



BRIEFING TO THE STANDING COMMITTEE ON
APPROPRIATIONS
STATUS AND EFFECTIVENESS OF HIGHER EDUCATION FUNDING IN
SOUTH AFRICA

21 October 2014

For an Equitable Sharing of National Revenue

OBJECTIVES

- Objective is to provide:
 - Assessment of the funding framework for Higher Education (HE)
 - Assessment of allocative efficiency of HE institutions
 - Analysis of effectiveness and efficiency of NSFAS allocations
 - Inputs on possible strategies to match funding to the needs
- Outline
 - Higher education policy framework
 - Role of higher education in economic development
 - The state of higher education
 - Financing of higher education
 - National Student Financial Aid Scheme (NSFAS)



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2. POLICY FRAMEWORK UNDERPINNING HIGHER EDUCATION

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HIGHER EDUCATION POLICY GOALS

- The National Development Plan (NDP) envisions that:
 - South Africans must have access to quality higher education by 2030.
 - NSFAS covers the full costs of higher education – (eligible students)
- White paper for post school education
 - Inclusive, non-racial and equitable post school education
- Medium Term Strategic Framework (MTSF)
 - Increase University and Technical Vocational Education and Training (TVET) student enrolment from 950 000 to 1.07 million and 650 000 to 1.2 million by 2019



3. ROLE OF HIGHER EDUCATION IN ECONOMIC DEVELOPMENT

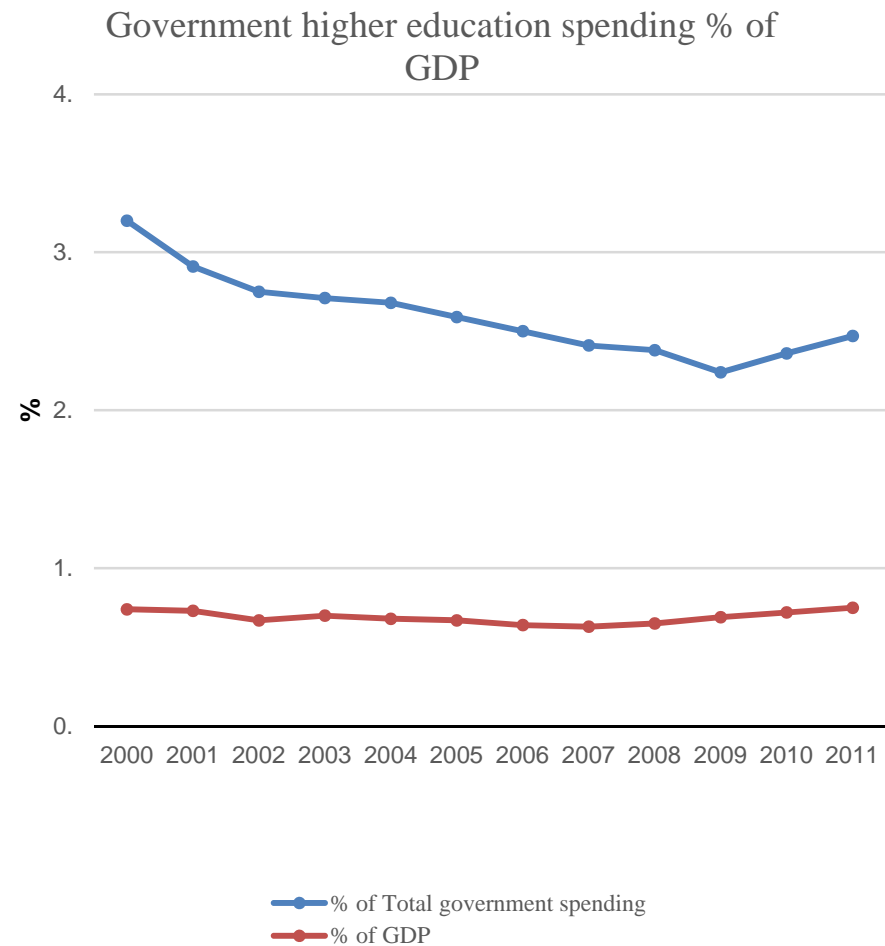
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LINKAGES BETWEEN HIGHER EDUCATION AND ECONOMIC DEVELOPMENT

- Higher education has bigger return on investment beyond conventional estimates i.e. GDP
 - job creation, entrepreneurship, intergenerational mobility etc.
- Higher education contributes to development through:
 - Building of human capital – skill base
 - Formation of knowledge base – research
 - Dissemination and use of knowledge - innovation

HIGHER EDUCATION SPENDING AND GDP

- High government spending on post school education is associated with high economic growth
- Government spending as % of total expenditure is falling
 - Constant as % GDP
- Post schooling spending as a share of GDP in OECD ranges between 1 and 2.6%
- Low spending in South Africa is not aligned to policy ambitions





4. THE STATE OF HIGHER EDUCATION

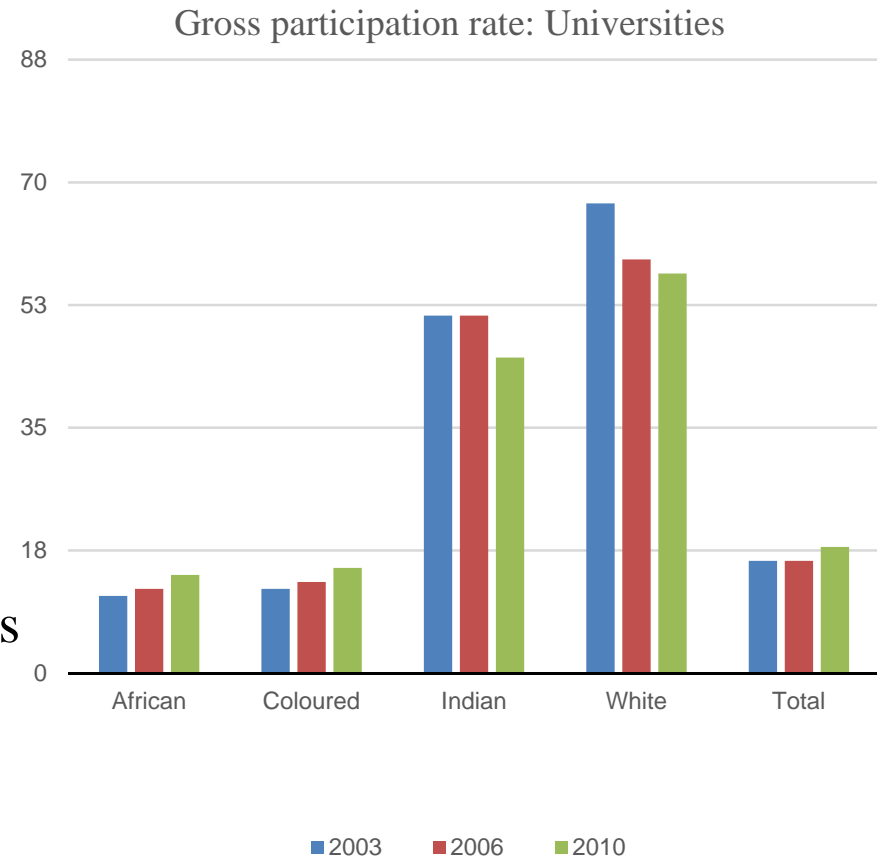
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POST-SCHOOL EDUCATION ENROLMENT

