

From Grant to Revolving Fund: Building a Fiscally Sustainable Student-Financing Model for South Africa

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1. INTRODUCTION

South African higher education is caught between two promises: access for poor students, and a budget able to honour that access. This essay asks how South Africa can build a fiscally sustainable student-financing model that enhances access, and what international experience teaches. Three issues follow from the question: why higher education deserves shared investment, whether current arrangements are sustainable, and which foreign lessons are transferable.

The essay is a literature study using Harvard referencing. Section 2 examines the returns that justify cost sharing. Section 3 analyses South Africa's funding squeeze. Section 4 draws lessons from Australia and Chile. Section 5 identifies conditions for sustainability. Section 6 concludes and offers recommendations. Each section ends with the author's opinion.

2. WHY SHARE THE COST? THE CASE FOR INVESTING IN STUDENTS

2.1 Returns that justify investment

Human capital theory treats education as an investment: students forgo earnings and pay fees now for higher lifetime income later (Psacharopoulos & Patrinos, 2018). The Heher Commission (2017) reported that South Africa's private returns to higher education are among the highest in the world, and therefore saw "no principled objection" to cost sharing if equity is protected (Daily Maverick, 2017). Table 1 shows the labour-market payoff, namely unemployment rates by education level in the first quarter of 2026.

Table 1: Unemployment rate by education level, South Africa, Q1 2026

Education level	Unemployment rate (%)
Degree holders	12.2
Matric only	35.7
Less than matric	37.6
National average	32.7

Source: Statistics South Africa (2026), as reported by The Outlier (2026).

Table 1 shows that a matriculant is almost three times as likely as a graduate to be unemployed. Graduates capture much of the benefit of their degrees, so it is fair that they contribute to its cost.

There is also a market-failure argument. Commercial lenders will not finance a poor student's degree, because the student has no collateral and the lender cannot seize future earnings. Capital markets therefore under-supply credit for education exactly where it matters most for access (Chapman, 2006). Public intervention is justified, but the form it takes determines

whether it is affordable. A pure grant transfers the full cost to taxpayers, whereas an income-contingent loan removes the credit barrier while asking graduates to repay what they can.

2.2 Opinion

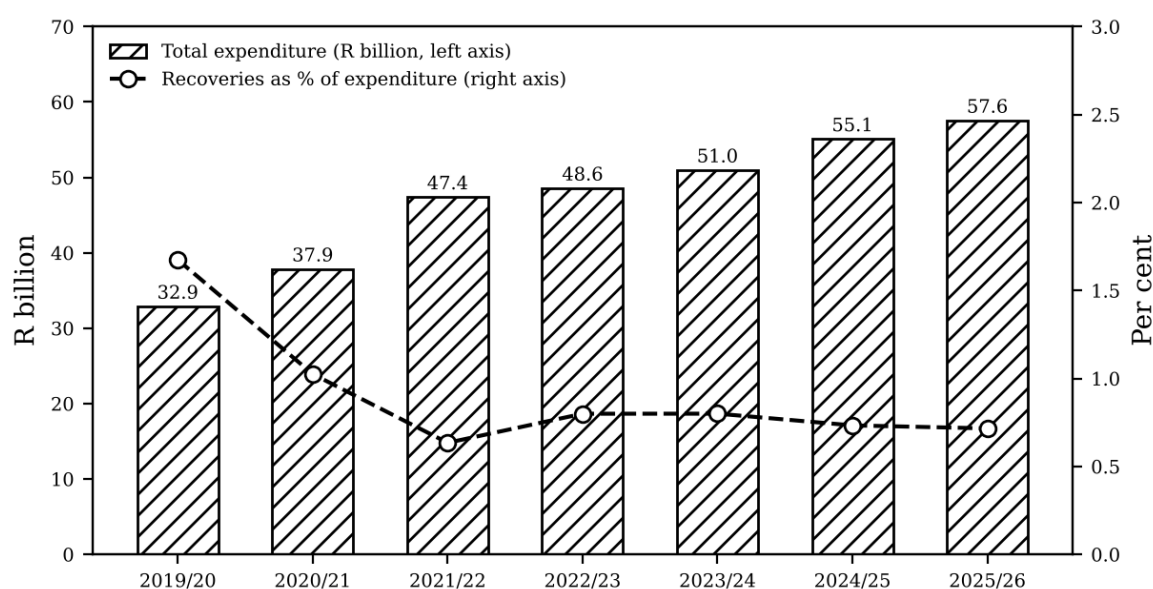
Free higher education for everyone is neither fair nor affordable, because it asks the unemployed majority to subsidise the future high earners. Yet a graduate unemployment rate of 12.2 per cent shows that repayment must flex with income, otherwise the model punishes the very students it was meant to help. Equity therefore requires two things at once: no student should be excluded by lack of upfront funds, and no graduate should be crushed by repayments that ignore a weak job market.

