



THE ECONOMICS BEHIND #FEESMUSTFALL

Student activism has been sweeping university campuses across South Africa. Not since the Soweto Uprising of 1976 have this many youth risen to demand the right to quality and accessible education. KPMG's Christie Viljoen explains the economics of #FeesMustFall.

Tertiary education plays a central role in poverty alleviation, job creation, and reducing inequality. In the South African context, greater access to tertiary education is essential to overcome historic inequalities and to prepare the economy for rapid advancements in the global marketplace. The National Development Plan (NDP) also requires the higher education industry

to produce graduates who have the skills required to meet the current and future needs of the economy. The reality is, however, that few South Africans can afford a tertiary education. "Considering various universities across South Africa and the bachelors' degrees offered by different faculties, the average tuition fees for a first-year student is R40 000. This figure

excludes spending on accommodation, transport, textbooks, food, etc. The average South African household earns R145 000 in after-tax income, indicating that a tertiary student's tuition fees would account for 27.5% of that income," says KPMG Manager and Senior Economist, Christie Viljoen.

A CALL FOR FREE EDUCATION

The original #FeesMustFall campaign addressed the exorbitant price of higher education. Student protests began in mid-October 2015 after the government said it intended to increase fees by between 10% and 12%. Thousands of students took to the streets calling for free education and arguing that increased fees would prevent poor black youth from accessing education. Hundreds of people have also taken to

social media to voice their dissent under the hashtag #FeesMustFall. The 2015 protest ended when the South African government announced that there would be no tuition fee increases for 2016.

Protests flared up again in September this year when government announced that universities and colleges are allowed to determine their own fee increases for 2017, capped at 8%. South African Minister of Higher Education, Blade Nzimande also indicated that tertiary students from households earning less than R600 000 per annum will not be subject to increases in tuition fees next year. "This threshold will cover more than 80% of tertiary students and the South African government would finance the funding gap. An initial estimate indicated that this would cost around R2.5 billion, which would increase the value of the state's university subsidies in the 2017

calendar year by roughly 8% in addition to an estimated 11.5% rise already set out for the period in the 2016/17 budget," says Viljoen. The National Treasury also confirmed that it "has been exploring different mechanisms of finding the money to pay for the subsidy" and that officials are "embarking on a prioritising drive" to address the shortfall. The #FeesMustFall campaign is, however, aimed at convincing the government and tertiary institutions to eliminate tuition fees. "Students and their parents are feeling the pinch of this growing disparity and are now increasingly demanding tuition-free tertiary education. From 2009 to 2015, the headline consumer price index (CPI) increased by an average of 5.5% per annum, while tertiary education fees climbed by an average of nearly 9% per annum. From a different perspective, if household income were to keep pace with headline inflation, it would



have increased by 45% since 2008, while the cost of tertiary education has increased by more than 80%." This pinch has resulted in over R600 million in damage to property - equal to almost a quarter of the R2.5 billion in additional funding that the National Treasury will need to find for next year.

FINANCING FREE TERTIARY EDUCATION

There are bursary schemes like the National Student Financial Aid Scheme (NSFAS) that aims to provide sustainable financial aid for poor, yet academically eligible students. Viljoen says, "Students from a household with an income of R160 000 or less are eligible to apply for a NSFAS loan. This type of loan has reasonable repayment rates, between 3% and 8% of a student's annual

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salary per year, once he or she is employed. The interest charged is subsidised at 80% of the commercial bank interest rate. These low rates take a considerable burden off from recipients. NSFAS also encourages academic performance, as 40% of its loans can be converted to bursaries depending on your marks. NSFAS, however, only applies to the poorest of households, thus creating a so-called 'missing middle' for many students who cannot afford higher education but are from families that earn above the R160 000 threshold. The announced 0% increase in 2017 for students from households earning below R600 000 helps this 'missing middle', though these students still require additional funding for accommodation, transport etc." Of course, free tertiary education would not really be free, and significant funding would need to come from public sources.

"KPMG estimates that students contributed R21 billion to university budgets in 2015. From a theoretical perspective, money could be sourced from the general fiscus which, in turn, is collected from various taxes. Specific taxes could be implemented. For example, large corporations could be required to pay an additional education-related tax. Alternatively, young graduates could initially be taxed at a higher personal income tax rate to compensate the state," he says. For South Africa, the country's economic context raises serious obstacles to financing free tertiary education. Viljoen explains, "South Africa is struggling with higher levels of inequality, poverty and unemployment than many other countries. This reduces the priority of tuition-free tertiary education compared to, for example, primary education and healthcare."

ALTERNATIVES TO BRICK-AND-MORTAR TERTIARY EDUCATION

Viljoen says that a complimentary aspect to formal tertiary education is to invest in on-the-job-training initiatives. "South Africa ranks 19th globally regarding the quality, availability and uptake of on-the-job training programmes. We rank higher than tuition-free countries such as Brazil, Malta, Mexico, Slovenia, Slovakia and Turkey. Our strong ranking points are due to the private sector being directly involved in augmenting the training provided by the tertiary sector." The options offered by modern technology present a further alternative to brick-and-mortar tertiary education. "Free internet-based education is available from some prestigious institutions such as Harvard University and the Massachusetts Institute of Technology.



Websites like Coursera and edX offer free online courses from a variety of top universities. Virtual classrooms and online training courses is a possible way to use technology to improve access to higher education. Furthermore, free public Wi-Fi hotspots for educational purposes could be developed to improve interactive learning, ideas sharing and could be used

for innovative teaching. All this allows for asynchronous learning outside the time and space constraints of traditional teaching institutions."

INCENTIVISING PRIVATE SECTOR INVOLVEMENT

Looking ahead, a significantly increased tertiary education bill for 2017/18 would have to be funded by the central government – time is limited to create an overarching plan that includes all stakeholders, including private business – and the National Treasury is currently working on prioritising these funds. "The future is quite uncertain. Institutions will have to ask themselves how they can increase funding outside the sphere of state financing and tuition fees. Options include: incentivising

private sector to share funding costs; using technology to improve access; getting communities involved to reduce indirect costs like transport and accommodation; and creating better methods of household means testing and improved loan collection in order to use available funding more effectively. The private sector already contributes to study costs through bursaries, scholarships and donations. However, there is potential to incentivise broader private sector involvement. "Potentially, education funding could be included in Broad-Based Black Economic Empowerment (BBBEE) requirements for companies. Encouraging private companies to invest in education for financially needy students will meaningfully increase the skills base of these students. Additionally, this incentive will aid the government in funding tertiary education." ■



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