How Can South Africa Build a Fiscally Sustainable Student-Financing Model That Enhances Access to Higher Education?

1. Introduction

Higher education remains one of the most powerful instruments for economic mobility, poverty reduction and long-term national development. In South Africa, the expansion of fee-free higher education through the National Student Financial Aid Scheme (NSFAS) represented a significant step towards correcting historical inequalities and opening university access to students from poor and working-class households. However, while the policy succeeded in expanding opportunity, it also transferred an increasing share of the financing burden onto the national fiscus.

The challenge facing South Africa is not a legal inability to fund higher education, but the fiscal reality that government cannot indefinitely remain the sole financier of an expanding tertiary education system. Section 29 of the Constitution requires the state to progressively make further education available and accessible through reasonable measures, but it does not require government to permanently absorb all higher education costs. The constitutional obligation is to guarantee access, not necessarily universal grants.

The current debate is therefore not whether students should have access to higher education, but how that access should be financed sustainably. This essay argues that South Africa should replace the current state-dominated financing framework with a Shared-Risk Hybrid Funding Model. Drawing on lessons from Australia, New Zealand, Colombia and Denmark, the proposed model diversifies financial risk across graduates, employers, universities and private capital while preserving free access at the point of entry. Through universal income-contingent financing, SARS-administered graduate contributions, a National Corporate Bursary Clearinghouse and performance-based university funding, South Africa can create a student-financing model that expands access while remaining fiscally sustainable.

2. Why the Current System Is Unsustainable

The current student-financing framework suffers from a structural imbalance. Although access has improved substantially, the overwhelming financial risk remains concentrated on government.

Historically, NSFAS operated primarily as a loan scheme, allowing funds to be recycled through graduate repayments. Following the introduction of fee-free higher education for qualifying students, government assumed a significantly larger financing role. While this expanded access, it simultaneously reduced the amount of capital returning to the system and increased reliance on annual budget allocations.

This creates a fundamental sustainability challenge. Every additional student funded requires additional state expenditure. At the same time, government faces increasing demands from healthcare, infrastructure, social grants, policing and debt-service costs. Fiscal resources are finite, and every rand allocated to higher education carries an opportunity cost.

The system also continues to exclude many students. The so-called "Missing Middle" remains one of the greatest access challenges within South African higher education. These households often earn too much to qualify for substantial support but too little to comfortably finance university education. Many families support multiple dependants, ageing relatives and unemployed household members, meaning income thresholds often fail to reflect actual financial circumstances.

Universities face challenges as well. A significant portion of public expenditure is absorbed by students who repeat modules, fail to complete qualifications within expected timeframes, or drop out entirely. While student support remains essential, inefficient utilisation of funding places further strain on public resources.

Consequently, South Africa's higher education challenge is not merely a funding problem. It is a risk-allocation problem. Too much responsibility is concentrated on taxpayers and government while too little responsibility is distributed among the broader beneficiaries of higher education.

3. International Lessons for South Africa

Many countries have confronted similar challenges and developed innovative financing systems that share responsibility across multiple stakeholders.

3.1 Australia: Income-Contingent Financing

Australia's Higher Education Contribution Scheme (HECS-HELP) is widely regarded as one of the world's most successful student-financing systems. Students are able to access higher education without upfront tuition payments. Repayment only begins once graduates earn above a specified income threshold.

The significance of the Australian model lies in its balance between equity and sustainability. Students are not excluded because of financial barriers, yet successful graduates contribute towards future cohorts once they benefit economically from their qualifications.

3.2 New Zealand: Tax-Based Collection

New Zealand complements income-contingent financing through integration with its national tax administration system. Graduate repayments are collected directly through payroll deductions, reducing administrative costs, lowering default risk and improving compliance. Domestic repayment compliance rates of almost **95.4%** demonstrate the effectiveness of integrating student-financing recovery mechanisms into existing tax infrastructure. The New Zealand experience illustrates how governments can improve cost recovery while minimising administration costs, providing valuable lessons for South Africa and the South African Revenue Service (SARS).

3.3 Colombia: Alternative Capital Participation

Colombia has experimented with income-share style financing models that attract private capital into the higher education sector. While South Africa should not replicate these arrangements entirely, the Colombian experience demonstrates that educational financing does not need to rely exclusively on public resources.

The broader lesson is that governments can leverage private capital to absorb a portion of higher education financing risk.

3.4 Denmark: Performance-Based Funding

Denmark has adopted a funding framework that links institutional support to measurable educational outcomes. Universities are rewarded not only for enrolment, but for successful completion and progression.

This creates incentives for institutions to invest in student success rather than focusing solely on the number of students admitted.

Taken together, these international examples reveal a common principle: fiscally sustainable systems distribute financial risk across multiple stakeholders rather than concentrating it solely on government.

4. A Shared-Risk Hybrid Funding Model for South Africa

4.1 Universal Income-Contingent Financing

South Africa should maintain free access at the point of entry while introducing universal income-contingent financing for publicly funded students.

