

UNDERGRADUATE

Redesigning NSFAS for a Fiscally Sustainable Future

(Word Count : 2197 excl. references)

1. Introduction

The National Student Financial Aid Scheme (NSFAS) is arguably the largest student funding scheme in South Africa. It aims to provide equitable funding to students from low and missing middle income backgrounds but is failing in its attempts.

This is a result of the juxtaposition between the increasing number of qualifying students and a fairly static funding budget. In 2026, there were 893 847 NSFAS applications, of which 609 653 were approved (SAnews, 2026). On the other hand, the funding system is in crisis. NSFAS currently has a deficit of R15 billion, which is expected to increase to R33 billion by 2029 if the current funding system is maintained (Nozulela, 2026). This shows that South Africa does not have the financial ability to implement a free education system nor can it afford to leave low-income students out. Therefore, in a pragmatic approach ‘free education’ should be that all students have the right to receive a loan.

Two terms recur throughout the essay. A **grant** is money that doesn’t have to be paid back. An **income-contingent loan** is a loan that only has to be paid back once the borrower earns over a certain amount. It is paid back as a percentage of income. After a certain amount of time the remaining balance is forgiven. This means the state assumes the risk of the borrower not earning much (Chapman, 2006).

This essay argues for a drastic overhaul of NSFAS. South Africa should look to international examples to create a hybrid income-contingent financing system.

2. The Unsustainability of the Current Model

The financial issues with NSFAS are due to structural issues. Minister Manamela has acknowledged that the shortfall has grown from R2.5 billion in the first year of the current funding policy to R15 billion today (Nozulela, 2026). Four drivers explain this trajectory:

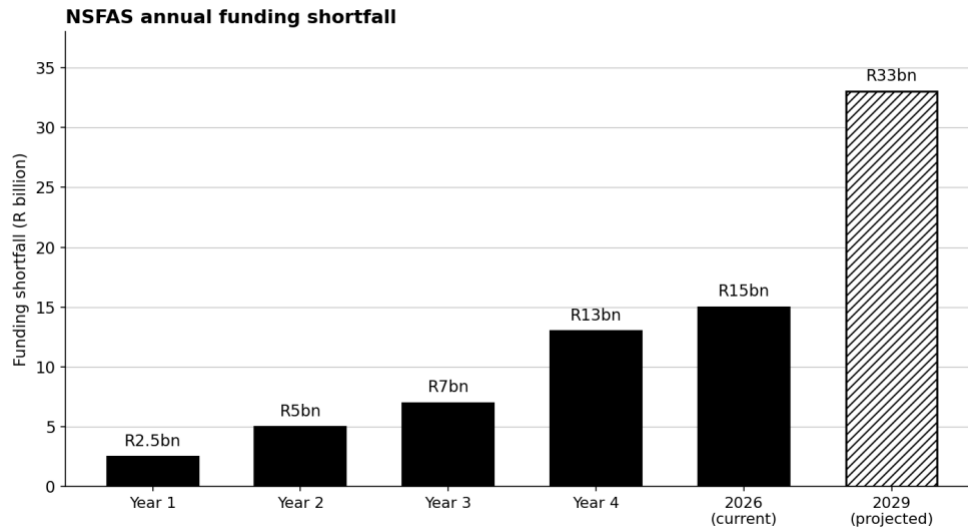


Figure 1: NSFAS annual funding shortfall. Source: Nozulela (2026). Years 1–4 are successive years of the current funding policy; 2029 is a projection.

2.1 The continuous expansion of eligibility. The deficit is likely made worse by the increasing numbers of students who qualify for funding. Eligibility has increased from R350 000 of household income (Hlati, 2024). This is unaffordable for the fiscus. The NSFAS funding is expected to rise from R48.8 billion in 2025/26 to only R54.6 billion in 2028/29. This is only an increase of 3.8% per year (National Treasury, 2026).

