

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

### **Executive Summary**

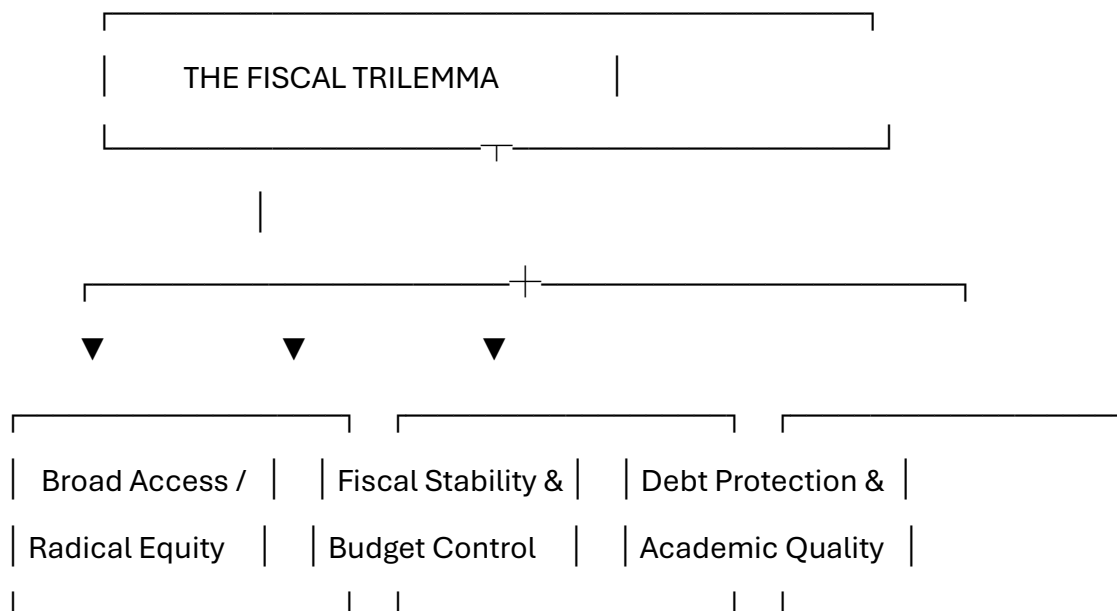
South Africa's post-school education and training (PSET) sector stands at a critical juncture. While higher education serves as a fundamental catalyst for social mobility, economic productivity, and redress, the current financing framework faces acute structural vulnerabilities. The National Student Financial Aid Scheme (NSFAS) has significantly broadened access for historically disadvantaged individuals, yet rapidly escalating demand, severe fiscal constraints, and endemic administrative deficiencies threaten its long-term viability. Drawing upon international paradigms—specifically Australia's income-contingent loan (ICL) scheme, Germany's state-subsidised tuition structure, and broader OECD comparative frameworks—this paper proposes a progressive, multi-tiered student financing model tailored to South Africa's socio-economic realities. By integrating non-repayable grants for the poorest cohorts, income-contingent loans for the "missing middle," private sector co-funding, and rigorous governance reforms, South Africa can reconcile equitable access with fiscal sustainability.

### **1. Introduction & Contextual Background**

Higher education is widely recognised as a public and private good that yields substantial macroeconomic and developmental returns. It builds human capital, fosters innovation, and equips individuals with high-level competencies required to navigate modern labour markets. In post-apartheid South Africa, widening access to public universities and Technical and Vocational Education and Training (TVET) colleges is both an economic imperative and a constitutional obligation rooted in social justice and redress.

However, access remains severely constrained by structural poverty, income inequality, and high direct and indirect costs of participation. Beyond tuition fees, higher education entails substantial ancillary expenses—including residential accommodation, nutrition, transport, learning materials, and digital infrastructure. When these living costs remain unfunded, academic performance declines, drop-out rates escalate, and institutional throughput is compromised. Consequently, student financing must be understood not merely as an educational administrative task, but as a pivotal pillar of fiscal policy, social protection, and human capital formation.

