**Undergraduate:**

# A Shared-Risk Student Financing Model for South Africa: Expanding Access while Safeguarding Fiscal Sustainability

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# 1. Introduction

What good is opening the doors to higher education if the country cannot afford to keep them open?

This question captures the quintessential dilemma regarding South Africa's student-financing. Broadening access to higher education remains a priority because it reduces inequality, develops human capital and improves long-term economic opportunities (Psacharopoulos and Patrinos, 2018).

However, repeatedly increasing public expenditure raises an equally important question: how can access expand without an unsustainable burden on the fiscus?

Thus, the obstacle is not simply insufficient funding, but the need to readjust how the costs and risks of higher education are sustainably distributed.

This essay advocates that South Africa expand access without compromising fiscal sustainability through a shared-risk student-financing model, combining targeted grants for disadvantaged students, income-contingent loans for those able to contribute later, and employer partnerships.

The essay first examines South Africa's student-financing challenges and their implications for fiscal sustainability. It then evaluates international experiences to identify key financing structures, recognising that these frameworks ought to be adapted to the South African context in which high disparity, unemployment and fiscal realities remain prominent. Subsequently, it proposes a shared-risk student-financing model that distributes financial risks and recycles repayments to support future students. Finally, recommendations for implementing the proposed model are presented, demonstrating how South Africa can expand access to higher education, whilst maintaining fiscal sustainability.

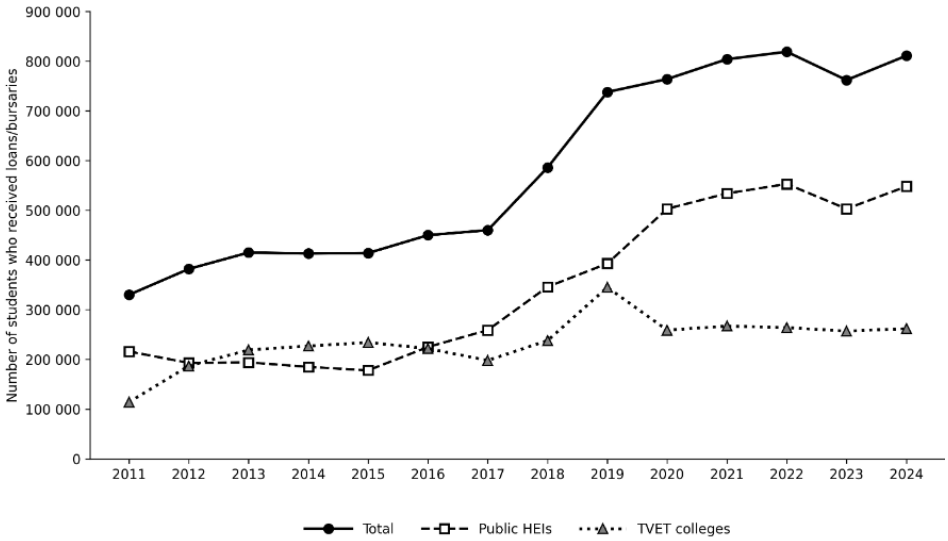
# 2. The South African problem

South Africa has expanded access most notably through NSFAS, whose growth is shown in Figure 1. For 2026, NSFAS recorded 893 847 applications, of which 609 653 initially qualified for aid (South African Government, 2026).

Expansion poses a fiscal challenge, as government must also fund social protection, healthcare, infrastructure and debt servicing (Godongwana, 2026). The question is whether the current financing structure remains sustainable as demand increases.

Between 2019 and 2024, NSFAS disbursed R244 billion, benefiting almost 4.7 million students at universities and Technical and Vocational Education and Training (TVET) colleges (Nkabane, 2025).

Figure 1: Number of students receiving NSFAS loans and bursaries, 2011-2024




Source: Department of Higher Education and Training (2024, p. 107)

Figure 1 illustrates the significant increase of NSFAS support from 2011-2024, with the total recipients rising from 332 187 in 2011 to 812 618 in 2024. This expansion depicts the rising scale of government support in facilitating access to higher education.

Student debt poses another pressing issue. Parliament of the Republic of South Africa (2026) reported that the total debt burden in the post-school education system has reached R59 billion, of which R29 billion is owed by NSFAS-funded students and R26 billion by self-funded students. Despite widening access, NSFAS has encountered challenges in debt recovery, incomplete beneficiary records, and high non-completion rates which have restricted long-term sustainability. These issues suggest that more than just additional funding is needed for South Africa, rather a financing structure that can effectively allocate scarce resources whilst still ensuring that the financial risk is distributed fairly.

## 3. What fiscal sustainability should mean

This essay defines fiscal sustainability as more than reducing government expenditure. Cutting spending by excluding disadvantaged students may improve short-term budgets but weakens long-term development, jeopardising access.

