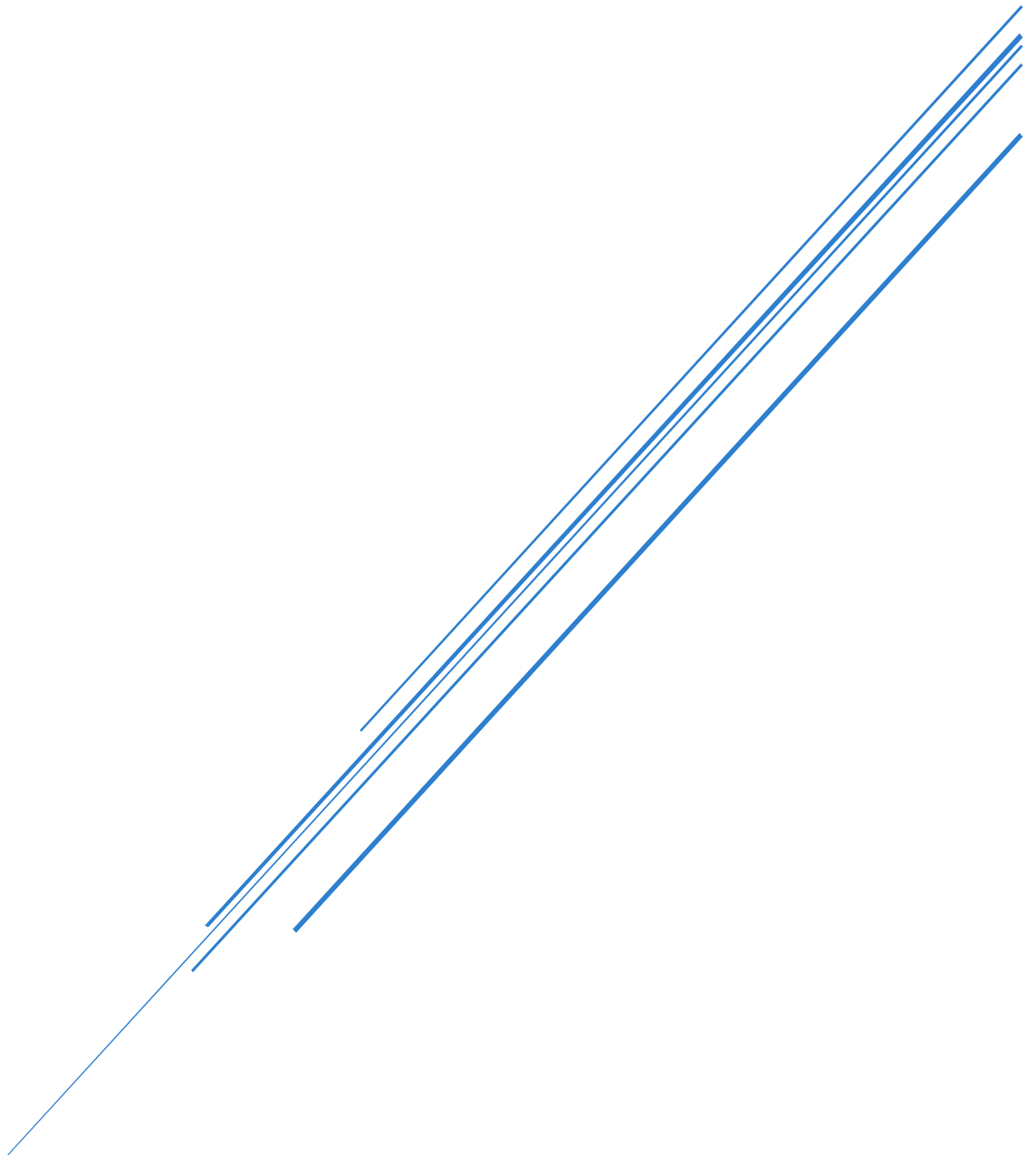


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Sharing the risk: Towards a fiscally sustainable student financing model for South Africa



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Introduction

The National Student Financial Aid Scheme (NSFAS) was created in 1999 to provide loans to academically deserving students who came from disadvantaged backgrounds (Molete & Stumke, 2025). Under this design the loans only started to accrue interest only after the student had left university, it became repayable once the income reached a threshold and part of the loan was progressively converted into a bursary based on the academic performance of the student (Molete & Stumke, 2025). This was in essence an income contingent loan (ICL), which is a financing principle that at least nine countries use for higher education, with the United Kingdom, New Zealand and Australia acting as flagship examples (Chapman, 2016:1).

