The Graduate Compact: Sustainable Student Financing for South Africa

Word count: 2,191

1 Introduction

South Africa's National Student Financial Aid Scheme (NSFAS) has budgeted R54.3 billion for 2026/27, yet reported a R15.01 billion funding gap in August (National Treasury: 2026a; Parliamentary Monitoring Group: 2026). Closing that gap would cost approximately 0.18% of GDP (National Treasury: 2026b). Graduate unemployment was 12.4% in the second quarter of 2026, against 33.6% overall (Statistics South Africa: 2026). Expanding access is needed, but someone must fund it.

This essay proposes a Graduate Compact built on four commitments. 1. Protect bursaries for poorer students. 2. Pilot a mix of grants and income-contingent loans for those above the already existing bursary threshold, so repayments now rise only with earnings. 3. Raise the skills levy to fund most of the remaining shortfall. 4. Require government to publish the cost of every promise. Drawing on student funding schemes in Australia, Brazil and Kenya, the Compact shares responsibility for access without promising unfunded places.

This essay examines funding pressures, fair access, employer contributions and international lessons, then sets out the Compact.

2 Why the current model is under pressure

NSFAS is funded almost entirely by government. Government transfers provide R52.9 billion of its R54.3 billion budgeted revenue in 2026/27, including R50.9 billion from the Department of Higher Education and Training. Loan repayments are expected to generate R250 million (National Treasury: 2026a). Loans for the “missing middle” are funded separately, from a skills-levy allocation (SAnews: 2024).

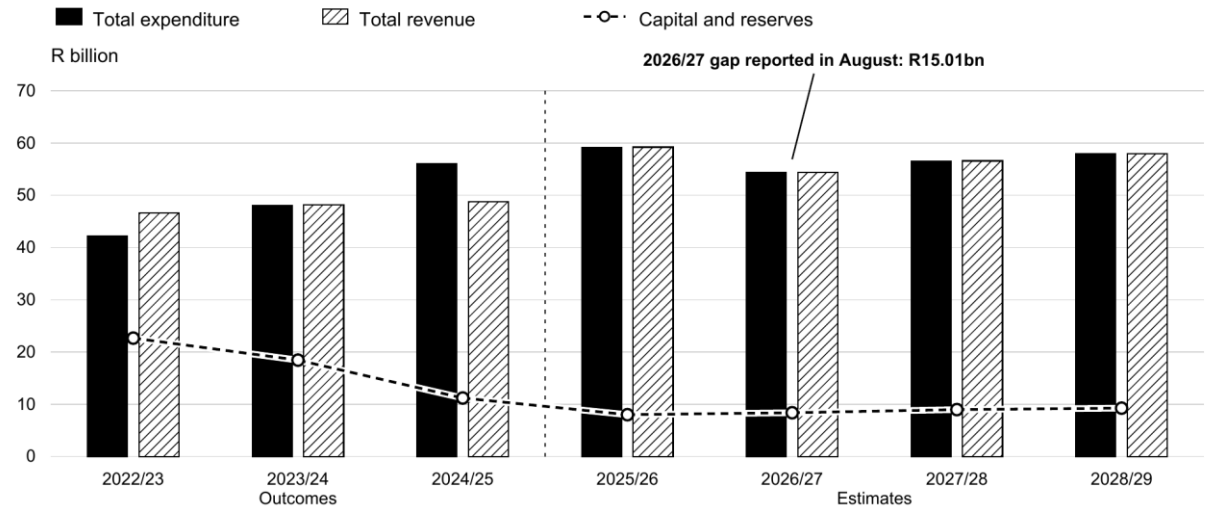
NSFAS expenditure increased from R42.2 billion in 2022/23 to an estimated R59.2 billion in 2025/26. A R7.25 billion deficit in 2024/25 helped run down reserves from R22.7 billion in 2022/23 to an estimated R8.0 billion in 2025/26 (National Treasury: 2026a).

The 2026/27 expenditure budget is 8.2% below the 2025/26 estimate. After adjusting for forecast inflation of 4.8%, the cut is about 12.4% in real terms (author's calculations from National Treasury: 2026a; 2026b).

The October Medium Term Budget Policy Statement (MTBPS) identifies NSFAS as a significant spending risk. Debt service absorbs 20.7% of main-budget revenue in 2026/27. Over the medium term, these interest costs exceed health and basic-education spending separately, leaving little room for new commitments (National Treasury: 2026b). Closing the funding gap permanently requires additional revenue or spending reductions elsewhere.

August's briefing reported university intake of 627,304 against 483,474 budgeted (Parliamentary Monitoring Group: 2026). Figure 1 compares expenditure, revenue and reserves.

Figure 1: NSFAS expenditure, revenue and reserves, 2022/23–2028/29 (R billion)



Source: National Treasury (2026a), Table 17.28; Parliamentary Monitoring Group (2026). R billion, nominal. Figures from 2025/26 are estimates. The August gap is separate from the February budget projections.

A balanced budget on paper does not mean every eligible student is funded.

