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

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Abstract

Higher education yields high economic returns, yet South African students rely on a National Student Financial Aid Scheme (NSFAS) strained by a widening shortfall and collapsing loan recovery. This literature-based essay evaluates the current system, reviews international funding models, and examines lessons from Australia, England, Chile, and Kenya. It proposes grants for poor households, income-contingent loans for the missing middle, and capped public risk-sharing to mobilise private finance. Illustrative costings indicate unrecovered lending of R1.6 billion to R4.9 billion a year. Long-term sustainability hinges on tax-based collection, protected institutional subsidies, student completion, and transparent budgeting.

1. Introduction

Higher education raises individual earnings and national productivity. Globally, Psacharopoulos and Patrinos (2018) report average private returns of 15.8% and social returns of 10.5%, with South Africa's social returns reaching 22%. Yet because tuition, accommodation, and living costs remain unaffordable for most families, NSFAS funds roughly 61% of public-university undergraduates (Lewin, n.d.). That safety net is buckling: the shortfall has widened from about R2.5 billion in 2018 to roughly R15 billion (Business Report, 2026), while historic loan recovery has collapsed (Molete and Stumke, 2025). Reform is urgent to widen access without creating an uncontrolled claim on the budget.

This literature-based essay examines how South Africa can build a fiscally sustainable student-financing model that expands access. Section 2 diagnoses the current system, Section 3 reviews international models and country experiences, Section 4 outlines a proposed model, and Section 5 estimates its cost. Sections 6 and 7 address capacity, completion, and objections, before Sections 8 and 9 present recommendations and conclusions.

2. The current funding model and its challenges

Public student aid dates back to 1991, with NSFAS established in 1999 (Nkabane, 2025; Lewin, n.d.). Launched as a loan scheme, its collection rate peaked at 35.3% in 2006 before falling to 2.4% in 2016—a drop Molete and Stumke (2025) attribute to legal limits on recovery, weak data systems, and graduate unemployment. By 2014, roughly 40,000 eligible students went unfunded. Following the Heher Commission, the Presidency (2017) introduced full bursaries from 2018 for households earning up to R350,000 a year. Households above that ceiling, up to R600,000—the missing middle—can apply for loans (NSFAS, n.d.); under the 2024 Comprehensive Student Funding Model, government committed R3.8 billion (R1.5 billion from the National Skills Fund and R2.3 billion from SETAs), supporting 31,884 of 68,446 identified students (Department of Higher Education and Training [DHET], 2024).

Despite these pressures, NSFAS has delivered clear gains. It funded 826,084 students in 2021, reshaped the demographic profile of public universities, and achieved a dropout rate ten points lower and a throughput rate eight points higher in its 2013 cohort than the undergraduate average (Lewin, n.d.).

Today, however, operational and fiscal strains are acute. Demand has outpaced an effectively fixed budget allocation (Business Report, 2026), forcing funds to be diverted from direct university subsidies, while rushed payment reforms in 2023 caused widespread allowance delays amid governance failures (Lewin, n.d.). In May 2026, NSFAS was placed under administration for the third time, prompting the Deputy Minister to propose replacing it with direct Treasury funding (Daily Maverick, 2026).

3. Funding models and international experience

Johnstone and Marcucci (2007) document a global shift of higher education costs toward students and families, using loans to defer payment until graduates earn. Loans may be mortgage-style, with fixed instalments, or income-contingent, with repayments tied to earnings; Chapman (2006) shows that income-contingent loans insure borrowers against default, have spread since the late 1980s, and depend heavily on scheme design and administrative capacity. Non-repayment remains the central risk, ranging from 5% to 10% in top-performing programmes to 50% to 70% in adverse settings, including failed schemes in Sub-Saharan Africa (Johnstone and Marcucci, 2007). A third approach is tax-funded free tuition, seen in Chile's 2016 reform and South Africa's 2018 grants for poor students.

