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

1. INTRODUCTION

South Africa does not face a choice between expanding higher education and protecting the public finances, we face the harder question of how to achieve both. Student finance is an intertemporal problem: the cost of education is incurred today, while much of its private and fiscal return arises after graduation. A sustainable system must therefore match the timing of finance with the timing of graduates' capacity to pay.

This essay examines South Africa's existing funding pressures, the economics of cost sharing and international experience with income-contingent loans (ICLs). Australia's Higher Education Loan Program (HELP) is examined because repayments are linked to income and collected through the tax system. The essay then proposes a Progressive Income-Contingent Student Finance Model (PIC-SFM), combining grants for poor households, ICLs for the missing middle, SARS administered collection, stronger TVET financing and a gradually capitalised higher-education endowment.

The central proposition is simple, access should be universal, but public subsidy should be progressive. This would protect students who cannot reasonably repay while asking graduates with greater future earnings to contribute progressively to the cost of their education.

2. SOUTH AFRICA'S FISCAL AND ACCESS CHALLENGE

South Africa already commits substantial public resources to post-school education. National Treasury projects NSFAS transfers to increase from R48.8 billion in 2025/26 to R54.6 billion in 2028/29, while university subsidies increase from R47.0 billion to R52.3 billion. TVET subsidies increase from R4.6 billion to R5.2 billion over the same period (National Treasury: 2026).

These figures demonstrate both the importance of public funding and the pressure created by a predominantly grant-based approach. A sustainable system cannot simply respond to every increase in student numbers by requiring the fiscus to finance the entire cost indefinitely.

The problem is particularly visible in the "missing middle". Government's first phase of the Comprehensive Student Funding Model targeted households earning above R350 000 and up to R600 000 annually. Its initial R3.8 billion capitalisation was expected to support 31 884 students out of an estimated 68 446 in this category (Department of Higher Education and Training: 2024). This illustrates a structural gap between students who qualify for comprehensive poor student support and those who are not poor enough to qualify but cannot comfortably finance university.

The challenge also extends beyond universities. South Africa had approximately 1.07 million students in public universities and 564 000 students in TVET colleges in 2023 (Department of Higher Education and Training: 2025). Parliament has noted that reaching the National Development Plan target of 2.5 million TVET students by 2030 would require substantial additional funding (Parliament of South Africa: 2025).

The financing question is therefore not merely "How much more should government spend?" It is "Which costs should government bear permanently, which should be recovered over time, and from whom?"

3. WHY INCOME-CONTINGENT FINANCE?

The economic rationale for student finance is grounded partly in human-capital investment. Education can raise an individual's productive capacity and quality of life, consequently the participation in the economy using earned skills yields returns for the government and the greater community.

A conventional loan can nevertheless be unsuitable for students because repayment begins regardless of whether the graduate has achieved sufficient income. An ICL addresses this liquidity problem by linking repayment to future earnings. Graduates with low incomes repay little or nothing, while those with higher incomes contribute more.

This principle is particularly relevant in South Africa. In the second quarter of 2025, unemployment among graduates was 12.2%, compared with 35.2% among people whose highest qualification was matric and 39.4% among people with less than matric (Statistics South Africa: 2025). These figures do not establish a causal effect of education, but they demonstrate why repayment obligations should account for labour-market outcomes.

The OECD identifies Australia, England and New Zealand among countries using ICL-type arrangements. It also cautions that these systems transfer repayment risk to government and can therefore create higher fiscal costs when graduates do not repay fully (OECD: 2025).

The relevant lesson is therefore not that ICLs eliminate fiscal risk. They change the distribution of risk. Instead of placing all repayment risk on students, government accepts some risk in exchange for protecting access and avoiding financially destructive repayments.

4. AUSTRALIA: A USEFUL MODEL, NOT A TEMPLATE

Australia's HELP system demonstrates how tax administration can be integrated with student finance. In 2025–26, compulsory repayments begin once repayment income reaches A\$67,000. Repayment rates then increase as income rises (Australian Government: 2025).

Repayment income	Compulsory repayment principle
Below A\$67 000	Nil
A\$67 000–A\$124 999	15 cents per dollar above threshold
A\$125 000 and above	Higher marginal repayment rate, subject to legislation

Source: Australian Government (2025).

