Category : Undergraduate

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How South Africa Can Build a Fiscally Sustainable Student-Financing Model

1. Introduction

The question of this research is, how South Africa can build a fiscally sustainable student financing model that preserves access for the poor while protecting university quality? This essay looks into three issues contained in the question which are: the fiscal unsustainability of the current grant-dominated model, international experience with income-contingent loans, and a workable hybrid design for South Africa.

This essay is structured as follows. Section 2 explains why the current NSFAS model is unsustainable. Section 3 reviews lessons from Australia and the Netherlands. Section 4 proposes a three-tier hybrid model for South Africa. Section 5 sets out design principles for income-contingent loans. Section 6 discusses implementation challenges. Section 7 provides recommendations and Section 8 concludes.

2. Why the Current Model is Unsustainable

South Africa's free higher education policy since 2017 achieved access gains but created fiscal pressure (Department of Higher Education and Training:2026). NSFAS spending has grown at 12.5% per year, far above inflation at 5.2% and the university block grant at 3.9% (Parliament of South Africa:2026).

NSFAS has really helped poor and working-class students get into university. Right now it supports almost 900,000 students every year, which is huge. But even with that, universities are still struggling because student debt is about R23 billion in 2024. So you can see both sides — the help is important, but the pressure on universities is also real.

The money problem is getting worse. According to the 2025 Estimates of National Expenditure, NSFAS spending will go from R54.5 billion in 2024/25 to R62.4 billion in 2027/28. And about 86% of NSFAS money comes from government over this period (South African Treasury:2026). That means almost all the risk is on government.

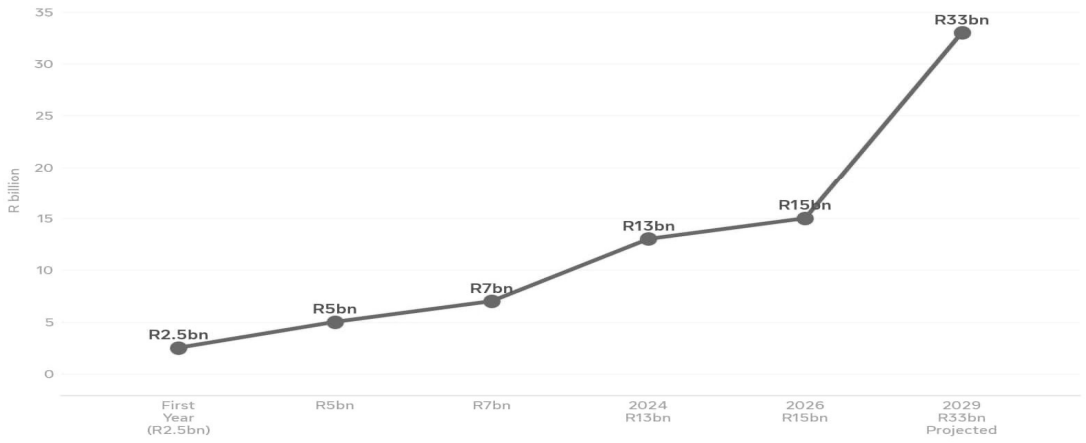
At the same time there is the missing middle. These are students whose families earn too much to get full NSFAS, but too little to pay for fees, accommodation, food, transport and books. South Africa has started a loan scheme for families earning between R350, 000 and R600, 000 to help this group.

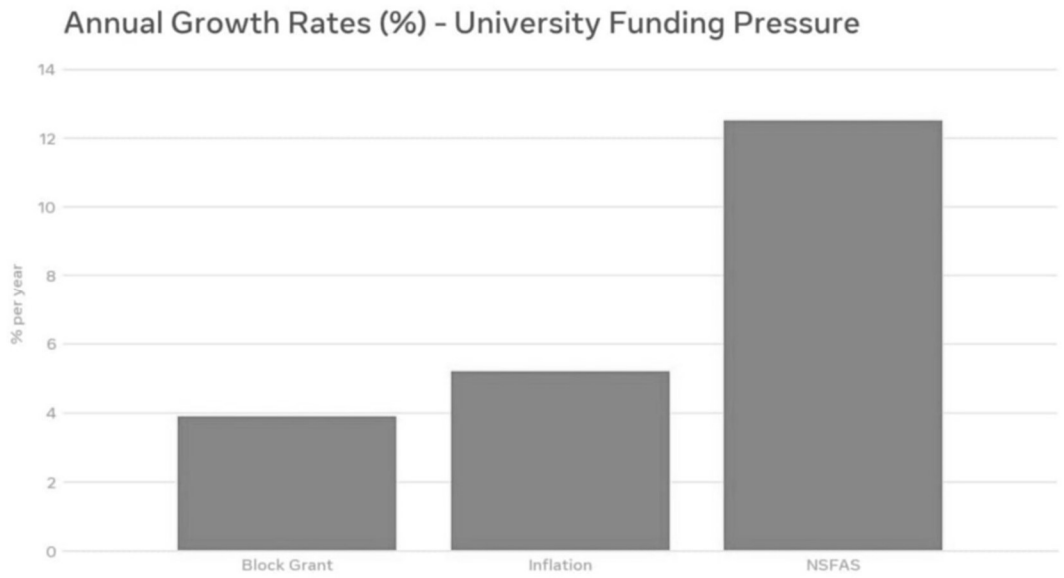
South Africa's missing middle loan scheme was meant to bridge a gap in the cost sharing model, but in practice it has barely reached the students it was designed for. The idea was simple enough: households earning between R350, 000 and R600, 000 a year earn too much to qualify for a full NSFAS bursary, yet too little to comfortably cover tuition, accommodation, food, transport, and learning materials. On paper, the loan terms are very generous as the interest is 1% lower than what banks normally charge, but the numbers tell a different story. In 2024, over 31,000 students applied and only about 1,300 were approved. By September 2025, just R1 million had been disbursed. For the 2026 academic year, 26,538 applications yielded only 1,561 approvals, against roughly 900,000 NSFAS beneficiaries. The problem is not really the loan design; it is implementation. NSFAS is already struggling with administrative chaos, payment delays, and a trust deficit among students, and the missing middle scheme has inherited all of that.

