to pay their upfront fees and thus open access to HE for those to whom it was previously denied. Funding made available through NSFAS loans and bursaries, is directed at students, and is not direct funding for HE institutions. Some of the NSFAS funds provided to students form part of the second stream income to universities (fees), the rest supports students to study successfully (by providing funding for accommodation, food, learning materials etc.).
- 1.5 The TVET colleges funding model is a programme funding approach focusing on funding learning programmes, which have to be costed in order to determine allocations to individual TVET colleges. Programme funding requires funding students using a Full Time Equivalent (FTE)<sup>7</sup>, which is basically the weighted number of headcounts that constitute a programme. Programme costs are adjusted yearly using CPI rates as determined by the National Treasury. In policy, the state covers 80% of the total programme cost and 20% is the fee portion of which students who are financially needy and academically capable may receive

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<sup>7</sup> An FTE student enrolment total takes into account the course load carried by a student. This can be illustrated in the following examples:

- a. If year one of a Bachelor of Arts programme requires registration for four courses, a student enrolling for the full curriculum would be counted as a single FTE unit.
- b. A part-time student who is registered for one third of a standard curriculum would be counted as 0.33 of an FTE enrolment.
- c. A student registering for only 50% of the required courses for a year of a particular qualification would be regarded as 0.5 of an FTE enrolment.

(<http://www.chet.org.za/indicators/glossary.php>)

bursaries to cover such fees. NSFAS funding for TVET qualifying students is provided as a full bursary and not a loan as with university students. Thus, TVET students who qualify for NSFAS funding are already receiving free higher education, and are not expected to pay back any portion of the direct costs after they are productively employed.<sup>8</sup>

- 1.6 The funding norms for TVET colleges cover three categories, which are Personnel, Operational Costs and Capital replacement (which is mainly for maintenance and replacement of furniture and equipment). For TVET colleges, Personnel is allocated at 63% of the full programme cost, Operational Costs 27% and Capital infrastructure replacement 10%. Other college funding needs such as new infrastructure or expansion should be funded either through conditional grants from National Treasury and/or other sources of funding.
- 1.7 Also take note of the costing exercises undertaken by DHET in relation to certain funding scenarios for TVET Colleges.<sup>9</sup>
- 1.8 The CET sector has recently been incorporated into the remit of the Department. In order to develop the system, 9 CET colleges have been established which incorporate approximately 3 276 Community Learning Centres (previously called public Adult Learning Centres) from across the Provinces. The current funding model(s) have been inherited from the Provincial Education Departments (PEDs). Therefore, a decision has been made to continue with funding Community Learning Centres (CLCs) in the manner they were previously funded, which was different across the PEDs, while a process for developing a single funding model is developed. A Task Team is currently working on developing such a model for funding the CET sector.
- 1.9 The funding scenarios presented in this brief relate to the Public HE and TVET sector only.

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<sup>8</sup> Page 30, Submission by DHET to the Commission, June 2016.

<sup>9</sup> Page 32, Submission by DHET to the Commission, June 2016.

## 2 Summary of Brief

- 2.3 The Evidence Leaders request the Actuarial Society to determine the cost of the following funding scenarios for HE:
- 2.3.1 Scenario 1 – Fee Free Education (“*FFE*”) For Everyone (Full Cost of Study (“*FCS*”) for Undergrad and Postgrad).
  - 2.3.2 Scenario 2 - *FFE* For Everyone (*FCS* for Undergrad only).
  - 2.3.3 Scenario 3 - *FFE* For Everyone (Tuition Only for Undergrad and Postgrad)
  - 2.3.4 Scenario 4 - *FFE* For Everyone (Tuition Only for Undergrad Only)
  - 2.3.5 Scenario 5 – *FFE* for those who earn less than R 122 000 (*FCS* for Undergrad and Postgrad) and Income Contingent Loans (“*ICLs*”) for everyone else (*FCS* for Undergrad and Postgrad).
  - 2.3.6 Scenario 6 - *FFE* for those who earn less than R 122 000 (Tuition Only for Undergrad and Postgrad) and *ICLs* for everyone else (Tuition Only for Undergrad and Postgrad).
  - 2.3.7 Scenario 7 – *FFE* for those who earn less than R 122 000 (*FCS* for undergrad only) and *ICLs* for the rest of the undergrad students (*FCS*).
  - 2.3.8 Scenario 8 - *FFE* for those who earn less than R 122 000 (Tuition only for undergrad only) and *ICLs* for the rest of the undergrad students (Tuition only).
  - 2.3.9 Scenario 9 - *FFE* for those who earn less than R 122 000 (*FCS* for Undergrad and Postgrad) and *ICLs* for those that earn less than R 600 000 (*FCS* for Undergrad and Postgrad).

- 2.3.10 Scenario 10 - FFE for those who earn less than R 122 000 (Tuition Only for Undergrad and Postgrad) and ICLs for those that earn less than R 600 000 (Tuition Only for Undergrad and Postgrad).
- 2.3.11 Scenario 11 - FFE for those who earn less than R 122 000 (FCS for Undergrad Only) and ICLs for those that earn less than R 600 000 (FCS for Undergrad only).
- 2.3.12 Scenario 12 - FFE for those who earn less than R 122 000 (Tuition only for Undergrad Only) and ICLs for those that earn less than R 600 000 (Tuition only for Undergrad only).
- 2.3.13 Scenario 13 – ICLs for everyone (FCS for Undergrad and Postgrad)
- 2.3.14 Scenario 14 - ICLs for Everyone (FCS for Undergrad only)
- 2.3.15 Scenario 15 - ICLs for Everyone (Tuition only for Undergrad and Postgrad)
- 2.3.16 Scenario 16 - ICLs for Undergrads only (Tuition only)
- 2.3.17 Scenario 17 – ICLs for those that earn less that R 600 000 (FCS for undergrads and postgrads)
- 2.3.18 Scenario 18 - ICLs for those that earn less that R 600 000 (FCS for undergrads only)
- 2.3.19 Scenario 19 - ICLs for those that earn less that R 600 000 (Tuition only for undergrads and postgrads)
- 2.3.20 Scenario 20 - ICLs for those that earn less that R 600 000 (Tuition only for undergrads only)

- 2.4 The Evidence Leaders will also request the Actuarial Society to determine the cost of funding scenarios for TVET Colleges based on different funding formulas, enrolment estimates and the provision of accommodation.
- 3 The scenarios presented herein are based on the following principal assumptions:
- 3.1 Current NSFAS funding is limited to students whose family income is less than R122 000 per annum.<sup>10</sup> This amount is used as a beacon of identifying poor students for purposes of eligibility of qualifying for financial aid under NSFAS.
- 3.2 The second relates to so-called the missing middle. These are students from middle income households with income higher than R122,000 per annum, who but do not qualify for commercial bank student loans/finance.
- 3.3 The 2016 Report of the Ministerial Task Team on Funding Missing Middle and Poor Students uses R600,000 as the upper cut-off for financial support to the poor and missing middle.<sup>11</sup>

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<sup>10</sup> This cap, which has not be revised in a number of years, is premised on the assumption that it represents the upper limit of the lowest band of the South African Revenue Services (SARS) tax tables. This limit is not a NSFAS policy guideline but appears to be used by most institutions as a cut-off point for eligibility, given the limited funds available relative to demand.

<sup>11</sup> This appears to be premised on an announcement by the Minister of Higher Education and Training during 2016, in the context of the fee increases at universities in 2017, in which he pronounced that R600 000,00 would be used as the upper cut-off for support to exempt the poor and missing middle from the fee increment.

### 3 Detailed Funding Scenarios

#### 3.2 Higher Education (Universities)

##### 3.2.1 Scenario 1 – FFE For everyone (FCS for Undergrad and Postgrad<sup>12</sup>)

3.2.1.1 The aim is to quantify the cost of providing FFE.

3.2.1.2 We need a calculation based on:

3.2.1.2.1 (Average FCS undergraduate ((R 92 000<sup>13</sup>) + Average FCS postgraduate (R 57 600<sup>14</sup>)) x fixed enrolment for the next 20 years)

3.2.1.2.2 Average FCS undergraduate + Average FCS postgraduate) x Increased enrolment (assume 1.9 % annual increase<sup>15</sup>)

3.2.1.3 The above calculations will provide total student fees.

3.2.1.4 There is still a need to add the government subsidy.<sup>16</sup>

<sup>12</sup> In 2013 the enrolment numbers for Post graduate studies were **154 534** in terms of the Ministerial Statement on Student Enrolment planning 2014/2015 – 2019/20 for Universities.

