

HOW SOUTH AFRICA CAN BUILD A FISCALLY SUSTAINABLE FINANCING MODEL THAT ENHANCES ACCESS TO HIGHER EDUCATION

As a higher certificate distance student from Duduza going to Florida for exams, I experience access two ways. Financial access: myNSFAS portal says 'approved' but allowance is late, while my neighbour - a cashier's daughter earning R500k is denied because she is R50k over the R350k threshold, the missing middle. She sits at home with matric bachelor, cannot register at Unisa because her mother earns R41,666 per month before deductions, but after rent, transport and food, there is zero for R12,000 fees. Access without fiscal sustainability is just a queue that moves slowly. Sustainability without access is austerity that excludes. South Africa needs both, together.

The answer is to replace our unfunded universal fee-free grants with a targeted hybrid that enhances access while saving fiscally: (1) Income Contingent Loans via SARS, (2) Banded cost-sharing for the missing middle, (3) PPP risk-sharing with private capital, (4) Performance-based funding for throughput. International experience from Australia, UK and Scandinavia proves targeting enhances access more than universal free ever promised, and protects the fiscus.

Fiscal Context: Why We Must Reform Urgently

Treasury 2026 Budget Speech: debt stabilises at 78.9% of GDP in 2025/26, first time in 17 years, deficit narrows to 4.5% of GDP, primary surplus 0.9% of GDP rising to 2.1% in 2028/29. This is hard-won progress after COVID. But it is fragile. SARB MPC growth only 1.2% in 2025 and 1.4% in 2026, repo rate held at 6.25% in January 2026, now prime persists at 11.75% as inflation is 4.4% versus the new 3% target band. Debt service costs absorb 22% of revenue - 22 cents of every rand collected goes to interest, not to students. Low growth, high rates leave no space for open-ended grants that grow faster than GDP.

NSFAS budget was disbursing R24bn of R44.7bn for 811,000 students in 2024, with R11bn shortfall declared for accommodation alone. Our model promised more than resources. First-year full costs are covered, second-year top-slices hit universities and landlords. Credit lesson: every threshold deserves still funded, but we funded tuition while accommodation collapsed. NSFAS now spends more on accommodation than tuition, paying 95% of students via private accommodation providers and fintech middlemen like eZaga, owes universities R8bn to R10.6bn in unpaid fees. It blocks access: late allowances mean evictions in Braamfontein, students sleeping in libraries, Unisa distance students cannot buy data to submit assignments on Moodle. My allowance for February arrived in April, after exams. In 2025/26, 1.18 million students will seek post-school access; the state cannot fund them all as 100% grants. We need a model that saves money and expands access at same time.

How to Build a Sustainable Model that Enhances Access

1. Income-Contingent Loans via SARS - Australia Lesson Enhances Access for Poor and Protects Vulnerable

Australia's Higher Education Loan Program (HELP) threshold was \$54,430, in 2025/26 lifting to \$67,000 with repayment at 15 cents per dollar over \$67,000 to \$162,499. Below threshold, pay zero. Above threshold, repayment rises progressively. This enhances access because fear of debt stops poor students from enrolling more than debt itself. Research from Australia shows 23% of low SES students said they would not enrol if loan was bank loan with fixed repayment. With ICL, a Duda student knows: If I earn R0, I pay R0. No loan shark. No blacklisting at age 22. No garnishee order. No 15% commercial bank loan that requires mother as surety who does not qualify. Australia's collection rate is 89% via Australian Taxation Office because repayment is automatic via PAYE, low cost, high compliance, no need for debt collectors.

Propose SA ICL: Band A (R0-R350k household income) retains full grant plus capped accommodation and data allowance at R50k per annum, paid directly to university or accredited landlord. Band B (R350k-R600k) and Band C (R600k-R900k) get ICL collected via SARS PAYE, threshold R54,000 per annum income of graduate, 5% marginal above threshold, collected monthly via employer like UIF. SARS already collects via eFiling, using existing IRP5 and EMP201, low incremental cost, high compliance due to third-party reporting. Treasury saves upfront: R15bn ICL book means R15bn less grant now in 2026/27, repayments recycle from 2028 onwards when graduates earn, enhancing future access for next cohort. A graduate earning R120k pays 5% of (R120k-R54k) = R3,300 per year, about R275 per month via employer, less than DSTV. Coverage helps repayment after 2-year repayment holiday after graduation to allow job search. Sustainable and progressive, unlike commercial bank loans at CPI+1% to CPI+7% (10-15%) that excludes missing middle. This is not abandoning students; it is protecting Band A fully while extending to Band B and C who currently get zero. It also saves because ICL is not grant - it returns.

2. Banded Cost-Sharing - Enhances Access for Missing Middle and Removes Cliff

Current cliff excludes 40% of households - the Econ3x3 missing middle analysis shows families earning R350k to R900k are too rich for NSFAS, too poor for banks. A family earning R351k gets zero, R350k gets everything: full tuition, accommodation, books, data. That is a R50,000 penalty for R1,000 extra income. That destroys incentive to work and encourages under-declaration. International experience: UK income-linked repayment with progressive interest up to RPI+3% shows if threshold is too high and interest too high, debt balloons - UK student loan book now £236bn with 25% expected write-off, interest at 7.3% caused graduate anger. So set realistic thresholds and banded support with zero real interest for low earners.

