

UNDERGRADUATE CATEGORY

Word count (excluding references): 1919

How Can South Africa Build a Fiscally Sustainable Student-Financing Model That Enhances Access to Higher Education?**1. Introduction**

South Africa must finance greater participation in higher education without compromising public finances or the quality of education. The National Student Financial Aid Scheme (NSFAS) addresses historically unequal opportunities, yet its administrative weaknesses and graduates' uncertain earnings complicate sustainable financing (Matyana et al., 2023; Yende, 2024). The central question is therefore how to distinguish necessary public subsidies from avoidable fiscal losses. This essay first examines South Africa's financing constraints, then compares international evidence on free tuition, income-contingent lending and spending efficiency. It subsequently evaluates how lifetime loan costs and educational outcomes should be measured. The conclusion synthesises the evidence, followed by recommendations for a South African financing mechanism. The guiding principle is that fiscal sustainability should minimise avoidable costs, not eliminate the public cost of equity or shift unavoidable risks unfairly onto vulnerable graduates.

2. The fiscal problem extends beyond the size of NSFAS

NSFAS addresses financial exclusion, but its scale must be understood within the constrained economy of South Africa. The National Treasury (2026) revised its 2026 real-growth forecast down from 1.6% to 1.2%, and reported that public debt stabilising was calculated to be 78.4% of Gross Domestic Product (GDP) in 2025/26. This slow growth restricts future tax revenue and graduate employment prospects while high debt limits fiscal flexibility even when its ratio stabilises. Even though these figures do not measure NSFAS affordability directly, they outline how optimistic repayment assumptions could potentially be risky. Matyana et al. (2023) also identify weaknesses in NSFAS administration, with these problems raising spending without delivering corresponding improvements in student success.

Furthermore, the 2024 Comprehensive Student Funding Model announcement provided for loans to students with household incomes above R350,000 and up to R600,000. Its R3.8 billion initial capitalisation was intended to reach 31,884 of an estimated 68,446 missing-middle students, which is approximately 47% (Department of Higher Education and Training, 2024), but these are announced targets, not verified outcomes. Yende (2024) links repayment difficulties on historical NSFAS loans to graduate unemployment. This separates unavoidable insurance costs, when graduates cannot earn enough to repay, from avoidable losses through erroneous payments or weak collection. The policy challenge is therefore to improve and evaluate an emerging hybrid system.

3. International lessons: who pays, who benefits and who bears risk**3.1 The Fiscal Trade-offs of Tuition-Free Higher Education**

Fu, Ishimaru and Kennan (2024) use a structural economic model of the United States to examine how governments and households respond when public colleges become tuition-free. Their simulations predict higher college attainment but also show that state governments respond by raising taxes and reducing educational expenditure per student. Consequently, graduation rates at public four-year colleges fall from approximately 62% to 57%, while most households experience welfare losses as higher taxes and reduced

public investment outweigh tuition savings. These findings highlight a fiscal trade-off relevant to South Africa. Eliminating tuition fees does not eliminate the cost of providing education. If increased enrolment is not matched by sufficient public funding, universities may have fewer resources per student, potentially weakening educational quality and graduation outcomes. However, these effects depend on how South Africa finances and implements such policies.

3.2 Balancing Repayment Affordability and Fiscal Risk

Gary-Bobo and Trannoy (2015) analyse optimal student-loan contracts under uncertain labour-market outcomes, private information and incentives affecting effort. Their theoretical result supports income-contingent repayment or graduate taxation as ways to combine insurance and redistribution, while showing why complete insurance may weaken incentives. Similarly, Callado-Muñoz, Del Rey and Utrero-González (2019) simulate an income-contingent loan with personal insurance using Spanish data. The study finds that covering non-repayment through borrowers' contributions can leave middle-income graduates paying proportionately more towards others' unpaid balances, thus proposing a minimum repayment period to make the mechanism more progressive within the graduate population. The key insight is that repayment rates, insurance financing and the distribution of residual losses must be designed together. Merely increasing repayment rates need not correct who bears the burden. From a South African context, Yende's (2024) evidence on unemployment means the pool of graduates able to cross an earnings threshold may be smaller or less predictable. Nor should a 'self-financing' loan scheme be celebrated if it protects taxpayers by imposing excessive costs on missing-middle borrowers. The Spanish and theoretical studies together justify a capped borrower contribution alongside an openly budgeted public insurance subsidy (Gary-Bobo & Trannoy, 2015; Callado-Muñoz et al., 2019).

