ENTRY #318

Topic: How can South Africa build a fiscally sustainable student-financing model that enhances access to higher education? Refer to international experience in your analysis.

Higher education in South Africa is one of the most powerful tools for young people to build a better future and lift our families out of poverty. As a first-year student currently taking macroeconomics as a module, I see the debate over student funding not just as GDP growth figures in my textbook, but as a daily reality on campus. Every day at university, I see students worrying about missing fee deadlines or struggling to afford textbooks and residence rent.

Right now, South Africa relies heavily on the National Student Financial Aid Scheme (NSFAS) to provide fully sponsored bursaries for students from households earning under R350 000 per year. However, this leaves out the "missing middle", which are children of nurses, teachers, and police officers whose families earn too much for NSFAS grants, but far too little to afford university fees out of pocket. To build a system that is both fair and financially viable, South Africa needs a balanced economic framework.

In economics, goods are categorized by who benefits from them. Private goods mainly benefit the individual consumer, while public goods benefit society. Higher education is a mix of both. It has private benefits because individual graduates gain higher future lifetime earnings and better career prospects. But it also creates massive public benefits because a skilled workforce drives national productivity, fuels macroeconomic growth, and expands the country's tax base. Because these benefits are shared between the individual and society, both the state and individual students should share the financial responsibility.

To see how South Africa can fix this, we can look at international experience, specifically Income-Contingent Loans (ICLs), such as Australia's Higher Education Loan Program (HELP). In Australia, the government pays tuition fees upfront, and graduates only start repaying the loan once they cross a specific income threshold. Repayments are automatically collected as a small percentage of earnings through the tax system. If a graduate loses their job or earns below the threshold, repayments automatically pause. The 2017 Heher Commission recommended a similar ICL model for South Africa.

An Income-Contingent Loan system offers major economic advantages for South Africa. First, it promotes equity and access by removing upfront cost barriers for low- and middle-income students. Second, it creates fiscal sustainability, as graduates enter the workforce and pay back their loans, those funds replenish the pool, allowing future generations of South African students to study. Using the South African Revenue Service (SARS) to collect repayments alongside income tax would keep administrative costs low and minimize default rates.

However, applying this model locally requires realistic adjustments for our economic environment. Unlike Australia, South Africa faces an extremely high youth unemployment rate. If graduates struggle to find jobs, loan recovery rates will drop, placing financial strain back on the state. Therefore, South Africa should retain full NSFAS grants for the poorest students to promote social mobility, while deploying income-contingent loans specifically to bridge the gap for missing-middle students who currently fall outside financial aid criteria.

South Africa can construct a sustainable student-financing model by pairing full bursaries for the most vulnerable with an income-contingent loan system supported by SARS collections. By sharing the financial cost between the state and successful graduates, South Africa can open the doors of learning to all deserving students without exhausting the national treasury.