Beyond free tuition: building a fiscally sustainable student financing model for South Africa

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1.Introduction

South Africa needs to widen access to university for the growing working class student population, but the way it facilitates access is proving unsustainable. Since 2018,the National Student Financial Aid scheme(NSFAS) has turned most of its income contingent loans into non repayable grants for students from households earning below roughly R350 000 a year(Masutha and Motala 2023).It has since gone into administration three times and reportedly faces a funding gap above R15 billion .

This essay asks how South Africa can widen access without an unsustainable fiscal burden.it argues that the country need not choose between free tuition for everyone and commercial debt. It should keep full grants below the R350 000 threshold and turn the loan scheme launched for the "missing middle" into an income contingent loan(ICL) collected by the South African Revenue Service(SARS),and be open about the subsidy that remains. I don't recommend lowering the R350 000 threshold to save costs because the high cost of living makes it a necessary floor for the most vulnerable. This approach is fiscally sustainable because it recovers and recycles capital through the tax system, substantially reducing the permanent financial burden on the state. The claim is modest :ICls do not pay for themselves and raise cash needs before repayments arrive, but they widen access at a lower, bounded lifetime cost than grants. Australia, England and Chile show what works thus South Africa's labour markets demand that it is calibrated rather than copied.

2. The Fiscal Problem: A predominantly Grant funded system

NSFAS's share of higher education funding rose from 20% in 2011-12 t0 44% in 2020-21.Yet enrolment has outpaced allocations and may students are unfunded or underfunded(Racicti and Motala 2025).Student Debt had reached 16.5 billion by early 2022(mbaleki and mbodila 2022)

The deeper problem is design. With grants, every rand paid out is gone for good: nothing comes back as graduates start earning,and government debt already sits near 79% of GDP.The old loan system was no answer either.Its collection rate peaked at 35.3% in 2006

and fell to 2.4 in 2016(molete and Stumke 2025), a decline attributed to legal constraints,weak debtor tracking and a poor jobs market.Reform has to avoid both traps:grants that never return and loans that cannot be collected.

The “missing idle is the second problem." Households earning R350 000 to R600 000 fall outside the NSFAS means test but still struggle to pay for university and banks ask for collateral and credit histories they often lack.

3.International Experience

In Australia The Higher Education Contribution Scheme(HECS-HELP),introduced in 1989,is the bench mark ICL(Chapman 2006).The government pays Tuition upfront and graduates repay only once their income passes a threshold through employer withholding that the tax authority reconciles.Debt is indexed rather than charged commercial interest and nothing in owed in low income years.Since 2025 repayments have been marginal at 15 cents per dollar above the threshold .The lesson is that collection through existing payroll systems is cheap and protects borrowers

In England graduates repay 9% of income above a threshold through PAYE and balances are written off after 25 to 40 years.England is warning as much as a model.The Institute for Fiscal Studies suggests that substantial share of borrowers will never repay in full so the state still carries much of the cost just later.Generous thresholds low rates or long write off turn a loan into a deferred grant.The lesson is that parameters matter than the label

In Chile state guaranteed bank loans used fixed instalments not income contingent repayments repayments and produced an Average debt service ratio of 18% and produced a default rate of 26%inthe Scheme Salmi(2015) discusses.The guarantees turned student default into a contingent liability for the state.Chile later introduced free tuition for the lower income students and moved towards income related repayment.The lesson is to avoid fixed instalments and opened guarantees.

Recovery is the common challenge for African loan Schemes (Chirwa et al.2022) and freetuition for all depends on a broad tax base and low unemployment which South Africa lacks (Ramasu and Kanakana-Katumba 2024)

4. South Africa Constraints

The Australian and English Modes assume a large formal labour market and a revenue authority that can collect through payroll.South Africa has both only in part.Official unemployment reached 33.6 in the second quarter of 2026 and the 15-24 cohort recorded 57% unemployment in the fourth quarter of 2025.if many graduates cannot find formal work and ICL turns into a deferred grant with administrative costs on top.Graduates rarely work informally but those who do are invisible to PAYE.The Tax base is also narrow around 980 000 people earning above R750 000 contribute close to 60% of personal income tax, so SARS needs to collect from a broad band of moderate earners.

Critics warn that commercial banks sourced loans would indenture students(Masutha 2023;Masutha and Motala 2023).However , unlike commercial debt that burdens borrowers regardless of their circumstances a state backed ICL designed under a Rawlsian justice framework avoids indenture and supports a loan system on fairness grounds provides the poorest are prioritised(Blackmur 2023)

5.the Existing Missing middle loan Scheme

South Africa has already made a start.In January 2024,the government announced and NSFAS loan Scheme for households earning R350 000-R600 000 and allocated R3.8 billion enough to fund only about 47% of an estimated 68 446 eligible students(BUSINESS DAY 2024).Loans are interest free during study but accrue interest after graduation(NSFAS 2024).

There are three weaknesses.First,rationing:over half the cohort goes unfunded.Second,Collection: repayment still depends onNSFAS whose earlier loan collection rate fell to 2.4% and in September 2026 the Minister reported that a loan Management System was only beginning development was only the beginning development(manamela 2026).Third, design: an interest bearing loan run outside the tax system looks more like a conventional loan than the ICLs of Australia and England ,so it protects borrowers less against unemployment and still relies on NSFAS tracking graduates the weakness that undermined the old scheme. The scheme is best treated as a pilot to be reformed not a rival to replace.

