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BUDGET SPEECH COMPETITION

NSFAS RECOVERY FUNDS: A SUSTAINABLE STUDENT-FINANCING MODEL FOR SOUTH AFRICA

A Three-Pillar Constitutional Alternative

Topic:

How can South Africa build a fiscally sustainable student-financing model that enhances access to higher education?



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Introduction

“Education is the most powerful weapon which we can use to change the world” (Mandela, 2003). However, South Africa’s contemporary macroeconomic reality contradicts that, an indication that even the most powerful weapons require a financial blueprint. Even after three decades since the formal demise of apartheid, South Africa still faces fiscal sustainability challenges with higher education, the question remains whether South Africa can produce a sustainable student financial model, without reducing access to higher education. The “NSFAS Recovery Funds” represent a proposed financing mechanism designed to strengthen the South African student finance system. This essay pivots from a free educational system with no return to more inclusive sustainable system for the benefit of all South Africans.

Evaluation of South African student financial system (NSFAS)

The National Student Financial Aid Scheme (NSFAS) is a scheme created under the National Student Financial Aid Scheme Act No.56 of 1999 in November 1999, with the purpose to redress past injustices of South Africans. Since its establishment and overhaul in 2018 moving from income-contingent loan systems to a fully grant subsidised scheme, it has been beneficial for countless South Africans. According to Mokwebo and Sikhwari (2026, p. 140), NSFAS is not merely a financial support system but its financial assistance serves as a critical enabler for students, alleviating economic barriers that often hinder academic engagement and personal growth. Despite the system's success it revealed fundamental fragility through the emergence of the “missing middle”. According to Motsepe (2024) working-class communities feel alienated from the state’s education reform process and how the provision of education continues, which creates a wider problem for “missing middle”. This exclusion does not only include NSFAS but also national and provincial departmental bursaries and funding programmes run by Sector Education and Training Authorities (SETAs).

While the system achieves its mandate, it also results in no cost recovery and can be classified as a national liability. Actual grants received by NSFAS are presented in Figure 1.1. Source: NSFAS annual reports (2014/15 to 2020/21) from 2014 (R8.00bn) until 2021 (R36.52bn).

Recommendations/Proposal

A potential solution for this structural crisis can be the introduction of a public policy instrument namely South African Graduate Tax Service (SAGTS). SAGTS is a public policy established through an Act of Parliament. This requires a new act namely South African Graduate Tax Service Act 2027. This initiative will use existing systems and infrastructure of the South African Revenue Service (SARS) and the Department of

Higher Education and Training (DHET). SAGTS operates as a department within the Department of Higher Education and Training (DHET) under DHET supervision and internal auditing but with its own mandate to run its programmes. The policy consists of three pillars:

First pillar: Student graduation tax contributions

The graduation tax system is designed to shift the total cost of higher education to those who benefit from it. This system has been introduced as a non-state entity by Uruguay in 1994 under law 16524 named *Fondo de Solidaridad* (Uruguay, 1994). It is an annual tax deduction of 0.5% five years after graduation for 25 years until retirement through deferred payments. Funds are placed into an account to benefit the next generation of low-income students with free higher education (Cabrales et al., 2024, p. 15). This policy is similar, a model where all individuals who graduated pay a 1% tax into an account namely “NSFAS Recovery Funds”. Capital allocated to this account is used to sustain NSFAS. Figure 1.2 displays monthly tax amounts for different average salary groups. To prevent non-payments, SARS payroll tax will be implemented. South African average graduates (public and private) annually for 2020-2025 are 288,930 according to official Department of Higher Education and Training (DHET) reports (2020-2025) earning an average salary of R20,000×1%=R200. 288,930 × R200 = R57.79 million per month in tax revenue. ×12 Months = R0.69bn per year in tax revenue towards the “NSFAS Recovery Funds” with annual growth through graduation.