- Official data shows that 950 000 and 670 000 students are enrolled in universities and TVETs
 - General Household Survey (GHS) estimates - 741 000 and 372 000 enrolment
- 66 % of enrolled students are African, 22% are White, 6.7% are Coloured and 4.7% are Indian
- High African student enrolment does not translate to high participation rate

POST SCHOOL PARTICIPATION RATE BY RACE

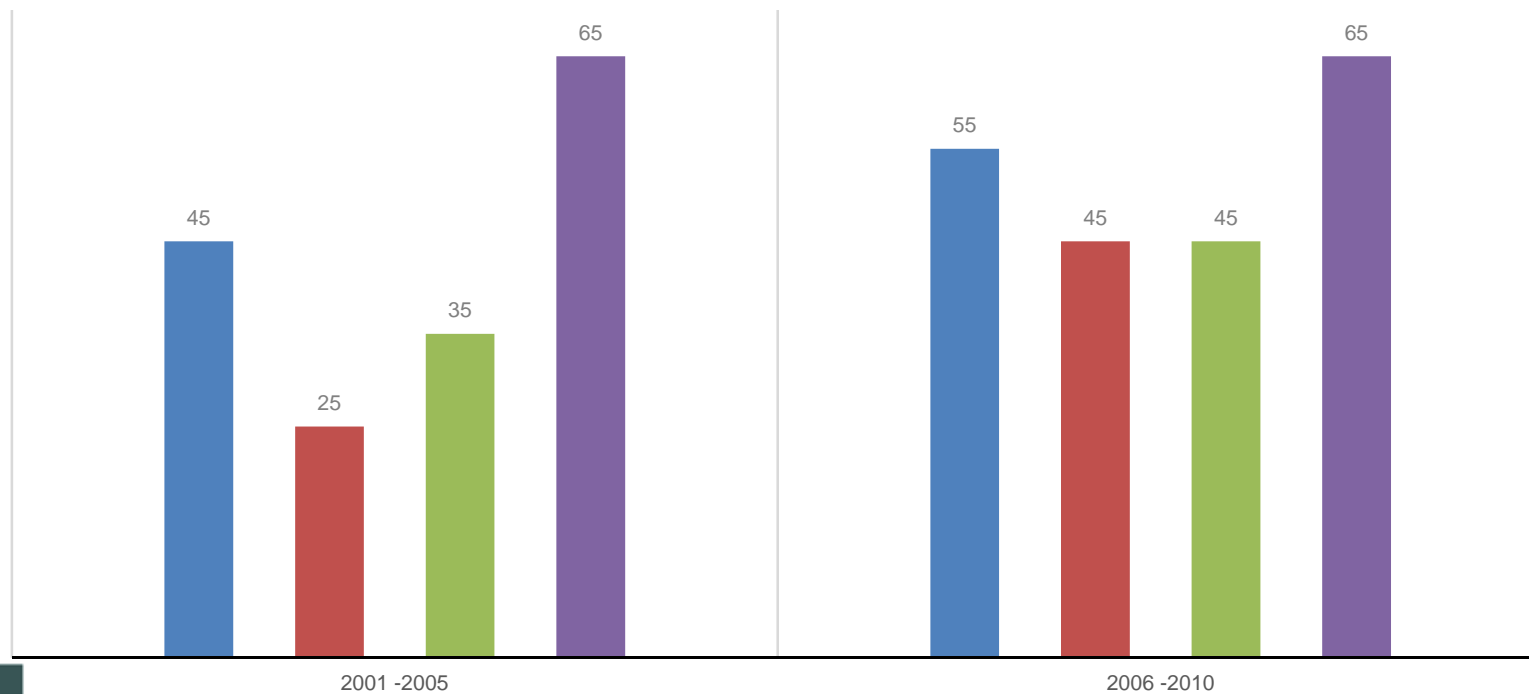
- The current post school education participation rate (20-24 years) is 19 percent
- The recent GHS (2014) indicates that participation rate (20 -29 years) is 4 percent
- Access to HE is racially skewed
 - African and coloured community has lowest participation
- Participation rate in OECD is upwards of 40%



GRADUATE OUTPUT EFFICIENCY

Completion rate by program

■ Undergraduate ■ Masters ■ PhD ■ Target



HIGHLIGHTS – EFFICIENCY AND EFFECTIVENESS OF THE SYSTEM

- Higher education is moving towards its national development goals but
 - Access is still racially and regionally inequitable
 - Graduate output efficiency is low
 - Post graduate enrolment to facilitate transition into knowledge economy is limited
 - 20% or 5 of universities produce 55% of postgraduate qualifications
- Disproportionate focus on university training



5. FINANCING OF HIGHER EDUCATION

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HIGHER EDUCATION FINANCING – GLOBAL PERSPECTIVE

- Global spending estimated at \$300 billion or 1% of global GDP
- 1/3 of spending attributed to developing countries
- Developing countries are dominated by state reliant higher learning institutions
- Efforts to increase access and quality invariably increase state funding requirements

COST OF HIGHER EDUCATION

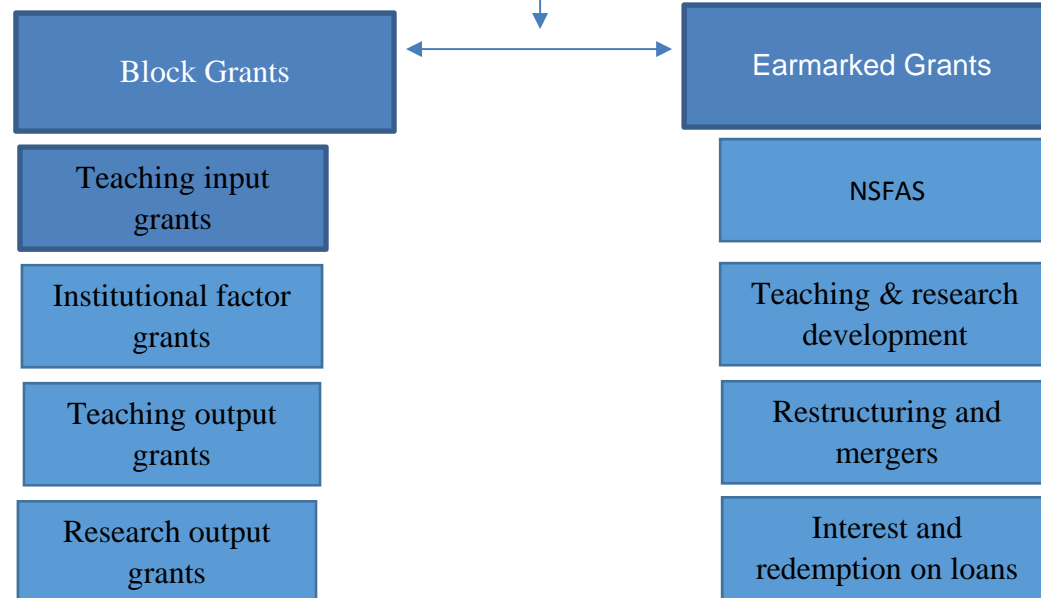
- The South African post schooling system is facing serious financial constraints and backlogs
- Majority of the students are unable to afford higher education
- Post schooling education increasingly becoming expensive and cost escalation outpaces inflation
 - Average tuition fee is R35 000 per annum excluding accommodation, books, meals and transport (Wits)
 - Estimated cost of undergraduate degree > R200 000

