Labour Market Alignment and Critical Skills Acquisition Strategy: A Sustainable Student-Financing Policy for South Africa

ENTRY: #110

word count: 2150

The fiscal case for reform

The sustainable mitigation of financial barriers to higher learning requires clear policy direction regarding desired outcomes. Access has to do with equity of opportunity, ensuring that qualified students can enter tertiary institutions regardless of socio-economic standing, while sustainability concerns efficiency: the extent to which a policy can be maintained without eroding state fiscal stability. Realistically, universal state-funded free tertiary education is unachievable under South Africa's current economic constraints. This reality creates a tension where policy is decided by political sentiment rather than sustainable public finance principles. South Africa's higher education crisis is both a labour market mismatch and a capital market failure. To control this issue, a two-pronged approach is needed, built on an overhaul via fiscal accounting reclassification as the lead lever, supported by a restructuring of the current policy in implementation. This framework is grounded in Human Capital Theory (Becker, 1964; Mincer, 1974), which shows that the private return to an extra year of schooling averages about 9% globally, and is highest for higher education in low- and middle-income economies (Psacharopoulos and Patrinos, 2018), and Capital Market Failure Theory (Friedman, 1955; Stiglitz and Weiss, 1981), which explains why commercial banks ration credit when future human capital cannot be repossessed as physical collateral. This proposal moves the trade-off by shifting public tertiary funding from an unrecoverable budget expenditure into a risk-shared cost-recovery model, expanding missing-middle access while preserving state fiscal capacity.

The NSFAS crisis and who pays universities

Maximising access requires lowering upfront financial barriers for qualified applicants, but a student-financing commitment is only sustainable if expenditure grows in line with the state's revenue base without consuming an expanding share of total public spending. Attempting to maximise access through non-repayable grants without cost-recovery has generated South Africa's current crisis: expanding National Student Financial Aid Scheme commitments that place severe fiscal strain on the national budget and public university balance sheets. Tertiary expenditure must be benchmarked against South Africa's macroeconomic scale, where a nominal gross domestic product of roughly R8.2-trillion (against tax revenue of R2.13-trillion, 26% of GDP) rests on a narrow personal tax base of roughly 8.3-million personal income taxpayers (National Treasury, 2026). South Africa's higher education budget for 2026/27 stands at R149.2-billion, absorbing roughly 1.8% of gross domestic product, with National Student Financial Aid Scheme grant allocations projected to grow from R48.8-billion in 2025/26 to R54.6-billion by 2028/29 (National Treasury, 2026). NSFAS funds roughly 580,000 university students through non-repayable bursaries, and its allocation already falls short: the Minister reports a shortfall of about R15-billion for 2026, up from R13-billion a year earlier, with R33-billion projected by 2029 (Thompson, 2026). According to official data from the Department of Higher Education and Training (DHET, 2024), while tertiary degree attainment among adults aged 25 to 64 reached 7.3% in 2023, severe racial disparities persist, with 28.6% of Whites holding a degree compared to 5.2% of Black Africans. Furthermore, official data indicate that unemployment among degree holders remains substantially below the national average, confirming that tertiary qualifications significantly enhance employability (DHET, 2024). However, payment delays and governance failures have generated over R10.5-billion in unpaid claims owed to public universities, forcing institutions to front funds from cash reserves (EWN, 2026; Thompson, 2026). The Public Protector’s August 2026 notice cited Special Investigating Unit findings that about 40,000 students across 76 institutions were improperly funded to the value of R5.1-billion (Parliament of South Africa, 2026), while the Pretoria High Court overturned the dissolution of the NSFAS board and suspended the administrator’s appointment (Thompson, 2026). Meanwhile, "missing-middle" households earning above the R350,000 threshold are excluded from grants while commercial banks demand steady-income guarantors, perpetuating credit rationing and asset indivisibility poverty traps (Santos, 2009; Balboni et al., 2022). Non-repayable bursary expansion prioritises short-term political equity but severely damages fiscal efficiency, creating university balance sheet deficits while excluding middle-income students.

The arrears problem is also a timing problem. Under the current model, NSFAS disburses to universities after enrolment is verified and claims are processed, which means institutions carry the liquidity burden while awaiting payment. Any sustainable reform must change not just who pays but when. Under the proposed model, policy-bank capital and bank co-financing would be committed at registration, with universities receiving payment upfront. The risk of non-payment shifts from the university balance sheet to the guarantee fund, and the collection problem shifts to SARS, which has the administrative capacity NSFAS lacks.

