

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 entry.

1. Introduction

To build a student-financing model that is both fiscally sustainable and more accessible, it is imperative to analyse the current model and extrapolate from South Africa's experience as well as that of other nations. To contextualise the South African student-funding model and develop one that fulfils the criteria of fiscal sustainability and accessibility, some pertinent definitions and facts need to be established.

Fiscal sustainability in this context refers to the government's ability to maintain its financial commitments over time without requiring unfeasible fiscal adjustments or becoming unable to meet its debt obligations (Tanner, 2013). Accessibility refers to ensuring that the broadest possible spectrum of students, especially those from disadvantaged backgrounds, can pursue post-secondary education without being excluded by financial constraints.

South Africa's public expenditure on higher education has been increasing and is set to increase further. The Department of Higher Education and Training's 2025 Budget Vote reported an average annual nominal budget growth rate of 4.4% over the current medium-term expenditure framework. However, the Minister acknowledged that this growth was insufficient in real terms to meet the increasing demand for resources (Department of Higher Education and Training, 2025). The pressure on student financing is further illustrated by the approximately 144.6% increase in NSFAS beneficiaries between 2011 and 2024, from 332,187 to 812,618 students across public higher education institutions and TVET colleges (DHET, 2026). Furthermore, the Parliamentary Budget Office reported a projected NSFAS funding shortfall of approximately R14 billion during 2025/26, following an increase in the number of eligible university students above the budgeted target (Parliamentary Budget Office, 2025). These figures demonstrate the increasing financial demands placed on the government and the difficulty of maintaining access while operating within limited fiscal resources.

2. Income-contingent loans

Income-contingent loans have been utilised by multiple governments to expand access to higher education while recovering a portion of public expenditure through graduate repayments. Australia utilises this model through its Higher Education Loan Program (HELP), introduced in 1989. Under the Commonwealth Supported Places system, the government subsidises part of the tuition cost, while the student's contribution can be deferred through a HECS-HELP loan. This debt is collected through the tax system once the employed graduate

earns above a specified income threshold, which is AUD 69,528 for the 2026/27 income year (Australian Government, 2026).

The Australian model demonstrates how income-contingent financing can facilitate participation by reducing the immediate financial burden on students. The proportion of commencing university students from low socioeconomic backgrounds increased from 13.5% in 1989 to 17.4% in 2022 (Commonwealth of Australia, 2024). Although this increase cannot be attributed exclusively to the introduction of HECS, research by Chapman and Ryan (2005) found that the social composition of university participation became more equal following the introduction of the scheme. The cost-sharing arrangement allows government to finance students upfront while recovering a portion of its expenditure through future graduate repayments. These repayments can contribute towards the financing of subsequent students, although the government is not guaranteed to recover the full value of the loans (Chapman and Ryan, 2005).

Despite these advantages, concerns have been raised about whether income-contingent loans would be fiscally sustainable in South Africa. The historical NSFAS loan system illustrates some of these difficulties. Before the transition towards a predominantly bursary-based model in 2018, NSFAS operated a loan and bursary scheme in which students were required to repay loans once they met the relevant income conditions. In 2014, only 12% of NSFAS debtors were making repayments (Parliamentary Budget Office, 2016). Separately, NSFAS reported that loan recoveries represented approximately 3.7% of annual loan disbursements in 2014 (NSFAS, 2016). These figures demonstrate the difficulties experienced in recovering outstanding loans and maintaining the revolving funding mechanism.

South Africa's labour-market conditions create further uncertainty regarding the feasibility of such a system. In the second quarter of 2026, the graduate unemployment rate was 12.4%, compared with an overall unemployment rate of 33.6% (Statistics South Africa, 2026). Graduates who remain unemployed or earn below the repayment threshold will be unable to make compulsory repayments during those periods. Furthermore, graduate emigration could create additional collection difficulties. New Zealand provides an example of this risk: as at 30 June 2026, 95.4% of domestic student-loan borrowers were meeting their repayment obligations, compared with only 32.1% of overseas-based borrowers (Inland Revenue, 2026). These figures measure repayment compliance rather than the proportion of total debt recovered, but demonstrate the difficulties governments may encounter when collecting repayments from borrowers living abroad.

Consequently, although income-contingent loans may improve access and reduce the immediate financial burden on government, their long-term fiscal sustainability depends on

graduate employment, earnings, administrative capacity and the government's ability to collect repayments.

3. Private loans

Private financial institutions have also been considered as a way to alleviate pressure on government finances, introduce additional capital and expand student choice and access to higher education. Proponents of cost-sharing arrangements argue that individuals should contribute towards the cost of higher education because they receive private benefits, particularly through improved employment opportunities and higher future earnings (Johnstone, 2004; Psacharopoulos and Patrinos, 2018). This does not mean that the private returns to education necessarily exceed its social returns, but it provides an economic justification for sharing some of the financial responsibility between individuals and the state.

By obtaining private loans, students are able to finance tuition fees and other educational expenses. This shifts some of the immediate financing burden from government to individuals and introduces additional sources of capital into the higher education system (Palacios, 2004). Another potential benefit is increased competition between higher education institutions. Where students have access to financing and can choose between institutions, universities may have stronger incentives to respond to student demand through improvements in their programmes, services and facilities. However, this competitive effect depends on students having sufficient information and genuine institutional choice; private lending alone does not guarantee improvements in educational quality (OECD, 2020).

