

Analyzing Digital Divide Towards a Fiscally Sustainable Student-Financing Model for South Africa

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Category: Undergraduate

1. Introduction

South Africa's student-funding system has been described by a Ministerial Task Team as among the most advanced and generous in the developing world (DHET, 2022). That generosity now collides with fiscal limits. The National Student Financial Aid Scheme (NSFAS) will spend R54.3 billion in 2026/27 (Daily Maverick, 2026) and approved 692,704 first-time and 550,959 continuing students for 2026 (IOL, 2026), yet the Minister reports a R15 billion shortfall and projects R33 billion by 2029 (Daily Investor, 2026).

This essay argues that fiscal sustainability and wider access are complementary goals, provided funding is rebuilt on three principles: grants targeted at those who cannot pay, income-contingent cost recovery from graduates who can, and entitlements matched to budgets. It diagnoses the South African problem, reviews the experience of Australia, England, New Zealand, the United States and Chile, builds a proposed model, and concludes.

2. Main body

2.1 The South African fiscal problem

NSFAS's growth has outrun its funding base. Its own presentation to Parliament showed expenditure rising from about R38 billion to R49.3 billion, state resources falling in real terms, and no enrolment planning or capping, so every eligible student keeps a right to funding. The Department's budget grows by only 4.4% a year in nominal terms, which the Minister concedes is insufficient in real terms (PMG, 2025). Delays follow by August 2026 NSFAS had paid only 61.5% of its university allocations and still owed institutions R10.49 billion (Daily Investor, 2026).

NSFAS funding shortfall has tripled since 2023 and could reach R33 billion by 2029

Annual shortfall, R billion (2027 and 2028 not reported)

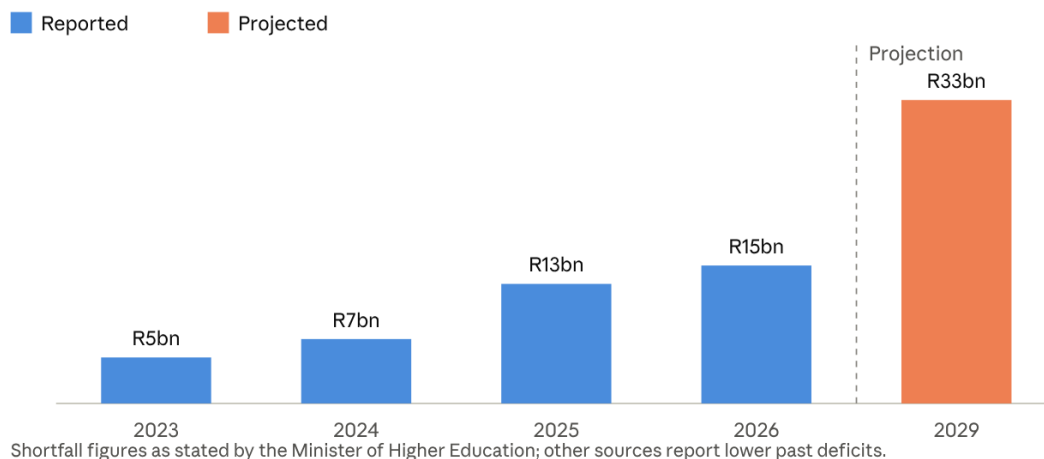


Figure 1. Source: Daily Investor (2026), citing the Minister of Higher Education; 2029 is a projection.

Figure 1 plots the shortfall as reported by the Minister: about R5 billion in 2023, R7 billion in 2024, R13 billion in 2025 and R15 billion in 2026, rising to a projected R33 billion in 2029 (Daily Investor, 2026). The projected 2029 bar is distinguished by color in the legend, and 2027 and 2028 are omitted because no figures were reported. Earlier NSFAS estimates of past deficits are somewhat lower, but all sources agree on the direction: the gap is widening faster than the budget grows (PMG, 2025).

Access is the casualty. NSFAS warned that under the 2026 university budget it could fund only about 520,000 students, leaving roughly 100,000 eligible students without funding (PMG, 2025).

