

Remodelling student-financing in South Africa towards a fiscally sustainable, equitable and inclusive higher education system

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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(Excluding graphs subtitles, tables subtitles and references)

1. Introduction

“Education is the great engine of personal development. It is through education that the daughter of a peasant can become a doctor, that the son of a mine worker can become the head of the mine, that a child of farmworkers can become the president of a great nation.” - Nelson Mandela.

Education is one of the most powerful instruments of individual advancement, household prosperity and societal transformation. However, the transformative potential of higher education remains constrained when access is determined not by academic ability and aspiration, but by an individual's financial circumstances. In South Africa, this is particularly important given the enduring socioeconomic inequalities inherited from apartheid. Student financing plays a critical role in addressing these disparities by enabling academically capable students from financially disadvantaged backgrounds to access higher education. The National Student Financial Aid Scheme (NSFAS), previously called the Tertiary Education Fund of South Africa (TEFSA) in 1991 and subsequently enacted through the National Student Financial Aid Scheme Act of 1999, is central to this objective. Despite the positive impact, concerns regarding administrative inefficiencies, funding adequacy, equitable allocation and long-term fiscal sustainability raise questions about the legitimacy of NSFAS. This essay analyses how South Africa can develop a fiscally sustainable, equitable and inclusive student financing model for higher education. Firstly, it will examine the economic and strategic challenges confronting the current student financing system. It then evaluates international student financing models to identify transferable principles, assess their suitability for South Africa's socioeconomic and institutional context. Finally, it recommends a student financing framework that integrates the most suitable elements of different financing models to achieve long-term fiscal sustainability, equity and inclusivity within the South African higher education context.

2. The student financing landscape in South Africa

2.1 Funding sources

South Africa's higher education financing system relies on a combination of self-funding, the National Student Financial Aid Scheme, government and private sector subsidies, scholarships and bursaries. These mechanisms distribute the cost of higher education across students, government and private-sector stakeholders, each plays a distinct role in promoting access. (Meyer, 2025) reports that self-funded students accounted for 56.2% of the student category examined, compared with 40% funded through NSFAS, 2.4% supported by scholarships and bursaries, and 1.5% comprising international students.

(OECD, 2025) states “Tertiary education brings broad societal benefits but also economic returns to individuals in the form of better employment rates and higher earnings. This underpins the rationale behind cost-sharing: the idea that students (and their families) should bear part of the cost of their tertiary studies.”.

For the 2025/26 financial year, the Department of Higher Education and Training allocated R48.7 billion to NSFAS, comprising approximately R39.3 billion for university funding, R9.1 billion for technical and vocational education and training (TVET) colleges, and R347.5 million for administration (NSFAS, 2025). Its funding projections anticipated support for approximately 790 000 students across universities and TVET colleges, including an estimated 480 000 university students. Approximately 811 011 students were supported (NSFAS Annual Performance Plan, 2026). NSFAS employs differentiated funding arrangements intended to address varying levels of financial need. Students from households with an annual income of R350 000 or less generally qualify for bursary funding. The scheme also provides a student loan for eligible applicants whose annual household income falls between R350 000 and R600 000. This model aims to assist the poorest of households and the middle class. Departmental transfers accounted for 94% of the revenue, which highlights the need to “replenish” the money funded which is a large expenditure.

Beyond direct student assistance, government supports public universities through institutional subsidies, which contribute to the cost of delivering higher education and reduce the extent to which universities must rely exclusively on student fees and other revenue sources.

Private-sector scholarships, corporate bursaries and other forms of external financial assistance provide an additional source of funding. These arrangements may be motivated by corporate social responsibility initiatives, skills-development activities, or agreements of future employment.

These figures illustrate the coexistence of multiple financing arrangements and the substantial role played by household financing and NSFAS.

2.2 Fiscal constraints and challenges

Fiscal constraints limit expanding public expenditure on higher education to meet student financing needs. The government must allocate scarce public resources across competing socioeconomic priorities, including

healthcare, social security, basic education, infrastructure development and debt servicing. Furthermore, an increase in funding without improvements in administrative efficiency and financial accountability risks increasing public expenditure without proportionately improving educational outcomes.

