Entry Number: #1753

Building a Fiscally Sustainable Student-Financing Model for South Africa: Lessons from International Experience

1. Introduction

Higher education plays an important role in improving employment opportunities, developing skills and promoting economic growth. However, the cost of obtaining a university or college qualification remains a challenge for many South African households. Although government has introduced financial assistance through the National Student Financial Aid Scheme (NSFAS), the growing demand for student funding has raised concerns about whether the existing system can be maintained over the long term. South Africa therefore faces the challenge of making higher education accessible to students who cannot afford it while ensuring that the cost of financial assistance does not place excessive pressure on public finances. This essay examines the challenges facing the current student-financing system, considers international experiences from Australia, Germany and New Zealand, and explores how a combination of government grants, income-contingent loans and alternative funding partnerships could improve access while promoting fiscal sustainability.

2. The South African Student-Financing Landscape

2.1 The role of NSFAS in higher education

The National Student Financial Aid Scheme (NSFAS) is one of the main ways in which the South African government supports students who cannot afford the cost of higher education. Established under the NSFAS Act of 1999, the scheme provides financial assistance to eligible students attending public universities and Technical and Vocational Education and Training (TVET) colleges. This assistance contributes towards tuition fees and other study-related expenses, including accommodation, transport, food and learning materials.

NSFAS has therefore played an important role in opening opportunities for students from financially disadvantaged households. Without financial assistance, many academically capable students would struggle to enter or complete higher education. However, the expansion of financial support has also increased the amount of funding required from government. According to NSFAS (2026), the revised student-funding allocation for 2025/26 was approximately R69.15 billion, compared with a budget allocation of approximately R54.09 billion for 2026/27. The difference should be interpreted carefully because the previous year's allocation included additional funding provided as a once-off intervention to address shortfalls.

These figures illustrate the financial demands associated with supporting many students. They also raise an important question: how can government continue expanding access to higher education while ensuring that funding remains available in future financial years?

2.2 The missing-middle problem

One of the major challenges within South Africa's student-financing system is the existence of the missing middle. This refers to students whose household income is too high to qualify for conventional government bursaries but is still insufficient to comfortably cover the cost of university or college education.

Garrod and Wildschut (2021) estimated that approximately 343,000 students fell within the missing-middle category in 2019. Their research estimated that providing full bursaries to all these students would have cost approximately R19.2 billion at 2019 prices. However, introducing a sliding scale of financial assistance could have reduced the estimated cost to R11.4 billion.

This finding is important because it demonstrates that students do not necessarily become financially secure simply because their household income exceeds a particular threshold. A household may earn above the NSFAS bursary threshold but still have several dependants, existing financial obligations and limited disposable income. As a result, students from these households may struggle to finance their studies without receiving assistance.

Whitelaw, Branson and Leibbrandt (2025) further argue that financial-aid eligibility should consider changes in household circumstances over time. A household's income may fluctuate because of unemployment, changes in employment or other financial difficulties. Assessing students only according to household income at the time of application may therefore fail to reflect their actual financial needs.

2.3 Financial and administrative challenges

The sustainability of student financing depends not only on how much money government allocates but also on how effectively that money is managed. Delayed payments, inaccurate student records, weak financial controls and administrative inefficiencies can affect the ability of students to access the assistance they have been approved for.

The challenges facing NSFAS have also raised concerns about financial accountability and institutional governance. When funding is not administered effectively, the benefits of public expenditure may be reduced, even when substantial amounts have been allocated. This makes it important to strengthen the institution responsible for managing student assistance.

Furthermore, the recovery of loans is an important consideration. Where student loans are not recovered effectively, the funds may not become available to support future students. A sustainable financing system must therefore consider both the initial allocation of financial assistance and the management of repayments over time.

3. The Economic and Fiscal Challenges of the Existing Model

3.1 Increasing demand and limited public resources

South Africa operates in an environment where government must manage several competing expenditure priorities. Apart from higher education, public resources are required for healthcare, basic education, infrastructure, social protection and debt-service payments. This means that increasing expenditure in one area may require difficult decisions about how resources are allocated elsewhere.

In economics, this is closely related to the concept of opportunity cost. When government allocates additional resources towards student financing, it must consider the alternative uses of those resources. However, this does not mean that higher education should receive less funding. Rather, it highlights the importance of ensuring that available resources are used effectively.

Investment in higher education can generate long-term economic benefits through improved skills, higher labour productivity and better employment opportunities. These benefits may contribute to economic growth and increase the country's future tax revenue. Therefore, reducing student funding without considering its longer-term effects could undermine the very development objectives that government seeks to achieve.

