

Towards Sustainability:

Restructuring South Africa's Higher Education Financing Model

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1. INTRODUCTION

Behind every number in South Africa's student funding debate is a young person for whom university or college is more than an education: it is a chance to change their livelihood for the better. Established under the NSFAS Act of 1999, the National Student Financial Aid Scheme (NSFAS) has helped bridge the gap between poor and working-class youth and that chance, and in 2026/27 it will spend R54.3 billion on 744,203 students (Nzimande, 2021; National Treasury, 2026).

But demand is outpacing funding. In August 2026, Higher Education Minister Buti Manamela told parliament that NSFAS's annual shortfall had grown from about R2.5 billion in 2018 to an estimated R15 billion (Nozulela, 2026). Weak governance compounds the problem: NSFAS has received poor audit outcomes and been placed under administration repeatedly. Student debt across the post-school system now stands at R59 billion (Parliament of South Africa, 2026).

This essay argues that the funding model should be restructured, not abandoned: it has not failed, but it has become unsustainable.

Section 2 defines fiscal sustainability and its prerequisites. Section 3 evaluates NSFAS and designs a more sustainable model (targeted grants with income-contingent loans, automatic repayment at source, and TVET investment). Section 4 concludes.

SECTION 2

Understanding Fiscal Sustainability At Large*2.1 Defining fiscal sustainability*

Experts lack a unified view pertaining to the definition of fiscal sustainability (Krejdl, 2006). For the purposes of this analysis, this essay will adopt the definition proposed by the European Commission (2017). It states that fiscal sustainability is the government's ability to sustain its current spending, tax and other related policies in the long run without threatening its solvency or defaulting on some of its liabilities or promised expenditures. Simply, debt should not rise faster than the economy's ability to maintain it.

*2.2 Prerequisites of fiscal sustainability**2.2.1 Strong Medium-Term Fiscal Frameworks*

A medium-term fiscal framework (MTFF) sets out three-to-five-year projections of key economic and fiscal variables, with targets consistent with the government's fiscal objectives (Currstine et al., 2024, p. 4). As some favourable conditions of the past can no longer be assured, sustainability may demand firmer responses to fiscal slippages than before, especially where it is already at risk. A strong MTFF, stress-tested against adverse scenarios, may prove beneficial (Adams, Ferrarini and Park, 2010, p. 32).

2.2.2 Enforced Fiscal Rules

Campos, Cysne and de Castro (2026) tested the fiscal sustainability of Latin American and Caribbean countries. Those classed as strictly sustainable had the strongest record of adopting and abiding by fiscal rules, and enjoyed steadier public finances, lower sovereign risk and firmer investor confidence as a result. Countries that complied poorly, or had no rules at all, were classed as unsustainable. Rules on paper therefore achieve little unless enforced. Kopits and Symansky (1998) reach a similar conclusion: with or without a fiscal rule, sustainability, policy credibility and the avoidance of negative spillovers are hard to secure without wide recognition that fiscal discipline must be enforced.

2.2.3 Sound Institutional Framework

Ndiaye et al. (2026) found that public spending mobilises resources sustainably only to the extent that institutions are effective and credible. Such institutions, they add, keep government transparent, curb corruption and win taxpayers' confidence, boosting revenue mobilisation.

2.2.4 Reliable Public Financial Management

Lawson (2015) defines public financial management (PFM) as the laws, rules, systems and processes that governments, national and sub-national, use to raise revenue, allocate and spend public money, and account for it through reporting and audit. Strengthening PFM systems brings broad and lasting benefits, including better governance, less poverty, greater social equality and more balanced growth (Duri, 2021).

2.2.5 Favourable Interest Rate-Growth Differential

As Mauro and Zhou (2020) argue, long-term fiscal sustainability hinges on the interest rate–growth differential ($i - g$). Higher interest rates make debt costlier to carry and worsen its dynamics, while nominal GDP growth shrinks the debt-to-GDP ratio by enlarging the denominator (Escolano, 2010). If $i > g$, debt rises on its own and only a primary surplus can offset it; if $i < g$, the ratio can stabilise despite a primary deficit.

