Building a Fiscally Sustainable Student-Financing Model for South Africa: Lessons from International Experience

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1. INTRODUCTION

South Africa wants more poor and working-class youth to be in higher education, yet its fiscus is stretched and unemployment is high. Graduates often wait years for work, so any scheme that relies on quick repayment will fail. This essay asks how the country can build a student financing model that is both fiscally sustainable and wide in its access. It is a literature study that draws on international experience and on the 2026 Budget Speech delivered in February (National Treasury: 2026).

The essay is organised as follows. Section 2 describes the current South African funding dilemma. Section 3 reviews the experience of Australia, England and Ethiopia. Section 4 sets out three solutions: service year debt forgiveness, tax-advantaged education savings and redirected skills levy money. Section 5 weighs the risks and feasibility of these solutions, section 6 concludes and section 7 shows recommendation.

2. THE SOUTH AFRICAN FUNDING DILEMMA

The Fees Commission found that totally free higher education was not in the best interests of the sector, and it recommended income-contingent loans to replace the existing NSFAS model (Presidential Commission: 2017; Mail & Guardian: 2017). Since then, the National Student Financial Aid Scheme (NSFAS) has grown, but it relies almost wholly on grants from the fiscus. Grants carry no repayment, so every extra student adds to the deficit permanently. The Minister of Higher Education has since placed NSFAS under administration to restore governance (Hansard: 2026).

The 2026 Budget keeps debt stabilisation as its main priority, with R432.4 billion going to debt service in 2026/27 (GroundUp: 2026). Little room exists for new spending. Table 1 shows that NSFAS funding is projected to grow slowly over the medium term, while skills levy income is projected to rise faster.

Table 1: Selected post-school funding figures (R billion)

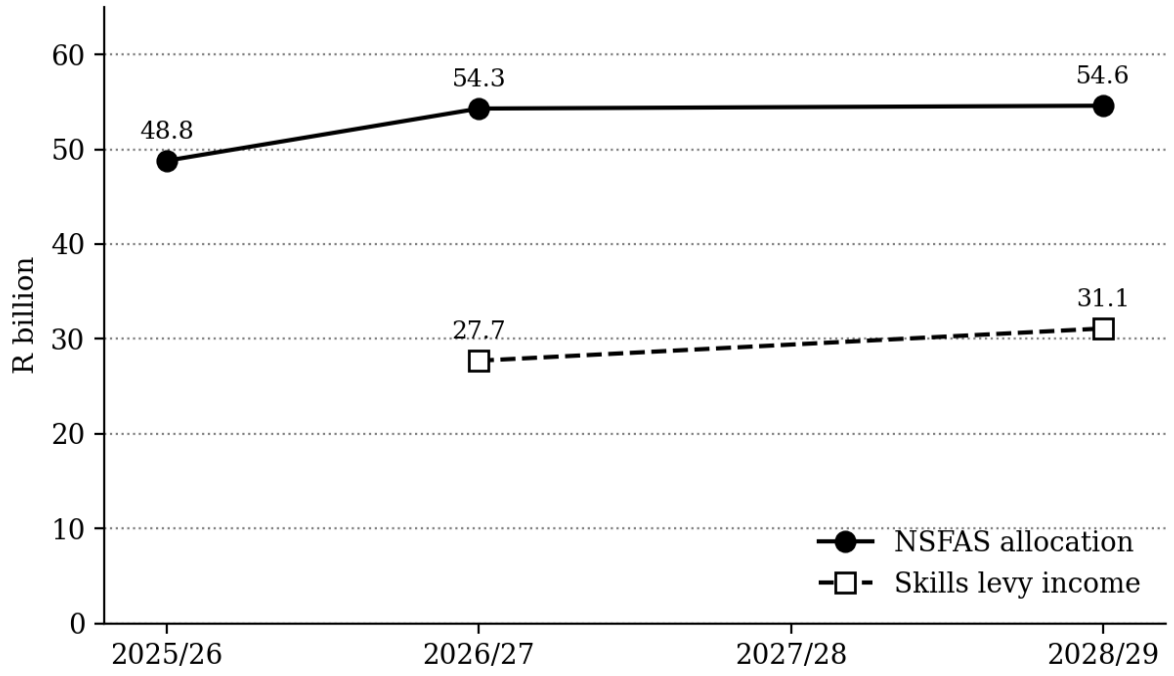
Item	2025/26	2026/27	2028/29
Higher Education and Training vote	142.4	149.2	-
NSFAS allocation	48.8	54.3	54.6
Skills levy income	-	27.7	31.1

Source: SAnews (2026a; 2026b); Grant ZA (2026); Hansard (2026).