To mitigate these financial barriers, the South African government established the National Student Financial Aid Scheme (NSFAS). While NSFAS has transformed millions of lives, the macro-fiscal burden has intensified dramatically. 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. While this budget reflects a profound state commitment to access, it simultaneously highlights a profound fiscal exposure. Amid sluggish economic growth, high sovereign debt levels, and competing budgetary claims (e.g., healthcare, basic education, social security grants, and infrastructure), the current expenditure trajectory is unsustainable in its present form.



A sustainable student-financing model must navigate a trilemma: **expanding equitable access**, **protecting students from prohibitive debt burdens**, and **maintaining fiscal discipline** without crowding out other vital public expenditure. Achieving this balance requires a progressive redistribution of costs across state actors, households, employers, and capital markets, informed by international best practices and tailored to local socio-economic realities.

## 2. The South African Student-Financing Crisis: Structural Challenges

### 2.1 Expanding Demand vs. Real Cost of Study

The primary structural challenge facing the South African PSET sector is the widening gap between the social demand for tertiary education and available public revenue. The cost of higher education participation extends far beyond nominal tuition fees. Full cost of study (FCoS) metrics include:

- **Direct Educational Costs:** Tuition fees, registration, laboratory access, and prescribed textbooks/digital tools.
- **Indirect Living Costs:** On-campus or accredited off-campus accommodation, daily nutrition, transport, personal maintenance, and technological devices.

Inadequate funding for indirect living expenses creates severe academic friction. Students facing food insecurity or housing instability exhibit lower retention and completion rates. Furthermore, persistent administrative delays in allowance disbursements exacerbate student anxiety, trigger campus unrest, and impair cognitive focus.

Data from the DHET (2025) underscores the scale of demand: for the 2024 academic year, NSFAS received over 2.3 million applications across university and TVET streams, of which approximately 1.6 million met baseline eligibility criteria. The operational challenge of processing and verifying applications at this scale strains state capacity and highlights the acute financial dependence of South African youth on state support.