<sup>13</sup> Page 176, Report of the Ministerial Task Team to Develop a Support and Funding Model for Poor and "Missing Middle" Students, November 2016

<sup>14</sup> National Research Foundation Presentation, slide 3

<sup>15</sup> Page 6, Annual monitoring report on the projected 2014 targets of the ministerial statement on student enrolment planning, 2014/15 –2019/20

<sup>16</sup> The government subsidy allocation for the year 2017/18 is **R 33 543 226 000** according to the Ministerial Statement on University Funding 2016/17 and 2017/18.



3.2.1.5 Consider the impact on infrastructure (maintenance and capital)<sup>17</sup>

### **3.2.2 Scenario 2 - FFE For Everyone (FCS for Undergrad only)<sup>18</sup>**

3.2.2.1 The aim is to quantify the cost of providing FFE for undergraduates only.

3.2.2.2 We need a calculation based on:

3.2.2.2.1 (Average FCS x fixed enrolment for the next 20 years)

3.2.2.2.2 Average FCS x Increased enrolment (assume 1.9 % annual increase)

3.2.2.3 The above calculations will provide total student fees.

3.2.2.4 There is still a need to add the government subsidy.

3.2.2.5 Consider the impact on infrastructure (maintenance and capital).

### **3.2.3 Scenario 3 - Fee Free Education For Everyone (Tuition Only for Undergrad and Postgrad)**

<sup>17</sup> The infrastructure funding of existing institutions was expanded for the period 2012/13 to 2014/15 with a further R6 billion committed (supplemented by an additional R2 billion from universities). The completion of these building projects within the priority areas of student housing; infrastructure backlogs; scarce skill areas; African languages and humanities; disability; well-founded laboratories, ICT and last mile connectivity (system-wide plan) is recognised to enhance access and efficiency for the enrolment planning period up to 2019/20. Funding is prioritised towards historically disadvantaged institutions and campuses specifically in terms of student housing and infrastructure backlogs. (Presentation by the Minister of Higher Education and Training, Hon Bonginkosi Emmanuel "Blade" Nzimande, October 2016)

<sup>18</sup> In a headcount enrolment total, each student is counted as a unit, regardless of the course load she/he is carrying. The headcount enrolment target for universities in 2019 is 1,087,281. This is an increase of 133,908 from the actual headcount enrolment of 953,373 in 2012. To achieve this target, the system will need to grow at an average annual increase of 1.9% from 2012 to 2019 to reach a projected Gross Enrolment Ratio (GER) / participation rate of 21.2% in 2019

3.2.3.1 The aim is to quantify the cost of providing FFE (tuition only) for everyone

3.2.3.2 We need a calculation based on:

3.2.3.2.1 (Average cost of Tuition (No definitive amount) x fixed enrolment for the next 20 years)

3.2.3.2.2 Average cost of tuition x Increased enrolment (assume 1.9 % annual increase)

3.2.3.3 The above calculations will provide total student fees.

3.2.3.4 There is still a need to add the government subsidy.

#### **3.2.4 Scenario 4 - Fee Free Education For Everyone (Tuition Only for Undergrad Only)**

3.2.4.1 The aim is to quantify the cost of providing FFE (tuition only) for undergraduate only

3.2.4.2 We need a calculation based on:

3.2.4.2.1 (Average tuition cost x fixed enrolment for the next 20 years)

3.2.4.2.2 Average tuition cost x Increased enrolment (assume 1.9 % annual increase)

3.2.4.3 The above calculations will provide total student fees.

3.2.4.4 There is still a need to add the government subsidy.

**3.2.5 Scenario 5 – Fee Free for those who earn less than R 122 000 (FCS for Undergrad and Postgrad) and Income Contingent Loans (“ICLs”) for everyone else (FCS for Undergrad and Postgrad).**

3.2.5.1 The aim is to quantify the cost of providing FFE for everyone who earns under R 122 000 and provide income contingent loans to everyone else.

3.2.5.2 We need a calculation based on:

3.2.5.2.1 (Average FCS x the number of students that earn less than R 122 000 (178 961<sup>19</sup>))

3.2.5.2.2 Average FCS x existing enrolment (less those that get FFE)

3.2.5.2.3 I Average FCS x Increased enrolment (assume 1.9 % annual increase) less those that get FFE.

3.2.5.3 The above calculations will provide total student fees.

3.2.5.4 There is still a need to add the government subsidy.

3.2.5.5 Consider the impact on infrastructure (maintenance and capital)

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<sup>19</sup> In 2015, NSFAS funded 178 961 students in higher education of 756 356 (24%). In 2016 NSFAS will fund more than 405 000 students At 26 public universities and 50 public TVET colleges (NSFAS Presentation, 14 November 2016)

Statistician General's presentation (Slide 15) states that 213 878 households pf persons enrolled in universities earn between R 0 – R 100 000. (2016 numbers)

**3.2.6 Scenario 6 - Fee Free for those who earn less than R 122 000 (Tuition Only for Undergrad and Postgrad) and ICLs for everyone else (Tuition Only for Undergrad and Postgrad).**

3.2.6.1 The aim is to quantify the cost of providing FFE for undergrads that earn under R 122 000 and to provide income contingent loans for remaining undergrads.

3.2.6.2 We need a calculation based on:

3.2.6.2.1 For FFE: (Average FCS x number of undergrads that earn less than R122 000.

3.2.6.2.2 For ICLs:

3.2.6.2.2.1 Average FCS x Increased enrolment (assume 1.9 % annual increase)

3.2.6.2.2.2 Average FCS x Increased undergraduate enrolment – assume 1.9% annual increase (less those who get FFE)

3.2.6.3 The above calculations will provide total student fees.

3.2.6.4 There is still a need to add the government subsidy.

3.2.6.5 Consider the impact on infrastructure (maintenance and capital)

**3.2.7 Scenario 7 – FFE for those who earn less than R 122 000 (FCS for undergrad only) and ICLs for the rest of the undergrad students (FCS).**

3.2.7.1 The aim is to quantify the cost of providing FFE for undergrads that earn under R 122 000 and to provide income contingent loans for remaining undergraduates.

3.2.7.2 We need a calculation based on:

3.2.7.2.1 For FFE: (Average FCS x number of undergraduates that earn less than R 122 000

3.2.7.2.2 For ICL:

3.2.7.2.2.1 Average FCS x number of undergraduates that earn less than R 122 000

3.2.7.2.2.2 Average FCS x Increasing undergraduate enrolment – assume 1.9% increase (less those who get FFE)

3.2.7.3 The above calculations will provide total student fees.

3.2.7.4 There is still a need to add the government subsidy.

3.2.7.5 Consider the impact on infrastructure (maintenance and capital)

**3.2.8 Scenario 8 - FFE for those who earn less than R 122 000 (Tuition only for undergrad only) and ICLs for the rest of the undergrad students (Tuition only).**

3.2.8.1 The aim is to quantify the cost of providing FFE (tuition only) for undergraduates who earn under R 122 000 and to provide income contingent loans for remaining undergrads.

3.2.8.2 We need a calculation based on:

3.2.8.2.1 For FFE: Average cost of tuition x number of undergraduates that earn less than R 122 000

3.2.8.2.2 For ICL:

3.2.8.2.2.1 Average cost of tuition x Existing undergraduate enrolment, less those who get FFE

3.2.8.2.2.2 Average cost of tuition x Increasing undergraduate enrolment (assume 1.9 % annual increase) less those who get FFE

3.2.8.3 The above calculations will provide total student fees.

3.2.8.4 There is still a need to add the government subsidy.

3.2.8.5 Consider recovery rate of ICLs

**3.2.9 Scenario 9 - FFE for those who earn less than R 122 000 (FCS for Undergrad and Postgrad) and ICLs for those that earn less than R 600 000<sup>20</sup> (FCS for Undergrad and Postgrad).**

3.2.9.1 The aim is to quantify the cost of providing FFE for everyone who earns under R 122 000 and to provide ICLs for those who earn less than R 600 000.

3.2.9.2 We need a calculation based on:

3.2.9.2.1 For FFE: (Average FCS) x the number of people that earn R 122 000

3.2.9.2.2 For ICLs:

3.2.9.2.2.1 Average FCS x those who earn less than R 600 000 (less those who get FFE)

3.2.9.2.2.2 Increasing enrolment (those that earn less than R 600 000) assume 1.9% annual increase (less those who get FFE)

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<sup>20</sup> Statistician General's presentation (Slide 15) states that **318 081** households of persons enrolled in universities earn between R 100 000 – R 600 000 (2016 numbers) and 139 185 households of persons enrolled in universities earn over R 600 000.

3.2.9.3 The above calculations will provide total student fees.

3.2.9.4 There is still a need to add the government subsidy.

3.2.9.5 Consider the impact on infrastructure (maintenance and capital)

**3.2.10 Scenario 10 - FFE for those who earn less than R 122 000 (Tuition Only for Undergrad and Postgrad) and ICLs for those that earn less than R 600 000 (Tuition Only for Undergrad and Postgrad).**

3.2.10.1 The aim is to quantify the cost of providing FFE (tuition only) for everyone who earns under R 122 000 and to provide income contingent loans for those who earn less than R 600 000.