FUNDING FRAMEWORK FOR HIGHER EDUCATION

- Funding of higher education is underpinned by four principles:
 - Sharing of costs – government and students
 - Autonomy in determining fees – ability to set student fees independently
 - Funding for service delivery – funding linked to teaching and knowledge outputs
 - Funding as a steering mechanism – steer the system in line with social and economic goals

NATIONAL FUNDING MODEL

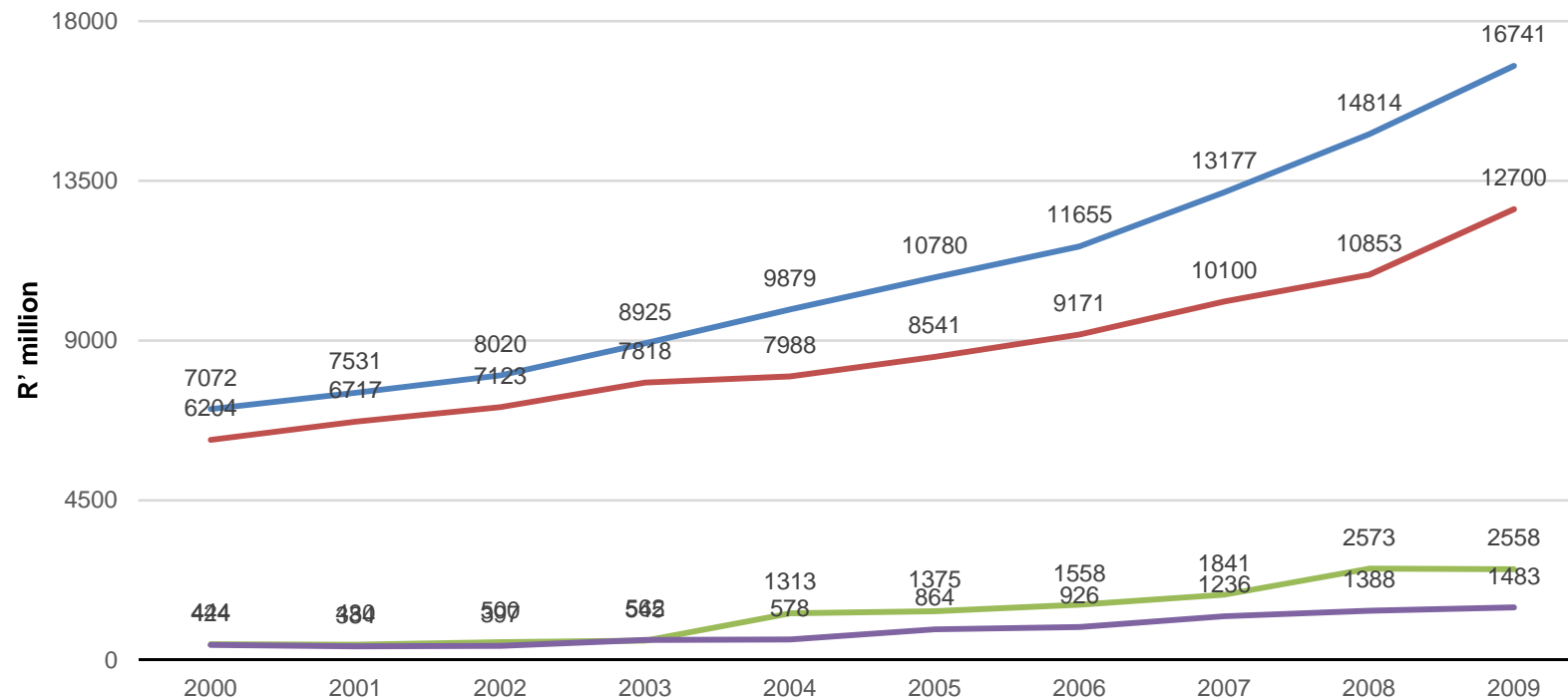
Government Allocation for the Public University System



SOURCES OF HIGHER EDUCATION INCOME – SHARING OF COSTS...(1)



