

A Two-Pillar Financing Model for South Africa

[1717 words, excl. references]

Introduction

If nothing changes, South Africa is on the verge of producing a lost generation. The South African government has struggled to find an equitable and fiscally sustainable financing model for higher education for years. Rising student debt, high graduate unemployment and funding shortages of NSFAS contribute to the escalating student financing problem. The problem is clear: without a long-term solution, South Africa risks widening inequality and limiting the future workforce.

The purpose of the following essay is to argue that South Africa can build a fiscally sustainable student-financing model by adopting a 2-pillar hybrid approach that takes inspiration from successful systems seen around the world. Using examples from the Nordic countries' fully publicly funded tuition model, the United Kingdom's graduate tax system, and Germany's tuition free model, this essay will explore how these concepts can be applied to better suit South Africa. Particularly, it will highlight how a salary-based education levy and public-private partnerships can provide universities with a 2-pillar solution to maintaining access to higher education. Through combining all these methods, South Africa will be able to ensure access to higher education while maintaining fiscal responsibility.

Section 2: The First Pillar

2.1.1 The Nordic approach – (Pillar 1)

All levels of education are funded through taxation in Nordic countries (Enache, 2026), which has resulted in over 45% of their population completing higher education. By contrast, South Africa's completion rate is only 20% (Mashilo, 2025), less than half of the Nordic countries. As outlined in the introduction South Africa needs to draw inspiration from these successful systems to create our own equitable and fiscally sustainable financing model. However, significant differences exist in the average taxation wedges: Iceland (31.5%), Denmark (35.8%), and Sweden (41.1%) (N.L.G.R., 2026), compared to South Africa's range of 18%–45% (South African Revenue Service, 2022). South Africa therefore needs to find a way to draw inspiration and implement this form of taxation, while also taking our country's income brackets into consideration.

2.1.2 Salary-based education levy

The idea for South Africa's first pillar is as follows: South Africa imposes a salary-based education levy that is triggered at birth. When the first child is born, parents start contributing a percentage of their income into a ring-fenced education fund. This levy is then invested into government bonds, JSE instruments, infrastructure projects etc. to grow over eighteen years. The salary-based education levy functions similarly to South

Africa's progressive taxation system (higher earners pay proportionally more). The table following illustrates examples of how this progressive system will function.

Household Income Levels	Levy % Amount	Monthly Contributions	Total Contributions (No Growth)	Future Value (5% Growth)	Coverage at University Entry
Low-income households	1.5%	R450	R97,200	R154,000	Year 1 + fractional living costs
Middle-income households	2%	R600	R129,600	R205,000	Year 1 + living costs, fractional year 2
High-income households	3%	R900	R216,000	R350,000	Multiple years + living costs

Table 1: Functioning progressive system example

When an account is expected to reach R350,00 with growth parents are allowed to stop paying for that child – Maximum contribution with growth equals to R350,000.

The salary-based education levy serves as a saving technique to South African parents to help with the future education expenses that will be incurred. The funds are not paid to/used by the government or external parties, thus it cannot be classified as taxation, instead, these funds are invested in the future of South Africa's youth education. The main purpose of this levy is to cover the costs of higher education, which reduces the financial burden on the state while expanding access to higher education for students.

2.1.3 Challenges and solutions

The main challenge that arises is low-income households that are unable to contribute to this education levy. These households therefore will make use of NSFAS, which already funds poor and working-class students so they can access higher education (NSFAS; 2018). If needed a combination of NSFAS and Pillar 2, which will be discussed in detail in Section 3, will be induced to help relieve the government.

The next challenge considers how the system should regulate the percentage taxed if more children are born to the same family. The solution correlates to the progressive system used in Table 1. Low-income households with additional children will make use of pillar 2, middle-income households with additional children will pay a variable 2% levy per child and high-income households with additional children will use a fixed 3% levy. These levy rates are however debatable and can be adjusted to match what South Africans are able to give, while still securing the future of our youth.

If a child decides not to pursue higher education, the allocated money is redirected towards training, induction or field-specific expenses to help firms reduce costs. Should any funds remain after five years, the balance is transferred back into a collective pool that supports bursaries or infrastructure projects. Independent audits and public dashboards show exactly how unused funds are spent to ensure trust with the public.