NSFAS has faced persistent criticism regarding administrative inefficiencies, inadequate financial controls and weaknesses in the verification of student eligibility. For instance, 7 805 student appeals reportedly remained outstanding following a system failure, potentially compromising students' ability to continue their studies (Post, 2026). Further concerns arose when 822 deceased students were identified as continuing to receive funding, while approximately 14 000 funded students reportedly fell outside the applicable household-income threshold. In addition, R37.8 million in wasteful expenditure was reported, an amount estimated to be equivalent to funding approximately 486 additional students. The Special Investigating Unit (SIU) has also identified financial irregularities amounting to R737.9 million, further increasing concerns regarding governance and accountability. A further structural challenge concerns the recovery of student loans. Between 1999 and 2015, only 10.9% of the loans granted by NSFAS were reportedly recovered. This low recovery rate raises concerns about the scheme's ability to replenish its available funding through repayments, thus increasing its reliance on continued government allocations.

Private-sector scholarships and bursaries provide a valuable supplementary source of student financing. However, their availability may fluctuate in response to prevailing economic conditions, corporate financial performance, changing strategic priorities, and the specific objectives of individual sponsors. Consequently, although private-sector contributions can diversify funding sources and alleviate some of the financial pressure on the government, their variability makes them an unreliable foundation for financing the higher education system as a whole. Private funding should therefore be regarded as a complementary component of a broader, reliable and sustainable student financing framework.

3. Alternative financing models

3.1 Increasing tax to fund higher education

In many OECD countries, higher education is partially financed through taxation, with the financial burden distributed collectively among

taxpayers. This reflects a broader policy choice to finance tertiary education collectively through progressive taxation rather than relying primarily on individual student contributions (OECD, 2025). However, adopting a similar approach in South Africa may prove challenging given the country's narrow tax base and the concentration of personal income tax contributions. According to Jacobs (2025), only 1.5% of the population contributes approximately 60% of total personal income tax revenue. Consequently, placing additional tax burdens on this relatively small proportion of taxpayers may be inequitable and fiscally unsustainable.

3.2 Income contingent loans

Income-contingent loans (ICLs) have emerged as one of the most prominent alternatives to conventional student financing internationally. Unlike traditional loans, repayments are contingent on graduates reaching a predetermined income threshold, although voluntary repayments may be made before this threshold is reached. This arrangement reduces the immediate financial burden on graduates entering the labour market and mitigates the risk of default by aligning repayment obligations with their financial capacity. Furthermore, ICLs can broaden access beyond means-tested bursary schemes by assisting students whose parents may have the financial capacity to contribute towards their education but are unwilling to do so.

An additional advantage is their potential to attract private capital into student financing. Rather than relying exclusively on government funding, private financial institutions could provide loans and generate returns through interest, subject to appropriate regulation. Government intervention remains necessary to ensure that financial circumstances do not exclude academically capable students from higher education (OECD, 2025).

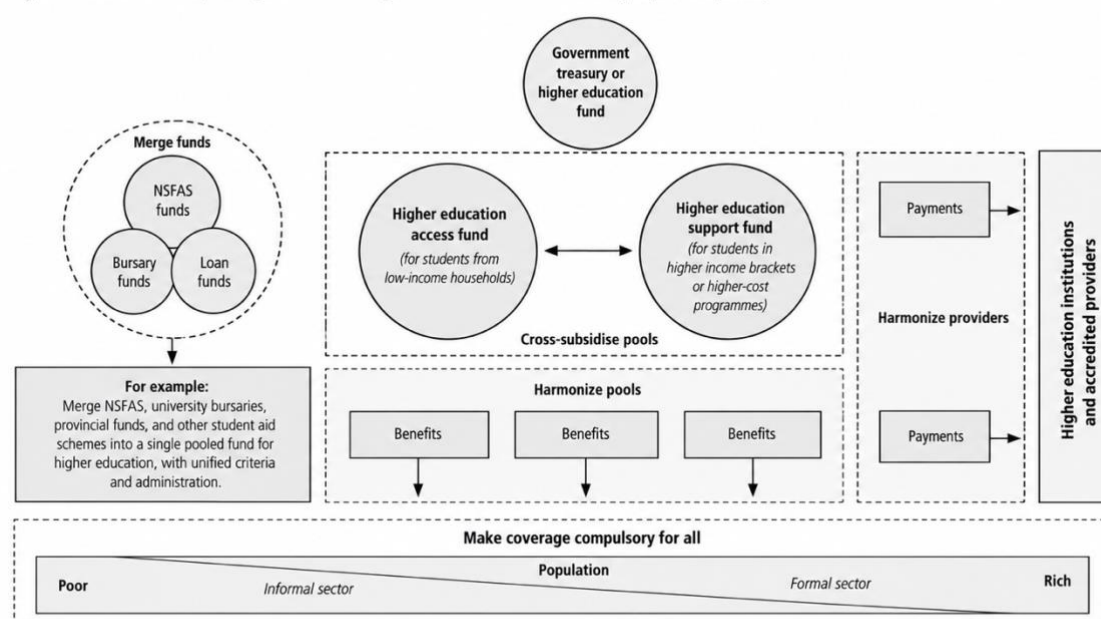
The effectiveness of ICLs, however, depends on three fundamental institutional requirements: accurate record-keeping of outstanding student liabilities, an efficient mechanism for collecting repayments, and reliable monitoring of graduates' income over time. South Africa is relatively well positioned to implement such a system through the South African Revenue Service (SARS), which could leverage its existing tax administration infrastructure to facilitate income-based repayments. Employers could similarly assist through payroll deductions, operating in a manner comparable to the collection of personal income tax. Stiglitz (2014) identifies these administrative advantages as *transactional efficiencies*.

