Financing Access: Towards a Fiscally Sustainable Student-Financing Model for South Africa

Category: Undergraduate (entry #656)

Word Count (excluding references and heading details) : 1967

INTRODUCTION

South Africa's post-school funding system has reached a point where its central instrument, the National Student Financial Aid Scheme (NSFAS), can no longer be assumed to be a permanent solution. Government projections show the scheme's funding shortfall rising from R2.5 billion in its first year to an estimated R33 billion by 2029 (Manamela: 2026). We will examines how South Africa can build a fiscally sustainable student-financing model that still enhances access to higher education, drawing on international experience as the question requires. Section One sets out the scale and nature of the present shortfall, including the related problem of the "missing middle." Section Two turns to international experience, focusing on Australia's Higher Education Contribution Scheme, now HECS-HELP, as the most instructive comparator available. Section Three considers what South Africa can and cannot responsibly borrow from that experience, given very different labour-market conditions. We then concludes on what the research shows, before setting out, under Recommendations, a differentiated funding model original to this essay, together with an assessment of its workability.

1. NSFAS' FISCAL TRAJECTORY AND THE MISSING MIDDLE

NSFAS in its current form functions as a bursary scheme rather than a loan scheme: qualifying students receive tuition, accommodation and living allowances that carry no obligation to repay. NSFAS presently funds several hundred thousand students a year across universities and TVET colleges, a caseload that has grown substantially since the scheme's expansion following the 2015-2016 #FeesMustFall protests, without a matching change in how that growth is financed. This design is defensible on equity grounds, since it removes debt as a barrier for households that can least afford it. But it is fiscally unbounded in a way that a rising cohort of matriculants cannot sustain indefinitely. The Minister of Higher Education has himself conceded that the shortfall is structural rather than administrative: government has committed to fee-free education for qualifying students while allocating a budget that remains almost fixed within the Medium-Term Expenditure Framework (Manamela: 2026). The consequence is a widening gap between political commitment and fiscal allocation, visible in the R10.49 billion

in 2026 tuition fees NSFAS owed universities as of August, with only 61.5 percent of that year's allocations paid (Parliament: 2026). Universities, which are not designed to act as NSFAS's creditor, are left carrying the financing gap themselves.

A second structural flaw compounds the first. Households earning above the NSFAS threshold but still unable to afford full-cost tuition fall into what is widely termed the missing middle, a gap presently served only by small, donor-dependent initiatives such as the Ikusasa Student Financial Aid Programme, which despite meaningful impact reaches only a fraction of an estimated cohort in the hundreds of thousands (ISFAP: 2019; 2026). For these students, the practical alternative is frequently to abandon university altogether, defer enrolment for a year in the hope of a bursary, or accumulate short-term debt at commercial interest rates that an entry-level graduate salary is unlikely to absorb comfortably. Simply expanding NSFAS's existing grant envelope to absorb this group would deepen rather than resolve the fiscal problem already described; what the missing middle requires is a different kind of instrument, not a larger version of the same one.

2. INTERNATIONAL EXPERIENCE: AUSTRALIA'S HECS-HELP SYSTEM

Australia's Higher Education Contribution Scheme, now HECS-HELP, offers the most instructive international comparator available to this question. Introduced in 1989 to reintroduce tuition fees without reintroducing access barriers, it allows students to defer their contribution entirely until after graduation, with repayment collected through the tax system as a percentage of income once a graduate's earnings exceed a minimum threshold (Chapman, Higgins and Khemka: 2025). Repayment is not a flat rate: it rises in graduated bands as income increases, so that a graduate earning just above the threshold repays a small fraction of income while a high earner repays proportionally more, keeping the scheme's incidence progressive rather than regressive.

Three design features make this instrument fiscally durable in a way NSFAS is not. First, repayment is contingent on the ability to pay, so no graduate is pushed toward default or poverty by their obligation, preserving the equity rationale that grant-based advocates rightly emphasise. Second, because loans are eventually repaid by earning graduates, the state's outlay behaves as a revolving fund rather than a sunk cost: the same allocation can finance more than one generation of students over time. Third, collection through the tax authority rather than a standalone recovery bureaucracy keeps administrative costs low and recovery rates high,

avoiding the chronic under-collection that undermined South Africa's own historical loan schemes.

3. LESSONS AND LIMITS FOR SOUTH AFRICA

The comparison is not a template to be copied wholesale. Australia's labour market absorbs graduates at a rate South Africa's does not, and transplanting HECS-HELP's design onto a youth unemployment rate above 45 percent without adaptation would leave loans chronically unrepaid regardless of how elegant the underlying design. A South African adaptation must therefore build in longer grace periods, repayment thresholds calibrated to the local wage distribution rather than Australia's, and an explicit forgiveness clause after a defined period for graduates who remain unemployed or informally employed through no fault of their own, a feature closer to the United Kingdom's model, which writes off remaining balances after thirty to forty years, than to the Australian original. Indexing outstanding balances to inflation rather than to a market interest rate, as HECS-HELP does, would also be essential in the South African context, so that debt does not compound at a rate the labour market cannot realistically match.

A further lesson concerns administration. Because the South African Revenue Service already verifies income for tax purposes, using the same data infrastructure to assess eligibility and trigger repayment would avoid duplicating the means-testing bureaucracy NSFAS currently runs largely on its own, closing a well-documented gap in NSFAS's ability to verify household income accurately.

