

Lend, Recover, Complete: Financing South Africa's Missing Middle Without Breaking the Fiscus

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1. Introduction

South Africa's student funding fails twice. It shuts out students whose families earn too much for NSFAS yet too little to pay fees, and it spends on those it admits in ways that do not reliably produce graduates. This essay argues that fiscal sustainability and access need not conflict, provided three things change: need is assessed on net household income, institutions are paid in full so that no student is blocked from registering, and the state recovers its money through the tax system once graduates earn. I call this a Completion-Linked Income-Contingent Loan (CLIC). CLIC reforms the existing missing-middle scheme rather than replacing it. A cohort cost model built for this essay estimates, under stated assumptions, that the state recovers 61% of every rand lent in present-value terms (94% in cash), so the economic cost of serving the missing middle falls from R4.45 billion a year under a grant to R1.7 billion.

2. The problem in figures

NSFAS has a R56 billion budget and a R15 billion shortfall, which reaches R33 billion by 2029 if nothing changes; in August 2026 it still owed universities R10.49 billion [1]. The Auditor-General gave it an adverse opinion on 2023/24, citing money spent on students who did not meet the criteria [2]. On campus, 3,269 NSFAS-funded UCT students carry fee debt because the accommodation cap does not cover real costs, and UCT forecasts a R150 million shortfall [3]. Caps that leave fees unpaid create fee blocks: the money is spent, yet students cannot re-register, so it buys no degree.

The missing middle (households earning R350,000 to R600,000) is thinly served. An estimated 68,446 students fall in this band; the R3.8 billion allocated for 2024–2025 was intended to support 31,884 of them (47%) [4]. Its terms repeat old flaws: parents sign surety, instalments start in the first month of employment whatever the salary, and funding is subject to budget availability [5].

The means test compounds this. NSFAS assesses gross household income [6]. On the 2026/27 tax tables, a single earner on R400,000 pays R67,417 in tax and keeps R332,583, while two earners on R200,000 each pay R36,360 combined and keep R363,640 [7]. The same gross income leaves families R31,057 apart, before dependants are counted.

3. Lessons from abroad

Seven systems show what works and what leaks.

Country	Design and evidence	Lesson for South Africa
Australia	HELP debt is indexed to the lower of CPI or wages and repaid through employer withholding and the tax return. In 2020–21, 2.9 million debtors owed A\$68.7 billion; 15.1% of new debt was expected never to be repaid [8].	Collect through the tax system; the subsidy is measured and small.
England	Plan 5 loans take 9% of income above £25,000 and are written off after 40 years. The government's expected loss is 33% of lending (39% on the older Plan 2); 55% of new borrowers should repay in full [9].	Budget for a stated subsidy; never pretend it is zero.
New Zealand	12 cents per dollar above NZ\$24,128. 95.4% of NZ-based borrowers meet their obligations, against 32.1% of those overseas [10].	Emigrants are the leak; require settlement before leaving.
Chile	Free-tuition spending quadrupled to CLP 2.2 trillion in 2025; 272,508 beneficiaries left without finishing, costing about CLP 1.6 trillion [11]. A reform bill would charge 8% of income above CLP 514,852 a month, for at most 20 years, via payroll [12].	Funding unlinked to completion leaks; payroll collection fixes repayment.

Country	Design and evidence	Lesson for South Africa
Kenya	Five need bands: only 10,528 of 113,105 applicants fell in the poorest band, and the instrument can be manipulated. Loan default is 27% [13].	Verify need from administrative records, not self-declaration.
Thailand, Ghana	Thailand's mortgage-type loan carried a subsidy of about 65%; income-contingent alternatives 25–55% [14]. Ghana announced in June 2026 that public-sector borrowers will repay through payroll deductions [15].	Income-contingent repayment lowers cost and default.

Table 1. International evidence. Sources as cited.

Four design rules follow: collect through payroll and tax records (Australia, Chile, Ghana's plan); state the subsidy openly (England, Thailand); tie money to completion and verified need (Chile, Kenya); and plan for emigrants (New Zealand). Not everything transfers. Australia and England collect through mature tax systems, whereas South Africa's PAYE covers only formal work, so repayment starts at the tax threshold and nothing is asked of the unemployed. New Zealand's compliance reflects its administrative capacity, so I test collection at 80%. Kenya's lesson transfers directly: SARS already holds the income data.

4. The CLIC model

CLIC changes four terms of the current scheme [5]: its gross income test, parental surety, income-blind instalments and budget-dependent funding.

