How can South Africa build a financially sustainable student financing model that improves access to higher education?

South Africa’s higher education sector exists at the nexus of intense socio-economic demand and a very tight national budget. The expansion of the National Student Financial Aid Scheme (NSFAS) following the 2018 policy decision to fully subsidise higher education for low income households has dramatically increased access for students from households earning under R350k per annum (Department of Higher Education and Training, 2022: 14). This pure grant model, however, has created a significant fiscal hole in the National Treasury's budget, which is directly competing with the costs of debt servicing, health and social protection (National Treasury, 2024: 42). There is also a systemic funding gap for the "missing middle' of students – those whose household incomes are above the NSFAS threshold but still too low to qualify for commercial bank lending or to pay the full out of pocket cost of university (Wangenge-Ouma, 2020: 815). Without access to state subsidisation or to affordable credit, thousands of students who are academically eligible are being effectively excluded from the human capital development process. The solution to this conundrum is a shift from the currently unsustainable grant model to a hybrid Income Contingent Loan (ICL) model. The ICL model would spread the cost of tertiary education over a graduate's productive working life and would draw on the liquidity of the private sector. In doing so it would provide fiscal sustainability for the state and at the same time open up access to all segments of the population

. Analysis of the South African Student Funding Architecture. Fiscal constraints and the NSFAS revenue shortfall. The current funding path is a fiscal liability. With real GDP growth being constrained, government transfers to HEIs cannot keep up with the rate of inflation and the rising cost of operations (Fedderke, 2021: 104). Financing Model Structure Primary Funding Source Risk Distribution Mechanism Target Student Demographic Current NSFAS Model State Tax Revenue 100% Sovereign Credit Risk Households less than R350000 p.a. Commercial Bank Loans Private Capital 100% Individual Credit Risk Creditworthy Households Proposed Hybrid ICL Public-Private Pool Shared (State Guarantee + PAYE Recovery) All Demographics / Missing Middle. The current model exposes the sovereign to the risk of changes in tax revenue and completely isolates the 'missing middle' from any form of state support.International benchmarks: Lessons from Australia's HECS-HELP. To design a fair and equitable recovery mechanism, South Africa could look to Australia’s Higher Education Contribution Scheme (HECS-HELP). HECS-HELP is an income contingent loan scheme which removes the need for students to pay tuition fees up front (Chapman and Higgins, 2013: 41). The fees are deferred until after graduation and are repaid automatically via the Australian Taxation Office (ATO) through payroll deductions, with repayment only commencing when the individual's income exceeds a certain threshold. This structure protects the low earner and the unemployed graduate from financial hardship and results in very low default rates while providing a steady stream of revenue back into the higher education fund.