Undergraduate Category: How Can South Africa Build a Fiscally Sustainable Student-Financing Model that Enhances Access to Higher Education?
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1. Introduction: Human Capital Accumulation Meets Fiscal Reality

South Africa stands at a crossroads, grappling with a macroeconomic paradox that is as urgent as it is complex. On the demand side, higher education is not just a ticket to the middle class; it is arguably the most powerful lever for social mobility, economic inclusion, and breaking the cycle of poverty. The Organisation for Economic Co-operation and Development's country note puts this into sharp relief: South African graduates earn a staggering 251% more than those with only a matric, the highest premium among emerging economies surveyed (OECD South Africa, 2025). A university degree not only boosts paychecks; it rewrites the script of an individual's economic life, elevating marginalised citizens into the top income brackets and, in turn, broadening South African Revenue Service's (SARS) long-term tax base (Nanziri & Olckers, 2019).

Yet, on the supply side, the machinery that funds post-school education and training is buckling under fiscal strain. The shift from Tertiary Education Fund of South Africa (established in 1991) to National Student Financial Aid Scheme (NSFAS) under Act 56 of 1999 was intended to balance equity and cost-sharing through an Income-Contingent Loan (ICL) model (Matukane & Bronkhorst, 2017; Klein, 2024). But after the #FeesMustFall movement (2015-17), the government made a sharp U-turn in 2018, replacing the loan system with a fully subsidised grant bursary for households earning up to R350,000 per year (Masutha & Motala, 2023).

This policy pivot did open the doors of university to over 700,000 students each year, but it also left a multi-billion-rand hole in the national budget that now looms over Treasury's balance sheet (de Jager, 2026; NSFAS Strategic Plan 2025-30). The Auditor-General (AGSA, 2025) and Molete and Stumke's (2025) research have flagged a key flaw: replacing cost-recovery loans with open-ended cash grants, unlinked to academic progress, has reproduced serious inefficiencies. The numbers are bleak: up to 63% of funded students drop out within five years, translating into billions in unrecovered public funds (Mbhalati, 2025). Add to this is the plight of the 'missing middle': students from households earning between R180,001 and R600,000, who fall through the cracks for being 'too rich' for bursaries and 'too poor' for bank loans, thus fuelling ongoing campus unrest and deepening financial exclusion (NSFAS Loan Scheme Guidelines, 2025).

To break this impasse, the government must shift its view of higher education from a bottomless welfare expense to a high-yield investment in human capital; real change demands this paradigm shift to redesign the student-financing system.

2. The Fatal Conceit of Universal Grants: Lessons South Africa Cannot Ignore

South Africa's post-2017 student funding regime exemplifies a textbook case of public choice failure (Buchanan & Tullock, 1962). Barr argues that fully state-funded higher education in an unequal society is a regressive mechanism that entrenches inequality and courts fiscal ruin (Barr, 2004, 2012). As long as higher-income students dominate university seats, blanket grants become a reverse redistribution scheme. Thus, low-income taxpayers cross-subsidise tomorrow's high earners. (Klein, 2024). Notably, increased public expenditure does not automatically produce similar educational outcomes. Hanushek's Education Production Function contrasts this with NSFAS's unmonitored cash infusions, which yielded staggering deficits: a R42 billion non-performing loan book (AGSA, 2025; NSFAS Annual Performance Plan 2026-27) and dropout rates between 63% and 72% among funded cohorts (Klein, 2024; Mbhalati, 2025).

History is replete with cautionary tales and proven solutions. International policy experience demonstrates that sustainable student financing relies on well-designed ICLs paired with targeted pro-poor subsidies, rather than undifferentiated generosity. Below are comparative international models that policymakers can look to for reforming the current student financing model:

