

NSFAS 3.0: Reframing South Africa's Higher Education Funding Architecture

(Word Count: 2189 excl. references)

1. Introduction

Expanding higher education access is one of the most powerful tools for redressing the structural inequality remaining in South Africa. However, intense national debate surrounds the question of how this expansion should be funded and facilitated. Since its launch in 1991, the National Student Financial Aid Scheme (NSFAS) has undergone two distinct eras, transitioning from a hybrid loan-bursary scheme to a fee-free system after 2017. While this second iteration has lowered financial barriers for many disadvantaged students, it has placed a growing burden on the national fiscus. Without reformation, NSFAS in its current form jeopardises the right that *future* students have to affordable higher education. This essay proposes a new NSFAS model inspired by Kenya's Means Testing Instrument (MTI) and Australia's Income Contingent Loans (ICLs), integrated with several behavioural economics principles and broader social support efforts. Unlike the previous iteration, this model encourages both student success and fiscal sustainability through a multi-dimensional approach intended to address the needs of a wide array of students.

2. The history of NSFAS: two eras

NSFAS was first established in 1991 as a means of promoting greater access to higher education for poor and historically disadvantaged students (The Council for Higher Education, 2025). NSFAS and its policies can be viewed in two distinct eras. During the first, from 1997 to 2017, funding was largely in the form of loans which followed a 60/40 split: approved students would initially receive 100% of the funds for tuition, accommodation and study materials as a low-interest loan; if the student achieved high academic results for the year, up to 40% of the loan was converted into a non-repayable bursary. The remaining amount after all years of study would remain as a loan to be paid back when the student entered the workforce (NSFAS, 2017).

The second era of NSFAS was brought upon by two years of nationwide student protests, known as the #FeesMustFall movement. Between 2015 and 2017, government was faced with mounting pressure to curb rising tuition prices and inadequate NSFAS funding (Griffiths, 2019). Jacob Zuma, then president, commissioned an official report – the 'Heher Commission' – to investigate the feasibility of state-funded free higher education (Griffiths, 2019). Ultimately, the report argued *against* free tuition, recommending instead a 'cost-sharing model' in the form of 'income contingent loans' (Heher, 2017). Disregarding this policy recommendation, Zuma announced in 2017 that the government would provide free higher education to students whose annual household income does not exceed R350 000 (Griffiths, 2019).

The model introduced by Zuma has largely prevailed up until now. Under the current framework, qualifying students receive a non-repayable bursary package that covers tuition fees, accommodation, learning materials, and a monthly living allowance (NSFAS, 2017). A recent addition to the model, introduced in 2024, is the roll-out of a loan scheme targeting the 'Missing Middle' (students whose annual household incomes exceed R350 000 but are less than R600 000) (Ntanzu, 2026). However, the implementation of this loan mechanism has been slow and complicated, with very few students being considered eligible (Ntanzu, 2026).

Administrative failures, mismanagement of funds, and corruption are topics dominate much of the discourse surrounding the current state of NSFAS. While these factors have had an undeniable impact on its stability, I consider them to be secondary to the most fundamental issue with NSFAS: its unsustainable financing structure.

3. Issues with the current NSFAS model

3.1 Fiscal strain

NSFAS has placed immense strain on the South African Treasury. Direct funding for NSFAS surged from under R10 billion annually in the early 2010s to over R50 billion for the current financial year, making it one of the fastest-growing budget items in the national expenditure framework (National Treasury, 2026). However, the grant system generates no financial return itself. As student enrolments, tuition fees, and the cost of living continue to increase, funding is simply unable to keep up (Dondolo, 2026).

