

HOW CAN SA BUILD A FISCALLY SUSTAINABLE STUDENT-FINANCING MODEL THAT ENHANCES ACCESS TO HIGHER EDUCATION? REFER TO INTERNATIONAL EXPERIENCE IN YOUR ANALYSIS.

Undergraduate

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INTRODUCTION

Statistics South Africa's recent analysis of university finances shows that government funding to higher education institutions, which had risen consistently for five years, has now begun to slow, right when universities confront rising operating costs, growing enrolments, and post-pandemic recovery pressures (Whitaker, 2026). NSFAS, created to redress past inequalities and open higher education to poor students, can no longer meet its commitments, leaving thousands of students uncertain about how they will pay for tuition, accommodation, and living costs (Qoyo, 2026). This is not simply a funding shortfall; it is a structural flaw. Because aid is grant-based and expands with enrolment, while the university subsidy does not, student financing has come to consume the funding meant for teaching and infrastructure. Drawing on international experience, particularly Australia's income-contingent loan scheme and the UK's repayment architecture, this essay argues that a hybrid model, combining full grants for the poorest students with a carefully designed income-contingent loan for the "missing middle" and protected university funding, offers the most fiscally sustainable route to enhanced access not just to enrolment but to completion.

FISCAL SUSTAINABILITY AND ACCESS

The relationship between fiscal sustainability and access is often presented as a trade-off, but the two are better understood as being interdependent. Minister of Higher Education Buti Manamela says, “If we protect access while undermining the institutions that must educate students, we risk weakening the very system we are trying to expand” (Mashilo, 2026). This sums up the tension in the debate on South Africa’s student funding: access and institutional sustainability cannot be separated, because the institutions that provide access rely on the funding that student aid currently consumes. This essay, therefore, defines fiscal sustainability as a financing model whose costs grow with enrolment while maintaining the institutional capacity, teaching, infrastructure, and research on which access rests. Access is not just entry but progress to completion.

This definition is informed by the OECD’s framing of fiscal sustainability in higher education, which argues that sustainability involves “a nuanced understanding of the activities and outputs that higher education institutions deliver and what these realistically cost”, and concerted efforts to mobilise resources for what society values, and innovative approaches to delivering those objectives efficiently (OECD, 2025). Every place there is fiscal constraint, but the causes differ. This is exactly why South African solutions need to translate international models to local conditions. Sustainability, therefore, also requires that funding reward the goals the system claims to value, both output and completion, not simply filling spaces.

SOUTH AFRICAN STUDENT FINANCIAL CRISIS

The South African higher education system shows how closely access and fiscal sustainability are linked. The country has extended enrolment, but the model is fiscally unsustainable at the institutional level. Over the medium term, universities face budget cuts of close to R6 billion, with annual subsidy reductions of R1.5-2 billion, even as student enrolments grow (National Treasury, 2026). Inflation is outpacing government funding, while resources

have increasingly shifted towards NSFAS, which now accounts for a much larger share of the higher education budget. The result is that the money meant to put students in lecture halls is crowding out the money needed to teach them well once they get there (National Treasury, 2026).

This reallocation is not unplanned. NSFAS is not self-funding but is a government-funded scheme, and its shortages must be met either by additional Treasury allocation or by reallocating funds from university subsidies, which is what has happened (National Treasury, 2026). Now the extent of the shortages is clear. NSFAS currently faces a deficit of approximately R15 billion, projected to reach R33 billion by 2029, with approximately R10 billion of the current gap owed directly to universities for unpaid tuition (Qoyo, 2026). For a scheme covering about 900,000 students, this is not a marginal shortfall but a structural (Qoyo, 2026).

We can see the consequences in the debt figures, but we have to explain the collapse in recovery. At the end of 2024, universities owed R24 billion by students, of which R15.3 billion was deemed impaired, meaning it was unlikely to be recovered. This is a decline from 2022, when R18.8 billion was owed, with 60% classified as bad debt (Kanizay, May 2026). The trend is therefore not merely one of rising debt but of rising unrecoverable debt. The NSFAS loan book is now 98% impaired, and the proportion of debtors paying fell from 35% to 12% by 2015 (Mlambo & Mpanza, 2024). An investigation found that more than 40,000 students across 76 institutions had been improperly funded at an estimated cost of R5.1 billion (Kanizay, May 2026).

This is not a failure of NSFAS as an institution, but of the model it administers. The burden weighs heaviest on the “ missing middle” students whose household incomes are above NSFAS thresholds but cannot afford full fees. These students are already borrowing, but through an informal mechanism (Qoyo, 2026).

Withheld certificates hinder their employment prospects in a country already

facing high youth unemployment, creating a cycle in which graduates cannot secure the jobs needed to repay their debts (Business Day, May 2026). There is a current crisis in which more than 12,000 students have their studies paused after NSFAS suspended funding mid-year, with cases processed in batches of only 2,000, leaving thousands uncertain about tuition, accommodation, and living costs (Qoyo, 2026).

The model fails on the dimensions found by the framework. Costs rise while the institutional subsidy does not, making it financially unsustainable. Access is at enrolment and does not carry through completion, so it does not improve access. As Minister Manamela has argued, “student funding and institutional sustainability must be addressed together (Mashilo, 2026).

INTERNATIONAL EXPERIENCES

1. AUSTRALIA’S INCOME-CONTINGENT MODEL

In 1988, Australia established the Higher Education Contribution Scheme (HECS). It was the first broadly based income-contingent loan policy for higher education charges (UNESCO, 2026). Students were allowed to pay their contribution upfront at a discount, defer payment until their income reaches or exceeds the average earnings of working Australians, have deferred debt indexed to inflation, and pay no real interest (UNESCO, 2026). Under the original arrangements, students were charged about 20% of public-sector direct costs and could defer payment until they earned at least AUS\$27,675 per year (UNESCO, 2026).

