Financing Opportunity: Building a Fiscally Sustainable Student-Financing Model for South Africa

TABLE OF CONTENTS

Introduction	**Page 3**
The Challenge Of Fiscal Sustainability	**Page 3**
Governance and Accountability	**Page 3**
What South Africa Can Learn From Other Countries	**Page 4**
Proposed Human Capital Investment Fund	**Page 4**
The Trade-Off Between Affordability and Sustainability	**Page 4**
Limitations And Future Research	**Page 5**
Conclusion And Recommendations	**Page 5**
References	**Page 6**
Appendix 1: Infographics	**Page 7 - 11**

Student Financing in South Africa: Balancing Fiscal Sustainability and Social Justice

Introduction

As a Black South African student who falls within the middle class, I take quite an uncomfortable position in the student-financing debate. I may not qualify for government assistance, yet I recognise that the opportunities that allow my family to fall within this income bracket are partly the result of government interventions we contribute to. Simply put, this is the contradiction: I may be considered financially capable of funding my education, even when that does not necessarily mean it is affordable. My experience reflects the challenge of the *missing middle* (students who are neither poor enough to qualify for comprehensive funding nor wealthy enough to comfortably finance higher education independently)

The National Student Financial Aid Scheme (NSFAS) has significantly expanded access to higher education. In the 2026 Budget, government allocated R54.3 billion to support 744 203 financially needy and academically deserving students (National Treasury, 2026a). However, rising expenditure, administrative failures and competing fiscal priorities emphasise the already existing questions about the sustainability of the current financing model.

I argue that South Africa should not abandon its commitment to accessible education but should correct how it is financed. A progressive model combining grants for the poorest students with income-contingent loans and grants for the missing middle could balance social justice with fiscal responsibility. The problem is not access, but how we finance access

NSFAS expenditure increased from approximately R10 billion in 2015/16 to R55.4 billion in 2025/26, reflecting the growing demand for financial assistance (Statistics South Africa, 2025). **(refer to figure 1 in appendix 1)** Yet South Africa faces significant fiscal constraints. Debt-service costs account for 20.8% of government revenue in 2026/27, limiting the resources available for competing public priorities (National Treasury, 2026b). (refer to figure 2 in appendix 1)

From my perspective, this debate cannot simply be about whether students deserve funding. It needs to consider how assistance can reach those who need it without placing an unsustainable burden on future taxpayers. Equally, assuming that every middle-class household can afford university fees ignores the financial pressures faced by families who earn too much to qualify for assistance but too little to comfortably absorb the costs of higher education, which as we all know, is relatively steep.

The World Bank (2019) argues that South Africa could expand post-school education sustainably by prioritising grants for the poorest students while extending income-contingent loans to those with a greater capacity to contribute.

Governance is equally important. In 2026, approximately 40 000 students were improperly funded to the value of R5.1 billion, highlighting weaknesses in NSFAS administration and oversight (Parliament of South Africa, 2026). The Special Investigating Unit also recovered R1.7 billion in NSFAS-related funds following inadequate financial controls (SIU, 2026). (refer to figures in appendix 1) These cases show that sustainability requires not only responsible spending, but also accountability for how public resources are distributed.

This argument furthers the perspective reflected in previous Budget Speech Competition winners, particularly the relationship between governance, incentives and economic outcomes. Just as weak institutions can undermine public investment, weaknesses in student-financing administration can prevent government expenditure from achieving its intended social returns. Fiscal responsibility must therefore involve not only controlling expenditure but ensuring that

public resources translate into meaningful opportunities for who the government serves and not themselves.