Despite these advantages, ICLs present several risks. Students may discontinue their studies, select qualifications with limited employment prospects or overestimate their future earning potential. Furthermore, changing labour-market conditions may reduce the expected financial returns of particular qualifications. These risks could be mitigated through ongoing monitoring of academic progress, and industry demand as lenders (banks) have access to industry research.

3.3 Pooling financial resources for universal higher-education aid

Universal Higher Education Aid (UHA) is an approach to student financing that seeks to ensure that all individuals can access higher education without facing significant financial barriers. Inspired by the principles of Universal Health Coverage (UHC).

Fig. 1. Illustration of pooling reforms for higher education financial aid (proposed system)



Notes: Circles refer to a pool; dotted lines refer to a specific pooling reform.

Bull World Health Organ 2020;98:132–139 | doi: <http://dx.doi.org/10.2471/BLT.19.234153>

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As illustrated, the proposed system operates by pooling existing higher education funding sources, including NSFAS allocations, bursaries, student loans, university subsidies and the proposed study insurance mechanism, and redistributing these resources equitably to finance students.

Study insurance is a proposed additional funding mechanism through which guardians, particularly from middle and upper-income households, contribute towards their children's future higher education costs. Contributions could

commence at birth, with premiums increasing as the child approaches university age. This would accumulate funds over an extended period to support the UHA, drawing on principles similar to medical aid and health insurance.

Where the payout trigger in Universal Health Coverage (UHC) is the need for healthcare, the corresponding trigger under UHA would be university admission and the need for financial assistance with registration and tuition.

The model offers two principal advantages. Firstly, pooling existing funding mechanisms could reduce duplicated administrative costs incurred by NSFAS, lenders, scholarship providers and bursary administrators. Secondly, it distributes financial risk across a broader population, with contributions reflecting affordability rather than placing the entire financial burden on individual households. Importantly, a larger, more diverse pool, including individuals who do not immediately require funding, strengthens the system's capacity to distribute costs and manage financial risk. As observed in the context of UHC, compulsory or automatic coverage across population groups broadens the risk pool by incorporating individuals with different levels of financial and healthcare needs (Bull World Health Organization, 2020).

4. Conclusion

Student financing remains a pressing structural challenge in South Africa, requiring a comprehensive and multifaceted response rather than reliance on a single funding mechanism. The proposed approaches should therefore be considered collectively and integrated into a coherent financing framework that balances fiscal sustainability with equitable access and inclusion. As demonstrated by van Broekhuizen et al. (2017), students from low-income households who receive financial assistance during their studies are more likely to graduate than their unsupported counterparts, highlighting the importance of financial aid not only in facilitating access but also in improving academic completion.

