Budget Speech Competition

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Funding Higher Education in South Africa: Balancing Access and Fiscal Sustainability

1. INTRODUCTION

Access to higher education is critical for addressing many of South Africa's challenges. However, the balance between enhancing access whilst maintaining fiscal sustainability remains a challenge for government. The current student-financing model has made important progress in enhancing access to higher education, but challenges with student debt, administrative inefficiencies and inadequate student success highlight the need for reform. This essay discusses the importance of financing higher education in South Africa and examines the challenges with the current system. It then proceeds to argue that a cost-sharing model incorporating income-contingent loans could provide a more sustainable alternative to predominantly bursary-based funding, and makes a recommendation on a potential design of such a model. This essay will specifically be focusing on public universities, but the recommendations could be adapted and expanded to other areas such as TVET colleges or private higher education institutions.

2. THE IMPORTANCE OF FUNDING HIGHER EDUCATION IN SOUTH AFRICA

South Africa faces persistently high unemployment, particularly among young people. In the second quarter of 2026, the youth unemployment rate increased to a staggering 47.4% (South African Government News Agency, 2026). Higher education can improve young people's employment prospects and offers relatively high returns in South Africa (Hofmeyer and van der Berg, 2018, no pagination). Furthermore, research found that households headed by individuals with tertiary education are significantly less likely to experience poverty than households whose heads have only a matric qualification (Leibbrandt et al., 2022, p.222).

However, access to higher education remains unequal, and students from wealthier households are disproportionately represented in the university population (Hofmeyer and van der Berg, 2018, no pagination). This is also the result of the unequal access to good quality basic education in South Africa. Research has found that differences in school quality strongly influence patterns of university access in South Africa (Hofmeyer and van der Berg, 2018, no pagination). More equitable access to higher education therefore also requires improvements in the quality of basic education.

A household income of R600 000 was often considered the minimum required for parents to finance their child's university studies without needing to borrow or draw on their savings (Hofmeyer and van der Berg, 2018, no pagination). In 2019, 96% of households had a pre-tax income below this threshold (National Student Financial Aid Scheme, 2019, p.11). Access to private loans is also limited for poor students, as they often lack the collateral required by financial institutions and lenders find it risky to lend to students due to uncertainty about repayment because of student dropout rates (Hofmeyer and van der Berg, 2018, no pagination). These market failures strengthen the case for government intervention.

3. BACKGROUND AND CHALLENGES OF HIGHER EDUCATION FINANCING IN SOUTH AFRICA

The National Student Financial Aid Scheme began operating in 1995 to provide funding for disadvantaged students and address racial inequalities in university access (De Villiers, 2023, no pagination). The scheme has helped many poor students to access higher education, and has also contributed to making the racial composition of the university population more representative of South Africa's population (Hofmeyer and van der Berg, 2018, no pagination; De Villiers, 2023). The gross enrolment ratio of Africans increased significantly (De Villiers, 2023, no pagination).

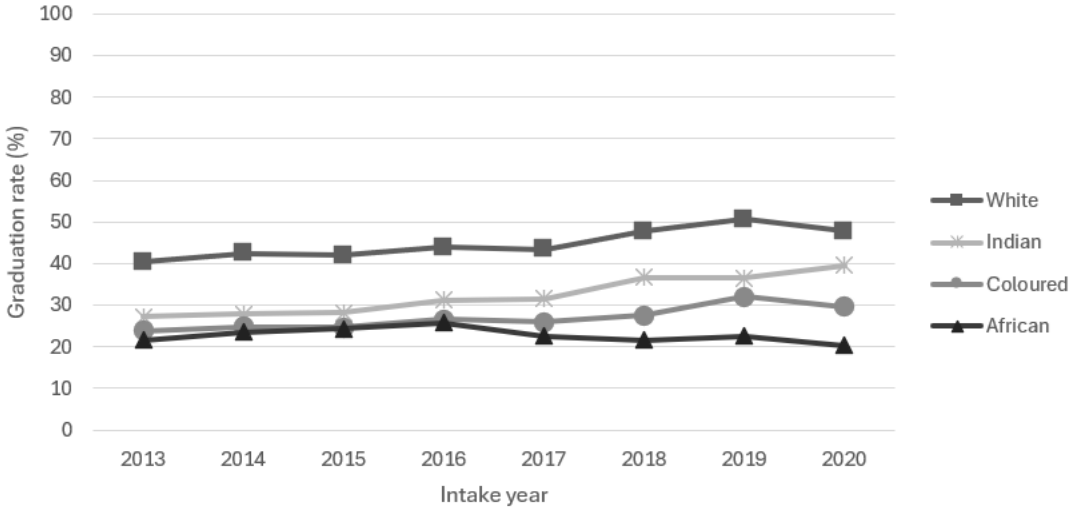
The NSFAS model started out using a combination of bursaries and income-contingent loans (De Villiers, 2023, no pagination). The Fees Must Fall protests that broke out nationwide in 2015 drew national attention to the issue of higher education financing and marked a turning point (De Villiers, 2023, no pagination). In 2017, a Commission of Inquiry was established to investigate the feasibility of free higher education in South Africa but concluded that it was not feasible (Commission of Inquiry Into Higher Education and Training, 2017). Despite this, Jacob Zuma announced that higher education would be free for all poor and working-class students, and the model was changed to a full bursary model (De Villiers, 2023, no pagination). The maximum household income to be classified as poor and working class was increased, significantly expanding the number of students eligible for funding (National Student Financial Aid Scheme, 2019, p.5). In 2024, NSFAS introduced a new loan scheme aimed at supporting students in the missing middle (Green, 2024).

