HOW CAN SOUTH AFRICA BUILD A FISCALLY SUSTAINABLE STUDENT-FINANCING MODEL THAT ENHANCES ACCESS TO HIGHER EDUCATION?
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INTRODUCTION

For many young South Africans, higher education represents much more than obtaining a qualification. It can mean the opportunity to find employment, support a family and build a better future. For students from poor households in particular, university or college can provide a pathway out of poverty. However, the cost of higher education remains a major barrier for many young people. Tuition fees are only one part of the problem. Students also need money for accommodation, food, transport, textbooks and other study-related expenses.

This creates an important challenge for South Africa. The country needs to expand access to higher education, but it must also consider the financial pressure that increasing student funding places on government. Public resources are limited, and government must divide these resources between education and other important priorities such as healthcare, social protection, infrastructure and debt repayment.

The National Student Financial Aid Scheme (NSFAS) has become one of the most important ways in which government has attempted to address the affordability of higher education. NSFAS provides financial assistance to eligible students at public universities and TVET colleges. It has helped many young South Africans who would otherwise have struggled to access post-school education.

However, the increasing demand for financial assistance raises an important economic question: **How can South Africa continue expanding access to higher education without creating an unsustainable burden on the country's finances?**

This research examines South Africa's student-financing system and the fiscal challenges associated with it. It first considers the role of NSFAS and the affordability of higher education. It then examines the "missing middle" and the development of loan-based funding. The research also looks at income-contingent student loans used in countries such as Australia and England and considers what South Africa can learn from these systems. The importance of TVET colleges, targeted funding for critical skills, and effective NSFAS administration is also discussed. Finally, the research considers the risks associated with student loans before drawing a conclusion. The recommendations that follow the conclusion present a possible approach that South Africa could adopt to balance access to education with long-term fiscal sustainability.

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1. SOUTH AFRICA'S HIGHER-EDUCATION FUNDING CHALLENGE

1.1 The role of NSFAS

The National Student Financial Aid Scheme was established through the National Student Financial Aid Scheme Act of 1999. Its purpose is to provide financial assistance to students who cannot afford the cost of post-school education and training. NSFAS supports students at public universities and TVET colleges and can cover various costs associated with studying.

The importance of NSFAS can be seen in the amount of public money allocated to student financial aid. According to National Treasury, NSFAS expenditure increased from approximately R37.9 billion in 2020/21 to R59.7 billion in 2023/24 (National

Treasury: 2024). This represents a significant increase in government expenditure on student funding.
The following table shows the growth in NSFAS expenditure.
NSFAS EXPENDITURE, 2020/21–2026/27

Financial year	NSFAS expenditure (R billion)
2020/21	37.9
2021/22	38.5
2022/23	48.6
2023/24	59.7
2024/25*	54.5
2025/26*	56.7
2026/27*	59.6

Source: National Treasury (2024).
Note: Figures marked with an asterisk are estimates rather than audited expenditure.
The table shows that student financial aid has become a substantial commitment for the South African government. This funding is important because it allows students from disadvantaged households to participate in higher education. At the same time, however, the growing cost of student funding creates pressure on the national budget.
The challenge is therefore not simply whether government should fund students. It is how that funding should be structured so that it can continue to support students in the future.

1.2 Access and affordability

There is a strong economic argument for investing in education. A better-educated population can contribute to higher productivity, employment and economic growth. Individuals who obtain qualifications and skills may also have greater opportunities to earn higher incomes over their working lives.
For South Africa, this is particularly important because the country continues to face high unemployment and significant inequality. Providing young people with opportunities to develop useful skills can contribute to improving their economic prospects.
However, education funding has an opportunity cost. Money spent on one area of the budget cannot simultaneously be spent somewhere else. Government therefore has to consider whether its student-financing system can be maintained over the long term.
This creates a balance between **access and affordability**. If student funding is too limited, poor students may be excluded from higher education. If funding increases without considering its long-term cost, government may face increasing pressure on an already constrained budget.

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2. THE "MISSING MIDDLE"

2.1 Who are the missing middle?

One of the most difficult issues in South Africa's student-financing system is the existence of students who fall between the categories of those who can afford higher education and those who qualify for full government funding.

