Word count: 2214 including in-text references but excluding reference list and diagrams and headings

Category: Undergraduate

# How can South Africa build a fiscally sustainable student-financing model that enhances access to higher education?

## 1. INTRODUCTION

**What does South Africa lose when a deserving student cannot afford higher education?** Beyond the individual dream left unfulfilled lies a greater economic cost: human potential that may never contribute fully to the nation's development.

Higher education is an investment in human capital, yet financial constraints continue to exclude academically capable students. Research shows that providing student loans can help financially disadvantaged students gain access to higher education in South Africa (Gurgand, Lorenceau and Mélonio, 20). However, expanding financial assistance comes at a fiscal cost, particularly in a country where public resources are scarce and competing needs are substantial.

The challenge is therefore not simply to fund more students, but to do so without compromising the sustainability of public finances. This essay examines South Africa's student-financing challenges, draws lessons from Australia, Germany and England, and proposes a differentiated model combining needs-based bursaries, income-contingent loans and stronger financial accountability.

## 2. SOUTH AFRICA'S STUDENT-FINANCING CHALLENGE

South Africa's student-financing challenge reflects a deeper economic dilemma: **how can a country marked by severe income inequality expand access to higher education while operating under significant fiscal constraints?** Although the National Student Financial Aid Scheme (NSFAS) provides financial assistance to eligible students at public universities and TVET colleges, access to higher education remains closely linked to household financial circumstances. Particularly vulnerable are the *missing-middle* students, whose families earn too much to qualify for traditional bursaries but too little to comfortably finance university education. This exposes a weakness in the financing system: financial need does not necessarily disappear when household income exceeds the bursary threshold. Research estimates that fully funding South Africa's missing-middle students would require substantial public expenditure, highlighting the difficult trade-off between educational access and fiscal sustainability (Garrod and Wildschut, 2021).

There is also an implication of budget performance concerning the disparity in demand expectations versus actual demand. The Parliamentary Budget Office indicated that there would be 426,296 NSFAS university students in the target for 2025/26, but mid-year information revealed that the actual number was 566,563. This made the disparity to be 140,267. For TVET colleges, the mid-year information reveals that the actual number was 244,221 but the expected target was 269,314 (Parliamentary Budget Office, 2025). These were mid-year

information, and this doesn't mean that exceeding the target implies that all the additional students were not funded.

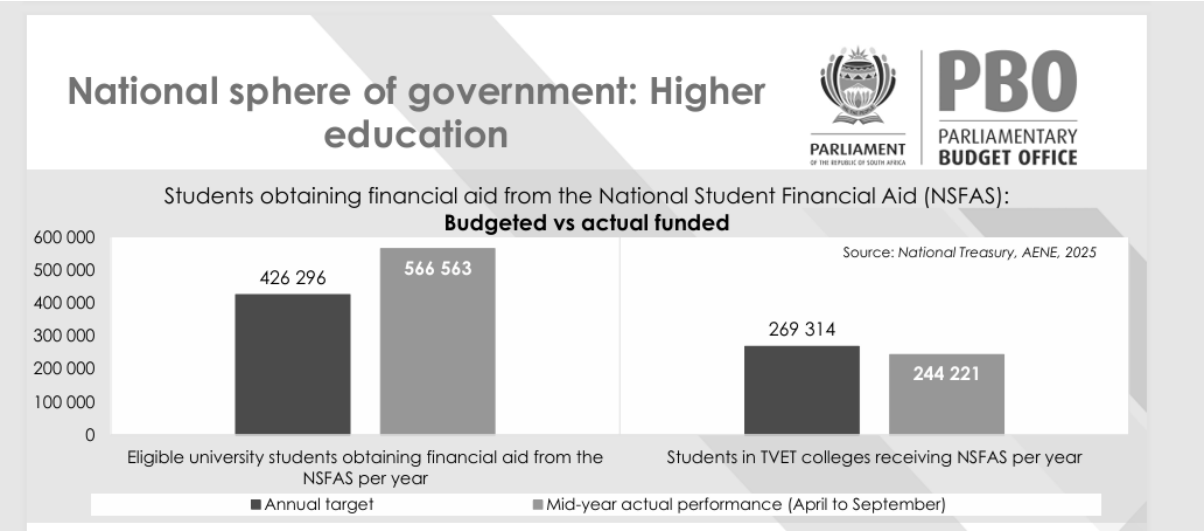


**Figure 1: NSFAS university funding target and mid-year actual, 2025/26**

**Source: Parliamentary Budget Office (2025).**

As per the NSFAS Board Chairman, the shortage of R10.06 billion existed in the university sector, and R1.61 billion in the TVET colleges as per August 2025. This is due to the increased number of eligible students, higher living costs and lack of funds from the state government (NSFAS, 2025). This is also an indication of the fact that funding may also have an impact on appeals and registration.