The challenge is consequently not simply to reduce the cost of student financing, but to develop a system that delivers the greatest possible social and economic benefits from the resources available.

3.2 The limitations of relying mainly on government grants

Government grants are particularly important for students from poor households because they provide financial assistance without creating a repayment obligation. For these students, taking on substantial education-related debt could make their financial circumstances even more difficult after graduation.

However, when the number of students requiring assistance increases, a system that depends mainly on non-repayable government funding can become difficult to sustain. Government must continue providing funding each year, while the resources allocated to previous beneficiaries are not necessarily recovered.

This raises the question of whether all students should receive the same type of financial assistance, regardless of their household circumstances. Students from extremely poor households may require full bursaries, while students from households with moderate incomes may be able to contribute towards a portion of their education costs once they enter employment.

A differentiated approach could therefore allow government to protect the poorest students while extending financial assistance to other students through alternative arrangements.

3.3 The consequences of inadequate student funding

The cost of higher education extends beyond tuition fees. Students also need accommodation, transport, food, textbooks, internet access and other resources to participate effectively in their studies. When these expenses are not adequately covered, students may struggle to remain enrolled or complete their qualifications.

This means that access to higher education should not be measured only by the number of students who receive admission or financial assistance. It should also consider whether students have sufficient support to complete their qualifications.

From an economic perspective, unsuccessful completion can reduce the return on public investment in education. Government may have already spent substantial resources supporting a student, but if that student cannot complete their studies, the expected benefits in terms of skills development and future employment may not be fully realised.

Student-financing policy should therefore focus on both access and successful completion. Financial assistance should be designed to help students enter higher education, remain enrolled and eventually contribute their skills to the economy.

4. International Experiences in Student Financing

Different countries have adopted different approaches to financing higher education. Some rely mainly on government-funded grants, while others combine grants with loans that are repaid after graduates enter employment. Examining these approaches can provide useful lessons for South Africa. However, international systems should not be copied without considering the country's own economic conditions, particularly its high unemployment rate and levels of income inequality.

4.1 Australia: Income-contingent student loans

Australia provides an important example through its Higher Education Loan Program, particularly the HECS-HELP system. Under this arrangement, eligible students can defer payment of their tuition contributions and repay their loans once their income exceeds a specified threshold.

An important feature of the system is that repayments are linked to income. Graduates who earn less are required to make smaller repayments, while those with higher incomes contribute more. Borrowers who earn below the repayment threshold are not required to make compulsory repayments during that period.

Chapman (2018) explains that Australia's income-contingent loan arrangement was introduced to reduce the immediate financial burden associated with higher education while allowing government to recover a portion of the cost after graduates enter the labour market.

This system offers a useful lesson for South Africa. Instead of requiring students to repay loans immediately after completing their studies, repayments could begin only when graduates earn enough to afford them. Such an arrangement could make higher education more accessible to students from households that cannot afford upfront tuition payments.

However, income-contingent loans are not without costs. Some graduates may remain unemployed, earn below the repayment threshold or never repay their full balances. Government must therefore account for the possibility that some of the money lent will not be recovered.

4.2 Germany: Combining grants and loans

Germany provides another approach through its Federal Training Assistance Act, commonly known as BAföG. The system provides financial assistance to eligible students based on their financial circumstances. Assistance generally combines a grant component with an interest-free loan component, rather than requiring students to finance their studies entirely through borrowing.

This approach is important because it recognises that students have different financial needs. Government contributes towards the cost of education, while beneficiaries may be required to repay part of the assistance they receive.

South Africa could draw lessons from this approach by combining bursaries and loans according to household income. Students from the poorest households should continue receiving non-repayable grants, while students who can reasonably contribute towards the cost of their studies could receive partial grants and subsidised loans.

However, the loan component should be structured carefully to prevent students from accumulating debt that they cannot realistically repay.

4.3 New Zealand: Income-linked repayments

New Zealand also operates a student-loan system in which repayments are linked to borrowers' income. Domestic borrowers generally make compulsory repayments once their income exceeds the applicable repayment threshold. The country's student loans have also been interest-free for domestic borrowers since 2006.

The New Zealand Ministry of Education (2025) reported that approximately NZ$1.701 billion was lent to students during the 2024/25 financial year, while repayments amounted to approximately NZ$1.563 billion. This resulted in a net cash outflow of approximately NZ$138 million.

These figures demonstrate that even a system with income-linked repayments does not necessarily recover all the money lent during a particular financial year. Government must still consider the cost of lending, the time required to recover repayments and the possibility that some borrowers will not repay their full balances.

