# SANITE

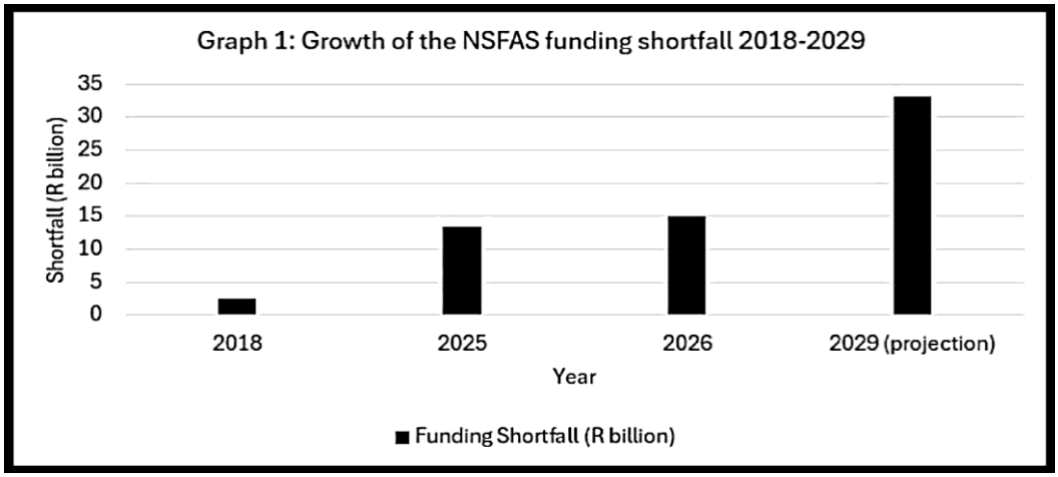
# A Fiscally Sustainable Student Financing Model that Enhances Access to Higher Education.

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## 1. Introduction and Problem Statement

South Africa's higher education funding landscape faces a structural crisis. The National Student Financial Aid Scheme (NSFAS), initially created to open university doors to low-income households, currently operates under a fiscal burden (Daily Investor, 2026). Relying heavily on National Treasury allocations, NSFAS faces a shortfall of approximately R15 billion in 2026, because student numbers grow faster than available funding (Nozulela, 2026). Figure1 illustrates the growth of the NSFAS funding shortfall from 2018 to 2029.




***Source: Own compilation, based on Nozulela: 2026 and Daily Investor: 2026***

The graph illustrates how the gap has widened since 2018 and is projected to increase further by 2029.

Think of the current model as a train. Taxpayers form the engine, pulling everything along. But when corruption, administrative delays and rigid funding cut-offs unhook the carriages in between (student accommodation, food and study materials), the entire train grinds to a

complete stop. Furthermore, NSFAS operates with a factory-line mentality, it measures performance by how many bursaries are issued (inputs), rather than by whether graduates secure employment and contribute back into the economy (outputs) (Goni, 2026).

This crisis particularly affects the “missing middle”: students whose annual household income falls between R350,000 and R600,000, but remains insufficient to cover university costs.

The government’s R3.8 billion loan scheme targeted approximately 68,446 applicants, the initial 2024 allocation funded 31,884 students (47%), leaving over 36,500 qualified applicants stranded (South African Government News Agency, 2024) (Parliamentary Budget Office, 2024:5). Although Sector Education and Training Authorities (SETAs) contributed to the fund, this was a once-off arrangement rather than a permanent link between universities, SETAs and the tax that graduates pay once they work. Without such links, the system remains economically unviable.

To resolve this crisis, this paper proposes the **South African Network of Inclusive Tertiary Education (SANITE)** model. Inspired by *sanitas, the Latin word for* health or soundness, SANITE replaces this disconnected model with a healthy, closed-loop human capital pipeline. By integrating SETA levy resources, AI-assisted administrative oversight and income-contingent graduate contributions. SANITE aims to create a sustainable funding ecosystem that expands South Africa’s skilled workforce and tax base.

