Student finance as a renewable resource:

How South Africa can build a fiscally sustainable student-financing model that enhances access to higher education

[2020 words, excl. references]

INTRODUCTION

On the 16th of December 2017, President Jacob Zuma announced that higher education would be fully subsidised for students from households earning up to R350 000 a year (The Presidency: 2017). The announcement came one month after the release of the Heher Commission's report, which had found that the state could not afford fee-free higher education and had recommended income-contingent loans instead (Heher Commission: 2017). Nine years later, the bursary run by the National Student Financial Aid Scheme (NSFAS) costs close to R50 billion a year, yet NSFAS expects a shortfall of R10.4 billion for 2026/27 and the so-called 'missing middle' remains largely unfunded (Parliamentary Monitoring Group: 2026).

With gross government debt at 78.9% of GDP (National Treasury: 2026) and a tertiary enrolment ratio of only 25.2% (Khuluvhe & Netshifhefhe: 2024), the question of how South Africa pays for its students is worth exploring. This essay will argue that fiscal sustainability and wider access are not opposing goals: a model that recovers part of its cost from graduates who earn enough to repay can fund more students than a bursary that recovers nothing. Section 2 shows why the current model is neither sustainable nor accessible. Section 3 reviews international experience with income-contingent loans in advanced economies and with loan schemes in developing countries. Section 4 applies these lessons to South Africa. A conclusion and the author's recommendations follow. The essay focuses on university students; technical and vocational colleges are mentioned only where relevant.

SECTION 2: THE SOUTH AFRICAN PROBLEM

2.1 From loans to bursaries

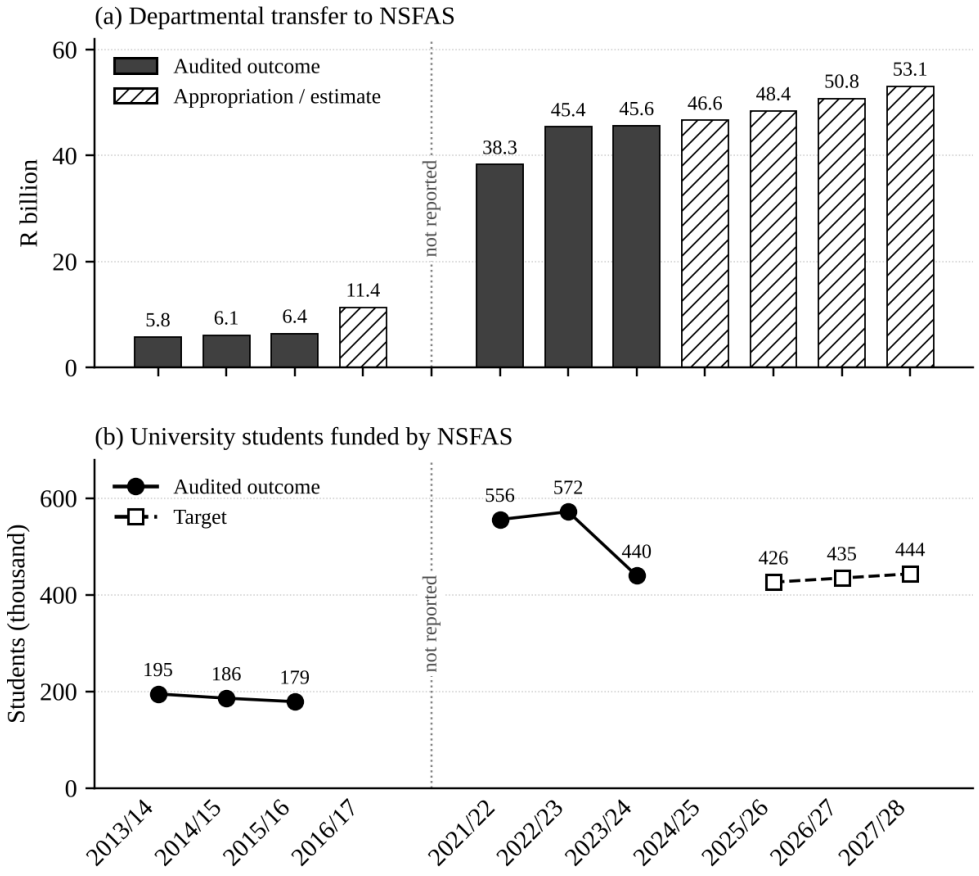
NSFAS began as a loan scheme, but it never collected well. After its legal power to deduct repayments from debtors' salaries without consent was repealed, recoveries fell from R339 million in 2013/14 to R227 million in 2015/16 (National Treasury: 2017). The 2017 decision

then converted all new awards into grants. The scheme therefore has no revolving element: every rand spent must be voted again the following year.