ALLOCATION OF GOVERNMENT HIGHER EDUCATION GRANT FUNDING



— Total

— Block (discretionary) transfers

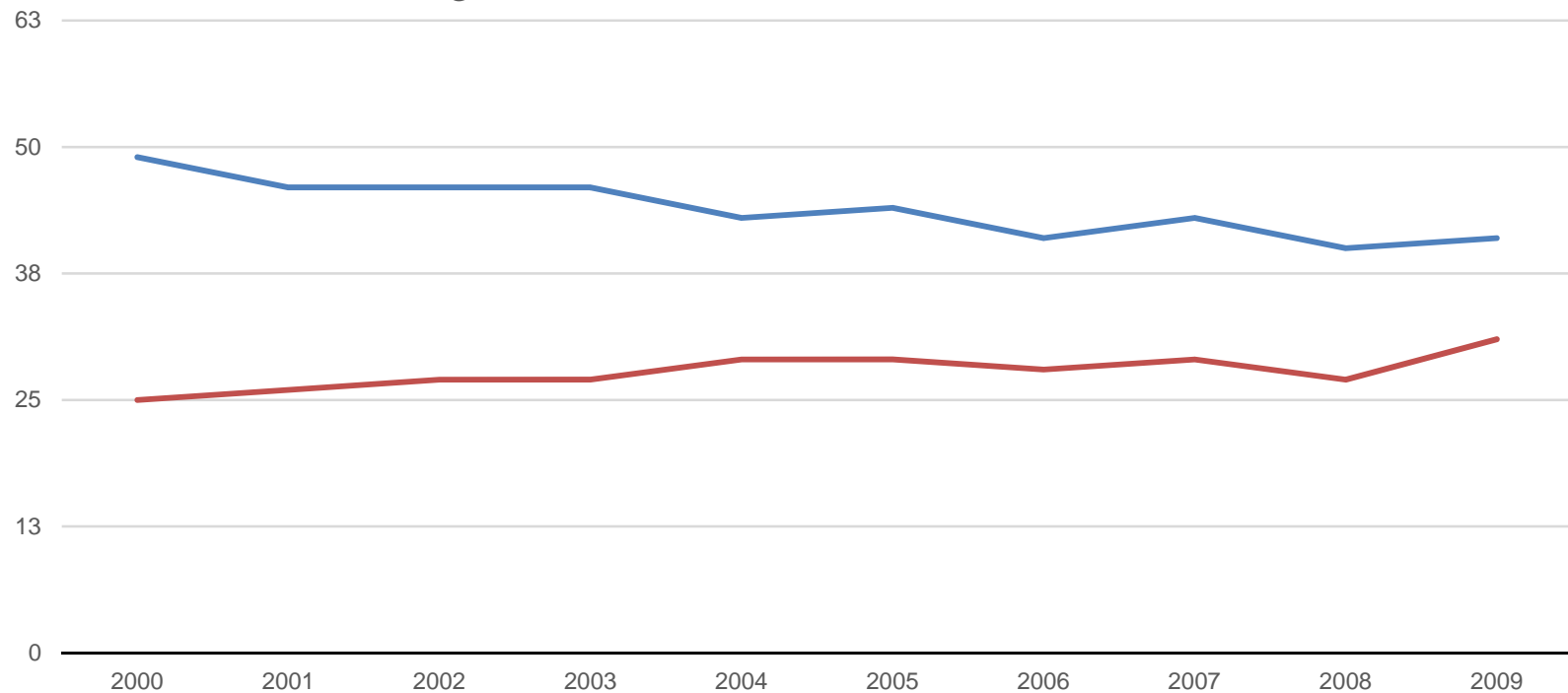
— Direct earmarked transfers

— other earmarked

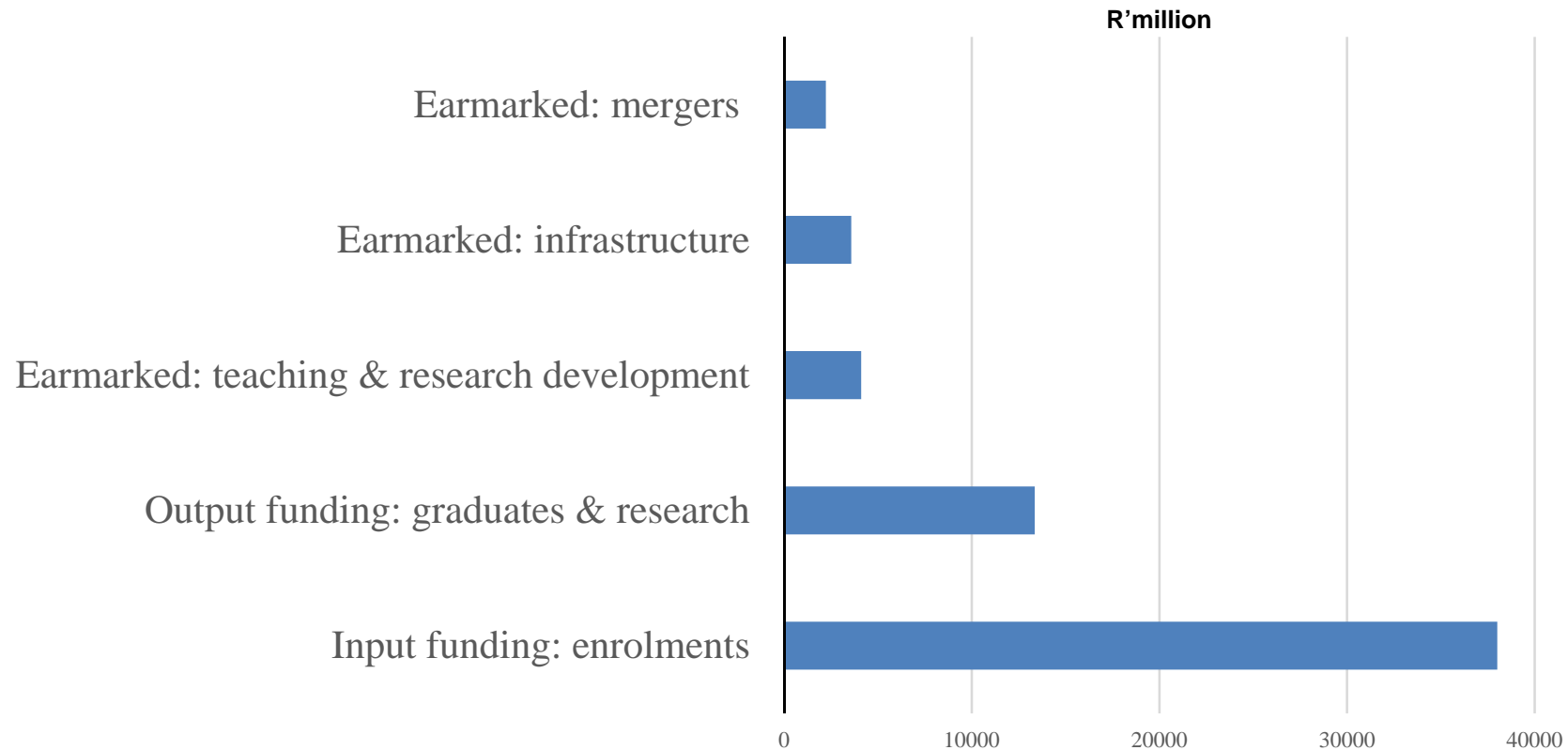


SHARING OF COSTS...2

Government grants and student fee as a share of HE income



HIGHER EDUCATION GOVERNMENT GRANT UTILISATION- SERVICE DELIVERY



CRITIQUE OF GOVERNMENT HIGHER EDUCATION FUNDING

- The current funding model disregards:
 - The cost of running certain programs
 - The location of some institutions
 - Historical legacies
 - Resource endowment and revenue raising potential of some universities
 - The quality and level of preparedness of students
- Challenges are subject of probe by Ministerial Committee on review of higher education funding



6. NATIONAL STUDENT FINANCIAL AID SCHEME

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INPUT FUNDING: NSFAS

- NSFAS plays a critical role in bridging the access and finance barriers to higher education
- NSFAS has disbursed R42 billion in loans and bursaries to 1.2 million poor students over 15 years
- The scheme provides financial assistance to an estimated 25% of total higher education enrolled students
- Budget allocation to the scheme has risen considerably in recent years



From R3.1 billion in 2009 to R8.7 billion in 2013

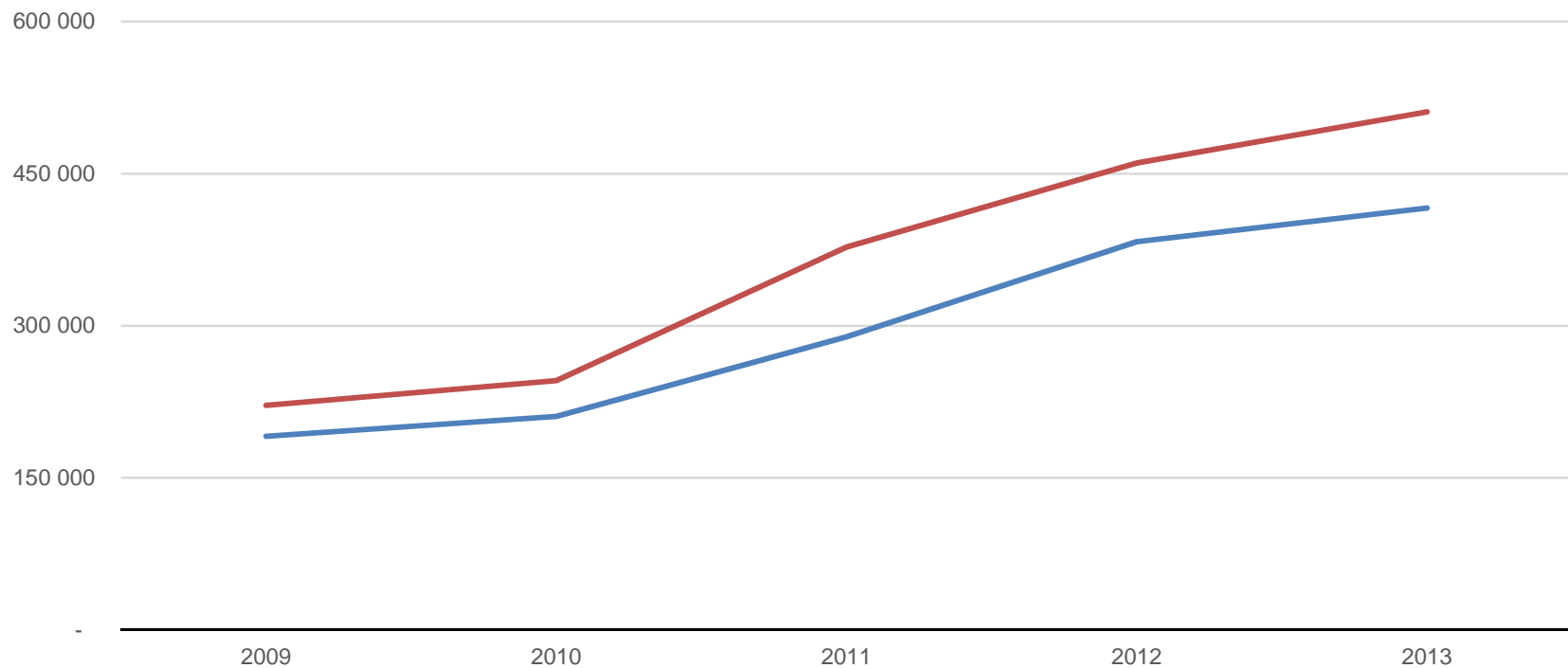
NSFAS EFFICIENCY ISSUES...(1)

