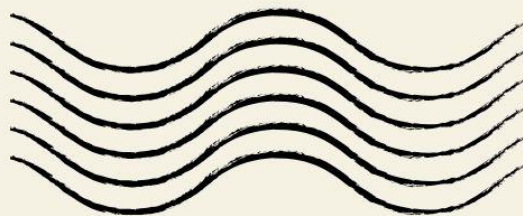




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ENTRY NO: 505

FISCALLY SUSTAINABLE STUDENT- FINANCING MODEL



**OLD MUTUAL X NEDBANK
BUDGET SPEECH**

2026

A Sustainable Future for Student Financing in South Africa

Access to higher education is often presented as an investment in South Africa's economic and social development. It builds human capital, improves employment prospects, and can increase productivity. However, for many students, the cost of obtaining a degree remains a significant barrier. The National Student Financial Aid Scheme (NSFAS) has played an important role in expanding access to higher education by providing financial support to students from poor and working-class households. In 2026, NSFAS continued to support hundreds of thousands of university students, demonstrating the state's commitment to widening educational opportunity.

However, expanding access must be balanced against the government's limited fiscal resources. South Africa cannot indefinitely respond to every increase in the cost of higher education by increasing public expenditure. At the same time, reducing financial support could exclude students who cannot afford university. The challenge is therefore not simply how to spend more on student funding, but how to design a system that provides meaningful access while remaining financially sustainable.

A fiscally sustainable student-financing model should therefore combine targeted grants for students with the greatest financial need, sustainable loan financing for students who fall within the "missing middle", and stronger financial management support for beneficiaries. Rather than relying on continuous increases in allowances, South Africa should ensure that public funding is directed primarily towards the costs necessary for students to participate successfully in higher education.

NSFAS was established to ensure that financial circumstances do not prevent capable students from accessing higher education. The scale of the scheme illustrates its importance to access. For the 2026 academic year, NSFAS reported 893 847 applications in its funding process, while the government reported 660 039 students approved for funding at the beginning of February 2026 (NSFAS: 2026b; DHET:2026). Its role has expanded significantly, with the government describing the scheme as an important mechanism for investing in human development and the country's future productive capacity.

Yet student financing creates a difficult policy trade-off. The state must provide enough assistance to prevent financial exclusion, but every additional rand committed to student funding represents a claim on public resources that could otherwise be directed towards healthcare, infrastructure, schools, social protection or other priorities.

This tension is visible in the debate surrounding student allowances. Some NSFAS beneficiaries argue that their allowances are insufficient to cover food, personal care, transport and other living expenses. Others question whether government should continuously increase allowances to accommodate expenditure beyond the basic costs of studying and living.

The answer should not be to dismiss students' concerns. Living costs differ between students, universities, and cities, and genuine financial hardship can interfere with academic performance. However, neither should the solution automatically be an across-the-board increase in allowances.

The most important question is: What should public student funding reasonably be expected to finance?

Public funding should prioritize essential expenditure such as food, accommodation, academic materials, transport where necessary, and basic personal care. Students will inevitably have discretionary expenses, but a fiscally sustainable system cannot be expected to finance every aspect of a student's lifestyle. Public funding should aim to remove financial barriers to education, not to provide students with an unrestricted source of disposable income.

A second weakness in the current student-financing landscape is the position of students who fall between the categories of poor and comfortably wealthy.

The so-called "missing middle" consists of students whose household income is above the threshold for NSFAS bursary support, but whose families may nevertheless struggle to finance tuition, accommodation, study materials and other university expenses. NSFAS currently provides a student-loan pathway for undergraduate students whose household income falls between R350 000 and R600 000 (NSFAS: 2026c). This is an important development because it recognises that household income alone does not necessarily indicate a family's ability to afford higher education.

However, the effectiveness of the loan system depends on whether eligible students can access it. NSFAS reported that 26 538 loan applications were received for the 2026 cycle. Of these, 4609 met the established loan criteria and only 1561 loans had been approved at the time of the reported update (NSFAS: 2026d).

This suggests that the challenge is not simply the absence of a missing-middle financing mechanism. Its accessibility, eligibility criteria, and administration also require attention.

The wider student-debt crisis further illustrates the problem. Parliament reported in May 2026 that outstanding debt across the post-school education system had reached approximately R59 billion. Nearly R29 billion was associated with NSFAS-funded students, while R26 billion was attributed to self-funded students (Parliament of SA: 2026a).

A sustainable financing system must therefore recognise that access cannot depend entirely on parents' ability to pay.

Learning from international experience

International experience demonstrates that South Africa does not need to choose between unrestricted government grants and complete private financing.

