

BUILDING A FISCALLY SUSTAINABLE STUDENT-FINANCING MODEL FOR SOUTH AFRICA: BALANCING ACCESS, EQUITY AND ECONOMIC DEVELOPMENT

Competition: 55th Budget Speech Competition

Category: Undergraduate

Unique Entry Number: ENTRY #1586

Word count: Approximately 2048 words, excluding references

1. INTRODUCTION

Higher education is an investment in human capital because it develops the knowledge and skills needed for economic growth. However, access to universities and Technical and Vocational Education and Training (TVET) colleges in South Africa remains limited by household income, rising education costs and restricted public resources. Although the National Student Financial Aid Scheme (NSFAS) has improved access for disadvantaged students, funding gaps, student debt and administrative weaknesses threaten the sustainability of the system.

The central challenge is to expand access without placing an unaffordable burden on taxpayers or students. This essay argues that South Africa needs a differentiated, shared-responsibility funding model combining government bursaries, affordable income-contingent loans, private-sector contributions and institutional accountability. It examines the current funding system and fiscal challenges, compares Australia and Germany, proposes a hybrid model and concludes with recommendations.

2. SOUTH AFRICA'S EXISTING STUDENT-FINANCING SYSTEM

NSFAS is the main government mechanism supporting financially disadvantaged students at public universities and TVET colleges. Its funding generally covers tuition, accommodation, learning materials and specified living allowances. Under the 2026 guidelines, non-SASSA applicants generally qualify for bursary consideration if their combined annual household income does not exceed R350,000. The threshold for students with disabilities is R600,000 (NSFAS: 2026).

The Department of Higher Education and Training transferred approximately R46.98 billion to NSFAS during 2024/25, demonstrating the scale of public investment in student access (DHET: 2025).

Despite this investment, three challenges remain. First, the *missing middle* refers to households earning above the full-bursary threshold but unable to afford university costs. NSFAS's loan arrangement for eligible households earning between R350,000

and R600,000 recognises this gap, although loan availability does not necessarily mean that funding is sufficient or affordable.

Second, administrative weaknesses, including verification delays, payment problems and poor reconciliation between NSFAS and universities, can disrupt students' education and place financial pressure on institutions.

Third, student debt remains substantial. Parliament reported approximately R59 billion in outstanding student debt across the post-school education and training system in May 2026 (Parliament of South Africa: 2026). This figure covers the wider system and should not be interpreted as debt owed exclusively by NSFAS beneficiaries.

These challenges show that increasing allocations alone is insufficient. Funding must also be distributed, administered and recovered effectively.

3. FISCAL SUSTAINABILITY AND ECONOMIC CHALLENGES

Fiscal sustainability means that government can meet its financial obligations without creating excessive debt or compromising essential public services. Student funding must therefore be considered alongside other national spending priorities.

National Treasury's 2026 Budget Review projected gross government debt to stabilise at 78.9% of GDP in 2025/26 before declining over the medium term (National Treasury: 2026). Although this projection suggests an improving fiscal position, debt obligations and competing priorities continue to restrict government's spending flexibility.

The concept of *opportunity cost* is important. Additional spending on student finance means fewer resources may be available for healthcare, infrastructure or basic education. However, insufficient higher education funding also has costs: capable students may be excluded, limiting skills development, productivity and future economic participation.

Stats SA reported graduate unemployment of 12.4% in the second quarter of 2026, compared with an overall unemployment rate of 33.6% (Stats SA: 2026). This indicates that graduates have a relative employment advantage, although a qualification does not guarantee employment.

The objective should therefore be to allocate funding in ways that produce sustainable returns. Government should assess not only how many students receive assistance, but also qualification completion, employment outcomes and graduates' long-term contribution to the economy.

4. INTERNATIONAL EXPERIENCE: AUSTRALIA AND GERMANY

International examples show how governments can share education costs with graduates while reducing upfront financial barriers. However, their systems must be adapted to local economic conditions.

4.1 Australia: Higher Education Loan Program (HELP)

Australia introduced the Higher Education Contribution Scheme in 1989, later developed into the Higher Education Loan Program (HELP). It allowed students to defer tuition contributions and repay them through the tax system after reaching specified income thresholds (Australian Parliamentary Library: 2021).

The system addressed the difficulty of expanding university access while limiting the government's reliance on public revenue. Income-contingent repayments allow students to study without paying their full tuition contributions upfront and protect those whose earnings are too low to repay (Chapman: 2024).

However, the model's effectiveness depends on graduate earnings, debt levels and income distribution. These factors influence how much government ultimately recovers and how much it must subsidise (Britton, van der Erve and Higgins: 2019). Australia's system also relies on an established tax administration to track income and collect repayments. Its 2026/27 arrangements require repayments above an annual repayment-income threshold of AUD 69,528 (Australian Government: 2026).

South Africa can learn from linking repayments to graduates' ability to pay. However, unemployment and unequal earnings could reduce loan recovery. Copying Australia's model without adjusting its thresholds and fiscal assumptions could therefore expose government to substantial financial risk.

4.2 Germany: Federal Training Assistance Act (BAföG)

Germany introduced BAföG in 1971 to reduce the influence of family income on educational opportunities. It aimed to allow individuals to pursue education even when their families could not afford the costs (Federal Constitutional Court of Germany: 2024).