# 2. International Comparative Analysis

South Africa can draw lessons from successful international funding models while thoughtfully adapting them to its unique economic landscape and structural challenges, rather than applying them blindly.

**Australia’s Higher Education Loan Program (HELP):**

Australia transformed its higher education financing by introducing a national income-contingent contribution scheme. Originating from the 1989 Higher Education Contribution Scheme (HECS) and evolving into the modern HELP framework (Chapman, 2006:1438, 1485). Under this system, repayments are not managed through aggressive debt collectors or bank loans. Instead, contributions are collected automatically through the tax system, triggering only when borrower’s earnings cross a set threshold (Australian Government Department of Education, n.d.). SANITE adapts this mechanism through automatic SARS collections, protecting lower earners while supporting long-term funding recovery.

**Germany's Dual Vocational Education and Training (VET) system**

Germany addresses workforce readiness through its dual VET system, which bridges the traditional gap between academic institutions and workplace requirements by combining formal education with structured, industry-backed training (Cedefop, 2020). Although designed mainly for vocational training, SANITE adapts its core idea of employer-led workplace integration and extends it to include academic university degrees. This is deeply relevant to South Africa, where qualifications do not automatically guarantee employment and graduate unemployment remains an economic obstacle.

While Germany's system does not eliminate joblessness entirely, its industry partnerships help align education with labour-market demand. SANITE would apply this principle by connecting SETAs with university faculties, so that training pathways are jointly funded and aligned with real economic needs.

Together, these models inform SANITE's two core principles: income-contingent contributions from SANITE beneficiaries to support long-term financial health, and structured industry partnerships to improve graduate employability. The objective is not merely to fund students through university, but actively empower them enter productive careers, ultimately strengthening the national taxpayer engine to keep the system moving forward for future generations.

# 3. The SANITE Framework: Structure and Mechanics

SANITE replaces NSFAS's fragmented grants with an integrated, self-sustaining funding cycle. Rather than treating tertiary education as an unrecoverable cost, SANITE treats this as a revolving investment shared by government and employers. This frameworks rests on four pillars.

The first pillar is a means-tested funding model, anchored by National Treasury funding and supplemented by restructured SETA funding. Employers pay a 1% Skills Development Levy, collected monthly by SARS (Skills Development Levies Act 9 of 1999, s3). Uncommitted SETA surpluses, a funding pull historically targeted under SETA Grant Regulation 3(12) (DHET, 2012:8), would be redirected to co-fund SANITE accounts.

When a student applies, SANITE assesses household income to provide full, repayable coverage for low-income students, or capped tuition for the "missing middle". It then coordinates with relevant sector SETAs (using strict cross-database checks to prevent

double funding). For example, an accounting student is linked to FASSET (Finance and Accounting Services SETA) for co-funding and workplace placement, while general degrees outside the 21 SETAs are covered by SANITE's core Treasury safety net.

The second pillar establishes an automated, income-contingent contribution loop managed through SARS. Once beneficiaries graduate and earn above the proposed R150,000 annual threshold, SARS collects a modest contribution via PAYE tax deductions. Total repayments are strictly capped at the amount received. Unemployed graduates and those earning below the threshold pay nothing, ensuring zero financial strain.

The third pillar uses an integrated AI-driven administrative platform to manage applications and prevent cash mismanagement. When a student applies, automated checks verify their identity, academic records, and household income in real-time against DHET, Home Affairs and SARS databases. This prevents ghost-student fraud.

If an application contains administrative discrepancies or missing documents, the system automatically flags it and allows a two-week grace period for correction, preventing unfair rejections. Furthermore, cash mismanagement is eliminated through controlled digital disbursements: textbook funds go directly to verified bookstores, while food and transport allowances are distributed via restricted mobile wallets usable only at registered vendors.

The fourth pillar secures university-industry partnerships. SETAs work with university faculties to align curricula with actual workplace needs. By combining SETA co-funding with an automated tax-return loop, SANITE turns a leaky grant into a self-sustaining system.