NSFAS funding rises by only about 4% a year between 2025/26 and 2028/29, which is close to inflation. Joubert warns that this flat growth may limit access to higher education (Joubert: 2026). Equal Education adds that NSFAS and university subsidies face cuts even as more matriculants qualify (Equal Education: 2026). Demand is rising while grant funding is not, so a grant-only model cannot be sustained.

Graph 1 follows. It plots the NSFAS allocation and projected skills levy income over the medium term, using the figures in Table 1. The 2027/28 year is blank because no figure was found for it, so the lines join the years that are available.

Graph 1: NSFAS allocation and skills levy income, 2025/26 to 2028/29 (R billion)



Source: SAnews (2026a; 2026b); Grant ZA (2026).

The NSFAS line flattens after 2026/27, while levy income rises over the same period. Levy income is about half the size of the NSFAS budget, so redirecting even a modest share could add noticeably to student funding.

High unemployment makes the problem harder. Official unemployment was 33.2% in the second quarter of 2025, and youth unemployment was 46.1% (Statistics South Africa: 2025). A graduate without a job cannot repay a loan, and a bank will not lend to such a graduate. Any model must therefore link repayment to income and must create demand for graduates in sectors where the state already needs them.

3. INTERNATIONAL EXPERIENCE

Many OECD (Organisation for Economic Co-operation and Development) countries have moved away from free higher education towards user charges, often repaid through income-contingent loans (Chapman & Greenaway: 2006). Conventional bank loans tend to fail because students offer no collateral and face uncertain earnings (Barr: 2004; Chapman: 2006). The income-contingent loan (ICL) answers this problem, because repayments rises and falls with income. Table 2 summarises three cases.

Table 2: Selected international student-financing models

Country	Model	Lessons for South Africa
Australia	HECS-HELP income-contingent loan since 1989, repayment through the tax system (Chapman: 2006)	Collection through the tax system keeps costs low; no repayment below the income threshold
England	Income-contingent loans with a long write-off period (Crawford, Crawford & Jin: 2014)	Large write-offs raise the taxpayer cost when graduate earnings disappoint
Ethiopia	Graduate tax, an unusual income-linked variant of the ICL (Chapman: 2006)	Low-income countries can recover costs, but administration must be strong

Source: Chapman (2006); Crawford, Crawford and Jin (2014).

Australia shows that an ICL can widen access without deterring poor students, because repayment begins only once income passes a threshold (Chapman: 2006). England shows the danger: the Institute for Fiscal Studies estimated that the government would lose around 43p of every £1 lent, so the taxpayer carried a large hidden subsidy (Crawford, Crawford & Jin: 2014). Ethiopia shows that a poorer country can adopt an income-linked scheme, but such schemes need sophisticated collection systems (Chapman: 2006).

Two lessons follow. First, repayment must be tied to income so that unemployment does not create default. Second, the lender must be funded in a way that does not rely only on annual grants. South Africa has the tax-collection capacity of SARS, but it has weaker graduate earnings than Australia, so the state cannot expect full recovery.

4. SOLUTIONS FOR SOUTH AFRICA

4.1 Create a service year to create debt forgiveness

This solution extends a logic that South Africa already uses. Health graduates perform compulsory community service, and the Funza Lushaka bursary obliges teachers to work

in public schools (Department of Basic Education: n.d.). Under the new model, loan balances would be written down for each year worked in a public clinic, rural school or underserved municipality. This targets shortages that the government already pays to fill and it gives graduates a path to work when private jobs are scarce. The same idea could be extended to other degrees outside health and education, such as engineering, law and science. The obstacle is placement. Provinces must have funded posts ready, otherwise graduates will finish their studies but find no job and no forgiveness. Forgiveness also has a cost, since written-down debt is a subsidy. Treasury should therefore cap the number of forgiveness places each year and tie them to posts already funded in provincial budgets.

