Entry #1785

Rethinking Student Financing in South Africa: Towards a More Sustainable Higher Education System

1. Introduction

Higher education plays an important role in reducing inequality, creating employment opportunities and improving people's quality of life. In South Africa, however, access to university education is still strongly influenced by a person's financial background. While students from wealthy families can generally afford university fees, those from disadvantaged households often depend on government assistance to pursue their studies. This raises an important question: how can South Africa make higher education accessible to more students without placing too much financial pressure on the government?

The National Student Financial Aid Scheme (NSFAS) has helped thousands of students who would otherwise struggle to afford university. However, increasing demand, limited funding and administrative challenges have raised concerns about the long-term sustainability of the system.

Rather than removing financial support, South Africa needs to reconsider how higher education is funded. This essay proposes a hybrid student-financing model that combines government bursaries, income-contingent loans, private-sector partnerships and improved financial accountability. International examples from Australia and Germany show how different funding approaches can help make higher education more accessible and financially sustainable.

2. Challenges facing South Africa's current student-financing system

Demand for student financial assistance has increased significantly over the years. According to the Government Technical Advisory Centre's Statistics on Post-School Education and Training in South Africa 2024, NSFAS funding reached approximately R50.5 billion in 2024, benefiting 812,618 students. These figures demonstrate the importance of government support but also highlight the high cost of maintaining the system.

Government must balance student funding with other important responsibilities, including healthcare, infrastructure, housing and social protection. Therefore, continuously increasing student funding through additional government spending may not be financially sustainable.

Another major concern is the so-called 'missing middle'. These are students whose household incomes are too high to qualify for NSFAS but still too low to afford university fees, accommodation, transport and textbooks. As a result, many students in this category struggle to continue their studies.

Administrative problems also affect the effectiveness of student funding. Delayed payments, application verification difficulties and accommodation allowance disputes can create unnecessary stress and interrupt students' academic progress.

South Africa therefore needs a funding system that supports students according to their financial circumstances while ensuring that public money is managed responsibly.

3. International experiences and lessons for South Africa

3.1 Australia's income-contingent loan system

Australia provides a useful example of how student loans can be linked to graduates' future earnings. Through its Higher Education Loan Program (HELP), eligible students receive government-supported loans to cover university tuition fees.

One of the system's main advantages is that graduates only begin making compulsory repayments once their income reaches a specific threshold. Repayments are collected through the tax system.

According to the Australian Taxation Office, the repayment threshold for 2026–2027 is AUD69,528. Graduates earning below this amount are not required to make compulsory repayments.

This approach recognises that graduates have different financial circumstances after completing their studies. Someone who is unemployed or earns a low salary should not face the same repayment responsibilities as someone earning significantly more.

South Africa could introduce a similar system for students who do not qualify for full bursaries but still require financial assistance. Repayments would only begin once graduates earn above a nationally determined income threshold.

However, this approach would require reliable income records, effective tax administration and reasonable repayment conditions to prevent graduates from accumulating unmanageable debt.

3.2 Germany's combination of public funding and student assistance

Germany offers another useful example of student financing. Its higher education system places considerable emphasis on publicly supported universities and financial assistance for students from lower-income households.

Through the Federal Training Assistance Act, commonly known as BAföG, eligible students receive financial support to help cover their education expenses. Depending on their circumstances, this assistance includes grants and interest-free loans.

An important lesson from Germany is that students should not have to rely entirely on borrowing money to access higher education. Government assistance remains essential, particularly for those from financially disadvantaged backgrounds.

This is especially relevant to South Africa, where unemployment and income inequality remain major challenges. Introducing a system that relies too heavily on student loans could make higher education less accessible to vulnerable students.

Germany therefore demonstrates the importance of maintaining government bursaries while introducing additional funding options for students who have a greater ability to repay assistance.

4. A proposed hybrid student-financing model for South Africa

South Africa could introduce a National Hybrid Student Financing Model (NHSFM). Rather than completely replacing NSFAS, this model would build on its existing structure while introducing additional sources of funding.

The proposed model would consist of four main components.

4.1 Targeted government bursaries

Government bursaries should remain the foundation of student financial assistance. Students from extremely poor households should continue receiving support that covers tuition, accommodation and essential study expenses.

However, eligibility assessments should be regularly reviewed to ensure that funding reaches those who need it most. There should also be some flexibility when assessing household income. Students should not automatically lose financial assistance because their family's income increases slightly above the qualifying threshold.

Instead, support could gradually decrease as household income increases. This would create a fairer system and prevent students from suddenly losing access to funding.

4.2 Income-contingent student loans

The second component would address the missing-middle problem. Students whose household incomes exceed the bursary eligibility limit but who cannot afford university independently should qualify for government-supported loans.

