

Building a Fiscally Sustainable Student-Financing Model for South Africa: Lessons from England, Germany and China.

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1. Introduction

This essay examines South Africa's student-financing challenge, considers the economic rationale for public support and evaluates lessons from England, Germany and China. It argues that international experience suggests that South Africa should not simply choose between grants and loans. Instead, the country requires a financing framework that combines targeted public subsidies with mechanisms for repayment according to graduates' ability to pay. Higher education is an important investment in human capital because it can improve individuals' skills, productivity and future earning potential. However, expanding access to higher education also creates a substantial financing obligation for government. South Africa therefore faces a difficult policy problem: how can the state expand access to higher education for financially disadvantaged students without creating a student-financing system that places an unsustainable burden on public finances? The debate is not new. Department of Higher Education and Training, (2010) argued that higher education policy must simultaneously consider the right of access and the contribution of higher education to the country's skills base and economic development. South Africa's challenge has become more significant as public expenditure on student support has expanded. At the same time, the country faces competing demands for limited public resources. The issue is therefore not whether government should support higher education, but how student financing can be designed to balance access, equity, affordability and fiscal sustainability.

2. South Africa's Student-Financing Challenge

"The government funded National Student (NSFAS) in South Africa provides financial assistance to low-income university students" (Pillay, Bhorat and Asmal, 2021, p.171). Its role has therefore been important in expanding participation among students from poor and working-class households. Research by Mbhalati (2024) similarly finds that equity-based funding mechanisms such as NSFAS play an important role in ensuring that students from disadvantaged households are not excluded from university education because of their financial circumstances. However, the expansion of student funding has created a growing fiscal commitment. NSFAS's financial requirements have increased considerably over time, while problems concerning administration, student debt and funding sustainability have continued. A 2026 parliamentary statement reported that outstanding student debt across the post-school education system had reached approximately R59 billion, with NSFAS-funded students accounting for about R29 billion of this amount (Parliament of South Africa, 2026). The fiscal problem is therefore broader than the amount allocated to NSFAS. Public expenditure has an opportunity cost: resources devoted to student financing cannot simultaneously be used for other public priorities. At the same time, reducing student support can impose social and economic costs by limiting access to education. Klein (2024) argues that higher-education funding has remained a persistent challenge in South Africa since 1994 and highlights the tension between political expectations of expanded access and the resources available to finance those expectations. This suggests that a sustainable model must consider not only how much government spends, but also how the financing burden is distributed between government, students and graduates.

3. Economic Rationale for Government Support.

There is an economic justification for government intervention in higher education. Education generates private benefits for graduates through increased skills and potential earnings, but it may also generate wider social benefits through productivity, innovation and economic participation. Consequently, relying entirely on households to finance higher education can restrict access for students whose families cannot afford tuition and living costs. The Ministerial Review Committee on NSFAS recognised the importance of considering both the private and public benefits of tertiary education when assessing public investment (Department of Higher Education and Training, 2010). However, the existence of positive social benefits does not mean that all higher education should necessarily be financed through permanent government grants. This distinction is important for fiscal sustainability. A grant represents expenditure that does not normally return directly to the public budget, whereas a loan creates the possibility that some of the initial public financing can be recovered. Therefore, the economic question is not simply whether government should fund students. It is which students should receive grants, which students should receive loans, and under what repayment conditions.

4. International Experience

4.1. England: Income-Contingent Repayment

England provides an important example of income-contingent student financing. Under Plan 5, introduced for students beginning courses from August 2023, borrowers repay 9% of income above the applicable threshold. The first Plan 5 borrowers became liable for repayment in April 2026 (Department for Education, 2026). The economic advantage of income-contingent repayment is that repayment is linked to the borrower's ability to pay. A graduate earning below the threshold does not make the same repayment as a graduate with substantially higher earnings. This reduces the immediate financial burden on low-income graduates. Academic literature provides theoretical support for this principle. Findeisen and Sachs (2016) find that education-finance systems incorporating income-contingent repayment can be designed to integrate education finance with taxation, while simple repayment schedules linked to income can approximate more complex optimal arrangements. However, England also demonstrates that income-contingent loans are not automatically fiscally costless. In 2025/26, higher-education borrowers repaid approximately £5.3 billion, but only 51.1% of borrowers liable to repay made a repayment during the year (Department for Education, 2026). Furthermore, official forecasts indicate that only around 55% of full-time undergraduate borrowers starting in 2025/26 are expected to repay their loans in full (Department for Education, 2026). This is important for South Africa. An income-contingent system can protect graduates from unaffordable repayments, but government must recognise that some loans will not be fully recovered. Nerlove (1975) similarly cautioned that the financial viability of income-contingent loan systems depends on actual borrower behaviour and the economic characteristics of graduates.

4.2. Germany: Combining Grants and Loans

Germany provides a different model through BAföG approach that combines grant and loan elements. The German government describes the system as providing financial assistance through a combination of non-repayable support and an interest-free loan component (Federal Government of Germany, n.d.). The important principle is cost-sharing. Government provides substantial assistance to students who need it, while part of the financing can be recovered. This creates a distinction between students who require strong public subsidy and students who have some capacity to contribute towards the cost of their education. For South Africa, the relevance of the German model lies less in copying its precise rules and more in recognising that a financing system can combine redistribution with cost recovery. Such a system could protect students with the greatest financial need while reducing the extent to which every rand of student support becomes a permanent fiscal cost.

