ENTRY #17

Undergraduate

2011 Words (excluding reference)

Building a Fiscally Sustainable Student-Financing Model that enhances access to higher education? Refer to international experience in your analysis.

INTRODUCTION

South Africa has faced persistent challenges in financing access to tertiary education, particularly in balancing increased access with the growing fiscal burden on the state. The Fees Must Fall movement in 2015 highlighted these challenges, when university students took to the streets over rising tuition fees, inequality, and barriers to affordable higher education (Cini, 2019).

In response, the National Student Financial Aid Scheme (NSFAS) became an important mechanism for supporting students from disadvantaged households. However, its expansion has raised concerns about fiscal sustainability, governance, administration, and the equitable allocation of funding (DHET, 2025).

This essay argues that South Africa could develop a more sustainable student-financing model by improving NSFAS governance, better targeting financial support, introducing income-contingent financing and integrating repayment administration with the South African Revenue Service (SARS).

The aim is to achieve a model that ensures higher education (HE) is free at the point of entry, with explicit protection for both the poorest students and the “missing middle”; one that is administered effectively and efficiently, and one that is framed not as a step back from the promise of access to education, but as a more sustainable and equitable approach to delivering it.

The National Student Financial Aid Scheme (NSFAS)

The National Student Financial Aid Scheme (NSFAS) was established under the NSFAS Act 56 of 1999 to improve access to higher education by providing financial assistance to students from poor and working-class backgrounds. Its mandate is aligned with Section 29 of the South African Constitution, which recognises the right to further education and requires the state to make it progressively accessible (Matyana et al., 2023).

In response to the #FeesMustFall movement, the NSFAS funding model shifted from a loan scheme to a comprehensive bursary in 2018 (NSFAS, 2018; Masutha & Motala 2023). In 2024, a loan scheme for the missing middle was announced for students from households earning above R350,000 and up to R600,000. NSFAS administers it

under Section 4 of the NSFAS Act 56 of 1999, which gives it the legal mandate to offer student loans (Nzimande, 2024).

NSFAS is the current public financing model for HE. It accounted for approximately 10.3% (R54.3bn) of the learning and culture government spending in the 2026/27 budget, highlighting the commitment of government to support access to tertiary education (National Treasury, 2026). This commitment is further reflected in the allocation of R153.2 billion to student bursaries over the MTEF period, representing 93.6% of the entity's projected total expenditure of R163.7 billion (National Treasury, 2023).

Empirical evidence confirms that NSFAS has made higher education more accessible and affordable (Garrod & Wildschut, 2021; Motala et al., 2023). Department of Higher Education (2024) reported an increasing trend in the number of NSFAS beneficiaries recorded from 2011 to 2017, followed by a significant rise from 2018 after the introduction of the fully subsidised bursary. By 2024, the number of students receiving NSFAS funding had reached 812,618, representing a 6.4% increase compared to 2023. NSFAS thus plays a pivotal role in socio-economic transformation and economic inclusion (NSFAS, 2025).

Yet this progress toward socioeconomic transformation has been persistently undermined by systemic inefficiencies in NSFAS's funding model, corruption, administration, and disbursement processes, challenges that call into question the scheme's long-term sustainability (Parliament of South Africa, 2024). Scrapping the pre-2018 loan system's cost recovery mechanism left NSFAS without a revolving revenue base and wholly dependent on a strained national fiscus (NSFAS, 2018).

This exacerbates the efficiency and effectiveness of delivering funding to students due to billions in shortfalls that force caps on student intake. Persistent governance failures, including the dismissal of CEOs, the dissolution of the board and the appointment of an administrator, have deepened the situation and constrained the fiscal sustainability of the institution (NSFAS, 2020; Parliamentary Monitoring Group 2025).

Given that the current grant-based model and the loan scheme are failing to meet the demand for HE under the current fiscal constraints, poor governance, and lack of accountability, this essay evaluate a better approach by analysing international funding models that could be the best approach to ensuring access to HE and maintaining stable fiscal sustainability

International Student Financing Models

This essay evaluates Income-Contingent Loans, Australia's Higher Education Loan Programme (HELP) in particular, and a grant-based model against two criteria: access to higher education and fiscal sustainability.