- **Australia (HECS-HELP):** This ICL system is a benchmark for equity and sustainability, as its Higher Education Contribution Scheme (HECS-HELP) ensures no student has to pay upfront tuition fees; only after graduation, when their annual earnings surpass a statutory threshold, are repayments collected by the tax authority via payroll deduction (Chapman, 2006; OECD Australia, 2025; CheckRate, 2026). Because repayment is indexed to earnings, this approach protects the vulnerable, reduces default risk, and supports intergenerational equity.
- **Chile (Gratuidad):** After national unrest over private student debt, Chile established a dual-tier funding structure under its Gratuidad policy: tuition-free higher education is granted only to students in the lowest 60% of income deciles, while income-contingent, state-backed loans with capped interest rates are offered to middle- and upper-income students (Rios-Jara, 2023; OECD Chile, 2025). By allocating public funds to students with nowhere else to turn, the financing model rejects populism and helps prevent state fiscal exhaustion.
- **Colombia (ICETEX):** This scheme utilises a state-backed financial intermediary that co-finances student loans alongside commercial banks and corporate employers (Garzón-Correa *et al*., 2022; World Bank, 2026). This strategic effort aligns students with labour market demand and provides tax incentives to employers for co-funding student loans in these scarce-skills sectors. Overall, uplifting the entire nation.

Together, these international approaches demonstrate how South Africa can restructure its financing model (Barr, 2012; Chapman, 2006). To embrace Chile's dual-tier equity principle, fully state-funded bursaries should be reserved for indigent households, and ICL's for middle- and upper-income students (Rios-Jara, 2023). To parallel Australia, loan collection should be executed through SARS once graduates cross the personal income tax threshold (Molete & Stumke, 2025). To apply Colombia's public-private co-financing model, corporate partnerships and tax incentives should align the model with scarce skills in the labour market (Garzón-Correa et al., 2022; World Bank, 2026). Mixing Chile's targeted equity, Australia's tax-based enforcement, and Colombia's labour market alignment together can redesign the current model.

3. Proposed Restructured Dual-Tier Financing Framework

To operationalise the above practices within South Africa's socio-economic landscape, this paper proposes the following restructured, dual-tier student financing model, administered through a modernised public-private ecosystem:

Tier 1: Indigent Safety Net: Means-Tested Pro-Poor Bursary Scheme

Households with an annual income below R180,000 (aligned with South Africa's lower-income quintiles and SASSA social protection baselines) should be guaranteed 100% state-subsidised, non-repayable higher education bursaries (DA,2024). However, this requires a costly, automated administrative means-testing system that integrates the NSFAS application portal with the Department of Social Development (SASSA), SARS tax records, and the Department of Home Affairs (NSFAS Strategic Plan 2025-30; NSFAS Bursary Scheme Guidelines, 2025). If replicated, it would eliminate the widespread fraudulent claims highlighted by the Auditor-General (AGSA, 2025) and ensure that every allocated public rand earmarked for the truly indigent reaches their hand.

Tier 2: Anchoring the Missing Middle: ICL Scheme

1. **Sliding Scale Subsidisation:** Households earning between R180,001 and R350,000 should be eligible for a combination of a grant (up to 70%) and/or a soft loan (up to 30%). Whereas households earning between R350,001 and R600,000 should receive a combination of up to a 30% grant and/or up to a 70% soft loan (DA, 2024; Mbhalati, 2025; NSFAS Loan Scheme Guidelines, 2025). This progressive approach provides a subsidy where it is needed and responsibility where it is due.

2. **Automated SARS Collection Engine:** Paralleling Australia's HECS-HELP model, loan recovery must be unbundled from NSFAS's bureaucracy and flow through SARS's automated tax infrastructure instead (Chapman, 2006; Molete & Stumke, 2025; de Jager, 2026). This allows for graduate repayments to be automatically deducted via employer PAYE systems once their gross annual salary exceeds the personal income tax threshold (~R95,000 per annum). With progressive repayment rates starting at 3% and scaling up to 8% for high earners (Molete & Stumke, 2025; Britton *et al., 2019*). This system is more transparent, requires accountability, preserves dignity, and over time will finance itself.

3. **Capital Markets Integration:** To fund Tier 2 without straining the ambitious National Treasury's medium-term expenditure framework, the state could issue government-guaranteed education infrastructure bonds to commercial banks to mobilise private-sector capital under ESG and B-BBEE scorecard incentives (DA, 2024; NSFAS Strategic Plan, 2025-30). This reinforces that the financing model is not charity, but a strategic investment in nation-building.

