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"How Can South Africa Build a Fiscally Sustainable Student-Financing Model That Enhances Access to Higher Education? Refer to International Experience in Your Analysis"

INTRODUCTION

Access to higher education in South Africa remains constrained by financial barriers, despite the expansion of state funding through the National Student Financial Aid Scheme (NSFAS) (Mbhalati, 2025; Matyana et al., 2023). NSFAS was established to provide financial support to students from poor households who would otherwise be unable to enter higher education (Matyana et al., 2023; Mbhalati, 2025)

For purposes of this essay, fiscal sustainability is defined as the ability of government to fund student support over the long term without relying on emergency allocations, without accumulating unsustainable debt, and without reducing access. It is assessed in this essay by three indicators: the size of the funding gap relative to the budget, the rate of loan recovery, and the ability to maintain access for poor students and the missing middle.

The literature suggests that the challenge is not only the size of the funding gap, but the design of the funding model itself. Research on NSFAS graduates finds that unemployment has a considerable impact on repayment capacity, while unpaid loans and reduced funding for current students hamper NSFAS's ability to provide support (Yende, 2024). At the same time, evidence from international experience indicates that income-contingent loans, where repayment depends on future capacity to pay, can increase private contributions without harming access (Bolhaar et al., 2024; Chapman and Dearden, 2022)

This essay therefore argues that South Africa should adopt a 3-Tier Education Investment Compact that combines bursaries, income-contingent loans collected

through the South African Revenue Service (SARS), and employer-linked funding. This argument is developed in three stages. First, it examines South Africa's student-financing challenge. Second, it analyses international experience from Australia, the United Kingdom, Germany, the United States, Chile and Kenya. Third, it builds a fiscally sustainable model for South Africa. Finally, it concludes and provides recommendations.

LITERATURE REVIEW

The literature on higher education financing in South Africa highlights three key themes: the contribution of NSFAS to expanding access, concerns regarding the sustainability of fee-free higher education, and the potential role of income-contingent loans as an alternative funding mechanism (UNESCO, 2025).

Studies generally agree that NSFAS has improved access for students from disadvantaged backgrounds and contributed to transformation in higher education, despite ongoing administrative challenges (Mbhalati, 2025; Matyana et al., 2023). However, access to funding does not always guarantee academic success, as many NSFAS-funded students continue to face difficulties covering non-tuition expenses such as accommodation, transport and learning materials (Eposi, 2025).

The literature also questions the long-term sustainability of fee-free higher education. Rising demand, administrative weaknesses and limited loan recovery place increasing pressure on public finances, while graduate unemployment reduces repayment capacity and restricts future funding availability (Ramasu and Kanakana-Katumba, 2025; Yende, 2024). These findings suggest that grant-based funding alone may not be fiscally sustainable.

International evidence identifies income-contingent loans as a possible solution. Such loans link repayments to graduates' future earnings, providing repayment protection while supporting access to higher education (Chapman and Dearden, 2022). Evidence from the Netherlands indicates that replacing grants with income-contingent loans did not reduce enrolment, although the effectiveness of such systems depends on careful loan design and manageable debt levels (Bolhaar et al., 2024).

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1.SOUTH AFRICA'S STUDENT FINANCING CHALLENGE

SouthAfrica remains one of the most unequal societies in the world, and this inequality directly shapes who can afford education (World Bank, 2024). For many students from poor households, the barrier is only tuition, but the full cost of studying. Research finds that even NSFAS funded students still struggle to cover non tuition costs such as academic materials, transport and accommodation, which limits their ability to complete their studies successfully (Eposi, 2025). This suggests that funding that covers tuitions alone is insufficient to ensure equitable access

At the same time the funding system faces pressure from a second group: the missing middle. These are students from households earning between R350 000, and R600 00 per year, who earn too much to qualify for NSFAS bursaries but too little to self-fund higher education (Department of Higher Education and Training, 2026). The growth of private provision in South Africa higher Education has further highlighted this gap, as students who cannot access public funding increasingly turn to private institutions at higher costs (Bawa,2025).