Unlike traditional fixed-schedule tuition financing, an ICL pegs repayment directly to a graduate's earnings threshold, ensuring financial obligations scale dynamically with post-graduation income rather than an arbitrary timeline (Chapman, 2006). On the other hand, a grant-based funding model is a non-reciprocal financial assistance scheme designed to facilitate access to higher education by covering tuition and related expenses for qualifying students.

NSFAS uses means testing to offer funding to poor qualifying students and a loan scheme to the missing class. Amongst other challenges it faces, the number of students qualifying for the funding is starting to exceed the available resources. In a media briefing by then-chairwoman Dr Stander (2025), she mentioned that in March 2025, NSFAS informed Parliament that funding requirements for university students in 2025 exceeded the available budget by approximately R10.6 billion, exacerbating fiscal pressure on the government; this is also experienced by countries like Ghana (Kwasi-Agyeman, 2020)

South Africa could adopt or refine its model using Australia's HELP as a reference. All graduates will be obliged to repay the loan once they exceed a certain income threshold (Chapman, 2022). This is not a new idea to South Africa; it was first recommended by the Commission of Inquiry into Higher Education and Training (2017). However, it was not adopted as the government opted for free education and announced NSFAS.

In practice, the amount recovered depends on graduates' employment. South Africa's official unemployment rate was 33.6% in the second quarter of 2026, and graduates' unemployment rate sat at 12.4% (Statistics South Africa, 2026). Low starting salaries and inequality, however, mean many graduates will earn below the repayment threshold for some years, and so indexation is frozen below R99,000 and balances do not grow. For this reason, South Africa could have a repayment period of 20 years before writing off the debt.

In terms of revenue collection, the Commission of Inquiry into Higher Education and Training (2017) proposed that SARS be given the responsibility to track and collect funds from graduates given its infrastructure and administrative capacity unlike giving the duties to the loan administrator. The model below details how South Africa can best use the ICL model. R(Y) is a piecewise repayment schedule function where Y is annual income. Repayments are capped above R530,200 to avoid adding to the burden on top-bracket earners.

Progressive Repayment Function $R(Y)$

$$R(Y) = \begin{cases} \mathbf{0} & Y \leq \mathbf{R99{,}000} \\ \mathbf{0.07}(Y - \mathbf{R99{,}000}) & \mathbf{R99{,}000} < Y \leq \mathbf{R245{,}100} \\ \mathbf{R10{,}227} + \mathbf{0.095}(Y - \mathbf{R245{,}100}) & \mathbf{R245{,}100} < Y \leq \mathbf{R383{,}100} \\ \mathbf{R23{,}337} + \mathbf{0.145}(Y - \mathbf{R383{,}100}) & \mathbf{R383{,}100} < Y \leq \mathbf{R530{,}200} \\ \mathbf{R29{,}957} & Y > \mathbf{R530{,}200} \end{cases}$$

A graduate's balance D_{it} evolves with inflation π_t, and repayment cannot exceed the balance:

Income-Gated Inflation Factor $\delta(Y_{it})$

$$\delta(Y_{it}) = \begin{cases} \mathbf{0}, & Y_{it} \leq \mathbf{R99{,}000} \\ \pi_t, & Y_{it} > \mathbf{R99{,}000} \end{cases}$$

Repayment with Balance Cap (R_{it})Actual

$$R_{it} = \min\left(R(Y_{it}), \left(1 + \delta(Y_{it})\right) D_{it}\right)$$

Corrected Balance Evolution

$$D_{i,t+1} = \left(1 + \delta(Y_{it})\right) D_{it} - R_{it}^{Actual}$$

When $Y_{it} \leq$ R99,000**:** $\delta(Y_{it}) = 0$ and $R(Y_{it}) = 0$, so $D_{i,t+1} = D_{it}$

When $Y_{it} >$ R99,000**:** $\delta(Y_{it}) = \pi_t$ and $R(Y_{it}) > 0$, so debt is indexed to inflation and reduced by repayments.

Net Fiscal Cost (NFC)

$$NFC = S + C - \sum_{t=1}^{T} (1 + r)^{-t} \kappa \, R_t$$

S is student funding disbursed to cohort

C is administration and collection cost,

$R_t$is the cohort's total repayment in year t,

κ is the probability that the repayment is collected

r is the discount rate,

$\boldsymbol{T}$ is the repayment period.