3.3 Evaluating the Efficiency of Public Education Spending

Grigoli (2014) examines the efficiency of public spending on secondary education expenditure in emerging and developing economies, identifying opportunities to improve enrolment through better governance and resource allocation. Similarly, Neely and Diebold (2016), study Pennsylvania school districts and find that distinguishing between different categories of educational spending helps identify how expenditure relates to different educational outcomes. Even though the studies are not directly related to NSFAS, the key takeaway for South Africa is that aggregate spending figures alone cannot show which inputs produce valued outcomes.

4. Measuring the true fiscal cost of lending

An income-contingent loan creates an immediate funding requirement and uncertain future repayments. Drawing on the approach used by Callado-Muñoz et al., 2019, the proposed model would record loan disbursements for each student cohort, estimate future repayments based on graduate earnings and calculate their present value to determine the expected public subsidy.

Expected loan subsidy = initial loan disbursements – present value of expected repayments.

For illustration, if government advances R1 billion in student loans but expects repayments worth only R600 million in present-value terms, the expected loan subsidy would be R400 million, excluding other costs. This demonstrates why the full amount lent should not be treated as recoverable public funds. Forecasts should thus aim to reflect South African employment transitions, irregular earnings, repayment thresholds and completion. The proposed framework should also assess the expansion of funding for missing-middle

students. In January 2024 government announced plans to provide between R31.6–R42.1 billion in seed funding over 2025–2034, although actual expenditure would depend on subsequent implementation and budget allocations (Department of Higher Education and Training, 2024).

Table 1 stress-tests each new loan cohort against alternative graduate-earnings outcomes. These are scenarios for fiscal planning, not forecasts.

Table 1. Stress-testing repayment affordability and the public subsidy

Graduate-earnings scenario	Repayment implications	Required fiscal response
Strong employment and earnings	More borrowers exceed the threshold therefore recoveries rise and write-offs fall.	Use recoveries to replenish the lending facility but do not assume this outcome every year.
Moderate employment and earnings	Repayments arrive gradually therefore some balances remain unpaid.	Maintain the planned subsidy reserve and review repayment forecasts annually.
Persistent unemployment and weak earnings	Few graduates reach the threshold therefore recoveries fall and expected write-offs increase.	Draw on budgeted contingency provision and review new lending assumptions without charging struggling graduates more.

Source: Author's proposed scenario framework informed by Callado-Muñoz et al. (2019) and Yende (2024).

Testing all three outcomes prevents optimistic repayment assumptions from hiding future public liabilities. It also makes the distributional decisions clear that losses caused by low lifetime earnings should be budgeted transparently as opposed to automatically shifted onto middle-income graduates through higher charges (Callado-Muñoz et al., 2019; Yende, 2024).

5. Evaluating Fiscal Sustainability and Educational Outcomes

Table 2 proposes linked measures of access, persistence, completion, loan recovery, administrative performance and public cost. Together, they test whether the scheme achieves equitable qualifications at a manageable fiscal cost, drawing on the expenditure-efficiency approaches of Grigoli (2014) and Neely and Diebold (2016).

Table 2. Proposed cohort-level performance indicators

Measure	Proposed indicator	Relevance
Equitable access	Number and share of funded students from low-income and missing-middle households, compared with eligible applicants.	Shows whether funding reaches students facing financial barriers.
Retention	Percentage of funded students who register again in the following academic year.	Tests whether support is sufficient to keep students studying beyond just admission.
Completion	Percentage of each funded intake completing a qualification within a defined period.	Tests whether expanded access produces qualifications.
Repayment	Present value of repayments expected from a loan cohort as a share of the amount lent.	Shows how much lending is likely to be recovered, allowing for unemployment, low earnings and write-offs.
Administration	Cost per funded student, plus incorrect payments and delays in disbursement.	Identifies avoidable costs and whether administrative problems prevent timely support.
Fiscal efficiency	Grants + expected loan subsidy + administration, divided by completed qualifications for the cohort.	Connects the public cost to successful outcomes, compared alongside access and student disadvantage.

Source: Author's proposed framework informed by Grigoli (2014), Neely and Diebold (2016), and Matyana et al. (2023).

These measures must be read together. Spending less may lead to restricted access as opposed to greater efficiency because fewer disadvantaged students receive funding. Equally, funding more students without improving completion can increase public costs without producing more qualifications (Fu et al., 2024). Comparing cohort outcomes and costs together helps distinguish genuine efficiency gains from simply reducing support.

The most revealing measure is net public cost per completed qualification, calculated across a cohort rather than from a single year's payments. It should include grants, the present-value loan subsidy, administration and relevant support costs, divided by completed qualifications. However, this ratio must be reported separately by household-income group, institution type and field of study. Completion should also be measured over realistic periods, rather than assuming every student follows an identical pathway. This is a proposed application of the efficiency logic developed by Grigoli (2014) and Neely and Diebold (2016).

