BUILDING A FISCALLY SUSTAINABLE STUDENT-FINANCING MODEL THAT ENHANCES ACCESS TO HIGHER EDUCATION IN SOUTH AFRICA

1. INTRODUCTION

Access to higher education is a key driver of socio-economic mobility in South Africa, but the key challenge is the sustainable funding of higher education in the post-apartheid era. After the #FeesMustFall protests, the South African government transformed the National Student Financial Aid Scheme (NSFAS) into a fully grant-based scheme for low-income households. This has expanded immediate access, but the pure- bursary model suffers from serious long-term fiscal strain under the stagnant economic growth, while simultaneously excluding the “missing middle” students from working-class households who do not qualify for grants but cannot obtain private bank loans. South Africa needs to change its funding model to address this crisis. This essay contends that South Africa should adopt a tiered funding model, based on international models such as Australia’s Income-Contingent loan (ICL) system which would be integrated directly into the South African Revenue Services (SARS) payroll mechanism, to ensure fiscal sustainability and equitable access.

2. BACKGROUND OF THE CURRENT STUDENT- FINANCING MODEL

2.1. THE EVOLUTION OF THE NATIONAL STUDENT FINANCIAL AID SCHEME

Before the National Student Financial Aid Scheme (NSFAS) became a pure-bursary scheme, it initially operated as a hybrid model: providing loans to financially needy students with a feature allowing up to 40% of the loan to convert into a bursary based on end-of-year academic success. The remaining 60% was meant to be repaid once the graduate entered the labor market and crossed a basic earnings threshold. The NSFAS budget surpassed R45 billion by fiscal year 2022–2023, making it one of the Department of Higher Education and Training's (DHET) fastest-growing budget line items. In the pre-2018 model, inadequate capital replenishment was caused by partial loans and a poor recovery; in the post-2018 model, 100% state fee bursaries cause significant fiscal pressure while failing to account for the missing middle.

2.2. THE “MISSING MIDDLE” EXCLUSION

The hard income ceiling of R350,000 per household per year provides a binary outcome: students below the line receive total public funding for tuition, lodging, and living stipends, while those just above the line receive zero state aid. This affects households containing civil servants, teachers, nurses, and administrative personnel whose combined wages exceed R350,000 but remain insufficient to fund full university fees (which commonly range from R70,000 to R130,000 per student annually, inclusive of residential costs). Commercial banks perceive these households as high-risk borrowers unless backed by tangible assets or strong credit ratings, presenting a structural barrier to tertiary access.

3. COMPARATIVE EVALUATION OF INTERNATIONAL FINANCING MODELS

To design a reliable fiscally sustainable student-financing model, South Africa can examine international student-financing models. Higher education funding models generally fall into three broad types which are pure-grants, mortgage-style commercial loans and income-contingent loans (ICLs).

3.1. THE GLOBAL SHIFT TOWARD INCOME-CONTINGENT LOANS

The global shift toward income-contingent loans was first introduced by Australia with the establishment of the Higher Education Contribution Scheme (HECS, now HECS-HELP) in 1989. There are about ten countries which have either completely established national ICL systems for higher education tuition or partially implemented them. These include New Zealand, 1991; the United Kingdom, 1998; Hungary, 2001; and also, partial implementations in the United States, 1994; Thailand, 2006; South Korea, 2009; Brazil, 2016; the Netherlands, 2016; Japan, 2017; Canada, 2017; and Colombia, 2023. Below follows a table of how the ICL system works from different countries.

TABLE 1: Summary of how ICL system works from different selected countries

Country	**Does it cover tuition fees?**	**Does it cover living expenses?**	**How are the repayments made?**	**What is the annual interest rate?**	**Is there any insurance mechanism?**	**Are there any greater transactional efficiencies?**
Australia	Yes	No	**4-8% of total income** is withheld if assessable annual income exceeds initial threshold (upper thresholds apply).	Inflation	Yes. No minimal repayment is required, and outstanding **debt is written off upon death.**	Yes
New Zealand	Yes	Yes	**12% of marginal income** is withheld if assessable annual income exceeds initial threshold.	0%	Yes. No minimal repayment is required, and outstanding **debt is written off upon death.**	Yes

England	Yes	Yes	**9% of marginal income** is withheld if assessable annual income exceeds initial threshold.	Inflation + 0-3%	Yes. No minimal repayment is required, and outstanding debt is **written off after 30 years.**	Yes
Hungary	No	Yes	Debtors must repay **6% of the national minimum wage or own gross income,** whichever is higher.	Treasury bond rate + ~3%**	**Partially**. Debtors must repay 6% of the minimum wage if their assessable incomes are below that level.	**Marginally**. Payments based on income assessed 2 years earlier; collection is not automatic.