Administration also needs attention. Collections in 2021/22 were R303.5 million against a R41.04 billion nominal loan book, less than one cent per rand outstanding (NSFAS: 2022). This reflects a single year’s collections, not the amount eventually repaid. The 2024/25 audit disclaimer raises concerns about financial controls, while none of 3,102 eligible missing-middle applicants had received a 2026 loan by 12 August (Department of Higher Education and Training: 2026; Parliamentary Monitoring Group: 2026). Income-contingent loans will only work if records are reliable and payments are made on time.

Replacing bursaries with public loans would not solve the immediate shortage, because government must pay institutions under either arrangement. Loans can recover costs later, but students need funding today.

3 Protecting access fairly

Income alone is an imperfect measure of financial need. Historical research places approximately 86% of wealth with the wealthiest tenth (Chatterjee, Czajka and Gethin: 2022). Assessing income alone overlooks resources that families already own.

Using historical household data, Whitelaw, Branson and Leibbrandt (2025) identify roughly 60% of the population as persistently NSFAS-eligible and approximately 2% as a vulnerable missing middle. This suggests that the R350,000 threshold should be retained while offering a different kind of support above it.

Table 1 shows why no single targeting rule is sufficient.

Table 1 Strengths and weaknesses of targeting rules

Rule	Strength	Main weakness
Household income	Identifies low earnings	Misses wealth and income shocks
Social grant receipt	Identifies verified poor recipients	Excludes poor non-recipients
School quintile	Indicates school disadvantage	Misses poor learners in better resourced schools
Race weighting	Recognises historical disadvantage	Does not establish individual financial need

Source: Author's comparison, informed by Whitelaw, Branson and Leibbrandt (2025).

Each rule misses a different group, so combining indicators requires careful consideration. The Constitution protects progressive access to further education and fair administration. Under *Van Heerden*, redress measures must target disadvantaged groups, advance them and promote equality (Republic of South Africa: 1996; Constitutional Court: 2004).

4 The contribution of employers and skills funding

Private employer bursaries can supplement public funding. The generic Broad-Based Black Economic Empowerment (B-BBEE) scorecard rewards companies that spend up to 2.5% of

payroll on higher education bursaries for Black students (Department of Trade and Industry: 2019). However, recognised spending may include bursaries firms would have provided anyway.

Assessing employer contributions therefore requires separating total spending from additional support and any taxpayer contribution.

Skills Development Levy receipts are estimated at R27.37 billion for 2026/27 (National Treasury: 2026b). The R3.8 billion missing-middle allocation and Treasury's proposed pooling of skills surpluses redirect existing public money (SAnews: 2024; National Treasury: 2026b). Redirecting this money reduces resources for other skills programmes. Unused funds provide temporary relief, while lasting commitments require lasting revenue.

5 Lessons from international experience

Australia, Brazil and Kenya are selected to examine three challenges relevant to South Africa: collecting repayments, controlling taxpayer costs and allocating assistance fairly. Their experiences inform the model, while differences in labour markets and administrative capacity limit how much can be applied.

5.1 Australia and affordable repayment

Australia links repayments to earnings through its tax system. Employers deduct repayments, which are reconciled annually. In 2026/27, borrowers initially repay 15% of income above AUD69,528 (Australian Government: 2026). This protects people earning below the threshold.

The government estimates that 11.94% of new 2024/25 Higher Education Loan Program (HELP) debt will not be repaid (Department of Education Australia: 2025). Loans therefore still carry a public cost. South Africa does have a base to collect from: 95.6% of employed graduates work in the formal sector (Statistics South Africa: 2025). This excludes unemployed graduates. The lesson is the collection system, not Australia's repayment results.

5.2 Brazil and the cost of income protection

Research on Brazil's Fundo de Financiamento Estudantil (FIES) loans finds that fixed repayment schedules place a heavy burden on many graduates and contributed to defaults. Repayments linked to income can ease this pressure, but they can also leave taxpayers covering large unpaid balances (Dearden and Nascimento: 2019).

The authors recommend full revenue-system involvement to broaden the earnings base. South Africa can draw two lessons. First, collection should combine payroll deductions with an annual

assessment through SARS. Second, because some balances will never be repaid, government should report the present value of the expected repayment.

5.3 Kenya and fair administration

Kenya's High Court declared the funding model unlawful in December 2024, finding inadequate legal authority, lack of public participation and discriminatory classifications, including by school type (High Court of Kenya: 2024). A March 2025 appeal stay allowed the model to continue with safeguards, including a process for students to challenge their classification (Universities Fund: 2025).

This experience highlights the need for consultation, understandable assessments and opportunities to correct mistakes. School-based allocation requires particular care.

6 Conclusion

This analysis examined how South Africa can finance wider access through fair targeting and international lessons. The funding gap reflects commitments growing beyond recurring resources. Existing employer incentives and pooled levies mainly redirect money, while reserves offer temporary relief.

Australia demonstrates tax-based collection, Brazil exposes subsidy costs, and Kenya shows the importance of lawful administration. Loans cannot close today's cash shortage. Protecting bursary terms within an unchanged budget still leaves eligible applicants unfunded. Lasting gains in access require additional revenue alongside affordable repayments, transparent allocation and a requirement that employer funding be additional.