3.2 Inadequate student-funding criteria

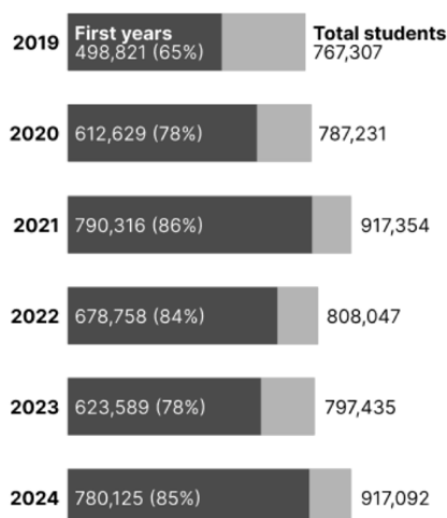
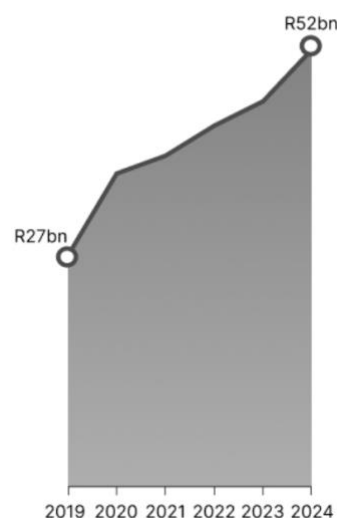
NSFAS uses a R350 000 annual household income as its key metric. Household incomes marginally above this threshold are automatically excluded from any funding, despite being only slightly better off. This has resulted in a ‘Missing Middle’ – students whose households are not wealthy enough to pay for tuition despite receiving more than the income threshold (Mtwesi, 2016). Additionally, the funding criteria does not consider crucial metrics such as household size and the number of dependents. Without these considerations, the R350k cap fails to serve as a useful means of evaluating the financial situations of students and overlooks the extra support that the most disadvantaged students require.

Figure 1
Illustration of NSFAS funding scenario for two different households

	Annual household income	Household size	Per capita monthly income	NSFAS status
Household A	R340 000	2 people	≈ R14 166 per person	Qualifies for funding
Household B	R360 000	7 people	≈ R4 285 per person	Disqualifies for funding

3.3 The student retention crisis

Since the #FeesMustFall movement, national policy has heavily prioritised *access* to university over successful graduation and academic success. Research suggests that in recent years, over 80% of all NSFAS-funded students are first-years (GroundUp, 2026). This is a worrying trend, implying a high number of students dropping out or failing to meet the academic requirements for subsequent funding after their first year. The current model fails to incentivise timely graduation or academic excellence; in turn, the state loses millions from funding students who exit the system without a qualification.

Figure 2*Number of NSFAS-funded students per year***Figure 3***Total amount paid by NFAS per year*

Note: From 'Over 80% of NSFAS-funded students are first-years' by GroundUp, 2026 <https://groundup.org.za/article/80-of-nsfas-funded-students-are-first-years/>

4. A new NSFAS model

4.1 Holistic student eligibility testing

Before any funding can be allocated to a student, a thorough assessment of their financial eligibility and background is essential. The current paradigm of relying on annual household income does not consider household size or the number of dependents. I recommend a new approach, inspired by the Means Testing Instrument (MTI) developed in Kenya. The MTI uses a number of multidimensional indicators (such as household direct income, household size and dependents, special circumstances such as being an orphan or disabled, and specific study program costs) to generate a score for each student, which then assigns the student to a specific funding band (African Population and Health Research Centre, 2025).

A dedicated team should be tasked with establishing a South African-specific MTI model. Although this process may initially be resource intensive, it will ultimately serve to ensure the correct allocation of funds in the long run.

Figure 4*Funding simulation for a student categorised in Band 1*

Program Name	Program Cost	Band 1			
		Scholarship 70%	Tuition Loan 25%	Upkeep	Household 5%
Medicine	612,000	428,400	153,000	60,000	30,600
Bachelor of Education (Science)	244,800	171,360	61,200	60,000	12,240
Bachelor of Education (Arts)	183,600	128,520	45,900	60,000	9,180
Bachelor of Commerce	220,150	154,105	55,037.50	60,000	11,007.50
Bachelor of Arts	122,400	85,680	30,600	60,000	6,120

Note: Adapted from 'New Funding Model (NFM)', by Ministry of Education, Kenya, 2024, Tangaza University (https://tangaza.ac.ke/wp-content/uploads/2024/11/NEW_FUNDING_MODEL_-_6TH_AUGUST_2024.pdf)

4.2 Tiered system

I suggest a sliding scale approach to the NSFAS model, building on from the MTI model used in Kenya. This will serve to fully support the poorest students while still providing proportional assistance to others, including the 'Missing Middle'. The first tier of students will receive 100% of funding as a non-repayable bursary; subsequent tiers only receive a portion of the full cost.

