Undergraduate

How can South Africa build a fiscally sustainable student-financing model that enhances access to higher education

Word count- 1930

1.INTRODUCTION

The South African Constitution under Section 29(1)(b) gives, everyone in South Africa, the right to further education, which is fundamental in reducing excessive social inequality and high youth unemployment which are the core characteristics of this said country (Chiramba & Ndofirepi: 2023). However, access to education remains a great challenge for the vast majority intending to attain it. Access in this context does not mean physical space in tertiary institutions nor the lack of universities per se, rather it is how deep one's pockets are (Mseleku: 2022).

Constant government intervention in widening access to higher education and training has been prevalent in recent times, with the National Student Financial Aid Scheme (NSFAS) being its primary endeavour in confronting the issue at hand, the financial barrier experienced by the lower- and middle-class people of this country. According to The Department of Higher Education and Training (2026) approximately 51,2% of students in public universities were funded by the NSFAS in 2024 and R42 billion was expended in financing these students.

In funding these students by loans or bursaries, the government experiences a sustainability problem as the very same students that are supposed to be absorbed by the labour market and pay taxes which would be used in funding future students, are in fact not employed. The high unemployment of new graduates and inability to contribute to the economy after obtaining a degree, creates a negative labour multiplier which basically means more unemployment creates more unemployment, less taxes collected and ultimately less government expenditure.

This research paper will compare the different funding models the government can initiate to create a sustainable system that will widen access. I will expose flaws in the current funding model using NSFAS as primary solution. Dive into international methodologies in addressing access by means of student loans. Then dissect the potential use of income-contingent bursaries and ultimately explore the use of a tax incentive for self-funded students as a way of increasing access to education and mitigating dependence on the state. I will then end with practical recommendations because of this paper.

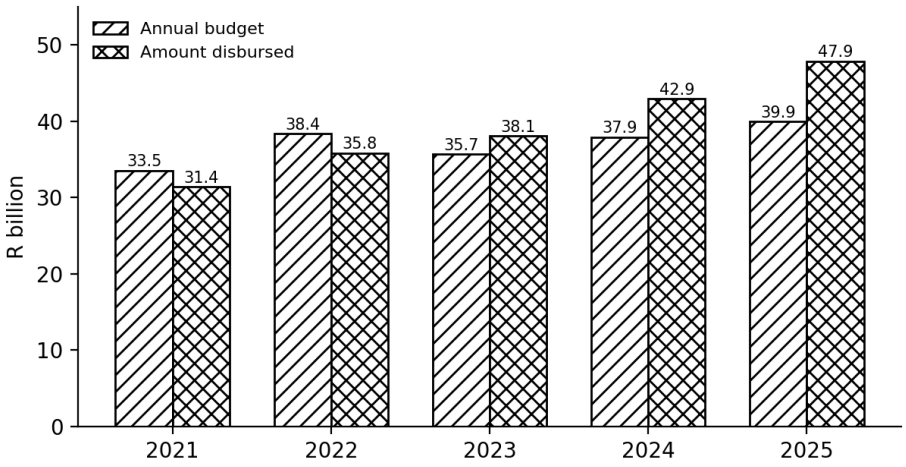
2. CURRENT SOUTH AFRICAN FINANCIAL STAGE

Majority of South Africans, due to their economic status and historical background, are unable to further their studies. Statistics show that 51% of the youth aged 18 to 24 years outlined the reason for not furthering their studies being a lack of funds (Statistics South Africa: 2019). The high unemployment rate and rate of the population living below the poverty line of 32% and 38% respectively (Statistics South Africa: 2025) perpetuate the number of individuals unable to fund higher learning

Education is afterall a profit business, a commodity so expensive that only ones with history of it can access (Badat: 2024). Whilst South Africans are faced with inadequate income levels and battling to afford a degree, universities persistently and unreasonably increase their tuition and accommodation fees, further perpetuating the existing financial barrier. Serfontein & Smit (2024) found that universities were increasing fees exorbitantly above inflation which impacted affordability. It is also important to note that household income is increasing at rates less than inflation. The world is experiencing a decrease in students continuing with already embarked upon studies due to the systemic exclusion with universities increasing their fees (Ziderman: 2005).

NSFAS gives bursaries to students from households earning up to R350,000 a year, and loans to those earning between R350,000 and R600,000 (Business Day: 2026). Demand is outrunning the budget. Graph 1 follows. It compares the NSFAS university budget with the amount disbursed from 2021 to 2025.

Graph 1: NSFAS university budget and amount disbursed, 2021 to 2025 (R billion)



Source: PMG (2026).

Disbursements have exceeded the budget since 2023. In 2025 NSFAS paid out R47.9 billion against a budget of R39.9 billion, an overspend of about 20% (PMG: 2026). The number of university students funded rose from 555,950 in 2021 to 593,543 in 2025 (PMG: 2026).

