

Building a fiscally sustainable student financing model to enhance access in South Africa : An Analysis of International Experience

South Africa's student funding system, mainly through NSFAS has expanded access to higher education, however, is still under severe fiscal pressure, with funding shortfalls and unsustainable debt. This raises the core question as to what this essay is all about: How can South Africa build a fiscally sustainable student financing model that enhances access to higher education? This essay will answer this, by providing alternatives as to how South Africa can formulate a financially viable funding structure for Higher Education, whilst analyzing international models such as Australia's income contingent loans(ICL).

This essay is subdivided into five main sections. Section 1 researches and examines about the dual funding crisis in South African higher education, focusing on the growth and demand for university education, and the financial sustainability of universities. Section 2 explores the missing middle funding gap, highlighting the obstacles faced by students whose household income is above the R350,000 threshold for government financial assistance, but cannot afford the full cost of higher education. Section 3 investigates the historical context of student loan schemes in South Africa, administrative inefficiencies and the lack of SARS enforcement. Section 4 analyzes international approaches to a student financing, namely Australia's Higher Education Contribution Scheme(HECS) and the United Kingdom's student finance system, with the aim of extracting lessons applicable to South Africa. In conclusion, section 5 puts forward a financially sustainable model for student funding, centered on income-contingent loans, the possible involvement of SARS in repayment administration, and mixing public and private funding.

1: The Dual Funding Crisis Facing South African Higher Education

South Africa's higher education sector is trapped in a severe dual funding crisis. On one side, student demand is growing rapidly whereas on the other side, public higher education institutions are losing the operational capacity to run effectively. Demographic changes and post-apartheid equity policies have made a larger volume of secondary school graduates eligible for tertiary education over the past twenty years(Department of Higher Education and Training [DHET], 2024). At the same time, government funding has not increased at the same pace as the demand. Although enrollments at public universities have nearly doubled, real state funding per student has student has not increased (BDO, 2025). As a result, universities are facing growing structural deficits as tuition income and state support decline, making it harder for

them to maintain campus infrastructure, retain qualified academic staff, and sustain research outputs. Institutional financial reports confirm that funding per full-time student continues to decline in real terms, while student fee debt is rising, forcing institutions to rely on unsustainable tuition hikes or strict spending cuts (BDO, 2025). To balance expanding access while keeping universities functional, we need to fundamentally shift to a more resilient and sustainable funding model.

Figure 1: Trends in Higher Education Funding Sources in South Africa(2015-2023)

Year	State Subsidy per FTE(Rand)	Average Student Fee Debt(Rand)
2015	45,000	25,000
2020	38,000	42,000
2023	32,000	58,000

Source: DHET Annual Reports,2023.

As illustrated in Figure 1, state funding per student has steadily declined while student fee debt has more than doubled, confirming the reliance on tuition hikes.

2: The "Missing Middle" and the Inclusion Gap

The current public funding system excludes the missing middle which refers to the students from lower middle class families, and that causes a major gap in who can access university. The National Student Financial Aid Scheme (NSFAS) enforces a strict household income limit of R350,000 per year for full bursary eligibility (DHET, 2023). Students whose household income falls just above this limit do not qualify for state support, yet their families lack the financial collateral, credit history, or savings required to obtain commercial bank loans. This funding gap disproportionately affects children of essential public workers, such as nurses, teachers, and police officers. According to departmental data, an estimated 200,000 to 300,000 missing-middle students are financially excluded or blocked from registering annually, leading to delayed graduations and historical fee debts even though they have met all academic requirements(DHET, 2023). Closing this funding gap is critical if we aim to expand access to higher education without placing an unbearable burden on either middle-income families or national treasury.

Figure 2: Financial Exclusion of the Missing Middle (2023)

Category	Income Bracket (Rand)	Estimated Students Affected
NSFAS eligibility	0-350,000	750,000 funded
Missing Middle	350,000-600,000	200,000-300,000 excluded
Self-funded	600,000	Full self funded

