Undergraduate Category

Rethinking Student Financing in South Africa: Balancing Access and Fiscal Sustainability

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Rethinking Student Financing in South Africa: Balancing Access and Fiscal Sustainability

Introduction

South Africa's student-financing system faces growing pressure. The National Student Financial Aid Scheme (NSFAS) received a record 893,847 applications for 2026 but approved only slightly over 600,000 (Cape Argus, 2026; Business Day, 2026). It warned Parliament that it could fund approximately 520,000 students, leaving around 100,000 eligible students without support (PMG, 2026a). Beyond the NSFAS threshold lies the "missing middle": households earning approximately R350,000–R600,000 annually that cannot qualify for aid but struggle to afford university fees (UFS, 2021).

This creates an apparent choice between expanding access and protecting public finances. This essay argues that the two objectives are not mutually exclusive. South Africa needs a redesigned financing system combining need-based grants for the poorest, sliding-scale contributions and income-contingent loans (ICLs) for the missing middle, supported by stronger governance. Drawing on Australia and Germany, it proposes a progressive financing model that shares costs between the state, households and graduates without compromising fiscal sustainability.

The South African Problem

South Africa faces three interconnected challenges: inadequate funding, exclusion of the missing middle and weak governance.

Firstly, demand exceeds available funding. The Minister of Higher Education acknowledged a R15 billion NSFAS shortfall, while by August 2026 the scheme had paid only 61.5% of university allocations, leaving R10.49 billion in outstanding fees (Daily Investor, 2026a). Although reported budget figures differ, the underlying problem remains: existing resources cannot meet demand.

Secondly, the missing middle remains inadequately supported. Student debt in this group approached R20 billion by 2024 (The Mercury, 2024). The 2024 NSFAS missing-middle loan was expected to reach only approximately 47% of eligible students (Sunday Times, 2024). The Heher Commission had previously recommended income-contingent lending as a longer-term solution (UFS, 2021). These measures demonstrate the need for a sustainable national financing framework.

Thirdly, governance weaknesses undermine public confidence. NSFAS received a disclaimer of audit opinion for 2024/25 because the Auditor-General could not obtain sufficient evidence to verify bursary expenditure (Independent Online, 2026). Previous audits also identified almost R60 billion in irregular expenditure between 2019/20 and 2022/23 (Daily Maverick, 2024). Importantly, irregular expenditure does not necessarily mean money was lost. However, the inability to verify spending raises questions about accountability and

whether funding translates into successful graduates. The Special Investigating Unit has recovered approximately R2 billion (PMG, 2026).

Consequently, fiscal sustainability requires not only additional funding but improved administration. Expanding expenditure without addressing governance risks increasing costs without proportionately improving access.

International Lessons

Australia: Income-contingent repayment

Australia introduced its Higher Education Loan Program (HELP) in 1989, allowing graduates to repay loans through the tax system according to their earnings (Chapman, 2006). Since 2025, repayments begin above A$67,000, with marginal repayment rates increasing alongside income (Department of Education, 2025).

Australia demonstrates how ICLs protect graduates by linking repayments to their ability to earn. Balances are indexed rather than charged real interest, reducing the burden of debt (Nexia, 2025). However, ICLs do not eliminate government expenditure; they defer repayment and create contingent fiscal liabilities. HELP debt had an estimated fair value of A$38 billion in 2025 (Nexia, 2025).

South Africa must also consider administrative limitations. Although over 27 million people are registered for personal income tax, only approximately 7.7 million have taxable income assessed (Daily Investor, 2026b). SARS-based collection could therefore exclude informal and self-employed graduates. Emigration also presents collection challenges, with more than 51,500 people formally ceasing South African tax residency between 2017 and 2024 (Daily Investor, 2026c).

Germany: Grants, loans and repayment caps

Germany's BAföG combines grants and interest-free loans, with repayment capped at €10,010 for students first funded from September 2019. Low-income graduates may also qualify for reduced or deferred repayments (Studierendenwerk Leipzig, n.d.). Its strongest lesson is that student support should combine targeted grants with manageable loans and limits on lifetime repayment. However, Germany's model primarily supports living costs because public university tuition is generally negligible. South Africa must therefore adapt the approach to cover both tuition and living expenses.

Together, these examples support a model that combines Australia's income-based repayment with Germany's repayment protection and targeted grants.

The Proposed Financing Model

1. A progressive, sliding-scale funding system

South Africa should replace rigid eligibility thresholds with a graduated contribution system. The poorest students should receive grants covering tuition and living expenses. As household income increases, public support should gradually decrease while household

contributions increase. Wealthier households should pay full fees, as should international students. This avoids the unfairness of rigid thresholds, where a small income difference can determine whether a student receives substantial support or nothing. Rhodes University's proposed 2027 student-debt protocol illustrates why institutional solutions alone are insufficient. It introduces different upfront payment requirements according to outstanding debt, including 50% for debts up to R10,000 and 30% for debts of R50,000 or more (Rhodes University, 2026). However, these requirements are based on debt rather than household affordability. They may also create financial barriers to registration and residence access. A national sliding-scale system would address affordability before debt accumulates, rather than relying primarily on institutional debt recovery.

