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A Shared Investment in South Africa's Future: Rethinking the Financing of Higher Education

1. Introduction

Access to higher education is often viewed as an individual opportunity, but its benefits extend beyond the person obtaining a qualification. A more educated population can contribute to a skilled workforce, higher productivity, innovation and economic growth. In South Africa, however, the cost of studying remains a major obstacle for many young people, particularly those from low-income households. Government has attempted to address this through the National Student Financial Aid Scheme (NSFAS), but growing demand for financial assistance has placed pressure on the public purse. The challenge is therefore not simply to increase student funding, but to develop a system that can continue supporting students without becoming financially unsustainable. This essay argues that South Africa should move towards a shared-responsibility financing model in which government protects access for disadvantaged students, graduates contribute towards the cost of their education when their incomes allow, and employers and other funding partners support the development of skills. International experiences from Australia, Germany and New Zealand offer useful lessons for designing such a system.

2. Higher education financing as a shared economic responsibility

Higher education requires substantial financial resources. These include tuition fees, accommodation, meals, transport, textbooks, learning materials and other costs associated with completing a qualification. For households with limited incomes, meeting these expenses can be difficult even when students qualify academically for university admission.

From an economic perspective, education is an investment in human capital. Individuals acquire knowledge and skills that can improve their future employment opportunities and earning potential. However, society also benefits through a more productive workforce, increased tax revenue and improved economic participation. This means that the responsibility for financing higher education should not rest entirely on students and their families.

Government funding remains necessary because access to education should not depend solely on a household's ability to pay. At the same time, relying almost exclusively on government grants creates challenges when the number of qualifying students grows faster than the resources available. A more balanced approach would recognise that the state, graduates and the private sector all benefit from a well-educated population and can therefore contribute in different ways.

The purpose of a sustainable financing model should consequently be to distribute the costs of higher education fairly. Students from the poorest households should not be excluded because of their financial circumstances, while graduates who benefit from their qualifications should be able to contribute towards the system once they are financially capable.

3. The pressures facing South Africa's current student-financing system

3.1 Growing demand and limited public resources

NSFAS plays an important role in widening access to universities and Technical and Vocational Education and Training (TVET) colleges. According to the Department of Higher Education and Training (DHET, 2026), NSFAS supported 812,618 students in 2024, including 549,190 university students and 263,428 TVET students. These figures demonstrate the importance of public financial assistance in enabling students from disadvantaged backgrounds to participate in post-school education.

However, the number of students requiring support places increasing pressure on government expenditure. NSFAS's 2026/27 Annual Performance Plan reports a student-funding allocation of approximately R69.1 billion for 2025/26, compared with R54.1 billion for 2026/27. The plan explains that the difference is largely associated with once-off reprioritised funding provided to address the previous bursary shortfall, rather than simply representing a reduction in the underlying funding commitment (NSFAS, 2026).

This illustrates the difficulty of maintaining a funding system that must respond to growing demand while operating within the government's broader budget constraints. Public finances must also support healthcare, basic education, infrastructure, social protection and other essential services. Student funding therefore competes with other important spending priorities.

The solution should not be to reduce access to higher education. Instead, South Africa needs to consider how funding can be distributed more efficiently and how some of the costs can be recovered without placing unreasonable pressure on graduates.

3.2 The missing-middle funding gap

One of the weaknesses in the current financing landscape is the position of students who fall outside the eligibility requirements for full NSFAS support, but whose families cannot afford university fees. These students are commonly described as the missing middle.

Their financial circumstances are particularly difficult because they may not qualify for government bursaries, yet they may also be unable to obtain affordable commercial loans. This creates a gap between students who receive substantial public assistance and those who can finance their education privately.

Government has recognised this challenge through the development of a comprehensive student funding model. In 2024, the first phase of the missing-middle funding initiative was supported by an initial R3.8 billion capitalisation commitment, consisting of contributions from the National Skills Fund and Sector Education and Training Authorities (SETAs). The stated intention was to assist students who could not access ordinary NSFAS bursaries but still required financial support (DHET, 2024).

However, the existence of a funding initiative does not automatically mean that the problem has been resolved. The DHET's 2026/27 Annual Performance Plan indicates that the missing-middle funding framework still requires further development and expansion (DHET, 2026). This suggests that South Africa needs a financing system that does not rely on a single funding category to accommodate students with very different financial circumstances.

3.3 The cost of poor financial management

Financial sustainability is not determined only by how much money government allocates. It also depends on whether the available resources are managed properly.

When funding decisions are delayed, student allowances are paid late or institutions experience uncertainty about payments, students may struggle to remain registered and complete their studies. Poor administration can therefore undermine the purpose of the money being spent.

