

ENTRY NUMBER: #969

CATEGORY: UNDERGRADUATE

Beyond Free Education: Building a Fair and Fiscally Sustainable Student-Financing Model for South Africa

Word count: approximately 1,750 words, excluding references

Introduction

For a young person from a poor household, admission to university can represent the fulfilment of a family's dreams. Yet an acceptance letter does not guarantee that the student can register, afford accommodation, purchase food or complete a qualification. South Africa's higher education financing challenge is therefore not simply about getting students through university doors; it is about ensuring that they can graduate without placing an unsustainable burden on public finances or their own futures.

The central argument of this essay is that South Africa needs a blended student-financing model that combines publicly funded grants for students in greatest need, income-contingent loans for those who can reasonably contribute later, employer participation, targeted private investment and stronger financial accountability. International experience demonstrates that no single financing model automatically delivers both equitable access and fiscal sustainability. South Africa must therefore develop a system suited to its high unemployment, substantial income inequality and developmental needs.

The fiscal dilemma: access versus affordability

Higher education generates benefits for individuals and society. Graduates may earn higher incomes, while the economy benefits from improved productivity, professional skills, innovation and a stronger tax base. However, these benefits do not eliminate the immediate cost of tuition, accommodation, transport, learning materials and student support. Nor does every graduate obtain employment immediately.

Public funding is justified because education produces social returns beyond the individual graduate. Nevertheless, government resources are limited and must also finance healthcare, basic education, infrastructure, social protection and other essential services. An indefinitely expanding commitment to fund every student's full costs through the national budget could crowd out these competing priorities.

The Department of Higher Education and Training's 2024/25 annual report records that approximately R46.98 billion was transferred to the National Student Financial Aid Scheme (NSFAS) during that financial year. NSFAS received more than 2.32 million applications for the

2024 academic year across its application cycles, of which approximately 1.60 million met the stated funding eligibility criteria (DHET, 2025). These figures demonstrate the considerable demand for financial assistance and the scale of public resources already committed to student support.

However, eligibility is not the same as actual enrolment, and funding approval does not necessarily translate into successful graduation. A sustainable model must therefore measure success by more than the number of students funded. It must consider completion rates, graduate employment, repayment performance, administrative efficiency and the long-term public cost of each funding arrangement.

The policy question is not whether South Africa should support disadvantaged students. It is how public support can be designed so that access expands without making future educational opportunities increasingly dependent on an overstretched fiscus.

International lessons: what South Africa can learn

Australia offers an important lesson through its Higher Education Loan Program, including the HECS-HELP arrangement. Eligible students can defer specified higher education contributions and repay them through an income-contingent system once their earnings reach the applicable repayment threshold. This reduces the immediate financial barrier to study and links repayment to the graduate's capacity to contribute (Australian Government, Department of Education, n.d.).

The economic attraction is straightforward: a student can receive education before having the income normally associated with graduate employment. Repayment then occurs during the working years when the graduate is better able to contribute. Unlike a conventional loan requiring fixed instalments regardless of circumstances, an income-contingent arrangement can protect low-income graduates from unaffordable repayments.

However, Australia is not a ready-made solution for South Africa. Income-contingent loans require reliable income records, effective collection systems and the capacity to track graduates over time. Where unemployment is high or earnings remain below the repayment threshold, the government may recover less than it originally advanced. The model therefore spreads and manages public expenditure rather than eliminating its cost.

The United Kingdom provides a further lesson. Its student-loan arrangements link repayments to earnings, but the Organisation for Economic Co-operation and Development (OECD) notes that income-contingent systems can generate substantial non-repayment and long-term public costs. Repayment flexibility improves protection for graduates, but it also means governments must account for amounts that may never be recovered (OECD, 2022).

This distinction matters for South Africa. A loan should not be described as financially sustainable merely because it appears as an asset on a government balance sheet. Its value depends on realistic assumptions about employment, income, repayment, administration and the eventual recovery of public funds.

