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BUDGET SPEECH COMPETITION

NSFAS RECOVERY FUNDS: A SUSTAINABLE STUDENT-FINANCING MODEL FOR SOUTH AFRICA

A Three-Pillar Constitutional Alternative

Topic:

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

Undergraduate Entry: 1225 | ± Word Count: 1515 | October 2026

Introduction

"Education is the most powerful weapon which you can use to change the world" (Mandela, 2003). However, South Africa's contemporary macroeconomic reality dictates that even the most powerful weapons require a sustainable financial blueprint. The question remains whether South Africa can build a fiscally sustainable student-financing model that enhances access to higher education? This is the "NSFAS recovery funds" proposal.

For more than two decades after the formal demise of apartheid, South Africa still experiences fiscal instability from higher education. Significant strides have been made to redress historical injustices. Despite the system being successful admitting low-income students since the introduction of National Student Financial Aid Scheme under the National Student Financial Aid Scheme Act (Act 56 of 1999) and reforms in 2018 it transitioned from an income-contingent loan model to a fully subsidized scheme grant model. However this system revealed fundamental fragility through the emergence of the "missing middle". According to Chetty et al. (2015) the working class communities feel alienated from the state's education reform process and how the provision of education continues. Not only "NSFAS, national and provincial departmental bursaries and funding programs run by Sector Education and Training Authorities (SETAs) systematically exclude children of public servants, despite their parents' service to the state" (Motsepe, 2024). Now they find themselves under severe financial distress as they are caught in a precarious paradox: they are classified as too affluent for state-sponsored financial aid, yet remain entirely unable to independently absorb the costs of higher education.

This essay shifts the focus from the rhetoric of free education to the structural arithmetic of its long-term viability. It investigates how South Africa can explore alternative frameworks for its student-financing architecture to guarantee access without accelerating fiscal degradation.

Evaluation of South African student financial system (NSFAS and SDL)

Since the formal establishment in 1999 of National Student Financial Aid Scheme and transition from loan model to subsidized scheme it has changed countless low-income students' lives. "For NSFAS-funded students, financial assistance serves as a critical enabler, alleviating economic barriers that often hinder academic engagement and personal growth" (Mokgotho, Njoko, and Burman, 2023). Although the NSFAS performs extraordinary results it is classified as a national liability. This 100% bursary model results in no cost recovery while complicated cost of living also exacerbates the issue. Over the

last five years, university and college fees have increased at an average annual rate of 8 to 12 percent, outpacing general inflation, according to the Bureau for Economic Research (2024). That could be the reason why NSFAS system shows its unsustainable growth with its budget allocations during the years shown in Figure 1.1 (National treasury, 2026) NSFAS budget grew from R5.9bn (2014) to R54bn (2024) proving significant results for particular group (low income). This raises national concern against the GDP growth of 1.4% highlighting fiscal instability and an indication for reforms.

Recommendations or proposal

I propose three-pillar constitutional alternative transitioning into a self-sustainable system for the benefit of all of South Africans, which also promotes local economic development.

First pillar: graduation tax

The graduation tax system is designed to shift the total cost of higher education to those who benefit from it. This system has been introduced as a non-state entity by Uruguay in 1994 under the law 16524 named Fondo de Solidaridad. Annual tax deduction of 0.5% five years after graduation for 25 years until retirement through deferred payments. These funds are placed into an account to benefit the next generation of low-income students where they don't have to pay school fees (Cabrales et al., 2024). I propose a similar model, a model where all individuals who graduated from public institutions (as they benefited from government) pay a tax percentage 0.5% into an account namely "NSFAS recovery funds". Those funds are used to sustain NSFAS. 0.5% is a low amount and won't be severe on taxpayer. The monthly tax amount for different average salary groups are displayed in Figure 1.2. A small amount can make a huge difference an estimated amount of employed public university graduates is 3,635,007 earning an average salary of R20,000.
R20,000×3,635,007= R72.7 billion total monthly salary of employed graduates × 0.5% = R363,500,700 in tax per month. R363.5m × 12 = R4.36 BILLION annually in tax revenue for year 1 towards the "NSFAS recovery funds" with guaranteed annual growth.