Australia provides an important example. Its Higher Education Loan Program (HELP), which provides income-contingent loans that remove upfront cost barriers to tertiary education (Australian Government Department of Education: 2026).

Under current arrangements, repayments only begin once a borrower's income exceeds a specific threshold (Australian Government Department of Education: 2026).

The United Kingdom similarly combines student loans with additional support for students who require it. Tuition and maintenance loans assist with the costs of studying and living, while repayment is linked to income rather than simply requiring fixed repayments regardless of a graduate's financial circumstances (UK Government: 2026).

These models demonstrate an important principle: student financing does not have to be entirely funded by government grants to remain accessible.

However, South Africa should not simply copy these systems. South Africa has substantially different levels of income inequality, unemployment, and household financial vulnerability. A graduate who struggles to find employment cannot necessarily be expected to begin making substantial loan repayments immediately after graduation.

For this reason, an income-contingent model could be more appropriate for the missing middle than conventional loans with fixed monthly repayments. Repayment could begin only once a graduate's income reaches an appropriate threshold, allowing graduates with limited earnings to avoid immediate repayment pressure.

International experience therefore suggests that the key issue is not whether loans or grants are inherently better. It is how the system allocates risk between the student and the state.

Fiscal sustainability requires more than controlling the size of the allowances. Government must also ensure that existing resources are administered effectively.

In August 2026, Parliament reported on findings concerning approximately 40 000 students who were allegedly improperly funded to a value of approximately R5.1 billion, based on investigations involving NSFAS (Parliament of SA: 2026b).

The significance of this finding extends beyond the amount. R5.1 billion represents resources that could otherwise support legitimate students, improve university infrastructure or strengthen other areas of higher education.

The implication is that South Africa should not approach student financing only from the perspective of how much more the government should spend. It must also ask whether existing expenditure is reaching the intended beneficiaries efficiently.

Fiscal sustainability therefore requires three elements: adequate funding, accurate targeting and strong financial controls.

South Africa should develop a three-tier student-financing model.

The first tier should remain targeted grants for students experiencing the greatest financial need. These students should not be excluded from higher education simply because their households cannot afford the cost. Government grants provide a social investment because higher levels of education can improve employment prospects, productivity, and household income.

The second tier should be income-contingent financing for the missing middle. Students who do not qualify for full NSFAS support but cannot reasonably afford university should have access to affordable loans whose repayments depend on their future earnings. This would expand access without requiring the state to permanently absorb the full cost of every student's education.

The third should involve greater private or family contribution from households with sufficient financial capacity. Public resources are limited, and government assistance should be concerned where it makes the greatest difference to access.

However, financing reform should not stop at deciding who receives money. South Africa should also introduce a Student Essential Cost Framework.

Under this framework, NSFAS and universities could annually calculate the reasonable cost of essential student expenditure using current prices and regional differences. This could include food, accommodation, academic materials, basic personal care and transport where applicable.

Students could then be provided with a recommended monthly budget based on their allowance. Financial-literacy programmes should accompany this funding, teaching students how to divide their money between essential expenses, unexpected costs and discretionary spending.

Such a system would not dictate how students spend every rand. Instead, it would recognise that financial support is most effective when students also have the knowledge to manage it.

Fiscal sustainability requires government to ask not only whether students need financial support today, but whether the financing system can continue supporting future generations of students.

Government has already acknowledged this challenge. In 2026, the Department of Higher Education and Training identified the need for a comprehensive student-funding model targeting both poor and "missing middle" students while maintaining a sustainable funding system.

This suggests that the future of student financing should not be based solely on increasing the size of the existing NSFAS grant. Instead, government should diversify the sources of student finance.

A combination of grants, income-contingent loans and private contributions would spread the financial responsibility between the state, students and households according to their ability to contribute.

The model should also be reviewed regularly. Allowances should be informed by actual student living costs and inflation rather than political pressure or isolated social-media debates. If evidence demonstrates that essential costs have increased significantly, allowances should be adjusted. If evidence shows that funding is being directed towards costs unrelated to education access, the model should be reconsidered.

South Africa's student-financing challenge is ultimately a question of balance. The country cannot afford to exclude capable students from higher education because of their household income, but neither can it create a financing system whose costs expand indefinitely without regard to the constraints of the national fiscus.

International experience demonstrates that accessible higher education can be supported through a combination of grants and income-contingent financing. Australia and the United Kingdom show how repayment can be linked to future income, reducing the burden of upfront costs while allowing government to recover part of its investment.

South Africa should build on these principles while adapting them to its own economic realities. Targeted grants should protect the poorest students, income-contingent loans should address the missing middle, and households with greater financial capacity should contribute more towards the cost of higher education.