Control failures add to the cost. The Special Investigating Unit found more than 40,000 students funded despite household incomes above R350,000, at a cost above R5 billion, and the Auditor-General found 822 deceased students still receiving funds (The Citizen: 2023). Loans are also not recovering. Of a loan book of R45.9 billion in 2024/25, NSFAS recovered only R125.8 million, about 0.3%, down from R388.2 million in 2020/21 (PMG: 2026).

The wider fiscus offers little room. The deficit is 4.5% of GDP; gross debt is 78.9% of GDP and growth is projected at only 1.6%. Education is already the largest item at 23.7% of consolidated spending, and the Budget Speech says every programme must demonstrate value, efficiency and accountability (National Treasury: 2026).

This creates a cycle. Spending on students is meant to produce graduates who work, pay tax and so fund the next cohort. With unemployment at 33.6% and youth unemployment at 47.4% (SAnews: 2026), that return does not arrive, loans are not repaid, tax revenue stays low and pressure on the budget grows

3. INTERNATIONAL EXPERIENCE

Table 1 follows. It compares how the United States, Germany, Finland and Norway fund tertiary students.

Table 1: Student financing in four countries

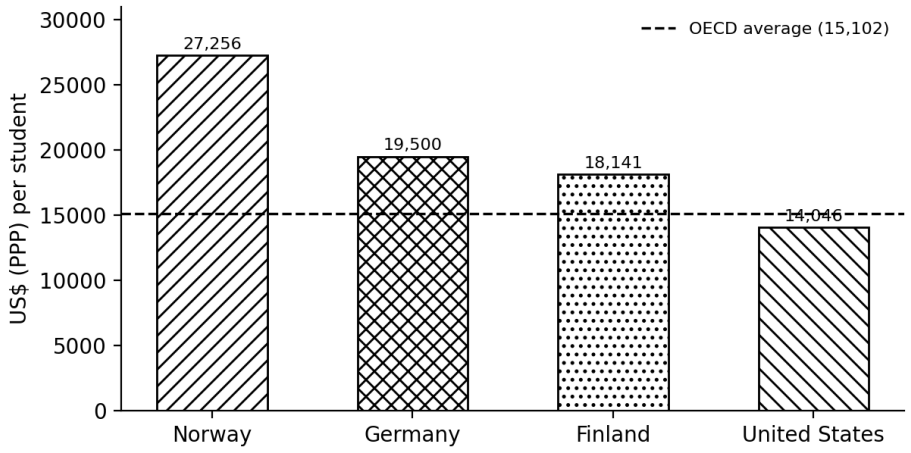
Country	Funding and tuition	Student support	Lesson for South Africa
United States	38.7% public funding; highest public bachelor's tuition in the OECD, about US$9,596 (OECD: 2025d)	Federal loans; about nine million borrowers owing US$220 billion are in default (Federal Student Aid: 2026)	Loans alone return the risk to taxpayers when graduates cannot repay
Germany	83.8% public funding; no undergraduate tuition at public universities since 2014 (OECD: 2025b; TopUniversities: n.d.)	BAföG is need-based: half grant, half interest-free loan, repayment capped at €10,010 (Deutsches Studierendenwerk: n.d.)	Targeted aid with capped debt

Country	Funding and tuition	Student support	Lesson for South Africa
Finland	89% public funding; no tuition for nationals (OECD: 2025a)	Study grant, housing supplement and state-guaranteed loan; up to a third of the loan is paid off if the student graduates on time (Kela: n.d.)	Rewarding completion
Norway	94% public funding; no tuition for nationals (OECD: 2025c)	Loan for all; up to 40% becomes a grant if the student completes, lives away from home and keeps income and assets below limits (Lånekassen: n.d.a)	Means-tested conversion using tax data

Source: as cited in the table. Public shares are those reported by the OECD; Finland and Norway are before transfers, Germany and the United States after transfers.

The United States shows the limit of a loan-led model. Despite the highest public tuition in the OECD, more than 13% of its federal loan portfolio is in default (Federal Student Aid: 2026). Germany and the Nordic countries instead fund institutions heavily and target support. Graph 2 follows. It shows government spending per tertiary student in 2022.

Graph 2: Government expenditure per tertiary student, 2022 (US$ PPP)



Source: OECD (2025a; 2025b; 2025c; 2025d).

Norway charges no tuition yet spends US$27,256 per student, almost double the US$14,046 of the United States (OECD: 2025c; 2025d). Two lessons follow. First, Germany's free tuition rests on US$19,500 per student (OECD: 2025b), which an

economy growing at 1.6% with a 4.5% deficit cannot copy (National Treasury: 2026). Second, these systems target support and reward completion, and Norway checks income directly against tax administration data (Lånekassen: n.d.b), the step NSFAS is only now rebuilding (PMG: 2026).

