How can South Africa build a fiscally sustainable student-financing model that enhances access to higher education? Refer to international experience in your analysis.

UNDERGRADUATE

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Introduction

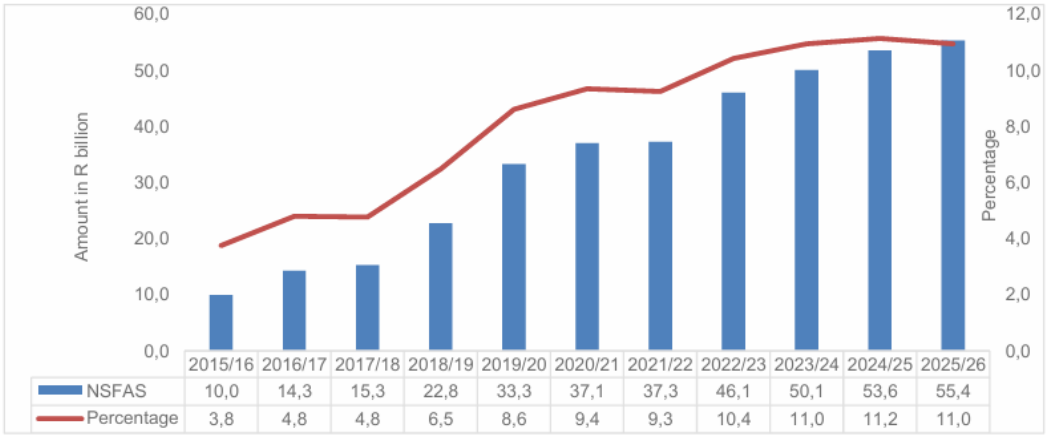
Higher education is increasingly significant for South Africa's economic and social development. Upon completing Grade 12, many young South Africans anticipate pursuing further education at universities or Technical and Vocational Education and Training (TVET) colleges. However, this aspiration is constrained by high unemployment, poverty, inequality, and widespread financial hardship. Students from low-income families and rural communities frequently lack the means to cover tuition fees and essential study costs, including accommodation, food, transport, textbooks, laptops, and data. As a result, student financing constitutes not only an educational concern but also a broader social and economic challenge.

The South African student-financing challenge

The crisis in South African higher education is driven by two primary factors: escalating costs and increasing demand. The number of eligible university entrants has grown substantially, with matriculants achieving Bachelor-level passes nearly doubling from approximately 166,000 in 2015 to 337,000 in 2024 (Department of Basic Education, 2016; 2025). This demographic expansion coincides with a labour market experiencing significant strain. Statistics South Africa reported an official unemployment rate of 33.6% in the second quarter of 2026, resulting in approximately 8.5 million people being unemployed. Therefore, student financing is structurally challenged by the expectation that graduates will repay loans immediately, despite many facing difficulties in securing employment.

South Africa's geographical distribution creates distinct financial challenges for students. Those residing in distant or rural provinces regularly incur additional expenses due to the distance from higher education institutions. As a result, rural students may require funding for accommodation, transport, food, laptops, and data, in addition to tuition fees. Conversely, students living with family near campus typically need less financial support. This difference demonstrates that study costs are location dependent. The National Student Financial Aid Scheme (NSFAS) currently covers tuition and, where applicable, accommodation, food, transport, and learning materials (NSFAS, 2026). Given rising demand, South Africa must prioritise optimising fund allocation rather than relying on continuous increases in government expenditure.

Figure 2.1: NSFAS budget amount and its share of the total education budget 2015/16 –2025/26



	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
NSFAS	10,0	14,3	15,3	22,8	33,3	37,1	37,3	46,1	50,1	53,6	55,4
Percentage	3,8	4,8	4,8	6,5	8,6	9,4	9,3	10,4	11,0	11,2	11,0

Source: Budget highlights, National Treasury 2015-2025

Lessons from international experience

International experience indicates that there is no universal model for financing higher education. Countries allocate costs among government, students, families, and other institutions in various ways.

China exemplifies a diversified student-financing system. Its funding assistance framework encompasses government scholarships, grants, student loans, tuition reductions, living allowances, and work-study opportunities. In 2024, China increased the maximum annual national student loan for undergraduate and vocational students from RMB16,000 to RMB20,000, and for postgraduate students to RMB25,000 (Ministry of Education of the People's Republic of China, 2024). The key lesson for South Africa is that student support can be sourced from multiple stakeholders. The government can remain the primary funder for students from low-income backgrounds, while universities, employers, financial institutions, and other organisations contribute through scholarships, grants, work opportunities, and regulated loans. However, South Africa should avoid shifting financial responsibility to households, as many already face unemployment and poverty. The Chinese model supports funding diversification without transferring the burden to disadvantaged families.

Germany illustrates the benefits of sustained public investment in higher education. According to the OECD, public sources accounted for 83.8% of funding for tertiary educational institutions in Germany in 2022, compared to an OECD average of 67.4% (OECD, 2025). The German case demonstrates that broad access and relatively low tuition costs depend on reliable and substantial public funding. However, South Africa cannot directly replicate the German model due to differences in economic context, tax base, labour market, and institutional capacity. The implication for South Africa is that government should maintain a predictable level of funding for universities and colleges, especially for students unable to contribute financially. Simultaneously, the government must assess the extent of public funding

it can sustain without compromising other priorities such as healthcare, infrastructure, and social protection.

