Underwriting Graduates, Not Enrolments: Who Should Carry the Risk in South African Student Finance?

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1. Introduction: the question beneath the question

In 2026/27 the National Student Financial Aid Scheme (NSFAS) will spend R54.3 billion supporting 744,203 students, a ninefold nominal increase on the R5.9 billion it spent in 2014 (SAnews, 2021; National Treasury, 2026). Yet the scheme received a record 893,847 applications for 2026 (Sunday World, 2026) and operates inside a state where debt-service costs absorb 21.3% of main-budget revenue (National Treasury, 2026). Public debate usually reduces this to a binary: defend "free" higher education or return to loans.

This essay argues that the binary misdiagnoses the problem. South Africa's difficulty is less how much it spends than how its financing model allocates three risks: the risk that a student does not complete, the risk that a graduate does not earn, and the risk created by an arbitrary eligibility line. The current model buys enrolments, absorbs almost all the downside of failure and collects almost nothing from success. A sustainable model would instead underwrite graduates.

Access means completing a qualification of value, not merely registering. Fiscal sustainability means a system whose cost per graduate is predictable, honestly accounted for and partly self-replenishing, so that support is not rationed by annual budget cliffs. Section 2 diagnoses the three risks, Section 3 tests the diagnosis against Australia, England, Chile and Kenya, and Section 4 designs and defends an alternative.

2. Three risks the state carries badly

2.1 Completion risk: paying for starts

NSFAS pays for registered students whether or not they progress, so spending concentrates at entry. A 2026 parliamentary reply analysed by GroundUp (2026) shows that about 80% of NSFAS beneficiaries between 2019 and 2024 were first-year students. The figure mixes in shorter TVET programmes, but the pattern is clear. At the University of Cape Town, NSFAS-funded students in the 2010 cohort dropped out at more than twice the rate of students on university aid, yet fewer than 6% of those in good academic standing left (SALDRU, c.2017). Once fees are covered, the binding constraint is academic, yet a model that pays for registration gives universities no financial stake in whether a funded student finishes.

2.2 Earnings risk: owning the downside, forgoing the upside

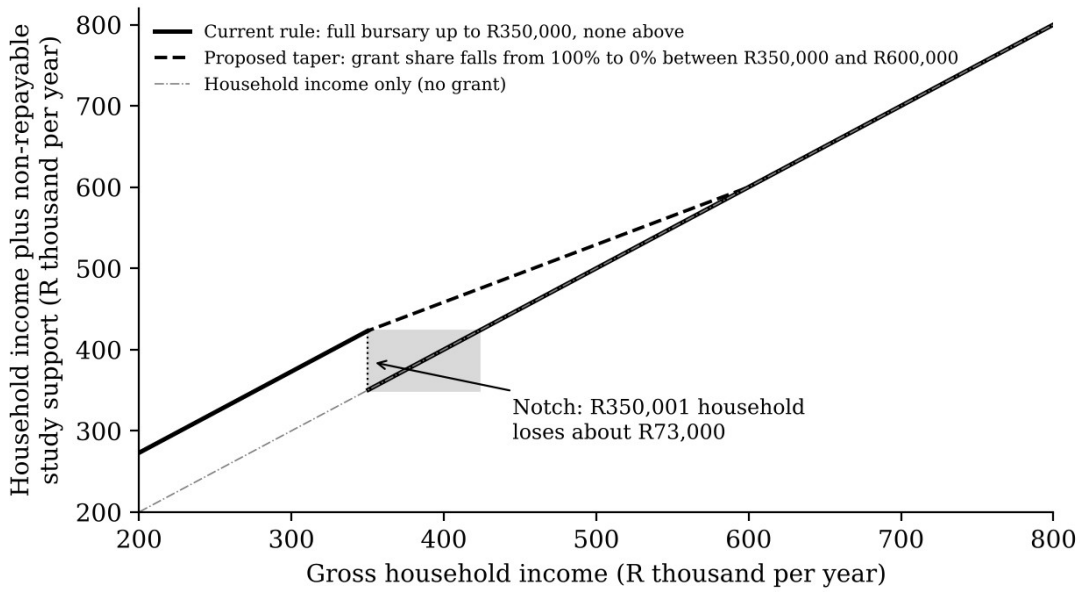
Since 2018 NSFAS support for households earning below R350,000 has been a grant. The state therefore bears every loss and shares in no success. Pre-2018 loans were already income-

