Nedbank and Old Mutual Budget Speech Competition

ENTRY #1210

How can South Africa build a fiscally sustainable student-financing model that enhances access to higher education? Refer to international experience in your analysis.

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1. Introduction

South Africa is a highly unequal society characterised by high levels of inequality in its spatial distribution. These inequalities are a result of apartheid geography, racialised inequalities in wealth, unequal quality of schools and high youth unemployment rates, and have impacted on the distribution and access to higher education. There is an increasing demand for higher education and an increasing number of young South Africans want to further their studies thus the demand for student financing is growing. However, the inequalities in structural access to the benefits of higher education remains limited. The challenge, therefore, is not so much to make higher education free as to universalize its accessibility. It is about creating a financing mechanism that increases opportunity while simultaneously not giving future taxpayers an unchecked and poorly administered liability and not underfunding institutions.

The pressure around financing is growing. The Department of Basic Education(DBE) reported 337, 158 bachelor passes, which are the average entry requirements to most higher education institutions, whist the Department of Higher Education enrolled 2,183,147 students across the post school system through the year 2024 (DBE, 2025; DHET, 2026). Despite the significant inequity in household resources and institutional capacity, a greater number of young people are now academically qualified to pursue post-school education. Rather than whether demand will keep increasing, the question is whether South Africa's financing architecture can keep pace without reproducing the inequalities that already exist in access. This essay argues the country’s fiscal capabilities to sustain higher education access by evaluating existing funding models paired with lessons from international experience on whether repayment system design widens access or hardens inequality.

2. Current financing models and fiscal problem.

South Africa’s existing model, the National Student Financial Aid Scheme(NSFAS), contains an important equity principle. NSFAS is a bursary programme that supports students at public universities and TVET colleges who are eligible, which is typically those whose household income is not more than R350,000 per year, and a higher limit for students with disabilities. The bursary includes tuition, accommodation, transport, living and learning-material allowances (according to guidelines). This acknowledges that tuition is not the only obstacle but also that a rural student may have housing, food, transportation, and data expenses that are equally significant for persistence.

NSFAS has opened up higher education to previously excluded populations, but its growth has revealed the capacity constraints of a highly centralised, grant-intensive approach. The 2025/26 NSFAS Annual Performance Plan describes the organisation as a public investment vehicle serving bursary, transitional-support and historical-debt segments. It also acknowledges that the administrative budget is about 0.7 per cent of funds disbursed which is below an estimated appropriate level of 1.2 per cent. Under administration leads to delayed decision making, payment

mistakes, registration obstacles, all of which have a negative impact on public trust and the access benefits the system is designed to provide.

The fiscal strain is reflected in the broader budget. During its 2024/25 briefing, DHET stated that it would expect the NSFAS allocations to decrease by approximately R5 billion per year and the allocations to universities would decrease by R1.5–2 billion per year. The percentage of GDP being spent on higher education is expected to fall from 2.0 per cent in 2023/24 to 1.78 per cent in 2026/27 (Parliamentary Monitoring Group, 2024). A system cannot guarantee universal full-cost support when the tax base is shallow and the cost of higher education is increasing. Without explicit prioritisation, rationing reappears through eligibility rules and institutional debt. These constraints support a more differentiated financing model: one that ensures that poor and working-class students are protected through grants; one that takes the missing middle into account with income-contingent repayment; and one that more closely connects funding to occupationally relevant provision using SETA and National Skills Fund resources.

The main distributive question is, who gets what sort of support? Universal free tuition is appealing on a political level, but can be a cost of supporting relatively well-off families where children are more likely to go to university and finish degrees. On the other hand, taking out loans is unfair in a world of low graduate incomes and unequal family fortunes. Motala et al. (2023) propose that funding for education in South Africa be measured on the basis of justice and equity as it is still evident that access, participation and completion in education are unequal and remain subject to influence from race, class, geography and gender. A fiscally sustainable model must therefore be progressive, that is, the money of the public should be focussed on the financial excluded and those who gain significant private returns should contribute where they can. The broader body of causal research supports pairing financial aid with active assistance, not just payment. Herbaut and Geven (2020) analyse 71 quasi-experimental studies and conclude that need-based grants have the most consistent positive effects on completion when they compensate for unmet need and outreach works when it involves outreach and counselling or forms a simplified application package. This is very much pertinent to NSFAS, as an effective scheme should be assessed by the number of students who have graduated, not the number of awards that have been approved.

3. What We Learn From International Experience

International evidence distinguishes fixed, mortgage-type loans from income-contingent loans (ICLs). A fixed loan requires the same scheduled payment regardless of employment or earnings. This can create severe hardship for low-income graduates and high default rates. Chapman (2020) reports that repayment burdens for low-income graduates under traditional loans can become extremely high, whereas ICLs collect only when income exceeds a threshold and cap repayment as a share of income. In Australia, New Zealand and England/Wales, cited maximum repayment proportions have been about 10, 12 and 9 per cent respectively, although the precise rules differ (Chapman, 2020).

The insurance value of this design is particularly important in unequal labour markets. Migali (2012) shows that wage uncertainty makes income-contingent repayment preferable to a mortgage loan for risk-averse graduates, especially those in the lower earnings distribution. Britton, van der Erve and Higgins (2019) add that taxpayer costs depend heavily on average debt relative to graduate earnings and on the dispersion of earnings. South Africa should therefore model repayments by qualification, gender, race, location and employment status rather than assume that every graduate will repay the same amount.