The important lesson for South Africa is not the Australian thresholds because South African incomes, tax rates and labour-market conditions differ. The transferable principle is that repayment should be linked to capacity to pay and integrated with an existing tax system.

Australia also demonstrates the limitation of ICLs: government remains exposed to non-repayment risk. South Africa should therefore establish repayment thresholds and loan terms through actuarial modelling rather than selecting them politically or arbitrarily.

5. A PROGRESSIVE SOUTH AFRICAN MODEL

5.1 Progressive grants

The poorest students should continue receiving grants rather than loans. Borrowing from students who have little realistic capacity to repay would simply convert educational exclusion into household debt.

The grant component should therefore cover tuition and an appropriate living-cost allowance for students below a defined means-tested threshold.

5.2 Income-contingent loans for the missing middle

Students above the grant threshold but below a higher-income threshold should receive government-backed ICLs. A possible starting schedule is:

Annual graduate income	Proposed repayment
Up to R300 000	0%
R300 001–R500 000	2% of income above R300,000
R500 001–R750 000	4% on the marginal band
R750 001–R1 000 000	6% on the marginal band
Above R1 000 000	8% on the marginal band

Source: Proposed policy design.

These rates are illustrative and should be calibrated through an actuarial model using graduate earnings, unemployment, migration, mortality, repayment compliance and expected real interest rates.

5.3 SARS as the collection mechanism

SARS should collect repayments through the tax system rather than creating an entirely separate collection bureaucracy. SARS already operates at large scale: its tax statistics show more than 21 million IRP5/IT3(a) certificates in the tax system, demonstrating the breadth of income reporting infrastructure (SARS: 2025).

The system should protect low-income graduates automatically. If income falls below the repayment threshold, compulsory repayment should fall to zero without requiring a new application.

The government would therefore assume repayment risk while students would not face conventional debt-service obligations during periods of insufficient income.

5.4 Universities and TVET as one human-capital system

Funding policy should not treat universities as inherently superior to TVET colleges. South Africa requires accountants, engineers, artisans, technicians, healthcare professionals and other forms of human capital.

The model should therefore provide comparable principles of access across universities and TVET colleges, while funding institutions according to their different costs and outcomes. This would also support the expansion of technical education without forcing the university sector to absorb every demand for post-school education.

5.5 A higher-education endowment: building a second fiscal pillar

The most important long-term innovation should be an independent higher-education endowment. Establishing a permanent higher education endowment funded through public and private capital can reduce the long term fiscal pressure associated with funding access to higher education.

A realistic approach would be to capitalise the fund gradually.

The initial target could be R20 billion over four years, followed by average contributions of approximately R5 billion per year. These contributions could come from several sources:

1. A limited Treasury seed allocation, subject to the medium-term fiscal framework.
2. A rules-based share of exceptional commodity-related revenue, rather than ordinary mining revenue. National Treasury projects mineral and petroleum royalties of about R12.1 billion in 2026/27, illustrating why ordinary royalties alone cannot finance a large endowment (National Treasury: 2026).
3. Voluntary corporate and philanthropic contributions, supported where legally appropriate by South Africa's existing tax-deductibility framework for qualifying Section 18A organisations (SARS: 2024).
4. A portion of recovered student-loan repayments, once the ICL portfolio begins generating stable cash flows.
5. Investment income, with the majority of returns reinvested during the accumulation phase.

6. Unclaimed financial assets, the national treasury reported that there is over R88 billion in unclaimed financial assets in the 2026 budget review.

Public pension assets should not be treated as a funding source. The existence of large institutional investment pools does not mean that those assets are available for education spending. For example, the PIC managed R3.049 trillion on behalf of its clients at March 2025, with the GEPI accounting for the majority of assets (Public Investment Corporation: 2025). Those assets exist to meet their beneficiaries' obligations and should remain governed by their existing mandates.

The purpose of the endowment is therefore to create a new pool of capital rather than divert existing pension savings.

