Entry#463

Learn Now, Pay Later: A Student-Financing Model South Africa Can Afford

1.Introduction

Access to higher education is both a social objective and an economic investment. Yet some South African households earn too much to qualify for full public student aid while remaining unable to meet tuition, accommodation and living costs without hardship. This group is commonly described as the "missing middle". The problem raises a difficult policy question: how can South Africa widen access to post-school education while keeping public spending sustainable?

This essay examines the economic case for student support, considers weaknesses in grant-only and conventional loan approaches, and reviews lessons from international student-financing literature. It then proposes a three-part model: retain bursaries for the poorest students, introduce a gradually tapered bursary combined with an income-contingent loan for the missing middle, and improve cost-sharing and repayment administration. The argument draws on research about income-contingent loans and South Africa's experience with NSFAS, while distinguishing evidence from the policy choices proposed here (Chapman, 2006; Jackson, 2002; Woodhall, 2004).

2. The economic case for public student support

2.1 Credit-market failure and equal opportunity

Higher education can be difficult to finance privately because students generally cannot offer future earnings as collateral. A bank may be reluctant to lend to a person who has little income or security, even when that person can complete a qualification. This credit-market problem can make access depend on family wealth rather than academic potential. Public student support can therefore help address a market failure and widen access to skills development (Chapman, 2006).

2.2 Wider economic and social benefits

Higher education may benefit more than the individual graduate. A skilled workforce can support productivity, public services, innovation and tax revenue. These wider benefits

provide an economic rationale for public contributions to tuition and living costs. However, public funding has an opportunity cost: money spent on higher education cannot simultaneously be spent on schools, health care or other public priorities. The policy challenge is to target assistance where it has the greatest access and social benefit while monitoring its fiscal cost (Woodhall, 2004).

3. Student financing: lessons in literature

3.1 Income-contingent loans

Chapman (2006) explains that income-contingent loans link repayment to a graduate's income rather than requiring a fixed instalment regardless of ability to pay. Repayment can be collected through the tax system once income exceeds a specified threshold. This reduces the risk that graduates with low earnings or periods of unemployment will face unaffordable repayments. The approach does not remove public risk: some balances may never be recovered, and the state must account for the cost of those subsidies (Chapman and Greenaway, 2006).

The central lesson is that a loan should be designed around repayment capacity, not merely the amount borrowed. Thresholds, repayment rates, interest rules, collection arrangements and write-off periods determine both fairness and long-term cost. A system that is generous but poorly administered may recover too little; a system with fixed repayments can transfer too much risk to graduates (Chapman, 2006; Woodhall, 2004).

3.2 International experience and caution

International student-loan systems demonstrate that there is no single design that can be copied without adaptation. Income-contingent systems offer protection against low earnings, while conventional loans can impose repayment obligations even when a graduate's income is weak. Woodhall (2004) highlights recurring challenges in student-loan schemes, including limited recovery, administrative weaknesses and political resistance. Chapman and Greenaway (2006) also caution that policy transfer requires attention to the institutional context in which a scheme operates.

For South Africa, the practical lesson is to assess financing designs against local administrative capacity, labor-market conditions and the ability to collect repayments. The country should not assume that every graduate will enter formal employment or that every

loan will be repaid. A sustainable scheme must transparently budget for non-repayment and protect borrowers whose earnings remain low.

4. Challenges in South Africa's student-financing system

4.1 The missing middle

The missing middle describes households that are above the income threshold for full means-tested aid but cannot readily afford the total cost of post-school education. The group creates a gap between full bursary support and the ability to pay privately. South African research on student funding shows that the design of eligibility rules and the level of assistance influence who can access and persist in post-school education (Jackson, 2002; Wildschut, Megbowon and Miselo, 2020).

4.2 Threshold effects and living costs

A sharp eligibility threshold can create unfair discontinuity: a small increase in household income may lead to a large reduction in assistance. A gradual taper would reduce this "cliff edge" by lowering the bursary share progressively as household income rises. The cost of attendance also includes accommodation, food, transport and learning materials, not tuition alone. Aid that covers fees but leaves unavoidable living costs unmet may still leave students financially insecure.

4.3 Fiscal sustainability and administration

Grant funding provides immediate relief but is generally spent once. A loan may allow some funding to return and support future students, although this depends on recovery and collection costs. Jackson (2002) describes the development of South Africa's NSFAS and its role in student aid, while Woodhall (2004) stresses that repayment and administration are central to the performance of loan systems. Any reform should therefore report both the money disbursed and the net public cost after repayments, subsidies and administration.

5. A three-part financing system

This essay proposes a differentiated model in which support is matched to household resources. Table 1 summarizes the proposed groups, support and funding approach. The income bands below are policy proposals for illustration and should be reviewed against current household data and fiscal modelling before implementation.

Student group	Proposed support	Main funding source
Lower-income households (illustratively below R350 000)	Full bursary, including reasonable tuition and capped accommodation support	Treasury, targeted through means testing
Missing middle (illustratively R350 000–R600 000)	Bursary tapered gradually as income rises, plus an income-contingent loan for the remaining cost	Treasury subsidy and graduate repayments
Higher-income households	Access to the same income-contingent loan where needed, with limited or no bursary support	Graduate repayments

Table 1: Proposed allocation of student-finance support.

Source: Author's proposal, informed by Chapman (2006), Jackson (2002) and Woodhall (2004).