Germany shows that a rich country can combine free tuition with targeted living-cost support. BAföG is need-based and takes account of the income of both the student and the parents (Deutsches Studierendenwerk: n.d.). Finland also ties aid to performance, because Kela checks study progress and income every year (Kela: n.d.). Even in tuition-free Norway and Finland, more than half of students take out loans, mainly for living costs (OECD: 2025e). South Africa must therefore plan for living costs, not tuition alone

4. PROPOSED ACTION

4.1 Exploring a tax benefit for employees who contribute to their education

People look for tax benefits, and they act on them. Section 11F lets employees deduct retirement contributions from taxable income. After the 2016 reform, about 830,000 more people contributed to retirement annuities (up 52%) and about 800,000 more to provident funds (up 29%). Retirement annuity contributions alone rose by R22 billion (107%) in a year (Redonda & Axelson: 2021). Some of this may be existing savings moved into tax-favoured funds, but the response was large. Section 11F has the same essence as this proposal. It rewards employees for providing for their own future so that they rely less on the state, in its case the SASSA old age grant. A tax deduction for employees who contribute to education does the same for NSFAS. An employee who saves for their own or their children's tertiary study would need less state funding, leaving the scheme's limited money for the poorest students. The deduction could be claimed through payroll, so that saving becomes routine. It carries one risk: a deduction is worth more as income rises. The top 20% of earners captured over 80% of the retirement deduction's benefit, and the bottom four deciles received nothing (Redonda & Axelson: 2021). The deduction should therefore carry a low annual cap, since the same authors suggest that a lower cap would bind more people and work better.

4.2 Income-contingent bursaries

The current NSFAS model creates a sharp distinction between students who qualify and those who do not. A more equitable approach would be an income-contingent bursary system in which the level of support declines gradually as household income rises. Students from the poorest households would continue to receive full funding, while those from higher-income households would receive partial support and contribute a larger share of their education costs. This would allow limited public funds to be targeted more

effectively, reducing the unnecessary full subsidization of students whose families can afford to contribute. The result would be broader access without a proportional increase in state expenditure.

This reform depends on accurate income verification. Recent improvements to social grant verification identified nearly 35,000 incorrect or fraudulent grants and generated substantial savings for the state (National Treasury: 2026). At the same time, NSFAS is reactivating its data-sharing arrangements with SARS and exploring income-linked funding mechanisms (PMG: 2026). Building a reliable verification system should therefore be the first step before implementing a sliding-scale bursary model. Funding for the required administrative upgrades could come from unspent discretionary SETA and National Skills Fund allocations, allowing government to strengthen eligibility verification without introducing new taxes.

Monthly verification is the key to making the model work. By integrating NSFAS data with SARS employer records and relevant SASSA databases, household financial circumstances could be reviewed regularly rather than only at the point of application. Students whose household income falls could receive increased support, while assistance to households experiencing income growth could be reduced accordingly. This would create a more responsive and fiscally sustainable system that directs public resources to those with the greatest need while reducing funding leakages. In the longer term, income-contingent repayment could complement this approach by ensuring that graduates only begin repaying once their earnings reach an affordable level, thereby protecting access in a labour market where graduate unemployment remains a challenge.

5. RISKS AND FEASIBILITY

The two proposals are feasible because they build on institutions and incentives that already exist. The education tax deduction would use the existing tax administration system and could be implemented through payroll in the same way as retirement contributions. The principal risk is that higher-income households may capture a disproportionate share of the benefit. This can be mitigated through a low annual cap and by maintaining NSFAS support for poorer students.

Income-contingent bursaries offer a more targeted use of public funds, but they depend on accurate income verification. Weak administration has contributed to funding errors within NSFAS, demonstrating the importance of reliable data systems (PMG: 2026). Integrating NSFAS, SARS and SASSA databases would improve targeting but would require initial investment. However, the fiscal cost would be lower than continuing to fund ineligible beneficiaries or maintaining a system that treats households with very different incomes equally.

Overall, the proposals are practical because they improve efficiency rather than requiring significant new public expenditure.

6. CONCLUSION

This essay examined how South Africa can build a fiscally sustainable student-financing model while widening access to higher education. The current NSFAS system has expanded access but faces rising costs, weak loan recovery and administrative challenges. International experience shows that successful student-financing systems target support according to need and use reliable administrative systems.

The evidence suggests that South Africa should move away from a rigid funding threshold towards more targeted support. A tax incentive for education savings would reduce dependence on state funding, while income-contingent bursaries would direct resources to students with the greatest financial need. Together, these reforms would improve both access and fiscal sustainability.

7. RECOMMENDATIONS

Introduce a tax-deductible education savings mechanism modelled on existing retirement-fund incentives. Replace the current NSFAS income cut-off with a sliding-scale income-contingent bursary system. Establish monthly income verification through data-sharing between NSFAS, SARS and SASSA and Fund administrative upgrades through existing SETA and National Skills Fund resources before expanding student support programmes.

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