This model did not last because of rising tuition fees, combined with NSFAS's weakening ability to fund students opening the door to the Fees Must Fall protests in 2015, which was the first time post-apartheid that we saw students mobilise nationally against the high cost of higher education (Molete & Stumke, 2025). In response to these protests the government established the HEHER Commission of Inquiry into the Higher Education and Training to examine sustainable funding alternatives. The Commission considered differential fees, the Ikusasa student Financial Aid Programme, fee free education and a graduate tax, but it ultimately recommended that the government should offer a government guaranteed income contingent loans that will replace NSFAS for university students while NSFAS continue to fund students at Technical and Vocational Education and Training colleges (Molete & Stumke, 2025).

Despite this recommendation the government chose a different route, which was turning NSFAS into a bursary scheme for students from the poorest households (less than R350 000 a year), financed directly by the state instead of funds recovered from past recipients. The qualitative evidence ran on this model is positive for the beneficiaries, In a study of twelve NSFAS funded students, funding was found to significantly ease financial stress and improve academic performance, although delayed allowance disbursements and the lack of financial literacy occasionally disrupted studies (Mokwebo & Sikhwari, 2026:140). The strain of these inefficiencies fall on institutions who absorb the shortfall, A survey of finance officers across Gauteng's public universities found that only 64% actively conducted cost analysis, 21% were unsure of whether their institutions did them or not, and only around 40% had a dedicated cost management department, this suggests that financial administration is not equipped for sustained pressure (Fombang & Maseko, 2025:2437).

It is important to note that the actual problem predate the 2015 policy shift, back when NSFAS was still a loan scheme, It's recollection of loans peaked at 35.3% in 2006 and fell to 2.4% by 2016 (Molete & Stumke, 2025), a scheme recovering barely a fortieth of what it lends is not really a loan and when they converted it into a grant they formalised it rather than solving the sustainability problem. This dilemma is not new internationally, free higher education increase access but it leaves an open ended claim on the budget, while a loan scheme that cannot collect repayments is simply an expensive, badly administered grant in disguise.

This essay is asking how South Africa can design a student financing model that is both fiscally sustainable and protective of access, drawing on international experience in Income Contingent Loans.

Fixed loans, grants or ICLs

Thomas (1994), who surveyed the Canadian situation, refers to suggestions that a student could effectively be a seller of a “stock” in future earnings, but the lender has no way of knowing who is going to earn a lot and who is going to earn little, and therefore the only way to be sure that repayment will be made is to charge high interest rates to everyone who borrows. An income contingent loan scheme would instead allow the winners to pay for the losers, as long as there is enough students who do not have advanced knowledge of their earning potential to enrol in the scheme, if however students can accurately predict their earning potential those who know they would earn more will not sign up and a problem known as adverse selection arises and this would then need to be subsidized externally in order to remain solvent (Thomas, 1994). This was revealed in early implementations I.e. Yale’s income contingent loan of the 1970s which was among the first attempts to create an income contingent loan, had to pay the price in formulating large startup capital, complexity in administration and reliability in predictable loan terms for successful collections (Thomas, 1994).

The other option, where the repayment is fixed and/or a grant is used, puts low income graduates into a situation where they end up paying back on money they may not earn or the entire cost is placed on the taxpayer. According to Chapman (2016:1) this is a choice between government guaranteed bank loans that carry a real risk of default and a resultant credit reputation cost and income contingent loans where the state the cost through the tax system and where the cost collection of such loans is at less than 1% of tax revenue per year in Australia (Chapman & Dearden, 2022). The Heher Commission effectively made this same recommendation for South Africa, recommending an Income Contingent design instead of continued fixed term lending or a pure grant, but the government chose the grant.

International Design lessons

Australia and New Zealand: Proof of a working model

Australia’s Higher Education Contribution Scheme, which was introduced in 1989 became a base model that is still used today, tuition repayment is deferred until income crosses a threshold and employer then remit a percentage of income to the tax authority exactly as they do for income tax (Chapman, 2016:2). New Zealand adopted a similar scheme. Harding (1995) used dynamic micro-simulation to model likely repayment patterns under both for both Australia and New Zealand across the borrower’s working lives which was a forward looking modelling that determines whether a scheme can actually recover it’s costs instead of just assuming it would. This matters more in South Africa because no such modelling of the likelihood of graduate repayments exists as of now.

Thailand: the cost of a weak model

Thailand’s traditional fixed repayment Student Loans Fund, which was founded in 1996, has only recovered around 10% of what it lent, with a staggering repayment ratio of roughly 20% of the amount due (Zideman, 2002:367). This collection failure is strikingly close in scale with NSFAS’s collapse to a 2.4% recovery rate. Zideman (2002) concluded that changing the fund into an Income Contingent design was essential for its survival. A companion simulation discovered that implicit interest subsidies, the hidden taxpayer cost of lending below government borrowing cost could reach as high as 24 to 40 % of debt under some designs but can also be near zero under a better-chosen alternative (Chapman & Lounkaew, 2010:706). The term “Income contingent” guarantees nothing on its own, the chosen rate, threshold and interest rules determine sustainability.

