

# Higher Education Finance and Cost-Sharing in South Africa

## I. A Brief Description of the South African Higher Education System

The African National Congress's (ANC) triumph over apartheid in 1994 resulted in the radical transformation of South Africa's social, political, economic, cultural, and educational institutions. The vision for the transformation of the hitherto racially segregated higher education system was laid out in the *Education White Paper 3: A Program for the Transformation of Higher Education* (1997). Central to the transformation vision was the establishment of a single national coordinated system that would meet the individual needs of citizens and the reconstruction and development needs of the country (Ministry of Education, *National Plan for Higher Education*, 2001).

The higher education system in South Africa as stipulated in the Council on Higher Education's (CHE) policy report, *A New Institutional Landscape for Higher Education in South Africa* (2000), and the National Working Group's report, *The Restructuring of the Higher Education System in South Africa* (2001), is composed of 23 higher education institutions including two National Institutes for Higher Education (Cloete et. al., 2004). Under this new set structure, there are: 11 universities with strong research capacities and high proportions of post graduates; 5 universities of technology (formerly known as technikons) that are oriented towards vocational qualifications; and 6 comprehensive higher education institutions that are focused mainly on teaching, but have some research capacity and some post graduates (Council on Higher Education, 2006). The minimum duration for an undergraduate degree is three (3) years.

While the higher education sector in South Africa is predominantly public, the private higher education sector has been growing rapidly, at least in terms of number of institutions, many of which are created in partnership with public institutions (Human Sciences Research Council of South Africa, 2006). As of 2004, about 85,000 students were enrolled in private institutions with 46 percent in undergraduate and bachelor's degree programs, 48 percent in non-degree certificates and diplomas programs or below and 4 percent in post graduate (diplomas, honours and Masters degree) programs (Human Sciences Research Council of South Africa, 2006). Overseas universities, mainly from UK and Australia, also operate in South Africa. To date, four private foreign higher education institutions have been registered in South Africa.

Prior to its transformation in 1994, the higher education system was racially fragmented. It contained what the Association for the Development of Education in Africa (ADEA) termed "gross distortions and inequalities" including an inequitable distribution of resources to institutions; enormous disparities between historically black and historically white institutions, and a skewed distribution of student population in the disciplines with few non-white students in fields such as science, engineering, technology, and business and commerce (ADEA, 2000).

Since 1997 there has been a significant progress in achieving the White Paper's goal of ensuring that the composition of the student body progressively reflects the realities of broader society (White Paper, 1997). For example, the enrollment of black students<sup>1</sup> increased

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<sup>1</sup> During the apartheid era, the following racial classification terms were used: "White" referred to people of European descent (with the Japanese as "honorary whites"), "African" referred to indigenous people of South

from 249,000 (53 percent) in 1993 to 414,000 (71 percent) in 1999 to over 550,000 (74 percent) in 2004 of the total head count enrollments. (Ministry of Education, 2001; Study SA, 2006; Department of Education, 2005)<sup>2</sup>. The increase of African students over the years has been as a result of the increasing demand of higher education as well as a response to policy pressure (Cloete et. al., 2004). The participation of female students has also increased steadily over the years from 42 percent in 1990 to 53 percent in 2000 (Cloete et. al., 2004).

Despite these impressive enrollment figures, overall participation in higher education continues to be characterized by gross inequalities. For example, although the participation rate of African students has increased from 9 percent (1993) to 13 percent (2000), it still remains below that of white (47 percent) and Indian students (39 percent). (NPHE, 2001). Available data also indicate that black students are not represented in programs that generate the highest private returns after graduation such as science, engineering and technology, and business and commerce. The average graduation rate for white students tends to be higher than that of black students (Balintulo, 2002; and Cloete, 2004).

## **II. Financing South African Higher Education**

The government and its appointed agencies, such as the National Student Financial Aid Scheme (NSFAS) and the Tertiary Education Fund for South Africa (TEFSA), dominate higher education finance in South Africa. The private sector also plays a significant, though limited, role in financing higher education.

Government financing of higher education is guided by the principles of shared costs, equity and redress, and development (NCHE, 1997: Chapter 5). The principle of shared costs states that other than in a few specialized colleges, because of the envisaged higher private returns, the government and students and/or their parents must share the costs of higher education. However, in colleges and other higher education institutions that produce “*pure public goods*”, the government is responsible for all financing. The principle of redress asserts that government financing of higher education must not only ensure that the system becomes equitable and that unjustified inequities of access and opportunity in terms of race, gender, and social class are eliminated, but also that the relative proportion of public funding to support academically able, but disadvantaged students is increased. The principle of development links higher education financing to the production of critical human resources for the nation’s economic and social development. Other principles include: efficiency; sustainability and quality; and the principle of democracy that advocates the involvement of all stakeholders in decision- making concerning allocation of funds.