Australia offers a relevant example through the Higher Education Loan Program (HELP). HELP eliminates upfront tuition barriers by providing eligible students with income-contingent loans. The government pays the tuition amount directly to the institution, and students repay their debt through the tax system once their income exceeds the designated repayment threshold. From 2025/26, this threshold was raised to AUD67,000, with repayments calculated only on income above that level. Individuals earning below AUD67,000 are not required to make compulsory repayments (Australian Government, Department of Education, n.d.). This principle is particularly pertinent for South Africa, given high graduate unemployment. Repayment obligations should commence only when graduates attain sufficient income, rather than upon completion of their qualifications.

However, the Australian model also demonstrates that income-contingent loans do not eliminate government expenditure. The government must finance these loans and acknowledge the possibility of non-repayment. Therefore, South Africa should ensure that loans are directed toward students with a reasonable likelihood of repayment, rather than substituting grants for students from low-income backgrounds.

A Proposed Sustainable South African Student-Financing Model

In formulating a sustainable student-financing model, South Africa must realistically assess its current economic context and the financial resources available to government. While economic growth may enhance the country’s capacity to finance higher education in the future, the immediate challenge is to accommodate the rising number of students seeking access amid high unemployment, poverty, inequality, and competing fiscal priorities. Solely increasing government spending to meet the growing demand for financial assistance is therefore impractical. Instead, South Africa should implement a progressive, mixed student-financing model that builds upon existing funding mechanisms rather than establishing an entirely new system. This approach would more effectively distribute financial responsibility and ensure that students receive support based on their household circumstances and capacity to contribute.

Firstly, students from low-income households should continue to receive full government bursaries. These students should not incur debt solely due to their families’ inability to afford higher education.

Secondly, the missing-middle scheme should be strengthened for working class households whose income exceeds the bursary threshold, but who cannot realistically afford higher education. Drawing on Germany's BAföG model, support for these students could be divided between a grant and an interest-free loan, meaning that students would repay only part of the financial assistance they receive

(Federal Republic of Germany, 2024). To protect the value of the funding against inflation but without letting balances grow excessively, loan adjustments could be linked to a suitable inflation- or wage-based measure, drawing on features of Australia's HELP system. A ceiling on total repayment, similar to the German approach, would also give students greater certainty and reduce fears of taking on unaffordable debt.

Thirdly, repayment should be income-linked and collected through the tax system. Drawing on Australia's approach, SARS could administer repayments, subject to the necessary legal and administrative arrangements, while employers would withhold the applicable amounts through payroll. Repayment would begin only once a graduate earns above a specified income threshold and would increase gradually with income. An unemployed or low-earning graduate would therefore not be required to make repayments, while a higher-earning graduate would contribute more towards their outstanding loan. This would protect graduates from repayments they cannot afford while allowing some of the original funding to return to the system.

Fourthly, government should strengthen partnerships with employers, SETAs, universities, TVET colleges and other funding organisations, giving employers a more active role than simply providing bursaries. In sectors experiencing skills shortages, such as engineering, construction and information technology, participating companies could agree to contribute towards a graduate's outstanding student loan when they recruit and retain that graduate for a specified period. Such contributions could be linked to actual employment rather than requiring companies to finance students without any connection to their future recruitment needs. Employers could also provide internships, apprenticeships and workplace training, giving graduates practical experience and improving their transition into employment. Drawing on international approaches to encouraging graduates to work in underserved areas, South Africa could also introduce partial loan cancellation for graduates who complete an agreed period of service in community clinics, schools or municipalities. These arrangements should complement public funding rather than replace it, making sure that students pursuing qualifications outside employer-sponsored fields are not disadvantaged. Any proposed tax incentives for participating employers would need to be assessed against their costs to government and established through the appropriate tax arrangements.

Fifth, repayments from graduates and participating employers should go into a dedicated revolving student-financing fund rather than being absorbed into general revenue. This would create a circular flow of funding, where money recovered from previous beneficiaries could support future students. For example, repayments made by graduates who have entered employment could help finance the studies of students beginning their qualifications in subsequent years. However, the fund should not be expected to finance the entire system on its own. Given unemployment, low graduate earnings and the possibility that some loans will never

be recovered, the government would still need to provide periodic contributions to maintain the fund and accommodate growing student demand.

Finally, implementation should be gradual, allowing the government to assess the affordability and effectiveness of these arrangements before expanding them nationally. This would include monitoring administrative costs, loan repayments, student completion and employment outcomes. By building on existing institutions, improving coordination, and carefully introducing additional financing arrangements, South Africa could widen access to higher education without committing to financial obligations it may find it difficult to sustain.

Conclusion

South Africa cannot achieve a fiscally sustainable higher education system by simply increasing government spending every year, particularly as student demand grows and the state faces conflicting priorities and rising debt-service costs. However, withdrawing financial support would disproportionately affect students from poor households and deepen existing inequality. A progressive, mixed-financing model therefore offers a more well-rounded approach, in which poor students receive bursaries, the missing middle accesses affordable income-linked loans, and employers, SETAs, universities and other institutions contribute towards student development. Funding should also reflect the actual costs of studying, while transparent administration, accurate student verification and stronger links between education and the workforce help ensure that public resources are applied effectively. The experiences of China, Germany and Australia demonstrate the value of diversifying financial support, maintaining predictable public investment and linking repayments to graduates' ability to pay. South Africa needs to adapt these lessons to its own economic and social conditions. Ultimately, higher education financing should not be viewed only as a cost to government, but as an investment in the country's future workforce. The objective should be to create a sustainable cycle in which young people gain access to education, develop relevant skills, enter employment and, when financially able, contribute towards educating the next generation.

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