The standard approximation of the government budget identity captures this:

$$\Delta d_t = -pb_t + (i_t - g_t) d_{t-1}$$

Δd_t : Change in debt-to-GDP ratio

pb_t : Primary balance.

i_t : Nominal interest rate on government debt

d_{t-1} : Previous debt-to-GDP ratio

g_t : Nominal GDP growth rate

Fiscal sustainability requires the debt-to-GDP ratio not to rise over time ($\Delta d_t \leq 0$), so the primary surplus must at least offset the growth of existing debt: $pbt \geq (it - gt) dt-1$

2.3 In The Context Of South Africa

Recent empirical research shows that countries differ markedly in fiscal rule adherence and sustainability dynamics across countries over time (Dissanayake et al., 2026). Broadly generalising socioeconomic drivers of fiscal outcomes therefore fall short: analysis is more useful when narrowed to a specific economy, and South Africa's socioeconomic context must be acknowledged before any policy is proposed.

South Africa has a long record of rules-based fiscal reform, anchored in the Constitution and expressed largely through the Public Finance Management Act, a procedural (Type II) law that introduced transparency and accountability reforms, including medium-term budgeting and fiscal planning (National Treasury, 2025, p. 17). A 2024 government review of the past 15 years found slower growth and a rising debt-to-GDP ratio, and argued that the two feed each other: weaker growth partly explains the deficit and mounting debt, while higher debt raises macroeconomic risk and interest rates, dragging growth down further (National Treasury, 2024). The country's socio-economic challenges demand faster, more inclusive growth, which unsustainable public finances put out of reach by raising the risk of crisis, deterring investment and lifting interest rates (National Treasury, 2025, p. 30).

SECTION 3

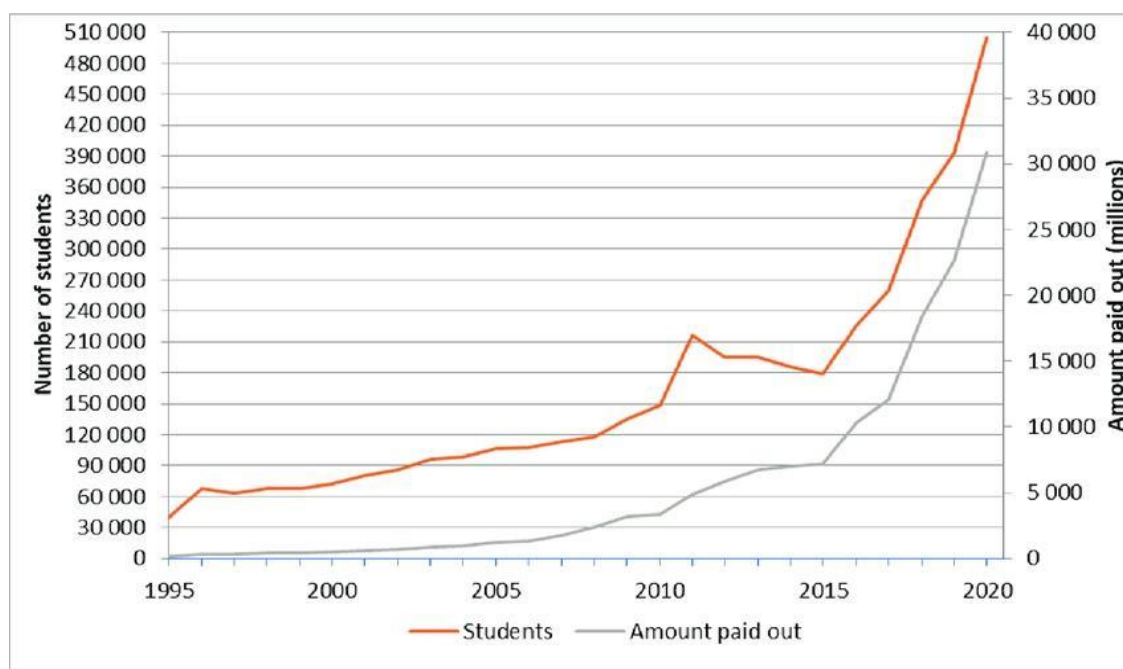
Evaluating And Restructuring South Africa's Student Financing Model

With sustainability and its prerequisites defined, this section evaluates South Africa's current student financing model against those standards, aiming to restructure without threatening the fiscal sustainability of public education expenditure.

