From Annual Allocation to Revolving Social Investment: Building a Fiscally Sustainable Student-Financing Model for South Africa

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1. Introduction

Higher education can raise productivity and expand the tax base, but financial circumstances remain a significant barrier for academically qualified South Africans seeking to enter and complete tertiary education. Government has expanded the National Student Financial Aid Scheme (NSFAS) to a scale at which its 2026/27 allocation is broadly comparable with transfers to universities, although the two allocations fund different activities and beneficiaries (National Treasury: 2026).

However, against a backdrop of a consolidated deficit of 4% of GDP and debt-service costs of R432.4 billion in 2026/27 (National Treasury: 2026), the government must navigate a trilemma: expanding access to higher education, allocating support according to financial need, and ensuring fiscal sustainability.

This essay argues that South Africa should implement a progressive, revolving student financing model: protected grants for the poorest students, income-contingent loans for the "missing middle", and repayments collected through the tax system and recycled into a ring-fenced fund. Section 2 defines fiscal sustainability and meaningful access to higher education. Section 3 examines South Africa's student-financing system, while Section 4 considers lessons from Australia and Germany. Section 5 develops the proposed financing model, followed by an assessment of implementation challenges and risks in Section 6. The essay concludes with findings and recommendations.

2. Fiscal Sustainability and Meaningful Access

2.1 Fiscal sustainability

Student finance is a form of subsidy, which has an economic rationale: Firstly, a graduate's future earnings cannot be used as collateral for a loan. As a result, credit will be rationed to poorer students by private lenders, which leads to underinvestment in human capital (Friedman: 1955; Barr: 2004). Secondly, there are significant social returns on investment in education, which justifies some public subsidy to ensure adequate levels of investment. A loan subsidy system is fiscally sustainable if government can afford its financial obligations year after year, even in times of slow economic growth, without unduly crowding out other important spheres of government, such as health and schools. The cost of a student loan subsidy is equal to the amount lent out, less the present value of the expected repayments from graduates (after deducting defaults, interest subsidies, write-offs and administration costs) (Chapman: 2006).

2.2 Meaningful access

Meaningful access to higher education consists of:

- Admission (having met the academic requirements to study at an institution);
- Registration (having finance to register at an institution in time to start the academic year);
- Persistence (having sufficient finance to remain registered, e.g. sufficient finance to cover living costs); and
- Completion (having sufficient finance to remain registered until completing the qualification).

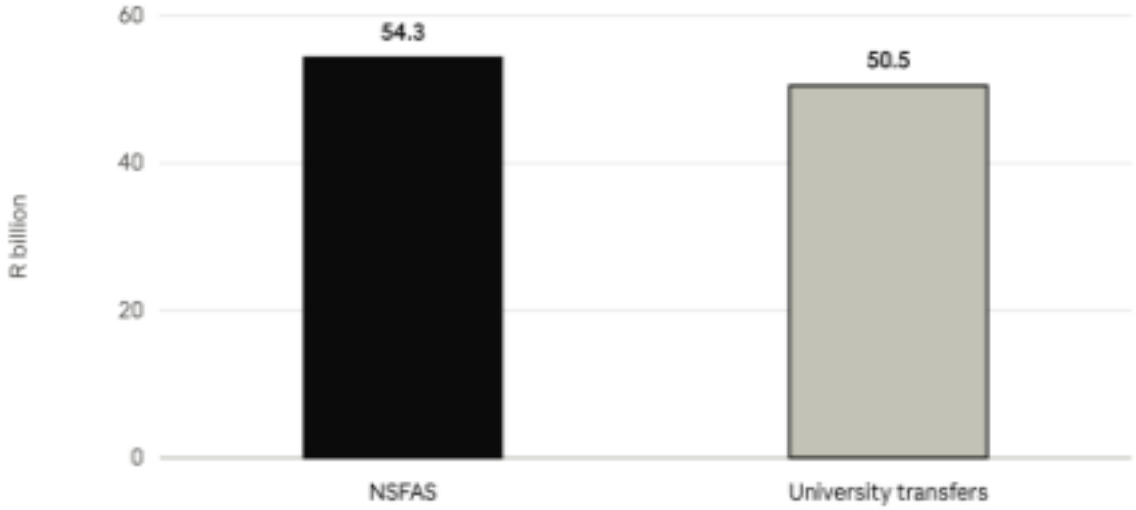
In this context, it is not enough to merely reduce expenditure on student finance; expenditure on student finance must also be efficient.

