Price the Promise: Financing Access Without Hiding the Cost

UNDERGRADUATE CATEGORY

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1. The wrong question at the wrong time

South Africa's student-finance debate has a timing problem. At application, government can observe a household's circumstances. It cannot yet know the graduate's earnings or the eventual cost of the loan book. Yet current policy asks household-income bands to decide too much upfront, while the system itself has struggled to turn eligibility into cash. Phase 1 was capitalised with R3.8 billion, enough on its announced assumptions for 31,884 of an estimated 68,446 students (Nzimande: 2024). By September 2025 Parliament reported only R1 million disbursed while qualifying students remained unfunded (Parliament of South Africa: 2025). Eligibility without timely finance is not access.

The better rule is to decide only what the available information can support. Household capacity determines how much public finance is needed at entry. The borrower's earnings determine repayment later. What the first cohort actually costs and how well it is serviced determines whether the next cohort grows. Existing students never become the adjustment variable.

South Africa does not need another financial product. The 2010 NSFAS review already proposed income-contingent lending and tax recovery, while government now aims at a four-tier framework from 2027 (NSFAS Review Committee: 2010; Manamela: 2026). What is missing is a rule connecting those instruments to the information available when each decision is made. The sections below ask how much help is needed now, what a graduate can repay later, whether the loan book can function, and what the state can afford to promise next. Australia, New Zealand and England test those choices rather than supply templates.

2. How much help is needed now?

Credit constraints bite before graduate earnings exist. Around a South African education lender's credit-score cutoff, access to credit increased university enrolment by more than 40 percentage points among mostly middle-class applicants (Gurgand et al.: 2023). The effect was concentrated among women, so it is not a national forecast. At UCT, tighter financial-aid eligibility reduced re-enrolment, particularly among NSFAS-funded students (Branson et al.: 2020). The narrower lesson is enough: when a viable student cannot bridge a financing gap, entry and persistence can fall.

NSFAS currently provides bursaries to households earning up to R350,000 and loans to those between roughly R350,001 and R600,000 (NSFAS: 2026a). Protect and index the grant floor. Above it, gross income is too crude: vulnerable and relatively stable missing-middle households can have similar current incomes (Whitelaw et al.: 2025). Household size and hardship should also matter. This need not create a new verification system: NSFAS already uses third-party data, and its 2026 consent form permits SARS validation of employment and income (NSFAS: 2025; NSFAS: 2026b). Concentrating grants on deprivation also limits debt exposure where loan aversion can deter participation (Boatman et al.: 2022).

Each intake would begin with a cash envelope already appropriated for it. An assessed household contribution rises with genuine capacity; a public income-contingent loan (ICL) fills the remaining eligible cost. Garrod and Wildschut estimated that full missing-middle bursaries would have cost R19.2 billion at 2019 prices, against R11.4 billion under a sliding scale (Garrod & Wildschut: 2021). Their calculation concerns bursaries, but it shows how differentiated support can reduce the public amount required per student.

That matters when the budget binds. The R3.8 billion Phase-1 envelope implied about R119,000 of capital per intended student. If the average public advance were 20% lower, the same envelope could mechanically cover about 39,855 places. It is only a sensitivity, and 39,855 is an upper bound rather than a target. A fair system would rank oversubscribed new places by need, deliberately giving up some maximum headcount to preserve progressivity. Continuing students who progress should be protected. Spread the assessed share through the academic year; if administrative data miss a recent shock, the existing appeal channel should review supporting documents before it falls due (NSFAS: 2026a). The extra capacity matters only if the contribution schedule does not block enrolment.

Universal grants commit subsidy before future earnings are known. Guaranteed private loans can return default risk to the state without fully insuring the borrower. A graduate tax can keep high earners paying after an individual liability would have ended. A protected grant floor plus residual ICL allocates those risks more cleanly.

3. What can the graduate repay later?

After study, parental income is stale information. The current missing-middle loan remains partly governed by the calendar. Its 2025 guideline allows smaller instalments at lower income but limits repayment to 60 months from employment. Interest begins 12 months after exit at prime less 100 basis points (NSFAS: 2025). A borrower can accumulate interest while unemployed and still face a five-year payoff horizon once employed.

A genuine ICL gives earnings priority over time. Nothing is due below an indexed threshold. Above it, repayment is a marginal share only of income above that threshold and never more than the outstanding balance. Australia adopted this structure in 2025/26, with a A$67,000 threshold and repayment calculated only on income above it (Australian Department of Education: 2026). The transferable lesson is the marginal structure; South African data should set the rate.

Treasury can calibrate the threshold and marginal rates from South African earnings, completion and collection data. Tax microdata give a stronger picture of formal earnings than household surveys alone (Kerr: 2025). Each cohort's contract should fix indexation, cap annual balance growth and set a terminal write-off point. These rules preserve ICL insurance without creating unlimited liability (Barr: 2004). Generous forgiveness can still raise public cost and alter choices (Catherine et al.: 2026; Fu et al.: 2025). Family surety should end. Non-completers remain under the same earnings rule because their earnings risk is often greater, not smaller.

4. Can the loan book actually work?

A repayment formula is useless if the balance is wrong. Parliament was still urging NSFAS in May 2026 to prioritise a loan-management system (Parliament of South Africa: 2026). NSFAS can keep eligibility policy and legal ownership of the debt, but servicing needs one authoritative ledger and independently verified performance.

