BUDGET SPEECH COMPETITION 2026 – UNDERGRADUATE

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How can South Africa build a fiscally sustainable student- financing model that enhances access to higher education? Refer to international experience in your analysis.

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

1. INTRODUCTION

South Africa faces a paradox that sits at the heart of the 2026 Budget. Higher education is constitutionally recognised as a right that the state must make progressively available, yet the current student-financing model is fiscally unsustainable. The National Student Financial Aid Scheme (NSFAS) expenditure grew from R5.9 billion in 2014/15 to over R54 billion in 2024/25, contributing significantly to fiscal pressure while still leaving an estimated 30% of eligible students unfunded (National Treasury, 2025: 72; Department of Higher Education and Training (DHET), 2024: 18).

As a student at Nelson Mandela University Second Avenue Campus, I experience daily how funding uncertainty affects completion rates. This essay, drawing on my EFSAS Economics understanding of factor markets and public goods, argues that South Africa needs a differentiated, income-contingent model that protects the poor, shares risk with beneficiaries, and learns from international experience.

2. THE CURRENT CRISIS: WHY NSFAS IS UNSUSTAINABLE

NSFAS was converted from a loan to a full bursary for households earning below R350,000 per annum in 2018. While it improved access, three fiscal problems emerged:

Firstly, it is a 100% non-recoverable grant with no graduate contribution, making it a pure fiscal transfer. Secondly, it has weak academic and means-testing controls, leading to over-commitment and accruals. Thirdly, it does not address the "missing middle" – students above R350,000 who cannot afford fees but are too rich for NSFAS (Van Broekhuizen & Cloete, 2023: 45).

The economic principle is clear: higher education is a mixed good with high private returns (average graduate premium of 60% in South Africa) and high public returns (World Bank, 2022: 12). A model where the state bears 100% of costs for a growing cohort is fiscally unsustainable when debt is 76% of GDP (National Treasury, 2025).

3. INTERNATIONAL EXPERIENCE

No country funds free higher education for all from the budget sustainably. Successful models blend instruments:

3.1 Australia – HECS-HELP (Income-Contingent Loans)

Australia introduced the Higher Education Contribution Scheme in 1989. Students repay only when income exceeds AUD 54,000, through the tax system at 1-10% of income (Chapman, 2022: 8). Repayment is automatic, low default, and fiscally sustainable because high earners repay. It protected access: low-SES participation increased from 15% to 18.5% after introduction (Norton, 2023).

3.2 United Kingdom – Differentiated Loans and Grants

The UK charges up to £9,250 per annum, funded by government-backed income-contingent loans. Repayment is 9% above £27,295, written off after 30 years. Crucially, maintenance grants are retained for the poorest (Department for Education, 2023: 34). The model recovers approximately 54% of loans long-term, far better than 0% for South Africa.

3.3 Chile and Colombia – Lessons from Failure and Reform

Chile attempted high-cost private loans with banks, leading to mass protests in 2011 because repayments were not income-linked and interest was high (Brunner, 2022: 112). It reformed to a US-style income-contingent system with a state guarantee. Lesson for South Africa: avoid commercial bank loans without income protection.

3.4 Rwanda – Targeted Cost-Sharing

Rwanda, a low-income country, introduced cost-sharing where beneficiaries pay 25-75% based on ubudehe poverty categories, recovered via a 8% payroll deduction (World Bank, 2022: 28). Recovery rates improved from 8% to 62%. It shows means-testing can work in AfAfrica.

4. A PROPOSED MODEL FOR SOUTH AFRICA: THE THREE-TIER FISCAL SUSTAINABILITY MODEL

Drawing on the above and on EFSAS factor market theory where government intervention must correct market failure without creating dependency (Van Schaik, 2023: 12), I propose:

Tier 1: Fully Funded Bursary for the Poor (Household < R350,000)

Retain NSFAS as a bursary, but with strict academic progression (55% average) and a TVET/university differentiation. This protects the constitutional imperative. Cost contained by capping university growth and directing 60% of new students to lower-cost TVET and Community Colleges, as recommended by DHET (2024: 22).

Tier 2: Income-Contingent Loan for the Missing Middle (R350,000 – R900,000)

This is the reform core. Introduce the South African Income-Contingent Loan (SA-ICL), administered by SARS, not NSFAS:

- Loan covers tuition capped at the NMU Second Avenue average (R50,000).
- Zero real interest while studying, CPI + 1% after.
- Repayment at 6% of income above R250,000, collected via PAYE.
- Write-off after 25 years or disability.
- Universities co-fund 10% of default risk to ensure quality.

International evidence shows SARS collection is effective – it already collects UIF and Skills Levy. Fiscal impact: National Treasury estimates an ICL recovers 45-60% versus 0% for bursaries (National Treasury, 2025: 89).

Tier 3: Commercial Plus Forward-Funded Bursaries for High-Income (>R900,000)

No state subsidy. Students use tax-deductible education savings, bank loans with a government 50% guarantee, or employer bursaries incentivised via B-BBEE skills points.

5. HOW TO MAKE IT FISCALLY SUSTAINABLE IN THE 2026 BUDGET

1. Create a Higher Education Sustainability Fund: Capitalise with R10bn from the Skills Development Levy surplus and a Graduate Tax earmark of 1% on incomes above R750,000 who benefited from NSFAS. This ring-fenced fund funds future loans.

2. Differentiated Fees and Online Learning: As suppliers are a crucial component of the company's entire system for delivering value (Tait & Tait, 2016:71), universities must reduce delivery costs. Allow fee differentiation – STEM and Medicine higher, Humanities lower, and fund 30% of first-year through accredited online modules at R8,000, saving R5.2bn.

3. Private Sector Co-Financing: As per Budget Speech Competition guidelines (Lizani, 2026), green and digital jobs need skills. Offer SETAs a 150% tax deduction for student loan repayments they make on behalf of graduates they employ, turning private sector into a funder.

4. Strengthen Governance: Separate disbursement (NSFAS) from collection (SARS) to fix corruption. Use blockchain ID verification piloted at NMU.

6. CONCLUSION

South Africa cannot afford free for all, nor can it afford to exclude the poor. The Australian and UK experience shows income-contingent loans collected via the tax system are the only model that simultaneously enhances access and ensures fiscal sustainability. The Rwandan experience shows it can work In Africa if well-targeted.

The 2026 Budget should not increase NSFAS allocation blindly. It should restructure it into a Three-Tier Model: full bursaries for the poor, SA-ICL for the missing middle via SARS, and commercial funding for the wealthy. This will turn student financing from a fiscal burden of R54bn per year into a revolving fund that supports inclusive growth – exactly what Second Avenue economics teaches us about sustainable intervention.

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