

How South Africa can expand access to higher education while maintaining fiscal sustainability

Undergraduate Entry
1744 words excluding references

1. Introduction

South Africa faces the challenge of implementing a sustainable student-financing model while expanding access to higher education, which is important for the country's economic development. However, the challenge is not how to fund students, but how to ensure current students receive funding while public funds remain available for future students.

Over the past 10 years, South Africa has explored various approaches to address this issue. In 2016, the Department of Higher Education and Training introduced a funding model that combines grants, loans, and household contributions to support students from disadvantaged backgrounds and the “missing middle” (DHET, 2016). In addition, the National Student Financial Aid Scheme offers a loan program to assist students in the missing-middle income group (NSFAS, n.d.). This indicates that students with diverse household incomes in South Africa requires more than one funding model.

On the other hand, financing higher education with loans creates affordability challenges and raises the question of whether the state can recover enough funds. Chapman and Dearden (2022) explain that income-contingent loans can tie repayments to graduate earnings, reducing default risk. However, this system requires substantial planning and administration.

This essay proposes a student-financing model for South Africa in which students' financial need and repayments are determined by graduates' income. Students with the greatest financial need would receive grants, while income-contingent loans would support eligible students. To ensure the model is fiscally sustainable and affordable in South Africa, this proposal draws on global practices and South African policy.

2. The South African student-financing problem

2.1 Implementation challenges from previous approaches

The DHET's student-financing foundation enabled students to participate in higher education while accounting for differences in household circumstances. The funding combined grants, loans, and household contributions based on the means test. In addition, it covered tuition, accommodation, books, food, and a stipend, identified as necessary costs for student support. (DHET, 2026)

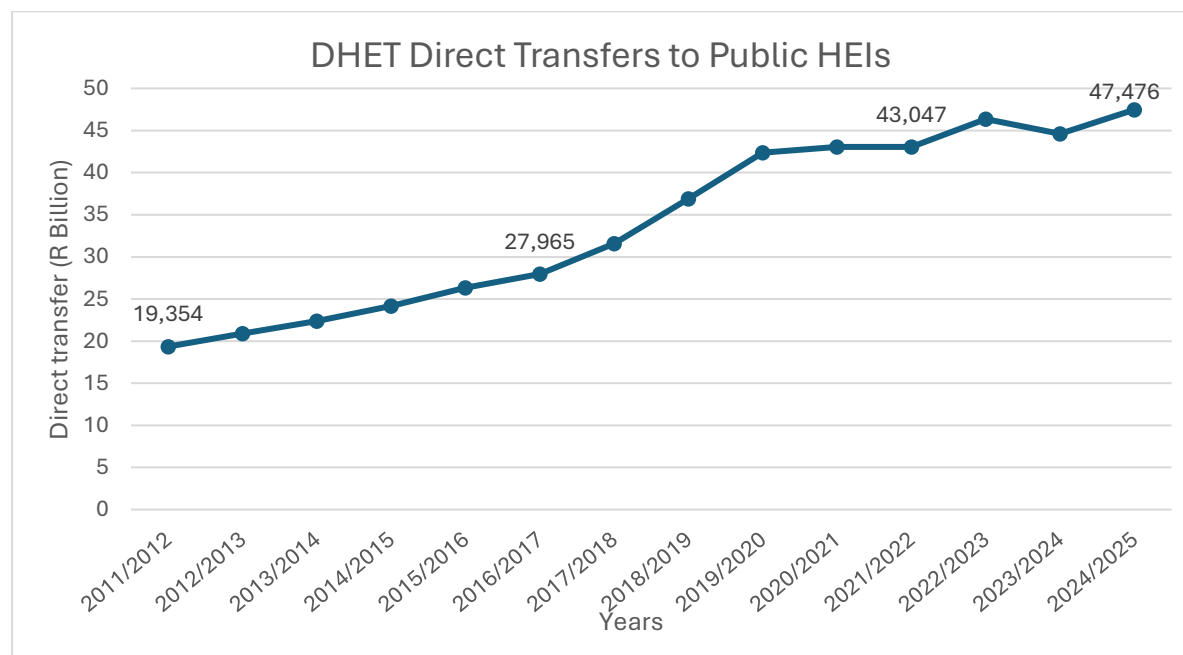
NSFAS categorized annual household incomes of R350 000 to R600 000 as the missing middle under the missing-middle loan scheme; this was a challenge because students in this category did not qualify for the grant but still couldn't cover the full cost of university (NSFAS, n.d.). This supports the differentiated model.

However, a more equitable model cannot rely solely on income to assess households' capacity to contribute because factors such as dependents and the number of university students vary across households. Therefore, the model should use household income as a baseline and apply additional criteria to assess financial need (Whitelaw et al., 2025).

