TITLE: Building fiscally sustainable student financing model: the lesson from international experience

Undergraduate

Word count: 2109

Entry number: 1197

1. INTRODUCTION

South Africa's student-financing system faces a balance problem between increasing access to higher education and without going above the limits of public fiscus. The National Student Financial Aid Scheme (NSFAS) faces a deficit of about R15 billion from an annual budget of about R56 billion (Thompson: 2026).

Financial sustainability in the public sector refers to a government's ability to secure stable and adequate revenue and spend it efficiently and on time, so that social welfare and public services are maintained or improved and present and future obligations are met without unmanageable rises in taxation or public debt (Rodríguez Bolívar et al.: 2016). If any of these conditions fail, the system collapses. Access, in turn, means a real opportunity not only to enter an institution but also to participate meaningfully and succeed, which requires the deliberate removal of financial, structural and social barriers (Morrow: 2009).

This essay argues, on the basis of the literature, that South Africa should replace its bursary-based model with a multi-tier system. Under this system, grants would go to the poorest students, income-contingent loans collected through the South African Revenue Service (SARS) would go to the "missing middle", and cost controls and stronger administration would protect the budget. Section 2 shows the current funding model and explores why it is under strain. Section 3 reviews international experience, focusing on Australia, England, Chile and Kenya. Section 4 formulates a lesson from these cases and the proposed model for South Africa. Section 5 concludes, and the Recommendations testing whether the model is feasible.

2. CURRENT FUNDING MODEL AND WHY IT'S AT STRAIN

2.1 From loans to bursaries

In 2017, Former President Jacob Zuma announced that NSFAS would move from loans to bursaries for poor and working-class students, defined as those from households with a combined annual income of R350 000 and less (Areff and Spies: 2017). The Heher Commission however, pointed that the government could not afford free higher education for everyone, and recommended that government raise the spending on higher education and training to at least 1% of GDP from 0.68% (Areff and Spies: 2017).

2.2 The growing shortfall

[Figure 1: NSFAS funding shortfall, 2018 to 2029. Source: (Thompson: 2026)]

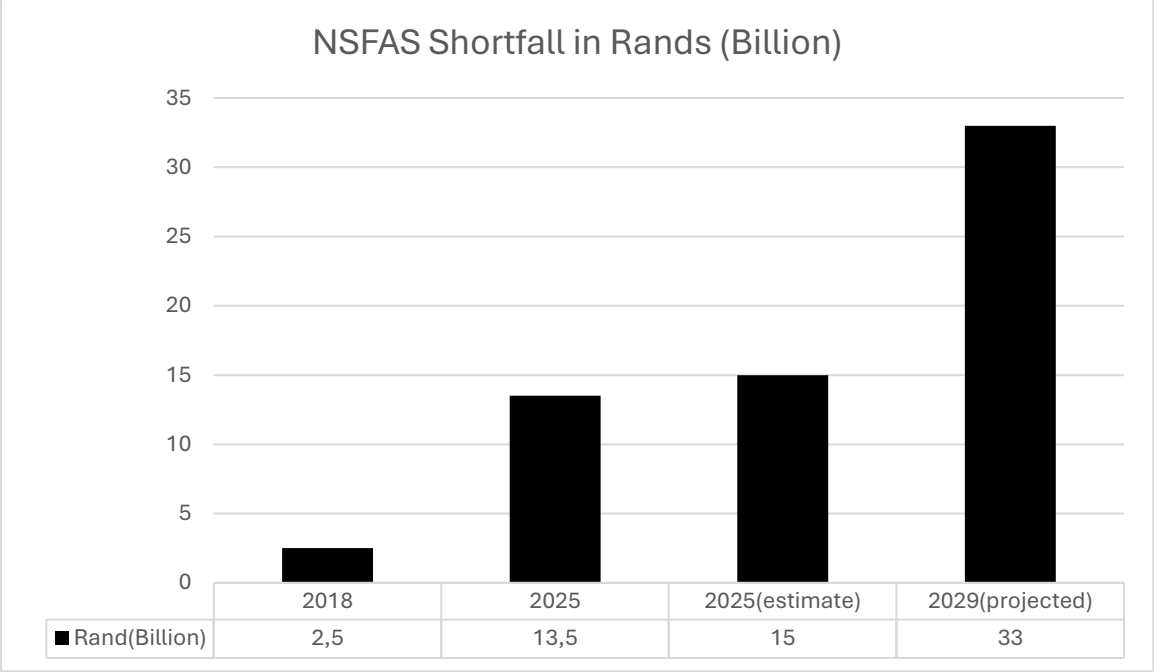


Figure 1: adopted from https://dailynews.co.za/news/2026-08-17-nsfas-faces-r15-billion-shortfall-implications-for-south-african-students/