Most importantly, student funding should be accompanied by financial-literacy support and an evidence-based framework for determining essential student costs.

The objective should not simply be to give students more money. It should be to create a system in which no capable student is excluded from higher education because of poverty, while public funding remains affordable enough to ensure that future generations receive the same opportunity.

A sustainable system must therefore balance three objectives: access, affordability, and fiscal responsibility.

Illustrative fiscal cost of higher student allowances

Additional annual expenditure if 500,000 students received higher allowances for 10 months.



Illustrative calculation: students × monthly increase × 10 months. Not an estimate of actual NSFAS expenditure.

Figure 1: Assumes 500 000 students receive the monthly increase for 10 months. Figures are illustrative and do not represent actual NSFAS expenditure.

THE THREE-TIER MODEL

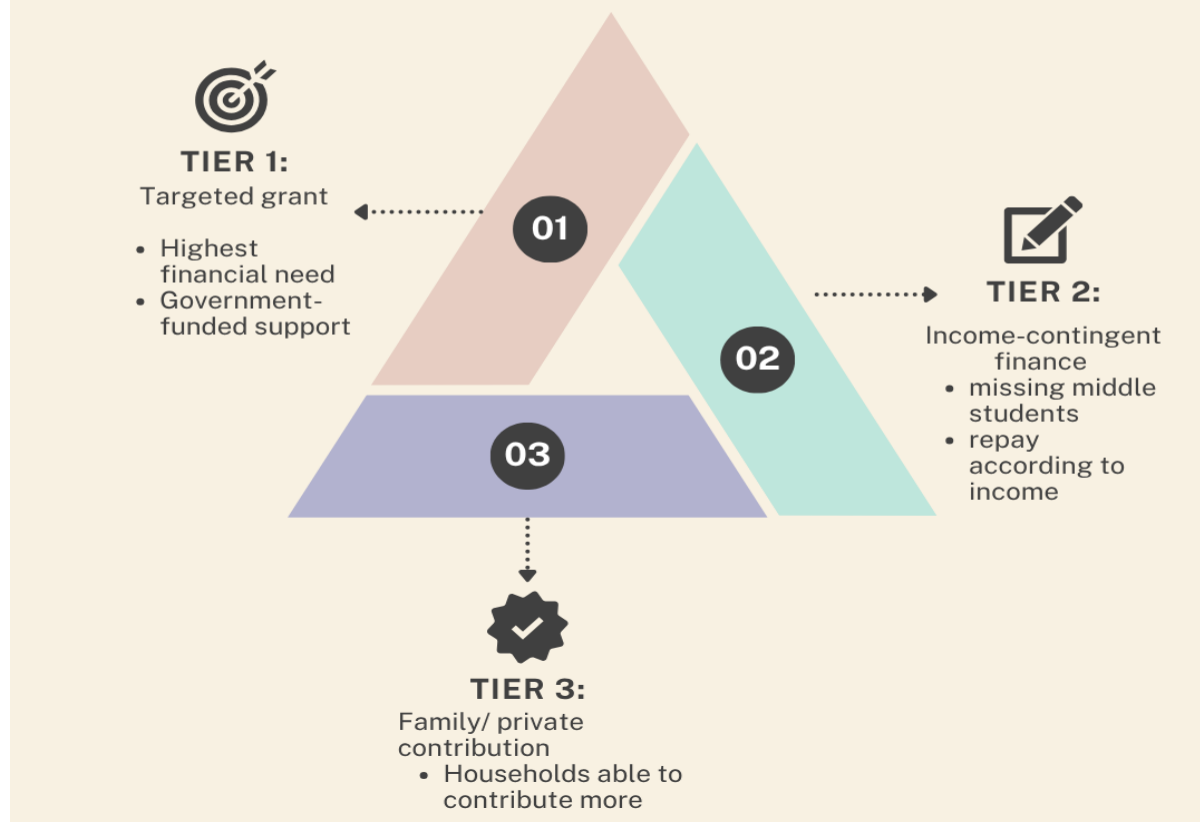


Figure 2: Proposed 3-tier model

Feature	South Africa	Australia	England
Upfront financial support	Grant and loans	HELP loans and other support	Student loans and maintenance support
Income-contingent repayment	Limited	✓	✓
Repayment linked to income	Limited	✓	✓
Missing-middle financing	Developing	Established	Established
Main principle	Financial need	Access and income-contingent repayment	Access and income-contingent repayment

Table 1: Comparison of student-financing approaches

Source: NSFAS (2026); Australian Government Department of Education (2026); UK Government (2026)

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