Under an illustrative real-return assumption of 3%, an initial R20 billion combined with R5 billion in annual contributions for 20 years would grow to approximately R170.5 billion in constant rand:

$$FV = P(1+r)^n + C[((1+r)^n - 1)/r]$$

where P = R20 billion, C = R5 billion, r = 3% and n = 20 years.

A 3.5% sustainable distribution from R170.5 billion would provide approximately R6.0 billion per year for student financing. This is a scenario, not a forecast. The actual contribution path, investment return, withdrawal rate and governance structure would require independent actuarial and fiscal analysis.

The significance is that the endowment could eventually reduce dependence on annual budget appropriations. The long-run objective could be to approach R160 billion or more in real capital, but the fund would be built progressively rather than assumed to exist upfront.

6. MEASURING FISCAL SUSTAINABILITY

South Africa should stop evaluating student finance primarily by gross annual expenditure. Two additional measures should be published annually.

First: Net Public Cost per Successful Graduate.

where G represents grants, S institutional subsidies, I infrastructure spending, L the fiscal cost of subsidised loans, R repayments, E endowment distributions and N the number of successful graduates.

Second: Fiscal Recovery Ratio.

These measures would force policymakers to distinguish between spending that permanently leaves the public balance sheet and financing that produces recoverable future cash flows.

The Department of Higher Education and Training, National Treasury and SARS should therefore establish an independent actuarial model that forecasts enrolment, graduation, graduate earnings, unemployment, migration, repayment rates, loan balances and fiscal costs over at least 30 years.

$$NPCG = (G + S + I + L - R - E) / N$$

$$FRR = PV(\text{future repayments}) / PV(\text{loans issued})$$

7. CONCLUSION

South Africa's student-financing challenge is fundamentally an intertemporal financing problem. Government must pay substantial costs today, while many benefits of education accrue over the working lives of graduates.

A fiscally sustainable model should therefore combine rather than choose between public funding and individual contribution. Poor students should receive grants; the missing middle should receive income-contingent finance; repayments should be collected through SARS; universities and TVET colleges should form part of an integrated post-school financing strategy; and a long-term endowment should progressively supplement annual appropriations.

Australia demonstrates that income-contingent repayment can protect graduates from unaffordable fixed repayments, but also demonstrates that government retains repayment risk. South Africa should therefore adopt the principle without copying the Australian system mechanically.

The proposed endowment is equally important. Its purpose is not to discover an imaginary R160 billion sitting unused in the fiscus. It is to create a mechanism through which relatively modest annual contributions, exceptional revenue when available, private philanthropy and recovered student repayments can compound over decades.

Fiscal sustainability should ultimately be measured not by whether government spends less on students, but by whether each rand of public support produces sustainable educational access without creating an ever-growing unfunded obligation. South Africa can therefore pursue broader higher-education access while protecting future budgets by shifting from a purely annual funding model towards a progressive, income-contingent and partially capitalised financing system.

8. RECOMMENDATIONS

1. Establish the Progressive Income-Contingent Student Finance Model, separating grants from recoverable student finance.
2. Prioritise comprehensive grants for students with the lowest household resources and ICLs for the missing middle.
3. Integrate student-loan repayment with SARS, using income thresholds to automatically protect graduates with insufficient earnings.
4. Establish a single actuarial framework covering university and TVET student finance, including repayment, default and graduate-income assumptions.
5. Establish a Higher Education Endowment Fund with an initial phased target of R20 billion and a long-term capitalisation objective, rather than assuming a once-off R160 billion appropriation.
6. Permit contributions to the endowment from clearly defined sources, including Treasury seed funding, exceptional commodity-related revenues, eligible philanthropic and corporate contributions and recovered student repayments, while protecting pension assets from diversion.
7. Publish an annual Net Public Cost per Successful Graduate and Fiscal Recovery Ratio so that Parliament and the public can evaluate whether the financing model is becoming more or less sustainable.

The objective is not simply cheaper education. It is a financing system in which public money does what public money should do and that is to remove the liquidity and opportunity barriers faced by poorer students, while allowing graduates who realise stronger private returns to contribute progressively to the next generation. That is the basis on which South Africa can expand educational opportunity without making the public budget carry the entire cost forever.

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