

Study Now, Repay as You Earn: A Sustainable Way for Government to Fund Higher Education in South Africa

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1. Introduction

South Africa wants more young people to reach university, but government cannot keep paying for everyone from a budget that has stopped growing. This essay answers one question: how can South Africa build a fiscally sustainable student-financing model that enhances access to higher education? It argues that fiscal sustainability (being able to afford the scheme year after year) and access (letting more students in) are not opposites. Government can open the door wider and still protect its finances if support matches a student's means: grants for the poorest, and loans repaid only when graduates earn enough for everyone else.

Section 2 explains why government must be involved. Section 3 sets out the fiscal problem using South African data. Section 4 draws lessons from Australia, England and other countries. Section 5 proposes a model, and Section 6 discusses its risks. The conclusion summarises the argument, and the recommendations give my view on whether the model is workable.

2. Why government must be involved

A degree is an investment, but it cannot be used as collateral. A bank cannot repossess an education, a borrower may emigrate, and students know more about their own prospects than lenders do (Barr et al.: 2019). Private lenders therefore hold back and the country under-invests in skills. A good student loan must do two things: lend enough to cover the costs of study, and protect borrowers from low earnings. Repaying a fixed share of income does the second. Collecting repayments through the tax system does the first: because employers deduct them with income tax, few borrowers can avoid repaying, so government can lend enough without large losses (Barr et al.: 2019).

South African evidence shows that credit matters. Among applicants to a private lender, those who received a loan enrolled at a rate of 83%, against about 41% for similar applicants who were refused (Gurgand et al.: 2023). That gap means access to credit roughly doubled enrolment; if credit were not the problem, the two rates would be close. Many applicants were middle-class households, too well off for NSFAS but not rich enough for bank credit. The study covers one lender and mostly employed adults, so it suggests rather than proves the point.

3. The fiscal problem in numbers

Table 1 summarises the key figures from NSFAS, the Department of Higher Education and Training (DHET), National Treasury and Statistics South Africa.

Table 1: Key indicators of NSFAS funding and repayment capacity

Indicator	Figure	What a rise or fall would mean
Students supported	777,646 (2023); over 1.09 million (2025/26)	Each extra eligible student adds cost; a fall would mean lower demand or students being excluded
Total NSFAS spending	R58.2 billion (2025/26), R54.3 billion (2026/27), then R56.6 billion and R58.0 billion	The 2026/27 fall is about 7%; with inflation forecast at 3.4%, a flat budget buys less each year
Old loans: face value and NSFAS valuation	R44.5 billion and R2.4 billion	The valuation is about 5 cents in the rand; a rise would mean better recovery
Loan recoveries, 2023/24	R144 million against a R300 million target	About 0.3% of the R42.7 billion paid out, so old loans fund almost nothing
Loan applicants who qualified, 2025	2,499 of 65,812 (3.8%)	A higher share would reach more middle-income students, but cost more unless repayments are collected
Administration budget	R631.6 million (about 1.5% of payouts)	A small share: cutting it would free little money
Graduate unemployment, mid-2026	12.4% (all workers: 33.6%)	A lower rate means graduates can repay; a rise would lower repayments and raise government's costs

Sources: (NSFAS: 2024; National Treasury: 2026; DHET: 2026; Stats SA: 2026).

Table 1 shows three problems. First, demand is outgrowing the money. The reports count students differently, but every eligible student has a claim on funding, so more students means more rand needed. If student numbers keep rising while the budget stays flat, the money per student must fall, or students are turned away or paid late.

Second, loans bring little money back. The face value is the amount owed on paper, but NSFAS's own accounts value it at only R2.4 billion. The Auditor-General gave NSFAS an adverse opinion on those accounts, so treat the figures as indications (NSFAS: 2024). The loan tier also barely reaches the middle: only 3.8% of applicants qualified (DHET: 2026).

Third, administration cost is not the main failure; quality is. About 800,000 loan accounts have no automated system (NSFAS: 2024). Graduates can repay, but the unemployment rate covers degree holders only, not dropouts or diploma holders, so it flatters the average borrower (Stats SA: 2026).

4. What loan design teaches

Australia, England and New Zealand use income-contingent loans (ICLs). Graduates repay a percentage of income above a threshold, the pay level at which repayment starts, so low earners repay little. In England, graduates repay 9% of income above £25,000 a year; Australia's rate rises to a maximum of 8%

(Britton et al.: 2019; Barr et al.: 2019). Raising the threshold protects low earners but recovers less; lowering it recovers more but pulls in people on low pay. NSFAS's repayment table starts at R30,000 a year, about R2,500 a month, and Yende (2024) reports that it has not been updated since 2001.

Table 2 shows the key measure, the subsidy: the share of each rand lent that taxpayers never recover, valued in today's money. A subsidy of 47% means R47 of every R100 lent is lost; a lower figure means a cheaper scheme.