3.1 What is NSFAS?

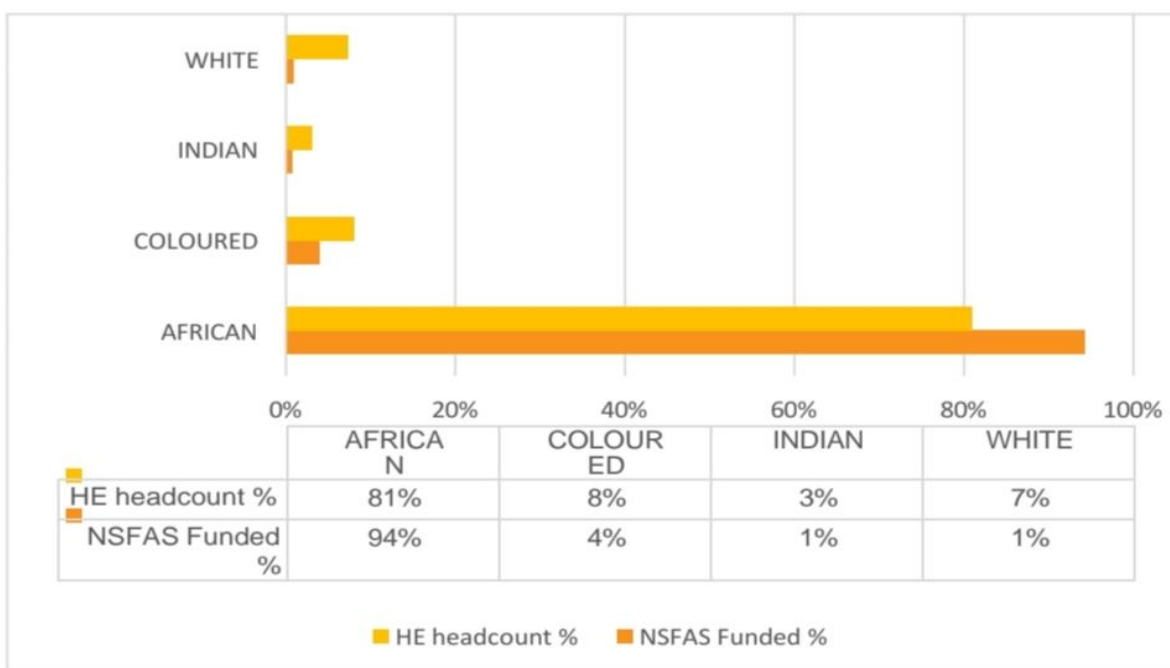
After 1994, tuition fees at South Africa's higher education institutions rose sharply, limiting access for students from poor communities. The National Student Financial Aid Scheme (NSFAS) was introduced to address this affordability problem and make university enrolment more representative of the country's demographics (de Villiers, 2023). Established in 1999 as an income-contingent loan and bursary scheme (Wildschut et al., 2017), it has since changed drastically. In 2017, then President Jacob Zuma declared that government would provide free higher education and training for poor and working-class undergraduate students (Naidoo, 2019), meaning that NSFAS funding already awarded would be converted to grants. This continues to

benefit Strategic Outcome 5 of the National Development Plan (NDP), a “Skilled and capable workforce to support an inclusive growth path”, as well as Priority 3: Education, skills and health, to which NSFAS directly contributes, and will keep improving the quality of education, skills and innovation (NSFAS, 2022). NSFAS-funded university students grew from almost 179,000 in 2015 to more than 504,000 in 2020, a 181% increase (de Villiers, 2023). Figure 1 below shows the number of students funded by NSFAS and expenditure since 1995.