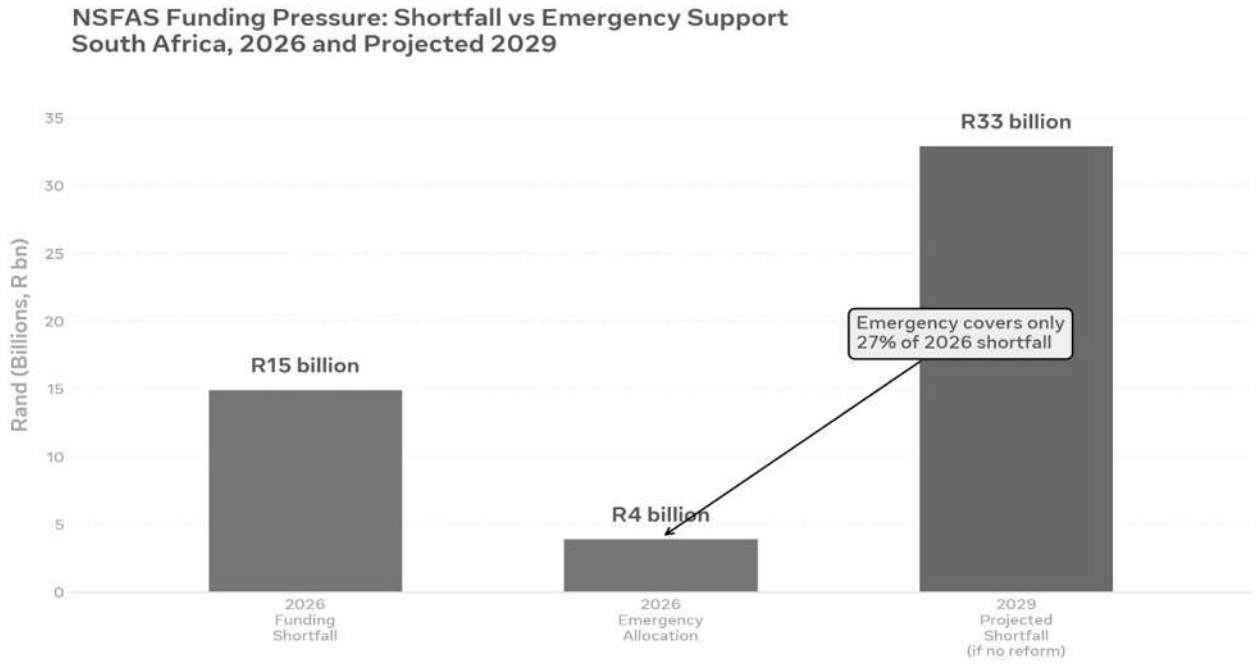
Admirative capacity has also constrined the effectiveness of existing funding. NSFAS has been described as avaible funding instrument for poor students that has contributed to transformation, despite consistent administrative challenges (Mbhalati,2025). Similarly, Mltyana et al. (2023) find that while NSFAS policy has expanded access, implementation challenges, including delays and weak systems, remain. The decision to place NSFAS under administration in 2026 highlighted weaknesses relating to financial management, information systems and accountability (Universities South Africa,2026; UNESCO,2025).

In 2026 NSFAS has faced persistent funding and administrative challenges, including allegations of corruption, late payment of allowances, and weaknesses in financial management, information systems and accountability (Universities South Africa, 2026; Mbhalati, 2025). In 2026, NSFAS faced an estimated R15 billion shortfall, and the government provided an emergency allocation of R4 billion to ensure continued disbursement (Universities South Africa, 2026). This emergency funding covered only 27% of the shortfall, leaving a gap of R11 billion. Without reform, the shortfall is

projected to rise to R33 billion by 2029 (Universities South Africa, 2026, UNESCO,2026).

The following graphically representation shows NSFAS funding pressure, R15 billion shortfall, R4 billion Emergency allocation and R33 billion if no reform made with this issue

Figure1: NSFAS FUNDING PRESSURE: Shortfall vs Emergency Support



As shown in **figure 1**, the emergency allocation of 4 billion in 2026 covered only a small portion of the estimated R15 billion shortfall. Without reform, the shortfall is projected to rise to 33 billion by 2029, which demonstrate that the current funding model is fiscally unstainable (Universities of South Africa ,2026; UNESCO ,2026).

