Undergraduate Category (2191 Words)

Building a Fiscally Sustainable Student-Financing Model for South Africa

Introduction

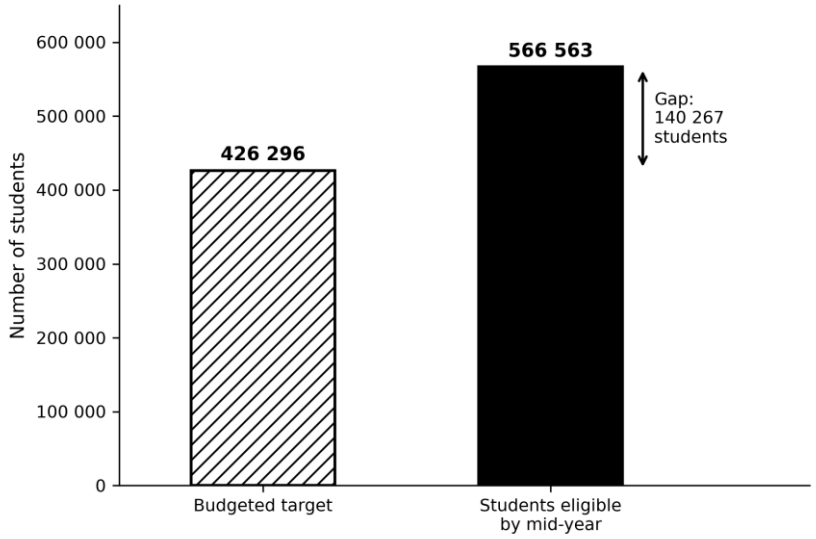
The higher education system of South Africa is a private investment and a public good. Higher lifetime incomes for graduates is a result of education that builds human capital. Higher educational attainment generates positive externalities, as the rest of society benefits from a more productive workforce, greater tax revenue, and more social mobility. When it comes to determining how the nation will pay for higher education, it is not simply a matter of fairness. It also relates to an economic choice about who pays and who benefits. The National Student Financial Aid Scheme (2026/27 allocation of R54.3 billion) (National Treasury) is South Africa's main answer to this question. Yet, NSFAS itself told Parliament that it had a combined funding shortfall of R10.4 billion (Portfolio Committee on Higher Education and Training, 2026).At the same time, missing-middle households make too much money for a bursary yet too little to afford private fees and get limited or no assistance. This article explains why a hybrid, income-sensitive financing model that opens access to a wider range of South African households will be the best path for South Africa. Moreover, it will limit extra expenditure by the state. The essay seeks to identify the shortcomings of the existing student-financing model, learn from best practices abroad and create a better financing model. The proposed model will be assessed for fiscal sustainability and its potential long-run 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

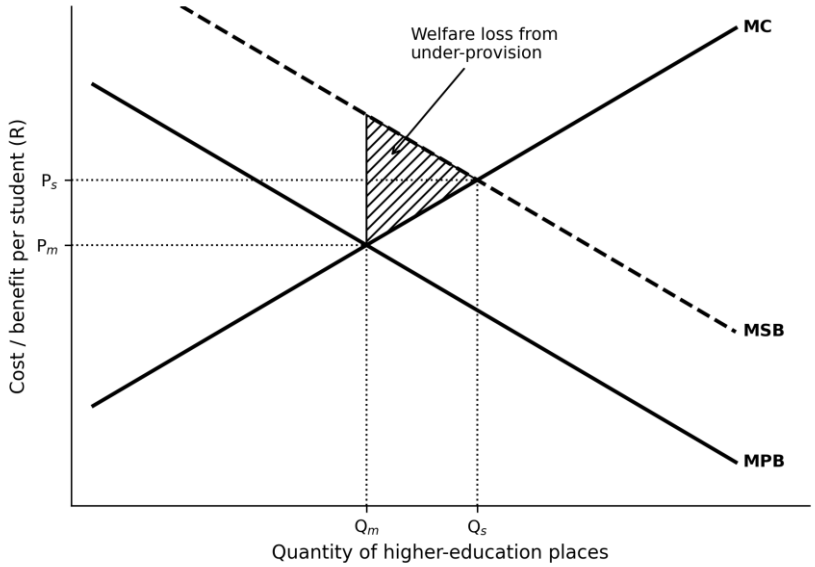


Source: Parliamentary Budget Office (2025).

