Undergraduate Category (2027 Words)

Building a Fiscally Sustainable Student-Financing Model for South Africa

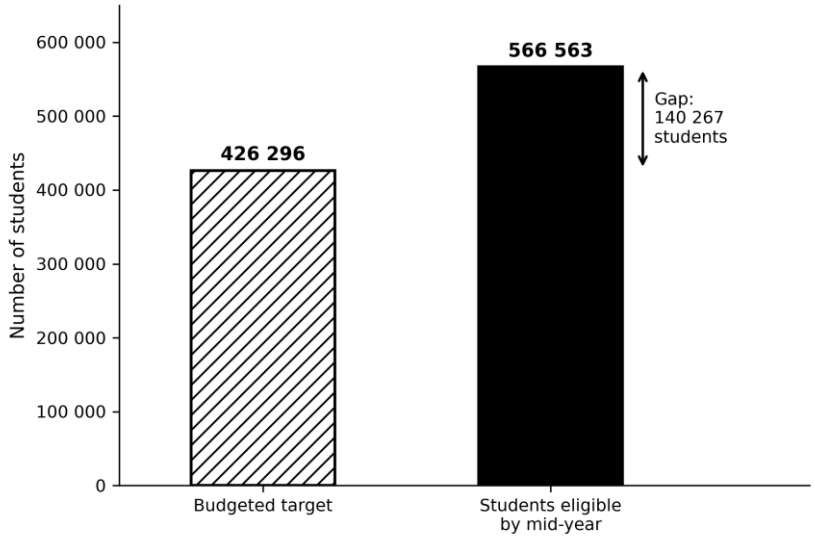
Introduction

South Africa's higher education sector is both a private investment and public good. Graduates can earn more throughout their lifetime, however society also gains from a more productive workforce, increasing tax revenue and increasing social mobility. How a country chooses to fund higher education is not only a question of fairness, but it is rather an economic choice about who carries the cost and receives the benefit. South Africa has answered this question mainly through the National Student Financial Aid Scheme (NSFAS), yet the scheme now faces a shortfall of about R15 billion despite an annual budget of about R56 billion (Daily Investor, 2026). At the same time, households that earn too much for a bursary but too little to pay fees privately receive very little help. This essay highlights key concepts as to why South Africa has to build a fiscally sustainable student-financing model. Firstly, the essay will look at why the current system needs to be altered, then discuss the concept of progressive funding. It will look internationally at how this has been successfully done and propose a model. The model proposed will be tested for fiscal sustainability and finally be evaluated for its long-term economic returns.

1. Diagnosing the current South African student-financing model

South Africa's current student-financing model attempts to widen access to higher education while addressing the financial barriers faced by students from disadvantaged backgrounds. The existing financing structure comprises of government subsidies to public institutions and non-repayable bursary funding with the National Student Financial Aid Scheme (NSFAS). The transformation of South Africa's higher education system saw a shift towards a grant-based student financial aid in December 2017, moving away from the previous income-contingent loan approach for eligible lower-income students (Masutha, Motala, 2023). The authors further acknowledge that the policy intervention restored relative stability across the higher education sector, and has alleviated students from the burden of repayment obligations. Despite these developments, access to higher education remains constrained by financial inequalities. Evidence continues to highlight concrete examples of structural weaknesses and limitations that affect the "missing middle" class students who are financially constrained without adequate financial support (Garrod, Wildschut, 2021). Beyond the funding gap affecting middle income students, the expansion of government expenditure also raises concerns about the fiscal sustainability of the policy, because it places additional pressure on government expenditure which signals potential issues pertaining affordability and allocation of public resources. Available figures indicate that 566 563 university students were eligible for NSFAS funding by mid-year, compared with a target of 426 296 contributing to a funding deficit of nearly R14 billion (The Parliamentary Budget Office, 2025). The demand for student financial aid is driven by the number of eligible students requiring funding, while the supply of funding is constrained by the government's budget allocation, creating a potential shortfall when funding needs exceed available public resources. This illustrates the fiscal challenge of meeting rising funding needs within limited public resources. As a result, South Africa requires a higher education funding system that promotes equitable access while maintaining fiscal sustainability.