Second pillar: Reformation of the Skills Development Levies Act No. 9 of 1999

The skills development levy is a payroll tax created under the Skills Development Levies Act (No. 9 of 1999) in South Africa. This Act states "every employer must pay a levy at a rate of one per cent of the leviable amount" An amount of 1% from total remuneration is collected for the benefit of human and skill development. I suggest reforms have to occur to assist

this national liability raising the SDL from 1% to 1.5% as the other 0.5% can go toward the "NSFAS recovery funds". These funds contribute to sustaining NSFAS and also fund middle class and low-income students who need that support. As leverage I propose towards businesses an increased claim from 49.5% to 60% if they claim Discretionary Grant and, the Mandatory claim from 20% to 30%, Note: Only if businesses offer graduate experience to NSFAS students. This can also serve as a solution to high youth unemployment to NSFAS candidates. Shown in Figure 1.3 are the SDL divided allocations and business incentives raise. Based on Parliament Budget Vote 17, May 2026: SDL collected = R33 billion × 0.5 equals R16.5 billion towards the "NSFAS recovery fund"

Third pillar: The NSFAS tax exchange program

This programme is inspired by the Prouni program in Brazil. Prouni is a Brazilian policy created for student funding. A model which exchanges scholarships for federal taxes in private institutions (Maculan, Ribeiro, and Haddad, 2006). Effectiveness of this policy according to Maculan shows as they admit approximately 125,000 new students annually and according to Ministry of Education, Brazil (2026) the first half of 2026 alone, the programme offered 594,500 scholarships, bringing the total to 8.1 million scholarships offered and 27.7 million students enrolled between 2005 and 2026. South Africa faces the same challenges including admission from institutions and financial support. This program is designed to support "missing middle" and low-income. This system connects the private sector and government. The extension of contracts to private institution from government, an offering for the cutting/reduction of income tax and in exchange for scholarship to middle and low income households. This system is beneficial for both parties as more students from middle class and low-income households gain access to private institutions and for the private institutions they save money by tax reduction. This also promotes local economic development strengthening the relationship between local government and private institutions. Note: Everyone who graduated from this programme have to pay 1% "graduation tax" for 25 years. This pillar also serves as long term investment.

Proposal overview

My proposal consists of three main pillars which are reliant on each other. It is the creation of an account in support of the NSFAS liability matter namely the "NSFAS recovery funds". This account gets funded by the South African workforce who graduated from public institutions whereby a payroll tax of 0.5% annually is deducted in deferred payments for 25 years. This account also gets funded 0.5% from the SDL as Reformation occur with the

Skills Development Levies Act No 9 of 1999. This avoids protests as this is taken directly from the total remuneration of employees. As leverage for businesses I propose “SETA grants claim” be renamed to “Skill development grant claims” with increase from 49.5 to 60% if the business admits NSFAS students. It can serve as a solution or minimise the high unemployment rate in South Africa. The third pillar is designed to accommodate the “missing middle”. A Prouni Brazilian inspired policy (NSFAS tax exchange program) where government extended contracts to private institutions in exchange for scholarships, For example, a 70% income tax cut 15% of their seats where admission can be divided into 10% missing middle student and 5% low-income students on a merit basis. A solution to more education for South Africans. Individuals who received this program will pay 1% as “graduation tax”. Total Revenue collection displayed in Figure 1.4

Conclusion

The NSFAS and SDL system have shown promising results by being beneficial to countless South Africans, but have become a national burden. Therefore this proposal is to develop a sustainable system with shown estimate results in Figure 1.5 but it depends entirely on the employment rate. Results indicate a revenue collection 20.8 bn for year 1, a 39.8% of the NSFAS current 2026 budget of 52 bn, with 4% estimated annually growth. While promoting constitutional values and inclusion. For this system to work all of these pillars should demonstrate high professional ethics and moral standards and some minor adjustments. All allocations go towards the benefits of educational development and to those in need. As a nation we can strengthen our system and fulfil the vision of Nelson Rolihlahla Mandela where every South African can have the most powerful weapon and change the world.