The evidence is favourable for South Africa. UNESCO’s assessment found that HECS removes upfront financial barriers, serves as a form of “default insurance” against economic downturns, and has not excluded disadvantaged groups from university (UNESCO, 2026). Chapman and Ryan, who looked closely at the scheme’s first fourteen years, concluded that neither the

introduction of HECS nor the major changes made to it in 1997 had “any deleterious consequences for the participation of less disadvantaged students (Chapman & Ryan, 2005). They argued that income-contingent arrangements beat every alternative on both economic and social grounds.

The Australian experience, therefore, offers both a template and a caution. Income-contingent repayment can widen access and recover substantial outlays. Still, it produces distributional inequalities, leaves a residual, unrecoverable share, and depends on administrative capacity that South Africa does not yet possess.

UNITED KINGDOM’S REPAYMENT DEVELOPMENT PLAN

The UK’s story is less a model and more a cautionary tale. The Intergenerational Foundation has tracked how England’s system drifted from shared cost to individual burden. In 2015, the government covered 46% of the total cost of a graduate education, but now the state meets just 8% (Adams, 2026). The consequences have been critical. Expected lifetime repayments for lower earners have risen from £6,430 to £42,070 (Adams, 2026). As Whelton warns, plan 5 is a “ticking time bomb, set to detonate as today’s students enter the workforce and confront repayment terms harsher than those faced by previous cohorts” (Adams, 2026). Even the UK’s own institutions are admitting that the system has gone wrong. The Treasury Select Committee has called for the repayment threshold freeze to be revoked, and the Department of Education itself concedes that the system it inherited is “broken and unfair” (Adams, 2026). The lesson for South Africa is that an income-contingent scheme without protected public investment and stable terms can end up reproducing inequality rather than solving it.

Feature	Australia (HECS)	UK (Plan 5)	Proposed SA hybrid
Upfront cost to student	None, deferrable	None	None for the poorest
Repayment trigger	Income threshold (originally AUS\$27,675)	Frozen threshold	High, meaningful earnings threshold
Real interest rate	None, only inflation indexing	Present	None
State contribution	80% of direct public costs	Fell from 46%-8%	Protected block grant, shielded from aid overruns
Lifetime repayment burden	Modest, income-contingent	£25,700 to £56,240 (plan 1 to 5), low earners £6,430 to £42,070	Capped by low repayment rate + high threshold
Access outcome	Access maintained.	Inequality reproduced; administrative capacity	Grant protects the poorest, ICL formalises missing-middle borrowing

FIGURE 1: Comparison of income-contingent models and the proposed South African hybrid structure. Sources: UNESCO (2026); Chapman and Ryan; Adams (2026)

RECOMMENDATIONS, IMPLEMENTATION, RISK AND MITIGATION

As Figure 1 summarises, neither the Australian nor the UK model offers a complete answer; therefore, the evidence points to a hybrid structure. There are three pillars: full grants for people with low incomes should remain, because Australia has evidence that removing upfront costs does not deter disadvantaged students (UNESCO, 2026); in South Africa, we see that NSFAS-funded students complete at rates above those of general cohort (Kanizay, May 2026). The grant must not be reduced in value per student, but it must be fixed.

Second, we should bring in an income-contingent loan for the “missing middle” students. The ICL would formalise and protect borrowing that is already happening. As in HECS, repayment should only begin once earnings pass a meaningful threshold, be collected through the tax system, and carry no real interest rate (UNESCO, 2026).

Third, operating budgets must be shielded from student-aid overruns, so that the block grant is no longer the residual absorber of NSFAS shortfalls. Beyond protection, a portion of the institutional funding should be tied to throughput and completion rather than headcount alone.

Sequencing matters. Implementation should happen in stages: first, cap the grant tier; second, roll out the ICL for the missing middle; third, integrate collection with SARS and evaluate before scaling up. Doing it in stages gives the system time to build its collection capacity before liabilities pile up.

Every risk identified above can be managed, but only if the safeguards are built into the scheme from the start, rather than bolted on after something goes wrong. On administration, collection should begin through SARS and formal-sector employers, with a high earnings threshold and a trial phase judged by collection rates before any expansion. On take-up, the threshold should be set

high enough, and the repayment rate low enough that borrowing is clearly preferable to informal arrears, with support from published repayment simulations and a graduate-tax-style fallback if loan collection proves unworkable. On political sustainability, the core terms, repayment rate and the prohibition on retroactive change should be entrenched in primary legislation rather than regulation, with an independent review mechanism reporting to Parliament. On equity, the threshold should protect part-time and lower-earning graduates, periods of caregiving should be excluded from any time-based write-off, and repayment outcomes should be monitored by gender and race as a standing reporting requirement. Together, these measures convert the risks from reasons for inaction into design conditions.

CONCLUSION

South Africa's student-funding crisis is not a failure of NSFAS as an institution but of the model it administers; aid grows with enrolment while university subsidy does not, so funding meant for teaching is consumed by student financing. Because sustainability and access are interdependent, any solution must sustain the institutions that access depends on and carry students through to completion, not merely enrolment. Australia shows that income-contingent repayment can widen access. The UK shows it reproduces inequality without a protected public investment. The hybrid model, therefore, combines full grants for the poorest, ICL for the missing middle, and a protected block grant tied to completion. Implemented in sequence, with safeguards built in, it offers the most fiscally sustainable route to access, not just enrolment, but completion.

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