

Building a Fiscally Sustainable Student-Financing Model for South Africa

Undergraduate

1. INTRODUCTION

Higher education supports economic growth, employment, innovation and social mobility. Yet the cost of university study keeps many students from poor households out, while the state's capacity to pay is limited. South Africa's National Student Financial Aid Scheme (NSFAS) shows both sides of this problem: it widens access, but it also places growing pressure on public finances. The central question is therefore how South Africa can widen access to higher education without creating funding commitments that the state cannot sustain.

This essay is a literature study. In it, fiscal sustainability means the government's ability to meet its financial obligations over time without allowing debt and deficits to become unmanageable. Section 2 describes South Africa's student-financing system, its origins in the fee protests and the Heher Commission, and its current challenges. Section 3 explains the economic rationale for public funding, cost-sharing and income-contingent loans. Section 4 reviews experience in Australia, England, Germany and Chile and draws comparative lessons. Section 5 concludes by summarising the research. Section 6 gives my own recommendations, including a tiered financing model for South Africa.

2. SOUTH AFRICA'S STUDENT-FINANCING SYSTEM

2.1 Origins of the current system

NSFAS provides financial assistance to eligible students at public universities and technical and vocational education and training (TVET) colleges. Student protests from 2015 exposed the affordability crisis. The Heher Commission examined fee-free higher education and recommended a mixed model of grants for the poorest students and income-contingent loans for others (Heher Commission: 2017). Government instead announced fee-free study for poor and working-class students from December 2017, and NSFAS loans for qualifying students were converted into bursaries. This shift moved the burden of repayment from students to the fiscus.

2.2 The scale of NSFAS

The next paragraph introduces Table 1, which presents key figures on NSFAS demand and on the pressure on the national budget.

Table 1: Key indicators of student-funding demand and fiscal pressure

Indicator	Figure
Transfers to NSFAS, 2024/25	R46.98 billion
NSFAS applications, 2024 academic year	More than 2.32 million
Debt-service costs, 2025 medium-term period	About R1.35 trillion
Share of each rand of revenue used for debt service, 2025/26	22 cents

Source: Department of Higher Education and Training (2025); National Treasury (2025).

Table 1 shows that demand for student funding is enormous, while debt-service costs absorb more than a fifth of every rand collected. The state therefore has little room to fund additional commitments.

2.3 Challenges facing the system

Despite its importance, the system faces problems of affordability, administration and timing. Delays in funding decisions and payments create difficulties for students, universities and accommodation providers, and inadequate support affects students' ability to complete their studies. A further group is the so-called missing middle: students from households earning too much to qualify for NSFAS but too little to pay fees upfront. These students have no sustainable funding route. Reports of late payments and problems with allowance-payment arrangements have weakened trust in the scheme, so additional money alone will not make the system sustainable.

The pressure is also fiscal. Reducing student funding without considering the consequences could exclude disadvantaged students and undermine the skills needed for growth. South Africa therefore needs to improve the efficiency and design of student financing rather than treat reduced access as a solution.

3. FISCAL SUSTAINABILITY AND ACCESS: THE ECONOMIC RATIONALE

3.1 Private and public returns

Higher education yields private returns, such as higher graduate earnings, and public returns, such as greater productivity and tax revenue (Barr: 2004). Because society benefits, there is an economic case for public funding. Public funding also supports equity, because talent is spread evenly across income groups while the ability to pay is not. That case does not mean the state should carry every cost. Costs are usually shared among government, parents, students and donors, and the real question is the balance between them (Johnstone: 2004).

3.2 Why students cannot simply borrow

Banks are reluctant to lend against future earnings, because a degree cannot be repossessed and graduates may default. This capital-market failure means that commercial loans exclude poor students, which is an access problem and not only a fairness problem (Barr: 2004). Income-contingent loans address this: repayments depend on earnings, so graduates with low incomes repay little or nothing, which works as insurance (Chapman: 2006).

3.3 The fiscal risk of loans

Income-contingent loans are not free. The government advances money today and recovers it over decades, and it bears the cost of interest subsidies and of balances never repaid. The Organisation for Economic Co-operation and Development (OECD) cautions that these loans protect low-income graduates but may raise government costs when repayments are delayed or incomplete (OECD: 2025). It also stresses that the design of assistance influences affordability and equity. Fiscal sustainability therefore does not mean spending less on education. It means ensuring that public money buys lasting benefits at a cost the state can carry.

South Africa's own conditions sharpen these risks. A loan scheme depends on graduates finding formal jobs whose income can be verified. Where graduate unemployment is high, a large share of lending may never be repaid, so loans suit students with realistic employment prospects and cannot replace grants.

4. INTERNATIONAL EXPERIENCE

4.1 Australia: income-contingent loans through the tax system

Australia introduced income-contingent repayment in 1989, a design associated with the economist Bruce Chapman (Chapman: 2006). Today the Higher Education Loan Program (HELP) lets eligible students borrow from government, and repayments are collected through the tax system once income exceeds a threshold (Australian Government Department of Education: 2025). Graduates below the threshold make no compulsory repayments. The government revised repayment arrangements in 2025, including a higher threshold and a new calculation method (Australian Government Department of Education: 2025), which shows that loan design needs continuous review.

The lesson for South Africa is that collection through the tax authority keeps administration cheap. However, South Africa has high unemployment and a large informal sector, so the South African Revenue Service would capture income less completely than the Australian system does. Government would also need to budget for loans never repaid.