7 Recommendations

7.1 A higher skills levy funds most of the gap

Retain full bursary terms up to household income of R350,000 (Department of Higher Education and Training: n.d.). This essay recommends raising the skills levy from 1% to 1.5%, keeping the exemption for annual payrolls of R500,000 or less (SARS: n.d.).

On an unchanged payroll base, the increase would raise about R13.7 billion annually, leaving a gap of about R1.3 billion (author's calculation from National Treasury: 2026b). Legislation should earmark extra revenue for NSFAS while preserving existing training allocations, so bursaries do not displace workplace learning. Parliament must fund the remainder before

guaranteeing full coverage. Verified, unspent skills surpluses could cover the shortfall in the meantime, but cannot also fund the pilot.

Employers benefit from graduate skills, supporting their contribution. However, payroll taxes can reduce wages or hiring, so workers may share the cost (Carloni: 2021). After five years, the increase should be reviewed for its effects on employment and enrolment, separating these from other economic changes.

7.2 Graduates repay when they earn

Students face credit constraints when they cannot borrow against future earnings. The proposed loans help students finance their studies and protect borrowers who later earn less than expected. Graduates with higher earnings repay part of the cost, sharing the funding burden with taxpayers, while grants protect poorer households from debt.

A limited pilot would support new entrants at higher education institutions, from households earning R350,001–R600,000. The tuition grant would decline continuously from full tuition at R350,000 to zero at R600,000, with a loan covering the remainder. This removes the tuition cliff at R350,000.

At household income of R450,000, the grant would cover 60% of tuition. Tuition of R60,000 would mean a R36,000 grant and R24,000 loan. Actual fees differ across institutions and qualifications.

Enrolled students keep their original terms. New entrants are funded for the minimum duration plus one year. Balances would rise only with inflation, with residual debt written off after 25 years, death or permanent disability. Unlike Dearden and Nascimento's (2019) preferred design, balances carry no real interest, a deliberate subsidy to keep debt affordable.

Repayments would equal 10% of annual income above an inflation-adjusted R200,000 threshold. Someone earning R300,000 would repay R10,000 annually, or 3.3% of gross income. Those below the threshold would pay nothing. A lower threshold would recover more but burden new graduates.

The proposed SARS collection system would need legal authority to collect repayments and should protect personal information, maintain accurate balances and allow borrowers to request corrections (Republic of South Africa: 2013, ss. 16, 19 and 24). Under the proposed model, an annual assessment would reconcile payroll deductions and determine the final repayment due.

7.3 Government shows the cost

Existing obligations and continuation funding should take priority. New awards should consider financial need, household size and income shocks (Whitelaw, Branson and Leibbrandt: 2025). School history may prompt individual review but never automatic exclusion. Redress weighting must comply with section 9(2) (Republic of South Africa: 1996; Constitutional Court: 2004). Published reasons, accessible appeals and safeguards for estranged students would aim to reduce unfair exclusion. Access should be reviewed across income and racial groups.

The pilot requires available missing-middle funds and permission to fund grants. The original allocation funded loans (SAnews: 2024). If the funds lawfully cover the bursary shortfall, unfunded poorer students should come first. The pilot must not displace bursaries.

For illustration, admitting 2,500 students annually for four years, each supported for four years at R60,000 annual tuition, costs R2.4 billion (a three-year course plus one). Administration and completion support of R100 million annually through year seven adds R0.7 billion. Seven-year costs are estimated at R3.1 billion at unchanged prices, including R1.2 billion after year four.

The remaining R0.7 billion provides headroom only if the full R3.8 billion is uncommitted. Before admitting students, actual course lengths, fees, inflation and support costs must fit confirmed funds, and reduced if they exceed available fund.

Table 2 distinguishes the pilot's full commitments from the existing shortfall.

Table 2 Funding needs and limits

Component	Cash requirement	Funding condition
Bursary shortfall	R15.01bn if persistent	Proposed levy adds R13.7bn before behavioural effects
Pilot	R3.1bn through year seven at unchanged prices	Reserve all cohort costs within verified funds
Remaining shortfall	About R1.3bn annually	Explicit additional appropriation required

Source: Author's calculations and proposal, using Parliamentary Monitoring Group (2026) and National Treasury (2026a; 2026b).

Government should publish each cohort's expected subsidy, including unpaid debt. Expected repayments should not finance immediate awards. Additional B-BBEE recognition should reward

verified spending above an inflation-adjusted baseline, so existing bursaries are not simply relabelled.

7.4 Limitation and further research

Evaluation should measure extra enrolment and completion against the existing offer, net of any awards it displaces. Pilot admissions should stop after four years unless evaluation supports renewal; existing commitments must be honoured.

The main limitation is the lack of data on new graduates' earnings and applicants by income band. Further research should simulate repayments, estimate how employers respond to the higher levy and address the loss of living-cost support above R350,000.

Wider access needs a lasting agreement about who pays. Employers who need graduates, and graduates who can afford repayments, should help finance the next generation.

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