Although access to university education has been expanded, significant challenges remain. Despite a substantial increase in NSFAS funding, student debt continues to rise (Walker, 2026). This has serious consequences for graduates. Universities may withhold qualifications from students with outstanding debt, creating a cycle in which graduates struggle to secure employment without their certificates but cannot repay their debt without earning an income (Majozi, 2026).

Rising accommodation costs and delays in NSFAS payments for accommodation are contributors (Majozi, 2026). Many students are left without accommodation at the start of the year, causing emotional stress and academic disadvantages (Noutchie, 2024, pp.426-427). Many students also struggle with the uncertainty surrounding NSFAS funding, especially with NSFAS having announced that funding is "subject to available budget" (Smit, 2026). The debt challenges also place universities under financial pressure. At Stellenbosch University, outstanding student debt reached R1.12 billion in December 2025, largely attributable to amounts owed by NSFAS (Smit, 2026). Administrative inefficiencies and governance concerns have further delayed payments (Smit, 2026).

Despite an increase in spending on higher education, a lack of student success was a common concern raised (Commission of Inquiry Into Higher Education and Training, 2017, p.241). Many students drop out, and many who do graduate do not do so in the qualification's recommended time frame. Figure 1 below shows the proportion of students that graduate in the recommended time frame for a 3-year undergraduate degree for different intake years for different races.

Figure 1: Graduation Rates Within the Prescribed Period of a 3-Year Undergraduate Degree for Different Intake Years for Different Races in South Africa



Source: Author's own graph, using data from the Department of Higher Education and Training (2024, pp. 65,70,74,79)

This graph highlights the low percentage of students that graduate within the allocated time for their degree, but it also indicates that racial inequality in student success exists and has persisted, and therefore needs to be addressed. Longer times to complete degrees would additionally increase debt burdens for students. Multiple stakeholders emphasised the need to improve student throughput, not just access (Commission of Inquiry Into Higher Education and Training, 2017, p.89).

4. POTENTIAL ALTERNATIVE

There is strong evidence that free university education would not be fiscally feasible in South Africa (Hofmeyr and van der Berg, 2018; Commission of Inquiry Into Higher Education and Training, 2017). Since university education generates both public and private benefits, a cost-sharing approach is appropriate (Commission of Inquiry Into Higher Education and Training, 2017, p.42). The Commission considered the increasing bursary proportion of student financing unsustainable given the pressure on NSFAS funds, and recommended income-contingent loans (Commission of Inquiry Into Higher Education and Training, 2017, p.243).

An income-contingent loan system is more equitable than other loan systems. It links to ability-to-pay, making it easier for students from poor backgrounds to take on student debt (Barr, 2003, p.10). It makes studying free at the point of use, and completely free for any student that does not reach the minimum income threshold for repayment (Barr, 2003, p.10 ; Commission of Inquiry Into Higher Education and Training, 2017, p.511). It would allow students from all income levels to have access to funding, which would also remove the need for a means test (Walker, 2026).

