

# A Promise Worth Keeping: Financing South African Higher Education Sustainably

## Introduction: a promise without a price

South Africa's student-funding crisis is usually told as the story of a failing agency. NSFAS has certainly failed in many ways: late payments, accommodation fraud and governance turmoil. But the agency is the symptom. The deeper problem is a design error. The country turned a means-tested loan scheme into an open-ended grant entitlement without building the revenue, the rationing rule or the liability measurement beneath it. The result is a promise that is generous on paper and unreliable in practice.

This essay argues that fiscal sustainability and access are not opposites. An unsustainable model damages access most, because when a fixed budget meets an uncapped entitlement, the shortfall lands on the poorest student in the registration queue. The solution is to treat student financing as what it is, a long-term investment carrying long-term risk, and to govern it with rules, pricing and transparency. I call the resulting design the Student Investment Compact. It rests on four commitments: protect the poorest, share responsibility according to ability to pay, fund completion rather than registration, and measure the liability honestly.

## The diagnosis: a demand-driven entitlement on a fixed budget

The scale of the problem is now official. NSFAS receives roughly R56 billion a year, yet the Minister has acknowledged a R15 billion shortfall, with R10.49 billion in 2026 tuition fees still owed to universities, warning that the deficit could double within three years (Daily Investor, 2026). He has called the current model unsustainable (Molefe, 2026).

The 2026 budget allocates R54.3 billion to NSFAS (Academic Jobs, 2026), funding 744,203 students (The Citizen, 2026). But there is no mechanism to reconcile the number of students who qualify with the number the budget can fund. That is rationing by crisis, not by rule.

Two further failures surround the grant. The first is the missing middle. Of about 53,000 applicants for the loan scheme created in 2024 for households earning R350,000 to R600,000, only 3,102 were deemed eligible in 2026 (Daily News, 2026), and NSFAS itself conceded the threshold may be too tight (Business Day, 2026b). The second is the debt overhang. Estimates of student debt owed to universities range from R18 to R26 billion

(Molefe, 2026) to an unaudited R59 billion, mostly owed by self-funded students who do not qualify for NSFAS (Business Day, 2026a). These are the students who fall between the grant and the market.

A fixed nominal threshold also does quiet damage. Stellenbosch University researchers argue that capping bursary eligibility at R350,000 despite inflation undermines the fairness of the whole model (Stellenbosch University, 2026). An unadjusted threshold shrinks the entitlement every year: fiscal tightening by erosion rather than by decision.

Public money spent on a student who drops out buys nothing, so funding should be judged by completion, not registration.

## What other countries teach

**Australia: collection through the tax system is the secret.** Australia's HECS-HELP, introduced in 1989, was the first broadly based income-contingent loan whose repayments were collected through the tax system (Chapman, 2006). The Minister has pointed to Australia (Daily Investor, 2026). Its genius is collection: employers withhold repayments and remit them to the revenue authority (Chapman and Dearden, 2022), so default risk becomes income risk. The repayment threshold was A\$67,000 in 2025-26, and in 2025 Parliament passed a 20 per cent cut to outstanding student debts (Australian Government Department of Education, 2025). Even the best scheme depends on continuing political consent.

**England: an income-contingent loan is a deferred grant, so say so.** England's Plan 2 loans are repaid through earnings above a threshold, and any balance is written off after 30 years (Institute for Fiscal Studies, n.d.). A write-off is a subsidy that appears on the books decades later. Any South African scheme should publish its expected subsidy rate from day one.

**Chile: do not hand the risk to the wrong party.** Chile's state-guaranteed bank loans (CAE), introduced in 2006, became the dominant instrument for students outside free tuition (Dearden, Valdés Aspillaga and Ríos-Jara, 2025). Protests helped catalyse free tuition for the poorest 60 per cent, and a 2024 bill proposed replacing loans with an income-based contribution (Center for International Higher Education, n.d.). South Africa should read this against the suggestion that students use income-contingent loans from commercial banks (Business Day, 2025). Banks price risk; they do not share it fairly. Income contingency must be a public product.

**Germany: protect the poorest and cap the rest.** Germany's BAföG provides half of support as a grant and half as an interest-free loan, with total repayment capped at €10,010 for first-time funding from September 2019 (Federal Ministry of Education and Research, 2024). The lesson is the cap.

**Kenya: a means test is only as good as its data.** Kenya's student-centred model, launched in 2023, sorts students into five funding bands. Many low-income students were placed in the upper bands, and the High Court suspended the model in October 2024 (Eastleigh Voice, 2024). South Africa's household income threshold faces the same verification problem.

None of these systems can be copied outright. South Africa, with youth unemployment of 60.9 per cent among 15 to 24-year-olds (Molefe, 2026) and a large informal sector, must borrow principles, not templates.

## The Student Investment Compact

The government's own direction, a four-tier framework of full grants for the poorest, income-contingent loans for the missing middle, bursaries for scarce skills and a reformed private contribution (Business Day, 2026a), is a sound skeleton. I propose six features to make it fiscally durable.

**1. A funding rule and a published liability.** Student financing creates obligations that last decades, yet it is budgeted as a one-year expense. The state should legislate a funding rule linking the grant envelope to enrolment and a cost-per-student benchmark, and require an independent actuarial valuation of the whole student-finance book each year, tabled with the Budget. It would show the expected cost of grants, the expected recovery and subsidy rate on loans, and the sensitivity to unemployment and wage growth. Treasury should stress-test the book against rising graduate unemployment.

