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**Sharing the risk: Towards a fiscally sustainable student financing model
for South Africa**

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Introduction

Rather, each student-financing system is left to determine who is at risk for earning little or nothing: the state via a grant, the student via a fixed-repayment loan, and families and universities when the state and student fail to fulfill their obligations. Fiscal sustainability is a matter of state risk, access a matter of student risk. South Africa has taken a dip in both extremes. The NSFAS was founded in 1999 as a loan that included income contingent features such as interest only after the student graduates, repayment is not required below a threshold income level and a portion of the loan was transformed into a bursary on the basis of academic performance (Molete & Stumke, 2025).

Deteriorating funding strength of NSFAS and the ever-increasing fees, triggered the Fees Must Fall protests (Molete & Stumke, 2025) in this model. The state's risk was taken in a grant to households with income below R350,000 a year where the government funded the loan, instead of a state supported income contingent loan (ICL) as recommended by the Heher Commission.

In this essay it is asked what the risk of the State would be, and what the risk of poor students can bear without being deterred. The questions clash in opposing ways: giving students the "risks" takes away access, giving the state the "risks" takes away the "fiscus". The risk to the state is not trivial and is quantifiable and therefore, a split model, one part funding the poorest with a grant while the other part is funded through an ICL collected by SARS, can be realised without a breach of the fiscus. It tells the story of how South Africa has done it, provides a framework for risk, sizing the risk, learning lessons from other countries, and a design for access.

South Africa's two experiments

The Loan scheme failed when it came to collections, Recoveries peaked at 35.3% in 2006 and fell to 2.4% by 2016 (Molete & Stumke, 2025). A loan scheme that recovers a fortieth of what is lends is not a loan but a grant in disguise. The legacy loan book is still some R45 billion (Business report, 2025). The government's decision to turn NSFAS into a grant fully paid for by the government only formalized the collection failure instead of solving it.

The grant eliminated the student loan repayments but left the state's claim open-ended. As things stand NSFAS had a baseline budget of R54 billion for 2026 (PMG, 2026b), and approved 1.24 million students (IOL, 2026) enrolment is not capped and each and every student who is eligible to receiving funding has a right to it.

The risk framework

Thomas (1994) states that when a student embarks on the student loan debt, they become a seller of their "stock" in future earnings, and the lender has no way of knowing who will earn more and who little. A fixed repayment lender has to therefore be able to demand high rates from everyone, or forfeit. An ICL can cover low earners only when high earners are not able to predict their own earnings; if they can, they will stay out (adverse selection) and the scheme must be paid for by an outside source (Thomas, 1994). Badly designed ICLs also conceal subsidies, as seen in the Thai design, Chapman and Lounkaew (2010) discovered that implicit subsidies to debt was up to 24-40%. Table one maps the risk.

Table 1 What are the risks associated with each funding model

Model type	Who might be exposed to the risk	Who may be at risk
Grant	The tax payer takes all of it	Fails to have a fixed budget; costs increase with the number of students; funding cannot keep up and students who

		qualify for the program are left out
Fixed-repayment loan	The student until default then the state	Low earners are paying on income they don't have, default, weak collection (NSFAS 2.4%) and high rates to offset losses
Income contingent loan	Shared: the student above the threshold, the state below the threshold	Adverse selection; poor thresholds, rates or interest rules lead to hidden subsidy for slow cost recovery

How big is the risk in South Africa?

South Africa's unemployment rate was 33.6% in the second quarter of 2026, and 47.4% among youth (Stats SA, 2026). Only about 12% of degree holders are unemployed (The Outlier, 2026). Employed postgraduates earn a median of R18,168 a month, compared with R5,700 for matriculants (The Citizen, 2026). These medians cover only the employed, and the postgraduate figure probably overstates what a first-degree graduate earns, so the estimates below are a best case.

Assume a R200,000 loan that keeps its value in real terms, repaid at 8% of income above R99,000, the rate at which SARS already collects tax. England uses 9% and Australia 8%. A graduate earning R218,016 a year repays 8% of R119,016, or R9,521 annually. That is R95,210 (48% of the loan) after ten years and R190,420 (95%) after twenty. If a further 8% of graduates earn below the threshold, about 80% of borrowers repay after ten years and 76% after twenty. The state then recovers about 38% of the loan's value after ten years and 76% after twenty, leaving it 62% exposed at ten years and 24% at twenty.

The median matters less than the gap between the highest and lowest earners. Britton et al. (2019) show that the cost of income-contingent loans depends on debt levels and the variance of earnings. Köhler (2024) finds that inequality within education levels accounts for 60 to 70% of South African wage inequality, so a degree alone does not tell us where a graduate will end up. A low earner may repay only R1,680 a year. Returns to tertiary education have roughly tripled since 2001, which suggests graduates can contribute, even though employment has fallen at every education level.

This is therefore a minimum exposure, concentrated in the first decade. It is a real but finite commitment, unlike the open-ended cost of a grant, but it still needs funding.

International design lessons.