Bands 2,3 and 4 will couple their bursary with an ICL. This approach is inspired by Australia's pioneering use of ICLs in student funding (Bruce Chapman, 2014). These loans do not charge commercial interest rates but are rather indexed to match inflation and must be paid back once the student starts receiving an income from working (Bruce Chapman, 2014).

Additionally, the Australian Taxation Office – the equivalent to our SARS – manages the collection of these loans, rather than a secondary body (Bruce Chapman, 2014). Facilitating collection through SARS will help alleviate the administrative work of NSFAS while preventing any mismanagement of funds. Currently, SARS manages the collection of Unemployment Insurance Fund (UIF) contributions directly from employers (SARS, 2026). The implementation of a similar mechanism – wherein the student's monthly repayment is deducted directly from their payroll – is worth further investigation.

As graduates in Bands 2, 3, and 4 repay their loan portions through SARS over time, those funds flow directly back into Treasury's higher education reserve, creating a sustainable budget to fund future generations of students.

Figure 6*Suggested bands and MTI scores*

Funding Band	Target Demographics	MTI Score	State Bursary	State ICL	Household / Student Contribution	Living Allowance
Band 1: Extreme Need	Households earning <R120k/yr.	80 – 100	100%	0%	0%	100% (Food, accommodation, books)
Band 2: High Need	Households earning R120k – R350k/yr	60 – 79	75%	20%	5%	100%
Band 3: Entry Missing Middle	Households earning R350k – R500k/yr	40 – 59	40%	50%	10%	75%
Band 4: Upper Missing Middle	Households earning R500k – R650k/yr	20 – 39	10%	70%	20%	0%
Band 5: Financially Capable	Households earning >R650k/yr	0 – 19	0%	0%	100%	0%

Note: the inclusion of household earnings under 'target demographics' is merely for illustrative purposes; bands are determined by a holistic MTI score.

4.3 Behavioural incentives and 'nudging'

My model incorporates several ideas from behavioural economics to enhance its effectiveness.

Firstly, a financial incentive can be built into the funding awarded to students in Band 2 and 3. If students in these bands graduate in the minimum amount of time and excel academically, a proportion of their repayable loan may be converted into a non-repayable bursary. This mimics the mechanism used in the first era of NSFAS (NSFAS, 2017).

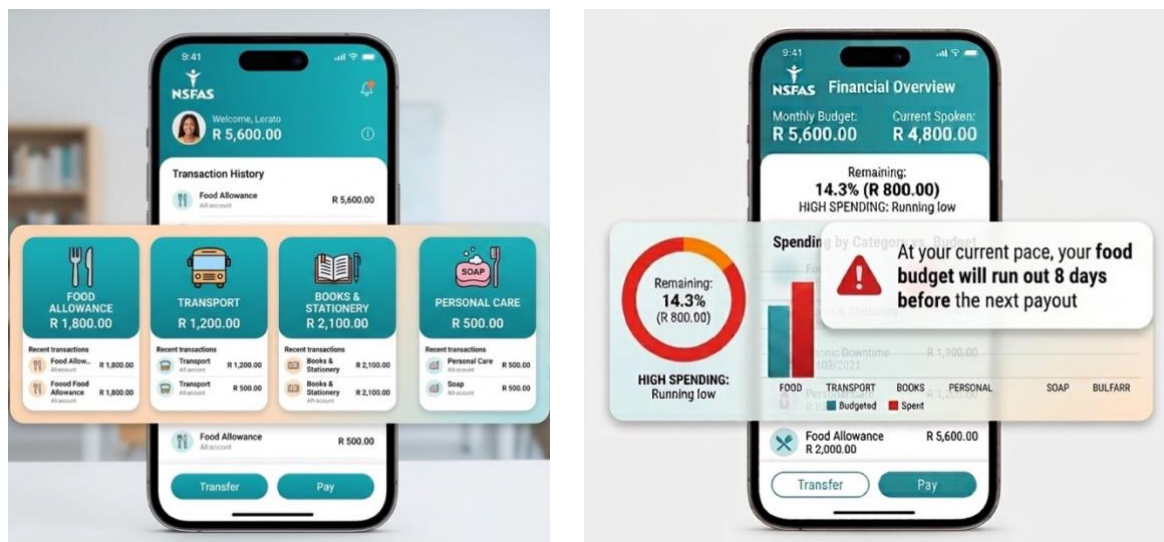
Secondly, a tax incentive could be introduced for firms and corporates who hire NSFAS graduates. A firm can elect to pay a monthly contribution to the student's loan balance; in return, Treasury grants the company a tax deduction or a direct offset against their B-BBEE Skills card. This would align with the state's job-creation efforts while speeding up capital return to the NSFAS funding pool.