**2. A smarter means test, and a taper instead of a cliff.** Today a household earning R349,000 receives everything and one earning R351,000 almost nothing. The alternative is a sliding scale: a full grant at the bottom, a blend of grant and loan through the middle, and an income-contingent loan above. Eligibility should also reflect household size and dependants, since a family supporting five dependants is not equivalent to one supporting a single person. Thresholds should be indexed to inflation by rule, so that tightening is a visible decision. Assessments must rest on data the state can verify.

**3. An income-contingent loan built for an unequal labour market.** The Minister has acknowledged that whether such a loan is a bridge or a trap will be central to the design (Manamela, 2026). Consider two graduates, one earning R12,000 a month and one earning R40,000. Equal instalments would crush the first and barely register for the second; income contingency lets the first pay little or nothing while the second repays faster. Four features matter:

- Repayment is automatic and collected through SARS, above a protected threshold set well beyond an entry-level salary, and suspended during unemployment.
- Debt is indexed to inflation, not to the prime rate. A positive real interest rate is a tax on staying poor.
- A lifetime cap, as in Germany, and a sunset write-off turn open-ended debt into a defined contribution, with the expected subsidy published.
- Overseas graduates must declare foreign income, because South Africa exports skilled people.

**4. Control the price of the promise.** Financing fails when it ignores costs. The Minister has noted that accommodation funding produced a private-landlord market now under investigation for fraud (Manamela, 2026). The state should back public student housing and set rent and accreditation benchmarks. Tuition funding should follow a cost-per-student benchmark that differs by field, set realistically, since Chile's experience shows that centrally set fees can underestimate real costs (Center for International Higher Education, n.d.). A share of institutional funding should be weighted towards completion, adjusted for student background so universities serving poorer communities are not penalised, with tutoring and early-warning support.

**5. Shared cost, with employers and institutions.** Business already funds bursaries through the SETAs, which supported over 15,000 new and nearly 8,000 continuing beneficiaries in 2025/26, worth close to R2 billion combined (Citizen Zululand Observer, 2026). The private tier should channel more employer money into co-funded bursaries and internships, matched by government where employers meet transparent conditions, building on the Ikusasa Student Financial Aid Programme, which reports strong outcomes for poor and missing-middle students (Dlamini, 2026). A modest recycling fund could return repayments to future cohorts, but repayments arrive decades late and will be modest, so it cannot replace the grant tier.

**6. Fairness for public service.** Teachers, nurses and social workers create value that salaries do not capture. Graduates who complete qualifying service in underserved communities should receive targeted grants or partial loan forgiveness, priced into the

actuarial statement.

## Who administers: neither status quo nor wholesale abolition

The Deputy Minister has called for NSFAS to be replaced by a system in which institutions assess need and apply directly to Treasury (Molefe, 2026), and the Finance Minister has proposed directing funding straight to institutions (The Mercury, 2026). Abolishing the agency moves the shortfall rather than closing it: universities that select and fund their own students have every incentive to enrol more than the state can pay for. But the intermediary model has plainly produced waste. The sensible position is a split. A thin national authority should set the rules, hold the liability, run the means test and manage the loan book, while a formula channel pays institutions directly for verified costs. Policy, risk-bearing and delivery should not sit in one body.

## Sequencing

The Minister's next step is Cabinet, with 2027 the main target for a working loan scheme and a comprehensive funding model (Daily News, 2026). I suggest three phases:

- **Years 1 to 2:** fix the existing loan tier by widening the income band and simplifying applications; legislate the funding rule and annual actuarial statement; improve administration and verification.
- **Years 3 to 4:** pilot automatic SARS collection with one cohort, then extend; introduce the taper, housing benchmarks and employer matching.
- **Year 5 onward:** evaluate repayment rates, completion, graduate employment and subsidy cost before expanding.

## The strongest objections

*"Education is a right; loans betray it."* Section 29 of the Constitution requires the state to make further education progressively available and accessible through reasonable measures (Republic of South Africa, 1996), which is not the same as making it free for everyone immediately. The poorest receive grants here, and an income-contingent loan asks nothing of a graduate who earns little. Still, any repayment falls hardest on those without family wealth, which is why caps and real-zero interest matter.

*"The informal economy makes collection impossible."* Income-contingent design absorbs this: a graduate outside the tax net repays nothing, and the cost shows up in the published subsidy rate. The risk is fiscal, not moral, and it argues for a larger grant share than Australia has.

*"Fully free tuition is simpler."* It is, and it is regressive when beneficiaries include well-off families in a country with little fiscal room. Even Chile limited free tuition to the poorest 60 per cent (Center for International Higher Education, n.d.).

## Conclusion: credibility is the real access policy

South Africa's students do not need a bigger promise; they need a believable one. A legislated funding rule, a published liability, a tapering structure, a carefully designed income-contingent loan, controlled costs and shared contributions would make the promise credible. It will not be cheap, and part of the loan book will always be a subsidy. But a subsidy that is measured, capped and budgeted is not a threat to access. It is the only thing that can protect it, because the students who suffer most when the money runs out are always the ones the system was built to serve.

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