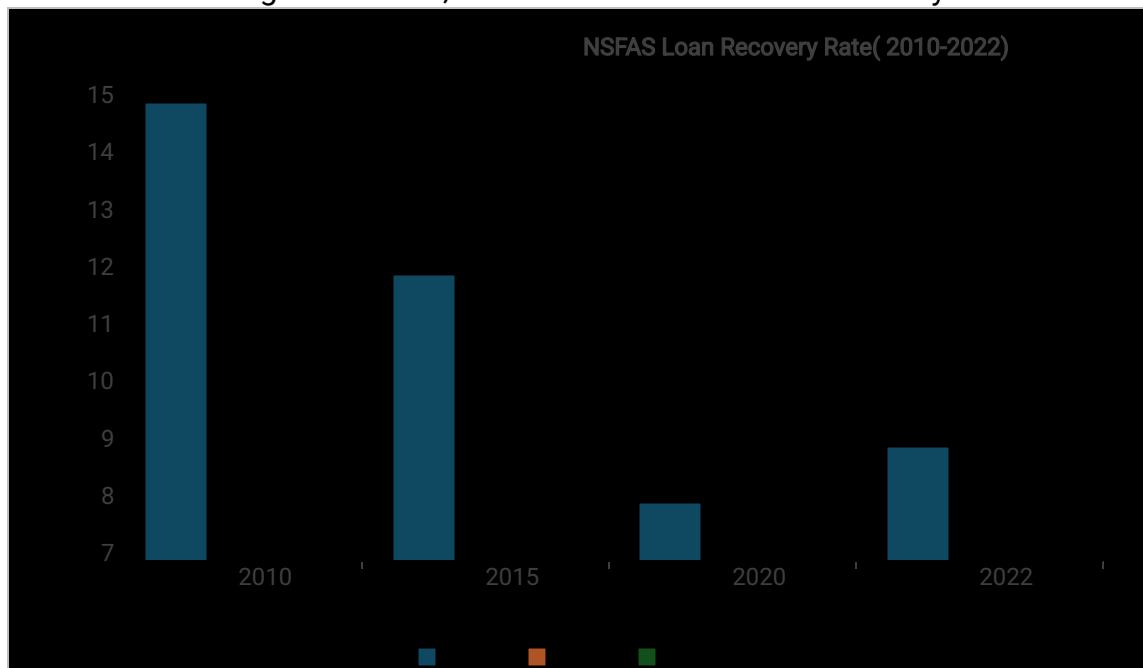
Source:DHET,2023

Figure 2 shows that an estimated 200,000-300,000 students who meet academic requirements are excluded by solely due to falling above the NSFAS threshold.

3: Historical Failures of NSFAS Student Loan Recoveries

South Africa's first attempt to run NSFAS as a self-sustaining loan-repayment system failed largely because of administrative inefficiencies and weak enforcement mechanisms. Before converting into a full bursary program for lower-income students, NSFAS was designed to operate as a revolving fund, where repaid loans would be used to fund new students. However, the system did not have an automated payroll deductions, centralized tracking system, or legal integration with the national tax authority. As a result, many graduates started working without informing NSFAS of their employment, whilst administrative backlogs made accurate record keeping and billing almost impossible. Official audits by the Auditor-General revealed that historically less than 10% of mature NSFAS loan balances were successfully recovered. This led to severe depletion of its capital base, forcing government to inject funds every years just to keep the scheme running (Auditor-General South Africa [AGSA], 2022). These failures show that any future student funding model must move away from manual collection and adopt automated, state enforced recovery mechanisms.

As illustrated in Figure 2 below, official audits revealed the severity of this failure.



Source: Auditor General South Africa [AGSA]2022.

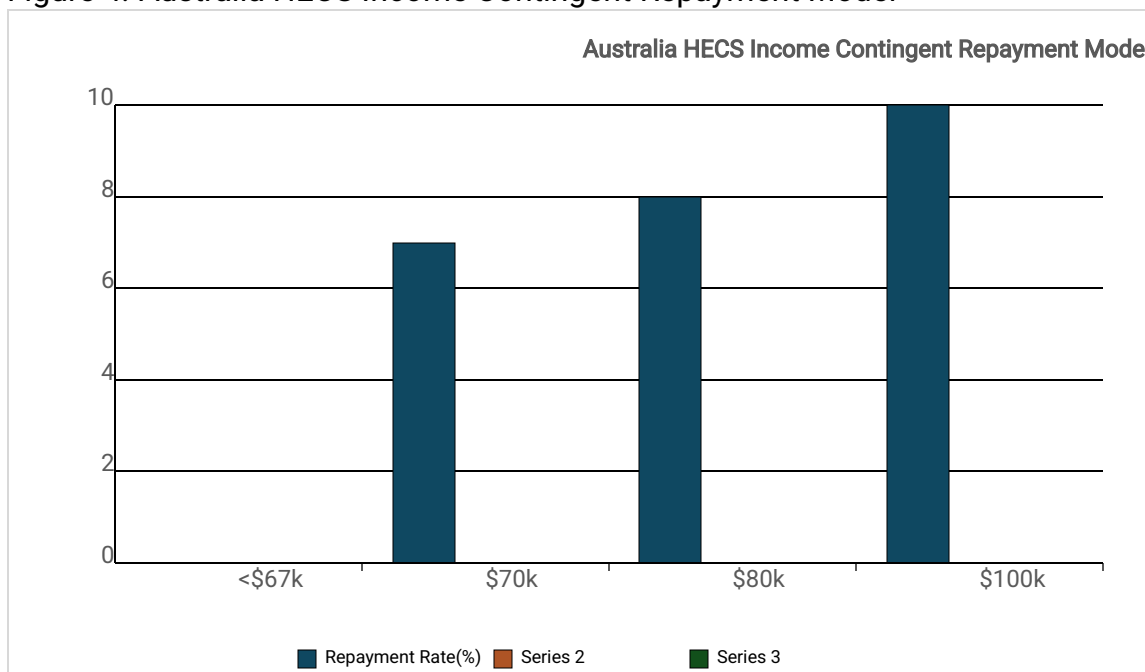
Figure 3: NSFAS Loan Recovery Rate showing decline from 15% in 2010 to 9% in 2022.