Returning to our train analogy, when graduates step off the carriage into the workforce, they flow directly back into the taxpayer engine, fuelling the system to carry the next generation forward. (See Figure 2 below).

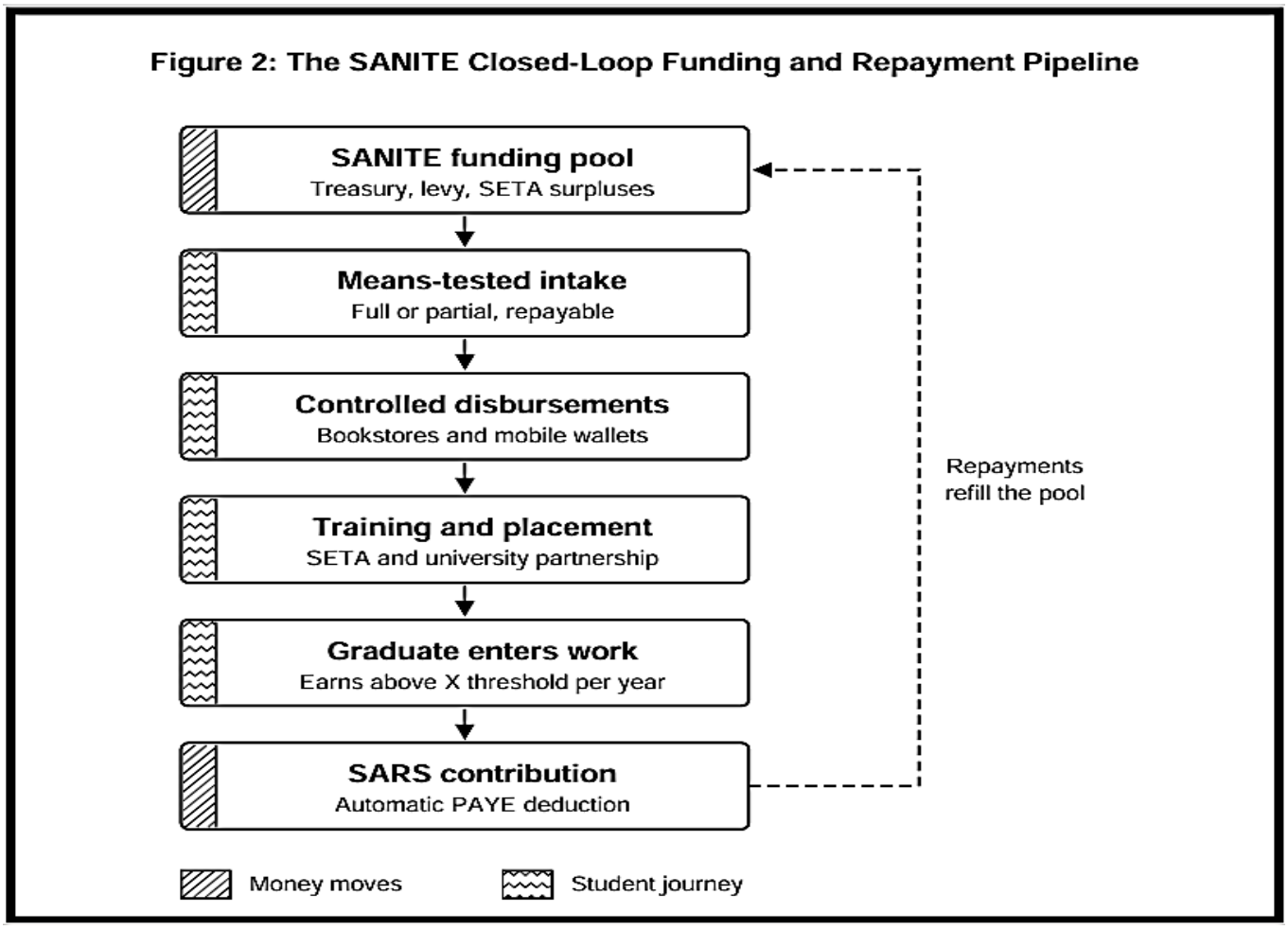



***Figure 2: The SANITE Closed-Loop Funding and Repayment Pipeline.***

***Source: Own Compilation (2026).***

# 4. Fiscal Sustainability and Economic Projections

The viability of any alternative tertiary education model depends on its long-term financial resilience. The structural failure of the current NSFAS model stems from treating higher education purely as an unrecoverable social transfer rather than a self-replenishing economic investment. Under SANITE, fiscal sustainability is achieved through a layered funding mix, rigid disbursement controls, and an automated graduate tax-repayment loop that directly aligns with South Africa's broader fiscal consolidation targets. The closed-loop design of this capital engine is illustrated in Figure 3 below.

