

Undergraduate Category

By Ada Nolwazi Mahlalela-Achonye

Who Carries the Risk? Rethinking How South Africa Finances Higher Education

South Africa has spent years asking a familiar question: Who should pay for higher education? The state? The student? The taxpayer?

I think we are barely asking the question.

The gruelling question actually is: who should carry the risk when an investment in a student's education does not produce the income expected from it?

Examine two students who receive R100 000 to study further in higher education. One student graduates into a high paying profession. The other student graduates in the course of a recession and unemployed. If both in this scenario are expected to repay the same amount, the system has treated unequal risk as though they were identical. If neither is expected to assist, the taxpayers carry the entire risk.

Neither of these approaches are satisfactory.

South Africa requires a student financing model that recognises higher education for what it is: an investment in human capital whose returns are valuable but uncertain. I therefore propose a Human Capital Risk Pool: a financing system in which access is protected for vulnerable students financially, repayment comes after the ability to pay, and government transparently measures and sets provisions for the possibility that some of the investment will be irrecoverable.

The main principle: our problem is not a shortage of funding. It is a failure to allocate financial risks according to who can bear it.

The fiscal problem is uncertainty, not simply expenditure

The level of the commitment is what matters. The Department of Higher Education and Training had reported that NSFAS funding reached approximately R50.5 billion in 2024 and supported 812,618 students across institutions and TVET colleges across public higher education.

At the same time, South Africa's public finances allow a small amount for pretending every rand spent today is financial costless. National Treasury projected a gross government debt at 78.9% of GDP in 2025/26, while the debt service cost remains a major claim on public resources.

However, the answer cannot simply be to reduce student support.

Education changes economic opportunity. Statistics South Africa's second quarter 2026 figures highlighted an unemployment of 12.4% among graduates, compared with 39.2% among individuals with less than a matric certificate. A qualification therefore improves the prospects, but does not guarantee a set income or job.

This distinction is important.

The question is not whether higher education has value. It clearly does. The current question is how that value should be financed when the timing and size are uncertain.

A rand disbursed today is not automatically a rand recoverable tomorrow.

Some students will not complete. Some graduates will be unemployed. Some students will eventually earn enough to repay, a considerable amount and contribute through taxation. Although among those who do eventually pay, a rand which will be received in fifteen years from now is not financially equivalent to a rand available to government currently.

This meaning the amount disbursed is only the beginning of the calculation.

A financially significant system should ask be asking: How many students completed? What happens to their earnings? How much was repaid? How much is expected never to be recovered? How much did administration cost? And what broader social value was created?

The last quest I believe matters, because a student financing system is not simply a collection mechanism. It is an investment decision.

A degree is not an ordinary loan

A house could be used as collateral. A car could be reposted. However human capital cannot.

A student's future earnings depends on the qualification achieved, economic conditions, labour demand, geographic environment and external circumstances.

Research by Herbst and Hendren shows why private markets struggle to finance human capital: information studied about future earnings and repayment expectation is uncertain and not completely private, creating problems such as adverse selection. Government has a lawful role in sharing educational risk rather than leaving students to acquire financing on traditional credit market terms.

But that role creates an obligation

If government absorbs the risk, it must measure the risk.

long term residual income financing provides one way of sharing it. Australia, England and New Zealand use systems in which repayments depends on income rather than a fixed instalment. This arrangement does protect lower income graduates, however international evidence also shows this protection can possibly increase the future fiscal cost to government when expected repayments do not materialise.

South Africa's task is therefore not to copy this model, but to adapt its lessons to our own fiscal and socioeconomic realities.

Income contingency is not a solution to fiscal risk. It is a tool for allocating it.

The Human Capital Risk Pool.

My proposal is not simply another student loan.

South Africa must treat publicly support student as a portfolio of human capital investments, instead of thousand of isolated debt.

The reason behind my proposal, the government does not know in future students will experience high earnings, unemployment, migration, delayed employment or other outcome.

But across a large cohort, the risks can be measured, forecast and provisioned.

This changes the fiscal question.

“How much money did government give students?”

