

Sharing Graduate Risk: A Fiscally Sustainable Student-Financing Model For South Africa

Category: Undergraduate

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Introduction

The 2026 Budget provides R54.3 billion in bursaries for 744,203 students (National Treasury: 2026). Sustainable access requires affordable funding expenditures, support for continuing students and clear lifetime subsidies. The provisional Access-Recovery Compact combines funded bursary regulation with income-dependent loans for the missing middle. Recovery may finance more places, but cannot repair bursaries or fund today's fees before graduates repay.

1.Sustain bursaries before extending loans

Treasury projects 2026/27 debt-service costs of R432.4 billion within consolidated expenditure of R2,669.7 billion, approximately 16.2 per cent (National Treasury: 2026). Student-support borrowing thus competes with other spending. Treasury should test R100 million annual reprioritisation from non-student-support spending in higher-education vote for 3 years, plus administration costs. No validated offset has been identified. Recruitment must wait for one, without diverting bursaries. National Student Financial Aid Scheme (NSFAS) bursaries generally cover household incomes up to R350,000, with a R600,000 disability threshold (NSFAS: 2026). Missing-middle loans target incomes above R350,000 and below R600,000, with sureties and employment-triggered repayment (NSFAS: 2026). NSFAS reported a R15.01 billion shortfall and R10.49 billion unpaid university tuition in August 2026; possible overlap prevents addition (Parliament Monitoring Group [PMG]: 2026a).

The August briefing attributes funding pressure to enrolment, accommodation costs and equalised college allowances (PMG; 2026a). It's 15.01 billion shortfall is 27.6% of the R54.3 billion bursary provision, a scale problem, not a budget-only deficit estimate. Using the same figures, each 1% increase in average award cost would add R545 million. Reserve continuing awards and contingencies, publishes affordable intake and unmet demand, and preserves adequate awards and need-based appeals. Verify invoices and enrolment, and recognise only audited savings. Cost allowance indexation, including disability needs, before approval. Indexing the R350,000 eligibility line would widen eligibility and costs, so it cannot be automatic. Publish cost per completed qualification and withdrawals, because exclusion is not efficient. The

funding requirement for continuing awards has not been separately verified, and neither audits nor hypothetical graduate repayments can be assumed to close it.

Parliamentary reply NW874 reports R45.94 billion in legacy loans and R125.85 million collected in 2024/25, approximately 0.27% (PMG: 2026b). This annual shock-flow ratio is not a lifetime recovery as it is consistent with weak collection, low earnings or both. In the second quarter of 2026, official unemployment was 33.6% and 12.4% for graduates, classified separately from other tertiary qualifications, among economically active people aged 15–64 (Statistics South Africa: 2026). Neither rate forecasts lifetime repayments.

2. Adaptation of international mechanisms, not recovery rates

Table 1: International evidence and implications

System	Evidence	Implication for ARC
Australia	Tax assessment and employer withholding collect earnings-linked repayments (Australian Taxation Office: 2026).	Integrate collection only after legal and systems readiness; adapt thresholds.
New Zealand	Provisionally, 95.4% of domestic borrowers met obligations in June 2026, against 32.1% overseas (Inland Revenue: 2026).	Migration needs separate collection arrangements; compliance is not principal recovery.
England	A 33% subsidy is forecast on 2025/26 Plan 5 full-time undergraduate loan outlay (Department for Education: 2026).	Forecast taxpayer cost explicitly; income contingency does not eliminate subsidies.
Colombia	Disadvantaged beneficiaries rose from 58.1% in 2012 to 64.4% in 2017 (World Bank: 2020).	Test access and distribution separately from repayment performance

Source: Cited authorities; indicators measure different outcomes.

Colombia supplies a relevant middle-income contrast. It's Access with Quality to Higher Education programme expanded full-tuition financing and removed co-signer barriers for some borrowers, addressing constraints that tax collection alone cannot solve (World Bank: 2020). It's completion report cites an evaluation finding a 20%-point enrolment effect around the eligibility cutoff, but also records new annual loans falling from roughly 40,000 to 20,266 by 2018 (World Bank: 2019). Casual benefits measured locally thus do not prove unlimited scalable access. ARC should test adequate awards

without compulsory sureties and not import Colombia's effect size or assume it validates earnings-contingent repayment.

