



ENTRY #1587

Building a Fiscally Sustainable Student-Financing Model for South Africa

*Expanding equitable access through grants, income-contingent loans and accountable public
finance*

Word Count: 2000

Introduction

Higher education can boost productivity, increase job prospects, and promote social mobility. In South Africa, however, tuition and living costs continue to hinder many bright students from enrolling in or finishing university and technical and vocational education and training (TVET). The government must thus address two interconnected issues: increasing access for kids whose families cannot afford it, and maintaining public spending affordable and predictable. The question is not whether higher education merits public investment, but how that investment may be allocated fairly and yield long-term social and economic benefits.

This essay proposes that South Africa should implement a progressive mixed student-financing strategy. It should improve the National Student Financial Aid Scheme (NSFAS), diversify supplemental funding, offer properly crafted income-contingent loans for qualified missing-middle students, and safeguard non-repayable grants for the least fortunate students. International experience from Australia, Germany, and the United Kingdom offers significant lessons, but these systems must be tailored to South Africa's unemployment, inequality, and fiscal restrictions.

1. South Africa's Student funding challenge

1.1 Rising needs and constrained public finances

Financial assistance for students represents a significant societal obligation. Following a 2025–2026 allocation of almost R59.2 billion in the relevant program table, Parliament's 2026 budget summary indicates about R54.3 billion for NSFAS in 2026–2027 (National Treasury, 2025; Parliament of South Africa, 2026). Because budgets, updated allocations, and transfers are not always directly comparable, these numbers need to be carefully examined.

Figure 1 illustrates the chosen financial statistics. The overall magnitude indicates why student aid should be budgeted alongside healthcare, basic education, infrastructure, and loan service expenditures. When expenditure obligations outpace available money, the government may need to borrow more, cut other services, or limit the number of assisted students. Fiscal sustainability necessitates actual multi-year costing, rather than abrupt cuts that leave students without assistance after they enroll.

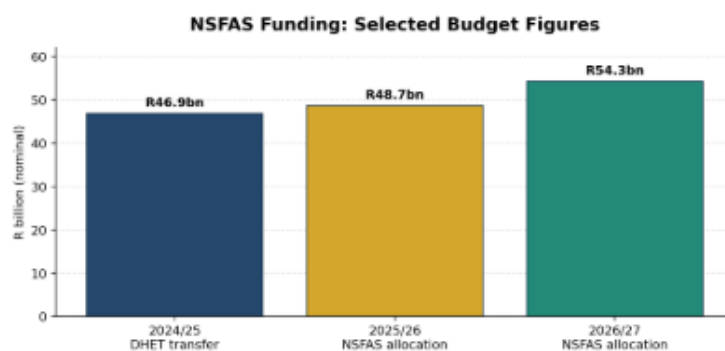
1.2 Access gaps and the “missing middle”

A system based mostly on grants for low-income households may exclude students whose families earn too much to qualify for bursaries but not enough to cover all study expenditures. This group is commonly referred to as the missing middle. In 2024, the Department of Higher Education and Training (DHET) announced an initial R3.8 billion

investment in the first phase of a comprehensive student-financing plan. The announcement expected 68,446 missing-middle pupils, with the initial investment supporting 31,884 of them (DHET, 2024). Figure 2 depicts the gap stated in the announcement; the coverage number was a forecast, not proof of final enrollment.

The issue isn't just tuition. Accommodation, food, transportation, data, and textbooks all have an impact on attendance and completion rates. Financial aid should be tailored to the true costs of learning, with clear allowances and timely payments. Eligibility must be matched with available spaces, academic assistance, and institutional capacity.

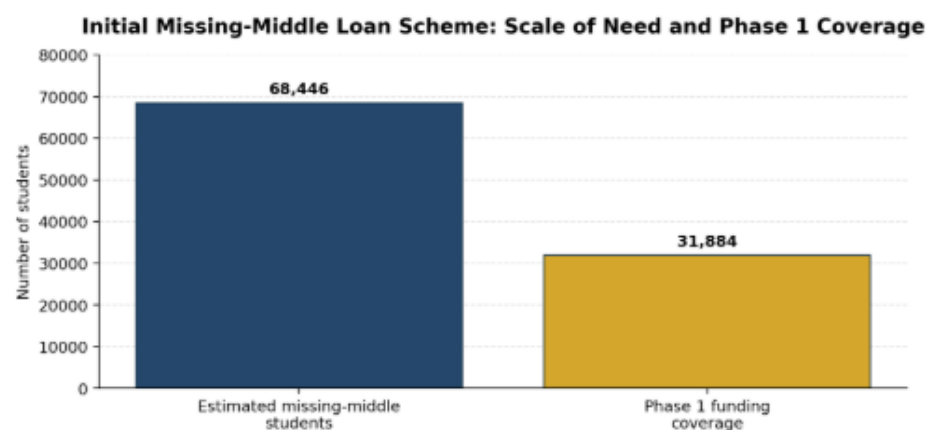
Figure 1. Selected NSFAS funding figures



Sources: National Treasury 2025 ENE; Parliament of South Africa 2026 budget summary. Figures represent differently labelled budget/transfer measures and should not be interpreted as a perfectly like-for-like time series.