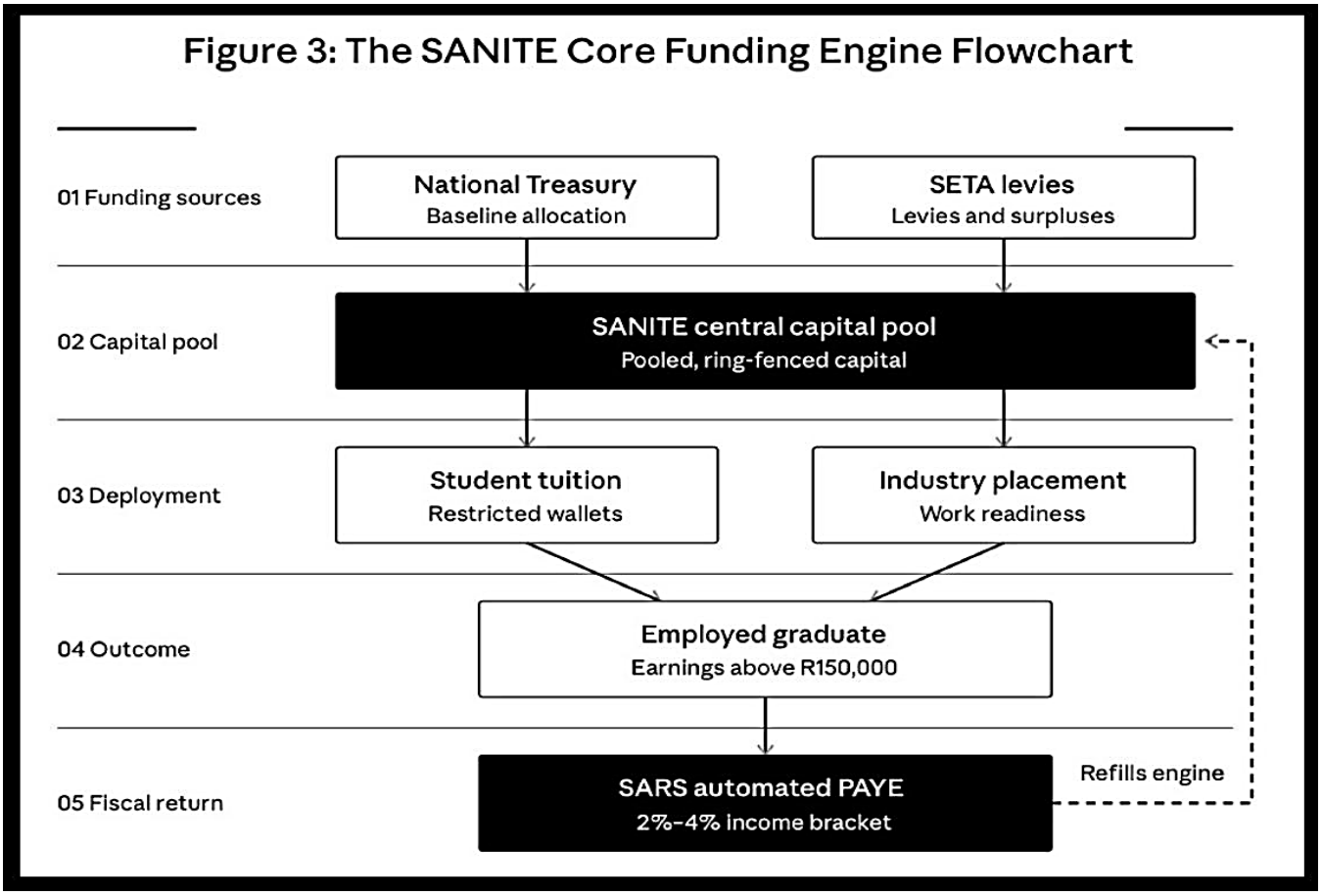



***Figure 3: The SANITE Core Funding Engine Flowchart***

***Source: Own Compilation (2026).***

## 4.1 The Layered Capital Mix: Treasury and SETA Co-Investment

SANITE does not seek to displace government responsibility or rely exclusively on sector levies, as doing so would be fiscally naïve. Instead, the model anchors its primary funding pool in the existing National Treasury baseline allocation for higher education, supplementing this foundational capital with structured co-investments from SETAs and discretionary levy reserves. To model the operational funding mix, SANITE proposes a theoretical target capital distribution where 25% of the capital is sourced through sector co-funding. The proposed multi-layered allocation structure is presented in Figure 4 below.

**Figure 4: Proposed SANITE Capital Blend Structure**

| Capital source | Proposed share | Function & purpose |
|---|---|---|
| **National Treasury** Baseline | **60%** | Primary public funding safety net for baseline tuition & non-SETA degrees. |
| **SETA levies & surpluses** | **25%** | Sector co-funding (e.g., FASSET) and workplace placement integration. |
| **Recycled graduate repayments** | **15%** | Automated SARS PAYE collections returning from employed graduates. |

***Figure 4: Proposed SANITE Capital Blend Structure***

***Source: Own Compilation (2026).***

By co-funding students through sector-specific SETAs (such as FASSET for accounting students), SANITE spreads the cost per student across both the public funds and private sector levy contributions. For non-SETA degrees (such as general humanities), the Treasury safety net provides full baseline coverage. This diversified inflow baseline coverage shields the higher education sector from single-source budget cuts while optimising public spending efficiency.