## **2.2 Macro-Fiscal Constraints and Opportunity Costs**

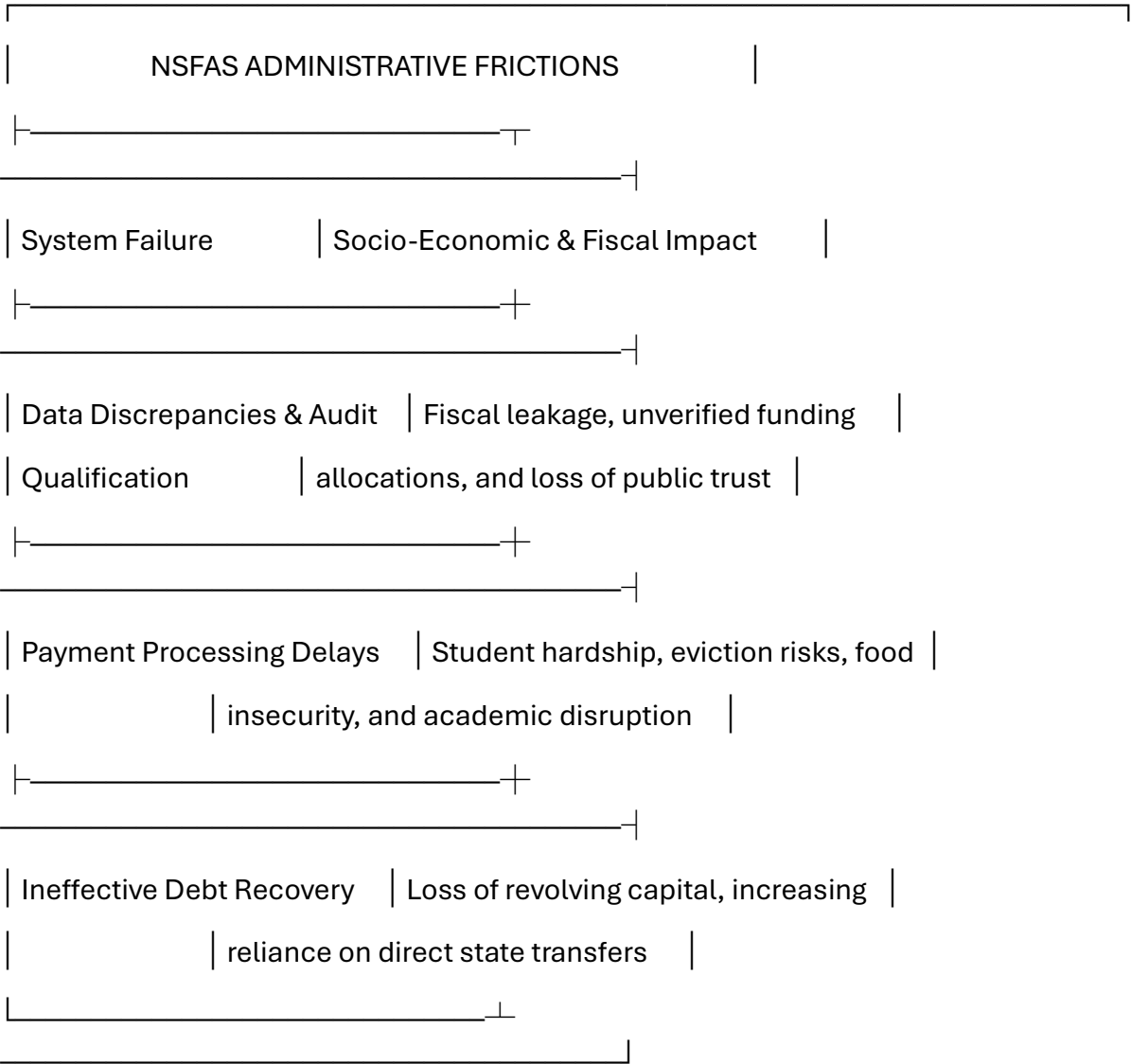
The national fiscus operates under strict fiscal consolidation constraints. Unfunded expansions of student aid create immediate fiscal crowding-out effects, forcing the state to reallocate funding away from basic education, primary healthcare, municipal infrastructure, and social grants. Conversely, curtailing financial aid without viable alternative mechanisms excludes academically deserving low- and middle-income students, entrenching intergenerational poverty and skill bottlenecks.

As argued by the World Bank (2019), South Africa's post-school system remains excessively university-centric. Achieving system-wide efficiency requires rebalancing

public expenditure toward TVET colleges, occupational training pathways, and community education structures, alongside implementing a more progressive targeting mechanism for financial support.

2.3 Governance, Fiduciary Failures, and Operational Bottlenecks

Fiscal sustainability is inextricably linked to administrative efficiency and governance. In March 2026, the South African government expressed formal concerns regarding NSFAS’s 2024/25 audit outcomes, citing pervasive deficiencies in financial controls, data reconciliation, information technology systems, and institutional accountability (South African Government, 2026).



When public resources are misallocated, lost to administrative inefficiencies, or subject to fraud, the return on public investment degrades. Strengthening governance is therefore not an adjunctive requirement; it is a primary precondition for fiscal viability.

3. Comparative International Paradigms

| COMPARATIVE INTERNATIONAL MODELS |                                                         |                                                                                                                             |
|----------------------------------|---------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| Country                          | Core Mechanism                                          | Strategic Takeaways & Risks                                                                                                 |
| Australia                        | Income-Contingent Loans (HELP / HECS)                   | Eliminates upfront costs; ICL protects low earners. High long-term fiscal carry cost.                                       |
| Germany                          | State-Subsidised / Tuition-Free Public Higher Education | High equity, minimal student debt. Demands a high-revenue tax base; regressive if rich students benefit disproportionately. |
| OECD Norms                       | Differentiated / Hybrid Multi-Source Funding            | Combines targeted grants, state subsidies, and income-linked loans based on risk profiles.                                  |

3.1 Australia: Income-Contingent Loan (ICL) Schemes

Australia's Higher Education Loan Program (HELP) exemplifies a risk-sharing model between the state and the graduate. Under HELP, eligible students pay no upfront tuition fees; instead, the state covers tuition costs, and graduates repay the accumulated debt through the tax system once their income crosses a statutory threshold.