3. South Africa's Student-Financing Problem

3.1 Scale and fiscal pressure

NSFAS provides financial aid in the form of bursaries to students from households with an annual income of less than R350 000 to study at public universities and TVET colleges. In 2026/27, NSFAS is budgeted at R54.3 billion, and the allocation to universities (excluding NSFAS) amounts to R50.5 billion (National Treasury: 2026). The two allocations are illustrated in the figure below.

Figure 1: Budgeted allocations for NSFAS and university transfers, 2026/27 (R billion)



Budgeted amounts for 2026/27
Source: National Treasury (2026)

Figure 1 shows that NSFAS, at roughly 52% of the combined R104.8 billion, is on a par with, and in some instances competing with, direct support to HEIs.

3.2 Funding challenges

NSFAS is an uncapped entitlement funded through a capped appropriation. In a presentation to Parliament, NSFAS reported that the number of students funded at universities increased from about 510 000 in 2023 to more than 618 000 in 2025. Over the same period, NSFAS deficits ballooned from R2.3

billion to R10 billion. As there is no enrolment planning, all eligible students retain a right to funding. Of 2 322 060 applications received during the 2024 NSFAS cycles, 1 598 147 met the funding criteria (Department of Higher Education and Training: 2025).

3.3 The missing middle

Students from households with an annual income between R350 001 and R600 000 are not eligible for bursaries and may struggle to access funding. Government's response has been to introduce a loan scheme for students in this income bracket. The scheme is meant to benefit an estimated 68 400 students (Kahn: 2026). But by August 2026 only 3,102 of more than 53 000 applicants had been assessed as eligible, and the Minister acknowledged that not enough had moved through to actual funding (Ntanzi: 2026). Such a scheme will not be an access policy unless it is credible in terms of eligibility and repayment terms. Moreover, household income is a blunt eligibility criterion that does not take cognisance of household size, dependants and so on, nor the situation where siblings may be studying simultaneously.

3.4 Structural weaknesses

1. Unpredictability in funding. Demand-driven grants come up against fixed budgets, resulting in instances of blocked student registration.
2. Weak loan recovery mechanisms. Approximately R45 billion is owed to NSFAS, and collection systems collapsed when loans were converted into bursaries in 2017 (Parliamentary Monitoring Group: 2025). Moreover, the figure refers to the face value of loans outstanding and not to their recoverable value.
3. Incomplete qualifications. DHET cohort data show that 62.5% of NSFAS-funded students in the 2006 cohort had graduated after ten years, compared with 54.4% of the national cohort. For the 2009 cohort, 63.1% had graduated after seven years, compared with 55.2% nationally (Department of Higher Education and Training: 2017).

Masutha and Motala (2023) similarly identify an ongoing tension between equity, access and sustainable public financing.

4. International Experience

4.1 Australia and Germany

In Australia, students can defer payment of higher education costs through the Higher Education Loan Program (HELP), with compulsory repayments collected through the tax system when income exceeds a prescribed threshold. In the 2026/27 income year, the repayment threshold is A$69,528, with repayments starting at 15 cents for each dollar above this threshold up to A$129,717. Higher marginal rates apply to income above this level (Australian Government Department of Education: 2026). This marginal repayment system links repayments to borrowers' ability to pay and provides some protection when earnings are low.

In Germany, student financial aid under BAföG is needs-based and, for most students, consists of half grant and half interest-free loan. Repayment begins approximately 4.5 years after the end of the standard period of study and is generally capped at €10,010 for students who first received funding from September 2019. Students with insufficient income can apply for reduced instalments or deferment (Federal Office of

Administration: 2024).

4.2 Synthesis

Table 1 summarises the key features of each country's approach and possible lessons for South Africa.

Table 1: International approaches to student financing and their relevance to South Africa

Feature	Australia (HELP)	Germany (BAföG)	South African lesson
Mechanism	Income-contingent loans	Means-tested grant plus interest-free loan	Need-graded mix of grants and loans
Repayment	Marginal rate above income threshold, via tax	Fixed instalments, delayed start	Repay only above an indexed threshold
Protection	Repayments fall with income	Lifetime cap, deferment	Threshold, cap and hardship relief
Limitation	Recovery is harder where income is unreported or informal	Different institutional context	Adapt tax collection to informal and irregular earnings

Source: Australian Government Department of Education (2026); Federal Office of Administration (2024); author's analysis.

In a context of high inequality and limited formal sector employment, South Africa requires a combination of grants and loans.

5. A Progressive, Revolving Student-Financing Model

5.1 Tier one: protected grants

Students from households at or below the current R350 000 threshold should continue to receive grants that cover the full cost of tuition and essential living costs. Grants for the poorest households should be ring-fenced and protected from fiscal pressures. Where demand exceeds the grants budget, students should be prioritised in a transparent manner, based on financial need. This would be preferable to the current system in which some universities have been unable to register all NSFAS-eligible students.