For South Africa, this is an important lesson. Introducing student loans should not be presented as a solution that removes the financial responsibility of government. Instead, loans should be viewed as one component of a broader financing arrangement.

4.4 Lessons for South Africa

The experiences of Australia, Germany and New Zealand demonstrate that student financing can be organised in different ways while still pursuing the objectives of access and affordability.

Australia highlights the importance of linking repayments to graduates' income. Germany demonstrates the potential benefits of combining grants and loans, while New Zealand shows why governments must carefully monitor the financial cost and recovery of student loans.

The Organisation for Economic Co-operation and Development (OECD, 2025) also identifies considerable differences between countries in the way higher education is financed. These differences suggest that there is no single model that can be applied successfully everywhere.

South Africa should therefore develop a system that draws on international experience but is designed around its own economic circumstances. In particular, the country's high unemployment rate and unequal income distribution mean that repayment arrangements must protect graduates who are unable to secure employment or earn sufficient income.

5. Towards a Fiscally Sustainable Student-Financing Model for South Africa

The challenges discussed above suggest that South Africa requires a financing system that recognises the different financial circumstances of students. Rather than relying entirely on government grants or shifting the full cost of higher education onto students, a combination of funding arrangements could provide a more balanced solution.

The proposed model would consist of five main components: differentiated financial assistance, income-contingent loans, targeted bursaries, alternative funding partnerships and stronger institutional accountability.

5.1 Differentiating financial assistance according to household income

The first component should be a system in which the type and amount of financial assistance are determined by students' financial circumstances.

Students from the poorest households should continue receiving non-repayable government grants. These students are often unable to contribute towards their education costs, and requiring them to repay substantial loans could reinforce existing poverty and inequality.

Students from households with moderate incomes could receive a combination of partial grants and subsidised loans. This would allow government to extend assistance to a wider group without assuming the full cost of every student's education.

Garrod and Wildschut (2021) demonstrate the potential value of this approach through their estimated savings from introducing a sliding scale of assistance for the missing middle. Their findings suggest that financial support can be distributed according to household circumstances rather than applying the same funding arrangement to every student.

Eligibility assessments should also consider factors beyond annual household income. The number of dependants, unemployment, disability and changes in household financial circumstances could help provide a more realistic assessment of a family's ability to contribute towards education costs.

5.2 Introducing income-contingent loans for the missing middle

The second component should be an expanded income-contingent loan arrangement for students who do not qualify for full government bursaries but cannot independently afford higher education.

Under this arrangement, eligible students would receive financial assistance during their studies and begin repayments only after entering employment and earning above a specified income threshold. Repayment amounts could increase progressively with income, allowing graduates who earn more to contribute a larger amount towards their outstanding loans.

South Africa could draw on Australia's HECS-HELP arrangement when designing such a system. However, the repayment threshold must reflect local economic conditions. Given the country's unemployment levels and income inequality, graduates should not be expected to make repayments when they are unemployed or earning below the threshold.

The system should also include protections for graduates who experience prolonged unemployment, disability or other serious financial difficulties. This would help ensure that the financing arrangement does not become an additional source of financial hardship.

Importantly, income-contingent loans should complement government bursaries rather than replace them. Their main purpose should be to provide additional funding opportunities for the missing middle while allowing government to recover a portion of its investment over time.

5.3 Strengthening targeted bursaries and skills-based funding

Government should also strengthen targeted bursary programmes in areas where South Africa experiences significant skills shortages. These could include engineering, healthcare, teaching, mathematics, information technology and other technical fields identified through credible labour-market research.

Partnerships between government, SETAs, universities and employers could help finance these programmes. Employers could contribute towards tuition costs, provide work-integrated learning opportunities and offer mentorship or graduate employment opportunities.

Such arrangements could strengthen the relationship between higher education and the labour market while reducing some of the immediate financial pressure on government.

However, funding should not be restricted exclusively to qualifications that are considered commercially attractive. Higher education also contributes to research, public services and broader social development. Students pursuing other legitimate fields of study should therefore continue to have access to appropriate financial assistance.

5.4 Diversifying funding sources

Another important component is reducing the dependence of student financing on annual government transfers alone. Government could encourage greater participation from employers, development finance institutions, philanthropic organisations and private-sector institutions.

For example, businesses operating in industries with high demand for skilled workers could contribute towards education funds that support students studying in relevant fields. SETAs could also strengthen their role in financing education and training linked to occupational skills requirements.