What Australia and China teach, and what they don't

Rather than comparing just macro-economic aggregates, international student-financing models should be looked at structurally and the mechanisms that ensure their success. This policy resolves the apparent contradiction of borrowing from international models by establishing an explicit design seam. South Africa borrows China's policy-bank upfront funding channel while rejecting its rigid mortgage-style repayment rule, and borrows Australia's income-contingent repayment collection rule while insulating it from political debt write-offs. Australia's Higher Education Contribution Scheme collects repayments automatically through the tax authority as a salary surcharge once earnings clear a threshold, dropping to zero percent below that line to protect low earners as social insurance (Barr, 2004; Chapman, 2013). However, universal income-contingent loans face political time-inconsistency (Kydland and Prescott, 1977): under inflation pressures, the Australian government has faced political pressure for debt relief, showing that loan sustainability requires insulating policy rules from political intervention. Furthermore, in developing nations like South Africa, excessive income surcharges on high earners risk accelerating skilled emigration. On the other hand, China relies on a state policy bank, the China Development Bank, to fund tuition upfront with a five-year grace period. However, China's reliance on fixed, time-based mortgage-style repayments creates heavy debt burdens on low earners, forcing entire families to assist with instalments and driving high default rates (Cai, Chapman and Wang, 2019). Additionally, because tax-linked collection relies on formal payroll employment, informal sector expansion and graduate joblessness reduce tax collection capacity, requiring careful risk targeting.

Australia maximises equity through income protection but risks political write-offs, whereas China maximises upfront liquidity but crushes low earners; a sustainable hybrid policy captures policy-bank liquidity while maintaining income-contingent safety nets. The proposed model takes China's funding channel, Australia's collection rule, and adds a bank guarantee and field differentiation.

The design: reclassification, guarantee, collection

To manage the equity-efficiency trade-off, South Africa should adopt a degree specific hybrid financing model that establishes an amalgamation seam between upfront liquidity and graduate repayment. The policy introduces fiscal accounting reclassification, splitting student loan outlays in public accounts into an expected recovery asset and an expected loss portion recorded as direct deficit spending. This directly mirrors the UK Office for National Statistics precedent (ONS, 2018), which added about £12-billion (0.6% of GDP) to the UK's annual deficit when the expected-write-off portion of student loans was recorded as spending. This lead mechanism is supported by classification by field of study, distinguishing high-social-return fields like Education and Nursing from high-private-return qualifications like Science, Technology, Engineering, and Commerce based on Mincerian earnings premiums (Becker, 1964; Mincer, 1974), and classification by institution type. To induce commercial banks like Nedbank or Standard Bank to lend to missing-middle students without individual guarantors, the state changes commercial credit risk by establishing a 10% to 15% state-funded loss guarantee fund. The enabling legal instrument for this facility will be a credit guarantee vehicle established under section 66 of the Public Finance Management Act, which governs the authorisation of borrowing and guarantees, and capitalised through National Skills Fund reserves, which section 28 of the Skills Development Act allows to be used for national-priority projects, coupled with Broad-Based Black Economic Empowerment (B-BBEE) Skills Development scorecard recognition for contributing financial institutions. A 10% to 15% first-loss tier is designed to absorb expected default losses on university cohorts, leaving commercial banks holding an 85% to 90% senior tranche that receives favourable capital treatment under Basel III regulations.

SARS-administered collection is not a novel idea. Professor Sioux McKenna of Rhodes University proposed in August 2026 that SARS deduct NSFAS repayments from graduates' salaries, and the proposal has generated public debate (Briefly News, 2026). What distinguishes this proposal is not the collection mechanism but the financing structure around it: bank co-financing unlocked by a state first-loss guarantee, coupled with field-differentiated terms. SARS collection is the plumbing; the guarantee and the differentiation are the policy. Furthermore, evidence from Australia's Job-Ready Graduates package proves that state-commanded price signals fail to steer student enrolment, as only about 1.5% of applicants changed course preferences (Yong, Coelli and Kabatek, 2023). South Africa must avoid state-commanded pricing and instead deploy service-linked loan forgiveness, writing off loan balances in exchange for verified years of service in critical public industries. This proposal expands missing-middle access through private co-financing while capping state fiscal exposure.