These students are commonly referred to as the **"missing middle"**. Their families may earn too much to qualify for traditional NSFAS funding, but they may still struggle to pay university or college costs.

Under the Comprehensive Student Funding Model, the initial missing-middle category covered students from households earning more than R350 000 but not more than R600 000 per year (Department of Higher Education and Training: 2024).

The difficulty is that household income does not always show how much money a family actually has available. A household may earn above the funding threshold but still have significant expenses such as rent or bond payments, food, transport, healthcare and the education of other children.

As a result, some students can find themselves in a difficult position. They do not qualify for a full grant, but their families also cannot realistically afford all the costs of higher education.

2.2 The move towards loans

Government has responded to this problem by introducing a loan-based component to the Comprehensive Student Funding Model.

An initial R3.8 billion was committed to capitalise the missing-middle loan scheme. The funding included contributions from the National Skills Fund and Sector Education and Training Authorities (SETAs). The scheme was intended to provide financial assistance to students who did not qualify for traditional NSFAS bursaries but still needed financial support (Department of Higher Education and Training: 2024).

The National Skills Fund also set aside R3 billion over three years for the missing-middle programme, with the first R1 billion transferred to NSFAS in 2024 (Department of Higher Education and Training: 2025).

The introduction of loans is significant because it changes the way government approaches student funding. Instead of government paying the full cost for every student, some students can receive financial assistance now and contribute towards the cost later when they are earning an income.

This approach has the potential to reduce some of the immediate pressure on government. However, it must be designed carefully because not every graduate will necessarily earn enough to repay a loan.

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3. INCOME-CONTINGENT STUDENT LOANS

3.1 How income-contingent loans work

Traditional loans generally require borrowers to make repayments according to a fixed schedule. This can create serious difficulties for students who graduate and are unable to find employment immediately.

Income-contingent loans work differently. Repayments are linked to the income of the graduate. A graduate only starts repaying once their income reaches a particular threshold, and the amount repaid increases as their income increases.

This approach can protect graduates who are struggling financially. Someone who is unemployed or earning a very low income would not be expected to make the same repayment as someone earning a high salary.

The OECD identifies Australia and England among countries that use income-contingent student-loan systems (OECD: 2025). These systems provide protection to lower-income graduates, but they also create costs for governments because some loans may never be repaid in full.

3.2 The Australian experience
Australia provides an important example through its Higher Education Loan Program, commonly known as HELP.
Under HELP, eligible students can access government-supported loans to assist with the cost of higher education. Repayment is linked to the graduate's income rather than requiring immediate fixed payments.
The advantage of this approach is that graduates are given time to establish themselves financially before they have to begin repaying their loans. This can make higher education more accessible without requiring students or their families to pay the full cost upfront.
However, the Australian system also demonstrates that income-contingent loans are not free for government. If graduates do not earn enough to repay their loans, government may ultimately recover less than the amount originally provided.
3.3 The English experience
England provides another example of income-contingent student financing. According to the OECD, approximately 93% of tertiary students in England receive income-contingent government-backed loans (OECD: 2025).
Under this system, graduates begin repaying their loans only after reaching a particular income threshold. This protects people with lower incomes from having to make repayments that they cannot afford.
However, the English system also shows that student loans can create substantial debt balances. High tuition and living costs can result in graduates leaving tertiary education owing significant amounts.
For South Africa, the lesson is that income-contingent loans can improve access and protect graduates from unaffordable repayments, but they still create a financial responsibility for government.

COMPARISON OF STUDENT-FINANCING APPROACHES

Feature	**Grants**	**Conventional loans**	**Income-contingent loans**
Repayment required	No	Yes	Yes, depending on income
Protection for unemployed graduates	High	Low	High
Immediate financial burden on students	Low	Medium/High	Low
Government fiscal exposure	High	Lower	Potentially high
Suitable for poorest students	High	Lower	Moderate
Repayment linked to ability to pay	No	Usually no	Yes

Source: Adapted from OECD (2025).
The table demonstrates that each funding method has advantages and disadvantages. Grants provide the greatest protection to students who cannot afford higher education, while income-contingent loans can introduce an element of cost-sharing without immediately placing unaffordable repayment obligations on graduates.