These partnerships could provide additional resources while creating opportunities for students to gain practical experience and improve their employment prospects.

Nevertheless, private-sector contributions should complement rather than replace the government's responsibility for ensuring equitable access. If higher education financing depends too heavily on private interests, funding may become concentrated in qualifications and institutions that offer the greatest commercial returns. Government should therefore retain an oversight role to ensure that funding decisions remain fair and inclusive.

5.5 Improving governance and financial accountability

Finally, the success of the proposed model would depend on effective administration and financial accountability. NSFAS should strengthen its financial controls, student-verification processes, payment systems and reporting arrangements to ensure that funding reaches eligible students efficiently.

The recovery of income-contingent loans would also require reliable systems for monitoring graduates' earnings and managing repayments. South Africa could investigate cooperation between NSFAS and the South African Revenue Service (SARS), subject to appropriate legal safeguards for borrowers' personal and financial information.

Furthermore, NSFAS should regularly publish information on the number of funded students, the amount of financial assistance provided, administrative expenditure, loan repayments and student-completion rates. This would allow government and the public to assess whether available resources are being used effectively.

A sustainable financing model should also include clear arrangements for borrowers who experience unemployment, disability or other circumstances that prevent them from making repayments. Protecting these graduates is important because the purpose of student financing should be to create opportunities, not to leave students with financial obligations they cannot reasonably meet.

6. Conclusion

South Africa's student-financing challenge lies in finding a balance between expanding access to higher education and managing the financial demands placed on government. Although NSFAS has helped many students access tertiary education, the missing-middle funding gap, increasing demand and administrative challenges demonstrate the need to strengthen the existing system. International experience shows that grants and income-contingent loans can be combined to distribute the cost of higher education more effectively. However, these arrangements must be adapted to South Africa's economic conditions, particularly its unemployment and income inequality challenges. A differentiated financing model that protects the poorest students through grants, provides income-contingent loans to the missing middle and encourages additional funding partnerships offers a possible way forward. Ultimately, fiscal sustainability should not simply mean reducing government expenditure. It should mean using available resources responsibly while ensuring that financially disadvantaged students are not prevented from obtaining the education and skills needed to participate in the economy.

7. Recommendations

Based on the analysis, the following recommendations are proposed:

1. **Maintain government grants for the poorest students.** Non-repayable assistance should remain available to financially disadvantaged students to prevent education-related debt from reinforcing poverty and inequality.
2. **Expand income-contingent loans for the missing middle.** Students who cannot afford higher education but do not qualify for full bursaries should have access to loans that are repaid only after their income exceeds a specified threshold.
3. **Introduce a sliding scale of financial assistance.** Funding should reflect household income and financial vulnerability rather than relying exclusively on rigid income categories.
4. **Strengthen partnerships with employers and SETAs.** Private-sector organisations and skills-development institutions should be encouraged to contribute towards targeted bursaries, practical training and graduate employment opportunities.
5. **Improve NSFAS governance and accountability.** Stronger financial controls, verification processes and public reporting are necessary to ensure that funding reaches eligible students and is used effectively.
6. **Develop a reliable loan-recovery system.** Government should investigate appropriate cooperation between NSFAS and SARS to facilitate income-based repayments while protecting borrowers' personal information.
7. **Monitor student outcomes.** Government should regularly evaluate student retention, qualification completion, graduate employment and loan-repayment performance to determine whether the financing model is achieving its objectives.

References

Chapman, B. 2018. 'HECS: A hybrid model for higher-education financing'. In: Fabian, M. and Breunig, R. (eds.) Hybrid Public Policy Innovations: Contemporary Public Policy Beyond Ideology. London: Routledge.

Garrod, N. and Wildschut, A. 2021. 'How large is the missing middle and what would it cost to fund?', Development Southern Africa, 38(3), pp. 484–491. https://doi.org/10.1080/0376835X.2020.1796594.

Ministry of Education, New Zealand. 2025. Student Loan Scheme Annual Report 2024/25. Wellington: Ministry of Education. Official report.

National Student Financial Aid Scheme (NSFAS). 2026. Annual Performance Plan 2026/27. Pretoria: NSFAS. NSFAS Annual Performance Plans.

Organisation for Economic Co-operation and Development (OECD). 2025. Education at a Glance 2025: OECD Indicators. Paris: OECD.

Whitelaw, E., Branson, N. and Leibbrandt, M. 2025. 'A dynamic perspective on profiling financial-aid eligibility: The case of South Africa', Journal of Social Policy, 54(4), pp. 1047–1071. https://doi.org/10.1017/S0047279423000636