## 4.2 Expenditure Control and Leakage Mitigation

A core driver of NSFAS's recurring deficits has been administrative inefficiency, unverified disbursements, and fraudulent claims. SANITE would control the expenditure side of the balance sheet through three cost-containment mechanisms:

1. **Automated Two-week Grace Period**
   Administrative verification is handled algorithmically via direct digital links with SARS and home affairs databases, issuing an automated two-week window to resolve any data mismatches before any funding disqualification occurs.
2. **Closed-Loop Disbursement**
   Student allowances are issued via restricted merchant channels and digital mobile-wallets. By restricting allowance usage strictly to accredited textbook vendors, registered housing providers, and basic retail merchants. SANITE eliminates fund

leakage and ensures that 100% of disbursed capital fulfils its intended educational purpose.

3. **Distributed Audit Responsibility and Risk Mitigation**
   A critical flaw in NSFAS's single-agency model is that administrative and audit risk sit with one body. When a single central body is tasked with verifying, disbursing and auditing billions of rands, failed audits and unverified disbursements inevitably follow. SANITE resolves this by delegating verification and co-funding tracking to SETAs such as FASSET. This creates localised accountability and allows funds to be tracked from disbursement to workplace integration, lowering audit risk for government.

## 4.3 Long-Term Debt Recovery and Macroeconomic Impact

Rather than imposing burdensome commercial interest rates that drive high default rates, SANITE proposes that SARS models a manageable 2% to 4% incoming-contingent PAYE repayment sliding scale, triggered only when a graduate earns above a proposed R150,000 annual threshold. The progressive repayment rates across income tiers are outlined in Figure 5 below.