Second pillar: Reformation of South African legislation

The skills development levy is a payroll tax established under the Skills Development Levies Act No. 9 of 1999 in South Africa. This Act states every employer must pay a levy at a rate of 1% of the leviable amount section 3(b). 1% of total remuneration is collected for the benefit of human and skill development. A proposed amendment to assist this national liability is raising the SDL from 1% to 1.5% as the other 0.5% can go toward the “NSFAS Recovery Funds”. This increase is for developing the workforce of the next generation. It also serves as a basis to the account, averaging R22.67bn per annum between 2021/22 and 2025/26 (author's own calculations based on data from National Treasury, 2025 p.35) × 0.5 equals R11.33bn towards the “NSFAS Recovery Funds”. This account acts only as an inflow account from SDL collection.

To offset business resistance a tax claim will be offered by SAGTS through their savings account, a mandatory tax claim for all businesses. To prevent claim accounts (SETA) from drying a decrease in discretionary claim from 49.5 to 46.5 and an increase in the mandatory claim from 20% to 22%.

Figure 1.3 shows the SDL collection portions/split, and claim comparison between new 78.5% claim (Mandatory claim 22%+ Discretionary 46.5% + SAGTS 10%) and old 69.5% claim (current system Mandatory claim 20% + Discretionary claim 49.5%)

Third pillar: Mandate to enhance higher education

SAGTS is a policy that functions as a department within DHET with the mandate to operate NSFAS Tax Exchange programme and increase graduation pool. It is solely dependent on “NSFAS Recovery Funds” spending budget. For this part of the policy, enhancement can use different creative ways to grow the graduation pool. One of SAGTS programmes is:

The NSFAS Tax Exchange programme is a programme inspired by the Prouni programme in Brazil. Prouni is a Brazilian policy created for student funding. It is a model which exchanges scholarships for federal taxes in private institutions (Araujo, 2012, p. 33). Effectiveness of the policy gets displayed according to Ministry of Education, Brazil (2026), for the first half of 2026 alone, the programme offered 594,500 scholarships, bringing the total to 8.1 million scholarships offered and 27.7 million students enrolled between 2005 and 2026. South Africa faces the same challenges including admission from institutions and financial support. This programme is designed to support "missing middle" and low-income households. The extension of contracts to private institutions from government, offers a reduction in income tax in exchange for scholarship. The importance of this pillar is to ease financial pressure of households which results in an increase in the graduation pool. This is beneficial for both parties as more students from middle class and low-income households gain access to private institutions with financial support and for the private institutions they save money by tax reduction while filling empty seats. This also promotes local economic development by strengthening the relationship between local government and private institutions. This programme aims to progressively increase annual graduate output from approximately 288,930 (*current*) towards a target of 300,000 (*target*)

To prevent tax cut abuse contracts will be revoked and quarterly internal audits and external AGSA audits will be performed.

Control of the NSFAS Recovery Funds

The NSFAS Recovery Funds account will be a ring-fenced account under the National Revenue Fund, controlled by National Treasury in terms of the Public Finance Management Act No 1 of 1999. SARS will perform as agent by collecting the funds, a department within Department of Higher Education and Training (DHET) will execute

enhancement programmes and the Auditor-General of South Africa will audit the account annually to prevent misuse.

Account performance

“NSFAS Recovery Funds” is an account whose performance consists of a long term structural expenditure framework. This account follows a five year mature rule in a strict 10-year retention cycle, which divides the asset lifecycle into two phases namely collection years and harvest years.

Years 1-2: *Preparation*

This policy consists of a mandatory first 2 year stoppage period (year 1 & 2) during the collection years for preparation. Tax revenue continues as planned. This system needs capital accumulation by compiling tax debt and business tax. During this period negotiations and agreement occur.

Years 3- 4/ Year 10- 14: *Collection Years*

The Collection phase of the policy where the account absorbs more annual inflow as savings in order to build a capital base, by retaining 65% of annual inflow as savings and caps spending allocations at 35%.

On Year 10 the spending framework flips back to collection years for 5 years, until Year 14, then the cycle continues.

