

From Once-Off Bursaries to Reinvestment: A Shared-Cost Model for Sustainable and Expanded Access to Higher Education in South Africa

Competition question

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

Refer to international experience in your analysis.

Undergraduate Category

Word Count: 2,159 (excluding references)

Shared-Cost Reinvestment Model

1. Introduction

South Africa's higher education challenge is shaped by two related constraints: a **fiscal constraint** and a **capacity constraint**. For 2025/26, the National Student Financial Aid Scheme (NSFAS) was budgeted to fund 426,296 eligible university students, yet 566,563 had qualified by mid-year, contributing to a deficit of nearly R14 billion (Parliamentary Budget Office: 2025). Capacity is similarly strained: approximately 345,000 learners obtained bachelor passes in 2025, while public universities could accommodate about 230,000 first-time entrants in 2026 (Department of Higher Education and Training: 2026). A bachelor pass does not guarantee admission, but the gap signals pressure on available places.

This essay examines how South Africa can relieve both constraints without creating new barriers for poor students. It reviews the current system and relevant international experience before presenting a South African proposal. It proposes a two-pillar **Shared-Cost Reinvestment Model**: Pillar 1 addresses the fiscal constraint through a 50 per cent grant and 50 per cent income-contingent graduate contribution collected through the South African Revenue Service (SARS) and recycled into future funding; Pillar 2 addresses the capacity constraint by using a controlled share of realised repayments to finance additional places at registered private higher education institutions (PHEIs). The objective is not to cut access, but to make each public rand work for more than one generation of students.

2. South Africa's Twin Constraints: Fiscal Sustainability and Capacity

NSFAS bursaries support eligible students from households earning no more than R350,000 per year, including qualifying South African Social Security Agency (SASSA) beneficiaries, while the undergraduate loan window targets the "missing middle" between R350,001 and R600,000 (NSFAS: 2026a). Bursary support includes registration, tuition, learning materials, living support and either transport or accommodation (NSFAS: 2026b). These costs are essential to genuine access: a university offer has little value if a student cannot afford to live and study.

The fiscal weakness lies in the financing cycle. National Treasury estimates NSFAS student-centred expenditure at R53.665 billion in 2026/27 (National Treasury: 2026). Because bursary support is largely non-recoverable, later cohorts remain dependent on fresh appropriations. A sustainable model should preserve support during study but recover part of the cost only when a graduate later has the ability to contribute.

The capacity constraint is distinct. Public universities cannot absorb every learner who meets minimum entry requirements, and programme standards differ. The difference between bachelor passes and available university places is therefore not a count of rejected students, but it does signal pressure on capacity. Reform must address both who finances existing seats and how additional accredited places can be created without an open-ended new liability.

3. International Experience

3.1 Australia: access without an upfront price barrier

Australia introduced the Higher Education Contribution Scheme (HECS) in 1989 to expand university participation without financing the entire expansion from current taxation. Its successor, the Higher Education Loan Program (HELP), removes the need for upfront tuition payment by deferring contributions until income exceeds a threshold, with compulsory repayments administered through the Australian Taxation Office (Australian Government Department of Education: 2024). This arrangement matters because repayment is embedded in an existing tax system rather than a separate agency responsible for tracing graduates.

The Australian Universities Accord reports substantial expansion after HECS, with participation among 19-year-olds from low and middle socioeconomic groups rising proportionately faster around its introduction (Australian Government Department of Education: 2024). Students face no large tuition bill at enrolment; liability follows later ability to pay. The model has nevertheless required recalibration: in 2025 government reduced outstanding student debt by 20 per cent, lifted the threshold and moved to marginal repayments on income above it (Australian Government Department of Education: 2025). Australia's strength is therefore not perfection, but collection through the tax system combined with adjustment when repayment settings become onerous.

3.2 Brazil: expanding access through existing private capacity

Brazil confronted strong demand for higher education alongside a large private sector. Its Programa Universidade para Todos (ProUni) programme awards full and partial scholarships to eligible students from low-income households at participating private institutions. In exchange, institutions receive exemptions from specified federal taxes (Ministério do Planejamento e Orçamento: 2025). The policy therefore uses capacity that already exists rather than requiring the state to build every place itself.

Students are screened by income and performance in the Exame Nacional do Ensino Médio (ENEM), while institutional benefits are tied to scholarships actually provided. The tax concession therefore purchases a concrete access obligation rather than an unconditional subsidy. By September 2025, 1,865 institutions participated; across two decades, 3.6 million scholarship places had been occupied and 1.5 million beneficiaries had graduated. The Ministry of Education reports a 58 per cent completion rate among ProUni beneficiaries versus 36 per cent outside the programme (Ministério da Educação: 2025). Forgone tax remains a real fiscal cost, but ProUni shows how regulated private capacity can enlarge access without equivalent public construction.