What South Africa can learn from other countries

Oversea insights show that student financing does not have to rely on grants or traditional loans. The ICETEX system in Colombia shows how targeted student loans can increase access to education including for students who are in a disadvantaged position (World Bank, 2020). Chile, however, shows the dangers of government-backed loans when the government ends up responsible for people who cannot pay back the money they borrowed (OECD, 2026). Australia provides a good example through income-based repayment, where graduates only pay back their loans once their income is, above a certain level (OECD, 2020; World Bank, 2015). (refer to figures in appendix 1) For South Africa the lesson is that financial help should take into account the situations of students and their ability to contribute to the future of treating every student the same when it comes to paying. We need a fair student-financing system that considers the lasting economic and political impacts of Apartheid.

South Africa should reform NSFAS through a Human Capital Investment Fund that combines four financing approaches:
(refer to figures in appendix 1)

1. Students from the poorest households should continue receiving comprehensive grants covering tuition and essential living expenses. These students should not be expected to finance their education through debt when their families lack the means to support them.
2. Missing students should qualify for subsidised income-contingent loans. Eligibility should consider household income, financial obligations, household dynamics, and economic vulnerability than relying only on a strict income cut-off. Repayment should start when graduates earn above a reasonable minimum with payments rising gradually as income rises like every economic model implies.
3. The government should look to diversify its funding by working closely with employers, Sector Education and Training Authorities (SETAs) and industries that are facing skills shortages. The SETA levy income is expected to reach R88.2 billion during the 2026 Medium-Term Expenditure Framework period. This financial opportunity can be used to strengthen skills development programs and better support students in fields that are in high demand, in the economy (National Treasury, 2026a).
4. Government needs to develop better accountability mechanisms

These reforms must be accompanied by stronger governance, integrated student and household informative data, independent audits, and improved coordination between universities, NSFAS and the South African Revenue Service. The aim should be to ensure that public funding reaches eligible students and that graduates who can afford to repay contribute towards supporting future generations, which is revolutionary.

The trade-off between affordability and sustainability

Income-contingent loans carry risks. If repayment thresholds are too low or graduate unemployment stays high students might keep debt for years without real repayment progress. Income-contingent loans must be built around South Africa's labour-market realities with repayment thresholds, low interest, and eventual debt write-offs.

Loans must not replace grants for students who truly cannot pay for education. A progressive system must recognise that economic mobility does not automatically mean stability. This issue is especially important to me as a Black middle-class student. Policies that widen access, to education give families chances to overcome economic exclusion.

However, students from families that have undergone that transition may experience exclusion from support, even while continuing to face significant financial challenges. Even more crucially, loans should not replace grants for students who truly cannot afford to pursue higher education. A progressive system must acknowledge that economic mobility does not inherently ensure financial stability. This is especially pertinent to my role as a Black student from a middle-class background. Policies that enhance access to education facilitate opportunities for families to rise above past economic marginalisation.

Similarly, students from families that have undergone that change might feel overlooked for support even though they continue to experience significant financial challenges. A sustainable funding model must recognise this truth without reallocating resources from those in the most severe poverty.

Limitations and Future Research

The model that has been suggested depends on the government's ability to track graduate incomes collect repayments and manage defaults efficiently. Because the current administration at NSFAS has some gaps income-contingent loans could create fiscal risks if loan repayments are not monitored closely or if graduate unemployment stays high. More research should use African data, about household income, graduate salaries, unemployment rates and repayment habits to set suitable eligibility limits, repayment percentages, and debt forgiveness timelines. This would help to determine if the model can reliably increase access without worsening the model's risk.

Conclusion and recommendations

If I were answering a different question, my answer would be that education should be free. However, we cannot ignore the fiscal and institutional realities of the country we live in. South Africa continues to confront the consequences of an education system historically designed to leave the Black child behind, alongside the misallocation of public resources, governance failures and decisions that have too often undermined the country's development. The reality is that, under these circumstances, fully state-funded higher education may not be fiscally feasible. But acknowledging that does not mean accepting that education should cost students and their families an arm and a leg.

As a black middle-class student, I see the contradiction clearly. I benefit from the opportunities that were created through policies meant to fix injustices, yet I do not qualify for financial aid because I am no longer considered poor. That feels unfair. Even if a family has made progress financial strain can still be real. Just because someone is no longer at the bottom doesn't mean they can afford rising university costs. Education support should not be based on where a family stands today but on how much they can actually afford.