Years 5- 9/ Year 15-19: *Harvest Years*

The harvest phase of the policy occurs during and after the account matures in the fifth year. With harvest phase it refers to high outflow from the account by adjusting spending allocations to 60% to achieve the intent of policy while 40% is retained as savings from annual revenue.

*When account matures and savings are unlocked on the fifth year the full amount it gets divided into spending and reinvested as saving according to the phase it’s in. Long term planning occurs in a mature year as spending allocation gets divided into 5 and gets distributed annually and equally to each of the remaining years in the phase.

Spending allocations

- All allocations from this account are guided by the proposed South African Graduate Tax Service Act 2027. Treasury is responsible for annual spending allocation from this account, to cover all SAGTS expenditure (administration and programmes) a 10% will be allocated from annual spending while 90% gets

directed towards sustaining NSFAS. All allocations are distributed at the beginning of a new year before budget speech.

A preview of estimated collection for year 1, year 2 and year 3 is displayed in Figure 1.4. SDL collection consists of fixed average amount 11.33bn (second pillar calculation) annually. It also displays the graduate tax debt for 300,000 (SAGTS enhancement (target)) annual student graduates calculated from a R20,000 per month salary (300000×200×12= R0.72bn) for 3 years.

Argument

Earmarking will always make Treasury hesitant, as it should, earmarks narrow allocations and removes Treasury's flexibility with capital if circumstances of South Africa change, but this earmark proves to be different:

In this case it is justifiable as its purpose is beneficial for South Africans. This policy proves to be beneficial in more than one way this includes enhancing higher education, while growing revenue to sustain NSFAS. By earmarking the account it protects the capital from ministerial power and political interference.

Figure 1.5(a) is a continuation of Figure 1.4 with estimated savings and spending from “NSFAS Recovery Funds” with a fixed annual amount of R11.33bn from estimated SDL collection + tax revenue of 300,000 (average graduates SAGTS enhancement (*Target*)) students graduating annually for 50 years (business claims, risks excluded). Figure 1.5(b) is a table which shows estimated spending and saving allocations in Figure 1.5(a), proving a long-term investment which systematically reinvests and supports at the same time. This system would be highly beneficial for South Africa’s student fiscal stability in the future.