Key structural elements include:

- **Income-Contingent Repayments:** Repayments are anchored to earning capacity. Individuals who experience unemployment, underemployment, or low earnings are exempt from mandatory contributions.
- **Marginal Repayment Architecture:** Recent structural adjustments in Australia (2025–26) established an elevated threshold (AUD 67,000) and applied marginal repayment rates calculated exclusively on income above the threshold, thereby eliminating high effective marginal tax rates for early-career graduates (Australian Government Department of Education, 2025).
- **Collection Efficiency:** By utilizing the Australian Taxation Office (ATO), collection costs are minimized, and compliance is integrated into monthly payroll deductions.

**Relevance and Caveats for South Africa:** An ICL system is ideal for addressing South Africa's "missing middle"—students whose household income renders them ineligible for NSFAS bursaries but insufficient to secure commercial bank loans. Collecting repayments via the South African Revenue Service (SARS) offers similar operational efficiency.

However, as highlighted by the OECD (2025), ICL models carry long-term fiscal liabilities. The state acts as the initial liquidity provider and bears the financial risks of write-offs, slow debt turnover, and non-repayment due to persistent informal employment or emigration. Therefore, South Africa cannot view loans as self-funding in the short to medium term.

3.2 Germany: Tuition-Free, Publicly Financed Higher Education

Germany operates a predominantly tax-funded higher education framework, where public universities charge minimal administrative fees for undergraduate programs (European Education Area, 2025). The state absorbs teaching and operational costs, framing tertiary education as a essential public good.

**Relevance and Caveats for South Africa:** Germany’s approach underscores the value of public investment in preventing structural debt burdens on young workers. Subsidising public university capacity directly enables a predictable supply of critical skills.