Word count:1517

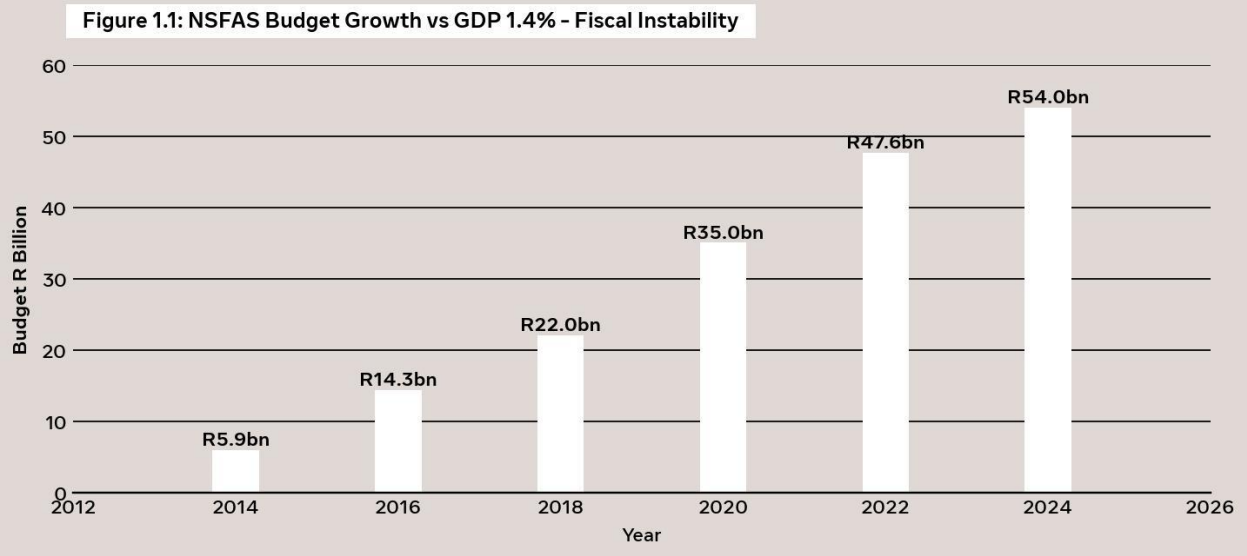


Figure 1.1: NSFAS Budget Growth vs GDP 1.4% - Fiscal Instability
Budget R Billion
60
50
40
30
20
10
0
R5.9bn
R14.3bn
R22.0bn
R35.0bn
R47.6bn
R54.0bn
2012
2014
2016
2018
2020
2022
2024
2026
Year

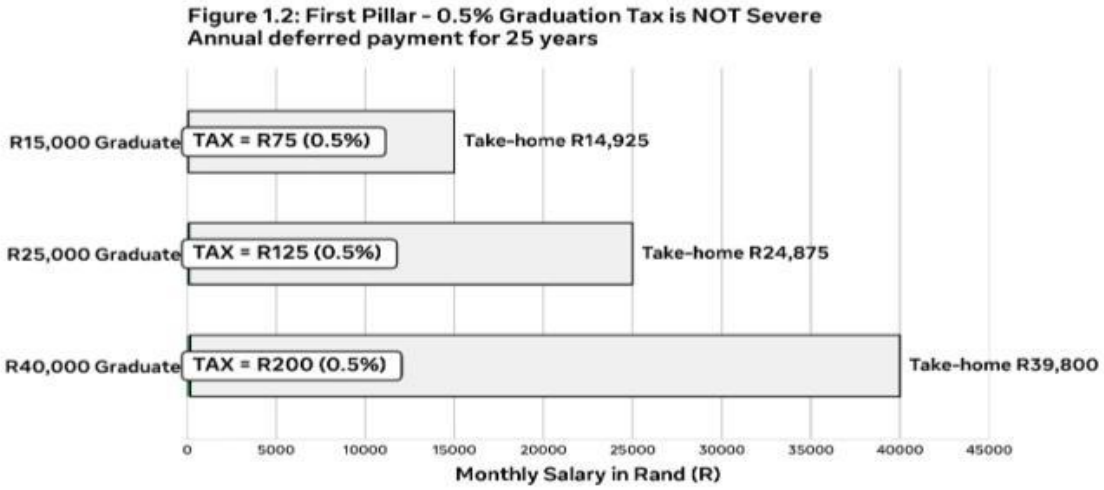


Figure 1.2: First Pillar - 0.5% Graduation Tax is NOT Severe
Annual deferred payment for 25 years
R15,000 Graduate
TAX = R75 (0.5%)
Take-home R14,925
R25,000 Graduate
TAX = R125 (0.5%)
Take-home R24,875
R40,000 Graduate
TAX = R200 (0.5%)
Take-home R39,800
0
5000
10000
15000
20000
25000
30000
35000
40000
45000
Monthly Salary in Rand (R)

