Funding the Way Out, Not Just the Way In: A Fiscally Sustainable Student-Financing Model for South Africa

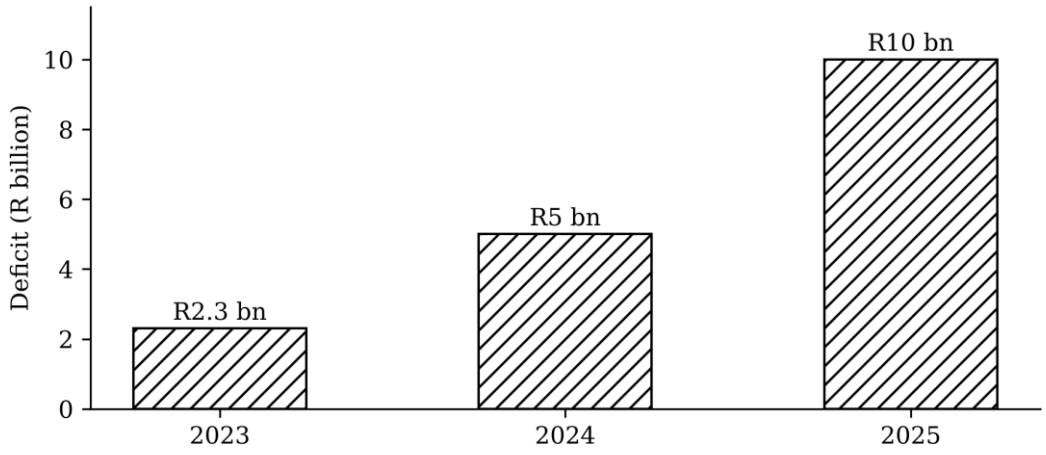
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Introduction

In December 2017, after two years of #FeesMustFall protests, South Africa committed to fully funding higher education for students from poor and working-class households (DHET, 2018). It was a bold response to genuine need, and it opened doors that had long been closed.

Yet this commitment is under strain. The National Student Financial Aid Scheme (NSFAS) now spends about R49.3 billion a year. Its deficit has more than quadrupled in two years, from R2.3 billion in 2023 to R10 billion in 2025 (PMG, 2025; Figure 1). It has warned that around 100,000 eligible students could lose funding in 2026.

Figure 1: NSFAS annual funding deficit, 2023–2025



Source: Parliamentary Monitoring Group (2025), NSFAS briefing, 21 October.

Meanwhile, 60.9% of young South Africans aged 15 to 24 who want work cannot find it (Stats SA, 2026).[1]

These two crises are linked. South Africa pays for students to enter higher education. It does far less to ensure they leave it employable. This essay argues that funding should reward employability. Drawing on Germany, Australia and England, it proposes five reforms that would widen access while easing the pressure on the public purse.

[1]This figure uses the 15–24 age band to match international definitions, including Germany's. Stats SA's headline youth unemployment rate, 47.4% in the second quarter of 2026, covers ages 15–34 (Stats SA, 2026).

1. A system that funds the entrance, not the exit

The current model has five weaknesses. First, unemployment keeps students in the system. When jobs are scarce, another year of study feels safer than an empty CV. The taxpayer funds each extra year, yet it rarely improves the student's prospects.

Second, a loan makes no sense if it cannot be repaid. NSFAS is still owed about R45 billion from its old loan book, and its recovery systems collapsed after the move to bursaries in 2017 (PMG, 2025). Lending to people who will not earn enough to repay is not finance. It is a delayed grant with an administrative bill attached.

Third, much course content lags behind the workplace. Employers increasingly want job-specific knowledge and skills that lecture halls struggle to teach.

Fourth, grants are sometimes spent on the wrong choices. Some students are pushed by family or status towards prestigious careers that do not suit them. Many never finish. NSFAS's own leadership admits that one in two beneficiaries still fails to graduate (PMG, 2025). Each dropout represents years of lost time and public money.

Fifth, a single degree takes many years and narrows a student's options. It is a large, risky bet for an 18-year-old in an economy where 33.6% of the labour force is unemployed (Stats SA, 2026).