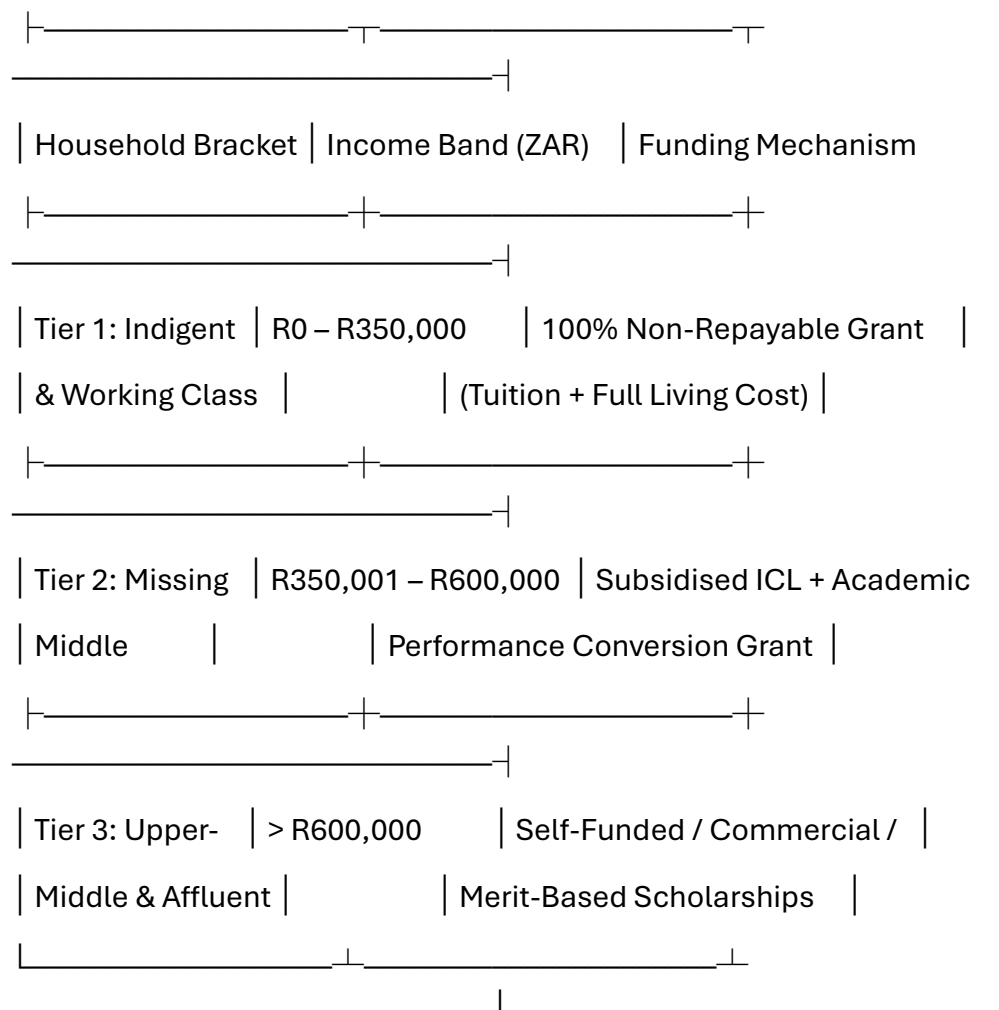
However, replicating universal fee-free higher education in South Africa is macroeconomically unsustainable. Germany benefits from a broad tax base, high formal employment, and strong state revenue collection. In contrast, applying universal fee waivers in a highly unequal society like South Africa is fiscally regressive: it transfers scarce public subsidies to high-income households capable of contributing to their children's education. South Africa must retain targeted cost-sharing while safeguarding affordability for poor and working-class cohorts.

3.3 The OECD Framework: Differentiated Funding Models

The OECD’s *Education at a Glance 2025* reveals that member states utilize diverse resource-allocation mechanisms based on household income dynamics, state fiscal capacity, and institutional profiles (OECD, 2025). Effective systems balance public subsidies, private contributions, means-tested grants, and income-contingent loans. Crucially, performance in OECD systems is measured not merely by initial enrolment numbers, but by completion rates, labor market integration, and graduate economic mobility.

4. Proposed Framework: A Sustainable Student-Financing Model for South Africa

|                              |  |
|------------------------------|--|
| PROGRESSIVE MULTI-TIER MODEL |  |
|------------------------------|--|



#### 4.1 Implementation of a Progressive, Multi-Tiered Funding Structure

To optimise fiscal allocations, South Africa should institutionalise a strict, means-tested multi-tier funding architecture:

1. **Tier 1 (Fully Subsidised Non-Repayable Grants):** Target households earning below R350,000 per annum. These awards must cover the full cost of study (tuition, accommodation, stipends, learning materials) as non-repayable grants. Imposing debt obligations on households in extreme poverty reinforces intergenerational debt traps. Priority allocations should be directed toward rural students, TVET candidates, and students with disabilities.
2. **Tier 2 (Hybrid Income-Contingent Loans & Partial Grants for the Missing Middle):** Target households earning between R350,001 and R600,000 per

annum. This tier should deploy income-contingent loans co-funded by public-private partnerships, paired with partial grants.

3. **Tier 3 (Cost-Sharing and Direct Family Contributions):** Households earning above R600,000 per annum should contribute directly or utilize commercial credit avenues, reserving public subsidies for socio-economically vulnerable groups.

