How can South Africa build a fiscally sustainable student-financing model that enhances access to higher education?

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1. Introduction

The National Student Financial Aid Scheme is projected to spend R54.3 billion in 2026/27, although according to Treasury's predictions, it will finance almost 86,500 fewer university students than in the previous year, despite enrolment continuing to climb (National Treasury: 2026b). This kind of funding would typically be expected to increase access to higher education. A reduction in access is the expected outcome. This contradiction leaves unanswered the question of who should pay for a university degree and when a graduate should repay it.

This essay looks at ways South Africa might fund higher education so as to be both affordable for the state and inclusive of more students. It is my contention that no government can shoulder the entire expense by itself. A four-part model is put forward: a grant for those with the least means; an income-contingent loan for all other eligible students, to be recouped via the tax system; a waiver of repayment for any graduate whose education was privately paid for; and a bursary pool drawn from the skills expenditure large firms are already making in terms of B-BBEE. Section 2 analyses the shortcomings of the present model using Treasury's own figures. Section 3 draws lessons from Australia, England and Chile. Section 4 sets out the proposed model, and Section 5 assesses whether it can be sustained. The conclusion summarises the findings, and the recommendations present my own assessment.

2. The Limits of the Current Income Threshold

2.1 A growing funding shortfall

Table 1 below shows National Treasury's projections for NSFAS funding and recoveries.

Table 1: NSFAS funding trends and recoveries, 2025/26 to 2028/29

Indicator	2025/26	2026/27	2028/29
NSFAS expenditure (R billion)	59.2	54.3	58.0
University students funded	572,000	485,519	525,136
University enrolment	1,133,868	1,152,418	1,155,765
Share of enrolled students funded	50.4%	42.1%	45.4%
Loans recovered (R million)	120	250	350

Source: (National Treasury: 2026b), Tables 17.1, 17.26 and 17.27; share funded calculated by the author.

Table 1 shows that Treasury expects to fund about 86,500 fewer university students in 2026/27 than in 2025/26, even though enrolment rises, so the share of enrolled students funded falls from 50.4% to 42.1%. Targeted recoveries of R250 million in 2026/27 are less than 0.5% of spending, so repayments offer little relief. NSFAS reserves fell from R22.7 billion in 2022/23 to R8.0 billion in 2025/26 (National Treasury: 2026b), and by August 2026 only 61.5% of university allocations had been paid, leaving R10.49 billion owed (Daily Investor: 2026). The shortfall is projected to reach R33 billion by 2029 (Times Higher Education: 2026). With a fixed budget, the only ways to close the gap are to tighten eligibility or to delay payment.

2.2 Students Who Fall Just Above the Income Limit

Treasury explains that NSFAS supports students from households earning less than R350,000 a year, depending on the availability of funds (National Treasury: 2026b). Since 2024, a smaller missing-middle loan scheme with a budget of R3.8 billion over three years has also supported students from households earning between R350,000 and R600,000 (GO! & Express: 2025). A household earning R352,000 a year, for example, receives approximately R15,000 per month after deductions, while the estimated monthly cost of supporting one student at a contact university is around R19,000 (University of Pretoria: 2023).

The Special Investigating Unit also found that NSFAS did not use income information from SARS when assessing whether students qualified for funding (GO! & Express: 2025).

My assessment: The current income test does not always identify students who genuinely need support. Some students may be excluded because their household income is slightly above the limit, even though their families cannot afford university, while others may be funded despite their families being able to pay. Checking household income against tax records after graduation could make the system fairer.

3. Three Countries, Three Lessons

3.1 Australia: collection through the tax system

Australia uses the tax system to collect student loan repayments, but graduates only start repaying once their income reaches a certain threshold. In 2020–21, around 2.9 million people had student loan debt, and the Government Actuary estimated that 15.1% of newly issued loans would not be repaid (Parliament of Australia: 2021). According to the Grattan Institute, the tax authority cannot collect repayments from graduates living overseas, and a set of proposed reforms could reduce unpaid new debt from 17% to 7% (Norton and Cherastidtham: 2014).

3.2 England: careful pricing of loans

England also links repayment to earnings, but older loans carry interest above inflation and are written off after 30 years. In 2025, it was estimated that around 34% of the debt owed by full-time graduates on Plan 2 loans would remain unpaid (Dickinson: 2026). Newer loans charge interest at the rate of inflation only, but are written off after 40 years (Dickinson: 2026).

3.3 Chile: the exclusion of commercial banks

Chile initially relied on state-guaranteed bank loans. Their cost rose from 3% of the higher education budget in 2006 to 35% in 2017 (CIPER Chile: 2018), and the proportion of borrowers in arrears increased from 42% in 2013 to 60% in 2023 (Libertad y Desarrollo: 2024). Chile subsequently introduced free tuition for the poorest 60% of households, but contained the cost mainly by restricting eligibility (NPR: 2019).

Table 2 below compares the three countries in terms of their funding model and principal weakness.

Table 2: Lessons from three countries

Country	Model	Main weakness
Australia	Income-contingent loan collected through tax	15.1% of new debt unpaid; hard to collect abroad
England	Income-contingent loan with write-off	34% of Plan 2 debt unpaid; interest above inflation
Chile	Bank loans, then free tuition for 60%	60% of borrowers in arrears; eligibility limits

Sources: (Parliament of Australia: 2021); (Dickinson: 2026); (Libertad y Desarrollo: 2024); (NPR: 2019)

Table 2 shows that each model loses public money in some form.

