

BEYOND FREE EDUCATION: BUILDING A SUSTAINABLE STUDENT-FINANCING MODEL FOR SOUTH AFRICA

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1. INTRODUCTION

For many young South Africans, higher education represents an opportunity to escape poverty and build a more secure future. Yet, for government, making that opportunity affordable presents a difficult challenge. South Africa must expand access to higher education while managing rising expenditure, public debt and competing demands on limited resources.

The National Student Financial Aid Scheme (NSFAS) has widened educational opportunities, particularly for students from disadvantaged households. However, financial assistance alone cannot guarantee successful education. Students also need available institutional places, academic support and reasonable prospects of employment after graduating.

This essay argues that sustainable student financing requires more than increasing bursary allocations. Government must consider who receives funding, whether students complete their qualifications and how financing costs can be recovered without placing excessive burden on graduates. The discussion examines South Africa's existing system, evaluates international experience from Australia and England, and proposes reforms that combine equitable access with financial responsibility.

2. SOUTH AFRICA'S STUDENT FINANCING CHALLENGE

2.1 Education as an economic investment

Higher education contributes to economic development by improving labour productivity, encouraging innovation and expanding employment opportunities. According to human capital theory, education increases individuals' productive capabilities and potential earnings (Becker, 1964).

However, private financial constraints can prevent capable students from studying. This creates an economic problem because society loses potential skills and future productive capacity.

Government assistance is therefore justified on equity and efficiency grounds. Nevertheless, public spending has an opportunity cost. Money used to finance higher education cannot simultaneously fund healthcare, infrastructure or other essential services.

The objective should not simply be to increase education spending, but to ensure that expenditure produces lasting social and economic benefits.

2.2 Financial pressure on NSFAS

NFAS primarily provides bursaries to students from households earning no more than R350,000 annually, with a higher threshold for qualifying students with disabilities (NFAS, 2026).

The Parliamentary Budget Office (2026) reported that R54.3 billion was allocated to NSFAS for 2026/27 to support 744,203 students, compared with R58.2 billion in the previous financial year. This illustrates the pressure to maintain educational assistance within constrained budgets.

South Africa has also recognised the difficulties experienced by the missing middle. These are students whose family incomes exceed the usual bursary threshold but who will struggle to afford tertiary education.

In 2024, government allocated R3.8 billion toward a loan scheme for students from households earning between R350,000 and R600,000 annually (Department of Higher Education and Training, 2024)

However, introducing additional loans does not automatically solve the financing problem. Their sustainability depends on whether graduates eventually earn enough to repay them.

2.3 Funding students without expanding opportunities

An overlooked difficulty is that financing a student does not necessarily create a place for that student to study.

According to the Parliamentary Budget Office (2026), 345,875 learners obtained bachelor's passes in the 2025 matric examinations, while approximately 235,000 places were available at public universities for the 2026 intake.

Although these figures do not mean every qualifying learner applied or was refused admission, they reveal significant pressure on institutional capacity.

Therefore, student financing must be considered alongside university infrastructure, accommodation, academic support and technical and vocational education and training (TVET).

Without these investments, additional funding may increase demand without producing a corresponding increase in completed qualifications.

3. INTERNATIONAL EXPERIENCE: LESSONS AND LIMITATIONS

3.1 Australia: Linking repayment to income

Australia's Higher Education Loan Programme (HELP) allows eligible students to defer certain educational costs until their earnings exceed a specified threshold.

For 2026/27, compulsory repayments begin when annual repayment income exceeds AUD69,528, with repayment amounts linked to earnings (Australian Government, 2026).

Chapman and Dearden (2022) explain that income-contingent loans offer advantages over conventional fixed repayment loans because repayment burdens adjust to graduates' financial circumstances.

This is particularly relevant to South Africa, where funding employment after graduation cannot be guaranteed.

However, the Australian model also presents challenges. Government finances loans upfront, while graduates with low lifetime earnings may never fully repay their balances. Income-contingent loans therefore reduce repayment hardship but do not eliminate government costs.

South Africa can learn from the repayment mechanism, although it would need a system designed around local employment conditions rather than Australian earnings levels.

3.2 England: The importance of effective collection

England also uses income contingent student loans. Under Plan 5, graduates repay 9% of income exceeding £25,000 annually in the 2026/27 tax year (Student Loans Company, 2026).

Repayments are generally collected through payroll deductions, allowing contributions to adjust when earnings change.

This offers an administrative advantage. However, repayment periods can extend over many years, and unpaid balances ultimately become public cost.

England's experience demonstrates that loan recovery depends not only on collecting repayments efficiently but also on borrowers' lifetime earnings.

For South Africa, unemployment and uneven earnings growth could limit collections. Importing an international financing model without allowing for these conditions could create future liabilities instead of reducing them.

3.3 Lessons for South Africa

The international comparison reveals an important distinction: affordable repayments for graduates do not necessarily mean affordable financing for government.

Income contingent loans protect borrowers, but taxpayers still carry the risk of incomplete recovery. South Africa must therefore balance graduate protection with realistic estimates of future repayments.

Neither Australia nor England provides a model that can simply be copied. Their experiences should guide a financing system suited to South Africa's fiscal capacity, employment conditions and inequality.

