

Nelson Mandela Metropolitan University (NMMU) Submission to the Presidential Commission of Inquiry into Higher Education and Training

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(c) A full list of source documents referred to in the submissions

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(d) An indication of the willingness of such person or institution to present oral submission to the Commission, if called upon to do so

NMMU is willing to present an oral submission to the Commission should this be required.

(e) The language in which such person or institution shall prefer to make oral submission

English

(f) The convenient timeframe and venue on which such person or institution shall be available to present oral evidence.

This can be determined in liaison with the Vice-Chancellor's Office at vc@nmmu.ac.za

NMMU submission to the Presidential Commission of Inquiry into Higher Education and Training

This submission is made to the Commission based on our research and the experience and lessons learnt by NMMU in dealing with some of the challenges of access and affordability. We trust that it will assist the Commission in its deliberations.

1. Role of higher education in development

1.1 Higher education contributes to the transformation of society, improved social justice and economic development through knowledge generation and transmission in teaching, research and engagement.

1.2 The National Development Plan 2030 (2012, 318 & 326) makes a strong case for the importance of a highly skilled workforce as well as innovation for development in which higher education plays a critical role.

1.3 Recent reports of the World Bank (2009, xxxi; 2010, 1) have similarly highlighted the critical role of higher education in stimulating knowledge-intensive socio-economic growth and development. Much of the reputation of the South African higher education system is based on its ability to produce high-level skills through the production of Masters and Doctoral graduates, as well as quality research outputs.

1.4 The South African government has chosen a development path defined in the National Development Plan 2030. Universities are critical institutions in helping government deliver on the visionary goals of this plan. Indeed, the plan clearly states this: *“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.”* (NPC 2012, 317)

1.5 The significance of higher education in creating a winning nation and overcoming the negative legacy of the past is succinctly summarised in the National Development Plan: *“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." (NPC 2012, 318).

1.6 The fundamental challenge facing government, as is elaborated upon below, is to make the fiscal decisions that give practical expression to the policy intentions contained within the National Development Plan.

1.7 Overall, it is crucial that the South African higher education system maintains and strengthens knowledge generation and innovation for the benefit of accelerated development and to address the triple challenge of poverty, inequality and unemployment in South Africa. This requires adequate and sufficient government and private sector funding.

2. Public and private economic and social benefits of higher education

2.1 South Africa is now recognised as one of the most unequal countries in the world, with a Gini coefficient of income inequality of between 0.69 (Davie 2015, 269; Statistics South Africa 2014, 14) and 0.70 (Harmse 2013, 2). The increased provision of quality higher education directly and indirectly addresses the transformational and developmental requirements of South Africa.

2.2 As long ago as 1998 the Institute for Higher Education Policy argued that there were both public and private benefits to higher education, including:

a) Public economic benefits: Increased tax revenues, greater productivity, increased consumption, increased workforce flexibility, decreased reliance on government financial support.

- b) Public social benefits: Reduced crime rate, increased charitable giving and community service, enhanced quality of civic life, social cohesion and appreciation of diversity, and improved ability to adapt to and use technology.
- c) Private economic benefits: Higher salaries and benefits, higher employment, higher savings levels, improved working conditions, personal and professional mobility.
- d) Private social benefits: improved health and life expectancy, improved quality of life for offspring, better consumer decision making, and increased personal status.

2.3 Nearly 20 years later, the crucial developmental role of higher education in South African society is more important than ever before. The 2015 #RhodesMustFall and #FeesMustFall movements brought home to all the realisation that our national project of creating a non-racial, unified, non-sexist, prosperous and democratic South Africa had not achieved its avowed goals. Stalled social and economic transformation, exacerbated by virtually stagnant economic growth in the country, has emphasised the need to address pressing social and economic challenges in a sustainable manner. Whilst South Africa has introduced a comprehensive social security safety net for the poor and the vulnerable, this system is simply assisting people trapped in poverty to survive in desperate circumstances. It is not lifting them out of poverty. Nor is it sustainable in the long-term. Buffeted by the global economic winds and caught in the dilemma of having to maintain a comprehensive social security safety net whilst trying to stimulate economic growth, the country needs a strategy of shifting out of the current challenges in which it finds itself. The provision of quality higher education, whilst simultaneously broadening access to it, offers the only practical mechanism for placing the country on a sustainable development trajectory.