3.2.10.2 We need a calculation based on:

3.2.10.2.1 For FFE: Average cost of tuition x number of people that earn less than R 122 000

3.2.10.2.2 For ICL

3.2.10.2.2.1 Average cost of providing tuition only for those who earn less than R 600 000 x Existing undergraduate enrolment (less those who get FFE) who earn less than R 600 000.



3.2.10.2.2 Average cost of providing tuition only for those who earn less than R 600 000 x Increased enrolment for those who earn less than R 600 000 (assume 1.9 % annual increase) less those who get FFE

3.2.10.3 The above calculations will provide total student fees.

3.2.10.4 There is still a need to add the government subsidy.

**3.2.11 Scenario 11 - Fee Free for those who earn less than R 122 000 (FCS for Undergrad Only) and ICLs for those that earn less than R 600 000 (FCS for Undergrad only).**

3.2.11.1 The aim is to quantify the cost of providing FFE for undergrads that earns under R 122 000 and to provide ICLs for the remaining undergrads that earn less than R 600 000.

3.2.11.2 We need a calculation based on:

3.2.11.2.1 For FFE: Average FCS x number of people that earn less than R 122 000

3.2.11.2.2 For ICL

3.2.11.2.2.1 Average FCS x Existing undergraduate enrolment (less those

who get FFE) that earn less than R 600 000.

3.2.11.2.2 Average FCS x Increased enrolment for those who earn less than R 600 000 (assume 1.9 % annual increase) less those who get FFE

3.2.11.3 The above calculations will provide total student fees.

3.2.11.4 There is still a need to add the government subsidy.

3.2.11.5 Consider the impact on infrastructure (maintenance and capital) as well as the recovery of ICLs

**3.2.12 Scenario 12 - FFE for those who earn less than R 122 000 (Tuition only for Undergrad Only) and ICLs for those that earn less than R 600 000 (Tuition only for Undergrad only).**

3.2.12.1 The aim is to quantify the cost of providing FFE (tuition only) for undergraduates who earn under R 122 000 and to provide ICLs for those undergraduates who earn less than R 600 000.

3.2.12.2 We need a calculation based on:

3.2.12.2.1 For FFE: Average cost of tuition x number of undergraduates that earn less than R 122 000

3.2.12.2.2 For ICL

3.2.12.2.2.1 Average cost of providing tuition only for those who earn less than R 600 000 x Existing undergraduate enrolment (less those who get FFE) who earn less than R 600 000.

3.2.12.2.2.2 Average cost of providing tuition only for those who earn less than R 600 000 x Increased enrolment for those who earn less than R 600 000 (assume 1.9 % annual increase) less those who get FFE

3.2.12.3 The above calculations will provide total student fees.

3.2.12.4 There is still a need to add the government subsidy.

3.2.12.5 Consider recovery of ICL

### **3.2.13 Scenario 13 – ICLs for Everyone (FCS for Undergrad and Postgrad)**

3.2.13.1 The aim is to quantify the cost of providing ICLs to everyone.

3.2.13.2 We need a calculation based on:

3.2.13.2.1 Average FCS x fixed enrolment for the next 20 years

3.2.13.2.2 Average FCS x Increased enrolment (assume 1.9 % annual increase)

3.2.13.3 The above calculations will provide total student fees.

3.2.13.4 There is still a need to add the government subsidy.

3.2.13.5 Consider the impact on infrastructure (maintenance and capital)

#### 3.2.14 Scenario 14 - ICLs for Everyone (FCS for Undergrad only)

3.2.14.1 The aim is to quantify the cost of providing ICLs for undergraduates only

3.2.14.2 We need a calculation based on:

3.2.14.2.1 Average FCS x fixed enrolment for the next 20 years

3.2.14.2.2 Average FCS x Increased enrolment (assume 1.9 % annual increase)

3.2.14.3 The above calculations will provide total student fees.

3.2.14.4 There is still a need to add the government subsidy.

3.2.14.5 Consider the impact on infrastructure (maintenance and capital)

3.2.14.6 Also consider the recovery of ICLs (how does this factor in to costing)

**3.2.15 Scenario 15 - ICLs for Everyone (Tuition only for Undergrad and Postgrad)**

3.2.15.1 The aim is to quantify the cost of providing ICLs (tuition only) to everyone

3.2.15.2 We need a calculation based on:

3.2.15.2.1 (Average cost of tuition x fixed enrolment for the next 20 years)

3.2.15.2.2 Average cost of tuition x Increased enrolment (assume 1.9 % annual increase)

3.2.15.3 The above calculations will provide total student fees.

3.2.15.4 There is still a need to add the government subsidy.

3.2.15.5 Consider the recovery of ICLs (How does this factor into costing).

**3.2.16 Scenario 16 - ICLs for Undergrads only (Tuition only)**

3.2.16.1 The aim is to quantify the cost of providing ICLs (tuition only) for undergraduates only

3.2.16.2 We need a calculation based on:

3.2.16.2.1 Average cost of tuition x fixed enrolment for the next 20 years)

3.2.16.2.2 Average cost of tuition x Increased enrolment (assume 1.9% annual increase)

3.2.16.3 The above calculations will provide total student fees.

3.2.16.4 There is still a need to add the government subsidy.

3.2.16.5 Consider the recovery of ICLs (how does this factor into costing)

**3.2.17 Scenario 17 – ICLs for those that earn less than R 600 000 (FCS for undergrads and postgrads)**

3.2.17.1 The aim is to quantify the cost of providing ICLs to everyone who earns less than R 600 000

3.2.17.2 We need a calculation based on:

3.2.17.2.1 (Average FCS x fixed enrolment for the next 20 years)

3.2.17.2.2 Average FCS x Increased enrolment (assume 1.9 % annual increase)

3.2.17.3 The above calculations will provide total student fees.

3.2.17.4 There is still a need to add the government subsidy.

3.2.17.5 Consider the impact on infrastructure (maintenance and capital)

3.2.17.6 Also consider the recovery of ICLs

**3.2.18 Scenario 18 - ICLs for those that earn less than R 600 000  
(FCS for undergrads only)**

3.2.18.1 The aim is to quantify the cost of providing ICLs for undergraduates who earn less than R 600 000 only.

3.2.18.2 We need a calculation based on:

3.2.18.2.1 (Average FCS x fixed enrolment for the next 20 years)

3.2.18.2.2 Average FCS x Increased enrolment (assume 1.9 % annual increase)

3.2.18.3 The above calculations will provide total student fees.

3.2.18.4 There is still a need to add the government subsidy.

3.2.18.5 Consider the impact on infrastructure (maintenance and capital)

3.2.18.6 Consider the recovery of ICLs (how does this factor in to costing)

**3.2.19 Scenario 19 - ICLs for those that earn less than R 600 000  
(Tuition only for undergrads and postgrads)**

3.2.19.1 The aim is to quantify the cost of providing ICLs (tuition only) to everyone who earns less than R 600 000.

3.2.19.2 We need a calculation based on:

3.2.19.2.1 Average cost of tuition x fixed enrolment for the next 20 years.

3.2.19.2.2 Average cost of tuition x Increased enrolment (assume 1.9% annual increase)

3.2.19.3 The above calculations will provide total student fees.

3.2.19.4 There is still a need to add the government subsidy.

3.2.19.5 Consider the recovery of ICL (how that factors into costing)

**3.2.20 Scenario 20 - ICLs for those that earn less than R 600 000 (Tuition only for undergrads only)**

3.2.20.1 The aim is to quantify the cost of providing ICLs (tuition only) for undergraduates who earn less than R 600 000 only.

3.2.20.2 We need a calculation based on:

3.2.20.2.1 Average tuition costs x fixed enrolment of undergraduates who earn less than R 600 000 for the next 20 years)

3.2.20.2.2 Average tuition costs x Increased enrolment (assume 1.9% annual increase) of undergraduates who earn less than R 600 000.

3.2.20.3 The above calculations will provide total student fees.



3.2.20.4 There is still a need to add the government subsidy.

3.2.20.5 Consider the recovery of ICLs (how does that factor in to costing).

### 3.3 TVET Colleges

#### 3.3.1 Scenario 1: FFE for everyone (FCS)

3.3.1.1 The aim is to quantify the cost of providing FFE to everyone.

3.3.1.2 We need a calculation based on:

3.3.1.2.1 Average FCS (R 8 710<sup>21</sup>) x 80/20 funding formula

3.3.1.2.2 Average FCS (R 8 710<sup>22</sup>) x current (headcount) enrolment<sup>23</sup> (710 535)<sup>24</sup> for the next 20 years

3.3.1.3 Above will give you total student fees.

3.3.1.4 Need to add subsidy.

<sup>21</sup> In 2014, there were 228 642 NSFAS beneficiaries at TVETs from an allocation of R 1 991 487 809.

