



Discussion Paper BRIEFS

Food Consumption and Nutrition Division of the International Food Policy Research Institute

Discussion Paper 201

Community, Inequality, and Local Public Goods: Evidence from School Financing in South Africa

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In South Africa, where government subsidies for local schools have been limited in the past, school districts (departments) rely on the collection of school fees to finance school infrastructure and the hiring of teachers. These school fees vary markedly from one location to another. But even where fees are relatively low, poor households often find it difficult to pay for their children's schooling, especially where credit opportunities are limited. The quality of schools that primarily serve poor children, therefore, tends to suffer. So inequality in income within a community ultimately affects the quality of public education, reducing the income-earning potential of future generations.

Income Inequality and School Fees

Yamauchi and Nishiyama are interested in the relationship between local inequality and the quality of human capital investment and growth. In this paper, they examine the impact of unequal income distribution on the ability of a community to finance local schools in South Africa. To this end, they conduct two analyses, one empirical and the other based on simulations. In the first, various school census data are merged to obtain the school fee for the country as a whole. A simple model proves that income inequality is associated with a lower school fee and thus lower quality of education. To capture the effect of community-level income distribution on the school fee, the research focuses on the mean or median and the standard deviation to represent the average income level and its variations.

Higher median and average household income are found to increase school fees, while inequality in household income (standard deviation) decreases school fees.

Data Sources

For the first analysis, which covers South Africa as a whole, a community profile database from Census 2001 provides data on socioeconomic characteristics such as household income and the composition of the population. The Annual School Survey 2002 from the National Department of Education provides data on school fees. Subplaces in the South African Census 2001 are used as the geographical unit for this analysis. The research must control for the effects of past school segregation. School fees and income are likely to be higher in the formerly white schools.

For the second analysis, a data set is constructed from a 1998 clustered household survey from the province of KwaZulu Natal, which jointly identifies school fee and community factors, while the School Census of 1999 provides the details of school financing and activities of the school governing bodies (SGBs).

Data on school quality in the province of KwaZulu Natal are obtained from the School Register of Needs 1996 and 2000, which provides information on school facilities, making it possible to calculate changes in learner-educator ratios and the number of educators.

If the low-income segment of the community feels that the school fee is too high, they can opt not to pay it, or at least not all of it. If too many people do not pay, the overall quality of education deteriorates for everyone.

Strategies of the Rich and Poor

In South Africa, community SGBs, made up of principals, teachers, community leaders, and parents, set the local school fee. If most of the members of the SGB come from the better-off segment of the community, the school fee is likely to be high. But the low-income segment of the community also can make a strategic response. If they feel that the school fee is too high, they can opt not to pay it, or at least not all of it. If too many people do not pay, the overall quality of education deteriorates for everyone, negatively affecting future income prospects for both high- and low-income groups. Since the high-income group is likely to have already paid their share, they see this as a credible threat, which acts as an incentive to lower the fee.

Families who wish to obtain the best possible education for their children may choose to relocate to communities where the schools are good. When low-income households move to better-off neighborhoods, income inequality increases there. This is especially significant in South Africa where, since the end of apartheid in 1994, many families have moved from rural to urban communities. Because apartheid assured that high-quality schools were located in well-off, primarily white neighborhoods, the possibility of richer households relocating to improve school quality is unlikely. However, rich households may choose to send their

children to private schools, leaving the less affluent children to be educated in the public schools, but this possibility cannot be controlled for, given the data used in this exercise.

Conclusions and Implications

The quality of schools can be improved by increasing either government subsidies or school fees or both. The additional funds are then used to invest in infrastructure and to hire additional teachers, thus reducing the learner-educator ratio. This study clearly shows that income inequality negatively affects school fees and pulls down the average quality of education, which adversely affects human capital in the next generation. Policy interventions are needed to stop this vicious cycle. Government subsidies must be increased to those communities that are trapped in a situation where they cannot collect sufficient school fees to maintain an adequate education system.

Keywords: local public good, school finance, willingness to pay, human capital, South Africa

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