

Building an Equitable and Fiscally Sustainable Higher Education Financing Framework for South Africa

Undergraduate

Word count: 2168

Funding higher education sustainably remains one of post-apartheid South Africa's most volatile socio-economic dilemmas. Following the #FeesMustFall protests of 2015 and 2016, the state pivoted sharply: in January 2018 the household income threshold for a fully subsidised NSFAS bursary was raised from R122,000 to R350,000, bringing many working- and lower-middle-class households into eligibility. Nearly a decade later, the fiscal consequences are severe. For 2026/27 the Department of Higher Education and Training (DHET) has been allocated R149.2 billion, with NSFAS consuming roughly a third of that envelope [2]. NSFAS spending is projected to grow from R48.8 billion in 2025/26 to R54.6 billion by 2028/29 [2], while the Higher Education Minister warned in September 2026 of a shortfall of about R15 billion annually, projected to reach R33 billion by 2029 without reform [3].

This essay argues that South Africa cannot build a sustainable framework through general-tax expansion or unconstrained borrowing. It proposes a hybrid National Education Solidarity Fund (NESF), financed through a variable 0.5% to 1.0% earmarked consumption surcharge, ringfenced baseline allocations, and income-contingent graduate repayments. A continuous, mathematically smoothed missing-middle taper replaces binary thresholds, the framework balances upfront equity with life-cycle capacity to pay.

Macro-Fiscal Realities and the Structural Constraints of South African Taxation

Free education is never truly free; it shifts costs to taxpayers, and sustainability depends on the breadth and formalisation of the tax base. South Africa's is exceptionally concentrated. Personal income tax anchors the main budget at roughly 40% of total revenue [1], yet only about 7.7 million individuals were assessed for PIT in the 2024 tax year out of 26.2 million registered [1]. Funding universal free tertiary education by raising marginal PIT rates on this narrow segment risks capital flight: over 51,500 taxpayers ceased South African tax residency between 2017 and 2024 [1].

The state does possess a blueprint for earmarked revenue in the Skills Development Levy (SDL), a 1% payroll tax exempting employers with annual payroll below R500,000. But redirecting the SDL to university tuition creates a destructive zero-sum trade-off. It is legally committed to the 21 Sector

Education and Training Authorities and the National Skills Fund, which drive technical, vocational, artisan and workplace apprenticeships. Redirecting it would starve the already under-resourced TVET and CET sectors. Any sustainable model must therefore mobilise independent revenue rather than raid committed skills budgets.

Comparative Analysis of International Financing Models

Germany abolished general tuition fees across all 16 federal states in 2014. Public education spending reached roughly 198 billion euros in 2024, or 426 billion euros (9.8% of GDP) on a broader measure including research [6]; the OECD reports USD (PPP) 17,960 spent per student annually from primary to tertiary, above the OECD's USD 15,023 average [5]. Germany can sustain this because of a massive, formalised, highly compliant tax base, and because it treats student living costs as entirely separate from tuition. South Africa's NSFAS collapses tuition and substantial living allowances into a single bursary, compounding per-student cost. Even Germany has re-introduced fees for many non-EU students in Baden-Wurttemberg and some Bavarian institutions.

The United Kingdom operates an income-contingent loan (ICL) framework similar to that proposed by South Africa's 2017 Heher Commission [9]. England's outstanding loan balance reached 266.6 billion pounds at the close of 2024/25, up from 54.4 billion pounds in 2013/14 [7]. Graduates on Plan 2 loans repay 9% of income above 29,385 pounds [10], and that threshold will be frozen for three years from April 2027 [11], increasing repayments as wages rise. For South Africa, where graduate unemployment is tied to a sluggish macroeconomy, an unhedged loan system poses serious default risk.

Brazil offers free tuition at elite federal and state universities, but only 49% of new bachelor's entrants complete within three years beyond the theoretical duration, against an OECD average of 70% [5]. Because entry is governed by highly competitive examinations, wealthier students from elite private schools disproportionately secure free places, while lower-income students are pushed into the expensive for-profit sector. Free tuition without throughput and equity targeting becomes a regressive subsidy.

Macroeconomic Analysis and Revenue Scaling of a Variable 0.5% to 1.0% Surcharge Band

To address the projected R33 billion gap without further pressure on direct income taxes, this essay models a dedicated National Education Solidarity Levy as a flexible policy band calculated against South Africa's formal consumption tax architecture. In 2024/25 SARS recorded R457.8 billion in net VAT collections, derived from R561.4 billion in domestic payments and R261.9 billion on imports, offset by R365.5 billion in refunds [1]. Dividing net collections by the statutory 15% rate gives a macro-scale proxy for annual taxable consumption: R457.8 billion divided by 0.15, approximately R3.052 trillion.