From the National Treasury's Estimates of National Expenditure in 2026, NSFAS expenditure is estimated at R168.9 billion from the financial years 2026/27 to 2028/29. The estimates depend on projections of student numbers and inflation forecasts, thus any difference in the total expenditure does not necessarily mean a change in the amount per student. The key issue is how to forecast demand against resource commitment. (Britton, van der Erve and Higgins, 2019) indicate that the public subsidy on the income contingent loan depends on the design of the scheme and earnings of the graduates.

To make changes and reforms within the system, it is necessary to improve the budget planning process and the criteria of eligibility. Additional funding might be required, but additional funds alone will not be enough. According to (Whitelaw, Branson and Leibbrandt, 2025), household income levels may vary over time.

**3. INTERNATIONAL EXPERIENCE**

There are several international models of systems that have different approaches to financing higher education costs through a combination of government funding and funding by the graduates. The effectiveness of these models will depend on some factors including income levels of the graduates, employment opportunities, and the ability of the government to collect the loan repayments. The findings from studies conducted on income-contingent loans indicate that the repayment arrangements and the income levels of the graduates determine the level of public subsidy (Britton, van der Erve and Higgins, 2019).

**Figure C5.3. Trends in the share of students receiving public financial support (2012/13 and 2022/23) and breakdown by type of subsidy (2022/23)**

In per cent

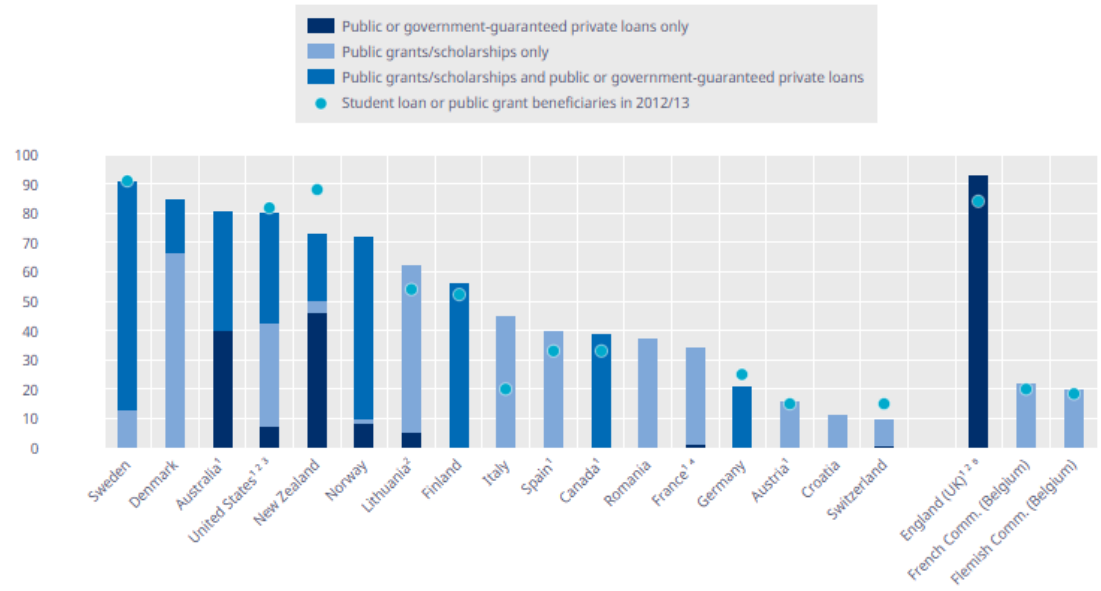


**Table 1: Tuition Fees and Public Financial Support for Tertiary Students Across Countries**

***Source: OECD (2024), Education at a Glance 2024, Table C5.3.***

### 3.1 Australia: income-contingent loans

Students who qualify under the Higher Education Loan Program (HELP) loan scheme can make use of government-backed loans to defer some of their educational costs. They shall have to make repayments based on their income, and the obligation shall arise once they cross the threshold level of income. The repayments will be made through the tax mechanism (Australian Government, Department of Education: n.d.; Australian Government, StudyAssist, n.d.). The key learning point is that graduates are not supposed to make compulsory fixed repayments, regardless of their ability to pay. (Barr, 2009) states that the income contingent repayment strategy is very useful in addressing the repayment risks of borrowers.