Source : de Villiers, 2023

During apartheid, black African students faced systemic discrimination and were denied access to quality schooling. The 1953 Bantu Education Act formally entrenched educational segregation, leaving black learners with substandard facilities and far fewer opportunities than their white peers, and its effects still shape access and representation in South African higher education today (Chiramba and Ndofirepi, 2023). Before the 1994 transition to democracy, the racial and ethnic makeup of students at South African colleges and universities was badly out of step with the country's. In 1993, for example, African students made up only 40 per cent of all university students, despite being 77 per cent of the population (Abdul-Alim, 2014). Redressing apartheid-era racial discrimination was among the objectives of the National Student Financial Aid Scheme Act 56 of 1999, whose impact Figure 2 shows.



Source : NSFAS, 2024

3.2 Problems Associated With NSFAS

NSFAS's 2024/25 audit ended in a disclaimer of opinion, the worst outcome an institution can receive. The Auditor-General found a steady decline in governance, financial controls and accountability at the scheme and flagged nine material irregularities, four of them new. The current administration is not to blame: the problems built up over years of unstable leadership and weak oversight, in a culture where audit recommendations were noted but never acted on (Department of Higher Education and Training, 2026). NSFAS has been placed under administration for the third time since 2018 (Smit, 2026), following a prolonged governance and operational crisis that Higher Education Minister Buti Manamela said could no longer be resolved through ordinary board structures (Naidu, 2026).

Poor governance is compounded by recurring mismanagement of funds, as weak internal controls led to misallocation and irregular transactions. The Special Investigating Unit (SIU) recovered R1.7 billion in unallocated NSFAS funds from 2016 to 2021, money meant for students who had deregistered or changed institutions but was never reclaimed from universities and colleges as required. The SIU directly attributed this failure to weak control systems and inadequate reconciliation processes within NSFAS (SAnews, 2026).

The Portfolio Committee on Higher Education has sounded the alarm on South Africa's student debt, now R59 billion across the post-school system. Members pointed to poor reconciliation of records between NSFAS and universities as a recurring issue that keeps hurting students and driving the debt higher. Of that total, NSFAS-funded students account for close to half (about R29 billion), self-funded students make up another R26 billion, and R12 billion is now considered unrecoverable (Parliament of South Africa, 2026). The human cost is already visible: more than 165,000 students nationwide cannot access their qualification certificates because of unpaid fees (Dondolo, 2026).

These are not NSFAS's only problems, but they are the most prominent and widely discussed lately. They directly threaten the scheme's sustainability and underpin the reforms proposed next.

