BL financialmail

FEATURES

Why South Africa's universities are in trouble

Universities are battling to make ends meet. NSFAS, caps on enrolments and residence fees, and now proposed curbs on tuition fees, are making matters worse

BL PREMIUM

05 JUNE 2025 - 05:00

by CLAIRE BISSEKER

Students march in Pretoria to demand free education, October 20 2016. Picture: Gallo Images

The returns to a university education in South Africa are among the highest in the world. But years of economic stagnation mean ever larger numbers of poor, eligible students are beating against the doors of a university system and labour market that cannot absorb them.

The government's response has been to plough an increasing proportion of the higher education budget into the National Student Financial Aid Scheme (NSFAS).

Between 2021/2022 and 2024/2025 the NSFAS budget rose from R38.5bn to R54.4bn (an increase of over 40%), while university subsidies grew from R41.2bn to R44.4bn (an increase of 7.7%).

The number of NSFAS beneficiaries, however, declined from about 555,000 to 418,000 over this period, even as the number of matrics obtaining bachelor's passes rose from about 256,000 in 2021 (36.4% of those who wrote matric) to about 337,000 (47.8%) in 2024.

NSFAS, which has been mired in corruption allegations, has all but wiped out its surplus — from R6.4bn at the start of this period to just R333m by 2023/2024. Increasingly, the government has had to appropriate money from the National Skills Fund and cap NSFAS benefits, such as the accommodation allowance, to make up NSFAS's funding shortfalls.

"This is a slow-burn problem," says University of Cape Town (UCT) senior research associate Andrew Donaldson. "NSFAS is in trouble."

But so are the universities. Part of the problem is that local universities are pursuing an inappropriate business model in that they want to be mini-Harvards, says Prof Stan du Plessis, the former COO of Stellenbosch University (SU).

“All over the world, research-intensive universities mirror Harvard in that they consist of two businesses: an undergraduate teaching college, which is not hard to make financially sustainable, and a research institute, which always runs at a loss,” he explains.

University research is partly cross-subsidised by the former and funded by alumni endowments and donations. SU has the largest endowment of any local university on a per student basis. However, when expressed as a ratio in dollars on a purchasing power parity basis, it works out at just $65,000 per student whereas in the US, a ratio of $250,000 per student is considered healthy. At Harvard, the ratio exceeds $2m per student.

Domestic universities have the additional problem of facing a stagnant economy, which means a rising proportion of students can’t afford university fees. The state’s precarious financial position, coupled with its adoption of a fee-free model, also means the university subsidy per student has failed to keep pace with inflation. And then there has been steep cost escalation at universities, especially of salaries.

According to National Treasury figures, university subsidies are set to rise by 4.8% on average annually, from R44.4bn in 2024/2025 to R51.2bn in 2027/2028.

The NSFAS budget is set to grow from R54.4bn to R62.3bn over the same period (by 4.6% on average annually).

However, NSFAS funding doesn’t meet all students’ actual costs. For instance, in 2023, NSFAS capped residential allowances at R45,000 a year, less than the cost of a room at many universities. This left NSFAS students with R608m in debt in that year alone.

The trajectory of cost increases that exceed projected revenue growth means that even a relatively wealthy institution, like SU, cannot go on like before. If it had simply rolled forward its 2023 budget for the next six years it would be facing a cumulative deficit of R1.4bn by 2029, says Du Plessis. To prevent any projected deficits, SU imposed significant budget cuts in response.

But it’s not as if the sector is underfunded. Once the NSFAS budget is included, South Africa spends almost 1.5% of GDP on education, the same as the OECD average, though a far lower proportion of our enrolment is in tertiary education.

Part of the solution is for universities to take a scythe to their costs, which have proliferated over many decades of reliance on government subsidies. They should also maximise efficiencies through better use of technology by, for instance, making greater use of online learning tools to increase the number of students per lecturer.

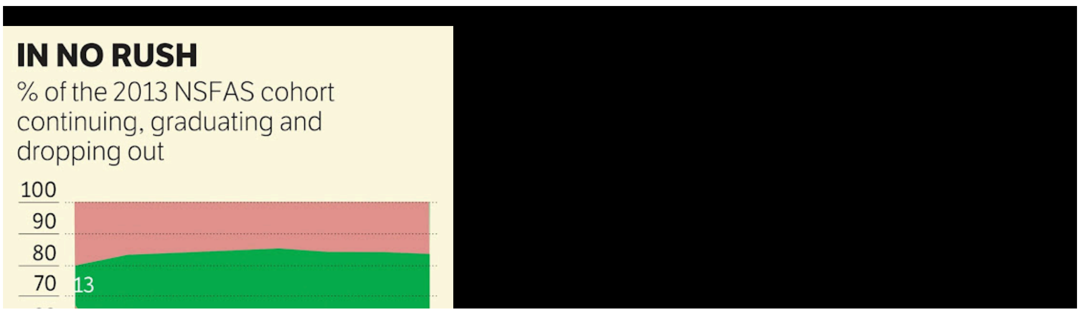
But research universities would fall precipitously in the international rankings if they raised their student-to-lecturer ratios. This raises the question as to why South African universities buy into an international ranking system that holds them up to an unsustainable business model and punishes them for increasing productivity.