Interpretation: These figures show the scale of public funding. The measures are not perfectly like-for-like; consult the source notes before making year-on-year claims.

Figure 2. Missing-middle estimated need and initial phase 1 coverage



Source: DHET (2024), Comprehensive Student Funding Model announcement. Phase 1 figure was projected at announcement; it is not a verified final number of students funded.

2. A progressive mixed financing model

2.1 Protect grants for the poorest students

Students from low-income and disadvantaged homes should get subsidies that do not require repayment. Forcing students with limited predicted lifetime incomes to borrow

can undercut the very equitable goal that public aid is designed to achieve. Grants should cover affordable tuition and essential study expenditures, such as housing, food, transportation, and learning materials, with additional support for handicap or exceptional hardship.

Although universal unlimited subsidies would be difficult to reconcile with competing public needs, the government should publish clear criteria and projected expenditure so that students and institutions can plan; eligibility rules should use verified household income while accounting for household size, dependents, and unusual circumstances; an accessible appeals process is necessary where records are inaccurate or family income has changed; and the priority should be adequate support for the least able to pay.

2.2 Income-contingent loans for eligible missing-middle students

Government-backed loans can help students whose families cannot afford full tuition but are above the grant threshold split their expenditures over time. Under an income-contingent arrangement, graduates repay only when their income surpasses a certain threshold, with repayments gradually increasing as wages climb. Those who are unemployed or earn less than the criteria would not face required repayments during that time.

South Africa's proposed comprehensive student-finance model serves as a starting point for this strategy (DHET, 2024). A more robust method might use the South African Revenue Service to collect repayments via the tax system, but only once legislation, data safeguards, and administrative capability have been implemented. The loan contract should specify the interest rate or indexation, repayment criteria, disability and death treatment, emigration rules, and the situations under which unpaid sums may be written off.

Loans should not replace grants for low-income students. The budget should not presume that every rand lent will be returned. Low graduation earnings, unemployment, informal jobs, and migration all pose repayment problems. National Treasury should report the estimated cost of non-repayment and determine if the program is still sustainable under low-growth scenarios.

2.3 Share costs progressively

The financing strategy should be tailored to the ability to pay: grants for the poorest students, reasonable loans and targeted bursary conversion for qualified middle-income students, and a higher household contribution from those who can afford it. Thresholds should be reassessed on a regular basis in light of inflation and household income trends. This strategy is more equitable than treating all students equally and helps direct limited public monies where they can have the biggest impact.

Figure 3 summarizes the suggested structure. It is a policy framework, not an assertion that the system is already operational in this configuration.

Figure 3. Proposed progressive mixed student-financing model

Proposed Progressive Mixed Student-Financing Model



Author's proposed policy framework, based on the analysis in this essay.

3. International lessons

3.1 Australia: Repay when earnings permit

Australia's Higher Education Loan Program (HELP) ties mandatory repayments to income and manages them through the tax system. The minimum repayment threshold was raised to A\$67,000 for the fiscal year 2025-26, and repayments on income beyond the level were calculated at marginal rates (Australian Government, 2025; Australian Government, Study Assist, 2026). The approach alleviates pressure on graduates who have not yet earned enough wages and incorporates collection into an existing tax process.

South Africa might apply the approach by collecting repayments from formal-sector graduates through taxation. However, the Australian model cannot be simply reproduced. South Africa has a higher unemployment rate, and informal employment makes wages difficult to track. Repayment thresholds must safeguard low-income earners, while secure data sharing and fair treatment of persons who work outside of the payroll are critical. Australia demonstrates how to schedule repayment; but, it does not certain that all loans will be recovered.

3.2 Germany: A grant-and-loan combination

Germany's BAföG student-support system includes grants and loans for qualifying students, with conventional payback restrictions (Deutsches Studierendenwerk, n.d.). The lesson is that students can receive public aid while sharing a limited percentage of the cost, rather than paying full upfront costs or incurring unconstrained debt.

South Africa could provide a subsidy and a repayable component to chosen missing-middle pupils. A portion of the debt could be converted into a bursary for students who complete their degrees within an acceptable time frame, if the criteria allow for illness, disability, caregiving, and other legitimate delays.