The NSFAS 2026/27 Annual Performance Plan acknowledges historical weaknesses involving governance, audit outcomes, information systems and the administration of student funding. It also identifies a non-performing loan book of approximately R44 billion, highlighting the importance of improving loan administration and recovery processes (NSFAS, 2026).

This raises an important point: a funding model cannot become sustainable simply by introducing loans or increasing the budget. It must also have reliable systems for identifying eligible students, distributing funds, monitoring academic progress and collecting repayments where applicable. Better administration is therefore an economic requirement, not merely an institutional improvement.

4. International experience: What can South Africa learn?

International examples demonstrate that countries can organise student financing in different ways. However, these models operate within different economic conditions, labour markets and public-finance systems. South Africa should therefore adapt useful principles rather than copy another country's arrangements without considering local circumstances.

4.1 Australia: Repayment based on future income

Australia provides an important example through its Higher Education Loan Program (HELP), which includes income-contingent student loans. Under this arrangement, eligible students can defer certain education costs and repay their loans once their earnings reach a specified income level.

The main advantage is that repayment is linked to the graduate's ability to pay rather than being based on a fixed monthly instalment. This reduces the risk that a graduate who is unemployed or earns a low income will face an unaffordable repayment obligation.

Australia has continued to adjust its repayment system. From the 2025–26 income year, compulsory repayments are calculated using marginal rates, meaning that repayments are based on income earned above the minimum repayment threshold rather than applying a repayment rate to the graduate's entire income (Australian Taxation Office, 2026).

This approach offers a useful lesson for South Africa. Graduates should not be expected to repay student loans immediately after completing their qualifications, especially in a labour market characterised by high unemployment and unequal earning opportunities. Repayments should begin only once a graduate earns above an appropriate threshold. The threshold should also be reviewed regularly to account for inflation and changes in living costs.

Nevertheless, Australia's system is not without challenges. Student debt can increase when indexation exceeds income growth, and graduates may remain indebted for extended periods. Chapman (2024) highlights the importance of protecting borrowers against repayment hardship. South Africa would therefore need to ensure that its loan model includes safeguards for unemployment, low earnings and other periods of financial difficulty.

4.2 Germany: Combining grants and loans

Germany offers another useful example through its Federal Training Assistance Act, commonly known as BAföG. Under the student-support arrangement described by the German government, eligible students generally receive half of their assistance as a grant and half as an interest-free loan. Repayment is limited, and students who do not earn enough can apply for a deferment (Federal Government of Germany, n.d.).

The strength of this approach is that students receive meaningful financial assistance without the entire amount becoming a debt. The grant component protects access, while the loan component allows some of the funding to return to the system.

South Africa could apply a similar principle by combining non-repayable bursaries with limited loans for students who have some financial capacity but cannot afford the full cost of studying. The

proportion of grant and loan support could depend on household income, rather than treating every student in the same way.

However, Germany's system operates within a different economic and institutional environment. South Africa would need to consider its own unemployment levels, household poverty and administrative capacity before determining how much students should repay.

4.3 New Zealand: The importance of repayment administration

New Zealand provides a further example of income-linked student loans. Its student loan system allows eligible students to borrow towards the cost of tertiary education, with repayments linked to income for borrowers living and working in New Zealand.

The Student Loan Scheme Annual Report 2024/25 recorded approximately NZ$1.6 billion in repayments during that financial year. However, it also reported that 104,406 borrowers had overdue repayments, with 82% of these borrowers living overseas (New Zealand Ministry of Education, 2025).

This highlights an important limitation of loan-based financing. Even when repayment rules are linked to income, governments may struggle to recover money from graduates who move abroad or fall outside effective collection arrangements.

For South Africa, this means that a student-loan model should be supported by strong administrative systems and appropriate cooperation between relevant institutions. Repayment arrangements should be transparent, legally sound and designed to minimise unnecessary administrative costs. The country should also recognise that not every loan will be fully recovered, meaning that government must still budget for the risk of non-repayment.

5. Towards a shared-responsibility financing model for South Africa

The international examples suggest that no single financing method can address all the challenges facing South Africa. A more appropriate approach would combine grants, income-contingent loans and contributions from other stakeholders. The model should be based on the principle that financial support must reflect both a student's circumstances and the potential benefits of higher education.

5.1 Protecting grant funding for the poorest students

Government should continue providing non-repayable bursaries to students from poor and vulnerable households. These students are often least able to contribute towards the cost of their education, even after graduation, particularly when they face unemployment or enter low-paying occupations.

For this group, introducing compulsory loans could create a barrier to access and discourage students from pursuing higher education. Grant funding should therefore remain the foundation of the financing system for the poorest households.