Section 3: The Second Pillar

3.1.1 India’s Public-Private Partnership - (Pillar 2)

South Africa should not only focus on the challenges it faces regarding education funding but also build and strengthen on the systems that are already working. South Africa’s Public-Private Partnership is an area with endless potential and when perfected can be of great use.

A public-private partnership (PPP) can be seen as a long-term contract between a government and a private party to fund projects such as co-funded scholarships and infrastructure by gaining financial resources from a mixture of private companies (banks, foundations) and government funding (Investopedia, 2024). Once again South Africa needs to draw inspiration from countries with systems that have been proven to be effective and successful. India for instance has one of the highest ranked PPPs in the world (Jain, 2026). When comparing Figure 1 to Figure 2 below it can be seen that there is a vast difference between India’s (PPP) statistics in higher education and South Africa’s (PPP) statistics. India’s PPP initiatives have given millions of students the opportunity to have access to higher education whereas South Africa’s PPP initiatives are limited.

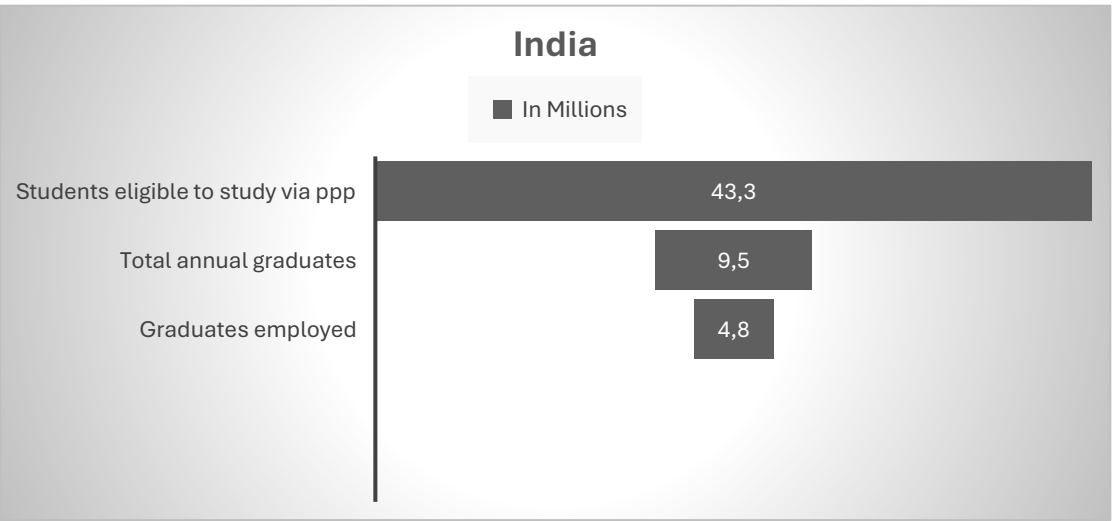


Figure 1: India's PPP regarding higher education

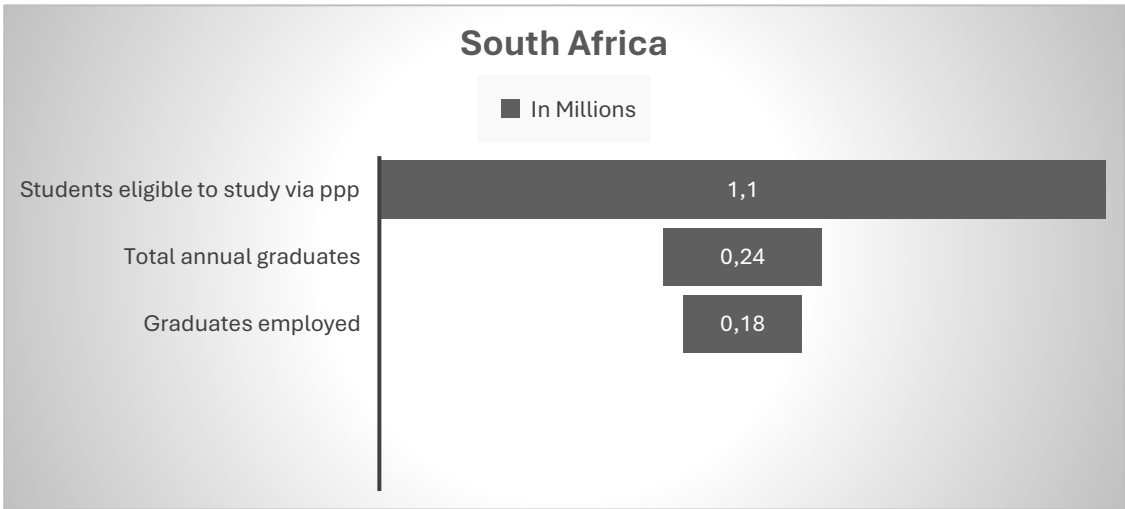


Figure 2: South Africa's PPP regarding higher education

3.1.2 Strengthening South Africa’s Public-Private Partnership

Investec is one of the main participants in Public-Private Partnerships regarding higher education in South Africa, having more than 10,000 learners benefit since the program's origin. Investec contributes through funding bursaries (30+ new full bursaries awarded per year), giving mentorship, and collaborating with public universities by providing academic programs to students (Investec, n.d.).

The second pillar will serve as support to the government to finance higher education, it can be described as a fusion between Co-funded Scholarships and Public-Private Partnerships.

The framework is as follows:

Households that can fully cover tuition do not make use of pillar 2, however households that can only cover part of the tuition, with the education levy, is then assisted by the corporate businesses participating in Public-Private Partnerships. NSFAS remains a crucial instrument for low-income households unable to contribute to the education levy, yet some households that are unable to afford higher education due to numerous reasons, do not qualify for NSFAS. The second pillar serves as an alternative instrument for **the middle group** (those whose income levels are too high to qualify for NSFAS, yet too little to fully contribute towards the education levy and achieve the R350,000 mark with growth).

3.1.3 Challenges and solutions