6.A Proposed Model

South Africa should adopt a tiered System:keep the missing middle loan as Tier 2 and reform it through five design choices.R350 000 and R600 000 are usual definition of the missing middle and the other thresholds are illustrative and need microsimulation. A grant loan blend for households just below R350 000 is deliberately left out,it would put debt on households that are now eligible for bursaries ,could discourage participation and undermine equity(Mgaiwa and Ishengoma 2023) and save little in upfront case

Table 1: Proposed tiered financing structure

tier	household income	instruments
1	below R350 000	full grant for tuition and capped living costs ,with tighter controls
2	R350 000-R600 000	Reformed NSFAS loan:income contingent ,collected by SARS, No rationing
3	Above 600 000	Private credit ,no automatic state guarantee

First,Protect grants for poor and pay for the controls.Grants should cover reasonable living costs with accommodation caps ,accredited providers and progression rules.Eligibility

should rest on multidimensional indicators of housing affordability and income mobility such as school ,rural versus urban origin and parental education levels rather than a single income cut off(White law et al.2023).Retaining this current grant floor is crucial ,if it were replaced entirely by a loan system the ICL would become a de facto tax on the poorest graduates.The savings from these controls help finance the loan tier

Second, make repayment income contingent and test whether it's affordable. As an illustration,repayment begins at about R150 000 a year at a marginal 10% of income above that (Australia's rate is 15 cent ,England's 9%).Being above the income tax threshold does not make this affordable by itself.A graduate earning R180 000 takes home about 13 600 a month after tax and UIF(SARS 2026).Rent average R9 582 in early 2026 (Payprop 2026) so even half of it leaves about R8800 before food and transport and the R250 monthly repayment is roughly 3% of that.That is manageable only for graduates who share housing or live at home so the threshold should should be indexed to wages and set by microsimulations against graduate earnings and living costs.Deductions pause automatically during unemployment.

Zero or low real interest and statutory write off after say ,25 years protect borrowers but raise the subsidy and the trade trade off is real .A graduate earning R300 000 repays R 15 000 a year and needs about 24 years to clear a three year loan of roughly R357 000 (three years at R119 000). A graduate on R18 ,000 never clears it, and the balance is written off. The 50% recovery assumed below therefore needs many graduates to earn above R30 000, which is uncertain given graduate unemployment. The levers move both sides at once: a 12% rate cuts the R300 000 earner's clearing time to about 20 years but lifts the R180 000 earner's payment to R 600. Parameters should therefore meet two published tests: repayment below 5% of take-home pay for graduates earning up to R250 000 (a 10% rate passes, 12% fails, on SARS 2026 tax tables), and base-case present-value recovery of at least 50%, or 30% under stress. A breach triggers a pre-announced adjustment to the threshold, rate or horizon.

Third, make SARS the principal recovery agent. Legislation should create a single repayment obligation collected through PAYE, with secure links between student, tax and employer records, as Molete and Stumke (2025) also recommend. The Loan Management System should be built to SARS specifications, with graduate registration integrated into SARS so that earners outside payroll can be reached.

Fourth, budget honestly for the subsidy, and use it to widen access. The R3.8 billion funds about 31,884 students, roughly R119 000 each per year (my calculation from reported figures). Funding all 68 446 at that rate would cost about R8.2 billion in cash per year. As grants, the lifetime cost is also R8.2 billion. As loans with 50% recovered in present-value terms (an assumption, not a forecast), the lifetime subsidy falls to about R4.1 billion, and at a pessimistic 30% recovery it is about R5.7 billion, still 30% below the grant. Although partial loan recovery could reduce the government's long-term fiscal cost relative to an equivalent grant programme, expanding coverage would still require substantial upfront public financing. The feasibility of universal missing-middle coverage would therefore

depend on both expected lifetime repayments and Treasury's capacity to accommodate the additional short-term funding requirements. Annual cash needs rise by about R4.4 billion before recoveries arrive, so Treasury must fund the loan book first. Treasury should publish each cohort's expected lifetime subsidy under base and stress scenarios.

Fifth, manage non-completion. It is a bigger default risk than unemployment, because dropouts carry debt without the degree premium. Loans should be released year by year on academic progress, balances of students who leave without a credential should be written off over a shorter horizon, and institutions should be funded for advising and tutoring.

Feasibility. Legally, SARS collection needs legislation authorising data-sharing and deductions, which will be slow but builds on existing PAYE machinery. Administratively, the Loan Management System is under construction, and the scheme's roughly 32 000 borrowers provide a ready pilot. Fiscally, universal coverage needs Treasury to find the extra R4.4 billion a year, so coverage should expand in steps as repayment evidence accumulates, over three to five years starting with first-year students (Molete and Stumke 2025 also recommend piloting). Low formal employment and weak data links remain the main risks, and pause rules and honest pricing of non-repayment are the answer to them.

7. Conclusion

NSFAS's recurring financial pressures reflect the limitations of a predominantly grant-funded system, compounded by historical weaknesses in loan recovery and persistent administrative challenges. Australia shows that a well-calibrated ICL collected through the tax authority can recycle capital. England and Chile show that thresholds, rates, write-off rules and private credit risk decide whether a loan scheme is genuine cost recovery or an expensive deferred grant.

South Africa's existing missing-middle loan is a start, but it rations access and relies on weak collection. Reforming it into a SARS-collected ICL within a tiered system could reach the whole missing middle—currently estimated at nearly 70,000 eligible students—at a lower, bounded lifetime cost than grants. While registering students with SARS introduces a novel compliance mechanism, this legibility allows for equitable adjustments; for instance, provisions could be made to retroactively convert bursaries to loans if a grant beneficiary eventually out-earns a missing-middle graduate by a significant margin. That will not cut spending overnight, but it builds fiscal sustainability into the system while widening access. The recommendations are to keep grants below R350,000, set repayment parameters by published affordability and recovery tests, and expand coverage as repayment evidence builds. The main limits are the illustrative parameters and uncertain graduate employment, so a pilot and microsimulation come first.

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