UNDERGRADUATE CATEGORY

Topic: HOW CAN SOUTH AFRICA BUIL D A FISCALLY SUSTAINABLE STUDENT-FINANCING MODEL THAT ENHANCES ACCESS TO HIGHER EDUCATION? REFER TO INTERNATIONAL EXPERIENCE IN YOUR ANALYSIS

Word Count: 1956 words (excluding Title and Reference)

1. INTRODUCTION

Access to higher education is an important part of South Africa's economic development because universities and colleges produce the skills required for a productive and competitive economy. However, access remains strongly influenced by whether students and their families can afford tuition, accommodation, food, transport and learning materials. It creates a difficult policy question for government: how can South Africa widen access to higher education while ensuring that the cost of students financing remains affordable over the long term? The question is particularly important because government has limited financial resources and must simultaneously fund health, basic education and other public services. The challenge is therefore to find a financing model that balances access and fiscal sustainability.

The Organization for Economic Co-operation and Development (OECD) shows that countries use different combinations of government funding, tuition fees and student loans. Some countries rely heavily on public funding, while others use higher tuition fees combined with extensive student-support system (OECD, 2025).

This essay examines South Africa's current student financing challenge and considers international experience, particularly from Australia and England. It argues that South Africa should develop a differentiated financing model in which students from the poorest household receive non-repayable support, in the missing middle receive affordable income-contingent loans, and graduates who eventually earn higher incomes contribute more towards repaying the public investment in their education.

As our baseline institutional setting we use England, a country which has had an Income Contingent Loan system for nearly 20 years and has rich survey data that enables the development of lifetime earnings for graduates, which may be considered essential for quantifying the true cost

and distributional impact of student loans. (Higgins & Sinning, 2013). In addition to England, the research examines design features from Australia, New Zealand both of which also have long established higher education ICL schemes. Specifically, this study investigates the impact of key student loan parameters which include interest rates, write-of periods, earnings thresholds and repayment rates.

2. SOUTH AFRICA'S STUDENT FINANCING CHALLENGE

2.1 The growing cost of expanding access

South Africa has made a significant public investment in student financial assistance through the National Student Financial Aid Scheme (NSFAS). According to the Department of Higher Education and Training, NSFAS disbursed approximately R54 billion in 2024, while between 2019 and 2024 it disbursed R244 billion and benefited almost 4.7 million students across universities and TVET colleges (DHET, 2025). However , they also show sustainability must form part of the discussion. Government cannot simply assume that expenditure on student financing can increase indefinitely. The 2026 National Budget continues to provide substantial support for NSFAS, with R54.3 billion allocated to the scheme (National Treasury, 2026). The question is therefore not whether government should abandon student support. Rather, it is how the existing public investment can be designed so that it supports students effectively while remaining financially manageable.

2.2 The problem of the missing middle

Another challenge is students who do not get full NSFAS help but whose families still cannot pay for university, often called the "missing middle". DHET defines this group under the Comprehensive Student Funding Model as those from homes earning above R350 000 but not more than R600 000 per year (DHET, 2025). This matters because a high household income does not always mean there is free money to pay fees. The loan for this group is a big shift for South Africa. The DHET 2024-25 Annual report says half the loan can turn into a bursary if students finish on time, which links funding to success(DHET, 2025).

3. INTERNATIONAL EXPERIENCE

3.1 Australia: Income-contingent student financing

Australia is a key case of income bass student funding through its Higher Education Loan Program (HELP), where students defer fees and pay back based on income, not fixed monthly amounts. In 2025-26, the government raised the minimum pay-back level to A$67 000, so repayments are only due on income above that (Australian Government Department of Education, 2025). It so gave a tone-off 20% cut to eligible student debt in 2025 (Australian Department of Education, 2025). So, income-based loans are not free they help access and protect students, but government must plan for some loans not being fully paid back

3.2 England: loans linked to graduate income

England provides another example of income-contingent student financing. Student loan repayments beginning only when earning exceeds the relevant threshold. Under Plan 5, for example, borrowers repay 9% of income above the applicable threshold (Student Loans Company, 2026). The OECD reports that England has a high fee, well developed student support system in which income-contingent government guaranteed loans are widely used (OECD, 2025). It then shows how a country can maintain substantial tuition fees while protecting students from having to pay the entire cost upfront. The OECD explains that income-contingent repayment system provides greater protection to low-income earners but can result in longer repayment periods (OECD, 2025).

