

Lending Against Graduate Success: A Fiscally Sustainable Student-Financing Model for South Africa

Category: Undergraduate

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1. INTRODUCTION

This essay argues that South Africa can widen access to higher education without deepening public debt, but not by stretching NSFAS bursaries further. Rather, the state must pair bursaries for the poorest students with an income-contingent loan fund that graduates repay through SARS once they earn enough. Treasury has already cut NSFAS's allocation from R58.2 billion to R54.3 billion for 2026/27 (National Treasury, 2026a: 49), while NSFAS owes universities R10.49 billion in unpaid tuition (Parliament of South Africa, 2026).

The proposed South African Tertiary Equity Fund (SATEF) ties repayments to income and collects them through the tax system, as Australia does. Like Hungary's scheme, it raises funding from capital markets and prices loans at their cost, but it replaces Hungary's sovereign guarantee with a first-loss layer funded by the R3.8 billion already set aside for the "missing middle". Sections 2 to 5 cover the current model's failures, lessons from abroad, SATEF's design and its numbers.

2. WHY THE CURRENT MODEL FAILS

1. Grants that cannot stretch. A bursary rand funds one student once and never returns. NSFAS will spend R54.3 billion on 744,203 students in 2026/27 (National Treasury, 2026a: 50), yet rent devours a growing share: accommodation took R22.4 billion in 2026, more than a third of bursary spending (PMG, 2026). With debt service at R432.4 billion (National Treasury, 2026a), Treasury cannot add more.

2. A loan that repels its borrowers. Government set aside R3.8 billion to lend to about 10,000 students (DHET, 2025: 21) from households earning R350,000 to R600,000 (NSFAS, 2025: 3–4). Yet only 3,102 of 53,575 applicants qualified in 2026 (Daily News, 2026). The design explains the failure: the loan demands a parent's surety, lists defaulters with credit bureaus and must be repaid within 60 months (NSFAS, 2025: 8–14). Clearing R260,000, four years of tuition at a university such as Wits (University of the Witwatersrand, 2026: 15–22), in that time at prime minus 1% costs about R5,500 a month, a third of a R200,000 starting salary.

3. Risk that fixed repayments ignore. Higher education pays: the return to tertiary education tripled from 7.3% in 2001 to 23% in 2023 (Köhler, 2025: 1). However, it arrives late and unevenly: about a quarter of young graduates are not working (OECD, 2025), and a fixed schedule turns each spell without work into arrears. NSFAS's old loans show where that leads: as the National Credit Act curtailed its collection powers, collections fell from 35.3% of annual disbursements in 2006 to 2.4% in 2016 (Molete & Stumke, 2025: 4).

3. INTERNATIONAL EXPERIENCE

A student-loan scheme stands or falls on three design choices: how borrowers repay, who funds the loans and what interest borrowers pay. Three successful schemes, in Australia, South Korea and Hungary, answer them well, while England and Thailand show what goes wrong.

First, repayment design decides default. Thailand's Student Loans Fund demands fixed instalments that rise over time, so its lowest earners face repayments of about 39% of income

and roughly a quarter of borrowers default (Lounkaew, 2026). Australia and South Korea instead collect a share of income above a threshold, so a graduate without work owes nothing that month. Affordability default disappears by design, collection through an existing tax system costs little (Chapman & Dearden, 2022), and Korea's loans have widened access for low-income students (Kim et al., 2025).

Second, funding decides fiscal sustainability. England lends from the public purse, and its government now holds £129 billion of student loans (Ogden, 2026: 20), a debt South Africa cannot afford. Hungary chose differently: its state-owned student-loan company borrows from capital markets, prices loans at funding cost plus a risk premium, and loses only 1–2% to default (Berlinger & Gönczi, 2009). However, the Hungarian state guarantees the scheme, and under Eurostat's rules such a guarantee makes it public debt (SGI, 2008), a route sub-investment-grade South Africa cannot cheaply follow.

Third, interest decides who pays, not whether borrowers can pay. Even England's troubled scheme teaches this: because repayments depend on income rather than on the balance, a higher interest rate does not change what low earners pay each month; it lengthens how long middle and high earners repay (Ogden, 2026: 3).

No scheme reviewed here combines tax collection with private funding that the state does not guarantee. SATEF fills that gap: it borrows Australia's and Korea's repayment engine and Hungary's funding model, but replaces Hungary's guarantee with a capped first-loss layer.