2.2 The poor still lose out and the missing-middle gets nothing. Only around 520 000 students can be funded from the 2026 university budget. This puts around 100 000 eligible students at risk (PMG, 2025b). The missing-middle loan for students with household incomes between R350 000 and R600 000 was meant to fund around 68 400 students, however, only 1561 students were successful out of 26 538 applicants (PMG, 2026a).

2.3 Lack of recovery. Many students who received loans have entered the workforce after graduation. However, very few are repaying their loans. Around R45.9 billion remained outstanding in 2024/25, and 98% of the loan book is considered impaired and non-performing by NSFAS (PMG, 2025a). Only R125.8 million was recovered in 2024/25 (PMG, 2026b). In a 2010 review NSFAS only recovered 26% of the R12 billion it had lent (Department of Higher Education and Training [DHET], 2010).

2.4 Poor administration. The Auditor General found that there was nearly R60 billion in irregular spending between 2019/20 and 2022/23. Appeals took an average of 205 days to be resolved (“NSFAS submits its 2022/23 annual report,” 2024). NSFAS was placed under administration again in 2026 (Goni, 2026).

These facts show that a system with no obligation to repay and poor institutional capacity to recover debt cannot be a financially sustainable system.

3. International Experience

The most important factor to consider when looking at international examples is which country faces similar constraints to South Africa. Four funding systems will be considered.

Table 1: Four comparable student financing systems

System	Design
Australia (HECS-HELP)	Income-contingent loan, collected by the tax office
Chile (CAE)	State-guaranteed bank loan with fixed repayment
Brazil (FIES-PROUNI)	FIES: subsidised loans, income-contingent since 2018. PROUNI: tax exemptions for private universities that award scholarships to low income students
Ghana (SLTF)	Trust-fund loans repaid through statutory salary deductions made by employers

Australia shows that an income-contingent loan can be used to fund everyone at a capped cost. The HECS-HELP loan provides tuition to eligible students. Once they start working, the tax office will recover the loan from their payroll. This starts from A\$51 309 in 2013/14 (Norton & Cherastidtham, 2014). Doubtful debt was around 17% of new loans in 2013/14. Graduates who emigrate will not be recovered (Norton & Cherastidtham, 2014). Banks cannot secure a graduate's future income so private lenders will limit lending. Income contingent loans ensure default insurance (Chapman, 2006). For South Africa, payroll collection through SARS is the transferable part and emigrant borrowers are the gap to plan for.

Chile shows that fixed repayments and guarantees fail. By the end of 2023, 54% of borrowers had stopped paying, up from 29% in 2017 (Cooperativa.cl, 2024). The state now owns 58% of the loan value (6.1 trillion pesos) (Cámara de Diputadas y Diputados, 2024). Fixed repayment penalises students who do not complete their studies. The state guarantees mean the risk is

passed onto the taxpayer. In South Africa, weak collection of NSFAS loans (see Section 2.3) suggests that bank loans would have the same outcome.

Brazil parallel FIES and PROUNI model. FIES provides low interest loans. PROUNI provides incentives for private universities to offer full or partial scholarships to low income students by reducing taxes. This increased capacity in the private sector. However, FIES had a large increase in default rates, and by 2022 more than half of the contracts in repayment were in arrears (Nascimento, 2022). From 2015 onwards, eligibility criteria were tightened. In 2018 the programme was restructured to contain rising default (Martins, 2021).

Ghana's Student Loan Trust Fund (SLTF) and employer deductions. The SLTF Act states that employers must deduct repayments from the salaries of indebted employees and pay them into the Fund (Students Loan Trust Fund [SLTF], 2019). In 2020 the Fund collected GH¢38.8 million, 78% of its annual collection target (SLTF, 2020). This relies on employees being paid a salary. However, this is a good example of institutional innovation. This should be seriously considered in South Africa. Figure 2 compares South Africa's loan recovery with the international average and Australia.