Sources: Author's own elaboration. Information on Australia, England and New Zealand as reported by Britton, Van der Erve and Higgins (in press). Information on Hungary as reported by Berlinger (2009).

* Student loans are interest-free for New-Zealand-based borrowers. Overseas-based borrowers must pay interest rates (4.3% p.a., for the tax year started on 1 April 2018). See details on https://bit.ly/2oz6R4Y (accessed on 16 Oct. 2018).

** "The interest rate of the loan equals the financing cost (slightly above the Treasury Bond rate) plus a risk premium (of 2 per cent) and administration costs (1 per cent)" (BERLINGER, 2009, p. 258).

From the table above, it shows that Hungary still need to improve its ICL system because it does not cover the tuition fees which defeats the whole point of having a system that allows all students to have equal financial access to higher education.

Chapman and Dearden (2022) state that financing higher education is primarily based upon sharing costs between students and taxpayers because of the relatively large private returns to investment in postsecondary education and positive externalities related to the economy. Traditional methods of financing higher education experience significant problems with respect to market failure — particularly when it comes to risks associated with student completion rates, future relative success, and volatility of labour market value in the future.

3.2. THE STAKEHOLDERS OF ICL

According to UNESCO (2025:4) the key stakeholders to ICLs are learners, government agencies, educational institutions, policymakers and legislators. Learners are the ones who are going to be borrowing the money to fund their studies and educational institutions are the ones who are going to be receiving the funds from students who borrowed them from the ICL system. The government agencies are responsible for being the primary funding source

and administrator of ICL programmes (UNESCO,2025:4). Government collects revenue from the public through taxes and repayments of loans and allocates them to programmes like the ICLs.

3.3. ADVANTAGES OF INCOME-CONTINGENT LOANS

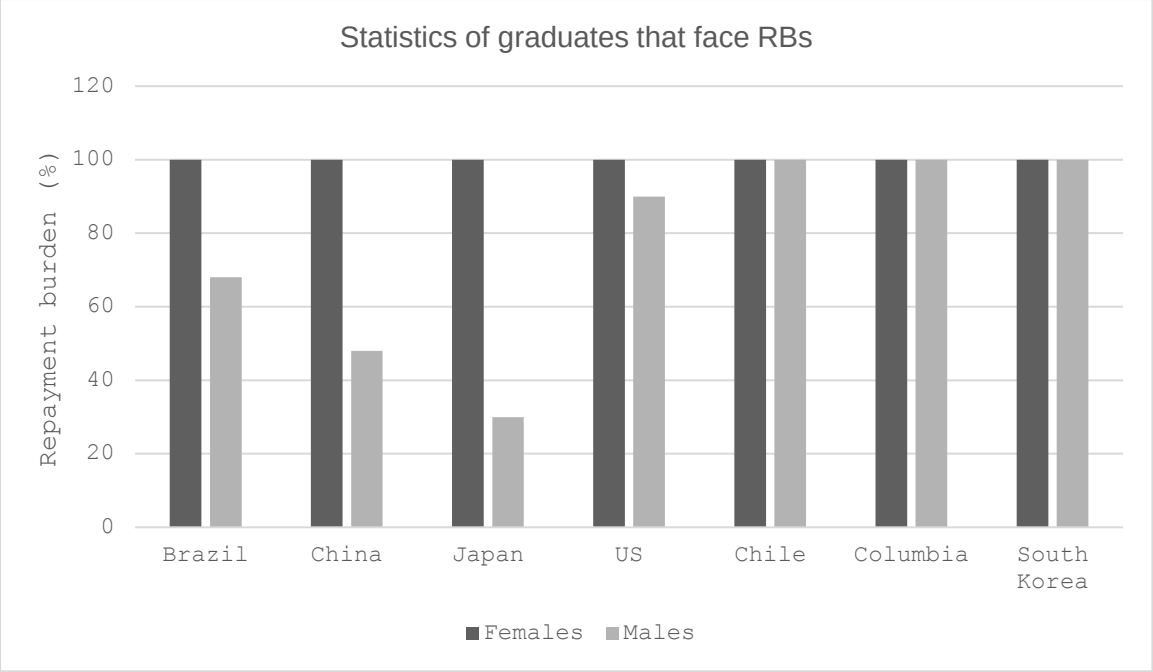
According to Chapman and Dearden (2022) ICLs possess considerate benefits (compared to TBRLs), providing insurance to borrowers against both future loan repayment hardships and defaults. Callender (2024:3) states that income-contingent loans are progressive because high-earning graduates repay more and are subsidized less by the government than lower-earning graduates and that they afford access to higher education and help fund its expansion. This ensures that most students, both lower class and “missing middle” class get equal access to financial aid of their higher education studies without the state running out of funds and most graduates being under unmanageable debts.