Source: Author's own compilation based on IOL (2026), MDN News (2026) and **Source:** Compiled from Universities South Africa (2026) and UNESCO (2026) as cited in this essay

2.LESSONS FROM INTERNATIONAL EXPERIENCES

ECONOMIC THEORY AND TRADE-OFFS

Economic theory explains why government must interven in student financing model. Human capital theory argues that investment in education increases productivity and future earning, and evidence shows that more efficient investment in human and intellectual capital improves graduation rates and post graduate income, particularly for students from low-income backgrounds (Armstrong et al , 2026).Higher education is also a merit good with positive externalities: when one person graduates, society benefits from higher tax revenue, lower unemployment and a more skilled workforce.

However, market failure occurs because banks will not lend to students who have no collateral and no guaranteed future income (Chapman and Dearden, 2022). Income-contingent loans solve this because repayment depends on future capacity to pay and provides default protection and consumption smoothing (Chapman and Dearden, 2022; Bolhaar et al., 2024).

This creates an equity-efficiency trade-off. If South Africa funds everyone fully through grants, equity improves but efficiency and fiscal sustainability suffer, as shown by the NSFAS shortfall. If it shifts too much cost to students, as in the United States, fiscal pressure falls but access and equity suffer. The international models below must therefore be judged not only on whether they save money, but on whether they balance this trade-off in South Africa's context of high unemployment, inequality, and weak tax compliance.

2.1 AUSTRALIA AND THE UNITED KINGDOM: INCOME-CONTINGENT LOANS

Australia uses an income contingent loan system where repayment begis only once graduates earn above income threshold (Australian Government Department of Education, 2024). The United Kingdom (UK) uses a similar system (UK Government, 2026). Evidence from Netherlands, where grants were replaced by income contingent loans, found no negative effect on enrolment, suggesting that a system of income contingent loans can increase private contributions without harming access (Bolhaar et al, 2024)

However, the English experience shows that income-contingent loans are promoted as protecting debtors from excessive repayments, but a significant minority of graduates still face adverse effects and restricted life choices when debt levels are high (De Gayardon and Callender, 2025). This shows that loan design and debt levels matter, not just the instrument itself.

2.2 GERMANY: STRONG STATE SUPPORT

Germany follows a different model, characterised by extensive public support for higher education. Tuition fees at most public universities are either minimal or non-existent. This has enabled broad access to higher education and relatively low levels of student debt.

However, Germany's approach is supported by a stronger fiscal position, lower levels of public debt and a more developed economy. Replicating such a model in South Africa would require substantially greater public resources than are currently available (remember that state of the economy in South Africa is very bad).

The German experience nevertheless demonstrates the importance of continued government investment in higher education. Access should remain a national priority even if alternative funding mechanisms are introduced.

2.3 UNITED STATES: THE RISKS OF EXCESSIVE STUDENT DEBT

The United States relies heavily on student loans, resulting in high levels of graduate debt. This experience demonstrates the risks of placing excessive financing responsibility on students.

2.4 CHILE: INCOME CONTINGENT LOANS IN AN UNEQUAL

Chile, like South Africa, is a highly unequal middle-income country. Chile introduced an income-contingent loan system where repayment is linked to graduates' earnings. Chile's proposed income contingent system is expected to recover between 94% and 105% of public investment over the long term, which is substantially higher than Chile's current bank-based loan system (Dearden, Valdes Aspillaga and Rios-Jara, 2025). For

South Africa, Chile demonstrates that loan design must be combined with protection for low-income graduates, otherwise repayment burden can worsen inequality

2.5 KENYA: EXPANDING ACCESS WITH LIMITED RSOURCES

Kenya, as an African country with similar fiscal constraints to South Africa, has used a combination of government loans through the Higher Education Loans Board (HELB) and targeted bursaries to expand access. Kenya's new needs-based funding model combines government scholarships with HELB loans, but HELB requested Ksh 27 billion in 2022/23 and received only Ksh 15.8 billion, leaving a deficit of Ksh 11.2 billion (Oseno et al., 2026). For South Africa, Kenya highlights the importance of strong collection through SARS, and of not relying on loans alone when many graduates may not reach the income threshold for repayment.