Private loans may also improve access to higher education by alleviating credit constraints. Gurgand, Lorenceau and Mélonio (2023) investigated the impact of private student loans provided by Eduloan, now Fundi, in South Africa. Their research found that access to a loan increased the probability of university enrolment from approximately 41% to 83% among the applicants studied. The effect was stronger among applicants from lower-income households within their sample and was concentrated among female applicants. This demonstrates that access to private credit can have a substantial influence on university participation, although the study mainly examined middle-class applicants who had applied for loans between 2004 and 2007. The findings therefore cannot automatically be generalised to all low-income students in South Africa.

Despite these potential benefits, private student loans have limitations. Private lenders assess borrowers' creditworthiness and the probability of default when determining loan eligibility, interest rates and borrowing limits (Ionescu and Simpson, 2016). Consequently, students from financially disadvantaged households may experience difficulties accessing private loans, particularly where they lack a financially secure guarantor or an adequate credit history. The

students with the greatest need for financial assistance may therefore be less likely to qualify for commercial financing. Furthermore, private loans do not necessarily eliminate government expenditure. Where government provides loan guarantees or subsidies, it may retain some of the financial risk associated with default. Chapman (2006) identifies difficulties associated with relying on government guarantees for loans issued by commercial banks.

4. My assessment of income-contingent and private loans

Loans, both private and income-contingent, are potentially viable ways of supplementing public expenditure and expanding access to higher education. The Australian experience demonstrates that income-contingent loans can operate over an extended period, provided that effective administrative systems exist to collect repayments (Chapman and Ryan, 2005). Private loans can provide additional capital and finance students who may not qualify for government bursaries or other forms of public assistance. However, private credit cannot replace means-tested government funding because creditworthiness requirements may exclude financially vulnerable students. A combination of government funding and carefully designed loan arrangements is therefore worth considering.

5. Tuition versus non-tuition costs

Free higher education has been an aspiration of many countries, including South Africa. However, tuition-free higher education does not mean that the entire cost of studying is eliminated. Nordic countries such as Finland, Sweden and Norway demonstrate that low or no tuition fees can coexist with substantial student-support systems. The OECD (2025) reports that more than half of students in several tuition-free systems also take out loans, primarily to cover living expenses. These systems therefore combine public financing with student grants and loans rather than requiring students to finance all non-tuition costs independently.

In Finland, student financial assistance includes a study grant, a housing supplement and access to a student loan from a commercial bank backed by a government guarantee through Kela (Kela, n.d.). Sweden similarly provides student assistance through the Swedish Board of Student Finance (CSN), which offers both grants and loans to help students meet their living expenses (CSN, n.d.). These examples demonstrate how governments can maintain low or no tuition fees while using a combination of grants and loans to finance students' maintenance costs.

For South Africa, separating tuition costs from non-tuition costs could provide an alternative financing arrangement. Government could prioritise tuition subsidies to protect access to higher education, while maintenance costs could be financed through a combination of targeted grants, public loans and supplementary private financing. However, requiring the poorest students to finance all living expenses through loans could undermine accessibility.

Consequently, maintenance grants should remain available to students who cannot reasonably afford to repay loans (OECD, 2025).

6. Administrative efficiency and governance

Administrative weaknesses and inadequate financial controls can increase waste and undermine the sustainability of student financing. The Parliamentary Budget Office (2016) identified inadequate organisational and systemic checks and balances, as well as weaknesses in NSFAS's loan recovery and administration. More recently, NSFAS's 2023/24 Annual Report identified the absence of an automated loan-management system as a significant contributor to declining loan recoveries. The previous system had been decommissioned in November 2022, leaving approximately 800,000 debtors with outstanding balances to be administered through manual processes (NSFAS, 2024).

To improve administrative efficiency, NSFAS has identified the need for an automated loan-account system, regular debtor statements, improved engagement with SARS to identify employed debtors and the use of external debt collectors (NSFAS, 2024). These measures are important because a mismanaged financing system can lose money through ineffective allocation, inaccurate records and inadequate loan recovery. Improving administrative capacity and financial accountability can therefore contribute to both fiscal sustainability and the efficient distribution of student assistance.

7. Conclusion

The research conducted has demonstrated the complexity of creating a student-financing model that is both fiscally sustainable and inclusive of students from different socioeconomic backgrounds. International experience illustrates that a combination of public funding and loans can provide an alternative to relying exclusively on government bursaries or private credit. However, neither approach is sufficient on its own. Relying entirely on public funding places increasing pressure on state resources, while relying heavily on loans risks excluding students who cannot qualify for credit or reasonably afford future repayments.

My assessment is that South Africa should consider a differentiated financing model in which government continues to finance or substantially subsidise tuition, while living expenses are supported through a combination of targeted grants and loans. The poorest students should receive adequate non-repayable assistance to prevent financial exclusion, while students with greater repayment capacity could access public income-contingent loans or supplementary private financing. Such a model would share the cost of higher education while protecting access for financially disadvantaged students.

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