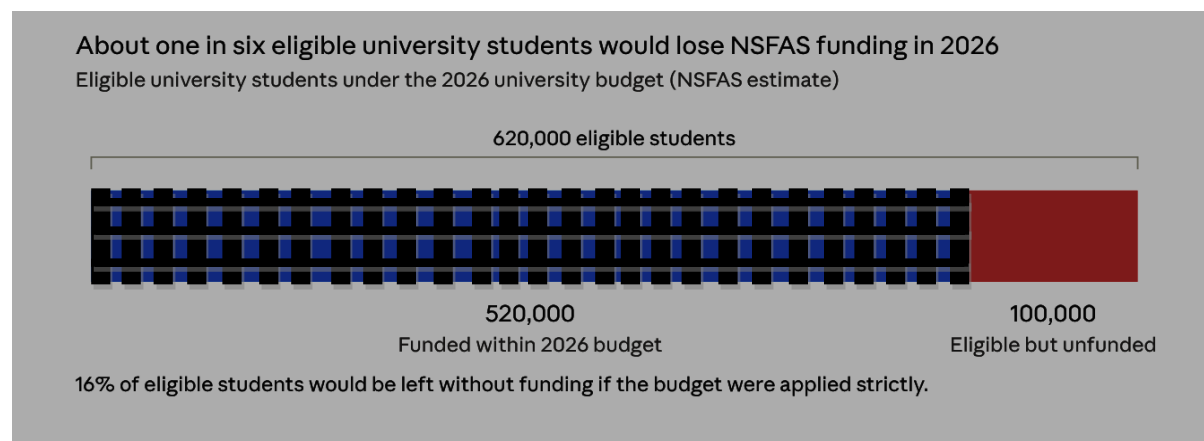


Figure 2. Source: Parliamentary Monitoring Group (2025), NSFAS presentation; eligible total derived as 520,000 + 100,000.

Figure 2 converts the fiscal gap into people. Of roughly 620,000 eligible university students, about one in six (16%) would lose funding if the budget were applied strictly. Meanwhile the “missing middle”, households earning R350,000 to R600,000, still lack a ring-fenced allocation (Dlamini, 2026), and the loan scheme introduced for them is converting eligible applicants into funding too slowly (Sunday Tribune, 2026).

2.2 International experience

Australia, England and New Zealand. Australia introduced the first national income-contingent loan (ICL) in 1989, collecting repayments through the tax system; South Africa itself adopted a version in 1991 (Chapman, 2011). Graduates repay only above an income threshold, A\$51,550 in 2023-24, but Australia's original design levied a percentage of total income once a threshold was crossed, which rewarded income minimization. England and New Zealand instead charge marginal rates of 9% and 12% above their thresholds (Norton, 2024). The lesson is that ICLs work, but their fiscal cost depends on design details such as thresholds, rates and interest subsidies, and they are not a panacea (Chapman et al., 2011).

The United States as a warning. (Barr et al., 2018) show that mortgage-style loans impose heavy burdens on low earners, with seven million US borrowers in default, whereas ICLs ensure borrowers automatically because repayments track income.

Chile. Following the 2011 protests over unaffordable tuition and high debt, Chile introduced free tuition (*graduados*) for lower-income students in 2016 (Delisle and Bernasconi, 2018). Evaluations suggest it largely swapped targeted aid and cost-sharing for somewhat broader aid and less cost-sharing, while the most expensive universities faced deficits because reimbursements fell short (Delisle and Bernasconi, 2018). Chile's bank-based, state-guaranteed loan (CAE) has meanwhile been linked to repayment difficulty, persistent arrears and rising fiscal cost (Dearden et al., 2025). The proposed Financing for Higher Education (FES) would replace it with upfront state funding and income-contingent contributions; simulations suggest graduates would repay on average about 102% of degree cost, at the upper end of mature ICL systems (Dearden et al., 2025), though critics doubt its technical basis and fear for institutional autonomy (Alarcón and Brunner, 2025). The lessons are that free tuition without cost recovery shifts the burden to institutions and the fiscus, and that guarantee-based bank loans leave the state holding the risk anyway.

3. Building the argument: a tied income-contingent model

These cases support a four-pillar model in which each instrument does the job it is best suited to.

Pillar 1: budgeted grants for the poorest. Retain full bursaries for poor and working-class students but tie funded places to the budget through sector enrolment planning, ending the open-ended entitlement NSFAS identified (PMG, 2025). Access then becomes a promise the state can keep, rather than one that produces the 100,000 unfunded students in Figure 2.

Pillar 2: income-contingent loans for the missing middle and beyond. The Heher Commission recommended an ICL (Business Day, 2021) and the Ministerial Task Team proposed a loan component repaid with the support of the tax authority (DHET, 2022). The hard R350,000 household cut-off should be replaced by a sliding scale (Business Day, 2021), so that support tapers instead of ending abruptly, and repayments should be marginal rates above a threshold to avoid the cliff-edge problem seen in Australia (Norton, 2024).