contingent, repayable only above R30,000 a year, yet recoveries peaked at 28.9% of disbursements before collapsing as loans were converted to bursaries, administration weakened and collection powers were curtailed (SALDRU, c.2017). About R45 billion remains owed (Daily Maverick, 2025). South Africa did not reject income-contingent repayment; it never built the machinery that makes it work.

2.3 Eligibility risk: a R73,000 cliff

The R350,000 threshold is a notch: a point at which a marginal rand of income triggers a large loss of benefit (Kleven and Waseem, 2013). The 2026/27 allocation averages roughly R73,000 per funded student (R54.3 billion divided by 744,203). A household earning R350,001 forfeits all of it. Figure 1 shows the consequence: before tax, a family must earn about R423,000 to be as well resourced as one earning R349,999. Above the line sits the "missing middle", estimated at 343,000 students in 2019 (Garrod and Wildschut, 2021). The loan scheme designed for them barely functions: by early February 2026 only 1,561 of 26,538 applications had been approved (George Herald, 2026).

Figure 1: Household income plus non-repayable study support for one student, 2026/27 (illustrative)



Source: Author's calculation from National Treasury (2026). Assumes one student receiving the 2026/27 average allocation of R72,964 (universities and TVET combined); tax ignored.

The figure is schematic but exact in its message: at the threshold the implicit marginal tax rate far exceeds 100%, whereas the proposed taper implies about 29%, close to an ordinary income-tax rate.

3. What international experience actually teaches

Table 1 asks who collects repayment and who carries risk, in four cases that each isolate a choice South Africa must make.

Table 1: Four design choices in international student finance (latest available data)

Case	Who collects; who bears risk	Evidence	Lesson for South Africa
Australia: HELP (since 1989)	Tax office collects; state bears non-repayment	From 2025-26, repayment only on income above A$67,000; one-off 20% debt cut in 2025	Tax-based collection works, but parameters need protection from politics
England: Plan 2 loans	Payroll deduction via tax system; state absorbs write-offs	About 43% of 2026/27 full-time outlay forecast not to be repaid	Subsidies hide inside "loans"; budget expected costs openly
Chile: CAE (state-guaranteed bank loans, 2006)	Banks lend; state guarantees and buys back loans	48.8% of state-held loans classed as uncollectible	Guarantees shift risk to the state without tax-based collection
Kenya: 2023 funding model	Means test sorts students into bands	Declared unconstitutional by the High Court, December 2024	Ex ante means tests are fragile where incomes are informal

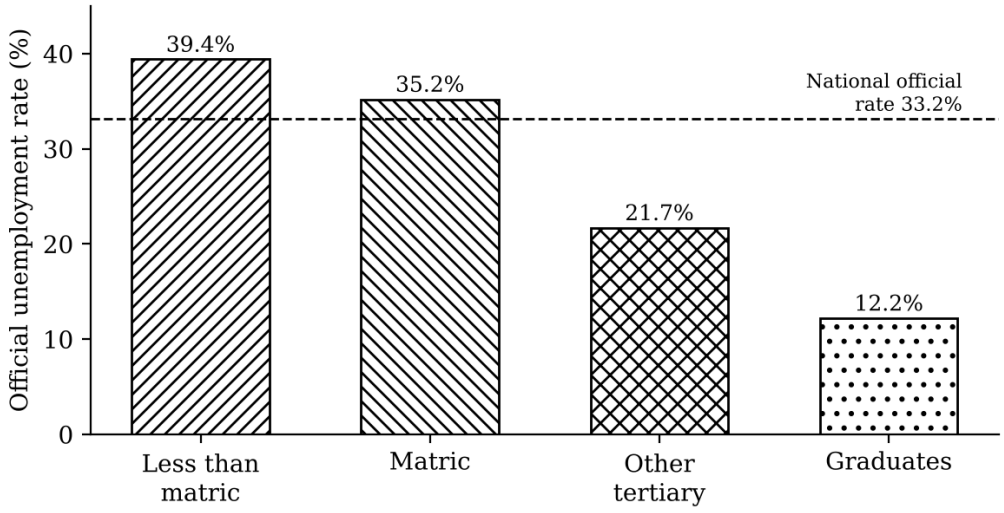
Sources: Parliamentary Library (2025); DfE (2026); Consejo Fiscal Autónomo data reported in El Dínamo (2024); Kenya Human Rights Commission v Attorney General (2024).