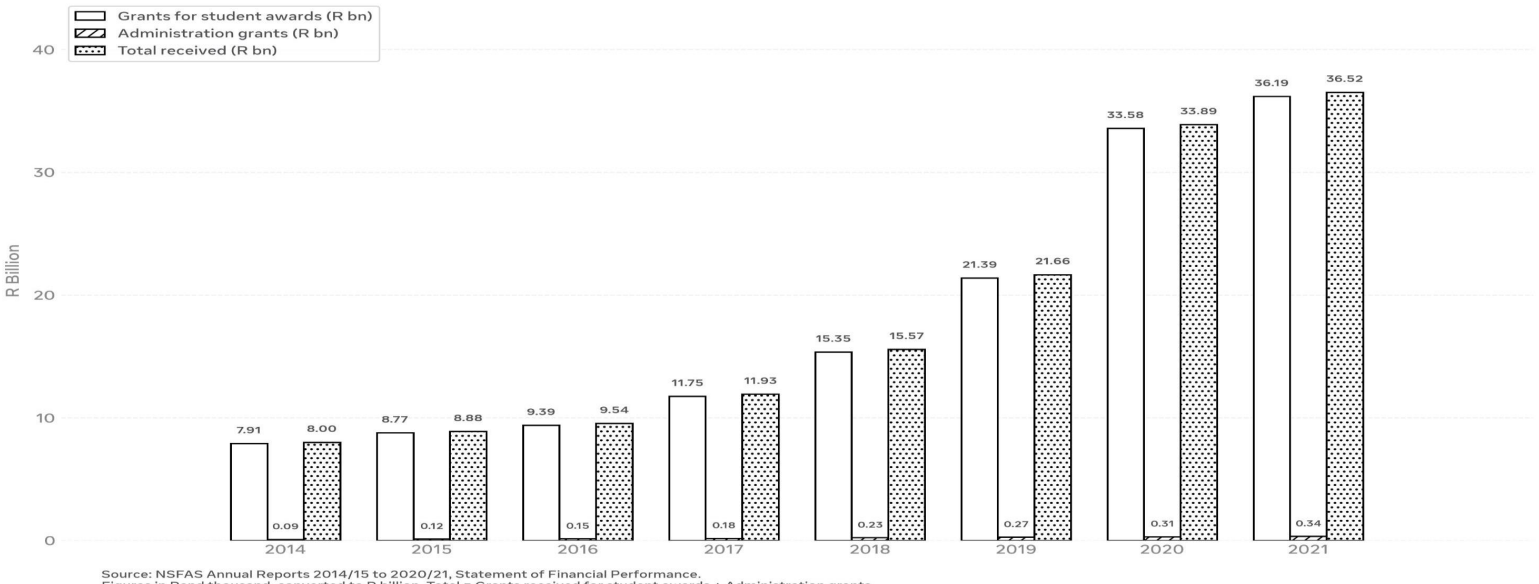
Conclusion

The South African student fiscal instability causes national concerns, as the student financial system is heavily dependent on Treasury. This essay demonstrates a second structural inflow from a long term growing account to help sustain NSFAS easing the pressure of Treasury. This system reveals fiscal stability is possible in the future systemically with its structural features. This policy is not designed to replace Treasury, but act as mutual financial support for NSFAS.

For this system to be successful, the administration of these pillars should demonstrate high professional ethics and moral standards. All allocations go towards the benefits of educational development for those in need. As a nation, we can strengthen our system

and fulfil the vision of Nelson Rolihlahla Mandela where every South African can have the most powerful weapon and change the world.

Figure 1.1: NSFAS Grants Received – Student Awards vs Administration Grants vs Total (2014–2021)



Source: NSFAS Annual Reports 2014/15 to 2020/21, Statement of Financial Performance.
Figures in Rand thousand, converted to R billion. Total = Grants received for student awards + Administration grants.