<sup>22</sup> In 2014, there were 228 642 NSFAS beneficiaries at TVETs from an allocation of R 1 991 487 809.

<sup>23</sup> 2015/2016. Current APP enrolment target (2016/2017) is 829 000, aligned to WP target with a projected increase over 2017 MTEF of 14.4% per annum projecting 1.238 enrolments by 2019. Projected growth from 2020 – 2030 is 6.6% per annum to meet 2.5 mil WP target. See DHET presentation dated 28 October 2016 slide 12. Compare also DHET presentation dated 24 October 2016 slide 3 which places actual enrolment at 702 000 in 2014.

<sup>24</sup> Per DHET presentations dated 4 October 2016 slide 3 and 28 October 2016 slide 16. See contradictory data in DHET presentation dated 24 October 2014 slide 28 which puts current enrolment at 702 383. Source of the latter: DHET HEMIS 2012.

**3.3.1.5** Consider: Impact on infrastructure (maintenance and capital).

**3.3.2 Scenario 2: Fee Free Education for Everyone (FCS)**

**3.3.2.1** The aim is to quantify the cost of providing FFE to everyone.

**3.3.2.2** We need a calculation based on:

**3.3.2.2.1** Average FCS x 80/20 funding formula

**3.3.2.2.2** Average FCS x increasing enrolment  
– assume 6.6%<sup>25</sup> increase p.a.

**3.3.2.3** Above will give you total student fees.

**3.3.2.4** Need to add subsidy.

**3.3.2.5** Consider: Impact on infrastructure (maintenance and capital).

**3.3.3 Scenario 3: Fee Free Education For Everyone (FCS)**

**3.3.3.1** The aim is to quantify the cost of providing FFE to everyone.

**3.3.3.2** We need a calculation based on:

**3.3.3.2.1** Average FCS x 100% funding

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<sup>25</sup> Projected increase over 2017 MTEF is 14.4% per annum projecting 1.238 enrolments by 2019. From 2020 until 2030 projected growth is 6.6% per annum to reach the White Paper target of 2.5 million (DHET Presentation, 28 October 2016)

3.3.3.2.2 Average FCS x current enrolment for the next 20 years

3.3.3.3 Above will give you total student fees.

3.3.3.4 Need to add subsidy.

3.3.3.5 Consider: Impact on infrastructure (maintenance and capital).

### 3.3.4 Scenario 4: FFE for everyone (FCS)

3.3.4.1 The aim is to quantify the cost of providing FFE to everyone.

3.3.4.2 We need a calculation based on:

3.3.4.2.1 Average FCS x 100% funding

3.3.4.2.2 Average FCS x increasing enrolment – assume 6.6% increase p.a.

3.3.4.3 Above will give you total student fees.

3.3.4.4 Need to add subsidy.

3.3.4.5 Consider: Impact on infrastructure (maintenance and capital).

### 3.3.5 Scenario 5: FFE for everyone (Tuition Only)

3.3.5.1 The aim is to quantify the cost of providing FFE (tuition only) to everyone.

3.3.5.2 We need a calculation based on:

3.3.5.2.1 Average cost of tuition x 80/20 funding formula

3.3.5.2.2 Average cost of tuition x current enrolment for the next 20 years

3.3.5.3 Above will give you total student fees.

3.3.5.4 Need to add subsidy.

### 3.3.6 Scenario 6: FFE for everyone (Tuition Only)

3.3.6.1 The aim is to quantify the cost of providing FFE (tuition only) to everyone.

3.3.6.2 We need a calculation based on:

3.3.6.2.1 Average cost of tuition x 80/20 funding formula

3.3.6.2.2 Average cost of tuition x increasing enrolment – assume 6.6% increase p.a.

3.3.6.3 Above will give you total student fees.

3.3.6.4 Need to add subsidy.

### 3.3.7 Scenario 7: FFE for everyone (Tuition only)

3.3.7.1 The aim is to quantify the cost of providing FFE (tuition only) to everyone.

3.3.7.2 We need a calculation based on:

3.3.7.2.1 Average FCS x 100% funding

3.3.7.2.2 Average FCS x fixed enrolment for the next 20 years

3.3.7.3 Above will give you total student fees.

3.3.7.4 Need to add subsidy.

### 3.3.8 Scenario 8: FFE for everyone (Tuition only)

3.3.8.1 The aim is to quantify the cost of providing FFE (tuition only) to everyone.

3.3.8.2 We need a calculation based on:

3.3.8.2.1 Average FCS x 100% funding

3.3.8.2.2 Average FCS x increasing enrolment  
– assume 6.6% increase p.a.

3.3.8.3 Above will give you total student fees.

3.3.8.4 Need to add subsidy.

3.3.8.5 Consider: Impact on infrastructure (maintenance and capital).

### 3.3.9 Scenario 9: FFE for everyone (FCS)

3.3.9.1 The aim is to quantify the cost of providing FFE to everyone.

3.3.9.2 We need a calculation based on:

3.3.9.2.1 Average FCS x 80/20 funding formula

3.3.9.2.2 Average FCS x current enrolment for the next 20 years

3.3.9.3 student accommodation

3.3.9.4 Above will give you total student fees.

3.3.9.5 Need to add subsidy.

### 3.3.10 Scenario 10: FFE for everyone (FCS)

3.3.10.1 The aim is to quantify the cost of providing FFE to everyone.

3.3.10.2 We need a calculation based on:

3.3.10.2.1 Average FCS x 80/20 funding formula

3.3.10.2.2 Average FCS x increasing enrolment – assume 6.6% increase p.a.

3.3.10.3 student accommodation

3.3.10.4 Above will give you total student fees.

3.3.10.5 Need to add subsidy.

### 3.3.11 Scenario 11: FFE for everyone (FCS)

3.3.11.1 The aim is to quantify the cost of providing FFE to everyone.

3.3.11.2 We need a calculation based on:

3.3.11.2.1 Average FCS x 100% funding

3.3.11.2.2 Average FCS x fixed enrolment for the next 20 years

3.3.11.3 student accommodation

3.3.11.4 Above will give you total student fees.

3.3.11.5 Need to add subsidy.

### 3.3.12 Scenario 12: FFE for everyone (FCS)

3.3.12.1 The aim is to quantify the cost of providing FFE to everyone.

3.3.12.2 We need a calculation based on:

3.3.12.2.1 Average FCS x 100% funding

3.3.12.2.2 Average FCS x increasing enrolment  
– assume 6.6% increase p.a.

3.3.12.3 student accommodation

3.3.12.4 Above will give you total student fees.

3.3.12.5 Need to add subsidy.

### 3.3.13 SCENARIO 14: FFE for those who earn less than R 122 000 (FCS) and ICLs for Everyone else

3.3.13.1 The aim is to quantify the cost of providing FFE to everyone for FCS who earns under R122 000<sup>26</sup>

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<sup>26</sup> Only funding for the NCV and Report 191 programmes (both highest NQF level = 4) .  
Approx. 33-35% of students in these programmes are funded by NSFAS. (get numbers from DHET)

and to provide income contingent loans for everyone else.

**3.3.13.2** We need a calculation based on:

3.3.13.2.1 FOR FFE: Average FCS x no. of students that earn R122 000. (No data found)

3.3.13.2.2 FOR ICL:

3.3.13.2.2.1 Average FCS x Existing enrolment (less those who get FFE)

3.3.13.2.3 Average FCS x Increasing enrolment – assume 6.6% increase p.a. (less those who get FFE)

**3.3.13.3** Above will give you total student fees.

**3.3.13.4** Need to add subsidy.

**3.3.13.5** Consider: Impact on infrastructure (maintenance and capital).

**3.3.14 Scenario 15: Fee Free for those who earn less than R 122 000 (Tuition only) and ICLs for everyone else.**

**3.3.15** The aim is to quantify the cost of providing FFE (tuition only) for everyone who earns under R122 000 and to provide income contingent loans for everyone else.

**3.3.16** We need a calculation based on:



**3.3.16.1** FOR FFE: Average cost of providing tuition only x no. of people that earn <R122 000

**3.3.16.2** FOR ICL:

3.3.16.2.1 Average cost of providing tuition only x Existing enrolment (less those who get FFE)

3.3.16.2.2 Average cost of providing tuition only x Increasing enrolment – assume 6.6% increase p.a. (less those who get FFE)

**3.3.17** Above will give you total student fees.

**3.3.18** Need to add subsidy.

**3.3.19 Scenario 16: FFE for those who earn less than R122 000 (FCS) ICLs for those who earn less than R600 000**

**3.3.19.1** The aim is to quantify the cost of providing FFE to everyone who earns under R122 000 and to provide income contingent loans for those who earn less than R600 000.