Figure 1: NSFAS-eligible students versus the budgeted target, mid-year

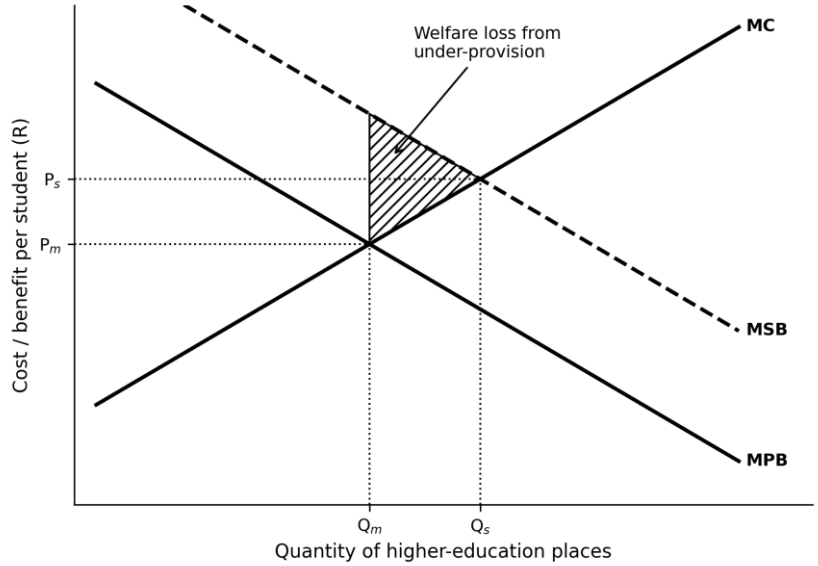


Source: Parliamentary Budget Office (2025).

2. Progressive funding that balances; equity, efficiency and fiscal sustainability

Reforming the existing funding framework requires a broader understanding of financial vulnerability while simultaneously noting that progressive funding does not necessarily mean giving every income gap the same amount. It means adjusting the level of financial assistance according to financial capacity. South Africa should adopt a progressive student-financing model that does not rely on a uniform approach when allocating funds to students. Low-income students may qualify for full bursaries, while middle-income students may receive partial bursaries or subsidised loans and upper middle-income students may rely more heavily on private contributions. Economic theory supports public involvement because higher education generates a private return to the graduate and positive externality for society (Barr, 2004). A better funding model starts from three principles; equity, efficiency and fiscal sustainability. Equity implies that financial support should be greatest when ability to pay is lowest. Efficiency means that public money should buy additional access, not subsidise students who would have studied anyway. Fiscal sustainability requires promises to maintain affordability over time. This is consistent with the view that thresholds should be built from the real cost to missing-middle household of supporting a student (Dlamini, 2026). A fully free system for everyone would be inefficient and regressive, because better-off households would capture much of the subsidy and the state would carry the whole cost. Progressive funding solves this by letting support fall gradually as household income rises, instead of dropping to zero at cut-off. In practice, this means keeping the existing bursary for the lowest-income group, moving middle-income households to a blend or partial grant and loan, and offering loans without subsidy to higher-income households. The policy question then focuses on the income gap between what studying actually costs, including fees and living expenses, and what a household can afford. Importantly, this approach builds on the current system rather than replacing it.

Figure 2: The market for higher education with a positive externality



Note: MPB = marginal private benefit; MSB = marginal social benefit; MC = marginal cost. Qm = market quantity; Qs = socially optimal quantity. Own illustration based on Barr (2004).

3. Lessons from International Experience

There is no perfect system and it is therefore useful to look at examples from around the world. International experiences demonstrate that student-financing can adopt different approaches to balancing accessibility and fiscal sustainability. Australia introduced the Higher Education Contribution Scheme in 1989. Students are charged tuition, but repayment is deferred until income passes a threshold, and repayments are a share of income collected through the tax system, which acts as insurance against repayment difficulties (Chapman, 2016). Income-contingent loans have since spread to Thailand, South Korea, Brazil, the Netherlands, Japan, and Columbia (Chapman, 2016). In contrast, Germany offers relatively low-cost public higher education, with additional financial assistance available to eligible students through its BAföG system, which combines grants and interest- free loans (Chavelier 2018). Singapore follows a different approach, where citizens automatically receive a tuition grant, and loans can cover up to 90 percent of subsidised undergraduate fees, supported by bursaries for needy students (Ministry of Education Singapore, 2024). Chile provides a combination of scholarships and income-contingent financing, illustrating how financial assistance can be differentiated according to socioeconomic circumstances. These examples serve as different financing mechanisms, and necessarily proof that each mechanisms works perfectly. Rather than replicating these models they provide valuable insights into alternative funding frameworks that South Africa can critically evaluate and adapt when developing a more inclusive and fiscally sustainable student-financing systems.