Germany's method operates under a variety of public institutions and economic contexts. South Africa should consequently follow the notion of constrained cost-sharing rather than copying the specific eligibility or payback restrictions.

3.3 United Kingdom: The risks of excessive debt

To reduce upfront payment barriers, the United Kingdom uses tuition contributions and government-backed student loans, with repayment arrangements linked to earnings for relevant loan plans. However, debates over graduate debt and the long-term cost of loans show that cost-sharing can transfer significant financial risk to students and the state (OECD, 2025).

South Africa should avoid relying heavily on loans or allowing tuition fees to exclude disadvantaged students. The international comparison points to a balanced conclusion: Australia offers a tax-linked repayment mechanism, Germany demonstrates bounded grant-and-loan sharing, and the UK highlights the importance of controlling debt burdens.

4. Diversify funding without abandoning public responsibility

Employers, philanthropic foundations, alumni, sector education and training authorities (SETAs), and carefully structured industry partnerships can provide additional resources for low-income students. Employers can sponsor bursaries, apprenticeships, internships, and training in fields with verified skill shortages. These partnerships can help align training with labour-market needs and provide students with practical experience.

Universities can boost alumni fundraising and solicit voluntary contributions from graduates who can afford to give. Such finance should enhance, not replace, public support, and donors should not be able to influence admissions or academic decisions. SETA and National Skills Fund resources can be combined with student support to eliminate duplication and link education and training priorities.

Private contributions are dynamic and fluctuate with industry and economic cycle. They cannot replace a dependable public commitment. The government should provide a financial framework that shows whose costs are funded by public subsidies, loans, employers, and institutions, while safeguarding least fortunate students from relying on charity.

5. Improve NSFAS governance and financial accountability

Effective management is essential for a financial system to be sustainable. Public funds can be wasted and students' education interrupted by payment delays, erroneous student records, poor procurement, or inadequate reconciliation. Independent audits, internal controls, digital verification, procurement transparency, and the reconciliation of funding decisions, registration records, and payments should all be strengthened by NSFAS.

Approved budgets, actual spending, the number of students assisted, administrative expenses, loan disbursements, and recoveries should all be distinguished in public reporting. While Parliament and the Auditor-General should examine performance and corrective action, a public dashboard could display the timing of funding decisions and payments. Administrative capacity itself needs to be adequately funded; reducing staff and essential technology can increase errors and waste rather than reduce costs.

Performance should be evaluated not only by the amount of money disbursed but also by whether students enroll, continue their studies, and graduate. Better governance increases trust and guarantees that each rand produces the greatest feasible public benefit.

6. Improve completion and economic returns

To maximize the economic value of student funding, universities and TVET colleges must provide students with necessary accommodations, tutoring, academic advising, mental-health support, and access to learning materials. Identifying students at risk of dropping out and intervening early is crucial, as financial uncertainty can negatively impact academic performance. A diverse mix of university, TVET, and community-college programs is recommended. A trained workforce can increase productivity, broaden the tax base, and foster innovation, but these gains are not guaranteed. They rely on high educational standards, successful completion, and an economy capable of producing good jobs.

7. Implementation and evaluation

The government should apply the approach in stages during a ten-year planning period. First, safeguard need-based grants and disclose clear qualifying requirements. Second, consider piloting income-contingent loans for eligible missing-middle students, with legally sound tax-based repayment, unambiguous borrower protections, and cautious recovery assumptions. Third, coordinate employer and SETA relationships while maintaining the government's primary obligation for low-income students. Fourth, strengthen the NSFAS data systems, audits, and public reporting.

National Treasury and DHET should release annual predictions for student numbers, per-student costs, loan recoveries, and the fiscal burden of unpaid amounts. Independent evaluations should assess access based on household income, completion rates, graduate employment, repayment performance, payment delays, and administrative expenses. The results should be published and used to revise the model. A pilot-and-evaluation approach is more credible than assuming that a new loan scheme will immediately pay for itself.

8. Conclusion

South Africa can increase access to higher education while protecting the public purse by replacing a one-size-fits-all strategy with progressive funding. Grants should safeguard the poorest students; income-contingent loans can help eligible missing-middle households; and employer collaboration, responsible management, and enhanced completion can boost the value of public investment.

International experience offers valuable but qualified lessons. Australia displays how repayment can be tied to earnings, Germany offers a limited combination of grants and loans, and the United Kingdom highlights the dangers of excessive graduate debt. South Africa must modify these concepts to address unemployment, inequality, and fiscal restrictions.

Success should not be defined solely by the size of the NSFAS budget or the number of loans issued. It should be judged by whether capable students may join and complete quality education without incurring exorbitant financial costs, and whether the system is affordable for future generations. When funding is progressive, transparent, and results-oriented, fiscal sustainability and equal access can complement one another.

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