4: International Lessons from Australia's HECS Model

Australia's Higher Education Contribution Scheme (HECS) offers a successful model for sustainable, as it utilizes an Income-Contingent Loan (ICL) system based on shared risk. Under this system, students do not pay any upfront tuition fees. Instead, the government covers their studies up to a standard borrowing limit of AUD \$129,883 per student. Graduates repay their balance only once their post-graduation income crosses

a mandatory threshold of AUD \$67,000 per year. If a graduate earns less than AUD \$67,000 or remains unemployed, compulsory repayments are automatically paused, protecting individuals from financial default. This model spreads financial risk among three parties namely, the state which funds public social benefits, the student who invests in their own earning potential, and the labor market which benefits from qualified skills. Empirical evidence illustrates that HECS widened university participation across diverse socioeconomic groups while also creating a highly productive asset base, with over 2.9 million active debtors and generating billions in annual revenue through automatic payroll deductions enforced by the Australian Taxation Office (ATO, 2025; Australian Department of Education, 2025). Adopting income-contingent principles would therefore give South Africa a mechanism to achieve broad access to higher education while maintaining long term financial stability.

Figure 4: Australia HECS Income Contingent Repayment Model



Source: Australian Taxation Office [ATO], 2025; Australian Department Of Education.

Figure4: Australia HECS Income Contingent Repayment Model showing automatic pause below threshold of AUD \$67,000 per year.

5: A Proposed Sustainable Framework for South Africa

South Africa can build an equitable and sustainable higher education funding system by creating a SARS-administered Income-Contingent Loan scheme for the missing middle, supported by blended public-private partnerships. Under this proposed reform, the South African Revenue Service (SARS) would automatically collect loan repayments from missing-middle graduates through the existing Pay-As-You-Earn (PAYE) tax

infrastructure once earnings exceed an established income threshold. To reduce pressure on the national budget, public funds can be combined with private capital from commercial banks, institutional investors, and enterprise development funds (Treasury, 2024). The state can reduce private sector risk by providing partial loan guarantees, while private capital provides the initial liquidity required to finance the loans. Policy modeling indicates that using SARS's tax compliance infrastructure eliminates historical collection failures, while blended finance structures mobilize private capital to cover missing-middle students without increasing sovereign debt (Treasury, 2024). Implementing a SARS-backed income-contingent framework funded through public-private risk-sharing delivers an equitable and sustainable solution that secures both financial viability and access for South African higher education.

Conclusion

In my introduction, I explained what the essay is about and what each section is mainly about as the body is subdivided into five sections. This research is about finding different ways and alternatives to improve and ensure access to higher education of South Africa, by highlighting obstacles faced with the financing systems of students, namely NSFAS and the disadvantages of missing middle students and how that can be improvised. I did the research by reading multiple articles on NSFAS and Australia's HECS system, government reports, and fiscal policy literature.

RECOMMENDATIONS

In this research, one thing I think is extremely important especially for the Missing Middle as they are not eligible for NSFAS funding is to implement the Australia strategy as mentioned in my fourth paragraph, where students can be granted NSFAS loans until their completion of degree and pay back when they are employed, the starting salary for paying the loan could be R15,000 only then will they be able to start paying back the loan, with their details into the SARS system where it detects automatically that now a student is financially viable to settle their loan through the PAYE system. That way students can study freely without having to worry about academic fees during their years of study. In this way, South Africa is creating a fiscally sustainable student financing model.

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