**3.3.19.2** We need a calculation based on:

3.3.19.2.1 FOR FFE:

3.3.19.2.1.1 Average FCS x no. of people that earn < R122 000

3.3.19.2.1.2 Average FCS x  
increasing enrolment  
– assume 6.6%  
increase p.a.

3.3.19.2.2 FOR ICL:

3.3.19.2.3 Average FCS x  
Those who earn <  
R600 000 (less  
those who get FFE)

3.3.19.2.4 Average FCS x  
Increasing enrolment  
(those who earn <  
R600 000) – assume  
6.6% increase (less  
those who get FFE)

3.3.19.3 Above will give you total student fees.

3.3.19.4 Need to add subsidy.

3.3.19.5 Consider: Impact on infrastructure (maintenance  
and capital).

### 3.3.20 Scenario 17: ICLs for everyone (FCS)

3.3.20.1 The aim is to quantify the cost of providing ICLs to  
everyone.

3.3.20.2 We need a calculation based on:

3.3.20.2.1 Average FCS x fixed enrolment for  
the next 20 years.

3.3.20.2.2 Average FCS x increasing enrolment  
– assume 6.6 % increase p.a.

3.3.20.3 Above will give you total student fees.

3.3.20.4 Need to add subsidy.

3.3.20.5 Consider: Impact on infrastructure (maintenance and capital).

3.3.20.6 Recovery of ICL (how does that factor in to costing)

### 3.3.21 Scenario 18: ICLs for everyone (Tuition only)

3.3.21.1 The aim is to quantify the cost of providing ICLs (tuition only) to everyone.

3.3.21.2 We need a calculation based on:

3.3.21.2.1 Average cost of tuition x fixed enrolment for the next 20 years

3.3.21.2.2 Average cost of tuition x increasing enrolment – assume 6.6% increase p.a.

3.3.21.2.3 Above will give you total student fees (based on tuition only).

3.3.21.2.4 Need to add subsidy.

3.3.21.3 Consider: Recovery of ICL (how does this factor into costing)

**3.3.22 Scenario 19: ICLs for those who earn less than R600 000 (FCS)**

**3.3.22.1** The aim is to quantify the cost of providing income contingent loans to everyone who earns <R600 000.

**3.3.22.2** We need a calculation based on:

**3.3.22.2.1** Average FCS x fixed enrolment of those who earn less than R600 000 for the next 20 years.

**3.3.22.2.2** Average FCS x increasing enrolment of those who earn less R600 000 – assume 6.6% increase p.a.

**3.3.22.3** Above will give you total student fees.

**3.3.22.4** Need to add subsidy.

**3.3.22.5** Consider: Impact on infrastructure (maintenance and capital).

**3.3.22.6** Recovery of ICL (how does this factor into costing)

**3.3.23 Scenario 9: ICLs for those who earn less than R600 000 (Tuition only)**

**3.3.23.1** The aim is to quantify the cost of providing income contingent loans (tuition only) to everyone who earns less than R600 000.

**3.3.23.2** We need a calculation based on:

3.3.23.2.1 Average cost of tuition x fixed enrolment of those who earn less than R600 000 for the next 20 years

3.3.23.2.2 Average cost of tuition x increasing enrolment of those who earn less than R600 000 – assume 6.6% increase p.a.

3.3.24 Above will give you total student fees.

3.3.25 Need to add subsidy.

3.3.26 Consider: Recovery of ICL (how does that factor into costing).

#### 4 Conclusion

4.2 Kindly consider the above scenarios and should you require further information or input from the Evidence Leaders, please do not hesitate to contact us.

#### **Evidence Leaders**

K Pillay SC

M Lekoane

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# Higher Education Funding

## Actuarial Society of South Africa Analysis

### Context

The Actuarial Society of South Africa (ASSA) was requested by the evidence leaders for the Commission of Enquiry into Higher Education and Training (the Commission) to assess the costs of 20 specified different scenarios of funding higher education. This report provides the results of the initial analysis conducted by ASSA. The report has been drafted by the Chief Executive of the Actuarial Society who is also responsible for the modelling of the different options. Volunteer members of the Social Security Forum have provided qualitative comment.

### Executive summary

This report has limited its scope to universities only and has not included Technical and Vocational Education & Training colleges (TVET) or other institutions.

The provision of grant funding to replace fees for all university students would require an increase of over 70% in funding earmarked in the budget for all post school education (including TVET colleges) during the 2017/18 financial year.

Loan financing would be effective if there is an effective collection mechanism. Given the long repayment period for student loans it will take more than 30 years and high collection rates for the loan book to be self-sustaining – even without an increase in student numbers.

Limiting the financial support to students from families that cannot either pay directly themselves or raise the necessary loans would keep the overall cost of either a loan book or grants at a more sustainable level.

There are significant financial and institutional challenges to the implementation of a sustainable tertiary education funding system that is supported by and supports the level of growth in the economy.

### Introduction

This report sets out the results of an analysis of higher education and training costs as requested by the evidence leaders for the Commission of Enquiry into Higher Education and Training.

The analysis is based on information provided and considers the short and long term costs of various funding models on a limited range of deterministic assumptions.

The document will first summarise the brief and the scope covered by this report. Thereafter our approach and the assumptions used are summarised before the key results are discussed. A brief analysis of further considerations and possible further analyses is also provided.

## **Brief**

The brief received from the Evidence Leaders to the Commission was to assess the costs of 20 different scenarios for higher education. The scenarios look at various combinations of grant and loan financing for the costs of education.

The brief includes universities, TVET and Community Colleges and includes post under graduate and post graduate students.

The brief covered both a constant student population and a student population growing at 1.9% per annum.

## **Scope of this report**

Due to time and other constraints this report is limited to looking at university education only. Other forms of education can be covered in further analyses.

## **Approach**

The approach taken has been to reflect different models for public funding of fees currently levied by universities. It is assumed that all other forms of financing that universities currently receive from either the Public or Private sector are not impacted. No effort has been made to differentiate universities and a standard set of costs are used for all students.

## **Sources and assumptions**

The key sources of information have been the brief supplied by the Commission as well as work done by True South Actuaries and Consultants for ASISA and the ISFAP programme.

University progress (graduation, repeat and drop out) assumptions were drawn from the True South work as was student mortality. Post university mortality was drawn from the Actuarial Society's continuous mortality investigation. Mortality was not viewed as a critical assumption as the impact of mortality could be offset by the use of appropriate insurance products.

University fees were drawn from the brief (where specified) and available outside information when not specified in the brief.

Inflation assumptions were done on two bases – either 0% (an approximation for the real impact) or at the upper end of the SA Reserve Bank's inflation target range (6%). In both scenarios loans were assumed to attract a 2% real interest rate (2% and 8% interest calculations respectively)

The model has not taken a distribution of salaries into account for the repayment of income related loans. Deterministic figures of R200 000 per year for those with under graduate loans and R250 000 for those with post graduate loans were used. The model does not allow for individuals moving from the under graduate pool to the post graduate one. The post graduates are effectively assumed to be different people to the under-graduates. This evidently does not reflect reality and is an enhancement that can be introduced at a later date to enhance the model.



Data is not available to measure the percentage of students who default on their loan repayments. It will be important to test the sensitivity of this experience. Preliminary testing suggests this may be a significant factor.

It is assumed that all loans are written off on death (this could be mitigated with insurance on the loan book) but no other loans are written off.

Student numbers in each of the 3 income groups are derived from information provided in the Brief document. It is implicitly assumed that there is no change in the proportions of new students in each of the groups and the experience of each group of students is the same with regard to academic progress, mortality and defaulting on loans.

Details of the assumptions used are set out in Appendix II.

### Analysis

The analysis involved a 30-year projection of university fees. Where loans are granted they are calculated as a 30-year instalment at a percentage of salary from the year after graduation with the instalment being dependant on the number of years of study.

Grants need to be fully funded each year and are not refundable. Loans acquire interest at a real rate of 2% throughout the period and are assumed to be paid annually in arrears while fees are paid annually in advance.

In this section, extracts of the results of the analysis are shown in tables. The full set of results are provided as Appendix III.

#### Grant funding

Table I shows the total costs of grant funding only solutions for all students and under graduate students only under the different inflation and student number growth assumptions. Figures are provided for 2018, 2030 and 2047.

Assumptions		Full funding			Tuition only		
Inflation	growth	2018	2030	2047	2018	2030	2047
<b>All students</b>							
0%	0%	53.2	53.2	53.2	27.9	27.9	27.9
0%	1.9%	53.2	66.7	91.9	27.9	35.0	48.2
3%	0%	53.2	107.1	288.4	27.9	56.2	151.4
0%	1.9%	53.2	134.2	497.7	27.9	70.5	261.4
<b>Undergraduate students only</b>							
0%	0%	44.3	44.3	44.3	24.1	24.1	24.1
0%	1.9%	44.3	55.5	76.5	24.1	30.2	41.8
3%	0%	44.3	89.2	240.1	24.1	48.5	130.5
0%	1.9%	44.3	111.8	414.5	24.1	60.7	225.2

**Table I – grand funding (R' bn)**

As can be seen, this is a substantial outlay in funding that can be expected to increase. Historically education fee inflation has outstripped both National inflation (except when artificially kept down by freezes on increases) and economic growth.