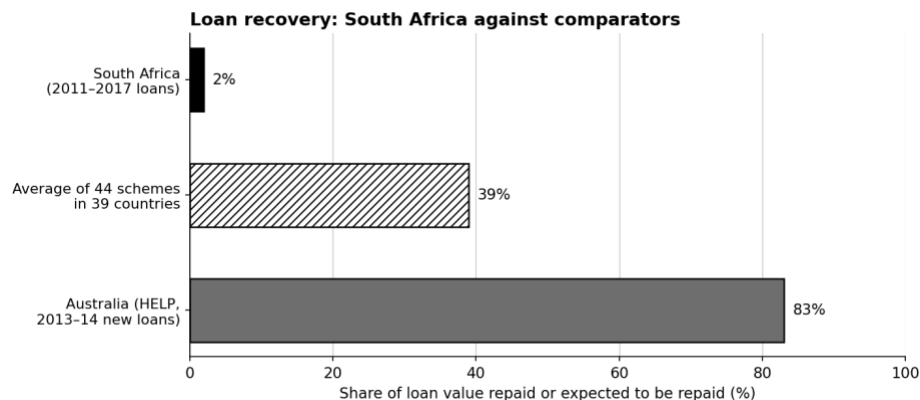


Figure 2: Loan recovery compared. Measures differ: South Africa is the non-impaired share (PMG, 2025a); the average is across 44 schemes (Shen & Ziderman, 2009); Australia is 100% minus doubtful debt (Norton & Cherastidtham, 2014). Ghana is not shown, as its primary reports give collections against targets rather than a loan recovery rate.

All four examples suggest that income-contingent repayment is fairer and more efficient but its effectiveness relies on **execution infrastructure**. South Africa cannot simply copy Australia's system, but it can borrow the core logic of "income threshold plus proportional repayment" and implement this gradually.

4. Proposed Financing Model for South Africa: Grants to protect and loans to include

Based on the above analysis, a five-tier income contingent hybrid system will be proposed. This will address a problem in section 2 and take inspiration from section 3.

Tier One: Maintain and optimize grant funding. Full grants should still be provided to students from the poorest households. However, eligibility must be reviewed based on academic progress to reduce perpetual and ghost students. In 2026, over 189 000 students did not meet the academic progress criteria but R4.27 billion was still paid out (Mashale, 2026). Students from the poorest households will receive a full grant. From there up to R350 000, the grant will decrease and a loan will be provided. Students earning more than R350 000 will receive a loan. This was proposed in the 2010 review (DHET, 2010). This reduces the open ended eligibility causing the deficit shown in Figure 1.

Tier Two: One income-contingent loan for everyone else. This replaces the missing-middle loan. There will no longer be a R600 000 cap or STEM quota. Based on Australia:

- No repayment if earning below R150 000 a year.
- 6% marginal rate on income between R150 000 and R400 000 and 10% above this.
- Balances rise with inflation plus a small real rate of 2%.
- The state writes off any balance after 25 years, or on death or disability.
- Recovery will be done by SARS from payroll, as the Heher Commission recommended (Heher, 2017).

If graduates enter the informal sector or self-employment, the Ghana system could be adapted. Self-employed individuals earning more than the threshold per year would have to include a repayment declaration in their annual tax return. The terms also ensure repayment is based on ability to repay. Students who drop out or earn little will not have to pay much. This means the high default rates seen among Chilean borrowers (54% in arrears by 2023) should not occur.

Tier Three: Funded places follow the budget. Each year the number of funded places will be set by the Treasury and Department of Higher Education and Training in the medium term expenditure framework. Repayments, of which around R46 billion is owed to NSFAS (PMG, 2026b), will go into a revolving fund to fund new loans.

Tier Four: Administration runs on data, not paperwork. SARS and Home Affairs will share data on household income. The state will pay institutions directly. Eligibility criteria will be published

in the Government Gazette (“NSFAS submits its 2022/23 annual report,” 2024). This was raised as an issue by the Auditor General.

Tier Five: Employer participation through skills development incentives. This should not just be seen as a financial burden but can be used as an incentive for skills investment. Firms who provide binding funding employment contracts for students in specific fields (e.g. Engineering, Health, Education) will receive extra tax relief. This means that part of their tuition will be covered for students who agree to work for the firm for an agreed amount of time after graduation.