This proxy is not the direct surcharge base. Households adjust spending when indirect taxes rise, shifting toward informal or non-taxable goods; the static microsimulation evidence for South Africa does not model these behavioural responses [8], so the contraction below is an explicit assumption. To protect lower-income households, the base must also exclude the existing zero-rated basic foods and VAT-exempt commuter transport (already largely absent from net VAT collections), an expanded merit-goods basket including white bread, cake flour, sanitary products, school uniforms and infant nappies, and a conservative allowance for base erosion. This reduces the effective surcharge base to R2.457 trillion. Modelling must further incorporate social grant indexation to offset the consumption shock for roughly 18 million beneficiaries; against a social assistance envelope of about R250 billion (excluding the Social Relief of Distress grant [12]), a matching top-up creates a direct fiscal recycling effect.

At the 0.50% floor rate the gross yield on the effective base is R12.28 billion; after an estimated behavioural and informality contraction of R360 million and a SASSA indexation offset of R1.25 billion, net revenue is R10.67 billion, covering 32.3% of the R33 billion gap. At the 0.75% mid-rate the gross yield is R18.43 billion; after a contraction of R550 million and an offset of R1.87 billion, net revenue is R16.01 billion, covering 48.5%. At the 1.00% ceiling the gross yield is R24.57 billion; after a contraction of R730 million and an offset of R2.50 billion, net revenue is R21.34 billion, covering 64.7%. These ratios compare annual yield with the projected 2029 annual shortfall. The surcharge is not intended to close the gap alone; the remainder is met through the efficiency and leakage reforms in Section 4.

Mechanically, a levy of 0.1% on a base is equivalent to a 0.1 percentage point VAT increase, but the designs differ. To prevent supply-chain compounding, the surcharge must operate as a VAT-style mechanism with input tax credits, allowing registered vendors to deduct intermediate business-to-business surcharge costs so that only final domestic consumption is taxed.

UNU-WIDER microsimulation cautions that even with zero-rating and increased benefits, the poorest households saw reduced purchasing power after the 2018 VAT increase, because many lowest-decile households receive no social benefits and zero-rating benefits wealthier households most in absolute terms [8]. The fund must therefore abandon the narrative of absolute neutralisation and adopt an explicit class-based redistributive argument: the NESF is a targeted tax on the middle and upper-middle classes to fund human capital formation among working-class students, achieving net system-wide progressivity.

Strategic Researched Solutions to Systemic Governance Bottlenecks

Mobilising revenue will not enhance access or equity if delivery lacks efficiency and accountability. South Africa's student-financing crisis is fundamentally a delivery and management crisis.

The Special Investigating Unit told Parliament in 2023 that about R5.1 billion was paid between 2018 and 2021 to more than 40,000 students across 76 institutions whose household incomes exceeded R350,000, in some cases because income information was manipulated or never submitted; the finding was restated in the Public Protector's August 2026 report, which noted recoveries exceeding R2 billion [4]. NSFAS states that stronger verification has been embedded since 2020 [4], the historical cases nevertheless demonstrate the cost of weak verification. Much of this vulnerability stems from administrative starvation: NSFAS was reported in December 2024 to spend only about 0.7% of its budget on administration, below comparable institutions [13]. Throughput compounds the problem; only a minority graduate in regulation time and a large share drop out, so grace periods mean the state finances more years than a qualification's regulation length.

Three adjustments follow. First, an administrative capitalisation allocation: of the R10.67 billion net revenue at the 0.5% floor, exactly 2% (R213 million) is legally ringfenced for the NESF's operational, technological and forensic capacity, adding roughly 0.4 percentage points to the administrative share and lifting it from about 0.7% toward 1.1%. Second, algorithmic verification safeguards: data-matching between university registration files, Home Affairs and SARS tax records verifies household incomes, addressing earlier leakage. Third, throughput-linked grant conditions: Tier 1 grants remain bound to semester-by-semester academic performance targets, so funding rewards completion rather than duration.

Institutional Blueprint: The National Education Solidarity Fund (NESF)

The NESF combines a variable 0.5% to 1.0% VAT-style surcharge (net yield R10.67 billion to R21.34 billion), excluding zero-rated items and public commuter transport, with legally protected baseline allocations from the state fiscus and graduate returns from income-contingent, progressively tapered loans.

Flexible earmarking and baseline protections. Earmarked levies can create rigidity and invite baseline reductions. The NESF therefore rejects a static earmark in favour of a sinking-fund model: Treasury maintains a legally mandated, inflation-linked baseline allocation to DHET from general revenue, while the surcharge adjusts funding. If accumulated reserves exceed the projected five-year shortfall, the rate dials down toward the 0.5% floor or suspends; in recession, when missing-middle defaults rise, it scales toward the 1.0% ceiling to stabilise university liquidity without an emergency bailout.

Independent board governance. The fund operates as an independent statutory entity governed by a board of fiscal experts, auditors and university representatives, subject to mandatory real-time forensic auditing by the Auditor-General, with procurement and disbursement metrics published transparently.

Resolving the cliff effect: the mathematically smoothed three-tier framework. To prevent gaming of income declarations at arbitrary boundaries, the NESF discards binary step-functions and deploys a continuous progressivity function.