The servicer should be paid for four results students can see: funding before registration, reconciled balances, timely corrections and repayments matched to the right account. Those results should be public and independently assured.

If performance fails, payment and renewal fall away. Portable data and step-in rights keep current accounts running while a replacement takes over, and the next expansion pauses. A contractor can still game metrics; the point is to make failure visible and give the state a practical way to act.

SARS can collect only where income is visible. PAYE covers formal salaries; provisional and annual assessment can capture declared self-employment. Legislation should permit the minimum data matching needed between SARS and the loan ledger. Collection of a disputed amount pauses until correction or independent escalation is complete. Borrowers who cease South African tax residence move to an overseas register with annual income reporting and direct repayment. Hidden informal income remains a lower-recovery assumption rather than an imaginary collection stream.

New Zealand shows the limit. At March 2026, 94.7% of domestic borrowers met their obligations, compared with 26.5% of overseas borrowers (Inland Revenue New Zealand: 2026). Tax-linked collection helps, but the overseas gap shows its limits.

5. What can the state afford to promise next?

A public ICL has two prices. Government needs cash upfront because repayments arrive years later. It also bears a lifetime subsidy. This is the share of each rand advanced that is not expected to return in present-value terms because of weak earnings, non-completion, collection failure or write-off.

Expected cohort subsidy rate = 1 - PV(expected repayments) / PV(public loan outlays).

In plain English, this is the expected unrecovered share of each rand advanced.

At roughly R119,000 per intended student, financing all 68,446 estimated missing-middle students would require about R8.2 billion upfront before any repayment arrived. That is more than twice the Phase-1 envelope. This is a scale illustration, not a forecast. Residual financing can lower the cash advanced per student; the formula then prices the cohort actually authorised.

England shows why the estimate cannot be frozen at launch. For the same 2025/26 Plan 5 full-time outlay, the official RAB charge—the expected unrecovered share in present-value terms—was 30% in July 2025. By July 2026 it was 33% as data and modelling changed (UK Department for Education: 2026). Before each expansion, Treasury should publish the next cohort’s cash need, expected repayments, servicing cost and subsidy under base and downside assumptions. If an already-funded cohort later proves more expensive, that loss should be reported rather than pushed back onto its borrowers. The control is to stop the same error being repeated automatically in the next intake.

Promises to enrolled students are difficult to reverse; the next expansion is still a choice. Better information therefore has option value (Dixit & Pindyck: 1994). Operational evidence can mature within an academic year and fiscal assumptions can update annually, so government need not wait decades to learn.

Section 4 of the Adjustments Appropriation Act 2 of 2026 offers a practical control. The Finance Minister may impose conditions or earmarking on appropriated amounts, stop their use when conditions fail and report the stoppage to Parliament (Republic of South Africa: 2026). This cannot abolish politics. The 2017 fee-free announcement forced the 2018 Budget to add R57 billion for higher education over the medium term (National Treasury: 2018). The rule’s value is narrower: any override of the next increment becomes visible, costed and explicitly voted instead of arriving as an automatic extension of an old promise.

Provider prices cannot absorb the gain. Heher recommended university fee caps (The Presidency: 2017). Tuition and accommodation eligible for public finance should follow a published reference-cost path; increases above it would not automatically earn a larger public advance. Debt-service costs already absorbed 21.3% of main-budget revenue in 2025/26 (National Treasury: 2026). If provider prices accelerate or teaching budgets are raided, the model has merely moved the fiscal problem elsewhere.

6. Conclusion

South Africa’s student-finance problem becomes clearer once the decisions are separated in time. At entry, the question is how much help a household needs to get a student through the door. Later, the question is what that graduate can repay. Only after the system has delivered and new evidence has arrived should government decide how much larger the next promise can become.

Australia helps with the repayment rule. New Zealand warns against assuming that the tax system can follow every borrower. England shows why subsidy estimates must remain open to revision. None offers a blueprint. Together they support a model that protects grants for deprivation, uses household capacity without turning it into a barrier, insures weak earnings and keeps future scale reversible.

The first cohort finances students and teaches the state. Existing borrowers keep the promises already made to them; later cohorts benefit from what government learns. **Repayment can wait for income; budgeting cannot wait for repayment.**

7. Recommendations

First, protect and index the deprivation grant floor. Above it, replace the upper gross-income cliff with a verified household contribution and residual ICL inside a pre-funded cohort envelope. Protect progressing students, rank oversubscribed new places by need, and use hardship review where assessed family capacity is not actually available.

Second, legislate a long-horizon ICL with marginal repayment above an indexed threshold, no family surety and cohort-fixed rules for indexation, balance growth and terminal write-off. Apply the same earnings rule to non-completers.

Third, keep eligibility policy and legal ownership with NSFAS while servicing operates through one independently assured ledger. Published cohort outcomes should govern contractor payment, renewal and the next increment. SARS collects where taxable income is visible; lower recovery elsewhere enters Treasury’s subsidy forecast.

Finally, publish a cohort affordability statement before each expansion and attach service and fiscal conditions to the incremental appropriation. If either fails, the next increment changes or waits. Existing borrower terms and the deprivation grant floor do not.

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