Figure 1.3: Second Pillar - SDL Act Reformation

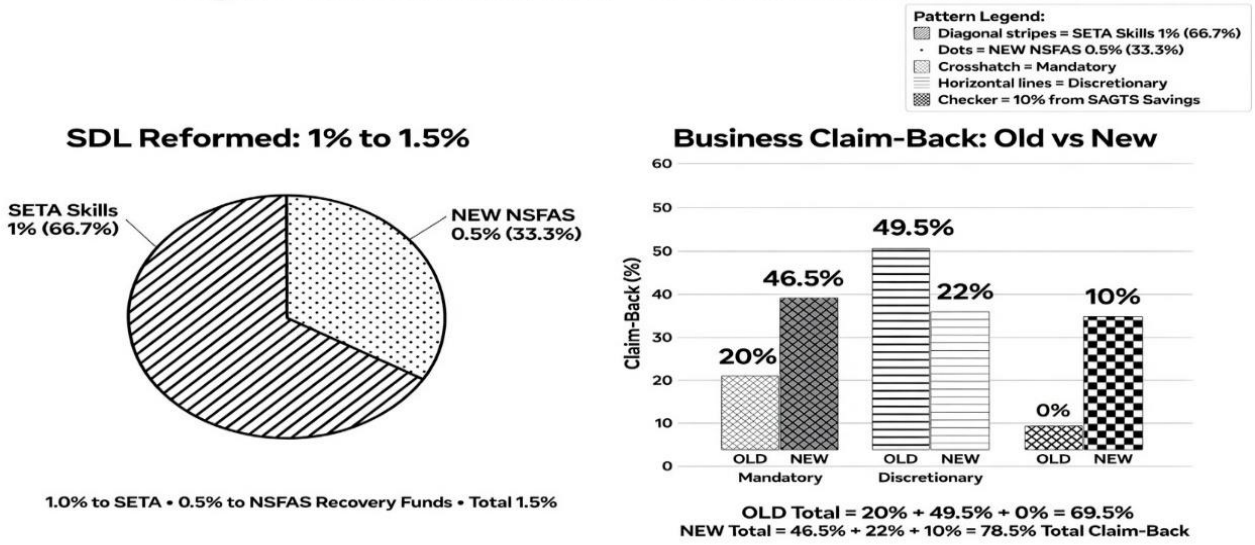
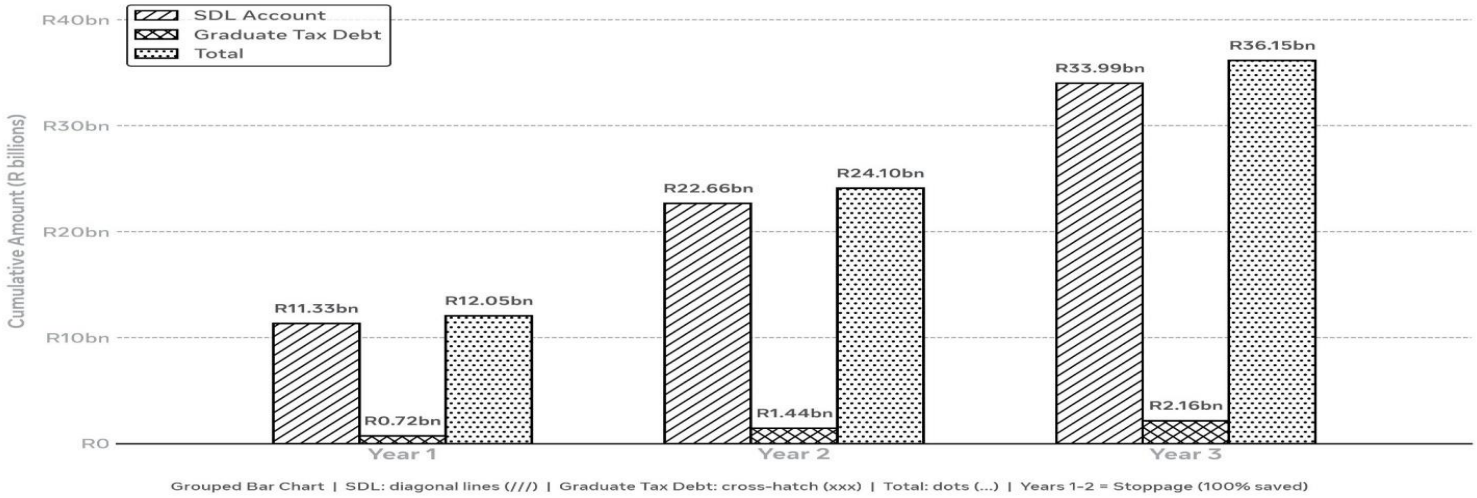
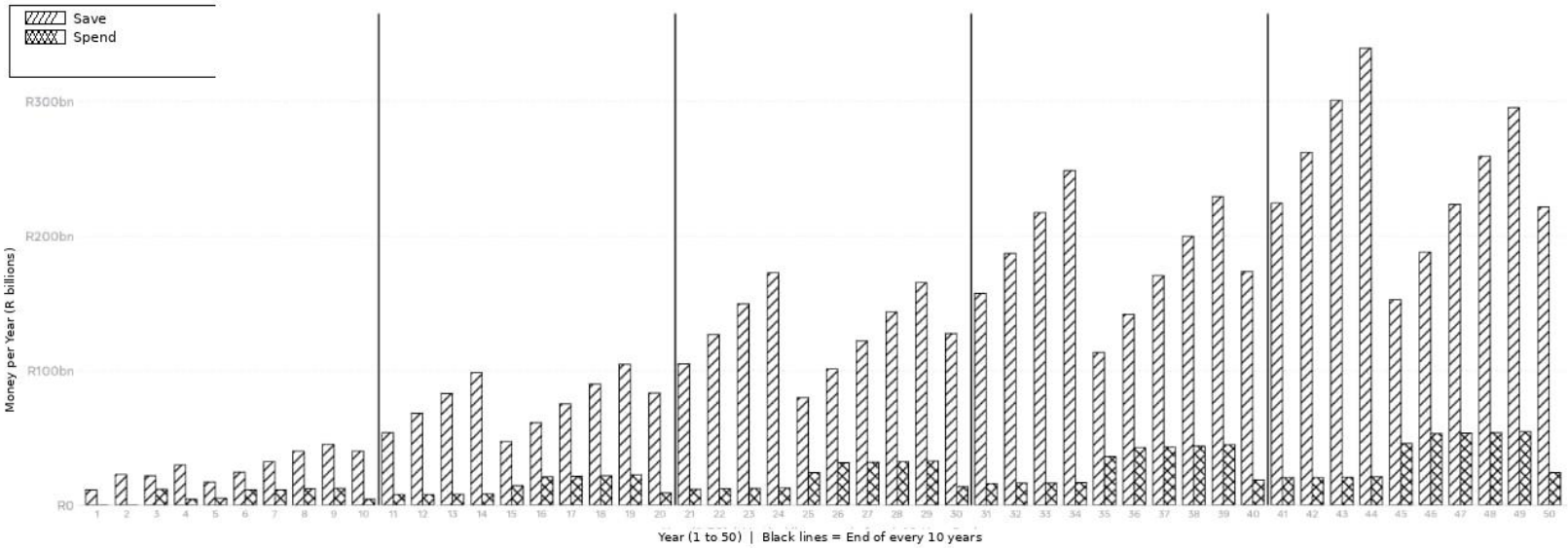