3.BUILDING A FISCALLY SUSTAINABLE STUDENT-FINANCING MODEL FOR SOUTH AFRICA

The international evidence suggests that South Africa should not simply copy another country's model. Instead, it should develop a hybrid system that reflects local economic realities while incorporating global best practice (Chapman and Dearden, 2022; (Bolhaar et al ,2024).

3.1 PROTECTING ACCESS FOR POOR STUDENTS

The first principle of reform should be the preservation of access for students from low-income households, because NSFAS has been found to be a viable funding instrument for poor students and has contributed to transformation, despite administrative challenges (Mbhalati, 2025). For this reason, bursaries should remain available for students from poor households. Continued government support is necessary to ensure that financial circumstances do not determine educational opportunities, as investment in human capital improves graduation rates and post graduate income, particularly for students from low-income backgrounds (Armstrong et al, 2026)

However, bursary criteria should not be purely based on school marks or subjects such as Mathematics, as this can exclude capable students from rural schools who did not have the opportunity to study those subjects. Access criteria should therefore

recognise potential and progression, not only prior advantage, because even NSFAS funded students still struggle to cover non-tuition costs such as academic materials, which limits completion (Eposi, 2025)

3.2 ADDRESSING THE MISSING MIDDLE AND THE INNOVATIVE 3-TIER MODEL

Existing South African debates have discussed bursaries and income-contingent loans separately, but they have not combined them into a single coordinated system.

This essay therefore proposes an innovative 3-Tier Education Investment Compact, which links funding, collection and labour-market needs in one system. Tier 1 is a full bursary for households below R350,000. Tier 2 is an income-contingent loan for the missing middle (R350,000-R600,000), collected automatically through Pay-As-You-Earn (PAYE) via SARS, with repayment starting only above an income threshold and debt written off after 20 years if not repaid. Tier 3 is an employer-linked top-up, where employers who benefit from Sector Education and Training Authority (SETA) levies co-fund scarce-skills students. While SETAs already fund bursaries, their funding is currently fragmented and not linked to a national repayment system (Ramasu and Kanakana-Katumba, 2025). Integrating SETA funding into this 3-tier system makes the model innovative because it connects access, repayment and employer needs, rather than treating them as separate reforms.

The evidence suggests that this approach would generate several benefits. First, it would reduce pressure on government finances. Second, it would ensure graduates contribute only when financially able. Third, funds recovered from repayments could support future generations of students. Evidence from Australia and the United Kingdom indicates that income-contingent loans can improve both access and fiscal sustainability when repayment is collected through the tax system (Australian Government Department of Education, 2024; UK Government, 2026).

Even when funding improves access, graduates continue to experience declining job absorption and persistent inequalities, particularly among women and African graduates (Armstrong et al., 2026). This is why South Africa cannot copy Australia

directly: high graduate unemployment, informal employment and tax compliance challenges mean many graduates may never reach the income threshold for repayment (Ramasu and Kanakana-Katumba, 2025).

CONCLUSION

This essay examined evidence on NSFAS funding pressures, including the R15 billion shortfall in 2026, the projected R33 billion shortfall in 2029 if no reform made, and R4 billion emergency allocation. It compared international experience from Australia and the UK on income contingent loans, Germany on state support, the United States on excessive debt, and Chile and Kenya on lessons for middle income countries. The lesson that emerged is that sustainable systems combine public support with graduate contributions, and that collection through the tax system is critical (Chapman and Dearden, 2022; Bolhaar et al, 2024; Dearden, Valdes Aspillaga and Rio-Jara, 2025). This balanced, 3-tier model is most suitable for South Africa because it protects access for the poorest, provides a targeted loan for the missing middle, and improves recovery through SARS, while recognising South Africa realities of Graduate unemployment informal work (Yende, 2024).

RECOMMENDATONS

Based on the analysis above, the following recommendations are made

1 Strengthen NSFAS governance, accountability and information systems.
2 Expand income-contingent loan mechanisms for middle-income students.
3 Increase private-sector participation through bursaries and partnerships.
4 Improve graduate employment opportunities to enhance loan repayment.
5 Maintain targeted grants for students from poor households.

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