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4. DEVELOPING A SUSTAINABLE SOUTH AFRICAN MODEL

4.1 A differentiated funding system
South Africa's students come from very different economic backgrounds. For this reason, treating every student in exactly the same way may not be the most effective approach.
A more sustainable model could use different forms of financial assistance depending on the student's circumstances.
The first level would be **full grants for the poorest students**. These students and their families have the least ability to contribute towards the cost of higher education. Requiring them to take on debt could make it more difficult for them to improve their economic circumstances.
The second level would be **income-contingent loans for the missing middle**. These students would receive assistance with the cost of their studies and repay the loan only when they earn above a specific income threshold.
The third level would be **targeted bursaries for critical skills**. Government and the private sector could provide additional support for students entering fields where South Africa has significant skills shortages.
Such a system would allow public funding to be concentrated where it is most needed while still giving other students access to financial assistance.
4.2 Supporting universities and TVET colleges
A sustainable student-financing system should not focus only on universities. TVET colleges are an important part of South Africa's post-school education system because they provide students with practical and technical skills.
South Africa needs artisans, technicians, nurses, teachers, engineers, scientists and many other skilled workers. Universities and TVET colleges can contribute to meeting these needs in different ways.
For 2024/25, National Treasury projected financial aid for approximately 450 000 university students and 337 224 TVET students (National Treasury: 2024).
This demonstrates that both types of institutions form an important part of the country's student-financing system.
Students should therefore have meaningful access to funding regardless of whether they choose a university degree or a TVET qualification.
4.3 Investing in critical skills
Government spending on education can be viewed as an investment in human capital. The benefits do not only accrue to the individual student. A country also benefits when it has enough qualified workers to provide essential services and support economic activity.
For this reason, bursaries could be targeted towards areas where South Africa faces important skills shortages. Additional support could be offered to students studying subjects such as teaching, nursing, engineering, science and technical fields.
This approach would allow student funding to address both social and economic objectives.

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5. ADMINISTRATION, GOVERNANCE AND FISCAL EFFICIENCY
5.1 Why administration matters
A student-financing system can only work if it is properly administered.

For students, delays in receiving funding can have serious consequences. A student may be academically eligible for financial assistance but still struggle to attend classes if they cannot pay for accommodation, food or transport.

NSFAS has faced challenges involving applications, appeals, information technology, governance and the payment of allowances. In December 2025, Cabinet acknowledged systemic challenges affecting NSFAS and supported measures to strengthen governance, information technology and the disbursement of student funding (The Presidency: 2025).

These problems matter from an economic perspective because inefficient administration can reduce the value of money allocated to education.

5.2 Improving verification and payment systems

A stronger digital application and verification system could help government determine which students qualify for financial assistance.

In 2025, government reported that real-time data verification had been integrated with institutions including the Department of Home Affairs, SARS and SASSA. Such systems can help verify information about household income and eligibility more efficiently (The Presidency: 2025).

However, technology alone cannot solve every problem. Students also need a clear appeals process and access to assistance when their applications contain errors or their circumstances change.

A good student-financing system should therefore combine digital technology with effective human support.

5.3 Governance and accountability

Strong financial management is essential if NSFAS is to remain sustainable.

In 2026, the Department of Higher Education and Training reported concerns relating to governance, financial controls and accountability at NSFAS, including a disclaimer of audit opinion for the 2024/25 financial year (Department of Higher Education and Training: 2026).

This highlights an important point: fiscal sustainability is not only about the amount of money government allocates. It is also about how effectively that money is managed. If funding is lost through poor controls, administrative mistakes or weak governance, government may have to spend more money simply to achieve the same outcome.

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6. FISCAL RISKS AND TRADE-OFFS

Income-contingent loans can help South Africa manage the cost of student financing, but they also involve risks.

The first risk is **non-repayment**. Some graduates may remain unemployed or earn below the repayment threshold for many years. In these cases, government may not recover the full amount of the loan.