Figure 1.4: Allocations to NSFAS Recovery Funds
Years 1, 2 and 3



Grouped Bar Chart | SDL: diagonal lines (///) | Graduate Tax Debt: cross-hatch (xxx) | Total: dots (...) | Years 1–2 = Stoppage (100% saved)

Figure 1.5: Spending and Saving Allocations for 50 Years



Save = striped bars | Spend = checked bars | Collection years: Save is bigger | Harvest years: Spend is bigger
Money in each year = R11.33bn (SDL) + Graduate Tax

REFERENCE LIST

Figure 1.5(b) - NSFAS Recovery Funds

Estimated Spending and Saving Allocations (R billions) | 50 Years

Year	Saved (R bn)	Spent (R bn)
1	11.33	0.00
2	22.66	0.00
3	21.66	11.67
4	29.50	4.22
5	16.79	5.04
6	24.20	11.12
7	31.90	11.16
8	39.88	11.98
9	45.04	12.32
10	39.92	4.30
11	53.82	7.49
12	68.12	7.70
13	82.90	7.96
14	98.13	8.20
15	47.20	14.16
16	61.10	20.85
17	75.29	21.28
18	89.76	21.71
19	104.53	22.15
20	83.20	8.96
21	104.75	11.60
22	126.76	11.85
23	149.43	12.21
24	172.58	12.46
25	79.98	23.99
26	100.81	31.25
27	121.96	31.68
28	143.37	32.11
29	165.07	32.55
30	127.43	13.72
31	156.94	15.90
32	186.93	16.15
33	217.38	16.40
34	248.31	16.65
35	113.15	35.95
36	141.65	42.74
37	170.43	43.17
38	199.50	43.61
39	228.86	44.61
40	173.57	18.69
41	224.36	20.15
42	262.25	20.41
43	300.62	20.66
44	339.45	20.91
45	152.49	45.75
46	187.78	52.94
47	223.36	53.37
48	259.23	53.81
49	295.40	54.24
50	221.30	23.83
TOTAL	**221.30 ***	**1085.63**

* Total Saved = closing balance in Year 50, not sum of Saved column,
to avoid double-counting balances. Total Spent = sum of annual spending.

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