ENTRY #1558

How Can South Africa Build a Fiscally Sustainable Student-Financing Model That Enhances Access to Higher Education? An International Perspective

Introduction

Higher education plays an important role in South Africa's economic and social development because it equips people with the knowledge and skills needed to participate in the labour market, establish businesses and contribute to their communities. However, access to universities and Technical and Vocational Education and Training (TVET) colleges remains a challenge for many students, particularly those from low-income households. Although students may have the academic ability to succeed, financial barriers such as tuition fees, accommodation, transport, food, textbooks and digital resources can prevent them from entering or completing their studies. Student financing is therefore not simply an educational issue; it is also a question of economic development, social justice and the effective management of public resources.

South Africa has attempted to address these challenges through the National Student Financial Aid Scheme (NSFAS), which provides financial assistance to eligible students at public universities and TVET colleges. Nevertheless, the increasing demand for financial assistance, pressure on government expenditure, administrative weaknesses and the need to support students from different income groups have raised important questions about the long-term sustainability of the existing system. According to the Department of Higher Education and Training (DHET, 2025), approximately R46.98 billion was transferred to NSFAS during the 2024/25 financial year. The scale of this expenditure demonstrates the government's commitment to student access, but it also highlights the need to ensure that public funding is managed efficiently and can support future generations of students.

South African Government

A fiscally sustainable student-financing model should therefore balance three objectives: expanding access to higher education, protecting students from unaffordable debt and ensuring that public expenditure remains manageable over time. These objectives should not be treated as competing priorities. Instead, South Africa needs a financing system that distributes costs fairly between government, students, employers and other funding partners, according to their financial circumstances and the benefits they receive from higher education.

International experience provides useful lessons for achieving this balance. Australia demonstrates how income-contingent loans can reduce the need for students to pay fees upfront, while Germany illustrates the importance of maintaining affordable public

higher education. The Organisation for Economic Co-operation and Development (OECD) also shows that countries use different combinations of grants, loans, tuition fees and public subsidies to finance higher education. South Africa should not copy any one international model without considering its own levels of poverty, unemployment, inequality and administrative capacity. Instead, it should develop a mixed and progressive funding model that protects disadvantaged students while mobilising additional resources and improving accountability.

The South African student-financing challenge

One of the main challenges facing South Africa is the gap between the demand for higher education and the resources available to finance it. Many households cannot afford the full cost of tertiary education, even when students qualify academically. The financial burden extends beyond tuition fees because students also need accommodation, meals, transport, learning materials and access to technology. If these costs are not covered, students may struggle to attend lectures, complete assignments or remain enrolled. Financial assistance must therefore support the actual cost of participation rather than focusing exclusively on registration and tuition.

NSFAS is central to addressing this challenge. Its responsibilities include administering student loans and bursaries, determining eligibility, distributing funding, recovering repayable loans and managing information about funded students. The DHET's 2024/25 annual report states that NSFAS received more than 2.3 million applications relating to the 2024 academic year, including applications for different semesters and academic periods. Of these, approximately 1.6 million met the funding eligibility criteria. These figures illustrate the substantial demand for student assistance and the importance of reliable systems for assessing applications and allocating limited resources.

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However, eligibility does not necessarily mean that every student will enrol or successfully complete a qualification. Funding policy must therefore consider not only how many students receive assistance but also whether the support enables them to complete their studies. A student who receives tuition funding but cannot afford accommodation or food may still be unable to continue. Similarly, students who experience delays in receiving allowances can face financial distress even when their funding has been approved. An effective model should combine financial assistance with predictable payment schedules, academic support and access to essential student services.

A second challenge is the pressure that student funding places on the national budget. Government must allocate limited resources to higher education alongside healthcare, basic education, infrastructure, social protection and other public services. Increasing student funding without considering its long-term cost can create pressure on the

fiscus, particularly when the number of eligible students grows faster than available revenue. At the same time, reducing support without a fair alternative can exclude students who have the ability to succeed but lack financial means.

The World Bank (2019) argues that South Africa could improve participation in post-school education by diversifying provision beyond a university-centred system, strengthening TVET colleges and community colleges, mobilising additional resources and targeting financial support more progressively. Its analysis suggests that the poorest students should receive stronger grant support, while income-contingent loans could be extended to students who are better able to contribute towards the cost of their education.

World Bank

A further challenge concerns governance and administrative efficiency. In March 2026, the South African government reported serious concerns about NSFAS's 2024/25 audit outcome, including weaknesses in governance, financial controls and accountability. The government also called for improvements to information systems, reconciliation processes and the development of a sustainable student-funding model.