Previously the government allocated subsidies and other financial resources to universities and technikons through the South African Post-Secondary Education (SAPSE) funding formula. This formula was largely full time equivalent (FTE) enrollment driven, and as such, funding was heavily weighted by FTE levels (Merisotis and Gilleland, 2000). Higher education institutions received a subsidy from the government on the basis of the number of subsidy students multiplied by various unit costs. The number of subsidy students and unit

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Africa, “Colored” referred to people of mixed origin; “Indian/Asian” referred to people of Asian descent; and “Black” referred collectively to Africans, Coloreds, and Indians.

<sup>2</sup> In 2004, 61 percent of all students in public higher education system were Africa, 25 percent were white, 7 percent were Indian and 6 percent were colored.

costs determined what was known as the government contribution factor. The subsidy formula for universities and technikons on average accounted for 85 percent of the funding for these institutions with only 15 percent of the funds being raised by the institutions through fees, private gifts, contracts, and sales of auxiliary services.

The SAPSE formula proved to be problematic as it contributed to institutional inequities by treating all higher education institutions as equal. It also curtailed creative planning at the institutional level and promoted larger numbers of less costly enrolments in humanities rather than in the more costly natural sciences (CHE, 2004). Therefore, a new funding framework (NFF), composed of block grants and earmarked grants, was introduced and gazetted in 2003 that is committed to equity, efficiency and development (CHE, 2004). Earmarked funding is mostly geared for NSFAS, while the four types of block grants are related to goals and performance through teaching and research (CHE, 2004).

The government established the National Student Financial Aid Scheme (NSFAS) in 1996 to ensure that academically able students without financial resources can attend higher education. The Scheme, administered by TEFSA<sup>3</sup>, also raises funds, recovers loans and conducts research for the better utilization of financial resources (RSA, 1999). While most of NSFAS's funding comes from the government, other sources include loan recoveries, higher education institutions, the South African private sector, and foreign donors (CHE, 2004). Despite these sources of funding, financial aid is still inadequate to meet the needs of students from poor communities. According to NSFAS, only 20 percent of the students benefit from the scheme. Furthermore, NSFAS loans do not cover the full costs of study in order to reach a greater number of students.

The NSFAS provides income contingent loans and bursaries to higher education students. These loans are administered by the institutions themselves and are part of the Financial Aid Package (FAP) awarded to students on the basis of annual gross family income and to what is known as "level of need". Other criteria used by universities and technikons include family size, distance of the home from an institution, and the number of siblings at university or technikon.

Loans usually cover tuition costs but in cases of extreme need they may also cover living costs and traveling expenses. Sometimes surety is required for a student to get a loan, a measure against possible default on loan repayments. Students who are not eligible to get loans from NSFAS can get loans through the First National Conversion of Loans to Bursaries program. In 2006, the minimum NSFAS loan was R2,000 and the maximum was R32,500, with a 2 percent real rate of interest (CHE, 2006). It is also possible depending on a student's academic results to have up to 40 percent of the loan converted to a bursary (CHE, 2006). Table 1 below shows the number of yearly awards given out over the last 10 years.

Repayment of loans starts when an individual is in full time permanent employment and his/her annual salary is at least R 26,300 (US\$6,345), which is considered the threshold level of income. The repayment rate starts at 3 percent to 8 percent of the salary. The period of repayment varies according to individual circumstances. Special legislation (TEFSA Act 121 of 1993) allows NSFAS to require employers to deduct loan repayments from the monthly

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<sup>3</sup> Tertiary Education Fund of South Africa (TEFSA) was established in 1991 as a conduit for funding to help historically disadvantaged students with academic ability pursue tertiary education. In 1996, the NCHE mandated TEFSA to manage NSFAS. TEFSA was converted into a statutory agency in 2000.

salaries of graduates. In some universities, students who pass all courses at the end of the year qualify for a 40 percent rebate on their loans, and those who pass half of their courses, to a 20 percent rebate. Rebates apply to loans given as part of FAP and not on loans given by outside donors. The University of Western Cape gives family rebates on tuition fees on the basis of number of children from a family studying at UWC. Table 2 below illuminates the amount of funds recovered by NSFAS from loan recipients over the last five years.