Australia. Australia collects income-linked repayments through the tax system, shielding low-earning graduates from hardship (Barr et al., 2019). Subsequent reforms raised the threshold to

A$67,000 and shifted from a whole-income rate to marginal rates (Australian Government Department of Education, n.d.a, n.d.b), stopping debtors near the threshold from manipulating earnings to avoid a sudden repayment jump, though marginal rates raise subsidy costs (Norton, 2024). Parliament also legislated a 20% reduction in loan balances in 2025 (Australian Government Department of Education, n.d.a). South Africa should adopt marginal rates from the outset, anchor write-off rules in law to resist political pressure for debt forgiveness, and stress-test portfolios for unemployed, informal, and self-employed graduates.

England. The Department for Education (2026) projects that only 55% of full-time undergraduates starting in 2025/26 on Plan 5 terms will repay in full, meaning the expected lifetime subsidy not gross lending must be budgeted upfront. Because domestic payroll deductions cannot reach emigrants, borrowers abroad should submit annual income declarations.

Chile. Free tuition introduced in 2016 initially covered the lower half of the income distribution, yet public universities argue that state appropriations fail to replace lost fee revenue, risking capacity bottlenecks that crowd out low-income students (Delisle and Bernasconi, 2018).

Kenya. Collection capacity governs outcomes across Africa too: 563,949 of 731,789 matured loan accounts—roughly 77% (own calculation) made no repayment in the year to June 2025, leaving Sh89.9 billion outstanding amid high unemployment and prompting the Higher Education Loans Board to seek tax-authority data to trace borrowers (Ogada, 2026).

4. A funding model for South Africa

To widen access without destabilising public finances, South Africa should formalise a differentiated three-tier model.

Grants. Households at or below R350,000 should retain needs-based bursaries covering tuition, approved accommodation, meals, materials, and justified transport, backed by a fair appeals process for sudden income shocks.

Income-contingent loans. For households above R350,000 and up to R600,000, government should offer loans with terms published before acceptance. Proposed as illustrative parameters for consultation and actuarial testing rather than existing NSFAS rules, loans could carry a 0% to 1% real interest rate, require marginal repayments of 3% above a protected threshold rising to 5% for higher earners and expire after 25 years. These terms draw on Petersen and Burger (2021), who recommend a sliding family-income scale, South African Revenue Service (SARS) collection, and a 25-to-30-year cap, while scaling down Australia’s 15 cents per dollar above

A$67,000 up to A$125,000 (Australian Government Department of Education, n.d.b) to reflect higher South African unemployment risk. Implementing this requires dedicated legislation for taxpayer registration upon loan approval, payroll deductions for employed graduates (Molete and Stumke, 2025), and annual tax assessments for the self-employed.

Private finance. Commercial banks are unlikely to make large unsecured student loans on market terms. Although the Heher Commission favoured bank-issued income-contingent loans, the Banking Association remained "essentially uncommitted" and a blanket guarantee would expose taxpayers to severe losses (Daily Maverick, 2017). A blended facility offers tighter control: a capped first-loss tranche or partial guarantee, with development-finance institutions and investors providing the remaining capital (Johnstone and Marcucci, 2007).

5. Costing and funding the model

These figures are illustrative orders of magnitude rather than forecasts. They assume average annual support of about R119,000 per student (R3.8 billion divided by 31,884 students; own calculation from DHET, 2024), full borrowing across all 68,446 identified missing-middle students—roughly R8.2 billion a year, which overstates annual demand if that pool spans multiple cohorts—and varying recovery shares in Table 1.

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% recovery rate is anchored near England's forecast that 55% of borrowers will repay in full (Department for Education, 2026), while the pessimistic 40% case implies 60% non-repayment, inside the range observed in adverse international settings (Johnstone and Marcucci, 2007). Graduate unemployment of 12.2%, compared with 32.7% overall (Daily Investor, 2026), suggests graduates can repay above the pessimistic baseline, though informal work and emigration constrain collections. By contrast, NSFAS's legacy loan book recovered

just 2.4% in 2016 (Molete and Stumke, 2025). Every ten percentage points of recovery saves roughly R0.8 billion a year. Importantly, these estimates capture only unrecovered principal rather than the full fiscal cost; the true subsidy also depends on repayment timing, financing costs, interest concessions, administration, and write-off accounting.