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These issues show that fiscal sustainability is not simply about finding more money. It also requires ensuring that the money already available reaches the intended students, is spent for approved purposes and produces measurable educational outcomes.

South Africa must consequently address both the size of its student-financing commitment and the quality of its financial administration. Expanding funding without improving governance could increase waste and undermine public trust. Conversely, improving administration without providing sufficient financial support would leave many deserving students unable to access higher education. The solution must address both problems together.

International experience and lessons for South Africa

Australia: Income-contingent student loans

Australia provides an important example of how student financing can combine individual contributions with government support. Through the Higher Education Loan Program (HELP), eligible students can access loans to cover approved study costs and repay them later through the tax system when their income reaches the relevant threshold. This arrangement reduces the need for students to pay the full cost of their education before they begin studying.

The main advantage of this model is that repayments are linked to a graduate's ability to earn. Students who experience unemployment or earn below the repayment threshold

are protected from compulsory repayments during that period. In 2025–26, Australia introduced a higher repayment threshold of AUD 67,000 and a marginal repayment system under which compulsory repayments are calculated on income above the threshold rather than on total income (Australian Government Department of Education, 2025). This change illustrates how student-loan systems can be adjusted to make repayments more affordable.

Department of Education, Australian Government

South Africa could adapt this principle by introducing income-contingent loans for students whose households earn above the threshold for full bursary support but who cannot comfortably afford university or college fees. These students are often described as the missing middle. Instead of requiring them to make fixed repayments immediately after graduation, repayments could begin only when their income exceeds a nationally determined threshold. Repayments could then increase gradually as their earnings rise.

For example, a graduate entering a low-paid job would not immediately face a large monthly loan instalment. A graduate who secures a higher-paying position would contribute more towards repayment. The government could collect repayments through the South African Revenue Service (SARS), subject to appropriate legislation, reliable income records and arrangements for graduates working outside the formal tax system. This could improve repayment compliance while reducing the administrative burden of contacting individual borrowers.

However, Australia's experience also demonstrates that income-contingent loans do not eliminate the cost of student financing. The government must initially provide the money and may recover it over many years. Some graduates may never earn enough to repay their full balances, while others may repay slowly. Inflation and the cost of administering the system can also affect the value of repayments. The OECD (2025) notes that income-contingent loans protect low-income graduates but can increase government costs because repayments may take longer and some debt may not be recovered.

OECD

South Africa should therefore avoid treating loans as free funding for government. Every loan should be assessed according to its expected repayment rate, administrative cost and likely long-term fiscal impact. Loans should also be designed to prevent excessive debt, particularly for students entering fields with uncertain employment prospects. Australia's model is useful because it demonstrates how repayments can be linked to affordability, but it must be combined with grants, careful financial forecasting and effective debt administration.

Germany: Affordable public higher education

Germany offers a different lesson by placing substantial emphasis on publicly supported higher education. According to the European Education Area's country profile, most German state universities do not charge tuition fees for bachelor's degrees and many master's programmes, although exceptions apply. Students must still cover living expenses and may face additional fees depending on the programme, institution and circumstances (European Education Area, 2025).

European Education Area

This approach demonstrates that affordable tuition can reduce financial barriers before students need to borrow money. Rather than expecting individuals to finance most of their education through loans, government funding helps cover the cost of providing higher education. This can limit student debt and make university attendance more accessible to people from lower-income households.

South Africa can learn from Germany by continuing to subsidise public universities and TVET colleges while ensuring that funding is allocated according to educational need, institutional capacity and student demand. Public funding should also support programmes that contribute to national development, including teaching, engineering, healthcare, digital technology, agriculture and other areas where skills shortages may constrain economic growth.

Nevertheless, Germany's approach cannot simply be transferred to South Africa. A low-tuition system requires a dependable source of public revenue and sufficient institutional funding. South Africa faces significant competing demands on its national budget, alongside poverty and unemployment. Eliminating tuition fees for every student, regardless of household income, could direct substantial public resources towards students whose families can afford to contribute.

The appropriate lesson is therefore not that South Africa must make all higher education free for everyone. Instead, it should protect affordable access by ensuring that students from the poorest households receive adequate grants, while students from wealthier households contribute more through tuition fees, taxation or other appropriate arrangements. This would preserve the principle of accessible education without placing the entire financial burden on government.