South Africa needs a financing system that considers levels of financial ability. We need grants for the poorest students, who still struggle with basic needs. For those in the middle, those who earn enough to not qualify for grants but still find fees too high, we need income-contingent loans, where repayments are based on what people earn after graduation. We need stronger accountability from institutions so that money is used wisely and education remains affordable.

The goal should not be to reduce how much the government spends on students. It should be to make sure every rand spent opens doors for the next generation. Education must stay a path, to better life and economic improvement. It should not become another hurdle that separates students who can afford the cost from those who cannot. Every student deserves a shot.

CAN SOUTH AFRICA BUILD FINANCING INSTITUTIONS THAT CONVERT SCARCE PUBLIC RESOURCES INTO LASTING HUMAN-CAPITAL OUTCOMES?

References

National Treasury. 2026a. *Budget Review 2026*. Pretoria: National Treasury. (National Treasury)

National Treasury. 2026b. *2026 Budget: A People's Guide to the Budget*. Pretoria: National Treasury. (National Treasury)

OECD. 2020. *Resourcing Higher Education: Student Fees and Student Financial Support*. Paris: OECD Publishing. (OECD)

OECD. 2026. *Education at a Glance 2026: How is Tertiary Education Financed?* Paris: OECD Publishing. (OECD)

Parliament of the Republic of South Africa. 2026. "Public Protector's Report on R5.1 Billion in Improper Student Funding Is Deeply Concerning." Pretoria: Parliament. (Parliament of South Africa)

South African Government. 2026. "NSFAS Concludes All Funding Decisions for 2026 and Mop-up Payments for 2025." Pretoria: Government of South Africa. (Government of South Africa)

Statistics South Africa. 2025. *Education Series Volume IX: Household and Government Expenditure on Education, 2025*. Pretoria: Statistics South Africa. (Statistics South Africa)

World Bank. 2015. "Don't Give Up on Student Loans: The Changing Patterns of Returns to Schooling and Policy Implications." Washington, DC: World Bank. (World Bank Blogs)

World Bank. 2019. *South Africa Economic Update: Increasing South Africa's Tertiary Enrollment Requires Rebalancing Resources*. Washington, DC: World Bank. (World Bank)

World Bank. 2020. "Increasing Access to Tertiary Education for Disadvantaged Youth in Colombia." Washington, DC: World Bank. (World Bank)

Special Investigating Unit. 2026. "SIU Returns Over R1.7 Billion into NSFAS Coffers." Pretoria: Government of South Africa. (Government of South Africa)