6. Conclusion

The literature establishes three constraints on sustainable financing. The first being that universal tuition subsidies can create costly trade-offs with educational quality and earlier investment (Fu et al., 2024). Secondly, income-contingent loans provide earnings insurance but leave a fiscal risk that must be allocated for (Gary-Bobo & Trannoy, 2015; Callado-Muñoz et al., 2019). Thirdly, South African repayment difficulties and governance weaknesses make both realistic payment expectations and institutional accountability essential (Yende, 2024; Matyana et al., 2023). Efficiency research further shows why spending should be assessed against outcomes (Grigoli, 2014; Neely & Diebold, 2016). The evidence therefore supports a design framework that preserves necessary subsidies, remove avoidable losses and distribute residual risk in a progressive manner.

7. Recommendations

South Africa should strengthen its existing hybrid approach which aims to preserve grants for poor students, assess missing-middle loans against realistic earnings and require greater direct contributions from affluent households. The 2024 scheme also proposed a 60% pass requirement and potential 50% loan reduction for qualifying high achievers (Department of Higher Education and Training, 2024). With the stipulated incentives, performance relief has a fiscal cost and rigid academic conditions may disadvantage students facing unequal preparation and living circumstances (Fu et al., 2024). Drawing on the income-contingent repayment systems examined by Barr, Chapman, Dearden and Dynarski (2019), South Africa could explore a similar mechanism through cooperation between NSFAS and the South African Revenue Service. Repayments would depend on graduates' earnings and begin only above a specified income threshold, protecting low-income borrowers while allowing government to recover funds from those able to repay. Implementation would require appropriate legislation and administrative capacity.

Government should budget the expected lifetime subsidy for each cohort and disclose the difference between cash lent and repayments likely to be recovered. Middle earners should not become the residual insurer of every unsuccessful loan, a distributional concern unpacked by Callado-Muñoz et al. (2019). The 2024 model's announced eligibility and funding targets offer a baseline against which actual access can be tested. Success would mean equitable qualifications at a manageable public cost.

References

- Barr, N., Chapman, B., Dearden, L. and Dynarski, S. (2019) 'The US college loans system: Lessons from Australia and England', *Economics of Education Review*, 71, pp. 32–48.
- <https://doi.org/10.1016/j.econedurev.2018.07.007>
- Callado-Muñoz, F.J., Del Rey, E. & Utrero-González, N. 2019. Income-contingent loan with personal insurance policy: an empirical assessment using Spanish data. *Applied Economics*. 51(52): 5701–5711. <https://doi.org/10.1080/00036846.2019.1619017>
- Department of Higher Education and Training. 2024. Minister Blade Nzimande: announcement of implementation of first phase of Comprehensive Student Funding Model. 14 January. Available: <https://www.gov.za/news/media-statements/minister-blade-nzimande-announcement-implementation-first-phase-comprehensive>
- Fu, C., Ishimaru, S. & Kennan, J. 2024. Government expenditure on the public education system. *International Economic Review*. 65(1): 43–73. <https://doi.org/10.1111/iere.12659>
- Gary-Bobo, R.J. & Trannoy, A. 2015. Optimal student loans and graduate tax under moral hazard and adverse selection. *RAND Journal of Economics*. 46(3): 546–576.
- Grigoli, F. 2014. A hybrid approach to estimating the efficiency of public spending on education in emerging and developing economies. IMF Working Paper WP/14/19. Washington, DC: International Monetary Fund.
- Matyana, M., Thusi, X., Xaba, M.R., Dlamini, N. & Sigwaza, S.L. 2023. An evaluation of the National Student Funding Aid Scheme (NSFAS) policy in South African universities: implications and challenges. *JISR Management and Social Sciences & Economics*. 21(4): 1–16. <https://doi.org/10.31384/jisrmsse/2023.21.4.1>
- Neely, S.R. & Diebold, J. 2016. Public expenditures and the production of education. *Education Policy Analysis Archives*. 24(88). <https://doi.org/10.14507/epaa.24.2441>
- National Treasury. 2026. Medium-Term Budget Policy Statement 2026: statement by the Minister of Finance. 21 October. Available: <https://www.gov.za/news/speeches/minister-enoch-godongwana-medium-term-budget-policy-statement-2026-21-oct-2026> [Accessed: 27 October 2026].
- Yende, S.J. 2024. Challenges faced by National Student Financial Aid Scheme (NSFAS) graduates in repaying loans and debt: a content analysis. *African Journal of Inter/Multidisciplinary Studies*. 6(1): 1–13. <https://doi.org/10.51415/ajims.v6i1.1326>