Figure 1.3: Second Pillar - SDL Act Reformation

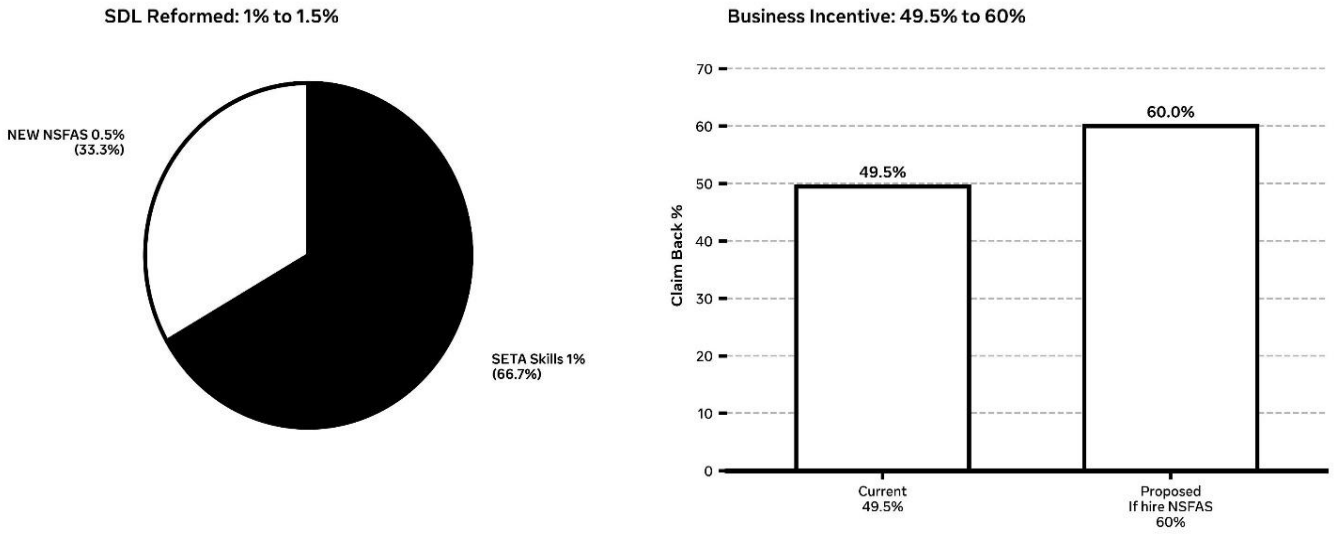


Figure 1.4: Proposal Overview - Three Pillars Feeding NSFAS Recovery Fund

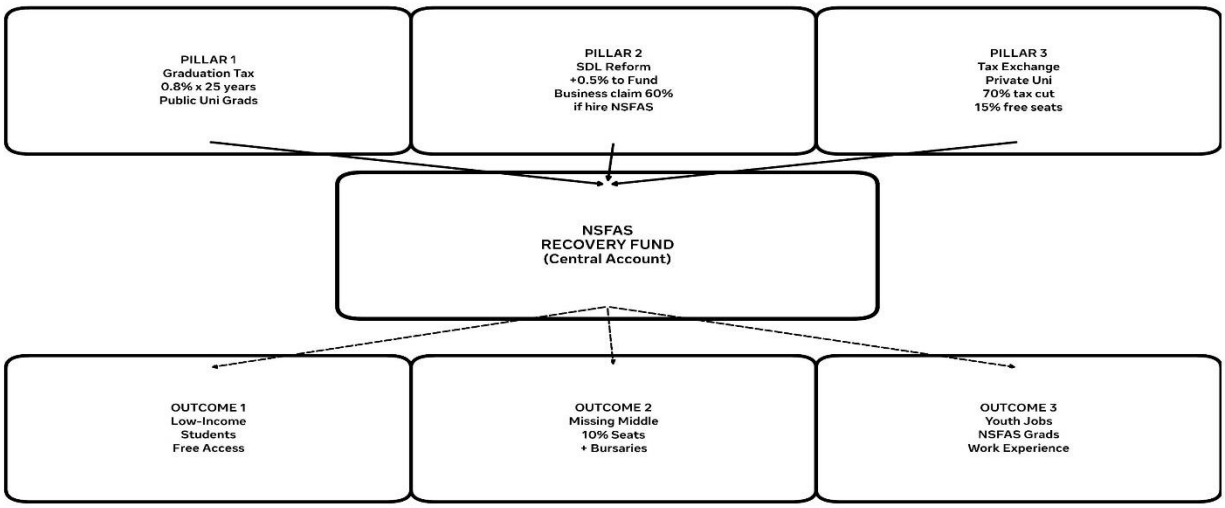
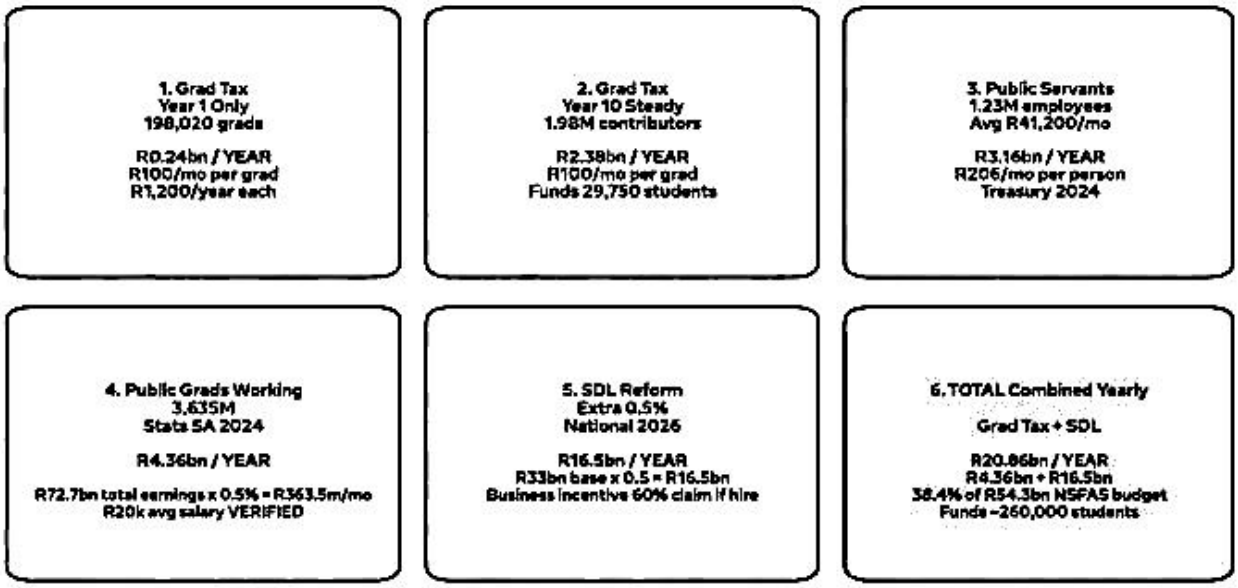