Table 2: How design changes the share of lending lost to taxpayers (English model)

Design	Share lost
Large loans (about £55,000), written off after 30 years	47%
Same, with loans cut to 40% of that size	26%
Large loans, written off at death instead	32%
Large loans, interest 3% above inflation	44%
Large loans, interest equal to inflation only	53%

Source: (Britton et al.: 2019).

On R10 billion lent, 47% means R4.7 billion lost; 26% means R2.6 billion. Loan size relative to pay matters most: English loans are about 1.7 times a typical graduate's yearly income, Australia's about 0.7 (Britton et al.: 2019). When debt is large, many borrowers never finish repaying and the rest is written off, so cutting loans to 40% nearly halves the cost. Earnings inequality also matters: widening graduate earnings to US levels raised the subsidy from 26% to 31%, an effect the authors expect to be stronger where informal work is common, as it may be in South Africa.

Costs can also be recovered through a one-off surcharge. In a US illustration, a surcharge of 15% (22% with a 25-year write-off) removed the taxpayer cost: borrow R100, owe R115. Surcharges are simpler and fairer than higher interest, which hits slow repayers hardest, although a large one may deter borrowing (Barr et al.: 2019). Finally, collection decides success: an early Yale scheme failed because a university could not collect, while England and Australia collect through employers at about 3% to 4% of revenue collected (Barr et al.: 2019).

5. A proposed model

Learning from recent history. Any loan proposal must face the #FeesMustFall protests of 2015-16, after which government began fully funding students from households earning under R350,000 a year and converted returning NSFAS students' loans into bursaries (National Treasury: 2018). Reintroducing loans for them would be politically unworkable and would harm access, so this model keeps their grants and lends only to the 'missing middle' above that line.

Grants for the poorest, within a published budget. Eligible students from the poorest households receive grants, but government sets multi-year budgets and plans student numbers, because uncertainty about future NSFAS budgets already hampers enrolment planning (DHET: 2026).

An income-contingent loan for everyone else who needs one. Loans are capped at a cost-based amount. Repayment is a percentage of income above a threshold set above the lowest pay and raised yearly with wages. It is charged only on income above the threshold: in 2017-18, Australia's design meant one extra dollar of earnings could trigger A\$2,235 in repayment, encouraging people to stay below the line (Britton et al.: 2019). Debt rises with inflation plus a flat surcharge, so it keeps its real value, and any balance is written off after a fixed period. Employers and SARS collect repayments. The private lender studied by Gurgand et al. (2023) deducted repayments from civil servants' salaries and described that portfolio as having limited repayment risk, which suggests starting with employees on payroll.

A subsidy ceiling (the original idea). England estimates the subsidy after loans are made (Britton et al.: 2019); this model makes it a binding limit set in advance. Government decides first how much of each rand lent it can afford to lose, then chooses loan size, threshold, rate, surcharge and write-off to meet that ceiling. Estimating the subsidy requires graduates' earnings over time, which South Africa can model by linking anonymised SARS tax records to university graduation and dropout records. Until then, loans should start small, with a safety margin, and grow only as actual repayments come in. Illustration, not a forecast: with a 20% ceiling and R10 billion lent, the planned loss is R2 billion. If graduate unemployment rose and repayments fell, terms would tighten for new borrowers only, never existing ones.

National rules, local delivery. One national means test using SARS data and one set of cost benchmarks applies everywhere; universities process and pay, and NSFAS becomes rule-setter and auditor. Simple progress records should flag struggling students early and trigger support, not penalties, because DHET reports weak controls on monitoring academic progression (DHET: 2026).

6. Risks and limits

Collection is the weak link: without it, a loan becomes a grant. High unemployment and informal work would lower repayments, which is why the ceiling is reviewed each year. The English and US figures cover graduates only, so non-completers, who earn less, would raise real costs. These numbers show how the mechanism works, not what South Africa will pay, and local earnings data is needed. Surcharges could deter poorer students, so grants protect the poorest.

7. Conclusion

This essay asked how South Africa can build a fiscally sustainable student-financing model that improves access. Using budget, NSFAS and DHET data together with international evidence on income-contingent loans, it showed that funding is under strain not because it helps too many people but because it is open-ended, weakly collected and detached from the budget. It argued for grants for the poorest, income-contingent loans for those in between, a subsidy ceiling tying cost to the budget, and collection through payroll.

8. Recommendations

In my view the model is workable, but only if reforms come in the right order.

1. Government should set the subsidy ceiling and publish multi-year budgets first, because without a limit on cost no design will be sustainable.
2. It should build the SARS collection link before expanding loans, starting with salaried workers on payroll.
3. It should keep national rules and local delivery, with progress records that trigger support early.
4. It should review the ceiling every year against actual repayments.

The least certain element is collection from informal workers; if that cannot be solved, the loan tier should stay small and grants should carry more of the load.

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