My assessment: South Africa could adopt Australia's approach of collecting repayments through the tax system and England's newer approach of charging interest at the rate of inflation only. It should avoid commercial bank loans like those initially used in Chile, as these can become costly for both students and the government.

4. The Proposed Model: Open Access and a Fair Contribution

4.1 A single public fund

Every eligible student would apply for funding through one public student finance fund, without having to rely on commercial banks. The fund would pay universities and other institutions directly and on time, helping to address the money already owed to universities. To prevent unnecessary cost increases, fees and loan limits would be set for each programme, so institutions cannot raise fees simply because the government is paying. The Department of Higher Education already plans to submit a fee regulation framework to the Minister by March 2027 (National Treasury: 2026b), and the proposed limits would build on it.

4.2 A grant for the poorest

Students from the poorest households would receive grants to cover their tuition fees and basic living expenses. Parliament would set the budget several years in advance, so that spending cannot exceed it without proper planning. The living allowance would follow a clear formula adjusted for inflation. Funding would last for the full duration of the studies, with an additional year if needed, as NSFAS already provides (University of Pretoria: 2023).

4.3 An income-contingent loan for all other students

Other qualified students would be able to take out loans to cover their study costs. These loans would charge interest at the rate of inflation only, which prevents the debt from becoming too expensive over time. Repayments would be collected through SARS once graduates earn above a certain income level, with those earning more paying back a higher percentage of their income. Self-employed graduates would make their repayments through their tax returns, while graduates living overseas would also be required to declare their income. SARS already has access to income information that NSFAS did not use (GO! & Express: 2025). Linking repayments to SARS would therefore be an important part of making the system work.

4.4 Fairness for privately funded graduates

Only students whose studies were publicly funded would have to repay. Graduates who paid their own fees or received bursaries would owe nothing, so that no one pays twice.

4.5 A bursary pool funded by company skills spending

Large companies are expected to spend 2.5% of their leviable amount on bursaries for black students at higher education institutions to earn four B-BBEE scorecard points (Cliffe Dekker Hofmeyr: 2019). Skills development is also a priority element, with a 40% sub-minimum requirement (Cliffe Dekker Hofmeyr: 2019). In my assessment, most companies manage their own bursary schemes, which spreads funding across different programmes. I propose that contributions to the public student finance fund should also count towards the 2.5% target, which could help more students access funding at lower administrative cost. The Department of Trade, Industry and Competition would need to amend the Codes, while ensuring that the fund continues to prioritise black students.

5. Ensuring Long-Term Sustainability

5.1 Budgeting for unrecovered loans

Table 3 below shows how much of each R100 lent the state would recover in two scenarios.

Table 3: Recovery per R100 lent (illustration)

Scenario	Recovered	Not recovered
Australian-type (15.1% unpaid)	R84.90	R15.10
English Plan 2-type (34% unpaid)	R66.00	R34.00

Source: Author's illustration based on (Parliament of Australia: 2021) and (Dickinson: 2026)

Table 3 shows that the unrecovered share represents a real cost. It may be higher in South Africa, where youth unemployment stands at 45.8% (Stellenbosch University: 2026). Treasury should therefore provision for the expected loss each year, and an annual actuarial review should adjust the threshold and repayment rate before a shortfall accumulates.

5.2 The case for fully free education

Free education is politically popular, and the Chilean experience shows why (NPR: 2019). It also shows the cost, since Chile had to limit eligibility. The proposed model keeps the commitment that matters most: no student pays while poor, and repayment begins only once a graduate earns a sufficient income.

My assessment: This is a fairer use of limited public funds than free tuition for all students, including those who are able to pay.

6. Conclusion

This literature study explored how South Africa can create a student funding system that is financially sustainable while giving more students access to higher education. Drawing on Treasury documents and published research, it found that NSFAS faces challenges because of limited funding and weaknesses in its income verification process. Lessons from Australia, England and Chile show the importance of collecting repayments through the tax system while avoiding high interest rates and costly bank loans. The proposed model addresses these challenges through grants for the poorest students, affordable loans collected through SARS, protection for privately funded graduates and company contributions towards student bursaries.

7. Recommendations

In my assessment, the proposed model is workable, provided that four conditions are met.

1 **Link the loan system to SARS before introducing it.** The model depends on automatic repayment through SARS, so it should be tested at a few institutions first.

2 **Encourage private bursaries.** Every privately funded student reduces the pressure on the government, so bursary providers should receive tax incentives. This is my own proposal.

3 **Publish an annual sustainability report.** It should present repayment rates, write-offs and grant expenditure, so that problems appear in the report long before they appear as a R15 billion shortfall.

4 **Direct part of the skills levy to scarce-skill degrees.** The skills levy is expected to generate R88.2 billion over the medium term, and Treasury has commissioned a review of the skills system (National Treasury: 2026a). This creates an opportunity to involve employers in funding the graduates they need. This is also my own proposal.

Some loans will never be repaid, and that cost remains under the proposed model. The model would show it openly and budget for it in advance, as NSFAS currently does not.

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