Nine years later, NSFAS has an annual budget of about R56 billion but has a shortfall of r R15 billion, expected to reach R33 billion by 2029 (Thompson: 2026). Minister Buti Manamela has warned that the deficit grew from R2.5 billion in 2018 to R13.5 billion in 2025 and R15 billion in 2026, as shown in Figure 1. The allocation is mostly fixed, and the number of qualifying students keeps is growing as the population keeps growing. The government also allocates over R700 million on NSFAS running costs, money that could fund more than 9 000 students, Minister of Finance warned. (Nozulela: 2026).

The shortfall already affects students today. By August 2026, NSFAS had paid only 61.5% of its university allocations, leaving R10.49 billion in 2026 tuition fees still outstanding (Parliamentary Monitoring Group: 2026). Universities carry this burden at the end of the day, and students face difficulties during registration and continued funding. If this gap keeps growing, the state could be unable to support all qualifying university and TVET students.

2.3 The missing middle

The “missing middle” are students from households that earn above the R350 000 NSFAS threshold, commonly up to R600 000 a year, but cannot afford to pay for higher education themselves, some refer them as too rich to get funding but too poor to afford higher education. Their exclusion raises questions about access as defined in the introduction of this text. In 2024, government introduced a loan scheme for these students with a budget of R3.8 billion over three years. By February 2024, over 31000 applications had been received but only 1300 approved or considered by August of that same year (Matshediso: 2024). These interventions therefore are not fulfilling, and they show the administrative failure that any new model should address.

3. INTERNATIONAL EXPERIENCES: AUSTRALIA, ENGLAND, CHILE AND CHINA

3.1 England & Australia's income contingent loans

Income-contingent loans are loans that students do not repay upfront or immediately. Repayments start only after they are done with their studies and once their income passes a threshold set by government and are calculated as a share of income rather than as a fixed payment through instalments (EOS Global Collection: 2020). Australia introduced this approach in 1989. Chapman and Ryan (2002) argue that income-contingent loans are preferable to the alternatives, provided that the administrative context allows efficient collection of the debt, and they find no harmful effect on participation by disadvantaged students. What south Africa can take away is that collection capacity, in this case through SARS, decides whether or not the model works.

[Figure 2: Immediate cost to taxpayer vs percentage recovered through student financing: England vs South Africa loans (Office for Budget Responsibility, 2022)]

period	**ENGLAND**	**SOUTH AFRICA**
Immediate cost to government/taxpayer	0% (issued as repayable loan)	100% loss
Percentage recovered	66%	0% (no repayment)

England uses a similar system, Office for Budget Responsibility (OBR: 2022) estimates that about 66p of every £1 borrowed is paid back. Figure 2 compares this with a full bursary like NSFAS, which is not repaid. The recovered funds allow government to support more students, which improves fiscal sustainability and access. The system is not cost-free, however. The Institute for Fiscal Studies finds that most borrowers on the older Plan 2 loans will not repay in full before the debt is written off (Office for Budget Responsibility: 2026), and repayment terms have been changed so many times by successive governments in the country (Institute for Fiscal Studies: 2026). England therefore shows that income-contingent loans reduce the taxpayer's cost without fully eliminating it (Institute for Fiscal Studies, 2022), and that stable rules matter.

3.2 Bank linked loans in Chile & mean tests errors in Kenya

Chile's Crédito con Aval del Estado (CAE), introduced in 2006, uses loans from commercial Banks that the state guarantees. The scheme has since produced heavy debt problems such that: 67.9% delinquency (Ex-Ante: 2026). Former budget Director Matías Acevedo estimates that forecasting errors on the CAE and free tuition have added about US$11.4 billion to the state's costs, which could reach US$21 billion by 2030 (Ex-Ante: 2026). The lesson is that loan systems based on commercial lending, with weak bases of repayment discipline, can transfer large costs back to the state.

Kenya's 2023 funding model puts students in five bands using a means-testing. The Auditor-General of Kenya discovered that deserving students were refused funding because

the model was not integrated with the universities' placement system (Kibii: 2025). The lesson for South Africa where universities' data systems have always been blamed for NSFAS payment difficulties, is that any means-testing model should be integrated systems and accurate data, since errors could cost money that could be able to fund more students.