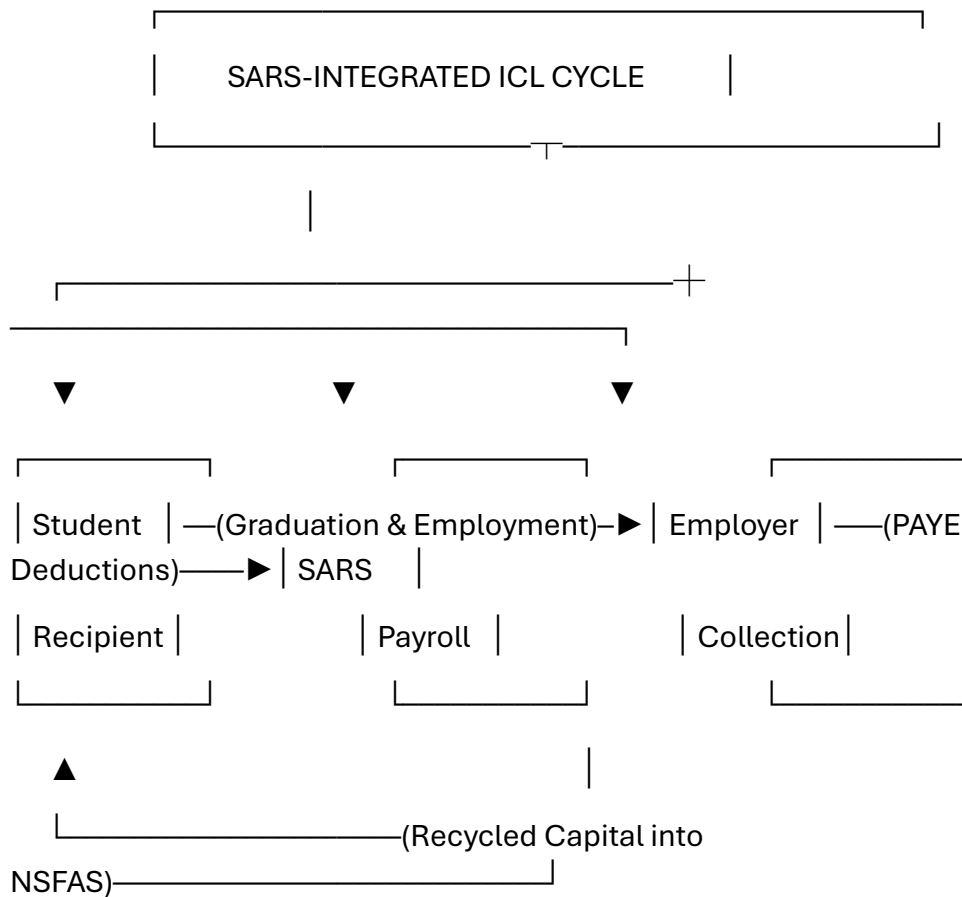
Means-testing algorithms must look beyond flat household income thresholds. Adjustments should account for net disposable income, total family size, dependent ratios, regional living costs, and emergency health expenses to ensure equity.

#### **4.2 Expansion and Institutional Refinement of Income-Contingent Loans (ICLs)**

Building on the initial phase of the DHET Missing Middle Loan Scheme (DHET, 2025), South Africa must scale a national ICL framework:

- **SARS-Administered Repayment Mechanism:** Income-contingent repayments should be collected automatically through employer PAYE (Pay-As-You-Earn) systems via SARS, dramatically reducing default rates and administrative overhead.
- **Socio-Economically Calibrated Thresholds:** Repayments should trigger only when a graduate's earnings cross a realistic living-wage threshold. Repayment rates must be progressive, stepping up gradually as income rises.
- **Incentivised Conversion Grants:** To improve throughput, a portion of the loan (e.g., 20%–40%) should automatically convert into a non-repayable bursary if the student completes their qualification within the minimum stipulated timeframe ( $N$ ) or  $N + 1$  years.

- **Actuarial Risk Management:** Fiscal planners must build realistic provisions for bad debt, write-offs, and administrative costs into annual budgets rather than projecting 100% recovery rates.