The last behavioural aspect of my model is built around the dispersion of a student's living allowance into a designated E-Wallet. Although there is strong criticism that in-kind transfers are paternalistic and not wholly effective (National Bureau of Economic Research, 2025), I am not convinced that young adults at university consistently make responsible spending decisions. For example, newfound freedom of university life comes with the temptation to spend on drugs, alcohol, and online gambling (Goni, 2026). In other cases, students use their living allowances to support their needy family members, rather than on themselves.

To reconcile both valid concerns, I suggest the piloting of a 'pocket' system that uses behavioural 'nudging' rather than hard controls. Money will be deposited into special sub-accounts (for example, 'Transport' and 'Food') within a banking account. A student will be able to move money between these pockets but will receive a notification warning them against wasting their money. There will also be a built-in tracking system that monitors and informs the student on their spending habits. Even without having hard blocks, visually separating money into these pockets will help prevent impulsive spending and promote financial responsibility.

Figure 7

Simulation of E-Wallet 'pockets' and financial tracker interface:



Note: AI was used to generate these images.

4.4 Social support

Merely providing adequate financial support is not enough to ensure that students thrive in the higher education landscape. NSFAS-funded students, especially those in Bands 1 and 2, typically face an array of exceptional circumstances and are particularly vulnerable to mental health issues. The academic demands and uncertainty of future funding induces high levels of stress and anxiety, which in turn negatively affect academic performance (World of Work, 2025).

Although social-support mechanisms usually exist within universities, they typically require the student to seek them out themselves. Many students – including myself – do not use the resources available to them. This can be explained by the behavioural phenomenon of ‘decision inertia’ – individuals avoiding action to maintain their status quo (Alós-Ferrer, Hügelschäfer, & Li, 2016). I therefore believe that certain support measures should be *mandated* for NSFAS-funded students. For example, when I was a 1st-year student I was assigned a 3rd-year mentor who was tasked with checking up on myself and a group of other students in my degree. We would regularly meet up on campus to discuss our courses and just spend time together. This kind of arrangement can serve as a lifeline for students while also helping them make friends in a new university environment.

An in-depth analysis on the kinds of support structures and their effectiveness is beyond the scope of this essay but deserves further research and consideration.

5. Conclusion

The current model of NSFAS has created an unsustainable fiscal burden, while its rigid income threshold fails to address the different needs of a diverse student population. Moving towards a multidimensional framework, inspired by Kenya's MTI and Australia's ICLs, offers a viable way forward. Furthermore, by introducing behavioural incentives and mandated social support structures, South Africa can encourage academic excellence and personal growth for NSFAS-funded students.

While my MTI-tiered model draws from international experience, it has not been empirically tested using South African data sets. Future research should focus on micro-modelling to develop a unique MTI and subsequent funding bands. Additionally, further research is required to evaluate the effectiveness of the proposed behavioural measures (tax incentives for firms and the E-Wallet interface) and the kinds of social support mechanisms that should be mandated.

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