4. HOW SATEF WORKS

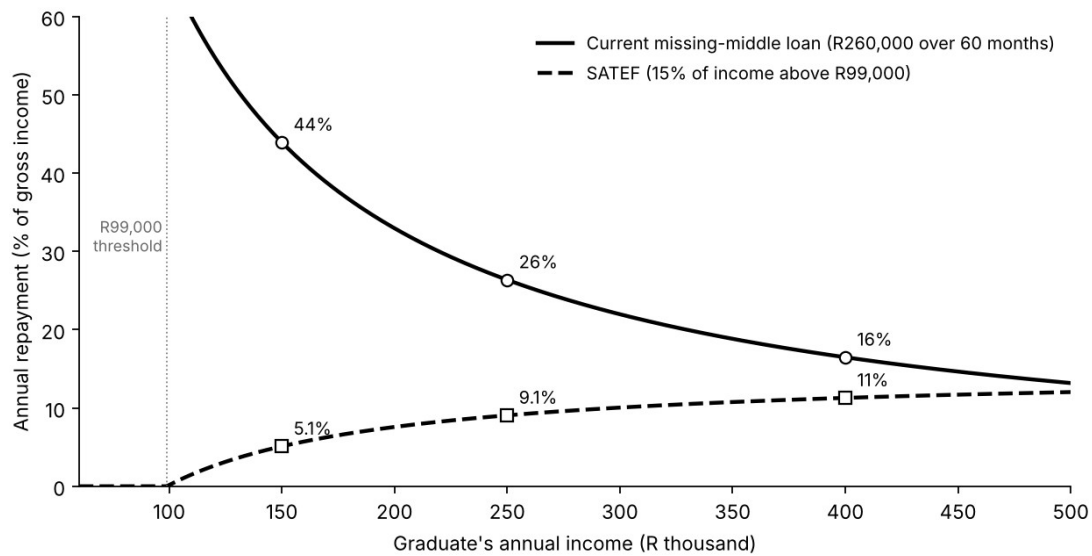
4.1 Repaying through SARS

SATEF lends up to R65,000 a year for tuition and books, roughly a year's tuition at Wits, where first-year degrees cost R48,000 to R85,000 (University of the Witwatersrand, 2026: 15–22), with no surety, credit check or fixed term. Rent stays outside SATEF. Graduates repay through PAYE, as SARS deducts income tax:

$$P = 0.15 \times \max(Y - R99\,000, 0) \quad (1)$$

where P is the annual repayment and Y is income. The threshold matches the 2026/27 income-tax threshold (National Treasury, 2026a), so a graduate who owes no tax owes SATEF nothing, and because only income above it is charged, a raise never leaves a graduate worse off. The 15% rate matches the first band of Australia's schedule (ATO, 2026). Figure 1 compares what SATEF and the current loan take at each income.

Figure 1: Annual repayment as a share of gross income



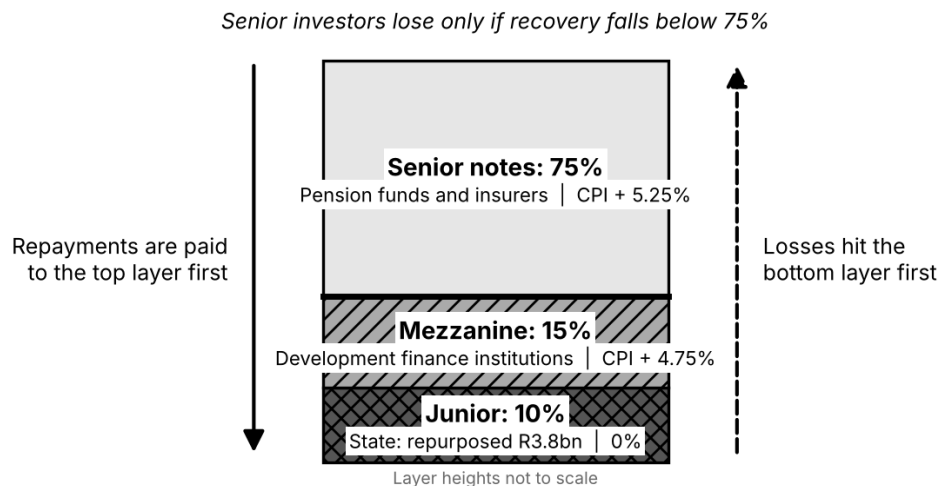
Source: Author's calculation from NSFAS (2025) and equation (1).

At R150,000 a year, the current loan takes 44% of gross pay, while SATEF takes 5.1%. Thus, repayment rises only as the ability to pay rises. However, this moves risk onto the fund: low earners repay little, and SARS writes off balances left after 35 years. Someone must absorb those losses.

4.2 Financing through a waterfall

SATEF absorbs them through three layers of capital, shown in Figure 2. Repayments pay senior investors first, then the mezzanine lenders, and the state's junior layer last. Losses flow the other way.