Pillar 3: blended finance without risk transfer. Banks and pension funds could help finance the loan book (Business Day, 2021), but Chile's CAE warns that guarantees without careful design return the risk to the state (Dearden et al., 2025). The loan book should therefore be publicly administered, with private capital attracted through limited, priced guarantees.

Pillar 4: administrative integrity. NSFAS has already pursued more than R2 billion in total recoveries from ineligible and former beneficiaries (George Herald, 2026). Debate continues over whether to retain NSFAS or fund institutions directly through Treasury, a proposal Universities South Africa resists on capacity grounds (Daily Maverick, 2026). Whichever route is chosen, verification and collection capacity must precede any loan expansion.

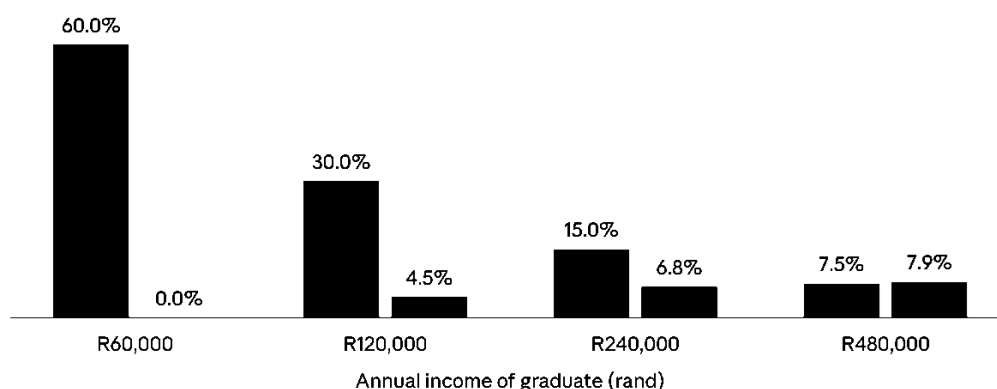
Sequencing. The Ministerial Task Team recommended a ten-year plan that phases in a comprehensive model overtime (DHET, 2022). In practice this suggests starting with the existing missing middle-middle loan, moving its collection onto tax-based repayment, and only then extending income-contingent contributions to wider groups. The Minister's stated aim of a working loan scheme for 2027 (Sunday Tribune, 2026) is the right near-term test: if eligibility converts quickly into funding and repayments are collected reliably, the scheme can scale; if not, Chile's experience cautions against expanding it.

Income-contingent repayment protects low earners; fixed repayments do not

Repayment as a share of annual income, % (Illustrative)

■ Fixed repayment (R36,000 a year)

■ Income-contingent (9% above R60,000)



Illustrative calculation by the author using assumed parameters; not policy proposals.

Figure 3. Illustrative calculation by the author using assumed parameters (not policy proposals).

Figure 3 shows why loan design matters. It uses assumed, illustrative parameters rather than policy proposals: a fixed repayment of R36,000 a year against 9% of income above a R60,000 threshold. A graduate earning R60,000 would devote 60% of income to the fixed repayment but nothing under the ICL; at R120,000 the burdens are 30% and 4.5%. At R480,000 the position reverses slightly (7.5% against 7.9%). This is the central mechanism: an ICL shifts cost recovery towards higher earners, which is what makes the model fiscally sustainable while protecting access for those who earn little.

Risks and counter-arguments. ICLs do not remove upfront costs. Repayments arrive years later, so the fiscal gain depends on recovery rates, and emigration or informal employment can erode collections. Debt can also be politically costly, as Chile's protests showed (Delisle and Bernasconi, 2018), and the Minister insists the current model is fee-free rather than loan-centric (Sunday Tribune, 2026). These objections argue for phasing, a repayment-free threshold, tax-based collection and protected grants for the poorest, not for abandoning cost recovery altogether.

4. Conclusion

South Africa's dilemma is not whether to fund poor students but how to do so in a way the fiscus can sustain. The evidence shows an open-ended grant entitlement, slow-growing budgets and a widening shortfall (Figures 1 and 2), while international experience shows that income-contingent contributions, carefully designed and collected through the tax system, can recover costs without penalizing low earners (Figure 3). A tiered model of budgeted grants for the poorest, income-contingent loans for the missing middle and beyond, publicly managed blended finance and stronger administration offers the most credible route to expanding access sustainably. The key trade-off is time: recoveries lag spending, so reform must be phased and carefully designed. Done well, sustainability becomes the guarantor of access rather than its enemy.

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