APPENDIX 1: INFOGRAPHICS

Figure 1: NSFAS funding growth has expanded access, but at a Rising fiscal cost

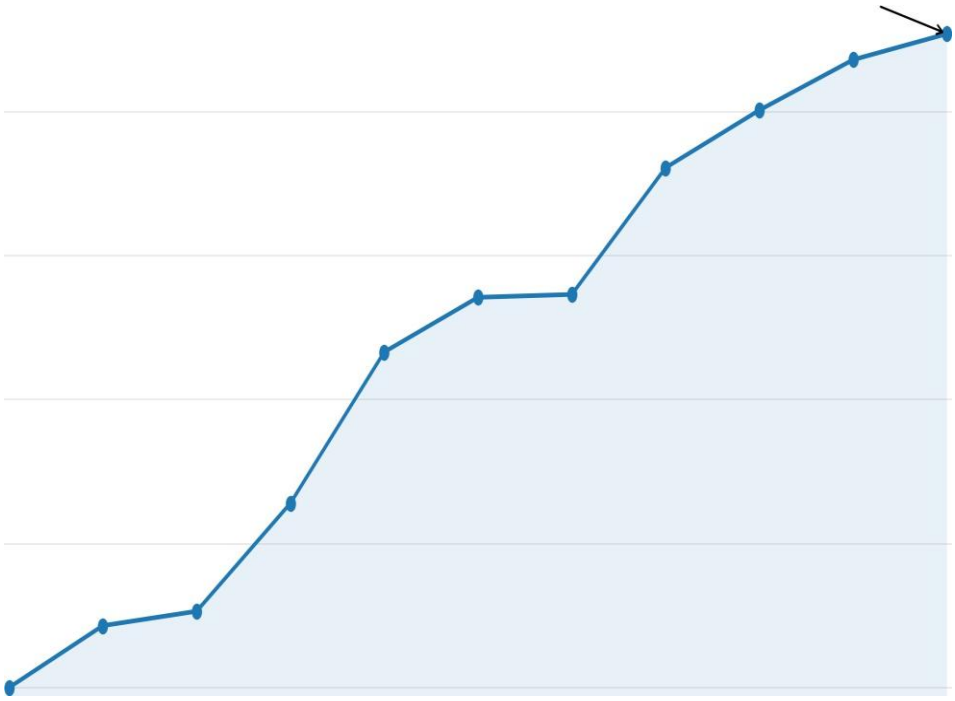
NSFAS budget allocation, 2015/16 - 2025/26 (R billion)

2015/16 > 4 2025/26: +R45.4bn (+454%)

2026/27 Budget: R54.3bn IS allocated

to NSFAS to support 744 203 poor

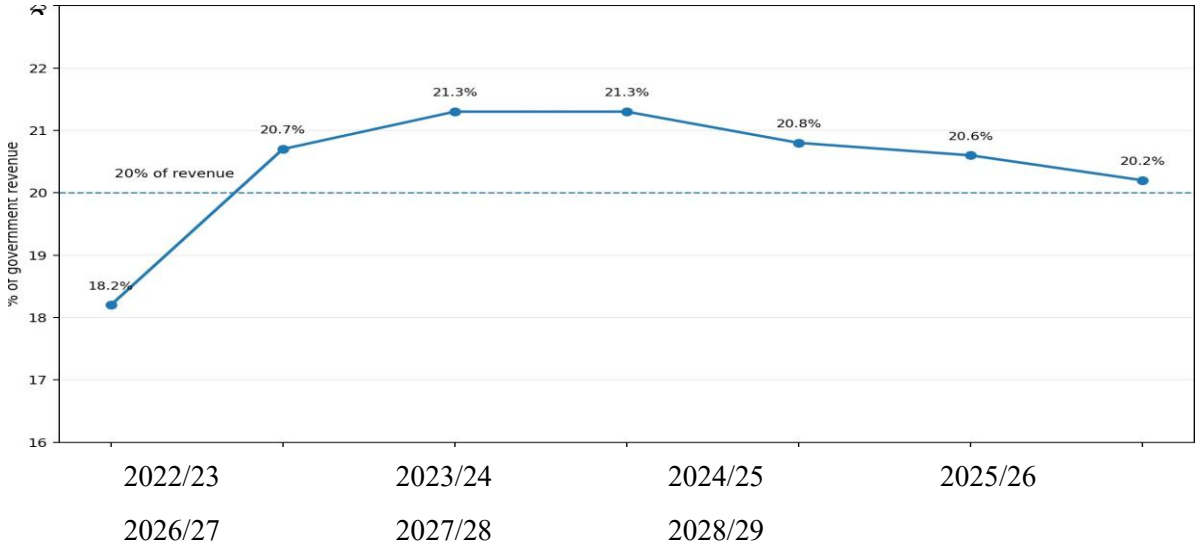
and academically deserving students.



The question is no longer whether South Africa should expand access, but how expansion can be financed without making the funding system progressively harder to sustain.

Figure 2: Fiscal space is constrained by debt-service costs

Debt-service costs as a percentage of government revenue



2026/27 anchor: debt-service costs = 20.8% of revenue. NSFAS receives R54.3bn in 2026/27.