5.2 Tier two: a graded scale for the missing middle

Under the current arrangement, students from households earning below R350 000 may qualify for bursaries, while those earning between R350 000 and R600 000 may qualify for missing-middle loans. This

binary approach should be replaced by a gradual taper between grant and loan support. Financial need should be assessed using equivalised household income, calculated by dividing total household income by the square root of household size. The assessment should then apply downward adjustments for additional financial needs, including disability and the cost of supporting more than one dependent student at university. As adjusted household income rises, the grant component should progressively decline and the loan component increase until support consists entirely of a loan. A defined proportion of the loan should be converted into a bursary when a student completes the qualification within the prescribed period, with extensions for delays arising from illness, disability, caring responsibilities or institutional factors beyond the student's control.

5.3 Income-contingent repayment

Repayments should be collected through the tax system, from employed workers via PAYE and from the self-employed through provisional tax. Repayments should be based on a marginal rate applied to the portion of income above a repayment threshold, which should be indexed to average wage growth each year. This would avoid the cliff-edge effect that can arise when repayment rates are applied to total income. Loan balances should be indexed to inflation and not attract a commercial interest rate.

5.4 The revolving Student Financing Fund

All loan repayments, recoveries on the existing book of NSFAS loans and donor funding for student financing should be channelled into a ring-fenced, well-managed and audited revolving Student Financing Fund to be used to finance future cohorts of students. The Fund would not initially be self-sustaining, since some students receive grants that do not have to be repaid, loans are made before students enter the labour market and start earning an income, and some loan balances will not be recovered. For example, if the Fund lends out R100 million in a given year, but the present value of expected loan repayments is R70 million, then the fiscal cost of lending should be recognised as R30 million in that year. Budget allocations for student financing should thus be based on expected subsidy costs and not the nominal value of grants and loans disbursed. Expected subsidy costs on the existing R45 billion NSFAS loan book should be estimated using expected recovery rates.

5.5 Institutional efficiency

Financial aid and other public subsidies to universities could be partially linked to progression and graduation rates. Universities could also be required to reinvest a portion of their funding in academic support interventions to improve student success. The sustainability of student financial aid will require a combination of better targeting of grants and loans, a reliable system for loan recovery and interventions to improve completion rates.

6. Implementation, Safeguards and Risks

Treasury should publish a multi-year costing separating grants, new loan disbursements, timing of repayments, administration and unrecovered balances, with sensitivity to enrolment, fees and graduate earnings. Assumptions must be conservative: not universal formal employment or full repayment. Implementation should be phased. A redesigned missing-middle pilot should run first, evaluated

independently by the Parliamentary Budget Office or the Financial and Fiscal Commission against students supported, cost per beneficiary, registration and completion, repayment performance and administrative cost. Graduate unemployment and informality will reduce collections, so generous thresholds raise fiscal cost: an explicit trade-off between protection and recovery. Debt aversion may depress uptake, as the current scheme suggests, so capped, insurance-like terms must be communicated clearly. Ring-fenced funds can be raided, so legislation and audit must bind them. Borrowing shifts responsibility across time; it does not remove the state's obligations.

7. Conclusion

Analysis of national budget allocations, parliamentary evidence and official Australian and German arrangements indicates that the main challenges include rising demand within a capped appropriation, weak recovery of historical loans, gaps in missing-middle support and incomplete student throughput. Australia provides a model for income-contingent repayment, while Germany demonstrates how grants, capped debt and repayment relief can protect students. Neither system can be transplanted wholesale. A progressive model combining protected grants, a gradual income-based taper for the missing middle and a revolving fund could offer a more equitable approach.

8. Recommendations

Current interventions are only partly effective: the missing-middle scheme has not converted sufficient applications into disbursed loans, and the proposed comprehensive model requires transparent costing. Government should therefore:

1. Adopt a multi-year funding framework linking planned enrolment, unit costs and transparent needs-based prioritisation.
2. Protect full grants for eligible students from households at or below R350 000.
3. Replace the sharp income threshold with an equivalised-income taper and a defined loan-to-bursary conversion for timely completion.
4. Collect income-contingent repayments through SARS, subject to legislation, an indexed threshold, hardship relief and a defined write-off period.
5. Establish a ring-fenced, independently audited Student Financing Fund and value the legacy loan book using realistic expected recoveries.
6. Pilot and independently evaluate the model against access, registration, completion and fiscal outcomes. A system that balances its books by excluding academically capable poor students fails its objective.

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