3.3 Cautionary lessons from the United Kingdom and United States

The United Kingdom and United States show why loans alone are not a complete fiscal solution. England collects repayments efficiently through the tax system, yet only 55 per cent of full-time undergraduate borrowers starting in 2025/26 are expected to repay in full, with the median borrower forecast to take about 30 years (UK Department for Education: 2026). In the United States, multiple servicers and complex repayment rules have produced tracking and communication problems (US Government Accountability Office: 2022). Repayment problems also remain substantial: by June 2026, more than 9.3 million recipients were in default on roughly US\$234 billion, while about eight million had at least one loan in forbearance (Federal Student Aid: 2026).

The lesson is not to reject repayment, but to limit debt and simplify collection. South Africa should retain a large grant component, protect graduates below an income threshold and collect automatically through the tax system.

4. A Shared-Cost Reinvestment Model for South Africa

The international evidence suggests four design principles: protect access during study, link repayment to later income, collect through an existing tax system, and keep debt manageable. The Shared-Cost Reinvestment Model combines these principles with a central South African feature: recycling graduate repayments into future funding.

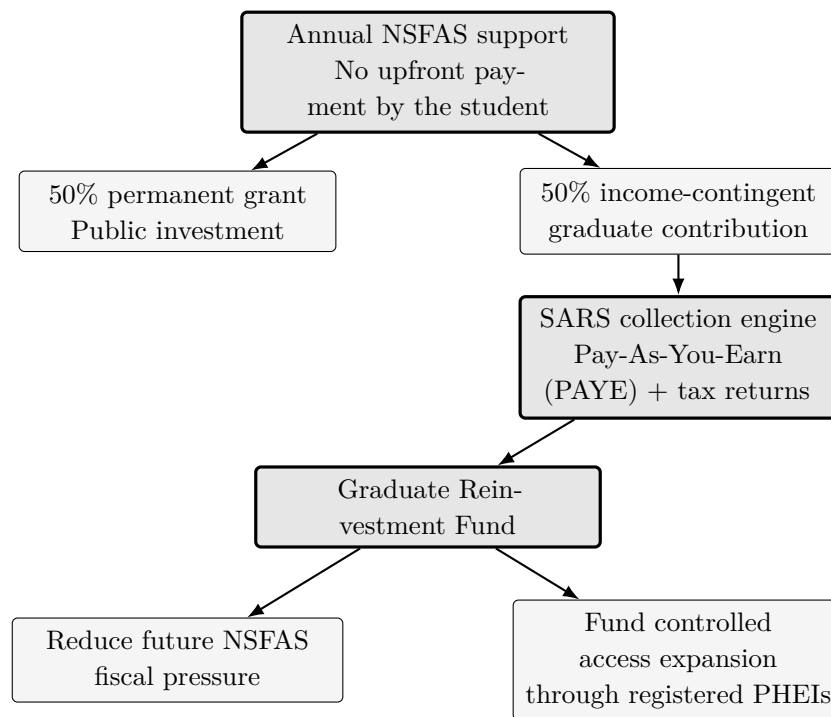


Figure 1: Two-pillar Shared-Cost Reinvestment Model. Source: Author's design.

4.1 Pillar 1: shared cost, income protection and SARS collection

Government would still provide the approved NSFAS package upfront, so no eligible student would need cash before registration. Fifty per cent would remain a permanent grant and 50 per cent would become an income-contingent graduate contribution. The recoverable balance would carry no real interest, only inflation adjustment. Repayment would begin above a legislated taxable income threshold and rise with earnings; below the threshold, repayment would be zero.

The split preserves a substantial public subsidy while recovering part of the support from graduates who later earn enough to contribute. Repayment would operate progressively, like PAYE: the threshold protects low earners, while higher earnings produce a larger contribution. Liability is therefore linked to realised earning capacity rather than field of study. The 50/50 ratio is a policy benchmark that should be calibrated after a pilot.

SARS is the collection engine. Employers already deduct PAYE monthly, while third-party data support pre-populated returns and auto-assessments (South African Revenue Service: 2026a; 2026b). Business and other non-remuneration income is captured through provisional tax rules for qualifying taxpayers (South African Revenue Service: 2026c). Contributions could therefore be withheld alongside PAYE for employees and assessed through tax returns for self-employed graduates. Informality remains a leakage risk, but SARS offers a stronger base than asking NSFAS to trace graduates itself.

