

EXPLORING A SUSTAINABLE AND EMPOWERING EDUCATION-FINANCING SYSTEM FOR SOUTH AFRICA

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1. INTRODUCTION

This essay aims to evaluate the shortfalls of the current South African higher education financing mechanism, primarily the National Student Financial Aid Scheme (NSFAS), and to propose the Income-Contingent Loan (ICL) as a sustainable alternative to ensure the future viability of funding higher education and to support the financial wellbeing of funded graduates.

Section 2 discusses the current structural constraints of the NSFAS program and its financial model. Section 3 proposes the Income-Contingent Loan (ICL) and its potential benefits to both government and household finances. Section 4 examines the success of the alternative in Australia as a case study and section 5 concludes. Section 6 provides recommendations.

2. THE FINANCIAL AND OPERATIONAL CONSTRAINTS OF THE NSFAS MODEL

2.1 Defining the Current NSFAS System

The National Student Financial Aid Scheme of South Africa (NSFAS) is a government-funded support program for higher education subsidisation, aiming to relieve vulnerable households of the high financial burden of tertiary education (Matyana et al., 2023). The fund aims to achieve this objective through a two-tiered financing system segregated by income. Households earning below R350 000 per annum qualify for a full bursary while those earning between R350 000 and R600 000, often referred to as the ‘missing middle’, qualify for a student loan with a partial to full repayment expected; dependent on academic achievement. (NSFAS, 2025).

2.2 Financial and Operational Constraints

During the 2024 financial year NSFAS funded 777 646 South African students nationwide supported by a budget earmarked for University and Technical and Vocational education and training (TVET) participation of R58.33 billion (NSFAS, 2024), equating to R75 013.13 per student per year. While impressive in scale, this project has come with a significant cost burden

to the state as NSFAS funding totalled 2.57% of total government spending, more than what it spent on provincial hospital services or defence (National Treasury, 2024).

The use of NSFAS as a national economic tool for the transformation of and equitable access to higher education presents significant challenges including a linear financing model, lacklustre debt-collection capacity, and fiscal unsustainability that put the long-term goals of the scheme at risk. Table 1 below presents the debt collection activities of the agency over the last two reported fiscal years.

Table 1: NSFAS Debt Collection Statistics

Year	Expected	Actual	% of Expected (rounded)	Implied Loan Total*
2023/24	R300 million	R144 million	48%	R1.34 billion
2022/23	R388 million	R155 million	40%	R1.51 billion

Source: National Student Financial Aid Scheme 2023/24 Annual Report.

*Assuming prime minus 100 basis points. For 31 March 2023 & 2024 the prime rate was 11.25% and 11.75%, respectively.

The implied loan total figure shows the expected value of NSFAS's loan book had the actual interest collected represented 100% of the interest owed to the scheme in that year. The Government Technical Advisory Centre (GTAC) compiled an internal report in 2026, released by News24, that placed total outstanding debt owed to NSFAS at roughly R46 billion, with the institution classifying about R45 billion (98%) of that amount as impaired or non-performing (Govender, 2026). This appears largely in line with the implied loan total figure which suggests that only around R1.34 billion in outstanding debts were performing. Additionally, the report notes that of the circa 800 000 debtors to the scheme only 12 000 are actively making repayments.

2.3 The Impact

Considering the statistics listed above, it is apparent that the current structure of the scheme is fiscally unsustainable, virtually entirely reliant on yearly grants from National Treasury, and unable to create a circular financial model that recycles funding between generations of students. The mechanism NSFAS chose to employ – that of an internal ‘missing middle’ loan granted to more-well-off households – has failed to ease the financial strain on both the scheme and, its ultimate underwriter, the state. If South Africa does not transition to a financially sustainable model for student financing, national government would have to continue to find and allocate additional funds to prop up the agency, likely leading to future

budget constraints.

Importantly, a budget cut or constraint directly translates to less future funding available for the next generation of students.

3. THE INCOME-CONTINGENT LOAN SCHEME

3.1 Defining an ICL

An income-contingent loan is a financing policy for higher education originally developed in Australia. It proposes that student debt is repaid depending on the future incomes of graduates and is treated as a deduction for the purposes of tax (Chapman et al, 2003).

The fundamental difference between the current NSFAS ‘missing middle’ loan and an ICL can be understood in two parts: how much is paid and how is payment made?