These differences indicate why repayment administration and subsidy generosity need separate decisions. Accurate accounts and observable incomes underpin viable collection (Chapman: 2006).

3. Derive fiscal capacity from repayment terms

The proposed schedule charges 10% of individual assessed income above R240,000: R6,000 a year at R300,000, zero below the threshold. Parliament should set a minimum after-tax, after-repayment living-income standard using household-budget evidence, with hardship reliefs and appeals. Dynamic earnings distributions, not average salaries, must test affordability (Dearden: 2019).

Table 2 assumes:

1) Cost Proxy: R80,630 annually, rounded from R47,858,430,000 university disbursements divided by 593,543 students (PMG: 2026b). Programme mix and living arrangements comparability.

2) Timing assumption, uncalibrated: 3 draws at years 0-2, totalling R214,890, followed by 30 annual repayments at year-ends 4-33, then the remaining debt is cancelled.

3) Earnings assumptions, uncalibrated: constant incomes, zero real growth and uninterrupted employment. No representative graduate-income distribution or a share above R240,000 has been verified, so these paths are not forecasts.

4) Price and cost assumptions: all flows are in approval year purchase power. Principal and threshold track inflation. Zero real loan Interest means unpaid balances cannot compounded above inflation in hardships. Administration is assumed at 5% of discounted disbursements and Section 4 tests 10%. These costs are not estimated.

A 5% central real discount rate is a borrowing-cost proxy. The South African Reserve Bank reports a 10-year nominal government yield of 8.91% on 11 September 2026, and Bureau for Economic Research survey longer-run inflation expectations around 4 per cent, distinct from the 3% target (South African Reserve Bank: 2026a; 2026b). Converting to a real rate, $1.0891/1.04 - 1$, gives approximately 4.7%. This is not a maturity-matched Treasury curve. Credit losses enter repayment, not a discount-rate premium.

Table 2: Stylised repayment path, not forecasts, and commitment capacity

Annual real income and interruption	Real discount rate	PV repayments / PV disbursements	Commitments (R million)

R300,000, uninterrupted	3%	45.8%	261.00
R300,000, uninterrupted	5%	34.6%	223.4
R300,000, uninterrupted	6%	30.4%	212.8
R300,000, uninterrupted	9%	21.4%	195.1
R400,000, uninterrupted	5%	62.5%	300.0
R300,000, first five repayment years unemployed	5%	24.8%	196.3
At or below threshold throughout	5%	0.0%	149.9

Source: Author's calculations. PV=present value. Limits are $H_t = R300$ million and $B_t = R150$ million in Section 3.

Let C_t be contracts approved in year t , including future disbursements, measured in approval-year rand. After reserving existing promises, define subsidy per rand committed:

$$s_t = [PV(D_t) + PV(A_t) - PV(R_t)] \div C_t$$

D_t , A_t and R_t are disbursements, administration and repayments, discounted consistently to approval. Non-recovery reduces R_t ; adding write-offs separately double-counts losses. Proposed parliamentary limits imply:

$$C_t \leq \min(H_t, B_t \div s_t), s_t > 0 \text{ R300,000, uninterrupted}$$

H_t caps gross promises; B_t caps expected subsidy, not realized losses. For R400,000 earnings at 5 per cent, s_t is approximately 0.405: the subsidy allowance could support R371 million, but H_t restricts commitments to R300 million. Conversely, interrupted employment requires about R229 million subsidy for R300 million commitments, R79 million above B_t . Any override needs identified financing and parliamentary approval, while honoring continuing contracts.

The R300 million ceiling is 0.55 per cent of the bursary provision, a scale comparison, not permission to divert it. Full utilization requires R100 million in real disbursements annually for three years, plus administration; nominal appropriations must accommodate inflation. The lifetime subsidy allowance cannot replace cash.

4. Test gains and their distribution

At 5%, discounted three-year disbursements are about R230,554 per award. R150 million supports approximately 651 grants or 924 loans on the R300,000 path: about 273 additional awards, 42% more. Five initial unemployed years reduce loans to 811. These are financed places, not additional enrolments or completions. With grant administration omitted, recovery must exceed incremental administration: 5%. Doubling administration to 10% reduces central loan awards to 862. Zero recovery supports only 620 loans; fewer than grants. At R250,000 income, loans fund only 656 awards, about five more than grants and at R260,000, 696, about 45 more. Break-even on this constant-income path is approximately R249,000. Before recruitment, linked tax and survey evidence must establish earnings, unemployment transitions and non-completion among eligible applicants, not graduates alone.