Funding rests on four pillars: seed capital from the National Skills Fund and SETAs (DHET, 2024); private and development capital mobilised through the capped facility; an explicit budget line for the expected subsidy; and published fee and accommodation norms. The grant tier is omitted from costing due to limited disaggregated NSFAS data.

6. Capacity and completion

Financing alone cannot expand access without physical institutional capacity. About 856,000 candidates were due to write Grade 12 in 2025, competing for roughly 235,000 projected first-year university spaces and over 527,000 Technical and Vocational Education and Training (TVET) places for 2026 (Manamela, 2025). A multi-year framework should ring-fence institutional subsidies from student aid and place TVET colleges at the centre; squeezing university block grants to cover bursary shortfalls raises enrolment at the expense of teaching quality.

Completion matters equally, because a loan pays for itself only when students graduate and earn. Cohort graduation rates should be published alongside funding data, universities must deploy early-warning tutoring for at-risk students, and a capped share of a loan could convert into a grant upon timely graduation rewarding completion without pressuring academics to lower standards.

7. Anticipating objections

Four objections merit direct responses. First, critics warn that loans erode the gains of fee-free education. Yet the R350,000 grant boundary established after the Heher Commission (The Presidency, 2017) stays intact; loans apply strictly above it, with repayments starting only above a protected threshold and no arrears below it. Second, some favour extending universal grants. However, Section 2 shows how fixed allocations buckle under rising demand, Treasury cautioned against funding free education through higher income tax or VAT, and the Heher Commission deemed universal fee-free education unfeasible (Daily Maverick, 2017). Third, students fear debt, but income-contingent repayments insure borrowers against default during unemployment (Chapman, 2006). Fourth, sceptics question bank appetite and graduate earnings

concerns addressed by the Banking Association's reluctance leading to a capped public risk facility (Daily Maverick, 2017) and Table 1's pessimistic stress-test.

8. Recommendations

Because the proposed missing-middle tier would cost roughly R1.6 billion to R4.9 billion a year in unrecovered lending before financing and administrative expenses, disciplined implementation is critical. Government should:

1. **Legislate three tiers with published terms.** Enshrine grants at or below R350,000, income-contingent loans up to R600,000, and full fees above, setting protected thresholds, marginal rates, and SARS collection in law.
2. **Pilot before scaling.** Use the first-phase Comprehensive Student Funding Model cohort to track repayment and borrower-tracing outcomes, publishing results before wider rollout.
3. **Cap the subsidy.** Set a statutory annual ceiling on unrecovered lending, adjusting intake, interest, or repayment rates within pre-announced bounds if collections lag.
4. **Build SARS collection capacity first.** Cover PAYE payroll deductions and self-employed tax assessments, alongside mandatory annual income reporting for borrowers abroad.
5. **Budget openly and report access.** Publish cohort-level repayment and write-off forecasts, the expected subsidy as a distinct budget line, and access metrics across institutions.
6. **Create a capped first-loss facility.** Pair limited public risk-sharing with development-finance and institutional capital, conditional on responsible lending standards.
7. **Protect capacity and completion.** Separate student aid from institutional subsidies, while funding TVET expansion, accredited accommodation, and early-warning academic support.
8. **Control costs and review the terms.** Enforce published norms for tuition and accommodation, and review thresholds, rates, and write-off periods against repayment data.

9. Conclusion

Widening access to higher education in South Africa does not require an open-ended claim on the national budget. Although higher education yields strong private and social returns, NSFAS's R15 billion shortfall, historic 2.4% loan recovery rate, and repeated governance crises prove that current arrangements are unsustainable. International experience offers vital guardrails rather than direct templates: Australia shows how marginal tax-linked rates protect low earners and why write-off rules belong in statute; England highlights the need to budget upfront for expected

loan subsidies; Chile warns against expanding student aid by squeezing university appropriations; and Kenya shows that weak collection undermines any loan scheme. Combining protected grants for poor students with SARS-collected income-contingent loans for the missing middle and capped risk-sharing for private finance offers a viable path forward provided it is backed by collection capacity, institutional funding, and completion support.

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