Tier 1, absolute grants (household income below R350,000). Students receive a 100% non-repayable public grant covering tuition and basic subsidised living costs, bound to semester-by-semester performance targets.

Tier 2, the missing middle continuous taper (R350,000 to R600,000). Rather than discrete bands that invite misclassification, the fund uses a linear formula beginning where Tier 1 ends, avoiding a cliff at R350,000. Grant share equals 100% minus [(household income minus R350,000) divided by R250,000, multiplied by 90%]. Loan share equals 100% minus grant share. At R350,000, the grant remains 100%. A mid-bracket household at R475,000 fields 55% grant and 45% loan. At the R600,000 ceiling the mix tapers smoothly to 10% grant and 90% loan. The grant subsidy falls linearly from 100% to 10%, the loan obligation rises linearly from 0% to 90%, and bank co-funding moves from low to high.

Tier 3, cost-reflective capitalisation (above R600,000). Affluent households pay standard cost-reflective fees. To eliminate the residual cliff between R599,000 and R601,000, a minor sliding-scale access loan window operates for the R600,000 to R700,000 bracket, tapering quickly to zero public subsidy.

The dual distributive logic. A family-income taper redistributes on parental wealth at entry; an ICL redistributes on the graduate's lifetime earnings. The NESF combines both. At entry, the taper sets the size of the loan book: grant-converting most funding at the lower bound of Tier 2 shrinks the graduate's debt principal, buffering poorer graduates and insulating the state against the ledger inflation observed in the UK. After graduation, repayment depends on income, not family origin. A graduate from a R580,000 household entering a low-wage social sector is shielded because repayments are bound to income above the threshold; a graduate from a R360,000 household who becomes a high-earning actuary clears a smaller principal quickly, returning capital to the fund.

De-risking the bank risk-sharing corridor. Banks are restricted from co-funding the non-repayable grant portion and co-fund only 30% of the active loan book. At the lower end of Tier 2 (R350,000 to R400,000), where household vulnerability is greatest, the loan portion stays below roughly 20%, so bank-exposed capital is minimal. At the upper end (R550,000 to R600,000), the loan book expands to between roughly 72% and 90%, where higher household resources are assumed to correlate with stronger labour-market absorption, though South African graduate unemployment data complicate that assumption and argue for conservative guarantee pricing. This lets banks optimise risk-adjusted capital across the ledger while limiting the need for expensive state-backed premium guarantees, protecting the 70/30 state-bank split.

In conclusion, South Africa's higher education financing challenge is an institutional design problem, not an unresolvable economic paradox. Universal free tertiary education is an impossibility within the country's narrow personal income tax base. But a National Education Solidarity Fund leveraging a targeted, flexible 0.5% to 1.0% surcharge band can inject between R10.67 billion and R21.34 billion in risk-adjusted annual liquidity towards student-financing needs. By combining targeted grants for the poor, a mathematically smoothed continuous taper for the missing middle, and private bank risk-sharing, the NESF offers a financing blueprint that is equitable at the point of entry, manageable across a graduate's lifecycle, and fiscally sustainable for the state.

References

- [1] National Treasury and South African Revenue Service (2025). Tax Statistics 2025: Highlights. Pretoria: SARS.
- [2] Parliament of South Africa (2026). Debate on Vote No 17, Higher Education and Training, Hansard, 26 May 2026. See also SA Government News Agency (2026), Manamela tables R149.2 billion budget for Higher Education and Training.
- [3] Daily Investor (2026). R56 billion state-run scheme running out of money (remarks by Minister B. Manamela, 9 September 2026).
- [4] Parliamentary Monitoring Group (2023). SIU briefing on NSFAS and National Skills Fund investigations. TimesLive (2023, 2026); IOL (2023).
- [5] OECD (2025). Education at a Glance 2025: OECD Indicators. Paris: OECD Publishing. Country notes: Brazil, Germany.
- [6] Statistisches Bundesamt (Destatis) (2025). Press releases on education, research and science expenditure in 2024.
- [7] Student Loans Company and Department for Education (2025). Student Loans in England: Financial Year 2024-25.
- [8] Gcabo, R., Moche, B., Steyn, W., Moahlodi, B., Pirttila, J., Noble, M., Wright, G., Barnes, H., and Masekesa, F. (2019). Modelling value-added tax (VAT) in South Africa. WIDER Working Paper 2019/13. Helsinki: UNU-WIDER.

[9] Heher, J. (Chair) (2017). Report of the Commission of Inquiry into Higher Education and Training. Pretoria.

[10] Low Incomes Tax Reform Group (2026). Pay and deductions: student loan repayment thresholds from 6 April 2026.

[11] Senedd Research (2026). Student loans: time for a new plan.

[12] GroundUp (2026). Budget 2026: Social grants to go up in April.

[13] Daily Maverick (2024). NSFAS submits its 2022/23 annual report a year late, 4 December 2024.