SUSTAINABLE HIGHER EDUCATION FINANCING IN SOUTH AFRICA.

(2157, words excluding references and disclaimer)

Undergraduate

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Introduction

Access to higher education funding remains a noticeable issue in higher education policy in South Africa, particularly as the government seeks to balance equitable access to higher education with the need to maintain a sustainable fiscal spending. Universally, countries have developed different university funding models depending on the economic circumstances, political priorities and social context. These models range from publicly funded or tuition free education systems to fee-based arrangements supported by government subsidies, student grants and loan schemes, (Mbhalati, 2025). While these approaches aim to distribute the costs of higher education between the state, students and households, the effectiveness of these approaches, depends on the availability of public resources, the affordability of education and the capacity of graduates that will contribute towards the cost of their studies. This essay argues that South Africa can develop a fiscally sustainable student financing model by adopting a differentiated funding approach that combines means tested grants for the financially disadvantaged students with an appropriately designed income contingent loans for students who have a greater capacity to repay. Using international experience, as reference particularly from countries like Australia, Germany and England, the essay will examine how income contingent repayment mechanism improved financial management targeted to public expenditure and how the diversified financial aid sources could improve the long-term sustainability of student financing while promoting equitable access to higher education. However, the effectiveness of such a system would depend on its adaptation of South Africa's socioeconomic inequalities, graduate employment prospects and fiscal constraints. The essay will first examine the economic principles underlying higher education financing and the relationship between equitable access and fiscal sustainability. It will then analyse South Africa' current student financing system focusing mainly on National Student Financial Assistance (NSFAS) expenditure, student debt and funding challenges. The subsequent section will explore international student financing models, highlighting relevant lessons from Germany and England. Finally, the essay will evaluate possible policy reforms and make recommendations on how South Africa could develop a student financing system that balances equitable access to higher education with long term fiscal sustainability.

The economics of higher education financing

Funding higher education requires government to balance the private economic returns of students with the wider social benefits generated from the educated community. Graduates might be recipients of many private benefits after receiving education, many will get high paying jobs, with better retirement benefits and career mobility, which serves as a catalyst for economic growth. Since both society and the individual benefits from government investment in higher education, economic theory supports cost sharing structure, where both the individual and society contribute towards the expenditure of higher education. One could argue that the government funds education due to its, immense benefit to society, while households and students tend to contribute to education due to the private economic benefits it comes with. Furthermore, it could also be said that multinational corporations prefer expanding into regions with an abundant supply of skilled and highly adaptable workers. Because educated individuals earn higher lifetime wages, they pay significantly more income taxes, and consumer taxes over their lifetimes. There is a global variation in higher education funding, since the balance of public versus public funding varies significantly from country to country based on policy choices rather than budget constraints alone. According to (OECD, 2025) Norway's funding remains highly public at 94%, whereas the United Kingdom relies heavily on private funds, leaving the state to cover just 43% of higher education, the lowest across OECD and partner countries with data on Figure 1.

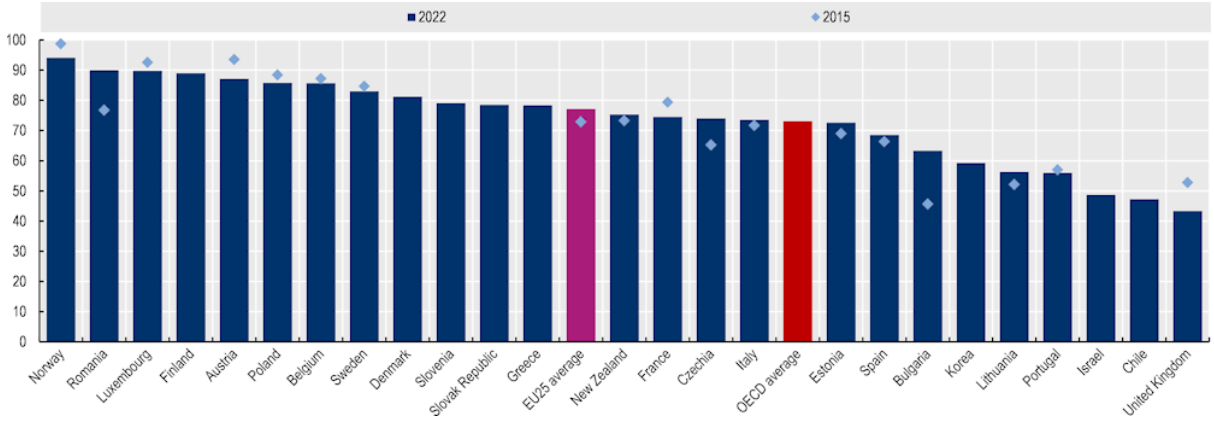


Figure 1:Expenditure on educational institutions

Figure 1, illustrates that these diverse expenditure distribution across educational institutions, demonstrates that there is no "one-size-fits-all" financing model. Some prioritise extensive public funding, while others rely more heavily on private

contributions. Relying extensively on free market mechanisms to fund higher education can trigger market capital failure. Unlike physical assets like a house or a car, human capital cannot be used as collateral, and it cannot be repossessed as well. This means that commercial banks can be reluctant to lend students money to fund their studies. The important distinction to make is that high public funding on education does not imply equitable access, just as high private funding does not imply inequity. The overall effectiveness of a country's cost sharing model relies heavily on targeted allocation. By prioritizing the resource allocation to students that are in financial need, governments can protect equitable access to higher education.