**Figure 5: SANITE Income-Contingent Repayment Tiers**

| Annual income bracket (ZAR) | Monthly income equivalent | Automated SARS PAYE deduction rate |
|---|---|---|
| Below R150,000 | Below R12,500 / month | **0.0%** Exempt / safety threshold |
| R150,001 - R250,000 | R12,501 - R20,833 / month | **2.0%** |
| R250,001 - R400,000 | R20,834 - R33,333 / month | **3.0%** |
| Above R400,000 | Above R33,334 / month | **4.0%** Capped ceiling |

***Figure 5: SANITE Income-Contingent Repayment Tiers.***

***Source: Own Compilation (2026).***

Through proposed administrative integration, because collection is automated at source by SARS alongside standard income tax, collection overhead approaches zero, and default opportunities are virtually removed. As each year's graduates cross the earnings threshold, recycled PAYE returns begin refilling the central fund. This steadily reduces the net burden on National Treasury over 10 to 15 years.

### 4.4 Aligning with National Fiscal Consolidation

SA faces strict macroeconomic constraints, as government is working to narrow the national main budget deficit toward 2.7% of GDP by 2028/29 and stabilise public debt (National Treasury, 2025:26). Unfunded higher education expansions directly threaten these fiscal targets.

SANITE aligns with national fiscal policy by structuring tertiary funding as a self-replenishing revolving model rather than an open-ended liability. By expanding the skilled tax base through workplace-integrated degrees and automating recovery through SARS, SANITE is designed to offer a sustainable economic return on investment for the South African government over the long term.

## 5. Conclusion and Policy Recommendations

### 5.1 Conclusion

South Africa's higher education crisis is not only a political dilemma, but also a structural economic bottleneck. The current NSFAS model resembles an overloaded train running on a broken track. Repeatedly derailed by fiscal deficits, administrative inefficiencies, and limited cost recovery (National Treasury, 2025:26). Pouring billions of rands into a system without sustainable recovery mechanisms or industry alignment deepens fiscal pressure.

SANITE offers a viable alternative, transforming tertiary education from an open-ended government liability into a long-term economic investment. By combining National Treasury baseline funding with restructured SETA resources, SANITE establishes a balanced funding model that protects low-income households and secures missing middle students. Restricted mobile wallets limit financial leakage while shared oversight strengthens accountability.

Critically, SANITE links funding to industry readiness. Once graduates cross the proposed R150,000 income threshold, repayment is recovered automatically through SARS PAYE. This closed economic loop expands the skilled tax base while supporting fiscal sustainability. Figure 6 illustrates the proposed phased rollout.