Feasibility: three earner profiles

A feasibility test requires a worked numerical model. Assume a R200,000 loan for a four-year degree, indexed to inflation and repaid through a 6% surcharge on income above a R100,000 threshold. Salaries grow 3% a year in real terms, and the threshold is held constant in real terms. The outcomes for three representative earner profiles are summarised below.

Profile	Annual income	Income above threshold	Annual repayment	Present-value recovery
STEM graduate	R250,000	R150,000	R9,000	~79%
Public-sector moderate earner	R140,000	R40,000	R2,400	~61%
Low earner / unemployed	R90,000	R0	R0	0% (guarantee reserve)

A graduate in a Science, Technology, Engineering or Commerce field starting on R250,000 has R150,000 above the threshold and repays R9,000 in the first year, or R750 per month. Because income grows, repayments rise and the loan is fully repaid in about 16 years, a present-value recovery of roughly 79% at a 3% real discount rate. A moderate earner in the public sector starting on R140,000 has R40,000 above the threshold and repays R2,400 in the first year. Repayment takes about 29 years and recovers roughly 61% in present-value terms, with the remainder absorbed as a

social subsidy. A low earner whose income stays at R90,000, through stagnant wages or unemployment, never crosses the threshold and pays nothing. That unrecoverable balance falls on the guarantee reserve.

A lender's loss comes from non-repayment, not from the time value of money. If bank-financed credit is restricted to accredited qualifications with formal employment above 80%, and an assumed 10% of graduates remain below the threshold, expected principal loss is about 10% over a 30-year repayment window. That sits inside the proposed 10% to 15% first-loss tier. The key risks are informal employment and skilled emigration. Tax-linked collection captures only formal employment, so eligibility is limited to accredited qualifications. Emigration risk is mitigated by capping surcharges at 4% to 7% with fixed interest indexation. The threshold protects low earners while high earners repay in full, giving National Treasury a transparent, bounded cost structure.

Why this is not the pre-2018 scheme

This is not a return to the pre-2018 NSFAS loan scheme. That scheme depended on contractual repayment once graduates earned above R30,000 a year, enforced through external debt collectors, and about R45-billion remains outstanding (Business Report, 2025). The difference is not the existence of a loan; it is the collection infrastructure and the risk-sharing. SARS-administered payroll deduction captures repayment at source, removing the compliance problem. The first-loss guarantee removes the bank’s credit risk, making lending viable without guarantors. Which didn’t existed before 2018

Phasing and conclusion

Sustainably scaling this student-financing architecture requires a three-phase macroeconomic expansion plan over a twenty-year horizon. In the first phase, spanning years one to five, the state formalises the Broad-Based Black Economic Empowerment corporate first-loss guarantee facility to absorb missing-middle engineering and commerce students immediately, while freezing grant growth at inflation, auditing university debt, and directing grant allocations strictly to the indigent. In the second phase, spanning years six to twelve, the state implements revenue-administered income-contingent loan collection for high-social-return fields; as early graduate cohorts progress in formal employment, tax-linked repayments flow into a revolving national fund. In the third phase, spanning years thirteen to twenty, the state reinvests recycled graduate repayments and accumulated guarantee capital to expand university infrastructure and digital learning, achieving self-sustaining access across future cohorts.

NSFAS's reported shortfall of about R15-billion in 2026, projected to reach R33-billion by 2029, amid about R10.5-billion in arrears owed to universities, demonstrates that non-repayable grants without cost-recovery are fiscally unsustainable (Thompson, 2026). Managing the trade-off between broad access and fiscal sustainability requires moving away from pure state bursaries. The degree specific hybrid model manages this trade-off by combining tax-administered income-contingent protection for social professions with corporate co-financing pools and state first-loss guarantees for high-earning qualifications. This policy carries quantifiable costs, specifically a 10% to 15% first-loss guarantee reserve and partial non-recovery on low-earning individuals, trading off administrative simplicity for fiscal solvency. The policy would fail under two specific conditions: a systemic collapse in formal graduate employment that prevents tax collections, or severe administrative failure within the tax collection mechanism. However, under stable economic governance, this hybrid model establishes a sustainable student-financing architecture that supports labour market alignment while ensuring long-term fiscal solvency.

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