Repayments would only begin once graduates earn above a predetermined income threshold. Contributions could increase as their salaries improve, rather than requiring everyone to pay the same fixed amount.

The South African Revenue Service (SARS) could assist with collecting repayments through the existing tax system, subject to appropriate legislation and data-protection safeguards.

Interest rates and loan increases would also need to be carefully regulated to prevent graduates from accumulating excessive debt. Money recovered through repayments could then be redirected towards supporting future students.

4.3 Private-sector partnerships

Businesses also have an important role to play in supporting higher education. Companies depend on skilled employees, yet much of the responsibility for financing university education currently falls on government and students' families.

Government could encourage businesses to contribute through scholarships, bursaries, internships and graduate development programmes.

For example, companies in engineering, information technology, healthcare, finance and renewable energy could support students studying towards qualifications in these fields. In return, businesses could offer mentorship, practical experience and graduate employment opportunities.

This would benefit both students and employers by helping develop skills that are needed in the economy. However, private-sector contributions should supplement government funding rather than replace its responsibility to provide equal educational opportunities.

4.4 Improved governance and financial accountability

A sustainable funding system also depends on effective administration. Providing more money will not solve existing problems if that money is not managed properly.

NSFAS should strengthen its application verification, payment processes, procurement controls and financial monitoring. A centralised digital platform connecting NSFAS, universities, SARS and relevant government departments could improve information-sharing and reduce administrative delays.

Regular performance reports should also be published, showing how funding is spent, how many students receive assistance, administrative costs and the amount recovered through loan repayments.

Independent audits would help identify financial problems and improve public confidence in the organisation.

5. Economic and social benefits of the proposed model

Introducing a hybrid financing model could benefit both the economy and society.

Firstly, it would help government manage public spending more effectively. Instead of providing every student with the same type of assistance, funding could be allocated according to financial need and repayment capacity.

Secondly, income-contingent loans would allow graduates who become financially stable to contribute towards educating future generations. This would help recover part of the government's investment and make funding available to other students.

Thirdly, private-sector partnerships could strengthen the relationship between universities and the labour market. Businesses could help identify skills shortages and encourage students to pursue qualifications that are relevant to the economy.

Finally, improved access to higher education could contribute to reducing unemployment and inequality. A more educated workforce has the potential to increase productivity, encourage innovation and strengthen South Africa's economic competitiveness.

However, the proposed system would also face challenges. South Africa's high unemployment rate could make it difficult for graduates to repay their loans. Those working in the informal sector may also be difficult to track through conventional tax systems.

Government should therefore avoid treating future loan repayments as guaranteed income. Financial projections must be realistic, and graduates experiencing unemployment or financial hardship should receive appropriate protection.

A gradual introduction would allow government to test the system, identify weaknesses and make improvements before expanding it nationally.

6. Recommendations for implementation

To make the proposed model successful, South Africa should consider the following measures:

1. Review the current NSFAS system: Evaluate existing funding arrangements, administrative costs and eligibility requirements to identify areas that need improvement.

2. Introduce income-contingent loans: Start with missing-middle students and introduce repayment conditions based on graduate earnings.

3. Protect disadvantaged students: Maintain full bursaries for students from extremely poor households to ensure that financial difficulties do not prevent access to education.

4. Encourage private-sector involvement: Create opportunities for businesses to contribute through bursaries, scholarships and graduate development programmes.

5. Improve financial management: Strengthen digital systems, information-sharing and payment processes to reduce errors and delays.

6. Monitor long-term sustainability: Publish annual reports evaluating student funding, graduate employment, loan repayments and the financial performance of the system.

These measures would allow South Africa to develop a more diversified funding structure without suddenly removing existing student support.

7. Conclusion

The future of higher education in South Africa depends not only on how many students can enter universities but also on whether the country can afford to maintain these opportunities over time.

NSFAS has played an important role in addressing educational inequality and helping thousands of students access higher education. However, increasing demand and pressure on government spending show that the current funding system needs to be reconsidered.

The experiences of Australia and Germany demonstrate that higher education does not have to rely entirely on government bursaries or private borrowing. A combination of public support, income-contingent loans and shared financial responsibility could provide a more balanced approach.

South Africa should therefore consider introducing a hybrid student-financing model that protects vulnerable students, supports the missing middle, encourages private-sector investment and improves financial accountability.

Ultimately, higher education should be viewed as both a social investment and an economic priority. The goal should not simply be to spend more money on student funding, but to ensure that every rand invested creates meaningful educational and economic opportunities.

A financially sustainable funding system would allow more South Africans to pursue higher education while protecting the country’s broader financial stability. Investing in students today is an investment in the country’s future.