2. Targeted support for the missing middle

The missing middle deserves partial public support for three reasons. First, excluding these households creates an affordability gap between eligibility for financial assistance and the actual cost of university education. Second, existing student debt and limited loan coverage demonstrate that current arrangements are insufficient. Third, higher education generates both private and public benefits: graduates gain increased earning potential, while society benefits from a more educated and productive workforce. Financing should therefore be shared. Government provides partial support, households contribute according to their means, and graduates repay through an ICL. This balances fairness with the recognition that higher education is both a public good and a private investment.

3. A national income-contingent loan

South Africa should establish one ICL for missing-middle students and students requiring additional living-cost support. Repayments should begin only once graduates earn above a specified income threshold, with marginal repayment rates increasing alongside earnings. Loan balances should be inflation-linked without real interest, protecting borrowers from excessive debt accumulation. The system should also include a lifetime repayment cap and a fixed-term write-off, potentially after 25-30 years, as previously proposed in South African discussions (UFS, 2021). SARS should administer repayments, supported by reporting requirements for emigrant graduates and arrangements for informal earners. Government-guaranteed commercial loans could complement the scheme, provided guarantees protect students from excessive borrowing costs (Sunday Times, 2022).

4. Governance before expansion

The proposed model relies on effective management. NSFAS needs to enhance eligibility verification, ensure transparent allocations, provide timely payments, conduct independent audits, and offer accessible appeals. The current missing-middle loan could act as a trial. Broader implementation should occur only after achieving measurable improvements in audit results and financial accountability. This approach minimises the risk of expanding a system that cannot properly manage its spending. Universities should also be evaluated using institutional performance indicators, such as completion and throughput rates. However, the focus should be on institutional performance rather than penalising individual students who are in challenging situations.

5. Work-integrated learning and graduate employability

Graduate employment has a direct impact on ICL repayment, so increasing funded work placements could enhance both employability and loan recovery. Evidence from the UK indicates that graduates of sandwich courses are about 10% more likely to find professional jobs within six months of graduating and earn approximately £6,000 more than average full-time students three years post-graduation (TASO, 2022). However, the results are influenced by the quality of placements, and self-selection might overstate the advantages. In South Africa, work-integrated learning (WIL) is already part of certain qualifications, especially diplomas and regulated professional programmes (Stellenbosch University, 2022). There is potential to broaden funded placements to more programmes via the National Skills Fund and SETAs (PMG, 2026b). Including stipends in placements is crucial to prevent disadvantaged students from being excluded due to unpaid work. Additionally, shorter placements of around eight weeks might provide a more cost-effective alternative to year-long ones (TASO, 2022). While placements cannot eliminate unemployment, they can improve graduate employment prospects and lower repayment risks.

Testing a Graduate Contribution Model

An additional proposal considered was a Graduate Contribution Transition Model. Under this arrangement, graduates would repay their ICLs first and, once settled, contribute towards future student funding through an additional education contribution. However, four weaknesses emerged. Firstly, grant-funded graduates from poorer households could begin contributing before loan-funded graduates from wealthier households, creating a fairness problem. Secondly, contributions would only generate meaningful revenue years later, doing little to address current funding shortages. Thirdly, South Africa already relies heavily on personal income tax, which contributes 39.5% of tax revenue (SARS and National Treasury, 2025). Finally, introducing another contribution would increase administrative complexity. The proposal is therefore not recommended. Instead, its underlying principle should be incorporated into the ICL through progressive repayment rates, allowing higher-earning graduates to contribute more within one financing instrument.

Risks and Counterarguments

The primary risk of ICLs is graduate unemployment and non-repayment, which creates a contingent liability for government. Income thresholds, repayment caps, write-offs and improved employability can mitigate this risk, but realistic fiscal costing remains essential. Other concerns include administrative complexity, excessive borrowing and the possibility that means testing excludes vulnerable households. A gradual eligibility taper, targeted grants and governance reform address these concerns. Critics may argue that higher education should be entirely fee-free. While this position recognises education as a public good, South Africa's existing funding shortfall demonstrates that universal funding is difficult to sustain under current conditions. Directing limited resources towards students with the greatest financial need offers a more targeted alternative.

Recommendations

1. **Introduce progressive student financing:** Provide grants to the poorest, graduated household contributions for the missing middle and full fees for wealthier households.
2. **Establish a national ICL:** Collect repayments through SARS, using income thresholds, marginal repayment rates, inflation-linked balances, repayment caps and fixed-term write-offs.
3. **Prioritise governance reform:** Strengthen NSFAS accountability and pilot the financing model before expanding it nationally.
4. **Expand funded work placements:** Use the National Skills Fund and SETAs to improve graduate employability and repayment prospects.
5. **Publish annual fiscal assessments:** Report expected government expenditure, loan recoveries and outstanding liabilities to Parliament.

Conclusion

The issue of student financing in South Africa extends beyond a lack of funds to include the management and distribution of current resources. A forward-thinking approach that integrates targeted grants, household contributions, and income-based loans could enhance accessibility while safeguarding public finances. Global examples show that loan repayments can be tied to graduates' earnings, but South Africa needs to tailor these concepts to fit its unique administrative and economic conditions. Ultimately, effective governance must come before expanding the system. By distributing responsibilities among the government, households, and graduates, South Africa can create a fairer and more financially sustainable system where financial background is less influential in determining university completion.

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