5. Fiscal Arithmetic

This section will analyse if the Tier Two loan will be able to recover enough to be sustainable. If someone owes R200 000 and this grows in real terms at 2% a year, how much will they pay back based on the above terms? It is assumed there are 4 graduates. High earner (R350 000 in year one with 4% increase per year), Middle earner (R220 000 with 3% increase), Low earner (R120 000 with 1.5% increase) and dropout/unemployed (no income). As shown in Figure 3, the high earner’s repayments reach R200 000 at about year 11 and level off at about R232 000 from year 12. The middle earner’s repayments only pass R200 000 after about 22 years. The other two will pay back almost nothing and will be forgiven. If 20% of the cohort were low earners, 40% middle earners, 25% high earners and 15% dropouts/unemployed, around 64% of the loan value will be recovered. This is based on discounting at the loan’s real rate of 2%, with recovery measured as the present value of repayments as a share of the R200 000 borrowed. The model assumes that repayments are 6% of income between R150 000 and R400 000 and 10% above that, that repayments stop once the balance is cleared or after 25 years, and that incomes grow in real terms at the rates above. If the state’s real cost of funds is 5%, around 46% will be recovered. This means that for every rand moved from grants to loans, the state will lose around 36-54 cents. Compared to the 2% of loans from 2011-2017 who are still performing (PMG, 2025a).

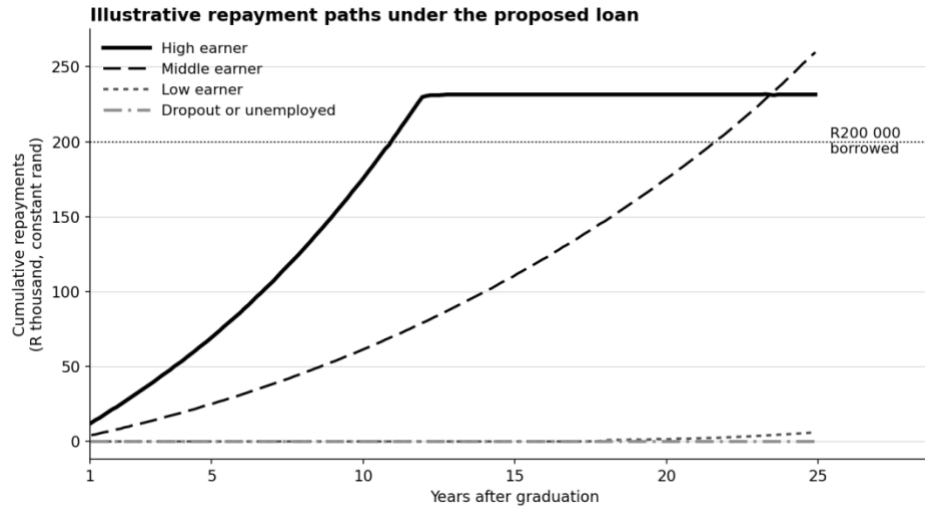


Figure 3: Cumulative repayments of a R200 000 loan under the Tier Two terms, in constant rand. Earnings paths are the author's illustrative assumptions.

6. Conclusion

South Africa cannot continue to promise full funding to an increasing number of students with a slower increasing budget. The proposed system will provide grants to the poorest students, provide an income contingent loan to all other students and link funded places to the budget. The main idea is based on the 2010 review, which recommended grants for the poor and income contingent loans for lower middle income students (DHET, 2010). It is also based on the recommendations of the Heher Commission (Heher, 2017) who recommended changing the NSFAS model to an income contingent loan system.

The current NSFAS model ties the moral obligation of free education to an administration system with no repayment discipline. This creates a continually increasing financial black hole. The income contingent hybrid system aims to not reduce funding but change it from a one off grant to an investment in human capital.

One limitation is that the repayment threshold, rates and earnings are examples based on Australia. Real graduate earnings in South Africa are unequal and not well documented especially in the informal sector. A future study should be done to adjust the schedule based on SARS tax records matched to graduate data. This could be done through a survey tracking income of graduated NSFAS loan recipients.

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