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Fixing South Africa's Student-Funding Crisis: How a Hybrid Loan-and-Grant Model Can Protect Access Without Breaking the Budget

1. Introduction

Any student registering at a South African university will know what the atmosphere looks like. University still represents the most potent means of breaking the inter-generational cycle of poverty for many. Following the #FeesMustFall movement, the Government decided to increase (and then fully extend to) free tertiary education for poorer citizens. As a consequence, the number of students registered under the NSFAS has increased dramatically. However, as we approach the end of 2026, the system is clearly unsustainable. The NSFAS has accrued approximately R15bn of projected shortfalls since its inception, and owes ~R49.5bn of historical debts (Govender, 2026; Daily Investor, 2026). Public universities are similarly exposed to outstanding student fees and underpaid NSFAS student allowances.

With GDP growth sluggish and demand for social grants continuing to increase, there is simply no sustainable way to finance further increases in university throughput using solely the fiscus. Some form of loan must be introduced to supplement existing grants. Importantly, however, this should not come at the expense of ensuring that poor students are not priced out of attending lectures due to debt concerns. In this note, I outline the introduction of a complementary, Income-Contingent Loan (ICL) by the State to fill the 'missing middle', and provide top-up student allowances. Drawing on examples from Australia (Higher Education Loan Programme [HELP]), the UK and Chile (since 2016), it is possible to increase the volume of South African university students without undermining public university finances or National Treasury.

2. Flaws with the Post-2018 NSFAS System

As discussed above, three issues lie at the root of the South African post-2018 system: unsustainable growth in fiscal liability; failure to accommodate the 'missing middle'; and inadequate loan collections. Up until 2018, the NSFAS was predominantly a loan product, with some students eligible to convert a proportion of their debt into a bursary based on their academic achievement. When the decision was made to transition the NSFAS in full to a grant

model for households < R350,000 p.a., the opportunity to replenish the NSFAS with these converted amounts was lost. Figure 1 depicts the corresponding shortfall in funding relative to the level of enrolled students. By 2026, the number of students expected to receive NSFAS support is approaching 750,000, with the deficit growing from R2.3bn in 2023 to R10bn in 2025, and R15bn in 2026 (Govender, 2026; Manamela, 2026).

It is well established that attending university leads to significant financial gains to individuals in the South African context, with considerably improved chances of securing employment and achieving greater income. By financing 100% of students' tuition, housing and living costs from the fiscus, and foreclosing on the possibility of recovering these monies from graduates (i.e. once they enter the workforce), we are effectively redistributing income away from the average citizen. Furthermore, by capping eligibility for grants at a household income of R350,000, a large cohort of 'missing middle' South Africans are denied access to either NSFAS or commercial lending products. Many of these students are unable to raise the R60k-R120k required to register each year. In 2024, the Government announced the first stage of a Comprehensive Student Funding Model, including loan offers to these income groups. Unfortunately, the implementation has been slow and the terms of the loans unlikely to drive meaningful uptake (Fick, 2026). Finally, the reliance on the NSFAS itself to collect outstanding debts has resulted in significant losses, with an estimated R5bn owing by students to public universities (Daily Investor, 2026).

Figure 1: *NSFAS Student Coverage vs. Reported Fiscal Shortfalls (2018–2026). Source: Compiled from DHET and National Treasury budget disclosures (2026).*

3. International Comparators

A number of countries have implemented measures to allow increased student uptake into HE, while managing their fiscal position. In each case, the ability of the individual to meet the cost of their studies post-graduation has played a key role.

In 1989, the Australian Government introduced the Higher Education Contribution Scheme (HECS), which formed the basis of today's HELP scheme (Chapman, 2006). The Government pays HE institutions for students, and the student incurs a debt (indexed to inflation only, not at a commercial rate). No repayments are levied until the student's income exceeds a prescribed band, at which point 1%-10% is collected by the ATO (Department of Education, 2024). By removing the requirement to pay fees prior to commencing study, the scheme facilitated increased uptake

of HE by poorer Australians, and reduced the cost of debt collection.

The UK implemented comparable legislation in 1998, increasing the maximum value of student loans in 2012 and introducing loans to defray students' cost of living (Leinonen, 2021). Debt is collected by HMRC, thereby reducing any disincentive to apply for HE amongst poorer candidates following the rise in fees. Notably, the combination of elevated effective interest rates on the loans and the protracted 30-40 year period over which the Government will continue to service them, has led to the State bearing ~40-45% of the total cost of student loans in the UK (Barr et al., 2019). With South Africa's current levels of youth unemployment, it is highly likely that any ICL product bearing a comparable effective interest rate would fail to generate material debt collections.