4. LESSONS FOR SOUTH AFRICA: THE PROPOSED MODEL

The international cases point the same way there is no blanket solution for every household. Muller (2017) warns that a blanket income-contingent loan could leave the poorest applicants worse off, so support should be divided by income (Muller: 2017). England shows that some loans are never paid back, so that cost has to be planned for (OBR: 2022), and Kenya shows that means-testing fails when placement, registration and funding data are not integrated (Kibii: 2025). South Africa therefore needs a model that caters for every income group, collects through the South African Revenue Service (SARS) above an income threshold, budgets for unrecovered debt, and joins up its data. A three-tier system would do this, with grants for the poor, income-contingent loans for the missing middle and private payment for those who can afford it (Muller: 2017)

4.1 Grants

The poorest students would stay full grants, using the already existing household income threshold of R350 000 a year. What would change is how the money moves. If government dealt directly with universities, part of the R700 million that NSFAS spends on running costs (Nozulela: 2026) could go to students instead. Careful means-testing or screening of applicants would protect access, and the grants would stay funded from the fiscus as they are today.

4.2 Income-contingent loans

Households earning between R350 000 and R600 000 a year, the missing middle, would have to choose between two options (i.e. co-payment and full loan). Under the co-payment option, government lends half of the fees, and the family pays the other half, which eases the burden to the household income that has to pay for the fees of the student. Under the full-loan option, government lends all of the fees. In both cases graduates would repay through SARS only when they earn above a threshold set in legislation by parliament. Repayments would flow back into the fund, so the scheme partly pays for itself and avoids a bursary-sized cost.

4.3 Private payment

Students from households above R600 000 would pay themselves or take commercial loans. This keeps public money for those who need it most.

4.4 Risks

Two risks are the most concerning. The first is graduate unemployment, which was 12,4% in early 2026 (National Youth Development Agency: 2026). That is far below the rate for people without degrees, but it could be high enough that some borrowers will not repay. A threshold for low earners and clear write-off rules would mitigate the harm, and the fund would need to budget for these losses from the start. The second is weak administration.

NSFAS's late payments indicate how poor management can destroy a sound design, and Kenya shows the cost of systems that do not share data. Strict hiring and screening of the people who manage the funds, linked placement, registration and funding data, and regular external audits would reduce this risk.

5. Conclusion

South Africa's student-financing system should balance broader access to higher education even though there are limits of public finances. This essay examined whether a fiscally sustainable model that improves access can be built, and it did so through a literature study of the current NSFAS model and the experience of Australia, England, Chile and Kenya. The evidence shows that the system is under pressure. NSFAS faces a shortfall of about R15 billion against on a budget of about R56 billion, universities are paid late, and the missing middle remains not entirely supported. International experience indicate that income-contingent loans can lower the cost to government when collection is efficient and done effectively, but they don't remove it entirely. Chile and Kenya warn of the costs of a weak repayment discipline and of means-testing built on unreliable and untested data. These findings support a multi-tier model: grants for the poorest students, income-contingent loans collected through SARS for the missing middle, and private payment for those who can afford. These features meet the definition of fiscal sustainability while protecting access for all.

6. Recommendations

The proposed model is feasible, but only if it is implemented in phases and protected by clear rules. Four recommendations follow.

6.1 Phased rollout.

The grant should be moved from NSFAS to direct administration with universities and colleges in steps: 25% of grant recipients in the first three years, a further 25% after that, and the remainder by the end of year five. The income-contingent loan should begin as a small initiative for programmes in high demand and expand to more students and programmes after a two-year report of results proves effectiveness else, the process should be reconsidered. It should extend to all eligible programmes only when evidence shows that repayment rates and costs match forecasts, which Chile's underestimated show how important this is (Ex-Ante: 2026).

6.2 Legislated thresholds.

The income thresholds for the grant and the loan, and the repayment threshold, should be set in law by the legislature so they cannot be changed without Parliament to protect the funding from unstable change of leadership. England's repeated changes to repayment terms damaged trust in the system by affected stakeholders (IFS: 2026).

6.3 Cost and fund controls.

Accommodation costs should be capped to a reasonable amount, since the Heher Commission found a severe shortage of student accommodation (Areff and Spies:

2017), and loan repayments should be ring-fenced in the fund so that it partly sustains itself, this recycling of funds allows the cost to be less crippling for the government.