- 2009 review of NSFAS identified numerous weaknesses in the Scheme:
 - Funding falls short of demand
 - High beneficiary drop out and low completion rate (up to 72%)
 - Inappropriate allocation formula – use of race as proxy for need
 - Disregard historical institutional imbalances
 - Top slicing – spreading the fund thinly
 - Administrative inefficiencies – means test and payment delays

NSFAS EFFICIENCY ISSUES...(2)

- Loan administration problems
- Unsustainability of loan to bursary conversion incentive model
 - Up to 40% of loan
- Poor loan recovery record
 - R3.2 billion of total R12 billion loan book recovered
 - Scheme has second lowest recovery rate globally
 - Income contingent loan model creates problems

NSFAS BENEFICIARIES

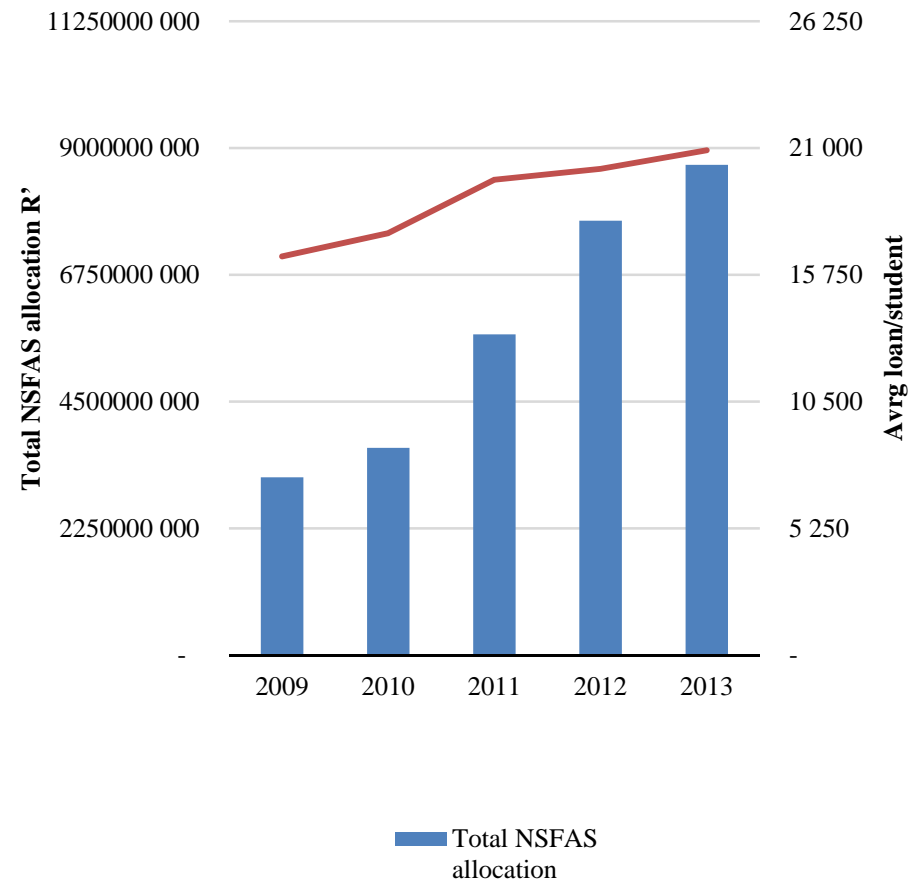


NSFAS ALLOCATION CRITERIA

- University level
 - Formula takes into account university fees and number of black students enrolled
 - The higher the African enrolment the higher the allocation
- Student level
 - $\text{Loan} = \text{Cost} - (\text{bursaries} + \text{expected family contribution})$
 - Minimum and maximum loan amount is R2000 and R60 000 respectively depending on household income
 - Maximum household income eligibility threshold is R122 000 per annum

AGGREGATE NSFAS ALLOCATION

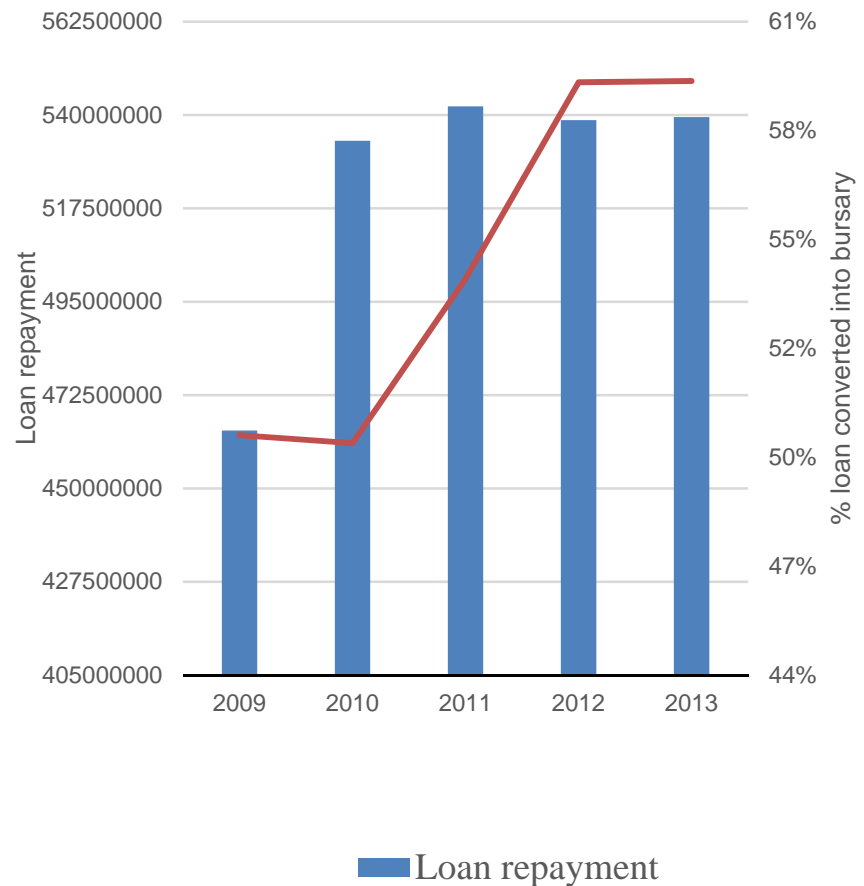
- NSFAS disbursed R8.7 billion to 416000 students in 2013 in 23 universities and 50 TVET colleges
- Over 82% of NSFAS allocated to universities
- The average subsidy per student is R20 000
- The subsidy compares unfavourably with average total cost of higher education