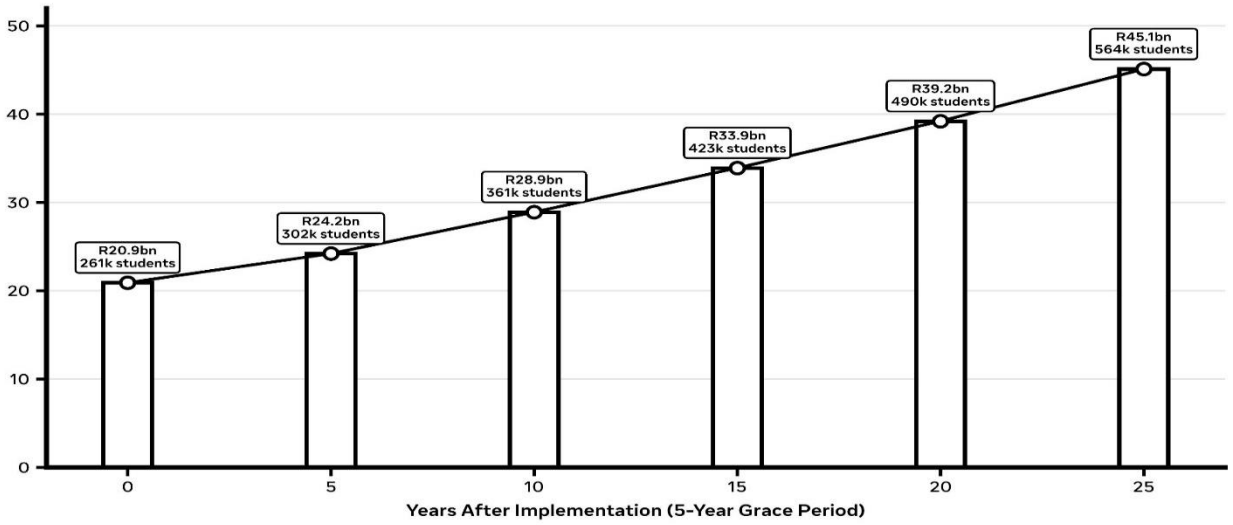


Figure 1.4: NSFAS Recovery Fund - Revenue Streams (Clear High Contrast)



#1225 - Figure 1.5: Simple Rectangle Graph - Total Revenue When Graduates Get Jobs (VERIFIED 2026)



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