A durable model should satisfy four criteria, proposed here as an analytical framework. Firstly, the system is expected to preserve access, especially for students who would have been otherwise excluded due to household income. Secondly, affordability should be maintained, which ensures that public undertakings remain manageable over the long run. Third, the system should facilitate the distribution of repayment risk according to student's capability to pay, an approach consistent with income-contingent repayment designs (Chapman, 2006). Lastly, the system is expected to remain tenacious amidst economic shocks, such as weak economic growth and high unemployment.

Assessing these criteria warrants two questions. First, what does government spend per student? Real cost includes unrepaid loans and interest subsidies, not only tuition. England's estimated public subsidy, for instance, rose from 31% to 45% of loan value after the 2017 threshold change (Belfield et al., 2017).

Second, how much spending yields completion and economic participation? Across Organisation for Economic Co-operation and Development (OECD) countries, only 43% of bachelor's entrants graduate within their programme's minimum duration (OECD, 2025). Non-completion weakens returns on public investment and forfeits productivity gains (Psacharopoulos and Patrinos, 2018).

Sustainability therefore depends on both cost and long-term performance: resources should go where social returns are highest, with risks shared among government, students, graduates and, where necessary, other participants. Higher education merits this priority: social returns exceed any plausible discount rate, though below private returns, and are high in Africa, at 35% in Malawi and 22% in South Africa (Chirwa and Matita, 2009; Salisbury, 2015, cited in Psacharopoulos and Patrinos, 2018). These reflect earnings, tax contributions and productivity. Emigration, however, forfeits the return, so financing design must protect it.

## 4. International experience

No single student-financing model is perfect; different systems show how costs and risks can be distributed.

Australia's Higher Education Loan Program (HELP) links repayment to income, starting only above an earnings threshold (Australian Government, 2024). This protects graduates unable to work, but an estimated 17% of lending is unlikely to be repaid (Norton and Cherastidtham, 2014).

The United Kingdom similarly stops repayments below a threshold (UK Government, 2024), yet raising it in 2017 increased the estimated public subsidy to 45% of loan value (Belfield et al., 2017). Income-contingent financing thus shifts fiscal risk from graduates to taxpayers rather than eliminating it (UK Government, 2026).

Adaptation is vital. Both systems collect through taxation, assuming stable graduate incomes, whereas in the second quarter of 2026 South Africa's youth unemployment was 47.7% and overall unemployment 33.6% (Stats SA, 2026). Graduates are not immune: own calculations from the same survey show about 902 000 unemployed degree or higher-diploma holders, a third of whom have never worked.

The Heher Commission (2017) recommended state-guaranteed income-contingent loans repaid only above an income threshold (Heher, 2017). This is familiar, yet South Africa may face greater fiscal risk than Australia or the United Kingdom, because repayment depends on graduate employment and verifiable incomes.

Developing countries are also instructive. Kenya's Higher Education Loans Board relies on employer deductions, effective in formal employment but dependent on goodwill in the informal sector; its repayment rate was 68.6% in June 2025 (Business Daily, 2025). Chile has proposed replacing bank-based loans, criticised as costly and inefficient, with a publicly managed income-contingent scheme (UCL Institute of Education, 2025). Policy transfer must therefore consider institutional capacity and labour-market realities.

Growing student debt at public universities, shown in Table 1, further illustrates these fiscal risks, highlighting the limits of current structures.

| Public University Student Debt: 2011 – 2020 | Fee income (R'billion) | Gross Student Debt (R'billion) | % Debt Ratio | % Impairment to Gross Debt |
|---|---|---|---|---|
| 2011 | R 13,909 | R 3,234 | 23.30% | 54.10% |
| 2012 | R 15,429 | R 3,494 | 22.60% | 56.00% |
| 2013 | R 17,912 | R 5,476 | 30.60% | 49.90% |
| 2014 | R 19,428 | R 6,188 | 31.90% | 57.80% |
| 2015 | R 22,351 | R 6,973 | 31.20% | 55.90% |
| 2016 | R 22,993 | R 8,552 | 37.20% | 60.30% |
| 2017 | R 25,948 | R 9,942 | 38.20% | 63.30% |
| 2018 | R 29,074 | R 11,342 | 40.80% | 55.20% |
| 2019 | R 31,031 | R 13,162 | 39.00% | 53.30% |
| 2020 – ex 1 institution % increase | R 31,072 | R 16,250 | 52.30% | 56.20% |
| Average Year–on–Year | | 20.30% | | |
| 2017–2020 | | 63.40% | | |
| 2019–2020 | | 23.50% | | |

Table 1: Growth in Student Debt at South African Public Universities, 2011–2020

Source: (Meyer, 2025)

This does not establish that income-contingent loans would perform poorly, but reinforces the need for a model balancing access with realistic repayment expectations and limiting debt accumulation.