When one looks at other aspects they will notice that government grants already make up 45% of university revenue and about 86% of NSFAS's own income, with the scheme's budget projected to climb from R54.5 billion to R62.4 billion by 2027/28, while student debt at universities has reached roughly R23 billion and NSFAS's loan book is 98% impaired. Pushing costs onto students runs into the political wall built by #FeesMustFall, and pushing them onto the state runs into a fiscus that cannot carry the load indefinitely. The uncomfortable truth is that the missing middle loan scheme cannot solve the cost-sharing problem on its own, because the real question is not who should pay but who can — and in an economy marked by high unemployment, low household incomes, and limited access to credit, the capacity to shift costs onto students and families is inherently limited.

So the real issue is cost-sharing. If we make universities depend only on government grants, it is hard to sustain. But if we tell students to go get normal bank loans, many will be excluded because of unemployment, low incomes and no access to credit. That is why we need something in between.

Figure 1: Verified NSFAS Shortfall Trajectory
(Source: Minister Manamela, 9 Sept 2026)





6. RECOMMENDATIONS

6.1 The Tapered Hybrid Access Model

In my opinion, South Africa should replace the current R350,000 cliff-edge with a "Tapered Hybrid Access Model". It is hybrid because it combines a grant and a loan for the same student, and tapered because the proportion of each slides with household income, rather than giving everyone the same 50/50 split.

The model has four features:

1. A fair slide, not a cliff.

Instead of a hard cut-off, the grant share falls gradually. A household at R350,000 receives 100% grant and 0% loan. At around R450,000, it is roughly 50% grant and 50% loan. At R600,000, it is 0% grant and 100% loan. This protects families just above the current threshold — the families closest to R350k who currently fall through the cracks — while still expecting more from families with greater ability to pay.

2. One application, automatic assessment.

The reason only 44 of 12,668 valid applications in 2024 reached complete documentation (Figure 2) was paperwork. The new model would require one NSFAS application. Income is verified automatically through SARS data, which then triggers an automatic loan offer. Funds are paid directly to institutions under a single standard agreement signed once. This removes the document-upload stage where most files were lost.

3. Repayment based on what you earn, not what you owe.

This is the hybrid loan part. Graduates repay only when they can afford it, 5% to 9% of income above a threshold that is set above the income-tax threshold, so unemployed and low-earning graduates pay R0. Employers deduct it through SARS, similar to Australia's HECS-

HELP system. Interest tracks inflation only, not prime minus one point as currently. Balances are written off after 25 years. Learning from Australia, large estates would settle outstanding debt and SARS would pursue emigrants. Critically, terms would be fixed in legislation so they cannot be changed retrospectively, avoiding England's mistake which damaged trust.

4. Reward finishing, not just enrolling.

Public money is wasted when students do not finish. The Business Day (2026) incentive for finishing on time should be extended into a graduated grant conversion: each additional year beyond minimum time reduces the share of the loan that can be forgiven. The Minister should also publish the full application-to-disbursement funnel every year, so that failures like Figure 2 are exposed early.

6.2 Illustrative Costing – Summary

The 2024 phase funded 31,884 students with R3.8 billion, implying about R119,000 per student. Supporting all 68,446 missing-middle students at that average would cost:

- Free tuition extended to R600k: R8.2 billion* - unaffordable and replicates the NSFAS fiscal problem.
- Tapered Hybrid Access Model: R4.9 to R5.8 billion* - assumes on average half is grant and 20% (Australia) to 42% (England) of loans are not repaid.
- Loans only, no taper: R1.6 to R3.4 billion* - cheapest, but deters students and is unfair to those at R360k.

In short, the tapered hybrid costs roughly 30-40% less than free tuition, but protects the most vulnerable within the missing middle. Figures are orders of magnitude only and exclude administration and timing.

6.3 Workability and Sequencing

Recovery in South Africa will likely fall short of Australia because of graduate unemployment and informality, so budgets should assume England-like non-repayment of around 42%. The larger risk, however, is governance. By August 2026 NSFAS had paid only 61.5% of university allocations and the attempt to dissolve its board was overturned by the Pretoria High Court.

The model is workable, but only if sequenced: First, fix data verification and direct payment to institutions. Second, pilot the automatic assessment and tapered hybrid at a few universities in 2027. Third, scale nationally with independent audit and annual publication of the funnel.

South Africa cannot fund every student as a grant and the current loan has failed to reach its intended beneficiaries. The Tapered Hybrid Access Model offers a middle path: cheaper than

free for all, fairer than a flat hybrid, protects borrowers from unaffordable debt, and applies lessons from Australia, England, Chile and Ghana. Its success depends on administrative reliability, which must be fixed first.

8. Recommendations

In my own opinion, the hybrid model is workable and necessary for South Africa.

I recommend: First, keep full NSFAS grants for households below R350,000. Second, introduce income-contingent loans for R350,000 to R600,000 collected through SARS, with zero real interest and write-off after 20 years. Third, legally separate student funding from university block grants to protect quality. Fourth, fix NSFAS governance with automatic SARS income verification. Fifth, add SETA co-funding for scarce skills.

This approach is fair, protects the poor, and ensures survival of free education, not abandoning it (OECD:2025).

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