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Re-Structuring Student Financing in South Africa: Fairness, Budget Persistence and Organizational Innovation

Introduction

Tertiary education can yield significant returns in terms of human capital development, productivity, and earning capacity.

The costs of higher education are incurred before any benefits accrue to the holder of the qualification. These costs can include tuition fees, accommodation, transport, and learning materials. It is therefore necessary for the government to seek ways to increase access to quality higher education while maintaining fiscal sustainability.

The National Student Financial Aid Scheme (NSFAS) is the primary vehicle for providing financial support to students from disadvantaged backgrounds in South Africa.

As the demand for funding grows, the challenges of implementing and managing student financing have become more complex. To expand the post-school education and training sector, the government must find ways to support students while preserving the quality of institutions and their capacity to deliver high-quality education (World Bank, 2019). The increase in student numbers alone does not guarantee efficient use of resources and better educational outcomes, even if it is funded.

This paper aims to outline a differentiated student financing framework for South Africa to maximize the use of available public resources and ensure that the responsibilities of the state, students, and their families are appropriately shared. To maintain the quality of institutions of higher learning while increasing access to them, non-repayable bursaries should be provided to the poorest students. At the same time, those in the so-called 'missing middle' can take out income-contingent loans. Wealthier households can be expected to contribute more to the cost of their children's education.

Theoretical Background on Student Financing: Equity, Efficiency and Fiscal Constraints

Human capital theory provides a strong rationale for public investment in higher education. Education can increase individual productivity, promote technological innovation, support economic growth, and enhance employment opportunities (Becker, 1993).

Higher education can generate significant social returns, including research, innovation, civic engagement, and quality public institutions. Since these benefits accrue to society

as a whole and not only to individual students, there are grounds for government intervention to finance such education.

While there are social benefits to higher education, this does not mean that the government must bear the entire cost of tertiary education. Public resources are limited, and there are many competing demands on these resources such as basic education, health care, infrastructure, and social welfare programs. The opportunity cost of a universal, fully subsidized higher education system can be very high, especially for those households that can afford to contribute to their children's education.

However, students have no collateral and have no credit history. Therefore, they are unable to access finance from commercial banks. Therefore, students from wealthy households can afford higher education, while students from poorer households cannot, even if they are very bright.

As with any other public expenditure, there is a limit to the amount of money that can be spent on higher education, and, as a result, there is a limit to the amount of private funding available to finance student debt.

Multi-Tiered Student Financing Framework

The proposed framework for student financing classifies students into three categories: very poor, middle-income, and very rich.

Economically Vulnerable Students: Safeguarding Grant-Based Support

Students from low-income households should be given grants that cover their tuition and living costs on campus. They should not be saddled with any debt that would hinder their chances of becoming gainfully employed after graduation.

Household income, household size, dependency ratios, and other indicators of socio-economic status must be considered when means-testing students for financial assistance. Assessment must take into account both formal and informal sector earnings and seek to minimize the risk of fraud and the exclusion of deserving applicants.

While grant-based funding for students is necessary to promote equity, there is a need for periodic review of eligibility criteria and funding levels to maximize the utilization of available public resources for those most in need.

The Missing Middle: Enhancing Income-Contingent Loans

The 'missing middle' refers to students with household incomes above the threshold for grant funding but too low to afford to study at university on their own. Most of these students have no assets, cannot provide collateral, and have no credit history. Therefore, they cannot access commercial funding for their studies.

The state can provide income-contingent loans to students in the 'missing middle' category. These loans can be funded or guaranteed by the government. Repayments can be fixed as a percentage of a student's income and only begin once the student earns above a certain threshold.

The NSFAS currently administers a loan scheme for the income group described above. However, the proposed framework focuses on strengthening implementation of the scheme, improving repayment terms and integrating it with the rest of the student financing framework (Department of Higher Education and Training, 2025).

As with any other form of public expenditure, the cost of finance, the cost of administration and the risk of default must be taken into account when estimating the future repayment streams from student loans. The present value of future repayments must be estimated based on graduates' expected earnings, the number of dropouts, delays in repayments by some graduates, and the non-recovery of some loans.

Wealthy Households: Progressive Cost-Sharing

Students from wealthy households must pay the full cost of higher education. This means that students from wealthy households should not receive the same level of funding as students from poorer households.

A progressive cost-sharing system for students from wealthy households can also be used to target financial assistance to those from low-income households. Means testing would include not only household income but also household assets and other indicators of financial ability to pay.

Importantly, requiring wealthy households to contribute to higher education funding does not mean that such students are denied access to public universities. All students, regardless of household income, can make use of publicly funded infrastructure, research, and other academic activities.

There is a distinction between the funding of higher education institutions as public goods and individual student financing.