The implication is not that education competes mechanically with debt service. Instead, rising debt-service obligations reduce the government's capacity to absorb permanently rising programme costs.

Figure 3: Student financing is also an institutional-governance problem

Historical empirical NSFAS findings show why fiscal sustainability requires verification, reconciliation and recovery

FISCAL SUSTAINABILITY = FUNDING CAPACITY + INSTITUTIONAL

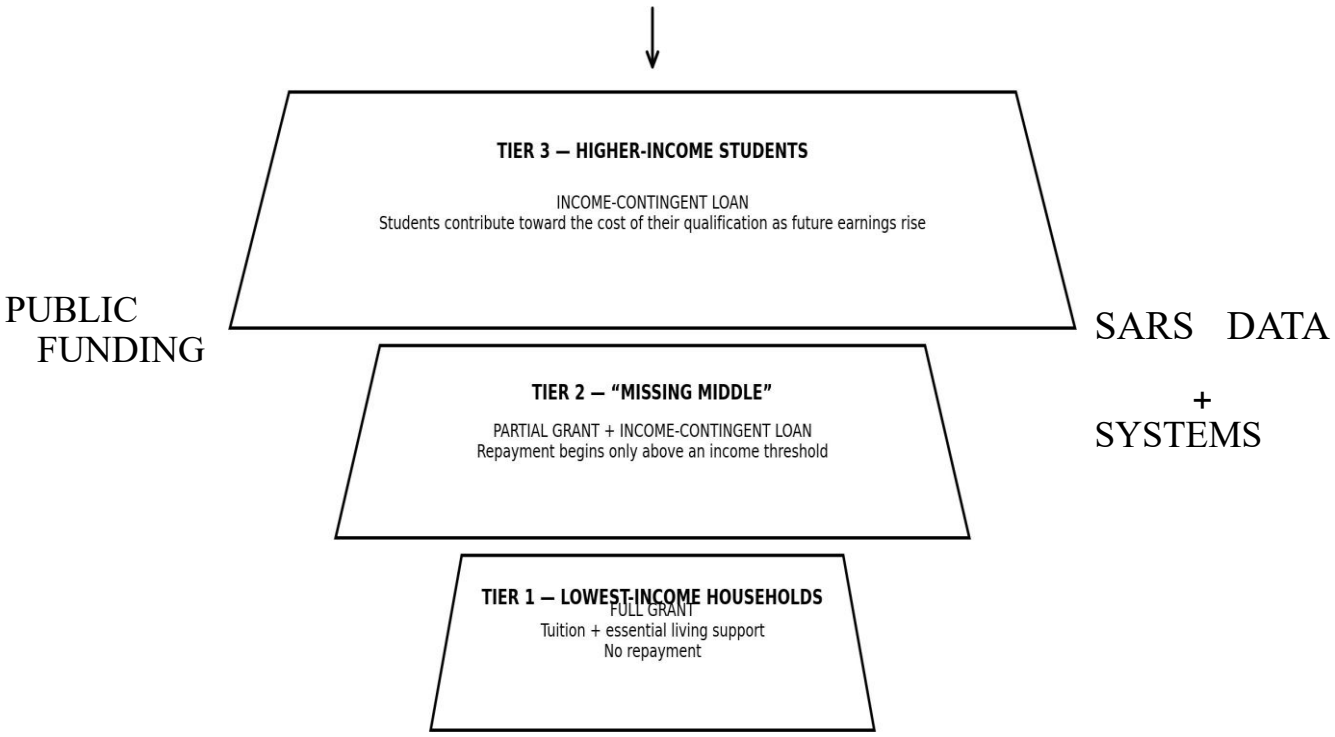
FUNDING ERROR **(R5.1 billion was improperly funded)**	**ADMIN FAILURES** **(weak verification & reconciliation systems)**	**ACCOUNTABILITY & RECOVERY** **(R1.7 billion recovered)**
• Approximately 40 000students were improperly funded • Funding discrepancies occurred in across 76 institutions • This is pure example of weakness in eligibility verification **PUBLIC FUNDS ARE LOST WHEN THE STYDENT ELIGIBLITY SYSTEMS FAIL**	• Poor coordination between NSFAS & the institutions • Insufficient oversight and monitoring • Errors lower efficiency of programmes **SUSTAINABLE FUNDING NEEDS INSTITUTIONS CAPABLE OF HANDLING THE LOAD OF WORK THAT GOES INTO ADMINISTERING FUNDING APPROPRIATELY**	• Recovered through Special Investigating Unit (SIU) interventions • Funds were returned to NSFAS • This highlights the importance of audits & accountability **ACCOUNTABILITY MECHANISMS CAN RECOVER WHAT CORRUPTION STEALS**