4.Integrating Micro-Allowance Reform & Financial Preservation into Policy

Upon investigating NSFAS's post-2018 system, its vulnerabilities boil down to unmonitored cash stipends allocated for accommodation, food, and materials that are disbursed directly into students' accounts. This critical flaw has invited budget leaks and predatory debt (Masuku *et al*., 2025; Uwizeyimana & Mlambo, 2025; Mabuse, 2023). The proposed solution outlined above is uncompromising: non-tuition stipends will be channelled via digital merchant vouchers to on-campus facilities and linked housing agreements.

This guarantees food security and dignity while ring-fencing stipends from consumer excess. More importantly, it protects already financially vulnerable youth from present-bias (e.g., clothing credit accounts) that will catch up with them as they enter the workforce. With support from universities and financial institutions (e.g., workshops), the proposition incorporates financial preservation as policy to embed literacy and wealth-building metrics when they matter most (Oseifuah & Gyekye, 2014; Nanziri & Olckers, 2019).

5. Historical Debt Resolution, Supply-Side Efficiency, & Macroeconomic Synthesis

Consequently, no student-financing reform is complete without resolving the legacy of historical student debt (currently exceeds R16 billion across public universities) (Mbhalati, 2025; Student Debt Relief Bill, 2025). Despite advocacy for blanket debt cancellation, this act would be fiscally reckless; a mirage that breeds moral hazard (Barr, 2012; Klein, 2024). On the other hand, denying degree certificates to indebted graduates paralyses their entry into the workforce and undermines the earning capacity they need to repay the debt (Student Debt Relief Bill, 2025; Masutha & Motala 2023). Therefore, the new model must be principled and practical.

Moreover, the proposed solution adopts the Heher Commission's recommendation (DHET, 2017): all historical debt, whether owed by employed or unemployed graduates, will be converted into a SARS-administered Tier 2 ICL ledger, as outlined (Molete & Stumke, 2025; de Jager, 2026). If unemployed graduates carry zero repayment obligations until employed, this dignifies recovery, unfreezes university balance sheets, and lets graduates use their qualifications to earn and to repay (Chapman, 2006, de Jager, 2026).

To ensure the reform is watertight, SARS should reinvest the recovered capital into supply-side university infrastructure, following Hanushek's (2020) logic, to fund institutional block grants towards the establishment of universities in secondary municipal hubs along regional trade corridors (Fongwa, 2023; Hornby & Maistry, 2025). Establishing 'place-based anchors' with in-demand qualifications for that hub, such as the Northern Cape (e.g. for green energy) and Mpumalanga (e.g. for agri-logistics), could boost graduate employability, reduce 5-year attrition rates, and multiply local growth (Capello, 2016).

6. Conclusion & Recommendations

Evidently, South Africa's higher education funding crisis is not the failure of allocative efficiency, but of structural design and policy alignment. If government can abandon unconstrained entitlement cash transfers and adopt the internationally validated, dual-tier ICL approach, South Africa stands a chance to reconcile social equity with fiscal sustainability.

Under this proposed solution, the indigent receive 100% grant protection, the missing middle secures its footing through income-protected loans, and the state establishes a self-replenishing, SARS-administered capital fund. This investigation shows that if student financing shifts from a short-term political expense to a structurally insulated macroeconomic investment, the country gains not just university access, but also an expanded long-term tax base, a protected sovereign rating, and unlocks untapped human capital.

Beyond immediate fiscal relief, institutionalising a SARS-administered ICL framework will ease the National Treasury's expenditure burden, redirecting public funds toward basic education quality and university capital infrastructure (Hanushek, 2020; Klein, 2024). Sectorally, replacing unchecked cash stipends with labour-market-aligned funding can reduce the severe 63% student attrition rate. And establish a financing pipeline for the missing middle (Fongwa, 2023; Molete & Stumke, 2025). Ultimately, this reform proves that fiscal discipline and social justice are mutually reinforcing (Barr, 2012; Chapman, 2006).

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