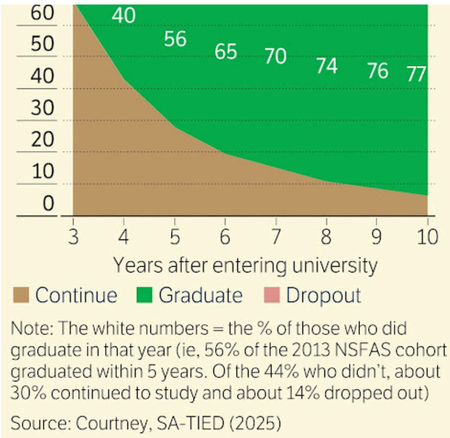
Caught between government caps on student enrolments (universities are fined if their enrolments fall either 2% above or below their cap) and sharply rising input costs, the sector has responded by raising tuition fees — an act which some researchers have described as "institutional suicide".

The department of higher education & training (DHET) has initiated a process to curb tuition fee increases and has undertaken to implement a regulatory framework for fee increases and updated guidelines for its student funding model by March 2026.

Has the NSFAS model run out of road?

In 2017, the Heher commission of inquiry into higher education and training concluded that fee-free higher education was unaffordable in South Africa given its weak economy, constrained public finances and manifold priorities. Instead, it recommended an income-contingent loan scheme (ICLS), according to which university students would take out special government-guaranteed student bank loans and either they (or the state) would repay them, but only once/if the graduate started earning above a certain threshold.





The Davis Tax Commission recommended a hybrid financing model in which the poorest would continue to get NSFAS bursaries; the missing middle (those from households earning above the NSFAS threshold of R350,000 but below R600,000 a year) would receive subsidised income-contingent loans; and the wealthiest would pay full tuition fees

The ICLS concept has appeal in a country where the returns to a university education are among the highest in the world.

According to a recent Econ 3x3 paper by UCT researcher Tim Köhler, the returns to tertiary education in South Africa have tripled in size from 7.3% in 2001 to 23% in 2023. This means that in 2023, just one additional year of tertiary education was associated with 23% higher real hourly wages on average.

At the same time, the returns to lower levels of education have shrunk, ostensibly because the employment and earnings prospects of graduates are vastly better than for people with lower levels of education.

Even so, the (expanded) unemployment rate for graduates doubled — from 5.8% in 2008 to 11.8% in 2023, according to a new SA-TIED paper by researchers Hannah McGinty and Emma Whitelaw. However, they argue that this is largely due to a stagnant labour market, which has affected everyone.

Despite this, the university graduate unemployment rate at 11.8% remains significantly lower than for those with “other” tertiary qualifications (diplomas and certificates with matric). The latter rose from 11.6% to 26% over the same period.

In short, a university education is a very valuable private benefit. In 2023/2024, an NSFAS bursary equated to a subsidy of R113,042 per student. In theory, NSFAS bursaries cover up to five years of study.

Because a university education is such a valuable *private* prize, the fact that it is so heavily subsidised by the taxpayer is problematic. NSFAS is also arguably a badly designed scheme in that it harms some of the students it wants to help.

This is because, in an Orwellian quirk, the R350,000 eligibility threshold is fixed, resulting in many students who initially qualify being automatically defunded as their parents' incomes rise with inflation.

Moreover, 44% of NSFAS beneficiaries don't graduate within five years, according to DHET figures (see graph). Every dropout is a huge efficiency loss to the state.

Du Plessis's view is that the financial unsustainably of NSFAS is the single biggest threat to universities.

"Heher was correct," he says. "Despite the tremendous resources thrown at it, NSFAS is still unsustainable."

All the signs are that the DHET remains wedded to the NSFAS model. However, as NSFAS's annual bill heads towards R60bn, and losses mount, the government's political attachment to fee-free education is going to be strenuously tested.

Change is afoot

Over the past six months, Du Plessis has observed a new cohort of vice-chancellors among whom "the penny seems to have dropped" that the country must analyse the business of universities and the DHET from a financial rather than a political perspective.

The fact that he recently left SU for private university group Stadio doesn't mean he has lost faith in the sustainability of the public university model.

"This is not me saying I'm so annoyed I'm shaking the dust off my feet," he says. "We have a national challenge to provide quality access with success. The private sector is an important part of the solution because it is the only part of the sector that can provide cost-effective higher education at scale."

In fact, he notes that the price of a Stadio BCom at R67,000 is roughly comparable to an SU BCom at R60,000 even though the former receives no state subsidy.

"The futures of economies and societies aren't hard-wired; they're the result of the decisions we make," he adds. "We know that bursts of progress are possible in South Africa. It will be very hard, and the politics is hugely unfavourable for it, but I relish the opportunity to work for the right outcome."

ALSO READ:

REALITY CHECK: THE REAL STORY BEHIND THE MATRIC RESULTS

South Africans take the annual soaring matric pass rate with a pinch of salt, but the true state of education is even more worrying than most imagine

FEATURES *5 months ago*

ENTREPRENEURSHIP AND THE MBA: DEEPENING SOUTH AFRICA'S ENTREPRENEURIAL CULTURE

The economy needs more entrepreneurs. Most MBA programmes strive to foster entrepreneurial thinking; the best even lure students away from safe ...

FEATURES *9 months ago*

HOW SOUTH AFRICAN WORKPLACES ARE TRANSFORMING

There has been a significant increase in the proportion of black people employed in both the private and public sectors at higher skill levels since ...

NEWS & FOX *9 months ago*
