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The Economics of Opportunity: Reconciling Higher Education Access with Fiscal Sustainability

Introduction

Higher education helps build human capital, improves worker productivity and increases economic opportunities. In South Africa, where inequality is a major challenge, access to universities and technical and vocational education and training (TVET) colleges is key for expanding economic chances and developing skills needed for more inclusive growth.

However, expanding access is not just about increasing government spending. Student financing systems must provide enough help to those who need it while ensuring that the resulting financial responsibilities do not become too heavy for the state in the long term. This poses policy challenges with three main objectives: equitable access, efficient use of public funds and long-term financial stability. Students from low-income families may need aid that does not have to be repaid, while students from middle-income families may face significant financial barriers even if they do not meet standard financial aid requirements. At the same time, problems with the management of funds and uncertainty about the repayment of loans can reduce the efficiency of the use of public funds.

This article examines whether a system that combines need-based grants, well-designed income-contingent loans, and stronger institutional accountability can address these challenges. It draws on international experiences, especially Australia's income-contingent loan system, to explore how similar ideas could be adapted to South Africa's financial situation, job market and administrative capabilities.

South Africa's Current Student-Financing Position

The Scale and Structure of Public Funding

South Africa's student-financing system is mainly based on public financial help provided through the National Student Financial Aid Scheme (NSFAS). Its mission is to support students at public universities and vocational and technical colleges through scholarships and loans. The 2024/25 annual report of the Department of Higher Education and Training shows that about R46.98 billion was transferred to NSFAS. Of the 2,322,060 applications received for the 2024 academic year, 1,598,147 were funded.

The amount of public funding available means that appropriate allocation, accurate verification of who is eligible, and clear outcomes are important. A large amount of support does not automatically mean that everyone who needs help will receive it.

Funding & Application Metric	Value / Volume
Total NSFAS Transfer (2024/25)	R46.98 billion
Total Applications Received (2024)	2,322,060
Applications Funded (2024)	1,598,147
Unfunded Applications	723,913

Availability Gaps and the "Missing Middle"

The main problem is that household income does not necessarily mean that a family can afford higher education. Students from the poorest households may be eligible for grant support, while some families earning more than the usual bursary limit still struggle to cover tuition, housing, travel and study materials. This leads to the so-called "missing middle" problem.

Fiscal Sustainability and Competing Public Priorities

Financial challenges extend beyond NSFAS's annual budget. The government needs to plan for future spending on student support, while also attending to other public spending needs. In addition, the actual cost of the loan is not always the same as the loan amount: the repayment may be delayed, reduced or not paid at all. Grants, on the other hand, are direct government expenditures that do not require repayment. The Treasury's National Expenditure Estimates for 2025 expect NSFAS spending to increase from R54.5 billion in 2024/25 per year to R62.4 billion in 2027/2028 per year (Treasury: 2025).

Consequences of Central Policy

The current situation in South Africa shows that student finance reform needs to address both the way funds are allocated and the functioning of governing bodies. A sustainable model must protect access for students with the greatest financial need, provide realistic payment plans for eligible high school students, and ensure that public funding produces measurable educational outcomes.

The key question is whether a system that combines scholarships and income-based loans, backed by better governance and clear reporting, can spread the costs equally without exposing students or the government to unnecessary financial risk.

Evaluating the Hybrid Student-Financing Model

Basic Principles of Hybrid Models

Mixed student funding models include non-repayable grants and scholarships for students with limited means and repayable loans for students who are not the poorest but cannot afford full tuition. The main idea is that the cost of higher education should be distributed considering the financial situation of the student, the benefit to society from the education and the ability to pay after graduation.

This model is particularly useful for distinguishing between poor students and the so-called "disappearing middle class." Students from very poor families may struggle to afford education without financial support, while students from working-class families may earn too much to qualify for regular scholarships, but still not enough to cover tuition and living expenses. A more flexible financial system could help both groups without treating their financial situations as the same.

International Experience: Lessons from Australia

Australia's Higher Education Loan Program (HELP) provides a good example of income-based student finance. Under this system, students can defer tuition fees through the tax system and begin repaying loans once their income reaches a certain level. For the 2025-2026 annual income year, the minimum repayment level is set at $67,000 and repayments are calculated based on earnings above this amount using the revised marginal repayment method (Australian Government Department of Education: 2025). In this way, students face less financial stress and are protected from mandatory repayments if their income falls below the threshold.

The key takeaway for South Africa is that student loans should be structured based on graduates' ability to repay, rather than a fixed repayment schedule that applies regardless of income.