Instead the state asks question:

“What was the expected fiscal exposure of this cohort, and what was the result?”

That is the distinction in regard to administering funding and managing risk.

The Risk Pool would have three connected layers.

First: protect access through a grant floor

Students who cannot reasonably finance higher education from household resources should be able to receive need based support.

However, household income alone does not explicitly measure a students capacity to pay. Dependants on the number of family members studying, accommodation, transportation, and disability related cost. All these factors could materially change what a household can afford.

The objective is therefore not to make student eligibility complicated. It is to distinguish income from a students financial capacity.

The grant floor protects the access objective of student finance. By recognising the social return from educating a disadvantaged student may exceed the private return captured in a students future income.

Second: Finance the remaining cost through income contingent contributions

In the scenarios where additional financing is required, the repayment should depend on an individual's income.

A graduate earning below a certain threshold would pay nothing. As income increases, contributions increase. During unemployment or periods of very low income, payments would automatically fall apart or stop.

This matters because traditional debt transfers economic uncertainty to the individual. Income contingent repayments keeps a certain part of that uncertainty that is within the financing system.

Otherwise, an income contingent loan begins to mirror an indefinite graduate tax.

That difference is important. A graduates contribution should **be defined as a risk sharing instrument**, not an unlimited claim on future earnings.

Third: Price expected non-repayment before it happens

This is the part in my proposal I believe South Africa needs to take seriously.

If government knows that some graduates will never repay the full amount, that loss should not appear years later as though it were an administrative surprise.

Expected non repayment is part of the cost of financing education

Suppose a cohort receives R10 billion. Government might forecast ,after accounting for completion ,employment, earnings, repayment rates, timing and administration, only R7 billion would be recover in present value terms.

The fiscal cost of the programme is not honestly described by saying either “R10 billion will be eventually repaid”.

The relevant question is the **expected net public cost**.

That calculation should incorporate:

- Probability of completion
- Expected employment
- Expected earnings
- Timing of repayments
- Repayment rates
- Administration cost
- Expected write-offs
- Migration and other collection sites
- The social return of the qualifications being financed

This is essentially an expected loss approach to student finance.

The point is to **make the uncertainty much more visible before the money is spent**.

A write off should be forecasted, perhaps not a surprise.

The Human Capital Fiscal Statement

The Risk Pool needs an accountability mechanism. I propose an annual Human Capital Fiscal Statement alongside the budget.

It would follow each funded cohort through six categorize question:

Acces: How many students received support?

Convesion: How many progressed and graduated?

Recovery: How much was repaid?

Riisk: How much is expected to be never recovered?

Return: What fiscal and wider-social value did the investment generate?

Net fiscal cost per successful graduate, would be the respective headline.

This is more informative than reporting expenditure per student.

Imagine two R100,000 investments. One student produces a dropout without a qualification and no repayment plan. The other produces a graduate who enters employment, contributes through the financing system and pays taxes over time. Treating the two outcomes as fiscally identical because the initial expenditure was identical is poor measurement.

But “successful grade” cannot simply mean a “high earner”.

A teacher, nurse or a social worker may generate an enormous amount of social value is not reflected in private income. A qualification that fills a critical shortage may also create benefits for people who never received the original funding.

That allows government to ask a much useful question, What did South Africa obtain for the risk it assumed?

Universities should be measured by what they change

Universities should share some responsibility for the outcomes, but I would resist simply rewarding institutions for high employment rates.

That could punish institutions serving students who enter with greater disadvantages. Worse, it could encourage universities to select students who are easiest to place in employment. Instead, a limited portion of institutional funding could be linked to a risk adjusted value added outcomes. Given the students this institutions admitted, and what did the institution change?

Progression, competition and employment outcomes should therefore be understood in the context of students background, the field of study and other factors affecting outcomes. The fiscal accountability should not create an incentive to exclude the students public financing is intended to help.

International experience should stress-test the model

South Africa should **import principles, not institutions**.

Australia demonstrates that repayment can follow income. Its HELP system protects graduates below the repayment threshold from fixed monthly obligations. The principle is useful for South Africa because it shares some educational risk between graduate and state.