**Table 1**  
**Number of Awards made by NSFAS, 1996-2002**

<b>YEAR</b>	<b>No of Awards</b>
1996	72,788
1997	70,574
1998	75,764
1999	75,344
2000	83,251
2001	93,532
2002	99,873
2003	112,264
2004	113,693
2005	120,000

Source: NSFAS website

Apart from loans from NSFAS, bursaries and loans are also available from private companies and commercial banks. For example, some companies provide contract bursaries to students and require that after graduation the recipient work for the company or organization that made the award. TEFSA Act 121 also made it possible for companies incorporated under Companies Act of 1973 to apply for funds from the Ministry of Education and then give loans to needy students according to their own terms and conditions.

**Table 2**  
**Total Amount Recovered from the Loan Recipients by NSFAS**  
(million Rand)

<b>YEAR</b>	<b>Amount Recovered</b>
2001/02	110.9
2002/03	147.2
2003/04	208.5
2004/05	243.8
2005/06	304.8
<b>TOTAL</b>	

Source: NSFAS website

State departments and provincial legislatures also provide financial assistance to students in the form of bursaries. In some cases these bursaries may need to be repaid, but in most cases the requirement is that the recipients work for the department or province that granted the bursary for a certain period of time after graduation.

Individual institutions also offer work-study programs to needy students. For example, at the University of Western Cape, in the first semester, students receive 40 percent of the money they earned, while 60 percent is allocated to their fees. In the second semester, students

receive 20 percent and 80 percent allocated to their fees until the fee account is settled in full. Thereafter students receive full payment.

Most banks in South Africa offer student loans at competitive interest rates that vary depending on the bank. Some banks offer loans to students in any year of study, others offer loans from the second year on. Students are generally expected to make interest only payments for the study duration (unless they are part time and then they have to start paying the capital immediately) and to start capital repayments upon graduation.

**Republic of South Africa  
Higher Education Expenses Borne by Parents and Students**

First Degree, Academic Year 2005 (AY from Jan-Dec)

[National currency (ZAR) converted to \$US by 2005 purchasing power parity estimate  
\$1 =ZAR 2.60]

		<b>Public*</b>		
		<i>Low Public</i>	<i>Moderate Public</i>	<i>High Public</i>
	Special “One-Time” or “Up Front” Fees	ZAR 100 [\$38]	ZAR 350 [\$135]	ZAR 110 [\$40]
<b>Instructional Expenses</b>	Tuition	ZAR 6,700 [\$2,575]	ZAR 8,770 [\$3,370]	ZAR 19,200 [\$7,385]
	Other Fees	N/A	N/A	N/A
	Books & Other Educational Expenses	ZAR 2,000 [\$770]	ZAR 2,500 [\$960]	ZAR 5,500 [\$2,115]
	<b>Subtotal Expenses of Instruction</b>	<b>ZAR 8,800 [\$3,385]</b>	<b>ZAR 11,620 [\$4,470]</b>	<b>ZAR 24,810 [\$9,540]</b>
<b>Student Living Expenses</b>	Lodging	ZAR 14,400 <sup>4</sup>	ZAR 5,645 (8 months) [\$2,170]	ZAR 22,000 <sup>5</sup> (9 months)
	Food	[\$5,538]	ZAR 11,000 [\$1,4,230]	[\$8,460]
	Transportation	Varies	Varies	Varies
	Other Personal Expenses	ZAR 3,000 [1,150]	ZAR 3,000 [\$1,150]	ZAR 5,000 [\$1,920]
	<b>Subtotal Expenses of Student Living</b>	<b>ZAR 17,400 [\$6,690]</b>	<b>ZAR 19,645 [\$7,555]</b>	<b>ZAR 27,000 [\$10,385]</b>
	<b>Total Cost to Parent &amp; Student</b>	<b>ZAR 26,200 [\$10,075]</b>	<b>ZAR 31,265 [\$12,025]</b>	<b>ZAR 51,810 [\$19,925]</b>

\*The Cape Peninsula University of Technology was used as the model for the low public, the University of the Western Cape (a historically disadvantaged institution) for the moderate public and University of Witwatersrand (a historically advantaged institution) for the high public. Figures are based on the schedule of fees (2006) booklets released by each institution. While there is a growing private sector, there is not enough information regarding this sector and the public institutions still enroll the majority of students in higher education. Further,

<sup>4</sup> Living in campus residence with full board.

<sup>5</sup> This is for a student who is living in the dorms with meals 7 days per week.

many of the private institutions actually fall under the further education and training category and as such, the private sector category is not included in the template of costs.

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