This table represents scenarios 1-4. Allowing for the growth in students in a 6% inflation environment, the annual increase is at 8% per year.

From an accounting perspective, for the funding provider this would be an operational expense. Therefore, if National Government is the funder, the funding would be provided for in the National budget which would be funded by taxation, borrowing to meet operational funding or savings in other budget items (e.g. social grants, health, defence).

#### Loan funding

An alternative funding model is the provision of loan funding. Loan tranches are provided each year to finance the year's study and then repaid over 30 years as a % of income. The repayment level has been calculated taking into account the number of years of study (between 1 and 5), the interest rate (2% real interest rate), the amount covered (tuition only or all costs) and the repayment term (30 years). No provision is made for the costs of administering the loan book or of collecting repayments.

Total loans approved each year will equal the grants paid under the grant system (assuming no impact on the number of students) but the cashflow will be offset by loan repayments received.

From an accounting perspective, this would effectively be a balance sheet transaction for the provider of the loans. If government grants and underwrites the loans, government would need sufficient cash reserves to meet the annual new loan payments. This cash would be lent to the students thus changing the cash asset into a loan and would not directly impact the national operational expense budget. The interest paid to acquire the cash and the interest charged to the loans should largely offset each other if interest is charged at a market rate. If loans are repaid on schedule, then, the scheme will be ultimately self-supporting and have little impact on the National operational expenditure budget. However, if loans are not repaid or repayments are delayed, the cost of the unpaid loans and accumulated interest will flow to the national income statement as net interest charges and written off loans. In a loan driven environment, if loans are repaid on time, tertiary education would not need to be prioritised against other spending priorities provided capital could be raised to support the loan scheme at an interest rate no higher than that paid on the loans. However, if loans are not repaid, the impact would be more severe as the full cost of the bad loans would flow to the national income statement in an un-coordinated manner and there would be no offsetting planned revenue flows or expenditure reductions.

Comparing the comparable 4 scenarios (scenarios 13 to 16), the money required to pay for each year's study would be the same (new loans as opposed to grants) and the key variables requiring management would be the size and quality of the loan book. Table II shows the total loan book and Table III the estimated doubtful/bad loan book. In addition, there are the loans written off in the event of death. However, as can be seen in Appendix III these amounts are not significant and can be insured if necessary.

Assumptions		Full funding			Tuition only		
Inflation	growth	2018	2030	2047	2018	2030	2047
<b>All students</b>							
0%	0%	56.3	696.9	1 449.4	29.6	366.2	759.0
0%	1.9%	56.3	785.7	1 967.8	29.6	412.9	1 031.2
5%	0%	59.7	1 523.8	9 858.6	31.4	800.2	5 170.4
5%	1.9%	59.7	1 708.6	13 032.9	31.4	897.3	6 836.7
<b>Undergraduate students only</b>							
0%	0%	45.1	546.5	1 137.3	24.5	296.6	615.4
0%	1.9%	45.1	615.6	1 542.2	24.5	334.2	835.0
5%	0%	47.7	1 182.9	7 657.2	25.9	642.2	4 152.9
5%	1.9%	47.7	1 325.0	10 104.2	25.9	719.4	5 481.2

Table II – loan balances (R' bn)

As can be seen the cumulative impact of fee increases and interest has a significant impact on the loan balances (net of loans written off on death). The quality of the loan book is, therefore, very important for the management of the national finances (if loans are issued or guaranteed by government) or the strength of the issuing institution. Statistics are not available for default rates for such loans so the calculated figures in Table III need to be read with caution. The assumptions used are shown in Appendix II

Assumptions		Full funding			Tuition only		
Inflation	growth	2018	2030	2047	2018	2030	2047
<b>All students</b>							
0%	0%	-	110.8	774.3	-	57.4	347.6
0%	1.9%	-	119.2	808.0	-	61.8	416.5
5%	0%	-	214.3	2 705.3	-	111.0	1 394.5
5%	1.9%	-	228.5	3 097.1	-	118.4	1 595.7
<b>Undergraduate students only</b>							
0%	0%	-	85.4	502.3	-	46.4	273.0
0%	1.9%	-	91.6	600.1	-	49.8	326.6
5%	0%	-	164.7	2 012.8	-	89.5	1 093.9
5%	1.9%	-	175.3	2 297.7	-	95.3	1 248.8

Table III – doubtful and bad debts (R' bn)

As can be seen when comparing tables II and III, on the assumptions used, a significant proportion of the debt book can be classed as doubtful or bad. This evidently impacts the overall quality of the book and the strength of the balance sheet of the underwriters or issuers of the loans. Without careful management this percentage would increase steadily over time and be very difficult to slow.

Given the importance of the quality of the loan book, Appendix IV shows the level of doubtful/bad debts under different assumptions. As can be seen in the appendix an apparently small change in annual collections can over time have a significant adverse impact on the quality of the loan book and the annual cashflows to provide loans to current students.

#### Other scenarios

In total 20 scenarios were considered. The eight above (scenarios 1-4 and 13-16) cover the instances where all students receive the same financing option regardless of their income level. The key criteria are whether the funding is in the form of loans or grants, the level of funding (all costs or just tuition) and whether it applied to all students or just undergraduates.

Scenarios 5 to 8, have grant funding for those currently qualifying for NSFAS funding (household income <R122k) and loan funding for all other students. As the model assumes no difference in experience between the different income groups, these scenarios would represent a *pro rata* aggregation of the matching scenarios 1-4 and 13-16. This would be 28% of the matching 1-4 scenario and 72% of the 13-16 scenario. Indications are students in the NSFAS group tend to have less favourable academic experience (more repeating years or dropping out) than aggregate. On this basis, the Grant experience can be expected to be more onerous due to the higher number of repeats. This might be offset by an improvement in the loan book performance.

Scenarios 9-12 and 17-20, assume no funding for students with household income in excess of R600 000. Scenarios 9-12 assume grants for students in the NSFAS students (28% of scenarios 1-4) and loans for those in the ISFAP stable (50% of scenarios 13-16). Scenarios 17-20 assume loan funding for all ISFAP and NSFAS income level students (78% of scenarios 13-16)

#### Analysis conclusions

To cover full fees for all students for universities only would effectively require a 71% increase in the current post school education budget (before consideration of TVET fees). In recent years, except when artificially limited by decree, tertiary education fee increases have exceeded the National budget. Therefore, this would require, an ever-increasing proportion of the national budget to be dedicated to tertiary education funding despite other priorities.

Loan based funding for some or part of the liability would be effective only if there is an effective collection method for recovering loans after students have graduated or dropped out. Small changes in loan collections would over time have a significant effect on annual cashflows and the sustainability of the loan book.

Without the benefit of further economic analysis, it appears that a system of loans only or loans and grants for students from poorer backgrounds would be more sustainable than a system providing support to all students.

#### Further considerations

Some risks and considerations that members of the Actuarial Society Social Security forum have highlighted include:

- Students emerging from secondary school are increasingly unprepared for the rigours of tertiary education<sup>1</sup>. Tertiary institution costs are increased as they

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<sup>1</sup> WEF Global Competitiveness report 2015-2016 ranks South Africa 140/140 for maths and science education and 138/140 for overall quality of the education system. Also Centre for Development

need to provide bridging support and the proportion of students taking longer than the tariff period to complete their degrees increases. The investment in tertiary education is unlikely to realise a full return until secondary (and primary) schooling meet appropriate standards.

- There is a vicious circle of economic growth being required to sustainably fund tertiary education but without the throughput of successful tertiary students this growth may be difficult to sustain.
- The lead time required to properly equip and train tertiary education lecturers and instructors may make it difficult to cater for the envisaged growth – especially for the TVET colleges.
- A focus on redirecting skilled practitioners to teaching, could impact resourcing in other areas of the economy – which in turn could adversely impact economic growth.
- With regard to economic growth, the NDP works on a 5% per year estimate. Given that since 2012, the accumulated growth has lagged this target by about 20%, tough decisions concerning taxation or the reprioritising of expenditure would be required for government to fund education and other commitments.
- Taking into account the existing university funding and resourcing models, increasing student numbers, will increase the teaching load on staff and reduce research capacity. This can be expected to both reduce the number of students obtaining PhD's and lead to a reduction – or at least not proportionate growth – in the level of tier 3 funding (non-governmental research grants and other sponsorships).
- Prior international research has shown that the recipients of the education are the biggest beneficiaries of the investment in their education<sup>2</sup>. The trickle through to the community is often slower as successful recipients of education tend to move out of their communities. Various models of ensuring recipients contribute to the costs of their education have been considered:
  - Co-payments. Often students from poorer families are not in a position to meet co-payment commitments.
  - Loans. Poorer students battle to secure loan funding without third parties guaranteeing the loans. Repayment is particularly difficult for students who do not complete their studies successfully.
  - Work back service. This has been successful in some sectors and for commercial bursaries for successful students. However, its applicability across wider fields would need to be tested as would the provisions for recovery from unsuccessful students.