Three lessons follow. First, the decisive variable is the collection channel. Australia's scheme has operated since 1989 because repayments are collected through the tax system (Chapman, 2006). Second, income contingency need not deter the poor. When England moved from free tuition to high fees financed by income-contingent loans, funding per student rose, enrolment grew and the participation gap between advantaged and disadvantaged students narrowed (Murphy, Scott-Clayton and Wyness, 2019).

Third, and most pointedly, Chile exposes the weakness of the model the Heher Commission recommended in 2017: commercial-bank loans carrying a state guarantee (Commission of Inquiry into Higher Education and Training, 2017). Chapman (2006) had warned that guaranteed bank lending is a problematic answer to credit constraints. By 2026 Chile's Treasury was pursuing CAE debtors, and legislators proposed relief for more than 550,000 of them (Meganoticias, 2026), and its proposed replacement is a public income-contingent contribution projected to recover 94% to 105% of public investment (Dearden, Valdés Aspillaga and Ríos-Jara, 2025). Kenya, meanwhile, shows why ex ante means testing is a weak foundation: its High Court found the means-tested model discriminatory (Kenya Human Rights Commission v Attorney General, 2024).

Is South Africa closer to Australia or to Kenya? On collection, to Australia. SARS already verifies household income for NSFAS applicants (NSFAS, 2023), and graduates work overwhelmingly in the formal, taxed economy. Figure 2 shows that graduate unemployment in Q2:2025 was 12.2%, against 39.4% for those without matric (Stats SA, 2025); a year later the figures were 12.4% and 39.2% (NYDA, 2026).

Figure 2: Official unemployment rate by highest level of education, Q2:2025



Source: Stats SA (2025). Dashed line: national official rate.

The figure confirms that a degree sharply reduces unemployment risk, so most university graduates will pass through PAYE, whereas holders of other tertiary qualifications remain markedly more exposed.

4. Underwriting graduates: design and defence

4.1 Earnings risk to the tax system

Public support for university study should be recorded in a Graduate Contribution Account collected by SARS through PAYE: repayment as a share of income above a threshold, zero real interest, and write-off after 25 years. This moves the means test from the household's past income, which is costly to verify, to the graduate's future income, which SARS already observes.

4.2 Eligibility risk to a taper

The grant share of support should fall linearly from 100% at R350,000 to zero at R600,000, with the remainder entering the account. Consider a student from a household earning R475,000 who receives R73,000 a year for four years. Half of her R292,000 support is a grant; R146,000 enters her account. If she earns R450,000 a year and repays 8% of income above R245,100, the point at which the 26% tax bracket begins in 2026/27 (SARS, 2026), she pays about R16,400 a year and clears the balance in roughly nine years. If she earns R300,000, she pays about R4,400 a year, contributes about R110,000 over 25 years, and the rest is forgiven.

4.3 A success contribution that leaves access untouched

Students from households below R350,000 should remain fee-free at entry. Their grant would become repayable only if their income enters the 36% bracket (above R530,200 in 2026/27), at 5% of income above that line and capped at half the support received. Most beneficiaries would

never pay; those who become top earners would help fund the next cohort. How much might return? Only 19.6% of assessed taxpayers earn above R500,000 (Daily Investor, 2026). Graduates are over-represented among high earners, so suppose 20% to 35% of bursary graduates eventually cross the threshold and repay between half and all of their capped contribution. Roughly 5% to 17.5% of university bursary support would then come back: about R2 billion to R7 billion a year once the system matures, on the 2025 university allocation of R39.3 billion (Business Report, 2025). The estimate is cautious, but it is recurring revenue the current model forgoes.