Recoveries would be ring-fenced in a Graduate Reinvestment Fund, converting part of today's expenditure into a revolving resource. Statutory ring-fencing and annual audited disclosure would keep repayments within student financing. The fund would offset future costs and finance the controlled access expansion in Pillar 2. Using National Treasury's R53.665 billion 2026/27 student-centred expenditure as a benchmark, the recoverable half equals R26.833 billion. Table 1 stress-tests eventual recovery. At 70 per cent recovery of that half, about R18.8 billion would ultimately return, equal to 35 per cent of the original outlay.

An alternative is to preserve fully non-repayable bursaries and cover recurring NSFAS shortfalls through higher general taxation. This spreads the additional burden across households and firms,

including those that did not directly receive student funding. Depending on the tax, higher rates can reduce disposable income, consumption or investment, weakening aggregate demand and economic activity. Evidence from Sub-Saharan Africa shows that fiscal consolidation can reduce output, although the effect varies with the policy mix and economic conditions (Abdel-Latif et al.: 2026). Taxation should nevertheless remain part of higher education finance because the sector creates wider social benefits, which justify the grant component. Graduates also gain private benefits through better employment prospects and higher potential earnings. Contributions from graduates who later earn above the threshold therefore share costs more directly and reduce the extra tax revenue required for future cohorts. The model complements general taxation rather than replacing it.

Table 1: Sensitivity of long-term fiscal recovery under the 50/50 model

Recovery of recoverable 50%	Amount returned (R bn)	Long-term net government cost (R bn)	Recovery of original outlay
50%	13.4	40.2	25%
70%	18.8	34.9	35%
90%	24.1	29.5	45%

Source: Author's calculations using National Treasury (National Treasury: 2026).

The fiscal benefit takes time to emerge. Assuming four years of study, one year before repayment and a 12-year repayment horizon, government would still front funding during the transition while little initially returns. If the middle scenario ultimately recovers R18.8 billion from each annual cohort and recovery is spread evenly over 12 years, each cohort contributes about R1.57 billion per year once repayment begins. As successive cohorts enter repayment, annual collections build gradually toward the mature level shown in Figure 2. The model therefore promises no immediate windfall; its strength lies in lowering the long-term net cost of future cohorts.

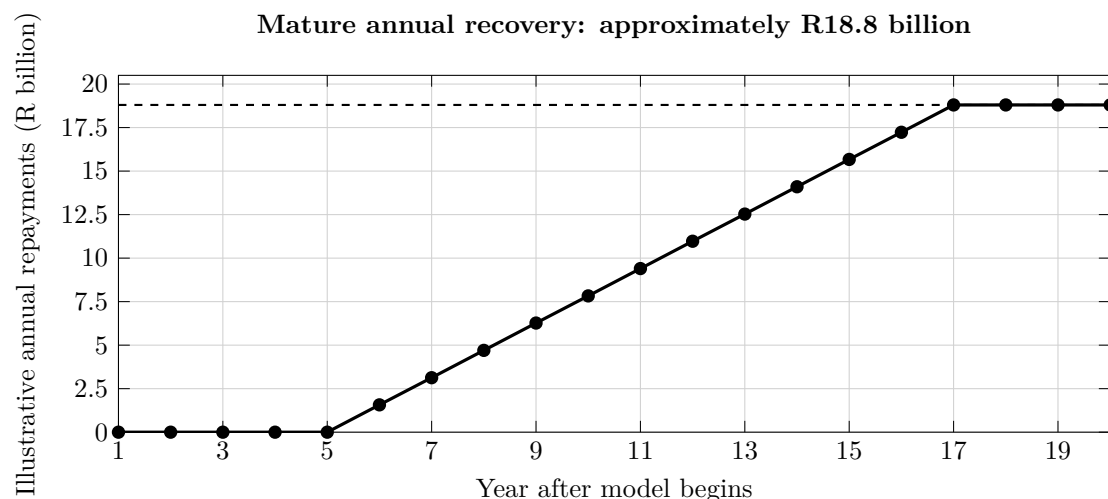


Figure 2: Illustrative build-up of recycled repayments under the 70% recovery scenario. Source: Author's calculations; assumptions stated in the text.

4.2 Pillar 2: turn recovered fiscal space into additional capacity

Pillar 1 cannot create additional lecture seats. Pillar 2 therefore converts a controlled share of realised repayments into additional accredited places. It would use the verified number of academically admissible applicants left unmatched after placement at public universities, rather than treating the gap between bachelor passes and university capacity as rejected demand.