The OECD perspective: Different funding models for different needs

The OECD's Education at a Glance 2025 explains that countries use different combinations of public subsidies, tuition fees, grants and loans. Some countries combine low or no tuition fees with substantial public financial assistance. Others charge moderate tuition fees and provide targeted support to disadvantaged students. A further group charges higher tuition fees but offers extensive loans and grants to help students manage the costs (OECD, 2025).

OECD

These differences show that there is no single financing model that works equally well for every country. The appropriate approach depends on government revenue, the cost of education, household incomes, student demand and the capacity to administer financial assistance.

For South Africa, the OECD's findings support a differentiated funding model. Students from households with very limited income should receive grants that do not create a repayment obligation. Students from working-class and middle-income households who cannot afford the full cost should have access to subsidised loans and partial bursaries. Students from higher-income households should generally make a greater contribution, although assistance could remain available in exceptional circumstances.

The OECD's approach also highlights the importance of evaluating how funding affects access. A system should not be judged only by the amount of money distributed or the number of students approved for assistance. Policymakers should also consider whether disadvantaged students enrol, remain in their programmes, graduate and obtain opportunities to use their qualifications. This wider understanding of performance would help South Africa connect public expenditure to educational and social outcomes.

A proposed sustainable student-financing model for South Africa

1. Introduce a progressive, multi-tier funding system

The first recommendation is to develop a progressive funding system that allocates support according to household income, financial circumstances and the cost of the chosen qualification. A single funding arrangement cannot adequately serve students whose circumstances differ considerably.

Students from the poorest households should receive comprehensive bursaries covering approved tuition fees and reasonable essential living costs. This support should remain non-repayable because requiring repayment from graduates who grew up in severe poverty could undermine the purpose of public financial assistance. These grants should prioritise students who face the greatest barriers to higher education, including eligible students with disabilities and students from rural and historically disadvantaged communities.

Students from working-class and lower-middle-income households should receive a combination of grants and subsidised income-contingent loans. The grant component would reduce the amount borrowed, while the loan would cover part of the remaining cost. This arrangement would help address the missing-middle problem without requiring government to finance the entire cost of every student's qualification through non-repayable funding.

Students from households with greater financial resources could contribute more towards tuition fees, subject to transparent and fair rules. They should not automatically receive public bursaries where their families can reasonably afford the costs. However, their financial contribution should not be set so high that it creates unnecessary barriers to participation. Scholarships, merit-based support and targeted assistance could remain available where justified.

This approach would distribute the cost of higher education more fairly. Government would concentrate its limited resources on those most in need, while loans and household contributions would help finance additional participation. It would also reflect the principle that higher education provides benefits to individuals through knowledge and career opportunities, while producing broader benefits for society through productivity, innovation and economic development.

Importantly, household income should not be the only consideration. Policymakers should consider family size, the number of dependants, disability-related costs, changes in household circumstances and whether parents can realistically contribute. A household with an income above a fixed threshold may still struggle to finance multiple children at university. A fair system therefore needs a transparent appeals process and periodic reviews of eligibility.

2. Expand and improve income-contingent loans

South Africa should strengthen its loan options for students who do not qualify for full bursaries but cannot afford to pay the full cost upfront. The existing missing-middle funding initiative provides a starting point for developing this approach. The DHET's 2025 annual report describes the initial phase of a loan scheme for households earning more than R350,000 but not exceeding R600,000 annually, with an incentive under which part of the loan may be converted into a bursary when students complete their studies within specified timeframes (DHET, 2025).

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The government should evaluate this initiative and use the findings to improve future funding arrangements. Loan eligibility, repayment conditions, interest or indexation rules and any bursary-conversion incentives should be explained clearly before students accept funding. Students should understand the total amount they may owe and the circumstances under which repayments will begin.

An income-contingent repayment system could protect graduates from unaffordable fixed instalments. However, repayment thresholds must be based on South African living costs, income levels and labour-market conditions rather than copied directly from Australia. The threshold should be reviewed regularly to ensure that repayments do not push low-income graduates into financial hardship.

Repayments could be progressive, with graduates who earn more contributing a larger proportion of their income above the threshold. The system should also include clear provisions for periods of unemployment, disability and severe financial hardship. Where graduates cannot repay because of persistently low earnings, the government should recognise the resulting subsidy transparently in its financial forecasts.

A crucial safeguard is that the government must not assume every rand lent will be recovered. Fiscal planning should include realistic estimates of repayment delays, non-repayment and administrative expenses. This would make the model more transparent and reduce the risk of presenting loans as though they were equivalent to immediate revenue.

3. Diversify funding beyond the national budget

A sustainable model should not depend exclusively on annual government transfers. Public funding must remain central to ensuring equitable access, but additional contributions can help meet growing demand. The World Bank (2019) recommends mobilising more resources and encouraging greater participation by private providers in South Africa's post-school education system.