Germany offers a different lesson through a system in which public financing and targeted student assistance play significant roles, including support through its BAföG student aid framework. The broader European experience shows that comparatively low tuition fees combined with targeted grants can reduce dependence on borrowing, although the precise balance differs across countries (OECD, 2025).

South Africa should learn from these different approaches rather than import one system wholesale. Australia's income-linked repayments can inform loan design, the United Kingdom illustrates the importance of recognising non-repayment costs, and Germany demonstrates the continuing role of targeted public support. The appropriate model must reflect South Africa's own fiscal capacity and labour-market conditions.

A South African blended financing model

South Africa should establish a clearly differentiated funding framework with four interconnected components.

First, **protect grants for students who cannot reasonably repay**. Students from the poorest households should continue to receive need-based assistance, particularly where their families cannot meet the cost of participation in higher education. This support should recognise that tuition is only one component of the actual cost of studying. Accommodation, meals, transport, assistive technology and learning materials can determine whether a student remains enrolled.

Grants should not be treated as failed loans. For households experiencing persistent poverty, expecting repayment may simply transfer public debt onto people with limited economic capacity. The social return from educating disadvantaged students can justify a public contribution even when no direct repayment is expected.

Second, **expand carefully designed income-contingent loans for the missing middle**. These are students whose households earn too much to qualify for the most extensive grant support but too little to finance higher education comfortably. South Africa has already taken steps in this direction through the Comprehensive Student Funding Model's missing-middle loan scheme, announced in 2024 with initial capitalisation of R3.8 billion drawn from the National Skills Fund and Sector Education and Training Authorities (South African Government, 2024).

Building on this foundation, eligible students should receive loans with transparent balances, fair repayment thresholds and repayments linked to verified earnings. Contributions could be collected through the tax system or another reliable income-reporting mechanism. Graduates earning below the threshold should not be required to make unaffordable repayments, while those earning more should contribute a reasonable share of their income.

A carefully defined repayment period and clear rules for hardship, death, disability and long-term non-repayment would improve fairness. The government must also publish the expected cost of interest subsidies and unpaid balances. Without such disclosure, apparent loan recoveries could conceal future fiscal liabilities.

Third, **mobilise employers and productive sectors**. Employers benefit from skilled graduates, yet the cost of producing those skills falls heavily on students and government. Sector Education and Training Authorities, industry associations, professional bodies and large employers should contribute to pooled funding arrangements for occupations where skills shortages are demonstrable.

Employers could finance bursaries, paid work placements, equipment and targeted loan-repayment assistance in return for transparent training partnerships. Any service commitments attached to bursaries should be reasonable, voluntary and consistent with labour rights. Students should not be trapped in exploitative employment contracts to repay the cost of education.

This arrangement would connect funding to economic demand without allowing immediate labour-market needs to dictate the entire purpose of universities. Humanities, law, social sciences and other fields also contribute to democratic governance, social development and institutional capacity. A sustainable financing model must preserve academic diversity.

Fourth, **develop a diversified education financing fund**. Government should remain the principal guarantor of equitable access, but additional resources could come from philanthropic foundations, alumni, carefully structured corporate contributions and legally authorised investment arrangements. Contributions could support hardship grants, student accommodation, assistive technologies and targeted loan capital.

Private contributions should supplement rather than replace the state's responsibility. They should also be governed by transparent rules to prevent donors from determining admissions, academic content or institutional priorities. Any proposed investment-backed funding mechanism would require independent assessment of its risks, administrative costs and legal feasibility before implementation.

Fiscal sustainability requires better administration

Even a well-designed funding model can fail if its administration is unreliable. Students cannot plan their academic lives when funding decisions are delayed, allowances are unpredictable or disputes remain unresolved. Universities also face financial uncertainty when payments arrive late.

NSFAS should therefore strengthen independent oversight, procurement controls, digital payment verification, complaints handling and timely communication with students and institutions. Funding decisions should be auditable, with clear reasons for approvals, rejections and appeals. Personal information must be protected, and students should not lose essential support merely because an administrative system has failed.