DESIGN IMPLICATION

A larger funding cannot by itself solve the problem.
A sustainable model must make eligibility verification, accurate data matching, reconciliation, recovery and transparent reporting a part of the core finance structure

Figure 4: Proposed model: a progressive Human Capital Investment Fund

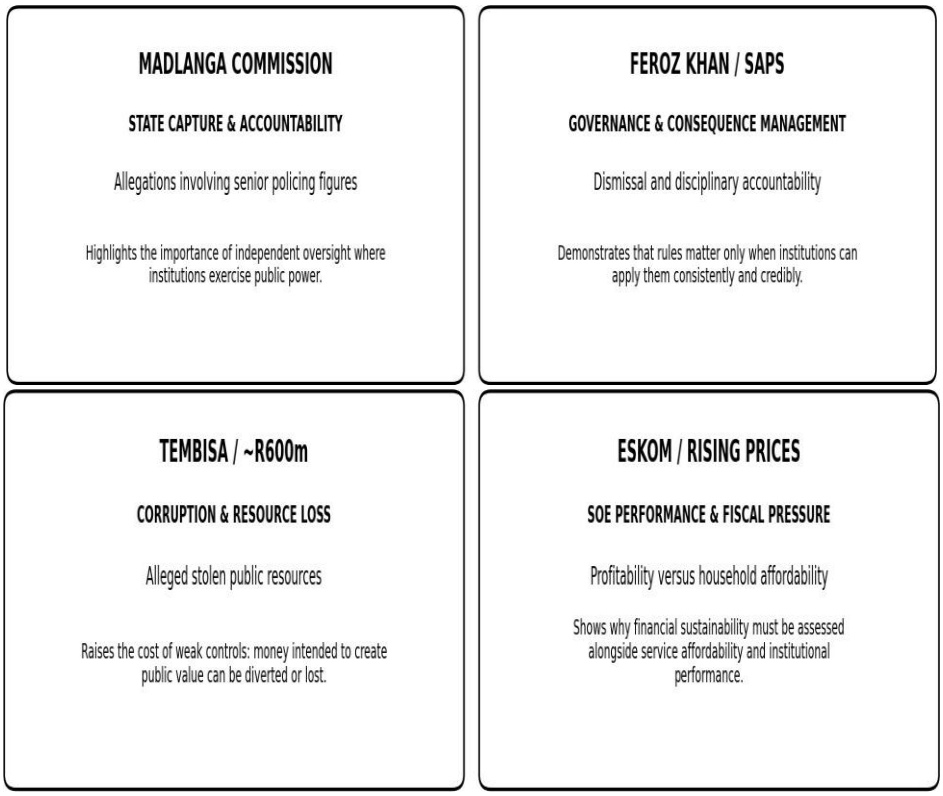
Replace the “onesize fits all” financing logic with support matched wit ability to pay



Core principle: subsidise need, finance capacity to pay, and recycle repayments into future cohorts.

Proposed model by author; informed by Australian HELP, Colombia's ICETEX PCI and lessons from Chile

Figure 5: The wider Budget conversation:

public money must become public value

Four video themes can be used as institutional context, not as direct evidence about NSFAS