World Bank

One option is to expand partnerships between government, universities, TVET colleges and employers. Businesses could contribute to bursaries, scholarships, internships, work-integrated learning and training programmes aligned with their skills needs. For example, a technology company could support students studying software development, while a healthcare organisation could contribute towards the training of healthcare professionals. Partnerships should be based on genuine educational and workforce needs rather than allowing employers to determine the entire direction of public education.

South Africa could also encourage alumni donations, philanthropic contributions, charitable foundations and endowment funds. Universities with strong alumni networks could develop structured giving programmes, while businesses could support students from disadvantaged backgrounds through targeted scholarships. These arrangements would be especially useful when they complement public funding rather than replace the state's responsibility.

Sector Education and Training Authorities (SETAs) could also play a role by supporting approved qualifications and practical training linked to sector skills priorities. However, their contributions should be coordinated with NSFAS and institutions to prevent duplication, inconsistent eligibility rules and gaps in support.

Another possibility is to encourage employers to contribute to graduate-development funds or industry-specific bursaries. In return, participating employers could gain

access to internships and graduate recruitment opportunities, provided that students are not subjected to unfair employment conditions. Any work commitments attached to scholarships should be transparent, reasonable and consistent with labour law.

Diversification must be approached carefully. Private contributions are likely to vary with economic conditions and company profitability, meaning they cannot reliably replace the core public funding commitment. The government should therefore establish multi-year agreements, clear reporting standards and safeguards against conflicts of interest. Private funding should supplement the public system and increase opportunities without giving wealthy institutions or commercially attractive courses an unfair advantage over disadvantaged students and essential fields of study.

4. Improve NSFAS governance, administration and financial controls

Financial sustainability depends on whether the funding system can distribute money accurately, efficiently and transparently. South Africa must therefore strengthen NSFAS's governance, internal controls, financial reporting and information systems. These improvements are essential because administrative failures can create direct costs for government and serious consequences for students.

The government's March 2026 statement identified significant concerns about NSFAS's audit outcome and called for corrective action involving financial controls, information systems, data integration and accountability (South African Government, 2026).

South African Government

This demonstrates that institutional reform should be a central part of any new funding model.

NSFAS should maintain accurate records of applications, approved funding, payments, student registration, academic progress, loan balances and repayments. Where legally permitted, information could be verified through secure data-sharing arrangements with universities, TVET colleges and relevant government departments. This would help identify duplicate claims, incorrect payments and changes in student eligibility.

A more reliable digital system could also reduce delays and make it easier for students to track applications and resolve problems. However, technology alone will not solve governance weaknesses. The system must have trained staff, clear responsibilities, effective internal audits, secure information management and consequences for misconduct.

The government should also ensure that NSFAS receives sufficient administrative funding to perform its responsibilities. Excessive administrative cost is a concern, but underfunding administration can create larger problems through payment errors, poor reconciliation and weak oversight. The objective should be efficient administration, not simply the lowest possible administrative budget.

Regular public reporting should show how much money was allocated, how many students were supported, what proportion of payments were made on time, how much loan debt was recovered and what outcomes were achieved. Independent audits and parliamentary oversight should be used to monitor progress. These measures would strengthen public trust and help policymakers identify problems before they become expensive or widespread.

5. Link funding to student success without unfairly excluding students

A sustainable funding model should improve completion rates as well as access. When students repeatedly fail or leave their programmes without completing their qualifications, public investment may not produce its intended educational and economic benefits. However, students can experience academic difficulties for many reasons, including financial hardship, mental health challenges, inadequate schooling and family responsibilities.

Funding should therefore encourage progress while recognising the circumstances that affect performance. Students who meet academic requirements and progress towards graduation should continue receiving appropriate assistance. Where students struggle, institutions should provide academic support, tutoring, career guidance and early interventions before considering changes to funding eligibility.

A bursary-conversion incentive, such as the arrangement described in the missing-middle initiative, could reward students who complete their studies within specified timeframes. However, the conditions must be realistic and should account for illness, disability, family emergencies and institutional disruptions. Students should not lose essential financial support simply because they experience a temporary setback.

Government should also monitor completion rates by household income, gender, disability, institution and field of study. If students from poorer backgrounds are less likely to graduate, this may indicate that the funding package is insufficient or that additional support is needed. The solution should be to identify and address these barriers rather than automatically withdrawing assistance.