3.3 What South Africa should learn.

The international evidence suggests that South Africa should learn from the principle of income-contingent repayment rather than copying another country's entire system (OECD, 2025). The international experience therefore supports a model in which public assistance remains strongest for students with the greatest need, while loans are used for students who have reasonable prospect of repayment.

4. Towards a Differentiated South African Model

4.1 Protect grants for students with the greatest need

South Africa should retain non-repayable grants for students from genuinely poor households. Requiring the poorest students to finance their education mainly through debt could reproduce inequality because these students are least able to absorb financial risk. Grant funding should also cover the major costs that prevent students from remaining at University. Tuition alone does not guarantee access if students cannot afford accommodation, transport and learning materials. However, funding should be accompanied by academic and institutional support. Research by Wildschut and Miselo (2020), based on 29 619 students at two South African universities, found that the relationship between NSFAS funding and academic performance becomes positive after other factors are controlled for. This shows an opinion that funding matters, but student success depends on it more than funding alone.

4.2 Expand income-contingent loans for the missing middle

Students who fall outside the grant category but cannot afford higher education should have access to affordable government-backed loans. Repayment should only begin when graduates reach a specified income level. This would differ from an ordinary commercial loan. A graduate who is unemployed or earning below the repayment threshold would not be required to make the same payments as graduate earning a high salary. The proposed approach would also allow government to recover part of its investment from graduates who have sufficient income. Recovered funds could then be used to support future students.

4.3 Threshold and making repayment progressive

Graduates are required to repay 9% of their earnings that exceed the repayment threshold, which is currently £25 000 per year and is set to rise in line with average earnings. While studying, students are charged an interest rate of RPI plus 3% on their loan. After graduation, the interest rate changed in real terms varies between 0% and 3%, depending on their income level. Borrowers earning below the £25 000 threshold are charged 0% interest, while those earning above the upper threshold of £45 000 are charged 3%. For incomes between these two thresholds, the interest

increases gradually. Any outstanding debt that remains is written off 30 years after graduation becomes eligible to start repaying.

The repayment system should recognize differences in income. A graduate earning slightly above the threshold should not face the same repayment burden as a graduate earning several times more. A progressive repayment structure would mean that those with greater financial capacity contribute more, while low-income graduates receive greater protection. This proposal is particularly important for South Africa because graduate outcomes differ significantly by field of study background and Labor market conditions.

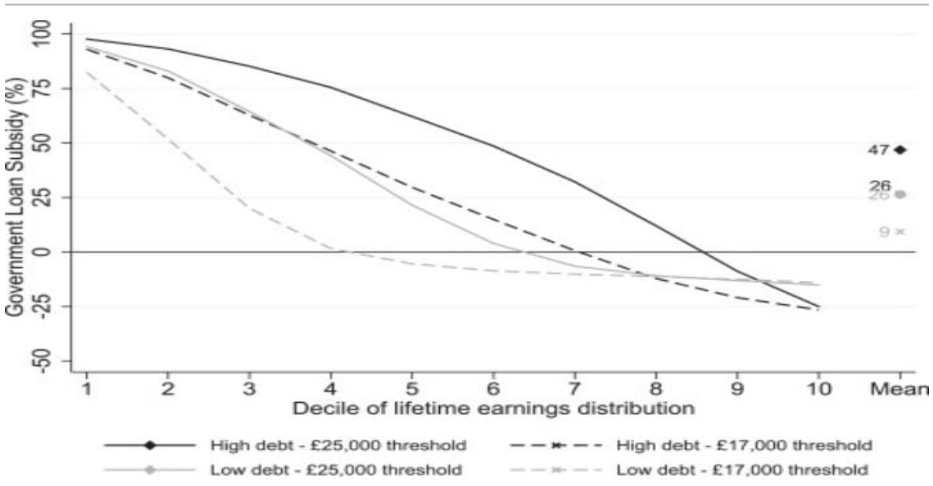
Table 1. Australian repayment rates and thresholds for 2017–18.