Australia's Higher Education Contribution Scheme illustrates the basic principle. The state finances study upfront, and the tax system collects repayments once a graduate's income reaches a threshold. This protects graduates during unemployment or low-paid work and makes collection relatively inexpensive because it uses existing payroll and tax infrastructure. England's experience also suggests that high advertised tuition fees do not automatically reduce participation when students receive upfront support and repayment depends on future income. Hassani-Nezhad et al. (2021) find that the UK reforms did not produce the expected widening of the socioeconomic participation gap; better-targeted support and a higher repayment threshold reduced the social gap in parents' educational aspirations. The Dutch case provides a further caution against assuming that a loan automatically deters access. Using ten complete student cohorts, Bolhaar et al. (2024) find no negative enrolment effect when universal basic grants were replaced by income-contingent loans. This result is not a reason to withdraw grants from South Africa's poorest students; rather, it suggests that a protected grant-plus-ICL structure can increase private contribution without reducing participation when repayment risk is credibly insured.

These cases do not prove that ICLs are costless. Governments carry the risk of borrowers who never earn enough, migrate, work informally or have debt written off. Chapman and Doris (2019) show that Irish modelling found mortgage-type loans unaffordable for low-income graduates, while well-designed ICLs could balance graduate affordability with a manageable public subsidy. ICLs therefore require actuarial modelling, a clear legal framework, reliable tax records, protection against political manipulation and regular public reporting of the subsidy that taxpayers provide.

International experience also supplies a warning from the Global South. Studying Tanzania, Mgaiwa and Ishengoma (2023) find that student loans expanded access but could also widen inequality when means-testing is weak, funding is insufficient and some needy applicants are excluded. The lesson for South Africa is that a loan is not automatically progressive. If the application process assumes stable parental income, excludes certain fields or funds students inconsistently, it can reproduce the very inequalities it is intended to overcome. A South African ICL must include living costs, disability and rural costs, and must not make access depend on an applicant's ability to navigate complex documentation.

4. Role of Public and Private Institutions

Public universities should remain the backbone because they provide research, professional training, infrastructure and education in fields with high social value but uncertain private returns. Public funding should therefore be provided for institutional capacity as well as students; funding students without stable support for staff, laboratories and libraries can lead to overcrowding. Cost and outcome indicators should be made public in public institutions. Some of the extra money could be used to incentivize first-year advancement, completion for disadvantaged students, employment of graduates, and production of scarce skills and good financial stewardship. Student background needs to be taken into account when adjusting indicators to ensure that performance funding does not disadvantage institutions that teach the poorest students.

The role of private institutions is already growing. The number of students in private higher-education institutions in 2024 was 313,186, which is more than double the number of students in 2011 (DHET, 2026). Private providers can increase capacity, provide flexible distance and part-time delivery, and can be responsive in areas like business, information technology and health. However, public money should follow quality rather than ownership. Accredited private institutions could receive regulated student vouchers or participate in the ICL system, but only if they disclose fees, have credible academic governance, protect students if a programme closes and meet quality, completion and employment standards. Otherwise, public funding can be used to support poor quality provision and students can end up with debt and no recognised qualification. The financial liability of offering "free" provision is not hypothetical. Tewe et al. (2024) conducted a qualitative study of a South African public university and found that the equity goal of free tertiary education was welcomed by the university managers, but they raised concerns about its operational viability and the financial strain on taxpayers. The study is not generalisable to the sector as a whole, but it does highlight the importance of providing funding for institutional costs in a transparent way, not as an alternative to funding for the university.

5. Possible Funding Model

A skills co-investment window should pool SETA grants, NSF resources and employer contributions for programmes with demonstrable national priorities. Employers should contribute to workplace learning and equipment, while government finances the public-good component. Funding should be paid in milestones to institutions and employers, with students receiving a protected maintenance allowance. This avoids forcing students to borrow for costs that employers and the state are better placed to share. Secondly an institutional sustainability window should provide predictable grants to public universities and competitive funds open to qualifying private providers. Allocation should combine enrolment, research and public-service functions with equity-adjusted completion outcomes. Institutions would publish audited student-funding data, accommodation contracts, average completion times and graduate outcomes. An independent Student Finance and Higher Education Council should set parameters, publish a ten-year fiscal projection and review thresholds every three years. Parliament should receive a yearly "cohort

account" showing how many students were funded, completed, entered employment, repaid, remained below the threshold or had balances written off.

This model is fiscally sustainable because it separates grants from loans, recycles repayments, uses tax infrastructure, shares occupational-training costs with employers and makes the public subsidy visible. It enhances access because no student faces an upfront price, the poorest are not burdened with debt, the missing middle is not excluded, and students can choose among quality-assured pathways. Its success still depends on accurate data, strong governance, student accommodation and graduate employment.

6. Conclusion

South Africa cannot achieve equitable mass higher education through an unlimited promise of free provision, and neither though regular loans that inflict repayment risk on young people with unpredictable incomes. The sustainable alternative is progressive cost-sharing in which they provide grants for those least able to pay, income-contingent repayment for those who later gain the capacity to contribute, and coordinated SETA, employer and institutional funding for national development. If administration is strengthened and outcomes are publicly audited, this model can turn student finance from a recurring fiscal crisis into an instrument of access, completion and intergenerational mobility.

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