Figure 2: SATEF's three-layer financing waterfall



Source: Author's design (National Treasury, 2026b). Senior spread assumed.

The junior layer absorbs the first 10% of any shortfall and the mezzanine the next 15%, so senior investors lose money only once losses exceed a quarter of lending. This ordering does the work of Hungary's guarantee: a South African securitisation earned a top domestic rating with a thinner 21% buffer (Merchant West, 2024), and pension funds may already buy such notes (National Treasury, 2022). However, it needs R9 of senior debt per state rand, six times the leverage of the DBSA's Infrastructure Fund (DBSA, 2025: 103–104), which Section 5 tests.

Both debt layers are linked to CPI, so each cohort's real funding cost is locked when its debt is raised, and a later rise in policy rates cannot erode the buffer. The mezzanine comes from development lenders with strong South African ties: the BRICS New Development Bank, which already lends in rand (NDB, 2025), and the DBSA. They lend at CPI + 4.75%, the state's own ten-year inflation-linked rate (National Treasury, 2026b), as a development contribution; commercial senior investors require half a point more. Because less than a quarter of repayments arrive within ten years, the notes amortise as cash arrives, backed by a liquidity reserve. At 3% CPI, the inflation target (National Treasury, 2026a), these rates are 8.41% and 7.89% nominal, so SATEF's cost of funds is:

$$WACC = 0.75 \times 8.41\% + 0.15 \times 7.89\% + 0.10 \times 0\% = 7.49\% \quad (2)$$

4.3 Pricing the interest rate

That locked cost sets the borrower's rate. Following Hungary, SATEF charges its cost of funds plus a premium for expected losses and a margin for running costs:

$$i = WACC + w + m = 7.49\% + 2.26\% + 0.50\% = 10.24\% \approx \text{CPI} + 7.0\% \quad (3)$$

The premium w follows IFRS 9, which measures credit risk as the lifetime loss a lender expects across a cohort. SATEF sets it so that borrowers and the state share that expected loss roughly equally, which also keeps its top rate below prime (10.75%; South African Reserve Bank, 2026). Low earners pay less: real interest is 2% in any year income is at or below R99,000, rising in a straight line to the full rate at R250,000, as in England's Plan 2 (Ogden, 2026: 2). As Section 3 showed, this relief leaves monthly payments unchanged; rather, it stops balances compounding at the full rate in lean years, and the ramp ensures a small raise never triggers a jump in interest. Below the threshold, a balance therefore still grows slowly although Figure 1 shows no repayment. Together, the two rules govern each balance D :

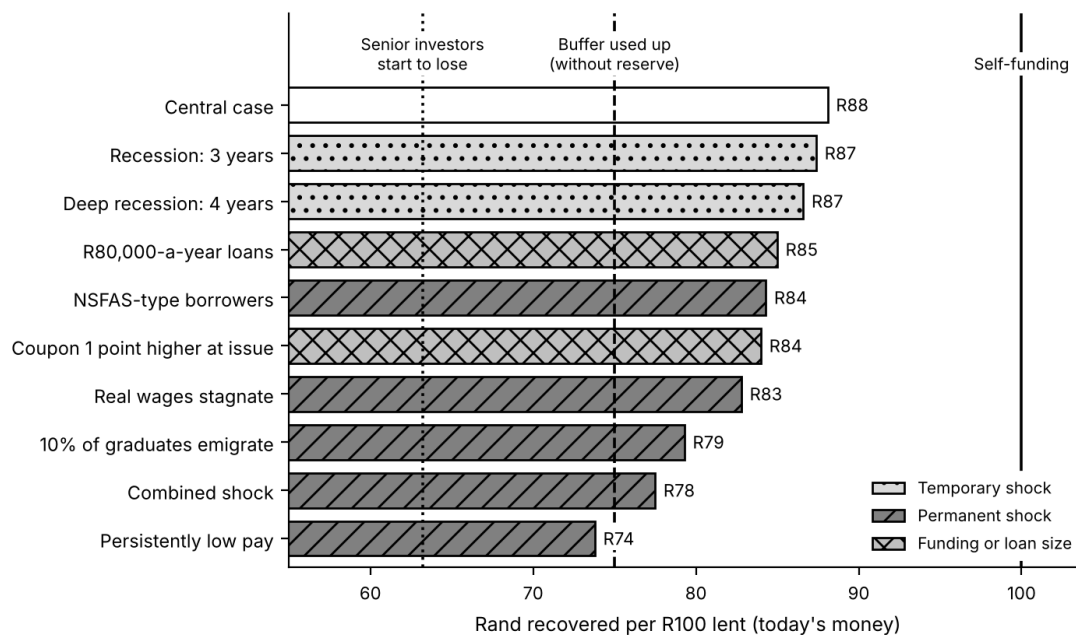
$$dD/dt = r(Y) \cdot D - P(Y) \quad (4)$$