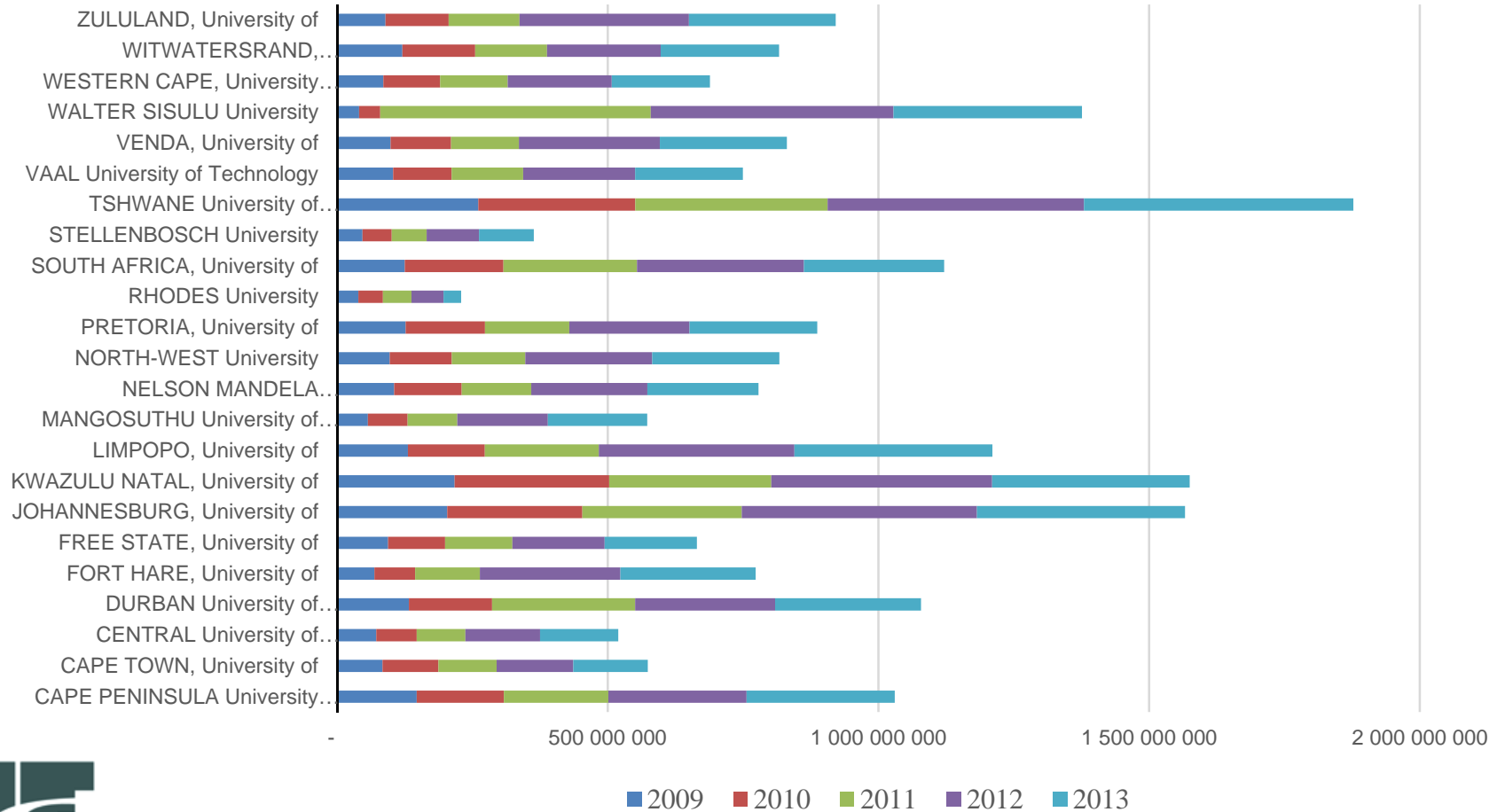
Household average incomes are low and constant

NSFAS LOAN RECOVERY

- On average 50% of Total NSFAS student loans are converted into bursaries
- The scheme recovers 24% of loan book per annum
 - Repayments cannot be tied to loan book in any given year because repayment is income contingent
 - 2009 review found that 72% of loan beneficiaries dropout or do not complete studies
- GHS - only 18% of students benefited from bursaries



NSFAS ALLOCATION BY UNIVERSITY



NSFAS DEMAND PRESSURES

- NSFAS is generally perceived to be underfunded
 - Scheme has less than half of funds needed to meet demand according to NSFAS review of 2009
- The average household income for Black African is R69 000
- The number of learners qualifying for higher education acceptance is increasing
- In 2013 the UKZN – received 10426 NSFAS applications and only assisted 7650 students

INFORMATION GAPS –EFFICIENCY ASSESSMENT

- Number of students applying and receiving financial assistance
 - By socio-economic profile, qualification type and universities
- Number of beneficiaries completing their studies
- Number of beneficiaries dropping-out
- Financial contribution of provinces, entities municipalities to bursaries

NSFAS PROPOSED REFORMS TO ADDRESS INEFFICIENCIES

- Adoption of new student centred funding model
 - Funding provided for a qualification rather than annual loans
 - Central processing of applications
 - Financial means test linked to various databases
 - More efficient use of allocated resources
 - Improvement in collection of student loans
 - Fundraising from the private sector

STRATEGIES TO MATCH FUNDING WITH NEEDS

- Curb institutional administrative NSFAS inefficiencies
- Reduce number of NSFAS beneficiary dropout and non-completion rates
- Improve NSFAS loan recovery rate
- Redistribute resources where the needs are greatest
 - Allocation framework takes into account historical constraints and developmental needs

• Channel more resources into TVET



7. CONCLUSIONS

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CONCLUSIONS

- In line with ideals of NDP, South Africa must transition from a low to a high value added knowledge intensive economy
- The current Higher education system comprise the fundamental basis to facilitate the transition
 - Pockets of excellence
- The transition requires
 - A stable, adequate and redistributive funding model for colleges, vocational institutions and universities