2.4 Experience has shown us in recent years that the most necessary and welcome broadening of access to higher education as part of the overall transformation of both universities and society carries additional costs. Opening the doors of learning to the children of the working class and students whose parents are unemployed means that we also need to address broader issues like adequate food and nutrition, transport and many other hidden costs that previously did not feature prominently in university services. 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.

2.5 According to Montenegro and Patrinos (2014, 19 & 33) globally, and 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.

2.6 Van den Berg (2014, 214) notes in this regard that: *'The large differentials in earnings and access to jobs between the highly educated and the less educated lies at the heart of income inequality. The high wage premium to educated workers derives from a combination of a skills shortage at the top end of the educational spectrum, driving up wages of the educated, and a surfeit of poorly-educated workers competing for scarce unskilled jobs, thus dampening unskilled wages.'* 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.

2.7 Simply stated, the most sustainable manner the State can break the cycle of inter-generational poverty, promote innovation and entrepreneurship, stimulate the economy, create appropriate jobs, redress imbalances in society and reduce inequality in the medium and long-term is by increasing its investment in, and broadening access to, higher education.

3. NSFAS and current funding model for student financial aid

3.1 The current funding model for student financial aid holds several intrinsic as well as operational challenges. It is of concern that NSFAS recoveries have basically collapsed. In the NSFAS revenue and expenditure review (National Treasury 2015, 17) the following important points are made with regard to NSFAS recoveries: NSFAS debtors repaying their loans declined from 275 429 (35%) in 2011 to 100 419 (12%) in 2014. In short, NSFAS loan recoveries have collapsed, falling by 61% between 2008 and 2014. The cost to NSFAS and the government of this collapse in loan recoveries is estimated to be about R4.3 billion for the period between 2009 and 2014.

3.2 If loan recoveries had continued to grow along a normal trajectory, it is estimated that, in 2014, they should have brought in R1.7 billion, instead of just R2.48 million – a difference of R1.46 billion. This loss in recoveries revenue has had a significant negative impact on the ability of NSFAS to extend further. It is estimated that, in 2014, NSFAS would have been in position to fund 51 000 loan awards to students if recoveries continued along the projected growth rate. It is further estimated that NSFAS has been unable to fund about 142 000 students between 2009 and 2014, due to the decline in recoveries (National Treasury 2015, 18).

3.3 Another pressing issue in this regard is defining and including the “missing middle”. In the absence of national consensus on this, NMMU has been pioneering its own approach. This experience might be of use in developing a national position on this category of students. After engaging with students, the University agreed on a family income of R 300 000 per annum as defining the “missing middle”. We also allowed for an appeals process that could, under certain circumstances, consider outliers (i.e. number of family members at university, extraordinary number of dependents etc.) up to a max of R 399 000. This was based on an Expected Family Contribution (EFC) of R 39 000 as this was the average student fee raised at NMMU across the board. In practical terms, students with outstanding 2015 debt would be assisted with NMMU Loans if academically deserving and financially needy. A total of 1 531 students at a cost of R 21 775 000 were converted to NMMU-funded NSFAS loans. Zero EFC and missing middle students were also exempted from the 2016 down payments. NSFAS “Approved but unfunded” students were also exempted from the 2016 down payments. A total of 5 043 students met the criteria and were allowed to register for 2016.

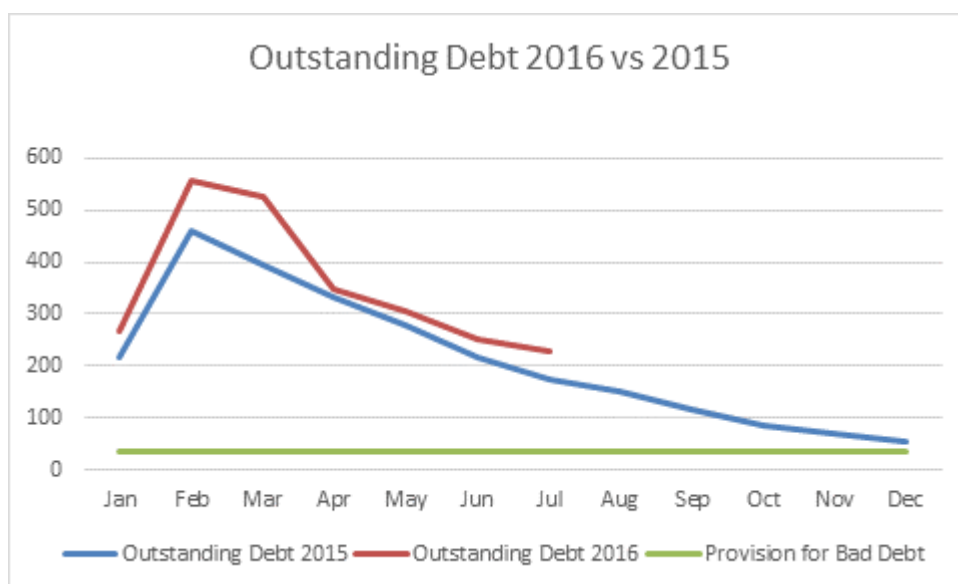
3.4 The following table indicates the outstanding costs as per indicated date:

Category	31 March '16	31 May '16	31 July '16
Zero EFC's	85 860 732	76 876 074	70 151 603
Missing Middle	12 506 727	11 427 701	10 014 924
Total	98 367 459	88 303 775	80 166527

The number of students still owing as at 31 July 2016 is 3 983 (i.e. 3 451 Zero EFCs, and 532 missing middle).

A mop-up process of 1st semester NSFAS allocations during August 2016 has resulted in approximately R6,1 million of funding being freed up for re-allocation the aforementioned cohort.

The total outstanding debt as at 31 July 2016 is R230 million; 6,6% higher than July 2015, whilst the current Provision for Bad Debt is R34,7 million.



One can reasonably expect the trend to continue, meaning that the provision as it is will be inadequate to deal with the expected outstanding debt at year end.

3.5 This intervention by NMMU was in direct response to the concerns raised by students

in 2015 and the realization that urgent interventions were needed to address very real and pressing socio-economic causes of the student concerns. It is, however, not sustainable in the medium- to long-term. An innovative national approach to the ‘missing middle’ students needs to be found that is both consistent and fair.

4. Government spending on higher education

4.1 The correlation between investment in higher education and economic and social development should be axiomatic. Countries at the highest level of economic development (Innovation-driven) have the following Gross Enrolment Ratios (GER)¹: Finland (94%), South Korea (99%) and Norway (74%). South Africa’s GER¹ is 20% (OECD 2016, Indicator database). South Africa’s tertiary participation rate is too low and spending on higher education in South Africa is also too low. China with a GER of 26% spends 3% of GDP on higher education compared to South Africa’s 0.71% of GDP in 2012 (Cloete, Sheppard & Van Schalkwyk, 2016: 10, 11, 15 & 16).

4.2 South Africa, like other developing countries, is faced with financial constraints and backlogs in higher education as a result of extraordinary growth and wider participation over recent years (DHET 2013, 52). In its report *Financing Higher Education in Africa*, the World Bank (2010, xiv) concludes that in most Sub-Saharan African countries, enrolment in higher education has grown faster than financing capabilities, reaching a critical stage where the lack of resources has led to a severe decline in the quality of instruction and in the capacity to innovate.

4.3 The South African Government has been spending on average less than 1% of GDP on higher education, which is much lower than comparable countries that have been spending closer to 2% of GDP on higher education, with China spending 3% of GDP on higher education (Cloete, Sheppard & Van Schalkwyk 2016, 25). Over the period 2000 to 2013, the government contribution to university income as a percentage of the budget decreased from 49% to 40% (and at some universities close to 30%). Third-stream income remained at the

¹ The gross enrolment rate is defined as the total headcount enrolment of all ages divided by the total population in the 20-24 age cohort.

same proportion (27%) of budget. Student fees compensated for the decrease in the government contribution (Cloete, Sheppard & Van Schalkwyk 2016, 29).

4.4 In 2000, student fees constituted 24% of university budgets, but by 2013 this proportion had increased to 33%. Over the same period, the proportion of students on NSFAS increased from 2% to 13%. It is estimated that student fees increased on average by 9% per annum over the period 2010 to 2014. This is way above the national inflation of 5-6% over the same period. That said, it would be misleading to say that the burden for fees is borne solely by households. Government provided support to households to pay for their student fees through NSFAS, which grew from R3.4 billion to R 9.8 billion between 2011 and 2015 (National Treasury 2015, vi).