Registered PHEIs with verified spare capacity would bid to provide accredited places at a discounted fee or scholarship value in exchange for a capped *Access Credit* per student. The Access Credit could be structured as a tax expenditure rather than payment of the institution's full advertised tuition. This is fiscally attractive only where an existing seat costs less than creating equivalent public capacity, so bids would have to demonstrate that advantage. The cost would be real but capped and conditional on an occupied place, transparent fees, accreditation and minimum progression or completion standards. Students from low-income households would retain support equivalent to NSFAS support for accommodation, transport, learning materials and living costs because capacity without subsistence support is not meaningful access.

A hard fiscal brake would govern expansion. Government could target up to 25 per cent of the *verified* capacity gap, but Access Credits and related support could never exceed the share of realised Graduate Reinvestment Fund receipts allocated to expansion. If repayments funded fewer places, placements would scale down rather than trigger borrowing. Pillar 2 would therefore begin as a pilot and expand only as Pillar 1 generated cash. Figure 3 summarises the rule.

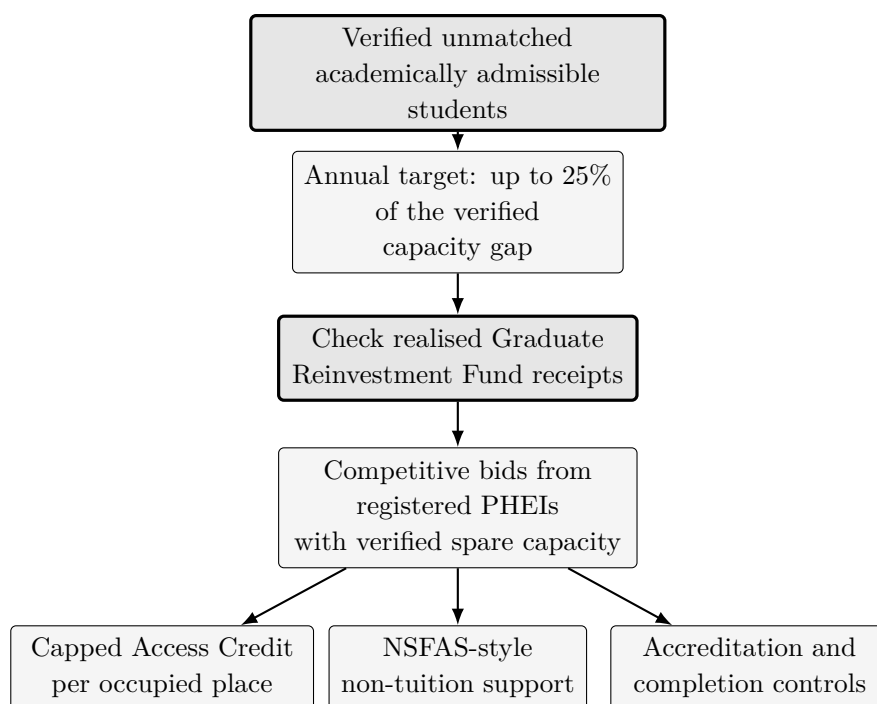


Figure 3: Pillar 2 capacity expansion rule. If realised repayments cannot finance the 25% target, placements scale down automatically. Source: Author's design.

The pillars are thus fiscally coherent: Pillar 1 reduces the recurring funding burden, while Pillar 2 uses only recovered fiscal space to relieve the capacity constraint. Access grows with realised resources rather than unfunded promises.

5. Conclusion

South Africa's student-financing dilemma is the interaction of a fiscal constraint and a capacity constraint. A sustainable solution must protect students from low-income households during study, recover part of the cost from beneficiaries whose earnings later rise, and expand capacity without creating another unlimited fiscal liability.

The Shared-Cost Reinvestment Model joins these objectives in one financing cycle. A substantial grant preserves access; an income-contingent contribution returns part of the cost only when graduates can afford it; SARS makes collection automatic; and the Graduate Reinvestment Fund directs recoveries

to later cohorts. Capacity expansion is tied to money actually recovered, preventing improved access from becoming another unfunded promise.

The model is not without limitations. Its fiscal performance depends on graduate employment, earnings and the proportion of contributions SARS can recover, especially from graduates outside formal payroll systems. The cost and availability of additional PHEI places are also uncertain. These uncertainties strengthen the case for a phased pilot before national implementation.

6. Recommendations

Government should begin with a phased pilot involving selected public universities, SARS, NSFAS and National Treasury. It should track graduate earnings, repayment compliance and administrative costs. PHEI expansion should follow only after repayments begin, with bids assessed on price, accreditation and completion. Annual reporting should disclose the amounts recovered and reinvested, as well as the number of additional places created. Fiscal sustainability need not mean spending less on opportunity; the aim is for one generation's opportunity to help finance the next.

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