



NEDBANK & OLD MUTUAL BUDGET SPEECH COMPETITION

ENTRY #866

[COMPANY NAME] [Company address]



How can South Africa build a fiscally sustainable student-financing model that enhances access to higher education? Refer to international experience in your analysis.

For many years, many unprivileged students in South Africa have relied mainly on NSFAS for funding across multiple Universities and TVET colleges across the country. Now we want to build a fiscally sustainable student financing model that expands higher education access which in this case SA can shift from a revenue-draining grant system towards a hybrid Income-Contingent Loan model tailored to its specific socio-economic structure similar to the one used by countries such as the UK and Australia.

United Kingdom's Income-Contingent Loan

- Rather than treating student loans like traditional bank debt, the UK frames it as a time-limited, earnings-linked payroll tax. And the system has evolved through distinct phases, most notably Plan 2 regime (for students who enrolled between 2012 and 2023) to the Plan 5 regime (for students who enrolled from August onward).

The mechanics of the UK Model

- The UK system covers tuition fees (paid directly to the University on behalf of the student with no middle-man such NSFAS) and maintenance loans (paid directly to the student for living expenses, tiered by household background).
- *Zero Upfront Costs and Pay-As-You-Earn (PAYE) Recovery*
 - Students pay no money up front. Repayment only begins the April after graduation, and only if the graduate earns above a designated income threshold. Repayments are automatically collected by HM Revenue & Customs (HMRC) straight out of the graduate's salary alongside income tax and National Insurance, cutting default risks to near zero.
- *The 9% Repayment Formula*
 - Graduates repay 9% of their earnings strictly above the threshold, regardless of how large their loan balance is.

- **Safety Cushion:** If a graduate loses their job or their income falls below a threshold, monthly repayments immediately drop to Zero pound without affecting their credit or triggering debt collectors.

The Evolution: Plan 2 vs. Plan 5

Feature	Plan 2 (2012-2023)	Plan 5 (2023 Onward)
Repayment Threshold	£27 295 - £29 385/year	£25 000/year (Lower threshold means lower earner start paying sooner).
Interest-Rate	RPI Inflation = up to 3% based on an individual's income	RPI Inflation only (Prevents compounding growth of theoretical balance).
Debt Write-Off Term	30 years after graduation.	40 years after graduation.
Primary Beneficiary	Students and Graduates (as a high portion of their debt is forgiven).	The State as there is a significantly higher total loan cost recovery than Plan 2 of the previous years.

Strategic Blueprint for South Africa

- Transition the “Missing Middle” to an Income-Contingent Loan (ICL) System.
 - Maintain free grants for the poorest households (below R350 000 per year) via NSFAS, but introduce a state-backed ICL for households earning between R350 000 and R650 000.
 - Graduates only begin repaying their loan when their personal income post-graduation crosses a threshold.
- Leverage SARS for Automatic Tax Collection.
 - The primary challenge with past South African student loans has been poor recovery rates. Following the UK, loan repayments should be automated via the South African Revenue Service (SARS) through the Pay-As-You-Earn (PAYE) Tax System.
 - The benefit is that it removes third-party collection agencies, cuts administrative overhead, prevents default penalties, and ensures repayments automatically pauses during periods of unemployment or low earnings.
- Integrate Targeted “Work-Back” & Priority Sector Forgiveness.

- Introduce incentives where loan principle is partially forgiven if graduates work in critical state sectors (e.g., public infrastructure engineering, STEM teaching and rural healthcare).
- The benefit is that it directly aligns higher education spending with national economic development priorities and job creation targets.

Conclusion

- In summary by South Africa adopting an income-Contingent model anchored by SARS, South Africa can remove upfront financial barriers to entry, extent support to missing-middle students, and create a self-sustaining funding pool that protects the government's fiscal deficit.

BIBLIOGRAPHY

<https://billmoyers.com/story/five-countries-know-handle-student-debt\\>

<https://matricmatch.co.za/loans\\>

<https://www.studentloancalculators.co.uk/blog/plan-2-vs-plan-5-comparison\\>

<https://www.moneysavingexpert.com/student-loans-england-plan\\>