The funding provided should also recognise that tuition fees are not the only obstacle to completing a qualification. Accommodation, meals, transport, textbooks and learning materials are essential expenses. A student who receives assistance with tuition but cannot afford basic living costs may still struggle to complete their studies.

5.2 Introducing affordable income-contingent loans

For students in the missing middle, South Africa should gradually expand an income-contingent loan system. Unlike ordinary commercial loans, these loans should not require graduates to make fixed repayments regardless of their financial position.

Repayments should only begin when a graduate's income exceeds a clearly defined threshold. The amount repaid should increase gradually as income rises. Graduates who are unemployed or earn below the threshold should not be required to make compulsory repayments during that period.

The South African Revenue Service (SARS) could play an important role in administering repayments through the tax system, subject to appropriate legislation, data-protection safeguards and institutional cooperation. This would reduce the need for graduates to make separate monthly payments and could improve the accuracy of income verification.

Importantly, the loan system should not be designed around the assumption that every student will obtain a high-paying job. South Africa's labour-market conditions mean that some graduates will take longer to find employment, while others may enter occupations with relatively low starting salaries. Repayment thresholds and rates should therefore be reviewed regularly to protect borrowers from excessive financial pressure.

5.3 Building partnerships with employers and SETAs

The private sector also has a role to play in developing the skills required by the economy. Employers benefit from access to qualified workers, while SETAs already have a mandate to support skills development.

Government should therefore strengthen partnerships between universities, TVET colleges, SETAs and employers. These partnerships could provide bursaries, workplace training opportunities, internships and graduate development programmes in areas where skills shortages have been identified.

For example, employers in sectors such as engineering, information technology, healthcare, energy and financial services could contribute towards the education of students studying relevant qualifications. In return, they could participate in structured workplace training and recruitment programmes.

However, these partnerships should not become a substitute for the state's responsibility to support disadvantaged students. Funding should also not be limited only to qualifications that are immediately profitable to private companies. South Africa still needs teachers, social workers, researchers and other professionals whose contributions to society may not always be reflected in private-sector returns.

5.4 Improving governance and accountability

A sustainable financing model requires public confidence that funding is allocated fairly and used for its intended purpose. NSFAS should strengthen its systems for verifying household income, confirming student registration, processing applications and monitoring payments.

The funding process should also be transparent. Students should receive clear explanations when applications are rejected, together with accessible appeal procedures. Institutions should be able to reconcile funding information with NSFAS efficiently to reduce delays and incorrect payments.

In addition, government should publish regular reports on the number of students funded, the cost per beneficiary, loan repayments, outstanding debt and the proportion of students who complete

their qualifications. These indicators would make it easier to assess whether the financing system is achieving its objectives.

Better governance could improve the impact of existing expenditure. In other words, fiscal sustainability is not only about finding additional money; it is also about ensuring that the money already available produces meaningful educational and economic outcomes.

6. Conclusion

South Africa's student-financing challenge requires more than an increase in government spending or the introduction of student loans. It requires a system that recognises the different financial circumstances of students while distributing the costs of higher education more fairly. The experiences of Australia, Germany and New Zealand demonstrate that income-contingent repayments, a combination of grants and loans, and effective repayment administration can contribute towards a more sustainable approach. However, these models also show that loan financing carries risks, particularly when graduates experience unemployment, earn low incomes or move abroad.

South Africa should therefore adopt a shared-responsibility model that protects grant funding for the poorest students, provides affordable income-contingent loans for the missing middle and encourages responsible partnerships with employers and SETAs. These measures must be supported by stronger governance and reliable administration. Ultimately, the purpose of student financing should not be to recover every rand spent on education at any cost. It should be to expand access, improve completion rates and develop the human capital needed for long-term economic growth, while ensuring that public resources can continue supporting future generations.

7. Recommendations

1. **Retain non-repayable grants for the poorest students.** Government should protect bursary support for students whose household circumstances make repayment unrealistic.
2. **Expand income-contingent loans for the missing middle.** Repayments should begin only when graduates earn above a defined income threshold and should increase progressively as their earnings improve.
3. **Establish a clear repayment framework.** Government should work with SARS and relevant institutions to develop a transparent, efficient repayment system with safeguards for unemployment and low-income graduates.
4. **Strengthen partnerships with employers and SETAs.** Private-sector contributions should support bursaries, internships and workplace training in areas where the economy requires additional skills.
5. **Improve NSFAS governance and accountability.** Funding decisions, disbursements and loan repayments should be supported by reliable information systems, regular reporting and effective oversight.
6. **Measure the success of funding beyond the number of students supported.** Government should monitor student retention, qualification completion, graduate employment and the long-term recovery of loan funding.

7. **Review the financing model regularly.** Repayment thresholds, household-income categories and funding allocations should be adjusted in response to inflation, labour-market conditions and changes in the cost of higher education.

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