#### 4.3 Capital Diversification and Alternative Revenue Mobilisation

Public revenue alone cannot sustain the rising cost of tertiary education. Capital streams must be diversified:

- **Private Sector & Corporate Co-Funding:** Leverage Sector Education and Training Authorities (SETAs), corporate social investment (CSI) funds, and tax-incentivised corporate bursary schemes aligned with national scarce skills lists (e.g., STEM, health sciences, digital technology, education).
- **Work-Integrated Learning (WIL) Partnerships:** Encourage industry partners to sponsor students in exchange for structured graduate recruitment pipelines, internships, and work-integrated learning opportunities.

- **University Endowment & Philanthropic Mobilisation:** Establish tax-exempt university development funds and structured alumni giving programs to subsidise institutional financial aid funds.

#### 4.4 Comprehensive Administrative, Governance, and Technological Overhaul

To address the audit qualifications and operational failures highlighted in the government's March 2026 directive, NSFAS requires radical institutional restructuring (South African Government, 2026):

- **Integrated Data Architecture:** Establish direct system interoperability between NSFAS, the Department of Home Affairs (DHA), SARS, the Department of Social Development (DSD), and higher education institution (HEI) student portals. Automated data matching will eliminate fraudulent applications, eliminate double-dipping, and streamline eligibility verification.
- **Direct-to-Student Allowance Disbursements:** Streamline allowance distribution mechanisms to bypass costly, high-fee intermediary fintech vendors, ensuring transparent, direct transfers to verified bank accounts.
- **Fiduciary Accountability:** Enforce strict internal controls, independent external audits, and legal accountability for procurement irregularities or fund mismanagement.

#### 4.5 Coupling Financial Support with Academic Articulation and Retention

Financial aid policies must incentivise degree completion rather than merely initial registration. Unfunded repetitions deplete state resources without generating human capital.

- **Integrated Academic Support:** Pair financial aid with mandatory academic development interventions, tutoring, and psycho-social support structures for students flagged as academically vulnerable.

- **System-Wide Institutional Parity:** Strengthen TVET colleges and community colleges to provide high-quality vocational and technical pathways, shifting social demand away from a purely university-centric focus and optimizing educational resource allocation.

## 5. Risk Assessment and Mitigation Matrix

1. **Graduate Unemployment and Default Risk:** High youth unemployment in South Africa poses a structural risk to loan collection. *Mitigation:* The income-contingent feature ensures that graduates without income do not face debt-servicing distress. Fiscal models must build in realistic debt-forgiveness provisions.
2. **Volatility in Private Sector Funding:** Corporate contributions fluctuate with macroeconomic cycles. *Mitigation:* The state must maintain baseline funding commitments, treating private capital as an additive resource rather than a substitute for state funding.
3. **Exclusion of the "Borderline" Poor:** Static income cut-offs create arbitrary boundaries where families earning just above thresholds are excluded. *Mitigation:* Implement a smooth, sliding-scale bursary-to-loan ratio and an accessible, independent appeals board.

## 6. Conclusion

Building a fiscally sustainable student-financing model in South Africa requires balancing equity, affordability, and fiscal stability. The current trajectory of NSFAS demonstrates that expanding access without administrative efficiency, targeted cost-sharing, and robust capital diversification risks fiscal strain and operational breakdown.

International experience offers valuable strategic insights. Australia demonstrates the efficacy of SARS-integrated income-contingent loans for protecting low earners and expanding credit access. Germany illustrates the power of state subsidies in building public capacity, while highlighting the fiscal constraints that prevent universal fee-free models in developing economies. The OECD framework reinforces the necessity of a multi-source, differentiated funding system.

By implementing a progressive, multi-tiered structure—comprising non-repayable grants for the poorest students, SARS-collected income-contingent loans for the missing middle, corporate co-funding, and deep administrative technology upgrades—South Africa can build a resilient PSET sector. Ultimately, a sustainable financial aid system is not merely a tool for fiscal consolidation; it is the cornerstone of sustainable economic growth, social redress, and human empowerment.

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