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APPENDIX: PAST RECOMMENDATIONS ON ANNUAL DIVISION OF REVENUE

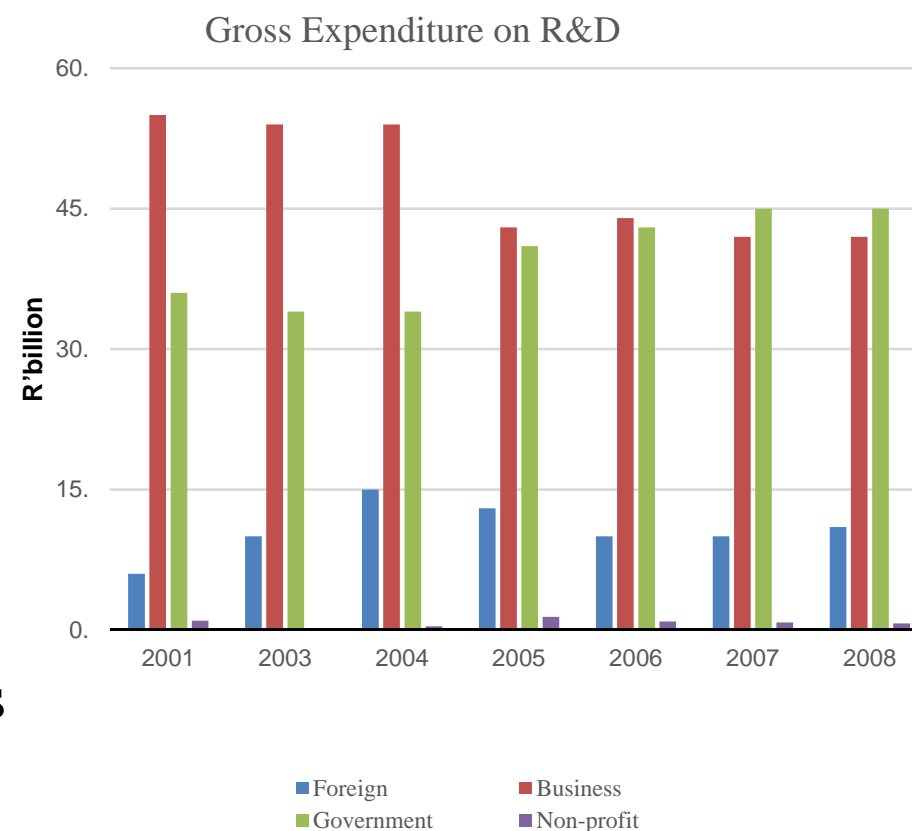
	Response
Government should introduce a differentiated funding framework for a differentiated public university system, by shifting from a unitary system to three funding frameworks – one for each cluster	<i>Accepted</i>
Government should expand the HEMIS system to incorporate FET sector data,	<i>Accepted</i>
Revises the formula used to calculate research outputs to take into consideration the profile (rank and qualification) of academic staff at the universities	<i>Accepted</i>

PAST RECOMMENDATIONS ON ANNUAL DIVISION OF REVENUE

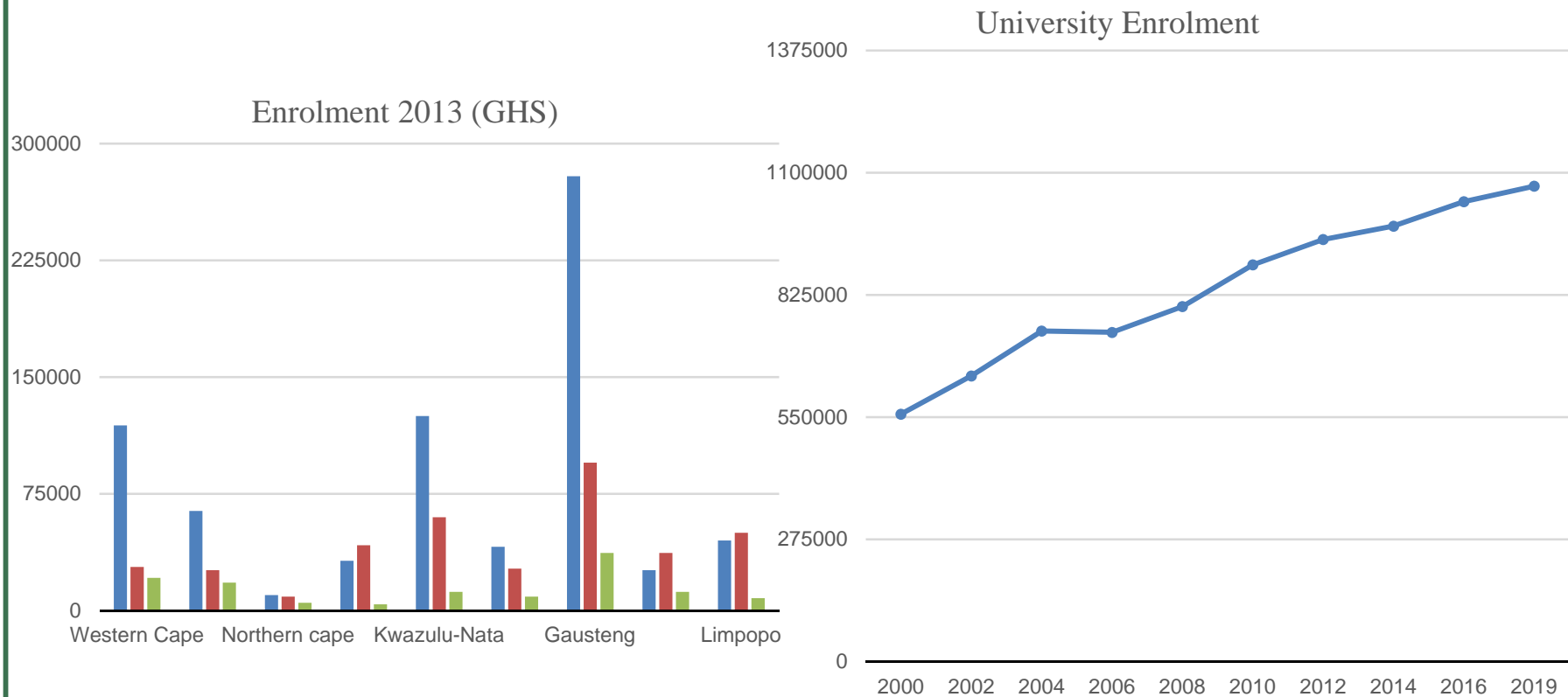
Recommendation	Response
<p>The funding model for the FET sector after the function shift ensure that: The baseline funding does not perpetuate past underfunding Additional allocations are used to achieve a more equitable funding regime Ongoing infrastructure development and maintenance are provided for.</p>	<p><i>Accepted</i></p>

HIGHER EDUCATION AND GROWTH

- Higher Education Attainment and GERD correlate positively with output
 - SA HEA and GERD are low
 - Attainment rate is below 20% and R&D spending lags the target of 1% to GDP
 - Business spending on R&D is declining



