TOPIC

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

INTRODUCTION

Following the #FeesMustFall student protests, free higher education for households earning below R350,000 was announced in December 2017 by President Zuma. The total budget for the year 2024/25, is R2.37 trillion, with learning and culture taking R480.6 bn , with R53.6 bn allocated to NSFAS. The nation then experiences a debt service cost of R 382.2bn (National Treasury, 2024). Statistics show that the total budget for nsfas increased with approximately 40 bn+ from 2017 to 2024, with an increase of approximately 400 000 in the number of students (National Treasury, 2024, NSFAS, 2022), showing that demand grew faster than the total budget, which puts pressure on government spending and leads to more government debt. This essay argues that to ensure a stable and sustainable funding model that accommodates all eligible students while remaining fiscally affordable, the government must strengthen means-testing through SARS and Home Affairs verification , cap private accommodation allowances at R45,000 , and introduce a 3% graduate tax for loan recovery when graduates earn above R30,000. To achieve this, this essay will first evaluate the fiscal position using National Treasury's 2024 Budget Review, then analyse NSFAS expenditure using the NSFAS Annual Report 2022, and finally propose reforms drawing on academic literature and international best practice.

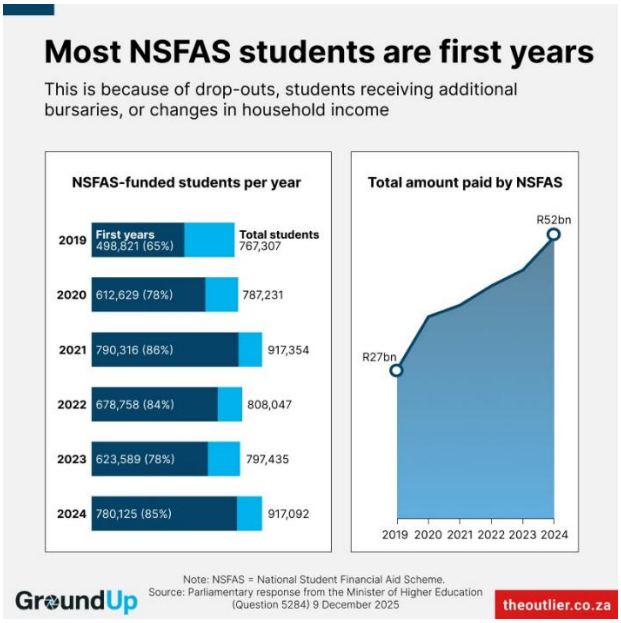
BODY

According to the National Treasury's 2024 Budget Review (Chapter 5), South Africa faces significant fiscal constraints that limit government spending. In the 2024/25 financial year, total government expenditure is projected at R2.37 trillion, of which R480.6 billion is allocated to learning and culture and R53.6 billion to NSFAS (National Treasury, 2024). NSFAS therefore accounts for approximately 2.26% of total government expenditure. In comparison, debt-service costs stand at R382.2 billion, which is about 7.1 times the NSFAS allocation. This highlights how the growing cost of servicing government debt places pressure on public finances, reduces the resources available for social programmes and restricts the government's ability to expand access to free higher education.

Despite the limited fiscal resources, the demand for NSFAS funding has increased significantly since 2017. NSFAS total spending increased from R15bn in 2017 to R53.6bn in 2024, more than tripling, while the number of students funded increased from 451,507 to 812,618 (NSFAS, 2022; National Treasury, 2024). This represents a 257% increase in expenditure compared to only an 80% increase in total government budget over the same period, indicating a disproportionate burden. NSFAS is 11.1% of

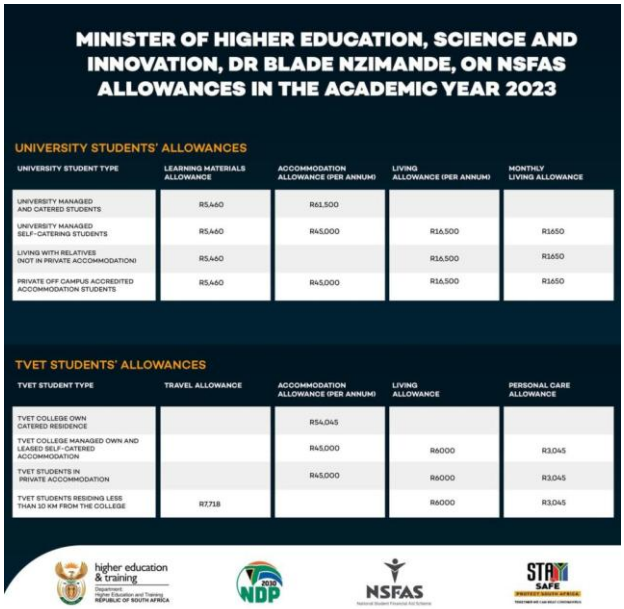
learning and culture budget. This indicates that demand is growing faster than the total budget, creating a structural funding gap. The occurrence of this trend without intervention may cause the funding model to be unsustainable, making reforms such as strengthened means-testing and cost necessary.