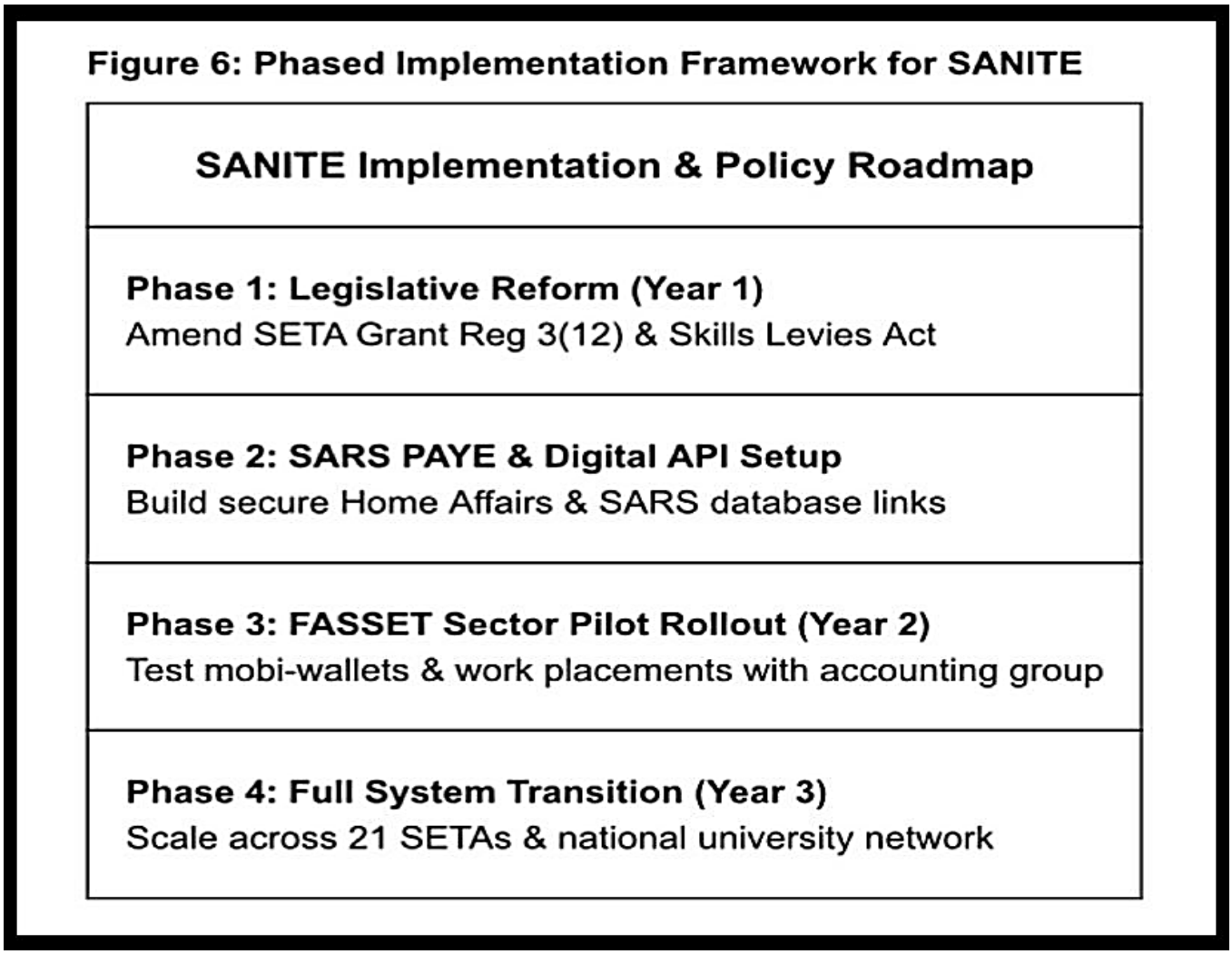



***Figure 6: Phases Implementation Framework for SANITE***

***Source: Own Compilation (2026).***

## 5.2 Policy Recommendations for Implementation

To transition from the current NSFAS farmwork to SANITE, the following phased measures are recommended:

1. **Proposed Legislative Reform**

Amend section 3 of the Skills Development Levies Act 9 of 1999 (Republic of South Africa,1999) and Regulation 3(12) of SETA Grant Regulations (Department of Higher Education and Training, 2012) to formally authorise the redirection of uncommitted discretionary surpluses toward SANITE tertiary co-funding accounts.

2. **Digital Infrastructure and Application Programming Interface (API) Integration**
   Establish digital links between SANITE, SARS and the Department of Home Affairs to test whether household income verification can be automated in practice. This eliminates manual processing queues, while retaining human review for unusual cases and appeal exceptions.

3. **Phased Sector-by-Sector Rollout**
   Start with a pilot transition in high-capacity SETAs such as FASSET and BANKSETA. Once the model works, scale it across all 21 SETAs. The pilot would refine distributed audit processes and workplace placement pipelines. (Department of Higher Education and Training, 2012)

4. **Enlist Restricted Merchant Networks**
   Partner with commercial banks to introduce restricted digital wallets, ensuring 100% of student allowances are spent on accredited accommodation, textbooks and essential living items.

By establishing a sustainable funding model, SANITE positions higher education as an engine of economic mobility, shared growth and long-term fiscal resilience.

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