



ENTRY #785

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Title: How South Africa Can Build a Sustainable Student Funding Model: Lessons from Around the World

1. INTRODUCTION AND PROBLEM STATEMENT

Every country faces a hard choice when it comes to university funding: how to give as many students access as possible, keep the quality of education high, and make sure the government does not run out of money. In South Africa, helping poor students go to university is very important because of our past history of inequality. However, the way we currently pay for student funding is creating big financial problems for the government.

In 2018, after the Fees Must Fall protests, the government changed the National Student Financial Aid Scheme (NSFAS). Instead of giving loans that students pay back, NSFAS started giving free bursaries (grants) to any student whose family earns R350,000 or less per year. While this helped many poor students go to university, it costs the government a lot of money—over R48 billion every year. Because South Africa's economy is not growing fast, the government cannot afford this forever.

This system also created three big problems:

1. The "Missing Middle" Problem: Students whose families make between R350,001 and R600,000 are too rich for NSFAS, but too poor to get bank loans. They get no help at all.
2. Hurting University Budgets: The government spends so much money on NSFAS grants that it has less money to give directly to universities. This forces universities to raise their fees, which creates even more student debt.
3. No Money Coming Back: Because NSFAS gives grants instead of loans, students who finish university and get good jobs do not pay anything back into the system. This means the government has to keep spending new money every year.

To fix this, South Africa needs a model where students pay back a small part of their funding only when they start earning a good salary.

2. THE CURRENT SITUATION IN SOUTH AFRICA

2.1 The Government's Financial Struggle

South Africa has limited tax money. The government already spends a lot of money paying off national debt, basic education, healthcare, and social grants. It cannot keep increasing the money given to NSFAS without cutting money from other important services.

2.2 Problems with the Current NSFAS System

Late Payments: NSFAS often delays paying students their monthly living allowances, which causes a lot of stress and makes students struggle in class.

Not Sustainable: Since beneficiaries do not repay anything when they start working, the system relies completely on taxes.

Unpaid Student Debt: Universities are owed billions of Rands by students who cannot pay their fees, making it hard for universities to build new facilities or hire teachers.

3. LESSONS FROM OTHER COUNTRIES

To find a better way, South Africa can look at how other countries pay for university students.

3.1 Australia (Income-Contingent Loans)

Australia uses a system called the Higher Education Loan Program (HELP):

How it works: Students do not pay tuition upfront. The government pays for them. Once the student graduates and finds a job that pays above a certain salary, a small percentage is automatically taken from their monthly wage through the tax system.

Why it works: If a graduate loses their job or earns a low income, they do not have to pay anything until their earnings go back up.

Lesson for SA: This system protects poor graduates while making sure those who succeed help fund the next generation.

3.2 Chile (Free Tuition for Most)

Chile tried to make higher education free for 60% of its poorest students (Gratuidad):

What happened: The government struggled to pay for it. To save money, the government forced universities to stop raising fees, which left universities with less money to operate and maintain quality.

Lesson for SA: Giving free education to almost everyone sounds great, but in a developing country, it quickly runs out of money and lowers university quality.

3.3 United States (Bank Loans)

The US relies on standard bank-style loans:

What happened: Students must pay fixed monthly amounts every month after graduating, no matter how much they earn. Millions of students end up defaulting on their debt because they cannot find good jobs.

Lesson for SA: Standard bank loans are dangerous for poor students, especially in South Africa where youth unemployment is very high.

4. RECOMMENDATIONS FOR SOUTH AFRICA

South Africa should change its student funding into a fair, tax-linked repayment model combined with private sector help.

1. Create a 3-Tier Funding System

The government should divide funding based on household income:

Tier 1 (Poorest Students - R0 to R200,000 per year): Keep giving them 100% free grants for tuition and accommodation so poor students are fully supported.

Tier 2 (Missing Middle & Lower-Middle Income - R200,001 to R600,000 per year): Give them Income-Contingent Loans. They pay nothing upfront, and only start repaying a small portion once they get a job that pays above a fair income threshold (like R95,000 a year).

Tier 3 (Higher Income - Above R600,000 per year): Encourage private banks to offer them low-interest loans, with the government backing part of the loan to keep interest rates low.

2. Collect Repayments Automatically Through SARS

Instead of NSFAS trying to chase old students for money, the South African Revenue Service (SARS) should collect repayments directly through employers (PAYE tax system). When a graduate starts working and earns enough, a small fee is automatically deducted from their paycheck. This is cheap to run and stops people from defaulting.

3. Partner with Private Banks and Pension Funds

The government should create an Education Fund where private companies, banks, and pension funds can invest money. The government can guarantee part of this money so investors feel safe, bringing billions of Rands of private capital into student funding.

4. Reward Fast Completion and Critical Skills

To encourage students to finish on time, the government should offer to write off 10% to 20% of a student's loan if they:

Pass all their courses and graduate on time.

Study needed careers like teaching, nursing, engineering, or science.

5. CONCLUSION

South Africa cannot afford to keep giving pure grants to everyone without running out of money. By adopting an Australian-style loan model collected through SARS, we can protect the poorest students with grants while helping the missing middle with fair loans. This will make student funding self-sustaining so that future generations can also afford to study.

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