4. MAKING STUDENT FINANCING FISCALLY SUSTAINABLE

4.1 Understanding the cost of loan recovery

An income contingent loan is not equivalent to a grant, but neither should government treat every loan as money that will be fully recovered.

The following hypothetical calculation illustrates how different recovery rates affect public finances.

Table 1: Illustrative recovery scenarios for a R100 million student loan portfolio

<u>Lifetime recovery rate</u>	<u>Total repayments</u>	<u>Amount unrecovered</u>
20%	R20 million	R80 million
40%	R40 million	R60 million
60%	R60 million	R40 million

Source: Author's calculations. Hypothetical scenarios, not forecasts or actual NFSAS repayment figures. Inflation, interest, administrative costs and the timing of repayments are excluded.

Table 1 demonstrates that even a relatively high recovery rate may leave government carrying substantial costs.

The figures also why introducing students loans should not automatically be regarded as a saving. A comprehensive fiscal assessment must consider the present value of future repayments, administrative expenses and expected non recovery.

Importantly, unrecovered balances should not be interpreted as purely wasted expenditure. Some borrowers may have completed valuable qualifications but earn too little to repay. Public financing can still generate wider economic and social benefits.

4.2 Linking financing to educational outcomes

The effectiveness of educational expenditure depends partly on whether students complete their qualifications.

When a funded student leaves without graduating, government may incur substantial costs without achieving the intended educational outcome. This does not mean students should lose support simply because they experience academic difficulties.

Instead, funding should be accompanied by tutoring, counselling and early academic intervention.

Institutional performance could be evaluated through qualification completion, support for disadvantaged students and graduate outcomes. However, funding formulas must recognise that institutions serving poorer communities may face greater challenges.

Improving educational outcomes would strengthen the value obtained from existing expenditure without necessarily requiring equivalent increases in funding.

4.3 Improving financial administration

Weak administration can undermine even a well-designed financing policy.

Accurate eligibility assessments, timely payments and transparent financial reporting are necessary to protect public resources and students.

Greater cooperation between NSFAS, educational institutions and the South African Revenue Service could also strengthen income verification and repayment collection, provided appropriate legislation and privacy protections are established.

Reliable information on graduate earnings and loan recovery would enable government to improve its long-term expenditure estimates.

5. A FINANCING FRAMEWORK FOR SOUTH AFRICA

A sustainable approach combine financial need, repayment capacity and educational outcomes rather than relying exclusively on household income.

The proposed framework contains three complementary financing arrangements.

First, students from low-income households should continue receiving non repayable bursaries. Requiring these students to finance their studies through debt could discourage participation and reinforce existing inequality.

Second, qualifying missing-middle students should receive affordable income contingent loans. Repayments should begin only when earnings exceed and appropriately determined threshold. This threshold reflect South African living costs and be reviewed periodically.

Third, students from higher-income households should make greater private contributions, while remaining eligible for merit-based opportunities where justified.

The framework should also include an annual sustainability assessment. Government would examine access, qualification completion, graduate employment, repayment collections and the long-term cost of outstanding loans.

Funding decisions could be adjusted using actual evidence rather than relying solely on projections of student demand.

To improve employment opportunities, government should encourage partnerships between universities, TVET colleges and employers. These partnerships could expand workplace learning, bursaries and industry linked training.

Such a framework would not eliminate the cost of higher education. Its purpose would be to distribute costs more fairly while improving the economic benefits generated by public spending.

6. CONCLUSION

This essay examined how South Africa could improve access to higher education without compromising fiscal sustainability. It considered the pressures facing NSFAS, the economic importance of higher education and lessons from income contingent financing in Australia and England.

The research found neither bursaries nor loans offer a complete solution independently. Bursaries are essential for protecting disadvantaged students, while income contingent loans can allow graduates with sufficient earnings to contribute towards financing their education.

However, international experience demonstrates that graduate contributions are uncertain and depend on employment opportunities and repayment administration.

The central finding is that fiscal sustainability cannot be measured by expenditure alone. Government must also evaluate educational completion, financing recovery and the broader economic benefits of public investment.

South Africa therefore requires a funding system that protects access while ensuring that future commitments remain affordable.

7. RECOMMENDATIONS

In my view, South Africa should build on its existing NFAS arrangements rather than introduce an entirely new financing system.

I recommend establishing a Student Funding Sustainability Framework based on three measure, access, educational success and long-term affordability.

First, bursaries should remain available to financially disadvantaged students, while missing-middle loans should be linked to actual graduate earnings rather than fixed repayment schedules.

Second, government should publish an annual student financing assessment. This should report qualification completion rates, graduate employment, loan recovery and the expected future cost of outstanding obligations. Transparent reporting would make it easier to identify weaknesses and introduce corrective measures.

Third, greater investment should ne directed toward academic support, institutional capacity and TVET pathways. Funding additional students has limited value when intuitions cannot accommodate them to provide the support needed to complete their studies.

Finally, any proposed expansion of loans should undergo a fiscal assessment before implementation. Government should consider several recovery scenarios and make provision for graduates who cannot afford repayments.

South Africa needs to make higher education affordable for students, but it must also make the financing system affordable for the country. The aim should not simply be to increase the number of students receiving assistance, but to ensure that public investment creates lasting opportunities without transferring unreasonable costs to future generations.

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