2.2 Fiscal pressure and importance of transparency

The Parliament of South Africa (2026) states that a sustainable system to improve the transparency and effectiveness of public spending should clearly outline fund allocation, beneficiaries, and the share of loans recovered. Furthermore, DHET statistics show direct transfers to public higher education institutions (HEIs) from 2011/2012 to 2024/2025, excluding NSFAS allocations (DHET, 2026:102).

Figure 1: Department of Higher Education and Training direct transfers to Public Higher Education and Training 2011/12 to 2024/25



Source: DHET(2026) ,Table 9.1, p.102

The figure above shows that direct transfers increased from 19.354 billion in 2011/12 to 47.476 billion in 2024/25. However, this growth does not necessarily indicate that funding is sufficient. Instead, it reflects the transparency measures DHET implemented to account for higher education expenditures.

Furthermore, the Parliament of South Africa (2026) highlighted the importance of accurate reporting, noting that student debt was reported at R59 billion. However, when you include figures such as R29 billion for NSFAS student debt, R12 billion in irrecoverable debt, and R26 billion for self-funded students, the total is R67 billion, not R59 billion. These inconsistent reports make it difficult to assess the financing model's performance and recovery of funds.

2.3 Importance of repayment design

Income-contingent loans address the problem of fixed student-loan repayments by linking repayment to graduates' income. Repayments can adjust to a graduate's income, allowing them to track fluctuations in earnings (Chapman, 2016:3). This approach enables risk-sharing between the government and the graduate. In contrast, traditional loans remain fixed even when graduates are unemployed or earn less, increasing the risk of default and financial distress (Chapman & Dearden, 2022).

In South Africa, evidence indicates that limited access to commercial student loans is a fundamental barrier to higher education. In contrast, Gurgand et al. (2023) found that student loans expanded access to universities, especially for women and lower-income households. However, the Fees Commission also warned that student loans may burden borrowers if repayments are not linked to future earnings (Commission of Inquiry into Higher Education and Training, 2017). These findings highlight the possibility of South Africa adopting an income-contingent repayment system, which focuses on graduate earnings.

3. The relevance of Income-Contingent Financing

The Income-contingent loan structure includes a threshold: graduates below it do not repay, and those above it repay a specified percentage. The model can reduce default risk when graduates earn low income (Chapman & Dearden, 2022). In addition, the system requires effective administration, including repayment calculations, graduate identification, and reliable government data on income and outstanding balances (OECD, 2025). Furthermore, relying on bank lending to fund higher education creates difficulties, including a lack of collateral and uncertain future earnings (Chapman, 2005). However, this does not reflect South Africa's current household situation.

DHET (2010) states that South Africa's financing system does not require students from low-income households to borrow funds for higher education. Hence, the income-contingent Loans should not replace the grants system. Although this approach protects low-income graduates, it increases fiscal costs because repayment periods are longer (OECD, 2025). As a result, the recovery capacity would depend on graduate employment, repayment thresholds, and collection costs (Chapman & Dearden, 2022).

4. Lessons from international Experience (England and Australia)

4.1 Australia

Australia provides an international comparison, showing how the tax system can support income-contingent repayment. Australia introduced the Higher Education Contribution Scheme in 1989, later known as the Higher Education Loan Program (HELP); once graduates reached certain income levels, the tax system collected repayments (Chapman & Ryan 2002: 65-67). The minimum repayment income from 2026 to 2027 is A\$69,528, and repayments above this threshold are set at 10% of total repayment income (Australian Government, 2026).

4.2 England

England provides a second useful comparison. It adopted income-contingent repayment in April 2026, with a £29,385 threshold and a 9% repayment rate, categorized as Plan 2. However, other plans use different thresholds, and postgraduate loan rules are separate (HM Revenue & Customs, 2026).

Therefore, South Africa could consider a similar approach, with published repayment thresholds and tax-system collection. Still, it should be adapted to living costs, employment levels, and the country's administrative capacity.

5. Proposed South African financing model

This model builds on the DHET (2016) approach and the missing middle identified by NSFAS (n.d.), where household circumstances determine financial support. Retain grants for students from the poorest households, while missing-middle students receive a combination of grants and income-contingent loans.

Table 1: Proposed student-financing allocation by annual household income

Annual household income	Financing approach	Reasoning
R350 000 or less	Financial needs assessed, Grant support	Protect students with limited repayment capacity.
Above R350 000 to R600 000	A combination of grants and income-contingent loans, plus means-testing.	Support students in the missing middle who cannot afford the full cost.
Above R600 000	Mainly household contributions, with transparent exceptions.	Public grants target students with greater financial need.

Source: Informed by DHET (2016) and NSFAS (n.d.). Not an official national funding system.