Chile provides another instructive comparator. Student unrest led the Chilean Government to institute the 'gratuidad' programme from 2016, providing free tuition to all students from the lowest 60% of household incomes. Although this saw an increase in HE uptake amongst poorer youth, the associated cost to the State required that the amount disbursed per student be capped below the true unit cost of educating them, placing pressure on the universities' other activities (e.g. research) (OECD, 2021). This highlights the difficulty faced by middle-income nations with limited domestic tax revenues in delivering widespread free HE.

Table 1: *Comparative International Student-Financing Mechanisms and Policy Lessons for South Africa*

Country & Scheme	Core Mechanism	Collection & Threshold	Key Lesson for South Africa
Australia (HECS-HELP)	Universal ICL for tuition; inflation-indexed debt	Tax system (ATO); starts above median income	SARS payroll collection ensures low cost and default insurance
United Kingdom (SLC)	High tuition + maintenance ICLs; real interest rates	Tax system (HMRC); 9% above threshold; 30–40 yr write-off	High interest and long write-offs inflate state fiscal subsidies
Chile (Gratuidad)	Targeted free tuition for bottom 60% of households	Direct state grant; no graduate repayment	Broad free tuition strains middle-income budgets and quality
Proposed SA Model	Grants (<R350k) + Hybrid ICLs (R350k–R750k & top-ups)	SARS PAYE withholding above R15,000/month	Balances equity for the poor with fiscal cost-sharing

4. A Four-Pillar Reform Blueprint for South Africa

To address the competing imperatives of increasing student access, maintaining the standard of public universities and containing the fiscal cost, the following set of policy interventions is proposed:

1. The R350,000 p.a. household income limit applied by the NSFAS should be removed and replaced with a graduated scale of assistance. As noted earlier, poor students (including those in receipt of the SASSA child grant) should be able to access full NSFAS bursaries for their tuition and course-related expenditure. Going forward, NSFAS allocations towards student housing and living costs (>50% of total spending) could be split between a grant and loan component. Additionally, the 'missing middle' (households R350k-R750k p.a.) could benefit from 100% ICL support for tuition and formal housing, with more affluent students required to make ex-ante payments or accept non-subsidised debt (Fick, 2026).

2. The responsibility for collecting outstanding student loans should be transferred from the NSFAS to SARS. As highlighted previously, the former has been unable to retrieve R49.5bn in historical debt, primarily due to the impracticality of encouraging individual students to repay voluntarily (or via third parties). By embedding ICLs within the PAYE structure, we can minimise the associated compliance burden (<2%), avoid penalising students who may remain unemployed for periods, and ensure that debt is automatically deducted from an individual's salary once they earn above a suitable minimum (e.g. R15,000 per month). Cross-referencing the SARS database with the Department of Home Affairs' record of passport applications would also assist in limiting students' propensity to leave the country upon completing their qualifications.

3. Commercial banks should be incentivised to supply a proportion of student loans. Rather than requiring the State to front all loan amounts, a scheme whereby the Government assumes a portion of the first-loss exposure and continues to pay interest during the student's period of study would encourage private sector participation. Commercial lenders would thus be able to issue the requisite debt to 'missing middle' students, subject to the loan being repaid at an ICL basis.

4. Measures should be taken to improve the rate of students graduating in the minimum

regulatory timeframe (N). By committing to finance students' studies over N+2 years, a significant quantity of funding will be expended on students who drop-out. A reintroduction of the previous practice of converting a % of a student's ICL debt into a bursary upon successful completion of their programme (within N years) would create an additional incentive for students to graduate, increase available places for incoming cohorts and facilitate their entry into the economy.

5. Conclusion

Clearly, there are constraints on the extent to which the South African State can continue to subsidise its students. However, as illustrated, this does not preclude the introduction of ICLs to enable poorer citizens to complete university and avoid exposing our public universities to further insolvency. Nor does it compel us to remove the prospect of recovering any debt from better-off graduates. By combining continued full NSFAS support for the poorest students, introducing ICLs collected via SARS PAYE and leveraging the private banking sector, we can establish a self-sustaining system to underwrite future generations of South African HE students.

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