

Funding Higher Education in South Africa: A Need-Based and Fiscally Sustainable Cost-Sharing Model

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Introduction

Higher education is one of the most important tools for building and/or expanding skills, increasing opportunity and reducing inequality in South Africa. Yet the country faces a difficult problem: the demand for tertiary-level education continues to rise, while public resources to acquire such an education remains limited and poverty and inequality are still severe. The National Student Financial Aid Scheme (NSFAS) has increased access for many poor and working-class students, especially after the shift towards free higher education resulting from the #FeesMustFall protests (Masutha and Motala, 2023). Even though the baseline NSFAS allocation is approximately R54.3 billion, full state funding for higher education is still difficult for the national budget to finance (Parliamentary Monitoring Group, 2026). The current system also leaves some important gaps: students from households earning above the NSFAS bursary threshold (of R350,000) may not qualify for funding even when their families can afford daily necessities. They may not afford costs that come with pursuing higher education like tuition, accommodation, food, transport, textbooks and electronics. These students are called the “missing middle.”

South Africa cannot build a higher-education funding system that is both accessible and fiscally sustainable if it relies fully on either state funding or loans. Full state funding would be immensely difficult the national budget to finance, while bank loans would be either unaffordable for students to repay or hard to access by poor students from a background without formal credit access to obtain. This essay argues that South Africa should develop a cost-sharing model based on actual financial need, rather than purely on household income. The model should provide the following strategy to provide funding; full bursaries for the poorest students, income-contingent loans (ICLs) for missing-middle students, and stronger control of tuition and institutional costs.

“Fiscal sustainability” does not and should not mean the government will get back every rand spent because no student-funding system can do that while also protecting poor students. Rather, it means that public support is targeted, affordable within the budget (stays in a certain range that can be financed currently and in future without serious problems), and that graduates who benefit financially from higher education contribute when they are able to do so, and that the long-term cost to the state takes into account possible non-repayments. The essay therefore treats loans not as a substitute for grants, but as one carefully designed instrument within a broader funding system.

1. Targeted Grants for Genuine Need

South Africa must continue to provide full funding to students from the poorest households. These students can't be expected to borrow from banks; because their families often don't have savings, a stable income or a lending history from credible sources that builds a good credit score. A grant-based system is thus the best way to financially help these students. It also protects access not only during application to the schools but through to the completion of their qualification. Poor students face more than tuition costs; these include transport, accommodation, food, clothing, textbooks, laptops and data. If funding covers only tuition, students may still drop out because they can't afford daily needs.

This is why the term "need" should be expanded to more than just household income. Household income is administratively useful, but it can miss hidden factors that cause differences among households; factors like family size, dependants, unemployment, debt, disability, geographic location, or assets. A better needs criteria would combine household income with these factors taken into consideration (they can look at certain 'indicators of need') such as receipt of social grants, whether the student is the first to get higher education in their family, the school quintile from which the student matriculated, household size and dependants, disability, and whether the student must move closer to campus or commute. This does not mean income testing is supposed to be abandoned altogether; it means increasing the criteria in which need is tested beyond just income.

While Germany and Nordic countries show the principle of broad public support in practice, they can't simply be copied. These systems, unlike South Africa, are supported by much larger tax bases, lower inequality rates, and higher public spending per student. South Africa exhibits high inequality with a Gini coefficient ranging between 0.54 and 0.67 (Africa Check, n.d.; World Bank, 2024a), alongside a tax-to-GDP ratio of 25.8% to 28.1% (National Treasury and SARS, 2025). In contrast, Germany has a lower Gini coefficient of 0.30 (OECD, 2023) with a tax-to-GDP ratio reaching 40% (OECD, 2026). The fiscal differences are further shown by public education spending per capita, with South Africa allocating \$383 (€354) annually (OECD.org, 2025) compared to Germany's higher allocation of roughly \$2473 (€2286), per student (OECD, 2026)

South Africa should therefore learn from the principle—the principle being public support for those with genuine need—but target it on a stricter basis. Full grants should therefore stay available to students from households at or below the R350,000 NSFAS threshold, with an additional rule for students facing serious hardship. Grants should also fund services such as psychological support, academic development, career

guidance, and emergency assistance to support students throughout their qualification. This approach limits fiscal obligation beyond what is needed.

2. Income-Contingent Loans for the Missing Middle

NSFAS defines missing-middle students as students who are from households earning above R350,000 but below R600,000 per year (NSFAS n.d.). These families may earn too much to qualify for NSFAS, but not enough to cover tuition and accommodation without serious financial strain. For this group of students, income-contingent loans are best fitted, than either exclusion or borrowing directly from banks at normal rates.

With an income-contingent loan, repayment begins only once a graduate earns above a certain level, and repayments rise with income. Australia's Higher Education Loan Program provides an example of this in practice (Department of Education) from 2025–26. Australian graduates only repay loans when their repayment income reaches A\$67,000 and above; repayments are calculated marginally, at 15 cents for every dollar earned above that threshold up to A\$125,000, with higher rates above that level (Department of Education, 2025). The Australian Taxation Office collects repayments through the tax system, thus reducing the administrative burden on graduates and works as a safety net for those who earn too little to begin repaying the loan (Australian Taxation Office, 2026).