3.4. TIME-BASED REPAYMENT LOANS AND THEIR LIMITATIONS

Time-based repayment loan programs (TBRLs) were used by many countries, such as the U.S. and Canada, as a means of providing funding to students for their education. They provided funding for students to attend college but did so at the expense of imposing severe financial liabilities on those who borrowed money. Research conducted by Chapman and Dearden (2022) shows that TBRLs create very substantial repayment burdens (RBs) for lower-income graduates. RBs refer to the percentage of a graduate’s total income that is required to make loan repayments.

Below follows a graph that shows the statistics of the 20% bottom of graduates from different countries who are struggling to pay their mortgage-type student loans, which leads to repayment burdens.

Graph 1 (taken from Chapman and Dearden, 2022)



Source: Chapman, B., and D Doan. “Introduction to the special issue ‘Higher education financing: Student loans’ ”Economics *of Education Review 71 (2019):1-6 [9].*

The graph above shows Chile, Columbia and South Korea being the three countries leading in both genders that face repayment burdens. This can only mean that the graduates from these countries face unemployment issues after graduating or they can be earning so little that they cannot afford to sustain themselves and repay the mortgage-type student loans at the same time. Also, the females from all the countries mentioned above seem to be facing repayment burdens. This can either mean that females are the ones who take care of most of the households financially or they face inequality.

4. A PROPOSED FISCALLY SUSTAINABLE FRAMEWORK FOR SOUTH AFRICA

4.1. A TIERED INCOME-CONTIGENT LOAN SYSTEM

South Africa needs to develop an institutional funding system that allows for both the protection of social safety nets for vulnerable families, as well as cost recovery from families with greater earning capacity. The proposed model establishes a three-tiered structured:

- Tier 1: Low-income (R0 – R180,000 household income per annum): Students receive a 100% state-funded non-repayable grant covering tuition, university housing, and learning materials. This protects equity for the most economically vulnerable households.
- Tier 2: Working Class (R180,001 – R350,000 household income per annum): Students receive a hybrid package consisting of a 50% non-repayable grant and a 50% low-interest Income-Contingent Loan.
- Tier 3: Missing Middle (R350,001 – R600,000 household income per annum): Students gain access to 100% Income-Contingent Loans backed by government

guarantees, eliminating upfront tuition constraints without placing an unrecoverable burden on the state budget (NSFAS, 2026; Vuk'uzenzele, 2024).

5. CONCLUSION

South Africa's reliance on a pure grant funding model for higher education presents long-term fiscal challenges while failing to adequately support the "missing middle" (Manati, 2026). Continuing with the current model risks overextending public funds or ultimately restricting student intake. International experience—particularly Australia's HECS framework and global policy toolkits—demonstrates that Income-Contingent Loans offer a viable structure for balancing fiscal discipline with equitable access (Chapman & Dearden, 2022; UNESCO,2025). By establishing a three-tiered funding model, leveraging SARS's automated PAYE payroll infrastructure (SARS, 2023), and incorporating academic merit incentives, South Africa can construct a self-replenishing student-financing system. This approach protects lower-income students, extends funding to working-class families, and establishes a sustainable foundation for national human capital development.

6. RECOMMENDATIONS

The income-contingent loan system might be the better solution for South African students compared to the current pure-grant system. From my findings, the ICLs can ensure that all students both from disadvantaged background and "missing middle" class get financial aid to fund their higher education. The only challenge that we can come across with when it comes to the ICL system is the ability of graduates being able to repay the loans. Reality is that even after securing the degree, majority of graduates in South Africa face unemployment after graduating. The unemployment rate in South Africa increased to 33,60% in the second quarter of 2026 from 32,70% in the first quarter of 2026 (Trading Economics,2026). With the unemployment rate increasing every year, there might be high number of students that are funded and a low number of graduates who are able to pay back their loan.

The income-contingent loans can be made to be paid under an automated tax infrastructure. This can work by ensuring that every student that is enrolled in an ICL has their national identity number linked to their SARS reference number. This is going to ensure to track the financial records of the employed records so that they will be able to repay their loans. Recovered funds route directly back into a dedicated national tertiary education capital fund, creating a self-sustaining revolving fund loop. The key risk for tax-collected debt is skilled graduates emigrating to work overseas, moving out of range of SARS PAYE collection. To mitigate this, SARS should establish tax compliance clearance requirements for financial emigration. Converting loans to grants based on the student academic excellence can reduce graduate debts while encouraging higher graduate rates and efficient institutional throughput.

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