4.5 The government block grant is a source of discretionary funding to universities. This funding allows universities to cover their operational and salary costs, and arguably is a crucial source of funding in promoting the sustainability of the South African higher education sector. An analysis done by the DHET (2015, 5) of changes in the block grant over the period 2004/05 to 2014/15 reveals that:

- a) The block grant allocation to universities increased by 128% in nominal terms or 30.5% in real terms between 2004/5 and 2014/15;
- b) University enrolments grew substantially within the university sector over the same period. When combined, the net effect of inflation and higher enrolments have led to a real decrease of 1.35% in the block grant per FTE; and,
- c) The university block grants have therefore not kept pace with inflation and enrolment growth and therefore the resources available for the delivery of higher education per student FTE have declined in real terms.

4.6 When giving consideration to “free higher education”, the Government must be mindful that there are currently approximately 3 million youth between the ages of 18 to 24 that are not in employment, education or training (referred to as the NEETs), for which opportunities need to be created. If Government goes the route of “free higher education” for all it will severely restrict government resources to be able to attend to the NEETs. Higher education cannot be free; somebody has to pay. The question is: “Who must pay and when?” In summary, our argument in this regard is two-fold. 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 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.

4.7 Given the circumstances in which South Africa finds itself, national government cannot abrogate its responsibility to adequately fund higher education. Ideally this should take place in partnership with the private sector and other social partners collectively seeking innovative ways of funding PSET as an investment in boosting national competitiveness, economic growth and social justice.

4.8 The question of sustainability of higher education institutions needs to be strongly emphasised. Higher education institutions cannot address the triple challenge of poverty, inequality and unemployment in isolation of other social partners and the wider PSET sector. Institutions are currently stretched to breaking point addressing current challenges. As an example, NMMU has provided debt relief and down payment exemptions to the poor and “missing middle” students, but this is financially unsustainable if it is not bolstered by additional subsidy/NSFAS funding and private sector contributions. The country needs wise fiscal and budgetary choices that ensure the national assets represented by our higher education institutions are not allowed to collapse. The cost of trying to resuscitate them later would far exceed the investment in higher education needed to sustain or broaden their services.

5. Efficiency of the South African higher education system

5.1 The funding of South African universities is obviously a crucial aspect of ensuring their long-term sustainability and through this, the sustainable economic and social development of South Africa itself. There is, however, also a need to address inefficiencies within the higher education system.

5.2 The National Development Plan itself identifies the link between broadening of access to universities, improving efficiencies and funding: *“The data on the quality of*

university education is disturbing. South African universities are mid-level performers in terms of knowledge production, with low participation, high attrition rates and insufficient capacity to produce the required levels of skills.

They are still characterised by historical inequities and distortions. The university sector is under considerable strain. Enrolments have almost doubled in 18 years yet the funding has not kept up, resulting in slow growth in the number of university lecturers, inadequate student accommodation, creaking university infrastructure and equipment shortages.” (NPC 2012, 317).

5.3 Although improvements have been made in student throughput (completion) rates, the South African higher education system remains very inefficient. For the 2008 cohort, 30% of the students enrolled for 3-year Bachelor’s degrees completed their qualification in 3 years and 56% in 5 years (if UNISA is included it drops well below 50%). For 3 year national diplomas, it is even worse: below 50% complete in 5 years. This leads to too many students that stay in the undergraduate system for too long resulting in a system that is inefficient, unsustainable and in need of improvement (Cloete, Sheppard & Van Schalkwyk 2016, 18).

5.4 Creating improved access to higher education for the children of the poor and the vulnerable needs to be accompanied by a holistic package of interventions to ensure they are able to achieve their maximum potential and to ensure throughput rates do not drop further. Amongst the interventions NMMU has piloted on and off campus are:

- Access to IT devices
- Access to textbooks and other learning materials
- Student nutrition
- Transport
- Accommodation, and
- Connectivity (wifi)

Proper support is necessary to ensure “access with success”.

5.5 NMMU is one of five universities that were successful (the other four being University of Pretoria, University of the Free State; Durban University of Technology; and, University of the Witwatersrand) in a bid to receive a KRESGE Grant for the project Siyaphumelela (“we succeed”). The NMMU Siyaphumelela project includes the development

of a comprehensive set of student success indicators, to enhance the institutional capacity to generate and use data analytics related to student success and the improvement of student support initiatives. It involves the development and use of an electronic early warning tracking system to monitor student progress through a set of indicators, and the extent to which students take up academic support and development opportunities. The NMMU has managed to improve student success rates from 73% in 2005 to 80% in 2014.