Repayment rate (%)	Threshold (A$)
4	55,874
4.5	62,239
5	68,603
5.5	72,208
6	77,619
6.5	84,063
7	88,487
7.5	97,378
8	103,766

(Higgins, Britton, & Van der Erve, 2017)

This section focuses on the repayment threshold, the level of income at which graduates begin to repay their loans and the repayment rate. These are central features of all Income Contingent Loan designs, so it is important to understand how they affect outcomes in different scenarios. The effects of these parameters are examined separately under both high and low debt scenarios. The study also considers the Australian system, where graduates repay a share of their total income rather than just the marginal income above the threshold.

Figure 1 shows the subsidies under the current English threshold of £25 000 and under a lower threshold of £17 000, which is like the current threshold in the US to illustrate



(Higgins, Britton, & Van der Erve, 2017)

5. Strengthening Fiscal Sustainability

A student financing model cannot be sustainable if government does not know who qualifies, how much is being spent and how much can realistically be recovered. The priority should therefore be improved administration. Government should strengthen the verification of household income and eligibility using appropriate public information systems, while protecting personal information. This could reduce both the exclusion of deserving students and the payment to people who do not qualify.

Second, South Africa should develop an efficient repayment mechanism. Where graduates enter formal employment, repayments could be connected to the tax and payroll system. This would make repayments more responsive to income and could reduce the administrative burden associated with collecting individual payments.

Third, government should distinguish between gross expenditure and the long-term cost to the state. A loan of R50 000 is not necessarily a R50 000 grant because some of the loan may eventually be recovered.

7. Recommendations

South Africa should establish a clearly differentiated student financing system based on financial need, ability to repay and fiscal capacity. First, grants should remain the main form of assistance for students from the poorest households. Second, affordable income contingent loans should be expanded for the missing middle. Third, repayment should be linked to income with lower income graduates protected from unaffordable payments. Government should also strengthen NSFAS administration, improve eligibility verification and connect repayments for formally employed graduates to the tax system.

Repayments from graduates would return to the fund and finance future students, while government would continue to provide the grants and subsidies necessary for students who cannot reasonably repay. Such a mechanism would not eliminate the fiscal costs of students financing, but it could help government obtain greater long-term value from money already invested. Finally, the government should regularly review income thresholds and repayment rates. These should not remain permanently fixed while wages, unemployment and fiscal position change. A sustainable system must adapt to economic conditions.

8. Conclusion

South Africa faces a difficult balance between expanding access to higher education and protecting limited public finances. NSFAS has become an important instrument for opening higher education to poor and working-class students. However, increasing financial demand means that the country needs a student financing model that is sustainable over several generations. International experience from Australia and England demonstrates the potential value of income contingent loans. These systems allow graduates to repay according to their income and protect people whose earnings remain low. South Africa should therefore develop its own differentiated model rather than copying an international system. The fundamental principle should be that a student's ability to access higher education should not depend on the wealth of his or her family, but the way higher education is financed should recognize differences in people's ability to contribute. This approach can protect access for disadvantaged students while making better use of scarce public resources.

A fiscally sustainable student financing model should therefore be understood not simply as a mechanism for paying university fees. It should be an investment system through which

government, students and graduates share responsibility for developing the human capital required to build a stronger South African economy

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