1. **Net-income test.** Keep NSFAS's R350,000 ceiling for bursaries, extend support to R600,000, and assess net household income per dependant, verified against SARS records. This admits families like the R31,057 case above and removes self-declaration. An appeals panel handles self-employed income, medical costs and unsupportive parents.
2. **State as sole creditor.** The state pays the full fee: 85% on registration, and the remaining 15% released at graduation (for non-completers, in proportion to credits passed). No parent signs surety and no student is fee-blocked. A year-one progress check triggers tutoring and advising, never withdrawal of funding. Funding ends after the degree length plus one year. A 15% hold-back gives institutions a stake in completion, but delays revenue and may reduce payment where students do not complete. Its full cost depends on completion timing, credits earned and hardship exemptions; the pilot must measure that cost before wider adoption. Hardship cases release the hold-back in full, so institutions are not penalised for illness or bereavement, and the pilot tracks intake by income band to detect cherry-picking.
3. **Automatic repayment.** Graduates repay 10% of income above R99,000, the income-tax threshold, through PAYE. Balances are indexed to CPI only, with no real interest, and written off after 30 years. Emigrants stay on a SARS-linked schedule at the same rate, with early settlement optional.
4. **Hardship route.** A non-completer whose failure was beyond their control (illness, bereavement, displacement) applies to an independent panel that verifies documents; approved debt is written off.
5. **Ring-fenced book.** Loans sit in a separate book, audited annually by the Auditor-General, which publishes the subsidy cost as England does.

Graduates also gain. At R65,000 a year over 3.4 funded years, a graduate owes about R221,000. Repaid evenly over the 60-month maximum term of the current loan scheme, that is R44,200 a year before interest, 29% of a R150,000 salary. Under CLIC the same graduate repays R5,100 a year, rising to R14,100 on R240,000 and R30,100 on R400,000.

5. Is it fiscally sustainable?

The model follows one entry cohort in constant 2026 rand, and treats 68,446 as the number funded at any time (about 22,600 new entrants a year). Inputs: tuition of R65,000 a year, inside UCT's 2026 first-year BCom range of R62,340 to R110,580 [16]; a real discount rate of 4.2%, derived from the 8.9% ten-year bond yield and 4.5% inflation [17]; an 18.6% dropout rate, 74% of it in year one [18]; graduate

unemployment of 10.3% (Q4 2025) and matric-level unemployment of 34.5% (Q1 2024) [19]; and 90% collection, adapted from New Zealand's compliance data [10]. Graduate starting earnings (R150,000 to R700,000 across four bands, averaging about R300,000) and funded years (3.4 for graduates) are my assumptions, so I stress-test both. A 400,000-student simulation gives 60.3%, within 1.1 points of the 61.4% expected-value result.

Per entrant, the state lends R187,624 (present value) and recovers R115,265: 61%. Collected in cash, recovery is 94%; most of the gap is the time value of interest-free lending, not default. Completers generate 80% of the subsidy, because modest earners repay slowly; non-completers generate 20%. Hardship write-offs, even if 20% of non-completers qualify, add only 0.26% of lending. The large cost is the cheap loan, not the hardship exemption. England's 33–39% loss implies 61–67% recovery [9], so 61% is at the cautious end.

For 68,446 students at R65,000, lending is R4.45 billion a year. Its economic cost is R1.7 billion: lending less the present value of repayments, discounted at the government's real borrowing cost of 4.2% (England reports the same measure as its loss charge). A grant costs R4.45 billion. Treasury must still find cash. Net outlay peaks at R4.4 billion in year four, then falls to R2.6 billion in year ten, R0.8 billion in year twenty and R0.3 billion by year thirty (Figure 1). It averages R3.3 billion over the first ten years, but this is a modelled cash requirement, not an existing appropriation. An earlier policy announcement envisaged R3.1–4.2 billion annually in a later phase [4]; Treasury subsequently budgeted R1 billion a year for the missing-middle pilot over the 2025 medium term [22]. Scaling CLIC would therefore require an explicit, phased budget increase, not merely recycling the current allocation. All figures are constant 2026 rand, so 94% cash recovery is in today's purchasing power; none includes administration or collection costs, which I did not model. Over thirty years the loan costs R52 billion in cash against R134 billion for a grant.