where $r(Y)$ is the interest rate and $P(Y)$ the repayment. Setting $dD/dt = 0$ gives the income at which a balance stops growing: for a typical four-year borrower leaving with about R289,000, it is about R206,000 at a 15% repayment rate, close to the R200,000 median starting salary, but R302,000 at 10%. A lower rate would leave most graduates' balances snowballing for years, which is the core reason for 15%.

5. DOES SATEF ADD UP?

Equation (4) describes one borrower, but SATEF lends to a cohort whose fortunes differ. A simulation therefore follows 100,000 borrowers through study and up to 35 years of work. Three draws shape each life: whether and when the student drops out (20.8% of NSFAS-funded students leave without a qualification; DHET, 2022: 141–142), whether the graduate works in a given year (OECD, 2025), and what they earn, around a conservative R200,000 median starting salary. Each year, equation (4) updates the balance. Because the loans and SATEF's debt both move with CPI, the simulation works in today's rands: inflation drops out, leaving real earnings, employment and the locked real cost of funds to decide the result. Summing every repayment answers one question: for every R100 SATEF lends, how much comes back?

The answer is about R88. With no risk premium, the IFRS 9-style expected loss is about R23 of every R100; the premium recovers R11 of it from graduates who go on to earn well, and the state covers the other R12. That subsidy goes where it should: the poorest fifth of borrowers receive most of it, while the top two-fifths repay more than their loans cost. The state's R3.8 billion therefore funds the 10% junior layer and reserves the expected R12. Because it need not fund each student's full loan, it reaches about 75,000 students, 24 times the current loan's reach in 2026, albeit for tuition and books alone. Figure 3 tests that result under stress.

Figure 3: SATEF's recovery per R100 lent under stress

Source: Author's cohort simulation.

The pattern matters more than any single bar. Temporary shocks barely register: even a four-year deep recession costs under R2, because a graduate's balance waits and repayments missed while unemployed are made later. Permanent shocks are what hurt. Stagnant real wages cost R5, emigration R9 and persistently low pay R14, because those repayments never arrive. SATEF's real exposure is therefore to the long-run earning power and retention of its graduates, not to the business cycle. With expected losses reserved, senior investors lose only below about R63, which no scenario approaches; across 200 runs with randomly varied assumptions, the lowest recovery was R71.

6. CONCLUSION

This essay investigated how South Africa can fund higher education sustainably while widening access. NSFAS's grants cannot stretch further, and the missing-middle loan repels borrowers because repayments ignore income. Abroad, tax-collected repayment prevents affordability default, while budget funding and guarantees load public balance sheets. SATEF complements bursaries for the poorest, pairing tax-collected repayment with private funding behind a capped first-loss layer. It is not self-funding, but its expected cost falls to about 12 cents per rand lent, the R3.8 billion already allocated reaches about 75,000 students, and its real risk is graduates' long-run earnings, not the business cycle. That risk is also the essay's main limitation: no public data yet link South African degrees to earnings. Future research should link university records to SARS tax data, and SATEF's pilot would begin that test.

7. RECOMMENDATIONS

I recommend that:

1. Parliament enact a SATEF Act that makes SATEF a PFMA public entity at arm's length from DHET, mandates SARS to collect repayments through PAYE, and exempts income-contingent loans from the National Credit Act (Molete & Stumke, 2025).

2. DHET repurpose the R3.8 billion missing-middle allocation as SATEF's first-loss layer and expected-loss reserve, and pilot SATEF with the 2028 missing-middle intake, so that a contained cohort tests the model before it scales.
3. Treasury negotiate the mezzanine with the New Development Bank and the DBSA at the state's inflation-linked rate, and SATEF list CPI-linked senior notes cohort by cohort.
4. Because rent consumes over a third of bursary spending, Treasury and the DBSA scale student housing through the Infrastructure Fund, whose ten student-accommodation projects (DBSA, 2025: 103) form a ready pipeline, starting with the 9,907 university beds awaiting renovation (PMG, 2026). Central procurement should replace delivery by individual institutions, which left the Student Housing Infrastructure Programme with only 10,721 beds (PMG, 2026). Municipalities should rate student housing as residential, as industry estimates put rates at 30–40% of NSFAS rent (PMG, 2026), and Treasury should disclose and cap these debt-like commitments (National Treasury, 2025: 37).

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