However, the cost of it cannot be overlooked. It comes from the government's provision of funding and it taking the risk that some beneficiaries would be slow to repay the loan or would not repay it. In South Africa, the conservative approach to the estimate of income of graduates and repayments is used instead of providing guarantee for all loans. Such an aspect of repayment plays a key role in the comparative study by (Britton, van der Erve and Higgins, 2019). (Britton, van der Erve and Higgins, 2019) show that repayment parameters affect the taxpayer subsidy.

### 3.2 Germany: grants and loans

Generally, the BAföG program in Germany consists of half of the assistance in grant form and the rest half as a loan, free of any interest; however, there are exceptions in certain situations (Federal Employment Agency: n.d.). It splits the expense between the government and individuals without giving up on need-based assistance. The South African government can also

make use of the combination approach, where assistance is provided through grant and loan to those families which are almost at the level of bursary and hence avoid a sudden cutoff of assistance due to an increase in income.

Nevertheless, the grant-loan assistance in Germany cannot be copied blindly in South Africa, owing to the reason that the problem of unemployment and income disparity in South Africa will lead to debt becoming an issue for the students/graduates with low income levels. (Chapman and Greenaway ,2006) highlight the significance of the national context when adapting international financing structures.

**3.3 England: repayment based on earnings**

In the case of England, the borrower makes a payment from a percentage of his/her income over a threshold level fixed by the specific repayment plan. Some undergraduate repayment plans use a repayment rate of 9 percent of income over the threshold level (UK Government, n.d.). Such an approach would make the repayment easier for students having relatively low-income levels.

The overall cost depends on the thresholds, interest rate/indexation, duration of repayment and outstanding debt. The issue for South Africa will be not only what to lend, but also what can be realistically collected. (Britton, van der Erve and Higgins ,2019) point out why repayment thresholds and loan parameters affect fiscal cost.

The basic assumption here is that financing systems should take into account the capacity of the borrower to repay. Australia and England demonstrate earning-based repayment; Germany demonstrates grant-loan hybrid system. The key advantage of such financing systems is that the principles of their design can be adapted to the labour market situation in South Africa.

**4. A PROPOSED MODEL FOR SOUTH AFRICA**

South Africa should adopt a differentiated, income-sensitive model that matches support to household need and repayment capacity. Four elements are proposed.

**4.1 Protect needs-based bursaries for the poorest students**

The most impoverished of the eligible students must get bursaries to cover tuition fees and essential learning expenses while their living allowances should target the poorest as per their needs. This group of students will find it difficult to finance themselves through private means, nor will they be suitable candidates to go into debt. (Barr, 2004) insists that reforms in financing need to be complemented by steps to encourage access.

The bursary layer of financial aid must receive attention each year in budget planning. The means testing should be done through factual figures and give an opportunity to the applicant to correct any mistakes and consider any exceptional difficulties that they have faced. An assured bursary layer does not exempt a need for sound fiscal policy. (Whitelaw, Branson and Leibbrandt, 2025) explain why alterations in household situations are important to aid eligibility. (Whitelaw, Branson and Leibbrandt, 2025) discuss the importance of household income mobility in profiling aid eligibility.

**4.2 Offer income-contingent loans to suitable missing-middle students**

Those above the bursary cutoff point who cannot afford higher education must be given access to loans based on future incomes. Loan repayment must only begin from a particular income

threshold and must vary according to the income threshold. Loan and grant funding can be used to finance those close to the bursary cutoff point. (Gurgand, Lorenceau and Mélonio, 2023) use evidence from South Africa to show that relaxing credit constraints increases university attendance.

Definitions should be given prior to providing any assistance. The government should clarify the criteria for repayment of the loan, rates of interest, indexing of borrowed funds, and the amount of writing-off of these funds. All of this should be done in accordance with the findings from the research related to the state of the labor market and the salaries of graduates. South African experience shows that the provision of student loans has an impact on increasing enrollment (Gurgand, Lorenceau and Mélonio, 2023). (Barr, 2009) stresses the importance of tying repayments to the income level, whereas (Britton, van der Erve and Higgins, 2019) stress the importance of assessment of the public subsidy.