ARC changes missing-middle loans, not existing bursary awards. Treasury should compare ARC and existing loans on identical earnings paths, costs and eligibility. Only 3,102 of 53,575 missing-middle applications were assessed eligible in 2026; rejected applications are not automatically fundable demand (PMG: 20256a).

ARC must not displace poor eligible applicants. Pilot finance must supplement a costed bursary envelope, with competing allocations tested against funding poorer students first. Household size and actual resources should inform ranking and appeals. Interest is not a universal fiscal remedy. At two per cent real interest from first disbursement, the R300,000 path still yields $s_t = 0.671$ and 924 awards: repayments remain earnings-limited. For R400,000, s_t falls from 0.405 to 0.309, although H_t still binds. Publish subsidy by parental need and lifetime earnings before choosing the interest policy.

A graduate tax can collect beyond individual balances, improving redistribution across high and low earners; it still depends on taxable earnings and cannot eliminate transition financing (Chapman: 2006). Guarantees attract private cash and servicing capacity but leave government covering specified losses, as the US guaranteed-loan model illustrates (Hegji: 2024). Compare their expected subsidy and borrower protection with ARC, rather than treating private finance as free. Grants remain preferable where recovery cannot cover collection costs.

5. Make a delivery condition, not an assumption

NW874 confirms that the Phoenix loan administration platform was decommissioned in 2022 (PMG: 2026b). Section 6 of Act 21 of 2011 expressly repealed section 23 of the NSFAS Act. Section 24 provides employer-identification information, not unrestricted earnings access or payroll collection authority (Republic of South Africa: 1999; 2011a). New arrangements require legal review, tax confidentiality and data-protection

safeguards (Republic of South Africa: 2011b; 2013). NSFAS should run the pilot with SARS collecting repayments only once the law allows. If delayed, current bursaries and loans stay and recruitment waits.

Applicants are ranked by verified need, with published tie-breakers, waiting lists and independent appeals. Treasury should commission an independent actuarial review and invite Parliamentary Budget Office scrutiny. A Student Financing Statement should reconcile commitments, cash, balances, collections, expected recovery, running costs, subsidy changes and unmet demand. Recruitment only starts once accounts reconcile and appeals are independently tested. If serious reconciliation failures stay unresolved, new intake stops. An independent evaluator should pre-register comparisons, tracking entry, continuation and hardship against similar students on existing support. Smooth delivery doesn't prove lifetime repayment; expansion needs repeated forecast reviews.

Conclusion

South Africa needs a funded bursary rule alongside conditional graduate risk sharing. At a 5% real rate on the stylised R300,000 path, the same lifetime subsidy funds about 273 more awards: 924 instead of 651. Unemployment shrinks that gain, and recovery below administration costs erases it. Experience elsewhere supports integrated collection and open subsidy forecasting, not guaranteed self-financing. ARC deserves a limited test only if it does not displace poorer students, cash is appropriated and legal safeguards work. Expansion should follow evidence, not attractive recovery assumptions.

Recommendations

Table 3: Implementation decisions

Timing and lead	Decision, cost and financing condition
Before 2027 registration: NSFAS and Treasury	Reconcile R10.49 billion tuition arrears and continuing-award costs; publish payment schedules. Additional financing is not identified.
During 2027: Treasury, SARS and Parliament	Cost allowance and eligibility indexation, data access, appeals and earnings calibration. Authorize setup expenditure within the higher-education vote before procurement; its amount is not estimated.
Earliest 2028: NSFAS and Treasury	Require a verified non-bursary offset up to R100 million annual real cash for three years, plus cost administration. Seek R300 million commitment and R150 million subsidy limits.

Before expansion: evaluator and Parliament	Fund independent evaluation in the pilot appropriation, cost still unestimated; compare access, hardship and subsidy revisions before expanding, redesigning or pausing new intake
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Source: Author's proposed decisions. No new allocation is assumed

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