Financing the Future: Building a Fiscally Sustainable Student-Financing Model to Expand Access to Higher Education in South Africa

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1. Introduction

Higher education is both a route to social mobility and an investment in productive capacity. Yet in South Africa, tuition, accommodation, food, transport and learning materials remain unaffordable for many households. The policy challenge is twofold: widen access for capable students while ensuring that public support does not become an uncontrolled claim on the national budget.

This literature-based essay proposes a differentiated funding model, costs it under stated assumptions and evaluates lessons from Australia, England and Chile. Section 2 defines the problem, Sections 3 and 4 propose and cost the model, Sections 5 to 7 cover international experience, capacity and objections, and Sections 8 and 9 conclude and recommend. It argues that sustainability requires grants for students who cannot repay, carefully designed income-contingent loans, limited public guarantees, adequate institutional capacity and support for completion.

2. Defining the financing problem

NSFAS bursary eligibility is generally linked to gross household income of R350,000 or less a year, while the missing-middle loan category covers undergraduates from households earning above R350,000 and up to R600,000 (NSFAS, n.d.).

The 2024 Comprehensive Student Funding Model announced initial capitalisation of R3.8 billion (R1.5 billion from the National Skills Fund and R2.3 billion from SETAs), estimated to support 31,884 of 68,446 identified missing-middle students (Department of Higher Education and Training [DHET], 2024). A once off injection cannot sustain a system, which needs predictable multiyear funding.

The strain extends beyond the missing middle. The Minister told a parliamentary committee in August 2026 that the NSFAS shortfall has grown from about R2.5 billion in 2018 to about R15 billion, because demand is rising faster than an allocation that is effectively fixed (Business Report, 2026). NSFAS disbursements have grown from R21.4 million in 1991 to about R54 billion (Nkabane, 2025), and an income contingent loan is reportedly under consideration (Daily Investor, n.d.). Reform must make the core grant system affordable, not merely add a loan tier.

A grant is a direct public cost. A loan creates an asset, but its value depends on repayment, administration, interest subsidies and the share written off. Income-contingent loans insure borrowers against low earnings because repayments adjust to income (Barr et al., 2019), but this transfers earnings risk to the public budget, which must be recognised rather than assumed away.

3. A differentiated financing model

3.1 Protect grants for households with the least ability to pay

Households at or below R350,000 should keep needs-based bursaries covering tuition, approved accommodation, meals, materials and, where justified, transport. Students in severe poverty should not be pushed into debt, with a fair appeals process because income can change.

3.2 Give missing-middle loans clear and affordable terms

For households above R350,000 and up to R600,000, government should offer income-contingent loans with terms published before acceptance. The following parameters are proposed for consultation and actuarial testing, not as existing NSFAS rules: a real interest rate of zero to 1%, with balances indexed to inflation; repayment of 3% of income above a protected threshold, rising to 5% for much higher earners; and cancellation of any balance after 25 years.

These terms are anchored to existing proposals and practice. Petersen and Burger (2021) suggest a sliding family-income scale mixing bursaries and loans, SARS collection, and a repayment period capped at, for example, 25 or 30 years. Australia collects 15 cents per dollar above A$67,000, up to A$125,000 (Australian Government Department of Education, n.d.b). A lower South African rate reflects higher unemployment and earnings risk, but means slower repayment and larger write-offs, as Section 4 shows.

3.3 Make private finance possible without shifting excessive risk to students

Banks and investors are unlikely to make large unsecured student loans on commercial terms. The Heher Commission proposed government-guaranteed loans from commercial banks, with government liable if graduates did not reach the repayment threshold (The Presidency, 2017;

Daily Maverick, 2017), but a blanket guarantee could expose taxpayers to large losses. A blended facility is more controlled: a capped first-loss tranche or partial guarantee, with development-finance institutions and investors supplying the rest.

4. Costing and funding the model

The figures below are illustrative calculations, not forecasts, and rest on three stated assumptions. First, average support of about R119,000 a student a year: the 2024 announcement's R3.8 billion divided by 31,884 students (own calculation from DHET, 2024). Second, that all 68,446 identified missing-middle students borrow, giving about R8.2 billion a year; if that is a wider pool than one year's demand, lending would be lower. Third, a share of lending recovered, which Table 1 varies.

Table 1: Illustrative annual cost of the missing-middle loan tier

Scenario	Share of lending recovered	Unrecovered lending (R billion a year)	As share of R15 billion NSFAS shortfall
Optimistic	80%	1.6	11%
Central	60%	3.3	22%
Pessimistic	40%	4.9	33%

Source: author's calculations from DHET (2024) and Business Report (2026). Recovery shares are assumptions; the shortfall column shows scale only.

The central 60% is set near England's forecast that 55% of full-time undergraduate borrowers starting in 2025/26 will repay in full (Department for Education, 2026), as a rough anchor only: part-repayers raise recovery, while interest subsidies and write-offs lower its present value. Ten points of recovery are worth R0.8 billion. The table ignores timing and interest costs, so it understates cost, and the shortfall is shown only for scale. Only the expected write-off is a recurrent cost, provided the rest is financed and recovered.

Funding has four parts: seed capital from the National Skills Fund and SETAs (DHET, 2024), recycled through repayments; private and development finance through the capped facility, so that annual cash lending does not fall wholly on the fiscus; an open budget line for the subsidy; and published norms for fees and accommodation, since cost inflation raises grant and loan needs alike. The grant tier should be costed likewise using NSFAS data, which this essay lacks.