Australia's Higher Education Contribution Scheme (1989) is based on deferred repayment which happens when earnings exceed a threshold, and it is collected through the tax system through the employer, which means that the risk lies with both the student and state (Chapman, 2016:2). The threshold design protects low earners and nothing is repaid below the threshold. South Africa has not done this kind of micro-simulation of repayment patterns as Harding (1995) did for Australia. Thailand had weak design, with state collecting approximately 10% of the loans (close to NSFAS 2.4%) and Zideman (2002) advised an income-contingent redesign. However, while the label is a guarantee, sustainability relies on the rule of rate, threshold and interest (Chapman & Lounkaew, 2010; Britton et al., 2019).

The student side: England has been a pioneer with its ICL, which covers almost the entire tuition fee, but fee caps have increased dramatically since the introduction of ICLs and there have been a sharp reduction in the number of part-time students, meaning ICLs are not a miracle (de Gayardon, 2018:18–19). Split here: The Netherlands did not have a significant enrolment effect in replacing the basic grant with an ICL plus a higher supplementary grant for low-income students in 2015 (Bolhaar et al., 2024). It is true that Colombia's ICL did not perform better than the conventional loans, and it only matched their performance after approximately ten years (Lozano-Rojas, Pirog & Cerdán-Infantes, n.d.), so there must be costs of transition planned. South Africa switched from loan to grant without any transition plan in place. It's about the label, not the difference.

Access: The student's side of the risk

The second question is whether a model that is financially sustainable discourages poor students. Three points follow. First, debt aversion: attitudes were more positive overall in 2015 than in 2002 and Callender and Mason (2017) found that debt aversion was much stronger among the lower-class students, and was more likely to deter them from planning for higher education, in England where loans are income-contingent. Labelling also is important: the majority of the aversion to debt in an experiment involving student-loan candidates was driven by the contract being labelled as a loan, rather than a loan-to-become-owner (Caetano, Palacios & Patrinos, 2019). The poorest therefore need an ICL (as with the Dutch reform, Bolhaar et al., 2024) and others need a grant band, with care. Second, the missing middle, households earning more than R350 000 do not qualify for NSFAS support, and they are not easy to access bank credit, although a loan exists (for now) for the missing middle which was criticised by members of the National Council of Provinces because it did not reach the beneficiaries that qualified for it (PMG, 2026b) in August 2026. Third, reliable access is dependent on reliable payments, and thus, delays are also impacting on NSFAS students (Mokwebo & Sikhwari, 2026:140).

If the protections afforded by ICL (no payment below the threshold, income linked payments, balances being exhausted) are clearly communicated it could be a risk-sharing device, but if it is not, then perceived risk poses an equal barrier to participation. A high threshold coupled with a low rate will protect graduates and also represent lower cost to the state, whereas a low threshold will represent higher return of cost, but will have an impact on low earners. The task is to share the risk, so that neither side will be responsible for more than the other.

Recommended design

The model should integrate 6 elements:

1. Collection law. A specific clause in the Act, based on the National Credit Act, provides SARS with a mandate to collect repayments via the employer's remittance, which rectifies the fundamental flaw of NSFAS: the absence of garnishee orders and out-of-court recovery, and the continued frozen repayment threshold (Molete & Stumke, 2025).
2. Grant band. Have a grant for the poorest households without a repayment risk and provide an ICL to all others including the missing middle.
3. ICL parameters. Determine the threshold (tax threshold is a starting point), repayment rate and interest rule to ensure that the subsidy is deliberate, not hidden (Chapman & Lounkaew, 2010). An interest rule which maintains the face value of the loan, but which allows balances to expire after a fixed term balances out the cost against fear of debt.
4. Modelling before launch. Micro-simulate repayment for South African graduate earnings by Treasury/NSFAS and publish the cost as undertaken by Harding (1995) for Australia and New Zealand.
5. Funded transition. Don't expect a return on investment in year one (Lozano-Rojas et al., n.d.), as there was no such plan with the previous move from loan to grant.
6. Capacity Building. Pay promptly, invest in SARS and University administration, for law works without capacity (Fombang & Maseko, 2025:2437).

As recommended by the Heher Commission, TVET colleges should continue to be on the grant.

Objections and limits

Four objections arise. Where the state still pays for bulk of costs in the first decade, the model can appear like a grant, but it diminishes with the payments made the loans are capped by the loan pool, and can be pre-priced vs. the grant which increases with enrollment. Adverse selection (Thomas, 1994) is restricted by the fact that it is SARS's responsibility to collect the ICL as the norm for all students not in the grant band. Politically, the grant has been secured since 2018 and to keep it for the poorest and for TVET students is a recalibration – not a reversal – of the reform. Last but not least, the numbers presented here are illustrative, as there is no South African repayment model, thus modelling first.

Conclusion

South Africa has attempted to borrow an uncollectible loan, and grant an unsolicited loan. The answer is to split the risk. A grant band does not expose the poorest to risk of repayment, thus safeguarding access, whereas a SARS-collected income-contingent loan requires other students to bear the risk only when they can afford it, and places the burden of risk on the state when they can't. The state's contribution is highest in the first 10 years, so it is essential that sustainability and access are realized in conjunction with a modelled design and funded transition.

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