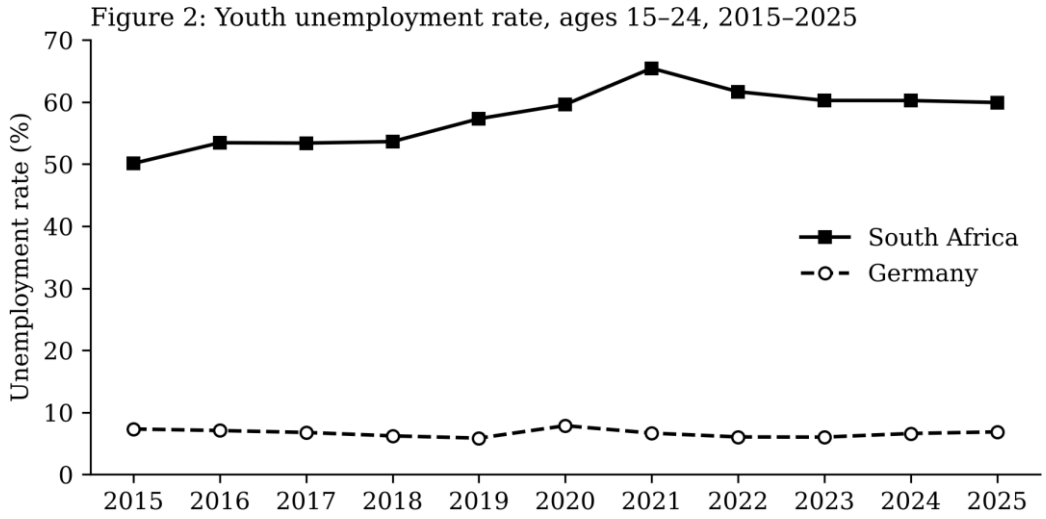
South Africa spends heavily on enrolment but receives too little employment in return.

2. Parity of esteem: learning from Germany

Germany offers a different model. It treats hands-on and academic work as equally legitimate, and it funds both.

About half of German upper-secondary learners are in vocational education. Roughly 70% of them train through the dual apprenticeship system, splitting their time between a firm and a vocational school across some 325 recognised occupations (Cedefop, 2022).

Crucially, this is not a second-class route. Almost 30% of new apprentices already hold a qualification that would admit them to university (Cedefop, 2023). They choose a trade because it is respected and leads to work. The labour-market results are striking (Figure 2).



Source: World Bank, via FRED (Federal Reserve Bank of St. Louis), 2026.

Germany extends the same idea to degree level. Its dual study programmes combine higher education with at least 40 to 50% in-company training (Cedefop, 2023). Because employers help design the training, content stays current.

Germany also shares the cost. Firms pay for in-company training and pay apprentices a wage, while the federal states fund the vocational schools (Cedefop, 2022). Research suggests that, on average, apprentices' productive work roughly offsets what firms spend on them (Zwick, 2007).

South Africa cannot copy Germany wholesale. It lacks Germany's powerful chambers of commerce and its dense base of medium-sized manufacturers. But it can copy the principle. The state should fund TVET and apprenticeship routes on equal terms with degrees, and stop signalling that a degree is the only respectable outcome. Overseas placements could also train South African instructors and bring best practice home.

3. Making employers co-funders

South Africa already has the tools to draw in employers. It simply under-uses them.

Firms pay a 1% skills development levy on their payroll. They can also claim a section 12H tax allowance for each registered learnership. For NQF levels 1 to 6, this is R40,000 a year plus R40,000 on completion (SARS, 2025).

Yet the allowance only covers agreements signed before 1 April 2027, and it has been extended piecemeal several times. No firm can plan a three-year training programme around a tax break that may disappear. Section 12H should therefore be made permanent. It should also be extended to work-integrated learning, so that university and TVET students gain work experience while they study.

The fiscal case is compelling. At the 27% company tax rate, R80,000 in 12H deductions costs the state about R21,600 in forgone tax. For that, a learner gains a year of paid workplace

training, and the firm covers the wage. By comparison, NSFAS spends roughly R55,000 per student on average.[2]

Sector Education and Training Authority (SETA) grants should follow the same logic. Payments should be linked to completed placements and jobs, not merely to enrolments.

Finally, every funded learner should complete a short course on starting a business: basic marketing, registering a company and simple bookkeeping. An economy that cannot yet absorb all its graduates needs some of them to create jobs of their own.

4. Shorter routes that keep doors open

Long, single-track degrees suit a world of stable careers. South Africa's labour market is not that world.

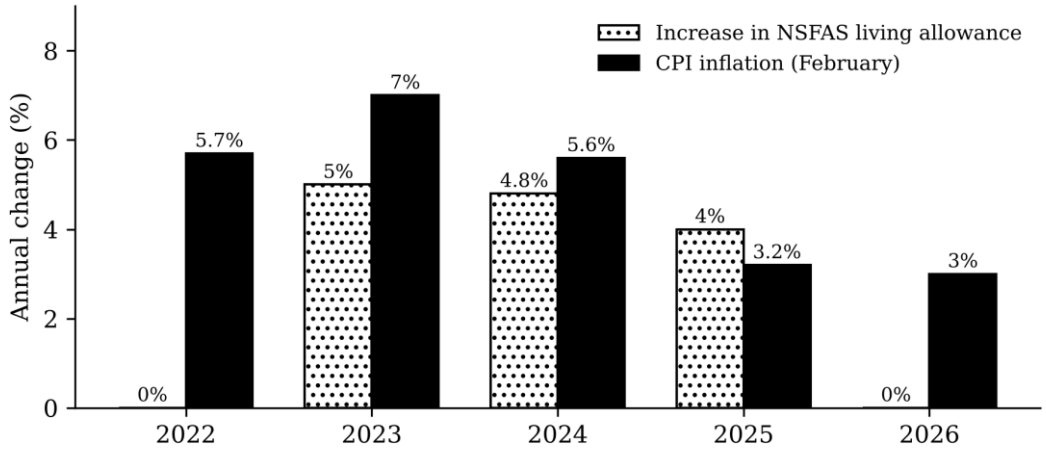
Funding should therefore support shorter, stackable qualifications: one-year certificates that build towards diplomas and degrees. A student could complete a certificate, work for a year, then return to build on it. If the first choice proves wrong, the credits are not lost.