**4.3 Use credible multi-year forecasts**

As one may note from the forecast inadequacies for 2025, it is precisely for this reason that forecasting must be an integral part of the model. Before the beginning of each academic year, NSFAS, the Department of Higher Education and Training, and National Treasury have to prepare forecasts for a minimum of three years ahead concerning the number of eligible students, cost per student, and funding available. If forecasts prove to be inaccurate owing to alterations in the verified number of students enrolled, the government has to explain its position and make an adequate response rather than applying crisis management after the students have already been enrolled. There has to be an independent assessment of how forecasting is different from enrollment, expenditures, payment delays, appeals, and collection of loans. (Garrod and Wildschut, 2021) prove that various aid models lead to vastly differing cost projections.

**4.4 Improve administration and recycle repayments**

If necessary, the application and registration process should be merged together with data protection as well as an error correction process included. The publication of schedule information, access to appeals procedures, and coordination with the institutions could have saved unnecessary delays and wrong payments. Better management would not solve the problem of a lack of funding, but would help with distributing the existing one. According to (Whitelaw, Branson, and Leibbrandt, 2025), proper assessment of eligibility is crucial when there are changes in the circumstances of the family.

Payments toward loan repayments should be remitted back into the clearly accounted student finance pool to benefit future generations of students. Government needs to reveal recovery rates and the estimated percentage of loans that would not be recoverable. Loan repayments would fund future students, but they should not take the place of sufficient government funding when graduates are earning less and/or repayment period is long. (According to Britton, van der Erve, and Higgins, 2019), both repayments and taxpayer costs have to be considered simultaneously.

In case demand exceeds expectations, the hard cap would protect the budget at the expense of accessibility; making open-ended pledges without securing funding might lead to funding shortages. It is therefore important that the first priority is the bursary band, that there is clarity on how the loans are to be distributed, and that an appeal process is always available.

## 5. RISKS AND SAFEGUARDS

The cost of such loans might be too high compared to the revenue that can be generated to make it worth the expense, particularly if there is high unemployment rate of graduates. There must be caution in the amount that can be generated, and the cost that will be generated if the amount is not repaid. The fiscal cost of default will depend on loan design and earnings of the graduates (Britton, van der Erve and Higgins, 2019).

Means testing and verification through digital technology could disadvantage people who should be included where information is not readily available. There must be an appeals process, and there must be an independent monitoring system. Policies about academic progression could help students perform well academically but must allow for some flexibility.

Lastly, more funds will need to be allocated where the rate of enrollment and the cost of tuition increase. One should not use financial prudence as an excuse to exclude unnecessary people from the program. In addition, allocating more bursaries without assessing future costs would affect other priorities of the government. (Barr, 2004) emphasizes that any allocation towards the financing of higher education must be assessed alongside other government priorities.

## 6. CONCLUSION

It should be noted that the challenge of student funding in South Africa does not only lie in providing extra funding for NSFAS. It also has to do with providing a balance between the demand of the students and higher education access and financial support from the government. Any shortages and mismatches indicate poor planning and budgeting. Financing reforms have to be made according to the demands of skills and fiscal limitations.

There is merit in the international experience; Australia and England employ income-contingent repayment, while Germany employs the grant and loan model. South Africa must adapt both models to fit its particular labor market. With differentiation, bursaries would remain available to poor students, income-contingent loans would be available to the right missing middle students, forecasts and administration would be improved, and repayments and expected losses taken into consideration. It is not only the cost controls that will be the measure of success, but whether the students who are eligible have access to finance to complete their education. Both access and cost controls must balance each other, because broken promises are detrimental to the interests of students, while cost controls through exclusion are counterproductive to the entire exercise.

## 7. RECOMMENDATIONS

1. Prioritise and cost a needs-based bursary tier for the poorest eligible students.
2. Develop income-contingent loans for suitable missing-middle students, with transparent terms.
3. Publish multi-year forecasts of eligible enrolments, per-student costs and available funding.
4. Improve application, registration, payment and appeals processes, with safeguards against wrongful exclusion.
5. Publish annual measures of funding coverage, payment delays, loan collections and expected unpaid balances.
6. Review the model using evidence on enrolment, graduate earnings, employment and fiscal capacity.

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