This is how CLIC widens access. The previously announced Phase 1 target was 31,884 of 68,446 students (47%) [4]. That is a useful coverage benchmark, not proof that the current appropriation can finance a CLIC cohort of that size. Adding R45,000 of accommodation lifts lending to R7.5 billion and the present-value cost to R3.7 billion a year (recovery 51%), so accommodation should follow tuition in stages. Completion also repays the state through tax: a graduate on R240,000 pays R25,380 in income tax, a matric-level earner on R96,000 pays none. Such gains are not automatic, which is why CLIC funds completion, not just enrolment.

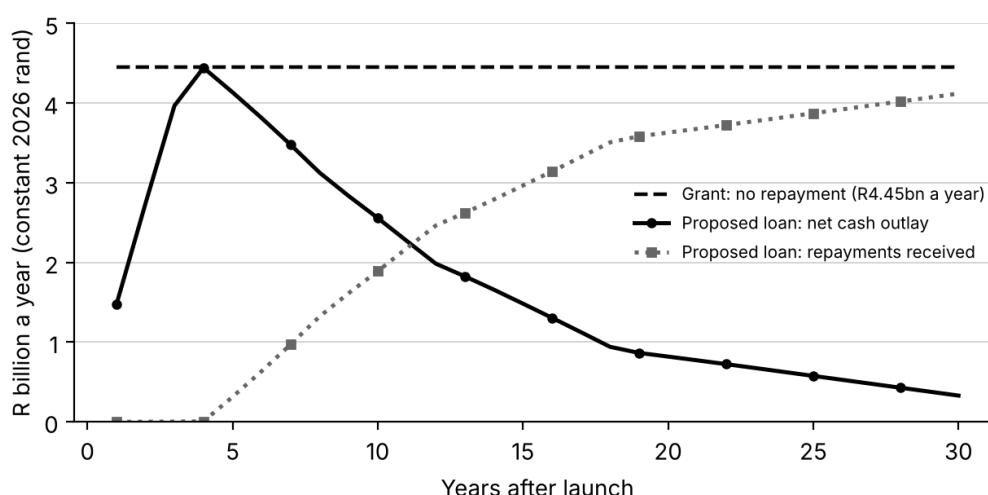


Figure 1. Annual cash flows, CLIC versus a grant (68,446 students, constant 2026 rand). Source: author's cohort model.

Scenario	Recovery (present value)
Base case	61%
Discount rate 3% / 6%	69% / 52%
Graduate earnings –20% / +20%	54% / 65%
Dropout 30%	58%
Graduate unemployment 20%	60%
Collection 80%	60%
R45,000 accommodation added	51%
Threshold R150,000 / R200,000	52% / 44%
CPI plus 1% interest	64%

Table 2. Sensitivity of recovery. Source: author's cohort model.

No individual sensitivity test in Table 2 takes recovery below 44%. What must hold: if graduate earnings are 28% below my assumption, recovery falls to 50%. Five adverse shocks together (earnings –20%, collection 80%, dropout 30%, graduate unemployment 20%, discount rate 6%) give 39%, leaving a 61% present-value subsidy: better recovery than a grant, but a substantially higher fiscal cost than the base case.

6. Risks and rollout

Three risks matter. Informality: unemployment is 33.6%, and 47.4% for ages 15–34 [19], but CLIC asks nothing of the unemployed, and the model already counts zero repayment for them. Collection capacity: employers already withhold PAYE, and both the Heher Commission and a recent academic study recommend SARS-based collection [20][21]; CLIC adds one payslip line. Emigration: the model assumes 8% of borrowers leave or avoid repayment; a SARS-linked schedule narrows this.

I propose a pilot from 2027 on CLIC terms, with intake capped by an explicit Treasury appropriation, using existing NSFAS loan-recovery powers where applicable and new legislation for automatic PAYE collection. After three cohorts, early completion indicators and observed repayments are compared with modelled milestones, and the subsidy cost is published. Success means lower fee-block rates, more credits passed, higher graduation, repayment by income band, administration costs, and beneficiaries spread across household-income bands. Scaling towards 68,446 students requires a funded appropriation and credible early results; a full 30-year recovery estimate cannot be verified after only three cohorts.

7. Conclusion

South Africa cannot keep excluding the missing middle, but a full grant for the modelled population would require R4.45 billion a year. I recommend that Treasury fund a 2027 CLIC pilot and legislate payroll collection. If the model holds, 61 cents of every rand returns in present value (94 in cash). The remaining 39 cents implies a modelled economic subsidy of about R1.7 billion a year, less than half the equivalent grant cost, although Treasury must finance the initial lending and administration.

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