Students from households experiencing extreme poverty should continue receiving comprehensive support, including tuition, accommodation and living allowances. These students

face the greatest barriers to participation and remain central to South Africa's commitment to social justice.

However, for all other publicly funded students, financing should be structured as an income-contingent investment rather than a once-off grant. Graduates would only begin contributing once their earnings exceed a predetermined threshold.

Importantly, repayment would not depend on parental wealth, household income, race or geographic location. Instead, repayment would depend entirely on future earning capacity. Students who remain unemployed or earn below the threshold would contribute nothing.

This preserves access while creating a mechanism through which successful graduates contribute towards the sustainability of the system.

Education therefore remains free when students need it most, but those who benefit financially from their qualifications help finance future generations.

4.2 SARS-Based Graduate Contribution System

A major weakness of traditional student-loan systems is poor debt recovery. South Africa can avoid this challenge by integrating graduate contributions directly into the South African Revenue Service (SARS).

Once graduates exceed the prescribed earnings threshold, contributions would be deducted automatically through the PAYE system. This mirrors international best practice and eliminates many of the administrative costs associated with conventional debt collection.

Rather than treating funding as a debt obligation, the system functions as a graduate contribution mechanism. Successful graduates reinvest a small portion of their future income into the same system that provided them with educational opportunity.

The result is a revolving funding model that continuously injects capital into higher education without requiring perpetual expansions in government expenditure.

4.3 National Corporate Bursary Clearinghouse

South Africa already has employer participation through SETAs, Skills Development Levies and B-BBEE initiatives. However, corporate bursary programmes remain highly fragmented.

Large companies often operate independent bursary systems across multiple institutions, each with separate application procedures, administration structures and graduate placement programmes. This fragmentation increases administrative costs and reduces efficiency.

To address this challenge, South Africa should establish a National Corporate Bursary Clearinghouse.

Instead of operating hundreds of disconnected funding streams, participating firms would contribute bursary funding into a centralised platform administered through a public-private partnership. Students would then be matched with sponsoring employers according to scarce-skills demand, academic performance and labour-market requirements.

Engineering students could be matched with engineering firms, accounting students with financial institutions, and information technology students with technology employers.

Graduates would complete structured work-back periods with participating organisations, ensuring that employers receive a return on their investment while students gain employment opportunities and practical experience.

This reform diversifies funding responsibility and strengthens the connection between higher education and labour-market outcomes.

4.4 Performance-Based University Funding

Sustainability requires more than generating additional revenue. It also requires ensuring that existing funding is used effectively.

South Africa should therefore introduce performance-based institutional funding inspired by models used in Denmark and Finland.

Under this framework, a portion of university subsidies would be linked to:

- Graduation rates;
- Throughput rates;
- Module completion rates;
- Academic progression outcomes; and
- Graduate employability indicators.

The objective is not to punish institutions but to incentivise student success.

Universities would be encouraged to strengthen tutoring programmes, academic support systems, mentoring initiatives and retention strategies. This reduces costly repeat enrolments while improving student outcomes.

By linking public funding to measurable success rather than simple enrolment numbers, South Africa can improve the efficiency of higher education spending.

4.5 Limitations & Potential Criticisms

Critics may argue that income-contingent financing undermines the principle of free higher education. However, access and financing are not the same concept. Students would continue to

receive free access at the point of entry and would never be required to pay upfront fees. Contributions would only arise once graduates earn sufficient incomes.

Others may argue that performance-based funding disadvantages historically disadvantaged institutions. This concern is legitimate but can be addressed through weighted performance metrics that account for institutional context rather than applying uniform targets.

Some may view corporate participation as the privatisation of higher education. Yet the proposed model does not transfer ownership or academic control to the private sector. Instead, it recognises that employers benefit directly from skilled graduates and should therefore contribute to the sustainability of the system.

Finally, critics may question whether graduates should contribute after receiving public support. The reality is that higher education generates both private and public benefits. Graduates typically experience higher lifetime earnings and improved employment prospects. Asking financially successful graduates to contribute towards future students is therefore both equitable and economically rational.

5. Conclusion

South Africa's higher education challenge is not fundamentally a revenue problem. It is a risk-allocation problem. The current system concentrates too much financial responsibility on government and taxpayers while failing to distribute financing obligations across the broader ecosystem that benefits from higher education.

The Shared-Risk Hybrid Funding Model offers a practical solution. By combining universal income-contingent financing, SARS-administered graduate contributions, a National Corporate Bursary Clearinghouse and performance-based university funding, South Africa can preserve access while improving long-term fiscal sustainability.

Most importantly, the proposal remains consistent with the Constitution. It does not restrict access to higher education, nor does it deny opportunity to deserving students. Instead, it rethinks how access is financed. Students receive support when they need it most, while graduates, employers and institutions contribute towards sustaining the system over time.

A fiscally sustainable student-financing model is not one that simply spends more money. It is one that continuously regenerates its own resources. South Africa must therefore move beyond viewing higher education as a recurring public expenditure programme and begin treating it as a national investment ecosystem. Only then will the country be able to protect access, reduce fiscal pressure and ensure that future generations continue to benefit from the transformative power of higher education.

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