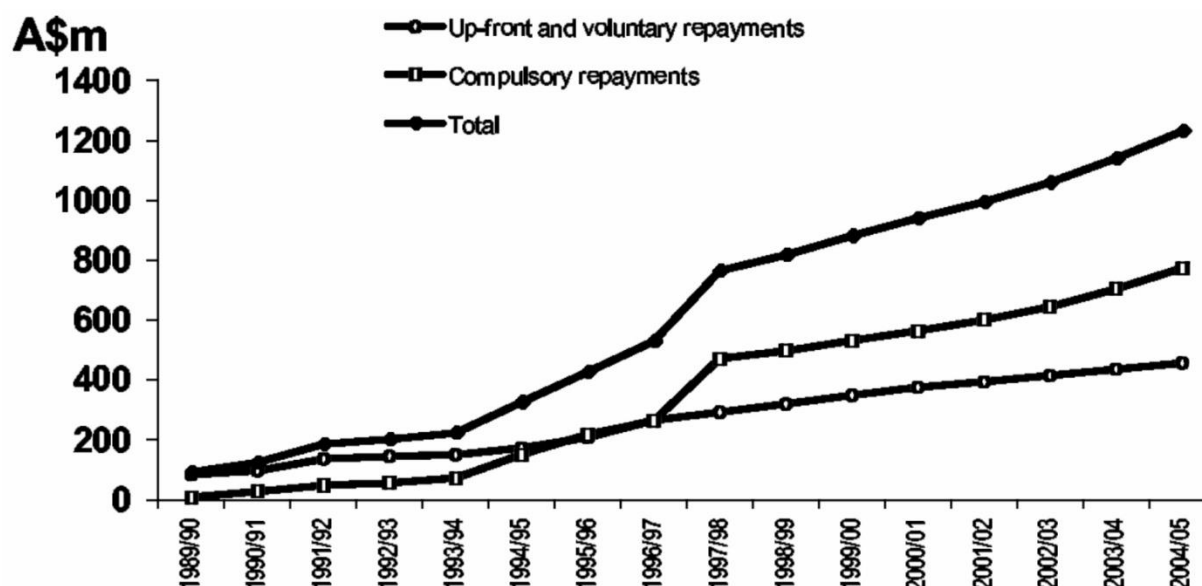
3.3 Designing A Sustainable Model

3.3.1 Combine Targeted Grants With Income-Contingent Loans

NSFAS is already a targeted grant, but its financial sustainability is increasingly in doubt. Reform need not remake it, only stop its funding having to rise every year. Income-contingent loans (ICLs) could significantly ease the burden on public finances: repayments follow earnings rather than a fixed schedule and start only above a threshold, protecting borrowers from default, easing hardship and recovering costs in step with economic conditions (UNESCO, 2025). With unemployment high and living costs rising, poor students would face no immediate repayment pressure; once graduates start repaying, their contributions can fund later cohorts, gradually cutting the annual public bill. Recoveries will be slow and partial, but over time the scheme could become substantially more self-sustaining.

The proposal is therefore a hybrid, not a pure ICL, with tiers by household income: the poorest receive a full grant, middle-income students a grant-loan mix, and higher-income students (up to the R600,000 ceiling) an ICL only.

Australia's Higher Education Contribution Scheme (HECS), launched in 1989 as the world's first broadly based ICL, shows the model works. Repayments were modest at first, as few graduates earned above the threshold, but grew as eligibility widened, thresholds fell and repayment rates rose. By 2001, student contributions exceeded A\$800 million, around 20 per cent of recurrent costs, and were projected to pass 30 per cent by 2005 (Chapman & Ryan, 2002). Figure 3 shows actual and projected HECS revenue, 1989–2005.



Source: Chapman & Ryan, 2002

3.3.2 Automate Repayment at Source, Borders Included

To ensure every borrower earning above the threshold repays, employers would deduct repayments from wages through PAYE, with SARS monitoring and enforcing collection. The UK works similarly: employers deduct repayments from salary once earnings pass the threshold, so borrowers never handle the payment themselves. NSFAS's own record (see 3.2) justifies delegating collection to SARS, which already has the systems and income data needed to apply the threshold. NSFAS would be limited to determining eligibility and disbursing funds, a separation that lightens its operational load and makes recoveries more reliable.

3.3.3 Invest in TVET to Enhance Access

Improving TVET colleges and their graduates' employment prospects would make them more attractive and reduce demand for universities. Because they usually cost less than universities (Think Education, 2026), the same funding could reach more students, widening access without raising total expenditure. With 50 public TVET colleges, most with several campuses, against 26 universities, they also offer a far wider footprint (Think Education, 2026).

The model carries risks: some loans will not be recovered in full and repayments may be slow. It still beats the status quo, and lessons from developing countries with similar schemes can help avoid costly mistakes.

4. CONCLUSION

The funding model is not a complete failure, it has reached a point of unsustainability. The best solution is not to abandon it entirely, but it should be restructured, by combining targeted grants with income-contingent loans, collecting repayment automatically at source, and investing in TVET colleges. Together, these aim to ease the burden on public finances while keeping access to Higher Education available to all. Behind every number is a young person hoping for a better life. A sustainable NSFAS keeps that hope alive for the students still to come.

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