The lesson is not to mimic either system, but to ask: how are the costs and risks of higher education shared over time?

## 5. Proposed shared-risk student financing model

South Africa should adopt a tiered structure in which students from different financial backgrounds receive different support, underpinned by a revolving national fund that keeps the system fiscally sustainable.

**Tier 1: Grants.** Students from families that cannot contribute should not be forced into debt merely because they are poor. Public financing remains warranted because higher education yields benefits beyond the individual (Perkins et al., 2013). As grants are a direct cost to government, they should go to those who justifiably cannot repay, keeping them affordable.

**Tier 2: Income-contingent loans.** Students who are constrained yet likely to earn adequately would receive loans repaid only above a set income threshold, rising with income. This addresses conventional loans' treatment of graduates with different outcomes as equally able to pay (Chapman, 2006); a jobless graduate should not owe what a high earner does. To reward performance and curb dropout, part of each loan would convert to a grant on completion within the minimum period, interest would fall for high performers, and loans would convert for graduates serving in priority sectors.

The financing mechanism:

Government would establish a national risk pool from which loans are drawn, rather than treating loans as independent contracts.

Government would provide initial capital from reallocated student-aid funds, as guarantor. Tax-collected repayments would return to the pool to finance future cohorts, reducing reliance on new public money. Low earners or the unemployed would repay little or nothing, higher earners more, sharing risk across outcomes. Rates would recover as much as possible without hampering affordability, so recovery does not discourage the students the system serves.

Government would bear losses where repayments fall short. The pool should be stress-tested under weak growth and high unemployment, with a reserve funded by repayments and employer contributions, encouraged through tax incentives, and phased in as income-verification capacity improves. The focus shifts from making every student repay to keeping the fiscus sustainable across diverse outcomes.

This addresses NSFAS's weaknesses: real-time income verification through the South African Revenue Service (SARS) would improve on data exchanges that are not real time (Parliamentary Monitoring Group, 2023); one national register would replace unreconciled records; payroll collection removes reliance on self-reported contact details; completion incentives reduce dropout.

**Tier 3: Employer and private-sector participation.** Employers in skills-scarce sectors could co-fund targeted financing programmes in exchange for access to future graduate skills and tax incentives. Unlike Sector Education and Training Authority (SETA) funding, contributions would enter the risk pool, and funded students could owe a limited-service obligation, which they could buy out by repaying the support.

Financial institutions could provide capital under government risk-sharing, but private engagement should complement public financing and never determine which students are worthy of higher education.

Labour-market information could guide incentives, with scarce-skills qualifications receiving further aid, employer-linked funding and work-integrated learning. Demand should guide incentives, not determine a qualification's social value; funding only immediately profitable qualifications would undervalue courses outside high-demand occupations.

Safeguards against moral hazard:

Four moral hazards need safeguards. Graduates may avoid repayment: payroll deduction, SARS collection and non-disclosure penalties limit this. Graduates may emigrate: obligations would follow borrowers abroad, since Australia could save over A$800 million annually by recovering debts from overseas residents and deceased estates (Norton and Cherastidtham, 2014). Institutions may enrol students in poor-completion programmes: funding eligibility would depend on completion and employment outcomes. Universities may raise fees: the fund would finance fees only up to a regulated cap.

These mechanisms are complementary: grants protect access, income-contingent loans reallocate repayment risk, and employer contributions supplement public funding, with stress-testing showing affordability. Phased implementation concentrates limited resources on those who need them most, while sharing future obligations according to graduates' capacity to contribute.

# 6. Conclusion

South Africa's student-financing challenge is about sharing the costs and benefits of human-capital development. Neither unlimited public funding nor full reliance on conventional student debt is sustainable.

International experience shows the potential of income-contingent financing to reduce upfront barriers, while developing-country cases highlight institutional capacity. South Africa's unemployment, inequality and fiscal constraints, however, require adaptation rather than imitation.

A tiered model combining targeted government grants, income-contingent loans, performance incentives and employer contributions, supported by a revolving national fund and moral-hazard safeguards, could distribute costs equitably, improve fiscal sustainability and protect access.

Ultimately, South Africa must build a system that secures access, shares risk and sustains public investment across generations.

# 7. Recommendations

Success depends on implementation as much as design.

First, pilot the model for three years at a few institutions, including a university, a university of technology and a TVET college, assessing enrolment, graduation, employment, repayments and costs before phased national rollout.

Second, begin repayments above a threshold near graduates' median starting salary, with contribution rates rising with income.

Finally, SARS could collect repayments by income, with personal information protected; success should be measured by graduate employment, completion and repayment rates rather than spending alone, with regular stress-testing against unemployment, wages and lower repayments. The model should be regularly tested against unemployment, changing wages and lower repayments to identify possible future costs to government.

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