Propose: Band A R0-R350k: full grant + capped accommodation/data at R50k. Band B R350k-R600k: 60% grant + 40% ICL at CPI (currently 4.4%) - so if fees are R50k, state pays R30k grant, student gets R20k ICL that only repays when earning. Band C R600k-R900k: 0% grant, full fee optional ICL at CPI+1%, capped at R50k per year to prevent over-borrowing. This enhances access because my neighbour at R500k now gets R30k grant plus R20k ICL instead of zero, instead of being forced to take bank loan at 15% or drop out after one semester. Fiscally, stop subsidising rich at R900k+, target poor, improves equity and saves R5.2bn annually if 150,000 Band B students shift from 100% grant to 60% grant - that is R20k saving per student times 150k = R3bn, plus savings from Band C full ICL = R2.2bn. Students retain choice: TVET college for artisans, Unisa distance for working learners, or contact university. For Unisa, module-based funding enhances access: pay per module passed, not per year enrolled, reducing R10.14bn NSFAS debtors book that sits as uncollected because students registered for 10 modules but wrote 3. Banded model removes cliff, extends access to 100,000 more students within same envelope.

3. PPP Risk-Sharing - Finances Access Without Raising Debt to 78.9% of GDP

With debt at 78.9% of GDP, state cannot fund 1.18m students by 2030 alone from budget. Scandinavia shows universal free works only with high tax-to-GDP 45% and low inequality (Gini 0.27) and high graduate tax recovery. South Africa tax-to-GDP is 25%, Gini 0.67, unemployment 32%. Universal free cannot work here without crowding out health, basic education and social grants. Instead, use Treasury guarantee model already proposed for Eskom transmission R120bn and for infrastructure fund: state guarantees 50% first-loss for commercial banks to fund Band B ICL at CPI+1%, banks using efficiency of digital wallets like TymeBank, Capitec and eZaga to disburse in 24 hours vs NSFAS 60 days, creating R6.1bn saving on accommodation middleman failure and corruption. Future Private Skills Fund: e.g., Sasol, Transnet, Anglo, Old Mutual fund Higher Certificate in Economics or Engineering in exchange for 2-year internship or service contract, enhancing access for TVET and distance learners without pushing debt to 78.9% of GDP. Old Mutual already funds bursaries - scale it via tax incentive section 18A.

SARS collected ICLs above R300k per annum income, R15bn private capital guaranteed 40% by fiscus, funding linked to graduation and employment outcomes via DHET data. This saves R2.4bn in direct fiscal costs in year one, enhances access for low income, missing middle students, and brings market discipline to accommodation market because banks will only pay accredited landlords who deliver. Banks already have infrastructure: Capitec Global One, TymeBank wallets disburse in 24 hours, biometric KYC, no ghost students. Students get allowance on time, can buy data, stay in class.

4. Performance-Based Funding - Enhances Access to Completion, Not Just Entry

Access is not entry, it is graduation and employment. Current input-based subsidy formula pays universities for enrolment headcount, so universities enrol 10,000 but graduate 5,000 with no incentive to support completion, especially for at-risk distance students. That wastes money and blocks next cohort because funding is tied to seat, not success. Purpose: change DHET funding formula to 60% enrolment, 20% graduation on time (N+1), 20% employment/self-employment via SARS data linkage and QCTO tracer studies. For Unisa distance, reward module completion, not registration: pay university when student passes 5 modules, not when registers for 10. This supports throughput, reduces R10.14bn arrears where students owe because they failed and NSFAS did not pay repeat, improves tax base when more graduates work, which reduces debt to 76.5% by 2028/29 - a virtuous cycle that funds more access. If a university graduates more Duduza students, it gets more funding next year, not less. That enhances access to success, not just access to debt.

Budget Speech Recommendation and Implementation

Mr Speaker, to build a fiscally sustainable model that enhances access, we restructure NSFAS in three steps from 2027: one, low income Band A retains full grants with biometric controls and direct payment to universities; two, missing middle Band B and C accesses ICL via SARS PAYE at 5% marginal above R54k, collected via eFiling; three, private capital via 40% guarantee risk-share funds accommodation and TVET, with disbursement via bank wallets; and four, funding to institutions linked to graduation and employment. This saves R2.4bn in year one, R5.2bn by year three, enhances access for 100,000 missing middle students within same R44.7bn envelope, and reduces fiscal risk. This is progressive, because the rich repay when they earn high income, the poor pay zero when they earn zero, unlike flat bank loans.

Sustainability is not abandoning students. It is ensuring choice and certainty. A student in 2030 gets allowance on time on 25th, finishes higher certificate in one year not three, gets job in Old Mutual or government and pays forward R275 per month, creating revenue that keeps debt at 76.5% and funds the next student from Duduza. That is access that lasts. That is the Old Mutual lesson: sustainable finance enhances access, it does not cut it. That is what the Budget should fund.

References National Treasury (2026) Budget Speech and Budget Review SARB MPC Statements January and March 2026 NSFAS Annual Reports 2023-2025 and Auditor-General Report Australian Government HELP Threshold Reform 2025 and ATO Collection Data UK Student Loans Company Statistical Release 2024 Econ3x3 Missing Middle Analysis - Van der Berg et al. OECD Education at a Glance 2024 - Chapter on Funding World Bank South Africa Public Finance Review 2024