South Africa can come up with a similar model through the South African Revenue Service (SARS). A graduate with a lower income would pay nothing, while a higher-earning one would repay a share of income that's a little higher than the threshold. This system adopts the philosophy that those who benefit most financially from higher education contribute most, while those who do not secure well-paid employment are protected. Repayments should be capped at a certain amount so that graduates aren't stuck in debt indefinitely.

These types of loans do not erase public cost; rather, they reduce it. To demonstrate a realistic recovery projection that encourages sustainability, the following illustration is used: the missing-middle loan scheme supported 50,000 students at an average cost of R60,000 per year; that would be R3 billion borrowed annually. Say repayment was calculated to be 60% on average; the non-recovery cost would then be R1.2 billion, which is 1.8 billion less than fully financing all 50,000 students. This doesn't mean loans are automatically self-financing, but to show realistic recovery projections that will encourage sustainability.

Chile (a middle-income country that has experienced the dangers of poorly designed student lending) is a relevant example (Gregori, 2025). Chile's state-guaranteed loan system, CAE, has experienced high default rates on payments: one recent analysis reports that around 60% of CAE borrowers were in default, while the proposed income-contingent alternative, FES, is projected to recover about 94%-105% of borrowings under

its baseline assumptions (Gregori, 2025). This shows that standard repayment schedules can create hardship and default, whereas income-contingent repayment improves recovery. But it also shows that projections depend heavily on wage growth and labour-market conditions; Chile's projected recovery falls substantially under weaker earnings-growth assumptions (Gregori, 2025). South Africa should learn from the use of income-contingent repayment, but not to automatically assume optimistic recovery rates.

Why Loans Can Still Work in South Africa

The strongest criticism of ICLs is that they may recover little in an economy with high unemployment and a large informal sector. The objection is serious but doesn't make loans pointless. It means the scheme must be designed around realistic collection risks.

These are the safeguards that will be used to reduce the risk of non-repayments and increase the public subsidy;

1. The integration of SARS: repayments should be deducted through PAYE for formally employed graduates and assessed through tax returns for self-employed or informal earners. This will require SARS' legal authority to share limited earnings data with the student-loan administrator. Factors like strong privacy safeguards and detailed guidelines on the processes for graduates with irregular income to repay should be taken into account when doing so.

2. The repayment threshold must be set at a rate high enough to protect low earners. A threshold set too low would turn the loan into a tax on job retention for low earners, which can discourage participation. This is also so that a small increase in earnings does not convert into a disproportionately large repayment.

3. There should be a time-based write-off, for example, after 20 to 25 years, so graduates who earn low for long periods don't have permanent loans.

Income-contingent loans are therefore not a perfect solution, but they are the least damaging option for this group compared to conventional loans (which are expensive for students to repay).

3. Controlling Tuition and Institutional Costs

No funding model will be sustainable if tuition, accommodation and other fees rise at a quicker rate than inflation rates and household income, the United Kingdom is the best illustration of this. England introduced high tuition fees alongside income-contingent loans, but a substantial share of loan expenditure is not expected to be repaid. The government's forecast puts the Resource Accounting and Budgeting charge for Plan 2 full-time higher-education loans at 39% in 2025–26, meaning that this portion of the loan

value the government doesn't expect to recover in present value terms (Department for Education, 2026). The Institute for Fiscal Studies similarly describes English student loans as operating at a loss, with the RAB charge representing the taxpayer subsidy in the system (IFS, 2023)

The lesson is that loans can't solve fiscal sustainability problems if fees keep rising without limits and loan terms become unreasonably generous compared to predicted graduate earnings.

South Africa should require universities to justify proposed fee increases, publish the reasons for increasing tuition fees, and show how funds will be allocated across resources that improve teaching, student support and completion. Institutions should be encouraged to reduce wasteful spending and prioritise spending that directly supports learning.

Government should also be transparent about annual data on tuition increases, student debt, dropout rates and completion rates, categorised by income group and institution type. A performance funding system could be set up with rewards for institutions that improve completion rates, encourage equitable access and support disadvantaged students.

Conclusion

South Africa needs a student-funding system that expands access without creating a permanent burden on public resources. This requires a model that expands the definition of the term 'need'. Full grants should remain the main funding system for the poorest students, taking into consideration accommodation, food, transport, electronics, and mental support services. Income-contingent loans, collected through SARS, should support missing-middle students. Institutions should limit their costs, and tuition increases should be transparent and controlled.

The fiscal sustainability of this model must be shown through realistic costing, expected recovery calculations, transparent non-repayment assumptions, and strong collection criteria and follow-through. Australia shows how income-contingent repayment can protect low-earning graduates, while the United Kingdom and Chile show that loans can still cause major public costs when fees rise without limits or repayment processes are weak. South Africa should therefore combine targeted grants, carefully designed income-contingent loans, and firm control of institutional costs. Only such a mixed model can protect access for poor students and the missing middle and keep higher-education funding affordable.

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