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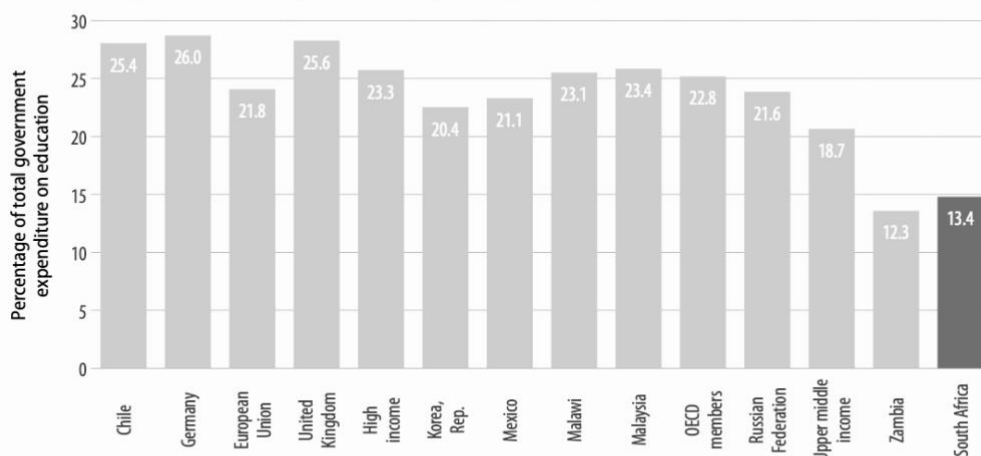
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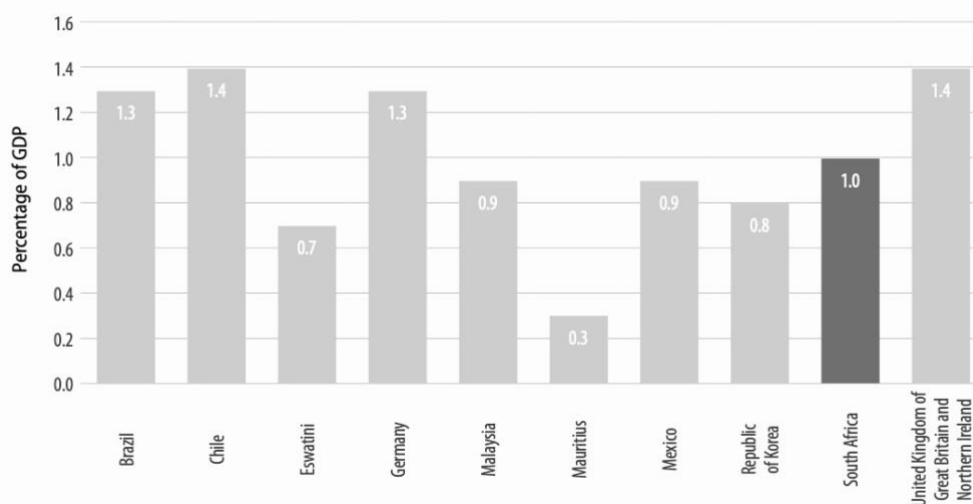
FIGURE 37: Expenditure on tertiary education as a percentage of total government expenditure on education, 2016

Source: World Bank (Extracted 28 April 2023).

Notes:

1. The countries included in this figure were selected based on availability of latest data.
2. The value for South Africa is based on own calculations, as there was no value for 2016 in the World Bank database.

7.2.5 Government spending on tertiary education: International Comparisons

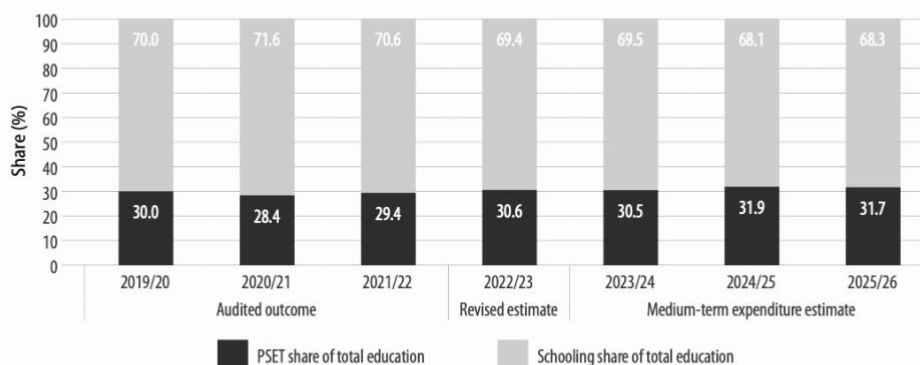
FIGURE 36: Expenditure on tertiary education as a percentage of GDP by country, 2019

Source: UIS (Extracted 26 April 2023).

Notes: The countries included in this figure were selected based on availability of latest data.

7.2.4 Overall government spending on schooling system versus post-schooling system

FIGURE 35: Expenditure on PSET and schooling expressed as a share of consolidated non-interest government expenditure on education, 2019/20-2025/26



Sources: Expenditure Priorities from Medium-Term Budget Policy Statement (National Treasury: 2020, 2021 and 2022); and Consolidated Spending Plans from Budget Review 2023 (National Treasury, 2023b)

Notes:

1. All values are expressed as nominal values, as reported in the source.
2. Consolidated non-interest government expenditure includes spending by national departments, sub-national spending (including national transfers and sub-national own resources). It excludes debt-service costs but includes contingency reserves and unallocated reserves.