2.2 The sustainability problem

Figure 1 below shows the Department of Higher Education and Training's transfer to NSFAS and the number of university students funded, as reported in the 2017 and 2025 Estimates of National Expenditure.

Figure 1: Transfers to NSFAS and university students funded, 2013/14 to 2027/28



Source: National Treasury (2017; 2025). Years between the two publications are not reported.

Figure 1 shows that the transfer grew from R5.8 billion in 2013/14 to R46.6 billion in 2024/25, an eightfold increase. Since 2022/23 NSFAS has received more than the universities themselves receive in subsidies (R46.6 billion against R44.5 billion in 2024/25). Yet the number of university students funded fell from 572 089 in 2022/23 to 439 659 in 2023/24, and the bursary is now provided only "in line with available funds" (National Treasury: 2025). Recoveries from old loans have dwindled to R144.7 million a year. Meanwhile, debt-service costs will reach R432.4 billion in 2026/27, about eight times the NSFAS allocation

(National Treasury: 2026). An entitlement that the budget can no longer honour in full is not sustainable.

2.3 The access problem

The model also fails on access. The National Development Plan targets 1.6 million university enrolments by 2030, but the Department projects only 1 173 640, up from 1 071 715 in 2023 (Department of Higher Education and Training: 2025). South Africa's enrolment ratio of 25.2% compares with an upper-middle-income average of 60.6% (Khuluvhe & Netshifhefhe: 2024). Students from households earning between R350 000 and R600 000 are too 'rich' for NSFAS and too poor for bank credit. This matters: Gurgand, Lorenceau and Mélonio (2023) found that being denied a loan reduced enrolment by more than 40 percentage points among South African applicants. A pilot loan scheme for this group exists, but NSFAS cut its budget from R3.6 billion to R950 million partly because it still has no loan management system (Parliamentary Monitoring Group: 2026). Finally, only 58.1% of entrants complete a qualification within six years (Van Broekhuizen, Van der Berg & Hofmeyr: 2016), so a large share of the bursary bill buys no degree.

SECTION 3: INTERNATIONAL EXPERIENCE

3.1 The case for income-contingent loans

Friedman (1955) first observed that banks will not lend against human capital because it cannot serve as collateral, so government must intervene (Barr: 2004). However, graduates are the main beneficiaries of their degrees: in the first quarter of 2026, graduate unemployment in South Africa was 12.2% against 32.7% overall (Statistics South Africa: 2026). Funding degrees entirely from taxes therefore transfers resources from the many to a better-off few (Barr: 2004). An income-contingent loan (ICL) resolves this tension. The state pays the fees upfront and the graduate repays a percentage of income above a threshold through the tax system. Low earners pay little or nothing, which insures borrowers against default (Chapman: 2006). Conventional mortgage-style loans offer no such protection and produce default rates of 15–25% in the United States and Canada (Chapman & Dearden: 2017).

3.2 Advanced economies

Australia introduced the first national ICL in 1989. Repayments are withheld by employers through the tax office, administration costs less than 5% of receipts (Chapman & Dearden:

2017) and participation by poorer students was not discouraged (Chapman & Ryan: 2005). England followed in 1998; enrolment kept rising and the gap between rich and poor students narrowed (Murphy, Scott-Clayton & Wyness: 2019). Cost-sharing also frees public money: the United Kingdom spends 2.0% of GDP on tertiary institutions with only 0.4% coming from government, whereas tuition-free Norway spends 1.4% with 1.3% from government (OECD: 2026). Tuition-free systems of that kind depend on high general taxation, which South Africa's debt position rules out.

England is also a warning. Generous terms meant that only 32% of students who started in 2022/23 were forecast to repay in full (Bolton: 2025), and this cost stayed hidden from the deficit until statisticians reclassified expected write-offs as government spending (Office for National Statistics: 2018). A loan that is not repaid is simply a grant paid late.

3.3 Developing countries

Table 1 below summarises the results of student loan schemes in six countries.

Table 1: Outcomes of selected student loan schemes

Country	**Design**	**Outcome**
Australia	ICL collected by the tax office	12% of new lending not expected to be repaid
England	ICL collected by the tax office	32% of 2022/23 entrants forecast to repay in full
Hungary	ICL priced at cost of funds plus a risk premium	Default of 1–2%
Chile	Bank loans guaranteed by the state	60% of borrowers delinquent; state financed 58% of loans
Brazil	Subsidised loans for private institutions	Average default of 51.5%
Kenya	Loans collected by a loans board	Recoveries fell from 311% to 41% of government funding

Source: Australian Government Actuary (2025); Bolton (2025); Berlinger (2009); Ugarte (2024); Tribunal de Contas da União (2024); Ngware, Kimani & Wakiaga (2025).