Table 1 illustrates the main design principle: grant support is concentrated on students least able to absorb debt, while a loan helps other students meet costs and recycles some funding when graduates repay. The income bands are not presented as verified current eligibility rules; they are starting points for policy design.

5.1 Part one: Protect the poorest students

Students from the lowest-income households should continue to receive bursaries rather than being pushed into debt. The support should be paid to institutions or service providers where practical, with clear rules for tuition and reasonable living costs. Accommodation assistance should reflect actual costs while using transparent caps and quality standards. Academic progression requirements can encourage students to complete their qualifications, but they should allow for illness, disability, family responsibilities and other serious disruptions. Research on South African student funding indicates that funding and academic outcomes are related in complex ways, so funding policy should be paired with student support rather than relying on punitive rules alone (Wildschut, Megbowon and Miselo, 2020).

5.2 Part two: taper bursaries and introduce income-contingent loans

For the missing middle, the bursary should decline gradually as household income increases, while the loan share rises. This would avoid a situation in which earning slightly more causes a family to lose a disproportionate amount of support. The loan could follow an income-contingent model: repayments would begin only when a graduate's earnings exceed a defined threshold, and a fixed percentage of income above that threshold would be collected through the tax system where administratively feasible (Chapman, 2006).

For illustration, suppose the repayment thresholds were R150 000 a year and the repayment rate was 5 per cent above that threshold. A graduate earning R300 000 would repay 5 per cent of R150 000, or R7 500 per year (R625 per month). A graduate earning below the threshold would make no repayment during that period. These figures are examples for discussion, not established or approved policy settings. The threshold, rate, interest treatment and write-off period would require modelling and consultation.

5.3 Part three: make the system fiscally sustainable

The public budget should report on the full cost of the scheme, including administration, interest subsidies and balances that are not expected to be recovered. For example, if a hypothetical R3 billion loan pool achieved 70 per cent recovery, R2.1 billion would return to the system and the unrecovered principal would be R900 million before administration and financing costs. This is an illustration, not a forecast of actual recovery. Sensitivity analysis should show outcomes under lower recovery rates as well.

Cost-sharing could include employer-supported bursaries for scarce skills, partnerships with universities and transparent agreements with sector education and training authorities. Institutions should also disclose the costs charged to funded students and explain how accommodation support relates to local rental markets. Any partnership must protect students from being tied to unfair work obligations or unexpected fees. Finally, an administrative unit working with the South African Revenue Service (SARS) could collect repayments through existing tax mechanisms where legally and operationally possible. Data-sharing would require clear legal authority, privacy safeguards and independent oversight.

6. Implementation and evaluation

Reform should be introduced in phases rather than waiting for a perfect design. A pilot could test income-contingent repayments at a small number of universities and TVET colleges, with evaluation before expansion. The pilot should assess the accuracy of income data, the proportion of graduates reached, the cost of collection, repayment rates and the effect on borrowers with low or irregular earnings.

Parliament should receive an annual report with four core indicators: the number of students funded, the proportion completing their qualifications, the share of loans recovered, and the net cost to the state. The report should also explain the assumptions used to estimate future repayments and the amount written off. These measures would allow policymakers to

compare the programme's access and completion outcomes with its fiscal cost. Any implementation timetable, including a proposed start date, should be treated as a recommendation rather than a confirmed government commitment.

7. Risks and how to manage them

The first risk is that students and families may be reluctant to borrow. Keeping full bursaries for the poorest households and linking repayment to income would help protect people least able to bear risk. Clear explanations of the loan terms are essential before students accept funding. A second risk is weak recovery, especially where graduates are unemployed, work informally or leave the country. The budget should therefore use cautious recovery assumptions instead of assuming every loan will be repaid. A third risk is that income data may be incomplete or misused. Any connection between NSFAS and SARS must comply with privacy law, restrict access to necessary information and provide a process for correcting errors.

There is also a fairness concern: taxpayers who do not attend university may contribute to the cost of other people's qualifications. A mixed model responds to this concern by retaining grants where financial need is greatest while asking graduates who later earn enough to repay part of the public investment. The aim is not to eliminate public support, but to distribute its cost more fairly and transparently.

8. Conclusion

This essay has examined why public student support is economically justified, why grant-only support can be difficult to sustain as demand grows, and what income-contingent loan literature offers as an alternative. The review of Chapman (2006), Chapman and Greenaway (2006), Jackson (2002) and Woodhall (2004) shows that access, repayment capacity, administration and transparent budgeting must be considered together. The proposed model combines full bursaries for the poorest students, a tapered bursary and income-contingent loan for the missing middle, and cost-sharing with public reporting. Its success would depend on careful piloting, reliable data, fair repayment rules and honest measurement of the net cost to the state.

9. Recommendations

The following recommendations are the author's policy judgement based on the discussion above:

1. Retain bursaries for the poorest students and ensure that reasonable living and accommodation costs are considered alongside tuition.
2. Replace abrupt income eligibility cut-offs with a gradual taper, tested through fiscal modelling before adoption.
3. Pilot an income-contingent loan with repayments linked to earnings and collected through SARS only where legal authority, data safeguards and operational readiness are established.
4. Publish annual figures on students funded, completion rates, loan recovery and net fiscal cost, with assumptions and limitations clearly stated.
5. Use independent evaluation to determine whether the pilot improves access and completion without creating unaffordable debt or hidden liabilities

References

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