CONCLUSION

This essay set out to examine how South Africa can build a fiscally sustainable student-financing model that still enhances access to higher education, using Australia's income-contingent loan system as the primary international comparator. The research shows that NSFAS's present difficulties are structural rather than administrative: a grant-only model, however equitable in intention, cannot survive a fixed medium-term budget alongside an ever-growing cohort of qualifying students, and it does nothing at all for the missing middle. Australia's HECS-HELP experience shows that an alternative exists in principle: an income-contingent loan collected through the tax system converts a one-time grant into a revolving source of funding, provided repayment is genuinely tied to a graduate's ability to pay. The comparison also shows the limits of a direct transplant: South Africa's labour-market conditions differ enough from Australia's that any adaptation must build in longer grace periods, locally calibrated thresholds and an eventual forgiveness clause. The remaining question, addressed

below, is what a South African version of this instrument should actually look like, and whether it would work in practice.

RECOMMENDATIONS

On the basis of the research above, this essay recommends a three-tier funding model that replaces NSFAS's single, undifferentiated instrument with instruments matched to different segments of need.

Tier one should cover the fully indigent: students from households below the current NSFAS threshold, particularly SASSA-linked households, who should continue to receive non-repayable grants for tuition and living costs. This tier requires no fundamental change to NSFAS's existing means test or disbursement channels, only their continued, ring-fenced funding; removing it would be regressive and would abandon the constitutional commitment to the progressive realisation of access to education.

Tier two should address the missing middle directly, through an income-contingent loan jointly administered by the South African Revenue Service and a restructured NSFAS. Repayment would begin only once a graduate's income exceeds a threshold pegged to, for instance, one and a half times the national minimum wage, collected automatically through the PAYE system in the same manner SARS already collects UIF contributions. This converts a funding gap presently filled inadequately by donor-dependent schemes into a state-backed, scalable instrument, without requiring government to absorb the full grant cost for a cohort whose average future earning capacity is, on the whole, higher than that of the fully indigent tier.

Tier three should cover students able to pay, or households well above the means-tested threshold, who would continue to self-fund or access commercial and employer-sponsored financing as at present. This essay proposes one further, original mechanism here: an employer co-payment channel built on an existing legal foundation rather than a new one. The B-BBEE Codes of Good Practice already award scorecard points for skills-development spend on bursaries under Code 300, which has incentivised private contributions to schemes like ISFAP. Extending this incentive to allow employers to buy down a portion of a graduate's tier-two loan balance, in exchange for a fixed-term retention commitment, would give firms in scarce-skills sectors a direct, low-cost recruitment tool, while anchoring eligible occupations to the national critical skills list would ensure the incentive targets sectors where retention carries the greatest

economic payoff. The mechanism requires no new legislation, only an extension of an incentive structure already in use.

The most significant original recommendation this essay makes, however, is a repayment-recycling mechanism: a ring-fenced Higher Education Revolving Fund, structurally separate from the annual government budget vote, into which tier-two loan repayments and employer co-payments are deposited, and from which new tier-two disbursements are drawn. Because the fund would be recapitalised continuously by graduates already earning in the workforce, it decouples the growth rate of the student-financing budget from the annual National Treasury allocation, addressing precisely the structural flaw identified in Section One: that funding is fixed while demand is not. This design does not require full recovery to be fiscally sound: even a partial recovery rate meaningfully reduces the annual burden on the fiscus compared with a system that assumes zero recovery by design, and the Treasury's initial capitalisation should itself be sized on a conservative recovery assumption rather than an optimistic one.

Is this model workable? Two objections deserve a direct answer. The first is that loan-based financing, however income-contingent, deters poor and first-generation students from enrolling at all, a pattern documented in both the United Kingdom and United States. This is a legitimate concern, and it is precisely why tier one remains grant-based: the students most vulnerable to debt aversion are, not coincidentally, the students who under this model would never encounter a loan. For tier-two students, transparent communication that repayment is genuinely income-contingent, that a graduate earning below the threshold owes nothing in that period, full stop, mitigates but does not eliminate the psychological barrier, and a short financial-literacy component delivered during the application process, rather than after enrolment, should accompany the rollout.

The second, more South Africa-specific objection is that skilled emigration could undermine recovery rates: a graduate who leaves the country sits largely outside SARS's collection reach, unlike an Australian graduate who remains within the ATO's jurisdiction for most of their working life. This risk is real and should not be understated, but it is also precisely why the tiered design should be read as a whole rather than as isolated instruments. The employer co-payment channel under tier three gives firms in scarce-skills sectors a direct financial incentive to retain graduates domestically for a fixed period, reducing emigration risk for exactly the cohort most likely to leave, while the Revolving Fund's initial capitalisation should be sized on

a conservative recovery assumption that accounts for a realistic rate of skilled emigration, rather than assuming the near-universal collection Australia enjoys.

On balance, this model is workable precisely because it does not depend on a best-case scenario. It preserves free, grant-based access for the students who need it most, converts an unbounded fiscal commitment into a self-recycling one for the missing middle, and builds in, from the outset, realistic assumptions about the South African labour market that Australia's original design never had to consider.

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