3.2 The benefits of introducing an Income-Contingent Loan scheme in South Africa

Under both an ICL and NSFAS loan system, the burden of payment is deferred to the point where a recipient secures employment and earns above predefined thresholds, however, the timeline and rate of interest differs significantly. Under an Australian-style ICL the recipient only accrues interest at the rate of inflation, commonly benchmarked with Consumer Price Inflation (CPI), which is applied 11 months after each portion of the initial loan is granted. In South Africa’s NSFAS loan system, students are given a grace period of 12 months after graduation at which point interest is levied at prime minus 100 basis points (NSFAS, 2024). South Africa’s prime interest rate has remained above 10% since 25 November 2022 (South African Reserve Bank, 2026) placing a tremendous burden on the financial positions of graduates.

The two regimes also vary substantially in how they are levied on debtors. Currently, NSFAS operates as a national credit provider (NSFAS, 2024) for the purposes of debt issuance and collection. Due to technological constraints, poor management and flawed record keeping they have historically outsourced debt-collection activities to external firms. Despite this, they have in recent history only collected around 1% of total yearly dues, as highlighted by Table 1. The ICL however acts as a tax in principle. The education-related debt owed to the state can easily be calculated as a proportion of income above a threshold and hence can be levied as a payroll deduction until each graduate has settled their outstanding borrowing. Such a mechanism would allow NSFAS to utilise already-existing tax-collection infrastructure, managed by the South African Revenue Service (SARS), to strengthen debt collection capability and reduce

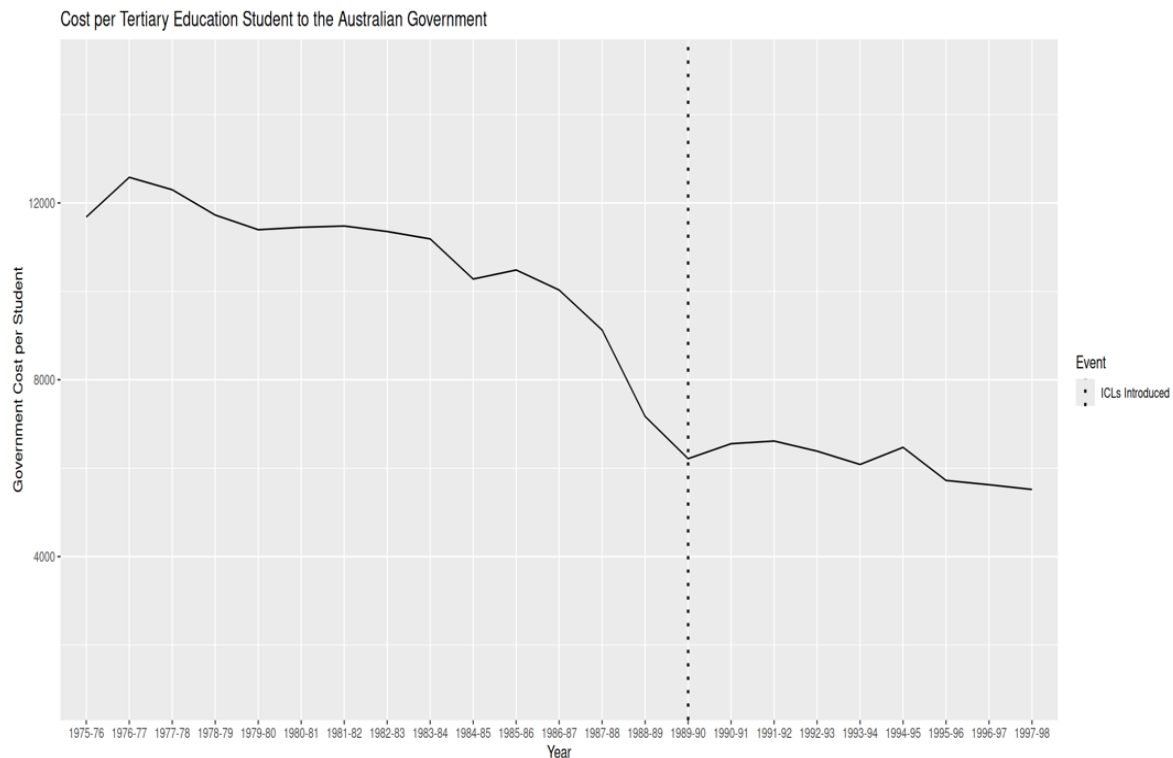
overreliance on private contractors in attempt to recover debts impaired because of internal administration incapacity. A similar mechanism is already in place for deducted line-items such as the Unemployment Insurance Fund (UIF) and Skills Development Levy (SDL).