4.2 Tax-advantaged education savings

The second solution builds on the 2026 budget, which raised the annual tax-free investment limit from R36,000 to R46,000 (IOL: 2026). A dedicated education account inside this limit would cost little in forgone revenue, because the limit already exists. It would help families above the NSFAS bursary line, the “missing middle”, to save early and to borrow less later. A money coach quoted by IOL warns that the gap between financially active and financially excluded households will widen unless access to low-cost savings tools improves (IOL: 2026). The account should therefore be an add-on and not a substitute for support to poorer students.

4.3 Redirecting existing levy money, not new taxes

The last solution is a reallocation of money that already exists. The 2026 Budget Speech accepted that the skills development levy and the SETAs have not delivered the expected results (National Treasury: 2026). Table 1 above shows that levy income is projected at R27.7 billion in 2026/27, rising to R31.1 billion by 2028/29. Therefore, moving a share of unspent discretionary SETA and National Skills Fund money into the loan fund would add resources without a new tax. The cost is political, not fiscal, because employers already pay the levy. A precedent exists, as the Minister reported an additional R3 billion over three years through the National Skills Fund to support the “missing middle” (Paoli: 2025).

Levy money has strict legal purposes, so the Skills Development Act would need amendment after consultation with business and labour. Priority should go to scarce skills and to the dual-training model proposed in the Budget, which combines theory with practical artisan skills (Mdlokovana: 2026). This protects employability, which matters when jobs are scarce.

5. RISKS AND FEASIBILITY

The three solutions are workable, but each carries risks. First, debt forgiveness is a hidden subsidy, because every year written off is money the state/government does not collect. Funza Lushaka already ties its bursary to a service obligation (Department of Basic Education: n.d.), but forgiveness only works if provinces have funded posts waiting for graduates. Second, an education savings account will mainly benefit households that already save, and the gap between them and financially excluded households could widen (IOL: 2026). Third, redirecting levy money depends on the SETAs, which the Budget Speech itself says have not delivered the expected outcomes (National Treasury: 2026), and legal changes would need business and labour to agree.

Fourth, administration is a concern. NSFAS is under administration (Hansard: 2026), so any new scheme needs strong governance before it is scaled up. Finally, unemployment weakens income-linked repayment, and England shows the cost: around 43p of every £1 lent is lost to the taxpayer (Crawford, Crawford & Jin: 2014). Treasury should therefore cap the number of forgiveness places, publish the contingent liabilities openly and phase the reforms in. With these safeguards the model is feasible, because it relies on structures that already exist and requires no new tax.

6. CONCLUSION

This essay asked how South Africa can build a fiscally sustainable student-financing model that widens access. It was a literature study. It first described the funding problem using the 2026 Budget Speech and parliamentary and press sources. NSFAS funding is almost flat, at R54.3 billion in 2026/27 and R54.6 billion in 2028/29 (Grant ZA: 2026), while demand grows and unemployment stays above 33% (Statistics South Africa: 2025). It then reviewed Australia, England and Ethiopia, which show that income-linked repayment protects access, but that weak design leaves taxpayers with costly write-offs.

Three solutions were examined: service year debt forgiveness, tax-advantaged education savings and redirected skills levy money. Each builds on arrangements that already exist, needs no new tax and links support to the labour market that graduates actually face. Their success depends on funded posts, sound administration and reform of the levy rules. South Africa’s path forward lies not in a single reform but in a layered approach: income-linked repayment to protect access, levy redirection to broaden funding, and service-year forgiveness to link education with public service. Success depends on governance, political consensus, and equity safeguards.

7. RECOMMENDATIONS

The following four recommendations follow from the evidence above and, in my view, make the model workable.

First, government should make an income-contingent loan, collected through SARS, the base of the whole system, with no repayment below an income threshold, as the Fees Commission proposed and Australia demonstrates (Presidential Commission: 2017; Chapman: 2006). The other solutions then build on this loan.

Second, the loan pool should be funded from unspent discretionary SETA and National Skills Fund money, once the Skills Development Act has been amended after consultation with business and labour, so that no new tax is needed.

Third, service-year forgiveness should start in health and teaching only, with the number of places capped and tied to posts that provinces have already funded. It should be extended to other fields only if the results justify it.

Fourth, the education savings account should be added within the existing tax-free limit as a supplement, while NSFAS grants stay in place for the poorest students. Treasury should also report recovery rates and contingent liabilities publicly every year.

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