4.2 England: tuition loans and graduate repayments

England uses government-supported loans for tuition and other approved costs. Borrowers repay a proportion of income above a threshold set for their repayment plan (UK Government: 2026). This spreads repayment across working life and eases the burden on low earners. However, outstanding loans create a financial risk for government when borrowers do not repay in full (OECD: 2025). England shows that income-contingent loans move cost into the future but do not remove it. For South Africa the risk is larger, because lower graduate earnings would mean slower repayment.

4.3 Germany: public financing and targeted assistance

Germany combines substantial public funding with targeted support. Many public universities charge little or no tuition, in contrast with systems that depend heavily on fees (OECD: 2025). Its BAföG scheme provides assistance according to eligibility conditions, including financial circumstances, and combines grant and loan elements. The lesson is that grants remain essential where families have limited means. However, Germany operates within a wealthier economy

with a larger tax base and lower unemployment, so South Africa cannot assume it can afford the same model.

4.4 Chile: from loans to free tuition

Chile is a middle-income country and therefore a closer comparison. Student protests in 2011 followed complaints about unaffordable tuition and high student debt, and Chile adopted tuition-free higher education, known as gratuidad, in 2016 (Higher Education Policy Institute: 2018). The policy is limited to students from lower- and middle-income households. Public universities argue that government appropriations do not replace the lost fee revenue, and evidence suggests that without more capacity, gratuidad may crowd out low-income students (Higher Education Policy Institute: 2018). Chile shows that free tuition is only sustainable if funding follows the students, and that loan systems that leave students heavily indebted can trigger political crisis.

4.5 Comparative lessons

The next paragraph introduces Table 2, which compares the four countries with South Africa.

Table 2: Comparison of student-financing approaches

Country	Main mechanism	Strength	Fiscal risk
South Africa	Means-tested bursaries (NSFAS)	Protects poor students	Rising cost; missing middle
Australia	Income-contingent loans via tax	Low administrative cost	Unrepaid debt
England	Income-contingent loans	Spreads cost across careers	Large unrepaid balances
Germany	Low fees and targeted aid	Strong equity	Heavy reliance on public budget
Chile	Free tuition for lower and middle income	Removes fee barrier	Underfunded institutions

Source: Compiled by the author from Australian Government Department of Education (2025); UK Government (2026); OECD (2025); Higher Education Policy Institute (2018).

Table 2 shows that no country relies on a single mechanism, and that each mechanism carries its own fiscal risk. International experience therefore supports a blended approach. Grants protect the poorest, loans can reach the middle group, and careful design keeps costs visible. Chile adds a warning: removing fees without matching funding for institutions shifts the problem from students to universities.

5. CONCLUSION

This essay was a literature study of how South Africa can build a fiscally sustainable student-financing model that improves access to higher education. It first described NSFAS, its origins in the fee protests and the Heher Commission, and the pressure on public finances shown by Table 1. It then used economic literature to explain why public funding, cost-sharing and income-contingent loans are justified. Finally, it compared Australia, England, Germany and Chile. The recommendations that follow are the author's own opinion.

The research showed that countries finance students through different combinations of grants, loans and low fees, and that each approach has fiscal risks. Experience also shows that models must fit the economic circumstances of the country concerned. Fiscal sustainability and access are complementary objectives: a system that excludes disadvantaged students wastes economic potential, while one the state cannot afford threatens future access. Student financing is therefore a question of design, not only of money.

6. RECOMMENDATIONS

The following recommendations are my own opinion, based on the research above. I believe they are workable, provided they are phased in carefully.

Recommendation 1: A tiered model. I recommend that South Africa adopt the tiered model in Table 3, linking support to household income and repayment capacity.

Table 3: Proposed tiered student-financing model

Tier	Household income	Support
1	Below the NSFAS threshold (R350,000)	Full grant covering tuition, accommodation, food, transport and materials
2	Missing middle (roughly R350,000 to R600,000)	Income-contingent loan, partly subsidised
3	Above this range	Self-funding, employer bursaries or private loans

Table 3 shows that grants should remain for those who cannot repay, while loans should reach the missing middle. Loans must never replace grants for poor students, because that would shift the fiscal burden onto the most disadvantaged graduates.

Recommendation 2: Design the loan carefully. Repayments should start only above an income threshold, rise with income, and be collected by the South African Revenue Service, with a simple process for verifying the income of self-employed graduates. Balances unpaid after a fixed period should be written off. Government should publish the expected recovery rate and the long-term cost before launch.

Recommendation 3: Pilot first. I recommend a pilot with a defined group of students at a small number of institutions, run for long enough to observe first repayments, measuring repayment, graduate employment, administrative cost and effect on access. Findings should be published and the model revised, as Australia has done.

Recommendation 4: Diversify funding and improve administration. Employers, industry and philanthropic organisations should fund bursaries in scarce-skill fields, but these must supplement, not replace, public commitments. Universities could also strengthen endowments and alumni giving. NSFAS must improve payment processes, audit controls and data, so that money reaches students on time.

Recommendation 5: Fund outcomes without punishing access. Government should support tutoring, advising and early-warning systems, and should adjust performance measures for differences in student background so that universities are not penalised for admitting disadvantaged students. This protects access and quality together.

In my opinion the success of student financing should be judged by whether capable students receive a fair opportunity to qualify, and by whether the system can continue to do so for future generations.

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