HIGHER EDUCATION ENROLMENT TREND – PROVINCIAL BREAKDOWN AND PROJECTION

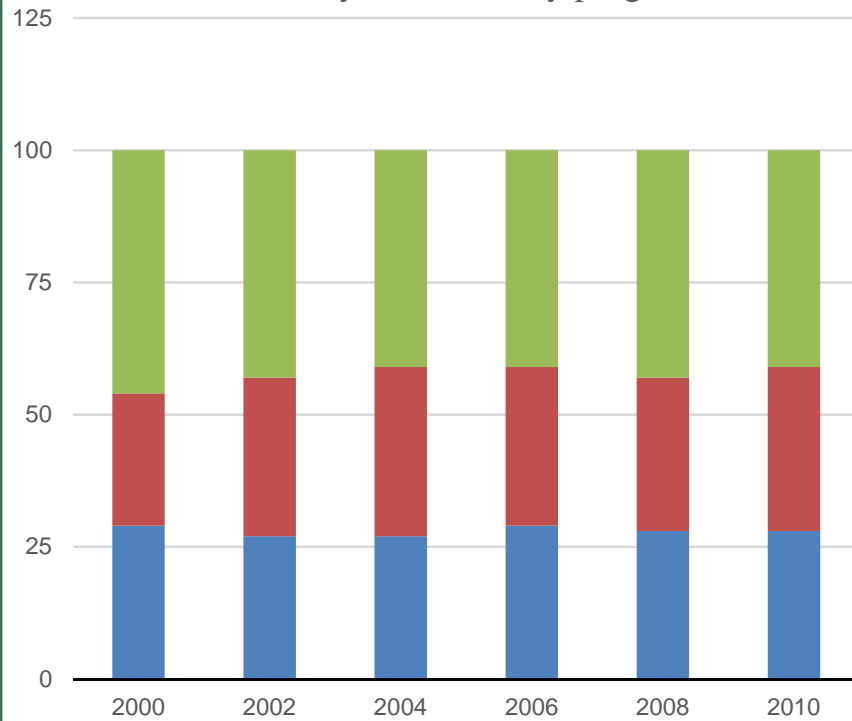


■ University
■ FET
■ Other college

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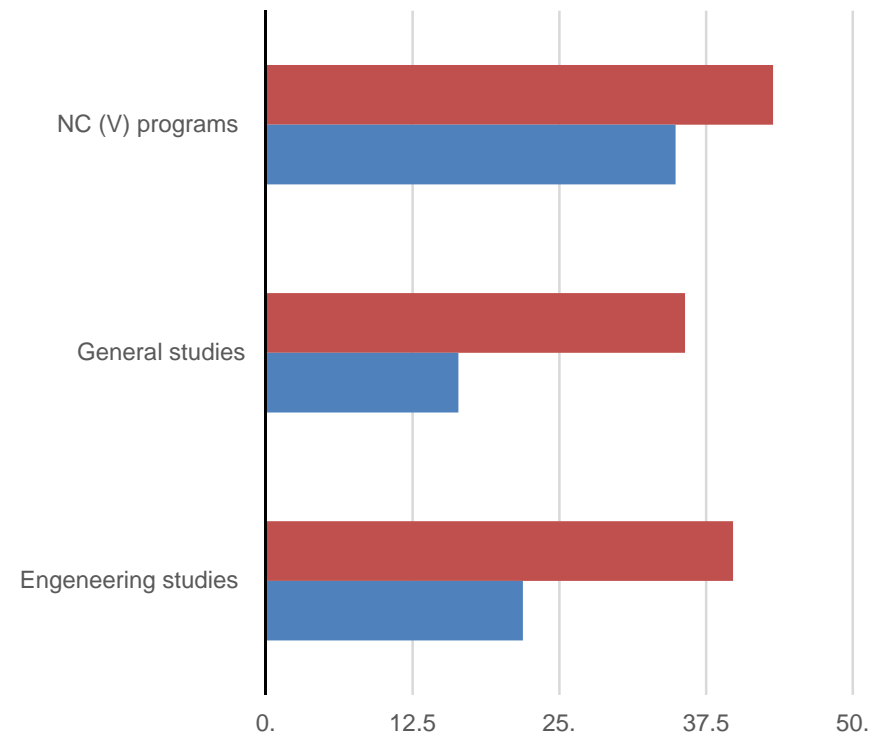
HIGHER EDUCATION ENROLMENT BY PROGRAM

University enrolment by program



- Humanities and social sciences
- Business Management
- Science & technology

FET enrolment by program

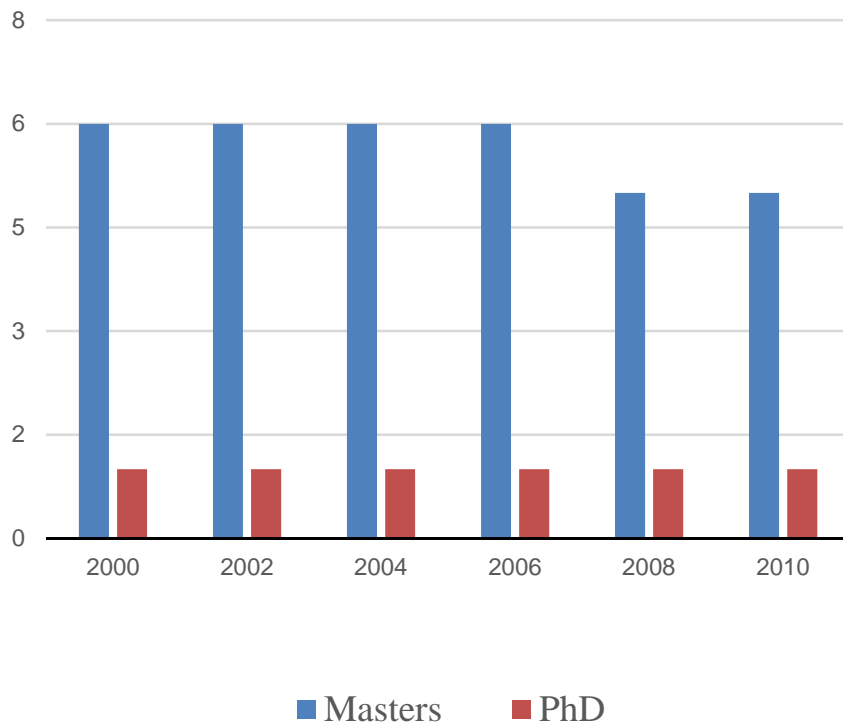


■ 2011 ■ 2010

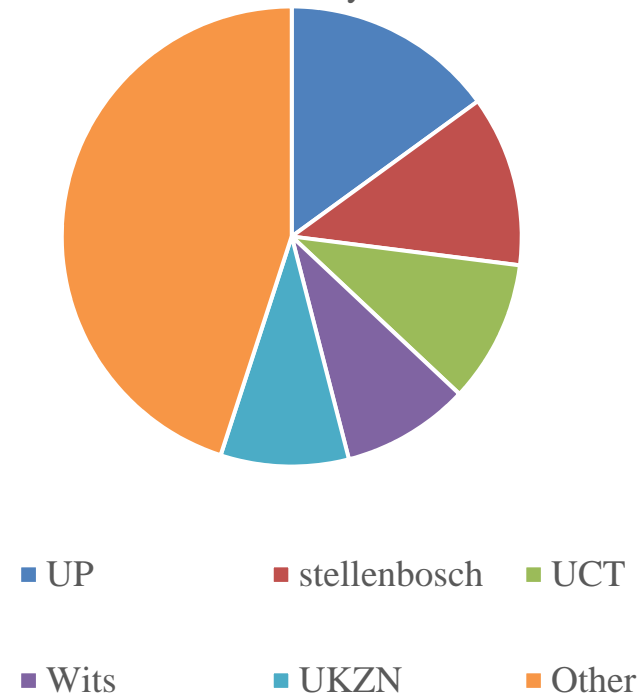


HIGH SKILLS DEVELOPMENT AND KNOWLEDGE PRODUCTION

Master & PhD enrolment as % of total enrolment



Distribution of postgraduate completion by university





THANK YOU.

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