This lowers the cost of a wrong choice. It shortens the gap between study and income. And it weakens the incentive to study simply to avoid unemployment.

5. Spending on services, not cash: the stokvel principle

A large share of NSFAS funding pays for living, not learning. In 2024, the accommodation cap alone was R50,000 a year in metropolitan areas (NSFAS, 2024). The living allowance adds R17,160, an amount frozen for 2026 even though it has trailed inflation in most recent years (AllAfrica, 2026; Figure 3). For a metro student, that is over R67,000 a year before a single lecture is paid for.

Figure 3: NSFAS living allowance increases vs inflation, 2022–2026



Source: AllAfrica (2026), using NSFAS allowance data and Stats SA CPI.

[2]Author's estimate: R49.3 billion in expenditure divided by the roughly 900,000 students NSFAS reports funding (PMG, 2025).

The state's instinct has been to cap these amounts. But a price ceiling without new supply simply rations a scarce good. When NSFAS capped accommodation at R45,000 in 2023, many students were left without housing, because real costs at universities such as Pretoria exceeded the cap (Daily Maverick, 2023). The underlying problem is supply: the sector is short of about 200,000 beds (PMG, 2025).

There is a better approach, familiar to millions of South African households: the stokvel. Members pool their money, buy in bulk and share the benefit. The state can do the same. Instead of paying hundreds of thousands of individual allowances, it can commission student housing at scale, contract bus routes between townships and campuses, and run both at cost.

The savings could be substantial. As an illustration, if bulk provision cut the cost of a R50,000 bed by just 10%, 100,000 students in funded housing would free R500 million a year. At current average costs, that would fund roughly 9,000 additional students.

Bulk provision also reduces fraud. Parliament has repeatedly questioned NSFAS about "ghost" students and accommodation providers (PMG, 2025). A bed or a bus seat is far harder to fake than a bank transfer.

6. Many funders, each paying what they can

Households that can afford to contribute should do so, but only once study has paid off. This is the logic of income-contingent loans. In Australia, graduates repay through the tax system only once they earn above a threshold, set at A$67,000 for 2025–26. Repayments are now charged only on income above that line (Australian Government Department of Education, 2025). No student loan should be issued without this protection.

But the model has limits. Even in England, about 34% of the value of new Plan 2 loans is not expected to be repaid (Institute for Government, 2026). In South Africa, with mass unemployment and a large informal economy, the write-off rate would be far higher.

Income-contingent loans should therefore be confined to the "missing middle": students too well-off for NSFAS but too poor for bank loans, about 11% of students (PBO, 2024). Repayments should be collected through SARS, which already holds the income data, rather than through a separate agency.

The result is a three-way split. Grants support the poorest. Loans support the missing middle. Employers contribute through reformed tax and SETA incentives. Each funder bears only what it can sustain.

7. Making the model affordable

Reform need not wait for new money. It can be phased in using funds the system already holds.

In the first phase, the state would make section 12H permanent and redirect a share of SETA grants towards completed placements. Neither step requires a new tax.

In the second phase, NSFAS would shift part of its accommodation budget into bulk housing and transport contracts. The savings would be ring-fenced to fund more students.

In the third phase, once SARS collection is in place, income-contingent loans would replace grants for the missing middle. Repayments would flow back into the fund, creating a revolving pool rather than a one-way outflow.

The order matters. Each phase frees resources for the next, so access grows while the deficit narrows. This reverses the current pattern, in which enrolment grows and the deficit grows with it.

Conclusion

South Africa's student-funding system was built to open doors, and it has opened them for hundreds of thousands of young people. But a door that opens onto unemployment is a promise only half kept.

The reforms proposed here share one principle: funding should reward employability. Germany shows that respected vocational routes keep young people in work. Australia and England show how graduates can contribute without being crushed by debt. The stokvel shows that pooling resources stretches every rand further.

None of these reforms asks the state to spend more. Each asks it to spend better. With deficits widening and nearly half of young South Africans out of work, that is no longer merely a sensible option. It is a necessity.

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