The model proposed by the Commission involves commercial banks providing student loans that are either guaranteed or purchased by the state, with the Commission favouring state purchases (Commission of Inquiry into Higher Education and Training, 2017, p.514). This would prevent the government from needing to fund the loans upfront, although it would still be exposed to the cost of purchasing loans and unrecovered debt. The risks associated with state guarantees are illustrated by Chile, a country with a higher income per capita than South Africa, where high default rates on state-guaranteed student loans have raised concerns about the system's long-term fiscal sustainability (Aspillaga et al., 2025; World Bank Group, no date). Effective loan collection would therefore be essential under either arrangement.

The Commission's report stated that NSFAS lacked the administrative capacity to improve collection of loans and recommended that the South African Revenue Service be used for loan collection (Commission of Inquiry Into Higher Education and Training, 2017, pp.242-243). The loan repayments could be collected as a payroll deduction alongside income tax, making it easy to adjust repayments according to earnings (Barr, 2003, p.10). Experience in Australia showed that repayments through employer withholding is the simplest and cheapest collection method for both the loan beneficiaries and the lender (Fioramonti, 2017, p.601). Others have also emphasised the necessity of collecting the repayments through the tax system (Walker, 2025).

The repayment rates and interest rates will need to be determined, balancing sustainability and equity. The interest rate for South Africa's previous income-contingent loan system was subsidised, making the system more progressive but placing a heavier burden on the state and ultimately taxpayers (Hull, no date, p.208). A model that involves commercial banks would require an interest rate that provides a sufficient return to encourage their participation. Fioramonti (2017, p.607) proposes a minimum interest rate equivalent to the prime rate plus inflation, and that rates should be high enough to assist in offsetting the written-off debt of those that do not reach the minimum repayment threshold. It was further argued that the rates should increase with borrowers' income, making the scheme more progressive. Higher interest rates would however place a larger burden on borrowers.

Due to South Africa's high income inequality, a recommendation of multiple income brackets with different repayment rates to distribute the repayment burden more equitably was made (Fioramonti, 2017, p.601). It is argued that the loan repayments become similar to paying a progressive tax (Barr, 2003, p.10; Walker, 2026). It has been proposed that the minimum repayment threshold should be higher than in the past and at least equal to the minimum income tax threshold (Hull, no date, p.200). The repayment rates could potentially be linked to income tax brackets, particularly if SARS is used for loan repayment collection.

The current NSFAS loan scheme requires full repayment within 60 months of becoming employed (Green, 2024). This period may not be long enough, and a study done on the feasibility of income-contingent student loans in Tanzania suggested that it would take a minimum of 10 years to recoup most of the lent amount (Johansson and Lundborg, 2021). It has been argued that longer repayment periods for these loans would be more efficient and likely result in higher returns for lenders, since graduates tend to earn higher incomes as they progress in their careers (Fioramonti, 2017, p.599).

It was also recommended to the Commission that a loan cap would need to be implemented that is proportional to current university fees, to prevent universities with lower fees from increasing their fees to meet the cap, which was the experience in the United Kingdom (Fioramonti, 2017, pp.602-603).

5. CONCLUSION

The benefits of higher education for students and society are evident. Market failures and inequality provide strong arguments for state intervention in student-financing in South Africa. Rising student debt, administrative inefficiencies and inadequate student throughput indicate that reforms to the current student-financing model are necessary. The analysis suggests that a cost-sharing approach is a more sustainable alternative to the bursary model, and an income-contingent loan is presented as a viable alternative. The design of the model would need to to balance the need for fiscal sustainability with the need for enhanced access and affordability for borrowers. Measures to reduce inequality in access to good quality basic education will also be necessary to reduce inequality in access to university education. Additionally, measures to improve student throughput must also be considered, in order to improve completion rates and employment prospects.

6. RECOMMENDATION

The research on South Africa and international experience suggests that income-contingent loans could provide a more sustainable alternative to the current model. Commercial banks should provide the initial financing, with the state purchasing the loans at an agreed point. Repayments should be collected through SARS rather than NSFAS. The interest rate must cover banks' financing costs and provide a sufficient return to encourage private sector participation. Repayment percentages should also increase across income brackets, with repayments beginning only once graduates earn above at least the minimum income tax threshold. Repayment rates and interest rates should be considered together in order to avoid creating excessive repayment burdens. The maximum repayment period should be extended, with any outstanding balance written off after a defined maximum period so that repayments do not continue into retirement. Academic support and student throughput should also be prioritised to help students complete their qualifications, preferably within the prescribed period. A gradual transition and consultation with universities and students could support implementation and limit potential backlash. If implemented effectively, this model could improve long-term sustainability and create greater scope to direct resources towards education quality and student support.

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