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

Country	Mechanism	Key feature	Lesson
Australia	Income-contingent loan (HECS)	Repay above income threshold	Repay via SARS (Pillar 2)
Germany	Grants + interest-free loans (BAföG)	Low fees, mixed aid	Blended aid for middle income
Singapore	Universal grant, loans, bursaries	Loans cover up to 90% of fees	Subsidy for all, bursaries for poorest (Pillar 1)
Chile	Scholarships + income-contingent loans	Aid by socioeconomic status	Banded support by household income

Sources: Chapman (2016); Chavelier (2018); Ministry of Education Singapore (2024); Dearden, Valdes Aspillaga and Rios-Jara (2025). Lessons: author's own.

4. A proposed fiscally sustainable model

Pillar 1: Tiered approach with a state-guaranteed loan for households earning greater than R600,000. The improved model will still include the existing bursary scheme, which is the current bursary for up to R350 000 household income and an undergraduate loan to households earning between R350,001-R600,000 (NSFAS, 2026). A new addition of a third tier to assist households above R600 000 will be implemented. This new tier provides a state guaranteed loan. Commercial banks will lend to students without collateral with government bearing only the residual risk if a graduate never reaches the repayment threshold. Students struggle to borrow commercially because they have no collateral and future earnings can't secure a loan (credit constraint). However, a state guarantee changes this. If the government carries the residual risk, banks can lend at lower rates, and SARS collection through the tax system keeps recovery costs low.

Pillar 2: Income-contingent repayment through SARS. Graduates will only pay a percentage of their income after they earn above a set threshold, meaning no one pays back from a low income. Income-contingent repayment works as insurance against low earnings. This model draws from the Heher Commission Report suggested income-contingent loans, where repayments are collected by SARS through the income tax system (Sowetan Live, 2017). Administration costs for the government are low as SARS already collects PAYE. Similar to the rate system used in Australia, this model proposes that graduates will repay a fixed share of of their income set at 8%-10% once they earn above the repayment threshold (Chapman and Lounkaew, 2010).

Pillar 3: Employer co-funding through the Skills Development Levy (SDL). The **Skills Development Levy (SDL)** is a compulsory South African tax paid by employers to fund workforce training and skill development (SARS, 2026). In this model a percentage of the SDL

will be redirected to a graduate-financing fund. Alternatively, firms will get a rebate for hiring scheme graduates. Employers already pay 1% of their total payroll to SARS every month (EMP201 declaration). This does not impose a new tax as the money is already being collected and allocated to skills development. Redirecting part of the levy would require amending the SETA Grant Regulations (merSETA, 2023) and would divert funds from existing training programmes, an opportunity cost the model accepts. This aspect of the model lowers fiscal pressure as employers carry part of the cost and alleviates government expenditure. Benefits are matched to costs as firms benefit from hiring graduates with an increased human capital.

Pillar 4: Revolving Fund. A revolving fund keeps the student-financing model fiscally sustainable. It lowers the state's recurring obligation to bear all costs by diverting graduates' repayments back into loans for the next batch. Revolving loan funds lend to students, who repay, and the repayments replenish the central fund so new loans can be issued. (Mail & Guardian, 2022).This self-financing approach cuts the recurring burden on government expenditure. If repayments cover most of the annual lending, the state only tops up the gap. And similar to Thailand's financing model, it will reach far more students which later yields a productive workforce, possibly resulting in economic growth (Ziderman, 2002). Thailand's revolving fund recovered little because of weak collection, however, SARS collection in Pillar 2 is what fixes weakness.

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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