But Australia also demonstrates the other side of the bargain: when repayments fall short, the fiscal exposure remains with government.

That means South Africa should not copy income-contingent repayment without simultaneously adopting explicit expected-loss forecasting.

England offers a second lesson. Income-contingent loans can protect graduates from unaffordable fixed repayments, but changes in repayment thresholds, terms and graduate earnings can materially alter the eventual taxpayer cost.

The lesson is not that income-contingent finance fails.

It is that **the government's liability must be valued as carefully as the student's obligation.**

Norway provides a third stress test. Its tertiary education system is far more heavily publicly financed, illustrating how extensive state support can be sustained where fiscal capacity and the structure of public finance differ substantially from South Africa's.

The international evidence therefore does not give South Africa a ready-made answer.

Australia asks: **Can repayment follow income?**

England asks: **What does that promise eventually cost taxpayers?**

Norway asks: **How much public financing can a state sustainably carry?**

South Africa needs to answer all three questions simultaneously.

What could go wrong?

A serious proposal should survive its strongest objections.

The first is fiscal cost. An income-contingent system can be expensive precisely because government protects graduates when their earnings are weak. My response is not to deny that cost. It is to **recognise it in advance** through cohort-level expected-loss estimates, a fiscal-risk reserve and regular stress tests.

Imagine unemployment suddenly rises and graduate incomes fall. Under fixed debt, students face greater repayment distress and defaults. Under the Risk Pool, repayments fall automatically. That reduces immediate graduate distress, but it also reduces government receipts.

The reserve therefore absorbs part of the shock.

When employment recovers, graduate contributions recover too.

The system becomes partly counter-cyclical: **repayments rise in stronger labour markets and fall when graduates are least able to pay.** Fiscal sustainability is therefore not achieved by pretending recessions will not happen. It is achieved by designing for them.

The second objection is South Africa's informal economy and difficulty in measuring income. This is a genuine limitation. A responsible system would therefore require reliable income reporting, information-sharing with existing tax and administrative systems, and periodic reassessment of collection performance.

The third is university gaming. Risk-adjusted value-added measures and a limited funding share can reduce the incentive to manipulate admissions or chase only easily employable students.

The fourth is the graduate-tax objection. The distinction must remain transparent: defined financing, income-contingent contributions, a maximum period and disclosed write-offs. Graduates are not purchasing a guarantee of employment; nor are they being given an indefinite tax liability.

Finally, there is the deepest objection: **does measuring education financially reduce human beings to numbers?**

Only if measurement is confused with value.

Government already makes choices about who receives scarce public resources. Refusing to measure the cost, risk and outcomes of those choices does not make the system more humane. It makes the decisions harder to scrutinise.

From financing students to managing risk

South Africa does not have to choose between access and fiscal responsibility.

It has to recognise that the two are connected.

A student excluded because her family cannot afford university represents a lost human-capital opportunity.

A student financed through an unsustainable fixed obligation represents a future financial burden.

And a government that assumes every rand advanced will eventually return is not being fiscally conservative. It is simply postponing recognition of risk.

The Human-Capital Risk Pool offers a different approach.

Protect access where the social case is strongest. Ask graduates who gain stronger private returns to contribute according to their incomes. Protect those who cannot pay. Make expected non-repayment visible in the Budget. Measure universities by the value they add rather than the circumstances of their students. And publish what each cohort actually costs the country.

The question that should guide South Africa is therefore no longer simply:

“Who pays for higher education?”

It is:

“Who carries the risk , and are we measuring that risk honestly?”

That is what fiscal sustainability should mean.

Not spending less at all costs.

Not borrowing indefinitely.

Not pretending that every graduate will succeed.

It means building a system in which opportunity is protected, risk is shared and uncertainty is visible in the Budget.

South Africa is investing in its future graduates today.

The fiscally responsible thing is not to pretend that future returns are certain. It is to know what we are investing, what we expect to recover, what we are willing to lose, and why the investment is still worth making.

That is how we finance futures without turning them into debts.