6.4 Integrated data.

Placement, registration and funding data should be integrated and kept up to date, to prevent errors that could have been prevented from happening as the Kenyan Auditor-General's findings show (Kibii: 2025).

REFERENCES

Areff, A. and Spies, D. (2017) 'Zuma announces free higher education for poor and working class students', *News24*, 16 December. Available at: https://www.news24.com/southafrica/news/zuma-announces-free-higher-education-for-poor-and-working-class-students-20171216 (Accessed: 26 October 2026).

Chapman, B. and Ryan, C. (2002) *Income-contingent financing of student charges for higher education: assessing the Australian innovation*. CEPR Discussion Paper No. 449. Canberra: Centre for Economic Policy Research, Australian National University. Available at: https://econpapers.repec.org/RePEc:auu:dpaper:449 (Accessed: 26 October 2026).

Muller, S. M., 2017. *Options on the table as South Africa wrestles with funding higher education*. The Conversation. Available at: theconversation.com [Accessed 26 October 2026].

Ex-Ante (2026) 'Cómo se dispararon los deudores del CAE bajo Boric (y los costos de la gratuidad)', *Ex-Ante*, [day month] 2026. Available at: https://www.ex-ante.cl/politica/como-se-dispararon-los-deudores-del-cae-bajo-boric-y-los-costos-de-la-gratuidad/ (Accessed: 26 October 2026).

Institute for Fiscal Studies (2026) title of the briefing on Plan 2 loan terms. London: Institute for Fiscal Studies. Available at: ifs.org.uk [Accessed 26 October 2026].

Kibii, E., 2025. *Auditor General report exposes flaws in university funding model*. [online] The Star. Available at: https://www.the-star.co.ke/news/2025-07-27-auditor-general-report-exposes-flaws-in-university-funding-model [Accessed 26 October 2026].

Matshediso, M. (2024) 'Loan scheme for the missing middle explained', *Vuk'uzenzele*, October (2nd edition). Available at: https://www.vukuzenzele.gov.za/loan-scheme-missing-middle-explained (Accessed: 26 October 2026).

Morrow, W. (2009) *Bounds of democracy: epistemological access in higher education*. Cape Town: HSRC Press.

Muller, S. (2017) 'Options on the table as South Africa wrestles with funding higher education', *The Conversation*, 20 November. Available at: https://theconversation.edu.au/options-on-the-table-as-south-africa-wrestles-with-funding-higher-education-87688 (Accessed: 26 October 2026).

Nozulela, M. (2026a) ‘R700 million spent on NSFAS administration could fund 9,000 students, says Godongwana’, *Daily News*, 26 February. Available at: https://dailynews.co.za/business/2026-02-26-r700-million-spent-on-nsfas-administration-could-fund-9000-students-says-godongwana/ (Accessed: 26 October 2026).

Nozulela, M. (2026b) ‘NSFAS faces R15 billion shortfall: Implications for South African students’, *Daily News*, 17 August. Available at: https://dailynews.co.za/news/2026-08-17-nsfas-faces-r15-billion-shortfall-implications-for-south-african-students/ (Accessed: 26 October 2026).

Office for Budget Responsibility (OBR), 2022. *The fiscal impact of student loans reforms*. London: Office for Budget Responsibility. Available at: obr.uk [Accessed 26 October 2026].

Parliamentary Monitoring Group (PMG), 2026. *NSFAS progress on stabilisation since Administration commenced, with Ministry*. Cape Town: Parliamentary Monitoring Group. Available at: pmg.org.za [Accessed 26 October 2026]

Rodríguez Bolívar, M.P., Navarro Galera, A., Alcaide Muñoz, L. and López Subirés, M.D. (2016) ‘Risk factors and drivers of financial sustainability in local government: an empirical study’, *Local Government Studies*, 42(1), pp. 29–51. doi:10.1080/03003930.2015.1061506.

National Youth Development Agency, 2026. NYDA notes with serious concern latest Quarterly Labour Force Survey (QLFS) - Q2. South African Government, 12 August. Available at: https://www.gov.za/news/media-statements/nyda-notes-serious-concern-latest-quarterly-labour-force-survey-qlfs-q2-12

[Accessed 26 October 2026].

Thompson, D., 2026. *R56 billion state-run scheme running out of money*. [online] Daily Investor. Available at: dailyinvestor.com [Accessed 26 October 2026] [1.1]