The second risk is **South Africa's high unemployment rate**. A student-loan system depends partly on graduates being able to enter the labour market and earn an income. If graduates cannot find work, repayments will naturally be lower.

The third risk is **administrative complexity**. An income-contingent system requires reliable information about graduate incomes and an effective method of collecting repayments. Weak administration could increase the cost of the system.

The fourth risk is **student indebtedness**. Although income-contingent loans protect graduates from immediate fixed repayments, graduates can still accumulate substantial debt.
The OECD notes that income-contingent loan systems can provide protection for low-income graduates while creating additional fiscal costs for governments when loans are not fully repaid (OECD: 2025).
South Africa therefore needs to find a balance. It must provide enough assistance to prevent financial circumstances from excluding young people from higher education, while also ensuring that the government does not create an unlimited future financial obligation.

CONCLUSION

This research examined how South Africa can expand access to higher education while maintaining a financially sustainable student-financing system.
The research first considered the role of NSFAS and showed that student financial aid represents a significant and growing commitment of public resources. Although NSFAS has helped many disadvantaged students access universities and TVET colleges, the continued growth in demand creates pressure on government finances.
The research then examined the problem of the missing middle. These students may not qualify for full NSFAS funding, but their families may still struggle to afford the full cost of higher education. The introduction of a loan-based funding component provides a possible way of addressing this gap.
Income-contingent loans used in countries such as Australia and England were then considered. These systems demonstrate that graduates can be protected from unaffordable repayments by linking repayment to income. However, they also demonstrate that such systems do not remove the financial responsibility of government because some loans may not be repaid in full.
The research further considered the importance of supporting both universities and TVET colleges and of directing additional funding towards skills that are important to the South African economy. Finally, the research examined NSFAS administration and governance and showed that efficient systems are essential if public funding is to be used effectively.
The research therefore finds that there is no single solution to South Africa's student-financing challenge. Grants, loans and targeted bursaries each have a role to play. A combination of these approaches could provide broader access to education while allowing government to manage its long-term fiscal responsibilities.

RECOMMENDATIONS

Based on the research conducted, a **three-tier student-financing model** is recommended for South Africa.
Firstly, **full grants should continue to be provided to students from the poorest households**. These students are least able to contribute towards the cost of their education. Requiring them to take on significant debt could undermine the purpose of student financial aid and make it harder for them to escape poverty.
Secondly, **income-contingent loans should be expanded for the missing middle**. Students who do not qualify for full grants but cannot afford higher education should be able to borrow the money they need. Repayment should only begin once their income

reaches an appropriate threshold. This would mean that a graduate who is unemployed or earning a very low income is not immediately placed under financial pressure.

Thirdly, **government should make greater use of targeted bursaries for critical skills**. Students studying towards qualifications in areas such as teaching, nursing, engineering, science and technical occupations could receive additional support where there are clear skills shortages. Partnerships with businesses could also help government share some of the cost.

Fourthly, **NSFAS administration should be treated as an essential part of student-financing reform**. Government should continue improving digital verification, application processing, appeals, payment systems and financial controls. Students should receive funding on time, and institutions should have clear processes for resolving disputes.

Fifthly, **the repayment system should be reviewed regularly**. Income thresholds and repayment rates should reflect changes in inflation, employment and the broader economy. Government should also monitor how much of the loan portfolio is being repaid so that the long-term fiscal cost remains visible.

Finally, South Africa should **learn from international examples without simply copying them**. Australia and England provide useful lessons about income-contingent loans, but South Africa faces different economic conditions. High inequality, unemployment and large differences in household income mean that the South African system needs to be designed around local circumstances.

In my view, the most workable approach is therefore not to choose between completely free higher education and a system where students carry the entire cost themselves. Instead, South Africa should use a **progressive cost-sharing model**.

Those who genuinely cannot afford higher education should receive grants. Those who can contribute later should be given the opportunity to repay a reasonable portion of the cost once they are earning enough. Government should also make sure that the system is properly managed so that every rand allocated to student funding achieves as much as possible.

The aim should be to create a system that is fair to students today while also being fair to the taxpayers and students of tomorrow. South Africa needs to expand educational opportunity, but it must do so in a way that the country's public finances can realistically sustain.

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