Table 1 shows that schemes collected through the tax system and priced realistically lose little, while the others lose much of what they lend. Chile is the most relevant case, because its bank-financed, state-guaranteed loan is what the Heher Commission proposed for South Africa. The Chilean state ended up financing 58% of the loans itself, and 82% of borrowers who dropped out were delinquent (Ugarte: 2024). Brazil's scheme absorbed about R$148

billion in a decade while half its borrowers defaulted (Tribunal de Contas da União: 2024). In Kenya, loan recoveries fell from 311% of government funding in 2011/12 to 41% in 2022/23, so the fund no longer revolves (Ngware, Kimani & Wakiaga: 2025). Hungary shows the opposite: by charging borrowers the cost of funds plus a risk premium, it kept default to 1–2% (Berlinger: 2009). The common causes of failure are collection that depends on the borrower's goodwill, deep interest subsidies and lending to students who do not finish.

SECTION 4: APPLYING THE LESSONS TO SOUTH AFRICA

4.1 What South Africa has

Chapman (2006) warns that many countries lack the administrative capacity to run an ICL. South Africa is an exception: the South African Revenue Service (SARS) already withholds income tax through employers, and every student has an identity number. Nor is the idea new. The Heher Commission (2017) recommended ICLs collected by SARS, the World Bank (2019) recommended grants for the poorest combined with ICLs for those who can repay, and the Department's strategic plan now commits to reforming NSFAS into "a tiered system of bursaries and loans" with collection assisted by SARS (Department of Higher Education and Training: 2025).

4.2 What constrains South Africa

Two constraints must be faced honestly. First, with unemployment at 32.7%, many borrowers will earn below any repayment threshold for years, so an ICL will recover only part of what is lent. Partial recovery still improves on the present position, in which nothing new is recoverable at all. Second, NSFAS cannot yet administer loans. Collection must therefore sit with SARS and not with NSFAS or with banks, as Chile's experience shows. England adds a third requirement: expected non-repayment must be budgeted as spending when the loan is made, otherwise the scheme merely hides the deficit.

CONCLUSION

This essay examined how South Africa can finance students in a way that the fiscus can sustain while widening access. It showed that the present bursary (i) has grown eightfold since 2013/14 yet funded fewer university students in 2023/24 than in 2021/22, (ii) excludes the missing middle and (iii) has no means of recovering costs from graduates who prosper. International experience showed that income-contingent loans collected through the tax

system widened access at low public cost in Australia and England, while bank-financed and poorly collected schemes in Chile, Brazil and Kenya became expensive failures. South Africa has the revenue service needed to follow the first group, but high unemployment and weak NSFAS administration mean that grants for the poorest must remain and that loan costs must be budgeted honestly. A hybrid of grants and tax-collected, income-contingent contributions is therefore the most sustainable route to wider access.

RECOMMENDATIONS

In my view the reform is workable, provided that it is designed for South African conditions and not simply copied. As a WWF climate change champion based in Soweto, I work with the idea that a resource is sustainable only if what we take today can be renewed for those who come after us. Student finance should be treated in the same way. I therefore recommend the following:

1. *Grant first, contribution later.* The first year of study, where the risk of dropping out is greatest, should remain a grant. Later years should be financed by an income-contingent 'graduate contribution'. This protects students who drop out from debt they cannot repay and asks those who succeed to give back.
2. *One scheme for the poor and the missing middle.* The contribution should be open to households earning up to R600 000, replacing the stalled pilot, with income thresholds adjusted for inflation every year.
3. *SARS collects.* Contributions should be deducted with income tax above an earnings threshold, carry no real interest and be written off after a fixed period.
4. *A ring-fenced, renewable fund.* Repayments should flow back into student funding and not into general revenue, with the National Skills Fund's R1 billion a year as seed capital (National Treasury: 2025). An actuarial report on expected non-repayment should be tabled with every Budget, as is done in Australia.
5. *Shared responsibility.* A small part of each university's subsidy should depend on the throughput of its funded students, with extra support for historically disadvantaged institutions so that improvement is rewarded and not privilege.
6. *Service credits.* Graduates who take up scarce-skill posts in townships and rural areas, including the technicians that the just energy transition requires, should earn credits against their contribution.

None of this is quick, and none of it will succeed unless the administration of NSFAS is repaired first. However, a scheme in which each cohort helps to fund the next would empower far more young people than the budget alone can reach, and it would let South Africa widen access without borrowing against its children's future.

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