5.6 In the 2014 South African Survey of Student Engagement the NMMU was rated by its students as significantly above the average of the sample of universities that participated, for the Engagement Indicator “Supportive Environment”. Supportive environment is defined in terms of: providing support to help students succeed academically; providing learning support services; encouraging contact amongst students for different backgrounds; providing opportunities to be involved socially; providing support for overall well-being; helping them manage their non-academic responsibilities; and, providing campus events and activities including events that address important economic, political or social issues.

5.7 Improved funding of universities aimed at broadening access and ensuring support to students from poor and vulnerable backgrounds will therefore need to be accompanied by interventions aimed at improving the efficient and effective deployment of such resources, including appropriate support mechanisms to ensure “access with success”.

6. Recommendations

6.1 NMMU supports the view of the Ministerial Committee on the Review of the Funding of Universities (DHET 2013, 378) that “free higher education” in the current context is neither equitable (i.e. it becomes a state subsidy to the social groups that can afford fees) nor likely to be affordable given other social priorities and the current low economic growth. Free higher education for all will effectively increase the state subsidy to the rich who can afford to pay for higher education. Students can be expected to contribute towards their higher education because they will be the main beneficiaries of their qualifications in the form of higher salaries and enhanced employability compared to those who did not obtain a higher education qualification. NMMU supports the recommendation of the abovementioned Committee: “Given that there are public and private benefits, the funding of universities

should be predicated on state subsidies and tuition fees, with provision being made for financially needy students” who are academically deserving (DHET 2013, 383).

6.2 With regard to student financial aid, the “missing middle” needs to be included in either bursary or loan schemes. To qualify for NSFAS (i.e. family income of less than R120 000) means that most of the actual middle class could be classified as 'poor' – and they account for 75% of the population. The “missing middle” also consists of students who are not poor enough to qualify for NSFAS, but not affluent enough to qualify for bank loans (Cloete, Sheppard & Van Schalkwyk 2016, 42). As a nation we need a common understanding of what constitutes this category of students and a specific intervention to assisting them to access higher education.

6.3 The recovery of NSFAS loans needs to be improved to ensure that the funds grow adequately to be able to fund academically deserving, financially needy students and to fund them adequately. This could partly be done by requiring those who qualify for NSFAS to sign an agreement that they will repay the NSFAS loan upon commencement of employment after they have completed their qualification. It could also be linked to the SARS database.

6.4 The amount of government funding allocated to universities is not sufficient to meet the needs of the public university system and is lower than sustainable. The subsidy base needs to be increased substantially. South Africa spends a considerable amount on education, but its expenditure on higher education is much lower than comparable countries. There needs to be a concerted drive to both fund universities adequately and broaden access to higher education.

6.5 Universities need to work towards improved student success and throughput (completion) rates which will open up spaces in universities that are currently occupied by repeaters. This will free up resources and lead to cost savings. But at least initially it will entail extra costs as appropriate support packages are put in place to ensure “access with success”. Universities will also have to work towards improved cost-efficiencies in their operations to contain the level of student fee increases.

6.6 Student tuition fees should remain as a crucial source of income for universities, but reasonable annual increases should be nationally determined to ensure fairness and consistency across the sector. Such sectoral determinations need to be arrived at in a

consultative manner drawing on the best wisdom of university and student leadership. In this regard, it must be noted that some universities increase tuition fees at a nominal rate from a low base, because they are mindful of the financial constraints confronting a large proportion of their students. However, this is not the case for all universities. This needs to be factored into the proposed sectoral determination of student fee increases.

7. Conclusion

In concluding, we would like to emphasise that higher education should not be viewed simply as a government expenditure line item, but as an investment in the long-term sustainable economic and social development of our country. Nor should its transformational role be underestimated. It is the sort of structural intervention that will create the kind of society for our children and our children's children that was envisaged by the architects of our democracy and drafters of our Constitution.

The policy environment is already in place for many of the difficult choices to be made. What remains now is to give effect, through the appropriate budget prioritisation choices, to these so that the country is placed on a sustainable and equitable developmental trajectory.

As NMMU we responded with agility to the challenges of access and funding and have pioneered a number of initiatives around the missing middle, support for "access with success" that might be useful pointers to how the issues can be addressed.

Lastly, and very importantly, the current situation in terms of university funding is not sustainable if left unaddressed.