3. SOUTH AFRICA'S FUNDING SQUEEZE

3.1 From loans to bursaries

The Heher Commission concluded that fee-free higher education was not feasible. It recommended income-contingent loans for universities, collected through the South African Revenue Service (SARS), with full funding only for technical and vocational (TVET) students (Daily Maverick, 2017). Government chose another route: the 2018 Budget set aside R57 billion for fee-free higher education and training (SAnews, 2018). The National Student Financial Aid Scheme (NSFAS) now funds students from households earning up to R350,000 a year (Parliamentary Budget Office, 2024:4). Figure 1 shows NSFAS expenditure against the share recovered from past debtors.

Figure 1: NSFAS expenditure and loan recoveries, 2019/20 to 2025/26



Source: Parliamentary Budget Office (2024:5-6); recovery percentages calculated by the author. Later years are estimates.

Expenditure rose by about 75 per cent, from R32.9 billion to a projected R57.6 billion, while recoveries fell from 1.7 per cent to about 0.7 per cent of expenditure. Money flows out, but very little flows back. A further gap is that students from households just above the R350,000

limit, the so-called “missing middle”, remain without a settled funding option, and loan arrangements for them were still described as a work in progress in 2024 (Business Day, 2024).

3.2 A system without a return flow

Students who borrowed before 2018 still owe NSFAS R45 billion (Daily Maverick, 2025). At recoveries of roughly R0.4 billion a year (Parliamentary Budget Office, 2024:6), and ignoring interest, collecting this book would take over a century. Meanwhile, the 2025 university allocation of R39 billion fell R10.6 billion short, and TVET colleges were R1.6 billion short. NSFAS's board chair attributed this to more qualifying students, the cost-of-living crisis and falling real state resources (Daily Maverick, 2025).

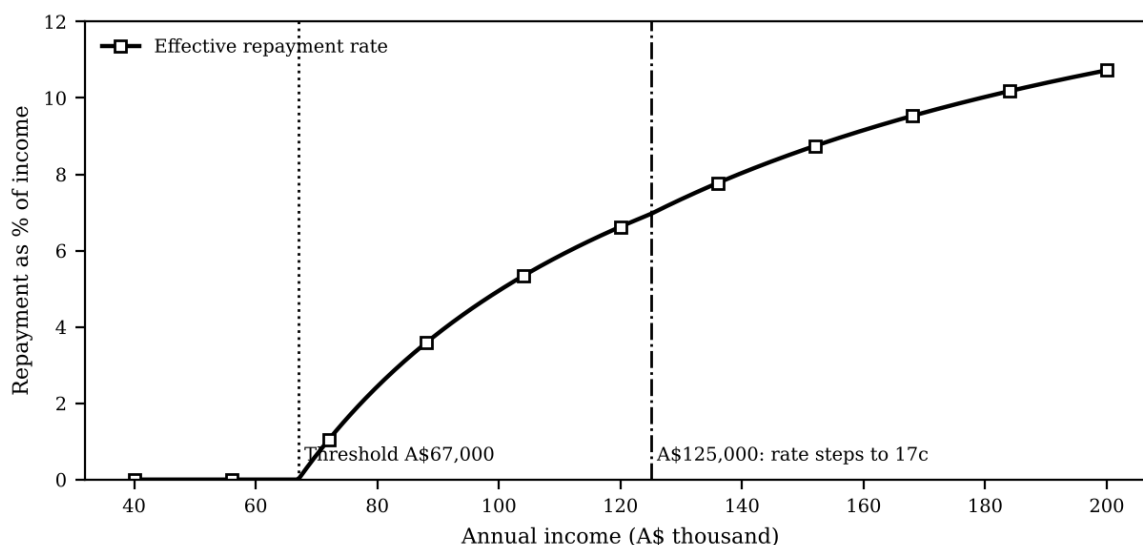
3.3 Opinion

The squeeze does not prove that expanding access was wrong; it proves that the model has no revolving component. A bursary is spent once, whereas a well-designed loan returns money to fund the next cohort. Without that return flow, every additional student increases the deficit. Rising enrolment, which is a policy success, then becomes a fiscal threat. In my view, the debate should shift from "fee-free or not" to "how does money return to the system", since only that question can reconcile expanding access with a Treasury that must also fund health, policing and debt service.

4. LESSONS FROM ABROAD

4.1 Australia: pay when you can

Australia introduced its Higher Education Contribution Scheme in 1989. Students defer fees and repay through the tax system only once their income passes a threshold (Chapman, 2006). From 1 July 2025, repayments are marginal: nothing up to A\$67,000, 15 cents per dollar between A\$67,000 and A\$125,000, and A\$8,700 plus 17 cents per dollar above that (Australian Government Department of Education, 2025). Figure 2 plots the resulting effective repayment rate.

Figure 2: Effective Australian HELP repayment rate by annual income, 2025-26

Source: Australian Government Department of Education (2025); effective rates calculated by the author.

Figure 2 shows that repayment is zero at low incomes and rises smoothly, so the burden matches capacity and there is no sudden cliff. The scheme is not free, however: about 20 per cent of new lending, or A\$1.5 billion in 2014, was doubtful debt that will never be repaid (Norton, 2014). The Grattan Institute proposed lower thresholds, inflation indexation, and collection from debtors abroad to contain this cost. Chapman (2006) argues that the income-contingent design solves the credit-constraint problem without deterring poor students, because the repayment obligation shrinks automatically when earnings are low.