England: Tuition recovery without full recovery

England moved into an income contingent model which was covering close to the full cost of tuition, however De Gayardon (2018:18-19) cautioned that ICLs are not a “miracles” as seen by tuition fee caps rising sharply after being tied to a ICL design, Part-time students began dropping out at an alarming rate. Furthermore, it is important to note that Australia’s comparable scheme has been unable to pass reforming legislation since 2013, this shows that a contingent design can still be regressive or politically unstable if it is poorly parameterised. Britton, Van der Erve and Higgins similarly stress that it is the loan to earning ratio and interest rate that determines how much costs do the taxpayer payers bear not the contingent mechanism itself.

Netherlands: replacing grants without losing access

In 2015 Netherlands replaced its universal basic grant with an income contingent loan, while subsequently raising the supplementary grant available to low-income students and has since then not found considerable negative effects on enrolment from this reform (Bolhaar et al., 2024).

Colombia: the cost of delay

Colombia authorised an ICL framework that has since not been implemented year later over concerns of its fiscal sustainability (Lozano-Rojas, et al.,). Their analysis discovered that the scheme can only match a conventional loan revenue after at least a decade while only becoming sustainable after two, as such the government must find a long transition rather than expecting immediate self-financing. This is even more relevant to South Africa because the 1999 to 2018 shift happened without any equivalent cost transition plan.

Preconditions for South Africa

We have seen that an ICL is only as strong as the legal and administrative system collecting it. Molete and Stumke (2025) identified this as the core failure in the NSFAS model, The National Credit Act of 2005 removed its ability to pursue garnishee orders, prescribed debt and credit blacklisting out of court, this was happening as the repayment threshold was being frozen in 2001 and debtor tracking remained weak amid the rising unemployment. This was not a flaw of the Income Contingent lending as a concept but rather a result of a scheme not given legal power or capacity to functioned as designed. A new scheme must be aligned with the NCA, with recollections being administered through SARS and lastly the thresholds must balance graduate affordability against the needed cost recovery (Molete & Stumke, 2025).

Fombang and Maseko (2025:2437) found that patchy financial administration existed even in well resourced Gauteng universities, which show that the collection infrastructure also needs direct investment alongside the legislation. Mokwebo and Sikhwari (2026:140) serve as a reminder of what is actually at stake, as funded students described real gains alongside harm from delayed allowances therefore a sustainable model must not forego reliability that makes the grant model valuable to the students it reaches.

Recommendations

Legislate the scheme’s collection powers before launch

A dedicated statute should be in line with the National Credit Act and should provide SARS with a definite mandate to collect, remedying the main deficiency in NSFAS as highlighted by Molete and Stumke (2025)

Combine a targeted grant with an income contingent loan

Adopt the Dutch approach (Bolhaar et al., 2024) to use a reserve budget for the poorest households and offer a loan on an income contingent basis for all others.

Model repayments before setting parameters

A micro simulation of potential of potential repayment schedules, as done by Harding (1995) does not exist for South Africa. Treasury or NSFAS should first test the repayment potential based on the average earnings of graduates in South Africa, learning from Thailand's experience that a poorly calibrated design can carry implicit subsidies of 25 to 40% of debt, but still be formally regarded as "income contingent" (Chapman and Lounkaew, 2010).

Budget for a long transition not a quick break even

Colombia's experience show that income contingent schemes can take ten years or longer to equal the revenue of a conventional loan (Lozaro-Rojas & Cerdan-Infantes,). South Africa needs to pay for this shift upfront and not assume that it will be self-sustainable from year one.

Invest in institutional financial administration alongside policy reform

Fombang and Maseko's (2025) findings on what happens when there is inconsistent cost analysis and collection practice in public universities shows that legislative reform alone will not work if it doesn't match administrative capacity, both at SARS and withing the universities.

Protect disbursement reliability

Regardless of the funding model, Mokwebo and Sikhwari (2026:140) prove that unreliable payments defeat the aim of the scheme to support students, reliability should be treated as a design requirement not an afterthought.

Conclusion

This essay contrasts the two experiments that South Africa has already tried: an income-contingent loan that failed because of the lack of legal force and administrative capacity, and a grant that is financially open-ended. International experience, from Australia's long-lasting design to Thailand's high price tag for experimenting with contingent repayment, from England's careful foray into the use of contingent repayment as a panacea for access to treatment to the Netherlands' findings that loaning instead of granting does not necessarily reduce access, points to a middle ground. None of this makes the problem easy: Colombia illustrates how long it takes to reap the benefits of such a transition, and Thailand illustrates how ill-designed a contingent loan can be. What South Africa's own research shows is that the next iteration of the grant should not lose the reliability and reach that the current grant has provided the students to which it is allocated, nor should it fail to address the shortcomings in that current scheme, which included unenforceable collection, lack of integration with SARS, and lack of indexed terms.

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