5. What international experience can and cannot teach South Africa

5.1 Australia: repayments linked to earnings

Australia's Higher Education Loan Program ties compulsory repayments to income and collects them through the tax system, insuring graduates against repayment hardship (Barr et al., 2019). It has since raised the threshold to A$67,000 and moved to marginal rates, so that earning more never reduces take-home pay (Australian Government Department of Education, n.d.b). Norton (2024) notes that percentage-of-all-income repayment led some debtors to arrange their income below thresholds. In 2025 Parliament also passed a bill cutting balances by 20% (Australian Government Department of Education, n.d.a). South Africa should therefore use marginal rates from the start and fix write-off rules in law, because large loan books create pressure for forgiveness.

However, Australia's formal tax and employment systems cannot be assumed. Graduates may be unemployed, self-employed, informal or earning too little to repay, so the portfolio should be stress-tested against prolonged unemployment and low wages, self-employed graduates assessed through annual returns, and no graduate below the threshold left with punitive arrears.

5.2 England: recognise the subsidy in the loan

England's income-linked system shows that not all lending is recovered: the Department for Education estimates that 55% of full-time undergraduate borrowers starting in 2025/26, on Plan 5 terms, will repay in full (Department for Education, 2026). South Africa should publish cohort-level estimates of repayments, administrative costs and write-offs. Because SARS deductions may not reach graduates abroad, it should also require annual income declarations from emigrants and explore information-sharing with destination countries, while still allowing for non-recovery.

5.3 Chile: access must be matched by institutional funding

Chile shows the opposite risk: access policy outrunning institutional funding. Its 2016 tuition-free policy limited cost and scope, yet public universities argue that appropriations do not replace lost tuition revenue, and without more capacity free tuition is likely to crowd out low-income students (Delisle and Bernasconi, 2018). Other middle-income and African schemes merit further study.

6. Protect capacity and completion

Financing alone does not create places. About 856,000 candidates were due to write Grade 12 in 2025, against roughly 235,000 projected first-year university places and more than 527,000

TVET places for 2026, and accommodation providers have been hit by NSFAS shortfalls (Manamela, 2025). Government should publish a multi-year framework separating student aid from institutional subsidies and linking both to capacity, with TVET colleges central, because squeezing block grants to fund student aid may raise access while quality and capacity fall.

Completion matters equally, because a loan pays for itself only if students finish and earn: cohort graduation rates should be reported alongside funding data and used in forecasts. Universities should identify at-risk students early and provide tutoring, counselling and accommodation, and a capped, pre-budgeted portion of a loan could convert to a grant on timely completion, adjusted for illness or caregiving, without encouraging institutions to pass unprepared students.

7. Anticipating objections

Three objections deserve answers. First, loans may reverse the gains of the fee-free movement. The R350,000 boundary comes from the Presidency's 2017 decision to make education fee-free for poor and working-class undergraduates through grants, not loans (The Presidency, 2017). The proposal keeps that protection and adds loans only above it, with repayments starting above a protected threshold and no arrears below it; the Minister describes the aim as making higher education free at the point of entry (Daily Investor, n.d.).

Second, fee-free education could be extended instead. But the shortfall trend in Section 2 shows what a fixed allocation does as demand grows; the Minister has said that if funds cannot be found, fee-free policy must be rethought (Business Report, 2026), and Treasury had cautioned against funding it through higher income tax or VAT (Daily Maverick, 2017). Chile adds further risks.

Third, banks may not lend and graduates may not earn enough. The Banking Association South Africa was reported to be essentially uncommitted to the Heher proposal (Daily Maverick, 2017), hence the capped public facility.

8. Conclusion

This essay examined how South Africa can widen access without treating public resources as unlimited. It defined the problem, proposed and costed a differentiated model, drew lessons from Australia, England and Chile, and considered capacity, completion and objections. The most defensible approach combines grants for students who cannot reasonably repay, income-contingent loans for the missing middle, and structured private participation backed by capped public risk-sharing. The international evidence is useful but not directly transferable: Australia

shows how marginal, income-linked collection protects low earners and how pressure for forgiveness builds; England shows why unrecovered loans must be budgeted; Chile shows that access must be matched by institutional funding; and South Africa must also allow for unemployment, informal earnings and emigration.

9. Recommendations

The central proposal is workable but not self-financing: on Table 1's illustrative assumptions it would cost roughly R1.6 billion to R4.9 billion a year in unrecovered lending. Government should:

1. **Legislate three tiers with published terms.** Grants at or below R350,000, income-contingent loans up to R600,000 and full fees above, with a protected threshold and marginal rates set in law.
2. **Pilot before scaling.** Use the first-phase Comprehensive Student Funding Model cohort to track repayment and non-recovery, and publish results before extending loans.
3. **Cap the subsidy.** Set an annual ceiling on the loan tier's unrecovered cost, and adjust intake, interest or repayment rates within published bounds if repayment data threaten it.
4. **Build SARS collection capacity first.** Cover PAYE and self-employed graduates, with annual income reporting for borrowers abroad.
5. **Budget openly and report access.** Publish cohort-level repayment and write-off estimates, the expected subsidy as a distinct budget line, and access indicators such as students funded, students unfunded and TVET share.
6. **Create a capped first-loss facility.** Combine limited public risk-sharing with development-finance and institutional capital, conditional on responsible lending.
7. **Protect capacity and completion.** Separate student aid from institutional subsidies in a multi-year framework, and fund TVET capacity, accredited accommodation and early-warning support services.
8. **Control costs and review the terms.** Set published norms for fees and accommodation, and review thresholds, rates and the write-off period against repayment data.

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