Table 1: International student-financing approaches and lessons for South Africa

Country	Mechanism	Key features	Lesson for the proposed model	Source
Australia	Income-contingent loan (HECS, 1989)	Tuition is charged but repayment is deferred until income passes a threshold; repayments are a share of income collected through the tax system.	Pillar 2: repayment only above an income threshold, collected via SARS.	Chapman (2016)
Germany	Grants plus interest-free loans (BAföG)	Low-cost public higher education, with extra support for eligible students through a mix of grants and interest-free loans.	Blended grant-and-loan support for middle-income households.	Chavelier (2018)
Singapore	Universal tuition grant, loans and bursaries	Citizens automatically receive a tuition grant; loans cover up to 90 percent of subsidised undergraduate fees; bursaries for needy students.	Public subsidy for all, with targeted bursaries for the poorest (Pillar 1).	Ministry of Education Singapore (2024)
Chile	Scholarships plus income-contingent financing	Scholarships and income-contingent financing, differentiated by socioeconomic circumstances.	Support differentiated by household income (progressive banding).	Dearden, Lorraine; Valdes Aspillaga, Natalia; Rios-Jara, Hector; (2025)

Source: Chapman (2016); Chavelier (2018); Ministry of Education Singapore (2024); lessons column is the author's own adaptation.

4. A proposed fiscally sustainable model

Pillar 1: Targeted grants for the lowest-income students. Full grants should be retained for students from the poorest households, which covers households earning up to R350 000, because credit constraints and loan aversion bind hardest there. Means testing should be strengthened through data-matching from SARS and other state databases to ensure that financial assistance reaches eligible beneficiaries without the misallocation of funds.

Pillar 2: An Income-contingent loan for the missing middle upper NSFAS band. The Heher framework still remains a useful template: repayment only above an income threshold,

collection via SARS, and a limit on repayment period (SAnews, 2017). Moreover, keeping grants for the lower-income households protects access for households that are averse to borrowing, so the move to loans does not shut out those who need support most.

Pillar 3: Enrolment planning and cost containment. A multi-year funding compact between the Department of Higher Education (DHET), NSFAS, and universities should replace demand-driven funding. Fee regulation should accompany any expansion of aid to stop universities from raising prices, in line with the Heher Commission's recommendation on fee capping (SAnews, 2017)

Pillar 4: Administrative capacity. This student-financing model requires reliable data, direct and timely payments and continued recovery of improper payment to protect the integrity of the system. The model also builds safeguards for its financial risks, because the cost of an income-contingent loan is sensitive to threshold design (Higgins and Chapman, 2015).

Table 2: The proposed four-pillar student-financing model

Pillar	Who it covers	Key mechanism
1. Targeted grants	Lowest-income households (up to R350 000)	Full grant; SARS data-matching to check eligibility
2. Income-contingent loan	Missing middle (upper NSFAS band)	Repay only above an income threshold; collected via SARS; limited repayment period
3. Enrolment planning and cost containment	DHET, NSFAS and universities	Multi-year funding compact; fee capping
4. Administrative capacity	NSFAS	Reliable data; timely direct payments; recovery of improper payments

Source: Summary on SAnews (2017) and Higgins and Chapman (2015).

5. Fiscal Sustainability and Long-Term Economic Returns

The proposed student-financing model strikes a balance between distributive equity and allocative efficiency. Expanding assistance to student financing promotes access to higher education but an increasingly broad funding commitment can put pressure on the national fiscus, in light of these considerations, implementing a progressive cost-sharing model could improve allocative efficiency by differentiating financial assistance according to household income and repayment capacity, rather than providing uniform levels of support. Such an approach allows limited public resources to be concentrated on financially disadvantaged students, while introducing the loan repayments for those with greater payment capacity. Ultimately, this could strengthen long-term fiscal sustainability of student financing without undermining its redistributive objectives. Equally important is the potential long-term economic returns yielded from human capital development, increased productivity and improved labour-market participation. Additionally, this demonstrates the positive relationship between educational attainment and labour-market outcomes, which illustrates the significant economic returns of acquiring higher education. Branson and Leibbrandt (2013) state that "tertiary qualification improves an individual's prospects of employment" and Bawa and Pouris (2023)

further substantiate by highlighting that South Africa's public universities generated an economic impact of approximately R513 billion in 2018, illustrating higher education's contribution to wider economic activity. Therefore, a refined fiscally sustainable student-financing model provides South Africa significant economic returns in the long-run.

Conclusion

In conclusion, if the South African government is to put in place a student-financing model that is fiscally sound it will have to strike a balance between the goals of equitable access, the efficient use of resources and long-term financial sustainability. The present NSFAS funding model has done much to lower the financial hurdles for students from disadvantaged backgrounds, but its escalating costs make clear the case for a more progressive and differentiated way of funding. One can look to other countries for examples of how grants, income-contingent loans and some form of targeted aid can be used to apportion the expense of higher education in different ways. Such mechanisms are not to be taken on board as it is tough; they must be suited to the socioeconomic realities of South Africa and their limitations acknowledged. In the end, what is being spent on student financing ought to be seen as an investment in human capital and the nation's economic future as well as an opportunity for employment, not just another government outlay. A properly constructed model will see to it that responsible public spending is maintained.

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