International Experiences and Lessons for South Africa

Many countries provide financial aid to students through public funding, private contributions, and student repayment in due course. The various models used in these countries provide useful insights into the matter.

Australia: Income-Contingent Repayment Systems

The Higher Education Loan Program (HELP) in Australia is an example of an income-contingent repayment system. Under this system, graduates begin repaying their HELP loans through the tax system once their income exceeds a certain threshold.

The Australian model provides two key lessons.

First, it ensures that graduates are not burdened with unaffordable repayment obligations during times of low income.

In addition, the system can efficiently collect repayments from formally employed graduates through the national tax administration system, SARS.

South Africa could apply similar principles through cooperation with the South African Revenue Service (SARS), provided that appropriate legal frameworks and data protection measures are in place.

However, as already mentioned, several other challenges need to be addressed, including unemployment, informal employment, graduate emigration, and limited repayment capacity.

The fiscal costs of unrecovered loans must be estimated for the South African context.

Sub-Saharan Africa: Revenue Diversification and Access

Some countries, such as Kenya and Uganda, have implemented dual-track funding systems where public universities can generate additional income by enrolling privately funded students alongside government-sponsored students.

These methods of generating additional revenue for higher education institutions can help increase resources for such institutions and expand access to higher education for students from disadvantaged backgrounds.

However, increased enrollment must not come at the expense of educational quality. Increased enrollment must be supported by adequate investment in academic staff, infrastructure, and other support services to maintain the quality of teaching and learning.

Moreover, while private enrollment can be increased, this must not come at the expense of access for disadvantaged students.

As noted by the World Bank (2019), financing higher education in South Africa needs to develop alternative pathways while improving the targeting of financial aid to students from poor backgrounds. This can be achieved through a differentiated funding model and stronger institutional capacity.

Structural Reform: Developing a Transparent Financing System

Ultimately, the effectiveness of any student financing model is contingent on administrative capacity. Administrative failures, delayed disbursements, and inaccurate record-keeping can hinder students' access to available funding.

While NSFAS should continue to be responsible for the policy, regulation, and oversight of student financing for higher education, the administration of these functions can be delegated to universities and private financial institutions. The universities are best placed to manage the verification of student registration, the monitoring of student progress, and the reconciliation of student tuition fees.

While NSFAS can continue to be responsible for policy, regulation and oversight, certain operational functions can be delegated to the universities and private financial institutions. Involving private institutions in the administration of student loans can also bring benefits, including competitive procurement, service-level agreements, and performance standards. Such functions can be tested in pilot projects, with contracts awarded based on cost, quality of service, and recovery performance.

Administration of student financing can be outsourced to organizations; however, the state will most likely bear the financial risk. SARS can assist with income verification and recovery of payments from graduates; however, this would have to be within the boundaries of legal authority and data protection.

Fiscal Sustainability and Implementation

The sustainability of student financing can be assessed in terms of financial sustainability and educational outcomes.

On the other hand, expanding enrollment without proper planning can result in unsustainable public liabilities.

This can be done by using performance indicators such as total public spending on higher education, loan recovery rates, graduation rates of students on financial aid, administrative efficiency, and student satisfaction.

Ultimately, the sustainability of the student financing system will depend on graduates' repayment behavior and the cost of financing.

The proposed framework should be implemented in three phases:

Phase 1: Baseline Assessment

Establish eligibility categories, determine current spending levels, and estimate future loan recovery rates.

Phase 2: Administrative Piloting

This phase involves testing various administrative functions through third-party service providers and developing the necessary legislative and operational frameworks to implement SARS-integrated collection mechanisms.

Phase 3: Performance-Based Expansion

This phase would expand the system based on the system's success in meeting specified fiscal and access targets. The evaluation metrics would include cost per account, recovery performance, processing time, and complaint handling.

Safeguards must be put in place to protect the low-income graduate, keep administrative costs to a minimum, and prevent wrongful exclusion from the means test. The framework should be rolled out to TVET colleges to ensure that resources are distributed efficiently across the post-school education and training sector.

Conclusion

Student financing must be structured to support broad access to higher education while operating within the limits of public funding available for this purpose.

The proposed model in this paper incorporates grant funding for the most economically vulnerable students, income-contingent loans for the missing middle, and more private contributions from wealthier households. The framework is supported by collaborative institutional arrangements involving NSFAS, universities, financial institutions, and SARS.

The major contribution of this proposal is to bring together the objectives of access to education, fiscal sustainability, and administrative efficiency within a single financing system. Transparent implementation, realistic fiscal planning, effective loan recovery, and accountability are key to the success of such a system.

The long-term sustainability of higher education must not be compromised to increase access. The financing framework must enable increased participation while responsibly managing public funds.

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