6. Repayments and fiscal sustainability

6.1 Income-contingent Repayments

Repayments should begin only when graduates' earnings exceed the income threshold. For example, assume a threshold of R100 000 in annual income; for income above this threshold, a repayment rate of 3% would apply. These proposed figures do not exist in South African legislation.

Proposed formula: Annual repayments = 3% x (annual income – R100000)

If income is below the threshold, repayments would be zero. Although Chapman and Dearden (2022) explain the advantages of income-contingent loans, such as reducing graduates' financial burden, the proposed thresholds and rates must be evaluated against expected loan recovery, labour market outcomes, and earnings in South Africa.

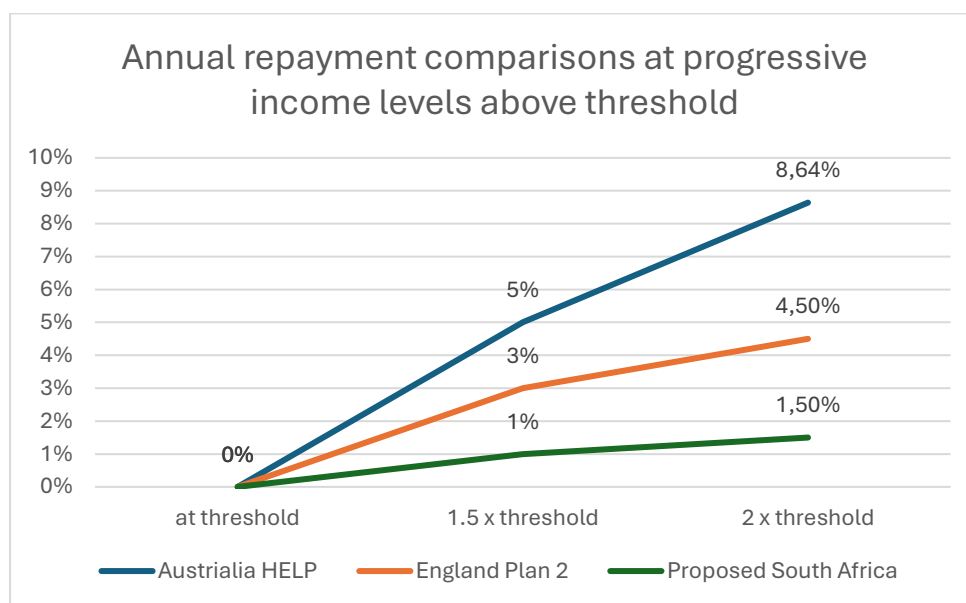
Table 2: Illustration of proposed repayment system

Annual Income	Annual Repayment
R90 000	R0
R150 000	R1 500
R200 000	R 3 000

Source: Author's calculations based on the proposed formula

The figure below shows each country's repayment burden at different multiples of the income thresholds; it includes the proposed South African model, Australia, and England. Across all systems, higher income increases repayment rates. However, South Africa's proposed model shows a lower repayment share at each multiple, but this does not reflect living standards or the system's overall effectiveness.

Figure 2: Comparison of repayment rules for Australia, England and the South African proposed model



Sources : Australian Government(2026); HM Revenue & customs (2026); Author's calculations.

6.2 Accountability and Collection framework

Ensure repayment becomes a legal obligation by integrating collection into the South African Revenue Service's existing tax and payroll infrastructure. This means SARS could deduct repayments from graduates with income above the threshold. This ensures reliability as it does not require graduates to make independent payments and addresses previous weaknesses in South Africa's loan collection (Molete & Stumke 2025: 9).

Australia uses income-contingent repayments linked to the tax system (Australian Government, 2026). Chapman and Dearden (2022) highlighted the importance of effective administration; therefore, South Africa should consider additional measures for unemployed, self-employed, or overseas-working graduates. Furthermore, annual reports should include administration costs, number of loans issued, and irrecoverable loans.

7. Risks and Recommendations

7.1 Risks

Graduate unemployment rate of 12,4% (Stats SA, 2026) and low earnings could delay repayment. Furthermore ,according to Parliament of South Africa (2026) public costs could increase due to poor records. The model does not guarantee full loan recovery as it takes longer to recover fund(OECD, 2025).

7.2 Recommendations

Review of rates and thresholds using South African evidence. Chapman and Dearden (2022) highlight the importance of reliable reporting of annual recovery and loans. In alignment with DHET (2016) model there should be protection of grant students by government.

8. Conclusion

South Africa needs a sustainable financing system that widens access to higher education. Integrating grants, income-contingent loans, and household contributions ensures support is allocated according to financial need. However, the system's effectiveness depends on transparency, realistic repayment rules, and effective administration. Moreover, the proposed threshold and rates should be examined before implementation to ensure that fiscal sustainability does not compromise access to higher education.

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