The first reform is to strengthen means-testing through SARS and Home Affairs verification. This involves strictly enforcing the R350,000 household income threshold by cross-referencing NSFAS applications with SARS data (Wang and Calvano, 2023). This reform is necessary because it prevents leakages and fraud where students from households earning above R350,000 receive NSFAS funding, while genuinely needy students below the threshold are excluded. By excluding ineligible beneficiaries, government expenditure on NSFAS is reduced and fiscal space is freed for students who truly lack financial means. While this improves targeting, it must be balanced with sufficient administrative capacity to avoid mistakenly excluding eligible poor students. Similar to Brazil's CadÚnico system, which links social welfare applications to federal tax data to prevent fraud, this verification would improve targeting efficiency and is supported by Wang and Calvano (2023) who emphasize data integration for social programmes.



The second reform is to control spending through capping accommodation allowances at R45,000 per annum. This reform prevents private accommodation providers from overcharging NSFAS students for rent and related administrative fees by setting a maximum threshold. This intervention is necessary because inflated accommodation costs have been a major driver of increased NSFAS expenditure, placing additional pressure on limited fiscal resources. By standardising the allowance, government spending is reduced, students can cover their accommodation fully with NSFAS funds, and student debt associated with accommodation shortfalls is minimised. However, this measure must be accompanied by regulation of the private accommodation market

and quality assurance to ensure that cost containment does not compromise students' living conditions and academic success. In the United Kingdom, universities regulate private accommodation through accreditation schemes that set maximum rent levels while enforcing quality standards, a model South Africa could adapt to protect students from exploitative pricing.



MINISTER OF HIGHER EDUCATION, SCIENCE AND INNOVATION, DR BLADE NZIMANDE, ON NSFAS ALLOWANCES IN THE ACADEMIC YEAR 2023

UNIVERSITY STUDENTS' ALLOWANCES

UNIVERSITY STUDENT TYPE	LEARNING MATERIALS ALLOWANCE	ACCOMMODATION ALLOWANCE (PER ANNUM)	LIVING ALLOWANCE (PER ANNUM)	MONTHLY LIVING ALLOWANCE
UNIVERSITY MANAGED AND CATERED STUDENTS	R5,460	R61,500		
UNIVERSITY MANAGED SELF-CATERING STUDENTS	R5,460	R45,000	R16,500	R1650
LIVING WITH RELATIVES (NOT IN PRIVATE ACCOMMODATION)	R5,460		R16,500	R1650
PRIVATE OFF CAMPUS ACCREDITED ACCOMMODATION STUDENTS	R5,460	R45,000	R16,500	R1650

TVET STUDENTS' ALLOWANCES

TVET STUDENT TYPE	TRAVEL ALLOWANCE	ACCOMMODATION ALLOWANCE (PER ANNUM)	LIVING ALLOWANCE	PERSONAL CARE ALLOWANCE
TVET COLLEGE OWN CATERED RESIDENCE		R54,045		
TVET COLLEGE MANAGED OWN AND LEASED SELF-CATERED ACCOMMODATION		R45,000	R6000	R3,045
TVET STUDENTS IN PRIVATE ACCOMMODATION		R45,000	R6000	R3,045
TVET STUDENTS RESIDING LESS THAN 10 KM FROM THE COLLEGE	R7,718		R6000	R3,045

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The third reform is to introduce a 3% graduate tax for loan recovery once graduates earn above R30,000 per month. This reform converts a portion of the NSFAS bursary into a recoverable contribution, where employed graduates contribute 3% of their income towards the NSFAS fund. This is necessary because the current bursary model provides no recovery mechanism, making the system entirely dependent on annual budget allocations which are constrained by high debt-service costs. By implementing this tax, NSFAS can generate its own revenue stream, reduce long-term dependency on the fiscus, and promote sustainability and shared responsibility for higher education funding. However, the design must ensure the threshold of R30,000 protects low-income graduates and does not discourage employment or burden graduates who are already facing high living costs. Australia's HECS-HELP system provides international best practice, where graduates repay their student loans through the tax system only once they earn above AUD 54,000, ensuring affordability and achieving a recovery rate of over 80% while maintaining access for low-income students.

In conclusion, this essay examines the unsustainability of the NSFAS funding model caused by unbalanced growth between student demand and the total budget. The evidence shows that NSFAS total spending has increased from R15 billion in 2017 to R53.6 billion in 2024, while the number of students funded increased from 451,000 to 812,000, at a time when debt-service costs alone reached R382.2 billion. To mitigate this problem, three reforms are proposed, which are strengthening means-testing, capping accommodation at R45,000, and introducing a 3% graduate tax. If effectively

implemented, these reforms can work together to ensure a long-term sustainable NSFAS funding model while protecting access for poor and needy students, thereby balancing fiscal responsibility with the constitutional right to higher education and contributing to South Africa's human capital development.

Reference

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