For eligible higher education students, assistance generally combines a non-repayable grant with an interest-free loan. Under applicable post-2019 rules, the repayable portion is capped at €10,010 (Federal Office of Administration: n.d.). This shares costs between government and beneficiaries while protecting students from unlimited repayment obligations.

Nevertheless, the system illustrates that financial assistance does not automatically guarantee access. Byström and Antonsdóttir (2025) estimated an average BAföG non-take-up rate of approximately 60% between 2007 and 2021. This suggests that eligible students may miss out because of limited awareness or administrative barriers.

South Africa could adopt Germany's combination of grants and capped loans but must account for its own fiscal limitations and household vulnerability.

4.3 Comparative evaluation

Table 1: Comparison of student-financing models

Country	Funding structure	Main lesson or limitation
Australia	Income-contingent loans	Repayments reflect earnings, but recovery depends on graduate incomes and tax administration.
Germany	Grants and capped interest-free loans	Shares costs and limits debt, but administrative barriers can restrict access.
South Africa	NSFAS bursaries and missing-middle loans	Supports disadvantaged students, but funding gaps and administrative weaknesses remain.

Source: Compiled from Chapman (2024), Britton, van der Erve and Higgins (2019), Federal Office of Administration (n.d.), Byström and Antonsdóttir (2025), and NSFAS (2026).

Neither international model provides a complete solution. Australia demonstrates the value of income-linked repayment, while Germany illustrates the importance of combining grants with capped loans. South Africa should adapt these principles to its labour market, inequality and tax capacity rather than copy either system.

5. PROPOSED HYBRID STUDENT-FINANCING MODEL

South Africa needs a funding model that distributes responsibility according to the financial capacity of each participant. This essay proposes four interconnected pillars.

5.1 Differentiated government assistance

Government should prioritise non-repayable bursaries for students whose households genuinely cannot afford higher education. Assistance should reflect actual financial need rather than treating an income threshold as an absolute dividing line.

Missing-middle households should receive affordable loans or partial bursaries according to verified circumstances. Assessments should consider household income, dependants, essential expenses and the cost of attending an institution. This would recognise that households earning slightly above the bursary threshold may still struggle to finance education.

5.2 Income-contingent loans with repayment protection

South Africa should strengthen its missing-middle loan framework through income-contingent repayments. Graduates should repay only once their earnings exceed an annually adjusted threshold, with contributions increasing as income rises. Unemployed and low-income graduates should not face compulsory repayments.

A reasonable lifetime repayment ceiling should also be considered to prevent excessive debt. This combines Australia's income-linked approach with Germany's protection against unlimited repayment.

However, government must regularly assess expected loan recovery, deferred repayments and graduate unemployment. Income-contingent lending transfers some employment and income risk from students to the state, making careful fiscal planning essential.

5.3 Private-sector partnerships and recognition of potential

Businesses should contribute through bursaries, scholarships, internships and graduate-development programmes. SETAs and universities can help align funding with industry skills needs, particularly in engineering, healthcare, digital technology and renewable energy.

Bursary selection should consider more than examination results. Academic preparedness remains important, but practical ability, creativity, leadership, communication and problem-solving can also indicate a student's potential. This would help identify capable students whose potential may not be fully reflected in academic performance alone.

Private-sector contributions must complement, not replace, government's responsibility. Businesses should also offer mentorship and workplace experience to improve graduates' employment prospects.

5.4 Institutional accountability and transparency

NSFAS and universities should improve student verification, payment processes and the reconciliation of funding records. Universities should also explain tuition increases, accommodation charges and outstanding balances clearly.

A central monitoring system should measure funding allocations, qualification completion, outstanding loans, repayment performance and graduate employment. These indicators would help government evaluate whether public spending is achieving its intended results.

The model treats higher education as a shared investment: government supports access, businesses develop skills, universities account for resources and financially capable graduates contribute towards future students.

6. CONCLUSION

In conclusion this essay examined how South Africa can build a fiscally sustainable student-financing model that expands access to higher education. It considered NSFAS, the missing-middle funding gap, student debt and competing public expenditure priorities, alongside the experiences of Australia and Germany.

The analysis shows that sustainable funding requires more than increased government allocations. It depends on appropriate targeting, affordable repayments, effective administration and cooperation between government, businesses and educational institutions. International models offer useful principles, but their application must reflect South Africa's unemployment, inequality and fiscal constraints.

A hybrid model combining targeted bursaries, income-contingent loans, private-sector partnerships and institutional accountability offers a balanced approach. Higher education should be treated neither as an unlimited government expense nor solely as an individual student's responsibility. It is a long-term investment in human capital, productivity and economic development.

7. RECOMMENDATIONS

Differentiate financial assistance: Strengthen full bursaries for disadvantaged students and provide affordable funding for missing-middle households.

Protect graduates from unaffordable debt: Link repayments to income, introduce reasonable repayment ceilings and protect unemployed and low-income graduates.

Expand public-private partnerships: Encourage businesses, SETAs and universities to fund students, provide mentorship and create workplace opportunities.

Improve accountability: Strengthen NSFAS verification, payment reconciliation and transparent reporting, while monitoring completion and employment outcomes.

Recognise broader potential: Assess academic preparedness alongside financial need, practical ability, creativity and relevant leadership potential.

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