Government should publish an annual student-financing statement alongside its broader fiscal planning. This statement should report total expenditure, administrative costs, funding per student, completion rates, employment outcomes, loan repayments and estimated future non-repayment. Independent evaluations should examine whether the programme is expanding access

among disadvantaged groups and whether funded students are progressing towards qualifications.

Funding should also be linked to institutional capacity. Expanding student support without investing adequately in lecturers, laboratories, residences, libraries and academic assistance can increase expenditure without producing corresponding educational outcomes. Universities must be supported to improve completion rates, while students who experience academic difficulties should receive timely interventions rather than automatically losing assistance.

A three-year pilot of the blended model could begin with selected institutions and study fields, followed by independent evaluation before national expansion. The pilot should test repayment collection, administrative reliability, graduate outcomes and the distribution of benefits across income groups. Government should publish the results and revise the model where evidence reveals unintended consequences.

Equity, unemployment and intergenerational responsibility

The most important risk in borrowing is that the financial burden may fall on graduates who are least able to carry it. A student who completes a qualification but cannot find work should not be treated in the same way as a high-earning graduate who can comfortably repay.

For this reason, the proposed model must distinguish between financial sustainability for government and financial sustainability for households. A policy that reduces public expenditure by shifting excessive debt onto poor graduates may improve one fiscal indicator while worsening inequality.

Conversely, grants without effective targeting and accountability can leave insufficient resources for future students. The objective must be to distribute the burden according to ability to pay while protecting the long-term capacity of the public system to educate successive generations.

Universities, employers and government should also strengthen the relationship between education and employment through career guidance, internships, work-integrated learning and entrepreneurship support. Such interventions cannot guarantee jobs, but they can improve the transition from study to work and make the assumptions underlying loan repayment more realistic.

Conclusion

South Africa can build a fiscally sustainable student-financing model by abandoning the false choice between unrestricted public funding and transferring the full cost of education to students. A differentiated system of need-based grants, income-contingent loans, employer contributions and carefully governed supplementary funding offers a more balanced alternative.

International experience demonstrates both the potential and the limitations of different approaches. Australia's income-contingent loans show how upfront barriers can be reduced; the

United Kingdom highlights the fiscal importance of non-repayment; and Germany illustrates the value of targeted public assistance. South Africa must adapt these lessons to its own economic realities.

Ultimately, fiscal sustainability should not mean spending as little as possible on students. It should mean using limited public resources in ways that produce lasting educational, economic and social benefits. The most successful model will enable disadvantaged students to study without fear of unaffordable debt, encourage those who can repay to contribute fairly, and preserve the public capacity to educate future generations. Higher education should be an investment that strengthens the country, not a financial gamble imposed on the young.

References

Australian Government, Department of Education (n.d.). *Higher Education Loan Program (HELP)*. Available at: <https://www.education.gov.au/higher-education-funding/help>

Department of Higher Education and Training (DHET) (2025). *Annual Report 2024/2025*. Pretoria: Government of South Africa. Available at: https://www.dhet.gov.za/Commissions%20Reports/DHET%20Annual%20Report%202024_2025%20Print%20Ready.pdf

Organisation for Economic Co-operation and Development (OECD) (2022). *Education at a Glance 2022: How much do tertiary students pay and what public support do they receive?* Paris: OECD Publishing. Available at: https://www.oecd.org/en/publications/education-at-a-glance-2022_3197152b-en/full-report/component-27.html

Organisation for Economic Co-operation and Development (OECD) (2025). *Education at a Glance 2025: How is tertiary education financed?* Paris: OECD Publishing. Available at: https://www.oecd.org/en/publications/education-at-a-glance-2025_1c0d9c79-en/full-report/how-is-tertiary-education-financed_2845d742.html

South African Government (2024). *Announcement of implementation of first phase of Comprehensive Student Funding Model*. Available at: <https://www.gov.za/news/media-statements/minister-blade-nzimande-announcement-implementation-first-phase-comprehensive>