Application of the Model to South Africa

South Africa has begun to develop a more differentiated approach. In January 2024, the government launched the first phase of a comprehensive student financing model, which includes a loan scheme for students from families earning between R350,000 and R600,000 per year. The initial funding amount was R3.8 billion, expected to support around 31,884 students out of approximately 68,446 identified as part of this group.

These numbers reflect the scheme's initial plan and intended coverage and should not be taken as evidence that all eligible students received funding or that the scheme met all its goals. This measure provides a policy framework for the expansion of wider hybrid systems.

Funding Model Metric	Target / Output
Target Household Income Band	R350,000 – R600,000 / year
Initial Funding Allocation	R3.8 billion
Identified Target Group Pool	68,446 Students
Projected Coverage	31,884 Students

Fiscal Sustainability, Non-Performing Loan Risk, and Structural Challenges

The most compelling argument in favour of the hybrid model is that it allows for a more balanced distribution of financial responsibility. Grants represent direct public spending, while loan repayments can bring money back into the financial system to help support future students. If the repayment system works well, this process of recycling funds can reduce the need for governments to fully fund each pupil's education each year through annual budget allocations. However, it is a fallacy to believe that loans will automatically reduce the government's long-term financial burden.

While a hybrid model introduces necessary risk-sharing mechanisms, policymakers must avoid overestimating the short-term liquidity relief provided by loan recoveries. Administrative friction such as inaccurate borrower tracking, high graduate unemployment, and informal sector dominance can severely impair repayment rates. Consequently, fiscal sustainability relies not just on establishing income-contingent models akin to Australia’s HELP system, but on rigorous institutional accountability and robust data infrastructure within entities like NSFAS.

The government still must provide the initial funding, manage the program and bear some of the financial risk if graduates earn too little to repay their debts. Lending systems can also result in high administrative costs if borrower information is inaccurate, repayments cannot be collected efficiently, or outstanding balances are not properly tracked.

Recommendations: Building a Fiscally Sustainable Student-Financing Model

Implementation of a Differentiated Student Support System

South Africa should establish a coordinated student finance system that provides support based on the student's family's financial position and ability to repay. One-size-fits-all funding approaches do not address the unique needs of disadvantaged students, students from middle-income families, and students who can afford higher education. A differentiated system would allow the government to provide non-repayable support to students with the greatest financial need, while using appropriately structured loans to assist those who cannot afford the upfront costs of education.

Under this system, grants and bursaries should remain the main way to support students who have little or no ability to repay education-related debts. Eligible students from the missing-middle group could access subsidized loans with repayments tied to their future earnings. If families demonstrate a real ability to pay, they could be asked to contribute, but this should not become an unnecessary obstacle to access.

Create an Affordable, Income-Based Lending System

South Africa should improve student loan planning by linking repayment requirements to graduate income. Australia's HELP system is a useful international example of means-tested repayment, showing how the scheme can protect low-income applicants while ensuring that those earning above a certain level contribute to the cost of their education.

In the South African system, repayment should only begin when a candidate's income exceeds a reasonable income limit. Repayment amounts should be based on income, and the system should clearly consider factors such as unemployment, long-term low income, disability, etc., which may affect the ability to repay.

Adopt a Multi-Year Fiscal Sustainability Framework

The government should assess student funding over a multi-year period rather than just focusing on annual expenditure. Student aid obligations extend beyond a single budget year, as new students need immediate support, while former borrowers can take years to find jobs and begin repaying their loans.

A comprehensive fiscal framework should estimate the number of students expected to receive grants and loans, the average cost of support, administrative expenses, expected loan repayments, and the portion of loans that might never be repaid. It should also consider how

changes in economic growth, graduate unemployment, and earnings levels could impact repayment performance and future funding needs.

Step-by-Step Implementation of the Model and Evaluation of its Performance

South Africa should consider introducing major financial reforms gradually rather than overhauling the entire system at once. The phased approach will allow the government to test eligibility criteria, reimbursement systems, administrative processes and financial assumptions before rolling out the model across the country. Initial pilot projects could target specific eligible high school students or selected groups of institutions.

Before launching a program, the government should develop baseline measures covering application processing, access to funds, timeliness of payments, student retention rates, completion rates and expected loan recovery. Pilots should then be evaluated against these metrics and, if possible, independently audited.

Conclusion

South Africa needs to increase access to higher education while ensuring that the cost of funding students remains financially sustainable. The success of public funding depends not only on the amount awarded, but also on whether eligible students receive sufficient support to complete their studies. A hybrid model that combines grants for financially disadvantaged students with income-based loans for eligible underserved high school students is a viable solution. Australia's experience shows how linking student repayments to graduate earnings can work, but South Africa needs to adapt this model to suit the local labour market, economic situation and capacity for administrative tasks.

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