4.2 Chile: a warning

Chile relied on state-guaranteed commercial loans with fixed instalments. By 2018, about 616,000 students owed roughly US\$4.5 billion, and 27 per cent of the debt was in arrears (CIPER, 2018). In August 2025, the Chamber of Deputies approved in general a bill to replace the scheme with a new financing system (Meganoticias, 2025). The lesson is that repayments disconnected from income fail where graduate earnings are insecure, and the state still carries the risk.

Table 2: Student-financing approaches compared

Feature	South Africa (current)	Australia (HELP)	Chile (CAE)
Main instrument	Means-tested bursary	Income-contingent loan	Guaranteed bank loan
Repayment trigger	Weak recovery on legacy loans	Income above A\$67,000	Fixed instalments
Main fiscal risk	No return flow	About 20% doubtful debt	Arrears and state guarantee

Source: Compiled from Parliamentary Budget Office (2024); Norton (2014); CIPER (2018); Australian Government Department of Education (2025).

Table 2 contrasts the approaches. Only the Australian design links repayment to ability to pay while keeping collection inside the tax system.

4.3 Opinion

South Africa's labour market resembles Chile's insecurity more than Australia's stability, so copying either scheme wholesale would be a mistake. The Australian principle should be adopted, but with a larger allowance for non-repayment and without reliance on commercial banks. International experience also suggests that the cost of non-repayment is best treated as a visible, budgeted subsidy rather than a hidden surprise. A government that openly funds a known share of write-offs is more honest, and more sustainable, than one that discovers defaults years later.

5. CONDITIONS FOR SUSTAINABILITY

5.1 Collection capacity and politics

The Heher Commission placed collection with SARS, though the report acknowledged that SARS faces its own challenges (Daily Maverick, 2017). Withholding through employers works for formal jobs, but with a national unemployment rate of 32.7 per cent (Statistics South Africa, 2026), a share of borrowers will never repay. Politically, the Banking Association was "essentially uncommitted" to the commission's bank-loan plan; the EFF argued that loans would segregate students by race, and the ANC Women's League rejected the role of commercial banks (Daily Maverick, 2017).

5.2 Protecting the poorest and TVET students

The Heher Commission endorsed full funding only for TVET students and warned that colleges faced a "major crisis" (Daily Maverick, 2017). The 2025 shortfall of R1.6 billion for TVET colleges shows that the warning has not been heeded (Daily Maverick, 2025). Any loan model must therefore avoid pushing the poorest students towards debt, since their post-school earnings are the least certain.

5.3 Opinion

A state-run income-contingent fund answers these objections. It removes the banks, asks for repayment only from earners, and leaves grants for the poorest. Collection capacity is the real constraint, and it can be built gradually through data-matching between NSFAS and SARS. Funding for TVET colleges should be prioritised, because they serve the students for whom a loan is the riskiest instrument and a grant the most defensible one.

6. CONCLUSION AND RECOMMENDATIONS

6.1 Conclusion

This literature study asked how South Africa can fund students sustainably while widening access. It reviewed the returns to higher education, the dynamics of NSFAS funding, and the Australian and Chilean experiences. It found that graduates earn enough to justify cost sharing, that NSFAS spending has grown with almost no return flow, and that income-linked repayment through the tax system is the most promising international lesson, provided it is state-run and tolerant of non-repayment.

6.2 Recommendations

In my opinion, a hybrid model is workable, if phased in carefully. I propose five steps:

- (a) Two tiers: keep grants for the poorest and TVET students, and offer income-contingent loans to the “missing middle” above the bursary threshold. This protects access at the bottom while recruiting future earners to finance the system.
- (b) A ring-fenced, state-run revolving Student Finance Fund, collected by SARS through marginal repayments above a threshold set above the tax threshold, with interest indexed to inflation rather than commercial rates. A state fund avoids the political objections to banks, and marginal rates avoid repayment cliffs that discourage extra work.
- (c) An annual published estimate of doubtful debt, with budgets planning for a share higher than Australia’s 20 per cent. Transparent accounting prevents the fund from being judged a failure when write-offs, which are the price of protecting low earners, appear.
- (d) Partial loan forgiveness for graduates who serve in scarce-skill public posts, such as rural teachers and nurses. This is my own proposal and would need costing. It rewards national service and addresses shortages that the market does not solve.
- (e) A pilot with one cohort first, linking NSFAS and SARS records, before national rollout. Pilots would test collection, reveal the real default rate, and build public trust before the system carries the whole sector.

Such a model would not make higher education free, but it would make access durable: each repaid rand funds another student. The main risks are weak collection capacity, political resistance to any form of student debt, and an economy that does not create graduate jobs. The first two can be managed through phasing and design; the third is beyond the education budget, and without growth no financing model will be sustainable. On balance, the model is workable, and it is a more credible path to both fiscal sustainability and wider access than the status quo.

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