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Excellence Report by Nicholas Spaul: South African Education Crisis: The quality of education in South Africa shows that South African school children perform significantly worse than all other middle income countries and worse than many poorer African countries – with SA grade 9 pupils being a few grade levels below neighbouring state grade 8 pupils.

<sup>2</sup> The Hamilton Project – Where is the Best place to invest \$102 000 – in stocks, bonds or a college degree by Greenstone & Looney (2011) showed a college degree provided more than double the return of stocks and more than 5x that of bonds. / Also by same authors Is starting College and not finishing it really that bad (2013), some college still outperformed stocks by 50%

- The position and treatment of those who do not complete their studies need serious consideration with regard to both enabling them to become economically productive and meeting any obligations they have towards their study costs.
- The need to manage the use of available funding in an economically and educationally optimal way. The relative benefits of “some for all” versus “all for some” approaches to funding. Decisions need to be made on whether selection is done on educational or economic grounds and how the funding can be best directed to ensure sustainability of education standards and education institutions as well as the flow of successful graduates into economic growth generating activities.

### Further analysis

This work has been done using a combination of Actuarial Society staff and volunteer members of the Actuarial Society's Social Security Forum. Although significant effort has been made to ensure the work produced is of high quality the resources have not been available for a fully comprehensive review.

A key area of additional work would be on the TVET colleges and other educational institutions. These were included in the initial brief but the combination of limited data, time and other resource constraints has necessitated leaving it out at this stage.

There could be value on commissioning work into the following areas:

- Different loan and financing structures
- Affordability when measured against economic growth projections and other spending priorities (e.g. NHI, social security benefits)
- More detailed modelling of loans in collection including employment patterns, salary distributions and emigration. This is of utmost importance if a loan approach is to be followed as a deterioration in the propensity to pay back loans could potentially make a loan based scheme unviable
- Sensitivity analyses on the impacts of different salary increase rates on income based loan repayments.
- The impact of different drop out and repeat rates on the sustainability of loans and grants.

### Conclusion

Education funding is complex and expensive with ongoing challenges of sustainability, quality and alternative priorities for expenditure.

Providing grants to replace fees currently paid for university education would require a significant increase in the budget for tertiary education at a time when tertiary education performance can be best leveraged by improvements in the quality of output from secondary education.

Sources of non- state funding currently enjoyed by universities (3<sup>rd</sup> party and fees paid by financially able families) should be retained to allow grant and/or loan funding to target areas of need.

## Appendix I: Scenarios tested

Table AI: I shows the financing arrangements for each of the 6 groups of students. Students are categorised as under or post graduate and in 3 income groups reflecting those currently covered by NSFAS, ISFAP and other students respectively.

Scenario	Undergraduate			Post graduate		
	NSFAS	ISFAP	Other	NSFAS	ISFAP	Other
1	FCS	FCS	FCS	FCS	FCS	FCS
2	FCS	FCS	FCS			
3	FFE	FFE	FFE	FFE	FFE	FFE
4	FFE	FFE	FFE			
5	FCS	ICF	ICF	FCS	ICF	ICF
6	FFE	ICL	ICL	FFE	ICL	ICL
7	FCS	ICF	ICF			
8	FFE	ICL	ICL			
9	FCS	ICF		FCS	ICF	
10	FFE	ICL		FFE	ICL	
11	FCS	ICF				
12	FFE	ICL				
13	ICF	ICF	ICF	ICF	ICF	ICF
14	ICF	ICF	ICF			
15	ICL	ICL	ICL	ICL	ICL	ICL
16	ICL	ICL	ICL			
17	ICF	ICF		ICF	ICF	
18	ICF	ICF				
19	ICL	ICL		ICL	ICL	
20	ICL	ICL				

Table AI: I – Scenarios tested

Key to table:

### Income groups

NSFAS <R122 000 p.a  
 ISFAP <R600 000 p.a  
 Other >R600 000 p.a

### Grant funding

FCS Full cost of study  
 FFE Tuition only

### Income contingent loan funding

ICF Full cost of study  
 ICL Tuition only

## Appendix II: Assumptions

The brief from the Commission provided figures for student numbers. There were apparently conflicting figures in the brief that were not resolved in answers to questions. The assumptions used were, therefore, the most consistent from the brief. In order to establish consistency other assumptions were drawn from the work done by True South Actuaries and Consultants on behalf of ASISA for the ISFAP work.

### Student numbers

Income	NSFAS	ISFAP	Other	Total
Under graduate	135 493	240 822	105 378	481 693
Post graduate	43 468	77 249	33 807	154 534
Total	178 961	318 081	139 185	636 227

Table All: I – Student numbers  
(Source briefing document)

### Student number growth

Scenario A 0%

Scenario B 1.9% p.a.

(Source briefing document)

Year	Under graduate	Post graduate
1	33%	85%
2	26%	8%
3	20%	4%
4	13%	2%
5	8%	1%

Table All: II – Initial proportion of students per year of study

(Source True South Actuaries & Consultants analysis for undergraduates  
Estimated as no available source for post graduate)



### Student progression & decrements

Year	Drop out	Repeat	Mortality	Progress	Graduate
1	10%	10%	0.33%	79.67%	0%
2	5%	10%	0.33%	84.67%	0%
3	2.5%	10%	0.33%	62.17%	25%
4	1.25%	10%	0.33%	48.42%	40%
5	0.63%	14.04%	0.33%	0%	85%

Table All: III - Undergraduate decrements & progression  
 (Source True South Actuaries & Consultants analysis)

Year	Drop out	Repeat	Mortality	Progress	Graduate
1	2%	5%	0.33%	42.67%	50%
2	0.25%	5%	0.33%	24.42%	70%
3	0.25%	5%	0.33%	14.42%	80%
4	0.25%	5%	0.33%	4.42%	90%
5	0.25%	5%	0.33%	0%	94.42%

Table All: III – Post graduate decrements & progression  
 (Source Estimated as no available source)

### Post university decrements

The key post university decrements are mortality and defaulting on loan payments. For the purpose of this model it is assumed that graduates or drop outs do not recommence repayments after a default.

Mortality assumptions have been drawn from the assured lives mortality investigation 1999-2002. An aggregate rate has been used for all lives regardless of whether they dropped out or graduated. To smooth mortality, age rates are straight line interpolations between quinquennial data points.

Age	Graduate	Drop out
19-23	2%	20%
24	2%	15%
25	2%	11%
26	2%	8%
27	2%	6%
28	2%	5%
29	2%	4%
30	2%	3%
31+	2%	2%

Table All: IV – Age related standard default assumptions

(Source Estimated as no available source)

As no data was available for these calculations, the sensitivity to different default rates is calculated in Appendix IV

### University costs

Where available, these were extracted from the brief document

Year	Under graduate	Post graduate
Full costs	92 000	57 600
Tuition only	50 000	25 000

Table All: V – Initial proportion of students per year of study

(Source Full costs extracted from the brief document

Tuition only average of available figures for all universities rounded)

Fee escalations done on 0% and 6% annual increment escalations (zero percent as inflation neutral estimate and 6% as top end of SARB target range

### Loan interest

A real yield of 2% (arithmetic) assumed for loans both while studying and in payment is used. This equates to nominal rates of 2% and 8% on the two inflation assumptions.