4.3. China: Scale and Multiple Financing Instruments

China demonstrates the use of multiple student-financing instruments on a large scale. China's Ministry of Education reported that national student financial-aid expenditure exceeded 390 billion Yuan in 2025, while national student loans reached approximately ¥127.7 billion (Ministry of Education of the People's Republic of China, 2026). China also increased the annual national student-loan limits to ¥20,000 Yuan for undergraduate students and ¥25,000 Yuan for postgraduate students (Ministry of Education of the People's Republic of China, 2024). The Chinese experience demonstrates that student financing can operate through multiple instruments rather than relying on a single funding mechanism. South African finance system can draw a lesson from China's financing mechanism by shifting from single channel to a multi-tiered system.

5. Implications for South Africa

However, these models cannot simply be transferred to South Africa because the country's unemployment, inequality and administrative conditions are different. This issue is particularly important because unemployment affects the ability of graduates to repay loans. South Africa therefore needs a system that protects graduates during periods of low income while still recovering financing from those who subsequently have sufficient earnings. Motala et al. (2023) note that South Africa's student-financing debate involves competing concerns around justice, equity and sustainability, while also identifying administrative deficiencies, underfunding and high non-completion rates as weaknesses associated with the existing system. The evidence therefore suggests that fiscal sustainability should not simply mean reducing the amount of money allocated to students. Instead, sustainability should mean designing a system where public resources are targeted effectively, educational completion is improved and an appropriate proportion of recoverable financing returns to the system.

6. Conclusion

South Africa faces a trade-off between expanding higher-education access and maintaining fiscal sustainability. Public financing supports human-capital development and equity, but increasing fiscal pressures require a more efficient financing model. International evidence provides useful principles. England demonstrates income-contingent repayment, Germany combines grants and loans, while China uses multiple financing instruments at scale. However, these models cannot be directly replicated because South Africa faces different levels of unemployment, inequality and administrative capacity. The evidence therefore supports a differentiated financing approach that considers financial need and repayment capacity. Such a model can protect access for disadvantaged students while reducing the long-term fiscal burden on government through targeted support and partial cost recovery.

7. Recommendations

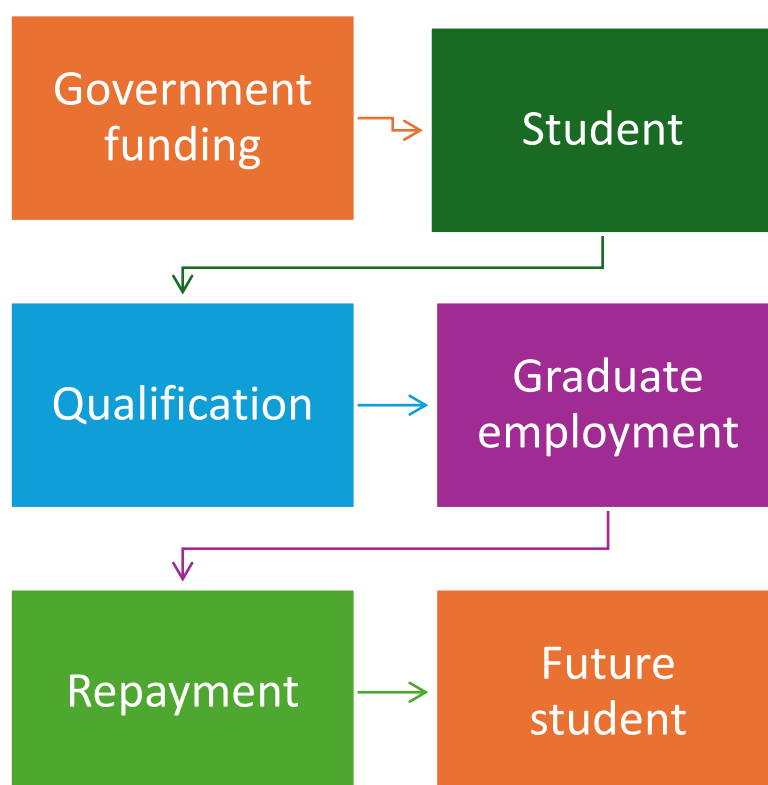
The model seeks to improve access while reducing the government's long-term net fiscal burden through targeted grants and recoverable income-contingent loans. The purpose of this model would not be to eliminate government responsibility for higher education. Instead, it would redistribute the financing burden according to financial need and repayment capacity. In this way, South Africa could pursue the two objectives that are often presented as conflicting: widening access to higher education and protecting the long-term sustainability of public finances.

7.1. Students with the greatest financial need should continue to receive predominantly grant-based support. This would protect the access and equity objectives of public financing. Students with moderate financial need could receive a combination of grants and income-contingent loans, while students with greater household financial capacity could contribute a larger share of their education costs.

7.2. The loan component should use an income-contingent repayment mechanism. Instead of requiring graduates to make a fixed repayment regardless of their circumstances, repayment should begin only once income exceeds a defined threshold.

7.3. Government should develop a partially revolving student-financing fund. reduce the fiscal burden by recycling public funds to finance future student cohorts

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7.4. Repayment should be suspended when graduates earn below the defined threshold. This would protect unemployed and low-income graduates from excessive financial pressure while maintaining repayment obligations for graduates who have sufficient earnings.

7.5. Student financing should be linked to academic-support interventions. Government and universities should strengthen tutoring, academic advising and early-warning systems because fiscal sustainability also depends on whether publicly financed students successfully complete their qualifications. Financing a student who does not complete a qualification may generate a weaker economic return than financing a student who graduates and enters productive employment.

7.6. Government should strengthen the administration of student financing. Accurate information on household income, student registration, academic progression and graduate earnings would improve targeting and repayment. The experiences of England and China demonstrate the importance of administrative systems for income-linked repayment and student-aid targeting.

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