The model should further recognise the importance of TVET colleges, community colleges and distance education. Universities are important, but they are not the only route to useful qualifications and employment. South Africa should support a range of high-quality learning pathways, including occupational qualifications, apprenticeships and programmes that allow people to study while working.

This would broaden access while enabling students to pursue qualifications suited to their abilities, interests and employment opportunities. Nevertheless, funding should not be allocated solely according to short-term employer demand. Higher education also has a wider purpose, including critical thinking, citizenship, research and cultural

development. A balanced approach should support economic needs without neglecting these broader contributions.

6. Use realistic financial planning and transparent performance measures

A new funding model should be supported by multi-year budgeting rather than relying only on annual decisions. Government should estimate how changes in enrolment, tuition fees, living costs, grant eligibility and loan repayment rates will affect expenditure over time. These projections should include different economic scenarios, such as slower growth, higher unemployment or increased demand for student assistance.

Financial planning should distinguish between the immediate cost of funding students and the long-term cost of loans. Grants represent direct public expenditure, while loans may generate future repayments but also involve financing costs, administrative expenses and the risk of non-repayment. A transparent system must account for both.

The government should publish clear performance indicators covering access, affordability, completion, payment reliability, administrative efficiency and fiscal risk. For example, it should monitor the proportion of eligible students who receive support, the number of students whose studies are interrupted by funding problems, the average time taken to resolve appeals and the proportion of loan repayments collected relative to expectations.

The model should be reviewed regularly, with findings used to adjust income thresholds, grant levels and loan conditions. Independent evaluations would help determine whether the changes improve access without creating unsustainable long-term costs. This would also make it easier for Parliament, universities, students and the public to assess whether the system is delivering value for money.

Potential risks and how South Africa should address them

Although a mixed funding model offers advantages, it also presents risks. The first is that loans could increase graduate debt and discourage students from pursuing higher education. This risk is particularly serious in an economy where employment is uncertain. Income-contingent repayment, clear information about borrowing and strong grant protection for poor students would help reduce this danger.

The second risk is that private-sector contributions could become unreliable or favour qualifications that offer immediate commercial returns. Government should maintain a dependable core funding commitment and ensure that private partnerships follow transparent rules. Funding for socially important fields and disadvantaged institutions should not depend entirely on their ability to attract corporate sponsors.

A third risk is that stricter eligibility criteria could exclude vulnerable students whose household incomes do not reflect their real financial circumstances. Regular

assessments, transparent appeals and consideration of household responsibilities would help prevent unfair exclusions.

A fourth risk is that a more complex system could increase administrative costs. A multi-tier model will require reliable information, clear communication and coordination between funding bodies. South Africa should therefore simplify applications, standardise procedures where appropriate and invest in secure digital systems before expanding the model nationally.

Finally, there is a risk that fiscal sustainability could become an excuse for reducing educational access. This would be counterproductive because excluding capable students from higher education can limit future skills development and reinforce inequality. Sustainability should mean funding education in a way that can continue over time, not merely spending less in the short term.

Conclusion

South Africa can build a fiscally sustainable student-financing model by combining progressive grants, income-contingent loans, diversified funding sources, effective administration and stronger accountability. The existing role of NSFAS remains important, but the system needs reforms that respond to growing demand, unequal household resources and pressure on public finances.

International experience demonstrates that different approaches can support access. Australia's income-contingent loans show how graduates can contribute according to their ability to pay, while Germany demonstrates the value of affordable public higher education. The OECD's comparative analysis further illustrates that successful systems often combine public investment with carefully designed student support and, in some cases, private contributions. These examples offer useful principles, but South Africa must adapt them to its own economic and social circumstances.

The most appropriate approach is a progressive model in which students from the poorest households receive adequate non-repayable assistance, the missing middle gains access to affordable loans and partial bursaries, and wealthier households contribute more where they can reasonably afford to do so. Employers, SETAs, universities, donors and philanthropic organisations should supplement this system, while government remains responsible for protecting equitable access.

Equally important, NSFAS must strengthen its financial controls, data systems and public reporting. Funding should be assessed according to whether it reaches the right students, supports successful completion and contributes to national development. By combining fairness with realistic financial planning, South Africa can move towards a system that expands educational opportunities without placing an unsustainable burden on future taxpayers or graduates.

Ultimately, the purpose of a sustainable student-financing model is not simply to reduce government expenditure. It is to ensure that financial limitations do not prevent capable students from obtaining a quality education, while making certain that public resources are managed responsibly. A system built on progressive support, shared responsibility and transparent governance would offer South Africa a stronger foundation for both educational equality and long-term economic development.

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