4.4 Completion risk to institutions, and TVET as a grant

A modest share of NSFAS tuition payments, for example 10%, should be released only when funded students complete within regulation time plus one year, measured against benchmarks adjusted for students' schooling background. Because crude performance funding tempts institutions to recruit stronger students (Dougherty et al., 2016), the share must be small and risk-adjusted. TVET support should remain a pure grant: given the weaker labour-market outcomes in Figure 2, contingent repayment would recover little and could deter enrolment, a conclusion Heher also reached (Commission of Inquiry into Higher Education and Training, 2017).

4.5 Who gains and who pays

The design is also more progressive than the system it replaces. Today a high-earning bursary graduate repays nothing while a student from a R360,000 household receives no grant: a transfer running the wrong way. Income contingency also protects women, who made up 61.4% of NSFAS-funded university students in 2018 (TimesLive, 2021); repayments pause when earnings fall, and modelling of Chile's proposed scheme found that it would narrow gender gaps in repayment burdens (Dearden, Valdés Aspillaga and Ríos-Jara, 2025). Publishing repayment outcomes by field and institution would show students the real value of each qualification.

4.6 Fiscal implications, private money and objections

The design does not cut cash spending immediately; its fiscal value is structural. Expected non-repayment should be valued and reported in the Budget Review, as England does with its loan forecasts (DfE, 2026), avoiding Chile's practice, criticised by its fiscal council, of recording loan repayments as revenue (Diario Financiero, 2024). Seed capital exists: R3.8 billion was committed to the missing-middle scheme in 2024 (PBO, 2024). Employers can add new money. The Skills Development Levy is projected to raise R27.7 billion in 2026/27 (SAnews, 2026); allowing employers to pay down recruits' contribution accounts, and to count those payments towards skills-levy grant claims, would turn graduate debt relief into a recruitment tool. Moving the R45 billion legacy book to SARS would add further recoveries. Critics will

say any repayment betrays the 2017 promise of free education. Yet no poor student would pay anything at entry, and only beneficiaries earning above about R530,000 would contribute.

5. Conclusion

Drawing on a literature study of South African fiscal, funding and labour-market evidence and a comparison of four international systems, this essay asked who should carry the risks in student finance. South Africa can build a fiscally sustainable model that widens access, but not by choosing between free education and loans. The current system pays for starts rather than finishes, absorbs all earnings risk while forgoing all upside, and imposes a cliff on the missing middle. International experience shows that the collection channel decides whether contingent repayment works and that bank guarantees and ex ante means tests are fragile. South Africa holds an unusual asset among middle-income countries: a capable revenue authority and a largely formal graduate labour market. Sending earnings risk to SARS and completion risk to institutions, and replacing the cliff with a taper, would widen access to completed degrees while making each graduate cheaper to the fiscus. The state should stop buying enrolments and start underwriting graduates.

RECOMMENDATIONS

1. **Legislate SARS collection (2027).** Amend the NSFAS Act and the Tax Administration Act so that SARS collects income-contingent contributions through PAYE, beginning with the R45 billion legacy book. Indicator: annual recoveries as a share of balances due.
2. **Publish the true cost (2027 Budget).** National Treasury should report the expected non-repayment of all contingent support each year, reviewed by the Parliamentary Budget Office.
3. **Replace the cliff with a taper (2028 intake).** DHET and NSFAS should phase the grant share from 100% to 0% between R350,000 and R600,000, financed initially from the existing missing-middle capitalisation. Indicator: missing-middle enrolment and approval rates.
4. **Introduce the success contribution and employer buy-downs (2028 intake).** Apply the contribution to new bursary cohorts only, protecting current students through grandfathering, and let employer payments into contribution accounts count towards skills-levy grant claims.
5. **Pilot completion-linked payments (2028 to 2030).** Test them at five volunteer universities using 10% of tuition payments, with independent evaluation before national roll-out. Indicator: completion within regulation time plus one year.
6. **Build the evidence base (from 2027).** Link NSFAS, SARS and HEMIS data so that an independent panel recalibrates thresholds and rates every three years.

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