4. STUDYING THE TRANSFORMATION OF AUSTRALIA'S EDUCATION SYSTEM

Australia overhauled its higher education system in 1989 by discontinuing free tertiary education and pioneering the first form of ICL known domestically as the Higher Education Contribution Scheme and later the Higher Education Loan Program (Chapman et al, 2022).

The driving factor behind this transition was the overly burdensome cost to the government of offering free university education to all, adding to the already substantial budget allocated towards public university subsidies. Since 1989 at least 10 other countries including New Zealand and the United Kingdom have followed Australia's lead by introducing their own forms of ICLs (Chapman et al, 2022). In introducing such a system, the Australian government has been able to reduce the strain of higher education on the domestic fiscus while simultaneously introducing a perpetual financing vehicle that can continuously reallocate maturing student debt to new generations of students in need of financing. This mechanism acts to ensure the long-term sustainability of higher education funding.

Graph 1 below visualises how Australia's pivot towards ICLs stabilised government underfunding during university access expansion.

Graph 1: Australian Tertiary Education Cost Per Student (in 1989-90 prices)

Source: Considine et al, 2001, page 62.

Graph 1 shows that the cost per student to the state fell sharply pre-1989. This period in Australia was defined by a rapidly expanding university participation rate that tuition-free education planning had not made provision for. During this period, the fiscus was unable to keep pace with the rapid demand for university enrolments which resulted in budget cuts to education on a per-student basis. The financial unsustainability of the entirely subsidised model left universities severely underfunded and unable to accommodate students adequately. Upon introducing the ICL structure, the government was able to stabilise falling funding per student through shifting part of the financial liability of education onto the future incomes of graduates by levying a tax-like surcharge on taxable income above a set threshold.

5. CONCLUSION

Australia pioneered the future of sustainable tertiary education financing by creating a robust model that neither overburdened households nor the state. In doing so, university participation expanded, the cost to the state on a per-student basis fell, and the total available funding for students (when including the ICL) rose to reverse a decade-long trend of university underfunding under the entirely subsidised regime. Today, South Africa remains at a crossroad with NSFAS where the body, which formally issues both bursaries and loans, ends up sponsoring nearly all recipients due to a combination of factors including but not limited to

insufficient loan-collection capacity. For South Africa to effectively create a truly sustainable tertiary education funding model, it must look to adopt the income-contingent loan (ICL) in order to avoid continued costs from irrecoverable loan programs that risk budget consolidations and financial infeasibility in future, while also being cognisant of the financial strain that the current program imposes on households through exorbitant interest rates.

6. RECOMMENDATIONS

South Africa can achieve a sustainable tertiary education financing system by replacing NSFAS loans with ICLs and simultaneously continuing to support low-income households by maintaining full bursary sponsorships for those that earn below a set threshold, preferably one that adapts with inflation, and hence true purchasing power, regularly. By lowering the debt burden on graduates, deferring payments to specific income thresholds, incentivising academic milestones and integrating repayments into the infrastructure of the tax system, NSFAS can expand access to education across income lines, particularly the above mentioned ‘missing middle’ who are currently subjected to less-favourable loan terms, efficiently collect dues to avoid large irrecoverable costs, allow for the continued sponsorship of low-income households, and create a perpetual financing model that supports future generations of students over the long-term.

It should however be noted that the success of such a transition assumes that graduates are able to find sufficient employment without much friction. In a country currently facing a graduate unemployment rate of 12.4% and rising (StatsSA, 2026) it may be challenging to create a sustainable financing system able to recoup invested tuition costs as debt can only be repaid upon the contingency of income, and hence employment. To address this, a South African ICL model should consider the incentivisation of certain study and career paths through added repayment forgiveness opportunities or fast-tracked application approvals. Such a system would generate positive externalities that aid in addressing South Africa’s substantial structural unemployment and income inequality due to supply and demand mismatches in skills.

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