The tension between higher education funding and student debt in South Africa

Against this background, South Africa provides an important case study for examining the challenges of balancing equitable access to higher education. The following discussion analyses the country's student financing system, focusing on expenditure by NSFAS, student debt and the broader funding problems affecting the accessibility and long-term sustainability of higher education. The South African government's fiscal spending on higher education is remarkable in terms of total rands allocated. According to the Department of Higher education and Training (DHET, 2025), NSFAS surpassed its initial projection of funding 417 938 university students, ultimately funding 542 653 students. Recent government spending on higher education, more specifically on NSFAS, has exceeded R50 billion annually. This means that spending on NSFAS comprises approximately 0,6% to 0.7% of the country's total GDP. Despite this substantial expenditure, student debt at university level has accumulated to R59 Billion, despite availability in NSFAS funding. According to Molefe (2026), the major contributors to that outstanding debt are NSFAS funded students, accounting for 29 billion of the total deficit. Higher Education Minister Buti Manamela cautioned that the NSFAS faces a roughly R15 billion funding deficit (IOL, 2026). This shortfall has expanded dramatically from approximately R2.5 billion in 2018 to R13.5 billion in the previous year driven by widening gap between the rising volume of students requiring assistance and stagnant government allocations (IOL, 2026). The NSFAS funding deficit highlights a structural imbalance, student enrolment is growing faster than the broader economy, which is growing at just 0.4% per quarter (Statistics South Africa, 2026).

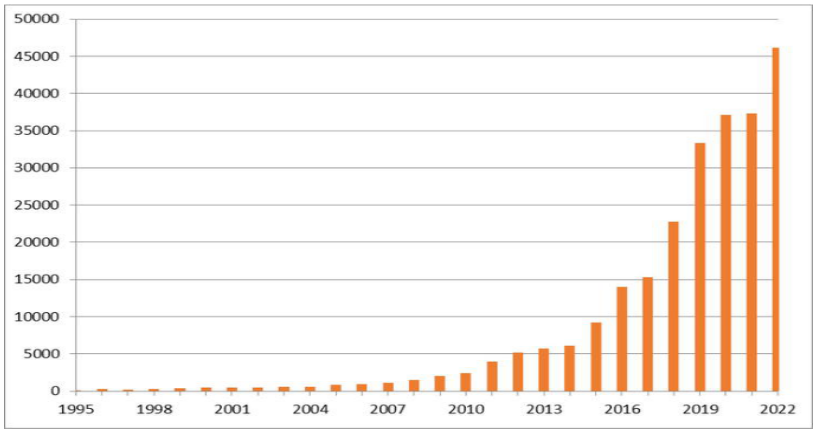


Figure 2: State budget for NSFAS 1995–2022 (R million)

According to a statement issued by Parliament of South Africa (2026), an important driver of the rising student debt is the rapid increase of the cost of student accommodation, which has become a huge contributor to overall indebtedness across the sector. Traditionally, conversations about higher education funding focus on tuition fees. Non tuition costs have overtaken tuition as the primary drivers of student financial exclusion and debt accumulation. When NSFAS places a strict financial cap on accommodation allowances, but the private market price for rent keeps rising due to shortages of government accredited student accommodations. This creates a funding gap as students must take on private debt to cover the difference, sometimes institutions are forced to absorb the debt when students cannot pay the outstanding costs. To prevent price collusion among landlords, DHET implemented a national accommodation cap. National accommodation cap that NSFAS is willing to provide for its students is R52 000 for metro areas and R43 000 for else, (Digsconnect, n.d.). Ironically, this fixed rate cap fails to reflect regional market realities. In hyper-inflationary property markets surrounding urban institutions, such as Wits University, University of Cape Town (UCT) and Stellenbosch University the baseline cost for an accredited accommodation, exceeds the state's rigid threshold. This created a market for low-end properties, as landlords that own low-end properties, unfairly hike their cheap rents to up to the R52 000 NSFAS limit, since they know that the state would cover it. The cap accidentally became the minimum price. In a healthy and fair market, landlords compete by lowering prices to attract tenants. Because NSFAS guarantees payments up to the cap for any accredited accommodation, landlords no longer have the incentive to offer discounts and lower prices. According to the National Education, Health and Allied Workers' Union (NEHAWU,