The central challenge regarding the full implementation of the second pillar for higher education is to find ways to encourage large South African corporate businesses to participate in Public-Private Partnerships. To combat the resistance from companies, a guiding principle should be that firms fund students in fields related to their fields. For example: Mining companies fund engineering bursaries, banks fund finance students, IT

firms fund computer science, etc. The students sponsored by these firms are then required to work for these firms for a specific number of years after graduation. Not only does this initiative help fund specific students, but it also reduces the unemployment rate as new graduates are immediately employed. Another way these firms can be encouraged to donate/fund students is a 1% - 2% tax rate decrease on total amount tax payable, as these companies are actively helping the government minimize the total amount of money spent regarding higher education.

Conclusion

South Africa is in desperate need for a fiscally sustainable financing model that will not only work for the next decade, but millennium. By implementing this 2-pillar hybrid approach, ring-fencing education levies and industry-aligned sponsorships, the lower-income level, “missing middle” and higher-income level households ensure higher education for their children and those to come after them. This approach does not ensure a fast or over-night success rate to fix the problems associated with access to higher education, but if implemented correctly and efficiently, the crisis regarding a fiscally sustainable financing model for higher education can be completely resolved in the next 10 years. Every rand directed to education is a seed, one that strengthens the economy, minimizes unemployment and drives ambition.

Recommendations

After extensive research I have seen how different countries around the world manage to finance higher education for their youth. Almost every country has a different way of managing this obstacle, but what is admirable is how they find ways to build and adapt their core strengths.

There is no need for South Africa to birth or import a first of its kind financing model that is superior and unmatched to others. Sometimes the best solution is the simplest solution. If South Africa can identify its areas of expertise, strengthen them and correctly formulate a long-term solution, we can effectively terminate the student financing problem in the next decade. I have designed this 2-pillar hybrid approach not only to address the financing issues South Africa faces, but also to reduce the unemployment rate. Not only will South Africa have a higher rate of graduates when this approach is implemented, but thanks to pillar 2 (Public-Private Partnership) these graduates will be employed immediately after graduation.

I believe this mindset and approach is the key that will trigger growth and innovation in our country and help us strengthen our future generations. The best solution is the simplest solution.

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