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Scenario	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Scenario description																				
UG	FCS	FCS	FFE	FFE	FCS	FCS	FFE	FCS	FFE	FCS	FFE	FCS	FFE	ICF	ICF	ICF	ICF	ICF	ICF	ICF
UG NSAFS																				
UG ISFAP	FCS	FFE	FFE	FFE	ICF	ICF	ICF	ICF	ICF	ICF	ICF	ICF	ICF	ICF	ICF	ICF	ICF	ICF	ICF	ICF
UG Other	FCS	FCS	FFE	FFE	ICF	ICF	ICF	ICF	ICF	ICF	ICF	ICF	ICF	ICF	ICF	ICF	ICF	ICF	ICF	ICF
PG	FCS		FFE		FCS	FFE								ICF	ICF	ICF	ICF	ICF	ICF	ICF
PG NSAFS																				
PG ISFAP	FCS		FFE		ICF	ICF								ICF	ICF	ICF	ICF	ICF	ICF	ICF
PG Other	FCS		FFE		ICF	ICF								ICF	ICF	ICF	ICF	ICF	ICF	ICF
2018																				
Grants	58	44	28	24	15	8	12	7	15	8	12	7	53	44	28	24	42	35	22	19
New loan					38	20	32	17	27	14	22	12	-	-	-	-	-	-	-	-
Repayment					-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balances					43	23	34	19	30	16	24	13	60	48	31	26	47	37	25	20
Studying					30	16	27	14	21	11	19	10	41	37	22	20	32	29	17	16
Post-study					13	7	8	4	9	5	5	3	18	11	9	6	14	8	7	5
Dth-w/af					0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Default					-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2020																				
Grants	134	112	70	61	38	20	31	17	38	20	31	17	134	112	70	61	105	87	55	47
New loan					96	51	80	44	67	35	56	30	134	112	70	61	105	87	55	47
Repayment					14	7	10	5	9	5	7	4	19	14	10	8	15	11	8	6
Balances					1228	645	952	517	654	449	662	360	1708	1325	897	749	1335	1035	701	562
Studying					143	76	130	71	100	53	90	49	189	180	106	98	156	141	83	77
Post-study					1085	569	823	447	755	396	572	311	1508	1144	791	621	1179	894	618	485
Dth-w/af					3	2	2	1	2	1	2	1	4	3	2	2	3	2	2	1
Default					164	85	126	68	114	59	88	48	228	175	118	95	179	140	92	74
2027																				
Grants	498	414	261	225	140	74	117	63	140	74	117	63	498	414	261	225	389	324	204	176
New loan					358	188	298	162	259	131	207	193	498	414	261	225	389	324	204	176
Repayment					95	51	71	39	66	35	50	27	132	99	70	54	103	78	55	48
Balances					9367	4914	7262	3939	6516	3418	5052	2740	13033	10104	6837	5481	10182	7894	5341	4262
Studying					403	214	352	191	281	149	245	133	561	490	297	266	439	383	232	208
Post-study					8883	4700	6910	3748	6235	3289	4817	2607	12472	9614	6539	5215	9743	7511	5109	4074
Dth-w/af					20	10	14	8	14	7	10	5	27	20	14	11	21	15	11	8
Default					2226	1147	1651	896	1548	796	1149	624	3097	2298	1596	1249	2420	1795	1247	976

Table AIII: IV Base assumptions with 6% inflation and 1.9% p.a. increase in student numbers (R b'n)



## Appendix IV: Sensitivity to loan repayment performance

A key assumption relates to the quality of the loan book as measured by the loan absconding rate. Scenarios 13-16 (loan only scenarios) have been run on both lighter and heavier assumptions to show the sensitivity to this factor. This run has been done assuming level student numbers and 6% inflation (8% interest rate).

Under the standard assumptions, 2% of graduates are assumed to cease repaying their loans and never recommencing payments. For drop outs, 20% are assumed to cease each year until age 23 then reducing to merge into the graduate rate at age 31. Under lighter assumptions these rates are halved to 1% and 10% respectively. For heavier assumptions, they are assumed to be 5% and 40% for graduates and drop outs respectively.

Table AIV:I shows the value of the loan books at the end of 2018, 2030 and 2047.

Assumptions		Full funding			Tuition only		
graduate	Drop out	2018	2030	2047	2018	2030	2047
<b>All students</b>							
2%	20%	59.7	1 523.8	9 858.6	31.4	800.2	5 170.4
1%	10%	59.7	1 515.0	9 573.2	31.4	795.4	5 016.6
5%	40%	59.7	1 540.9	10 395.7	31.4	809.4	5 457.1
<b>Undergraduate students only</b>							
2%	20%	47.7	1 182.9	7 657.2	25.9	642.2	4 152.9
1%	10%	47.7	1 177.5	7 466.9	25.9	639.3	4 048.1
5%	40%	47.7	1 194.1	8 038.6	25.9	648.5	4 362.3

Table AIV:I – loan balances under different default assumptions (R' bn)

Although the value of the loan books has not changed significantly, the level of poor quality loans (those that are doubtful or bad) is more indicative of the quality of the loan book.

These are shown in Table AIV: II

Assumptions		Full funding			Tuition only		
graduate	Drop out	2018	2030	2047	2018	2030	2047
<b>All students</b>							
2%	20%	-	214.3	2 705.3	-	111.0	1 394.5
1%	10%	-	116.2	1 527.8	-	60.3	788.5
5%	40%	-	434.8	4 944.6	-	224.2	2 542.8
<b>Undergraduate students only</b>							
2%	20%	-	164.7	2 012.8	-	89.5	1 093.9
1%	10%	-	90.5	1 145.9	-	49.2	622.7
5%	40%	-	323.9	3 624.4	-	176.0	1 969.8

Table AIV:II – doubtful / bad loan balances under different default assumptions (R' bn)

Although there is little difference in the outstanding loan book, there is a clear difference in the proportion of loans that are unlikely to be paid. There are therefore two additional

measures that need to be considered when considering repayment rates – these are the percentage of doubtful loans (Table AIV: III) and the net outflow from the loan book (new loans less recoveries) each year (Table AIV: IV).

Assumptions		Full funding			Tuition only		
graduate	Drop out	2018	2030	2047	2018	2030	2047
<b>All students</b>							
2%	20%	-	14%	27%	-	14%	27%
1%	10%	-	8%	16%	-	8%	16%
5%	40%	-	28%	48%	-	28%	47%
<b>Undergraduate students only</b>							
2%	20%	-	14%	26%	-	14%	26%
1%	10%	-	8%	15%	-	8%	15%
5%	40%	-	27%	45%	-	27%	45%

Table AIV:III – doubtful / bad loan balances as % of loan book

As can be seen, without careful management of collections, the quality of the loan book would deteriorate substantially.

Assumptions		Full funding			Tuition only		
graduate	Drop out	2018	2030	2047	2018	2030	2047
<b>All students</b>							
2%	20%	53.2	90.0	189.3	27.9	47.1	98.5
1%	10%	53.2	88.8	174.0	27.9	46.4	90.3
5%	40%	53.2	92.6	219.5	27.9	48.4	114.6
<b>Undergraduate students only</b>							
2%	20%	44.3	76.5	165.0	24.1	41.5	89.2
1%	10%	44.3	75.8	135.1	24.1	41.2	83.9
5%	40%	44.3	78.1	186.7	24.1	42.4	101.2

Table AIV:IV – net new loans per year (R' bn)

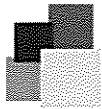
From a cash flow basis, the cumulative effect of poor collections will over time have a significant impact on the net cashflows from the scheme.

Closing comment

This model has taken a simplified approach of assuming all students have an equal probability of success and all have similar repayment rates. Modelling of different income groups for repayment rates and emigration rates may provide a more comprehensive view.



Annexure E



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Dear Judge Heher,

**PROPOSAL FOR INCOME CONTINGENT LOANS FOR HIGHER EDUCATION STUDENTS**

On behalf of the Board of Directors of the Banking Association South Africa (BASA), I wish to thank you for the proposal on income contingent loans (ICL) for higher education students in South Africa sent to BASA for consideration.

This proposal clearly demonstrates the thorough approach of the Commission to ensuring that all possible solutions are considered. BASA welcomes the opportunity to participate in this process.

The Board of BASA considered the matter and decided to constitute a Task Team of experts to thoroughly analyse the proposal and advise on an appropriate response. The four largest banks participated in the Task Team together with BASA officials.

BASA was also approached by Professor Lorenzo Fioramonti, to discuss the same subject. We learnt during this process that he is also advising the Commission on the

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**Directors** : Ms M Ramos (Chairman), C Coovadia (Managing), MWT Brown, JP Burger, GM Fourie, M Ismail, S Koseff, KR Kumbier, SK Tshabalala, VSK Khandelwal (*Indian*)  
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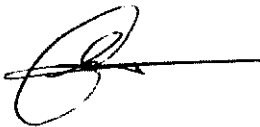
possibility of establishing an income contingent loans scheme for higher education. He assisted the banking industry Task Team with outlining the thinking behind this proposal and answered many of the questions.

After carefully considering the matter, the Task Team felt that the information provided in the proposal was insufficient to enable a thorough assessment. For banks to commit to a proposal of this nature, a comprehensive financial model would need to be developed in order to assess its feasibility.

We appreciate the importance as well as urgency of the matter and we would like to continue playing a role in finding a lasting solution to the complex challenge of higher education funding. We would like to engage further and work with the Commission to develop a financial model that would enable an assessment of viability and feasibility of the proposed scheme.

I wish to assure you of the commitment of our member banks to this process and look forward to further engagement with the Commission.

Yours sincerely



**Cas Coovadia**  
**Managing Director, Banking Association South Africa**





**COMMISSION OF INQUIRY INTO  
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