2026), weaknesses in NSFAS governance and financial oversight have undermined the scheme's ability to fulfil its mandate. NEHAWU recently welcomed the recovery of R1.7 billion by the Special Investigating Unit (SIU) in connection with investigations into NSFAS, arguing that the recovery highlighted longstanding concerns regarding financial mismanagement, maladministration and inadequate oversight. Inefficient processing of applications, registration records and allowances can delay payments to eligible students. This may leave students unable to pay for accommodation, food and learning materials needed for studying. When funding is delayed, students may accumulate unpaid university fees and accommodation costs. This means that university may carry the outstanding debt, placing more pressure in their financial sustainability. Beyond the administrative challenges confronting NSFAS, the student financing scheme faces an additional obstacle in the form of the missing middle. While eligible students from low-income households may receive financial assistance from NSFAS or a private bursary, students from the missing middle whose household income may exceed the eligibility threshold, these students may struggle to finance their studies independently. The government announced an initial R3.8 billion for the NSFAS loan scheme, intended to support 47% of an estimated 68 446 missing-middle students, (SAnews, 2024). The main problem with NSFAS loan scheme is that it was designed to address financial exclusion of the missing middle students, but its administrative and funding limitations have prevented it from reaching all the students who need its financial assistance. In April 2026, Business Day reported that 26 538 students had applied for loans for that academic year, but only 1561 met the qualification criteria by that point. While these figures highlight domestic funding obstacles, the subsequent section will broaden the scope to explore international student financing models, drawing lessons from Germany and England.

Lessons from Abroad: International Student Financing

Higher education systems in Australia, Germany and England balance affordability, accessibility and financial sustainability through distinct student financing models. Germany provides a useful comparative example of an alternative approach to financing higher education. Most bachelor's and consecutive master's programmes at state higher education institutions do not charge tuition fees, although exceptions apply to certain

programmes, institutions and categories of international students, this is according to the Deutscher Akademischer Austauschdienst(DAAD), (DAAD, n.d.). This approach can reduce financial burden on households' reliance on borrowing to finance tuition. However, the German system does not eliminate all educational expenses, as students remain responsible for semester contributions and living costs. At Many German higher education institutions, students are not required to pay conventional fees tuition fees but must pay a semester contribution that supports student services, student representation and in some cases public transport, this is according to the Deutscher Akademischer Austauschdienst(DAAD), (DAAD, n.d.). The studying costs can range from €70-€430 depending on the institution and services included, (DAAD, n.d.). The German Federal Statistical Office reported that higher education institutions spent €75.2 billion on teaching, research and medical treatment in 2023, increasing to €79.2 billion in 2024 (Destatis:2025; Destatis:2026). In Contrast, England relies on tuition fees and income-contingent student loans for eligible domestic students, allowing graduates to repay their loans according to their income. This model reduces the need for upfront tuition payments but may contribute to grade debt (Dynarski, et al. 2017). These international experiences offer valuable lessons for developing sustainable and equitable student financing policies. England demonstrates the potential benefits of income-contingent repayment arrangements, while Germany demonstrates the role of public investment in reducing tuition-related obstacles. These comparisons are relevant when considering reforms aimed at expanding access to higher education while maintaining long-term financial sustainability (OECD, 2020; OECD, 2025). Drawing from international experience, the essay will subsequently consider how international financing models could be aid in higher education funding reform in South Africa.

Policy Reform and Recommendations in South Africa

I recommend South Africa should adopt a shared student financing policy that balances equitable access with long-term fiscal sustainability. Students from households earning below R350 000 annually would qualify for full government funding supplemented by private bursaries where available. Students above this threshold would receive support through progressive household contributions, private bursaries and government-backed income-contingent loans. Businesses

would contribute through bursary schemes, with 80% allocated according to financial need and 20% directed towards academic merit and critical skills. Graduates would repay loans according to their earnings, with temporary repayment subsidies for priority occupations. This system would distribute financial responsibility among government, households, businesses and graduates while protecting disadvantaged students and strengthening South Africa's skills base.

Conclusion

In conclusion, South Africa requires a student financing system that promotes equitable access while ensuring long-term fiscal sustainability. A differentiated model combining government funding, household contributions, private-sector bursaries and income-contingent loans could address existing funding gaps. Drawing on international experiences, this approach could protect disadvantaged students while strengthening human capital development and economic growth.

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Disclaimer

Generative AI tools (ChatGPT and Google Gemini) were utilised during the preliminary literature review and drafting stages to assist with structural organisation and outlining. All final analyses, interpretations and written content were independently verified and authored by the researcher.