To illustrate with an assumption, consider a cohort of 500,000 students and 33% of graduate earning below R99,000, with an initial outlay of R54.3bn. If 30% earns R180,000, 25% earns R300,000, 12% earns R450,000, they will annually repay R5,670, R15,442 and R33,037 respectively. The system will recover approximately R35.9bn, given a 20-year horizon and 77% collection. However, the ICL model above suggests that there can be a meaningful increase in revenue as a return of its cost from employed graduates, but not all of it; the rest of the cost will still be borne by the fiscus.

By contrast, a grant-based model does not require the students to repay the funding (Wyness, 2016). In Portugal, it works in a form a fee waiver and eligibility is primarily determined by household per-capita income falling below a designated threshold. However, the funding may not be sufficient to cover living costs and other related costs. (Guthmuller & Meroni, 2026).

Similarly, in South Africa, to qualify for an NSFAS bursary, your combined gross annual household income should be below R350,000p. If your information is on the South African Social Security Agency (SASSA) database, you automatically meet the financial requirements (NSFAS, 2026). Students from households above this threshold and up to R600,000 are offered a loan instead, but it funds only 47% of eligible students and is weighted 70% towards STEM programmes (Nzimande, 2024)

However, a grant-based model like the NSFAS bursary does not have repayment streams, $\boldsymbol{R(Y_{it}) = 0}$. Thus, all the funding depends on the government's revenue

$$\textbf{Fiscal Expense} = \sum_{i=1}^{N} (\boldsymbol{D_{it} + C_{it}})$$

Given the increasing cost of living, tuition and accommodation fees, the burden is felt on the fiscus. Moreover, the graduates capture most of the private benefits after acquiring their degrees. Means-testing keeps the bursary progressive at the point of allocation, but extending grants universally would be regressive. A purely grant-funded model therefore cannot be sustained without a mechanism for graduates to contribute to its cost (OECD, 2020).

Recommendations

The analysis of the essay shows that neither the ICL nor a full grant-based model can successfully deliver access to HE and fiscal sustainability. Thus, a tiered model seems like an appropriate balance to maintain fiscal sustainability while also allowing access to tertiary education.

The poorest, whose household annual income is less than R350 000 will automatically qualify for funding to accommodate and protect applicants from vulnerable

households. The missing middle class will get the aid at a point of entry. Unpaid balances will only be written off after 20 years. The repayment for the missing middle will follow R(Y) schedule as is, but for the poor, they will only repay 50% of the inflation indexed funding received. This is to protect their social mobility

This ensures that all beneficiaries who reap the private financial benefits of higher education contribute back to sustain the fiscus, provided they are financially able. Although this replaces the non-repayable bursary for the poorest, the zero-repayment threshold and frozen indexation below it. Unlike the current missing-middle loan, which funds under half of eligible students (Nzimande, 2024), this model funds every eligible student.

The analysis indicates that the current NSFAS funding model is not sustainable and that weak recovery of funds contributes to the shortfall. It is therefore recommended that NSFAS's governing legislation, and related legislation where necessary, be amended so that SARS can collect and track repayments from beneficiaries. In addition, stronger governance is needed to curb corruption and other sources of inefficiency. Together, these measures would create an additional source of funding alongside the allocation from National Treasury.

Conclusion

It is evident that NSFAS has improved access to tertiary education and contributed to reducing inequality since becoming a fully comprehensive bursary and providing a loan scheme for the missing middle. However, it has faced scrutiny over poor governance, lack of accountability, and now its model is seen as unsustainable. This essay has established that there is a fiscal burden that NSFAS is imposing on the national fiscus (Parliament of South Africa, 2024), because it is funded almost entirely through the National Treasury.

From the two models evaluated, it is evident that the ICL offers a way to recover funds, whereas the grant-based model NSFAS has no built-in mechanism for recovering funds (Barr et al., 2017; Wyness, 2016). The current unemployment rate in South Africa limits what the ICL can recover which is why the model includes a zero-repayment threshold. On the other hand, the full grant-based model would keep adding to the burden on the fiscus.

Thus, this essay proposes a hybrid model, where the poorest get funding at the point of entry and then transition to the ICL framework but repays only 50% once their earnings exceed the income threshold. The missing middle is funded through the ICL from the start, together with SARS collection and stronger governance, as set out in the recommendations, this model would balance access with fiscal sustainability.

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